What is a Governmental Intervention?

Laws prohibiting offenses are interventions. Interventions are often bad substitutes for sound economic policies.

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A governmental "intervention" is a law or action which changes what people would otherwise voluntarily do. Interventions are market-hampering, as the use of force by government reduces the well-being of the people who are coerced. In contrast, laws which protect property rights are market-enhancing, as they increase the well-being of people; such laws are not interventions.

The word "intervene" derives from the Latin words "inter," between, and "venire" to come. To "intervene" means to come between two or more things, to interfere in order to change the outcome. If a US company seeks to export goods to Cuba, and the government prohibits this trade, the government comes between the parties that sought to trade, changing the outcome to not trading.

To analyze intervention, we first need to understand its absence, liberty. In a purely free society, the law prohibits only acts which coercively harm others. A harm is an invasion into a person's proper domain: his body and his property obtained by voluntary means. Theft, murder, kidnapping, and trespass are invasions. In contrast, an offense is an act that a person deems displeasing only because of his beliefs and values.

When people are offended by images, speech, or the observation of actions they don't like, these offenses are not prohibited in a free society. If one is not allowed to make a speech whenever any person does not like it, then there is no freedom of speech. Morally, a victim is a person who has been coercively harmed. Acts which may offend but not harm people are victimless crimes.

Laws prohibiting offenses, such as gambling, prostitution, drugs, nudity, and words regarded as obscene, are interventions. In a society that has complete liberty, people are free from interventions. The law prohibits acts which coercively harm others, but not acts which are merely offensive.

Government officials enact interventions because of political pressure by special interests, but also because some people, perhaps a majority, believe that society is better off with the intervention. For example, illegal drugs may be physically harmful to health. But we need to see the broader effects of the intervention. Prohibitions create an underground market, and then the government responds with more interventions, invasions of the privacy of financial accounts, intrusions into homes, the confiscation of property, and an increase in the prison population. But aside from these effects, the policy of intervention erodes liberty and rights to property and privacy.

Governments also interfere in the belief that the intervention makes markets more competitive. In the USA, anti-trust action is intervention by government into firms that dominate a market, such as IBM did in computer hardware, or Microsoft with computer operating systems. Governments require licenses to practice law, medicine, and hair styling. The provision of public goods such as security and streets is done with taxes that intervene into earnings and spending.

Such interventions have as an alleged justification, the prevention of "market failure." The economics textbooks claim that markets fail when there are externalities, uncompensated effects such as pollution, which justify the intervention of regulations. But a pure free market would not have negative external effects, as these would constitute trespass, an unwanted invasion into others' property. Governm market-enhancing role by enforcing property rights, such as enabling a lawsuit against a polluter, or making polluters pay periodically for on-going damage. Such compensations would not be interventions. Thus a law requiring a smog test for a car is an intervention, but a payment by a polluter for causing damage is not an intervention, as the latter helps to establish a voluntary market.

Advancing technology, such as the Internet, has made information more widely available, often at no charge, and so whatever justification there was for interventions such as licensing laws has become obsolete. Technological progress also erodes the rationale for the intervention of anti-trust action, as companies need to continuously innovate as new companies reduce the dominance of existing firms.

Interventions are often bad substitutes for sound economic policies. For example, the economic solution for traffic congestion is tolls just high enough to let the traffic flow smoothly. But instead, governments typically impose restrictions such as high-occupancy lanes, an intervention that prohibits cars from entering an underused lane. Today, it is possible to have electronic charging along streets and highways that enable the tolls to be paid as the car moves along.

Interventions include subsidies that reduce the prices of products below the cost of production. The taxes that pay for the subsidies have a social cost greater than any gain to consumers. Taxes on events, other than negative externalities, intervene into these events. Events include earning wages and profits, buying goods, and adding value by production. But truly voluntary user fees are not interventions, and a levy on ground rent or land value is not an intervention, since it does not depend on any event, and the fee prevents what would otherwise be the implicit subsidy of the rent generated by government's provision of public goods.

Governmental interventions destroy liberty and damage economies. People want interventions partly because of their misunderstanding of ethics and economics, and partly because our constitutions have structured government in a way that gives special interests political clout. But as interventions cause the plundering of the earth, and cause poverty and war, it is all the more necessary for people to understand the meaning and consequences of intervention.

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Foldvary is notably known for going on record in the *American Journal of Economics and Sociology* in 1997 to predict the exact timing of the 2008 economic depression—eleven years before the event occurred. He was able to do so due to his extensive knowledge of the real-estate cycle.