

IDEAS  
ON LIBERTY

APRIL 2003



## Possibilities vs. Reality

**Y**ou are visiting a museum, admiring a marble statue of Julius Caesar. Suddenly, you're shocked to see his arm and hand extend outward toward you and wave. You rightly suspect that the statue is not really marble at all—that it is a machine more appropriately displayed in an amusement park's haunted house than in a museum.

But don't jump to conclusions. It is in fact *possible* that the molecules which form Caesar's statue will arrange themselves such that the arm and hand reach out and wave.

Possible, but not likely.

The range of events that are *possible* is vastly larger than the range of events that are even remotely likely. In fact, almost everything that is possible will never happen. Recognizing this important fact is crucial when evaluating proposals for government action.

For example, it is possible that a firm which slashes its prices will, by doing so, bankrupt all of its rivals and also scare off all potential future rivals. As a result, this firm would secure monopoly power and use it to enhance profits at the expense of consumers. A further possibility is that a wise and well-intentioned government could take steps that would protect consumers from this possible monopoly—either by prohibiting the price-cutting or by breaking up the firm once it achieves monopoly power.

Likewise, it is possible that a new industry

that promises enormous economic benefit in the future will today be bankrupted by competition from foreign firms—and possible that astute and upright politicians can enhance their citizens' wealth by protecting this new industry from foreign competitors.

Also, it is possible that an incredibly wise (or incredibly lucky) government of an industrialized nation can provide financial aid to governments of developing countries and watch as that aid is prudently used to make the citizens of that developing country freer, wealthier and, as a result, less hostile to Western commercial values.

And, to pick a final example, it's possible that if each American is not forced to contribute a portion of his or her income to the Social Security Administration that millions of us will put too little aside for retirement, or invest our retirement funds foolishly.

Economic journals and textbooks swell with elaborate theoretical models portraying these possibilities. The nature of modern economic research is such that a premium is put on the discovery of remote, esoteric possibilities. The logical and formal structures of the models that prove these possibilities are valued far more than exercises of judgment necessary to reveal the significance (or insignificance) of these models.

Auburn University economist Roger Garrison calls this unfortunate state of things "the morbid miasma of maniacal model mongering." Its worst consequence is that it validates, by the authority of Ph.D.-possessing college professors, widespread government obstruction of the voluntary

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choices of private persons. And it does so without taking account of the costs (in resources and in human freedom) of such interventions.

Precisely because almost anything is possible, possibility is far too lenient a standard by which to judge the merits of public-policy proposals. If every undesirable *possible* occurrence justified government intervention, then—because the range of the possible is colossal—we'd exist in a totalitarian hell, tormented at every moment and every turn by some prohibition or command aimed at protecting us from exceedingly improbable occurrences.

Sadly, too many people have forgotten the truth that government is a human institution. Government officials can see the future no more clearly than can employees of Westinghouse or Wal-Mart. Nor do politicians and civil servants possess any special talent for judging for others which risks are worth taking and which are worth avoiding.

Therefore, government ought to be governed by rules that confine its role to protecting citizens from only those ills that experience shows to be sufficiently likely in the absence of government action. Moreover, the ways in which government should be permitted to act ought to be only those ways that experience shows are unlikely to encourage government to use its powers illegitimately.

## Protection from Physical Coercion

In my view, the proper scope of government action consists, at most, of protecting its citizens from physical coercion initiated by others. Not only is it possible, it is likely that some people will seek to harm or to confiscate the persons or property of others. It is also likely that sanctions against such destructive action will reduce its frequency. No elaborate formal models are required to prove that the initiation of coercion against innocent people is both likely and harmful

enough to justify public policies to guard against it.

But too much of what government now does—such as policing against price-cutting or running a national pension system—is justified only by showing that such government intervention *might possibly* generate net benefits. The likelihood, however, of the actual existence of any of the problems supposedly addressed by these policies is infinitesimal. Therefore, there's no good reason to empower government to police against these problems that are merely *possible*.

A great irony is that the same theoreticians who rush to recommend government intervention to prevent every *possible* problem resulting from freedom are inexplicably blind to the very real problems that, experience shows, result from government intervention. For example, while reality offers no examples of price-cutting leading to consumer harm, it does offer numerous examples of consumers harmed by firms using predatory-pricing statutes as shields against vigorous competition.

Economist Deirdre McCloskey calls this curious obsession “the Samuelsonian Vice”—after Paul Samuelson, the economist who led the way in elevating formal abstractions over real-world experience and understanding. As McCloskey explains, “The Samuelsonian Vice is staying always in a world of theory, spending an academic career imagining alternative worlds in which the sea is boiling hot and pigs have wings.”

If I may be allowed a bit of self-congratulation, the most distinguishing feature of my colleagues at George Mason University's department of economics is their tenacious insistence that economics must be about reality and not about black-board models or textbook theories. And when economics teaching and scholarship are done with reality foremost in mind, one unsurprising result is ever-deeper appreciation of the remarkable properties of free markets. □

# CAPITAL LETTERS



ment. I fail to see how these people (me included) are any less guilty than Martha. Guilty, that is, of trading stock based on the best available information. I thought that was supposed to be a good thing.

—DAN FERNANDES  
by e-mail

## Free Martha?

To the Editor:

I was surprised to read January's "Perspective" on Martha Stewart. If she lied when she said "she had a standing order to sell the stock if the price went below \$60.00," and that statement was made in the context of a criminal investigation, she could be guilty of obstruction of justice, whether or not the statement was made under oath. That offense may be unrelated to the SEC's insider trading charge against her, which is a civil charge. Furthermore, the following statement in my opinion is way off base: "When the government, wielding unjust statutes, invades your privacy by asking why you sold something you own, do you owe it the truth?" You do not owe the government an answer, unless you are under oath and do not plead the Fifth—you can say that you decline to answer. But there is certainly no justification for a bald lie.

—GEORGE ROWE, JR.  
*Irvington-on-Hudson*

To the Editor:

I commend Sheldon Richman for his remarks in support of Martha Stewart. It seems to me that a widespread call for repeal of the insider trading law is in order. How can we single out one group of people, stamp "insider" on their foreheads, and have a special law that applies to them and no one else? Shouldn't the law apply to everyone?

Since Martha Stewart isn't really an insider, maybe the SEC is planning to apply the law to everyone. Many market advisory services monitor insider-trading activity and use it to indicate likely stock price move-

## Who or What Creates Prosperity?

To the Editor:

Please allow me to quibble with one word in Donald Boudreaux's otherwise excellent column in the January issue of *Ideas on Liberty* ["Technology in Perspective"]. Near the end of the first page he stated that freedom "creates" prosperity. I stress to my students that freedom "allows" prosperity. Free people do the creating. An outside force does not impose prosperity on them. This difference in emphasis is, to me, significant.

—ROGER CLITES  
*Milligan College, Tennessee*

Don Boudreaux replies:

I agree with Roger Clites that freedom allows people to create prosperity. It does not by itself—as if it were an independent, volitional force—create prosperity. My column in the November 2002 issue, "The Wrecking Ball and the Prosperity Tower," emphasizes this point. Thanks to Mr. Clites for pointing out my careless wording.

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