



Economic Literacy Seminar

“The greatest opportunity ever given to the world was thrown away because the passion for equality made vain the hope for freedom.”

-Lord Acton

Introduction

Objectives:

1. Counteracting the obvious fallacies
2. Developing a practical alternative agenda

Disclaimers:

1. Not a debate
2. Not a comprehensive review

Terminology:

1. "Liberal"
2. "Conservative"
3. "Capitalism" vs. Free markets
4. "Austrian School"

Major Economists we'll be discussing:

1. **Adam Smith** 1723 – 1790 *Wealth of Nations*
2. **Carl Menger** 1840-1921 *Principles of Economics*
3. **Eugen von Böhm-Bawerk** 1851-1914 *Capital and Interest*
4. **Ludwig von Mises** 1881-1973 *Socialism*
5. **Friedrich Hayek** 1889 – 1992 *Road to Serfdom*
6. **Milton Friedman** 1912-2006 *Capitalism and Freedom*
7. **Thomas Sowell** 1930- *Knowledge and Decisions*

Other Economists:

1. **Jean-Baptiste Say** 1767-1832
2. **Henry Hazlitt** 1894-1993
3. **John Maynard Keynes** 1883-1946

MONEY

MONEY I

- A. A naturally occurring phenomenon
- B. Exchange commodity
- C. Backed currency
- D. Fiat Currency
- E. Monetary policy vs. Market signals and reality
- F. Capital and interest

MONEY II

- A. Jobs Vs. Money Vs. "Stuff"
- B. Critique of Keynesian Economics
- C. Money keeps score but does not produce.
- D. Aggregate wealth is aggregate production
- E. What the government can do to "stimulate" the economy

STORY TIME: Mercantilism, The Spanish, The Keynesians

SOCIALISM

Nature of socialism:

- 1. Subset of Collectivism
- 2. Perfectionist
- 3. Outcome based
- 4. Based on desired reality instead of actual reality

Why it's appealing

- 1. Less stress
- 2. Egalitarianism
- 3. Security
- 4. The totalitarian within
- 5. Arrogance
- 6. Why it works for families and in heaven

Why it doesn't work with Humans on Earth

- 1. We can't predict the future

2. We can't change our basic nature
3. We can't understand more than the tiniest portion of available economic information
4. Re-examining where socialism works.

Natural Progression

1. Democracy naturally less desirable than free markets
2. Most supporters of socialism destined to be disappointed
3. Legislative bodies incapable of processing information, delegate authority
4. Impossibility of satisfying majority with economic plan, leads to force

Foundations of Capitalism:

1. Decisions are made by the people who pay the price or reap the benefit.
2. Marketplace determines needs. Who else?
3. Market is huge information processing machine
4. Price mechanism communicates needs along with incentive w/o force
5. Roll of government (to secure freedom):
 - A. Externalities
 - B. Technical monopolies
 - C. National Security
 - D. Law Enforcement
 - E. Enforcing contracts
 - F. Defining Property--stability
 - G. Children and the insane

Competing Theories of Value

- A. Labor theory of value.
- B. Marginal Utility theory
 - a. Value is determined by buyer
 - b. Value is situational
 - c. Values can and do change with changing circumstances, after production
- C. Implications for exchange

Story Time II: British Stocking Makers

Specific issue in our time:

1. Taxation
 - a. Supply side vs. demand side
 - b. Laffer Curve
2. Education
3. Medical care
4. Price Gouging
5. Monopoly
6. Licensing: barber shops to liquor stores
7. Discrimination
8. The environment
9. Protectionism and Outsourcing
10. Immigration
11. Minimum wage laws and rent control
12. Overpopulation

What If the poor are still with us?

1. Comparing the realities of imperfect capitalism vs. perfect socialism
2. The role of charity
3. Incentives work both ways

QUOTES

Friedrich Hayek

Liberty not only means that the individual has both the opportunity and the burden of choice; it also means that he must bear the consequences of his actions. Liberty and responsibility are inseparable.

Freedom granted only when it is known beforehand that its effects will be beneficial is not freedom.

I strongly feel that the chief task of the economic theorist or political philosopher should be to operate on public opinion to make politically possible what today may be politically impossible.

The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design.

In a civilized society it is indeed not so much the greater knowledge that the individual can acquire, as the greater benefit he receives from the knowledge possessed by others, which is the cause of his ability to pursue an infinitely wider range of ends than merely the satisfaction of his most pressing physical needs. Indeed, a 'civilized' individual may be very ignorant, more ignorant than many a savage, and yet greatly benefit from the civilization in which he lives.

The case for individual freedom rests largely on the recognition of the inevitable and universal ignorance of all of us concerning a great many of the factors on which the achievements of our ends and welfare depend.

A society that does not recognize that each individual has values of his own which he is entitled to follow can have no respect for the dignity of the individual and cannot really know freedom.

Perhaps the fact that we have seen millions voting themselves into complete dependence on a tyrant has made our generation understand that to choose one's government is not necessarily to secure freedom.

Human envy is certainly not one of the sources of discontent that a free society can eliminate. It is probably one of the essential conditions for the preservation of such a society that we do not countenance envy, not sanction its demands by camouflaging it as social justice, but treat it, in the words of John Stuart Mill, as 'the most anti-social and evil of all passions.'

Once politics become a tug-of-war for shares in the income pie, decent government is impossible.

If we wish to preserve a free society, it is essential that we recognize that the desirability of a particular object is not sufficient justification for the use of coercion.

Many of the greatest things man has achieved are not the result of consciously directed thought, and still less the product of a deliberately coordinated effort of many individuals, but of a process in which the individual plays a part which he can never fully understand.

Compared with the totality of knowledge which is continually utilized in the evolution of a dynamic civilization, the difference between the knowledge that the wisest and that which the most ignorant individual can deliberately employ is comparatively insignificant.

All political theories assume, of course, that most individuals are very ignorant. Those who plead for liberty differ from the rest in that they include among the ignorant themselves as well as the wisest.

I very seriously believe that capitalism is not only a better form of organizing human activity than any deliberate design, any attempt to organize it to satisfy particular preferences, to aim at what people regard as beautiful or pleasant order, but it is also the indispensable condition for just keeping that population alive which exists already in the world. I regard the preservation of what is known as the capitalist system, of the system of free markets and the private ownership of the means of production, as an essential condition of the very survival of mankind. Our alternative is either to stick to a moral tradition which we haven't invented, which most people cannot explain, and which economists can only retrospectively account for, in order to maintain the present four billion people living on this world, or to give up and allow a large part of this population to die of starvation.

The manner in which the benefits and burdens are apportioned by the market mechanism would in many instances have to be regarded as very unjust if it were the result of a deliberate allocation to particular people... but the impersonal

process of the market... can be neither just nor unjust, because the results are not intended or foreseen.

The more the state "plans" the more difficult planning becomes for the individual.

Economic control is not merely control of a sector of human life which can be separated from the rest; it is the control of the means for all our ends. And whoever has control of the means must also determine which ends are to be served, which values are to be rated higher and which lower, in short, what men should believe and strive for.

It is always from a minority, acting in ways different from what the majority would prescribe, that the majority in the end learns to do better.

With the exception only of the period of the gold standard, practically all governments of history have used their exclusive power to issue money to defraud and plunder the people.

Milton Friedman

Concentrated power is not rendered harmless by the good intentions of those who create it.

If you put the federal government in charge of the Sahara Desert, in 5 years there'd be a shortage of sand.

Inflation is taxation without legislation.

Nothing is so permanent as a temporary government program.

Only government can take perfectly good paper, cover it with perfectly good ink and make the combination worthless.

The Great Depression, like most other periods of severe unemployment, was produced by government mismanagement rather than by any inherent instability of the private economy.

The most important single central fact about a free market is that no exchange takes place unless both parties benefit.

There's no such thing as a free lunch.

Underlying most arguments against the free market is a lack of belief in freedom itself.

Thomas Sowell:

No matter how disastrously some policy has turned out, anyone who criticizes it can expect to hear: But what would you replace it with? When you put out a fire, what do you replace it with?

You will never understand bureaucracies until you understand that for bureaucrats procedure is everything and outcomes are nothing.

The first lesson of economics is scarcity: There is never enough of anything to satisfy all those who want it. The first lesson of politics is to disregard the first lesson of economics.

One of the consequences of such notions as entitlements is that people who have contributed nothing to society feel that society owes them something, apparently just for being nice enough to grace us with their presence.

The assumption that spending more of the taxpayer's money will make things better has survived all kinds of evidence that it has made things worse. The black family- which survived slavery, discrimination, poverty, wars and depressions- began to come apart as the federal government moved in with its well-financed programs to help.

It is amazing that people who think we cannot afford to pay for doctors, hospitals, and medication somehow think that we can afford to pay for doctors, hospitals, medication and a government bureaucracy to administer it.

GLOSSARY

Capital: Assets not needed by their owner for immediate consumption and hence available for investment.

Capitalism: 1. Arrangement of economic affairs affording maximum freedom for individuals, and voluntary groups of individuals, to act with their own resources in the marketplace and reap the ensuing benefit or loss. 2. In Marxism and other related philosophies, an economic system characterized by the exploitation of working people by those with "capital". Thus the name.

Collectivism: An economic/political system characterized by central control of economic activity in pursuit of specific goals derived by and individual leader a group of leaders or the majority.

Commodity: A good, desired at a given time, for a purpose other than its consumption, such as for manufacture or investment.

Conservative: 1. An adherent to the political philosophy characterized by a desire to keep current arrangements unchanged or, sometimes, to replace current arrangements with arrangements perceived as being of older or more traditional origin. 2. The opposite of liberal.

Demagogue: A dishonest and manipulative politician who plays to popular passions by making statements of convictions that he does not actually hold, and advocating policies that he does not actually favor and/or does not intend to implement.

Democracy: A political system wherein political decisions are made by majority vote.

Exchange Commodity: A commodity which is desirable primarily not for its actual use value but for the fact that most other participants in the market are known to accept it in exchange for things which are desired.

Externality: An economic exchange which affects one or more parties who have not voluntarily entered into the arrangements resulting in the exchange. In free market economics, it is one of the justifications for governmental interference in the market (typically via the judiciary).

Fiat Currency: A Monetary policy characterized by governmentally produced currency whose value is not supported by any guaranteed exchange rate with any valuable asset.

Free Market: A set of economic arrangements characterized by the right of each individual actor to conduct his/her affairs with maximum liberty including the right to exchange legal goods, services, commodities and currency with other individuals and to contract with other individuals on any terms that are mutually agreeable. The role of government is limited to the enforcement of basic law, contracts and property rights as well as national defense.

Gold Standard: A practice wherein the value of governmentally produced currency is fixed to the value of gold by means of a guaranteed rate of exchange between the two.

Liberal: 1. Adherent to modern political school of thought characterized by (among other preferences) the desire to use government to achieve “social justice” beyond individual freedom, and a willingness to artificially redistribute of wealth. 2. As used by most Austrian School economists, adherent to a belief in political and economic arrangements that maximize the power of the individual over his own affairs, thus minimizing the role of government (whether democratic or not) in thwarting those desires.

Marginal Utility (law of): A theory of commodity value based on the increasingly important uses to which dwindling amounts of a supply will be put by the user. It serves as the basic premise of the Austrian school of economic theory

Marxism: An economic model based on the writings of Karl Marx and characterized by state control of “the means of production”. It also theorizes fundamental changes in human nature resulting from such a system.

Republic: A political system characterized by the investiture of supreme power in elected representatives and, often, by fixed procedural and practical limitation to that power.

Socialism: A system of collectivism characterized by significant governmental regulation of economic activity with the stated goal of achieving equality (or near equality) of outcome.

Technical Monopoly: An economic activity which, due to its nature, and at a particular point in time and under particular circumstances, can only be provided by one provider.

Value (economic): Deriving from shortage, the relative exchange which a given item or specified amount of a commodity will command in a free market under a specific set of circumstances.