

The four-rule discipline of policy judgment

Synthesize the book's Hazlitt, Stigler, Moral, and Boring Rules into a practical method for analysing consequences, entry, conduct, and institutions. Build a policy judgment that is explicit about counterfactuals, values, uncertainty, implementation, and revision.

2 lessons · approximately 5 hours, plus multi-day practice

How to use this workbook

Read the assigned manuscript first. This workbook contains accompanying teaching and invented cases, not a revision of the source. Attempt exercises before consulting the rubrics and explanations. Written work is self-assessed or discussed with a tutor; no secure examination, academic credit or certificate is implied. Use a clearly labelled fictional case when live practice or personal disclosure would be unsuitable. Links use the course's intended publication address; for offline review, open the supplied source PDF at the full-book page numbers shown.

- Construct a two-sided ledger of primary and secondary effects.
- Evaluate entry barriers against legitimate protection.
- Distinguish creation from extraction in mixed cases.
- Translate institutional ideals into maintained capabilities.
- Integrate four rules into an evidence-responsive recommendation.

[Open the module and source reading links](#)

Lesson sequence

1. See secondary effects and test who can enter
2. Reward creation and maintain the institutions of opportunity

See secondary effects and test who can enter

Allow approximately 75 minutes, plus any continuing activity.

Learning objectives

- Apply the chapter's Hazlitt and Stigler rules as analytical questions.
- Construct a counterfactual ledger of visible and less visible effects.
- Evaluate entry barriers without treating all regulation as capture.

Assigned source readings

Chapter 20: The Closing Lesson; I. The Hazlitt Rule: Count the Secondary Effects; II. The Stigler Rule: Protect the Ladder, Not the Incumbent

Full-book PDF pages 247–250. Section links open the chapter at the relevant page.

Chapter 20 Notes; The "Hazlitt" Examples (Primary)

Full-book PDF pages 253–255. Section links open the chapter at the relevant page.

Develop the argument

From the broken window to the excluded entrant

Chapter 20 returns to the broken-window story: repair work is visible, while the alternative use of the owner's resources is unseen. It then introduces the "wall" of licensing, compliance, and subsidies that can protect existing activity while blocking people outside. The source's key move is to ask about a counterfactual, not to declare every visible benefit false. Repair can be necessary after damage, yet that does not make the damage a source of net wealth. Similarly, a rule may produce an observable benefit while imposing an opportunity cost. The task is to compare feasible alternatives and account for resources, risk, distribution, and time. Unseen possibilities need disciplined estimates; an imagined business that never formed is not automatically evidence of a loss of any chosen size.

The Hazlitt Rule widens the ledger

The book's first named rule asks what happens after the immediate intervention. It connects money creation with purchasing power, technology restrictions with productivity, and capital taxation with future investment. These examples state the author's proposed mechanisms and should not be repeated as unconditional forecasts. Scale, timing, institutional conditions, and policy design affect outcomes. The source explicitly says the rule is not against all government action; it is against action that ignores consequences. Apply the same discipline to inaction and deregulation. A missing safety rule may impose less visible harm; a public intervention may generate future benefits. A complete ledger identifies first effects, later responses, affected groups, opportunity costs, and uncertainty on all sides. The purpose is more complete comparison, not a technique for finding only the delayed costs of policies one already dislikes.

The Stigler Rule asks about the ladder

The second rule distinguishes protecting established firms from preserving the ability of outsiders to compete. The chapter's examples are occupational entry, bank rescue, and housing restrictions. An entry test asks how money, time, qualifications, compliance, and connections determine who can participate. It also asks which requirements genuinely protect people from harm. The source's statements that Stigler proved regulation is usually demanded by industry and defeated public-interest explanations are sweeping interpretations, not findings independently established by this course. Regulatory capture is a useful hypothesis alongside other motives and effects. A policy can benefit consumers and incumbents at once. Evaluate whether a less restrictive, feasible design achieves the legitimate purpose with wider access. Do not grade a learner by how many rules they remove; grade the evidence linking a requirement to protection or exclusion.

Synthesis requires resisting stronger claims than the evidence

The opening summary says rent control shrinks supply, wealth taxation bankrupts pensions, and tariffs tax families. These compact lines recall earlier arguments but compress conditional mechanisms into categorical results. A rigorous closing lesson restores the conditions: which market, which design, what response, compared with what alternative, and over what horizon? The wall metaphor similarly highlights excluded workers while leaving the regulation's actual benefits to be measured. Use a causal diagram to make intermediate steps visible, then identify the weakest empirical link. A strong answer can accept the author's diagnostic discipline while rejecting an unsupported magnitude or inevitability. The source's notes and primary examples repeat the same lessons; they are reading evidence about the author's argument, not independent verification of its strongest wording. Your analysis should show both what the chapter contributes and what still needs investigation.

A licence that protects one group and excludes another

Invented for this course.

In an invented city, a delivery licence requires an expensive office lease. Officials say it improves accountability, while a safety audit finds that vehicle checks and complaint records address the actual hazards.

1. Identify the visible objective and the cost to entrants who could operate safely without an office.
2. Construct the counterfactual: targeted checks and a reliable contact requirement instead of the lease.
3. Compare consumer protection, enforcement costs, entry, and worker transition effects.
4. State which outcome would justify keeping or revising the lease condition rather than assuming any burden is illegitimate.

The Hazlitt rule widens the ledger; the Stigler rule examines entry. Together they support a testable redesign, not automatic removal of all licensing.

Practice and evidence

1. Create a two-sided unseen ledger

Choose a fictional policy that restricts a new delivery technology for safety. Compare the restriction, a targeted safeguard, and no new rule.

Deliverable: A three-option ledger with short- and long-run effects for four groups.

1. Include consumers, workers, entrants, and people exposed to accidents.
2. Record opportunity costs and possible delayed benefits as well as costs.
3. Mark each effect as observed, assumed, or needing evidence.

Symmetry · 2 points

Applies second-effects reasoning to intervention and nonintervention.

Counterfactual · 2 points

Compares feasible options and does not treat imagined losses as measured facts.

Distribution · 2 points

Identifies who bears each effect and when.

2. Test the wall metaphor

Audit the invented office-lease requirement for delivery licences.

Deliverable: A 400-word proportionality memo and three outcome indicators.

1. Describe the public objective in its strongest form.
2. Compare the lease with targeted alternatives.
3. Specify safety, complaints, and entry measures that could reverse your preferred decision.

Fair reconstruction · 2 points

Represents the legitimate objective rather than assuming bad faith.

Mechanism · 2 points

Shows exactly how the lease changes entry and whether it contributes to protection.

Evaluation · 2 points

Uses outcome-based review rather than ideological agreement.

Reflection

Which unseen consequence would challenge your preferred policy rather than simply reinforce it?

Formative self-check

Choose an answer before looking at the answer key. These questions are open practice, not a secure assessment.

1. What is the best application of the Hazlitt Rule?

- A. Count only costs of government action.
- B. Compare visible and less visible effects of intervention and alternatives, including inaction.
- C. Reject all public expenditure.
- D. Assume every unseen possibility would certainly occur.

2. A rule helps an incumbent and reduces accidents. What should the Stigler-style review ask?

- A. Whether a less restrictive design preserves the safety benefit while widening entry.
- B. Which political label sounds strongest.
- C. How to ignore the safety evidence.
- D. How to guarantee the incumbent's profit.

3. The closing chapter says a wealth tax bankrupts a pension fund. How should a learner use that line?

- A. As an established universal forecast.
- B. As permission to ignore pension liabilities.
- C. As a compressed source claim requiring the intermediate mechanism, design, and evidence.
- D. As proof that no public benefit can matter.

Answer explanations

1. B — Compare visible and less visible effects of intervention and alternatives, including inaction.

The source rejects blind action, not all action. Counterfactual comparison must include benefits, costs, and uncertainty on every option.

2. A — Whether a less restrictive design preserves the safety benefit while widening entry.

Mixed effects require design comparison. An incumbent benefit does not erase real protection, and protection does not excuse unnecessary exclusion.

3. C — As a compressed source claim requiring the intermediate mechanism, design, and evidence.

The chapter's rhetorical synthesis is stronger than a general conditional mechanism. A careful analysis restores assumptions and checks actual assets, liabilities, and policy effects.

Reward creation and maintain the institutions of opportunity

Allow approximately 75 minutes, plus any continuing activity.

Learning objectives

- Distinguish creation and extraction using conduct and evidence rather than wealth alone.
- Apply the book's Boring Rule to institutional maintenance.
- Integrate all four rules into a revisable policy judgment.

Assigned source readings

III. The Moral Rule: Punish Predation, Not Success; IV. The Boring Rule: Build Institutions That Reward Competence; V. The Unseen City; The Final Lesson Line; Chapter 20 Notes; The "Hazlitt" Examples (Primary)

Full-book PDF pages 250–255. Section links open the chapter at the relevant page.

Develop the argument

The Moral Rule distinguishes how wealth is obtained

Section III separates wealth through creation from wealth through extraction. In the author's account, useful innovation can generate gains for producer and customer, while fraud, cartel restrictions, corrupt contracts, and political privilege can transfer or destroy value. These are analytical categories, not reliable labels that can be assigned from a person's net worth or occupation. An entrepreneur may innovate and seek protection; a successful transaction may also impose costs on people outside it. A serious review examines specific conduct, rights, competitive conditions, information, and external effects. The source's "honest billionaire as a receipt" phrase expresses a moral interpretation, not proof that every large fortune equals social value. Likewise, wealth alone does not prove predation. Criticism and enforcement should identify evidence and a fair process rather than celebrate or condemn a class of people.

Consequences and due process belong together

The chapter calls for firm action against fraud, cartels, and rent-seeking while preserving incentives to build and invest. Turn that into a precise question: what conduct is harmful, what evidence establishes it, who has authority to decide, and what proportionate remedy addresses the harm? Removing an unjustified subsidy differs from penalising a crime; recovering funds under a valid process differs from arbitrary confiscation. A learner need not provide legal advice to recognise the importance of fair procedures and consistent standards. The author's pirate-and-merchant analogy is memorable but can hide mixed cases. Investigate a company's productive service and exclusionary lobbying separately. A remedy can preserve a useful activity while removing privilege. This is more demanding than deciding whether to approve or oppose the company as a whole.

The Boring Rule is a maintenance programme

Section IV returns to property records, reliable courts, stable money, and schools that teach usable capabilities. The author calls these the operating system of prosperity and describes civilisation as a maintenance project. Treat the metaphor as a prompt to identify responsible institutions, resources, access, and error correction. A registry must remain accurate and usable; a court must be accessible and impartial; training must build capabilities rather than merely issue certificates. The chapter's cultural and political accusations are not substitutes for measuring those functions. Stable institutions also require the capacity to correct unfair rules, recognise excluded people, and respond to changing conditions. Maintenance is therefore not passive preservation of the status quo. It is the continuing work of keeping rules dependable, contestable, and practically available to the people whose opportunities depend on them.

Use the Unseen City as a conditional design brief

Section V imagines affordable housing, productive work, respected practical and academic learning, simple taxes, honest success, and an intact ladder. This "Unseen City" is the author's aspirational scenario, not a forecast or proof that its preferred policies guarantee every outcome. Translate each aspiration into a mechanism, an implementation requirement, and a measurable indicator. Then integrate all four rules: compare later effects, test entry, distinguish creation from extraction, and maintain capable institutions. Include public benefits, transition costs, rights, environmental or other external harms, and uncertainty where relevant. The final lesson line states that prosperity is fragile and depends on trust, law, and disciplined judgment. A rigorous capstone honours that theme by proposing a revisable decision with explicit evidence thresholds. It does not require agreement with the book's rhetoric, nor does it revise or weaken the source; it teaches readers to reason carefully about the claims they have actually read.

An innovative supplier with a protected contract

Invented for this course.

In an invented town, a water-monitoring firm improves leak detection but also lobbies for a perpetual exclusive municipal contract that would bar new competitors.

1. Separate the demonstrated service improvement from the requested exclusionary privilege.
2. Assess service reliability, switching costs, innovation incentives, and procurement alternatives.
3. Compare a time-limited competitively reviewed contract with the perpetual exclusive arrangement.
4. Specify fair review, transparent performance data, and continuity safeguards so removing privilege does not interrupt essential service.

Creation and extraction can coexist in one organisation. The appropriate response targets conduct and incentives rather than treating wealth or innovation as a complete moral verdict.

Practice and evidence

1. Disaggregate a mixed case

Analyse the invented water-monitoring firm using the chapter's creation/extraction distinction.

Deliverable: A two-part conduct analysis and a 400-word remedy recommendation.

1. Identify the value created and the evidence for it.
2. Identify the claimed privilege and who could be excluded.
3. Design a proportionate remedy with due process and continuity.

Disaggregation · 2 points

Examines productive and exclusionary conduct separately.

Evidence · 2 points

Does not infer social value or guilt solely from profit, size, or labels.

Remedy · 2 points

Preserves useful services while addressing unjustified privilege fairly.

2. Turn the Unseen City into a dashboard

Choose four aspirations from the source's city and define how they could be assessed.

Deliverable: A four-goal indicator plan with a counter-indicator for each.

1. Specify the mechanism and responsible institution.
2. Choose a practical outcome measure and a risk or exclusion measure.
3. Set a review point and explain how evidence would alter policy.

Operationalisation · 2 points

Converts aspirations into measurable access, capability, reliability, or outcome questions.

Balance · 2 points

Includes harms and excluded groups rather than only success metrics.

Revisability · 2 points

Links evidence to a concrete correction process.

Reflection

What evidence would make you revise your preferred institutional reform while retaining its underlying goal?

Formative self-check

Choose an answer before looking at the answer key. These questions are open practice, not a secure assessment.

1. A firm innovates and also obtains an unnecessary entry barrier. How should it be analysed?

- A. Treat all its actions as good because it innovates.

- B. Treat all its output as worthless because it lobbies.
- C. Ignore both and judge its owners' wealth.
- D. Evaluate the value creation and exclusionary conduct separately, then target the remedy.

2. What best operationalises the Boring Rule?

- A. Celebrate institutions without checking access.
- B. Fund and maintain usable records, fair enforcement, capability-building, and correction mechanisms.
- C. Freeze every rule permanently.
- D. Replace outcome measures with a speech about competence.

3. What is the soundest use of the Unseen City?

- A. A conditional design brief translated into mechanisms, indicators, and review.
- B. A verified forecast of the next decade.
- C. Proof all policy trade-offs disappear.
- D. A demand that every learner endorse the author's politics.

Answer explanations

1. D — Evaluate the value creation and exclusionary conduct separately, then target the remedy.

Mixed conduct requires disaggregation. The chapter's moral distinction is strongest when applied to evidence about actions rather than total approval or condemnation of an actor.

2. B — Fund and maintain usable records, fair enforcement, capability-building, and correction mechanisms.

Institutional maintenance needs responsibilities, resources, practical access, and correction. Stable rules are not the same as unchangeable rules.

3. A — A conditional design brief translated into mechanisms, indicators, and review.

The city is an aspirational synthesis. Its value is in generating testable design questions, not guaranteeing results or grading agreement.

Module assessment

Capstone: a city renewal package

A fictional city proposes a permanent subsidy for a dominant employer, a generic-degree requirement for public operations jobs, a new business licence, and a property-records overhaul. It promises secure jobs, safety, and prosperity. Design a revised package using all four chapter rules. You may retain, redesign, or reject each element.

Required evidence

- A four-policy counterfactual and distributional ledger.
- An entry, conduct, and institutional-maintenance analysis.
- A 900-word recommendation with implementation responsibilities, evidence gaps, transition support, and revision triggers.

Assessment criteria

Hazlitt Rule · 5 points

Compares delayed benefits and costs across feasible alternatives, including inaction, without inventing certainty.

Stigler Rule · 5 points

Identifies entry effects and tests proportionate alternatives against real safety or service goals.

Moral Rule · 5 points

Assesses specific creation and extraction conduct with evidence, due process, and mixed-case nuance.

Boring Rule · 5 points

Specifies practical institutional capacity, access, maintenance, and correction.

Integrated judgment · 5 points

States values, uncertainty, distribution, and conditions that could reverse the recommendation.

Model response: consult after your attempt

A strong capstone does not mechanically deregulate every item. It may replace the permanent subsidy with transparent, time-limited support or reject it, depending on evidence and transition costs. It tests degree requirements against job tasks, redesigns licensing around demonstrable hazards, and improves property records with fair claims resolution and accessible use. It distinguishes incumbent profits from public benefit and treats useful production and privileged conduct separately. Each recommendation includes responsible institutions, measures of real access and outcomes, and evidence-based review. The governing standard is disciplined reasoning, not agreement with every claim in the book.

Source cautions and interpretation

- Complete source range 02535–02647 and mapped footnotes 72–75 were read, including the final repeated lesson line. There are no figures or tables.
- The opening policy summaries compress conditional claims into categorical outcomes, particularly the statement that a wealth tax bankrupts a pension fund; these are not verified universal results.
- The source’s interpretation of Stigler as disproving public-interest regulation and its summaries of Djankov and Baumol require original-source checking before empirical reuse.
- Footnote 72 is attached to the broken-window paragraph but cites Stigler rather than the parable’s source; the mismatch is preserved as a caution. Footnotes 73–75 cover Bastiat, entry regulation, and productive/unproductive entrepreneurship.
- The four named rules and Unseen City are the book’s synthesis and aspirational framing. Course cases are invented, assessments grade reasoning and evidence, and no source text is altered.
- Exact mapped footnote locations read: 72 at lost-lesson-b02539; 73 at lost-lesson-b02567; 74 at lost-lesson-b02578; 75 at lost-lesson-b02585.

Source coverage

I. The Hazlitt Rule: Count the Secondary Effects

Lesson 1 develops the Hazlitt and Stigler rules, two-sided counterfactual analysis, the window/wall contrast, and proportionate entry review through ledger and licensing exercises.

[Read source section: full-book PDF page 248](#)

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

Lesson 1 develops the Hazlitt and Stigler rules, two-sided counterfactual analysis, the window/wall contrast, and proportionate entry review through ledger and licensing exercises.

[Read source section: full-book PDF page 249](#)

III. The Moral Rule: Punish Predation, Not Success

Lesson 2 develops creation/extraction, fair remedies, institutional maintenance, the Unseen City, and the final lesson line; mixed-conduct and indicator exercises integrate the four rules.

[Read source section: full-book PDF page 250](#)

IV. The Boring Rule: Build Institutions That Reward Competence

Lesson 2 develops creation/extraction, fair remedies, institutional maintenance, the Unseen City, and the final lesson line; mixed-conduct and indicator exercises integrate the four rules.

[Read source section: full-book PDF page 251](#)

V. The Unseen City

Lesson 2 develops creation/extraction, fair remedies, institutional maintenance, the Unseen City, and the final lesson line; mixed-conduct and indicator exercises integrate the four rules.

[Read source section: full-book PDF page 251](#)

The Final Lesson Line

Lesson 2 develops creation/extraction, fair remedies, institutional maintenance, the Unseen City, and the final lesson line; mixed-conduct and indicator exercises integrate the four rules.

[Read source section: full-book PDF page 252](#)

Chapter 20 Notes

Both lessons review the notes, governing claim, window/wall, capture, and creation/extraction primary examples; Lesson 2 addresses the repeated final line and the evidence limits of the synthesis.

[Read source section: full-book PDF page 253](#)

The "Hazlitt" Examples (Primary)

Both lessons review the notes, governing claim, window/wall, capture, and creation/extraction primary examples; Lesson 2 addresses the repeated final line and the evidence limits of the synthesis.

[Read source section: full-book PDF page 254](#)