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## 'Anarchy plus a Constable'

Monty Pelerin

"Anarchy plus a constable" was Thomas Carlyle's description of classical liberalism. Gerald O'Driscoll, in an "An Economy of Liars" in the [Wall Street Journal](#), discussed the breakdown of honesty and ethics and related it to the current [financial crisis](#).

One of O'Driscoll's points dealt with laws versus ethics. Others have pointed out that the more laws a society has, the less ethical it becomes. Instead of doing what is "right," the boundary becomes: "is it legal or within the law." O'Driscoll described it thusly (my italicized emphasis added):

The idea that multiplying rules and statutes can protect consumers and investors is surely one of the great intellectual failures of the 20th century. Any static rule will be circumvented or manipulated to evade its application. Better than multiplying rules, *financial accounting should be governed by the traditional principle that one has an affirmative duty to present the true condition fairly and accurately-not withstanding what any rule might otherwise allow.*

Another point dealt with what economists refer to as "regulatory" capture, a joining of interests between the regulator and the regulated:

[Congressional committees](#) overseeing industries succumb to the allure of campaign contributions, the solicitations of industry lobbyists, and the siren song of experts whose livelihood is beholden to the industry. The interests of industry and government become intertwined and it is regulation that binds those interests together. Business succeeds by getting along with politicians and regulators. And vice-versa through the revolving door.

We call that system not the free-market, but crony capitalism. It owes more to Benito Mussolini than to Adam Smith.

Additionally, O'Driscoll discussed the diminution of free markets and the implications on efficiency in an economy. He cited the pioneering work of both Friedrich Hayek and Ludwig von Mises. Mises showed that an economy could not function without market prices. Hayek extended Mises, arguing that prices were the coordination device for society. Distorted prices provide distorted information, produce distorted decisions and the resultant distorted outcomes. Our housing bubble is the most dramatic recent example. Although not as quintessential, consumer over-leverage and [financial](#) bubbles are other examples.

O'Driscoll concludes:

Piling on more rules and statutes will not produce something different than it has in the past. Reliance on affirmative principles of truth-telling in accounting statements and a duty of care would be preferable. Deregulation is not some kind of libertarian mantra but an absolute necessity if we are to exit crony capitalism.

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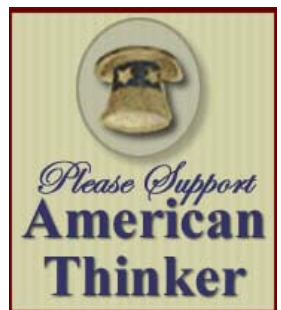
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