IDEAS ON LIBERTY
OCTOBER 2003

Saving Hunky Town

by Arthur E. Foulkes

It's called "Hunky Town"—a small area of our city known for its large Hungarian population in the early 1900s. Now it's just another poor neighborhood.

"I sometimes forget parts of town like this exist," my wife said as we watched the shabby homes, broken fences, and rusty parked cars go past our car windows. We had just had lunch at our favorite outdoor hamburger stand, which is located in Hunky Town. "I know we occasionally worry about money, but people up here are literally living paycheck to paycheck," she said.

She was right. In this part of our town probably no one thinks about getting a new garage roof, a new central air system, or a water softener. In this part of our town the homes have no air conditioning and the tiny yards are filled with weeds, old furniture, and appliances. Everything looks dirty.

As usual, my wife's comment got me thinking. If the people living in Hunky Town are truly surviving week to week, or even day to day, it is unlikely they are able to make plans that extend very far into the future. After all, it's difficult to plan for the long term when you are so thoroughly embedded in the short term.

Economics gives us some insight into Hunky Town's dilemma by reminding us what makes improvement in living standards possible: savings. For example, a man living alone on a desert island who requires all his free time to simply find the food he needs to survive is unable to improve his standard of living. He is just treading water. He could improve his material well-being by building some kind of capital good, like a net for fishing or a barrel for holding water. But to construct a net or a barrel would require him to put off some immediate consumption in favor of future consumption. That is the only way he could build up a supply of resources large enough to give himself the food and water to carry him through to the completion of a time-consuming capital project.

Savings perform the same function for society as a whole. They makes resources available for investment in time-consuming entrepreneurial projects. The more savings that are available, the more time-consuming and productive those projects can be. People with savings will naturally seek out projects that promise the greatest returns. Indeed, only projects that appear likely to yield a greater value in outputs than the sum of their inputs will be undertaken as "good investments."

The same is true even if individuals do not invest their savings, but rather keep them all in cash (thereby "investing" in cash for future use). As these savings grow, people can begin to plan beyond their next meal or next paycheck and devise ways to raise their living standards, such as returning to school, buying a home, or even investing in a new

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set of clothes for a job interview. The ability to save even just a little begins to extend the saver's planning perspective into the more distant future.

It's possible of course that people living in Hunky Town today actually are unable to save even a little bit. It's possible they may require all of their income for food, rent, utilities, and meager clothing from Goodwill. It's possible.

On the other hand, my wife's family lived in Hunky Town before she was born. Her father and mother, who had only enough money for a single bottle of root beer to celebrate their wedding, eventually saved enough to buy a fine old farmhouse in (what was then) the country. They still live there.

Nevertheless, it's unfortunate that in our society today saving is not strongly encouraged; indeed, mandatory "savings" such as Social Security perversely *discourage* private saving. And no less than the most famous economist of the twentieth century, John Maynard Keynes, helped give saving a bad name by classifying it "a negative act."[1] For Keynes, saving part of our income simply "depresses the business of preparing today's dinner without [necessarily] stimulating the business of making ready for some future act of consumption."[2] In other words, savings actually *harm* the economy.[3]

Keynes Got It Wrong

But this view is entirely wrong. Savings do not sit idle. They are loaned out and invested in new capital projects. Indeed, savings are necessary for such investment. Even simple cash saving (known derisively as "hoarding") does not deserve the negative connotation Keynes and others have given it. If people desire to hold cash rather than spend it, they should be free to do so. Additionally, the decision to hold larger cash balances will decrease the amount of money in circulation and drive down the real price of goods and services. In other words, a greater demand for cash holdings simply increases the purchasing power of money left in circulation.[4]

When I was in college I remember hearing an adult say a certain politician would "ruin the economy" because everyone knew he was personally thrifty, that is, "cheap." This politician would never encourage the kind of spending necessary to keep the economy moving, this man said. No one disagreed; in fact, his statement received approving nods all around.

But sound economics is nothing if not a tool for debunking this sort of intuitively easy thinking. For instance, economics shows us that laws designed to make something cheaper through price controls actually make it harder to come by (and therefore more expensive). It also shows us that closing our national borders to imports actually lowers living standards rather than enriching us by keeping "jobs at home." Economics also shows us that choosing future over present consumption (saving) frees up resources necessary for capital investment or improvement. Thus savings are required for greater productivity and increased standards of living. □

1. John Maynard Keynes, *A Treatise on Money*, vol. 1 (New York: Harcourt, Brace, 1930), p. 172.

2. John Maynard Keynes, *The General Theory of Employment, Interest and Money* (New York: Harcourt, Brace, 1936), p. 210.

3. For a critical analysis of Keynes on savings see Henry Hazlitt, *The Failure of the "New Economics"* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1994), pp. 78–97, 142–48, and 217–35. Also see Hans-Hermann Hoppe, "The Misesian Case against Keynes," in Mark Skousen, ed., *Dissent on Keynes, A Critical Appraisal of Economics* (New York: Praeger, 1992), pp. 199–223.

4. See Murray N. Rothbard, *The Mystery of Banking* (Richardson & Snyder, 1983), pp. 24–32.