

Chapter 20: The Closing Lesson

"Regulation is acquired by the industry and is designed and operated primarily for its benefit." — **George Stigler**, *The Theory of Economic Regulation* (1971)

We begin with a broken window.

In that first parable, a hoodlum threw a brick, a baker lost a pane of glass, and a crowd foolishly celebrated the "economic stimulus" of the repair. They saw the glazier getting paid. They did not see the suit the baker could no longer buy. They saw the activity of the moment. They missed the wealth that had been destroyed.⁷²

We end this book not with a window, but with a wall.

The wall is less visible than the window, but it is far more expensive. It is built of licensing requirements that block the poor from working. It is mortar-sealed with compliance codes that only the wealthy can afford. It is topped with the razor wire of subsidies that protect failing giants from hungry challengers.

Like the crowd outside the bakery, modern politics stares at this wall and applauds. It points to the "protected jobs" behind it. It points to the "orderly markets" it creates. It points to the "safety" it promises.

It does not see the people standing on the other side.

It does not see the immigrant who cannot start a business because the permit costs a year's wages. It does not see the teenager who cannot get a first job because the labour laws have priced him out of the market. It does not see the innovation that never happened because the regulatory moat frightened the inventor away.

It sees the protection. It does not see the exclusion.

This book has been an exercise in learning to see.

⁷² **Stigler (1971)**, *The Theory of Economic Regulation*. The seminal paper that destroyed the "public interest" theory of regulation. Stigler proved that industries actively seek regulation to restrict entry and control prices, meaning that "deregulation" of entry barriers is often the most pro-consumer policy available.

We have walked through the wreckage of the "One-Year Fallacy," the "Valuation State," and the "Liquidity Cascade." In every chapter, the lesson has been the same: good economics—and good morality—requires looking beyond the immediate, visible intervention to the long-run, invisible consequence.

Intentions are not results.

A rent control law is intended to house the poor; its result is to shrink the housing supply.

A wealth tax is intended to punish the billionaire; its result is to bankrupt the pension fund.

A tariff is intended to save the factory; its result is to tax the family.

Now, we must synthesize these lessons into a coherent way of seeing the world. We need a "closing lesson" that serves as a compass for the future. That compass is built on four cardinal points, drawn from the twenty chapters we have traversed:

1. **Count the Secondary Effects (The Hazlitt Rule).**
2. **Protect the Ladder, Not the Incumbent (The Stigler Rule).**
3. **Punish Predation, Not Success (The Moral Rule).**
4. **Build Institutions That Reward Competence (The Boring Rule).**

I. The Hazlitt Rule: Count the Secondary Effects

The first discipline of a serious citizen is to ask: "And then what?"

When a politician promises a benefit, they are showing you the first act of the play. The benefit is immediate, visible, and concentrated on a specific group. It makes for good television.

The cost is usually delayed, invisible, and diffused across the entire population. It makes for boring television.

But the cost is real.

- If we print money to pay bills today, we are taxing the savings of the elderly tomorrow via inflation.
- If we ban a technology to save a job today, we are taxing the productivity of the entire nation tomorrow via stagnation.

- If we tax capital until it flees, we are enjoying a feast today by eating the seed corn of next year's harvest.

The "Hazlitt Rule" is not an argument against all government action. It is an argument against blind government action. It demands that we put the unseen on the scale.

Before we cheer for the glazier, we must mourn the suit. Before we cheer for the subsidy, we must mourn the taxpayer. Before we cheer for the crackdown on the "rich," we must ask if the shrapnel will hit the middle class.

A society that refuses to count the cost is a society that is slowly going bankrupt—financially and morally.⁷³

II. The Stigler Rule: Protect the Ladder, Not the Incumbent

George Stigler won a Nobel Prize for proving a cynical truth: regulation is rarely imposed on an industry; it is usually demanded by the industry.

The established giant loves the cage. The cage keeps the wild animal out.

This insight destroys the simplistic narrative of "Government vs. Business."

In the real world, Big Government and Big Business are often partners. They share a dislike for the unpredictable, the disruptive, and the new. They collaborate to write rules that are complex enough to require a compliance department, effectively outlawing the garage entrepreneur.

The true "pro-market" position is to stand with the outsider.

We must protect the ladder. The ladder is the mechanism of mobility. It allows the person with nothing but grit to climb into the middle class, and the person with a better idea to climb to the top.

- When we require a license to braid hair, we are sawing off the bottom rung.
- When we bail out a failing bank, we are greasing the top rung so the elite cannot fall.
- When we use zoning to ban cheap housing, we are putting a "Members Only" sign on the city.

⁷³ **Bastiat (1850)**, *That Which Is Seen and That Which Is Not Seen*. The spiritual godfather of the book. His final admonition remains the core theme: the good economist must foresee the invisible consequences of policy, or else society will celebrate the destruction of its own capital.

The test of any policy is not "does this help business?" The test is "does this allow a poor person to compete with a rich person?"⁷⁴

If the answer is no—if the policy increases the cost of entry, increases the complexity of compliance, or guarantees the profits of the existing players—then it is not a market policy. It is a capture policy. We must tear it down.

III. The Moral Rule: Punish Predation, Not Success

We have spent much of this book defending the mechanics of wealth creation. But we must address the moral legitimacy of wealth.

Populism thrives because people feel the game is rigged. And often, they are right.

But we must distinguish between two types of wealth: Creation and Extraction.

- **Wealth by Creation** is positive-sum. The entrepreneur invents a smartphone, a vaccine, or a logistics network. They get rich, but the world gets richer too. The customer voluntarily trades money for value.
- **Wealth by Extraction** is zero-sum or negative-sum. The monopolist corners a market. The lobbyist secures a subsidy. The fraudster cooks the books. The crony gets a no-bid contract. They get rich, but the world gets poorer.⁷⁵

The fatal error of crude populism is to attack "wealth" as a single category.

If we attack creation (via punitive taxes on innovation or investment), we stop the engine of progress. We make everyone poorer.

If we fail to attack extraction (via weak antitrust, tolerated corruption, or crony subsidies), we destroy the legitimacy of the system. We make everyone angry.

The goal is to punish predation without punishing success.

We should be ruthless with the fraudster, the cartel, and the rent-seeker. We should strip them of their ill-gotten gains.

⁷⁴ **Djankov et al. (2002)**, "The Regulation of Entry," *Quarterly Journal of Economics*. Found that countries with heavier regulation of entry (more procedures, higher costs) have higher corruption and larger informal economies, but not better quality goods or less pollution. The regulation serves the incumbents, not the public.

⁷⁵ **Baumol (1990)**, "Entrepreneurship: Productive, Unproductive, and Destructive." Distinguishes between entrepreneurs who innovate (productive) and those who focus on rent-seeking/lobbying (unproductive). Argues that the "rules of the game" (institutions) determine where talent flows. If the rules reward lobbying, you get lobbyists. If they reward invention, you get inventors.

But we should celebrate the founder, the builder, and the investor. We should look at the honest billionaire not as a policy error, but as a receipt for value delivered to millions of people.

A society that cannot tell the difference between a pirate and a merchant will eventually be run by pirates, because the merchants will leave.

IV. The Boring Rule: Build Institutions That Reward Competence

Finally, we return to the unglamorous truth of Chapter 16: the path up is mostly boring.

It is not paved with revolutions, grand speeches, or "Great Leaps Forward." It is paved with property deeds that don't get lost. Courts that don't take bribes. Currencies that hold their value. Schools that teach skills rather than slogans.

These are the "boring institutions." They are the operating system of prosperity.

When the operating system works, we barely notice it. We sign a contract and assume it will be honoured. We start a business and assume the police won't demand protection money. We save for retirement and assume the government won't inflate it away.

But when the operating system crashes, everything stops.

The "Closing Lesson" is that civilisation is a maintenance project. It is not a natural state. It is a garden that must be weeded, watered, and walled against the wilderness.

If we let the institutions rot—if we let the universities become ideological filtering machines, if we let the courts become political weapons, if we let the currency become a political slush fund—then the garden dies.

We cannot vote ourselves rich. We can only build the institutions that allow us to work ourselves rich.

V. The Unseen City

Imagine, for a moment, the "Unseen City."

It is the city that could exist if we stopped throwing bricks through windows.

In this city, the rent is affordable because builders are allowed to build. The wages are high because capital is abundant and workers are armed with machines. The schools teach plumbing and philosophy with equal pride. The taxes are simple, broad, and visible.

In this city, there are no billionaires who got rich by lobbying Congress. But there are many billionaires who got rich by solving problems, and their neighbours cheer them on, because their success did not come at the expense of the community—it contributed to it.

In this city, the ladder is intact. The immigrant on the bottom rung can see the top, and he knows that if he climbs, the rungs will hold. He knows that the rules will not change mid-climb. He knows that the game is hard, but it is not rigged.

This city does not exist yet. It is the "Unseen."

But it is not a utopia. It is a possibility. It is what happens when we stop fighting the laws of economics and start using them.

It is what happens when we stop focusing on the visible theatre of politics and start tending to the invisible roots of prosperity.

The broken window is a tragedy.

The repaired window is a necessity.

But the window that is never broken—the window that looks out onto a world of honest trade, secure rights, and open competition—that is the victory.

That is the lesson.

Now, go build the ladder.

The Final Lesson Line

A prosperous society is not a natural occurrence; it is a fragile achievement built on the unseen foundations of trust, law, and the discipline to punish predation while celebrating creation.

Chapter 20 Notes

[1] Regulation as Capture Stigler, "The Theory of Economic Regulation," *Bell Journal of Economics* (1971). The seminal paper that destroyed the "public interest" theory of regulation. Stigler proved that industries actively seek regulation to restrict entry and control prices, meaning that "deregulation" of entry barriers is often the most pro-consumer policy available.

[2] The Ladder vs. The Moat Djankov et al., "The Regulation of Entry," *Quarterly Journal of Economics* (2002). Found that countries with heavier regulation of entry (more procedures, higher costs) have higher corruption and larger informal economies, but not better quality goods. The regulation serves the incumbents, not the public.

[3] Creation vs. Extraction Baumol, "Entrepreneurship: Productive, Unproductive, and Destructive," *Journal of Political Economy* (1990). Distinguishes between entrepreneurs who innovate (productive) and those who focus on rent-seeking (unproductive). Argues that the "rules of the game" determine where talent flows: if the rules reward lobbying, you get lobbyists; if they reward invention, you get inventors.

[4] The Unseen Cost (The Synthesis) Bastiat, *That Which Is Seen and That Which Is Not Seen* (1850). The spiritual godfather of the book. His final admonition remains the core theme: the good economist must foresee the invisible consequences of policy, or else society will celebrate the destruction of its own capital.

Governing Claim A prosperous society is not a natural state; it is a fragile achievement built on the discipline of looking beyond visible intentions to unseen consequences. To restore the "Ladder," we must distinguish between being pro-market (protecting competition) and pro-business (protecting incumbents), and build institutions that punish predation while celebrating creation.

The "Hazlitt" Examples (Primary)

1. The Window vs. The Wall (The Unseen Cost):

- o *Claim:* "Regulations protect jobs and ensure order."
- o *Hidden Assumption:* We see the protected job; we do not see the excluded worker.
- o *Mechanism:* The "Wall" of licensing and compliance is invisible to the public but impassable to the poor. It does not just protect; it excludes. The cost is the innovation that never happened and the business that never started.
- o *Lesson:* The broken window is a tragedy; the window that is never broken (honest trade) is the victory.

2. The Stigler Rule (Regulatory Capture):

- o *Claim:* "Government regulation fights corporate power."
- o *Hidden Assumption:* Corporations and government are enemies.
- o *Mechanism:* Incumbents often demand regulation because complexity acts as a moat against new competitors. The cage keeps the wild animal out.
- o *Lesson:* The test of policy is not "does it help business?" but "does it allow a poor person to compete with a rich person?"

3. Creation vs. Extraction (The Moral Distinction):

- o *Claim:* "Billionaires are a policy error."
- o *Hidden Assumption:* All wealth is generated the same way.
- o *Mechanism:* Wealth by *creation* (innovation) is positive-sum; wealth by *extraction* (rent-seeking, lobbying) is zero-sum. Populism fails when it attacks the former; it succeeds only when it attacks the latter.

- o *Lesson:* A society that cannot distinguish between a pirate and a merchant will eventually be run by pirates.

The Final Lesson Line

"A prosperous society is not a natural occurrence; it is a fragile achievement built on the unseen foundations of trust, law, and the discipline to punish predation while celebrating creation."