

ARE THE RICH NECESSARY?

*Great Economic Arguments
and How They Reflect Our
Personal Values*

HUNTER LEWIS

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Part One

The Central
Economic Problem

Why Are We Still So Poor?

IF YOU PUT \$10 IN A BANK ACCOUNT and earn 3% interest, the money will double every twenty-five years. Even after a long lifetime, you might have only \$30 or \$40 dollars. “No way to get rich,” you are thinking.

But humanity goes on. Imagine that the bank account kept on doubling every quarter century for 1,000 years. The original \$10 would then have grown to a sum worth over two times the world’s total wealth today.


Compounding money over long periods of time produces fantastic results. So why has humanity not done better? The reason is simple. Throughout human history, capital has been created, capital has been

destroyed, over and over. Compounding has hardly had a chance to start, much less reach the magic of multiplying large numbers.

There are a variety of reasons for this: natural disasters such as disease and weather-related famine, war, and other human follies. But there has also been almost complete intellectual confusion about how to organize ourselves to end poverty and deprivation.

We also know, through simple intuition, that it is not enough to find the right answer. We must agree on the answer. Societies do not become rich simply by preserving and growing their capital. They become rich by cooperating. The more cooperation, the more potential to preserve, invest, and grow capital. There is an irony in this. We need to cooperate. But, almost at once, we start to argue about how we might best go about cooperating.

The Appeal of Science

NE WAY TO try to overcome this initial obstacle, the difficulty in deciding how best to go about cooperating, is to see if we can develop economics into a science. A scientific approach would separate truth from error and help us reach agreement.

But can economics be a science? Is wealth creation like building an engine or a bridge, something that will follow formal rules, as soon as we discover the rules? Or is wealth creation more like raising children, a task for which there are no formal rules, at least no rules that fit every occasion and every child?

If the economic problem is a scientific one, it can be solved. If a non-scientific one, it can only be managed, not solved. In the latter case, we will have to rely

on our judgment, in particular we will have to rely on value judgments.

Economist Milton Friedman thought that economics could be a science. He spoke for many of his colleagues in the 1950s when he wrote that “Economics is, or can be, an ‘objective’ science, in precisely the same sense as any of the physical sciences.”¹

Unfortunately, there are important reasons why a scientific approach to economics may not work. To begin with, the ultimate subject matter in economics is human behavior, and human beings are notoriously unpredictable. Today we want this, tomorrow we want the opposite, and there may not be much “rhyme or reason” about it.

Our unpredictability is only one problem. There is another major one. If we watch an apple fall from a tree, our watching has no effect on the apple. But if we watch people, the lessons we learn may change our behavior or even the behavior of the people we are watching.

Here’s an example. Assume that people study stock market history and decide that stocks are the best and the safest place to put their money. What will they do then?

Naturally they will buy more and more stocks. But, by doing so together, they will raise prices dramatically, and this will make the stocks more and more risky. Eventually, almost all the potential buyers will already have bought, so that people who must sell (such as

retirees) will have no one left to whom to sell. At that point, prices will collapse, leaving millions of investors poor and bewildered.

This is not a hypothetical example. Something similar happened in the great American stock market crashes of 1929, 1973, and 2000. The lesson here is clear: just when we all decide that something in economics is “true,” it may cease to be true.

Economic Arguments

WHETHER WE LIKE it or not, economics is unlikely to become a science, in the same sense that physics or chemistry are sciences. But that does not mean that there are no economic answers. We must find them and we do.

In the first place, we develop guiderules based on our life experiences. Sometimes these guiderules are highly contextual, even paradoxical, as in the motto, “Moderation in all things, even in moderation.”

We also form ideals, and try to temper those ideals with common sense. We change our stance as the times change. Above all, we argue.

Many economics textbooks downplay arguments. They do not want to leave an impression that nothing is settled, that the entire field is in a state of chaos. This