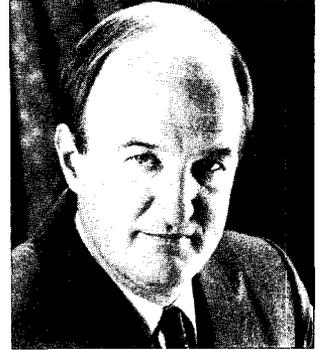


## Everything Is Cheap— and Getting Cheaper



“Capitalism is about turning luxuries into necessities.”

—ANDREW CARNEGIE<sup>1</sup>

**W**e all labor under the notion that the cost of living is high and rising every year. Yet, believe it or not, economic life is relatively inexpensive, and getting cheaper all the time.

This truth was reinforced recently when my friend and colleague Roger Clites told me about a little exercise he does regularly with his economics students. He first asks them whether college life is expensive or not. Most raise their hands. Then he asks the students to think of a good or service they regard as expensive. Last year one student responded, “Beer costs too much.” Professor Clites assigned this student the task of making his own beer and bringing it to the next class. At the next meeting, the student confessed that it had cost him a great deal more to try to make a beer than to buy it in the store, and he still wasn’t able to make it.

The point is simple but profound. Every day each of us profits handsomely from the specialization, knowledge, and abilities of millions of other individuals. Adam Smith called it the division of labor, which he regarded as the fundamental basis of capitalism. Without the work, expertise, and capital of others, our

lifestyle would be profoundly barbaric. The opportunity cost of doing many tasks ourselves is so high that we must be grateful for the interactive market system we enjoy.

Economists often talk about negative externalities, such as air and water pollution caused by businesses that don’t pay the full costs of production. Yet the number of positive externalities—benefits that we enjoy and that others create or pay for—are far more abundant.

Thus, compared to a situation in which each individual makes everything for himself, things are cheap. And that’s not all.

### The Real Standard of Living Is Rising . . .

Recently several studies have been published concluding that the real cost of living has been falling and the standard of living rising dramatically throughout the twentieth century in the United States. Even the poorer income classes have improved materially their economic condition under free enterprise.

I highlighted the work of Stanley Lebergott, professor emeritus of economics at Wesleyan University, in my column in March 1997. His fascinating work, *Pursuing Happiness: American Consumers in the Twentieth Century* (Princeton University Press, 1993), demonstrates that virtually all American consumers have been able to make an uncertain

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and often cruel world into a pleasanter and more convenient place to live and work. A typical homestead in 1900 had no central heating, electricity, refrigeration, flush toilets, or even running water. Today even a large majority of poor families benefit from these goods and services.<sup>2</sup>

## ... And the Real Cost of Living Is Declining

Now along come W. Michael Cox, an economist at the Federal Reserve Bank of Dallas, and Richard Alm, a business writer for the *Dallas Morning News*, who did an exhaustive study of the cost of basic goods and services in this century. They conclude that the real prices of housing, food, gasoline, electricity, telephone service, home appliances, clothing, and other everyday necessities have fallen significantly.

Examples: In 1919, it took two hours, 37 minutes of work to buy a three-pound chicken. Today, it's down to 14 minutes. In 1915, a three-minute long-distance telephone call from New York to San Francisco cost \$20.70. Today, it's less than 50 cents, equal to two minutes of work at the average wage. In 1908, a Model T cost \$850, equivalent to more than two years' wages for an average factory worker. Today, the average worker toils only about eight months to buy a Ford Taurus.

Many products have fallen dramatically in price (real, if not nominal) over the past 20 years, including computers, radios, stereos and color televisions, telephones, microwave ovens, gasoline, soft drinks, and most airline tickets. Cox and Alm do point to two exceptions: medical care and higher education. But even in these two cases, they argue that the medical care is better than it used to be, and that the higher costs of an education result in higher lifetime income.

Cox and Alm summarize, "As we enter the 21st century, Americans take for granted our ability to afford the trappings of the world's most envied middle-class lifestyle. It's the result of the decline of real prices in a dynamic economy, played out over and over."<sup>3</sup> (I urge you to obtain a copy of Cox and Alm's full research report, published in the 1997 Annual Report of the Federal Reserve Bank

of Dallas, complete with numerous color pictures and graphs. It's an ideal teaching tool. Write the Federal Reserve Bank of Dallas, 2200 North Pearl St., Dallas, TX 75201, call 214-922-6000, or visit its Website, [www.dallasfed.org](http://www.dallasfed.org).)

More and more Americans have benefited from an increase in the quantity, quality, and variety of goods and services because of the nature of the free-enterprise system: competition reduces costs, encourages new products and improved processes, and promotes quality improvements. In the labor market, increased productivity leads to higher wages, which allows workers to buy better, cheaper products.

## Today the Poor Are Rich

Cox and Alm have also written a new book with an intriguing title, *The Myth of Rich and Poor*, to be published next month by Basic Books. Their research confirms the unorthodox view that the poor in America are catching up rapidly to the lifestyle of the rich. This perspective on the real cost of living goes counter to the conventional wisdom of most economists, who assert that the gap between rich and poor has been growing in the 1980s and 1990s. Perhaps it's time for economists to consider this new approach to measuring economic lifestyles.

With cheap financing, more and more poor people can afford a fully equipped home and automobile. They can have the best seat in the house for a ball game or concert through cable television. They can travel to exotic lands or top vacation spots through discounted package fares. They can communicate with friends all over the world through cheap long-distance telephone service or e-mail. And they can find a wealth of information at their fingertips through the Internet.

The rich aren't so different after all.

1. Quoted in Paul Johnson, *A History of the American People* (New York: HarperCollins, 1997), p. 551. I highly recommend this new American history.

2. Also see Robert Rector, "America Has the World's Richest Poor People," *Wall Street Journal* (September 24, 1998).

3. Michael Cox and Richard G. Alm, "Buying Time," *Reason* magazine, August/September 1998, p. 42. The full study is "Time Well Spent: The Declining Cost of Living in America."

# BOOKS

## How I Found Freedom in an Unfree World

by Harry Browne

LiamWorks • 1997 • 387 pages • \$24.95

Reviewed by George C. Leef

There always have been and probably always will be a great many human beings who just won't leave others alone. History is full of them—famous tyrants and conquerors—and no doubt you know people who, on a lesser scale, insist on bossing others around. The ones who do the most damage in the United States (and other “free” countries) are the people Adam Smith described as “men of system,” always brimming over with schemes for making the world more just, safe, moral, orderly, or whatever. They are certain that their schemes will “work” provided that everyone can be compelled to go along. Their visions ensnare us all.

Given the lamentable fact that those people abound, what is the person who just wants to live according to his own desires to do? Some give themselves ulcers by complaining about the way the world is. Others take action, trying to obtain greater freedom than the “men of system” deign to give them. They work to get freedom-restricting laws repealed, taxes reduced, bad officials replaced, and even governments overthrown. Occasionally, these efforts succeed. Often, they fail. In either case, fighting the battle for freedom has costs: time and property are given up; lives may be lost.

But there is a third option: action to seek freedom without confronting the oppressors. That is the message-in-chief of Harry Browne's *How I Found Freedom in an Unfree World*. First published in 1973, now reissued with a new foreword and afterword, this book is an argument in favor of finding freedom by avoiding and outwitting the authoritarians. Browne makes an interesting case.

In the tradition of Ayn Rand, Harry Browne, financial writer and, ironically, 1996

Libertarian Party presidential candidate, holds that people should strive to live their lives happily. They need not and should not sacrifice themselves for the supposed good of abstractions like “society” or “the nation.” Nor should they sacrifice themselves in obedience to clichés like, “You must not be selfish.” Everyone is selfish, the author notes, and the anti-selfishness injunction is merely a means some people use to pressure others to subordinate their desires to those of the “unselfish.”

Returning to the fight versus flight debate, Browne suggests that most people will find more happiness if they adopt the latter strategy. The government's functionaries are not as knowledgeable or motivated as they are generally assumed to be, he maintains, and therefore individuals who want to be left alone can find freedom by steering clear of the state.

As an example, he tells about a business he once ran, where payroll taxes were becoming unbearable. Browne was contacted by an organization that wanted his financial assistance so it could wage a political fight against such taxes. Instead, Browne dissolved the business and reformulated it as a group of independent contractors cooperating for mutual gain. The effort against the payroll tax went nowhere, but Browne and associates were better off than ever.

Do you get hot under the collar because government does things that violate your rights? Browne advises you to forget about the concept of rights: “You're in the Rights Trap whenever you count on anything other than an individual's self-interest to cause him to give you what you want.” People who are violating your rights aren't going to stop just because you claim to have rights against their actions. You're probably better off taking evasive action rather than unleashing a torrent of righteous rhetoric, Browne says.

But what if everyone adopted the Browneian philosophy and huddled in the shrinking domains of freedom, which might just alert the statist to them and lead to further crackdowns? Don't worry about that, our author replies. What you do won't affect others. Try to squeeze as much happiness as you can out of life, and if you conclude that doing