WELCOME TO ECONOMICS!

Since the discouraging fiasco in the Garden of Eden, all the world has been a place conspicuous in its scarcity of resources, contributing heavily to an abundance of various sorrows and sins. People have had to adjust and adapt to limitations of what is available to satisfy unlimited desires. Some individuals and societies have been much more successful than others in thus making do. The study of Economics deals with this yoke of scarcity and the modes of behavior intended to minimize the pains and to maximize the gains of getting along–behavior which is restricted and channeled, sometimes helpfully and efficiently but often hurtfully and wastefully, by the social ground rules and institutions we adopt and have had imposed upon us.

To survive (much less to prosper a bit) in this veil of tears has required enormous, unrelenting effort. The welter of economic activity—bidding and offering in the market, producing and consuming currently, and saving and investing for the future—typically entails COORDINATED decision-making and labor. But even seemingly simple operations of production and distribution can require contributions by many people, most of whom never meet or directly communicate with each other and are located in scattered corners of the world.

Consider this book which you are now reading. Thousands of people—in addition to the authors—contributed to placing this book in your hands. Some made paper; some made ink and glue; some edited the manuscript; some printed, warehoused, promoted, and distributed the product. No single person completely planned and supervised all that, and no one was a specialist in performing each of the myriad tasks. Yet, you have the book. The essence of the story is not different for those who have escaped the surly bounds of conventional books to enter the era of ebooks, Kindles, and Nooks. The more technically advanced modes of providing reading material still require elaborate collaboration of many producers. How are such complex, interrelated, varied activities by so many people in so many places organized? In this book we will show how and why the modes of coordination in a basically private property, individualistic society have dominated all others in productivity, growth, and freedom.

This book will help you to grasp and gain a working familiarity with, and appreciation for, the most basic, universal concepts, principles, and techniques of Economics. With experience, you will build a sense of and feel for fruitful economic analysis and its worldly applications.

Scarcity

Motivating nearly all behavior is the inevitable existence of SCARCITY—simply put, our wants and desires exceed what is available to satisfy them. Most of what you enjoy is acquired by your efforts, accompanied by strain, sweat, and anxiety. However, no matter how successful are your efforts, you want even more. Two apparent devils restrict what you can have—the limited amounts of goods and services available, and the rest of us who also want them. It is important to understand that Scarcity does not exist because society produces the "wrong" things (e.g., beer, pop-jazz, TV games) instead of the "right" things (e.g., museums, symphony orchestras, art). Scarcity exists because of our boundless desires for goods of all kinds and types.

Goods: Economic or Free

A "good," as that word is used in Economics, is <u>anything of which more is preferred to less</u>. "Goods" includes services as well as physical things—services of doctors, painters, carpenters, and athletes. Fresh chicken eggs are more plentiful than stale eggs. But fresh eggs are scarce; stale eggs are not. Fresh eggs are <u>economic</u> goods—goods for which more is desired than is available. If a good, however desirable, is so abundant that no one wants more of it, it is a "free" good. Hereafter, the word "good" will always mean an "economic" (scarce) good. If we mean "free good," we'll write "free good." But examples are not easy to find. The classic case of a free good, to most of us most of the time, is air: we simply inhale, and there it is, without our sacrificing anything to obtain it. However, air is an economic good to the astronaut and the deep-sea diver, and so is fresh air to the city resident on a smoggy day. Caution: "free good" does not mean something for which a zero price is charged, like "free education," "freeways", "free public parks," "free libraries", and "free beaches." Those "zero price" goods are scarce (economic) goods. Charging a zero price does not convert an economic good into a free good. As we will see, distributing goods for "free"—at a zero price—paradoxically makes their scarcity seem even greater.

Admittedly, the term "good" creates a psychological bias suggesting that the "good" is good ("beneficial"). In Economics, however, the word "goods" refers to whatever a person wants, no matter why. Maybe you think cigarettes are not "goods" and people would be better off without them. Nevertheless, as long as someone thinks they are desirable and wants more—that makes them "goods."

Self-interest?

Self-interest, as the concept is used in Economics, means you want more power to control resources, whether for your own <u>or for someone else's</u> benefit. Because we engage in market exchanges, without the intent of aiding ~~the~~ other persons, some "philosophical critics" are misled into believing that economic principles presume people are purely and thoroughly selfish. That is incorrect. You often intentionally act in ways to benefit others. You act as a "Good Samaritan" in emergencies, even though that's costly to you and is not the dominant motive in **market transactions.** More importantly, economic analysis shows how our market actions benefit other people, even if we are not deliberately trying to help them. Both parties to an exchange must anticipate a gain; otherwise there would be no society with markets and voluntarily negotiated exchanges of private property. Though we act primarily with our own benefits in mind, others are benefited by market exchanges. Let Adam Smith, the 18th century Scot, author of the first systematic and classic treatise on economics, "An Inquiry Into the Nature and Causes of The Wealth of Nations explain the incentive and effect:

> *Man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favor, and show them that it is for their own advantage to do for him what he requires of them. ... Give me that which I want, you shall have this which you want. ... It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard of their own interest. We address ourselves not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.*

Competition

Scarcity's inevitable companion is <u>competition</u> with other people for "more." According to a master competitor, the golfer Arnold Palmer, "If you aren't competing, you're dead!" To which we add, "If you aren't dead, you must be competing." How? Consider a few ways to compete.

Violence

Violence is a commonly respected mode of competition. Alexander, Caesar, Napoleon, Eisenhower, Lenin, and Mao used it. They were highly respected. To be sure, had Caesar merely roughed up only a few Romans, he would have been crucified. Had Lenin been defeated, he would have been liquidated on the spot. If violence is attempted on a large enough (e.g. national) scale, the perpetrators are condemned only if they fail. The power of violence is the jealously guarded near-monopoly of a "government"—by definition of what a government is. "Near-monopoly" because, within a nation, it is often used by individuals in street demonstrations for access to political power. A government will suppress violence by individuals on their own initiative –- except in the realm of contact sports.

A wealthy nation is more likely to be attacked--unless potential aggressors know it is willing and able to impose severe losses on the aggressor. The Iraqi government in 1991 attempted to confiscate wealth from Kuwait via invasion, but was rebuffed by the cooperation of other nations. Some years earlier, the poorer North Koreans attacked the South Koreans, but they also were rebuffed by the aid of richer countries that had taken the precaution to have sufficient defensive armor. In much earlier times, the Vikings, Mongols, and Tartars lived by raiding productive, but less defended, communities. Europeans invaded the South American and Southeastern Asiatic regions to expropriate wealth from the less ably defended areas. Similar events have occurred throughout history

Political Power

Governments help maintain security of person and property from violence and theft. In a democracy, that power is directed by political leaders elected by voters who are competing for access to government power for their greater protection as well as to redistribute wealth. When we complain about high government taxes or expenditures, we are commonly complaining about our neighbors whose interests conflict with ours.

Discrimination: Allocations by Authorities

Consider a college which has 5,000 students and only 2,000 parking spaces. On the assumption that most students desire a parking space, the college has a rationing problem: Who gets a parking space? A method of discriminating--to decide who gets spaces--is inevitable. Somehow, some people will get a space, and some will not. There are alternative ways to discriminate. All competition and choice is discriminatory. <u>Choice</u> is merely another name for <u>discrimination</u>--to rank alternatives according to some attribute. It is not discrimination that is condemned, but "invidious" discrimination — by whatever criteria enough people consider undesirable — such as religion, nationality, and gender.

First Come, First Served

The parking spaces could be allocated on a first-come, first- served basis. Though the money price would be zero, a competitive cost would be incurred in getting to the campus before dawn in an effort to get a space. Costs need not be in money payments. A zero price does not make something free.

Most Deserving

The costly scramble to get a space could be avoided by prior assignment to the most "deserving" or "needy." The committee dispensing privileges would ask, "Who, other than professors, are the most deserving, most needy ones?" There is almost no limit to the ingenuity of dispensing committees in rationalizing their favors. Among the criteria may be: distance from campus, age, health, senior status, family size, major of student, grades, etc. But one question leads to another. For example, should those who are awarded rights to a parking space be allowed to sell the rights to others?

Jungle or Civilized Competition

You may have heard, "Competition promotes anti-social, jungle-like, irresponsible behavior." That depends on the kind of competition that is tolerated. As we'll see, a society with reliable private property rights and readily available markets for exchange of those rights has proven to be conducive to greater production and civilized behavior than a society that condones violence or brute force in resolving differences of opinions about use of economic resources.

Competitive Cooperation by Exchanges

The primary focus of economic analysis is on (a) <u>competition</u> in exchange of rights to services and goods and (b) <u>coordinated</u> cooperation in creating wealth. Competition by offers of exchange is a form of cooperation. "I'll do this for you if you'll do that for me—at better terms than someone else." Though competing, we also cooperate—in the market, in the family, in firms and in governments. We cooperate to make the "pie" larger; we compete over how much of the pie each of us gets. Any effective combination of cooperation and competition requires a control of the permissible types of competition so as to not obstruct social cohesion and cooperation. Differences in amounts of wealth held by the richer and the poorer are not all results of the rich being winners and the poor being losers in some contest for the distribution of a given total. A source of the differences in wealth is a difference in productivity and willingness to save for more wealth. But the resulting pattern of relative wealth can be so concentrated in a few that the distribution is deliberately altered by the richer to maintain social stability.

Our Intent

We want your study of Economics to be interesting and even enjoyable. But we promise one unanticipated result: you'll be brainwashed—in the "desirable' sense of removing fallacious and erroneous beliefs. You will begin to suspect that a vast majority of what people popularly believe about economic events is wrong. A few examples of such common errors are:

- price controls prevent higher costs to consumers;
- reducing unemployment requires creating more jobs;
- larger incomes for some people require smaller incomes for others;
- free, or low, tuition reduces costs to students;
- unemployment is wasteful;
- stockbrokers and investment advisors predict better than the alternatives of throwing a dart at a list of stocks or the use of horoscopes;

Fortunately, societies have progressed despite almost universal ignorance of economic principles. Without an abundance of sophisticated economic analysts, the United States economy, over more than two centuries, has generally performed very well, yielding a growth and prosperity that is embarrassingly conspicuous in world history. The collapse of the socialist Soviet Union and the rise of China in world markets was not the result of the their sudden awareness of their ignorance of economic principles. Instead, their disappointing economic experiences, in sharp contrast to the economic performance of other nations, showed that the lack of understanding of basic economic principles ultimately creates weaknesses and motivated their social and market changes accordingly.

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A word of assurance: Economics really is easy—in a subtle sort of way. The most frequent source of confusion is forgetting to apply the economic principles. Remember and be aware of them—as alertly and fully as you heed the law of gravity—because economic principles are equally powerful and accurate. The law of gravity says, *"If you drop a $20 bill on the ground, it will stay there."* Economics says, *"If you drop a $20 bill on the ground, it will quickly disappear!"*