

The Roots of Economic Understanding

BY F. A. HARPER

The game of economics in the United States is something like a ball game where the home team fails to score. The record shows a lack of economic understanding. Despite the abundance of material splendor parading before us in the show of ostentatious consumption, we seem to be losing most of our games in terms of economic principles.

The human weakness for watching false economic scoreboards reminds me of an astute observation by a man who was reviewing the state of affairs in the nation he governed. He said to a subordinate:

It gives us also a special, secret pleasure to see how the people about us are unaware of what is really happening to them. They gaze fascinated at one or two familiar superficialities, such as possessions and income and rank and other outworn conceptions. As long as these are kept intact, they are quite satisfied. But in the meantime they have entered a new relation; a powerful social force has caught them up. They themselves are changed. What are ownership and income to that? Why need we trouble to socialize banks and factories? We socialize human beings.¹

Was he right? Are people fooled that easily?

The man who made that statement apparently knew well the game of attaining personal power by playing on the weaknesses of human ignorance. He was Adolf Hitler, and he was speaking to Hermann Rauschning in 1934. The tragedy that befell the German people and later engulfed much of the rest of the world attests to the consequences of economic ignorance. It illustrates how the fruits of welfare will

surely be lost when Mammon is worshipped to the exclusion of economic and moral principles. For Mammon—grasping for material welfare by any means—is a tricky idol. If given a dominant role, it will rule conduct to the exclusion of morals.

Economics has been defined as the dismal science, and most people avoid its study if possible. Yet it is something which touches the life of each of us, closely and continuously. In fact, we become so involved in economic affairs at so early an age that we come to take it for granted like the air we breathe and the ground we walk on.

One is reminded in this respect of the history of the development in other spheres of human interest. From the time human life began, air and ground were here more or less as they are now. Our distant ancestors took them for granted just as most people do economics. Not until the discovery of elements in chemistry and of laws of the physical universe did matter come to be thought of consciously and meaningfully. Only then did principles evolve that were worth studying. Only then did our physical environment come to have a useful meaning unknown to our earlier ancestors. Before that, chemicals were just something to stand on, swim in, or for filling one's lungs.

So it is with economics. We could go on, after a fashion, swimming around in economic ignorance as the caveman did with the chemicals. Or economics could be raised to the level of a science and comprehended in terms of cause and consequence. This would put meaning into our daily affairs and afford us

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the protection of understanding in our hazardous economic existence. From the dismal science for the few, economics could become the common knowledge of the many.

Though I am not now trying to outline the content of economics in detail it seems necessary to pinpoint to some extent what we mean by economic understanding. What is this thing we need to offer educationally? What is economics?

The study of economics is the study of all matters pertaining to things that are desired but scarce, which exist for trade or can be produced. Those are the things we sometimes speak of as “economic goods and services.” Those are the things which comprise economic activity in its entirety, which are being produced and owned and traded.

A thing must first be desired before it comes within the orbit of economics. You can’t sell the measles, for instance. If it is to be economic, somebody must want it. Without want for it, nobody would work to produce it or sacrifice to buy it. And even if it already existed in nature—obtainable merely for the asking—without requiring any work to produce it, nobody would care enough to own it. Since nobody would care to own it, there would be no buying and selling of it—no exchange. No economics.

To be within the economic domain a thing must also be scarce. Otherwise, if one can have all he wants without turning his hand to get it, it is not worth even a scrap of paper to represent one’s title to it even though people want it strongly. So without scarcity there will be neither ownership nor exchange of it at any price. The air we breathe as an essential to life, for instance, is not usually scarce enough to command a price.

So unless a thing is both desired and scarce, no bargain basement is low enough to attract any customers. But there is a third feature, too, that is required of things before they are economic. A thing may be both scarce and desired, yet not enter into these economic processes. Faith, dreams, and imagination often focus

on things which are difficult to put in a form that can be traded. Heaven, for instance, is not listed for sale—as such—in the mail-order catalogs.

So measles and fresh air and heaven are not generally for sale over the counters, yet the reasons for their absence differ. Each of them has certain qualities requisite to economic things—each is desired, or scarce, or producible and available for trade—but not every requisite is present. Lack of any one of the three keeps an item out of the economic arena of human affairs.

Even in infancy the child is a budding economist.

We do not know precisely when he first ponders problems of value and distribution, and the law of diminishing returns. Probably the age when this first appears varies widely from child to child. But I suspect there is economic consciousness in most of them at a very young age, and long before we as parents realize that it is there. Some child psychologists assert, for instance, that when the infant clings to his bottle of milk, he is asserting a rudimentary sense of economic perception—a consciousness

of something which is desired by him and also scarce.

I wonder, in fact, if an economic sense doesn’t really arise before the infant treats his bottle of milk as something desired and scarce. I wonder if the beginnings of economic consciousness may not be at the time when the child first attains his vague sense of the self-conscious. For if we apply the economic test, self-consciousness itself seems to qualify as a matter of economic consciousness. Let me explain why I think so in terms of the three tests of economic affairs already listed.

Are you desired? You certainly are. You are desired by yourself to whatever extent you have any pride and conscience. And, in addition, you are desired by others, by your family and your friends, for both economic and other reasons.

Are you scarce? Exceedingly so. There is only one of you, and there can never be any more. In the sense of being reproducible by exact duplicate, you are as scarce as the Hope diamond.²

The study of economics is the study of all matters pertaining to things that are desired but scarce, which exist for trade or can be produced.

Are you exchangeable or capable of being traded? Yes. In our society, of course, we do not allow one person to own or to buy or sell another. But the person who owns himself as a free man may offer to serve another; he may offer his time and effort in exchange for a wage. Or, instead of offering his services for hire, a person may work for himself and offer for sale whatever he has produced.

So in making yourself available for trade in the form of little pieces of your time, your effort and your life, the third and final requirement that marks you as an item of economic concern has been fulfilled. You are not only desired and scarce, but you are capable of being traded as well. The difference between you and a bushel of wheat in this respect is that you own yourself and control your own sale whereas the wheat does not. And this difference has to do only with *how* you are involved in economic matters, not whether you are involved in them.

That is why it seems to me that the most elemental form of economic consciousness originates in the remote recesses of early life when one first becomes self-conscious. This must be at a very tender age. Psychologists tell us that the first vocal effusions of the baby, which keep his parents awake at night and disturb the peaceful quietude of the community, is in part an expression of self-consciousness as he loudly proclaims in his own way: "Here I am." From some such beginning, he will go on to increase in economic consciousness until finally it takes on quite tangible forms in his mind and life.

When a baby clings to his bottle of milk, he is evidencing a sense of possession more advanced than that of mere self-consciousness. He has then taken another important step in economic comprehension. Something specific other than himself has become desired and scarce. And only by realizing this is he ready to begin to act wisely from an economic standpoint.

This sense of worth as applied to overt economic objects appears in strange ways at first. The infant may scramble to retain possession of a toy. It may be only some old can or perhaps some crude block of wood that fell from father's carpentry. But he wants it. And in laboring to retain possession of something he deems to be his, he is acting like the farmer who will labor to

protect a bushel of potatoes he has grown. Oldsters may ridicule his selection and scorn his judgment of value, but they should not scorn the child's growing sense of valuation because it is a necessary early step in this budding economist.

This new sense of possession should be nurtured while the infant is advancing in economic understanding beyond his earlier elemental sense of self-consciousness. If you quell it by economic diseducation, such as by grasping away from him things that are his to appease his squealing brother, you will in my opinion be preparing the little hopeful for blind devotion to communist-socialist doctrine—or perhaps to some other brand of Jekyll-Hydeism which will cause him to live in hopeless economic frustration.

Then, a little later in the child's life he comes to acquire a sense of exchange. This sense of exchange can come to him only after he has first acquired the sense of possession. Things to be exchanged must obviously first be had. They must first be possessed before they can be traded. So the sense of exchange follows the sense of possession, the private property concept.

As a child develops his desires, he expands, from his bottle of milk or an old can or a block of wood toward caviar and fancy cars and yachts. His sense of possession expands, in other words, as his taste and desires expand. He also grows in strength and dexterity with which to get things in one way or another.

If this expanding urge to possess things, together with increasing strength and cunning to acquire them, is devoted exclusively to a sense of possession with no consideration for the rights of others, the young hopeful will become the lowest form of thief. Such a person will have acquired a sense of grasping but not a sense of exchange, because he lacks restraint. He will be bent on scheming to grasp everything he can, by any means whatsoever. He will devote himself to the theft of whatever strikes his fancy, which totally disqualifies him for participation in an exchange society. He is then a representative of the ultimate in economic illiteracy as well as the worst in moral turpitude. Such a person will have become a master at breaking the commandments, as one can see by thinking of them in the light of an unrestrained sense of possession.³

The Jesse Jameses? The Al Capones? The Dillingers?

Did they have a sense of possession? Most assuredly they did. But they evidenced little sense of restraint. Theirs was an arrested sense of possession which turned them into moral corpses plying their trade of plunder. We would have to grade them low in economic understanding, because they had only the rudimentary disposition to possess things, without the sense of restraint which must underlie the idea of exchange.

The sense of restraint which the chronic thief lacks is founded in the right to own things—the right of ownership, of private property. There is far more to the sense of ownership than the mere disposition to possess things. This economic sense of rights to private property, which leads to restraint from theft, is clearly a moral concept in harmony with the eighth commandment, among others. You would not steal except as you covet what belongs to another—unless you refuse to recognize it as his private property.

Back of the belief in private property, in turn, lies the concept of personal freedom. You can have private property only as you are free—free to work, free to produce, free to keep whatever you have produced. Without freedom there could be no private property at all.

And so we have completed the economic circle of logic, beginning with a sense of self and ending in private property. The infant's sense of self-consciousness can be traced onward to private property rights and exchange to freedom itself—as concepts which underlie and pervade both economics and morals.

At the outset it was said that in the United States the scoreboard showed a serious lack of economic understanding. Why? These are tests that may be used:

1. To what extent is a person free to use his own life and time in whatever pursuits he may choose, so long as in doing so he does not trespass upon the same right of each and every other person?
2. To what extent is a person free to keep whatever he has produced with his own time and effort, and to use it or dispose of it in whatever way and when-

ever he wishes, so long as in its disposition he does not infringe upon the same rights of others?

It should be clear from these tests why I reject figures on national income per person, or the number of chickens in dinner pots, or the number of fancy cars on the road as valid evidence for the economic scoreboard. These are merely illusions of economic victory. They are pleasant fruits that grow best on a sound economic tree, to be sure; but the yield of those things may be high for a time after the tree has become infected with a mortal disease.

By these tests the home team has been losing since the turn of the century. Less and less of a person's time is truly his own. Ever smaller is the portion he may use as he chooses, in ways that do not infringe upon the same rights of others. If you are an average person in the United States, for instance, you have to work from New Year's Day until late in April before you have satisfied the prior tax claims upon your productive effort—taxes

that are taken from you by force and applied to uses of which you may or may not approve. Furthermore, your period of servitude probably is extended in that you pay tribute in one way or another to some nongovernmental persons or organizations in ways which a thoroughly free society would not countenance. Only thereafter, for the remainder of the year, are you free to work for yourself.

We are losing the economic game because a third of your income each year, if you are an average person, is taken from you in this manner. Some is taken direct from your employer, who takes it out of your pay before it ever gets into your hands. Some is taken in the form of a tax on manufacturers or distributors, and is part of the purchase price you pay for things you buy. Some is taken in the form of direct taxes, which are billed to you personally as an attachment on your income or your property. Some is taken from you posthumously as the hearse moves down the street, in the form of a bill sent to your widow and children. The third of your income taken from you in these ways is a greater proportion of the national income, mind you, than the

**You can have
private property
only as you are
free—free to work,
free to produce, free
to keep whatever
you have produced.**

amounts that were being taken in 1929–30 in countries which subsequently were overcome by the tragedy of authoritarian governments, in one degree or another:⁴

Taxes as Percentage of National Income

USSR	29
Germany	22
France	21
United Kingdom	21

We are losing the economic game because we have increasingly adopted as the law of the land specific measures advocated by Karl Marx and his ideological successors as the means by which world communism could be established.⁵

We seem blind to these danger signals as we move about amidst so much material splendor, which is only possible because of past thrift and productive accumulations of individuals. We are blinded by economic and political ignorance in the manner Hitler explained so well to Hermann Rauschning in 1934. We are blinded by the confused intellectual leadership of “economists” who are trying to be politicians, while politicians are trying to be economists.

Lest we ignore or forget, here are a few passages from the record of history given us by Lactantius, the famous Roman professor of literature and philosophy, appointed to his chair by none other than Diocletian himself. Lactantius felt compelled to give us these facts, “lest the memory of events so important should perish, and lest any future historian of the [Roman] persecutors should corrupt the truth.”

Diocletian, an inventive criminal and a creator of evil, brought ruin to all and dared tamper even with the Divinity. In part because he was greedy, in part out of fear, he turned the whole world topsy-turvy. He brought three associates into his government, and divided up the Empire into four parts, with the result that armies were multiplied, for each of the four men tried to muster a far greater force than earlier emperors had had when they governed individually. More than that, tax collectors began to outnumber taxpayers, and, after exorbitant

taxation sapped their initiative, farmers abandoned their farms and plowed fields grew up into woods. In a policy of terrorization the provinces were cut up into scraps, a multitude of governors and hordes of directors oppressed every region—almost every city; and to these were added countless collectors and secretaries and assistants to the directors. Judges seldom had civil cases before them: they tried (not frequently, but incessantly) condemnations, confiscations, and requisitions of every kind of property, and unbearable inequities in the imposition of taxes.

Even the measures designed to provide salaries for the soldiers were beyond endurance. Diocletian’s boundless greed would never allow his own treasury to be tapped, so he constantly piled on new taxes and contributions in order to keep his personal hoard intact. When by his general mismanagement he caused stupendous inflation, he attempted to fix prices by law. Blood was shed over common, cheap articles, panic caused shortages in the market, and the net result was that the scarcity was worsened....

He became a raving lunatic in his efforts to make Nicomedia the rival of imperial Rome. I shall not state here how many perished for the sake of their estates or their wealth (for this practice had become common and indeed practically legal), but he made a special point of it in that no matter where he saw a farm more carefully kept or a house more elegantly furnished than usual, he immediately brought charges against the owner and inflicted the death sentence—it seemed as if he could not steal his neighbor’s property without also taking his life.⁶

When can we begin to teach economics to the young? And how? Without attempting to go into that here, I might cite two incidents to suggest the solution as I see it:

In the eastern university where I taught years ago, our graduate seminar invited outside speakers. One day I invited a renowned economist, the editor of a learned journal. We had agreed that he would try to instill an enthusiasm for economic theory into those graduate students of an applied area of economics by giving us evidence as to its practical usefulness. My notes of his talk attest to the fact that few of these students grasped

hardly a thing of what he said, except his self-demonstrated assertion that economic theory is a luxury which only the most advanced students can afford.

Then, one evening years later, while members of my family were sitting at dinner discussing something, a five-year old boy asked, out of the clear and without any apparent connection with the discussion that had been going on: “Why do we have to pay for things?”

Well, there you have it. We are losing the game to economic ignorance year after year, while being lulled into complacency by watching false scoreboards and basking in false economic glories. Yet youngsters are itching to go out for economic spring practice, so to speak. What are we going to tell them? Are we going to say: “Wait fifteen or twenty years, Bud, and if you become an outstanding student, you may be ready to find out why we have to pay for things”? Or shall we train them in sound economic practices from the day they are born?

It is later than we think, I fear, in this economic game. Fifteen or twenty years could bring economic and moral disaster beyond our worst fears. The records of history attest to this threat. My final admonition is that every aspiring leader review the records of history, especially as interpreted by such authorities as Liddell Hart on learning from history,⁷ Lord Acton on the history of freedom,⁸ Draper on the background for European culture,⁹ Weaver on some high spots of history,¹⁰ Mees on the helix of history,¹¹ Burckhardt on the ancient Grecian civilization and later comparisons,¹² and Hayek on more contemporary debacles

from economic ignorance. From these and other excellent sources one can come to see clearly what lies at the end of the road of economic ignorance¹³ on which we have been traveling here in the United States. 

1. Hermann Rauschnig, *The Voice of Destruction* (New York: G. P. Putnam's Sons, 1940), pp. 192–95.

2. Roger J. Williams, *Free and Unequal* (Austin, Tex.: University of Texas Press, 1953).

3. Exodus 20.

4. F. A. Harper, *Liberty: A Path to Its Recovery* (Irvington-on-Hudson, N. Y.: Foundation for Economic Education, 1949), p. 110.

5. *Essays on Liberty*, Volumes I and II (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, Inc., 1952 & 1954); “The Communist Idea,” Vol. I, pp. 96–99; “To Communism via Majority Vote” by Ben Moreell, Vol. II, pp. 218–248.

6. Translated by Professor Casper J. Kraemer, Jr. from Lactantius’ “On the Death of the Persecutors.”

7. B. H. Liddell Hart, *Why Don't We Learn from History?* (London: G. Allen & Unwin, Ltd., 1944).

8. J. E. E. D. Acton, *The History of Freedom and Other Essays* (London: Macmillan and Company, Ltd., 1907).

9. John William Draper, *History of the Intellectual Development of Europe* (New York and London: Harper & Brothers, 1904).

10. Henry Grady Weaver, *The Mainspring of Human Progress* (Irvington-on-Hudson, N. Y.: Foundation for Economic Education, Inc., 1953).

11. C. E. K. Mees, *The Path of Science* (New York: John Wiley & Sons, Inc.; London: Chapman & Hall, Ltd., 1946).

12. Jakob Christoph Burckhardt, *Force and Freedom* (New York: Pantheon Books, Inc., 1943).

13. Friedrich August Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, 1944).