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INTRODUCTION TO POLITICAL ECONOMY

Steven Alan Samson

The Misspent Lunch Money

Economist Walter E. Williams learned a principle of success by missing lunch. "At 13, I was a typical barbarian growing up in the slums of Philadelphia," he recalls. "My mother supported us by working as a maid. Frivolous consumption often meant that I'd used up my school-lunch funds by midweek, so I'd go to Mom to borrow money.

"Finally one day Mom said, 'You knew you'd have to buy lunch when you spent the money,' and refused to fork over a dime. Saddled with what I was sure was the most callous mother on Earth, I went without lunch the rest of the week. I never frittered away my food money again -- taking my first step toward civilization.

"Of course my mother was not callous," Williams concludes. "I now realize it must be heart-rending for a parent to know his kid is hungry. But if you don't have the guts to hold someone accountable for his imprudence, how can he learn to do better."[1]

This story illustrates an important *first principle* of economics. It begins with a problem: Walter Williams's problem as well as ours. Our eyes are bigger than our pocketbooks: bigger even than our stomachs. At least since the dawn of time, having to choose has been part of the very *nature of things*. First, we see it in our own human nature. We seem to have *insatiable desires*. We are naturally greedy; we have a "lust for life." But, second, we are also naturally needy. Our natural environment is *stingy*. Most of us must work by the sweat of our brow to satisfy our needs, not to mention our desires. The result of these insatiable desires and the stinginess of nature is our basic economic problem: ***scarcity***.

So young Walter Williams went hungry and learned frugality from the experience. He realized what economists call *TANSTAAFL*: "There Ain't No Such Thing As A Free Lunch." *TANSTAAFL* means that everything has its price: whether it is measured in

[1]Reader's Digest, November 1989, p. 158 (reprinted from Success).

dollars and cents, bread and butter, or simply time and energy. Economics begins with our recognition that we can't have it all.

THE ECONOMIC WAY OF THINKING

What then does the economic way of thinking teach us? The scarcity of time and resources forces us to make choices for which no one is accountable except ourselves. We alone are responsible for conserving our limited resources. Achieving our goals requires careful planning.

Virtually every moment of our waking lives involves choosing between various options, preferences, or even duties. Consciously or unconsciously, we rank our priorities on a scale that may shift from moment to moment. Thus as economic beings we assign them different ***values***.

But these choices are not made in a vacuum. Up to this point we could be speaking of Robinson Crusoe, alone on a desert island. As it turned out, he was not alone even there and neither are we. There is a public as well as a private dimension to consider. In society we must also deal with other people, who are *also* involved in making choices and assigning values. The fact that we do not value the same things identically or even equally creates a basis for ***exchange***. We may have *more* of something than we want and seek to use it to gain something we lack through *bargaining*. When goods and services are *freely* exchanged in a transaction between two parties, both hope to benefit: that is, they exchange something they value less for something they value more, at least at the moment.

As a rule, people seek to maximize their welfare and minimize their losses. In

other words, they want to buy low and sell high. This frequently makes bargaining difficult. We may unconsciously keep a *running balance sheet* in our heads to see whether or not we are protecting our scarce assets. With the benefit of hindsight we might later regret some of these choices or missed opportunities. But in the absence of force, fraud, or defect, we must admit that the responsibility for our mistakes is our own, as Walter Williams learned while still a boy.

Let us turn to more general considerations. The ***model of Economic Man*** contrived by the classical economists helps us understand why and how man acts. Economics is, in the first place, a science of human behavior and motivation. Tom Rose summarizes it this way: Man seeks to improve his sense of well-being. In doing so, he tries to maximize his benefits and/or minimize his costs. His ability to assign value and to rank his priorities allows him to work toward his goals by rationally calculating the pluses and minuses of his actions. ***Rational choice***, however, requires some degree of **predictability** in the outcomes. Those who learn that fortune is fickle – that life is absurd – are apt to trust more in lady luck than their own prudence: hence gambling.

And here is the rub: man is not perfectly rational and the world as we experience it is not only stingy but deceptive. Economics, the science of scarcity and choice, is itself of limited application. A purely economic analysis of society is too narrow. Besides scarcity, we must contend with malice, envy, the uncertainties of life, and the general orneriness of human nature, as well. If economic choices have a social dimension, they also have political and ethical implications. Force, fraud, and criminal negligence raise issues of **justice** that fall into the province of political science.

ECONOMICS AND PUBLIC POLICY

Harold Lasswell once defined *political science* as the study of "who gets what, when, how." This is an interesting conception because it really sees politics as a branch of economics. Indeed, the two are difficult if not impossible to separate. What does this mean for us? For one thing, it has moved the state – the central government – into the forefront of daily affairs.

Let us strip government down to the essentials by adopting for the moment a libertarian model. The proper role of the government is to facilitate economic exchange by removing artificial barriers and enforcing penalties against wrongdoing. From this view, voluntary transactions – private personal choices – lie at the heart of economics. Politics, on the other hand, concerns the public use of force or coercion. The primary purpose of government is to protect society against the arbitrary and illegal use of force. But its ability to do so is necessarily limited. Its sanctions are normally applied only after a law has been broken. Its purpose is then to restore or to heal: an expression of society's ***resilience***, as **Aaron Wildavsky** terms it. Increasingly, however, the government has also become an actor in the exchange process, the purpose of which is ***anticipation***, including prevention. Liberals and many conservatives believe this is proper, but disagree on the priorities. Anticipation may involve nothing more unusual than the very helpful requirement that two-way highways be divided by median strips or concrete walls. But a fixation on public safety can lead to some extreme solutions, such as the suggestion made quite a few years ago of taking preventive action against people whose background puts them into high risk categories on a criminal behavior

profile. In the absence of well established constitutional limitations, such regulatory controls may increase the state's power to do mischief and complicate the assignment of responsibility.

The age old question of ***liability*** – who will pay – has been answered in the economic sphere by classical economists and libertarians by assigning it to the individuals directly involved.

In a voluntary economic exchange, the chief responsibility for ensuring a fair trade lies with those who must bear the greatest risks. The traditional expression of this responsibility is "***caveat emptor***:" let the buyer beware. The buyer still has recourse to the courts if he has been harmed but the burden of proof is on his shoulders. By providing restitution for damages, the old English common law system showed its reliance on resilience.

The process of voluntary exchange, as emphasized in classical economics, is important because it tends to inhibit the more obvious types of self-serving behavior. Both parties – buyers and sellers – expect to benefit. So sellers generally try to be on their best behavior to maintain good public relations. At least in the public square, the outward effects of human depravity are suppressed. This is important. It means that open cheating risks detection and punishment. In a healthy society, criminal activity is unlikely to be conducted in full public view.

But let's consider for a moment another scenario. What if the exchange were *in*voluntary? Here we must make a distinction between the use of legal as opposed to illegal force.

Some force is required to enforce the rules of the game. Even most libertarians

concede this to be the legitimate province of government, which then sends us its bill in the form of taxes. The real argument is over the proper scope and character of public policy. Some involuntary exchanges, such as taxes, wage and price controls, and conscription, may be required by law and backed by the coercive arm of the government. The wisdom of particular policies may be open to question, but free elections and the consent of the governed are a couple of safeguards we have against the arbitrary use of force by the government. Knowing when these payments are due, we can anticipate by preparing for them in advance.

A more serious problem arises with the introduction of arbitrary force or fraud into the exchange. Whether public or private in character, arbitrary force and fraud tend to short-circuit the rational decision-making process. Robbery, rape, and embezzlement strike at the very bond of trust and personal security that must prevail in civilized relations. Criminal activity has a chilling effect on legitimate commerce. Life becomes more unpredictable. Confidence gives way to fear. It is a perfect illustration of **Gresham's Law** that bad money drives out the good. One result is poverty. Consider the situation in Colombia, in Beirut, and in many of our urban and even rural neighborhoods. Crime inhibits the very sort of business and trade that could lift the people out of poverty. Thus the coercive arm of government is needed to protect people against crime.

This brings us back to the ***problem of justice***: economic as well as political. Since all human institutions, including governments, are corrupted by the effects of human depravity, who will guard the guardians? How may we ensure a just result so that everyone gets his due? Here we move from descriptive or positive economics to

prescriptive or normative economics.

The situation in Colombia may serve as a case in point. Quite a few years ago the chief cocaine traffickers in that country declared war on the central government and began terrorizing members of the judiciary through random assassinations. A campaign of terrorism is sometimes used by revolutionaries to divide public opinion and make people more submissive. In such a climate of fear the public naturally becomes desperate for protection. The cocaine cartel attempted by these means to pressure government authorities into either leaving it alone or inviting it into the government. The president of Colombia publicly pledged to fight the cartel, as did his successors. For its part, the cartel sought either to go around him – or, if necessary, through him – to protect its ill-gotten gains. The major drug lords eventually surrendered to the government under very generous terms, but the cocaine trade continued to flourish. As this case illustrates, time and again the question is whether, in the end, the public interest or a private interest will prevail.

In this case, the issue of public as opposed to private interest appears to have been clear cut. Perhaps so in this particular case – but in many cases, unfortunately, it is not. The issue is both economic and political in nature.

THE MORALITY OF PUBLIC POLICY

Politics and economics once belonged to the same academic discipline, *political economy*, which sprang out of moral philosophy with the publication of *Wealth of Nations* by **Adam Smith** at the time of the American War for Independence. Although economists generally focus on the positive or descriptive side of their discipline, the

prescriptive or normative side of the ledger is inescapable. It raises questions about what choices we *should* make. Here our presuppositions and biases tend to cloud our vision. All of us tend to confuse our private interests with the public good. This is natural. What is not so natural – in fact it is highly political – is when we are able to have these private interests turned into law in the form of special privileges, rights, or subsidies at the public expense.

Frederick Bastiat calls this phenomenon ***legal plunder***. His description of the problem is as clear as any that may be found:

> Under the pretense of organization, regulation, protection, or encouragement, the law takes property from one person and gives it to another; the law takes the wealth of all and gives it to a few -- whether farmers, manufacturers, shipowners, artists, or comedians. Under these circumstances, then certainly every class will aspire to grasp the law, and logically so. . . . As long as it is admitted that the law may be diverted from its true purpose -- that it may violate property instead of protecting [property] -- then everyone will want to participate in making the law, either to protect himself against plunder or to use it for plunder. Political questions will always be prejudicial, dominant, and all-absorbing.

Around 1850, Bastiat noted two issues that threatened the public peace in the United States: ***slavery and tariffs***. Both involved the promotion – even the imposition – of certain private interests by public power at the expense of other private interests and against the common good, as well. Principled opposition to both practices was voiced in Congress. Each of these practices distorted the political process and polarized public opinion with tragic consequences: as with the Civil War and later with the Great Depression.

Slavery and tariffs are not our worst problems today, but they were not isolated phenomena even then. Bastiat noted that "we have an infinite number of plans for organizing" legal plunder. It is very revealing to cite his list from the year 1849:

"subsidies, encouragements, progressive taxation, public schools, guaranteed jobs, guaranteed profits, minimum wages, a right to relief, a right to the tools of labor, free credit, and so on." Think of how many others he could add to his list today. No matter how small in scale, all of these grants of privilege have profound effects on how people get along in society.

But the point is not to single out any particular subsidy, privilege, or special benefit. It is to ask: How do we assure that the common good is achieved in each of these areas? For that matter, what do we do about the spillover effects of what we may consider fully legitimate activities?

This leaves us with a final question: Where do we go to gain an understanding of the principles involved? Can economics be simplified so the average student can understand it? Henry Hazlitt thought so. Many years ago he wrote an article entitled "Economics in One Lesson." The lesson is simply this: "The art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups." Like Lasswell's economic definition of politics, Hazlitt's definition can serve as a starting point for examining both the economics and the ethics of our political choices.