

# Economics

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Today I will talk of things and selfishness. How often do you consider the miraculous economic systems that help create our stuff? For example, I have in my pocket a folding knife made of stainless steel<sup>1</sup> and aluminum.<sup>2</sup> It costs less than a day's labour at minimum wage, even less on my own wage. If I had food and water, but otherwise had to make a knife like this out of what can be found in nature, it would take me years if not lifetimes to gather the iron, aluminum, copper, chromium, silicon, magnesium, and manganese, purify them, and then form them into this knife.

Much of the reason the stuff we have is made so cheap is automation and the sheer scale of what humans do. We move ore in dump trucks big enough to move this church, and cargo in ships that could easily transport everyone in Idaho Falls, and a ton of cargo per person besides.<sup>3</sup>

And our economic systems generally work very good at getting us stuff. I have never had a time where I have gone to the grocery and not found plenty of food.<sup>4</sup> In my life, failures of things like electricity are rare and short. The economic systems have been amazingly good at getting me things.

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<sup>1</sup>420HC stainless steel: Carbon .45% Manganese .80% Chromium 13.00% Silicon .80% Nickel <.50% and most of the rest Iron, <http://www.simplytoolsteel.com/420HC-stainless-steel-data-sheet.html>

<sup>2</sup>6061-T6 aluminum: Aluminum 95.8% to 98.6% Chromium 0.04% to 0.35% Copper 0.15% to 0.4% Iron max 0.7% Magnesium 0.8% to 1.2% Manganese max 0.15% Other total max 0.15% Silicon 0.4% to 0.8% Titanium max 0.15% Zinc max 0.25% <http://asm.matweb.com/search/SpecificMaterial.asp?bassnum=MA6061t6>

<sup>3</sup>See for example [http://en.wikipedia.org/wiki/Maersk\\_Triple\\_E\\_class](http://en.wikipedia.org/wiki/Maersk_Triple_E_class)

<sup>4</sup>"Anything you want, as long as a million other people want it."

I have often heard statements like "things aren't important". In some sense I agree, things are much more replaceable than people. But part of the reason we say things are not important is because we have so many things that we take them for granted.

We are saturated in stuff. For most of us, all of our basic physiological needs are taken care of by the economic systems, and many of our wants are also provided for. Money is very, very good at providing the bottom rung of Maslow's hierarchy of needs, physiological needs. It can sort of provide for the second rung, which is safety. Money fails pretty much at providing the next rung of love and belonging, despite what advertisers try and tell us.

Other systems of providing basic needs have been tried. People have certainly tried sharing equally. This works fine for small groups such as the Hutterites. The Hutterites split the colony when they start approaching 200 people. Non-market systems have completely failed when tried with millions of people.

At a low level, there is a simple idea at the bottom of market economics: Voluntary trades usually make everybody better off. If I have an orange, and you have an apple, and I would rather have an apple, and you the orange, then we are both better off if we trade.

Back in 1776, Adam Smith published his book, *The Wealth of Nations* and in it he talked about the benefits from trades:

But man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favour,

and shew them that it is for their own advantage to do for him what he requires of them. Whoever offers to another a bargain of any kind, proposes to do this. Give me that which I want, and you shall have this which you want, is the meaning of every such offer; and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of. It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity, but to their self-love, and never talk to them of our own necessities, but of their advantages.<sup>5</sup>

Since Adam Smith, economists have spent a fair amount of time in the past two hundred years finding exceptions to when voluntary trades make the world better off.

Here is an example with coal. If I dig up 16 tons of coal, and trade them to you and you burn them, the pollution is not a cost that you or I pay, it is distributed over the world. Economists have a fancy name for this: Externalities. Because of this extra cost to the world, it might be better that we had not traded and the coal had stayed in the ground.

The trade might not even make both of us better off. For example if I know my orange is rotten, and I don't tell you, you are worse off than before the trade.<sup>6</sup> So if there is hidden information<sup>7</sup> the trade can fail to make things better even for the participants.

So voluntary trades usually make the world a better place. Of course, we usually think in terms of money since most of us do most of our trading using money. I trade time for money, and then trade the money for food or computers and other things. This vastly simplifies most trades, since otherwise

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<sup>5</sup>The Wealth of Nations, Adam Smith, Book I, Chapter II, p. 19.

<sup>6</sup>My wife and I stopped buying oranges from a certain store in Bozeman after we purchased some rotten oranges. Usually this is more a problem for rare but expensive purchases, such as used cars.

<sup>7</sup>Asymmetric information is the fancy name for this.

you have to spend time finding someone who both has something you want and that you have something they want. I have a hard time envisioning how I could get someone to directly give me food for the ability to program computers to simulate nuclear reactors.

Money also provides information. If something is more expensive, than it is using more of a scarce resource. And by scarce, I mean that if humans used as much as they wanted, the resource would run out. The scarce bit might be the amount of time that it takes humans to create the expensive item, or the amount of natural resources that it takes. I have a rule of thumb, if there are two ways of doing something, and one is ten times cheaper, it is usually the more environmentally friendly way to do it. For example, a bicycle is over ten times cheaper than a car, and the bicycle is much more environmentally friendly than the car. Ideally, prices guide our decisions towards using less scarce resources.

Unfortunately, prices are just one number, and sometimes they don't tell the whole story. As I mentioned with the coal example, the true cost needs to include the cost to everyone affected, it needs to include the externality. For example, coal electricity is cheaper than wind, but if the cost of the CO<sub>2</sub> was included, the wind power would be cheaper sometimes. A carbon tax would fix that distortion of price. If the government taxes something, less is produced. So of course, we tax wages, but not carbon dioxide, so we get less jobs, but more carbon dioxide.

There is another problem that using money causes. Money is not valuable except for what it can buy. But that use is so important, that it is easy to start to want money itself, and not actually anything that would make our lives better. As apostle Paul said, "The love of money is the root of all evil."<sup>8</sup> Paul is not quite correct, since for example, the desire for sex or power also cause a lot of evil. But the love of money is at the root of many of the large scale problems of the world. Why do prison corporation's leaders advocate for longer prison sentences? They want more prisoners so they get more money. Why do tobacco companie's leaders try to get people ad-

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<sup>8</sup>1 Timothy 6:10

dicted? They want more people buying cigarettes and get more money from it. The love of money overrules the desire for an actual benefit to society.

When a business takes resources and turns them into something that is more valuable to society, the world is better. When all that happens is money trades hands, the world is no better off. And if the political system is set up wrong, money can bring political power, which lets those who have money change the laws so they can transfer more money to themselves.

There is a multinational trade deal being worked on called the Trans-Pacific Partnership. If it is agreed to, it will overrule the United States laws. The business man Jim DeLisi of Fanwood Chemical can see the Trans Pacific Partnership rules, and actually thanked the US Trade Representative because “These are our rules.”<sup>9</sup> However the US Congresspeople can only look at it, but cannot take notes or talk about what they have seen<sup>10</sup>. I consider that strong evidence that the laws are not being written for the benefit of society, but for the businesses.

One last problem: economic systems can be very efficient at allocating scarce resources, and at letting people choose how they want to live, but if people start life very unequal, the economic system cannot fix that. I didn’t get to choose who I was born as.<sup>11</sup> Neither did anybody else. If we all started equal, some people would end up richer or poorer by choice, hard work, luck and other reasons. But we start out unequal, and that is not justice. This is not something that voluntary trades can fix.

One last lesson from economics, the true cost of something is what you had to give up for it, or the opportunity cost. So the opportunity cost is the next best thing you could have done.<sup>12</sup> If I spend an hour

reading when my next choice would have been spending it with my kids, then the cost of the reading is not spending it with them. The cost is only the next thing I would have done, not all the possibilities, since I couldn’t have spent it with my kids and mowed the lawn, for example.

We live in the midst of enormous systems of markets. Humans started with simple trades, and kept making trades easier,<sup>13</sup> and have ended up with systems of enormous complexity. These system provide us with our basic needs, and would be fantastically difficult to replace. But prices can lie and markets can fail. And if the laws that govern trade are written only by the businesses there is no reason to expect them to benefit all people. So in some sense, we as religious people need to understand enough of how economics works if we want to make the world better.

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<sup>9</sup>Confidential USTR Emails Show Close Industry Involvement In TPP Negotiations, by William New: <http://www.ip-watch.org/2015/06/05/> or <https://t.co/pZcAhonZtQ>

<sup>10</sup>Mr. Nadler, Congressional Record June 12, 2015, H4271 <https://www.congress.gov/crec/2015/06/12/CREC-2015-06-12.pdf>

<sup>11</sup>I wish either my father or my mother, or indeed both of them, as they were in duty both equally bound to it, had minded what they were about when they begot me. Tristram Shady by Laurence Sterne

<sup>12</sup>It is worth thinking about the opportunity cost of an em-

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ployee’s time. If they otherwise would be bored out of their skull watching TV, than this cost might be low. But if they would have been spending time being a great parent, or making great paintings, or some other wonderful thing, than this cost would be higher.

<sup>13</sup>By inventing money, or digging canals to make shipping cheaper and so on.