A man was thinking and he realized …

one of the reasons life is so hard is because …

there is a widespread lack of understanding
pertaining to the fact that there are economic
laws and very little common knowledge as to
what those economic laws are.

How did we come to the place where personal and political wishes attempt to take the place of economic laws and their operation?

Denying or ignoring economic laws wastes precious human lives and makes for some very hard living.

Economic Fallacies Versus Rational Thought

By

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Attribution Page

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To The Honest Producers

Introduction

Whether a man chooses to live on his own, apart from society, or whether he chooses to be a part of society, he is subject to economic laws. Human beings always want more and better things than they currently possess and these wants exceed their available resources. Thus, there is a shortage of resources and this results in having to make choices to economize them. Even if a man had good land and enough knowledge and seeds to grow his own food, and he further chose to limit his wants, he would still be short of the resource of time, as every man's human life is limited. The economic problem of economizing resources cannot be escaped from – Romantic Era authors and Progressive Era intelligentsia wishes to the contrary. While man is human, he must think, choose, and act. Every man must be free to think and to take action to provide for his material needs. Doing so conforms to the laws of nature for man.

Properly understood, acting man forms the correct and true subject matter of economics. Unfortunately, many individuals, and most all governments and non-profit organizations, would like to deny the existence and operation of economic laws. This is likely because people want their wishes to be reality (evasion), or they want something for nothing (a character defect). We prefer not to be limited, (or to acknowledge a limitation), but we are limited. In prior times, the king did not want to hear there were natural laws he had to conform to, natural laws that limited his choices and methods of operation. In modern times, the state does not want to hear of the existence of economic laws, or the limits the operation of those laws place on the state. Further, in modern times, there has been an attempt to override economic laws via various collective efforts - as if that would somehow work. If a collective effort were attempted to override the law of gravity, it would be ridiculed and justly so. When collective efforts attempt to override economic laws, however, people act as if there is some chance of success. There is not.

The various collective and individual attempts to deny or override economic laws have given birth to numerous and various fallacies – too many, in fact, for this relatively short book to counter. However, the main fallacies and common ways of thinking about economics did provide a useful organizational tool for your author to use while writing this book. Ergo, this book is organized in such a way so as to walk through and dispose of some of the main fallacies that end up making a man's life hard on this earth. A number of excellent and timeless essays and longer books on economics are referenced and they can provide a road map to further learning should the reader have the interest.

It is only natural for everyone to want to buy the things they want cheaply and to attempt to sell their services and products for the highest price possible. It is also only natural, because most people perform work to earn money and then they spend that money in the marketplace, that they believe they understand economics – at least the core aspects of it. And because most people have bank accounts, or have borrowed money, they think they understand banking. And most people do understand some aspects of economics, money, and banking. However, the subject matter of economics is very large and is a far-advanced social science that requires time, patience, determination, and a lot of logical thought to learn. In short, when it comes to economics, most people think they know more than they actually do. Even worse, a lot of what many people think they know about economics is just plain wrong. Those people will have to unlearn some things before they can progress to a truer understanding of the subject matter.

This book fits into a series of books, each of which explains an aspect of why men’s lives are hard. This book, in particular, attempts to show that the various fallacies pertaining to economics, and the collective attempts by mankind to override economic laws, are only hurting all of mankind. Later in the book the principles of economics proper will be discussed. The core principles of economics proper will be shown to be in harmony with the core principles of how man should live his life on this earth, per the Bible. As Thomas Aquinas astutely realized, there is no conflict between divine law (the Bible) and natural law (economics proper is grounded in the laws of nature) because both are part of eternal law (everything that God knows – whether it is revealed to mankind or not).

The two Jehovahs (God the Father and Jesus Christ, sometimes referred to herein as God) made men free. They had to in order to develop character in us. And they gave us dominion over the earth, not each other. And dominion over the earth entails resource allocation, i.e., understanding economic laws and how those laws affect all mankind.

The information from the pages that follow was gleaned from personal life experience, the Bible, and much focused study, logical reasoning, and learning.

As a housekeeping point, the scriptural references, herein, are from the King James Version, KJV, Modern King James Version, MKJV, or New Living Translation, NLT, unless denoted otherwise. Any emphasis, in the scriptural or other quotations, is mine throughout this book. Any quotations with spelling variations or stylistic variations from what would be considered more modern have been quoted per the original. As a further housekeeping point, the word "Socialism" is capitalized throughout this book, (unless a quote from another author does not capitalize it). This is done, not as a sign of respect, but because it is recognized that Socialism, in essence, is a movement.

As an additional important note, I have chosen to write the pages that follow mainly in a conversational style. Having said that, let's get started. I offer for your serious consideration and hopeful edification what I have learned below.

The Slight Of Hand Fallacy – Seeing The Unseen

A French economist named Frederic Bastiat lived in the first half of the Nineteenth Century. In addition to being an economist, he was a pamphleteer. One of his greatest offerings was, *That Which Is Seen, And That Which Is Not Seen*, published in 1850. The reason it is important is because it is one of the best offerings ever written on avoiding common errors in thinking pertaining to economics. In short, it can help one learn how to think, especially pertaining to the field of economics.

Bastiat starts out by pointing out that most of us can easily see the immediate and visible effect of something that happens, but the difference between a good economist and a bad economist is that the good economist also sees the medium, long-term, and not so visible effects of an occurrence. The bad economist only sees what is immediate and apparent, that is the short-term and visible effect of the occurrence. Quoting from Bastiat and his famous essay [all emphasis mine, throughout]:

"In the department of economy, an act, a habit, an institution, a law, <u>gives birth not only to an effect, but to a series of effects</u>. Of these effects, the first only is immediate; it manifests itself simultaneously with its cause - **it is seen**. The others unfold in succession — **they are not seen**: it is well for us, if they are foreseen. Between a good and a bad economist this constitutes the whole difference - the one takes account of the visible effect; the other takes account both of the effects which are seen, and also of those which it is necessary to foresee. Now this difference is enormous, for it almost always happens that when the immediate consequence is favourable, the ultimate consequences are fatal, and the converse. Hence it follows that the bad economist pursues a small present good, which will be followed by a great evil to come, while the true economist pursues a great good to come, - at the risk of a small present evil."

Bastiat is making the point that the non-immediate effects are not visible and we have two main ways to learn about them. One way to learn about them is to ignore them and to experience the future negative results firsthand. Unfortunately, experience is not the best teacher. It is the most painful teacher. The other way to learn about the future negative results is to think through what must happen if A causes B. If A and B are both good, but B causes C, which then causes D, what happens then, if it turns out that D is really bad? Do we really want to go there? We do not, even if B is seemingly good.

Bastiat is a student of human nature and observes that men form habits from taking the easy way to pleasure. If a man does something and gets an immediate pleasurable result a habit tends to form – even if the habit is bad for the individual in the long-term. Unfortunately, these bad habits form easily. The formation of bad habits among men, coupled with ignorance of natural laws, helps explain the troubled condition of mankind. Bastiat further observes that most men only think of <u>the immediate and seen consequences</u> – not <u>the long-term and unseen consequences</u>. Bastiat prefers that men substitute using foresight in the process of making their decisions, instead of using the much harsher teacher, experience.

Bastiat realizes that some illustrations would make the point more clearly and so he provides them. His first chosen illustration of the principle is his famous, “The Broken Window Fallacy.” [Throughout this section of the book your author has changed Bastiat’s quotation markings, which used normal quotation marks, to single quotation marks so as to avoid confusion.]

“Have you ever witnessed the anger of the good shopkeeper, James B., when his careless son happened to break a square of glass? If you have been present at such a scene, you will most assuredly bear witness to the fact, that every one of the spectators, were there even thirty of them, by common consent apparently, offered the unfortunate owner this invariable consolation – ‘It is an ill wind that blows nobody good. Everybody must live, and what would become of the glaziers if panes of glass were never broken?’

Now, this form of condolence contains an entire theory, which it will be well to show up in this simple case, seeing that it is precisely the same as that which, unhappily, regulates the greater part of our economical institutions.

Suppose it cost six francs to repair the damage, and you say that the accident brings six francs to the glazier's trade - that it encourages that trade to the amount of six francs - I grant it; I have not a word to say against it; you reason justly. The glazier comes, performs his task, receives his six francs, rubs his hands, and, in his heart, blesses the careless child. All this is that which is seen.

But if, on the other hand, you come to the conclusion, as is too often the case, that it is a good thing to break windows, that it causes money to circulate, and that the encouragement of industry in general will be the result of it, you will oblige me to call out, 'Stop there! Your theory is confined to that which is seen; it takes no account of that which is not seen.'

It is not seen that as our shopkeeper has spent six francs upon one thing, he cannot spend them upon another. It is not seen that if he had not had a window to replace, he would, perhaps, have replaced his old shoes, or added another book to his library. In short, he would have employed his six francs in some way, which this accident has prevented.

Let us take a view of industry in general, as affected by this circumstance. The window being broken, the glazier's trade is encouraged to the amount of six francs; this is that which is seen. If the window had not been broken, the shoemaker's trade (or some other) would have been encouraged to the amount of six francs; this is that which is not seen.

And if that which is not seen is taken into consideration, because it is a negative fact, as well as that which is seen, because it is a positive fact, <u>it will be understood that neither industry in general, nor the sum total of national labour, is affected, whether windows are broken or not</u>.

Now let us consider James B. himself. In the former supposition, that of the window being broken, he spends six francs, and has neither more nor less than he had before, the enjoyment of a window.

In the second, where we suppose the window not to have been broken, he would have spent six francs on shoes, and would have had at the same time the enjoyment of a pair of shoes and of a window.

Now, as James B. forms a part of society, we must come to the conclusion, that, taking it altogether, and making an estimate of its enjoyments and its labours, <u>it has lost the value of the broken window</u>.

When we arrive at this unexpected conclusion: '**Society loses the value of things which are uselessly destroyed**;' and we must assent to a maxim which will make the hair of protectionists stand on end - To break, to spoil, to waste, is not to encourage national labour; or, more briefly, '<u>destruction is not profit</u>.'"

Bastiat's simple and brilliant example is something that everyone can relate to because we have all experienced having something broken that belonged to us. Common sense would tell any of us that that which is broken is not gain. It is loss. In fact, it is a dead loss. This is revealed more clearly by stopping to realize that the man with the broken window could have been any one of us. And all of us would prefer to have our window intact so we could spend what would be the replacement cost of the window on something we really wanted. That something we really wanted is the unseen that renders foolish and invalid the amateur economist's argument. <u>And the unseen is real, however not immediate</u>. <u>It most certainly is real, just not visible</u>. It requires thought and foresight to see the unseen. Most people don't, hence the problem. Bastiat brilliantly surmised both the problem and the solution and explained both of them. Continuing Bastiat's explanation:

"… I am sorry to disturb these ingenious calculations [of a French legislator who did not understand economics], as far as their spirit has been introduced into our legislation; <u>but I beg him to begin them again, by taking into the account that which is not seen, and placing it alongside of that which is seen</u>. The reader must take care to remember that **there are not two persons only, but three concerned in the little scene which I have submitted to his attention**. One of them, James B., represents the consumer, <u>reduced, by an act of destruction, to one enjoyment instead of two</u>. Another under the title of the glazier, shows us the producer, whose trade is encouraged by the accident. The third is the shoemaker (or some other tradesman), whose labour suffers proportionably by the same cause. <u>It is this third person who is always kept in the shade, and who, personating [representing] that which is not seen, is a necessary element of the problem</u>. <u>It is he who shows us how absurd it is to think we see a profit in an act of destruction</u>. It is he who will soon teach us that it is not less absurd to see a profit in a restriction, which is, after all, nothing else than a partial destruction. Therefore, if you will only go to the root of all the arguments which are adduced in its favour, all you will find will be the paraphrase of this vulgar saying – [‘] What would become of the glaziers, if nobody ever broke windows? [’]”

Bastiat then puts forth another example relating to having a standing army and its purported economic benefits to society. Whether the standing army is necessary or not, he does not argue. But, for those advocating the supposed economic benefits of having a standing army, he does show what is unseen and he also shows the loss to society. Because so many proponents of government programs make this same society-hurting mistake your author has chosen to quote Bastiat’s section on the disbanding of troops, in its entirety below:

“It is the same with a people as it is with a man. If it wishes to give itself some gratification, it naturally considers whether it is worth what it costs. To a nation, security is the greatest of advantages. If, in order to obtain it, it is necessary to have an army of a hundred thousand men, I have nothing to say against it. It is an enjoyment bought by a sacrifice. Let me not be misunderstood upon the extent of my position. A member of the assembly proposes to disband a hundred thousand men, for the sake of relieving the tax-payers of a hundred millions.

If we confine ourselves to this answer – 'The hundred millions [Bastiat meant "thousands" here] of men, and these hundred millions of money, are indispensable to the national security: it is a sacrifice; but without this sacrifice, France would be torn by factions, or invaded by some foreign power,' - I have nothing to object to this argument, which may be true or false in fact, but which theoretically contains nothing which militates against economy. <u>The error begins when the sacrifice itself is said to be an advantage because it profits somebody</u>.

Now I am very much mistaken if, the moment the author of the proposal has taken his seat, some orator will not rise and say – 'Disband a hundred thousand men! do you know what you are saying? What will become of them? Where will they get a living? Don't you know that work is scarce everywhere? That every field is overstocked? Would you turn them out of doors to increase competition, and weigh upon the rate of wages? Just now, when it is a hard matter to live at all, it would be a pretty thing if the State must find bread for a hundred thousand individuals? Consider, besides, that the army consumes wine, clothing, arms - that it promotes the activity of manufactures in garrison towns - that it is, in short, the god-send of innumerable purveyors. Why, any one must tremble at the bare idea of doing away with this immense industrial movement.'

This discourse, it is evident, concludes by voting the maintenance of a hundred thousand soldiers, for reasons drawn from the necessity of the service, <u>and from economical considerations</u>. It is these [economical] considerations only that I have to refute.

A hundred thousand men, costing the taxpayers a hundred millions of money, live and bring to the purveyors as much as a hundred millions can supply. <u>This is that which is seen</u>.

But, a hundred millions taken from the pockets of the taxpayers, cease to maintain these taxpayers and the purveyors, as far as a hundred minions [millions] reach. <u>This is that which is not seen</u>. Now make your calculations.

Cast up, and tell me what profit there is for the masses?

I will tell you where the loss lies; and to simplify it, instead of speaking of a hundred thousand men and a million of money, it shall be of one man, and a thousand francs.

We will suppose that we are in the village of A. The recruiting sergeants go their round, and take off a man. The tax-gatherers go their round, and take off a thousand francs. The man and the sum of money are taken to Metz, and the latter is destined to support the former for a year without doing anything. If you consider Metz only, you are quite right; the measure is a very advantageous one: but if you look towards the village of A., you will judge very differently; for, unless you are very blind indeed, you will see that that village has lost a worker, and the thousand francs which would remunerate his labour, as well as the activity which, by the expenditure of those thousand francs, it would spread around it.

At first sight, there would seem to be some compensation. What took place at the village, now takes place at Metz, that is all. But the loss is to be estimated in this way: - At the village, a man dug and worked; he was a worker. At Metz, he turns to the right about, and to the left about [he marches first forward and then back again doing nothing much else]; he is a soldier. The money and the circulation are the same in both cases; but in the one there were three hundred days of productive labour; in the other, there are three hundred days of unproductive labour, supposing, of course, that a part of the army is not indispensable to the public safety.

Now, suppose the disbanding to take place. You tell me there will be a surplus of a hundred thousand workers, that competition will be stimulated, and it will reduce the rate of wages. This is what you see.

But what you do not see is this. You do not see that to dismiss a hundred thousand soldiers is not to do away with a million of money, but to return it to the taxpayers. You do not see that to throw a hundred thousand workers on the market, is to throw into it, at the same moment, the hundred millions of money needed to pay for their labour; that, consequently, the same act which increases the supply of hands, increases also the demand; from which it follows, that your fear of a reduction of wages is unfounded. You do not see that, before the disbanding as well as after it, there are in the country a hundred millions of money corresponding with the hundred thousand men. <u>That the whole difference consists in this: before the disbanding, the country gave the hundred millions to the hundred thousand men for doing nothing; and that after it, it pays them the same sum for working</u>. You do not see, in short, that when a taxpayer gives his money either to a soldier in exchange for nothing, or to a worker in exchange for something, all the ultimate consequences of the circulation of this money are the same in the two cases; only, in the second case, the tax-payer receives something, in the former he receives nothing. <u>The result is - a dead loss to the nation</u>.

The sophism which I am here combating will not stand the test of progression, which is the touchstone of principles. If, when every compensation is made, and all interests are satisfied, there is a national profit in increasing the army, why not enroll under its banners the entire male population of the country?"

The next thing Bastiat demolishes is that taxes stimulate the economy, or at least the spending of tax money does. Quoting from Bastiat's tax example:

"Have you ever chanced to hear it said, 'There is no better investment than taxes. Only see what a number of families it maintains, and consider how it reacts on industry; it is an inexhaustible stream, it is life itself.'

In order to combat this doctrine, I must refer to my preceding refutation [the disbanding of troops]. Political economy knew well enough that its arguments were not so amusing that it could be said of them, repetitions please. It has, therefore, turned the proverb to its own use, well convinced that, in its mouth, repetitions teach. [Bastiat is basically saying that he has chosen to use repetition in order to get the fundamental point across.]

The advantages which officials advocate are those which are seen. The benefit which accrues to the providers [receivers of government spending] is still that which is seen. <u>This blinds all eyes</u>.

But the disadvantages which the taxpayers have to get rid of are those which are not seen. And the injury which results from it to the providers [those to whom the taxpayer would choose to spend money with should the taxpayer be allowed to keep and spend their own money], is still that which is not seen, although this ought to be self-evident.

When an official spends for his own profit an extra hundred sous [French money at the time], it implies that a taxpayer spends for his profit a hundred sous less. <u>But the expense of the official is seen, because the act is performed, while that of the taxpayer is not seen, because, alas! he is prevented from performing it</u>.

You compare the nation, perhaps, to a parched tract of land, and the tax to a fertilizing rain. Be it so. But you ought also to ask yourself where are the sources of this rain and whether it is not the tax itself which draws away the moisture from the ground and dries it up? Again, you ought to ask yourself whether it is possible that the soil can receive as much of this precious water by rain as it loses by evaporation?

There is one thing very certain, that when James B. counts out a hundred sous for the tax-gatherer, he receives nothing in return. Afterwards, when an official spends these hundred sous and returns them to James B., it is for an equal value of corn or labour. The final result is a loss to James B. of five francs [the hundred sous].

It is very true that often, perhaps very often, the official performs for James B. an equivalent service. In this case there is no loss on either side; there is merely in exchange. Therefore, my arguments do not at all apply to useful functionaries. All I say is, - <u>if you wish to create an office, prove its utility</u>. Show that its value to James B., by the services which it performs for him, is equal to what it costs him. But, apart from this intrinsic utility, do not bring forward as an argument the benefit which it confers upon the official, his family, and his providers; **do not assert that it encourages labour**.

When James B. gives a hundred pence to a Government officer, for a really useful service, it is exactly the same as when he gives a hundred sous to a shoemaker for a pair of shoes.

But when James B. gives a hundred sous to a Government officer, and receives nothing for them unless it be annoyances, he might as well give them to a thief. It is nonsense to say that the Government officer will spend these hundred sous to the great profit of national labour; the thief would do the same; and so would James B., if he had not been stopped on the road by the extra-legal parasite [the thief], nor by the lawful sponger [the government tax man].

Let us accustom ourselves, then, to avoid judging of things by what is seen only, but to judge of them by that which is not seen. …

For instance, I want to agree with a drainer to make a trench in my field for a hundred sous. Just as we have concluded our arrangement, the tax-gatherer comes, takes my hundred sous, and sends them to the Minister of the Interior; my bargain is at end, but the Minister will have another dish [more food] added to his table. Upon what ground will you dare to affirm that this official expense helps the national industry? Do you not see, that in this there is only a reversing of satisfaction and labour? A Minister has his table better covered, it is true, but it is just as true that an agriculturist has his field worse drained [how the taxpayer would have spent the money, in this example, if allowed to keep it and spend it himself]. A Parisian tavern-keeper [the food provider] has gained a hundred sous I grant you; but then you must grant me that a drainer has been prevented from gaining five francs [the hundred sous]. It all comes to this, - that the official and the tavern-keeper being satisfied, is that which is seen; the field undrained, and the drainer deprived of his job, is that which is not seen. Dear me! how much trouble there is in proving that two and two make four; and if you succeed in proving it, it is said, 'the thing is so plain it is quite tiresome,' and they vote as if you had proved nothing at all."

In the last sentence of the above paragraph Bastiat laments that even though he demolished their silly economic benefit argument the legislator votes to continue on with taxing and government spending – supposedly to benefit the economy.

Bastiat continues with example after example of showing that the government cannot increase economic activity by taxing from one group in order to give to a favored other group. This is because the favored group is the seen and what the taxpayers would have chosen to spend their own money on is the unseen. For every government provider receiving the tax money there is the loss of a private sector provider who did not receive the funds the taxpayer would have spent them on. To the taxpayer, the taxes are almost entirely a dead loss. The government has merely diverted spending to politically favored groups. The government has not increased economic activity on the whole.

As there will always be men wanting to be able to pretend that they are great men, there will always be politicians who tax away funds with which to build bridges, airports, theatres, and to employ armies, etc. All of those things are the seen. The unseen might have been the cure to cancer. It is impossible to say because we will never know how the productive members of society would have spent their money had they been allowed to keep it and spend it for themselves. The politicians have merely substituted their own arbitrarily chosen values for those of the individual members of society. **Spending has been politically diverted, not economically enhanced.** To the extent, as Bastiat astutely pointed out, that the politicians decide to have a military larger than is really necessary then there is a dead loss to society. This is because a military larger than necessary does not engage in productive labor. It engages in unproductive labor. Sadly, this is true for most government expenditures. Any government spending, which is engaged in for supposed economic reasons, could immediately be dispensed with because Bastiat demolished this chimera over 150 years ago.

Since Bastiat's arguments could not be logically defeated, he, of course, had his personal character attacked. He lamented that if one is against a government proposed theatre, one is then falsely accused of being against the arts. If one is against government funded schools, then one is accused of being against education. If one is opposed to government funding of religion, one is falsely accused of being against God, etc. And Bastiat, as usual, has a great quote on all of this:

"But, by a deduction as false as it is unjust, do you know what [real] economists are accused of? It is, that when we disapprove of Government support, we are supposed to disapprove of the thing itself whose support is discussed; and to be the enemies of every kind of activity, because we desire to see those activities, on the one hand free, and on the other seeking their own reward in themselves. Thus, if we think that the State should not interfere by taxation in religious affairs, we are atheists. If we think the State ought not to interfere by taxation in education, we are hostile to knowledge. If we say that the State ought not by taxation to give a fictitious value to land, or to any particular branch of industry, we are enemies to property and labour. If we think that the State ought not to support artists, we are barbarians who look upon the arts as useless.

Against such conclusions as these I protest with all my strength. Far from entertaining the absurd idea of doing away with religion, education, property, labour, and the arts, when we say that the State ought to protect the free development of all these kinds of human activity, without helping some of them at the expense of others, - we think, on the contrary, that all these living powers of society would develop themselves more harmoniously under the influence of liberty; and that, under such an influence no one of them would, as is now the case [under government sponsorship or control], be a source of trouble, of abuses, of tyranny, and disorder.

Our adversaries consider, that an activity which is neither aided by supplies [tax money], nor regulated by Government, is an activity destroyed. We think just the contrary. Their faith is in the legislator, not in mankind; ours is in mankind, not in the legislator."

Bastiat was an honest economist who could see the unseen and who could use foresight instead of having to rely on cruel experience. And he knew that all a government could do was to displace enjoyments. Displacing enjoyments was his way of saying to divert spending from what it would have been spent on to a government and therefore politically favored project. This is true for public works projects, for education, for military, for fine arts, for subsidies to a particular industry, that is to say for anything. What is spent on a public works project is the seen. What the taxpayers would have spent the money on is the unseen. There is no addition to societal economic activity. There is the public works project at the expense of whatever the taxpayers would have spent the money on themselves and that is all. In addition to all this, there is no further ongoing multiplier effect on top of the supposed and fictitious increase in economic activity. The spending was diverted by government intervention from what the taxpayers would have spent the funds on, resulting in zero increased economic activity. When you multiply anything by zero you get zero as a result. Any “multiplier effect” disregards an equal and offsetting “multiplier effect” which did not occur because the taxpayers were not allowed to keep and spend their own money. Not only is there no net increase in economic activity from government spending, there is also no multiplier effect thereafter. Any supposed additive effect magically, or wishfully, or falsely attributed to government spending and then multiplied thereafter is offset, in truth, by the unseen of what the taxpayers would have spent their own funds on and then “multiplied” thereafter. It is a government and pseudo-economist con game, put over on the citizenry.

The citizens of most nations are bamboozled by PhD’s and talking heads championing government spending as enhancing economic activity and therefore necessary. The governments can get away with it because the majority of their citizens do not see the unseen. And all of this has been known, or knowable, for over 150 years.

Beyond the scope of this short book Bastiat demolishes the idea that government subsidies save jobs. The “saved jobs” are the seen. The unseen are the jobs that would have been sustained or developed had the taxpayers kept their own money and spent it on the things they wanted instead of having the government tax away their money and give it to a politically favored industry. Jobs are merely diverted, not "saved."

Because many people are fearful of machines somehow causing jobs to be lost, Bastiat also had a nice explanation of the reality concerning machinery. And this explanation also used the seen and the unseen to get to the truth of the matter.

"'A curse on machines! Every year, their increasing power devotes millions of workmen to pauperism, by depriving them of work, and therefore of wages and bread. A curse on machines!'

This is the cry which is raised by vulgar prejudice, and echoed in the journals [media of Bastiat's day].

But to curse machines, is to curse the spirit of humanity!

It puzzles me to conceive how any man can feel any satisfaction in such a doctrine. …

This is not all; if this doctrine is true, since all men think and invent, since all, from first to last, and at every moment of their existence, seek the cooperation of the powers of nature, and try to make the most of a little, by reducing either the work of their hands, or their expenses, so as to obtain the greatest possible amount of gratification with the smallest possible amount of labour, it must follow, as a matter of course, that the whole of mankind is rushing towards its decline, by the same mental aspiration towards progress, which torments each of its members. …

Here is the whole mystery: behind that which is seen, lies something which is not seen. I will endeavour to bring it to light. The demonstration I shall give will only be a repetition of the preceding one, for the problems are one and the same.

Men have a natural propensity to make the best bargain they can, when not prevented by an opposing force; that is, they like to obtain as much as they possibly can for their labour, whether the advantage is obtained from a foreign producer, or a skillful mechanical producer [someone who uses machines in manufacturing].

The theoretical objection which is made to this propensity is the same in both cases. In each case it is reproached with the apparent inactivity which it causes to labour. Now, labour rendered available, not inactive, is the very thing which determines it. And, therefore, in both cases, the same practical obstacle - force, is opposed to it also. The legislator prohibits foreign competition [or gives government subsidies to a favored industry], and forbids mechanical competition. For what other means can exist for arresting a propensity which is natural to all men, but that of depriving them of their liberty?

In many countries, it is true, the legislator strikes at only one of these competitions, and confines himself to grumbling at the other. This only proves one thing, that is, that the legislator is inconsistent. …

We need not be surprised at this. On a wrong road, inconsistency is inevitable; if it were not so, mankind would be sacrificed.

A false principle never has been, and never will be, carried out to the end.

Now for our demonstration, which shall not be a long one.

James B. had two francs which he had gained by two workmen; but it occurs to him, that an arrangement of ropes and weights might be made which would diminish the labour by half. Thus he obtains the same advantage, saves a franc, and discharges a workman.

He discharges a workman: this is that which is seen.

And seeing this only, it is said, 'See how misery attends civilization; this is the way that liberty is fatal to equality. The human mind has made a conquest, and immediately a workman is cast into the gulf of pauperism. James B. may possibly employ the two workmen, but then he will give them only half their wages for they will compete with each other, and offer themselves at the lowest price. Thus the rich are always growing richer, and the poor, poorer. Society wants remodelling.' A very fine conclusion, and worthy of the preamble.

Happily, preamble and conclusion are both false, because, behind the half of the phenomenon which is seen, lies the other half which is not seen.

<u>The franc saved by James B. is not seen</u>, <u>no more are the necessary effects of this saving</u>.

Since, in consequence of his invention, James B. spends only one franc on hand labour in the pursuit of a determined advantage, <u>another franc remains to him</u>.

<u>If, then, there is in the world a workman with unemployed arms, there is also in the world a capitalist with an unemployed franc</u>. **These two elements meet and combine**, and it is as clear as daylight, that between the supply and demand of labour, and between the supply and demand of wages, the relation is in no way changed.

The invention and the workman paid with the first franc, now perform the work which was formerly accomplished by two workmen [there is a gain in productivity, which is an obvious benefit]. <u>The second workman, paid with the second franc, realizes a new kind of work</u>. [The first workman now gets done what it used to take two men to do. This is a gain in productivity. The second workman is now free to further increase productivity and he does].

What is the change, then, which has taken place? An additional national advantage has been gained; in other words, <u>the invention is a gratuitous triumph - a gratuitous profit for mankind</u>.

From the form which I have given to my demonstration, the following inference might be drawn: - 'It is the capitalist who reaps all the advantage from machinery. The working class, if it suffers only temporarily, never profits by it, since, by your own showing, they displace a portion of the national labour, without diminishing it, it is true, but also without increasing it.'

I do not pretend, in this slight treatise, to answer every objection; the only end I have in view, is to combat a vulgar, widely spread, and dangerous prejudice. … These hands, and this remuneration, would combine to produce what it was impossible to produce before the invention; whence it follows that the final result is an increase of advantages for equal labour.

Who is the gainer by these additional advantages?

First, it is true, the capitalist, the inventor; the first who succeeds in using the machine; and this is the reward of his genius and his courage. In this case, as we have just seen, he effects a saving upon the expense of production, which, in whatever way it may be spent (and it always is spent), employs exactly as many hands as the machine caused to be dismissed.

But soon competition obliges him to lower his prices in proportion to the saving itself; and then it is no longer the inventor who reaps the benefit of the invention - it is the purchaser of what is produced, the consumer, the public, including the workmen; in a word, mankind.

And that which is not seen is, that the saving thus procured for all consumers creates a fund whence wages may be supplied, and which replaces that which the machine has exhausted.

Thus, to recur to the forementioned example, James B. obtains a profit by spending two francs in wages. Thanks to his invention, the hand labour costs him only one franc. So long as he sells the thing produced at the same price, he employs one workman less in producing this particular thing, and that is what is seen; but there is an additional workman employed by the franc which James B. has saved [and then spends]. This is that which is not seen.

When, by the natural progress of things, James B. is obliged to lower the price of the thing produced by one franc, then he no longer realizes a saving; then he has no longer a franc to dispose of, to procure for the national labour a new production; <u>but then another gainer takes his place, and this gainer is mankind</u>. Whoever buys the thing he has produced, pays a franc less, and necessarily adds this saving to the fund of wages [the consumer has one more franc to spend now and they do spend it on something]; and this, again, is what is not seen.

Another solution, founded upon facts, has been given of this problem of machinery.

It was said, machinery reduces the expense of production, and lowers the price of the thing produced. The reduction of the profit causes an increase of consumption, which necessitates an increase of production, and, finally, the introduction of as many workmen, or more, after the invention as were necessary before it. As a proof of this, printing, weaving, etc., are instanced.

<u>This demonstration is not a scientific one</u>. It would lead us to conclude, that if the consumption of the particular production of which we are speaking remains stationary, or nearly so, machinery must injure labour. <u>This is not the case</u>.

Suppose that in a certain country all the people wore hats; if, by machinery, the price could be reduced half, it would not necessarily follow that the consumption would be doubled.

Would you say, that in this case a portion of the national labour had been paralyzed? Yes, according to the vulgar demonstration; but, according to mine, No; for even if not a single hat more should be bought in the country, the entire fund of wages would not be the less secure. That which failed to go to the hat-making trade would be found to have gone to the economy realized by all the consumers, and would thence serve to pay for all the labour which the machine had rendered useless, and to excite a new development of all the trades. And thus it is that things go on. I have known newspapers to cost eighty francs, now we pay forty-eight: here is a saving of thirty-two francs to the subscribers. It is not certain, or, at least, necessary, that the thirty-two francs should take the direction of the journalist trade; but it is certain, and necessary, too, that if they do not take this direction they will take another. One makes use of them for taking in more newspapers; another, to get better living; another, better clothes; another, better furniture. It is thus that the trades are bound together. They form a vast whole, whose different parts communicate by secret canals; what is saved by one, profits all. <u>It is very important for us to understand, that savings never take place at the expense of labour and wares</u>."

By learning to both, see the unseen and to use foresight to consider all of the effects and not just the immediate and seen effect of a policy, we can avoid what your author calls "the sleight of hand fallacy." Politicians, tribal leaders, religious leaders, etc., have long used the ignorance of their followers to get them to do things they would otherwise never do if only men could see the unseen. And the unseen is seeable with some training and logical thought.

And economics can be learned as well. About 100 years after Bastiat wrote his famous essay, another author, Henry Hazlitt, wrote *Economics In One Lesson* - which was basically an update of Bastiat's essay. In his book Hazlitt emphasized training yourself to consider both the seen and the unseen, and to consider all of the individuals and groups affected by a proposed action, and to consider all time periods and not just the present time period, or the immediate future. With all that written, since your author used Bastiat so much in this section of the book, he can now have the last word in closing this particular section:

"Thus we learn, by the numerous subjects which I have treated, that, to be ignorant of political economy is to allow ourselves to be dazzled by the immediate effect of a phenomenon; to be acquainted with it is to embrace in thought and in forethought the whole compass of effects."

The Socialist Fallacy

The movie, *The International*, had one of the most memorable and best movie line sequences ever. The sequence came about in response to a plea from an employee to her boss. In that plea the investigating employee explained that all she was attempting to do was to get to the truth. The boss's response was insightful:

"I get it. But what you need to remember is: There's what people want to hear. There's what people want to believe. There's everything else. Then there's the truth."

Socialism falls into the above category. Virtually everything substantive and material about Socialism is wrong and has been shredded intellectually. And Socialism, put into practice, has failed empirically. And yet, many people, especially academics and government officials, still want to somehow find a way to believe in it. It is the very epitome of a false and failed secular religion.

Socialism's most famous and important advocate was, of course, Karl Marx, who wrote prolifically about economics, history, and what we would call today, sociology. Marx proposed a method of structuring society that would somehow avoid the evils of capitalism. The below quotation is from Wikipedia's entry on Socialism. It should be noted that your author removed the footnote numbers from inside the quote for easier readability.

"Socialism is an economic system characterised by social ownership of the means of production and co-operative management of the economy. 'Social ownership' may refer to cooperative enterprises, common ownership, state ownership, or citizen ownership of equity. There are many varieties of socialism and there is no single definition encapsulating all of them. They differ in the type of social ownership they advocate, the degree to which they rely on markets or planning, how management is to be organised within productive institutions, and the role of the state in constructing socialism.

A socialist economic system would consist of a system of production and distribution organized to directly satisfy economic demands and human needs, so that goods and services would be produced directly for use instead of for private profit driven by the accumulation of capital. <u>Accounting would be based on physical quantities, a common physical magnitude, or a direct measure of labour-time in place of financial calculation</u>. Distribution would be based on the principle to each according to his contribution."

Marx, the most famous Socialist of all time, was politically shrewd. He knew there would be intellectual and other societal resistance to Socialism and so he put forth several strategies for his followers to hold to in an attempt to avoid fatal criticism of Socialist policies. The first thing he did was to attack logic itself. If logic could be weakened Marx hoped he could deflect intellectually devastating attacks upon Socialism as class-motivated and untrue for other classes of men (the masses). The second strategy was to place into his theory of history that Socialism was inevitable. And the third strategy he advocated was to not provide specific details about the "bright Socialist future," as any such details could be analyzed and criticized via social scientific methods.

It is beyond the scope of this short book to intellectually put forth, analyze, and then refute Socialism, and it is not necessary for this author to do so. The great Austrian economist, Dr. Ludwig von Mises, has already done this, almost 100 years ago, in his excellent 515-page book, *Socialism*. In this book Mises gives the history of Socialism and carefully and scientifically lays out what Marx actually taught – not what his followers wish he had taught. Further, Mises painstakingly provides methods by which

Socialism could attempt to be put into practice. In other words since Marx forbade his disciples to put forth how his system would work, Mises methodically details all of the various ways it would have to be attempted. And then Mises intellectually demolishes all of them.

Mises most famous original criticism, of any Socialist system, Marxian or otherwise, is to show that no system of Socialism could rationally calculate. Any economic system has to have a way to allocate how the various factors of production are to be combined in order to foster the production of necessary goods. The economic factors of production are land (including raw materials), labor, and capital goods (tools and machines to aid production). The purpose of production is consumption. Men need to eat. Men need clothes to wear. Men need to live somewhere. Ergo, food has to be grown and transported. The materials to make clothes have to be shepherded or grown and then made into clothes, which need to be transported to where people can obtain the clothes. Sleeping bags, tents, and housing have to be manufactured for people to be able to use them.

Mises’ genius argument showed that without private property (which Socialism would abolish) there could be no markets, as men have to first own something in order to sell it to someone else. If there is no buying and selling, because there is no private property, there are no markets. Without markets there are no prices. Prices provide information, so without prices you have no information. Mises showed that Socialist central planners, without prices to use as information, could not rationally and effectively plan for the production of consumer goods. Far worse, from a production standpoint, Socialist central planners would have no way whatsoever to plan for the production of capital goods. And capital goods are the tools and machines that greatly increase production. Without tools and machines mankind is relegated to being basically ditch-diggers, or subsistence farmers. Even a relatively simple machine has a bill of materials with dozens or hundreds or thousands of parts necessary to make that machine. None of those parts has an individual market price in a Socialist system of production. In the discussion that follows your author will use something as simple as a ball bearing as an example of just one industrial component. It should be noted that there are millions of industrial components existing and being utilized at any point in time in an advanced economy. There is no market price for a ball bearing in a non-Capitalist society, or any other industrial component. In a non-Capitalist society a ball bearing is not bought and sold generating a market price that provides information as to the usefulness and desirability of making more or less ball bearings. In a non-Capitalist society, the decision to manufacture more or less or any ball bearings comes down to the fact that <u>they are commanded to be made or not</u>. As Mises astutely showed, <u>any such command is a central planner's guess</u>. **It is not a rational calculation**. And since a committee of central planners attempting to guess their way to higher production do not know the bill of materials for even one simple production aiding machine, much less for the production of something complicated like a modern airplane, **<u>their guesses are gross misallocations of resources</u>**. Socialism fails as an economic system because it has to. It is structurally unsound in every way.

Mises wrote his path-breaking essay, showing the impossibility of the rational allocation of resources under Socialism, in 1920. He published his 515-page book, *Socialism*, in 1922 in the German language.

Socialists who knew of Mises' devastating attack attempted to answer him in a variety of ways, but they failed. They had to. There are no simulated markets or computer-generated guesses that can substitute for an actual market. Until and unless a man actually spends his hard-earned cash on a real item in an actual market, where both the buyer and seller actually own (not pretend to own) the item bought and sold, you do NOT have a market. You have a fiction. Socialists can no more answer Mises than someone can invalidate the laws of motion. Supposedly scientific and modern and inevitable Socialism lies dead at the feet of Mises. And educated and honest social scientists have known this since at least 1922, almost 100 years ago.

Other fatal errors of Marx are many and it is almost a waste of time to even take up the topic of the viability of Socialism, post Mises. But in the attempt to make this section of the book a bit more complete here are some of them:

Socialist apologists, even per the very modern Wikipedia quote above, attempt to allocate social contribution based on labor hours contributed. In the Wikipedia quote notice the term, “labor-time,” was used. There are several fatal problems with attempting to use labor hours in lieu of a market price for labor. First, there is a difference in the quality of labor, e.g., a brain surgeon’s time is worth more than a gardener’s time. Second, some labor hours are wasted on producing things that people do not actually want. For example, if labor were to be spent on building a buggy whip, most people would not value the buggy whip. There are other problems with attempting to use labor hours input, and Mises goes to great length to also crush this idea, but the point is made – it is not even remotely feasible. Further, it still would not provide a way to rationally allocate the factors of production in terms of manufacturing capital goods, with their lengthy bill of materials – almost none of which has any direct consumer utility.

Marx inherited what is known as the labor theory of value from the classical economists and Marx did not know this theory of value was wrong. Neither did the classical economists. Marx based his entire economic system on a theory of value, which was later shown to be incorrect. He assumed that labor created the value of the end product and if the capitalists made a profit it must have come from the backs of labor. About 1870, three different men, (the most important of which is Dr. Karl Menger, the first Austrian economist), discovered that value is subjective to the person valuing and based on the marginal unit being considered. Two other men, at about the same time, also made the discovery of this new and correct theory of value. The writings of these three men effectively crushed the labor theory of value forever. This was back in 1870, while Marx was still alive. An economist must have a correct theory of value, as it is foundational to whatever economic edifice he attempts to build upon it. An economist cannot explain how resources are allocated so as to produce goods if he does not understand how those resources are valued and allocated. Marx's theory of value was completely wrong. And so was almost everything he wrote of import pertaining to economics because of it. To briefly and ridiculously illustrate why labor cannot be a theory of value, let us assume the following: A man is given the ingredients to make two pies so he has no cost of materials. Let us further assume he has been given the use of a kitchen, complete with appliances, so he has no facilities cost. One of the pies he makes will be a chocolate pie. The other pie will be a mud pie (literally mud). The same man works exactly one hour on each pie and then bakes both of them the same amount of time. Then the man takes the mud pie and the chocolate pie to the market to sell them. The chocolate pie would sell for more than the mud pie even though both pies have the exact labor time involved in their manufacture. <u>Labor cannot establish the value of the end product because the end product itself might not be valued</u>, like the mud pie above. **Value is the eye of the beholder, not in the cost of production**. If the end product finds no value in the marketplace, the labor used to make that product, e.g., buggy whips, will not long be allocated to make such a product because the capital invested in that industry will soon be depleted (due to losses) and the laborers dismissed. The dismissed laborers will need to go and work in other industries making different products that are valued by actual customers in a real market.

Marx was further wrong in believing that workers would be paid down to the level of subsistence. This is sometimes known as "the iron law of wages." While this could possibly be true in a non-division of labor, non-capitalist society, it is decidedly false in a division of labor, capitalist society. The truth is that the standard of living of the workers has dramatically increased under capitalism. This is because the division of labor enables greater production and because business owners have to pay out to the workers, especially the better workers, more and more of this increased production or they will lose the workers to some other business owner who pays more.

Marx, following Hegel and others, devised his own Philosophy Of History, with himself as the intuitive secular prophet - who knew what would inevitably have to happen in the future. Mises, in his mainly philosophical book, *Theory And History*, demolishes the lunacy involved in any Philosophy Of History. And your author has previously written on said topic in his, *Intellectual Warfare: The Corruption Of Philosophy And Thought*. To be brief, if someone proposes a Philosophy Of History they do not understand the role of human choice as a causative factor in the unfolding of time. Human beings can choose. Those choices have consequences. Those consequences write history on a linear basis as time marches on. If an intuitive mystic or a secular prophet wants to pronounce that they see and know the future, and in Marx's case, they are also scientific – it behooves them to explain the cause of the pronounced future certainty. Marx attempted to do this with historical materialism and material productive forces, but he did not succeed as Marx confuses cause and effect. Men invent (cause) machines and tools, not the other way around. The outstanding Austrian economist, Dr. Murray Rothbard, in his second volume of economic history entitled, *Classical Economics*, has an entire section devoted to Marx's failure:

"There is no place in his system where Marx is fuzzier or shakier than at its base: the concept of historical materialism, the key to the inevitable dialectic of history.

At the base of historical materialism and of Marx's view of history is the concept of the 'material productive forces'. These 'forces' are the driving power that creates all historical events and changes. So what are these 'material productive forces'? This is never made clear. The best that can be said is that material productive forces mean 'technological methods'. On the other hand, we are also faced with the term 'mode of production', which seems to be the same thing as material productive forces, or the sum of, or systems of, technological methods.

At any rate, these material productive forces, these technologies and 'modes of production', uniquely and monocausally create all 'relations of production' or 'social relations of production' <u>independently of people's wills</u>. These 'relations of production', also extremely vaguely defined, seem to be essentially legal and property relations. The sum of these relations of production somehow make up the 'economic structure of society'. This economic structure is the 'base' which causally determines the 'superstructure', which includes natural science, legal doctrines, religion, philosophies, and all other forms of 'consciousness'. In short, at the bottom of the base is technology which in turn constitutes or determines modes of production, which in turn determines relations of production, or institutions of law or property, and which finally in turn determine ideas, religious values, art, etc.

How, then, do historical changes take place in the Marxian schema? They can only take place in technological methods, since everything else in society is determined by the state of technology at any one time. … But then, the only way in which social change can take place is via change in technology … .

As Marx put it in the clearest and starkest statement of his technological determinist view of history, in his Poverty of Philosophy:

'In acquiring new productive forces men change their mode of production, and in changing their mode of production, their means of gaining a living, they change all their social relations. The hand mill gives you society with the feudal lord; the steam mill society with the industrial capitalist.'

The first grave fallacy in this farrago [confused mixture] is right at the beginning: Where does this technology come from? And how do technologies change or improve? Who puts them into effect? A key to the tissue of fallacies that constitute the Marxian system is that Marx never attempts to provide an answer. <u>Indeed he cannot, since if he attributes the state of technology or technological change to the actions of man, of individual men, his whole system falls apart. For human consciousness, and individual consciousness at that, would then be determining material productive forces rather than the other way round</u>. As von Mises points out:

‘We may summarize the Marxian doctrine in this way: In the beginning there are the 'material productive forces', i.e., the technological equipment of human productive efforts, the tools and machines. No question concerning their origin is permitted; they are, that is all; we must assume that they are dropped from heaven.’

And, we may add, any changes in that technology must therefore be dropped from heaven as well.

Furthermore, as von Mises also demonstrated, consciousness, rather than matter, is predominant in technology:

‘a technological invention is not something material. It is the product of a mental process, of reasoning and conceiving new ideas. The tools and machines may be called material, but the operation of the mind which created them is certainly spiritual. Marxian materialism does not trace back 'superstructural' and 'ideological' phenomena to 'material' roots. It explains these phenomena as caused by an essentially mental process, viz. invention.’

Machines are embodied ideas. In addition, technological processes do not only require inventions. They must be brought forth from the invention stage and be embodied in concrete machines and processes. But that requires savings and capital investment as well as invention. But, granting this fact, then the 'relations of production', the legal and property rights system in a society, help determine whether or not saving and investment will be encouraged and discouraged. Once again, the proper causal path is from ideas, principles, and the legal and property rights 'superstructure' to the alleged 'base'.

Similarly, machines will not be invested in, unless there is a division of labour of sufficient extent in a society. Once again, the social relations, the cooperative division of labour and exchange in society, determine the extent and development of technology, and not the other way round.

In addition to these logical flaws, the materialist doctrine is factually absurd. Obviously, the hand mill, which ruled in ancient Sumer, did not 'give you' a feudal society there: furthermore, there were capitalist relations long before the steam mill. His technological determinism led Marx to hail each important new invention as the magical 'material productive force' that would inevitably bring about the socialist revolution. Wilhelm Liebknecht, a leading German Marxist and friend of Marx, reported that Marx once attended an exhibition of electric locomotives in London, and delightedly concluded that electricity would give rise to the inevitable communist revolution.”

And so like various other Philosophies Of History the believers are left to follow the false prophet. Marx, though secular, was just as much a confused intuitive mystic as Hegel or anyone else putting forth something that inevitably must happen. If still alive to see their predictions fail they rationalize further intuitive speculations as to what now must surely happen. They could not be more wrong, over and over again. The quote from the movie, *The International*, above, sums it all up quite well.

Earlier your author referenced Marx attacking logic itself as one of his strategies. This is obviously wrong in that there is not more than one kind of logic; any more than there is more than one kind of mathematics. To attack logic, at the same time you are representing yourself as a secular scientist, is the height of arrogant hypocrisy. Science needs logic to establish truth. Nothing more need be said here as no honest scholar, today, maintains either that logic is itself invalid, or that there are multiple kinds of logic. One is not a reactionary because he has the temerity to show that Socialism is logically inconsistent, logically wrong, and cannot work in practice. Nor is one progressive if one blindly advocates Socialism - leading to the impoverishment and death of one's fellow man, as such things are not progress. Your author in a previous book, *Intellectual Warfare: The Corruption Of Philosophy And Thought*, had further explanation on the silliness of attacking logic itself.

Another incorrect core position of Marx is that there is class conflict in a division of labor, capitalist society. Per Rothbard, Marx asserts that what causes, and is the motor of the inevitable revolutions in history, is inherent class conflict, i.e., inherent struggles between economic classes. Quoting from Rothbard's, *Classical Economics*, once again:

"The 'contradiction' between the fettered material productive forces and the fettering social relations of production thus becomes embodied in a determined class struggle between the 'rising' and the 'ruling' classes, which are bound, by the inevitable (material) dialectic of history to result in a triumphant revolution by the rising class. The successful revolution at last brings the relations of production and the material productive forces, or technological system, into harmony. All is then peaceful and harmonious until later, when further technological development gives rise to new 'contradictions', new fetters, and a new class struggle to be won by the rising economic class. In that way, feudalism, determined by the hand mill, gives rise to middle classes when the steam mill develops, and the rising middle classes, the living surrogates of the steam mill, overthrow fetters imposed by the feudal landlord class. Thus, the material dialectic takes one socio-economic system, say feudalism, and claims that it 'gives rise' to its opposite, or 'negation' , and its inevitable replacement by 'capitalism', which thus 'negates' and transcends feudalism. And in the same way electricity (or whatever) will inevitably give rise to a proletarian revolution which will permit electricity to triumph over the fetters that capitalists place upon it.

It is difficult to state this position without rejecting it immediately as drivel. In addition to all the flaws in historical materialism we have seen above, there is no causal chain that links a technology to a class, or that permits economic classes to embody either technology or its 'production relations' fetters. There is no proffered reason why such classes must, or even plausibly might, act as determined puppets for or against new technologies. Why must feudal landlords try to suppress the steam mill? Why can't feudal landlords invest in steam mills? And why can't capitalists cheerfully invest in electricity as they already have in steam? Indeed, they have in fact happily invested in electricity, and in all other successful and economical technologies (as well as bringing them about in the first place). Why are capitalists inevitably oppressed under feudalism, and why are the proletariat equally inevitably oppressed under capitalism? …"

It gets worse for Marx as he purposefully does not define "class" carefully as he knows he cannot. For example, let us take the example of just one plumber in a capitalist division of labor society. The plumber has a job working for a plumbing company. In this capacity he is an employee. However, the same man works the weekends and some nights doing plumbing work for a select group of his own customers. In this regard he is a small-scale entrepreneur. Over the years he has saved enough to buy a small apartment building. He hires someone else to manage the apartment building. In this case he is a landlord and also an employer. Further, over the years, he has saved capital and invested it in the stock market. In this case he is a capitalist. Marx would classify this man, how? Would Marx classify this man as a capitalist, landlord, employee, employer, or entrepreneur? It gets worse for Marx as let us say this man was born to poverty, but by the end of his life he is worth several millions of dollars. Did class determine his life? The whole idea of class this, or class that, is nonsense in a capitalist division of labor society. Marx is dead wrong, again.

As Socialism advocates against private property it advocates against personal incentive. If there are 7,000,000,000 people on earth, and a genius devises a new way of upping production, the genius gets $1/7{,}000{,}000{,}000^{th}$ of the reward for so doing. Geniuses do not work for this low of a reward as, in this case, it does not matter whether they invent something of value, or not. Geniuses do not work for merit badges, or for social accommodation either. They work to create and in so doing defy conventional logic. Progress can neither be ordered nor organized by a collective central body. Socialists are static thinkers who plan (your author is being charitable here) for the world that is, not the world that could be. The Socialists' only real hope of surviving is to expropriate what producers have produced. Progress halts under Socialism, as there is no personal incentive; and the geniuses that advance mankind will not work when they have a gun pointed at their head.

As Mises has astutely pointed out, there is no social theory of violence. <u>Socialism</u>, despite the social part of its name, <u>is a theory of violence</u>. It aims, by revolution of one form or another, to expropriate the private property of the capitalists and all others. To do so requires force. To establish Socialism requires theft on a grand scale. To accomplish this theft means that people will die in the establishment of Socialism. To make matters even worse, than the violence that is required to establish Socialism, is what then happens when Socialism is actually implemented. Socialism destroys both people's lives and capital. The Soviet Union and Eastern Europe were both decimated by attempting to implement Socialism. Socialism's experience, there, irrationally wasted resources, consumed capital, depleted infrastructure, and destroyed men's lives. Socialism failed empirically, as it had to. And it should be noted that if people and government leaders understood the Austrian economist demolition of Socialism it would have changed human history in unexpected ways. For example, the Vietnam War would not have had to be fought using the rationale for the war that it was necessary to stop a domino effect of country after country becoming Socialist, or Communist. Even if country after country went Socialist, or Communist, in time, they would each collapse with no outside intervention needed.

Your author could go on and on about Socialism, but every single major economic tenet of Socialism is wrong. Socialism is not inevitable. The logical attacks upon Socialism are not motivated by class ideology. They are necessary because Socialists attribute to Socialism that it is scientific. Logical scrutiny is what comes with being in scientific territory. If the logical attacks against Socialism demolish it intellectually it is not logic that is wrong. It is Socialism itself. Mises demonstrated, in a 515-page detailed and scientific book, that Socialism could never be a rational and scientific economic system because it is impossible to economically calculate under Socialism. His arguments have never been answered because they cannot. The bottom line is that Socialism is a failed secular religion that cannot function effectively in practice. It destroys incentive, consumes capital, wastes resources, and shatters men. Unfortunately, it remains a dangerous economic fallacy because people want to believe in it – especially many in academia and government.

The Third Way Fallacy

Because many people dislike capitalism, and because some of these same people realize that Socialism could never work in practice, or they realize that Socialism could never be overtly implemented politically, they advocate a hoped for third way of economic organization. This hoped for middle way would somehow miraculously take the good from both capitalism and Socialism and leave off the bad from both. While this might sound like a nice and balanced approach it is never put forth how this supposedly possible third way could actually accomplish their stated objective. This section of the book will demonstrate that the reason such a third way is not specifically proposed is because no such third way is in fact possible.

The Austrian economist, Dr. Ludwig von Mises, named this hoped for third way

interventionism. He called it interventionism because the government intervenes into the capitalist market economy in an attempt to achieve results which government politicians and planners prefer to those the actual free market is delivering at the time of the government intervention. Mises wrote an entire 164 page book entitled, *A Critique of Interventionism*, where he scientifically put forth why interventionism will not achieve the goals the government planners hope for. He shows that what will ultimately end up happening, as a result of the government intervention, is a result that even the authors of the government intervention consider bad. Even worse, he further shows that the government planners, instead of repealing their original misguided attempt to influence the marketplace result, will then usually engage in further interventions, which will cause even worse results for the marketplace participants and the government itself. Mises then brilliantly shows that interventionism, if not abandoned as a failure, will ultimately lead to full-scale Socialism, in substance, if not in fact. And as was shown in the previous section Socialism cannot work - no matter who is in charge of the Socialist system. In short, Mises scientifically and logically demonstrated that there is no possible interventionist third way.

Ayn Rand, novelist and philosopher, called the third way "a mixed economy." In so many words she described the mixed economy as a semi-socialized economy, which means a semi-enslaved society, which means a nation torn by irreconcilable differences and contradictions, which nation is in the process of disintegration. Rand further commented that a mixed economy has the element of economic freedom mixed with government controls. Unfortunately, this leads to pseudo-businessmen, who are good at exercising an aristocracy of pull, men who are adept at getting laws passed granting them special government favors. However, when this happens and it does all the time, the real entrepreneurs and producers have to pay for it. These pseudo-entrepreneurs want and prefer a government partner with a gun to actually competing in the marketplace with no special advantages other than a better product or service to provide to the customers.

In the introduction to Mises' *A Critique Of Interventionism*, Hans Sennholz, another Austrian economist, provided a nice Executive Summary of what Mises would demonstrate.

Your author excerpts a few sentences from his introduction below [emphasis mine throughout]:

"… No matter what modern economists have written about the general validity of economic laws, <u>the statists prefer their ethical judgments over economic principles, and political power over voluntary cooperation</u>. Without government control and regulation, central planning and authority, they are convinced, economic life would be brutal and chaotic."

"… There is no logical third system of a private property order subject to government regulation. The 'middle of the road' leads to socialism because government intervention is not only superfluous and useless, but also harmful. It is superfluous because the interdependence of market phenomena narrowly circumscribes individual action and economic relations. [There are economic laws we are all subject to, and which limit all of us, including governments.] It is useless because <u>government regulation cannot achieve the objectives it is supposed to achieve</u>. And it is harmful because it hampers man's productive efforts where, from the consumers' viewpoint, they are most useful and valuable. <u>It lowers labor productivity and redirects production along</u>

lines of political command, rather than consumer satisfaction."

As he did when he saw through Socialism, Mises saw through the impossibility of any hoped for third way. And since Mises did such a good job of seeing the problem, defining the problem, and scientifically and logically explaining why there is a problem, your author will quote him extensively, from his *A Critique Of Interventionism*, in this section of the book. [Any emphasis is mine throughout.] Mises' book was originally published in German in 1929.

"… Nearly all writers on economic policy and nearly all statesmen and party leaders are seeking an ideal system which, in their belief, is neither capitalistic nor socialistic, is based neither on private property in the means of production nor on public property. They are searching for a system of private property that is hampered, regulated, and directed through government intervention and other social forces, such as labor unions. We call such an economic policy interventionism, the system itself the hampered market order. … "

"Interventionism seeks to retain private property in the means of production, but authoritative commands, especially prohibitions, are to restrict the actions of private owners. If this restriction reaches the point that all important decisions are made along lines of authoritative command, if it is no longer the profit motive of landowners, capitalists, and entrepreneurs, but reasons of state, that decide what is to be produced and how it is produced, then we have socialism even if we retain the private property label. … [Such a system is then merely a private property order in a formal sense, but Socialism in substance.] Public ownership in the means of production is nothing but socialism or communism.

However, interventionism does not want to go that far. It does not seek to abolish private property in production; it merely wants to limit it. On the one hand, it considers unlimited private property harmful to society, and on the other hand, it deems the public property order unrealizable completely, at least for the present. Therefore, it seeks to create a third order: a social system that occupies the center between the private property order and the public property order. Thus, it seeks to avoid the "excesses" and evils of capitalism, but to retain the advantages of individual initiative and industry which socialism cannot bring forth." …

"… The problem at hand is, What are the consequences of government and other interventions in the private property order? Can they achieve the result they are supposed to achieve?"

Mises then stops to point out that just because a small limited government is necessary to protect the private property order it does not follow that further government interventions beyond that are useful. Your author would say that some government is necessary to safeguard man's natural rights, including the natural right of private property and also the right to trade private property. Beyond that, however, government interventions in an attempt to force marketplace participants into doing something they otherwise would not do are unwise, unwelcome, and counterproductive.

"*Intervention is a limited order by a social authority forcing the owners of the means of production and entrepreneurs to employ their means in a different manner than they otherwise would.* A 'limited order' is an order that is no part of a socialist scheme of orders, i.e., a scheme of orders regulating all of production and distribution, thus replacing private property in the means of production with public property. Particular orders may be quite numerous, but as long as they do not aim at directing the whole economy and replacing the profit motive of individuals with obedience as the driving force of human action they must be regarded as limited orders. By 'means of production' we mean all goods of higher order, including the merchants' inventories of ready goods which have not yet reached the consumers.

We must distinguish between two groups of such orders. One group directly reduces or impedes economic production (in the broadest sense of the word including the location of economic goods). The other group seeks to fix prices that differ from those of the market. The former may be called 'restrictions of production'; the latter, generally known as price controls, we are calling 'interference with the structure of prices .'"

Mises then goes on to state the obvious, which is that those interventions known as "restrictions of production" restrict production, which makes all mankind poorer, as less is produced. The government planners almost always sell the production restriction as a boost to production in an upside down use of terminology and logic. But that does not change the fact that a production restriction does achieve what the government planner wanted, which is to restrict production in some industry or location. That is the seen. The unseen is that this forces marketplace demand to be satisfied from production elsewhere – and this make-good production occurs in less favorable conditions and circumstances, i.e., resources are wasted in producing under less optimum conditions. And the inevitable result is that we are all poorer for the government intervention. It is true that a politically favored specific local industry might benefit from being able to charge higher prices for a time. But, from the point of view of the entirety of marketplace consumers, resources have been misallocated and wasted - resulting in higher prices. Mises does provide several Executive Summary type quotes, which help explain the situation regarding production restrictions.

"… An import duty, for instance, is surely practical, and its immediate effect may correspond to the government's objective. But it does not follow at all that the import duty can realize the government's ultimate objective. At this point the economist's work commences. The purpose of the theorists of free trade was not to demonstrate that tariffs are impractical or harmful, <u>but that they have unforeseen consequences</u> and do not, nor can they, achieve what their advocates expect of them. What is even more significant, as they observed, <u>protective tariffs as well as all other production restrictions reduce the productivity of human labor.</u> **The result is always the same:** <u>a given expenditure of capital and labor yields less with the restriction than without it, or from the beginning less capital and labor is invested in production</u>. This is true with protective tariffs that cause grain to be grown in less fertile soil while more fertile land is lying fallow. …"

Mises goes on to say that production restrictions reduce labor productivity because they reduce the scope of the international division of labor and prevent the advantages of specialized large-scale production and the employment of labor at the most advantageous locations.

"All production restrictions directly hamper some production inasmuch as they prevent certain employment opportunities that are open to the goods of higher order (land, capital [tools and machines], labor). By its very nature, a government decree that 'it be' cannot create anything that has not been created before. Only the naive inflationists could believe that government could enrich mankind through fiat [printed or created] money. <u>Government cannot create anything; its orders cannot even evict anything from the world of reality, but they can evict from the world of the permissible.</u> **Government cannot make man richer, but it can make him poorer.**"

"Indeed, it is difficult to ignore the fact that production restrictions always reduce the productivity of human labor and thus the social dividend [standard of living]. Therefore, no one dares defend the restrictions as a separate system of economic policy. Their advocates-at least the majority of them-are now promoting them as mere supplements to government interference with the structure of prices. <u>The emphasis of the system of interventionism is on price intervention</u>."

"Price intervention aims at setting goods prices that differ from those the unhampered market would set." …

"*Genuine Controls*. We may call those price controls 'genuine' that set prices differing from those the unhampered market would set. If government seeks to fix a price higher than the market price, it usually resorts to minimum prices. If government seeks to fix a price lower than the market price it usually imposes price ceilings.

Let us first consider the ceiling, or maximum, price. The natural price that would emerge in an unhampered market corresponds to an equilibrium of all prices. At that point price and cost coincide. Now, if a government order necessitates a readjustment, <u>if the sellers are forced to sell their goods at lower prices, the proceeds fall below costs</u>. Therefore, the sellers will abstain from selling-except for merchandise that quickly spoils or otherwise loses in value and hold on to their goods in the hope that the government regulation will soon be lifted. But the potential buyers will be unable to buy the desired goods. If possible, they now may buy some substitute they would not have otherwise bought. (It should also be noted that the prices of these substitute goods must rise on account of the greater demand.) <u>But it was never the intention of government to bring about these effects</u>. It wanted the buyers to enjoy the goods at lower prices, not to deprive them of the opportunity to buy the goods at all. Therefore, government tends to supplement the price ceiling with an order to sell all goods at this price as long as the supply lasts. At this point price controls encounter their greatest difficulty. The market interaction brings about a price at which demand and supply tend to coincide. The number of potential buyers willing to pay the market price is large enough for the whole market supply to be sold. If government lowers the price below that which the unhampered market would set, the same quantity of goods faces a greater number of potential buyers who are willing to pay the lower official price. Supply and demand no longer coincide; demand exceeds supply, and the market mechanism, which tends to bring supply and demand together through changes in price, no longer functions.

Mere coincidence now eliminates as many buyers as the given supply cannot accommodate. Perhaps those buyers who come first or have personal connections with the sellers will get the goods. The recent war [World War One] with its many attempts at price controls provided examples of both. At the official price, goods could be bought either by a friend of the seller or by an early bird in the 'polonaise.' [slow dance] But government cannot be content with this selection of buyers. It wants everyone to have the goods at lower prices, and would like to avoid situations in which people cannot get any goods for their money. Therefore, it must go beyond the order to sell; <u>it must resort to rationing</u>. The quantity of merchandise coming to the market is no longer left to the discretion of sellers and buyers. Government now distributes the available supply and gives everyone at the official price what he is entitled to under the ration regulation.

<u>But government cannot even stop here</u>. The intervention mentioned so far concerns only the available supply. When that is exhausted the empty inventories will not be replenished because production no longer covers its costs. If government wants to secure a supply for consumers <u>it must pronounce an obligation to produce</u>. <u>If necessary, it must fix the prices of raw materials and semi-manufactured products, and eventually also wage rates, and force businessmen and workers to produce and labor at these prices</u>.

It can thus be readily seen that it is inconceivable to resort to price controls as an isolated intervention in the private property order. Government is unable to achieve the desired result, and therefore finds it necessary to proceed step by step from the isolated pricing order to comprehensive control over labor, the means of production, what is produced, how it is produced, and how it is distributed. Isolated intervention in the market operation merely disrupts the service to consumers, and forces them to seek substitutes for those items they deem most important; it thus fails to achieve the very result government meant to achieve. The history of war socialism has clearly illustrated this. Governments seeking to interfere with market operations found it necessary, step by step, to proceed from the original isolated price interference to complete socialization of production. Government would have had to proceed ever faster if its price regulations had been observed more faithfully, and if black markets had not circumvented the regulations. The fact that government did not take the final step, the nationalization of the whole apparatus of production, was due to the early end of the war, which brought an end to the war economy. He who observes a war economy is clearly aware of the phases mentioned above: at first price control, then forced sales, then rationing, then regulation of production and distribution, and, finally, attempts at central planning of all production and distribution."

"… If government imposes a price higher than that determined by the unhampered market, and prohibits the sale at lower prices (minimum prices), demand must decline. At the lower market price supply and demand coincide. At the official higher price demand tends to trail supply, and some goods brought to the market cannot find a buyer. As government imposed the minimum price in order to assure the sellers profitable sales, the result was unintended by government. Therefore, it must resort to other means, which again, step by step, must lead to complete government control over the means of production.

Especially significant are those minimum prices that set wage rates (minimum wages). Such rates may be set either directly by government or indirectly by promoting labor union policies that aim at establishing minimum wages. When, through strikes or threats of strikes, labor unions enforce a wage rate that is higher than that determined by the unhampered market, they can do so only with the assistance of government. The strike is made effective by denying the protection of the law and administration to workers willing to work. [It is really a strike against other workers and not so much against the company in question.] In fact, it is irrelevant for our analysis whether the apparatus of coercion imposing the controls is the 'legitimate' state apparatus or a sanctioned apparatus with public power. If a minimum wage that exceeds the unhampered market rate is imposed on a particular industry, its costs of production are raised, the price of the final product must rise, and correspondingly, sales must decline. Workers lose their jobs, which depresses wages in other industries. … That which the workers in one industry are gaining is lost by the workers in other industries. In order to avoid such consequences, the imposition of minimum wages must be accompanied by the prohibition to dismiss workers: The prohibition in turn reduces the industry's rate of return because unneeded workers must be paid, or they are used and paid in full production while their output is sold at a loss. Industrial activity then tends to decline. If this, too, is to be prevented, government must intervene again with new regulations.

If the minimum wage is not limited to a few industries, but is imposed on all industries of an isolated economy, or on the world economy, the rise in product prices caused by it cannot lead to a reduction in consumption. The higher wages raise the workers' spending power. They can now buy the higher-priced products coming to the market. (To be sure, there may be shifting within the industries.) If entrepreneurs and capitalists do not want to consume their capital they must limit their consumption since their money income has not risen and they are unable to pay the higher prices. To the extent of this reduction in consumption, the general wage boost has given the workers a share of entrepreneurial profits and capital income. The workers' real raise is visible in that prices do not rise by the full amount of the wage boost because of the entrepreneurs' and capitalists' cutback in consumption. That is, the rise in consumer prices is less than that of wages. But it is well known that even if all property income were divided among the workers, their individual incomes would rise very little, which should dispel any illusion about such a reduction in property income. But if we were to assume that the wage boost and rise in prices should allocate a large part, if not all, of the real income of entrepreneurs and capitalists to workers, we must bear in mind that the former want to live and will therefore consume their capital for lack of entrepreneurial income. <u>Elimination of capital income through coercive wage boosts thus merely leads to capital consumption</u>, and <u>thereby to continuous reduction in national income</u>. (By the way, every attempt at abolishing capital income must have the same consequence unless it is achieved through allround nationalization of production and consumption.) If again government seeks to avoid these undesirable effects, no alternative is left, from the etatist [statist] point of view, but to seize control over the means of production from the owners."

Every marketplace intervention by a government planner, whether it be from a production restriction, or price control/floor, results in a chain of marketplace consequences which are negative – even from the point of view of the well-intentioned government planner. Each negative unintended and initially unseen consequence leads to further government interventions. These further government interventions lead to further unintended negative consequences, such as production ceasing and the best and brightest people and also capital fleeing an industry - thus wrecking efficient production in that industry. From the point of view of entrepreneurs and those investing and lending to them, it is wiser to reallocate capital and brains somewhere else. The better, more far-sighted and skilled workers also start shifting to industries with more promise. This is all logical because if entrepreneurs cannot cover their costs and also earn at least a marketplace-competitive return on investment then they have to shift to a different industry. After all, the government may lower the maximum price allowable to be charged even lower still, or provide cost-boosting edicts like an increase in minimum wages even higher. And so Mises astutely points out the government must move step by step toward seizing control over the entire economy. If the government leaves a marketplace sector open, the brains and capital will flee to it. Interventionism cannot work and inevitably leads to Socialism, which cannot work. There is no third way. Quoting Mises again:

"… **Interventionism as an economic system is unsuitable and illogical**. Once this is recognized it leaves us with the choice between lifting all restrictions, or expanding them to a system in which government directs all business decisions - in which the state determines what to produce and how, under what conditions, and to whom the products must be sold. This is a system of socialism in which private property at best survives in name only."

Of course, hopeless romantics want a world with no scarcity. They also want to believe that there are no absolutes – either in ethical standards, or in terms of the existence of economic laws. But there are economic laws in existence and those laws limit all individuals and all governments - in short those economic laws limit what is possible to mankind. Socialism cannot work and will not work - no matter which gang of the moment is put in charge to try and implement it. And interventionism inevitably leads to Socialism. Sorry. That's the way it is. And no amount of wishful daydreaming will change the laws of nature, which must be conformed to if we are to succeed in how we live our lives. And much thanks to Mises for pointing all of this out in a way that is relatively easy to understand should one wish to understand. Some don't.

Not wanting to hear any of the above, that Socialism cannot work and interventionism leads to Socialism, some intellectuals have actually proceeded on two other fronts. One attack has been against logic itself. The other attack is denying the possibility of theoretical knowledge. For a so-called intellectual to attempt to destroy logic (using logic in an attempt to do so) is hypocritical and nonsensical. For a so-called intellectual to have a theory that there is no such thing as theoretical knowledge is also hypocritical and nonsensical. It is intellectual nihilism – an attempt to intellectually burn down the house of mankind with all of us in it. In your author's opinion such men are empty vessels and hypocrites. They are afraid of a free market because they believe the marketplace would not place a high value on their services, which it more than likely would not. If such is the quality of their thinking, why should it?

These pseudo-intellectuals attack the science of economics because true economics exposes and opposes interventionism and its special privileges. Interventionism begets: prolonged unemployment, economic crises in capital markets, real estate markets, and banking, production disruptions and shortages, and many other problems - all of which result in the non-economic wasting of valuable lives and capital. Other than interventionism not working and inevitably leading to Socialism, the other main take away from all of this is that **price controls and other government interventionist measures make it illegal to act rationally**.

To illustrate how interventionism has negative unintended, but real, consequences let us consider a simple make-believe example illustrating a scenario that could happen. Let us suppose that satellite imagery shows a trio of hurricanes headed toward the Gulf Coast of the United States – each about one week apart. Let us further assume that it is highly likely all three hurricanes are forecast to be very destructive. And let us further assume that their exact path toward landfall is not precisely knowable at the moment, but they almost certainly will hit the Gulf Coast of the United States somewhere. Further let us assume that a major plywood manufacturer in the Pacific Northwest normally closes their plant for four weeks each year for routine maintenance, and the plant's hourly workers are furloughed during this period of time. Let us further assume that the four weeks are about to begin and that the specialized maintenance workers (from the machinery manufacturers who supplied the plywood plant) have already arrived at the plywood plant. And let us further assume that the plywood manufacturing plant's normal customer base is the building trades in the Western USA and that the plant has stockpiled enough plywood inventory to take care of their very important existing customer base during the plant maintenance downtime period.

Because of the impending hurricanes, consumers throughout the entire Gulf Coast region have bought up all of the existing supply of plywood from local retailers and there is a desperate need for more. People will pay whatever it takes to get more plywood with which to protect their valuable homes and businesses. An interventionist government edict comes into effect barring Gulf Coast retailers from charging more for plywood than they normally charged, prior to the hurricane forecast and the resultant stock-out of inventory. Gulf Coast retailers desperately attempt to locate additional sources of supply and contact the plywood plant located in the Pacific Northwest from our example above. But the Gulf Coast retailers cannot afford to offer more money to potential new plywood suppliers to obtain one-time additional plywood supplies. This is because if their cost of plywood were to rise to equal or exceed the market-capped price, which the interventionist government edict has imposed on them, they would lose money on the sales of plywood from the newfound supplies. Even worse, the Pacific Northwest plywood manufacturer turns down their request to purchase plywood. Why? There is no incentive for them to do so. This is because they have an existing customer base they need to take care of and a one-time sale at about the same price as they can get by taking care of their existing customer base has no appeal to them. So they turn down the Gulf Coast retailer's attempt to purchase. The government's edict did prevent what the government bureaucrat regards as "price-gouging," but the result is that many people lost their homes and businesses when they should not have had to. The consequence was unintended, but real, and the loss was great to those who lost homes and businesses.

If the government let the marketplace operate unimpeded the price of plywood in the Gulf Coast region would have raised dramatically. This would have been a signal for the plywood plant to sell their previously reserved inventory of plywood to the Gulf Coast retailers, to postpone the scheduled plant maintenance – absorbing the loss of the travel and rescheduling from the extra profit from the new and only temporarily higher plywood prices, and to call back their workers to make as much plywood as possible as fast as possible. Some of this new and unscheduled production might very well be in time for the last hurricane and some of the new production would be to restock their inventory to take care of their existing Western USA customer base. The high prices of plywood would have also led to higher transportation prices being offered in an effort to re-route every available truck and train car to get to wherever there was plywood inventory and get it delivered to the Gulf Coast as soon as possible. Everyone involved would have an incentive to get the plywood purchased and transported to where it was needed most. The Gulf Coast retailers should have been able to charge as much as the market would accept and each homeowner and business owner could make their own calculation as to how much plywood to buy and install prior to the hurricanes hitting the Gulf Coast. It should be noted that the Gulf Coast retailers might not even make that much more money on plywood than they normally do, as their higher plywood purchase costs and higher transport costs would make their landed plywood inventory cost much higher than normal. But they would have actual inventory to sell to those who needed it most when they needed it most.

Government edicts, aka interventionism, whether well intentioned or not, ruin markets and people all of the time. Most people just cannot see it, but that does not make it any less real to those affected by it. Interventionism leads to Socialism, which leads to disaster.

Bureaucracy & The State-Owned-Enterprise Fallacy

Interventionism leads to Socialism and Socialism does not work. And so another idea offered, in clear opposition to capitalism, is to next advocate state-owned-enterprises, or bureaucratic management, as a way to structure production – at least in some fields. That this idea, and any efforts to implement it, would lead to positive results is also a fallacy. There are scientific and logical reasons why. There are reasons why bureaucracies function as they do, with poor results, when they are used to do something the private sector can do better. And there are reasons a private sector company functions with much more flexibility and much less bureaucracy than a public sector bureau.

The subject of bureaucracy is actually not that difficult to understand.

The first thing to understand is why a private sector company is less bureaucratic than a public sector counterpart. Ludwig von Mises wrote a short, brilliant, 125-page book entitled, *Bureaucracy*, which asks and answers most of the issues surrounding the subject, and your author will quote him fairly extensively below. Mises was, as usual, quite fair and acknowledges the need for bureaucratic management in conducting the operations of government. The book was first published in 1944. Your author is not attempting to discuss the proper size of the government here (small), or what its proper function is (the collective organization of the individual right of self-defense).

"There are two methods for the conduct of affairs within the frame of human society, i.e., peaceful cooperation among men. One is bureaucratic management, the other is profit management.

It is well known that profit management is highly unpopular in our age. People are anxious to substitute allround planning by a central authority – i.e. socialism – for the supremacy of consumers as operative in the market economy. But at the same time people severely blame the shortcomings of bureaucratism. <u>They do not see that in clamoring for the suppression of profit management they themselves are asking for more and more bureaucracy, even for full bureaucratization of every sphere of human affairs</u>.

There are areas of man's activities in which there cannot be any question of profit management and where bureaucratic management must prevail. A police department cannot be operated according to the methods resorted to in the conduct of a gainful enterprise. A bakery serves a definite number of people – its customers – in selling them piecemeal what it has produced; it is the patronage of its customers that provides the social legitimacy – the profitability – of the baker's business. A police department cannot sell its 'products'; <u>its achievements</u>, <u>however valuable</u>, even indispensable as they may be, <u>have no price on the market and therefore cannot be contrasted with the total expenditure made in the endeavors to bring them about</u>."

"… This book will try to demonstrate that no profit-seeking enterprise, no matter how large, is liable to become bureaucratic provided the hands of its management are not tied by government interference [Mises refers to interventionism here]. <u>The trend toward bureaucratic rigidity is not inherent in the evolution of business. It is an outcome of government meddling with business</u>. It is a result of the policies designed to eliminate the profit motive from its role in the framework of society's economic organization."

"In the field of business creative leadership manifests itself in the adjustment of production and distribution to the changing conditions of demand and supply and in the adaptation of technical improvements to practical uses. The great businessman is he who produces more, better, and cheaper goods, who, as a pioneer of progress, presents his fellow men with commodities and services hitherto unknown to them or beyond their means. We may call him a leader because his initiative and activity force his competitors either to emulate his achievements or to go out of business. <u>It is his indefatigable inventiveness and fondness for innovations that prevents all business units from degenerating into idle bureaucratic routine</u> [Think of Steve Jobs and Apple as a great example of what Mises is saying here]. He embodies in his person the restless dynamism and progressivism inherent in capitalism and free enterprise."

"It would certainly be an exaggeration to say that such creative leaders are lacking in present-day America [written in 1944]. Many of the old heroes of American business are still alive and active in the conduct of their affairs. It would be a delicate matter to express an opinion about the creativeness of younger men. Some temporal distance is needed for a correct appreciation of their achievements. A true genius is very rarely acknowledged as such by his contemporaries.

<u>Society cannot contribute anything to the breeding and growing of ingenious men</u>. A creative genius cannot be trained. There are no schools for creativeness. <u>A genius is precisely a man who defies all schools and rules</u>, who deviates from the traditional roads of routine and opens up new paths through land inaccessible before. A genius is always a teacher, never a pupil; <u>he is always self-made</u>. <u>He does not owe anything to the favor of those in power</u>. But, on the other hand, the government can bring about conditions which paralyze the efforts of a creative spirit and

prevent him from rendering useful services to the community.

This is the case today in the field of business. Let us look at one instance only, the income tax. In the past an ingenious newcomer started a new project. It was a modest start; he was poor, his funds were small and most of them borrowed. When initial success came, he did not increase his consumption, but reinvested the much greater part of the profits. Thus his business grew quickly. He became a leader in his line. His threatening competition forced the old rich firms and the big corporations to adjust their management to the conditions brought about by his intervention. They could not disregard him and indulge in bureaucratic negligence. They were under the necessity of being on their guard day and night against such dangerous innovators. If they could not find a man able to rival the newcomer for the management of their own affairs, they had to merge their own business with his and yield to his leadership.

But today the income tax absorbs 80 or more per cent [written in 1944] of such a newcomer's initial profits. He cannot accumulate capital; he cannot expand his business; his enterprise will never become big business. He is no match for the old vested interests. The old firms and corporations already own a considerable capital. Income and corporation taxes prevent them from accumulating more capital, while they prevent the newcomer from accumulating any capital. He is doomed to remain small business forever. The already existing enterprises are sheltered against the dangers from ingenious newcomers. They are not menaced by their competition. They enjoy a virtual privilege as far as they content themselves with keeping their business in the traditional lines and in the traditional size. Their further development, of course, is curtailed. The continuous drain on their profits by taxes makes it impossible for them to expand their business out of their own funds. Thus a tendency toward rigidity originates."

Mises, above, does not discuss the innumerable regulations that all businesses, large and small, must comply with. Those regulations also have the same effect as taxes in sheltering large businesses against the competition from smaller, more entrepreneurial firms. Virtually all of what appears to be bureaucracy in business arises from businesses having to comply with the interventionism of government edicts - in particular taxes and regulations of every sort. Does what Mises wrote above in 1944 mean that every single startup business would never become a big business? No. But government interventionism shifts the odds against the small innovator and toward the favor of larger, long established, and better-capitalized companies. This is why many smaller innovators feel compelled to sell out early in their company's history, rather than waiting until later, or not at all. Most of what appears to be bureaucracy in business is actually a reaction caused by government interventionism.

To explain why private enterprise functions the way it does Mises explains the role of capitalists, enterprisers [entrepreneurs], and farmers, and their relations to consumers, and why a private enterprise can be structured very differently from a government undertaking, such as a police department.

"Capitalism or market economy is that system of social cooperation and division of labor that is based on private ownership of the means of production. The material factors of production [land (including raw materials), labor, and tools and machines] are owned by individual citizens, the capitalists and the landowners. The plants and the farms are operated by the entrepreneurs and the farmers, that is, by individuals or associations of individuals who either themselves own the capital and the soil or have borrowed or rented them from the owners. Free enterprise is the characteristic feature of capitalism. <u>The objective of every enterpriser</u> - whether businessman or farmer - <u>is to make profit</u>.

The capitalists, the enterprisers, and the farmers are instrumental in the conduct of economic affairs. They are at the helm and steer the ship. But they are not free to shape its course. They are not supreme, they are steersmen only, bound to obey unconditionally the captain's orders. The captain is the consumer.

Neither the capitalists nor the entrepreneurs nor the farmers determine what has to be produced. The consumers do that. The producers do not produce for their own consumption but for the market. They are intent on selling their products. If the consumers do not buy the goods offered to them, the businessman cannot recover the outlays made. He loses his money. If he fails to adjust his procedure to the wishes of the consumers he will very soon be removed from his eminent position at the helm. Other men who did better in satisfying the demand of the consumers replace him.

The real bosses, in the capitalist system of market economy, are the consumers. They, by their buying and by their abstention from buying, decide who should own the capital and run the plants. They determine what should be produced and in what quantity and quality. Their attitudes result either in profit or in loss for the enterpriser. They make poor men rich and rich men poor. They are no easy bosses. They are full of whims and fancies, changeable and unpredictable. They do not care a whit for past merit. As soon as something is offered to them that they like better or that is cheaper, they desert their old purveyors. With them nothing counts more than their own satisfaction. They bother neither about the vested interests of capitalists nor about the fate of the workers who lose their jobs if as consumers they no longer buy what they used to buy.

What does it mean when we say that the production of a certain commodity A does not pay? It is indicative of the fact that the consumers are not willing to pay the producers of A enough to cover the prices of the required factors of production, while at the same time other producers will find their incomes exceeding their costs of production. The demand of the consumers is instrumental in the allocation of various factors of production to the various branches of manufacturing consumers' goods. The consumers thus decide how much raw material and labor should be used for the manufacturing of A and how much for some other merchandise. <u>It is therefore nonsensical to contrast production for profit and production for use</u>. With the profit motive the enterpriser is compelled to supply the consumers with those goods which they are asking for most urgently. If the enterpriser were not forced to take the profit motive as his guide, he could produce more of A, in spite of the fact that the consumers prefer to get something else. The profit motive is precisely the factor that forces the businessman to provide in the most efficient way those commodities [products] the consumers want to use."

"... The preeminence of the capitalist system consists in the fact that it is the only system of social cooperation and division of labor which makes it possible to apply a method of reckoning and computation in planning new projects and appraising the usefulness of the operation of those plants, farms, and workshops already working. The impracticability of all schemes of socialism and central planning is to be seen in the impossibility of any kind of economic calculation under conditions in which there is no private ownership of the means of production and consequently no market prices for these factors.

The problem to be solved in the conduct of economic affairs is this: There are countless kinds of material factors of production, and within each class they differ from one another both with regard to their physical properties and to the places at which they are available. There are millions and millions of workers and they differ widely with regard to their ability to work. Technology provides us with information about numberless [mind-bogglingly numerous] possibilities in regard to what could be achieved by using this supply of natural resources, capital goods, and manpower for the production of consumers' goods. Which of these potential procedures and plans are the most advantageous? Which should be carried out because they are apt to contribute most to the satisfaction of the most urgent needs? Which should be postponed or discarded because their execution would divert factors of production from other projects the execution of which would contribute more to the satisfaction of urgent needs?

It is obvious that these questions cannot be answered by some calculation in kind. One cannot make a variety of things enter into a calculus if there is no common denominator for them.

In the capitalist system all designing and planning is based on the market prices. Without them all the projects and blueprints of the engineers would be a mere academic pastime. They would demonstrate what could be done and how. But they would not be in a position to determine whether the realization of a certain project would really increase material well-being or whether it would not, by withdrawing scarce factors of production [raw materials, labor, tools, machines, and equipment] from other lines, jeopardize the satisfaction of more urgent needs, that is, of needs considered more urgent by the consumers. **The guide of economic planning is the market price.** The market prices alone can answer the question whether the execution of a project P will yield more than it costs, that is, whether it will be more useful than the execution of other conceivable plans which cannot be realized because the factors of production required are used for the performance of project P."

" … Economic calculation makes it possible for business to adjust production to the demands of the consumers. On the other hand, under any variety of socialism, the central board of production management would not be in a position to engage in economic calculation. Where there are no markets and consequently no market prices for the factors of production, they cannot become elements of a calculation."

" … But <u>the actual world is a world of permanent change</u>. Population figures, tastes, and wants, the supply of factors of production and technological methods are in a ceaseless flux [continuous change]. <u>In such a state of affairs there is need for a continuous adjustment of production to the change in conditions</u>. **This is where the entrepreneur comes in.**

Those eager to make profits are always looking for an opportunity. As soon as they discover that the relation of the prices of the factors of production to the anticipated prices of the products seem to offer such an opportunity, they step in. If their appraisal of all the elements involved was correct, they make a profit. But immediately the tendency toward a disappearance of such profits begins to take effect. As an outcome of the new projects inaugurated, the prices of the factors of production in question go up and, on the other hand, those of the products begin to drop. Profits are a permanent phenomenon only because there are always changes in market conditions and in methods of production. He who wants to make profits must be always on the watch for new opportunities. And in searching for profit, he adjusts production to the demands of the consuming public. [All the above is why the entrepreneurs operating in the private sector are innovative. They have to be.]"

Mises then goes on to show why management under the private enterprise for profit system functions one way, while management under a bureaucratic system must function in a completely different way.

"All business transactions are examined by shrewdly calculating profit and loss. New projects are subject to a precise scrutiny of the chances they offer. Every step toward their realization is reflected in entries in the books and accounts. The profit-and-loss account shows whether or not the whole business, or any of its parts, was profitable. The figures of the ledger serve as a guide for the conduct of the whole business and of each of its divisions. <u>Branches which do not pay are discontinued, those yielding profit are expanded</u>. There cannot be any question of clinging to unprofitable lines of business if there is no prospect of rendering them profitable in a not-too-distant future.

The elaborate methods of modern bookkeeping, accountancy, and business statistics provide the enterpriser with a faithful image of all his operations. He is in a position to learn how successful or unsuccessful everyone of his transactions was. With the aid of these statements he can check the activities of all departments of his concern no matter how large it may be. There is, to be sure, some amount of discretion in determining the distribution of overhead costs. But apart from this, the figures provide a faithful reflection of all that is going on in every branch or department. <u>The books</u> and the balance sheets are the conscience of business. <u>They are also the businessman's compass</u>."

" … The entrepreneur is in a position to separate the calculation of each part of his business in such a way that he can determine the role that it plays within his whole enterprise. For the public [an outsider looking in] every firm or corporation is an undivided unity. But for the eye of its management it is composed of various sections, each of which is viewed as a separate entity and appreciated according to the share it contributes to the success of the whole enterprise. Within the system of business calculation each section represents an integral being, a hypothetical independent business as it were. It is assumed that this section 'owns' a definite part of the whole capital employed in the enterprise, that it buys from other sections and sells to them, that it has its own expenses and its own revenues, that its dealings result either in a profit or a loss which is imputed to its own conduct of affairs as separate from the results achieved by the other sections. Thus the general manager of the whole enterprise can assign to each section's management a great deal of independence. There is no need for the general manager to bother about the minor details of each section's management. The managers of the various sections can have a free hand in the administration of their sections' ‘internal’ affairs. <u>The only directive that the general manager gives</u> to the men whom he entrusts with the management of the various sections, departments, and branches is: **<u>Make as much profit as possible.</u>** And an examination of the accounts shows him how successful or unsuccessful they were in executing the directive.

In a large-scale enterprise many sections produce only parts or half-finished products which are not directly sold but are used by other sections in manufacturing the final product. This fact does not alter the conditions described. The general manager compares the costs incurred by the production of such parts and half-finished products with the prices he would have to pay for them if he had to buy them from other plants. He is always confronted by the question: Does it pay to produce these things in our own workshops? Would it not be more satisfactory to buy them from other plants specializing in their production?

Thus within the framework of a profit-seeking enterprise responsibility can be divided. Every submanager is responsible for the working of his department. It is to his credit if the accounts show a profit, and it is to his disadvantage if they show a loss. His own selfish interests push him toward the utmost care and exertion in the conduct of his section's affairs. If he incurs losses, he will be their victim. He will be replaced by another man whom the general manager expects to be more successful, or the whole section will be discontinued. At any rate he will be discharged and lose his job. If he succeeds in making profits, he will see his income increased or at least he will not be in danger of losing it. Whether or not a departmental manager is entitled to a share in the profit of his department is not so important with regard to the personal interest he takes in the results of his department's dealings. His fate is at any rate closely connected with that of his department. In working for it, he works not only for his boss but also for himself.

It would be impracticable to restrict the discretion of such a responsible submanager by too much interference with detail. If he is efficient, such meddling would at best be superfluous, if not harmful by tying his hands. If he is inefficient, it would not render his activities more successful. It would only provide him with a lame excuse that the failure was caused by his superior's inappropriate instructions. <u>The only instruction required is self-understood</u> and does not need to be especially mentioned: <u>seek profit</u>. Moreover, most of the details can and must be left to the head of every department."

Mises goes on to explain the general manager has the task of finding the right men for the subordinate management jobs, but those subordinate men are, in effect, junior partners with the general manager and owners of the enterprise – all working together to maximize profit. The subordinate managers are businessmen themselves and the subordinate manager's interests coincide with those of the whole concern. A subordinate manager will not waste money, or hire bad workers, because to do so means to perform poorly and to be at risk. Everyone is trying to succeed together and this is measured by making a profit. Few rules and directives are necessary. But innovation is necessary because there are competing firms that customers can buy from. An unprofitable branch or department must sooner or later be minimized or closed down.

Mises goes on to discuss personnel (labor) management under a profit system. Each department manager has to hire workers who perform a certain quality and quantity of labor. The employer wants good workers who are worth the money he pays them. The employer wants to pay as little as possible and each worker wants to make as much as possible. The hiring of labor is a business transaction, not a social interaction. As the end consumers do not care about what it took to make an end product, only about the end product itself, the end consumers also do not care who it was who performed the labor, or what it took to get the final product ready for purchase. The end consumers pass judgment on the end product; cost accounting and labor management are irrelevant to them. This puts section managers, foremen, department managers, that is to say, the entire supervising structure of an enterprise, in the position they must be a good judge of men, in terms of who to hire, and they must also manage those men efficiently. Each worker cannot expect to get paid more than they contribute to the end product's value – value being in the judgment of the end consumers and their contribution being judged by the enterprise's managers. The managers cannot afford to pay anyone more than they can realize in actually selling the end product. As Mises would say, "In the long run the worker can never get more than the consumer allows." And all of the above still falls into the prime directive of a business enterprise, which is to make profit. If a business does not make a profit, the consumers are, in effect, telling that business to either restructure to become more efficient, or to shut down. This is because the business, as currently structured, is wasting precious resources.

Public sector management is entirely different. Mises gives an example of an ancient tribal leader who has all administrative, legislative, and judicial power in his own hands. But then he expands his realm and becomes, as it were, a king. Because the king cannot be everywhere, he appoints deputies to rule provinces or districts. In so doing the king temporarily renounces his own power to the benefit of his appointed local district ruler. The appointed local district ruler is now in a position to do things differently from what the king might prefer, however. In order to control this possibility, resulting from the initial delegation of power, the king then takes subsequent steps and there are consequences that unfold.

"In order to avoid this outcome [of doing something the king would not prefer] the king tries to limit the [local] governor's powers by issuing directives and instructions. Codes, decrees, and statutes tell the governors of the provinces and their subordinates what to do if such or such a problem arises. Their free discretion is now limited; **their first duty is now to comply with the regulations**. It is true that their arbitrariness is now restricted in so far as the regulations must be applied. But at the same time <u>the whole character of their management changes</u>. They are no longer eager to deal with each case to the best of their abilities; they are no longer anxious to find the most appropriate solution for every problem. <u>Their main concern is to comply with the rules and regulations, no matter whether they are reasonable or contrary to what was intended</u>. The first virtue of an administrator is to abide by the codes and decrees. **He becomes a bureaucrat.**"

Mises describes the two main pillars of bureaucratic management. The first is the primacy of law and the second is the importance of budgetary limitations. We will discuss both of these in more detail below. Before that, your author wants to quote from Mises explaining that bureaucracy has a place, and sometimes when people are complaining about bureaucracy, they should really be complaining about the extension of government to areas where it cannot be effective and not complaining about bureaucracy itself.

"Moreover, America is an old democracy and the talk about the dangers of bureaucracy is a new phenomenon in this country. Only in recent years have people become aware of the menace of bureaucracy, and they consider bureaucracy not an instrument of democratic government but, on the contrary, the worst enemy of freedom and democracy.

To these objections we must answer again that bureaucracy in itself is neither good nor bad. It is a method of management which can be applied in different spheres of human activity. There is a field, namely, the handling of the apparatus of government, in which bureaucratic methods are required by necessity. What many people nowadays consider an evil is not bureaucracy as such, but the expansion of the sphere in which bureaucratic management is applied. This expansion is the unavoidable consequence of the progressive restriction of the individual citizen's freedom, of the inherent trend of present day economic and social policies toward the substitution of government control for private initiative. People blame bureaucracy, but what they really have in mind are the endeavors to make the state socialist and totalitarian."

Mises points out, in a step by step analysis of bureaucratic management, that such management is bound to comply with detailed rules and regulations [primacy of law]. These laws are fixed by a superior authority and are designed to both limit the use of power and to authorize the use of authority in certain prescribed conditions. If a bureaucrat did not have these legal limitations he might be tempted to exercise unrestrained power over the people he was supposed to be serving. Further, if a bureaucrat did not have budget limitations he would just spend untold amounts of money to provide better and more services. As Mises observed:

"The objectives of public administration cannot be measured in money terms and cannot be checked by accountancy methods. … The expenditures of a police station are not reimbursed by its successful management and do not vary in proportion to the success attained. If the head of the whole bureau were to leave his subordinate station chiefs a free hand with regard to money expenditure, the result would be a large increase in costs as everyone of them would be zealous to improve the service of his branch as much as possible. It would become impossible for the top executive to keep the expenditures within the appropriations allocated by the representatives of the people or within any limits whatever. It is not because of punctiliousness that the administrative regulations fix how much can be spent by each local office for cleaning the premises, for furniture repairs, and for lighting and heating. Within a business concern such things can be left without hesitation to the discretion of the responsible local manager. He will not spend more than necessary because it is, as it were, his money; if he wastes the concern's money, he jeopardizes the branch's profit and thereby indirectly hurts his own interests. But it is another matter with the local chief of a government agency. In spending more money he can, very often at least, improve the result of his conduct of affairs.

Thrift must be imposed on him by regimentation."

Mises observes that in public administration there is no connection between revenue and expenditure because in public administration there is no market price for achievements. This means the public administration must be operated on entirely different principles from those of private profit-seeking enterprises.

"Now we are in a position to provide a definition of bureaucratic management: Bureaucratic management is the method applied in the conduct of administrative affairs the result of which has no cash value on the market. Remember: we do not say that a successful handling of public affairs has no value, but that it has no price on the market, that its value cannot be realized in a market transaction and consequently cannot be expressed in terms of money."

" …we cannot assign any arithmetical value to the system of government and administration. That does not mean that we deny the importance or the value of good government. It means only that no yardstick can measure these things. They are not liable to an expression in figures."

" … <u>Bureaucratic management is management of affairs which cannot be checked by economic calculation</u>."

"The plain citizen compares the operation of the bureaus with the working of the profit system, which is more familiar to him. Then he discovers that bureaucratic management is wasteful, inefficient, slow, and rolled up in red tape. He simply cannot understand how reasonable people allow such a mischievous system to endure. Why not adopt the well-tried methods of private business?

However, such criticisms are not sensible. They misconstrue the features peculiar to public administration. They are not aware of the fundamental difference between government and profit-seeking private enterprise. What they call deficiencies and faults of the management of administrative agencies are necessary properties. A bureau is not a profit-seeking enterprise; it cannot make use of any economic calculation; it has to solve problems which are unknown to business management. It is out of the question to improve its management by reshaping it according to the pattern of private business. It is a mistake to judge the efficiency of a government department by comparing it with the working of an enterprise subject to the interplay of market factors."

" … It is vain to advocate a bureaucratic reform through the appointment of businessmen as heads of various departments. The quality of being an entrepreneur is not inherent in the personality of the entrepreneur; it is inherent in the position which he occupies in the framework of market society. <u>A former entrepreneur who is given charge of a government bureau is in this capacity no longer a businessman but a bureaucrat</u>. <u>His objective can no longer be profit, but compliance with the rules and regulations</u>. As head of a bureau he may have the power to alter some minor rules and some matters of internal procedure. But the setting of the bureau's activities is determined by rules and regulations which are beyond his reach.

It is a widespread illusion that the efficiency of government bureaus could be improved by management engineers and their methods of scientific management. However, such plans stem from a radical misconstruction of the objectives of civil government.

Like any kind of engineering, management engineering too is conditioned by the availability of a method of calculation. Such a method exists in profit-seeking business. Here the profit-and-loss statement is supreme. The problem of bureaucratic management is precisely the absence of such a method of calculation."

Mises goes on to point out that the main problem of evaluating performance in a bureaucracy is that intellectual work, such as a judge deciding a case correctly, is a quality and not a quantity issue. "Intellectual work cannot be measured and valued by mechanical devices." Further, speed alone is not a measure of intellectual work. "Government efficiency and industrial efficiency are entirely different things." Government achievements cannot be valued in terms of money because they have no market price.

As to the differences in personnel management between private enterprises and a bureaucratic organization, Mises observed the following:

"… The seller-buyer nexus as well as the employer-employee relation, in profit-seeking business are purely matter of fact and impersonal. It is a deal from which both parties derive an advantage. They mutually contribute to each other's living. But it is different with a bureaucratic organization. There the nexus between superior and subordinate is personal. The subordinate depends on the superior's judgment of his personality, not of his work."

Mises noted that America was a novice when it comes to the field of bureaucracy, as compared to Europe. In Europe:

"It was different in continental Europe. There the bureaucrats have long formed an integrated group. Only for a few eminent men was a return to nonofficial life practically open. The majority were tied up with the bureaus for life. They developed a character peculiar to their permanent removal from the world of profit-seeking business. Their intellectual horizon was the hierarchy and its rules and regulations. Their fate was to depend entirely on the favor of their superiors. …"

"… America is a novice in the field of bureaucracy. It has much less experience in this matter than the classical countries of bureaucracy, France, Germany, Austria, and Russia, acquired. In the United States there still prevails a leaning toward an overvaluation of the usefulness of civil service regulations. Such regulations require that the applicants be a certain age, graduate from certain schools, and pass certain examinations. For promotion to higher ranks and higher salary a certain number of years spent in the lower ranks and the passing of further examinations are required. It is obvious that all such requirements refer to things more or less superficial. There is no need to point out that school attendance, examinations, and years spent in the lower positions do not necessarily qualify a man for a higher job. This machinery for selection sometimes bars the most competent men from a job and does not always prevent the appointment of an utter incompetent. But the worst effect produced is that the main concern of the clerks is to comply with these and other formalities. They forget that their job is to perform an assigned duty as well as possible.

In a properly arranged civil-service system the promotion to higher ranks depends primarily on seniority. The heads of the bureaus are for the most part old men who know that after a few years they will be retired. Having spent the greater part of their lives in subordinate positions, they have lost vigor and initiative. <u>They shun innovations and improvements. They look on every project for reform as a disturbance of their quiet. Their rigid conservatism frustrates all endeavors of a cabinet minister to adjust the service to changed conditions.</u> They look down upon the cabinet minister as an inexperienced layman. In all countries with a settled bureaucracy people used to say: The cabinets [cabinet ministers] come and go, but the bureaus [bureaucrats] remain."

Enough has been said about the difference between a profit-seeking enterprise and a bureaucracy. There is no question as to why they both function as they do. Mises is not an opponent of government itself. He merely points out that government should be small and well defined and that it must be run using bureaucratic management methods. Those methods rely on rules and regulations and budgetary limitations. Bureaucratic management also relies on seniority and it is not innovative or very quickly responsive to changing conditions. It is the nature of the beast. It, unlike private enterprise, does not have recourse to cost accounting, nor does it have to serve end customers efficiently. To think that putting an entrepreneur, or a successful former businessman, in charge of a bureaucracy and that he will change its nature, is a fallacy.

The last fallacy to be discussed in this section of the book relates to the mistaken idea that state-owned-enterprises can be as effective as private sector enterprises. It is sort of a hoped-for third way between bureaucratic management and profit management. Mises demolishes this false idea.

"We do not need to ask whether or not it would be feasible to manage such government, state, and municipal enterprises in the same way as private enterprise. For it is a fact that as a rule the authorities are inclined to deviate from the profit system. They do not want to operate their enterprises from the viewpoint of the attainment of the greatest possible profit. They consider the accomplishment of other tasks more important. They are ready to renounce profit or at least a part of profit or even to take a loss for the achievement of other ends.

Whatever these other goals aimed at may be, the result of such a policy always amounts to subsidizing some people to the burden of others. If a government-owned enterprise operates at a loss or with a part only of the profit which it could attain if it were conducted solely according to the profit motive, the falling off affects the budget and thereby the taxpayers. If, for instance, a city-owned transportation system charges the customers so low a fare that the costs of the operation cannot be covered, the taxpayers are virtually subsidizing those riding the trains.

But we need not, in a book dealing with the problems of bureaucracy, bother about these financial aspects. From our point of view another outcome is to be considered.

As soon as an undertaking is no longer operated under the profit motive, other principles must be adopted for the conduct of its affairs. The city authorities cannot simply instruct the manager: Do not bother about a profit. They must give him more definite and precise orders. What kind of orders could these be?

The champions of nationalized and municipalized enterprise are prone to answer this question in a rather naïve manner: The public enterprise's duty is to render useful services to the community. But the problem is not so simple as this. Every undertaking's sole task is to render useful services. But what does this term mean? Who is, in the case of public enterprise, to decide whether a service is useful? And much more important: How do we find out whether the services rendered are not too heavily paid for, i.e., whether the factors of production absorbed by their performance are not withdrawn from other lines of utilization in which they could render more valuable services?

With private profit-seeking enterprise this problem is solved by the attitudes of the public. The proof of the usefulness of the services rendered is that a sufficient number of citizens is ready to pay the price asked for them. There cannot be any doubt about the fact that the customers consider the services rendered by the bakeries useful. They are ready to pay the price asked for bread. Under this price the production of bread tends to expand until saturation is reached, that is, until a further expansion would withdraw factors of production from branches of industry for whose products the demand of the consumers is more intense. In taking the profit-motive as a guide, free enterprise adjusts its activities to the desires of the public. The profit-motive pushes every entrepreneur to accomplish those services that the consumers deem the most urgent. The price structure of the market tells them how free they are to invest in every branch of production.

But if a public enterprise is to be operated without regard to profits, the behavior of the public no longer provides a criterion of its usefulness. If the government or the municipal authorities are resolved to go on notwithstanding the fact that the operation costs are not made up by the payments received from the customers, where may a criterion be found of the usefulness of the services rendered? How can we find out whether the deficit is not too big with regard to these services? And how to discover whether the deficit could not be reduced without impairing the value of the services?

A private business is doomed if its operation brings losses only and no way can be found to remedy this situation. Its unprofitability is the proof of the fact that the consumers disallow it. There is, with private enterprise, no means of defying this verdict of the public and of keeping on. The manager of a plant involving a loss may explain and excuse the failure. But such apologies are of no avail; they cannot prevent the final abandonment of the unsuccessful project.

It is different with a public enterprise. Here the appearance of a deficit is not considered a proof of failure. The manager is not responsible for it. It is the aim of his boss, the government, to sell at such a low price that a loss becomes unavoidable. But if the government were to limit its interference with the fixing of the sales prices and to leave everything else to the manager, it would give him full power to draw on the treasury's funds."

" … Our problem is quite different. It stems from the fact that every service can be improved by increasing expenditures. However excellent a hospital, subway system, or water works may be, the manager always knows how he could improve the service provided the funds required are available. In no field of human wants can full satisfaction be reached in such a way that no further improvement is possible. <u>The specialists are intent upon improving the satisfaction of needs only in their special branches of activity</u>. They do not and cannot bother about the check which an expansion of the plant entrusted to them would impose upon other classes of need-satisfaction. It is not the task of the hospital director to renounce some improvement of the municipal hospital lest it impede the improvement of the subway system or vice versa. It is precisely the efficient and honest manager who will try to make the services of his outfit as good as possible. <u>But as he is not restrained by any considerations of financial success, the costs involved would place a heavy burden on the public funds. He would become a sort of irresponsible spender of the taxpayers' money. As this is out of the question, the government must give attention to many details of the management</u> [and so we are back to bureaucracy]. It must define in a precise way the quality and the quantity of the services to be rendered and the commodities to be sold, it must issue detailed instructions concerning the methods to be applied in the purchase of material factors of production and in hiring and rewarding labor. As the account of profit or loss is not to be considered the criterion of the management's success or failure, the only means to make the manager responsible to the boss, the treasury, is to limit his discretion by rules and regulations. …"

Ergo, per Mises, the manager of a state-owned-enterprise's "main task cannot be efficiency as such, but efficiency within the limits of subservience to the regulations." And so we are back to bureaucratic management with its budgetary controls and rules and regulations. It would be far better to have the hospital, bus service, power company, etc., be provided by the private sector because the private sector has the benefit of cost accounting and a for-profit management system which would more efficiently utilize necessarily limited resources.

There are a couple of further very large problems with the fallacy that a state-owned-enterprise could be made on par with a private sector enterprise. The first big problem is that if an entrepreneur and his financial backers lose money, they are losing their own money. This makes them very careful about how they spend the funds available to them because a financial misstep could wipe them out personally. This is not so for the losses of a state-owned-enterprise. The taxpayers pay for any losses a state-owned-enterprise incurs. A second major difference is a little bit more nuanced, but understandable nonetheless. Entrepreneurs are typically the ones who generate the ideas for new products, or services. However, an idea is not enough. The entrepreneur also needs to obtain funding in order to be able to deliver the new product or service into the marketplace, i.e., to implement the idea. Ergo, with their idea in hand, an entrepreneur seeks out a private sector funding source. Each of these private sector financing sources has a multitude of competing requests for financing that they are evaluating. The financiers evaluate, to the best of their ability, which entrepreneurs and projects deserve funding. In short, there is a financial vetting process. And this financial vetting process always involves an estimation of what potential customers will want and be willing to pay for. The entrepreneurs who survive this financial vetting process now have the funding in hand with which to purchase the various factors of production to bring their product or service to the marketplace. Facilities are obtained, laborers are hired, tools and machinery are acquired, and production commences. These entrepreneurs obtained financing because they convinced the financiers that they would be able to deliver products and services to the end customers that the end customers would be willing to pay for AND that the amount paid by these end customers would yield a profit for the new or expanded business. They further convinced the financiers that this profit would also include enough to provide for an acceptable return on investment for the private sector financiers. <u>A state owned enterprise does not go through this financial vetting process</u>. A government can decree a new rail line into existence even if it is unlikely that the new rail line will be able to charge enough to cover all of its costs of operations. It is a fallacy that a state-owned-enterprise can somehow be a third way between bureaucratic management and management for profit.

The Government Program Fallacy

There are many fallacies concerning the government's role in the economy – in point of fact there are too many to cover in this short section of the book. Some of the more prominent of these fallacies are that: 1) government spending can stimulate the economy to create jobs and make the economy larger than it otherwise would have been without the government spending; 2) the government can do a better job than the private sector in operating an enterprise in some sector of the economy; 3) the government can enable some to become winners without at the same time making others losers – in other words that the government can create value without also inflicting harm; 4) the government should be involved in the distribution of what is produced so as to make the allocation of what is produced fairer, or more equal – in other words that the distribution of what is produced should somehow be different from the production that caused it, with the government involved in some way in the allocation; and 5) the government can somehow be a player in the economy while remaining neutral, without disrupting what people would have chosen. In other words, that in the modern era, the government should not just be a referee, but also a player in the economy, and that it can do so without negative effect. All of these are fallacies. Money will be dealt with in the next section of the book, so we will leave money-related fallacies until then.

Why do people believe in these fallacies? In your author's opinion the belief in these fallacies results from one or more of the following reasons. The first reason is the lack of intellectual leadership from many in the economics profession. The fact is that many in the economics profession have sold out to the government in exchange for funding of one sort or another – whether that funding be a position in government, or at a government licensed bank, or at a college or university, which are mostly funded, or enabled to operate in their current form, through government money. Once these economists start depending on government money they become government apologists and stop providing the intellectual leadership they could have provided. The second reason why many people believe in government program fallacies is that most people do not like competition and this ultimately leads to them disliking capitalism. In particular they do not like whatever or whoever is competing with them, and since capitalism uses competition as a marketplace discovery process, they do not like capitalism. Even though Socialism cannot work, and neither can interventionism, they still cannot bring themselves to only want the government to be strictly limited and finite in its responsibilities. They want to further believe that government's involvement as a player, as well as the referee, will somehow not disrupt the game. In short, they do not like capitalism and they want to believe in a fiction and so they do. People hate the limits scarcity imposes and they hate competition, and they want to believe that the government can somehow eliminate both. But the government can solve neither. Any attempts to do so only destroys the marketplace intelligence, incentives, etc., necessary to rationally allocate resources. The third reason people believe in government program fallacies is because they want to be a recipient of government largesse – whether it be a businessman wanting a government contract or government protection from competition, or a welfare recipient receiving a monthly check. People want something for nothing and who better to give it to them than the government? Pseudo-entrepreneurs groveling for government contracts or protection are not much different morally than an able-bodied man who eats without working. The fourth reason people believe in government program fallacies is because they do not understand the social science of economics, in particular they do not understand that resources are scarce and wants are virtually unlimited. They also cannot see the unseen because they have not been trained to look for foreseeable, but not yet seen consequences. This makes the regular man on the street an easy victim for the government and its various apologists.

To summarize the above reasons we have: 1) many economists sell out and become government apologists and this results in a lack of social scientific intellectual leadership; 2) many people do not like, or even hate, capitalism and want government involvement in "the game" as a player, not just as a referee; 3) the personal and widespread character defect of wanting something for nothing; and 4) too many citizens' lack of knowledge about economic laws and how they limit even governments - in particular not seeing the unseen, thus providing an easy way for governments and their apologists to fool them.

The reason your author started this book with Bastiat's brilliant and timeless essay concerning the seen and the unseen is because it waylays a lot of economic nonsense right from the start. This is particularly true of government program fallacies. In his essay Bastiat uses the example of his fellow French legislators calling for Algeria, a French colony at the time, to be the beneficiary of a French government program.

"Here are four orators disputing for the platform. First, all the four speak at once; then they speak one after the other. What have they said? Some very fine things, certainly, about the power and the grandeur of France; about the necessity of sowing, if we would reap; about the brilliant future of our gigantic colony [Algeria]; about the advantage of diverting to a distance the surplus of our population, etc., etc. Magnificent pieces of eloquence, and always adorned with this conclusion: - ‘Vote fifty millions, more or less, for making ports and roads in Algeria; for sending emigrants hither; for building houses and breaking up land. By so doing, you will relieve the French workman [some French workers will be exported for a time to Algeria lowering labor competition in France], encourage African labour, and give a stimulus to the commerce of Marseilles [the French port city expected to benefit from more trade with Algeria]. It would be profitable every way.’

Yes, it is all very true, if you take no account of the fifty millions until the moment when the State begins to spend them; if you only see where they go, and not whence they come; if you look only at the good they are to do when they come out of the tax-gatherer's bag, and not at the harm which has been done, and the good which has been prevented, by putting them into it. Yes, at this limited point of view, all is profit. The house which is built in Barbary [North Africa] is that which is seen; the harbour made in Barbary is that which is seen; the work caused in Barbary is what is seen; a few less hands in France is what is seen; a great stir with goods at Marseilles is still that which is seen.

But, besides all this, there is something which is not seen. The fifty millions expended by the State cannot be spent, as they otherwise would have been, by the tax-payers. **It is necessary to deduct, from all the good attributed to the public expenditure which has been effected, all the harm caused by the prevention of private expense**, unless we say that James B. would have done nothing with the crown that he had gained, and of which the tax had deprived him; an absurd assertion, for if he took the trouble to earn it, it was because he expected the satisfaction of using it, He would have repaired the palings in his garden, which he cannot now do, and this is that which is not seen. He would have manured his field, which now he cannot do, and this is what is not seen. He would have added another story to his cottage, which he cannot do now, and this is what is not seen. He might have increased the number of his tools, which he cannot do now, and this is what is not seen. He would have been better fed, better clothed, have given a better education to his children, and increased his daughter's marriage portion; this is what is not seen. He would have become a member of the Mutual Assistance Society, but now he cannot; this is what is not seen. On one hand, are the enjoyments of which he has been deprived, and the means of action which have been destroyed in his hands; on the other, are the labour of the drainer, the carpenter, the smith, the tailor, the village schoolmaster, which he would have encouraged, and which are now prevented - all this is what is not seen.

… The only object I have in view is to make it evident to the reader, that **in every public expense, behind the apparent benefit, there is an evil which it is not so easy to discern**. As far as in me 'lies, I would make him form a habit of seeing both, and taking account of both.

When a public expense is proposed, it ought to be examined in itself, separately from the pretended encouragement of labour which results from it, **for this encouragement is a delusion**. Whatever is done in this way at the public expense, private expense would have done all the same; therefore, the interest of labour [stimulating job creation] is always out of the question.

It is not the object of this treatise to criticize the intrinsic merit of the public expenditure as applied to Algeria, but I cannot withhold a general observation. It is, that the presumption is always unfavourable to collective expenses by way of tax. Why? For this reason: - **First, justice always suffers from it in some degree**. Since James B. had laboured to gain his crown, in the hope of receiving a gratification from it, it is to be regretted that the exchequer [an exchequer is the government tax collector] should interpose, and take from James B. this gratification, to bestow it upon another. Certainly, it behooves the exchequer, or those who regulate it, to give good reasons for this. It has been shown that the State gives a very provoking one, when it says, "With this crown I shall employ workmen"; for James B. (as soon as he sees it) will be sure to answer, 'It is all very fine, but with this crown I might employ them myself.'

Apart from this reason [the lack of justice], others present themselves without disguise, by which the debate between the exchequer and poor James [B.] becomes much simplified. If the State says to him, ‘I take your crown to pay the gendarme, who saves you the trouble of providing for your own personal safety; for paving the street which you are passing through every day; for paying the magistrate who causes your property and your liberty to be respected; to maintain the soldier who maintains our frontiers,’ - James B., unless I am much mistaken, will pay for all this without hesitation. [Bastiat is not against reasonable and limited government and its costs. He is against economic ignorance and deceiving the citizenry.] But if the State were to say to him, [‘]I take this crown that I may give you a little prize in case you cultivate your field well; or that I may teach your son something that you have no wish that he should learn; or that the Minister may add another to his score of dishes at dinner; I take it to build a cottage in Algeria, in which case I must take another crown every year to keep an emigrant in it, and another hundred to maintain a soldier to guard this emigrant, and another crown to maintain a general to guard this soldier,’ etc., etc. – I think I hear poor James exclaim, ‘**This system of law is very much like a system of cheat!**’ The State foresees the objection, and what does it do? <u>It jumbles all things together, and brings</u>

<u>forward just that provoking reason which ought to have nothing whatever to do with the question</u>. It talks of the effect of this crown upon labour; it points to the cook and purveyor of the Minister; it shows an emigrant, a soldier, and a general, living upon the crown; it shows, in fact, what is seen, <u>and if James B. has not learned to take into the account **what is not seen**, James B. will be duped</u>. And this is why I want to do all I can to impress it upon his mind, by repeating it over and over again.

As the <u>**public expenses displace labour without increasing it**</u>, a second serious presumption presents itself against them. <u>To displace labour is to displace labourers, and to disturb the natural laws which regulate the distribution of the population over the country</u>. If 50,000,000 fr. are allowed to remain in the possession of the taxpayers, since the taxpayers are everywhere, they encourage labour in the 40,000 parishes in France. They act like a natural tie, which keeps every one upon his native soil; they distribute themselves amongst all imaginable labourers and trades. If the State, by drawing off these 50,000,000 fr. from the citizens, accumulates them, and expends them on some given point, it attracts to this point a proportional quantity of displaced labour, a corresponding number of labourers, belonging to other parts; a fluctuating population, which is out of its place, and, I venture to say, dangerous when the fund is exhausted [because it is not naturally sustainable and will require therefore ongoing further tax misallocations to keep the unnatural going]. Now here is the consequence (and this confirms all I have said): <u>this feverish activity is, as it were, forced into a narrow space</u>; it attracts the attention of all; it is what is seen. The people applaud; they are astonished at the beauty and facility of the plan, and expect to have it continued and extended. <u>That which they do not see is, that an equal quantity of labour, which would probably be more valuable, has been paralyzed over the rest of France</u>."

Bastiat astutely solved the government program fallacy over 160 years ago and published the answer for anyone to read. Government expenses that are incurred in order to perform the legitimate functions of government, such as catching the bad guys and dealing with them, are not argued with. They are considered as necessary for society to function because there are always going to be bad guys who need to be dealt with. This is why your author sometimes refers to the government as a glorified garbage man whose job it is to take out the human trash (those who initiate force or fraud against others). The problem comes when the government wants to expand its role from being the referee/protector to a player. Then government apologists lump a lot of arguments together in an attempt to win public support. One of the arguments lumped in, and passionately advocated for, is that government spending, on non-necessary government functions, should occur because it will stimulate employment (create more jobs). The jobs "created" and what is built using this labor are the seen. The jobs prevented from being created and what could have been built are the unseen. As Bastiat pointed out labor is diverted to these government programs from what the labor would have been used for. Even worse, this diverted and misallocated labor has been used to create unnatural projects. These unnatural projects concentrate wealth in a few regions where it cannot be sustained naturally, i.e., organically. And so these government-created, job-diverting projects, themselves need further unnatural maintenance to sustain them. This further ongoing maintenance will be provided by, once again, assaulting the taxpayers by way of collecting additional taxes on top of what was largely wasted in the first place. All of this is why the capital cities of most nations are impressive in the number and size of their buildings and monuments. Historically speaking, most of these buildings and monuments are what amounts to displaced labor. Bastiat, by referring to the lack of justice of it all, was basically pointing out that the government could only pay one by first taking the equivalent from another. And since James B., in Bastiat's example, had plans for spending what he himself produced, this non-necessary act of government intervention and interference is unjust. <u>The government interference, in effect, separates production from distribution</u>. In a just society, the man who produces something distributes what was produced in his own way. This is as it should be because he is the one who generated the production in the first place. He does so, generally speaking, by exchanging what he produced for money and then spending the money on things he wants which others have produced. None of this is overly complicated and virtually everyone could understand it, if they wanted to, once it was explained to them.

If we now refer back to the five government program fallacies, your author listed at the beginning of this section, we can notice the following: almost all of them were demolished by Bastiat over 160 years ago.

1) Government spending can stimulate the economy to create jobs and make the economy larger than it otherwise would have been, without the government spending – False. Once the citizen considers the unseen part of what is happening, labor is merely diverted and this diverted labor usually builds some type of a monument, which then has to be maintained at further taxpayer expense and loss.
2) The government can do a better job than the private sector in operating an enterprise in some sector of the economy - False. As made plain in the previous section of this book, Mises demolished the idea that a state-owned-enterprise could be as efficient as a private sector counterpart, or that it could somehow be non-bureaucratic in its management and operation.
3) The government can enable some to become winners without at the same time making others losers – False. Once again, Bastiat demolished this idea. The government winners will be the seen. The government losers will be the unseen.

4) That government can make the allocation of what is produced fairer, or more equal – which implies that the distribution of what is produced should somehow be different from the production that caused it, with the government involved in allocating what was produced – False. Bastiat's example, quoted above, very eloquently showed that the producer had his own plans for how to spend what he produced. And the producer's plans were prevented from being realized only by the government taxing away the funds that the producer would have spent to implement his own plans. Further, as concerns the government equalizing income, (not discussed above and beyond the scope of this short book) is that the government can only equalize income downward, not upward. And the government can only do this, in effect, one time - as the producers will start to produce at a much lower level. Why it would somehow be considered just for a government, whose job is to safeguard the natural rights of ALL their citizens, to start taking from producers to give to non-producers is beyond logic, morality, and the proper function of government itself.
5) The government can somehow be a player in the economy without disrupting what people

would have themselves chosen, aka that in the modern era the government should not just be a referee, but also a player in the economy – False. Bastiat clearly showed, above, that government intervention diverts labor from what it would have produced to an arbitrarily chosen government program. Government intervention is not neutral. It creates not just winners, the seen, but also losers, the unseen.

In a prior book, *Why There Is No Justice: The Corruption Of Law*, your author quoted another of Bastiat's brilliant works entitled, *The Law*. In this book Bastiat argued for seeing whether the government, as a third party, was doing something to an individual or group that another individual or group would not be permitted to do – all being done because a law was passed making legal that which would normally be illegal. If so, Bastiat argued for immediate repeal of such a law. His reasoning was that government should not be in the position of dispensing political favors. Government's job is, in part, the production of justice (as much as is reasonably and rationally possible), which requires that it safeguard each individual's natural rights. In other words, justice must take place WITHIN the context of preserving and protecting each man's natural rights. And since the government cannot give to one man without first taking from another, any so doing is unjust and should be stopped.

The bottom line is that government spending does not increase labor, or the economy. Government spending for things other than the production of justice and legitimate defense diverts and misallocates labor and builds monuments - which require future maintenance, further waste, and even more diverted labor. Government social and other programs take from producers to give to politically favored non-producers and all of the government apologetics by sellout pseudo-economists, pseudo-entrepreneurs, pseudo-intellectuals, legislators, or anyone else will not change this fact.

Properly understood, all government spending is, in effect, consumption spending. Resources that are produced in the private sector are consumed in the public sector. Even if a rail line or a bus is left over at the end of the year, it does not follow that a net societal investment has been made. This is because the taxpayers, representing the unseen, would have made their own decisions regarding how much to consume and how much to invest and in what to invest. Just as Bastiat's soldier marching back and forth is unproductive labor, so is the labor to build a rail line for which there are not enough customers. This, too, is an unproductive investment. There is no rationale for "government investment" any different than the rationale for government spending.

One final observation is that most governments have engaged in so many programs and projects that, once begun, are difficult to contain. These programs and projects increase in scope and size year by year, <u>choking off a lot of economic activity in an unseen way</u>. Some of these programs were perhaps innocently started and perhaps not. In any case they have grown to the point that to do away with them is politically unthinkable, e.g., Social Security and Medicare in the United States. It is not even calculable what the cost of these programs will be. This is largely because Medicare involves an unknowable (what ailments will happen to whom, the seriousness of the ailments, when the ailments will happen, and what the cost to provide services will be at that time). Social Security is more easily calculable as how long people will live, on average, is actuarially estimable. Taken in combination they provide a first class example of government programs run amuck. To make things worse, consider the fact that most governments do not even have auditable financial statements (they use what amounts to cash-basis accounting). Ergo, no one even knows what the present value of these liabilities are, for the promised, various and sundry, ongoing government spending programs. In the accounting and actuarial world there is the concept of net present value. The net present value, taken from the point of view of taxpayers and citizens, means how much should the government have as a liability on its financial statements today to fully reflect what it will have to pay out to honor its future obligations under Social Security and Medicare and any other programs with future costs. The guesstimated amount, at the time of the writing of this book, is over $100 trillion United States Dollars. Your author uses "guesstimated" because, as pointed out above, no one really knows. What is known is that this amount cannot be paid in real terms. Simply writing, in real terms means in money that has the same basic purchasing power. Government bonds, as an investment, would have to be repaid by taxing the citizenry above and beyond the current expense of government with this excess taxation being applied as a debt repayment, including interest. Politicians, however, are very reticent to restrict government spending below current tax collections in order to retire public debt. The known government debt and all other government actuarial obligations are staggeringly large for almost all governments on earth. Money can be printed or created and paid out, but an amount this large cannot be paid in real terms. Your author can, however provide an Executive Summary of the end of the road for all government spending programs:

Promises have been made,
that cannot be kept.

Money Fallacies

Probably no area of economics is so riddled with nonsense as what many people believe about money. In actuality, the basics are not that complicated. The problems come in when governments and some of their citizens want something for nothing and turn to money creation and other fantasies as a way of attempting to overturn economic laws and their operation.

The French economist, Jean-Baptiste Say, is credited with what is known as “Say’s Law.”

Say's Law is worded in different ways by different authors. The essence of Say's Law is: production creates its own purchasing power. Another way to say it is: produced goods and services trade for other produced goods and services. Say was correct.

No doubt early economies engaged in what is known as direct exchange. Direct exchange is when a commodity trades directly for another commodity, e.g., a man trades a horse for a calf. Direct exchange benefits both parties because the man who got the horse wanted the horse more than the calf he gave up and vice versa. So far so good, but there are two obvious problems with direct exchange. The first problem is what if the man with the horse wanted the calf, but the man who wanted to trade to obtain the horse only had a pregnant cow to offer in exchange. The pregnant cow would give birth in 3 months, but the man with the horse is not going to leave his horse with the man who has the pregnant cow until he gets the actual weaned calf to take home. And the man with the pregnant cow is not going to give up both cow and future calf for a horse. This necessity, for each man to want exactly what the other has to offer in trade, and each proposed trade item being available at the same time, is what economists call "the double coincidence of wants." A trade that would have occurred does not happen, because, in this case, there is a timing problem. If both men are willing to wait several months, then the trade can happen. The second big problem with direct exchange is that there is a divisibility problem. This can be illustrated, once again, by using the man with the surplus horse he would like to trade for something more valuable to him. By way of example, let us say that the man with the surplus horse was asked by his wife to bring home a chicken for dinner. The man with the surplus horse is not going to trade a horse for only one chicken and he does not want to receive dozens of chickens for his horse. He does not want to take care of dozens of chickens; he only wants to eat one chicken for dinner. Now what?

It turns out that a third commodity, if used for both its commodity purpose and also for the purpose of trading for other things, solves both the problem of double coincidence of wants and the problem of divisibility. In essence, this third commodity becomes a medium of exchange, i.e., money. And once this third commodity becomes money, its desirability in the eyes of marketplace participants greatly increases in value. This third commodity, which became money, is valued more for its role in indirect exchange than for what it was originally or currently used for as an industrial commodity, or a consumable commodity. When your author says the third commodity is valued more for its role as money than for its utility function as a commodity, the value of the commodity for its utility function does have an ongoing influence on the third commodity's marketplace valuation. Interestingly, throughout recorded human history, either gold or silver (or sometimes both) is what has functioned as money. Your author says "interestingly" because ancient civilizations were separated in ways that communication was difficult, if not impossible. And yet, the same two items won out in the eyes of marketplace participants the world over as the third commodity, which became used as money.

Your author says "the third commodity" in reference to the man with the horse who wanted to trade for a calf. Whether gold or silver was used to facilitate the trade, the money commodity would be the third commodity in the transaction. What actually happened, once money started being used as a medium of exchange, is that now productive men could do a two-step transaction that was actually easier to perform than doing a one-step transaction. The two-step transaction is actually easier for virtually all marketplace transactions because the man with the horse now simply needs to trade it first for some money, let us say gold. He can divide part of gold and buy one chicken for dinner tonight. He can save the rest of the gold to have it ready for when the calf he wants to buy is weaned and available for purchase. While doing a two-step transaction seems like more work than the one-step transaction, it is not. This is because of the two direct exchange problems of the double coincidence of wants and the divisibility problem. Ergo, doing the two-step transaction is much easier. Cultures of all ages, all over the world, have solved this problem and they, almost universally, have chosen either gold or silver for their money. As time advanced to the modern era, gold won out in the marketplace and became money. The one-step exchange process is known as direct exchange. The two-step exchange process is known as indirect exchange.

Why was **the commodity gold**, suitable for use as a consumer item, e.g., jewelry, and in the modern industrial era also as an industrial item, e.g., for use in high-quality electronic components, found to have even more value as this medium of exchange, i.e., as money? It was likely recognized that gold was almost **indestructible (durable)**. Gold does not corrode so you can easily store it. Further, gold was **divisible** into minute quantities without hurting its value (in the view of marketplace participants), so small marketplace transactions were possible. Gold was also easily **recognizable** and therefore **convenient**. Gold was also **rare**. It does not do much good, to a marketplace participant, to trade their hard earned production for something that is not relatively rare. A "want something for nothing" schemer cannot just use an alchemy process to create a lot of gold from lesser materials and then go out and buy a lifestyle. People have to work to create and produce something that is valued and then trade that something they produced for gold. And then take the gold and buy what others have produced with their smart and hard work. Across human civilizations and history gold and silver were almost universally chosen as the trade-enabling third commodity. That money is a state creation is a modern organic-state fallacy. Money preceded government. And when your author says that gold was chosen as money, it is not likely that all the marketplace participants sat around a campfire or met in a village square and voted to choose gold, or silver, or both as money. It was probably more likely what Austrian economist Friedrich Hayek would call "spontaneous order." It happened as a result of human choices, but not necessarily by human design. And the same basic thing happened all over the world, across civilizations - despite the fact that communication across civilizations did not occur, or was difficult. Gold and silver are the indirect exchange, trade-enabling third commodity. In the modern era, gold is money.

Many people get confused about exchange because most people sell their time as laborers to buy (obtain) money and then use the money to purchase (obtain) the goods and services they need and want. In other words, most people use the two-step indirect exchange process for exchanges. This is because it is easier than trying to do direct exchanges – the one-step process referred to above. Despite some people's confusion about exchange, Say's Law holds true: goods and services trade for other goods and services. Money is merely a medium of exchange. People think they want more money, but what they really want are the goods and services money can buy.

Money is sometimes also referred to as a "store of value." This is mostly true, partly not. Money is only a store of value if, at the time it is to be spent, it is still functioning as a medium of exchange. Because across human history gold has been accepted as money, it is likely this will be true at a later date as well. Ergo, it is likely that gold will continue to be money in the future. Even so, what will gold buy in the future if it is saved today? What will be its purchasing power then? As for the purchasing power of money, one who saves money must realize that money, being a commodity itself, is subject to the laws of supply and demand. A small gold coin that would buy a horse today might buy slightly more or less than a horse ten years from now. It depends on the market conditions at the time, for both horses and for gold. It is an economic fallacy that the value of money can be made stable because money, itself being a commodity, is subject to the laws of supply and demand. Not even the government can make the value of money stable.

The economist who did the most detailed and accurate scientific work on money was the Austrian economist, Dr. Ludwig von Mises. His classic 1912 book entitled, *The Theory Of Money And Credit*, solved the problem of the value of money (the famous regression theorem), was the first to explain the cause of the business cycle, and scientifically explained money systematically for the first time, thus integrating it with economics proper. The book is almost 500 pages long and is the best single book on money ever written. Mises, of course, also discusses money in numerous other scientific books of his. The best single place to learn about money is his, *The Theory Of Money And Credit*.

Mises clearly and irrefutably shows that the quantity of money in any particular economy is sufficient for money to do its job of enabling indirect exchange. It is a government or uneducated citizen fallacy to think that either increasing or decreasing the quantity of money will better enable marketplace transactions. There is always enough money in an economy for goods and services to trade for each other using the two-step process known as indirect exchange. The money price of goods and services will fluctuate up and down depending on the quantity of money, but indirect exchanges will still be enabled and made.

As Mises and the other Austrian economists have demonstrated, the use of money in indirect exchanges provides a very useful additional benefit to marketplace participants. This additional benefit is in addition to the enabling of the indirect two-step exchanges of goods and services in the first place. And that additional benefit turns out to be quite important. The additional benefit is that marketplace participants now have money prices, which they can use to calculate with. And these prices enable economic planning by the producers of goods and services. Since most production is sold for money it tells producers what to produce and how much. Producers can still make planning mistakes, but prices at least give them something quite important to go by. And because markets generating prices occur everywhere there is private property and freedom to trade, money prices are almost everywhere. And those money prices are, in essence, distributed intelligence. Mises would later figure out that without money prices, which Socialism cannot provide, Socialism is not possible as a rational and scientific economic system.

Some money cranks have advocated that land could be used as money. But land is of a different kind and quality and is not divisible or portable. There is no way land can be used as money because, at a minimum, money must be uniform, liquid, and portable to function as a medium of exchange.

Other money cranks have advocated that the total money supply of a nation should be calculated by taking the creditworthiness of each of that nation's citizens (as if that could be known) and adding it all together and then creating a total supply of money equal to this "calculated" total. Money would then be a state-created fiat something, e.g., a British pound, either by the government itself, or through governmental and central bank and cohort bank cooperation. This is, of course, nonsense, as the creditworthiness of each citizen is not knowable, nor numerically able to be added. Further, credit is not easily recognizable, nor easily divisible, nor uniform, nor anything even remotely similar to the characteristics money has to be, such as a third commodity with pre-existing marketplace acceptance, etc. It is a nonsensical rationale for the government and its cohort licensed central and other banks to obtain a lien on the people and their property. There is no way that "creditworthiness" could somehow be made to work as a medium of exchange.

It should be noted that prices do not measure the value of the commodity being bought or sold. The marketplace prices are very recent information. They are recent current history, but they do not measure value. The reason they do not measure value is because the man with the surplus horse, who sold it for money, valued the money MORE THAN THE HORSE. On the other side of the same transaction the man with the money who bought the horse valued the horse MORE THAN THE MONEY. In point of fact, as the Austrian economists have conclusively demonstrated over the years, the only reason the marketplace exchange took place was because each man's personal hierarchy of values were different. <u>There was an unequal valuing process in the minds of the two men who did the transaction</u>. And that is why the transaction happened in the first place. So there is no way anyone could say for certain what the value of the horse was, or is. What is known, assuming the two men bargained in the public square for others to observe, is the price of the horse in money terms. And that price provides important information for others to use in their planning purposes.

Does any of this mean that the use of prices for planning purposes ensures that some men's plans will not go awry? No. A simple example would be if the leading manufacturer of buggy whips, in America in the latter part of the Nineteenth Century, decided that business was good and he was going to expand production. Future business chances looked excellent because America was gaining in population and wealth. More people and more wealth meant more carriages and horses were needed for transportation. With all this in mind the buggy whip manufacturer decides to expand his production. But along comes Henry Ford and people decide they would rather have cars than horses and carriages and buggy whips. There really was not anything particularly "wrong" with the buggy whip manufacturer's reasoning. But this world is dynamic, not static. Things change. People change. Tastes change. And now people prefer cars to horse-drawn carriages. A lot of manufacturers in the buggy whip manufacturer's position would blame their declining sales on "a shortage of money." But there was and is no shortage of money. What actually happened, in this made-up case, was that there was a malinvestment by an entrepreneur – who now wants someone or something to blame other than himself.

When the cry goes out, "there is not enough money," it is to disguise the fact that either: 1) a price is not low enough to clear the market, or 2) that a malinvestment has been made that needs to be liquidated. In the example above, the over-exuberant buggy whip manufacturer needs to lower his prices on existing inventory to liquidate it and he will need to retool his plant to make something else that people will both want and be willing to pay for. Perhaps he can make automotive parts and become a supplier to Henry Ford. The cry, "there is not enough money," comes from a variety of sources. If a laborer cannot get a job at his asking price, he blames a shortage of money as having caused bad business conditions leading to, "Employers are not hiring right now." Actually, employers are always hiring - at the right price. When a person who would like to be an entrepreneur cannot get his potential project financed, because it does not sort to the top of the financier's pile during the financial vetting process, the wannabe entrepreneur cries out that there is not enough money. When a real estate developer has built too many houses, or the wrong kind of houses (houses that people do not want), they blame their marketplace failure on "a shortage of money." Everyone wants to blame someone else for his or her own shortcomings. And just what is the "correct" amount (quantity) of money? To each marketplace participant the answer would be different. It would be just enough for them to sell their labor or product, but not so much as to make the prices higher of that which they hoped to buy. Mises demolishes the "there is not enough money" fallacy. Beyond what your author has written here, you will have to consult him for the complete intellectual demolition of this fallacious idea.

It is beyond the scope of this short book to raise and demolish every possible money fallacy because there are so many of them. That is why Mises took almost 500 pages to discuss money scientifically. Mises shows, for example, that the notion of velocity – as pertains to money, is wrong. Because people want to have money with which to buy things there is a demand for money. If people become more uncertain of the future they may choose to hold more money in reserve than they normally would. This increased demand for money does have an economic effect, but you do not need the concept of velocity to explain that effect. Velocity has to do with the speed of something, e.g., particles, in motion in a given direction, as in physics.

Mises further showed that the notion of money circulating is also wrong. Money does not circulate. It is either in one man's possession or another. The attempt to combine the natural sciences, in this case biology, with the social sciences, in this case economics and money, almost always results in nonsense. Mises showed in his spectacularly important economic treatise, *Human Action*, that you need a different scientific method for the social sciences than you do for the natural sciences. Trying to combine the two does not work and trying to only use natural scientific methods also does not work. You need what Mises called methodological dualism – two different methods, one for the natural sciences and one for the social sciences. The simple reason you need two different methods is due to human beings having the ability to make choices and those choices being causative to the consequences that follow. There is no choice in the natural sciences so you need a different method for the two kinds of sciences. Back to our "money circulating" example, many of those who postulate that money circulates are also inflationists – those who believe the government and/or government-enabled central banks should continually increase the money supply (more on that below). But does this same pseudo-economist who, borrowing from biology, believes money circulates, while at the same time wanting inflationist measures (so there is not "a shortage of money"), really advocate, in order to be consistent, that the human body would benefit from more and more and more blood? Sometimes slogans sound good at first, until they are put to social scientific scrutiny. Money does not circulate. It changes hands (ownership) as transactions occur in the marketplace.

In his, *The Theory Of Money And Credit*, Mises demolishes another economic fallacy involving money. The fallacy is that the prices of commodities (or the purchasing power of the money with which to buy them) can somehow be made stable. Usually this kind of proposal advocates somehow indexing the commodities in question at a particular point in time and then manipulating their prices going forward in order to achieve some sort of pricing stability. The manipulation usually involves at least somewhat using increases and/or decreases in the money supply (printed or otherwise created money, not gold) to help effect the stability. Mises showed that this results in political pressure groups arguing for their method of indexing in what amounts to arguing for political favors to be gained at the expense of the citizenry. Per the prior section of this book, what the government gives to one group it first has to take away from others. What it costs the taxpaying citizens is the unseen. Governments do not like the marketplace use of gold as money because it reminds them that there are natural economic laws and those economic laws place limits on them. Mises comments:

"There are many ways of calculating purchasing power by means of index numbers, and every single one of them is right, from certain tenable points of view; but every single one of them is also wrong, from just as many equally tenable points of view. Since each method of calculation will yield results that are different from those of every other method, and since each result, <u>if it is made the basis of practical measures [new legislation], will further certain interests and injure others</u>, it is obvious that each group of persons will declare for those methods that will best serve its own interests. At the very moment when the manipulation of purchasing power is declared to be a legitimate concern of currency policy, the question of the level at which this purchasing power is to be fixed will attain the highest political significance. Under the gold standard, the determination of the value of money is dependent upon the profitability of gold production. [Mises is saying the quantity of money cannot increase by very much, very fast because gold has to first be mined for the quantity of money to increase. Gold mining takes time and effort and has various nature-mandated limitations, in addition to the economic limitation that mining gold must be profitable or people will not mine it.] To some, this may appear a disadvantage; and it is certain that it introduces an incalculable factor into economic activity. Nevertheless, it does not lay the prices of commodities open to violent and sudden changes from the monetary side. The biggest variations in the value of money that we have experienced during the last century have not originated in the circumstances of gold production, but in, the policies of governments and banks-of-issue (central banks primarily). Dependence of the value of money on the production of gold does at least mean its independence of the politics of the hour."

In other words, there is no need for indexing as: it sets up a political battle over what index is used, resulting in government-favored winners and government-victim losers; indexing cannot work on either the commodity side or the monetary side because both sides involve supply and demand, which are constantly fluctuating in the dynamic real world; and indexing enables more government-inspired political interference into and over the economy – particularly on the monetary side. Further, since indexing is a quintessential interventionist measure it leads to Socialism and disaster. All marketplace participants want their labor and products valued highly, but when those same marketplace participants go to buy they want the commodities and services they wish to purchase sold to them cheaply. Any governmental interference into the economy distorts the true price signals that are needed for rational economic planning. That governments can use indexing, an attempt to impose a static state on a dynamic marketplace, to "stabilize" either commodity prices and/or the purchasing power of money is a fallacy.

Governments typically get their finances to operate by taxing their citizens. If a government is small, and limited to the production of security and justice, taxes are small and relatively easy to collect from a variety of means. If governments go beyond their proper function then their budgets start to grow exponentially. At some point solely using the collection of taxes to fund ever-increasing governmental expenditures becomes either very difficult, or impossible. The next usual step is for the government to borrow money from its citizens, or the citizens of other countries. Once possible lenders to the borrowing government no longer consider this government a good risk, but the government programs and spending continue, then what? The answer to the, "Then what?" question is particularly troubling concerning the subject of money. Governments typically charter, or otherwise legally enable, a central bank along with a host of government-licensed supporting cast member commercial banks. The central bank then takes charge of that nation's money and is charged with a variety of tasks. Whatever the political cover story, concerning the supposed tasks of the central bank and its cohort banks are, what really happens is some form of the following:

1. Commodity money is attacked or minimized. Gold is a threat to a government's ability to over-spend and it must be made difficult or impossible for citizens to use gold, i.e., real money.

2. Created money, usually paper money, at first, is given what is known as legal tender status. The result of this legal tender status is that paper money is now more widely accepted in the marketplace than it would otherwise be and is also considered legal tender with which to repay debt obligations.
3. Without legal tender laws gold would drive out of use the paper money. After all, a claim to gold is not worth as much as gold itself. People would prefer the real thing, gold, to a claim on gold. With legal tender laws, however, gold disappears from the marketplace. This is known as Gresham's Law, usually loosely stated that bad money drives out good money. It is more properly stated: money, which is over-valued in the marketplace (paper money), drives out the money that is under-valued in the marketplace (gold). Without the legal tender laws a lender would insist on being repaid in actual gold and not just with a claim on gold.
4. All of this would be bad enough but it gets worse. The government-licensed cohort commercial banks are allowed to grant loans to borrowers via a process of granting the loan with newly created checkbook money. There is no commodity money (gold) to

100% back the new loan. In other words, the lending bank simply does an accounting entry whereby they debit Loan Receivable From Borrower and they credit Borrower's Deposit. The borrower has new a "checkbook loan" and is now free to then issue checks and/or withdraw currency (cash) to buy goods and services with. This legal provision, which the cohort banks take advantage of, leads to the creation of new money via an accounting debit and credit. It expands the money supply, thus lowering the value of the purchasing power of money. When the purchasing power of money goes down, prices in money terms rise – the process commonly known as inflation. Savers are penalized. Borrowers are rewarded. Since there are usually numerous banks throughout a country, this checkbook loan process can radically alter the purchasing power of money. This radical alteration of the purchasing power of money distorts the pricing signals of the marketplace. It should be noted that there are central bank limits to commercial bank money creation, but those limits do not materially affect anything that was discussed above. Commercial banks create money with checkbook loans, which expands the money supply, and lowers the purchasing power of money.

5. It gets even worse, because government politicians want a strong economy when they are running for reelection. So these government politicians encourage the supposedly independent central bank to lower the money price of loans by an unnatural manipulation of the amount charged for interest. The central banks usually comply and the entire money price of interest, the cost to borrow for houses, cars, business inventory and machinery, etc., gets set politically, versus by natural forces in the market. In economic terms it can be said that the money price of interest is politically lowered to be less than the natural rate of interest of the marketplace. As Mises brilliantly pointed out, this cannot last. But it can manipulate events in the short-term, as we shall see below.
6. Entrepreneurs and their financial backers perform economic calculations, taking into consideration numerous facts and estimates, before making their decisions to start a new project, or to expand an existing project. One of the more important things they take into consideration is their estimation of the prices they hope to receive from selling their

finished products. Because the government, the central bank, and the government-licensed bank cohorts have created money, the purchasing power of money is lower than it would be without this new money creation. Ergo, the prices of things money buys are higher. So the entrepreneurs believe they can achieve high prices when they go to sell their finished products. The reader should remember that all production takes time. There is a time lag between when the project starts and when the products are finally sold into the marketplace. Another important factor that entrepreneurs and their financial backers consider, before embarking on a new project, is their projected internal rate of return for this new project. If a proposed new project's projected internal rate of return is, let us say 5%, and the marketplace's natural rate of interest was believed to be 6%, the project would not be undertaken because, even if successful, the project would earn less than what would be considered a good return at the time. In other words there are other projects that would be invested in before this project and so this project would not likely obtain the necessary financing to commence. Even the proposers of the contemplated new project would do better by putting their money out into the marketplace at the natural rate of interest. They could achieve a higher return without the work of completing the new project. The problem comes from the government-inspired central bank intervention to politically lower the money price of interest to, let us say 3%. Now, the projects that did not make financial sense at a 5% projected internal rate of return look like they do make good financial sense. But these projects still need a source of funding. And, since the government-licensed cohort banks can create money by granting checkbook loans, these formerly not financeable projects obtain financing. None of this would have happened if the politically inspired money price of interest were not pushed below the natural rate of interest.

7. With the newly created bank loan funds in hand, all of these pseudo-entrepreneurs go out into the marketplace to bid against other entrepreneurs for labor, land, raw materials, tools, machines, and the other things they need to implement their projects. Your author says "pseudo-entrepreneurs" because these are men who would not have survived the financial vetting process if the

money price of interest was not manipulated downward and if the commercial banks were not legally enabled to grant checkbook loans. The money price of interest being politically pushed lower and the ability to grant checkbook loans both fall into the category of governmental interventions. Without these governmentally inspired interventions these pseudo-entrepreneurs would remain laborers because their projects would not be deemed important enough to receive financing. But, while the government, central bank, and cohort banks can create "money" what they cannot create are more laborers, more machine tools, and more raw materials, including land – which are known to economists as the factors of production (the factors you need in order to get production accomplished). The factors of production are limited. The money supply, in a central bank scenario, is not. The volume of money substitutes, e.g., paper money and checkbook loan money, is not limited. Because of legal tender laws the money substitutes enable marketplace transactions just like real money does. Real money is commodity money, e.g., gold.

8. When all of this new project financing (mostly from this newly created money)

goes out into the marketplace to purchase necessarily nature-limited factors of production the prices of the factors of production go up. They have to. More money chasing limited factors of production means that the pseudo-entrepreneurs have to attempt to outbid each other to hire laborers, to acquire raw materials, to acquire the land to build houses on, etc. The marketplace allocates resources via prices. Prices rise. But the pseudo-entrepreneurs did not have these higher prices, for the various factors of production, in their business plan. Projects that were projected to earn an internal rate of return of 5% now earn much less, or even lose money. Before this ugly reality hits, the economy is booming. This is because production takes time. Most people who want to work get a job because a lot of projects got started all at once that would normally not be started at all. These projects looked good on paper, but the people doing the calculating, the pseudo-entrepreneurs, their financial backers, and the commercial bankers, do not really understand economics. They do not understand the reason for the business cycle. Hopes were high. The contemplated future looked rosy, but the real future always comes and when it does the pseudo-entrepreneurs find there are not enough factors of production to complete their projects and there are far higher than budgeted costs to be paid. When they realize there will be a financial shortfall and they have to explain all of this to their bankers, everything comes unglued.

9. The bankers start to raise interest rates (most of the loans to finance the pseudo-projects are variable rate loans, thus enabling the bankers to increase interest rates). The bankers raise interest rates because the artificially induced economic boom has been exposed as artificial and not organically sustainable. The projects that looked so good on paper are now exposed as money-losing malinvestments. Many of these projects cannot even be completed, e.g., a housing subdivision. Factory expansions filled with new equipment sit idle. The bankers are scared out of their wits and are worried about how they are going to be repaid. They are not. They put interest rates higher as a first line of defense toward not financing new malinvestments and they scramble, in consultation with the also scared pseudo-entrepreneurs, as to if,

how, or when these failed projects should be completed, or not, and what other assets the borrowers have that the bankers might latch onto to try and save themselves.

10. Malinvested assets are sold off at a steep discount, nowhere near the price hoped for in the original business plan. With so many assets coming onto the market at once, prices plummet. Workers are laid off. Bankruptcy attorneys have a field day. Government tax collections are reduced. The bankrupt governments temporarily save their bankrupt commercial bank cohorts by putting the full faith and credit of the government behind certain financial institutions that are deemed too big to fail. The sponsors and lenders of these malinvestments, including the government politicians, want a scapegoat to blame. They want to deflect blame onto anyone or anything other than letting the truth be known. And if the truth is known, it is the government inspired central bank and the checkbook loan granting commercial banks, in short, the fiat money substitute system itself (all government interventions) that causes business cycles. The responsible cohorts only want to take credit for the artificial and unsustainable boom period.

They need someone to blame for the bust period that necessarily follows the artificial boom. It cannot be known that the government interventions are the real culprit – the real reason for the business cycle. Interventionism does not work and leads to more and more government control over the economy. In this case, the government-inspired central bank and commercial bank system is a system designed for permanent recurring structural failure, i.e., the business cycle.

11. The designated culprit to be blamed? Capitalism. But capitalism has nothing to do with any of the above. Governments, unnatural and inorganic central banks the governments charter or allow to exist, and the government-licensed cohort banks INTERVENED into the organic marketplace and unnaturally caused the money price of interest (the politically-driven interest rate) to be below what the natural marketplace, organic rate of interest would be. Pseudo-entrepreneurs, who would never have gotten their hands on money were this not the case, now get financing. And these pseudo-entrepreneurs undertake varying and sundry projects, which turn out to be malinvestments. These malinvestments

waste precious societal factors of production, thus wasting capital and time and creating problems that end up taking years to resolve. People's lives are harmed because they want something for nothing and they do not understand there are economic laws that limit us all – including governments.

12. All of the above explains, in layman's terms, the business cycle. The first central bank was The Bank Of England. For several centuries England would experience a business crisis about every ten years. The crisis would always be blamed on a non-monetary event (a real event) such as a crop failure, or a balance of payments problem, etc. This was to divert blame away from the actual cause, which was monetary in origin. Mises, in his *The Theory Of Money And Credit*, solved the business cycle problem with a scientific explanation that cannot be refuted. Governments and central banks do not want to hear any of this, but it is their interventions into the sphere of money, and thus into the marketplace, that is the cause of the problem. Countless men have been ruined and untold capital has been wasted.

13. Outside the business cycle explanation above, a further central bank exploit is to create funds with which to purchase government debt. The mechanics of this are beyond the scope of this book, but the essence of the matter is that the central bank and/or agents operating on its behalf, including government-licensed cohort banks, create money and then buy government debt. This enables the government to obtain debt financing from the central bank team, even if there are no marketplace buyers for government debt, and this debt financing allows for the government to go on living beyond its means. Beyond its means, means beyond the government's ability to collect tax receipts to pay for its expanded and unnatural government spending programs. The obvious negative side effect of all this is that the government then accumulates a large national debt obligation. The national debt obligation compounds at interest becoming larger and larger. As Mises has pointed out in numerous other economic writings, this will ultimately lead to a currency crisis for that government. The currency crisis can be triggered by a variety of causes and will happen, at a minimum, when that government's trading

partners no longer want the created money in payment for goods and services. Skipping a few steps, when governments and their citizens cannot trade to get the products they deem vital, wars tend to happen.

14. The unnatural and unnecessary government sponsored and/or government allowed manipulation of a nation's money supply will always lead to: huge government debt obligations that are never repaid in real terms, i.e., with money of the equivalent purchasing power; life and capital destroying business cycles with their malinvestments; a currency crisis; and finally war. Debt should be short-term, based on financing a productive asset like a widget making machine, and self-liquidating. Government debt is none of these. All the above negative effects are because governments and some of their citizens want something for nothing.
15. A further problem with a central bank and all of the above is the fallacy that the rise of prices resulting from the purchasing power of money decreasing occurs evenly throughout the economy. It does not. Government and friends of government get the newly created debt money first and

spend it first – before prices all around have risen. Ergo, the early receivers of the newly created money benefit the most – which is why governments set up central banks and their cohort banks. The losers are those who receive the newly created money last. They have to spend it after prices have risen. Their hard-earned and saved money does not buy them as many goods and services as it should have.

16. Another lesser-discussed, but very important negative, of government manipulation of the money supply, is that it shortens people's time horizons and makes them gamblers. Inflationism is the name of the government interventionist economic policy followed when lowering the purchasing power of money. <u>Inflationism corrupts and destroys people's character</u>. Pseudo-entrepreneurs try to get their hands on project financing. If the project works out, they become rich. If not, they go bankrupt and hand the problem over to the bank, or to the taxpayers. People want to become famous because fame becomes a kind of currency to trade with to get their hands on the fast-eroding "normal" money. Gambling becomes widespread, whether via government lotteries, or in casinos, or

otherwise. As the purchasing power of money is eroding, saving for the future is effectively penalized, so people save less. The results are the consumption of capital. All of the above leads to a short-term, wanting something-for-nothing corruption of thinking and the corruption of people's character.

17. An obvious known problem of inflationism is the cheapening of product quality and the candybarization of products. By candybarization of products, your author means that the way candy bar manufacturers have dealt with the problem of higher factor of production costs is to simply charge the same amount of money for their product, but to make the product inside the package cheaper, i.e., smaller. Consumers notice it and grumble, but rarely understand the cause to be interventionism. Instead of hardwood, we have veneer. Products are adulterated in at attempt to cope with government interventionist inflationism.
18. A further problem for businesses is, that during the time period in which prices are rising, businesses overstate their profits. This gets a bit complicated but the essence of the matter is that businesses need to

replenish their sold off inventory in order to continue in business. When the inventory is sold it was based on costs from a time prior to the factors of production rising in price. When the business goes to re-supply its inventory it has to pay more for the factors of production necessary to manufacture it. If the managers of the business are not on their toes, they might not raise sales prices fast enough and their future profits go down. Worse, the consumers in the marketplace might not accept the higher prices and stop buying. In the meantime, for tax accounting purposes, the government counts as income the difference between the selling price of the inventory and the old cost to manufacture the inventory. So the business has to pay taxes on what an economist would say are phantom profits, resulting in there not having enough after-tax cash remaining to pay to resupply their inventory. Accountants would disagree with the economists on this point, but they are, in substance, wrong. Some form of immediate tax accounting recognition of the higher resupply costs for replacement inventory would help resolve this problem, but, of course, governments do not allow for this.

> There should be immediate recognition of higher resupply costs of inventory because if the business cannot resupply its inventory, it is no longer a going concern and this is something that accountants care about. And so should we all.

A few further points on money are all that this short book has the space allocation for. One such point is that there are consumer goods, e.g., the clothes we wear, the food we eat, the apartment we rent to live in, etc. And there are production goods, e.g., tools and machines that help manufacture products, or parts of products, etc. The commodity functioning as money is neither a production good, nor a consumer good. It is a medium of exchange. When gold is used for jewelry, then it is a consumer good. When gold is used to plate electronic components, gold is a production good. But these two uses for gold, and any other industrial or consumer uses, are comparatively minor to gold's most valuable use – which is to function as the medium of exchange money. And when there is honest, non-interventionist money, i.e., gold, amazing things can happen. Honest, non-politically manipulated, price signals are conveyed to real entrepreneurs. These real entrepreneurs, backed by real financiers (saver-capitalists), obtain project funding to produce goods and services that people actually want. Malinvestment is minimized. Products are improved instead of cheapened. People tend to think longer term, thus not ruining their character by becoming short-term gamblers and fame chasers.

When gold is money (and this allows for silver to be used for smaller transactions, or even copper – depending on what the marketplace participants decide – not the government), productive people produce. Of what is produced they engage in indirect exchange to obtain money and they typically spend part of the newly obtained money for goods and services they desire. What about the part they did not immediately spend, known as savings? Do savings hurt the economy? Some famous economists actually believe so. Fortunately, this is a fallacy and they are wrong. What happens to what is saved if the saver wants to earn a return on what they have saved so as to compound the effect of their saving over time? The saved money is either lent directly to other producers, or put on deposit at a financial institution. But this is not the end of the story. (To simplify the discussion below your author will assume that the financial institution lends the deposited funds to an entrepreneur with a worthy project. The funds could also be invested as equity in some way, but let us assume a bank loan to an entrepreneur for the ease of discussion purposes). Any amount put on deposit at a financial institution is also lent out to entrepreneurs to finance projects that have survived the financial vetting process. In short, the entrepreneur gets a bank loan of what Mises would call commodity money, i.e., gold coins, or a 100% backed by gold bank note, substituting as commodity money. This loan process of lending commodity money, which was saved and placed on deposit, creates no new money. The depositor is agreeing to keep his money on deposit for a set length of time in order to receive a contracted for rate of interest. The bank either makes an interest rate spread, or a fee for placing the loan with the borrower on behalf of the saver-lender. The money is productively employed in a venture with a real chance of success. It is not a pseudo-project, sponsored by a pseudo-entrepreneur, financed with created money, which can only lead to the train wreck scenario already previously discussed.

Because Mises figured out all of the above long before the Great Depression (he published in 1912), long before other men even knew there was a problem, your author feels it is only fitting for Mises to lay out his conclusion of the matter – which was written toward the end of his Preface of the 1934 first English edition of his great work on money:

"The important thing is not whether a doctrine is orthodox [conforms to the mainstream economics theories] or the latest fashion [what people want to believe], <u>but whether it is true or false</u>. And although the conclusion to which my investigations lead, that expansion of credit [and by it money creation] cannot form a substitute for capital, may well be a conclusion that some may find uncomfortable [because they don't want to face the reality of economic laws or objective truth], yet I do not believe that any logical disproof of it can be brought forward [which there has not been to this day]."

True And Rational Economic Principles

The subject matter of economics is very misunderstood. Most people think of Adam

Smith when they think of economics, but that would be tantamount to thinking of medicine during the time period when doctors used leeches to draw blood and routinely amputated limbs. In 1871 (published date) the problem of explaining value was solved. The best solution came from the man who went down in history as the first Austrian economist. His name was Dr. Carl Menger. Two other men, William Stanley Jevons and Leon Walras, also independently solved the problem and published the solution at about the same time. In addition to contributing the very important solution concerning value, Menger also moved economics forward in terms of the correct methodology, which is known today as methodological individualism. (Menger probably would have called it ontological individualism, or an atomistic method of analysis, because he was attempting to understand reality in the social sciences, but the concept is essentially the same.) Methodological individualism is quite a mouthful and what it means is in order to understand what is really happening concerning economic problems you have to study at the individual level, not the collective level. Menger contributed additional important knowledge concerning economics, but the main point here is that the Austrian school of economics was, in substance, established.

Dr. Menger taught at the University of Vienna during a time when Vienna was coming toward the end of being, in essence, the capital of middle Europe. Menger was followed by a number of other Austrian economists who each advanced the profession.

One of the reasons it is difficult to write about true and correct economic principles is because everyone is a participant in the economy to one degree or another. Most people have bought and sold and many people earn money from their labors and then spend that money. This makes people overconfident in what they think they understand concerning economics. Unfortunately, a lot of what people think they understand concerning economics is wrong – hence this book taking time to discuss some of the more widespread economic fallacies. Economics is a social science and it takes time and effort to understand any science. Economics is no different. Just because someone breathes air and their heart pumps blood does not mean they understand the human anatomy. So it is with economics. Just because someone labors for money and then spends that money, or makes an investment, does not mean they understand economics. To understand economics takes both time and effort. Because there are so many widespread economic fallacies it is really helpful to study at the feet of excellent teachers or one can waste a lot of time and expend a great deal of effort and still end up reaching the wrong conclusions. This happens a lot concerning economics.

The other reason it is difficult for your author to explain true and correct economic principles is that economics needs to be understood systematically. And it is difficult to explain a complete system in a relatively short book. This is particularly true if, as your author has chosen, the short book first exposes and rejects some of the more important economic fallacies plaguing mankind. In point of fact the three best books explaining economics as a system are each between 900 – 1,100 pages long. And they are precise and detailed in their systematic explanations. To read and study these books is a lot more effort than what it would take to read a novel of 1,000 pages, but economics affects our personal individual lives. Further, economics should be studied and understood by the citizenry as, in many cases, the citizenry votes for public officeholders. If either the citizenry, or the public officeholders, do not really understand economics and its rational principles, then trouble soon follows. And it has.

The three best systematic treatises, that your author can recommend, are as follows:

Man, Economy, And State by Dr. Murray Rothbard, which is 1,041 pages in length. Rothbard grounds his economic treatise in the laws of nature and your author finds it the best single book, overall, explaining the science of economics to the general reader. Rothbard was a disciple of Dr. Ludwig von Mises, and Rothbard is considered part of the Austrian school of economics, though he is not Austrian by nationality. Austrian economics is a school of economic thought and has to do with the fact that Menger, another man named Dr. Eugen Bohm-Bawerk, and Mises placed economics onto a sound footing regarding methods, understanding of the subject matter, and conclusions drawn.

Human Action, by Dr. Ludwig von Mises, which is 885 pages in length. This is the hallmark book of economics – the treatise that, in essence, grounded the science of economics for the first time in a complete and systematic manner. In short, Mises took the science of economics to an entirely new level. He built on Menger, Bohm-Bawerk, and others to systematize economics and to explain what it is and what it is not. He wrote what amounts to a German version first, from about 1933 – 1940, and he did so while under duress as the Nazis were trying to get him. Mises explained that his book would have been even longer, but he had to make the choice to write on the most important aspects of the field first due to time and stress limitations. In fact, upon annexing Austria, the Nazis raided his apartment home and carried off his papers and personal library. Mises uses a more utilitarian approach than does his later student, Rothbard. However, Mises, correctly understood, means utilitarian in the way that results matter to the actor so you must choose the appropriate method. Mises does not advocate the violation of man's natural rights as some unwise and unthinking utilitarians do. Your author will touch on this later. The point is that with *Human Acti*on the science of economics was really well grounded and "complete."

Capitalism, by Dr. George Reisman, which is 998 pages in length. Reisman was also a student of Mises and he was also a student of the philosopher and novelist Ayn Rand. Reisman, also considered an Austrian economist, grounded his treatise on the value of life and upholding the principles necessary for flourishing life. These principles are known by reason and include: accurate identification, cause and effect, private property, division of labor, and many other key principles – most of which are further elaborated below. Dr. Reisman contributed many important explanations concerning true and rational economic principles.

Since it took three of the best minds in the history of the field about 1,000 pages each to explain economic laws and their operation, it is a challenge for your author to list out and comment on the core economic principles in a relatively short section of a relatively short book. Obviously, your author recommends further study of the above three books should the reader wish further and more complete information on a subject matter so important to all of us.

Your author has previously written on the subject of natural law and the natural rights of man in a book entitled: *Why There Is No Justice: The Corruption Of Law*. And so your author will not repeat himself here, other than to say that the natural rights of all men are life, liberty, and property, and with property comes the derivative natural right to trade property for property and also the derivative natural right to give and bequest property to others. In this book your author explained that each man, in order to maintain his life, must both think and take action. A man does not satisfy his hunger by only thinking about food. He also must obtain some food and then eat it. If not, his life will not be sustained and once your life is gone nothing else matters to you because you no longer exist. Each man has self-ownership of his own life. (Your author is speaking at the human level. In point of fact, the two Jehovahs created the entire universe and everything in it, Genesis 1 and 2 and other places, and so they own everything, including all men). And each man possesses liberty – the liberty to both think and take action in order to sustain his life. And each man will need the use of property, at a minimum food and clothing, amongst other things, to sustain his life.

Mises' contributions to economics are many and have been written of elsewhere. For our current purposes Mises was the first to understand and systematically explain that action itself must be studied. Mises realized that there is a "logic of action" and Mises popularized a word and made it prominent in the social sciences. The word Mises made prominent is

praxeology – the study of human action. Your author would say it could be said that praxeology is the study of action with the results of that study being the derived logical implications (the logic of action). Merriam-Webster's Collegiate Dictionary defines praxeology as: "the study of human action and conduct." This is why Mises chose to name his economic treatise, *Human Action*. Mises thought through that all men act. They choose goals. They choose means and they take action to achieve their goals. This can be something as simple as deciding to walk to the refrigerator to open it and get something to eat, or it can be something complicated like building a steel mill. All men act. Men's actions can be studied and systematized. And from the fact that all men act, Mises explained the logic of human action, praxeology, and further deduced the subset field of economics. Mises was the first to systematize economics, where the answers provided to the questions, what is happening and why, actually made theoretical sense and also corresponded to reality, i.e., how the real world functions. Economics, as a full-fledged social science, now made systematic sense for the first time. Mises realized that action is imposed on men by nature (the world as it is). There is no getting around the necessity for human beings to take action. The enormity of thought and problem solving that Mises had to engage in to accomplish this is truly mind-boggling, and he deserves a lot of credit for accomplishing it. When it is understood that he performed this task under the duress of the Nazis trying to capture him makes it even more amazing.

That men exist is an axiom and that men act is an axiom. One cannot attempt to refute either without both being alive and taking action. Hence any attempt to refute them is self-negating. Rothbard would say it along the following lines: men exist and they think and act in order to continue to exist and to achieve their goals. What each man aims for is his personal subjective choice (the chosen goal). What means are employed to achieve the chosen goals are further subjective choices (there are different methods one can choose in the attempt to achieve one's goals). Your author would add that it should be noted that just because the choosing of goals and means are subjective choices that the use of reason in the choosing process is not precluded in either case. Rothbard would further build his explanation of men being alive and acting by pointing out two postulates. The first postulate is that there is a diversity of human and natural resources. To your author this is also an axiom, not just a postulate, as it is impossible to refute without using it in the attempted refutation. In any case, Rothbard's postulate of the diversity of both human and natural resources is clearly true and so can be reasoned from. Rothbard's other postulate is that leisure is a consumer good (men prefer at least some leisure to working all the time because there are some negative aspects to labor). Your author believes that men existing, men acting, and the diversity of human and natural resources are irrefutable axioms and your author agrees with Rothbard that there is a disutility of labor. <u>It really does not seem that much to agree with</u> and your author believes that all honest and thoughtful men would agree with the above – if it was simply put to them as such. <u>The consequences of realizing and accepting the above axioms and postulate are life changing, however</u>. From them, Rothbard, following Mises' lead, deduces what amounts to the entire field of economics proper – including that there are economic laws that no one, men and governments included, can escape from. These economic laws function whether men or government leaders are aware of them, or not, or like them, or not. Per Mises and Rothbard, economics is an aprioristic deductive social science that uses deductive reasoning from a few “a priori” axioms and postulates to discover and make plain economic laws in an integrated system of thought. Because the axioms are irreducible primaries they come from the real world and the resulting social science, economics, thus tells us how the real world functions, all without the need for experimentation, unlike the natural sciences.

Human beings exist and they act in the world using means of their choosing to try and achieve their most valued goals. Mises wrote at a time when the sciences were supposed to be value-free. To Mises, accepting the reasoning of his day, value-free science did not pose a problem. This is because, as a social scientist, he really did not care what the goal was that someone chose. Mises would just analyze that if X was someone’s goal, could they achieve X based on the means, Y, they chose to use in their attempt to achieve their goal X. Economics, to Mises, was about means, not goals. While Mises privately affirmed that most men prefer life to death, and success to failure, he rarely, if ever, deviated from scientific explanations of whether the actor involved would achieve his goals using the means the actor chose, or not. In so doing, Mises demolished Socialism, interventionism, created money schemes, and almost innumerable other ways that men attempt to do the impossible. Reisman and Rothbard would both say that science should be bias-free, not value-free. Reisman and Rothbard would both affirm life as the most important value because all other things men value derive from life and one has to be alive to value anything. Affirming life as a value is, of course, correct and the Creator of the universe decidedly told men to do just that:

"I call Heaven and earth to record today against you. I have set before you life and death, blessing and cursing. Therefore, **choose life**, so that both you and your seed may live," Deuteronomy 30:19, MKJV

The Creator is smart. He knew that once one chooses life, it affirms a linked package of other values and virtues and principles that come with choosing life as the most important ultimate value. Without life, you cannot love. Without life, you cannot do or affirm anything because you no longer exist. Once one understands how truly important life is, there are very important follow along implications. The follow along implications, concerning economics, are the main subject matter of this book, taken in its entirety. There are other follow along implications that your author intends to write of in the future. For now, by way of example, at the human level, since your life is important to you, a thinking man realizes other people's lives are important to them as well. Other people have hopes and dreams, too. If I want my natural rights of life, liberty, and property respected then I must, in turn, respect other people's natural rights also. Other follow along implications of choosing life are the need to establish justice because without justice, there likely will not be social harmony. And without social harmony there will not be peace. And without peace there will ultimately be war or other forms of violence. And violence and war destroy life, liberty, and property, thus resetting everything in a downward destructive devolution. Beyond the scope of this book it should be noted that forgiveness should be paired in some measure with justice so as to reestablish social harmony and peace so that a society can be built that enables men not just to live, but also to develop and flourish.

Back to the subject matter at hand, economics as a subset of praxeology, Mises explained the following, in so many words:

Man has to adjust his existing condition, considering the environment he finds himself in. He would prefer things to be different. He sets a goal to change things, for his own reasons, which economics takes as a given. He further has limited means to achieve his chosen goal. He selects among the means at hand those means he believes will best achieve his goal. Because some goals preclude other goals from also being actively pursued when a man chooses a goal he is taking one thing and renouncing another, e.g., you cannot choose to marry and remain single. In this case it is one or the other, but not both at the same time. It could be said that each man has a listing of values (your author would say a personal hierarchy of values). The highest valued item on the ordered list is the one he will take action to achieve first. Choosing one thing to the exclusion of another is how it is for many cases in life. And it is not just goals that must be chosen based on shifting personal valuations of what is important. Because the resources (means) necessary to achieve goals are limited, acting man must choose the best available means at his disposal at the time. <u>In other words, means, being scarce, must be economized</u>. This led Mises to understand that economics is a social science subset of the field of the logic of human action, praxeology. All of a man's actions take place through time. There is chance we will not achieve our chosen goal before we run out of time. Each man only has so many hours in the day and so many days in his life. Worse, acting man does not know the future with certainty. He might choose a goal at one point in time that he renounces later, based on: updated information, a change in environmental conditions, or the realization that he now prefers to attempt to achieve something else he now values even more highly than the originally chosen goal. Rothbard would say that <u>all action is speculation</u> because the human actor does not know for certain that his actions will result in the achievement of his goal. All of the above could be worded something like this: Each man, facing an uncertain future, with limited means, and shifting values, takes the actions he hopes and believes will achieve his chosen goals. There is a risk of failure, and the means chosen all have costs associated with them, so they must be economized. And once the goal is achieved, or not, there is a psychic profit or loss known only to the actor. Were the costs and the time and the effort involved worth it, or not? We live and we learn. And we try again.

Mises, Rothbard, and the other Austrian economists kept thinking and learning and in so doing they were able to determine true and rational economic principles and conclusions that are all subsets of the study of action (praxeology). An economics, corresponding to reality, was now logically grounded. Reisman would say that these true and correct rational economic principles are necessary for life, including flourishing life.

While it was Menger who realized that the correct method of economics was the study of the individual, not the collective, it was Mises who further realized the importance of what he termed: methodological dualism, which is also a mouthful. Methodological dualism, simply put, means that the scientific methods utilized in man's effort to understand the natural sciences would not work for the social sciences, in particular, economics. So there has to be a different scientific method for studying the social sciences – in other words, a second or dual scientific method. There are a couple of reasons why this is so. One reason is that the endless empirical studies of the natural sciences require hypotheses, theories, and ultimately laws from observation and testing. The end laws are not known in advance, but are learned from empirical observation. However, for economics as a social science, the goal of the actor is a given, hence known in advance. It is the means the actor chooses to employ which are studied as appropriate or not. And since the social sciences involve valuable men, you cannot do human experimentation on valuable men unless you want to go down in history as a Nazi. In economics, as Mises would say, what is necessary is a clear and logical thinking mind and a comfortable chair. Economics involves long deduced chains of reasoning and the ability, per Bastiat, to see the unseen and explain it. Economics is an aprioristic science with logical conclusions following from a relatively few axioms and postulates. There is no need for empirical testing because the conclusions that follow must be true, if the axioms and postulates are true, and if the logical reasoning chain is correct. Economics, properly understood as a subset of praxeology, is a true and correct social science. Of course, when one looks at the real world, what true economics has explained and predicted has come to pass and can be observed. Economics is a science that provides true information about the real world. That it does so is why many do not like it. Men do not like limits, like scarce resources, and many men want something for nothing. Economics tells them they cannot have it.

Just as the natural sciences rely on cause and effect in doing their empirical studies and formulations, Mises observed there is regularity in the sequence of phenomenon, which enables men to think. Mises would say it something like this: there is a logical structure to the human mind that corresponds to the logical structure of reality. Your author would attribute both the logical structure of the human mind (consciousness and thought) and the logical structure of reality (the universe itself) as a gift from God. The regularity in the sequence of phenomenon enables an acting man to believe that if he intervenes at point in time Z, using Y means, he can later in time achieve his goal X. Ayn Rand, the philosopher, and Reisman would probably say that man can learn to identify things, including learning how those things interact. And learning how those things interact means one learns cause and effect. They would further say that goals should be chosen to sustain and improve one's life. And with this mind man can now rationally choose his goals and his means and intervene now, take action, to try and achieve those goals. Whether one wants to argue that goals are chosen for both emotional and rational reasons does not matter to Mises because whatever goal the actor chooses Mises will accept as a given. Mises will study the choice of the limited and necessarily economized means and explain the consequences to follow, both seen and unseen. At any rate, because men can choose, and their choices have follow-on consequences, is another reason why, per Mises, the social sciences need a different scientific method than the natural sciences, or methodological dualism. Atomic particles do not choose how they interact; they follow the laws of physics.

Once again, economics is a science that provides true information about the real world and this is why economics is so important. It is important to both the quantity of life (how many people are capable of living on the earth), and it is further important to the quality of human life – whether those human lives are flourishing lives or not. A true and rational understanding of economics is important because it is part of the package deal of follow-on values that comes with choosing life as the ultimate value. The two Jehovahs knew all this long ago and they have been very patient.

One of the most important economic principles is the understanding of value. The classical economists got this wrong and their error helped spawn Socialism. The classical economists thought that the source of value was the labor input. This is known as the labor theory of value. Socialists came along and, reasoning from a false premise, thought that if the labor theory of value was true why should the entrepreneur and his capitalist financiers and the landowners have a right to profit? The spurious idea of surplus value expropriated from the laborers by any or all of the above led to Socialism being attempted and the resulting catastrophic destruction of many millions of lives and wasted capital. But labor, while a necessary input in most cases, is not the source of value. Value is in the eyes of the beholder, not the object itself. A man can spend labor time making a product no one wants, e.g., a piece of original art, or a mud pie. A man can also make a product that used to be highly valued, but is no longer, e.g., an 8-track tape player, or a buggy whip.

In actual point of fact, it was Menger, and two others, Jevons and Walras, who came to understand that value is subjective, i.e., in the eyes of the beholder. This was around 1871, long after the early classical economists. Menger and the two others further realized that the unit at the margin (the marginal unit) was the actual item valued or not. Though others, throughout history, had come close to putting it all together, Menger, Jevons, and Walras actually did. And what they realized was that an object would be valued based on its perceived usefulness to the evaluator and also based on its perceived scarcity or abundance. It was further realized that acting man would attach the most value to the first unit of the object. Further units of the same object would have lesser value. This was because an acting man takes action to achieve the most important unsatisfied need or want first - in their own personal and subjective hierarchy of ordered values. Since the first unit is used to satisfy the most important need or want first, any second or later units is necessarily being used to satisfy a lesser value on the actor's scale. If the second or later unit is satisfying a less important value it must be worth less to the actor (maybe only slightly less, but less). The above came to be known as the subjective theory of value, or marginal utility, or the theory of diminishing marginal utility. This has profound importance for unlocking a lot of the rest of economics because value theory is used to further explain many economic laws and principles.

Menger, Bohm-Bawerk, Mises, and the other Austrian economists (in the beginning most of them really were Austrian nationals, hence the moniker) built up the science of economics upon this correct theory of value and upon methodological individualism and avoided using the methods of the natural sciences, which do not and cannot work for the social sciences. The natural sciences have no room, or explanation for choice. Atoms do not choose which route to take. Chemical reactors do not choose to react or not. Human beings do choose. Mises understood you have to have a different method to correctly understand the social sciences and he took action accordingly.

With the correct theory of value in hand, and with the correct scientific method, many other important elements of economics could now be discovered and put into place, i.e., integrated into a system. Standing on the shoulders of giants and looking back, your author observes that the key principles of economics are also found in the Bible, though the two Jehovahs did not go out of their way to call them out as such. Your author further observed that if Socialism cannot possibly work and if interventionism must lead to Socialism, which cannot work, then there is no scientifically possible third way. There is only the praxeological subset of economics, properly understood, which can lead to a society of contractual exchanges of mutual benefit and advancement, among men of good will. Economics, properly understood, leads to a much larger population of valuable human lives on this earth and it gives the best possibility for those lives to be able to flourish. In this section of the book, your author has been referencing and will further reference some of the key principles of life and economics.

Life, as explained above, enables valuing. One has to be alive to live and to love and to value. Reason would tell this to any thoughtful person. The Bible confirms it in Deuteronomy 30:19 and in many other places. And it should be noted that the ultimate promise of the two Jehovahs is eternal life (1 Corinthians 15 and other places). Life is not a stand-alone concept, however. When one chooses life, one chooses the things that are necessary for life, whether spiritual or physical. And what good is life if all it amounts to is a tortured existence? One of the follow-on principles of life being chosen is for one to take the actions necessary to not only exist, but to also flourish (to the extent possible).

Liberty is necessary, as each man needs to both think and take action in order to obtain the things necessary to sustain life. God brought the ancient Israelites out of Egypt to free them in order to serve him (Exodus) and there is also an interesting and important verse regarding liberty, later on in the Bible, as well:

"And the Lord is that Spirit; and where the Spirit of the Lord is, <u>there is liberty</u>."
2 Corinthians 3:17, MKJV

Private property is necessary for life and is found throughout the Bible. Micah 4:4 refers to each man sitting under his own vine and his own fig tree. Micah 2:2 refers to slavery in a negative way, thus affirming liberty, and also speaks to the concept of inheritance - thus confirming that not only can a man own property in this life, his heirs can receive his private property upon his death. Private property is everywhere in the Bible and so your author will not belabor the point as there would be too many scriptures to list if they were all referenced. Interestingly, Deuteronomy 10:14, and many other places in the Bible, mention that the entire universe and the earth, belong to God – who created them. This conforms to the doctrine of original appropriation discussed in another work by your author, *Why There Is No Justice: The Corruption Of Law*. Once a man owns property he can use it (consume it) to sustain his life, e.g., he can eat some food. Or, he can trade it for a different object (someone else's property). The trades are contractual exchanges, even if there is not a written contract pertaining to the exchange. Each man has his own goals, his own hierarchy of values, which are chosen by and important to him. It is good that there is a variety of both human and natural resources. Not only is this variety of men and resources good, it is a part of nature and cannot be eliminated. Because of this variety of men and circumstances, men value things differently and exchanges can occur. One man trades a horse for a cow and the other trades the cow for the horse. It is an economic fallacy to believe that, in this case, the horse and the cow have equal value. They have unequal value, in the minds of the traders, which is why the exchange could take place. One man valued the cow more than the horse so he traded away the horse. The other man valued the horse more than the cow and so he traded away the cow. <u>There is no way to</u>

measure the value of this exchange. To measure, you must have an invariable standard, and that does not exist in marketplace exchanges. The only reason the exchanges can take place is because different human actors value things differently, that is to say, **unequally**. Further, each man, post-trade, readjusts his subjective and personal hierarchy of values to reflect the results of the past trade. These personal, hierarchy of values, are constantly shifting and re-adjusting. While a marketplace may and does have a physical location, **the market is a process**, not a place, to an economist. Because private property exists, and human actors have the liberty to trade, exchanges happen. Because most exchanges in today's world are indirect exchanges, the market process generates prices. These prices do NOT measure value, because the man trading the horse (selling the horse) for money values the money MORE THAN the horse and vice versa. The same thing would hold for the second step of the trade where he takes the money and then buys the cow. In this case he values the cow MORE THAN the money given up to buy it. Prices arise when men are free to trade private property and they use a medium of exchange to engage in indirect exchanges. Prices cannot come from a command economy, such as Socialism. This is why, as Mises astutely pointed out, that Socialism cannot perform economic calculation and so Socialism will always fail. Once again, prices do not measure value. And prices are recent history only. Prices can change because subjective human valuations are constantly changing to adjust to the dynamic conditions of life. A good example of this, that is easily recognized and understood, is the fluctuations of share prices on a stock market. The universe is not static and neither is the earth that men live on. Men are born and die, products are improved, innovations bring new products into marketplace exchanges, raw materials are more or less available, etc. Prices, while not measuring value and only being recent economic history, do provide the ability for entrepreneurs and other marketplace participants, including consumers, to plan. Prices are valuable information.

The plans people make use the best information available in order to allocate resources. Prices form a large part of what constitutes the best information available. Economists call the resources producers combine and use to achieve their plans the factors of production. These factors of production have been divided into three categories: 1) land, including natural resources, 2) labor, and 3) capital goods (tools and machines that expand production). The capital goods wear out over time and so they need to be maintained and/or replaced as the case may be, or abandoned if no longer needed. The prices that result from marketplace transactions are not possible unless there is private property that is being indirectly traded, using money as the indirect medium of exchange. No man can calculate and plan to rationally and economically use the limited factors of production if one horse is trading for 20 chickens, a goat, and some cheese – in other words, if only direct exchanges are occurring. <u>Prices come from indirect exchange and for exchanges to happen men have to own private property and be free to trade it</u>. While prices do not enable a perfect plan (the future is unknown to acting man), they do enable the economizing of the limited and valuable factors of production. There is, quite simply, nothing better for men to substitute and use in their planning place.

When entrepreneurs allocate production they are forecasting what men will want in the future. This is because production takes time. The entrepreneur's forecast could be wrong and result in a waste of resources. In this case he and his financiers lose money. However, he could also be right and make a lot of money. Profits tell him he was at least partially correct and he can keep producing. Losses tell him he was wrong and to stop producing. <u>The consumers are the bosses</u>. Their subjective valuations determine what kind and quality of products and services they want produced. As Mises would say, "They [the consumers] make poor men rich and rich men poor." In point of fact what a loss means is that the entrepreneur overpaid for, or mismanaged and thereby wasted, one or more of the factors of production. What does this say though, in layman's terms? If an entrepreneur overpaid for a factor of production it means that a resource (means) was used to produce one thing when, in hindsight, it should have been used to produce something else. Let us say, by way of example, that an entrepreneur has obtained financing and is out in the marketplace attempting to: hire the labor, rent the building, buy some raw materials, and lease the machines he needs to manufacture some item. He is operating under a strict budget. But, he finds that he cannot win the bid for, let us say, some particular raw material he needs because the price for that raw material exceeds what he has in his budget for that item. At this point what is actually happening is that the consumers are saying through their "agent," the marketplace prices, "Do not buy this raw material. It is reserved for a more important use for us." When this happens entrepreneurs, of course, do not like it, but they ultimately work for satisfied customers. The customers (consumers) are the bosses. Here is an interesting observation: if the preponderance of consumer spending, in a particular society, is undertaken by housewives, then the hotshot entrepreneurs work for housewives, whether they like it or not. The housewives will not hesitate to fire the entrepreneurs if a better or less expensive product comes along from someone else.

Alluded to above, how end customers value products and services determines how much the entrepreneurs can pay for the various factors of production. Each factor of production is bid for, via marketplace competition, in an attempt by each competing entrepreneur to obtain that particular factor of production. Each factor of production has a supply, a demand, and a price. No good entrepreneur would buy a factor of production unless he had to. It should be noted, generally speaking, that the good entrepreneurs put the bad entrepreneurs out of business. It is the marketplace customers that determine who are the good entrepreneurs. A good entrepreneur will not pay any more for a particular factor of production than he deems necessary. Because of prices, entrepreneurs can engage in cost accounting to see if a product is making or losing money, a department is contributing or not to the overall success of the enterprise, etc. In this cost accounting process, including a budgeting process, the entrepreneur forecasts the most he can pay for each factor of production. In reality, seeing the unseen, the end customers tell the entrepreneur how much he can spend in total to deliver and market a finished product. As there are many factors of production, each with its own marketplace cost, the total of the cost of these factors of production determines whether there is a profit that allows continued production, or a loss that ultimately stops future production. Ergo, <u>each factor of production ends up being paid its relative contribution to the overall result</u>, with the successful entrepreneurs and their backers making a profit. The unsuccessful entrepreneurs go out of business. <u>In a free market, success is leveraged and damage is contained</u>. This is one of the principal reasons that so much progress happens when men are free to act and private property and the other natural rights are respected and protected. The standard of living expands dramatically and the earth can support many more people than it otherwise could. **It is, quite literally, a matter of life and death**.

When there are noticeable profits it signals other entrepreneurs to enter a field. And so profits get bid down due to the increased supply, i.e., increased competition to supply more of that product type. The market tends toward a uniform rate of profit, but never gets there. The reason it never gets there is because the really good entrepreneurs, (think Steve Jobs of Apple), invent new and original products that propel things forward, that provide consumers with choices they did not have before, AND could not have even imagined before. <u>It took the entrepreneur to imagine a better future and to deliver it in the present</u>. Entrepreneurs are the change-agents consumers want and need. Entrepreneurs and their financial backers and their management teams constantly reallocate limited resources (the factors of production) to the most pressing needs and wants of consumers. <u>The free market has the flexibility to react and change and this is important because the world is not static</u>. This world has numerous static thinkers, but the world is not static. Static thinkers are the modern day equivalent of those who at one time thought the earth was flat and that the solar system orbited the earth. They are scientifically wrong.

A further observation and discovery, of the Austrian economists, was that labor could only be paid part of the end price received from the production process. That this is so should be somewhat self-evident, but it is not. This is because many people have a laborer's point of view and that point of view is usually quite limited and wrong. The laborer's point of view, which is correct, is that it is true that most production requires labor. But that is about all that is correct in the typical laborer's point of view. The laborer does not provide the land where the factory is. The laborer does not provide the capital (in the accounting sense) with which to buy the raw materials. The laborer does not provide the tools he uses on the job (generally speaking). And the laborer does not provide the machine tools he operates, which machine tools greatly enhance the quantity produced and the consistency of quality produced. And the laborer does not manage the operation, obtain the financing, go on the road to market the product, etc. Nor does the laborer invent and engineer new products. Nor does the laborer fulfill the function of the entrepreneur in the production process. In short, the laborer's efforts are important and necessary, but they help generate only a portion of the marketplace valuation of the end product. In a unique insight, provided by the Austrian economists, there is a further very important reason why a laborer cannot be paid more than a portion of what the enterprise receives from the final selling price of the product. And that is that the laborer has what is known as a high time preference. A high time preference is economics speak for: he needs money now, or in the very short term. Time is very important to him. Most laborers have not adequately saved and this puts them into a position where they need money now. This is why the laborer is working - to make money now. He has rent to pay; the baby needs milk, etc. By way of example, let us say there is a group of laborers working on a new bridge and that bridge is going to take months to complete. The laborers cannot wait until the bridge is 100% completed and the bridge-builder gets paid, in order for themselves to be paid, too. They would be waiting for months. <u>So they discount their contribution to the overall project in exchange for some payment now</u>. The bridge-builder and his financial backers have a lower time preference. They can wait longer to be paid. They are in a different position (because they put themselves in a different position) and can act accordingly.

For the reason of the laborer's labor being only one of the factors of production and for the additional reason of the laborer discounting part of his contribution to the overall productive effort, in exchange for being paid now, the labor does not receive all of the final sale proceeds of a product or a project, nor should they. And guess who knew about the high time preference of laborers a long time ago? The two Jehovahs - and so they commanded something quite interesting in their laws:

""Never take advantage of poor laborers, whether fellow Israelites or foreigners living in your towns. **Pay them their wages each day** before sunset because they are poor and are counting on it. Otherwise they might cry out to the LORD against you, and it would be counted against you as sin." Deuteronomy 24:14-15, NLT

In addition to the two reasons above, the labor theory of value is further wrong when one considers that labor can be utilized on products people do not want and thus wasted. Another reason that labor cannot be used in value attribution is that the quality of labor can vary greatly and this difference in quality cannot be measured. And, the labor theory of value has no explanation for things such as why a wine would increase in value due to being stored for a period of time. There is no further labor in storing already manufactured wine and yet the wine increases in consumer valuation, as it is stored. The labor theory of value is just plain wrong. A modern economist who believes in the labor theory of value is so outdated and wrong they are tantamount to a doctor not knowing the human body has a heart and pumps blood. They are embarrassingly and totally wrong. And all this has been known for almost 150 years. Labor is important and necessary and an honest man laboring is to be admired, but the labor theory of value, with the idiotic idea of surplus value somehow being stolen from laborers is economic nonsense. That it is still believed in by many is sad and dangerous to mankind. Socialism is built on the labor theory of value and this is yet another reason why Socialism is completely wrong.

In addition to private property and the respect for natural rights one of the most important economic principles is the division of labor. The division of labor enables greatly increased production. There are a variety of reasons for this. The specialization that occurs enables jobs to be broken down into smaller tasks and this enables machinery to be developed to perform those tasks and this frees labor for other more useful tasks. The machinery enables greatly expanded output and consistency of quality. Specialized tools are also invented. Experimentation with manufacturing methods enables better, more efficient, processes to be discovered. The greatly expanded output enables more men to live on the earth and also enables a higher standard of living. It should be noted that no one is forced to work for a manufacturer, or any business enterprise. They do so because it is their best alternative at the moment. If another alternative presents itself, that they regard as better, the laborer will change jobs. Entrepreneurs try and hire the best workers for the best price. Workers try and sell their labor for the highest price. In the end, the consumers force everyone's hand. The process of the division of labor can be hurt by government intervention. Any attempt by a government to establish a minimum wage only results in unemployment for those workers whose productive ability is less than the artificially established minimum pay rate. The establishment of a minimum wage is a government attempt at price controls and results in all of the interventionist negatives previously discussed in an earlier section of this book. The bottom line is that a minimum wage causes unemployment, particularly for those unskilled laborers who need a job most, both to earn some money and to develop some skills. In his book, *Capitalism*, Reisman lists a number of benefits to the division of labor that are worth quoting below:

"The division of labor raises the productivity of labor in six major ways, and thereby achieves a radical increase in the efficiency with which man is able to apply his mind, his body, and his nature-given environment to production.

<u>It increases the amount of knowledge used in production</u> by a multiple that corresponds to the number of distinct specializations and subspecializations of employment. This makes possible the production of products and the adoption of methods of production that would otherwise be impossible.

It makes it possible for geniuses to specialize in science, in invention, and the organization and direction of the productive activities of others, thereby further and progressively increasing the knowledge used in production.

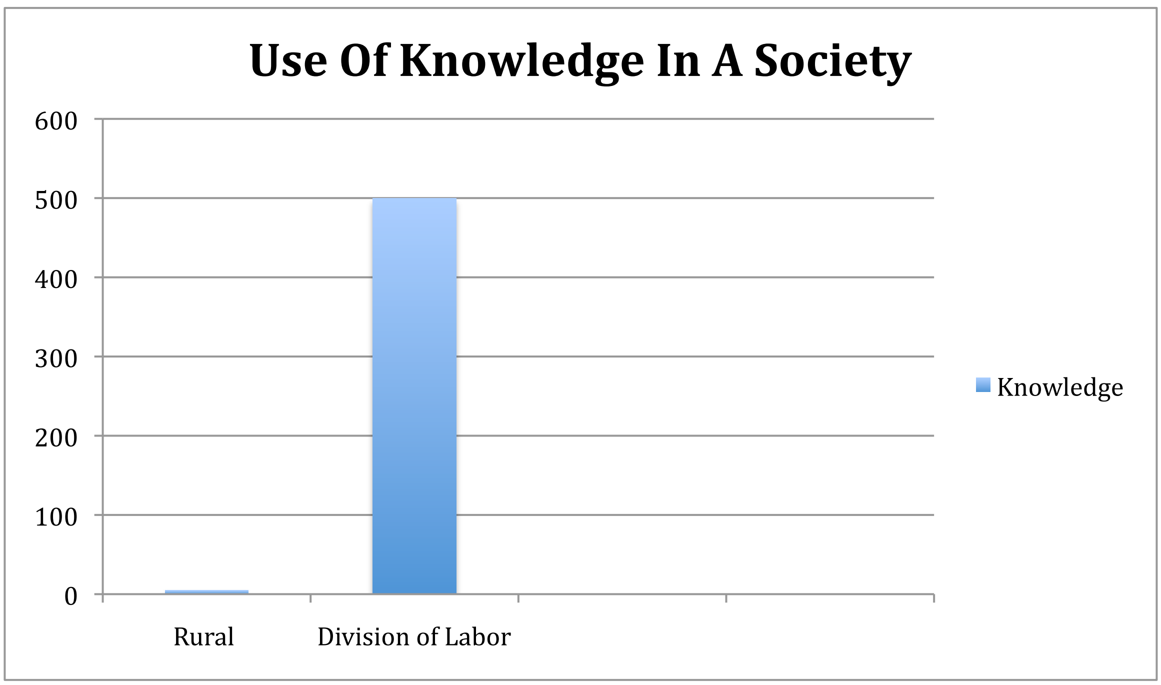
It enables individuals at all levels of ability to concentrate on the kind of work for which they are best suited on the basis of differences in intellectual and bodily endowments.

It enables the various regions of the world to concentrate on producing the crops and minerals for which they are best suited on the basis of differing conditions of climate and geology.

It increases the efficiency of the processes of learning and motion that are entailed in production.

It underlies the use of machinery in production."

To help illustrate the increased knowledge that specialized labor enables, consider if most of the people on earth were farmers on small plots of land. Most all of these people would have cows, chickens, and a garden, and most people would spend a lot of their day doing the same kinds of work. This work might very well be more diverse than the work a worker on an assembly line performs. However, this is not the end of the story because of at least two principle reasons. First, from a total use of knowledge by the individuals in a society point of view, the results are very different. In the graph shortly following this discussion, the bar plot on the left would represent the cumulative knowledge used by the individuals in a society mainly composed of subsistence farmers. It would consist of largely overlapping knowledge because each individual in that kind of society would know about the same kinds of things – how to milk a cow, how to care for chickens, how to grow vegetables, etc. The bar plot on the right represents the total use of knowledge by the individuals in a society based on an extensive division of labor. Each individual might only know a relatively small part of the total, but the total usable knowledge for a division of labor society would far surpass the total usable knowledge of a society of subsistence farmers. And it would not even be close. Any who advocate for the return to small-scale agriculture should be aware of the consequences of what they are advocating. The second problem that returning to small-scale agriculture would entail, would be that the production of wealth worldwide would plummet and this reduction of wealth would end up reducing the total number of people on earth, as well as the standard of living for those who remain.



The numbers composing the above graph were chosen to pictorially illustrate a point. The actual numbers are not knowable, but the basic concept is knowable. A final point, before moving to the next topic, is that there is nothing wrong with someone choosing to have a rural lifestyle. If someone does not want to live in a city, or work at a specialized task, and they choose to be a country farmer, so be it. The same individual should not advocate, however, that if everyone were to make the same choice, society would be more advanced. It would not.

The economic name for attempting to do everything yourself, without trading with others, is autarky. Every time in human history autarky has been seriously attempted, it has failed and the attempt was abandoned. Those advocating autarky, or some variation, do not understand how hard it would be to even have a simple pair of shoes to wear, much less what it would take to do everything in a self-sufficient manner. For example, in attempting to make a simple pair of shoes you would find the following tools, or components helpful: a knife with which to kill and skin an animal; scissors to precision cut the skin; a hammer and some nails or tacks to assemble the shoes, etc. But where does the knife come from, or the scissors, or the nails, or the hammer? The self-sufficiency preacher would need a mine to get metal from and a foundry to make the knife, hammer, scissors, and tacks. Ad infinitum. As soon as autarky is seriously attempted, the standard of living plummets, and the attempt fails miserably. It has to. We were made with different aptitudes, interests, personality types, and gifts, and the earth has a wide variety of microclimates and resources. The diversity of mankind and geography creates the opportunity for specialization of production, with mutual trade, to the benefit for all. The next section of this book explains an important economic concept entitled, "comparative advantage," so your author will not go further here.

Another point in regards to labor is that it is up to the employer to decide whether they wish to contract for labor services or not. In other words, the job to give (contract for) belongs to the job-giver (employer) and receiving a job is not a right for any one worker. A job-giver does not have to contract for labor services with any one man, even if that man, in his own eyes, needs a job. Conversely, a man wishing to sell his labor services does not have to work for someone they do not wish to work for. Labor unions and their effects will be discussed in a later section of this book – not here. The Bible has an interesting scripture, in essence, confirming that it is the right of the employer to offer a job and not the right of the wannabe worker to demand it:

"But men younger than I am [Job is speaking here] make fun of me now! Their fathers have always been so worthless that I wouldn't let them help my dogs guard sheep." Job 30:1 TEV

A society that respects individual natural rights, especially private property and the right to contract, will naturally experience many different products and services being offered into the marketplace. This is due to the natural diversity of men and the diversity of natural resources. Men will choose to do many different things in many different ways. The division of labor and specializations multiply, the use of knowledge in that society multiplies, with marketplace exchanges multiplying as well. Men divide labor responsibilities and voluntarily cooperate (associate) with each other in order to get things done. In short, a free market develops and the standard of living skyrockets. Through these mutually beneficial associations and exchanges a society develops. This society is different from, but can be said to encompass, a limited government. Society is different from government because societal associations are voluntary, while government is organized force.

Government's job is to secure each man's natural rights and to coordinate security against foreign aggression. Government cannot give something to one man what it does not take away from another man first. Because this is the case, the government is not a positive factor in the marketplace. Government is a positive factor, to the citizens of a society, when that society's small and effective limited government taxes the citizenry only a relatively small amount in order to do its real job – a job only it can do. Why is the cost of government taxes, when they are kept small, considered a positive for the citizenry? After all, no one really likes to pay taxes. It is because these tax payments, for a limited and effective government, <u>are a short-term and small sacrifice for a long-term and greater societal gain</u>. In other words, **society is a means to an end,** and this includes the costs to pay for that society's small and effective government. Society is a means to an end in at least three important ways. The first way is through the mutual benefit stemming from personal and professional associations. The second way is through mutually beneficial marketplace exchanges. And the third way is through each citizen paying a relatively small amount of taxes for the limited government securing their natural rights and also providing for the security against foreign aggression. It should, of course, be understood that each citizen has the right to secure his own natural rights and will almost certainly be called on to help provide against foreign aggression, should that prove necessary.

The society that forms becomes a society by contract and not by status. Europe, with its feudal past, has traditionally had a society based on status. America, with its early freedoms, has traditionally been a society based on contract, but this has somewhat changed over the past 100 years or so, to America's detriment. For the most part, the marketplace consumers do not care if an inferior product, or an expensive product came from a blueblood's company. The marketplace consumers will buy the best quality at the best price regardless of who makes the product. To put this into sports vernacular, performance on the field is what matters. The team who plays the best that day will win, even if the other team has more superstars. All of this is why many who have a traditional European, society-by-status, mindset fear capitalism and so they work against it via political intrigue and other methods. They are afraid to compete in the marketplace, on a level playing field.

Governments have traditionally expanded far beyond their appropriate roles and this is true, unfortunately, even for America. The real America has been gone for over 100 years now - to the world's detriment. Government politicians, apologists, and bureaucrats want to expand government's role in the economy beyond being strictly limited to the duties pointed out earlier in this book. Of course a government cannot rationally and ethically expand beyond its proper purpose if those men, in government, such as the politicians and the bureaucrats, acknowledge there are economic laws and ethical absolutes. Ergo, rationales are devised and resorted to. These rationales are usually provided by some combination of the following: the politicians or bureaucrats themselves; pseudo-businessmen wanting to feed at the government-created public trough; the academic or legal industry intelligentsia; pseudo-economists, and sometimes by organized religion. To explore all of the various rationales for governmental expansion is beyond the scope of this short book, but your author will address the use of statistics below.

One of the favorite tactics of government expansionary apologists is the use of statistics to bamboozle the citizenry. Statistics cannot measure the unmeasurable, but this does not stop government apologists and pseudo-economists from using statistics in an attempt to win public support for bad economic policies. As previously pointed out, value cannot be measured because there is no invariable standard to measure with. Also, exchanges happen because the two traders actually value the traded items unequally, which is why the trade happened in the first place. Further, the second and later unit of an economic good received is worth less to the valuer than the first unit due to the law of diminishing marginal utility (people satisfy their most urgent wants first). A compilation using statistics, however, would count each physical quantity of a good as equal to each other and then add them together. Further, a person's personal hierarchy of values is ordinal (ranked), not cardinal (numeric). And a person's hierarchy of values is not constant; in fact, it is constantly shifting. For all of the above reasons value cannot be quantified, so the use of statistics to measure value is out of the question. But this does not stop ethically challenged, pseudo-economists from selling out to the government in exchange for government funding. These pseudo-economists, along with government "planners,"

resort to the use of statistics to provide rationalizations for government interventions (interventionism) into the economy. The arguments using statistics are used to dupe those citizens who cannot see the unseen. This book has pointed out many problems with government expanding beyond its proper function. Using statistics in an attempt to "scientifically quantify" a governmental intervention does not change the proper function of government. The use of statistics does not change objective ethical principles. Statistics are recent history only. They are not economic laws. They are not objective ethics. The use of statistics can never obviate economic laws, or objective ethics. Statistics are a magician's trick to take the citizen's eyes off of the fact that the government is intervening into areas beyond its proper purposes. Statistics are a tool of the men who want something for nothing, men who want to feed at the public trough at the expense of their fellow citizens.
If all of the above were not bad enough (which it is plenty bad enough) an additional problem concerning using statistics, is that statistics, being only history, cannot be used to predict what people really want, because people do not know what they really want until they see it and can buy it. For example, in the late 1900's

government or business statistics might have "shown" that people want portable compact disc players and will for the foreseeable future. But the world is not static and when Steve Jobs and Apple came out with the iPod everything changed. Entrepreneurs do not care about statistics or other people's view of the future. They disregard both and follow their own vision of the future. Sometimes they are correct and sometimes not. When they are, things change.

Even if the government apologists succeed, from their point of view, and get a government interventionist measure introduced into the economy, thus expanding the role of the government in the economy, the governmental interventionist measure will always fail – even from the point of view of those advocating the measures. An earlier section of this book spoke to this, so no more need be written here.

If the government apologists succeed, by getting a state-owned-enterprise started, the decision to do so was arbitrary - (not financially vetted by the marketplace). Worse, the state-owned-enterprise withdraws, by governmental force, factors of production that would have been allocated more efficiently and effectively (by the marketplace participants) toward actually satisfying what the consumers really want. This has also already been written about in an earlier section of this book, so your author will stop here.

If the government apologists succeed by imposing more bureaucracy, including business reaction to taxes and regulations, the results will include: the wasting of resources, a static approach to a dynamic world, and poor service to customers. All of this has also been written about in an earlier section of this book.

In contrast to the government (which can command resources via taxation), the only way for a marketplace participant <u>to honestly achieve his or her goal is to genuinely serve someone else</u>. Why is this so? It is because the other marketplace participants do not have to trade with you. The only reason they will trade with you is if they believe they are getting something better in return for what they are giving up. As previously mentioned, all trades are unequal in this way. And the consumer buyers compare what one seller is offering, in terms of quality, quantity, price, and convenience with every other seller. Unless a new producer trader has something better to offer, he will not find customers for his product or service. Something better usually entails one or more of the following: a larger quantity, better quality, a lower price, an easier customer experience, a longer warranty, or some combination of the above, etc. In other words, the new producer trader offers something better than others are offering, from the point of view of the customer, and a trade happens. The new producer trader delivered something better to his new customer. He served them. [It should be obvious that your author recognizes there are indeed fraudsters who attempt to get something for nothing, but they fall into the category of violators of other's natural rights to be dealt with by the government (and through private means as well).] Most people have never been taught or even thought about the free market in this way – that the only way to get what you want is to serve others. In other words, the free market provides people with the opportunity to, and the requirement to, genuinely serve each other. This provision, of mutually beneficial service to others, is what enables a society to form. This society is beneficial and sustainable and includes a limited government. This limited government is totally unlike the concept of an "organic state" which eats its own citizens as human fuel for its own sustenance. This concept of service to others to obtain what you want is antithetical to earlier primitive human society with one tribe raiding another in a zero-sum-game plunderer's mindset. Service to others is a win-win proposition and is sustainable. It does not lead to war. A zero-sum-game mindset does.

Modern bloated-government apologists and pseudo-economists do not seem to understand what constitutes the correct concept of marketplace demand. To state the obvious, unproductive people have not produced a product or service to offer in trade. That is why they fall into the unproductive category. Unproductive people cannot be said to be part of "demand" in the true economics sense of the word. We all wish we could have many things. Wishes are not demand. True demand only comes after production. In other words, until one has produced a product or service that other marketplace participants value, and are willing to trade for, that one's wishes do not constitute being part of "demand." Real demand in an indirect economy means that one has produced a product or service and sold it for money and then has that money in hand with which to buy other products and services. The production and the sale for money is the first and necessary step enabling true demand. The second necessary step is the actual purchase of a product or service. This actual purchase shows true marketplace demand. Until the buyer has the available money from first producing, and until the buyer actually spends the money, there is no true demand. Non-productive wishful-thinking buyers do not generate demand. They have nothing to trade. Wishes are not demand. Envy is not demand. Action is necessary for the demand process to be actualized in the marketplace. It is easy to sit back and envy others' productivity. It is not so easy to work smart and hard to produce something in order to be able to trade with others.

The two Jehovahs, of course, know the correct principles behind everything. This is because they are the source of correct principles and all truth. In instructing the Israelites and, by extension, all of us, the core concepts were made plain a long time ago:

"You shall not kill [protection of life]. You shall not commit adultery [protection of family]. You shall not steal [recognition of private property and protection of that property]. You shall not bear false witness against your neighbor [protection of the principles of honesty and justice and equality before the law and prohibition against fraud]. You shall not covet your neighbor's house. You shall not covet your neighbor's wife, nor his manservant, nor his maidservant, nor his ox, nor his ass, nor anything that is your neighbor's [recognition of private property and also a warning not to envy others, but to work yourself to advance your life]." Exodus 20:13-17, MKJV

The two Jehovahs knew that many would envy others and seek to shortcut the process of serving others in order to make gains for themselves. Society, through its free market, mutually beneficial associations, and its limited government, is a means to the betterment of all. There is a short-term and relatively minor sacrifice of a small amount of taxes to be paid in order to have this limited government. But this sacrifice is worth it. Properly understood, the respect for natural rights and the admonition not to envy others is important for justice, social harmony, and peace – all of which are necessary for long-term societal stability and happiness.

Properly understood, one must be a producer first before being a consumer second. Further, one must serve others to induce them to trade with you. Recognizing those things to be true, how can one improve one's chances for having a productive and flourishing life? Many books have been written on the topic, so your author will only call out some of the main principles to follow to improve your chances. Develop good personal character so others will want you around and believe they can safely trade with you. In other words, obtain the moral virtues and practice them. Obtain a good overall education, which is to say obtain the intellectual virtues and practice them. Try to become aware of any unique gifts or aptitudes you possess and develop them. This would include trying to develop a specialized skill. You can and should develop a relationship with the two Jehovahs and ask them for gifts (Romans 12 and 1 Corinthians 12). A specialized skill takes one out of the unskilled laborer category – which is important because unskilled labor is a commodity and is treated as such by employers. A specialized skill requires additional education and training, but after this preparatory work is completed, it puts you into a position to be able to trade your time for more money and to keep a job when others lose theirs. Think. Your author says again, "Think." It is hard work. Try and find a new and better way to accomplish something. If you do, it is likely you will be creating some value in the eyes of others and you will receive some portion of that perceived value as a reward for improving the lives of others. Work smart and hard to produce a product or service that others will want (true demand in the economic sense) and then maximize your trades as best you can. If you are working for someone else, work both smart and hard. Employees are hired to assist with production. Sometimes this simple core concept is forgotten. <u>Employees are paid to produce</u>. Search for (think out) previously undiscovered products and/or processes and find a way to deliver them into the marketplace. Deliver good customer service and ease of trading to the marketplace. The customer experience is important to people. Always remember that the other marketplace participants have hopes and dreams (and natural rights) that are important to them. **Do not envy**. Patiently work to better your own life. Lower your time preference (think long-term). Etc.

By way of illustration, let us recall the case of our plumber friend, previously mentioned in the Socialism section of this book. To the non-careful observer, the plumber starts out with nothing. His family could not provide him a head start in life and he owned no physical property when he left home. In a free market, limited government society, however, the plumber does own some things of great value. He owns himself. He owns his labor. He owns his liberty. And he has no governmental restrictions imposed on him against any future upward mobility. The plumber starts out by working for a plumbing company as an unskilled laborer. In this initial capacity he is a relatively low-paid employee. Over time, he learns the plumbing trade. Once he learns how to work as a plumber he is working for the same company, but now as a skilled laborer. His pay increases. Not yet satisfied, the same man works at night and part of the weekend doing plumbing work for a select group of his own customers. He constantly builds up his own clientele over time. In this regard he is now a small-scale entrepreneur. His money income is expanding. Over the years he saves enough to buy a small apartment building. Because his time as a skilled plumber and small businessman is more valuable to him than the time it would take to manage the apartment building, he hires someone else to manage the apartment building. In this case he is a landlord and also an employer. Further, over the years, he has saved some of his money income and invested it in the stock market. In this case he is a capitalist. This man, starting with "nothing," is now a capitalist, landlord, skilled employee, employer, and entrepreneur. Over the years he can become a millionaire. If he expands his education and intellectual development, he might even write a book, later in life, and become an author. If he learns to paint, as a hobby, he might become an artist. If he learns how to cook, he might become a chef of sorts. It all depends on him. And all of the above is the benefit of both society and personal initiative and development. This man thought long-term. This man will not be the same man at the end of his life that he was when he left home – to his and our benefit.

The above man's example can serve as an example toward explaining some of the benefits of society and the free market. What was not mentioned explicitly, but was implied above, was that the man did not spend all he earned from his labors. He restricted his expenditures and saved money. His savings allowed him to invest in tools for his own business; it allowed him to invest in the stock market to provide capital for others to utilize; and it allowed him to invest in an apartment building. What the members of society save and invest can be said to be a capital fund, hereinafter referred to as capital. The capital that the members of society save and invest provides many benefits. It enables the development and use of better tools and machinery and this greatly boosts productive output. It enables entrepreneurs to hire workers, and labor is necessary for production. Without capital, there is no fund for workers to be paid with. As previously mentioned, the workers cannot wait to be paid until the end product is sold (if the end product is fortunate enough to be sold). Capital provides this fund so the workers can be hired. Capital gives those workers tools and machines and facilities to use to greatly expand production. There is more knowledge of what to do in the world than there is capital to enable the use of this knowledge. For example, a man in a poor country might know a tractor could aid his agricultural output, but without the actual tractor his knowledge of what to do cannot be put into practice. Capital enables the development and implementation of technology. All of this is why it is important for people to be productive and to save and invest part of what they produce. Doing so provides the capital that is necessary to greatly expand production. This greatly expanded production enables more men to live on this earth than would otherwise be possible and, generally speaking, it further extends the years and quality of life for most.

Society, properly understood, through the free market, provides an additional benefit, not previously mentioned. The free market functions as a discovery process. The discovery process includes the generation of marketplace prices, but it involves, by extension, more than that. Consumers, via marketplace prices, ultimately determine the following: what products of what quality should be produced; who the entrepreneurs should be; where the best locations for production are; which raw materials should be used in which products; which managers should be used to assist the entrepreneurs; which manufacturing processes are best; which financing methods are best; which transportation methods are best, etc. In other words, the marketplace interchange discovery process allocates all of the above without the need for central planners and their arbitrary and uneconomic judgments of value.

In addition to the misconceived labor theory of value discussed earlier (with the follow on implication that the laborer should somehow receive all of the proceeds of production), there is a further widespread misconception that "the wealth comes from the land." This is false and should be easily understood. Two empirical examples are, post World War Two, Japan and Hong Kong. Japan has, comparatively speaking, very little natural resources and land mass and yet became the world's second, now third, largest economy. Hong Kong, a city with virtually no landmass, was at one time in the top 30 economies of the world. Land, including natural resources, is an important factor of production to be sure. So is labor. But all of the factors of production have to be combined in correct proportion and delivered to the marketplace in the right way and at the right time. And that takes the thought and guidance of entrepreneurs and their management teams. It also takes capital to develop and implement tools, technology, and production-expanding machinery. It further takes a legal system that protects natural rights and enables a marketplace to form. And it takes many other things. That wealth is not in the land is further evidenced by Africa and Russia, both of whom have vast expanses of natural resources, but both of which are relatively poor.

There is confusion, by some, that a bushel of apples is identical with another bushel of the same kind of apples. Economically speaking, it depends on where the two seemingly identical bushels of apples are located. A bushel of apples in Washington State is not the same as an "identical" bushel of apples in New York City. In fact, they are different economic goods as the bushel of apples in New York City is located near the end customers for those apples. Because some are confused on this point one can sometimes hear statements like, "There is no reason the retail price of these apples should be so much." Or, "The farmer is not getting paid anywhere near the retail price and that is just wrong." Actually, the above quoted statements are just wrong. They are wrong because the two bushels of apples are completely different economic goods. The bushel of apples in Washington cannot sell for very much if they are sold in a local marketplace. This is because growers in Washington grow a large surplus quantity of apples, more than could ever be sold locally at a price covering their cost of operation. The apples they grow are to be sold all over the world. But to sell the apples all over the world, free market associations have to be formed and implemented. There are truckers or train operators who transport the apples. There are distributors with large and expensive-to-operate cold storage facilities (warehouses), which take bulk delivery of the tons of apples the truckers and train operators transport. There are retailers, large and small, who each purchase only a portion of the bulk shipments and then provide the customer service of making the apples available locally to the end consumers, their customers. Properly understood, the apples are to be considered different economic goods at each of these locations along the way. Accordingly, they command different prices because they are different economic goods. The retailers provide a service, as do the transporters, and the distributors, etc. If complainers really thought that the price charged, at any step of the way, was egregious (too much), it provides them with a marketplace opportunity to see if they can force the price down, while making some profits for themselves. They can do so by offering competition to the existing distribution and retail system. There is no one to stop them. What they will soon discover is that the seemingly identical bushel of apples is a different economic good at each step of the way.

Many people do not understand or like the free market. And so they criticize it. But these critics of the free market have a problem. They cannot answer Bastiat regarding the truth of the seen and the unseen. They cannot answer what Mises and Rothbard have long ago pointed out regarding Socialism, interventionism, bureaucracy, and capitalism. So sometimes the anti-free market intelligentsia then resort to an attack upon logic itself, or upon objective ethics, or upon anything that would lead an honest and rational mind to discover and establish the true and correct principles with which to lead one's life by. There is truth and it is not just psychologically perceived (psychologism). There is only one kind of logic, not multiple kinds of logic (polylogism). There are ethical values that can be established objectively. All of these things your author has written about in a prior book entitled, *Intellectual Warfare: The Corruption Of Philosophy And Thought*, so the point will not be belabored here.

Since Socialism does not work and interventionism leads to Socialism, which cannot work, and since bureaucracy is not the answer in a dynamic world, can the key and core principles of the free market, of capitalism, be found in the Bible? Indeed they can, although the two Jehovahs did not go out of their way to call them out as such. The below listing of some of the key concepts of free market economics, and several scriptures pertaining to each, is but a partial listing. Dozens and dozens of scriptural examples could be given and quoted and explained, but that exceeds the space available for this short book. Suffice it to say if one has an open mind and looks for them, the below key concepts that relate to a free market could each contain numerous scriptural references as support. Due to space limitations your author is choosing to list only a few.

Life – Deuteronomy 30:19, 1 Corinthians 15, Exodus 20:13

Flourishing life – John 15:5,11, Revelation 21:4, Deuteronomy 28:11

Liberty – Exodus, 2 Corinthians 3:17, John 8:32

Private property – Micah 4:4, Numbers 33:54, Exodus 20:15,17, Proverbs 22:28

Freedom to contract – Genesis 23:7-20, Deuteronomy 25:13-15

Freedom to leave an inheritance – Proverbs 13:22, Numbers 27:7

Diversity of men – Genesis 1:26-27, 1 Corinthians 12:4

Diversity of natural resources – Deuteronomy 8:7-10, Genesis 1-2

Division of labor – 1 Corinthians 12, Proverbs 26:10, throughout the Bible various trades are referenced, e.g., fishermen, carpenters, herdsmen, farmers, many different kinds of tradesmen built the Temple in 1 Kings 5, mining is referenced in Deuteronomy 8:9, wages are referenced in Leviticus 19:13, etc.

Society as a means – Exodus 20:1-17, Isaiah 2:2-4, Leviticus 19:37. (Ephesians 2:10 shows that individuals are God's workmanship and ergo, government and religion should not callously use men as fuel for their organizational fires Matthew 20:25-27).

Peace – Psalm 34:14, Isaiah 2:2-4, Exodus 20:13-17

Limited government – Proverbs 28:2, Deuteronomy 16:18, Exodus – Deuteronomy

Reason – Proverbs 3:13, Proverbs 4:7

Identity – Genesis 2:19-20, Isaiah 5:20

Cause and effect – Romans 6:23, James 1:14-15

Use of knowledge – Exodus 19:6, Exodus 31:1-5

Educated citizenry – Deuteronomy 31:10-13, Proverbs 3:13

Ideas / competition as discovery process – Proverbs 4:7-8, Proverbs 12:24, Proverbs 22:29

Savings / capital – Genesis 13:2, Proverbs 13:22

Indirect exchange / money – Genesis 13:2, Genesis 23:7-20, Deuteronomy 2:6, Deuteronomy 25:13-15

Personal incentive / profit motive / hard work – Proverbs 6:10-11, Proverbs 10:4, Proverbs 12:11,24, Proverbs 20:4, Proverbs 28:19

Manufacturing – Proverbs 31:16-19, Deuteronomy 8:9, Mark 6:3, Exodus 31,

Low time preference (thinking long-term) – Proverbs 13:22, Proverbs 21:5

A Place For Everyone –
Comparative Advantage

An economist named David Ricardo, in a book published in 1817, is credited with discovering and explaining the economic doctrine known as "**comparative advantage**." Comparative advantage turns out to be a very important concept for economics and for human life itself. Before we can understand comparative advantage, though, it would be helpful to explain **absolute advantage**. Economically speaking, someone has an absolute advantage over another if they are better, in absolute terms, at producing a particular item. For example, if a doctor can clean his own office in 2 hours, but it takes a janitor 3 hours to perform the same task, the doctor has an absolute advantage in cleaning his office as compared to the janitor. He can do the same task in less time.

Absolute advantage and comparative advantage are different concepts and must be thought of as such. <u>A person has a comparative advantage at producing a product or service if they can produce that product or service at a lower cost</u>. Ergo, having a comparative advantage is NOT the same as being the best at producing a product or performing a task. In other words being the best at producing a product is having an absolute advantage. Being the lower cost producer of that product means having a comparative advantage.

How do you define "lower cost," though? Lower cost means what it costs someone to produce something, which is the value of what is given up by producing it, i.e., **the opportunity cost**. Someone who is really good, in absolute advantage terms, e.g., our doctor friend, might only have a comparative advantage in one thing, or a few things at most. The reason for this is that our doctor friend has a very high opportunity cost associated with not practicing medicine. His time is valued very highly by the other marketplace participants WHEN he is practicing medicine. When he is not practicing medicine, his time is not valued anywhere nearly so high. It is true that our doctor friend could clean his own office faster than a janitor, but that does not mean it is a good use of his time to clean his own office. It turns out that it is not a good use of his time. This is because of the economic doctrine of comparative advantage. It would cost our doctor friend a lot if he were to clean his own office, because when he is cleaning his own office he is not practicing medicine.

It might be helpful to put some numbers to our example to help make the case clear. If the marketplace values our doctor's time at $200 per hour and a janitor's time at $10 per hour we almost don't need to do any math to understand that it is not a good idea for the doctor to clean his own office. If instead of taking two hours to clean his own office the doctor worked those same two hours practicing medicine he could earn $400 from practicing medicine (2 hours @ $200 per hour = $400). He could then hire the janitor for $30 (3 hours @ $10 per hour = $30) to clean his office. The doctor would be $370 better off by practicing medicine ($400 extra earned practicing medicine less the $30 it would cost the doctor to pay the janitor to clean his office). The janitor would have a job. The doctor probably likes practicing medicine more than routine office cleaning. And the marketplace participants would have two additional hours of professional medical care available, which they value more than losing three hours of janitor time. Everyone would win. In this case, the janitor has a comparative advantage over the doctor in office cleaning. This is true even though the doctor has an absolute advantage in office cleaning over the janitor.

The lesson here is: in order to understand different people's comparative advantages, you do NOT compare their absolute advantages; you compare their opportunity costs associated with performing a task or producing a product.

Ricardo used the example of Britain and Portugal exchanging wine and cloth. The concept of comparative advantage holds true no matter what products are compared and no matter where those products come from, e.g., from different nations or from within a nation.

By way of further example, let us consider the example of Joe and Bob living on a remote island, which fortunately had adequate fresh water. The immediate food items necessary to keep them alive consisted of fish and coconuts. Joe was so good at both fishing and tree climbing that he could either catch 10 fish per day, or gather 10 coconuts per day. If he fished, on average, he caught 10 fish. If he climbed trees, on average, he could gather 10 coconuts. We will assume that working conditions allow for work to be performed during a 10-hour day.

Bob was also willing and able to work for 10 hours, but not quite so skilled. If Bob fished he would only catch, on average 4 fish per day. But Bob was a little bit better at gathering coconuts than he was at fishing. If Bob climbed trees, on average, he could gather 6 coconuts per day.

Joe has an absolute advantage over Bob at both fishing and coconut gathering. How can they work together to maximize their food availability? After all, they are trying to survive. But aren't we all? The answer (see below) is for Bob to gather coconuts and for Joe to fish. If Joe fishes all day he will catch 10 fish, but he will not be gathering the 10 coconuts. If Bob gathers coconuts all day he will gather 6 coconuts, but he will not be able to catch the 4 fish. Together they will have 10 fish and 6 coconuts. If they each worked one-half the time on fishing and gathering coconuts here is what would happened at the end of the day:

Joe would have caught 5 fish and gathered 5 coconuts.

Bob would have caught 2 fish and gathered 3 coconuts.

The total output would have resulted in them together having produced 7 fish and 8 coconuts.

What would happen, though, if Joe specialized in catching fish and Bob specialized in gathering coconuts? The results would be a follows:

Joe would have caught 10 fish.

Bob would have gathered 6 coconuts.

The total output would have resulted in them together having produced 10 fish and 6 coconuts. Because we are using direct exchange (no money being available for indirect exchange to occur) we have to think a bit more, as do Joe and Bob. And Joe and Bob would quickly realize that Joe could work the last two hours of the day also gathering coconuts, instead of fishing. If he did, their modified joint effort would be as follows:

Joe catches 8 fish and picks 2 coconuts.

Bob picks 6 coconuts.

Their total output is now 8 fish and 8 coconuts. This is more than the 7 fish and 8 coconuts they would have had, had they not specialized in working in the area where each had a comparative advantage over the other. They can now eat better than they otherwise would have, since they understood the concept of comparative advantage (if only implicitly). There are some relatively simple math formulas for calculating the opportunity cost, per producer of various products, but they are beyond the scope of this short section of this book. If interested in further study, one can find simple examples showing such formulas on the Internet, or in economics textbooks.

Per Rothbard, an important economic postulate is that there is a diversity of both human and natural resources over the earth. To your author, it is an axiom - as explained in the previous section of this book. At any rate, no one can argue with the fact that there is a diversity of both human and natural resources over the earth. And this is to mankind's overall benefit because <u>each person has a comparative advantage at producing something</u> with which to trade with others. Those who see only "the seen" think in terms of absolute advantage. The "unseen" is the comparative advantage discovered by comparing the opportunity costs of producing something. It is really clear when using the doctor and the janitor in an example. It is not quite so clear when the opportunity costs, per producer, of products or services are closer, but a free marketplace sorts it all out over time. Over time, the lower cost producers in terms of opportunity costs, aka those with a comparative advantage of producing something, end up producing it – to the overall good of all.

The economic concept of comparative advantage, helping to show who should produce what product or service, is a very important one. Your author believes there is an important extension of the concept of comparative advantage that is important for the self-esteem of every man. And that extension comes from knowing the two Jehovahs made their purpose for mankind plain all the way back in Genesis 1:

"And God said, Let Us make man in Our image, after our likeness. And let them have dominion over the fish of the sea, and over the fowl of the heavens, and over the cattle, and over all the earth, and over all the creepers creeping on the earth. And God created man in His image; in the image of God He created him.

He created them male and female."
Genesis 1:26, 27, MKJV

The two Jehovahs made man to look like them, but also want for man to become like them in terms of character, in terms of obtaining and consistently using the moral and intellectual virtues. Each human being is valuable and unique and can contribute something to others. The concept of comparative advantage from economics, extended a bit more broadly to human life itself, shows there is a place for every man. Every man can produce something of value and bring that something to the marketplace in order to trade with others. The results of so doing make the overall productive pie larger than it otherwise would have been. Every man can have the self-esteem and dignity of knowing that he is a productive and contributing man. Metaphorically speaking, that productive contributing man can show up at the dinner table of mankind with his head held high. He helped make the overall pie bigger. And this is true even if others have an absolute advantage over him in everything. It does not matter, because he has a comparative advantage at producing something. And when he learns what that something is and produces it he helps make the pie bigger to the benefit of all men. **He is valuable, too**. And your author believes the two Jehovahs knew all this and designed for it all a long time ago. <u>Praise is to them for this dignity granted to all men. There is a place for everyone</u> and this is not a trivial observation. It is an important observation concerning human dignity.

The Fallacy Of Utilitarianism

There is a philosophical doctrine known as utilitarianism and this doctrine is important for the subject of economics because some economists, including the great Mises, have used it to ground their writings. Mises, properly understood, however, would limit utilitarianism to mean that a proposed policy would achieve good results (good utility). Mises further knew that things, which are qualitative, e.g., "good," could not be measured quantitatively – no matter who was making the attempt. Further, Mises would not accept social (collective) utilitarian's perversion into the government sacrificing some men to others in an attempt to "achieve the greatest good for the greatest number." In other words, Mises would have the government be strictly limited and afford all men equal protection under the law. This would preclude some men being sacrificed to others.

Unfortunately, this is not true with many pseudo-economist sellouts to the government powers that be. Rothbard, a Mises disciple, came to understand the problem and wrote strongly against utilitarianism, as it is commonly understood. He knew that using utilitarianism as the foundation of economic policy was bound to result in some men being sacrificed to others.

Utilitarianism – whether it is thought of in either personal or collective terms has some really big problems and cannot survive an intellectual attack. Rothbard explains the problem and how it came about, (mainly through economist and philosopher Jeremy Bentham), in his very valuable economic history volume: *Classical Economics: An Austrian Perspective on the History of Economic Thought, Volume II*:

"As we have seen, <u>Jeremy Bentham's</u> strictly economic views, especially when he slid back to mercantilism, had no impact on economic thought, even upon his own philosophic disciples such as James Mill and Ricardo. <u>But his philosophic views</u>, introduced into economics by these same disciples, <u>left an unfortunate and permanent impact on economic thought: they provided economics with its underlying and</u>

dominant social philosophy. And that dominance would be no less powerful for being generally implicit and unexamined.

Utilitarianism provided economists with the ability to square the circle: to allow them to make pronouncements and take firm positions on public policy, while still pretending to be hard-headed, 'scientific', and therefore 'value-free'. As the nineteenth century proceeded and economics began to become a separate profession, a guild with its own code and practices, it became possessed of an overwhelming desire to ape the success and the prestige of the 'hard' physical sciences. But 'scientists' are supposed to be objective, disinterested, unbiased in their scientific work. It was therefore assumed that for economists to espouse moral principles or political philosophy was somehow introducing the virus of 'bias', 'prejudice', and an unscientific attitude into the discipline of economics.

This attitude of crude imitation of the physical sciences ignored the fact that people and inanimate objects are crucially different: stones or atoms don't have values or make choices, whereas people inherently evaluate and choose. Still, it would be perfectly possible for economists to confine themselves to analysing the consequences of such values and choices, provided they took no stand on public policy. But economists burn to take such stands; in fact, interest in policy is generally the main motivation for embarking on a study of economics in the first place. And advocating policy - saying that the government should or should not do A, B or C, - is ipso facto taking a value position and an implicitly ethical one to boot. There is no way of getting around this fact, and the best that can be done is to make such ethics a rational inquiry of what is best for man in accordance with his nature [natural law]. But the pursuit of 'value-free' science precluded that path, and so economists, by adopting utilitarianism, were able to pretend or to delude themselves that they were being strictly scientific, while smuggling unanalysed and shaky ethical notions into economics. In that way, economics embraced the worst of both worlds, implicitly smuggling in fallacy and bias in the name of hard-nosed value-freedom. <u>The Benthamite infection of economics with the bacillus of utilitarianism has never been cured and remains as rampant and as predominant as ever</u>.

Utilitarianism consists in two fundamental parts: personal utilitarianism, and social utilitarianism, the latter being built upon the former. Each is fallacious and pernicious, but social utilitarianism, which we are more interested in here, adds many fallacies, and would be unsound even if personal utilitarianism were to be upheld.

Personal utilitarianism, as launched by David Hume in the mid-eighteenth century, assumes that each individual is governed only by the desire to satisfy his emotions, his 'passions', and that these emotions of happiness or unhappiness are primary and unanalysable givens. The only function of man's reason is use as a means, to show someone how to arrive at his goals. There is no function for reason in setting man's goals themselves. Reason, for Hume and for later utilitarians, is only a hand-maiden, a slave to the passions. There is no room, then, for natural law to establish any ethic for mankind.

But what, then, is to be done about the fact that most people decide about their ends by ethical principles, which cannot be considered reducible to an original personal emotion? Still more embarrassing for utilitarianism is the obvious fact that emotion is often a hand-maiden of such principles, and is patently not an ultimate given but rather determined by what happens to such principles. Thus someone who fervently adopts a certain ethical or political philosophy will feel happy whenever such philosophy succeeds in the world, and unhappy when it meets a setback. Emotions are then a hand-maiden to principles, instead of the other way round.

In grappling with such anomalies, utilitarianism, priding itself on being anti-mystical and scientific, has to go against the facts and introduce mystification of its own. For it then has to say, either that people only think they have adopted governing ethical principles, and/or that they should abandon such principles and cleave only to unanalysed feelings. In short, utilitarianism has either to fly in the face of facts obvious to everyone (a methodology that is surely blatantly unscientific) and/or to adopt an unanalysed ethical view of its own in denunciation of all (other) ethical views. But this is mystical, value-laden, and self-refuting of its own anti-ethical doctrine (or rather, of any ethical doctrine that is not a slave to unanalysed passions).

In either case, utilitarianism is self-refuting in violating its own axiom of not going beyond given emotions and valuations. Furthermore, it is common human experience, once again, that subjective desires are not absolute, given and unchanging. They are not hermetically sealed off from persuasion, whether rational or otherwise. One's own experience and the arguments of others can and do persuade people to change their values. But how could that be if all individual desires and valuations are pure givens and therefore not subject to alteration by the intersubjective persuasion of others? But if these desires are not givens, and are changeable by the persuasion of moral argument, it would then follow that, contrary to the assumptions of utilitarianism, supra-subjective ethical principles do exist that can be argued and can have an impact on others and on their valuations and goals.

Jeremy Bentham added a further fallacy to the utilitarianism that had grown fashionable in Great Britain since the days of David Hume. More brutally, Bentham sought to reduce all human desires and values from the qualitative to the quantitative; all goals are to be reduced to quantity, and all seemingly different values - e.g. pushpin and poetry - are to be reduced to mere differences of quantity and degree. <u>The drive to reduce quality drastically to quantity again appealed to the scientistic passion among economists</u>. Quantity is uniformly the object of investigation in the hard, physical sciences; so doesn't concern for quality in the study of human action connote mysticism and a sloppy, unscientific attitude? But, once again, economists forgot that quantity is precisely the proper concept for dealing with stones or atoms; <u>for these entities do not possess consciousness, do not value and do not choose</u>; therefore their movements can be and should be charted with quantitative precision. But individual human beings, on the contrary, are conscious, and do adopt values and act on them. People are not unmotivated objects always describing a quantitative path. People are qualitative, that is, they respond to qualitative differences, and they value and choose on that basis. <u>To reduce quality to quantity, therefore, gravely distorts the actual nature of human beings and of human action, and by distorting reality, proves to be the reverse of the truly scientific</u>.

Jeremy Bentham's dubious contribution to personal utilitarian doctrine in addition to being its best known propagator and popularizer - was to quantify and crudely reduce it still further.

Trying to make the doctrine still more 'scientific', Bentham attempted to provide a 'scientific' standard for such emotions as happiness and unhappiness: quantities of pleasure and pain. All vague notions of happiness and desire, for Bentham, could be reduced to quantities of pleasure and pain: pleasure 'good', pain 'bad'. Man, therefore, simply attempts to maximize pleasure and minimize pain. In that case, the individual - and the scientist observing him - can engage in a replicable 'calculus of pleasure and pain', what Bentham termed <u>'the felicific calculus</u>' that can be churned out to yield the proper result in counselling action or non-action in any given situation. [Felicific means: relating to or promoting increased happiness.] Every man, then, can engage in what neo-Benthamite economists nowadays call a 'cost-benefit analysis'; in whatever situation, he can gauge the benefits - units of pleasure - weigh it against the costs - units of pain - and see which outweighs the other.

In a discussion which Professor John Plamenatz aptly says 'parodies reason', Bentham tries to give objective 'dimensions' to pleasure and pain, so as to establish the scientific soundness of his felicific calculus. These dimensions, Bentham asserts, are sevenfold: intensity, duration, certainty, propinquity [proximity], fecundity [capable of producing an abundance], purity and extent. Bentham claims that, at least conceptually, all these qualities can be measured, and then multiplied together to yield the net resultant of pain or pleasure from any action.

Simply to state Bentham's theory of seven dimensions should be enough to demonstrate its sheer folly. These emotions or sensations are qualitative and not quantitative, and none of these 'dimensions' can be multiplied or weighted together [there is no invariable standard to use as a quantity, thus enabling measurement, or thus enabling mathematics]. Again, Bentham raised an unfortunate scientistic analogy with physical objects. A three-dimensional object is one where each object is linear, and therefore where all these linear units can be multiplied together to yield units of volume. In human valuation, even with pleasure and pain, there is no unit common to each of their 'dimensions' and therefore there is no way to multiply such units. As Professor Plamenatz trenchantly points out:

'the truth is that even an omniscient God could not make such calculations, for the very notion of them is impossible. The intensity of a pleasure cannot be measured against its duration, nor its duration against its certainty or uncertainty, nor this latter property against its propinquity or remoteness.'

Plamenatz adds that it is true, as Bentham states, that people often compare courses of action, and choose those they find most desirable. But this simply means that they decide between alternatives, not that they engage in quantitative calculations of units of pleasure and pain.

But one thing can be said for Bentham's grotesque doctrine. At least Bentham attempted, no matter how fallaciously, to ground his cost-benefit analysis on an objective standard of benefit and cost. Later utilitarian theorists, along with the body of economics, eventually abandoned the pleasure-pain calculus. But in doing so, they also abandoned any attempt to provide a standard to ground ad hoc costs and benefits on some sort of intelligible basis. Since then, the appeal to cost and benefit, even on a personal level, has necessarily been vague, unsupported and arbitrary. [Your author would say utilitarianism, though clearly scientifically false, has morphed into a metaphysical assertion, where any naysayers are ridiculed into silence. In essence, utilitarianism has been used to set up a false religion where some men are sacrificed to others the same way an ancient pagan religion would sacrifice virgins to the gods.]

Moreover, John Wild eloquently contrasts utilitarian personal ethics with the ethics of natural law:

'Utilitarian ethics makes no clear distinction between raw appetite or interest, and that deliberate or voluntary desire which is fused with practical reason. Value, or pleasure, or satisfaction is the object of any interest, no matter how incidental or distorted it may be. Qualitative distinctions are simply ignored, and the good is conceived in a purely quantitative manner as the maximum of pleasure or satisfaction. Reason has nothing to do with the eliciting of sound appetite. One desire is no more legitimate than another. Reason is the slave of passion. Its whole function is exhausted in working out schemes for the maximizing of such interests as happen to arise through chance or other irrational causes ...

As against this, the theory of natural law maintains that there is a sharp distinction between raw appetites and deliberate desires elicited with the cooperation of practical reason. The good cannot be adequately conceived in a purely quantitative manner. Random interests which obstruct the full realization of essential common tendencies are condemned as antinatural ... When reason becomes the slave of passion, human freedom is lost and human nature thwarted ...

(T)he ethics of natural law sharply separates essential needs and rights from incidental rights. The good is not adequately understood as a mere maximizing of qualitatively indifferent purposes, but a maximizing of those tendencies which qualitatively conform to the nature of man and which arise through rational deliberation and free choice ... There is a stable universal standard, resting on something firmer than the shifting sands of appetite, to which an appeal can be made even from the maximal agreements of a corrupt society. This standard is the law of nature which persists as long as man persists - which is, therefore, incorruptible and inalienable, and which justifies the right to revolution against a corrupt and tyrannical social order.’

Finally, in addition to the problems of the pleasure-pain calculus, <u>personal utilitarianism counsels that actions be judged not on their nature but on their consequences</u>. But, in the non-Bethamite, mere cost-benefit (rather than 'objective' pleasure-pain) analysis, how is anyone to gauge the consequences of any action? And why is it considered easier, let alone more 'scientific', to judge consequences than to judge an act itself by its nature? <u>Furthermore, it is often very difficult to figure out what the consequences of any contemplated action will be</u>. How we are to find the secondary, tertiary, etc. consequences [the unseen], let alone the more immediate ones? We suspect that Herbert Spencer, in his critique of utilitarianism, was correct: it is often easier to know what is right than what is expedient."

Unfortunately, personal utilitarianism as a doctrine gets worse because it has been further extended to social utilitarianism. Your author, once again, quotes from Rothbard regarding social utilitarianism:

"In extending utilitarianism from the personal to the social, Bentham and his followers incorporated all the fallacies of the former, and added many more besides. If each man tries to maximize pleasure (and minimize pain), then the social ethical rule, for the Benthamites, is to seek always 'the greatest happiness of the greatest number', in a social felicific calculus in which each man counts for one, no more and no less.

The first question is the powerful one of self-refutation: for if each man is necessarily governed by the rule of maximizing pleasure, then why in the world are these utilitarian philosophers doing something very different – that is, calling for an abstract social principle ('the greatest happiness of the greatest number')? And why is their abstract moral principle - for that is what it is - legitimate while all others, such as natural rights, are to be brusquely dismissed as nonsense? What justification is there for the greatest happiness formula? The answer is none whatever; it is simply assumed as axiomatic, above and beyond challenge.

In addition to the self-refuting nature of the utilitarians clinging to an overriding - and unanalysed - abstract moral principle, the principle itself is shaky at best. For what is so good about the 'greatest number'? Suppose that the vast majority of people in a society hate and revile redheads, and greatly desire to murder them. [If you, dear reader, think this is crazy and unfair by Rothbard, please remember the Nazi treatment of Jews before and during the World War Two period of human history.] Suppose further, that there are only a few redheads extant at any time, so that their loss would entail no discernible drop in general production or in the real incomes of the non redheads remaining. Must we then say that it is 'good', after making our social felicific calculus, for the vast majority to cheerfully slaughter redheads, and thereby maximize their pleasure or happiness? And if not, why not? As Felix Adler wryly put it, utilitarians 'pronounce the greatest happiness of the greatest number to be the social end, although they fail to make it intelligible why the happiness of the greater number should be cogent as an end upon those who happen to belong to the lesser number'.

Furthermore, the egalitarian presumption of each person counting precisely for one is hardly self-evident. Why not some system of weighting? Again, we have an unexamined and unscientific article of faith at the heart of utilitarianism.

Finally, while utilitarianism falsely assumes that the moral or the ethical is a purely subjective given to each individual, it on the contrary assumes that these subjective desires can be added, subtracted, and weighed across the various individuals in society so as to result in a calculation of maximum social happiness. But how in the world can an objective or calculable 'social utility' or 'social cost' emerge out of purely subjective desires, especially since subjective desires or utilities are strictly ordinal, and cannot be compared or added or subtracted among more than one person? **The truth, then, is the opposite of the core assumptions of utilitarianism. Moral principles, which utilitarianism claims to reject as mere subjective emotion, are intersubjective and can be used to persuade various persons; whereas utilities and costs are purely subjective to each individual and therefore cannot be compared or weighed between persons.**

Perhaps the reason why Bentham quietly shifts from 'maximum pleasure' in personal utilitarianism to 'happiness' in the social realm is that talking about the 'greatest pleasure of the greatest number' would be too openly ludicrous, since the emotion or sensation of pleasure is quite clearly not addable or subtractable between persons. Substituting the vaguer and looser 'happiness' enabled Bentham to fuzz over such problems. [Sometimes social utilitarianism is repackaged and worded as, “the greatest good for the greatest number.”]

Bentham's utilitarianism led him to an increasingly numerous 'agenda' for government intervention in the economy. Some of this agenda we have seen above. Other items include: a welfare state; taxation for at least a partial egalitarian redistribution of wealth; government boards, institutes and universities; public works to cure unemployment as well as to encourage private investment; government insurance; regulation of banks and stockbrokers; guarantee of quantity and quality of goods.

Utilitarian economists have often been - in my view properly - accused of trying to substitute 'efficiency' for ethics in advocating or developing public policy. 'Efficiency', in contrast to 'ethics' sounds unsentimental, hard-nosed and 'scientific'. Yet extolling 'efficiency' only pushes the ethical problem under the rug. For in whose interests, and at whose expense, shall social efficiency be pursued? In the name of a spurious science, 'efficiency' often becomes a mask for exploitation, for plundering one set of people for the benefit of another. Often, utilitarian economists have been accused of being willing to advise 'society' on how to build the most efficient 'concentration camps'. Those who have held this charge to be an unfair reductio ad absurdum should contemplate the life and thought of the prince of utilitarian philosophers, Jeremy Bentham. [They should also remember the lessons that should have been learned from Nazi Germany]. In a profound sense, Bentham was a living reductio ad absurdum of Benthamism, a living object lesson of the results of his own doctrine.

It was in 1768, at the age of 20, when Jeremy Bentham, returning to his alma mater, Oxford, for an alumni vote, chanced upon a copy of Joseph Priestley's Essay on Government, and came across the magical phrase that changed and dominated his life from then on: 'the greatest happiness of the greatest number'. But, as Gertrude Himmelfarb points out in her scintillating and devastating essays on Bentham, of all his numerous schemes and tinkerings in pursuit of this elusive goal, the one closest to Jeremy's heart was his plan for the panopticon.

In visiting his brother Samuel in Russia, in the 1780s, Bentham found that his brother had designed such a panopticon, as a workshop, and Bentham immediately got the idea of the Panopticon as the ideal physical site for a prison, a school, a factory - indeed, for all of social life. **'Panopticon', in Greek, means 'all-seeing'**, and the name was highly suitable for the object in view. Another Benthamite synonym for the panopticon was 'the Inspection House'. The idea was to maximize the supervision of prisoners/ school children/paupers/employees by the all-seeing inspector, who would be seated at a tower in the centre of a circular spider-web able to spy on all the cells in the periphery. By mirrors and other devices, each of the spied upon could never know where the inspector was looking at any given time. Thus the panopticon would accomplish the goal of a 100 percent inspected and supervised society without the means; since everyone could be under inspection at any time without knowing it.

Bentham's apologists have reduced his scheme to merely one of prison 'reform', but Bentham tried to make it clear that all social institutions were to be encompassed by the panopticon; that it was to serve as a model for 'houses of industry, workhouses, poorhouses, manufactories, mad-houses, lazrettos, hospitals, and schools'. An atheist hardly given to scriptural citation, Bentham nevertheless waxed rhapsodic about the social ideal of the panopticon, quoting from the Psalms: 'Thou art about my path, and about my bed; and spies out all my ways ... '

As Professor Himmelfarb aptly puts it: ‘Bentham did not believe in God, but he did believe in the qualities apotheosized in God. The Panopticon was a realization of the divine ideal, spying out the ways of the transgressor by means of an ingenious architectural scheme, turning night into day with artificial light and reflectors, holding men captive by an intricate system of inspection.’

Bentham's goal was to approach, or simulate, the 'ideal perfection' of complete and continuous inspection of everyone. Because of the inspector's 'invisible eye', each inmate would conceive himself in a state of total and continuing inspection, thus achieving the 'apparent omnipresence of the inspector'.

Consistent with utilitarianism, the social arrangement was decided upon by **the social**

despot, who acts 'scientifically' in the name of the greatest happiness of all. In that name, his rule maximizes 'efficiency'. Thus, in Bentham's original draft, every inmate would be kept in solitary confinement, since this would maximize his being 'safe and quiet', without chance of unruly crowds or planning of escape.

In arguing for his panopticon, Bentham at one point acknowledges the doubts and reservations of people who appear to want maximum inspection of their children or other charges. He recognizes a possible charge that his inspector would be excessively despotic, or even that the incarceration and solitary confinement of all might be 'productive of an imbecility', so that a formerly free man would no longer in a deep sense be fully human: 'And whether the result of this high-wrought contrivance might not be constructing a set of machines under the similitude of men?' To this critical question, Jeremy Bentham gave a brusque, brutal and quintessentially utilitarian reply: who cares? he said. The only pertinent question was: 'would happiness be most likely to be increased or diminished by this discipline?' To our 'scientist' of happiness, there were no doubts of the answer: 'call them soldiers, call them monks, call them machines; so they were but happy ones, I should not care.' <u>There speaks the prototypical humanitarian with the guillotine, or at least with the slave-pen</u>."

Need anything else be said about utilitarianism and where it leads? It leads to rationalizations for a dictator playing god and disposing of some men's lives against their will in their misguided or evil attempt to make the world over into their own image. In short, it leads to some men being sacrificed to others. None of this is scientific. As science, it is nonsense. But social utilitarianism, with its great sounding, but evil slogans, "the greatest happiness for the greatest number," or "the greatest good for the greatest number," has been used as the rationalization for all manner of atrocities. Many thanks are owed to Rothbard and others for pointing out that it is nonsense, even commonly understood. It is bad philosophy. It is bad ethics. It is bad science. It is anti-reason and logic. It is against the nature of man. It is even bad metaphysics. Pseudo-economists cannot use it neutrally, in a social scientific sense. Utilitarianism cannot be used to ground anything logically, in particular, economics. It is a rationalization for the abuse of power. And it is used as a means, by those opposed to the two Jehovahs and their special creation, mankind, to attack both God and man. There is no doubt in your author's mind that the end-time antichrist will use utilitarian slogans to help him gain and hold power.

Other Economic Fallacies & Thoughts

There are so many other widely believed economic fallacies that it is difficult, if even possible, to address them all. The detailed refutation of many of these fallacies forms part of the reason why Mises, Rothbard, and Reisman each wrote economics books of about 1,000 pages in length. Nevertheless, your author will use this section of the book to discuss some, not all, of the other economic fallacies not previously discussed. Your author, in this brief volume, only has place to provide a relatively short comment pertaining to each fallacy. The reader is invited to read further, on their own, for a more lengthy and complete, logical disposition disproving these fallacies:

The economic man fallacy – Even the man who popularized this fallacy, John Stuart Mill, knew it was contrary to human nature. Men are not robotically pre-programmed to only acquire wealth. Each man has his own hierarchy of values, which are constantly shifting, and non-material values can and are in this hierarchy. Men, acting against the economic man premise, sometimes give away their assets to charitable causes. Other men choose a life of relatively modest means in order to create, as an artist, for example. Other men undertake vows of poverty. Etc. A man is not “economic man” where he is hardwired to behave in such a way so as to constantly strive to only maximize his economic gains.

The zero sum game fallacy – this fallacy is believed by millions and basically is the false belief that in any trade there is a winner and a loser. This is a fallacy because the only reason that two men trade in the first place is because of unequal valuation in each of their minds. Each person in a trade receives something he values MORE THAN what he gives up in a trade. This is the actual reason that a trade occurs. If this were not so the person who perceived he was the loser in a potential trade would not make the trade. In other words, if trading really were a zero sum game NO trades would get made. In actual reality, at the time of a trade, both are winners in their own minds. Sometimes, it is true, one of the parties, or both, have post-trade regrets. If this is the case then the man with the post-trade regret has experienced what could be termed a psychic loss. He traded for something he thought would make him satisfied, but it did not turn out to be the case. This does not change the fact that at the time of the trade both men received something they valued MORE THAN what they gave up – and so both were winners at that moment in time. Further, when men's natural rights are respected and the government is limited and does not engage in interventionism, production can greatly expand, improving the standard of living of millions of people – all at the same time. This is what happened in early America. This would not be the case if every trade involved both a winner and a loser. Were this fallacy really true, trading would grind to a halt and we would have the economic system of autarky where most men would be relegated to barely generating a subsistence living.

The general equilibrium fallacy or the evenly rotating economy fallacy - this fallacy is one of confusing an economist's method of reasoning with the actual real world. General equilibrium never happens in the real world because there are men like Steve Jobs and companies like Apple. New products and services are continually being invented and delivered into the marketplace and this disrupts the status quo and causes realignments of the economic factors of production. The real world economy can tend toward general equilibrium, but it will never get there. When an economist uses a mental reasoning tool called “the evenly rotating economy”, he is assuming a world that does not exist. The reason an economist assumes a world that does not exist, a world in general equilibrium, is so he can engage in thought experiments. The reason thought experiments are important to true economists is because human experimentation is not correct for ethical and true social scientists. The economist wants to think through what would happen to a world in general equilibrium if only X variable were changed. What would the consequences be? The evenly rotating economy, in an economist’s mind, has no corresponding general equilibrium equivalent in the real world. There can never be general equilibrium in the real world as the number of people and their needs, wants, and tastes change over time. General equilibrium implies a static world, but the world is not static. It is dynamic.

The perfect competition fallacy – sellout pseudo-economists, along with government-intervener apologists, sometimes work together to attempt to “level the playing field” of business competition. Their basic premise is that there should be perfect competition and since the marketplace does not deliver perfect competition, it is somehow flawed. The fallacy that there should be perfect competition flies in the face of both logic and nature. In short, it is idiotic. The truth is that the ideal of perfect competition is a fiction, which never can be. The reason for this is because there is a wide diversity of both men and resources throughout the world. Ergo, some men are smarter than others. Some men are more physically capable than others. Some men live in an area rich with natural resources. Etc. There never has been, nor ever will be, perfect competition. The only way to level the playing field for brain surgeons would be to have no brain surgeons. You cannot take unskilled laborers and elevate them to the level of a brain surgeon. Ergo, if you really want perfect competition, then you have to get rid of today's brain surgeons and let the medical equivalent of cavemen operate on brains going forward. To whose benefit would that be? It would certainly not benefit someone in dire need of brain surgery. The whole idea of perfect competition being achievable is idiotic and your author is amazed anyone would be dumb enough to believe in it. Men can only equalize downward. Fortunately, it is not necessary, or even desirable for perfect competition to exist. What is important is for there to be no artificial barriers to entry for new competitors who wish to enter the marketplace and compete therein. If there are no artificial barriers to entry, (which come from the government), then when high profits signal to entrepreneurs to shift resources into a promising field, then some of those entrepreneurs will be able to find ways to obtain financing and to deliver their competing offerings into the marketplace. <u>After that, consumers will ultimately decide who is providing the better offerings and who should, therefore, continue to provide them</u>. Lastly, due to the correct economic doctrine of comparative advantage, there is a place for all men to be productive contributors to society – even if those men do not have an absolute advantage in producing a particular product or service.

The measuring value fallacy – as previously mentioned, there is no possible way to measure value. Each person ranks what he or she values in an ordinal (order of preference) way, not a cardinal (numeric quantity) way. An ordinal way means I prefer a hamburger first, a new leash for my dog second, getting a new book third, etc. A cardinal way means a number denoting quantity. Each person ranks things they want in a personal and subjective ordinal ranking. It is true that a person might not rank a hamburger first if a hamburger cost forty dollars. However, all that this means is people consider the cost of things when forming their personal and subjective ordering of values. By way of simple example, one of the things someone might value most is to lie down on the beach and get a suntan. There is no calculable quantity associated with things like lying on the beach and getting a suntan. Prices, as explained in an earlier section, are only the recent history of marketplace transactions. Prices can and do fluctuate and they never measure value, as value is constantly shifting and subjective, meaning in the eye of the beholder. What sold yesterday for X, might sell today for Y, and might not sell at all in the near future (think 8-track tape players and buggy whips). Further, since a price results from an indirect exchange, but the two traders engaging in that exchange value the thing given up less than the thing received, price cannot possibly be said to measure value.

The use of math formulas to perform economic planning fallacy – since each man's hierarchy of values is ordinal, and not quantitative, it is economic lunacy to attempt to discover mathematical formulas with which to predict or explain economic activity. Economic activity comes from human beings who think, choose, and take action. Government planners want to intervene into the marketplace in an attempt to reorder it to their own liking. They would like to be able to pretend that their interventions are somehow scientific – capable of being rationalized via mathematical representation, instead of being only their own arbitrarily chosen value judgments. That their interventions are always economically counterproductive and destructive was discussed in the interventionist fallacy section of this book. Paraphrasing Rothbard, who was discussing a late classical economist named John Cairnes: However, unless it can be shown that mental feelings (subjective personal evaluations) can be expressed in precise quantitative terms (which they cannot), or that economic phenomena do not depend on mental feelings (which they do), then <u>mathematics cannot yield new truths in the social science of economics</u>. And so math cannot. But this does not stop government interveners, as they then usually take the fallback position of attempting to use statistics as a substitute for precise math formulas. But the use of statistics does not work, either, in that statistics are only history and they are themselves not capable of expressing subjectivity in terms of quantitative terms any more than mathematics proper is. The future can change because human beings can change. Human beings choose and there is no mathematical or statistical way around this basic fact of nature.

The mercantilist fallacy – mercantilism is a jumble of fallacies rolled into a pseudo-economic system that has historically impoverished mankind. Even worse, mercantilism endangers mankind because it usually leads to wars being fought. Ergo, it is not possible to intellectually demolish it in a short paragraph. The classical and Austrian economists intellectually demolished mercantilism a long time ago. Mercantilists generally believe in the zero-sum-game approach to economics, in particular, in regards to international trade; and the big mercantilist belief that your author wishes to touch on here is that exports are better than imports. Actually, the value of exports consists in their providing the means of payment with which to acquire imports. <u>Imports are the real benefit from international trade</u>. The trading party already has access to the good or service that is being exported. What is needed is to obtain access to the products or services that are being imported, e.g., coffee and bananas from South America, oil from wherever, etc. The mercantilists are wrong in not understanding that the value of international trade lies in receiving access to the benefits gained from the imports. Because the mercantilists do not understand much, if anything, about economics, they advocate for tariffs (which make imports more expensive) and trade barriers (which block certain imports altogether). These actions make imports either more expensive or impossible to obtain. Both of these actions then show complete ignorance of the fact that the imports received are what provide the benefits from international trade. Hurting imports, which provide the benefits from international trade, forces nations into, in effect, autarky and this lowers the standard of living for all. It also leads to war, as some nations would prefer to trade for what they cannot produce locally, but when they cannot do so, they invade in order to take it.

The distributor/retailer, no value added fallacy - because some men do not understand that a bushel of apples in Washington is not the same economic good as a bushel of apples in New York City, they observe the difference in price of said bushel of apples and decide something is wrong. Their confusion lies in correctly seeing that the two bushels of apples are physically identical and then not understanding that the two bushels of apples in question are not the same economic goods. They are not the same economic goods because they are in different locations. And location matters to consumers. The bushel of apples in New York City is more conveniently located to the end consumers and so is more valued by them than is the bushel of apples still near where the apples were grown. The transportation companies, distributors, and retailers involved have all provided a service by relocating, bulk storing, and merchandising the apples. They each receive payment for their contribution to the process. If the apple growers were really serious in their complaints about the low prices they receive for their apples, in contrast to the high prices the retailers in New York City receive for "the same" (physically the same, but not economically the same) apples, then they could transport, warehouse, and retail the apples themselves to make all that "extra profit." If the consumers in New York City were serious in their complaints about apples costing so much, they can either travel to Washington and back to get some apples, or arrange for the shipment of apples to themselves and pay all costs involved. That neither the apple growers in Washington, nor the apple consumers in New York City, actually do so says all that needs be said. The transport, distribution, and retailer system delivers the quality and quantity of merchandise to the end consumers that the end consumers demand (demand in economics terms). They each provide a necessary service. At each step of that process the identical physical goods are no longer the same economic goods and that is why they are valued differently. Essentially, the retailers find products for their customers to purchase and get them to a place where their customers can do so. Conversely, the retailers also find end customers for the producers of products.

The organized labor unions are organized against big industry fallacy – Dr. Clarence Carson, in his book, *Organized Against Whom: The Labor Union in America*, disproves the fallacy that unions are organized against industry. In reality, unions are organized against everyone but their own members and leaders. In particular, they are organized against non-union workers who are willing to work. If the government did not intervene to provide pro-union, special treatment interventionist legislation, it would be much harder for a union to ever form. Further, if governments did their job of protecting against the initiation of force and did their job of protecting private property rights, then the industry being organized against would probably just hire replacement workers. It is special treatment by government for labor unions, which enables labor union members to intimidate potential strikebreaking replacement workers into not crossing picket lines. This intimidation is an initiation of force against potential strikebreaking workers that the government should protect them from. Instead, the government condones this initiation of force. The picket lines are on industry property, which is private property and they should not be allowed on it without the company's permission – which the company would not grant in this case. Again, the government allows the labor union trespassing, which intimidates both non-union workers and the company involved. Further, it is not a right of a worker to own a job. A job is a contract to perform labor services. The company being intimidated into dealing with a union is a party to any such contract and if they do not wish to contract with a union and/or the union members that should be their right. In other words, it is the company's right to enter into a labor contract with a union and its members, or if the company so prefers, to enter into a labor contract with any who are willing to work - whether or not they are union members. The government's interventionist tilting of the labor laws toward unions and the government's failure to respect and protect private property and contract rights enables unions to continue to exist. Without such help from the government, unions would have to contract peacefully with companies willing to do so. The fact that they need special intimidating and interventionist help from the government shows that marketplace consumers do not want to buy products from industries that overpay labor. Most industries that have been extensively unionized, e.g., steel, auto, and the airlines to name a few, are in and out of bankruptcy continually and frequently need other government help (subsidies or loans) to stay in business. The other government help is the compound interventions that take place following the first government intervention and it causes the taxpaying consumers to not only overpay for products from those industries, but to also pay again through higher taxes and/or higher government debt. Labor unions help one government-favored group at the cost of everyone else. This, of course, logically follows because the government can only give to one group what it first takes from another. In this case, the taking is from non-union laborers who are wiling to work, but prevented from having a job (the unseen), and the taking is from end consumers who pay higher prices and from taxpayers who are stuck with the bill when the government further intervenes to bail out industries making losses because they cannot effectively compete in the world economy with the companies who do not overpay for their labor.

The Acts 4 Socialism for the church fallacy - Some who do not understand economic laws use the early church experience, summarized in Acts 4:32-37, to "show" that God wants Socialism for the ekklesia (commonly known as the church). Doing so they ignore the private property and division of labor that is detailed throughout the entirety of the rest of the Bible – including a continuation of the Acts 4 story in Acts 5. Socialism has already been demolished intellectually and not much more need be said of it. Acts 4, along with other scriptures, does reveal that, early on, the Apostles incorrectly believed that Jesus Christ would be returning to the earth in the short term. Because of this incorrect belief the early ekklesia made a decision to not focus their attention on mundane physical things and to give themselves to prayer, to building each other up in the faith, and to speaking the words of life to the people. Ergo, they chose to sell off their physical possessions and consume the proceeds. Of course, at the point of time pertaining to Acts 4, the Apostles were wrong on this matter. Christ still has not returned (Revelation 19), almost 2,000 years later. The Apostles, filled with the Holy Spirit, made the wrong decision. And Jesus Christ, the head of the ekklesia (Ephesians 5:23), allowed them to make a bad decision and to experience the negative consequences. Acts 4 and 5 clearly show it was within the rights of a church member to sell their private property and donate the proceeds for communal living, or not. As former British Prime Minister Margaret Thatcher astutely observed and expounded, "The only problem with Socialism is that sooner or later you run out of other people's money." And then the party is over and you have to get back to work and rebuild – only this time on more lasting principles. (Your author is writing physically here, not spiritually). Acts 4 does not show that the Bible advocates Socialism. It just shows that the early Apostles were wrong on a spiritual matter (Christ returning in the near future) and a temporal matter (regarding consuming their capital in communal living) and that Jesus Christ, the head of the church, allowed it.

The shortage of natural resources fallacy - Reisman devotes the entire third chapter of his book, *Capitalism*, to demolishing this fallacy, so there is no need for your author to do so here. Concerning the factors of production that are scarce, Reisman extensively shows that the actual truth is the opposite of what is typically expounded. Reisman shows that natural resources are plentiful, but that labor is what is scarce. What is widely expounded and believed is that "mother earth" is being violated and depleted (natural resources are scarce) and that there are too many men on the earth (overpopulation). On the other hand, Reisman shows the earth is made out of natural resources, extending all the way down for thousands of miles. Each element man has ever mined, or otherwise exploited, exists in millions of times the quantity ever exploited by man. It may be true that the further down man has to go to obtain a resource, the cost goes up, but the higher price of such production encourages conservation and the substitution of less expensive resources until such time as man can find a way to more economically extract the item in question. In this case availability is not the problem, cost is, but the natural resources are there. The high cost of a resource, though abundant in absolute potential supply, forces it to be economized today. Reisman further expounds that the energy discharged in a single thunderstorm exceeds the energy mankind uses in a year. Perhaps man can someday learn to harness this potential power source. Also, the sun provides a constant source of energy, and new methods of obtaining energy are being developed all the time. If an energy item has a high price, economizing that item is encouraged, as is the substitution of other energy sources that are more economical. Reisman further expounds that because man's wants are virtually unlimited, but resources are plentiful, that the real shortage concerning the factors of production is labor, not a shortage of natural resources, or energy. In other words, Reisman, a secular economist, concludes quite honestly that the earth has plenty of resources and energy, but what it needs is more productive people. This would square with the two Jehovahs, who made men in their image, and told them to: "be fruitful and multiply" (Genesis 1:28). And it would also square with the two Jehovahs giving men dominion over the earth, but not each other (Genesis 1:26, 28). What is commonly propounded is that there are too many men on the earth and that mankind is violating mother earth due to the exploitation of natural resources. Mother earth is a pagan concept and that there are too many men is Satanic. Satan hates men because he views us as infringing on "his place in the universe" and because we are made in God's image and likeness and because he hates the two Jehovahs. And Satan does not like it when men, obeying God, exploit the resources of the earth in order to stay alive and to have a more abundant physical life. Reisman does a masterful job of pointing out that because of advances in science, technology, tools, machines, and also capital availability the supply of economically usable natural resources is greater now than it was at the beginning of the Industrial Revolution. Chapter three of his book, *Capitalism,* is definitely worth a read.

The Bible bans interest fallacy – the subject of "interest" is a touchy one, especially for historical Christianity. Rothbard, in his two-volume treatise on the history of Austrian economics, details out the twists and turns and opinions and facts concerning the subject. Volume one is entitled, *Economic Thought*

Before Adam Smith, and volume two is entitled, *Classical Economics*. It is beyond the scope of this book to fully explain, in detail, what interest is and why the Bible does not ban its collection, except under certain circumstances. With that said, your author thought a book on economics should at least touch on the subject. The Austrian economists have demonstrated that interest is: preferring a good in the present as compared to a good in the future. Because all men prefer a good in the present, to the same good in the future, future goods must be discounted against present goods. The difference in that valuation becomes, at it were, an originary rate of interest (a natural rate of interest). Another way to say this is that a present good demands a premium as compared to a future good. Next, your author would like to slightly shift over to the related topic of money loans. When a money loan is issued, particularly during an age of inflation like the one we live in today, the interest rate charged for the loan is likely a combination of three elements: 1) the natural rate of interest, 2) a profit element for the lender, and 3) possibly an additional hedging element against the creation of new money, (inflation), during the loan term. The Bible speaks against interest and/or debt in two main ways. The first is charging and collecting usury (interest) on loans made to poor people. Various scriptures, taken in context, show linkage between the interest prohibition and a loan to a poor person (Exodus 22:25, Leviticus 25:35-37, Ezekiel 18: versus 7 and 8 are linked, as are verses 12 and 13, as are verses 16 and 17, and Proverbs 28:8). Other scriptural examples, which are less clear, should be interpreted in light of the clear scriptures above. The second instances of the Bible speaking against interest are in context of the money-lending system whereby a man and all his real and personal property are pledged as security against the debt. Many times the debt is due to having to pay taxes, which is all likely a part of the same corrupt debt-based people-enslavement system. Scriptural examples of this are found in Nehemiah 5:1-13, James 5, and probably also Ezekiel 22:6-16. A further point of interest (pun intended) is that the New Testament parable of the talents criticized the man who buried his talent. The criticism was that the man should have at least lent the talent to the moneylenders so the master could receive an interest return on the talent lent. This shows that interest on business loans is not forbidden (Matthew 25:27 and Luke 19:23). The two Jehovahs clearly know what interest is and they know that the only way to completely ban interest is to kill all men because all men prefer a good in the present to one in the future. Instead of banning interest, they had mercy on poor people. They did not ban interest per se; they banned the charging and collection of interest on loans to poor people. This is within their prerogative as they are the original appropriator, owner-operators of the universe. Men are their guests in the universe and the banning of interest on loans to poor people is a form of charitable giving from the moneylender to the poor person receiving the loan. The forgiveness of personal debts every seven years is an additional form of charity mandated by the two Jehovahs (Deuteronomy 15:1-2).

Brief Summation

Economic laws exist and they limit both individuals and governments. Ignoring those laws, or collectively attempting to override those laws, will only make man's life harder on this earth than it has to be. Resources (the factors of production) are limited and must be economized because man's wants are unlimited. Time also limits each of us because each man has a limited lifetime and because all production takes time. Economic principles, as discovered by honest social scientists, do not conflict with the principles found in the Bible.

Understanding Bastiat's classic essay on "seeing the unseen" would go a long way toward helping individuals and government officials to make more rational economic decisions.

Understanding that Socialism cannot possibly succeed as an economic system, and that it is also a false metaphysical system (false religion), would have saved over a century of hardship and many men's lives. Mises intellectually demolished Socialism almost 100 years ago. There is no excuse for continuing to believe in it.

Mises also intellectually demolished interventionism and showed that there is no possible "third way" between Socialism and capitalism. Mises further showed that many of people's complaints against capitalism should more properly be directed against a government-inspired interventionist policy – which is almost certainly causing the real problem.

Mises scientifically discussed bureaucracy and showed why a bureaucratic endeavor cannot possibly ever function the way that a private enterprise can. Bureaucratic management is necessary for certain narrowly prescribed limited government functions, but beyond that it cannot provide mankind with the goods and services that people want and need in an economic and rational way. Any hope to make the economy of the world a giant post office operation cannot work and should not be attempted. Bureaucrats tend to be static thinkers in a dynamic world.

Along governmental lines this book showed why the government could only give to one group of people what it first takes from a different group of people. There are, in effect, government favored tax consumers who are net receivers of government diverted spending, and there are net taxpayers whose spendable funds have been diverted away from their own personal spending plans. Government is not omnipotent. The government cannot create jobs, but it can destroy them with bad economic policies. The government cannot make the economy bigger, but it can divert spending to politically favored purposes.

Numerous money fallacies were discussed. The government can either create or allow for the creation of fiat money, but government cannot create the limited factors of production. When fiat money is created and spent there are government-connected “winners” as against honest producer losers. The early receivers of the newly created fiat money gain a government granted benefit at the expense of the late receivers of this newly created fiat money. Whether the newly created fiat money comes from a government chartered central bank, or from the government itself, the effect is the same. <u>Economically speaking, the newly created fiat money is in any case a government intervention. It creates a boom, followed by a bigger bust, business cycle for which capitalism is blamed</u>. Malinvestment occurs and then is liquidated in a very painful process. The economic distortions waste precious lives and capital. The fault lies with the created fiat money and with the central bank system itself. The central bank system includes the central bank cohorts of the government-licensed and regulated commercial banks and the government, too.

Properly understood, economics is part of praxeology, the study of human action. Each man exists and must take action in order to obtain the things he needs to live on this earth. Each man owns himself and his labor. The purpose of government is to be the collective agent of men in order to safeguard each man's natural rights. Bastiat would say something along the lines of: the purpose of government is the collective organization of the individual right of self-defense. Beyond this, government can add no value. If government attempts to go beyond this, it simply diverts scarce economic resources away from where men would have otherwise directed them – usually at great societal loss. The other core principles of economics, properly understood, are too many to list in a brief paragraph, with explanation of each. That said, the below are a number of the key principles of economics: life, private property, freedom, division of labor, freedom to exchange (contract), savings generating capital, capital being utilized to produce labor saving tools and machinery and as a fund with which to hire workers, entrepreneurs functioning as change agents for consumers and also functioning as resource allocation agents for consumers, society as a means for individual men to have a better life, the harmony of interests, the marketplace generating prices, prices allowing economic planning, a sound and commodity based money being used for indirect transactions, human and geographical diversity being good for mankind, peace, reason, use of knowledge, competition as a discovery process to see which products and services should be produced where, by whom, and by what methods, the incentive of the profit motive, etc. All of the above economic principles are part of a life system conforming to natural laws and the Bible.

It is pointless to try and refute that there is a diversity of both human and natural resources. The kindness of the two Jehovahs, expressed through the law of comparative advantage, shows there is a productive place for everyone.

Personal utilitarianism is flawed because, at a minimum, it minimizes or dismisses the ability of reason to be used as an aid in goal setting and inter-personal persuasion. Social utilitarianism is more likely to lead to a totalitarian despot than the greatest good for the greatest number. Happiness and good cannot be quantified no matter who is making the attempt, and Bentham's felicific calculus is an intellectual joke. Utilitarianism cannot be used, as it is by some, as a way around value-free scientific analysis. And it should not be used to ground economic principles, as it is deeply flawed as pointed out by Rothbard.

There are too many fallacies pertaining to economic laws and their operation to refute in a short book. They have been refuted for all time elsewhere. For more complete information concerning economics, including detailed refutation of economic foolishness, the reader can consult the list of books referenced in the following Appendix, if desired. Men's opinions and government wishes do not obviate the functioning of either natural scientific laws, or the laws of economics – economics being a social science. Ignoring economic laws will not do anything but make all of our lives harder. And collectively banding together in an attempt to override economic laws will not work either. Just as a collective attempt by man to permanently rebut or overcome the law of gravity is doomed to failure, so are any and all collective attempts to overturn economic laws. Every man is potentially valuable. No man should be cut into pieces and used as fuel for such a collective bonfire. And no man should be chopped into pieces and then cooked and eaten as food by other men. That both such things happen all the time is self-evident. The why behind their occurrence is usually an attempt to evade reality, or envy, or wanting something for nothing, or cowardice, or a collective thumbing of their nose toward the two Jehovahs, etc.

Fools, the ignorant, evil men, and cowards make lives hard. And as long as men cannot see the unseen, or they attempt to ignore, or collectively evade the economic laws that govern the universe, it will continue to be so. It does not have to be this way and this book was your author' s humble attempt to shed some light on a knowable and important subject - which profoundly affects us all.

Appendix – Various Excellent Essays And Books Regarding Economics

The essays - *That Which is Seen, And That Which Is Unseen* and *The Law* – both from the book *Selected Essays On Political Economy*, by Frederic Bastiat

Socialism – An Economic And Sociological Analysis by Dr. Ludwig von Mises

A Critique Of Interventionism by Dr. Ludwig von Mises

Bureaucracy by Dr. Ludwig von Mises

Omnipotent Government by Dr. Ludwig von Mises

Economic Thought Before Adam Smith by Dr. Murray Rothbard

Classical Economics by Dr. Murray Rothbard

The Theory Of Money And Credit by Dr. Ludwig von Mises

Human Action by Dr. Ludwig von Mises

Capitalism by Dr. George Reisman

Man, Economy And State by Dr. Murray Rothbard

Organized Against Whom: The Labor Union in America by Dr. Clarence B. Carson

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