

# Independent verification of Austrian Economics Theory of Constraints Economics<sup>1</sup> or The Austrian Theory of Constraints Article Summary

Written by Jorge Gonzalez Moore Ind Eng MBA MSc Austrian Economics

*"It would be so nice if something made sense for a change." – Alice  
Lewis Carroll, Alice's Adventures In Wonderland*

## Introduction

In the case of economics, and with the strong and outstanding exception of the Spanish School of Economics of Salamanca and the later Austrian School of Economics and their brave precursors throughout history, there has not been a systemic approach to the subject of economics by using cause and effect logic.

This is the first attempt to apply the Theory of Constraints as an independent verification of what the Spanish and Austrian schools have proposed.

The objective of using the Theory of Constraints in Economics is to promote consensus on understanding the problem and offering a direction for the solution, along with providing an answer to the questions: What to change?, What to change to?, and How to cause the change?

In essence, the goal is to prove, beyond doubt, what the core problem or root cause of all obstacles to human prosperity and individual freedom is and how it can be overcome. The fascinating news is that, if we approach the matter with common sense, we will find inherent simplicity and the answer will become obvious. With unbound human action, the sky is not the limit for sustainable prosperity and progress.

The purpose of this work is to make a positive impact in the lives of each individual and ultimately all individuals.

## Current Reality Tree: Where do we really live? A TOC (Theory of Constraints) approach

*"The more complex a system is, the more profound is its inherent simplicity."  
Eliyahu M. Goldratt*

*"People who pride themselves on their "complexity" and deride others for being "simplistic" should realize that the truth is often not very complicated. What gets complex is evading the truth." Thomas Sowell*

A Current Reality Tree (CRT) begins with one or more issues, known as undesirable effects (UDEs). These are assumed to be symptoms of a deeper common cause. The CRT depicts a chain of cause-and-effect reasoning (if, and, then) in graphical form, where connections represent an "and".

### Criteria to define the symptoms or undesirable effects (UDEs):

1. It is a complete statement (written in present tense).
2. It exists in current reality – it is not a Predicted Undesirable Effect.
3. It is an "effect", not a presumed "cause", absence of "solution" or obstacle to implementing a solution.
4. A single effect, without an "and," "because" or "as a result of."
5. It is negative in its own right and can be quantified or at least qualified.
6. There is agreement that it is very important to remove it (has a significant negative impact on Goal Units).
7. It does not blame anybody directly, but describes the undesirable effect being experienced.

The graphic is constructed by:

- Linking any two UDEs using Cause-And-Effect Reasoning.
- Elaborating the reasoning to ensure it is sound and plausible.
- Linking each of the remaining UDEs to the existing tree by repeating the previous steps.

A chain of cause and effect is built until the root cause is reached. If two (or more) things need to occur to cause an effect then they are linked using an ellipse. All efforts should be focused efforts on addressing the root causes and not the intermediate effects.

Below a summary of some of the most relevant symptoms or undesirable effects (UDEs) that we see and live every day.

- Individuals Poorer
- National Budget depleted / national Debt Grows.
- Regulation Increases.

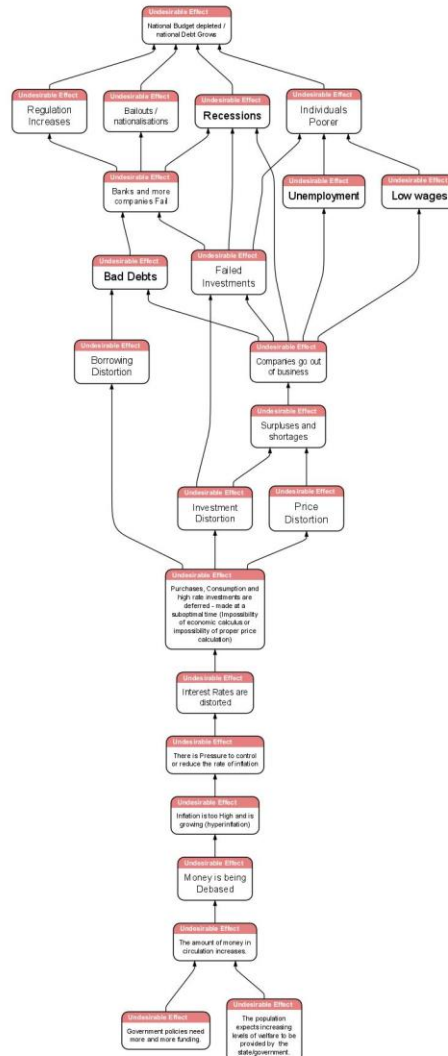
<sup>1</sup> Summary based of the article "Independent verification of Austrian Economics - Theory of Constraints Economics" about the book "Theory of Constraints Economics - Reality, Freedom and Progress" by Jorge Gonzalez Moore. Editorial JGGM. April 2021.

- Bailouts / nationalisations.
- Recessions.
- Banks and more companies Fail.
- Bad Debts.
- Borrowing Distortion
- Failed Investments.
- Low wages.
- Unemployment.
- Companies go out of business.
- Surpluses and shortages.
- Investment Distortion.
- Price Distortion.
- Purchases, Consumption and high-rate investments are deferred - made at a suboptimal time (Impossibility of economic calculus or impossibility of proper price calculation).
- Interest Rates are distorted.
- There is Pressure to control or reduce the rate of inflation.
- Inflation is too High and is growing (hyperinflation).
- Money is being Debased.
- The amount of money in circulation increases.
- Government policies need more and more funding.
- The population expects increasing levels of welfare to be provided by the state/government.

### Connecting all the listed Undesirable Effects and Preconditions

This is a simplified and basic model, hence there are many more undesirable effects (UDEs) and preconditions not mentioned here, many more connections, and feedback loops, however, I have tried to capture the most meaningful relationships through a cause-and-effect synthesis. The Current Reality Tree (CRT) needs to be read starting bottom up using cause and effect logic.

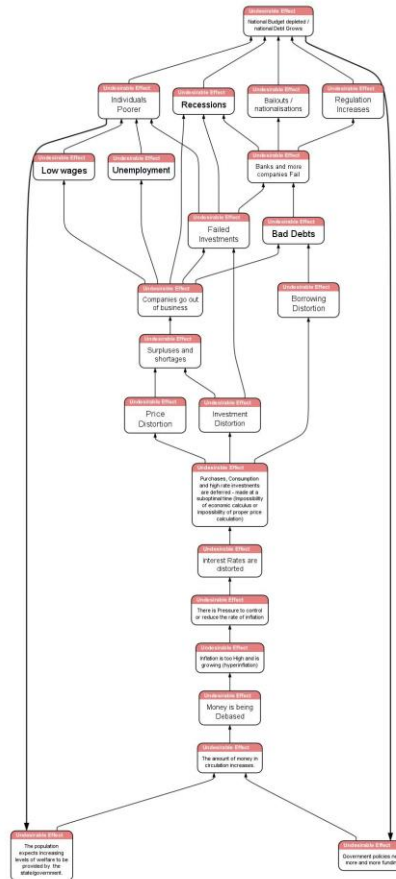
Refer to the book "Theory of Constraints Economics - Reality, Freedom and Progress". Editorial JGGM. April 2021 to review the full list of undesirable effects (UDEs) and preconditions.



## What happens next?

A loop is formed...

The Current Reality Tree (CRT) needs to be read starting bottom up using cause and effect logic.



What is the common theme throughout the reality tree?

As per the reality tree and the cause-effect logic (use If-Then logic to connect the cause to the effect), the core problem or constraint to human progress is the fact that money (Fiat money<sup>2</sup>) is being continuously debased through the increase of the monetary supply caused by central banks and credit expansion from the fractional reserve banking system.

That sole fact is the cause of all evil so to speak.

That money is being debased means that in reality, we live in a very sophisticated working camp with one commissary shop<sup>3</sup>. We may work very hard (if we are even allowed to perform the activity as per the regulation dictated by the camp's Lagerkommandant<sup>4</sup> and its politburo), but we are paid with coupons printed by the politburo. Fiat money has the characteristic of being managed by central planning organisations that can manipulate its value at will, in that sense, the stability of the currency will depend on the decisions made by the political group that is in power. This in turn creates a vicious circle in which the rulers decide to borrow fiat money to finance populist packages to win over the electorate, and this same trend will cause a rebound effect in which to stay or get to power, the politicians will have to be increasingly irresponsible with public spending, collect increasingly higher taxes, and increasingly debase the currency, to fill in the fiscal gaps to maintain their power. There is no amount of money a politician or a bureaucrat cannot outspend.

We cannot actually save what we earn because the coupons are far from being hard money. The ultimate fundamental issue is collectivism in its purest form: absence of actual private property. If we aspire progress and prosperity, the only solution is to eliminate the core problem so that each individual can be free to pursue their interest.

The reality is that what we call free countries (including USA, UK and EU nations) do not actually have a proper capitalism system but central bank system economies with fractional reserve banking systems in the form of a sophisticated working camp. The crises and undesirable effects that we endure day in and day out, as per the current reality tree, are not a capitalism crisis but a crisis and the effects of that perverse central banking system.

If people are incentivised in an illogical way, do not complain about apparent illogical behaviour, which in reality is the logical behaviour given that their time preference has changed due to the illogical incentive.<sup>5</sup>

<sup>2</sup> State-owned money or fiat money ('Let it be done'). Fiat money is currency that a government has declared to be legal tender, but it is not backed by a physical commodity.

<sup>3</sup> "What we have today is not a capitalist society but a mixed economy that is a mixture of freedom and controls which by the presently dominant trend is moving toward dictatorship." Ayn Rand

<sup>4</sup> "The tyrant will always find a pretext for this tyranny." Aesop

<sup>5</sup> Paraphrasing Elyahu M. Goldratt's reflection on measurements: "Tell me how you will measure me, and then I will tell you how I will behave. If you measure me in an illogical way, don't complain about illogical behaviour." If the incentive is to promote irresponsibility, unaccountability and stupidity, what could go wrong?

As long as money is debased in any way, the individual is not free because they cannot and will not be able to save the earnings of their human action hence impacting their time preference, capital accumulation and this, in turn, will deteriorate any further human action: Prosperity and progress are at stake.

### **Direction of the solution: Assigning property rights**

**The direction of the solution<sup>6</sup> consists of assigning property rights<sup>7</sup> which in turn allocates accountability.** Unbound and free human action by assigning property rights to the fruit of their honest work: The solution is private money. Truly private money<sup>8</sup>.

Even if money was backed up by a store/reserve of value standard (gold standard), as long as money is state/government owned the possibility of decoupling from the standard and debasing it remains. Gold Standard becomes less attractive as it needs to be highly centralised to provide a secure service. As history has demonstrated, gold can be easily seized by governments / states. In order to live in a global economy, a digital currency is needed.

Even a 100% Fractional Reserve Banking<sup>9</sup>, is not enough nor sufficient, because the state can always print more money, an infinite amount given that nowadays it is not even necessary to print it but rather introduce whatever quantity in the computer mainframe of the central bank and transfer those newly created funds out of thin air to banks. Even worse, banks create money from nothing through loans<sup>10</sup>.

By assigning property rights, accountability and responsibility are allocated. By allocating accountability and responsibility, there will be no free lunches nor free riders<sup>11</sup>. Only if property rights are clearly established/defined and can be effectively defended can each individual bear the fruit/benefits and the cost of their human action<sup>12</sup>.

Private money, being completely decentralized, would eliminate the incentives of politicians and bureaucrats to manipulate national currencies at will, in turn transferring absolute control over their money to individuals.

If the majority of people within a nation decide to start trading in private money, the monopoly on money will be taken away from the state and this would free societies.

When the state loses autonomy over its currency, it would force politicians to have to make realistic proposals for public action, since they will no longer be able to count on the printing of money, intervening interest rates or other ruses to manipulate the economy and finance their monstrous spending. In turn, this would avoid large devaluations and alter the current economic system that encourages debt, consumption and spending and not savings and sustainability.

### **What to change? Fiat Money<sup>13</sup>**

#### **Criteria<sup>14</sup> of a good solution for hard money:**

- Finite: Resists debasement, does not lead to systematic falsification or nullification of economic calculation. High stock to flow ratio
- Able to settle transactions (transfer of ownership -property rights assignment - must be real, final and visible for the stakeholders)
- Resists artificial credit expansion or fractional reserve banking
- Easily divisible
- (as a minimum) retains its value: store of value or saleability through time
- Decentralised: Open source with no central issuer

#### **While also continuing to be:**

- Saleable through space
- Medium of exchange
- Unit of account

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<sup>6</sup> There are at least 3 possible solutions:

a. Fix money

b. Change culture to make individuals expect less welfare and less state intervention, and

c. Change what politicians offer to the population from more welfare and more state intervention to less welfare and less state intervention.

Solutions b and c require a massive and unprecedented cultural change where all incentives are against the change, more so, solution c is placing the solution in the hands of the problem (it is unlikely it will get any momentum).

<sup>7</sup> Assigning property rights is a common-sense solution for almost any dispute, because it also assigns accountability and responsibility over the consequences including any associated costs. In management, assigning accountability tends to clearly mark roles and responsibilities and that in turn benefit the individual and their interaction with the others. Unfortunately, in public affairs the solution is in the hands of the problem (the state or government). Nevertheless, if governments actually wanted to promote human progress, they could 1. Allow individuals to trade, save and invest in the currency of their preference so they can each protect themselves from the worst tax: inflation. 2. Federalise the country to promote competition and freedom for each region to attract investment and people. 3. Reduce the size of the government and limit its functions to justice and security.

<sup>8</sup> Money needs to be private and hard: Private, independent but transparent, with limited supply, with intertemporal saleability, that is the ability of a money to hold on to its value across time and with a stock-to-flow ratio significantly higher than 1. Bitcoin is the best candidate.

<sup>9</sup> Fractional Reserve Banking: the standard banking practice of keeping only a portion of depositors' money on hand and loaning out the rest. Which in essence, means creating money out of thin air too which in turn generates inflation and distorts interest rates.

<sup>10</sup> Banks are a fiat miner. Loans create money out of nowhere; any lending creates new money hence increasing money supply.

<sup>11</sup> Nothing is ever free; the question is who pays for it. Nobody should have to pay by means of coercion (taxes, inflation or regulations) for someone else's responsibilities. For example, why are people obliged to pay for the welfare of someone's else's children? Why are you responsible if you did not participate nor enjoyed their conception? Let the ones who enjoyed and participated in their children's conception be responsible and accountable for their own creation. Of course, whoever wants to do charity with their own money is more than free and welcome to do so. The moral guide is always to respect everyone's else's life project, as long as it does not come with the imposition of their ideas and does not cost time nor money to others.

<sup>12</sup> Tragedy of the commons: When property rights are not clearly established/defined nor can be effectively defended due to negligence or deliberate design. This setting causes irresponsible and careless actions as people do not bear the cost of their recklessness and the state eagerly passes the costs to others.

<sup>13</sup> Fix the money, save the world and promote human progress.

<sup>14</sup> According to Mises: The sound money principle has two aspects. It is affirmative in approving the market's choice of a commonly used medium of exchange. It is negative in obstructing the government's propensity to meddle with the currency system. Sound money meant a metallic standard. The excellence of the gold standard is to be seen in the fact that it renders the determination of the monetary unit's purchasing power independent of governments and political parties.

- Generalised payment method

### What to change to and how to cause the change?

A more realistic utopia starts with the implementation of private money through the use of **private hard money**, Bitcoin<sup>15</sup> would be the best current option. “Bitcoin is arguably the most advanced technology for storing value in the world, due to it being the first liquid asset that is strictly scarce. By protecting individuals from surreptitious inflation and devaluation, bitcoin can safeguard individual sovereignty in the face of governments that have been able to finance their extravagance at the individual’s expense for a century. Bitcoin also functions as an apolitical alternative to central banks, allowing international movement of capital without needing to resort to the legal, regulatory, and political institutions that are necessary.”<sup>16</sup> Bitcoin can even be safeguarded in satellites or facilities in the ocean on international waters. Banks working with Bitcoin can also operate from those locations to keep their independence. Bitcoin does require a relevant amount of electricity to power the its network<sup>17</sup>. However, the question should be, compare to what? What is the alternative? Is the alternative, central banks controlling the fruit of your honest work? How much is freedom and progress worth? How much would it cost to move a billion dollars’ worth of gold versus the same value in bitcoin<sup>18</sup>, how long would it take to move the former and the latter?

*“Only two things are genuinely scarce: time and bitcoin.” Saifedean Ammous*

*“The nature of Bitcoin is such that once version 0.1 was released, the core design was set in stone for the rest of its lifetime.” Satoshi Nakamoto*

With bitcoin, a great evolution has already begun; and evolution tends to be slow, imperceptible, irreversible, irresistible, and with astonishing consequences. Bitcoin is evolution.

The next step is to be able to create private property. **Real private property**. As anyone that “owns” real estate will know, you do not own it. You can rent it even for your whole life as long as you pay real estate taxes and other related taxes. But the moment you stop paying those taxes it will be taken from you by the state. Additionally, you are not free to use it as you like because of planning regulation and at any point the government<sup>19</sup> may inform you that they need it for something else and take it away from you. If you are lucky, they will pay for it with state bank notes hence completing the Orwellian circle.

The ocean<sup>20</sup> offers limitless possibilities for freedom at an easier reach than space to create real private property or hard real estate. For example, “Freedom Haven is an open-design, freedom-based seasteading micronation founded by Tony Olsen. One of the goals for Freedom Haven is to eventually qualify as a state under the Montevideo Convention. Requirements include:

The state as a person of international law should possess the following qualifications:

- (a) a permanent population;
- (b) a defined territory;
- (c) government; and
- (d) capacity to enter into relations with the other states.”<sup>21</sup> This type of initiatives could very well be the basis to offer private hard money and private hard real estate.

With **private hard money** and **private hard real estate**, human progress and prosperity have a stable and steady foundation.

What can states/governments do if they want to remain competitive or in case people in those states understand that a change is needed to promote human progress and prosperity? Actually, the solution is simple and obvious and it also stems from assigning property rights:

1. Allow every individual to freely decide on the currency they want to use to save, trade and invest.

<sup>15</sup> My definition of bitcoin (BTC), is a coin with Freedom on one side and accountability on the other. It is incorruptible money that cannot be debased. Harder to tax, harder to seize, easier to transfer, harder to steal, cheaper, easier, faster to send around the world, borderless, competitive, and highly deflationary. BTC is neutral, apolitical, beneficial for every individual. BTC has already won the store/reserve of value standard race, it is a matter of time for individuals to realise the fact. The BTC standard is the only system compatible with the fullest preservation of the rights of property and human progress. It is the only system that assures the end of inflation and, with it, of the Money Out of “Thin Air” and the Boom-Bust Cycle.

<sup>16</sup> Saifedean Ammous in *The Bitcoin Standard: The Decentralized Alternative to Central Banking*, 2018, Published by John Wiley & Sons Inc.

<sup>17</sup> “Why Does Bitcoin Mining Require So Much Power? When people mine bitcoins, what they’re really doing is updating the ledger of Bitcoin transactions, also known as the blockchain. This requires them to solve numerical puzzles which have a 64-digit hexadecimal solution known as a hash. Miners may be rewarded with bitcoins, but only if they arrive at the solution before others. It is for this reason that Bitcoin mining facilities—warehouses filled with computers—have been popping up around the world. These facilities enable miners to scale up their hashrate, also known as the number of hashes produced each second. A higher hashrate requires greater amounts of electricity, and in some cases can even overload local infrastructure.

Putting Bitcoin’s Power Consumption Into Perspective: On March 18, 2021, the annual power consumption of the Bitcoin network was estimated to be 129 terawatt-hours (TWh). If Bitcoin were a country, it would rank 29th out of a theoretical 196, narrowly exceeding Norway’s consumption of 124 TWh. For further comparison, the Bitcoin network consumes 1,708% more electricity than Google, but 39% less than all of the world’s data centers—together, these represent over 2 trillion gigabytes of storage.

Where Does This Energy Come From? In a 2020 report by the University of Cambridge, researchers found that 76% of cryptominers rely on some degree of renewable energy to power their operations. There’s still room for improvement, though, as renewables account for just 39% of cryptomining’s total energy consumption. Hydroelectric energy is the most common source globally, and it gets used by at least 60% of cryptominers across all four regions. Other types of clean energy such as wind and solar appear to be less popular... cryptomining can support the global transition to renewable energy. More specifically, by clustering cryptomining facilities near renewable energy projects can mitigate a common issue: an oversupply of electricity.” <https://www.visualcapitalist.com/visualizing-the-power-consumption-of-bitcoin-mining/>

<sup>18</sup> Bitcoin is a great storage of value option comparable to what gold is, with the difference that bitcoin is scarcer.

<sup>19</sup> Even in the freest countries it exists eminent domain, which is the right of a government or its agent to expropriate private property for public use, with “payment of compensation”.

<sup>20</sup> “People are now working more and more at, on, in oceans. The ocean is transformed from only dustless ways between harbours in working places where people extract oil and gas or minerals or harvest energy or food. The ocean become vast platform for space rockets launching or offers undisputed space for living. The declared intention of “Future of the Ocean” is to facilitate the combination and merge of the best of the millenniums old classic maritime transport industry and from the decades old offshore industry in order to support the change of Ocean in humankind home.” <https://futureoftheocean.com/>

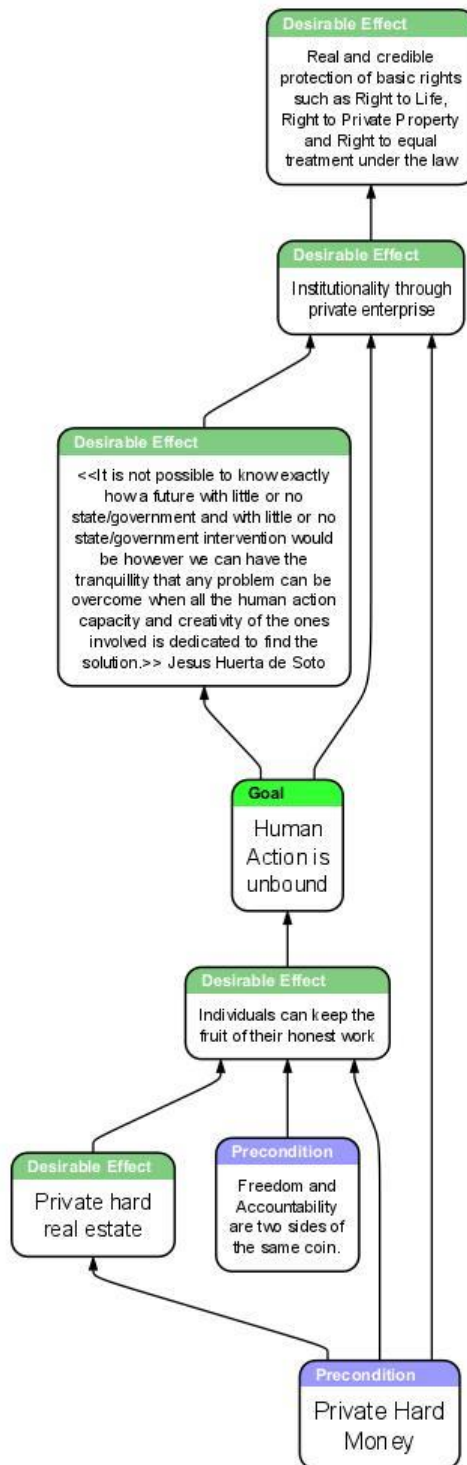
<sup>21</sup> <https://www.seasteading.org/active-projects/> Seasteading is building startup communities that float on the ocean with any measure of political autonomy.

2. Federalise the country so each region competes to attract and retain human action.
3. Allow and protect private hard real estate.

### Future Reality Tree

All freedoms derive from economic freedom and economic freedom depends exclusively on being able to preserve the fruit of human action. What matters is real freedom, not what is written on paper. Once we free humans from the serfdom of the state by introducing private money, then the constraint will be our very own human action (the very small and individual batch that each of us is), which paradoxically is infinite because our passion, focus, ingenuity, and imagination are infinite and have no limit. Now each person needs to understand their constraint (identify it) and work to exploit it, subordinate all to it and elevate it. And then of course, not let inertia become their new constraint. Undoubtedly, human action can benefit from thinking clearly.

The Future Reality Tree (CRT) needs to be read starting bottom up using cause and effect logic.



## **Appendices**

- **Employment Evaporating Cloud**
- **Wages Evaporating Cloud**
- **Trade Evaporating Cloud**
- **Immigration Evaporating Cloud**
- **A reflection on the subject of prohibitions**
- **A reflection on the Theory of Constraints and price calculation**

**Employment:** It is crucial to note that nothing can be done without the availability and participation of human action, human work or human resource. Human action is the resource par excellence or the quintessential resource. Nothing can be conceived without work because it is not possible to produce any product nor provide any service without work being involved and carried out. So, how it is possible that there is unemployment if the claim is that nothing is conceivable without the availability and participation of work? How is it imaginable to say that there is a surplus (unemployment) of something scarce (human action, human resource or work)? There is a clear conflict; either work is surplus or is scarce, but it cannot be both at the same time.

There is a solution to this conflict which is; if the contractual agreements between the parties involved are free and voluntary, there will never be unemployment independent of the overall conditions. Whether we are in the most miserable of all places or the one with the most exorbitant wealth, there will never be a surplus of the scarce factor. Hence, there will never be involuntary unemployment. Involuntary unemployment is a tragedy; the tragedy, is the individual that desperately needs and wants to work but there is no work opportunity available. We are not talking about the individual that does not want to work or does not need to (voluntary unemployment).

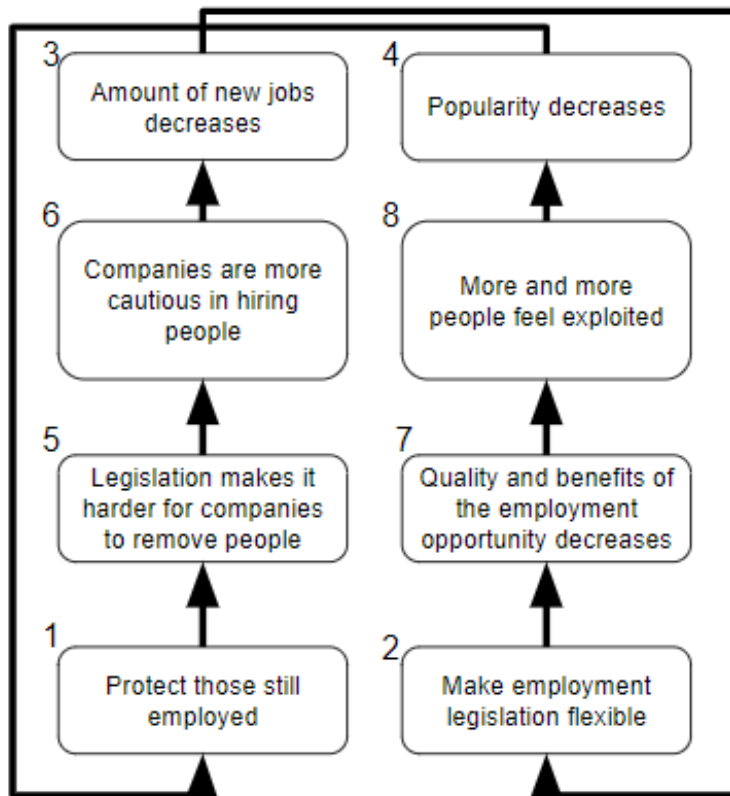
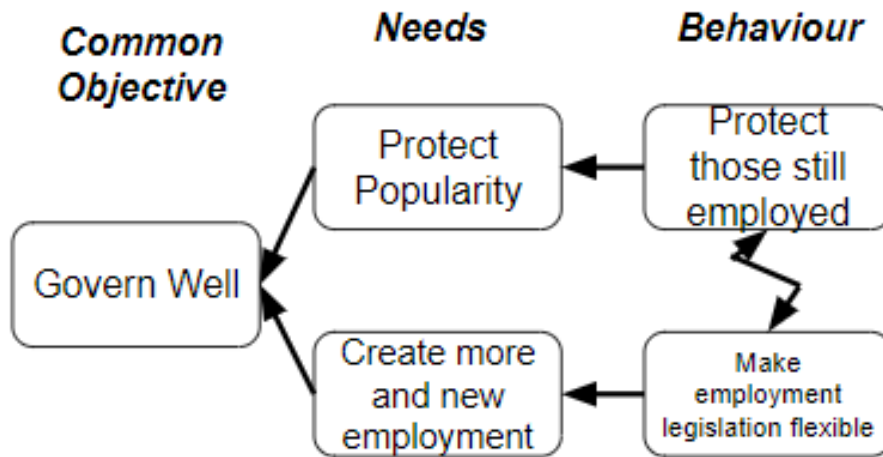
Imagine that you and a few other people end up as lonely castaways on a deserted and isolated island. Soon enough reality will become obvious, and you will clearly understand that you are not in paradise and that there are not enough hours in the day, nor in the night, to do all you need to do just to subsist. The reason? You must do everything by yourself plus there is no one to trade with. Some of you will have to fish, others will have to climb the trees to get coconuts. Fish and coconuts will become the means to trade between the group of castaways. The reality is that if you want to survive, no one will be unemployed. Everyone will be fully employed. You could say that the income or wages (coconuts and fish) are miserable, deficient and insufficient for each of you but as you notice that is not linked to employment but rather a consequence of your ability to save and invest in capital assets (capitalisation rates) to be able to gather more coconuts and fish and eventually be able to create some other means of supplies and income (i.e., farming).

Now imagine, someone else comes to the island, someone that has studied for 20 years to be a PhD in philosophy of social studies and says, "I offer my services as PhD in philosophy of social studies, and you need to hire me for x number of coconuts and y number of fish per day". After understanding the gravity of your reality on the island and how difficult it is to survive you will probably tell that person: "We don't know what PhD means, nor what philosophy is, and we even care less if it is about social studies. What we need, what we actually require, is someone to contribute fishing, with their hands if necessary, or climbing up a palm tree for coconuts or opening furrows for planting, with their bare fingers if needed." If that new inhabitant of the island insists on being hired as a PhD in philosophy of social studies, and by the way, they have all the right to do so, then they will become voluntarily unemployed, even if the reality of the island is that infinite work (endless possibilities of employment) is required to subsist. Employment is not about what someone feels they should provide but rather what the others really need, require and want. That is how the market works; it is about serving others, about meeting their needs with the abilities, skills, competencies and experience that we each have through better and cheaper products and services. Additionally, needs are infinite and resources scarce, that is why there will always be infinite work opportunities.

So, why does unemployment exist? The answer is that there are no free and voluntary contractual agreements between the parties involved because the state intervenes with the banner of social justice. Social justice ruins all employees, especially those who desperately and urgently need to work the most. If the sum of the so-called social justice conquests is greater than the market wage, that person will immediately become unemployed because the employer will not be able to cover the cost versus the productivity that the now unemployed person can deliver.



### Employment Evaporating Cloud and Druid



**Wages:** As per the island example, there is no involuntary unemployment, but the wages are miserable and insufficient. So why do some places or countries have better wages level than others? Some people attribute the wages level to the generosity of the employers or the kindness of the state, the ability of the unions to negotiate or their capacity to go on strike and other fantasies and illusions. If the wages level had to do with the generosity of demagogues, why instead of offering a 10% increase per year for example, why not make it a million per cent increase? If it is all about decreeing the wages level, do not be a scoundrel and let us make a billion per cent increase for everyone. Will it work? If the state is relentless and its coercive apparatus effective, what would immediately happen is that we have condemned everyone to starvation because no employer can pay those wages<sup>22</sup>. Additionally, we would create a huge black market where wages will be the market ones.

Independent of the community, the geography or the country, the only and exclusive cause of the wages level are the capitalisation rates. Capitalisation rates are the savings that have been transformed into investment in capital assets (knowledge<sup>23</sup>, ideas, processes, equipment, machines, installations, infrastructure, etc.) that increase productivity. It is not the same to fish with your bare hands than to fish with a net and a boat. The net and the boat are capital assets that improve your productivity. Is not the same to have to climb the palm tree to reach for the coconuts than to have a ladder to do so. But for the net, the boat and the ladder to exist, someone had to save and then invest in creating and producing those capital assets so they could be available to provide more productivity. The more productive you are the better your wage will be.

Who is more productive? A farmer that farms with a tractor while listening to music in an air-conditioned cockpit or a farmer whose only capital asset is a stick. Who works more? The more productive you are the fewer hours you need to invest to do the job. And where did the tractor come from? From the savings and investments in capital assets made in the past.

When a plumber from Sudan, Haiti, Cuba<sup>24</sup> or Venezuela moves to Switzerland or New Zealand, they will automatically, with their same virtues, strengths, flaws, and weaknesses, get paid hundreds more in actual and real income. Why? Is it because in Switzerland or New Zealand people are more generous than in Sudan, Haiti, Cuba, or Venezuela? No, it is because the capitalisation rates in Switzerland or New Zealand that are higher than in Sudan, Haiti, Cuba, or Venezuela force whoever is hiring them to pay them the market wage. That is why in countries with high capitalisation rates it is very expensive to have a house cleaning service, is not that people do not like having them.

What provides the incentives to saving and investment to generate higher capitalisation rates? Institutionalism. Institutionalism is the respect for life, private property, and equal treatment under the law.

So, what would happen if a country or a certain place could manage to provide proper Institutionalism? More savings and more investment would be achieved; hence the capitalisation rates would increase. All the people living there, with their same virtues, strengths, flaws, and weaknesses, would increase their actual and real income. Moreover, what if savings and investments from other places and countries were attracted due to the Institutionalism? Well, again all the people living there, with their same virtues, strengths, flaws, and weaknesses, would increase their actual and real income.

What would happen if someone tried to hire someone below the market wage? They do not get the job done because no one would come forward to do it.

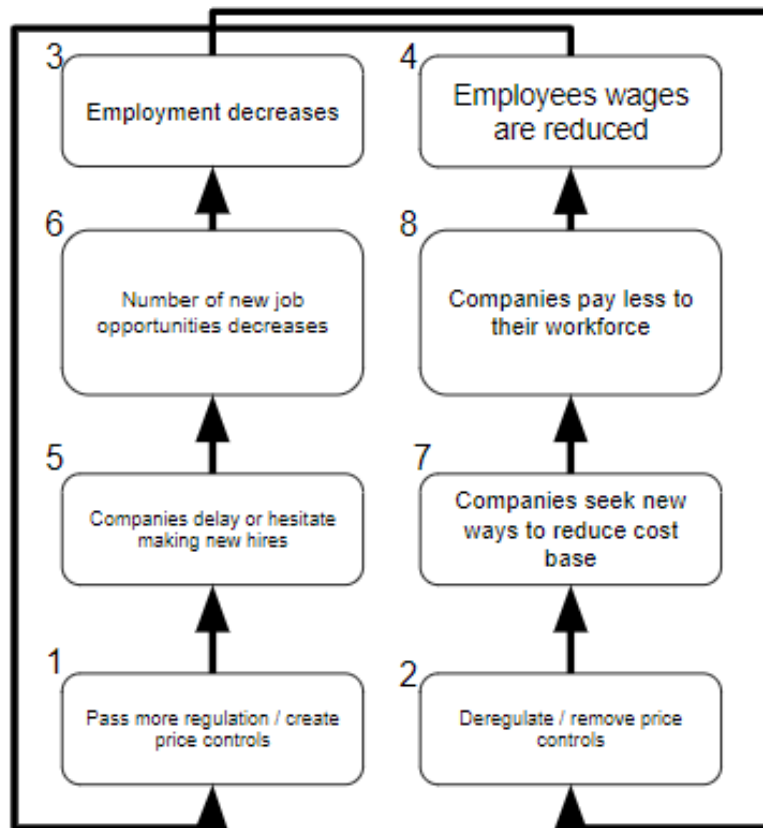
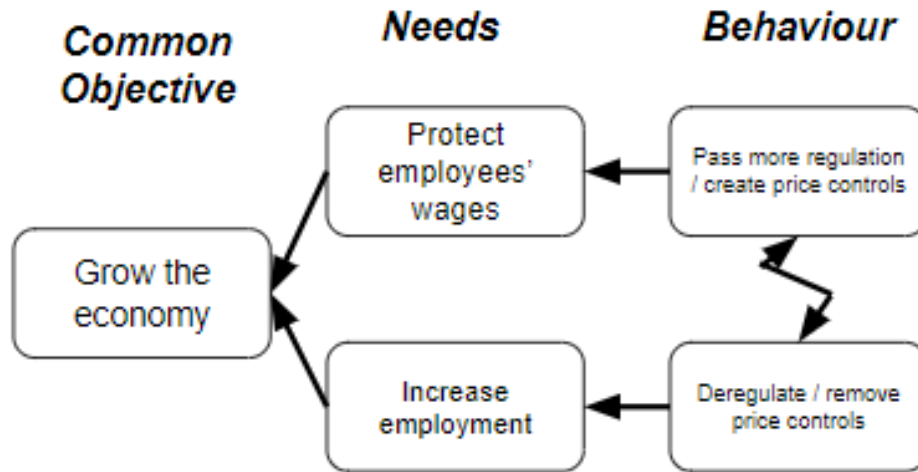
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<sup>22</sup> Forty Centuries of Wage and Price Controls by Robert Schuettinger and Eamon Butler, first published in 1979.

<sup>23</sup> TOC contributes to raising capitalisation rates.

<sup>24</sup> Assuming they are able to escape the prison island that is Cuba and become free from their horrendous servitude. As per the 2021 Index of Economic Freedom ranking <https://www.heritage.org/index/ranking> New Zealand is 2<sup>nd</sup>, Switzerland is 4<sup>th</sup>, Haiti is 155<sup>th</sup>, Sudan is 175<sup>th</sup>, Cuba is 176<sup>th</sup>, and Venezuela is 177<sup>th</sup>.

### Wages Evaporating Cloud and Druid



**Trade**<sup>25</sup>: In the island example, even if there were infinite needs from the stranded population, there were initially not a whole lot of possibilities for trade: In the beginning coconuts and fish. Later on, through the diligent and rigorous investment of their savings and assuming institutionality (no one is stealing the other person's honest work) it can become ladders for fish, coconuts for nets and boats. The more trade is possible the better off the community will be because now they can each specialise in certain products and services, which will increase their productivity and competitiveness which will allow them to trade to fulfil their needs.

Restrictions to trade are a threat to human prosperity and progress. These restrictions only protect pseudo businesses; these restrictions never protect the consumers, and we are all consumers. Being able to trade means that you have found a way of producing more and better products and services at a cheaper cost. This means that instead of spending more money on the same product or service you can now spare some money to either save it or buy another product or service that you require. And there will always be infinite needs.

Another way to see it is to imagine that if trade restrictions are so beneficial, why not apply them only at a country level but at a state/regional/department level too? But if they are so good, why not apply them to a shire/municipality level? But if they are so useful, why not apply them at a zone level within the municipality? But if they are so helpful, why not apply them at a neighbourhood level? But why end there? Why not apply them at a house-to-house level? You will have no choice but to sew your shoes and produce all your food and medicines (good luck with that) which means living the most miserable and tragic life; you will end up going back to the wretchedness of cave collectivism.

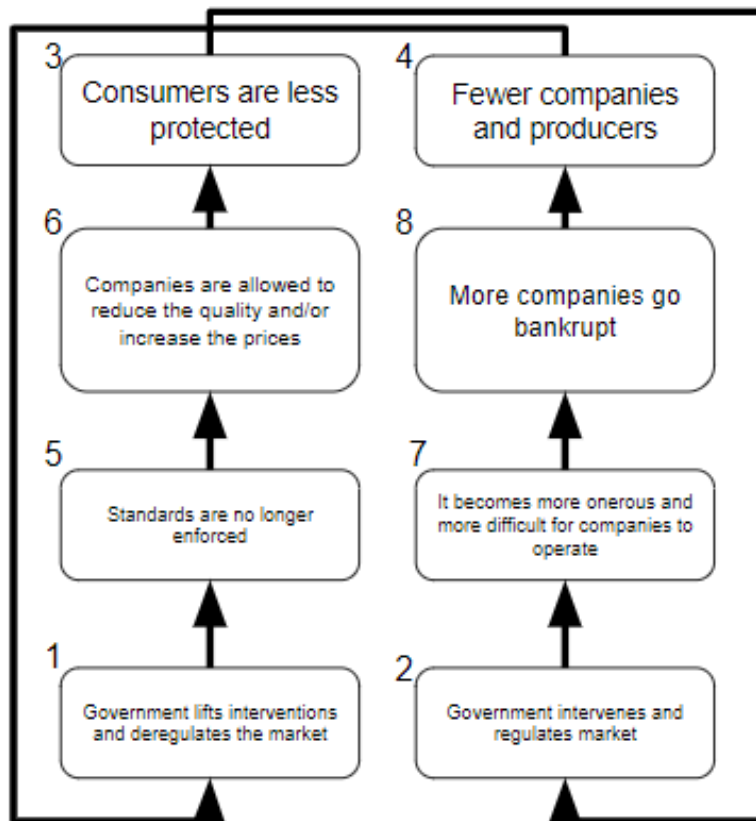
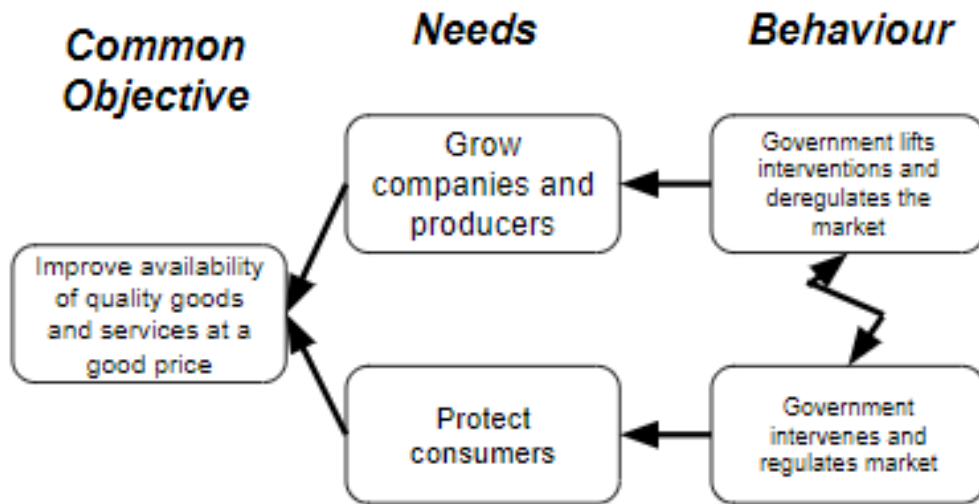
Another related topic has to do with erroneously stating that a trade deficit<sup>26</sup> is a problem. Let us say you live in a house, and you use electricity; does it matter that the electricity company does not buy anything from you while you buy all the electricity from them? If you do your food shopping from a certain shop, does it matter they do not buy anything from you? As long as you are getting what you need at a competitive price the only real issue is if you can afford it (the payment balance is the only one that matters).

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<sup>25</sup> "Man is a trader by nature. We constantly exchange know-how, favours and goods with others, so that we can accomplish more than we would if we were limited to our own talents and experiences. And the bigger the population, the greater the chance that one of them will stumble onto a better way of doing things, and the more people can benefit from that. This is why progress is related to the number of people who are connected and have a certain freedom to innovate and imitate. The sudden development of sophisticated tool-making, art and culture in western Eurasia about 45,000 years ago can be explained by population density. At last this region had enough people sufficiently close to regularly transfer skills and knowledge between groups. And in fact, researchers have found that similar 'modern' human behaviour appeared on other continents when the population density was similar. So, it's not our genes that explains our abilities and our progress, it's our proximity to more genes belonging to other people. Isolated populations, because they lived on far away islands and in mountain terrain, or because they were shut off by nativist rulers, failed to make this progress." Norberg, Johan (2020). *Open: The Story of Human Progress*. Atlantic Books.

<sup>26</sup> A trade deficit occurs when a country's imports exceed its exports during a given time period.

# Trade Evaporating Cloud and Druid



**Immigration:** Immigration is usually the excuse for politicians and bureaucrats to blame foreigners or outsiders for unemployment, low wages, and social security deficits. Because, of course, politicians and bureaucrats can never be the ones accountable for the misfortunes that they produce with their interventions.

People vote with their feet (and with their money by choosing what to buy<sup>27</sup>), meaning that they travel and settle to where they sense they will have more opportunities to ensure a better life. This has been the constant and a driver since the dawn of humanity.

Imagine again that you arrive on a deserted island. If you are alone, you will soon realise that you need to devote all your time to gather food to survive. Now, let us imagine that another individual comes along. With the two of you, it will be easier to survive, as one of you can gather the food while the other one gathers wood for a fire. You then can exchange the result of your work, food for wood and vice versa, to improve the quality of life. Moreover, one can gather food while the other one uses its time to create some sort of item that can increase food gathering productivity (i.e., fishing rod to fish or ladder to climb the trees to get coconuts or bananas). There are now two production levels on the island, one the very basic consumer goods gathering level and the other, a first capital asset production level. Now imagine more people come to the island and each, respecting others' lives and their private property, continue specialising their work and cooperating through trading. Now, human progress through human action becomes possible. The more individuals available, the more opportunities to specialise, innovate and create by adding levels to the production structure, specifically by adding layers to the capital asset production capacity. This is possible if and only if there are previous savings (low time preference places more emphasis on their well-being in the further future). Without savings, there is no chance to develop capital asset production because it means that all is consumed (high time preference focuses substantially on their well-being in the present and the immediate future). Of course, the precondition for any savings to happen is institutionality (freedom, respect to life, private property, and equal treatment under the law).

The production structure grows as individuals move from producing consumer goods to producing capital assets which in turn generate more productivity. As work becomes specialised more people, usually the autochthonous ones can move away from the production of immediate consumer goods. This means that there is always a need for individuals to replace those that have moved further from consumer goods production into the production of capital assets. The wages in the areas further from the production of consumer goods usually pay more because their productivity and specialisation are far superior. The jobs for producing consumer goods, usually require less expertise and knowledge and pay less, so those roles are the ones usually taken by the newcomers. Immigration is a necessity to create human progress and prosperity, plus the more specialisation the more social cooperation will be required.

If and when the state intervenes, what it does is destroy the production structure, hence the individuals that were working in the different levels of that structure have no other option but to compete for jobs closer to the consumer goods production. State's intervention dramatically reduces job opportunities, productivity, and social cooperation. The state has now put in direct collision course the autochthonous population with the newcomers. The conflict has been generated because of it. Now, the politicians and bureaucrats blame foreigners or outsiders for unemployment, low wages, and social security deficits.

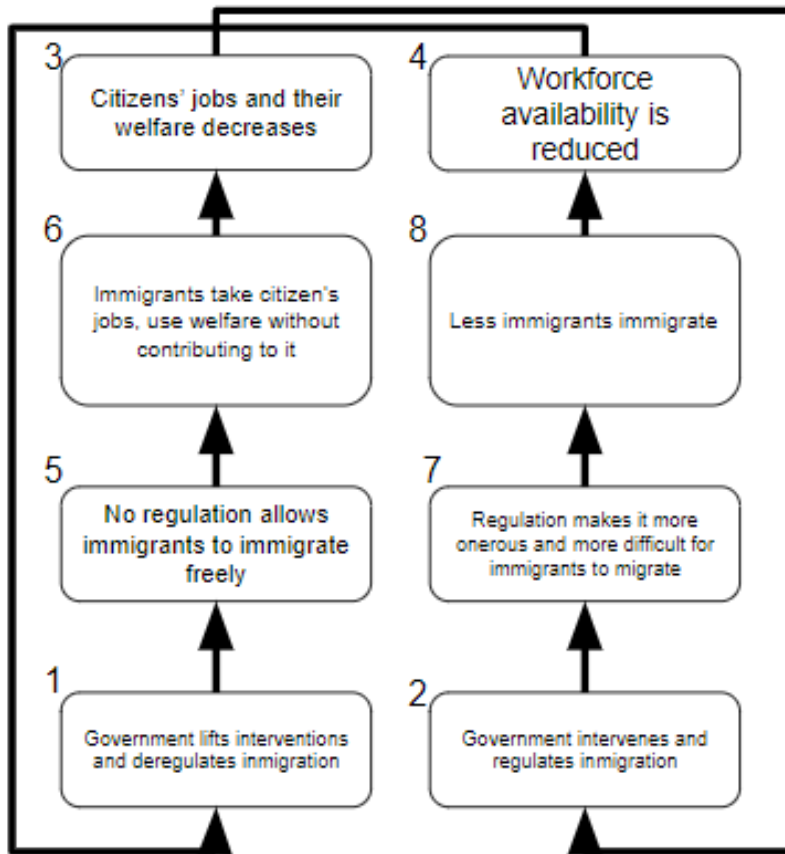
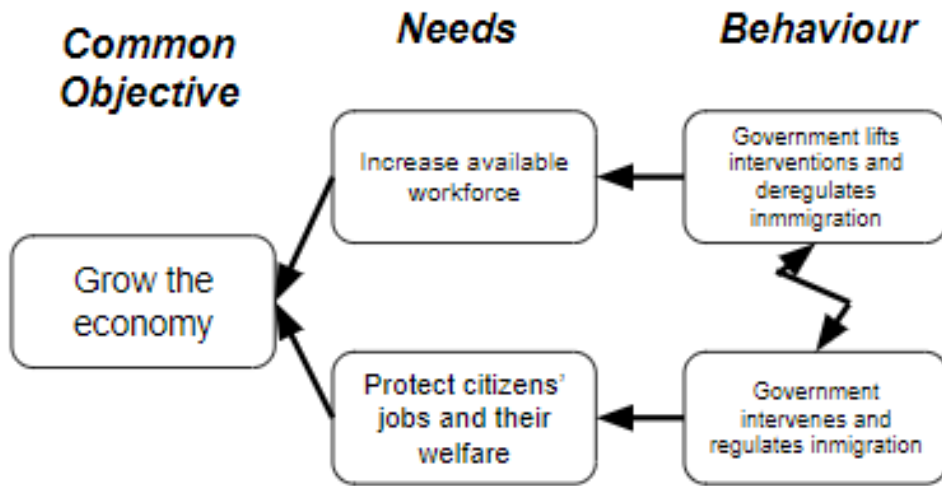
Laissez faire et laissez passer, le monde va de lui même.<sup>28</sup>

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<sup>27</sup> Each individual with their unique spending, savings and investment choices determines the value of products and services and where the capital flows.

<sup>28</sup> "Leave it to us, let do and let pass, the world goes on by itself!" Jacques Claude Marie Vincent de Gournay - Economist.

# Immigration Evaporating Cloud and Druids



## A reflection on the subject of prohibitions

### When freedom is absent corruption takes its place.

Regulations in general and prohibitions in specific are a monster of its own. It is important to understand the difference between an addiction<sup>29</sup> and a crime. An addiction tends only to hurt the addict while a crime tends to hurt others. The question is if the state should be entitled to prohibit an adult to have an addiction and why? For example, is there any difference between tobacco, alcohol and other drugs? They are all mind-altering chemicals, highly addictive. All can be dangerous. They all generate social dysfunction; with that logic should we also prohibit the addictions generated by gambling, video games, or social media? These addictions only differ in their legal status and social acceptability. It is clear that tobacco and alcohol kill more people than street drugs, however, tobacco, alcohol, video games, and social media are legal while street drugs are not.

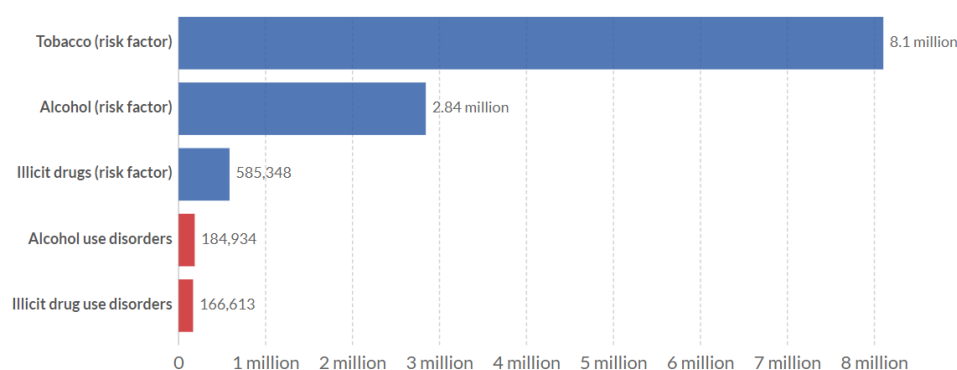
#### Deaths from tobacco, alcohol and drugs, World, 2017

Deaths from substance use are distinguished by two measures:

- direct deaths from substance use disorders (in red). These are deaths which result from alcohol or illicit drug use overdoses.
- indirect deaths (in blue) which result from substance use acting as a risk factor for the development of various diseases and injury.



[Change country](#)



Source: IHME, Global Burden of Disease

Note: Illicit drugs are drugs that have been prohibited under international drug control treaties. They include opioids, cocaine, amphetamines and cannabis.

OurWorldInData.org/drug-use • CC BY

It is interesting to review what happened in the United States from 1920 to 1933 when the state decided to prohibit the manufacture, sale, and transportation of alcoholic beverages in the name of promoting moderation and, more often, complete abstinence in the use of intoxicating liquor. The result was that millions of people were willing to drink liquor illegally, which gave rise to bootlegging (the illegal production and sale of liquor) and speakeasies (illegal, secretive drinking establishments), both of which were capitalized upon by organized crime. As a consequence, the Prohibition-era became a period of gangsterism, characterized by corruption and violent turf battles between criminal gangs.

Let us ask a few questions about how states manage addictions such as tobacco, alcohol and street drugs:

- To which one are entire national budgets spent to battle it as a crime and yet production and consumption are higher every year?
- Which one, in its production process, destroys and pollutes the environment the most and in a very serious way?
- What would so many police officers, judges and bureaucrats, who dedicate their whole lives to try to reduce street drugs trafficking do if the prohibition was lifted?
- How many people would get out of jail? How many prisons would be emptied?
- How many political campaigns or socialist regimes (such as Cuba and Venezuela) would fall apart without having the financing from the drug traffic? How many gangs of brutal criminals against humanity would disappear without the means and resources to carry out their despicable and appalling crimes?
- Would any addict risk going to an alley to buy his dose so that dangerous criminals can sell it to him or her at a higher price than gold or more expensive than the cure for cancer if they were free to go to the pharmacy to buy it at the price of aspirin and with less harmful substances and damaging side effects?
- There will always be addicts; addicts to food, gambling, sex, alcohol, tobacco, watching football matches, Instagram ... the question is what is a vice and what is a crime? Is the state going to prohibit everything now or are they going to let the adult individual assume their responsibility to make their own decisions while facing and certainly being accountable for the consequences of those choices (freedom and accountability are the opposite sides of the same coin)?

<sup>29</sup> John Stuart Mill – a 19th century English philosopher, parliamentarian and political economist: One of Mill's greatest contributions to philosophy was his harm principle, which holds that an action of a person should only be legally prohibited if it causes harm to other individuals.



In any case, as per the current reality, each and every one of us is paying<sup>30</sup> via inflation, taxes and loss of freedom, the consequences of the behaviours of the drug addicts while due to prohibition we are making it an extremely profitable business for the supply chain. For those who need to pay for the burden of the prohibition, there are at least three grave consequences:

1. Carry the burden of the enormous cost of the so-called war against drugs.
2. Carry the burden of having a more expensive health system because addicts are treated by the state's health system.
3. Production and distribution are now in the hands of those who are expert professionals in violating the law. Prohibition automatically generates rampant corruption and atrocious organized crime that in turn unleashes the violence and injustice that every individual then suffers. From brutal cartels and terrible corruption to petty thieves who steal from law-abiding individuals to pay their dose that is worth more than gold.

The three previous points do deteriorate human action and human capital by eroding institutionality and its institutional framework and therefore reducing capitalisation rates which in turn decrease productivity and consequently wages; because not many will think of investing where corruption and violence are rampant if they can do it in other places with better institutionality.

The only ones who benefit from prohibition are those who enrich themselves fabulously from it.

The reality is that the state has not been able and will not be able to prevent people from using street drugs. It cannot stop drugs from entering any country. It cannot even stop drugs from entering its own prisons. The corruption generated by drug trafficking permeates all state levels and as business as usual, the answer from politicians and bureaucrats is a bigger state to try to prevent the corruption which in turn only generates more corruption. And yet, politicians keep telling us that the next freedom they take from us will be the last one so that they can finally get drugs off the streets and protect us and our children. It should be obvious by now that this war will never be won. The state cannot stop supply, it cannot reduce demand, and its coercion tactics do not work.

**“There are wars that structurally cannot be won,  
even if each and every battle is won.”<sup>31</sup>**

**Some of the symptoms or undesirable effects (UDEs) of prohibitions (in no particular order). UDEs have been grouped by cause and effect starting bottom up of each group.**

- Prices in the illegal (black) market are higher.
- Individuals transacting in the illegal (black) market are not protected (risk is higher).
- Consumers are in direct contact with all the criminality behind the drug trafficking.
- Individuals risk obtaining their goods and services from the illegal (black) market.
- An illegal (black) market is created.
- Individuals seek out other options for obtaining the goods and services.
- The need or demand for the product or service still persists.
- Availability of the product or service decreases or disappears.
- More rules and controls increase the difficulty to obtain the goods or services.
  
- Corruption increases.
- Criminals have the capacity to corrupt via bribery or intimidation.
- Criminals enrich themselves fabulously.
  
- Drug consumers may resort to violence to get the money to pay the expensive price of the street drugs.
- 
- Elimination of incentives to produce drugs with less undesired side effects and at cheaper prices in the legal market.
- Erosion of Institutionality.
- Injustice increases.
- Violence increases.
- Criminals resort to violence to deal with disputes.
- Production and distribution done by criminals.
  
- Substances are harmful or of substandard quality.
- Criminal enterprises have little or no standards when producing goods or services.
- Substances are produced by the criminal enterprises.
  
- Money is debased to pay for the war on drugs.
- More taxes need to be raised to pay for the war on drugs.
- More state/government expenditure.

<sup>30</sup> An estimated 2.2% of the world's population had either an alcohol or illicit drug use disorder in 2016.1 This equates to around 164 million people. (Our World in Data). However, a 100% of the world's population ends up paying for it.

<sup>31</sup> Gonzalez Moore, Jorge. (2011). Un Dia Particular. Editorial JGGM.

- More resources solely dedicated to fight drug trafficking are required (i.e. police, army, state agencies, justice, jails, social welfare).

**Current Preconditions grouped by theme (in no particular order):**

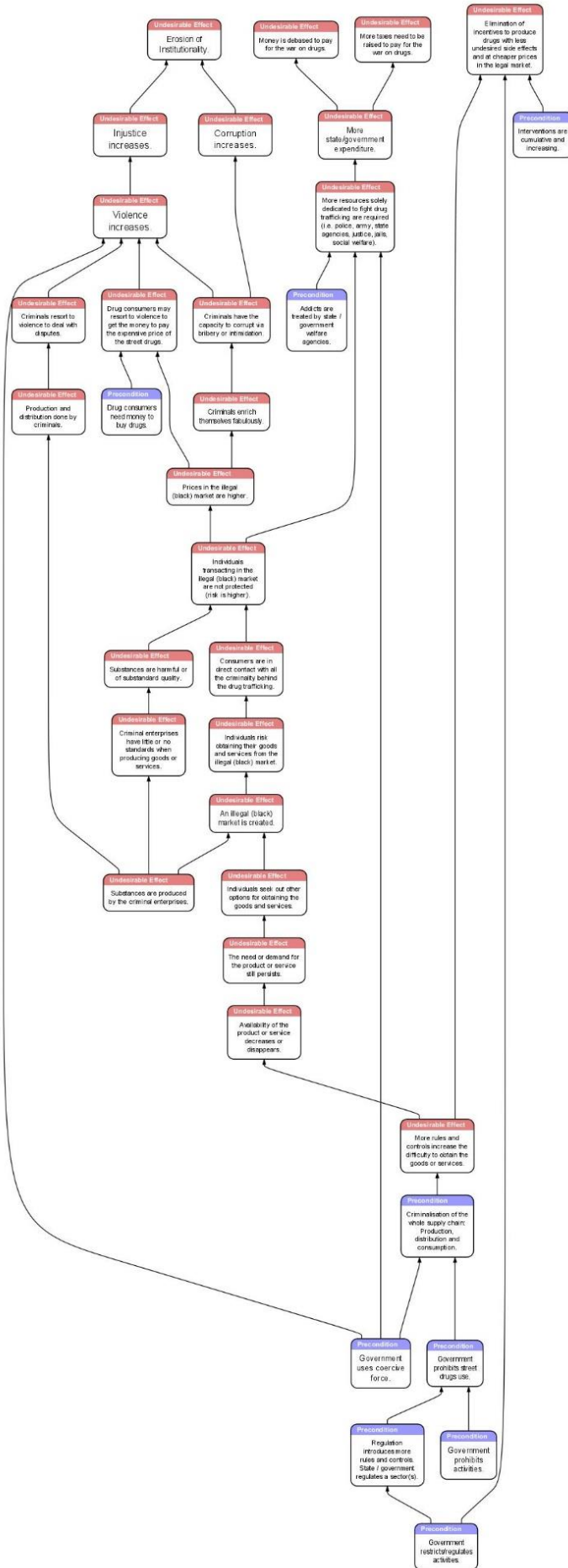
- Government uses coercive force.
- Interventions are cumulative and increasing.
- Government restricts/regulates activities.
- Government prohibits activities.
- Addicts are treated by state / government welfare agencies.
- Drug consumers need money to buy drugs.
- Criminalisation of the whole supply chain: Production, distribution and consumption.
- Government prohibits street drugs use.
- Regulation introduces more rules and controls.
- State / government regulates a sector(s).

**Prohibition Reality Tree**



# Prohibition Reality Tree organised bottom to top

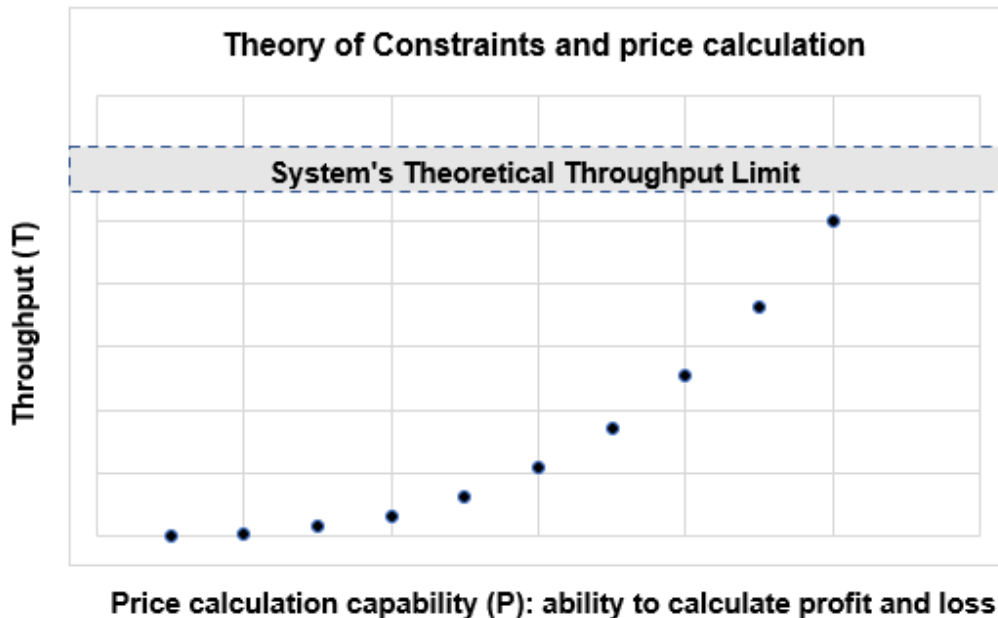
The Current Reality Tree (CRT) needs to be read starting bottom up using cause and effect logic.



## A reflection on the Theory of Constraints and price calculation

Free market prices are relevant to productivity: TOC's 5 focusing steps are based on the existence of free market prices and that is why "elevate" is the fourth step and not the second step. Without free market prices, TOC 5 focusing steps are not only irrelevant but could be the system's demise because you are laser focusing on the wrong thing. The latter also indicates that a firm's largest size is limited by its ability to calculate prices adequately. In other words, when prices (P) cannot be calculated, all TOC capability to generate value or throughput (T) breaks down: If P approaches 0, then T approaches 0.

$$\lim_{P \rightarrow 0} T = 0$$



When markets are not free, price calculation becomes increasingly difficult and the worst-case scenario is the state attempting to calculate profits and losses.

