

Economic Truths in a Free Society

Why Freedom Produces Wealth

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What is wealth and how do you get it?

Most people understand that they would rather be wealthy than poor. Unfortunately, thanks to common erroneous ideas floating around in the culture, most people do not really understand either wealth or poverty, or their role in it.

Getting Wealth

First, let's consider wealth as **getting** what you want, when you want, the way you want it. Notice that money has not been mentioned. You don't want money for its own sake unless you are a coin collector. You only want money because it is by far the most convenient method of trading for what you do want, whether it is a microwave oven, a hunting rifle, a Bible, or music lessons. More money lets you obtain more things you want.

So how do you **get** what you want? That is, how do you improve your situation in the future from what it is now? How do you become better off (wealthier)?

There are basically two ways:

1. **You can do things for yourself**, such as grow some of your own food or build your own log cabin. There are many things you do for yourself which satisfy some of your wants, i.e., make you better off in your opinion—"wealthier".

2. However, in a modern society, and even in a fairly underdeveloped society, you actually **get** most of what you want (increase your wealth) by interacting with others. Autos, clothing, heating oil, cell phones, housing, most food, those confounded music lessons, etc., etc., etc., come to mind.

What do I mean by 'interact with others'? **We obtain what we want by doing favors for others so still others will do favors for us, usually using money as an intermediary.** We could do each other *favors* directly. However, such barter would be unbelievably awkward. We may not have available what the other party wants or maybe the other party doesn't even want anything right now!

When a neurosurgeon wants music lessons from a teacher, the teacher is probably not interested in having her skull cracked open at that time. So the music teacher asks the neurosurgeon to simply **give** her a certain amount of money instead. If the neurosurgeon agrees, then *both* the neurosurgeon and the teacher are better off than before. The neurosurgeon **got** the music lessons he wanted and the music teacher **got** the amount of money she wanted so she could **get** a *favor* she wants from someone else. This is key. *Both*

are 'wealthier'. In the absence of force or fraud, the process is MORALLY correct because neither party lost in the exchange—both gave up what they each valued less to get what they each valued more. **What more could you ask other than that everyone else be your slave?!**

This illustrates the principle on which the private sector operates: "I'll do something good for you if you'll do something good for me." This process occurs very easily and naturally when people are free. And since the two traders are part of the community and no one else was involved, the community is also richer (wealthier).

Obviously the private sector is a fabulous wealth generator. **So the whole point is an individual 'producing' wealth for him or her self by giving favors to others so he can get favors in return.** The more and better *favors* you **give** others (in their opinion, not yours) the more *favors* you **get**.

It is important to note that, in a very real sense, a trade using money is really only 1/2 a trade; the other 1/2 being when the person receiving the money uses it to **get** a desired *favor*. So having money simply means you haven't asked for and collected all the '*favors*' owed you yet. **You 'produce' what you want by giving favors to others (usually for money) so you can satisfy your wants and needs by getting favors from still others (usually by spending money).** It is both that easy and that difficult.

Wealth, the Public Sector, Poverty, and Charity

We have covered the nature of wealth: doing favors for others and others doing favors for you in return, usually using money as an intermediary. Next, we cover the role of government and the nature of poverty and charity.

Public Sector

The principle on which the public sector (government) operates is simply: **"Obey what I say or I will do something bad to you."** Laws are not passed to be optional. The public sector, because of its nature and operating mode, cannot satisfactorily substitute for the voluntary, mutually beneficial activities of the private sector, as described previously.

It should be obvious that the public sector is not a good way to produce wealth. If the government **gives** you a '*favor*' and it doesn't charge you for that '*favor*', then it has to **get** the '*favor*' it **gave** you from someone else. This is by compulsion, since that's how the public sector operates (usually through taxes or, possibly worse, borrowing or printing money or credit).

Simply keep in mind that government is the billy club and the gun. It has its useful purpose—to use force and/or threat of force to punish and discourage some people from using force or fraud on other people—but it in no way resembles the private sector where people interact *voluntarily* for their *mutual* benefit, as judged by those people, not some third party such as government.

An important consideration is to keep government from **getting** the fruits of the labor of some to **give** to others. In the private sector, this is called theft!! Another consideration is to not over-regulate the private sector where people are interacting *voluntarily* for their *mutual* benefit.

The great political problem is not differentiating **what people should do from what they should be forced to do**. This failure puts personal rights and freedom at peril.

Less Wealth (Poverty)

Let us briefly consider 'poverty'. Strictly speaking, poverty does not exist, in the same sense that cold and peace do not exist. When molecules vibrate, that is called heat; and the faster they vibrate, the hotter the substance. Heat exists. When we speak of 'cold', we really mean less molecular vibration—less heat. Likewise with 'peace'. Conflict is what can exist. Peace is simply a lack of conflict. Same with 'poverty'. Wealth (**getting** what you want when you want the way you want it) is what exists. Poverty is a *lack* of wealth.

There are many ways to lose wealth (become poor if you still wish to think this way). But, other than satisfying your wants directly through your own efforts, there is only one honest way to wealth and that is by **giving favors** to others so you can **get favors** from others, usually using money in the process. In other words, **to get others to produce for you, you have to produce for others.**

It is invalid to ascribe some moral or other judgment to various levels of wealth. You have to know *why* people are where they are on the wealth scale to make any halfway reasonable judgment. Is she 'poor' because she was fired from her last three jobs for theft, or is she 'poor' because her husband abandoned her and she can't take an executive position involving travel and overtime because she has small children to take care of? Is he 'wealthy' because he's the drug lord who killed his competition, or did he invent polaroid for sunglasses and scientific instruments, and also the Instant Camera? Edwin Land did this.

Charity

People who have **given** many *favors* often don't feel the need to **get** all the *favors* 'owed' them (and thus they have money on hand). They may just decide to **give** some of the unspent **gets** owed them to others. This is charity. This should not be considered a *legal* obligation because **the reason they have money is they already gave more favors than they received gets** (bearing in mind that the money they received is only an intermediate step). Many, including most of the people who do it, would think of **giving** a portion of the results of their productivity (**giving favors** to some others while not expecting to **get** any in return) as a *moral* (but voluntary) obligation. They have been fortunate at producing for themselves and are willing to share some of that productivity (**gets** owed them) with others who, for whatever reason, have been productively less successful.

What is Messing Up Our Chance to Get Ahead?

Already covered is wealth creation in the private sector, the nature of government, poverty, and charity. Now...

The Problem

The above ‘worldview’ as described can be understood by most anyone whose IQ exceeds their age. So why are the ‘rich’ (economically successful) despised? Envy is a possible explanation but then you have to ask how people *justify* the envy. The answer may be relatively simple.

First of all, very few people have examined and understand the nature of human economic action in its very, very basic form as described here. Second, much of what has been taught and bandied about in the culture is grossly erroneous. Let’s examine this.

There is a simple key economic fallacy many people believe, and they think it is the most *moral* position. **The fallacy is this: When people exchange (interact economically), as a moral ideal, both parties should receive equal value. Surely you don’t want one to lose while the other gains, do you?** Obviously such believers don’t understand that the only reason a trade is likely to occur is if *both* parties expect to *gain*. Neither wishes to lose and if either doesn’t expect to gain, why bother to trade!

This foundational error of thinking that ‘trades should result in equal value being exchanged’ makes all their other ideas derived from it likely to be wrong, ineffective, and/or dangerous. For example, if morally both parties ought to receive equal value, then neither party, nor anyone else trading (buying and selling), should be any better off than anyone else. Therefore, according to this theory, if some people are better off than others (richer), this is an indication of immorality.

Don’t think this fallacy is that important? ***It is the most basic idea of all ‘leftist’ ideology.***

This fallacy is used to support their erroneous claim to the ‘moral high ground’. Most of their ideas are logical derivatives of this very fundamental *fatal error*, which explains why they are so often wrong, ineffective, and/or dangerous. For example, if you believe that because water and moisture are involved in floods, drownings, hurricanes, tornadoes, and mildew, and that therefore corn oil or something should be substituted wherever water is called for, almost all your subsequent cooking recipes are unlikely to be as delicious as intended, no matter how good your intentions.

A little boy knew that they were going to crop the tail of his new boxer puppy so he took things into his own hands and cut off the tail himself—an inch at a time so it wouldn’t hurt so much!! Good intentions have no necessary relation to good results. **If disaster ensues after ‘good intentions’, it’s manslaughter; if after ‘bad intentions’, it’s murder one!**

Ideas which derive from this basic fallacy include: “social values more noble than monetary profit” [FDR]; “fairness and equality” [Obama]; “redistribution of

wealth” (which wasn’t ‘distributed’ in the first place; it was earned, unless stolen).

The following placards often seen at demonstrations, are derived from this basic fallacy:

eat the rich; doing fair share; economic justice; everybody gets a fair shot; everybody does their fair share; take from rich to give to middle class; social justice; people over profit

In other words, their idea is that if people get ahead, they did so by taking from others, rather than recognizing that **if people get ahead it is because they have done more ‘favors’ for others**, assuming no force or fraud—or special governmental influence!!!

Need further proof? This is from a textbook¹ that was used in some sections of a required 2nd semester freshman course in a major state university:

"The boss hires us because he can make a profit from our labor; the landlord rents to us so that he can make an income from our rental; the manufacturer sells to us because he can make more wealth on his product than he puts into it; and the bank or loan company extends credit so that it can get back substantially more than it lends."

Amazingly, I only found one error in the whole textbook. It was this erroneous idea that, morally, interactions should result in both parties receiving *equal value*, instead of recognizing that *both should gain*. **However, this one erroneous idea was the basis of every word in the entire textbook!**

Summary

People have different skills, knowledge, etc., that others can use and desire. When free to do so, people quickly learn to interact by doing *favors* for each other with the result that *both* gain (increase their wealth, and thus the ‘wealth’ of the community as well). This is often called ‘division of labor’. Use of money simply makes this process vastly easier by allowing a person to do favor(s) for one party but collect the favor(s) owed him from others. This is how the ‘private sector’ works and creates wealth for its participants.

The nature of government and its modus operandi is the use of force or threat of force. This cannot produce the *mutual* benefit between parties that creates wealth as in the private sector. To the extent it prevents some from using force or fraud on others, government provides an important and necessary service. When it tries to do more it usually interferes with wealth production. Additionally, it was shown that while reciprocally doing *favors* for others results in wealth, obviously doing few or no *favors* for others, for whatever reason, will result in little or no wealth. This is often called poverty. Charity is providing *favors* for others,

frequently by giving money, without expecting to receive *favors* in return.

One definition states that economics is the study of the use of scarce resources that have alternative uses. I like a parallel definition. **Economics is the study of what a person with enough neurons to have a synapse is likely to do in a given situation—in other words, incentives.**

If you understand how free individuals are likely to interact with each other, as presented here, you will know not only how to move toward a desired lifestyle, but also have a better idea of how much you wish to ‘produce’ to achieve it. In other words, you can balance how much you wish to ‘produce’ with how luxuriously you wish to live. One reason freedom is so desirable is that it avoids restrictions on people doing *favors* for each other, increasing their well-being at each stage, something we call wealth. Money makes it easier to coordinate the *favors*.

The United States had much more freedom than most other countries and this is what enabled its people to create a rich country for themselves. Unfortunately, **the ‘problem’ fallacy (and its logical derivatives) discussed above is very common, probably dominant**, in media, political discourse, and education from the universities on down. This urge to ‘correct’ unfairness that does not exist is taking away freedom and interfering with people’s efforts to provide for themselves (gain wealth) here and all over the world!!

Epilogue

This has been written about how people interact in economic terms. Yet it is more important to realize that **this applies to life in general!** To ‘get’ what you want from others, ‘give’ them what they want.

If you **give** others love, friendship, respect, kindness, encouragement, etc., *most* of the time they will return the *favor*. Not always, but most of the time. This has been called “The Law of Reciprocity.”

If some don’t return it, don’t worry. You’ll **get** a lot more if you just **give** these things freely than if you hold back until you receive them or you waste effort and create bad feelings for yourself trying to ‘keep score’. By **giving** freely, you might even generate happiness—for yourself as well as others.

It’s almost as if we’re talking Christianity here: “Love God [the most important?] and love your neighbor.” Those who are Christian not just in name understand they should act this way.

If interested, you could read in the Bible the gospel of John, Chapter 20, verses 30-31, which can be followed by Luke, 1st half of chapter 7 and/or John chapter 11.



¹ “Democracy for the Few”, Dr. Michael Parenti (an older edition; don’t know about newer editions).