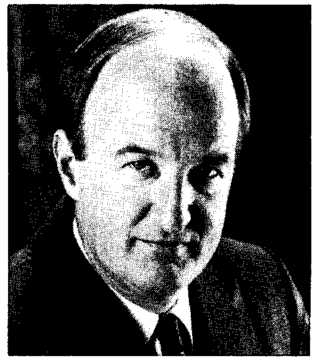

Economics in One Page

"What makes it [economics] most fascinating is that its fundamental principles are so simple that they can be written on one page, that anyone can understand them, and yet very few do."[1]

—Milton Friedman

The above statement by Friedman got me thinking: Is it possible to summarize the basic principles of economics in a single page? After all, Henry Hazlitt gave us a masterful summary of sound principles in *Economics in One Lesson*. Could these concepts be reduced to a page?

Friedman himself did not attempt to make a list when he made this statement in a 1986 interview. After completing a preliminary one-page summary of economic principles, I sent him a copy. In his reply, he added a few of his own, but in no way endorses my attempt.

After making this list of basic principles (see the next page), I have to agree with Friedman and Hazlitt. The principles of economics are simple: Supply and demand. Opportunity cost. Comparative advantage. Profit and loss. Competition. Division of labor. And so on.

In fact, one professor even suggested to me that economics can be reduced to one word: "price." Or maybe, I suggested alternatively, "cost." Everything has a price; everything has a cost.

Additionally, sound economic policy is straightforward: Let the market, not the state, set wages and prices. Keep government's hands off monetary policy. Taxes should be minimized. Government should do only those things private citizens can't do for themselves. Government should live within its means. Rules and regulations should provide a level playing field. Tariffs and other barriers to trade should be eliminated as much as possible. In short, government governs best which governs least.

Unfortunately, economists sometimes forget these basic principles and often get caught up in the details of esoteric model-building, high theory, academic research, and mathematics. The dismal state of the profession was expressed recently by Arjo Klamer and David Colander, who, after reviewing graduate studies at major economics departments around the country, asked, "Why did we have this gut feeling that much of what went on there was a waste?"[2]

On the following page is my attempt to summarize the basic principles of economics and sound economic policy. If anyone has any suggested improvements, I look forward to receiving them.

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1. Quoted in interview, *Lives of the Laureates*, William Breit and Roger W. Spencer, eds. (Cambridge, Mass.: MIT Press, 1986), p. 91.
2. Arjo Klamer and David Colander, *The Making of an Economist* (Boulder, Colo.: Westview Press, 1990), p. xiv. See also David Colander and Reuven Brenner, *Educating Economists* (Ann Arbor: University of Michigan Press, 1992).

Economics in One Page

by Mark Skousen

1. Self-interest: "The desire of bettering our condition comes with us from the womb and never leaves till we go into the grave" (Adam Smith). No one spends someone else's money as carefully as he spends his own.

2. Economic growth: The key to a higher standard of living is to expand savings, capital formation, education, and technology.

3. Trade: In all voluntary exchanges, where accurate information is known, both the buyer and seller gain; therefore, an increase in trade between individuals, groups, or nations benefits both parties.

4. Competition: Given the universal existence of limited resources and unlimited wants, competition exists in all societies and cannot be abolished by government edict.

5. Cooperation: Since most individuals are not self-sufficient, and almost all natural resources must be transformed in order to become usable, individuals—laborers, landlords, capitalists, and entrepreneurs—must work together to produce valuable goods and services.

6. Division of labor and comparative advantage: Differences in talents, intelligence, knowledge, and property lead to specialization and comparative advantage by each individual, firm, and nation.

7. Dispersion of knowledge: Information about market behavior is so diverse and ubiquitous that it cannot be captured and calculated by a central authority.

8. Profit and loss: Profit and loss are the market mechanisms that guide what should and should not be produced over the long run.

9. Opportunity cost: Given the limitations of time and resources, there are always trade-offs in life. If you want to do something, you must give up other things you may wish to do. The price you pay to engage in one activity is equal to the cost of other activities you have forgone.

10. Price theory: Prices are determined by the subjective valuations of buyers (demand) and sellers (supply), not by any objective cost of production; the higher the price, the smaller the quantity purchasers will be willing to buy and the larger the quantity sellers will be willing to offer for sale.

11. Causality: For every cause there is an effect. Actions taken by individuals, firms, and governments have an impact on other actors in the economy that may be predictable, although the level of predictability depends on the complexity of the actions involved.

12. Uncertainty: There is always a degree of risk and uncertainty about the future because people are often reevaluating, learning from their mistakes, and changing their minds, thus making it difficult to predict their behavior in the future.

13. Labor economics: Higher wages can only be achieved in the long run by greater productivity, i.e., applying more capital investment per worker; chronic unemployment is caused by government fixing wage rates above equilibrium market levels.

14. Government controls: Price-rent-wage controls may benefit some individuals and groups, but not society as a whole; ultimately, they create shortages, black markets, and a deterioration of quality and services. There is no such thing as a free lunch.

15. Money: Deliberate attempts to depreciate the nation's currency, artificially lower interest rates, and engage in "easy money" policies inevitably lead to inflation, boom-bust cycles, and economic crisis. The market, not the state, should determine money and credit.

16. Public finance: In all public enterprises, in order to maintain a high degree of efficiency and good management, market principles should be adopted whenever possible: (1) Government should try to do only what private enterprise cannot do; government should not engage in businesses that private enterprise can do better; (2) government should live within its means; (3) cost-benefit analysis: marginal benefits should exceed marginal costs; and (4) the accountability principle: those who benefit from a service should pay for the service.

BOOKS

The Social Security Fraud

by Abraham Ellis

The Foundation for Economic Education • second revised edition, 1996 • 209 pages • $14.95 paperback

Reviewed by William H. Peterson

U.S. Supreme Court Justice Louis Brandeis stated his opinion in *Olmstead v. United States* in 1928: "The greatest dangers to liberty lurk in insidious encroachment by men of zeal, well-meaning but without understanding."

Just six years later, with the New Deal, a zealous, presumably well-meaning President Franklin D. Roosevelt, if also presumably without much understanding, said in a message to Congress calling for a system of "social insurance": "Among our objectives I place the security of men, women, and children of the Nation, first. Fear and worry, based on unknown danger, contribute to social unrest and economic demoralization. If, as our Constitution tells us, our Federal Government was established among other things 'to promote the general welfare,' it is our plain duty to provide for that security upon which welfare depends."

That's a stretch, FDR's citing the General Welfare Clause as authority to launch Social Security. Note his cited phrase specifically says "promote" and not "guarantee," and "general," not "individual," welfare.

Nonetheless, Social Security began in 1935, the same year as Child-Welfare Assistance, now known as Aid to Families with Dependent Children (AFDC). Social engineering was off and running, with both welfare schemes incurring the wrath of the Law of Unintended Consequences. For instance, both Social Security and AFDC, if in different ways, have contributed to the breakdown of the American family.

Abraham Ellis, an English-born lawyer practicing in Manhattan, does a solid job in demolishing the shaky case for Social Security—shaky legally, analytically, and empirically. Rightfully, he tags the scheme as a "fraud," as but one more means, through the years, of extracting heavy taxes from the already tax-squeezed American citizen. The fact is that today, for most working Americans, payroll taxes are bigger than income taxes.

Initially, though, the Social Security tax was deceptively and of course politically light—one percent each on employee and employer. You needn't ponder long on why Congress magnanimously suspended payroll tax increases scheduled for 1946 and 1949. Workers, after all, vote. Yet today the combined tax is more than 15 percent, up more than sevenfold.

That's bad enough, but the record of the White House and Congress in further administering Social Security is just as bad or worse, as politics has ever reared its ugly head. For example, in 1956 women, who also happen to vote, were allowed to receive reduced benefits at age 62, unlike their male counterparts whose eligible age held at 65. In 1965 widows had their eligible age reduced to 60. Compassion is never in short supply in Congress.

Abraham Ellis has a fun chapter on "Social Security Semantics." Social Security taxes are still tagged as "contributions"; the system has a fictitious actuarial aura in its official description as "Old-Age, Survivors, and Disability *Insurance*." Social Security "trust funds" imply actual investment set-asides for future obligations while the funds themselves are virtually sham dummy accounts, with strictly pay-as-you-go intergenerational transfers; fund "trustees"—not going to prison for the deception—simply accept federal IOU's and hand over the cash receipts to the U.S. Treasury for general government expenses; current workers carry ever more retired workers on their aching backs, now in the range of three workers per one retiree. In 2029 the ratio will be two to one. So the Ponzi-pyramid scheme unravels; so the $350 billion cash cow laden with tens of millions of votes sinks into the muck of Welfare State politics.

In the introduction, FEE president Hans Sennholz wonders about the applicability of the touted privatization of Chilean social security to the American situation. He says reform here has to proceed "from the high ground of goodness and morality; any other ground, no matter how rational and economical, is bound to disappoint."

The note on morality is appropriate. For in the upside-down world of Social Security, Abraham Ellis could have well come up with the crack: "There's a Fraud in Your Future." □

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