SECTION I – THE VILLAIN

Chapter 1 The Seductiveness of Selfishness, the Glory of Greed

In 1776, the United States of America declared its independence from Great Britain, and Adam Smith published his "Inquiry into the Nature and Causes of the Wealth of Nations." The U.S. Constitution was adopted and ratified by the new nation in 1788. Drafters of the constitution included scholars who apparently shared Smith's economic views, regardless of whether they had studied his new book. Smith had concluded that pursuit of individual self-interest would be transformed into results that best served the public interest, as if by an "invisible hand." Nothing in the Constitution would lead one to believe that promotion of the General Welfare would require the public to be protected from the forces of economic self-interest.

The assumptions supporting Adam Smith's invisible hand theory of public welfare were probably reasonable for the America of 200 years go. Businesses were mostly small, individual proprietorships – none of which individually could measurably affect prices or quantities in their markets as a whole. Productive resources – land, labor, capital, and management – were embodied in the same economic entities. Consumer tastes and preferences could be taken as given – as determined by their inherent needs and desires of consumers and not subject to question or manipulation by producers. Transactions were mostly face-to-face and personal, between producer and consumer, which left little room for deception or misinformation. The human population was too small to inflict any irreversible damage to the natural environment. And, strong cultural, moral, and social values clearly defined the bounds of acceptable behavior. Under these conditions, Adam Smith's invisible hand was indeed a protector of the general economic welfare.

However, none of these key assumptions is true in the American economy of today. One doesn't need to review business statistics to know that large national and multinational corporations dominate today's markets for nearly all classes of products. Adam Smith gave stern warnings that corporations -- even those of 200 years ago -- represented a grave threat to free market competition. He could not have conceived that an 1886 Supreme Court decision would confer the status of "personhood" upon corporations. Land, labor, capital, and management are now separated among those who own, those who work, those who invest, and those who manage. And, it matters how profit is allocated among them. Today, businesses spend billions of dollars each year attempting to shape consumer tastes and preferences, making a mockery of the concept of consumer sovereignty. Many vertical layers of markets and middlemen typically separate consumers and producers. Legal deception and seduction of consumers have become normal and acceptable business practices.

Today's human population is clearly capable, and seemingly willing, to inflict irreparable damage to the natural environment in pursuit of its short run self-interest. And a belief that the greatest greed yields the greatest good seems to have replaced, or perhaps destroyed, the cultural values of human caring and responsibility. Ironically, belief in Smith's invisible hand seems to have achieved its greatest acceptance at a time when the assumptions that support it are least valid.

By John Ikerd, from "The Case for A Bill of Rights for Sustainability," a paper prepared for the "Looking Glass Retreat – The Economics of Sustainability," Koskie, ID, July 1998.

As I recovered from surgery and slowly wandered back into the real world, I began to realize the enormity of the task I was confronting. I was ready for revolution, but most of the America seemed to be rushing blissfully toward the abyss of self-destruction. In the spring of 1996, the American economy seemed strong. During the 1980s, we had escaped from the grasp of chronic inflation. Monetary discipline by the Federal Reserve and free market conservatism – Reaganomics – had brought inflation under control. We were working our way through the resulting corporate downsizing and outsourcing, which caused millions of industrial workers to lose their jobs. Once the unions were broken and people became really scared about their future, they were willing to work almost anywhere, under any conditions, for whatever wages the corporations were willing to pay. Sure, most new jobs were lower paying service jobs, and many were part-time jobs without benefits, but people were still finding work in unprecedented numbers, and unemployment was falling like a rock.

The battle cry of the Reagan era had been, *get the government off our backs, and let the market work*. Congress had responded by dismantling or disabling many environmental programs – to remove undue interference with corporate profits and economic growth. During the 1970s we had succeeded in making our lakes and rivers non-flammable again and in bringing daylight back to the big cities, but now we were taking environmentalism too far. A strong economy was more important that a clean environment, at least to those in power. The government also had called off its antitrust lawyers. American corporations needed be able to merge so they could get big enough to compete with government-subsidized industries of other countries. Not only was there economies of scale in production and distribution, but the large corporations could afford to invest in research and development, to bring new products and services to the market place. Increasing public research and development would have required more tax dollars, and people were being told that virtually all government spending was a waste. So it seemed best to leave technology development to the private sector.

The George H. Bush and Bill Clinton Administrations had only restated and refined the trends set in place during the Reagan years. Whereas the clear message of the Reagan era had been that *greed is good*, Bush had attempted to take some of the harshness out of the rhetoric by calling for a *kinder and gentler* nation. Clinton had attempted to put forth a more liberal agenda, but he was never willing to put principles before politics and public support. The rallying cry of his campaign had been, *It's the economy, stupid*, and he was not about to let anything take precedent over corporate profits and economic growth. The economy boomed, the stock market soared, and huge federal budget deficits, a carryover from the Reagan years, suddenly were transformed into record budget surpluses. Previous arguments over where to cut the federal budget turned to debates between proponents of tax cuts and advocates of new social programs.

A new era of informational and biological technology was rapidly emerging. New information enterprises began creating new wealth and creating new high-paying jobs at unprecedented rates. A young fellow by the name of Bill Gates created a natural monopoly called Microsoft. His disk operating system (MS-DOS) became the industry standard, allowed different brands of computers to communicate, and within a couple of decades, he became the richest man in the world. The Internet followed, bringing a flood of enterprising young entrepreneurs with companies such as Yahoo and Amazon.com, whose stock prices soared before they had ever reported a dime in profits. Thirty-year-old millionaires became a dime a dozen in the Silicone Valley and anywhere else that had staked its economic future on new information technologies. Who wants to become a teacher or a social worker when you can make millions in cyberspace?

Genetic engineering had yet to approach information technologies in creating profits and economic growth. Their promise was still on the horizon. However, a company named Pfizer developed a drug called Viagra, the ultimate high-tech aphrodisiac. They hyped it on network news shows, hired Bob Dole to extol it in TV ads, and Pfizer stock prices soared, setting the economic standard for drugs of the future. Erectile dysfunction is a very real medical problem for some, but those in real need were not the logical targets of this massive, national advertising campaign. Pfizer apparently knew that a whole lot of basically healthy men wanted their *erectile* to function more effectively, and were willing to pay a lot of money to achieve it.

In addition, corporations have extracted billions, or trillions, of dollars in profit and growth from the natural environment, through degradation and pollution; from their workers, through cutting jobs and reducing real wages; and from taxpayers, through government sanctions and outright subsidies bought through political influence. This process of extraction and exploitation was becoming increasing worldwide, with new agreements on international trade paving the way for one, global *free market*.

Some of the economic growth had been real. But, billions of dollars in growth in actual new economic productivity, arising from new post-industrial technologies, had been commingled with the billions extracted from society and the environment, making it impossible to separate real productivity from exploitation.

The U.S. stock market literally went through the *10,000 ceiling* on the Dow Jones stock index, after sustained growth of 20 percent per year throughout the mid-90s. At one point, Alan Greenspan, Chairman of the Federal Reserve Board, warned about "over-exuberance and unwarranted growth" in stock prices. The market faltered only briefly, and then soared upward again. Greenspan later started talking about the *new economy* and eventually gave up trying to explain why stocks continued to rise.

Later, in 2000, George W. Bush assumed the presidential reins from Bill Clinton. The stock market began to falter, although it obviously had little to do with politics, since Bush was clearly the corporate choice for President. By mid-2001, there were clear signs of an economic downturn. The terrorist attacks of September 11, 2001 sent tremors through the economy and ensured three consecutive quarters of economic decline – the technical definition of recession. The stock marked plummeted, dropping the Dow Jones index back to the 8000-9000 range. But the resulting *war on terrorism* sparked a rash of government spending on homeland security and military defense, providing a critical fiscal stimulus that would have been difficult to wring out of Congress under any other circumstances. With a new round of tax cuts and this new government spending, the government's budget balance quickly changed from surplus back to deficit.

The economy showed signs of recovery in early 2002, but a series of corporate accounting scandals, most notably, Enron and WorldCom, shook investor confidence and raised the specter of a *double-dip* recession. The Federal Reserve continually cut interest rates, eventually to one percent, in a vain attempt to stimulate new investment. There was little more the government could do to stimulate an economic recovery. By 2004, the economy was showing signs of recovery, with the stock market back in the 10,000-plus range, more a reflection of government spending to support the war in Iraq and increased spending for Homeland Security, than of any real growth in the private sector of the economy. Millions of American jobs have been lost to lower paid workers in other nations, and these jobs will not be coming back.

How much of the economic boom of the '80s and '90s was real and how much was illusion? How much of it represented increases in real productivity, and how much of it represented corporate exploitation? How much of the 2004 recovery was due to huge government deficits and how much is due to growth in productivity? These things will be virtually impossible to disentangle, even after the fact.

All rising markets eventually fall, so the critical question is not whether recessions follow expansions. They do. And, expansions follow recessions. The critical question is whether the long run trend in economic growth can be sustained. As we continue to go through cycles, will future cycles take the economy higher or lower? Growth based on exploitation, extraction, speculation, and illusion – rather than real productivity – quite simply is not sustainable.

The new common sense revolution may gain momentum during times of economic recession and may suffer setbacks during times of economic expansion. But it will not ultimately succeed until the masses come to realize that our current economic and political institutions and policies are not sustainable – at least not without major reforms. Obviously, the masses in America have not yet to come to this realization, and thus, continue moving steadily, if not blissfully, toward the abyss of self-destruction.

As long as people can rationalize their confidence in their current economy and society, they will not demand change. It's difficult for an addict to see a pressing need for help while he still has plenty of drugs on hand. So, most people, at least most with marketable skills and talents, still cling to the hope that if they continue to work hard enough, long enough, ultimately they will achieve success. They will continue to pursue the American Dream, but over time, fewer and fewer will succeed.

For many of these strivers, work has become its own reward – in fact its only reward. So, they will continue to work because to work is to succeed. They will continue to move from job to job, from deadline to deadline, from success to success, and with each success, to another *high.* But, each *high* will be followed by emptiness – demanding to be filled by yet another job, another deadline, and another success that will bring yet another *high*. They are far too busy to stop and think about whether the highs and lows have any real meaning or whether their lives have any real purpose make any sense.

However, all revolutions start small, when only a few people begin to realize that something is fundamentally wrong and has to be changed. These early revolutionaries debate the issues, refine the principles, and test the strategies – so new alternatives will be available when the old regime begins to crack and the masses find the courage to rebel. The democracy movement in America did not begin with the revolution – it had been growing among the colonists during decades of preparation, waiting for the right time. The new revolution against the economic exploitation and extraction may be starting out small, but it is nonetheless underway. We don't need to change the world all at once; we just need to change it a bit each day. We don't need to change the whole world all by ourselves; we just need to change our little part of it. Everything is interconnected. Thus, as we change our little part of it, in fact, we change the whole of it.

How do I know enough to write about the failings of contemporary society? I have spent most of my life studying such things. Being a professor of economics for thirty years has given me the luxury of time to read, to think, and to contemplate the critical issues confronting contemporary society. I am not saying that most professors do these things, but they have the time, if they choose to use it this way. I always thought it was my job to try to understand what was happening in the world around me. But most important, I understand many of the mistakes that other people make because I have made most of them myself. I have been seduced by selfishness. I have worshiped at the cross of the *free market*. I have been addicted to work and the never-ending quest for professional status and money. I have spent most of my life trying to *amount to something*. And, I have sacrificed personal relationships and ethical principles in the pursuit of someone else's definition of success.

Now, I am at least beginning to find my way out of the jungle of cold logic, blind rationality, and heartless economic self-interest. My *affair of the heart* was but another step in a long journey toward the clear light of common sense. My personal revolution had been a gradual one, taking place over a number of years. It has taken the lessons learned through loss of professional status, divorce, and heart surgery to shock me into changing my life.

Some people say, "Sure, you can afford to make radical changes, you are at the end of your career, you don't have so much to lose." They might as well go ahead and say, "You don't have so long to live." However, one of the most important lessons I have learned is that I could have changed my life at any time. I really didn't have to learn what I know today through either study or experience, the lessons are just common sense. You don't have to read libraries of books or wait for life to kick you around for years to get the message; it's just common sense. Don't wait until you are old and sick, like me, to decide to get off the treadmill of an empty life. You can do it any time. Do it now. All it takes is a little courage and some common sense.

I was probably predisposed to questioning conventional wisdom from the beginning, but I was seduced at an early age by the opium of self-gratification. When I was very young, we were very poor. I was born in the middle of a snowstorm, in the small town of Conway, Missouri, two-days after Christmas in 1939. I would be the middle boy in a family of five kids, with an older sister and brother, Mary Ellen and Tom, and a younger brother and sister, Don and Helen, in that order. My dad, Elmer, or El as everyone called him, was a farmer. My mother, Martha, was a *farmer's wife*. A few years before I came along, Daddy had borrowed $10,000 to buy a farm with some 200 acres of land – lost by the previous owner during the Great Depression of the 1930s. Back then, $10,000 was a lot of money, particularly in south Missouri. My dad was determined not to fail. So, the early of years of my life were lived under the constant cloud of nothing being as important as paying off the farm.

My dad farmed with horses in the early years, and we milked cows by hand every morning and evening, year round. We had no electricity or running water. My mother cooked our meals on a wood stove, and scrubbed our clothes by hand and hung them outside on lines to dry. For entertainment, she read to us at night by the light of a coal oil lamp – mostly Zane Grey books, which my daddy loved. My dad's father had died when he was in the fourth grade. He had quit school to go to work and had never learned to read or write at a functional level.

In the early days, we raised most of our own food. We butchered our own hogs each winter and cured the meat so it wouldn't spoil. We raised chickens to eat in the summertime. We always had a big garden, and we picked and canned a lot of fruit, wild berries, and greens. The purpose of fishing and hunting was for food, not for fun. My mother could wring a chicken's head off in a flash and could make skinning a squirrel look as easy as peeling a potato. I can recall one winter when we had to sell the *meat* hogs to make the farm payment and got through the winter eating squirrels, rabbits, and ground hogs. But, the two basic food groups in our house were always beans and potatoes – meat was mostly for flavoring other things, such as dumplings and gravy. I was in college before I learned that chili is not supposed to be ninety- nine-percent water. However, I don't like to get into poor contests. I feel too sorry for the other person when I lose, and it's even more depressing when I win. To me, we were poor.

Most people who were raised poor say, "we were poor, but we didn't know it." We were poor, and I knew it. Every time we went into town, which wasn't often, with the seven of us in an old car covered in chicken droppings, that wouldn't start without *us boys* pushing it down the street, I knew we were poor. I could imagine every kid in town laughing at us pushing that old car down the street. I still remember how the storekeepers watched us *like a hawk*, thinking we were going to steal something, as we looked through the comic books with the half of the front cover cut off. We knew we couldn't afford the new ones with whole covers. When we each got a pencil flashlight for Christmas one year, I knew we were poor.

I didn't like being poor. One of my favorite dreams was that an ice cream truck or a soda pop truck had turned over, and someone told us kids that we could eat and drink as much as we wanted. I also dreamed of the day when I would have enough money to buy the things that other people had. At the time, I couldn't see any value in being raised poor; I just felt deprived and ashamed. My desire to escape poverty became the foundation for my selfishness.

Education was my way out. I liked school partially because I like to learn, but mostly because I was reasonably good at it. My mother was always proud of me when I made good grades. She always told me she thought I was going to *amount to something*. My dad always said, "Get a good education – that's something they can't take away from you." I could never figure out who *they* were, and why they would want to take things away from me. I suppose he was remembering the depression when the banks and insurance companies seemed to be taking everything away from everyone he knew. I didn't realize until later on that there are still lots of people around trying to take things away from others. So having something *they* can't take away from you is still a pretty good idea. What was obvious to me back then was that people with money amounted to something. I wanted to amount to something, so I began to think of school as the way to prepare myself to make money.

I went to a two-room country grade school and graduated first in my 8^{th} grade class of six. During high school, in the mid 50s, I was distracted from studies by rebellion against the establishment from time to time. I made good grades, but was usually in trouble for one reason or another. Times on the farm were better by then, prices were better in the mid-50s, and we were coming into the modern age, with electricity and running water. We even had vehicles that would start without pushing – at least when it wasn't too cold. But, I was always restless. A couple of friends and I hauled a bunch rural mailboxes into town in my dad's pickup, one Halloween night, and dumping them on the main street of Conway. For this evening's work, we spent two years on federal probation.

My younger brother Don and I opened and ran the Red Dog Café during my senior year in high school. We earned enough for spending money – mostly from the jukebox and pinball machines – but more important, I learned many valuable lessons in how not to run a business. I wanted to give the kids a place to listen to music, buy a Coke and a burger, to hang out. I drove to town to open up an hour before school, worked through the lunch hour, returned after school, stayed open until eleven, midnight on weekends, and then drove home. One lesson I learned was never to use all of your money to start a business, because you will then have nothing left to pay for the unexpected expenses or the inevitable hard times. I learned that it doesn't do much good to have a lot of customers unless your customers have money to spend. I learned what it means to have to meet a payroll – even though my sister and cousin were our only employees. I also learned about failure – I didn't lose much, but I lost everything I had invested.

In spite of my rebellion and my work at the Red Dog, I always managed to keep one foot on the side of respectability. I sang in the mixed chorus, which gave me my first opportunity to travel more than 50 miles from home. I also was active in the Future Farmers of America, which paid for my first trip to the University of Missouri to participate in the state convention. I would have liked to be a farmer: however, there didn't seem to be much money in farming at the time. At best, our farm would have room for only one new family, and Don really wanted to be a farmer.

Even with all my distractions, I managed to graduate from high school fourth in a class of twenty-eight, and received a Curators' Scholarship to the University of Missouri. The Curators' Scholarship was worth only $67.50 per semester, but back then, that was enough to cover the total costs of registration and tuition. If I could come up with the cost of books and room and board, I could go to college.

As we were growing up, my dad would give us kids either calves or piglets, instead of giving us an allowance. In return, our job was to help with the farming. When our calves grew up and started milking, we got a share of the milk check. When our pigs grew up, we could sell them. That's how we learned the connection between work, producing something, and money. When I graduated from high school, I had a couple of cows and an old sow with four pigs. Since the sow had such a small litter, she was destined for market, regardless of what I did.

After much indecision, I decided I would go to college. A few days of working in a pea cannery in Rochelle, Illinois was probably the deciding factor. I had driven up with a couple of friends that summer to test out the world of work. I was too young to work in the fields, so they gave me a job in the cannery. The freshly sealed cans of peas came at you at the rate of 360 per minute. You had to pick them off the end of the conveyor, six at a time with a suction cup device, and place them in a basket – from there they were wheeled away for cooking. If you messed up, an alarm would go off, the machine would start *eating cans*, and you were in trouble. Hour after hour, you picked up cans and set them back down. The machine noise was so loud that the foreman had to scream in your ear to tell you it was time for a break. It was hot and there was water everywhere – sweat routinely ran out of the tops of my shoes. We lived in the company barracks and had a meal ticket for the company cafeteria. I know first hand what it is like to be a low-paid, migrant worker. There just had to be a better way of making a living than this. I came home.

I got enough out of the sow and four pigs to pay for room and board in the dormitory for one semester. So with my tuition for one year and my room and board for one semester paid, I headed off to Columbia to make my mark at the University of Missouri. Within a week, I had a job at the dormitory cafeteria, starting at 68 cents an hour. I would come in at 5:30 in the morning to pour juice and cream for cereal, work breakfast, go to class, come back and work lunch, go to class, come back and work dinner – getting in a good number of hours while carrying a full load of classes. It was still low-paid work, but it was leading to something better – and that made all the difference in the world.

After the first semester, I worked 40 to 60 hours a week and carried a full load of classes for the rest of my four years in school. Work, classes, and study took almost every waking hour of my life. The only breaks were Friday night keg parties in the woods, and an occasional movie, with my fellow cafeteria workers – the *Crudders*. It was here that I learned that you don't have to have much money to have a good time – as long as you have good friends. The Crudders formed a community of people held together by the need to work – people with similar backgrounds, of modest means, seeking a better future through education. All it took was $1.50 per couple to finance a keg party in the woods. Being obnoxious – swearing, fighting, racist jokes, etc. – was strictly prohibited. We drank, talked, played guitars, sang, and in general just had a good time. We made sure that everyone got back to the dorms safely and on time. Our parties were more popular with lots of dorm girls than were the frat parties.

When I started college, I didn't know what I wanted to study – just something that would prepare me for a good job. I had never heard of Agricultural Economics when my advisor enrolled me in Ag Econ 100, introductory Agricultural Economics. Farm management, which was mostly about record keeping, had not been my favorite subject in vocational agriculture in high school. However, this was different, and it didn't take long for me to decide that Agricultural Economics was my calling. Economics was about making money, and that was exactly what I wanted to do.

I didn't like being poor in college any more than I liked it on the farm. I took as many electives as possible in the business school. I read popular books such as Think and Grow Rich, by Napoleon Hill,[1] How to Win Friends and Influence People, by Dale Carnegie,[2] The Power of Positive Thinking, by Norman Vincent Peal,[3] and The Organization Man, by William H. Whyte.[4] I was preparing myself to become a successful businessman. I was not going to be poor forever. I was going to amount to something.

I finished college in the spring of 1961. When I walked across the stage to get my diploma, I had the promise of a good job with Wilson Packing Company, after a stint in the Army Reserves. My dreams and aspirations were pretty much the same as those of millions of other young men all across the country. We were going to get a good job with a good company, achieve an affluent lifestyle, maybe even get rich, and in general, have a good life. We were going to live the American Dream. After all, isn't that what everyone wants? Isn't it just human nature to want to have things for ourselves? It takes money to buy things. So isn't it just natural to want to make money?

Four years of economics and business classes soon erased any reservations about the righteousness of selfishness and the goodness of greed. I learned the way we can do the most good for society as a whole is to do the most we can for ourselves. At first, it didn't seem quite right, but after some thought, I could see that it was all perfectly logical and rational. In fact, I could now understand that if I failed to pursue my self-interests to the fullest, I would not be doing my part to help build a strong society.

I knew that people are selfish and greedy by nature. But, when I was a kid, my mother told me I had to learn to share and be generous – that selfishness was a sin. I was supposed to learn to control my greedy nature. My dad had taught me that I should work hard, and should always be worth more than I expected to be paid. People were naturally predisposed to be lazy and selfish. To be good, people had to conquer their basic instincts of selfishness and greed.

However, my education in economics had shown me that my parents were naïve – probably because they were out of touch with the modern world. Economics is a powerful discipline. It proves to us, logically and rationally, that we do not have to conquer our basic instincts, but instead we need only cultivate them. I could feel serene about my selfishness and good about my greed. People who still thought like my folks just didn't understand. They needed to take a few courses in economics.

The logic of economics really isn't all that difficult. It's mostly a matter of supply and demand. The price that people are willing to pay for something is a reflection of its economic value. If something has a high price, it is worth a lot, at least to someone. If the price is low, it's not worth much to anyone. Economic value, however, is different from other kinds of value. Economic value is related to scarcity – the amount of something available, relative to the amount people are willing and able to buy. Something like air obviously is valuable – people have to have it to live. But air has no economic value – as long as there is plenty for everyone to breathe. Air takes on an economic value only if we pollute or otherwise make clean, breathable air scarce. Diamonds, on the other hand, certainly are not necessities of life, but they have a lot of economic value. There aren't many diamonds around, so those who want them must pay a lot to get them, even though diamonds certainly are not a necessity of life.

The ideas of scarcity and value lead to the laws of supply and demand. Both laws are derived from a concept called *diminishing marginal value*. On the demand side, diminishing marginal value refers to the value of something to consumers or buyers. The word marginal, as used in economics, refers to adding things incrementally – one after another. So diminishing marginal value means, as additional amounts of something are made available to consumers, the value of each incremental unit declines or diminishes relative to the value of pervious increments. In other words, as something becomes less scarce, its economic value declines.

Consumer demand for Big Macs is an example used in Economics 101 these days. At any given sitting, the first Big Mac might be worth two bucks, but the second one would be worth something considerably less, at least for most of us. After the third or fourth Big Mac, the marginal value of another would drop sharply for most people, and eventually the value of eating another Big Macs would drop to nothing, even for a hungry teenager. Whether it's Big Macs, Nikes, or Hondas, as something is made *more available*, it becomes less scarce and its economic value *declines*.

Economists call this the law of diminishing marginal utility. Conversely, using the same reasoning, as something is made *less available*, as it becomes scarcer, it's economic value *increases*.

A market is nothing more than a collection of individual buyers and suppliers, and market price simply is the price that prevails in a marketplace. Thus, the *law of demand* states that if the quantity of anything offered for sale *increases*, its market price will *decline* – recalling that price reflects economic value. On the other hand, if the quantity of something *declines*, its market price will *increase*. Thus, we have the law of demand: Quantity demanded and price move in *opposite* directions.

The supply side of the market is a bit more complex, but the basic idea is much the same. In the case of supply, diminishing marginal value arises from *diminishing productivity*. In general, an increase in use of production inputs, such as labor, land, capital, or raw materials, will result in an increase in output or production. But as inputs are increased, beyond some point, an additional increment of a given input will not add as much to total output as was added by the previous increments – the marginal productivity diminishes. And, as the marginal productivity of the input declines, it takes more inputs to produce an incremental unit of output, and the *marginal cost* of production increases.

Producers can afford to buy additional inputs to increase production only so long as they expect to receive a price high enough to cover their increasing marginal costs of production. If prices are expected to go up, producers can afford to use more inputs, and thus, will increase production. And, if producers expect prices to fall, they are forced to cut back on inputs, and thus, reduce production. Thus, in general, when prices are expected to *rise*, producers *increase* production and offer larger quantities for sale, and when prices are expected to *fall*, they *reduce* production and have less to offer for sale.

As with market demand, market supply is nothing more than the total of quantities offered for sale by individual producers. As market prices *increase*, quantities supplied will *increase*, and as market prices *decline*, quantities supplied will *decline*. This is the essence of the law of supply: Quantity supplied and prices move in the *same* direction. It may seem a bit complex at first, but it's all derived from the declining marginal value of inputs in production. As their marginal productivity declines, higher market prices are necessary to offset the higher marginal costs of production.

The laws of supply and demand are all we need to understand the *magic of markets*. In fact, that is about all there is to economics. As John Kenneth Galbraith, a noted twentieth-century economist once wrote, "The great truisms of economics have no clear discoverers; they are evident for all to see."

In spite of misstatements to the contrary, the laws of supply and demand ensure that quantity supplied is always equal to the quantity demanded – the market always clears. At any price above the market-clearing price, the quantity demanded would be less than the quantity supplied, but prices would then fall. At any price below the market-clearing price, the quantity demanded would be greater than the quantity supplied, but prices would then rise. Producers' expectations or prices are sometimes incorrect, and they produce either more or less than the market will clear at their *expected* price. However, falling prices will eliminate any temporary surpluses – prices falling, until quantity demanded increases to match the quantity offered for sale. Rising prices will eliminate temporary shortages – prices rising, until quantity demanded decreases to match the quantity offered for sale. There are no real market shortages or surpluses; the markets always clear.

Market prices are powerful mechanisms for guiding economic activity. Prices ration scarce supplies among those who are willing and able to buy. Prices also provide incentives for increasing or decreasing production. If producers accidentally produce more than they can sell at a profit, low prices will result in losses, and give producers an incentive to cut back on production. Losses eventually would force producers to cut back if they were to persist in producing more of something than consumers want. If prices rise higher than expected, producers will make more profit than expected, and this will give them an incentive to produce more. The profits generated by higher prices also provide existing producers with the financial means, as well as the incentive, to expand production to meet consumer demand.

Markets also determine wage rates for labor, interest rates for capital, rental rates for land and other real estate, and salaries for managers. The demand for inputs or factors of production is derived directly from prices and profits at the consumer level. Higher prices and more profits from a given product result in greater demand and higher prices for the things it takes to produce it. Falling product prices translate into weaker prices for production inputs.

The supply of production inputs responds to prices in the same way as the supply of consumer products. If wage rates fall in a given industry, workers move to better paying jobs elsewhere. As producers in a growing industry attempt to expand production, they need more capital, they bid up interest rates, and capital flows in from other uses to finance their expansion. Thus, productive resources – land, labor, capital, and management – are shifted from one use to another as changing profitability make them more or less valuable in producing different goods and services. They are shifted from less valued to more valued economic uses. This is the means by which scarce resources are allocated to their most economically valuable uses.

This is the essence of *microeconomic* theory – the theory of the behavior of individual consumers and individual business firms. With this basic understanding of economics, a person can understand virtually everything of significance that takes place in a market economy. While at first reading it may seem confusing, with a bit of thought it all seems rational and reasonable.

So how does microeconomic theory promote the causes of greed and selfishness? First, in our role as consumers, economics tells us we should never pay more than necessary to get whatever we want. Not only would doing so unduly reward producers, but it would distort the market signals causing production to increase beyond levels justified in terms of economic value. Likewise, we should never outright give money to anyone. Economists justify charity by saying that we are really *buying* some sort of personal satisfaction from the act of giving. But, they are still concerned that charity rewards someone for their non-productivity and will only encourage them to be even less productive in the future. Personal charity – selective giving to individuals – is particularly troublesome for neoclassical economic theory.

To economists, it is irrational to spend money on anything for which there is no individual or personal reward, and in addition, doing so just messes up the economy. We can work through the government to take care of such non-economic issues as social equity and resource stewardship. But, in spending our own money, we need to practice absolute selfishness – if we are to do our part for the overall good of the economy and society.

As owners of productive resources, we should do the same thing – our greed will result in the greatest good for society. We need to work in the occupation where we can earn the highest possible wages or salary. If we continue to work at some lower paying occupation because it's family tradition, like farming or police work, or just because we like it, we are messing up the labor market. We are restricting the labor supply in some other higher valued occupation that is producing things that people want more. If we could not be more productive elsewhere, we would not be able to earn a higher salary elsewhere. A good economic citizen is obligated to earn as much money as they can.

Likewise, if we have money saved, we should invest it where it will yield the highest return. That's where it will do the most good for the economy. If we sock it away under our mattress, build up a balance in our checking account, or God forbid, give it to our kids to help them buy a house, we are really fouling up the capital markets. We are restricting badly needed capital elsewhere and are forcing interest rates higher than necessary for those who are trying to produce what consumers really want. If you insist on farming land that would be worth ten times as much for residential development, you must be crazy. If you aren't earning as much as you can from everything you own, then you are not really doing your part for the good of the economy.

The same reasoning holds for the large corporation or the individual entrepreneur. Individuals and corporations should invest their resources in the enterprises that promise the most profit and potential for growth. The promise of profits means that consumers want more than current producers are willing to supply. By taking that profit, you are simply responding to market demand, you are giving people what they want. If you could supply a more profitable market and don't do it, you are depriving the people of an opportunity to consume more of what they want. If you are not making as much profit as you can, you are not doing your part for the overall economy.

Economics is all about making the economy as big as it can be and helping it grow as fast as it can grow. Human wants are insatiable and economic resources are scarce – by definition. Thus, we can never have *enough*. However, the more we have the better off we will be. The more efficiently we allocate resources, including people, among competing uses, the bigger our economy can be, the faster it will grow, and the more we can have. A common definition of Economics is a study of the allocation of scarce resources among competing ends. No other means are more efficient than free markets in allocating economic resources – but only if everyone maximizes their individual economic well-being.

The greatest greed results in the greatest good – it's rational, logical economics. Isn't economics great? We don't have to feel guilty about our human frailties. The more we want, and the more we are able to get for ourselves, the more opportunities we create for everyone.

With a degree in Agricultural Economics in hand, I thought I could easily cope with any twinge of conscience I might have about being greedy and selfish. At the age of twenty-one, I was ready to do my part for society by making as much money as I could. However, somewhere in the back of my mind some questions lingered that would not go away. What was the *true value* of something? Somehow, basing everything on economic value seemed a bit inadequate – only scarce things were valued. How much was enough? A world of insatiable wants, where there was never enough, did not seem to me to be a hospitable and peaceful place to live.

Was the key to happiness really so simple as telling people to pursue their self-interests and the rest would take care of itself? Somehow, a lot of this just didn't seem to make common sense. However, I managed to shake off my doubts and go to work. After all, I was no longer limited to common sense. I had a college degree in economics.

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