True Economics and Real Wealth

There is no true economics. The truth is that economics is an abstract and subjective science. Although it is defined as the science of production, distribution and consumption of wealth, what constitutes wealth to one person differs from what it means to another person. As beauty is in the eye of the beholder wealth is the preference of the consumer.

Economists could say the above viewpoint of economics is indeed correct. Wealth is produced, distributed and priced according to supply and demand, as determined by free and fair competition. As competition inspires effort and ingenuity for greater production each member of society thus competes for individual wealth as the best way to determine the wealth of society as a whole.

A counterargument to this view is with regard to the fairness of free competition. The wealthy tend to become wealthier while the poor and middle class tend to become poorer. This trend occurs even though there are enough natural resources and advanced technology to supply the world populous ten times over with quality products.

Why must there be long unemployment lines with willing workers when there are enough natural resources along with an ample means of production?

The answer to this question entails a comprehensive analysis of what constitutes true economics and real wealth. It concludes with a solution for more opportunity for everyone to live more prosperously.

The analysis begins with what actually constitutes real wealth. It first distinguishes between wealth and economic wealth. Air is essential to life, for instance, but it has no economic value inasmuch as it is free to breathe. For the most part any economic value it has is negative insofar as there is a cost of cleansing it from industrial pollution. Real wealth, as either economical or otherwise, is thus sometimes contrary to economic interests.

The cost of maintaining air purity does factor into economic theory, in that it is calculable as a cost of production. It could even be a benefit to the distribution of economic wealth if the cost of air purification results in more employment. Environmental concerns, however, tend to be mocked at in the work place by employees that are loyal to company interests. The coal mining industry exemplifies their motive. Since coal is the major source of energy providing jobs and economic prosperity, it is unwise for a politician's electability to be truthful in telling that the technology for producing clean coal is not readily available until at least twenty years into the future. Self economic interest as the driving force of the economy is therefore not necessarily always the best means for achieving real wealth, economic or otherwise.

Economic wealth, in particular, is assessed according to supply and demand economics. If the supply of a product is rare and its demand is great, then its economic value is great as well. Gold, for instance, has historically been more valuable than silver because gold is more rare and because it has a shiny quality for jewelry. However, gold, silver or paper as money has economic value only insofar as what it can be exchanged for. In this sense a canteen of water could be more valuable than a ton of gold to someone struggling to walk across a desert.

Money does have intrinsic value insofar as it provides a convenient means of exchange for products and services. A particular service of monetary significance is the issue of credit. On the one hand the loaning of money involves risk. The banker is responsible for managing the risk by charging an adequate fee for service that will both cover and profit from the risk. On the other hand money has an intrinsically unique value inasmuch as money itself is used to earn money. Someone with enough money, as say $10,000,000, could retire and live comfortably on interest income and even become wealthier with little effort of contributing to the economic wealth of society as a whole. Obviously those of us with more money have more opportunity to succeed in life, fair or not.

In a free market of equal opportunity we can all chose to become bankers. Better, yet, we could all invest our earnings in stocks, as a dollar’s worth of stock in 1900 is worth millions today. However, our preferences of a lifestyle differ among us. While some of us pursue a goal involving wealth, others of us are content to work for an hourly wage to buy a house and raise a family. When the need of labor is replaced with machinery, robots or other technology, the laborer becomes either obsolete or more dependent on company success.

Entrepreneurs find themselves in a predicament. The wealthy tend to protect their status quo. Competition threatens it, but a collapsing economy results in less ability of the general populous to purchase product, thus increasing the level of competition among enterpeneurs even more.

A key component in the collapse is credit. With less purchasing ability the price of goods decreases except for interest rates on long term mortgages and other loans. Whereas inflation inspires investors to invest in products, deflation does the opposite. Even when interest rates decrease by way of Federal Reserve policy there is not enough incentive for banks to loan money when their monetary reserve can earn more profit when interest rates rise to normal from a recessional recovery. Meanwhile property decreases in value from countless bankrupts. Houses are trashed and banks also absorb the loss.

(A possible option for banks could be to freeze the loan contract and rent the property to the buyer until the recession recovers. It would be similar to what the Knights Templers did centuries ago when usury was decreed illegal because of religious beliefs.)

What is money?

To say again, although money has intrinsic value for providing a means to exchange services and tangible products it is worthless without any product to purchase. A particular product or service is credit, which is not free of risk. Money thus has intrinsic value inasmuch as it is used to earn more money, as from receiving payment of interest on a loan. Anyone with enough money could even deposit it in a bank saving account and live comfortably for the rest of their life from the interest earned from the account. Ideally this option is available to everyone. However, everyone successfully earning enough money to retire and deciding to do it at the same time would leave no one left to produce product.

Everyone retiring at the same time on interest income is not reality, but the production of product could also decrease because of the speculative nature of monetary activity.

Money as economic wealth is speculative because its value depends on what it can buy. In reality money represents a share of the wealth at the time we choose to spend it. What it buys today might be different than what it could buy tomorrow. Nonetheless, if everyone could be knowledgeable of the future to spend according to it, wealth of tangible product would then be truly priced according to its demand per money earned. However, since people are not totally aware of what the future has in store for us and because some of us are more knowledeable of it than others, the demand for product is not necessarily according to the best interest of the consumer.

Does this mean economic success is determined by how we invest our money for its future growth? This is generally true. Some investors have profited by investing in rewarding stocks at the right time, but other investors have lost considerably by investing in non-productive stocks. Management of knowledge and good fortune are means to success, but in reality the average person is not an expert on financial matters. The average person is one who is employed to help produce product, who likely works to earn a living for raising a family and owning a home in which to live. Instead of saving money to buy a home twenty years into the future, and losing some of their savings to inflation and rent, they choose to finance with credit and a reasonable down payment. Even though their success is also speculative of the future, it is the speculators that mostly determine it in contrast to the average person simply pursuing the American Dream.

Investing in a home has generally been a wise investment all around. Banks tend to charge a reasonable rate of interest on loans to cover the rate of inflation and homes further increase in value along with an increase in population and more demand for housing. As usual, however, too good of a thing eventually becomes overdone, as with the go-getting speculation of buying only for profit. The cost of homes rises to create a bubble of prosperity, but the bubble does not last. More generous bank loans occur until a recession occurs to cause a downturn of the economy. Credit tightens as home buyers default on their mortgages. Unemployment increases along with less demand for product and because of deflation replacing inflation. Wages drop, tax revenue decreases and the economy stalls. Home owners with less income are left in dept owning more for their home than its selling potential.

Whatever is the exact cause of a recession credit is usually a factor along with a change from inflation to deflation. Inflation, as increasing the price of products, decreases the relative value of money whereas deflation increases it. During the time of recession banks also pay a lower rate of interest on savings accounts, such that the money that buys more also earns less interest. The overall trend of the people is to spend less. Supply of product becomes relatively greater than its demand in causing a decline in productivity and a high rate of unemployment, further leaving remaining workers with less bargaining power for higher wage and more favorable working conditions.

The distribution of capital is necessary for recovery. If people of wealth are willing to invest in production in ways that create jobs, then people having more money are more inclined to spend it. This, in turn, increases demand for product, which increases its rate for a healthy rate of inflation. However, if wealthy people fear losing their wealth to an uncertain market, then recovery stalls.

The uncertainty of the market is fueled by too much debt, as caused by too lenient loans. Government borrows aplenty to cover the cost of war. Credit cards are overused because of their convenience. Responsible borrowers then become victims of a recession. People similarly caught in the lucrative housing bubble are unable to pay the required amount each month on their mortgages. College-graduates fail to find lucrative employment that will enable them to pay off their student loans. Business becomes too slow for small business owners to cover the cost of maintaining a large enough inventory to stay in business.

Distribution of wealth nonetheless remains essential to recovery. If the private sector of the economy does not invest in it, then there is justification for government to somehow intervene. It would be justified, in part, because of the speculative nature of money to make more money with too little investment in tangible product. It is also justified, in part, because there is much wealth to be achieved in improving the infrastructure of the nation. However, too large of a national debt to overcome is also an issue of concern.

One proposal is to increase revenue by way of taxation, but an effective amount of tax is limited to personal income. Taxing one hundred percent of a person's income, for instance, leaves nothing left for purchasing product and a cost of one hundred percent of interest on the national debt leaves the government with no money for entitlement programs. An increased tax on the wealthy is more feasible except that the rich then tend to outsource their productivity to nations that tax less but allow lower wages for harsher working conditions. If an import tax is then proposed, then other nations are likely to counter with their own import tax.

Another possible solution is to print money, although it is highly controversial and requires approval by Congress. Printing money is feared to cause runaway inflation at the advantage of any person in debt but at the disadvantage of the creditors. However, the actual cause of inflation is more than just printing money.

An increase in the money supply could cause inflation, but the actual cause of inflation relates more directly to the demand of product. If people prefer to save money instead of spending it, as by hiding it under the mattress or putting it in a savings account, then money does not circulate for the cause of inflation.

If the demand-for-product-increase equals an increase-in-money-supply along with an-increase-in-product, then the supply of money stays in balacne with the supply of product and there is no need for inflation to occur, as economic wealth is simply increased.

Similarly if the additional money is invested in wealth of no economic value, as for purification of the atmosphere, but there is also an increase in tax revenue to pay for the service, then there is no need for inflation to occur. A tax combined with printed money thus counters inflation whereas added money paid to the private sector with no added government revenue is apt to increase demand for existing product for inflation to occur. It thus depends of the effectiveness of how the money is used. If properly managed, tax revenue along with printed money could increase the wealth of society.

Credit is still a key to success.

Suppose everyone on earth were given unlimited credit. A homeowner could thus hire someone to fix the leaky roof and even to place solar panels on it. It puts roofers to work. The economy then functions without impediment as long as everyone is willing to do their fair share of the work. Note: Transactions occur without any currency in circulation.

This ideal situation only works if people do not take advantage of the credit for laziness. For unlimited credit, laziness is certain to result, but there is also the implication of how a more responsible way of issuing credit more freely can inspire prosperity.

The implication contradicts the notion that too much government spending will leave our grandchildren in too much debt. As long as there are plenty of natural resources to develop there will be ample opportunity for wealth for all, that is, providing economic wealth does not become monopolized by the few. Moreover, besides becoming in debt by way of usury, our grandchildren are also apt to be less wealthy if we misuse our natural resources to poison the environment. In that case, with less available product, runaway inflation is likely to occur for such entitlements as social security income to become worthless.

Another key to economic success is product.

According to supply and demand economics more supply per demand decreases the price of products. If government invested in the construction of hospitals and the education of doctors and nurses, then they would all be more affordable by way of competition. If government invested more in maintaining a solid infrastructure, national defense and a healthier environment, then the total wealth of society, economic or otherwise, would be greater.

How does government pay for such investments?

To pay for the Revolutionary War of Dependence from England Alexander Hamilton proposed to George Washington a Central Bank system along with a national currency could be financed by way of selling stocks. Similarly, Social Security could be financed with a Social Security Stock Option (SSSO).

Suppose that half of every dollar taxed for Social Security revenue were invested among available stocks. If industry collapses, such that the stocks become worthless, then product would also cease such that the wealth of society is lost with or without the stock option. If the economy continues to prosper, then there exists a desirable way of distributing a fair share of the wealth.

The stock option could further apply to health care and so forth. Let us all own part of the wealth. It could inspire us to work with more loyalty to the company. However, this is not to say we can all fly in jet planes. If there is not enough of them to accommendate our demand, then competition takes effect.

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