

Wealth and the Economic Problem

A. The Wealth Centeredness of Economics

1. Wealth: material goods made by man
2. Goods (economic goods): things recognized as having the power to serve a human need or want, requiring the performance of labor or effort to be enjoyed, and over which we possess sufficient command gainfully to direct them to the satisfaction of our needs or wants. Examples of things that are not (economic) goods:
 - a. atmospheric air and sunlight
 - b. oil or uranium before their uses discovered
 - c. iron on Mars
 - d. desert land
 - e. “imaginary goods”—e.g., rabbit’s feet, tarot cards
3. The service industries as almost entirely auxiliary to the production or distribution of wealth.

B. “Scarcity”

1. No matter how abundant, wealth is always “scarce” in the sense that the need and desire for wealth is still greater.
2. Scarcity in this sense operates *against* scarcity in the sense of scantiness, insofar as it leads people to increase production—e.g., increasing food production to provide meat safeguards against famines; to provide steak, safeguards against a scantiness of meat, and so on.
3. The ineradicability of “scarcity”
 - a. not eliminated by more workers—correspondingly more needs and desires
 - b. not eliminated by rise in the productivity of labor—new desires for products accompany the new methods of production

C. The Objective Basis of the Limitless Desire for Wealth

1. The scope of the need for wealth: not just food, clothing, and shelter, but:
 - a. art, science, music, athletics, human relationships—virtually every human activity without exception depends upon or is substantially facilitated by the use of wealth adapted to it. (Try to think of exceptions)
 - b. the psychological-aesthetic aspects of the satisfaction of physical needs; variety and novelty
2. The perfectibility of human need satisfactions and the use of human faculties: the wealth applicable to the needs for nutrition and health; to the use of our eyes, ears, limbs, and minds.
3. The fundamental bases of our limitless desire and need for wealth: the capacity of our imaginations exceeds the power of our arms; our possession of reason gives us the potential for a limitless range of knowledge and awareness, hence, of action and experience; wealth is the material means of action and experience—in the form of instrumentalities (e.g., tools and machines) and objects of contemplation (e.g., works of art, landscaped grounds); our desire for wealth exceeds our means of producing it because of the abstract nature of knowledge, which has no fixed limits, while our physical capacities are always strictly limited.
4. The “naturalness” and “necessity” of economic progress.
 - a. the result of the use of reason as a constant
 - b. our awareness of the future and its impact on our happiness in the present.
 - c. the need to offset the operation of the law of diminishing returns

5. The division of labor and capitalism the on-going solution to raising the productivity of labor in the face of a limitless need and desire for wealth.

D. The Law of Diminishing Marginal Utility and Its Reconciliation with the Limitless Need for Wealth

1. Statement of the law: *the utility, importance, or subjective value that is attached to a unit of a good diminishes as the quantity of the good one consumes or possesses increases.* The examples of successive glasses of water and Böhm-Bawerk's pioneer with the five sacks of grain.

2. Basis of the law:

- a. the progressive satisfaction of wants, so that each additional unit confronts a want that is already more and more satisfied
- b. the rational choice to satisfy our more urgent wants ahead of our less urgent wants, leaving only wants of progressively less urgency to be satisfied by succeeding units

3. Observations:

- a. the substitutability of units, with the result that the utility of each unit equals that of the marginal unit
- b. the marginal unit serves the least important of the most important wants that the supply can serve

4. The reconciliation of diminishing marginal utility with the principle that our need for wealth is limitless (a reply to Galbraith's criticism):

- a. so long as there is any marginal utility at all, the utility of a larger supply is always greater than the utility of a smaller supply
- b. the availability of more wealth is caused by a process that at the same time raises the marginal utility of additional units of wealth—i.e., more efficient methods of production are accompanied by new types of consumers' goods, which represent new, more important uses for wealth, e.g., the electric motor and all the electrical appliances
- c. with the availability of more wealth, the size of the marginal unit tends to increase: e.g., a house versus a hut, a car versus a horse and wagon, a hundred dollars or a thousand dollars versus one dollar or ten dollars; the marginal utility of the second house or car is less than that of the first house or car, but almost certainly greater than that of the second hut or horse. On the basis of such examples, it is mistaken to conclude that the utility of the marginal units *actually under consideration in real life* diminishes as wealth increases, or that the importance of the pursuit of additional wealth diminishes.
- d. the ideal arrangement is for the marginal utility of any given sum of wealth to steadily diminish toward the vanishing point, while we deal with larger and larger sized units

5. Applications of the principle of diminishing marginal utility:

- a. resolution of the value paradox of classical economics
- b. recognition of the actual role of cost of production in price determination—Böhm-Bawerk's explanation
- c. consumer spending patterns
- d. Say's Law and relative overproduction and underproduction

E. The Assault on Wealth

1. The moralistic denigration; asceticism—the confusion of pleasure and pain.
2. The doctrines of conspicuous consumption and cultural relativism; why wealth *deserves* prestige; the objective advantages of an economically successful culture; socialism and non-material incentives
3. Wealth as the alleged cause of poverty: the overproduction and underconsumption doctrines (explained in MBFE 698).
4. The ecology doctrine

Natural Resources and the Environment

A. The Limitless Potential of Natural Resources

Matter and energy supplied by nature. Goods and wealth character supplied by man. Expandability of the supply of economically useable, accessible natural resources.

B. The Law of Diminishing Returns

1. Statement of the law: *If increasing quantities of a factor of production (or a group of factors of production) are applied to the production of a product, while the quantity of all the other, complementary factors of production is held fixed, then, beyond a certain point, additional output will be less than proportional to the additional input.*

2. Classic illustration of the law: the application of successive equal doses of labor and capital to a fixed quantity of land. See *Capitalism*, Table 3-1, p. 68. The consequent need for more land.

Ricardo and grades of land of decreasing quality.

3. Basis of the law:

- a. physical: "quantitative definiteness"
- b. rational self-interest: choose most productive uses of a factor of production first, leaving only less productive uses for later (this principle applies to Ricardo's grades of land case)

4. Reconciliation of the law with the limitless potential of natural resources: the law applies at any given time, not over time; improving technology and capital equipment can constantly raise the point from which returns diminish; the operation of quantitative definiteness can be offset by our ability to manipulate larger quantities of matter and by our ability to manipulate properties of pieces land (and other forms of matter) that we were unable to manipulate before (e.g., trace elements, new strains of seed, hydroponics, etc.); economic progress permits *less* labor to be employed in agriculture and mining.

5. Applications of the law of diminishing returns:

- a. Why aren't pieces of land and mines exploited to the maximum possible extent?
- b. Why production is not limited by a lack of natural resources even in the short run.

6. Diminishing returns and the need for economic progress

C. Implications for the Ecology Doctrine

1. Why the inherent tendency of production is to *improve* the environment.
2. How the populations of species and the quality of water and air support this proposition.
3. The ethical perspective of the ecology movement: the intrinsic-value doctrine and its implications.
4. Environmentalism, collectivism, and socialism. The alternative of individualism and capitalism as the means of solving alleged global problems.