



**Has Austerity Failed?  
Guest: Mark Thornton  
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**WOODS:** Every time I turn around there's a new Mark Thornton article, blog post, or video, so I thought we could have just a potpourri episode with Mark talking about all the things he's been writing about. I want to start off on this general subject of austerity. This never seems to go away. The conventional wisdom is that we have this tremendous economic downturn around the world—that's certainly true—and that we've tried austerity so-called, and it has failed because you stupid free-market economists just don't understand how the world works, so now we're going to have to really try something different. We're going to have to try government spending and expansion of the money supply. We can't continue on this austere path that you so-called "Austerians" have fastened us with.

First of all, how do you define austerity? Doesn't it really turn on how they define austerity and how we define austerity?

**THORNTON:** Of course it does. Many of your American listeners are probably really not familiar with this austerity issue, but if you peek outside the United States the media is on this story every day. I'm talking about every country in Europe, some countries in Asia and elsewhere, where austerity budgets are the biggest issue of the day. There are protests, and there are demonstrations. There are riots in places like Portugal and Spain and Greece and elsewhere. So there's a rising volume of media around the world that are paying attention to this story. In the United States, there's really not been much of an issue until last week, when President Barack Obama released his budget, and he said from now on we're not going to be doing this austerity thing anymore. I pretty much jumped out of my chair when I heard him say that.

Austerity to you and me and people around the world listening to this show, means you have to cut back on your budget. You may have lost a job or reduced your hours or something where you don't have as much money coming in, so austerity means you have to cut down on the money that's going out. You may have to get a new Internet service that costs less or get a different cable plan that costs less. You're going to be eating at home, fixing your own meals, rather than eating out. You're not going to go clothes shopping. All these things mean cutbacks on your standard of living. Of course, the ultimate example of this is the monk who lives sparsely, has minimal primitive clothing, eats a very limited budget, there's no heat, there's no running water, and you're working all day long, or you're praying all day long. That's the highest example of austerity.

To think that the United States government is coming anywhere close to that is just patently absurd. If you look at the budgets here in the United States, what you find is that they've gone steadily upward after a huge, major increase during the economic crisis. Rather than tightening our belt we've basically bellied up

to the buffet and have been eating constantly way beyond our budget. We've been running trillion-dollar annual budget deficits here in the United States. We've racked up \$5 trillion during the first four years of the Obama administration on their budgets, and the rate of increase has tailed off in recent years. But it's still up 15 percent since Obama took over the checkbook as president, and it's up 75 percent, a 75 percent increase in your budget, from a decade ago. We're spending huge amounts of more money, and we're running up this huge national debt. That's really the complete opposite of real austerity. It's laughable, basically, on the face of it.

Of course, the reason that people are up in arms on Europe and elsewhere about austerity is that they're getting heavy doses of what I call IMF austerity, or the International Monetary Fund's idea. Their economists' idea of what austerity is—and that's nothing like the Austrian or the man-on-the-street approach to austerity. Under an austerity budget, basically from the Austrian perspective, is that the politicians, the bureaucrats, and the employees would get reduced wages, reduced benefits, reduced retirement benefits until the budget got in balance. You wouldn't cut back on government services. You'd just cut back on the pay of politicians, bureaucrats, and government employees and retirees. The public wouldn't lose their garbage collection. It wouldn't lose the government trains. All that stuff would continue and it would be the public employees that would suffer, not the general citizenry.

In an IMF-type austerity budget, things are completely different. All the government employees and retirees get to keep all of their wages and benefits and retirements, and guess who suffers? They increase taxes on the taxpayer, so everybody's ticked off at that, because they've got less income and higher taxes. Also, they cut government services to the people. So they stop running trains, and they stop picking up the garbage. They close down the passport office. They start cutting all the things that the government does that are necessary for the citizens of those particular countries under those particular systems, so naturally everybody's pissed off. Everybody's demonstrating and rioting and protesting that type of IMF austerity. But that's not real Austrian economics-style austerity, which works. The Estonians and the Latvians have proven that that type of approach works very well, and now they have some of the fastest-growing economies in the European world.

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**WOODS:** You know, Mark, it really does come down to the definition of terms. I think the other side is deliberately trying to obscure this important issue by using austerity in a way that runs counter to the way the man on the street would understand it. This is part of a pattern. They do this all the time. "The free market is the cause of the financial crisis." Then you point out that the Federal Reserve had something to do with it. They'll come back and say—and I'm not kidding—that's part of the free market. Richard Posner is supposed to know better. He wrote a whole book on the financial crisis, and when he's asked about the Fed, and you say the Fed is not part of the free market, he says the Fed is part of modern capitalism. So now he's defining capitalism in a way that does not correspond to the man-on-the-street definition of capitalism. You define words however you need to to get your point of view to seem plausible.

So that's what you've been doing on the austerity front. I want to move toward the drug issue. You've been involved in the drug question—as a scholar; I don't mean as a user or a dealer. You've been involved in the question for many years. You had a book *The Economics of Prohibition* many years ago and you continue to write and speak about it. Here's what I want to ask you. I've never gotten a good answer to this question. If we legalize drugs, drug prices will go down. I think it would be easier to get them. They would be available in greater supply. So their price would go down.

At the same time, people who favor legalization have wanted to soften this for the general public by saying that if we make drugs legal, you don't need to worry that everybody will be walking down the street with a heroin needle sticking out of his arm. Don't worry about that. Because in fact, drug use will probably stay the same or even decline. I don't understand that promise. What other aspect of economics is there in

which we say the price falls, and the quantity demand stays the same or falls? Don't we need to be honest enough to say that yes, drug usage is likely to increase, but we have to weigh that against the many other benefits that come from legalization?

**THORNTON:** That's a very good question, and it's really the fundamental question in the legalization, prohibition debate. I think that all of the major illegal drugs, in which I would include marijuana, cocaine, and heroin, is more or less the natural side of the illegal drug market. I think that there would definitely be an increase in the demand and consumption of those products. There's really little question in my mind that there would be an increase. However, simultaneously I think there would be a decrease in the use of things like crystal meth and some of these newly concocted chemical combinations that are coming out of China and southeast Asia that are killing people. I think that there would be a decrease in demand for those things. Basically there are products that if the price were to rise or to fall significantly there wouldn't be any change in consumption.

Insulin is probably the best example of this. People wouldn't change their dosages based on price. If the price went up 500 percent or went down 90 percent they would still consume the same amount. But the thing about my research is that I emphasize the fact that the price changes, yes—that's usually the most important thing when an economist talks about a market—but in this case it's going from a prohibited black market to a free market where there are property rights, there's a legal system. There's a rule of law. There's commercialization. So that what I've argued is that by going from a prohibited market to a legal market framework that yes, the quantity would increase, but the safety would also increase dramatically. Information would increase dramatically. All of a sudden suppliers wouldn't want to be necessarily killing their consumers, because they'd face lawsuits and all sorts of things besides their reputation effect. You really have to look at things in an entirely different framework.

When we went from alcohol prohibition in the 1920s to legalizing alcohol in the 1930s, yes, there was some increase in consumption, mainly as people went from whiskey back to beer and wine. But there were all sorts of other great things, like the murder rate fell by 50 percent. Violent crimes declined by almost 50 percent. Government budgets could be cut, and tax revenues could be raised. Back before alcohol prohibition, alcohol taxes were one of the biggest funding sources for government, and of course, we're not arguing for funding sources for government. But when they legalized alcohol in 1933 the revenues to local, county, city, state, and federal governments allowed things like schools to stay open. The effect of prohibition is pervasive throughout society, and it's all negative. When you remove that prohibition, and reestablish legal markets, you create all sorts of new centers of progress and prosperity.

Of course, heroin, cocaine, and marijuana all have legitimate commercial, medical uses. We're learning all sorts of new things about the potential for marijuana, for hemp in medicine, and hemp in textiles and all sorts of other areas in the economy. I see medical marijuana and legalization of drugs altogether as a very beneficial thing, and I don't see things like heroin addiction and the really severe social problems that it causes spiraling out of control. I think what we have in today's world is not just heroin, but it's crystal meth and all of these chemicals that are coming in from overseas where they tweak the molecules in these narcotic drugs and then produce them on a mass scale. And they bring them into the country, and they're not technically illegal until they change the law, until they write new legislation. Our shores are being invaded by all these poisonous chemicals that might just happen to get you high and sedated. We've got to find some way to address these problems, and legalization is the only thing that systematically addresses these problems in a positive, sustained way.

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**WOODS:** Can you explain? Maybe it's obvious, but it's not 100 percent obvious to me and might not be to the listeners. Why exactly do you think that the use of drugs like the ones you're just describing now would decline?

**THORNTON:** If you give people opportunities to consume safer legal drugs, there's going to be a mass exodus from the illegal, very dangerous—or let's say they're legal as well, but they're very dangerous products. People are going to switch to the safer products. For example, we've got a living example here in the United States where alcohol is perfectly legal, and marijuana is illegal. There's a ton of problems associated with alcohol consumption: drunken driving, spousal abuse, weight gain, liver damage, all this stuff. In areas where marijuana has been legalized there's been a substitution effect from alcohol into marijuana, and we've been able to observe the impact of some of this stuff. For example, in decriminalized states we've noticed that there's a significant drop in alcohol-related fatalities or just fatalities on the road, because as people switch from alcohol to marijuana they have fewer car accidents as a result. There's a natural tendency in human beings to want to consume the cheaper, safer product that there's more experience with, and we have 5000 years of experience of using marijuana and cannabis in its various forms.

**WOODS:** Mark, I want to talk about a really short video that you put out late last week on the subject of health care. It's part of this Mises View series of videos that have been going on for some months now. This is a great idea, a long time coming, where people at the Mises Institute make brief videos about issues of current importance. Your video is called "The Collapse of America's Healthcare Industry," and you're able to discuss this in two minutes and 44 seconds. If you can do two minutes and 44 seconds, maybe you can do a minute and a half; let's see. What's the thesis of that video?

**THORNTON:** I haven't written anything about Obamacare, and I haven't recorded anything or given any public lectures on Obamacare and didn't plan to, because scholars from the Mises Institute and Austrian economics have been doing a very good job with this since before Obamacare even came up. We've been complaining about the American health-care system and the Canadian health-care system. This past week I was talking with a friend who is a big critic of Obamacare. She's about 50 years old, and she's semi-retired. She works a little bit on part-time jobs. She had catastrophic health-care coverage which only covers heart attacks and cancers and car wrecks and stuff like that. It doesn't cover drugs and testing and things of that nature. That's the type of health-care insurance that Austrians recommend is rational on a free market.

Her health-care company called her said your plan was canceled by Obamacare. You're going to have to get comprehensive health care coverage which covers drugs and doctors' visits and testing and all the rest plus cancer, heart attacks, and car accidents. Instead of \$300 a month, it's going to cost almost \$1200 a month to get a private policy. She barely makes \$1200 a month, so she was really worried. A friend got her to get into an Obamacare exchange where the government processes your health care. You get a Blue Cross/Blue Shield, gold-plated comprehensive plan, and your total bill, ma'am, is \$1.75 a month instead of almost \$1200 a month. Obviously, Obamacare is creating an incredible cross-subsidization from young people to old people, from healthy people to sick people, and from high-wage value-producing workers to low-wage value-producing workers.

This is just another layer of government intervention ladled onto the existing American health care system, which is burdened with so much government intervention at every level for doctors and hospitals and drug companies. They've all got monopolies, they're all heavily regulated, and they're falling apart. Obamacare is just one extra layer on that crazy system which is causing so much chaos in American health care. We know that's the case, because government's involved in giving monopolies and subsidies and insurance and all this sort of stuff for health care, but when we look at veterinarian care or plastic surgery or dental care, where most people have to pay out of pocket for their services, and they know what price they have to pay for caps or drillings on your teeth or shots for your dog or a nose job at the plastic surgeon—you know the price. You pay the cash, and there's no chaos. There's no waiting in line. There are no people going without and so forth.

Americans need to look at the difference between their vets and dentists and their plastic surgeons compared to their doctors and their hospitals, where government has invaded and taken over. Now

Obamacare is one more step on the road to complete chaos in American health care and what Mises called “German-style socialism,” where one set of interventions leads to another, which needs remedial interventions, which causes additional problems, which cause increases in government intervention into the economy, until the whole system basically collapses of its own weight.

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