



The Economics Lesson Obama Needs to Learn

President Obama is again turning his attention to the elusive economic recovery. His “pivot” will be for naught, however, as long as he continues to ignore two important points: first, government is a major squanderer of scarce resources, and second, its regulations are impediments to saving and investment.

We live in a world of scarcity. At any given time our ends outnumber the means to achieve them. Hence we economize so that we can achieve as many of our ends as possible. Resources, labor, and time devoted to one purpose can't also be used for other purposes, and the alternative forgone is the true cost of any action. We individually choose among competing ends after assessing the trade-offs, because we don't want inadvertently to give up something we prefer in exchange for something we don't value as much.

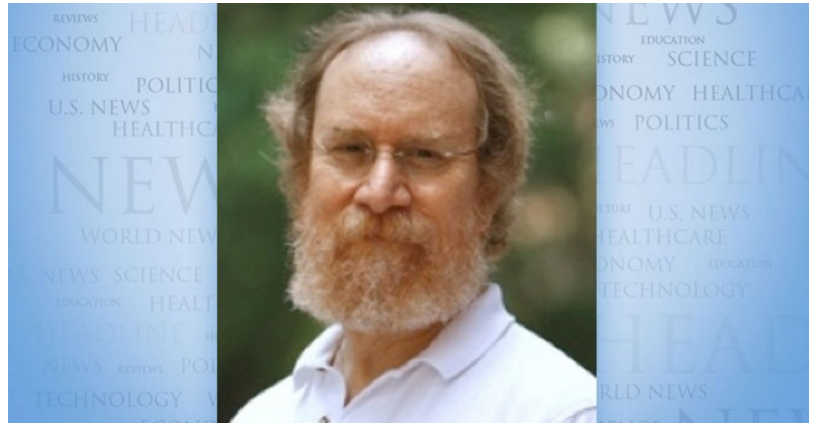
The marketplace, when it's free of government privilege and regulation, lets us accomplish this to a remarkable degree. In doing so, it raises our living standards and creates an orderly environment, thanks to the price system, which coordinates and facilitates our plans.

Government throws this process out of whack. When politicians forcibly extract resources from us (through taxation) and borrow, they leave us less with which we can improve our lives through entrepreneurship, business formation, and the like. But, you may ask, aren't the politicians' projects worthwhile? Actually, many government projects are of zero value or worse. The costly global empire is beyond useless: it endangers us. Other projects might be useful, but — and this is key — we can't be sure, because they are not subject to the market test.

If a private entrepreneur acquires resources in a quest for profit, she must create value for consumers or she will fail. The market's profit-and-loss test will see to that. That test is administered by countless millions of consumers who are free to take or leave what the entrepreneur offers. This test is relayed back to the investors who lend money to entrepreneurs for productive ventures. They know that if the entrepreneur fails, they will also suffer losses. So they must scrutinize projects in terms of their potential, ultimately, to please free consumers.

The upshot is that consumers' uncoerced actions signal (through prices and profit/loss) what pleases them and what does not. Suppliers must pay heed or face bankruptcy. This explains why markets, when not burdened by government privileges and arbitrary rules, work so well to raise living standards.

Note how government projects differ essentially from market projects. Politicians and bureaucrats obtain their money through force, not consensual mutual exchange. (What happens if you tell the IRS





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you don't want to purchase its "services"?) Even the money obtained through voluntary loans is expected to be repaid with the taxpayers' money. It's taxation all the way down.

Moreover, government "services" are not offered in a competitive market where consumers are free to take them or leave them. Since we're forced to pay a monopoly provider regardless of whether we want the "services," at the point of delivery they appear to be free. You can't opt out of paying for "free public schools" even if you don't want to use them. Everyone pays into Social Security, a (meager) pension plan, under threat of force. In other words, government services are not true services in the market sense because they face no market test from consumers free to withhold their money without penalty.

The market test assures that bad trade-offs are avoided, or at least quickly corrected if they are made. If steel is being used to make one product when consumers are demanding something else, the competitive entrepreneurial process sees to it that steel will be redirected.

No corresponding process exists in the political realm. It contains no incentives to look out for the consumers' welfare. Instead, we have political theater and value destruction.

This would be bad enough, but it's actually worse. What government does with the stolen resources typically makes it harder for us to use the remaining resources productively. Uncertainty about future taxation and regulation, for example, increases the risk of investment and hence reduces it.

An indispensable prerequisite of economic well-being is humility on the part of politicians. How about it, President Obama?

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