

# A Guide to the Economically Perplexed

People are puzzled by economic failure, but basic economics guides us to remedies.

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People world-wide are perplexed about the world's economies. They are baffled, puzzled, and confused. Why do economies have a boom and bust? Why does poverty persist? Why are wages and family incomes in developed economies not rising? Why has the economic recovery been so slow? If free trade is good, why are so many industries shutting down or moving out of the country? Why is there chronic unemployment? Will robots and artificial intelligence put most people out of work and in poverty? Why are so many governments in chronic and rising debt? Why, despite low or even negative interest rates, do economies remain sluggish?

To understand economic woes, we can use the analogy of the human body. There is a long tradition, going back to the French economists of the 1700s, of comparing a healthy economy to a healthy human body. The normal status is a body free of the intervention of disease and injury. The analogy is a pure free-market economy, free of any governmental intervention. If we understand how a pure free market works, we can then understand how economic diseases and injuries—the interferences of imposed costs and subsidies—change the outcome.

A pure free market abides by natural moral law, so that only acts which coercively harm others are crimes or torts. The natural law of property is, “to the creator belongs the creation”. There is neither a tax nor a subsidy on human action and its products. Since human equality is a premise of natural moral law, for property that is not a product of labor, equality implies an equal benefit from natural resources, including spatial land. The equal benefit is implemented by collecting the market economic rent of land. Much of that rent should be distributed in equal shares of money. The way to prevent economic troubles was written long ago in Ecclesiastes 5:9, “The profit of the earth is for all.”

## The way to prevent economic troubles was written long ago in Ecclesiastes 5:9, “The profit of the earth is for all.”

In a pure free market, there is no monetary authority or central bank imposing some arbitrary quantity of money on the economy and manipulating interest rates. In free-market money, there is some “outside money,” a commodity or currency existing independently of the financial system, and there are “money substitutes” or “inside money” whereby financial institutions may issue their own currency and have deposit accounts, and these substitutes are convertible into the real money, the outside money, at a fixed ratio. For example, if the real money is gold, the paper currency issued by bank is convertible into gold. The money supply is determined by the demand by the public to hold money, and the interest rate is set by the market's supply of loanable funds from savings, and the market's demand to borrow for consumption and investment.

In this pure free market, so long as a worker's contribution to output is greater than zero, there is no unemployment other than people temporarily between jobs. Poverty is abolished, because a worker keeps his wage and receives a share of the land rent. The inequality due to land tenure is gone. The cause of the boom and bust - massive subsidies to land values - is eliminated, so there are no more depressions. Free banking avoids the cheap credit due to central-bank manipulations, and with no subsidies, the financial industry no longer suffers periodic crashes.

In a pure market economy, true free trade benefits the worker, because the gains captured by rising land rent and land value are distributed to the people equally.

Much of the damage done by global trade and technological progress is due to taxes and subsidies rather than trade itself. Taxes on labor, investment, savings, and goods, all make the cost of labor higher than labor's contribution to output. Industry shuts down, moves out, or automates. Remove this artificial cost, and labor becomes fully employed because its wage equals its extra contribution to output.

A pure free market and advancing technology create a demand for funds for investment and production, but that demand has been stifled by imposed restrictions, mandates, and taxes. In the pure free market, the only restrictions are on committing force and fraud. Much of the response to wrong-doing is with lawsuits, which are transferrable: a person can sell his lawsuit to someone else.

Pollution is a coercive harm, a trespass, and is minimized either law suits or with a tax on emissions. The destruction of the environment is compensated by those causing it. The pollution of traffic from congestion is similarly handled with tolls just high enough to prevent crowding.

Economic woes are caused by the interventions of economic diseases and injuries, the mandates and taxes on production and consumption, the restrictions, and the subsidies. Interventions make labor more costly and goods more expensive, so we get unemployment and poverty. Monetary and fiscal subsidies to land values and rent generate real-estate and financial bubbles and crashes.

There is one difference between the human body and the economic body, namely that some body problems are caused by genetics rather than an invasion of poison or microbes. A pure free market is genetically healthy. Bad actors will always cause some problems, but a pure market is free of systemic problems. When we understand that it is the imposed interventions and not the market that causes economic woes, the puzzle is solved. Not that we know everything, but that we see the cat hidden in the drawing. Knowing the basic cause of economic woes, we are no longer perplexed.

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**FRED E. FOLDVARY, Ph.D.**, (May 11, 1946 — June 5, 2021) was an economist who wrote weekly editorials for [Progress.org](#)

Foldvary's commentaries are well respected for their currency, sound logic, wit, and consistent devotion to human freedom. He received his B.A. in economics from the University of California at Berkeley, and his M.A. and Ph.D. in economics from George Mason University. He taught economics at Virginia Tech, John F. Kennedy University, Santa Clara University, and San Jose State University.

Foldvary is the author of *The Soul of Liberty, Public Goods and Private Communities*, and *Dictionary of Free Market Economics*. He edited and contributed to *Beyond Neoclassical Economics* and, with Dan Klein, *The Half-Life of Policy Rationales*. Foldvary's areas of research included public finance, governance, ethical philosophy, and land economics.

Foldvary is notably known for going on record in the *American Journal of Economics and Sociology* in 1997 to predict the exact timing of the 2008 economic depression—eleven years before the event occurred. He was able to do so due to his extensive knowledge of the real-estate cycle.

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