

The Forgotten Path to Prosperity

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This article, and those that will follow in this series, describes in simple but compelling form several objective truths about the dynamics of scarcity and prosperity and the role they play in human decision-making within the context of an economy. The simple elegance of the economic system we describe seems to have been long forgotten, buried under an accumulation of overly sophisticated ex-

“The record of history is absolutely crystal clear. There is no alternative way so far discovered of improving the lot of the ordinary people that can hold a candle to the productive activities that are unleashed by a free enterprise system.” - Milton Friedman

Whether one thinks of a market as barter, a grocery store, internet commerce or the New York Stock Exchange, the concepts behind each of them are identical. In all of these marketplaces, people have resources which they are willing to give up in order to gain something else they deem as more valuable.

If I own a coop full of chickens that produces two dozen eggs every week, then I am not likely to pay for eggs in the grocery store. More likely, a grocer may be willing to buy my eggs for re-sale to his customers. If my portfolio is over-weighted with technology stocks, then I am less likely to seek new technology stocks to own. If I need money to pay for my daughter’s college tuition, then I may need to work harder and/or sell some of my assets in order to meet the obligation. This simple set of examples is intended to reflect the decision-making human beings face when considering resource allocation. In the 720 Global philosophy statement we put it this way:

- Human beings have desires and those desires drive decision-making. Given the desire and the means or ability to fulfill those desires, they will do so. **This results in demand.**
- At the same time, in order to fulfill one’s desires, human beings will undertake activities that give them the *means* to fulfill their desires. **This results in supply.**
- When human beings interact in a manner that allows their desires and their means to intersect, markets are created.

To emphasize the important linkage between resource allocation, economic success and the role of markets, a basic review of the terms *scarcity* and *prosperity* is important:

- **Scarcity** is defined as a deficiency in quantity or number compared with demand. It is a universal, natural condition whereby resources such as time, labor and material wealth are limited. In a world where desires are, by nature, unlimited, people are required to make prudent decisions about the use of limited resources.
- **Prosperity** is defined as the condition of being successful or thriving; economic well-being. It is a manufactured condition whereby the economic well-being of a person, community or nation is determined by the millions of choices citizens and government leaders make every day. Prudent decisions regarding the use of our limited resources produce prosperity.

In the opening quote, the free enterprise system to which Milton Friedman refers is the system whereby people are free to engage in a vocation of their choice as a means of fulfilling their desires by producing something others need or want. Economic value, the basis for free market exchange, is subjective. What has great value to one person may be of little value to another. Because anything a person could desire is to one degree or another scarce, each of us must prioritize our values by our individual preferences and means. This not only applies to purchases and consumption but, just as important, how much we produce and how we spend our time.

When people are freely allowed to come together and cooperate in pursuit of their own self-interests, everyone benefits. The fewer needless restrictions imposed on a society, the more the individuals in that society are incentivized to innovate and produce as a means of satisfying their desires. This is how human beings deal with scarcity. Given our infinite desires and the natural limitations of time, energy and capital, markets determine how we navigate these exchanges.

From Scarcity to Plenty

According to Adam Smith, *“If men work together and cooperate, they can combine their land, labor and capital to greatly multiply their ability to produce even greater and more complex things.”*

Although evident in many ways, the power of Adam Smith’s observation is highly apparent in the technology and innovation that drove the industrial revolution and mass production. The impact of mass production is seen not only in the technology and specialization of tasks, but also in its effect on prices. When goods are mass produced, the increased quantity of goods and lower costs of production drive down prices, which in turn makes them affordable to even more people. Increasing productive capacity and deflating the cost of production is one of the primary reasons that western civilization so successfully fought scarcity and experienced prosperity.

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Law and Liberty

In contemplating how markets allow humans to meet their most basic needs and desires, it is important to discern the mechanisms that have allowed the United States and western civilization in general to be so prosperous. Some nations deprived of resources are prosperous, while others, rich in resources, suffer from acute scarcity. Therefore, one must look to the degree of freedom in markets to determine why scarcity is more problematic in some countries and societies than others.

Law and liberty set the context for how markets function. The United States is a republic that operates under the rule of law. The rights and laws as originally established by the Declaration of Independence and U.S. Constitution are the principles of right and wrong by which citizens and the government must abide. Among these, and vital to the engine of wealth creation, is the right to private ownership of property. Through this, a citizen owns what he or she produces or what they are paid by an employer for their production. As originally constructed and put forth in the founding documents, Americans are protected against unwanted intrusions. Simply put, one cannot take what is rightfully owned by another. In all of the aforementioned documents it is established that **the government's primary purpose is the defense of those rights**. Those documents make it perfectly clear that the unalienable rights bestowed upon all citizens are primarily intended as protections against *governmental* abuse.

The rights and protections decreed are not just about right and wrong, as they thoughtfully serve as the bedrock for efficient markets and importantly engender the incentives that drive productive work in America. **The ability to fulfill desires in a vocation of one's choosing inspires individuals to work, save, invest and consume. In a word, it is the path to contentment. These incentives compel men and women to deliver goods and services as efficiently as possible.** An individual's productive effort not only renders the resources by which one can meet their own needs and desires, but taken in aggregate, it propels the wealth of the entire populace.

Interestingly, despite simple logic, modern central bankers try to convince the world that deflation is evil. They preach that they must intervene to stoke inflation at all cost for the good of society. The truth of the matter is that deflation is a beneficial by-product of innovation and productivity gains. Said differently, the incentives that inspire work and creative ingenuity produce prosperity and work against scarcity.

Productive deflation, which reduces scarcity as described above, benefits a society. It especially benefits those at the bottom of the economic ladder as the issue of scarcity is a more profound problem for those with less. So why does modern society give central bankers the benefit of the doubt when they undertake such measures as debauching the currency in efforts to incite *in*flation?

Summary

The prosperity of a nation and its people comes about through the availability of goods and services to more people. Free markets, upheld by the rule of law, incentivize people to be productive through work and acquire the means to fulfill their desires. It is in this elegant yet simple virtuous cycle that productivity growth, prosperity and contentment flourishes and scarcity diminishes. The benefits do not solely accrue to those most motivated, the wealthy or those politically well-connected, but to everyone in society.

Most local grocers and butchers have been replaced by the likes of Costco and Amazon. The days of trading shares of individual companies has morphed into trading esoteric derivatives, ETFs, and a host of complex products. These intricacies are signs of innovation within maturing markets. The issue with which we must concern ourselves is the friction introduced to markets, not the market's degree of complexity. When unnecessarily intrusive policies, laws, and regulations restrict our ability to be productive, incentives are diminished. Without proper incentives, productivity falters and the wealth and prosperity of a nation suffers.

As Milton Friedman said, *"the record of history is absolutely crystal clear"*. A free market, capitalist system, despite all its imperfections, when properly *protected* by government as required by the founding documents, produces prosperity that benefits all of society.

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