

Jackson Everaert

May 6, 2025

Dr. Mark Brandly

ECON-410

The Internal Market

I've seen that a topic in Austrian economics that goes practically untouched in modern day is that of international trade. Now, with the involvement of the Trump administration's tariff war, I believe now is the perfect time to look into it. How does Austrian economics approach international markets? Is there a difference in principle between internal and external markets? How does Austrian economics look at government intervention in external markets? What is the approach for economies of scale internationally? These questions are the main topic of this paper's cover.

Austrian economies must weigh not only the opportunity costs of money used in international markets, but also the opportunity cost of their property rights being violated. In principle, there would be no difference between internal and external markets. However, if we assume that the internal market is Austrian while all others are not, the internal market would still be able to interact/trade with other markets. However, they would be forced to comply with external market taxes and regulations. The principle of government regulation in Austrian economics is that of theft and physical trespassing.

Assuming it is wholly Austrian, I believe that the internal market may act similarly to the USSR during its lifetime. (WIKIPEDIA, 2025). By this, I mean that they would be involved in international trade, even if they are in a radically different market. For example, Austrians would pay tariffs on imports if it were profitable, even though it goes against the idea of free trade. This is due to the limitations and scarcity of resources. Economies of scale, as I know them, are like this: as production increases faster than the costs of production, the cost of production is spread over more goods produced, allowing production to be scaled upward (Kindness, 2025). Now, inside the country, this company will scale until it reaches its limit within the market. In some cases, a company can expand into different markets, such as international markets. As all entrepreneurs do, they must weigh their opportunity costs. An Austrian economy would do the same, but it must also consider new barriers to entry: regulations and, according to Murray Rothbard, criminal actions against their property rights. And other economies would be forced to consider changing their policy in retaliation for the Austrian economy.

I know these are some bold statements, so let me dissect them one by one. When looking into this topic, I mainly only found two topics of interest in the Austrian School community: How tariffs are ineffective and how Ludwig Von Mises and/or Friedrich Hayek defeated communism (Socialism) (Klaus, 2013)¹. Tariffs are a tax on all parties involved and used as a tool for economic warfare, to which the markets are forced to shoulder (Gindler, 2024). And market socialism, the Soviets' answer to their inefficient planned economy, which made use of 'borrowing prices' as Morgan O. Reynolds put it. Mises and Hayek disputed the communist attempts at recreating the

¹ Though Václav Klaus mainly talks about Hayek in this article, and give him more credit than I would, he still gets the point across.

free markets' vital ability to autonomously regulate prices based on consumer demands and economic calculations, entrepreneurs who make, by assigning prices to products based on what free markets in other countries were using (Reynolds, 2014) (WIKIPEDIA, 2025). Showing that these 'calculations' would only lead to a stagnant economy.

While I agree with both of these points, I'm taking a different approach to the topic. When the Soviet Union was still alive, they were an isolated economy from most of the world. Where the majority of the world followed 'free' markets, they made use of a 'completely' socialist market. I want to look at a different type of economy in the same position as the USSR. What if a country were fully Austrian, as in its economy was free of government involvement and acted more like a merchant union?² For the sake of convenience, I will be naming this country the Merchant Union or MU, or the internal market. I will be addressing the other countries as external markets or foreign markets.

Let us talk a bit about how this internal market operates. First of all, there will be no taxation on goods or services. The military will be treated as more of an insurance and will be privatized. The only method the Merchant Union would collect taxes would be through voluntary contributions and would be to take more of a judicial position rather than that of a ruling state. The law would be that of strict tort law and mainly comprise Murray Rothbard's Physical trespass violations (Rothbard, 1982, pp. 6-45). Now, with this idealized free market, let us talk about the

² This is also made with the assumption that its military is also based on private market principles and that all countries acknowledge this country as their own sovereign state. Due to the time limitations of this paper, I will also only be focusing on a purely trade-based system, and by that, I mean I will be assuming that all countries are not actively at physical war (militaristic).

outside world. The external markets, as I will be addressing them, will be varied in scope, and because of that, I can only go so in-depth on them. So, I shall be going over current topics, such as tariffs.³

Now, how would this Austrian economics approach international markets? As economists, we must weigh our opportunity costs. That is a given. But this statement can be deceptive in scope. We must not only think of how this affects one market, but also the greater world market as a whole, and because of this, we must look at the cost of investing in other external markets. With this, we run into a new problem. According to Murray Rothbard, the most recent voice of Austrian Economics, paying a kind of forced tax is akin to violence (Rothbard, 1982, pp. 6-45). So we must not only weigh the opportunity costs of money, but also the cost of property rights violation. This is the main difference in principle between the internal market and the external market. If we continue with the assumption that only the internal market is completely Austrian, the internal market would be able to interact with other markets, but due to the force of compliance with possible tariffs and regulations, the internal market must make use of some factor of counterbalancing these taxes, these infringements on the property rights of the people. But how would this come to be in our proposed MU? No man can guess all possibilities, and I won't say I can, but I can extrapolate on what I know of Human Action and Epistemology.

When companies import something from abroad, they must account for tariffs and taxes when deciding on prices and entering a market. But if any tax is a violation of

³ Due to time limitations of this paper, I will only be able to cover some market structures. Mainly that of planned markets, markets with centralized banks, and markets that make use of tariffs. I will be adding to and/or rewriting this paper at a later date.

someone's rights, how would any trade occur internationally with the MU? Simply said, it is up to the individual to determine this. They must accept this price to trade internationally; one would have to weigh the cost of violating their rights against the benefit of trading with external markets. In Austrian theory, tariffs distort prices and lead to imbalances in the market (Gindler, 2024).

I would say that something else must be taken into account. When approaching the external market from the internal market's perspective, these taxes and regulations take on a different view. In our free market, without taxation, the taxes of external markets only add to the cost of what is being imported and exported. By that, I mean the external market in question only weakens itself regarding trading competitively with the internal market. So, when the internal market finds an opportunity in which it can trade more efficiently or sufficiently produce what was being outsourced internally, it will automatically switch in accordance with the internal market.⁴

From this state of market efficiency, the internal market will never be involved in a trade war due to government intervention, simply because the specific external market will be placing itself at a disadvantage with the other external markets. The internal market will either innovate or move on to the next best solution and place the opposing external market at a loss.

⁴ Basically, the MU or Merchant Union will be in a permanent state of market efficiency, in the way of choosing the cheapest option when trading internationally. Effectively unbound by internal to external trade wars.

Based on our assumptions above, I believe that the internal market may act similarly to the USSR during its lifetime. By this, I mean that they would be involved in international trade, even though it may go against their ideals. But unlike the Soviet planned economy, it would be the other external markets at a disadvantage when participating in government intervention, trading with the internal market. This is due to the limitation and scarcity of resources, and the ability of the internal market to choose which country to trade with, following its own free market.

Let us look at some examples relating to this comparison of a free market to a regulated market. According to Mark Brandly, the real discussion between the USSR's attempt at a self-sufficient market by making use of central planning and a market that embraced markets and external trade, the one that has the most economic freedom thrives (Brandly, The Case for Free Trade | Mark Brandly, 2020) (Brandly, The Case for Free Trade: Benefits, Perspectives, and Historical Insights, 2025)⁵. Then, which would thrive more: a market that will trade without internal intervention, or a market that will trade with internal intervention? It is plain to see that the one who has to jump through the least amount of Hoops will thrive.

What about the 'Capital Flows' argument? The idea is that tariffs would act as a shield to domestic markets and might induce foreign companies to invest directly in the internal markets or vice versa. In our assumed Merchant Union, there is no real way to impose a tariff internally without facing market backlash, and effectively resulting in whichever entity imposes such a

⁵ I found the slide show used in the video made by the Mises institute from Mark Brandly's presentation.

ruling losing profit when another entity begins to trade without such regulation. Now, what about an external market imposing a tariff to protect its industry? This external market may benefit in the short run from the creation of factories in the country, for example, but inevitably, this external market would just create an imbalance in prices (Brandly, The Case for Free Trade | Mark Brandly, 2020). And from this imbalance of prices, another external market without the protectionist policy comes along and takes its place, and trades with the internal market.

This is the true strength of a truly free market: the ability to choose based on economic calculation. An economy with the least amount of bureaucratic intervention possible has the freedom to act in accordance with the free market finds most efficient. But another point cannot be ignored, and that is the economies of scale. How would this internal market scale upward when it's more efficient to trade within itself as compared to the rest of the world? Would this ultimate freedom result in isolation from other markets?

First, let us discuss what exactly economies of scale are. When production increases faster than the costs of production, this allows the company in question to expand into different markets or to increase the scale of its own operations. An example of this would be moving into international markets. Now, when this happens, people must weigh their options and decide what action is most beneficial to take. Our internal market (Austrian Economy) must do the same, but the entrepreneurs must consider only one barrier to entry, and that is the cost of regulations in the foreign markets.

Now, inside the country, this company will scale until it reaches its limit within the market. In some cases, a company can expand into different markets, such as international markets. As

all entrepreneurs do, they must weigh their opportunity costs (Kindness, 2025). An Austrian economy would do the same, but it must also consider new barriers to entry: regulations and, according to Murray Rothbard, criminal actions against their property rights. But as we discussed earlier, these regulations take on a different view. Due to the fact that trading with these countries is a voluntary action. If there is no arbitrary force involved, then this third-party intervention should be seen simply as an additional cost to trade. With this in mind, we can now look at how this internal market will decide whom to trade with. Just as companies trade with those who will bring the most benefit, so will the internal markets seek out the most beneficial markets to interact with, whether internal or external. This would mean that the company would be given free rein to decide and to make economic calculations.

Without the restriction that the external markets are faced with, this would allow entities from the internal market to freely expand within the natural constraints of the scarce resources that are ever-present. While the answer for the internal market is simple, going with the more cost-effective option, the response from the external markets is not. Since governments make policy based on what they believe people want, rather than letting their people decide with a policy that best fits them, when a policy like a tariff is imposed on the internal market, the internal market will move to the next best option. When an industry benefits from economies of scale, it will benefit more in the free market than it would within a controlled or regulated market. Meaning, companies would have an incentive to move to the MU, that is, unless the government gives protection to that company or industry, which would outweigh going to the free market.

But that would result in the external market conforming to the internal market, for the only way to beat a tax less market is to actively pay that market.

But this would result in one of two possibilities within that market. One, the external market or the external country in this case, would be fine with actively losing money to pay this protected industry. This would result in the external industry becoming more like the internal one, because this protection would have to let them act in the same way the internal one could, with autonomy to do economic calculation. The second possibility is that the external country will slowly begin to turn into a more free market, one that can compete with the Merchant Union.

So in a free economy, one that will have no taxation on goods or services, one whose military will be treated as more of an insurance and will be privatized, one whose only method of collecting taxes would be way of voluntary contributions, one in which the main state would be taking more of a judicial position rather than that of a ruling state, whose law would be that of strict tort law and mainly comprise Murray Rothbard's Physical trespass violations, we can assume three things. One, entities residing within this state would have enough autonomy to act without repercussion from the government in the form of tariffs and regulations, meaning that the entities in question can trade with whichever market is most efficient for their industry, the cheapest option. Two, for external markets to actually compete with each other, they must provide the least amount of regulation and taxes on goods being imported or exported. Three, for the external markets to compete with the internal market, they must conform to the internal market, be it by lowering their own taxes and regulations or actively losing money to protect their industries in a manner that gives them autonomy close to the internal market.

Now, with the assumptions made in this paper and the observation of what would possibly occur, how would a market that makes full use of the Austrian economic approach interact with international markets? They would choose the most efficient option decided by the free market. Is there a difference in principle between internal and external markets? No, to the internal market, regulations imposed on them by external markets are simply changes in price and force the external markets to receive backlash from their competitors. How does Austrian economics look at government intervention in external markets? Simply as changes in prices, incentives to move to the next country, or to innovate. What is the approach for economies of scale internationally? For other countries to compete with each other or to compete with the internal market. Resulting in those countries conforming to the free market.

Bibliography

- Brandy, M. (2020, July 17). The Case for Free Trade | Mark Brandy. Auburn, Alabama, United States of America: misesmedia.
- Brandy, M. (2025, April 9). *The Case for Free Trade: Benefits, Perspectives, and Historical Insights*. Retrieved from SlideOrbit: <https://www.slideorbit.com/slide/the-case-for-free-trade-benefits-perspectives-and-historical-insights/397755#:~:text=Image%3A%20the%20goal%20of%20the,DiLorenzo%2C%20The%20Real%20Lincoln>
- Gindler, A. (2024, November 30). *An Austrian Perspective on Tariffs*. Retrieved from Mises Institute: <https://mises.org/mises-wire/austrian-perspectivetariffs#:~:text=,Tariffs%20and%20Comparative%20Advantage> Haberler, G. (1935). *INTERNATIONAL TRADE*.
- Kindness, D. (2025, April 2). *Economies of Scale: What Are They and How Are They Used?* Retrieved from Investopedia: <https://www.investopedia.com/terms/e/economiesofscale.asp>
- Klaus, V. (2013, September/October). *Hayek, the End of Communism, and Me*. Retrieved from CATO Institute: <https://www.cato.org/policy-report/september/october-2013/hayek-end-communism-me#:~:text=The%20real%20revelation%20came%20when,Yet%2C%20it%20was%20possible>
- PETER J. BOETTKE, C. J. (2004). THE FORGOTTEN CONTRIBUTION:. *THE QUARTERLY JOURNAL OF AUSTRIAN ECONOMICS VOL. 7, NO. 2*.
- Reynolds, M. O. (2014, July 30). *The Impossibility of a Socialist Economy, or A Cat Cannot Swim the Atlantic Ocean*. Retrieved from Mises Institute: <https://mises.org/quarterly-journal-austrian-economics/impossibility-socialisteconomy-or-cat-cannot-swim-atlantic-ocean#:~:text=achieve%20given%20ends%20economically,without%20markets%20for%20capital%20goods>
- Rothbard, M. N. (1982). LAW, PROPERTY RIGHTS,. *Cato Journal*, 6-45.
- WIKIPEDIA. (2024, June 26). *1973 United States–Soviet Union wheat deal*. Retrieved from WIKIPEDIA: https://en.wikipedia.org/wiki/1973_United_States%E2%80%93Soviet_Union_wheat

