**What Every Debater and Extempor Should Know About Economics**

By David Beers

(Revised by Gregory Rehmke, September 2011)

**Introduction: Why Economics?**

As a policy debater or extemper you are a spinner of tales. Your art is to tell a story that is reasoned, persuasive, fresh—in a word, compelling. And you must ply your art better than the speakers who come before or after you in the round. The best, most believable story usually wins.

To be sure, the stories you tell are of a special sort: they have a distinctive structure, sometimes involve specialized lingo, and they tend to quote an awful lot of outside sources to convince the listener that they are true. But beneath the surface every good debate or extemp speech has the hallmarks of a good tale. It introduces characters (politicians, business people, voters, etc.) who face or create some sort of conflict (in debate we sometimes call it a “harm scenario”) and it brings about a resolution to the conflict (sometimes good and sometimes bad) through the course of these characters’ interactions with each other. Like every good story, a debate or extemp speech describes action and consequence, sometimes stringing together long chains of actions and consequences (often ending in nuclear war if you do cross-examination debate!)

And this is where economics comes in.

You see, economics is the science of human action and its unintended social consequences. Economists, too, are storytellers. And the art with which they tell their stories is a highly refined form of reasoning based on simple, mostly self-evident facts about human action. This “economic way of thinking” has been developed over centuries to clarify, systematize and correct all manner of assertions about the way society works. Economics is not a series of settled conclusions about public policy, rather it is, in the words of the economist John Maynard Keynes, “a technique of thinking which helps its possessor to draw correct conclusions.” A debater who is proficient in this technique of thinking can analyze circles around his opponents’ arguments, identify fallacious links, and quickly sift out promising affirmative and negative positions for further research.

As an extemper, you will find that economics opens up a whole range of fresh approaches to tired old questions and strengthens your personal voice. This will free you from relying exclusively on other peoples’ analysis and give you the capacity to evaluate media assertions with authority and clarity. Whichever event is your favorite, an understanding of a few basic economic principles will help you tell compelling, well-reasoned stories that will leave your opponents wondering, “how’d they do that?”

So where is a student or coach to turn for a practical introduction to these principles?

A slim volume titled *What Everyone Should Know About Economics and Prosperity* by James Gwartney and Richard Stroup is a superb place to start (see www.EconomicThinking.org for possible links to online versions of this book or for information on how to order it). Unlike many otherwise excellent introductory economics books, this one has the virtue of unsurpassed brevity. Clocking in at only a little over 100 pages, it is astonishing how much of the basic core of economics is explained. Each short chapter begins with a simple, one-sentence summary of the point to be made in that chapter. And you would never know the authors were economists by their writing style: the exposition is lucid, punchy and to the point. Mostly what has been left out are the parts of economics that drive college freshmen crazy in Econ 101: the strange terminology, the counterintuitive assumptions, and the inscrutable graphical models. But you will not find watered-down economics here. Of the many of books I’ve used or considered using for high school debaters and extemers over the years, this is the one I have found to be the most practical and helpful. With the tight constraints on our time and curriculum, no book I can think of provides an easier way to learn the economic principles that are most relevant to extemp and debate.

**If You Could Only Know 10 Things…**

For those of you who need to have the “opportunity cost” of learning economics lowered still further before they will tackle the task, or who need further verification from an experienced debate coach that it’s really a task worth tackling, I offer you the following essay. Here is my take on the top ten things every debater and extemper should know from this book. I urge you to accept this essay as an appetizer, rather than the main course. But by the time you are finished digesting it, I think you’ll have your own reasons for wanting to learn more about using economics as a tool for debate and extemp. Once you begin to catch on, you will be astonished at the power of the economic way of thinking for making and rebutting arguments about government, the market, and society.

David Beers has a degree in Economics from George Mason University. He was a successful high school and college debater, and coached debate at Wichita Collegiate School and the St. John’s School in Houston. Mr. Beers has long lectured at the Mackinac Center Debate Workshops, and written on public policy issues for speech and debate students. He is currently working in the software industry.
So here is my list of the top things you should know about economics:

1. TANSTAAFL (“There Ain’t No Such Thing As A Free Lunch”).
2. Incentives matter.
3. “Hazlitt’s Lesson.”
4. Private ownership promotes responsibility and cooperation.
5. Trade creates wealth.
6. Profits direct businesses toward activities that increase wealth.
7. Competition increases efficiency and innovation.
8. Taxation and regulation discourage production and destroy wealth.
9. Political decision-making favors plunder over production.
10. Central planning wastes resources and retards economic progress.

Some of these items may seem simplistic or trite. Simple to state, perhaps, but rich in their application to real-world problems. In economics the skill is usually in the application; the concepts themselves are remarkably simple. I will give plenty of examples to illustrate the applications. Some of the items may seem counter-intuitive or paradoxical. Before I’m through I hope you will see that each is grounded in ordinary common sense—which is good news, since that’s often the standard by which your judges will critique your arguments. But before I go on, a clarification of terms is in order.

**A Brief Clarification of the Term “Wealth”**

Before explaining why these ideas are so useful for debaters and extempers, I’d like to clarify a commonly misunderstood term that plays a central role in much of the discussion that will follow. The word “wealth” is often considered to mean an accumulation of material things or money. Thus, the pursuit of wealth is frequently contrasted with other more elevated pursuits, such as peace, compassion, justice, or spiritual enlightenment. In debate rounds we often hear about a supposed trade-off between economic growth (increasing wealth) and the environment. At another level we recognize that the distinction between material and non-material values is artificial and unnecessary. People make daily decisions of how to employ their limited time and resources to enhance their lives, balancing material and non-material goals in a single scale of value to achieve the greatest personal happiness. To arbitrarily separate out the “material” goals for the purpose of defining wealth might help someone put a dollar figure on wealth (a questionable endeavor) but it creates an artificial concept of progress that no thoughtful person would be likely to endorse. Economists, by and large are thoughtful people, so they generally reject the idea that there is a conflict between increasing wealth and increasing “other things people value”—wealth to them is defined by what people value.

Unfortunately, economists themselves unwittingly promote the myth that wealth is material when they spend so much time looking at statistical measures of economic activity. This has caused non-economists of all stripes to think of economists as “bean counters” who are concerned about “economic performance” rather than quality of life. In fact, statistics and forecasts play almost no role at all in the economic way of thinking—they are just a business that some professional economists have spun off to make a little money on the side!

When statistics are used to amplify an economic argument, it is implicitly recognized that the numbers are imperfect shadows or “proxies” for the real, unmeasurable values that underlie them. No serious economist who extols the value of economic growth would exclude progress in health, culture, the environment, etc. from his definition of growth, even though the value of these things is often difficult to measure. All these valued goals are within the increased range of opportunities that economic growth makes possible. Moreover, the extent to which each of them are pursued depends upon the value attached to them by individuals, not on the economic system which generates them. People make daily decisions of how to employ their limited time and resources to enhance their lives, but their perception of that wealth may also be seen in the enhancement of other difficult to quantify values such as security, a beautiful environment, or good health. For one thing, having a higher income allows one to pursue all manner of “non-material” goals as well as “materialistic” ones. For example, higher money incomes permit more charitable giving, better health care, safer, less polluting automobiles, and better speech and debate programs.

At another level we recognize that the distinction between material and non-material values is artificial and unnecessary. People make daily decisions of how to employ their limited time and resources to enhance their lives, balancing material and non-material goals in a single scale of value to achieve the greatest personal happiness. To arbitrarily separate out the “material” goals for the purpose of defining wealth might help someone put a dollar figure on wealth (a questionable endeavor) but it creates an artificial concept of progress that no thoughtful person would be likely to endorse. Economists, by and large are thoughtful people, so they generally reject the idea that there is a conflict between increasing wealth and increasing “other things people value”—wealth to them is defined by what people value.

Unfortunately, economists themselves unwittingly promote the myth that wealth is material when they spend so much time looking at statistical measures of economic activity. This has caused non-economists of all stripes to think of economists as “bean counters” who are concerned about “economic performance” rather than quality of life. In fact, statistics and forecasts play almost no role at all in the economic way of thinking—they are just a business that some professional economists have spun off to make a little money on the side!

When statistics are used to amplify an economic argument, it is implicitly recognized that the numbers are imperfect shadows or “proxies” for the real, unmeasurable values that underlie them. No serious economist who extols the value of economic growth would exclude progress in health, culture, the environment, etc. from his definition of growth, even though the value of these things is often difficult to measure. All these valued goals are within the increased range of opportunities that economic growth makes possible. Moreover, the extent to which each of them are pursued depends upon the value attached to them by individuals, not on the economic system which generates that wealth or creates the opportunities in the first place. Now for a closer look at that list.

**#1 TANSTAAFL**

“There Ain’t No Such Thing As A Free Lunch,” the saying goes. There is a cost of obtaining any good thing in this world. It may not be a money cost, and the recipient is not always the one who has to pay it, but there is a cost to someone all the same—an opportunity that is sacrificed to make that good thing available to the recipient. The reason is that good things are scarce in society—there isn’t as

---

1 I owe this definition to Paul Heyne, *The Economic Way of Thinking*, 1994, p. 178
much of them as people would like to have. To employ scarce resources to provide a good or service of one sort leaves less for producing others. This is all right if the good produced is more valuable than the goods sacrificed. Otherwise, it’s trading good for bad. Trade-offs are everywhere and arguments are often won or lost depending on who is the best at identifying the relevant tradeoffs for a particular situation.

Politicians and special interest groups are renowned for acting as though scarcity can be repealed by an act of the legislature. Watch for it in your research. Listen to evidence and you will hear the tell-tale signs. The argument will go like this: (1) X is a good thing; (2) There is not enough X; Therefore, (3) a law to increase the amount of X is a good thing. Case in point: Laws against drug use. Here the argument is (1) Drugs are bad; (2) Tougher drug enforcement reduces drug use; Therefore, (3) getting tough on drugs is good. What elements of scarcity are overlooked here? Well, police, courts, and prisons, to name a few. Leave aside the debatable assumption in (2) that drug enforcement actually reduces drug use. If the time and resources of the justice system are devoted to arresting, convicting, and punishing drug dealers this leaves less time and resources for bringing murderers, rapists, and armed robbers to justice. The 60 percent of federal prison space that is occupied by mostly non-violent drug offenders today is space that is not available for violent criminals\(^2\). Courts that once had high conviction rates for violent offenders now are clogged with drug cases and plea-bargaining is increasingly common. Meanwhile police spend time chasing dealers while more murder and rape cases go unsolved. Not surprisingly, higher drug enforcement expenditures correspond directly with higher rates of violent crime. Even if we achieve lower drug use, at what cost? There’s no free lunch.

Trade-offs abound with the topic of protecting marine natural resources. Public opinion polls are often used to provide apparent public support for new government programs. For example, when people are asked whether they are concerned about pollution, they generally say they want less pollution and stricter regulation of polluters. But pushing pollution levels further down has a cost. Air and water pollution have dropped significantly across America in recent decades as billions of dollars have been spent by governments for sewer treatment plants and by industry for scrubbers and other pollution control equipment. But pollution control equipment costs money. City, county, state, and federal governments don’t have any money of their own. They have to either collect it from taxpayers and ratepayers, or borrow it (which means future taxes or fees are needed to pay the borrowed money back, plus interest).

When polls instead ask if people are willing to pay higher taxes in return for cleaner water, or higher sewer bills so newer, higher-technology sewage treatment equipment can be installed, enthusiasm for additional pollution-control declines. People also hesitate when asked if they are willing to pay higher prices for new cars, lawnmowers, or washing machines from less-polluting factories. People agree to higher costs to reduce pollution that risks lives or causes sickness, but in America pollution levels are already well below that threshold (some environmentalists would dispute this claim, but there is no doubt that pollution levels have dropped significantly in the U.S. and other developed countries\(^3\)). And even if there is some risk associated to current factory and municipal pollution levels, there are also risks associated with other day-to-day activities. Driving, for example. Higher taxes can lower pollution, but more heavily taxed people are less likely to be able to afford newer, safer cars. Two-lane roads are much more dangerous than three- or four-lane roads. Tax dollars spent lowering pollution can’t be spent building better, safer roads. There is no free lunch. Every choice has a cost—an opportunity cost—measured by the opportunities given up when choosing to do one thing instead of another.

#2 Incentives Matter

A common assumption underlying many policy proposals is that human behavior is somehow fixed, regardless of the new circumstances the policy would put in place. Economists, on the other hand, emphasize that human behavior by and large is the result of choices among alternatives. Any change in the alternatives available or the relative attractiveness of those alternatives will have an effect on peoples’ choices. Incentives do matter.

Experience bears out the importance of incentives for altering behavior. When Congress raised the tax on luxury goods like yachts, private jets, and fur coats they were shocked to learn that the higher tax reduced the revenue generated rather than increasing it. Faced with a higher effective price on these goods, consumers of luxury goods sought out substitutes (leasing their jet instead of buying, refurbishing the old yacht, wearing more cashmere and less fur). In the end the demand for these goods was so much


\(^3\) Air quality improvements, for example: “In the past 20 years … in the United States … Carbon monoxide levels have dropped 58 percent, despite an increase in vehicle miles traveled… Nitrogen dioxide ambient levels have declined by 25 percent… (surface) ozone concentrations have decreased by 17 percent…sulfur dioxide levels have dropped 53 percent….” And for air quality improvements overall, 70 percent are estimated to have occurred before the passage of the Clean Air Act. (\textit{Environmental Source}, Competitive Enterprise Institute, 2002, page 9 and footnote 22. For water quality improvements over the last 30 years: “discharge of toxic organics and metal plummeted by 99 percent and 98 percent respectively, and the discharge of organic wastes fell by 46 percent.” And during this time almost $600 billion was spent improving water quality (\textit{Environmental Source}, p 10).
lower that the taxes collected didn’t even cover the cost of the additional paperwork. This is an illustration of the “Law of Demand” in operation: the price of a good and the quantity demanded are inversely related.

Government regulation of fisheries provides many examples of the importance of incentives, and how dynamic, entrepreneurial responses to regulations regularly upsets the best laid plans of government officials. For the Alaska halibut fishery, officials used to try to limit overfishing by limiting the number of days halibut fishing was permitted. As officials shortened the fishing season, the halibut fishing industry responded with more fishing boats and larger, faster boats and more sophisticated fishing gear. As the fleet grew, government officials shortened the season further, providing incentives for fishermen to get even bigger, faster boats and better gear. It was a mess, reports Donald Leal in *Fencing the Fishery: A Primer on Ending the Race for Fish* (Political Economy Research Center, 2002, page 5), eventually the entire fishing season was squeezed into a few 24-hour periods. And those 24-hours were for halibut fishermen about as fast-paced and traumatic as the popular television show starring Kiefer Sutherland. As the fishing season opening gun went off, all boats raced to the fishing grounds, nets tangle, boats collided, halibut were mashed in holds, and some overloaded boats sank in bad weather. This rush led as well to a glut of halibut, much of it damaged, hitting the market on the same few days and collapsing prices.

Regulators eventually learned they had to take incentives into account. They learned most by observing the success the property-rights approaches used in New Zealand, Iceland, and other countries. Both the Alaska and British Columbia halibut fisheries now use transferable fishing quotes to end the mad race for fish. Now the halibut-fishing season has stretched from a few days to well over 200. Fishing is safer and most halibut is now sold fresh and at higher prices. Now each fishing boat has claim to a certain percentage of the annual halibut catch (still determined by government officials advised by fisheries experts). They have to catch the halibut still, but they don’t have to race out trying to grab as much as possible before someone else does.

Incentives matter in protecting fisheries.

### #3 “Hazlitt’s Lesson”

Henry Hazlitt, probably this century’s greatest journalistic expositor of the economic way of thinking wrote that:

The art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups.\(^4\)

He went on to say that nine-tenths of the economic fallacies that work harm in the world today are the result of ignoring this lesson. While Hazlitt’s Lesson is not exactly a separate economic principle, it is a form of mental discipline that must be exercised when constructing or analyzing policy. The Gwartney and Stroup book provides excellent examples of how rent control laws destroy urban housing, protective tariffs and quotas harm American consumers and workers, and jobs programs fail to create jobs overall. In each case the counter-intuitive result is found by consistent application of Hazlitt's Lesson: look not just to the immediate effects on one group, but the long run effects on all groups.

Hazlitt’s book, *Economics in One Lesson*, offers many fascinating examples of the economic way of thinking put into practice. Each chapter of only a few pages traces the surprising, but inescapably logical effects of a different government policy and explains why “the law of unintended consequences” has so plagued interventionist attempts to control the economy or engineer society. More often than not, the harm of these policies falls not only on people who were never considered at the time, but on the supposed beneficiaries of the programs.

Debaters and extempers are advised to spend time with each of these books to get a feel for the way Hazlitt’s Lesson is put into practice. Examples are the best teacher. A few words of practical advice: use three ideas to help you think of unintended consequences that your opponents may not have: opportunity cost, substitutes, and competition. Opportunity cost reminds you that when government creates a beneficiary somewhere there is a cost being paid. Who pays it and how does it affect their choices? The idea of substitutes reminds you that people are born circumventers—close off one avenue or make it more costly, and they will leave that activity and switch to another. How will this adjustment affect other people? Competition reminds you that helping one group harms others that compete with that group. (This, by the way, is a useful consideration not only for analyzing the impact of policy, but for evaluating the credibility of evidence sources!)

Hazlitt’s Law provides a useful framework for evaluating marine natural resource policies and broader environmental policies as well. Consider the affirmative case of trying to better protect the ocean by enacting new regulations that mandate safer oil tankers. The intended effect is to reduce oil spills because double-hull tankers are less likely to spill oil when they collide with other ships or with underwater rocks. But more costly tankers means more costly oil and therefore higher heating bills and gasoline prices. People paying these higher prices have less money for buying other goods and services, and feeling poorer, are less likely to vote for stronger pollution control and other environmental measures.

---

\(^4\) Henry Hazlitt, *Economics in One Lesson*, 1979, p.17
Such tanker safety regulations have other unintended consequences. There are many ways to make ships safer. It may be that in 1980 or 1990, double-hull ships seemed the best way, but that might not be the best safety technology today or in the near future. The millions invested in double hulls might be better spent on new oil containment technologies or on the navigation equipment. Or maybe it would be much safer for large tankers to dock at offshore stations and have oiled piped to onshore refineries. There is no way to predict the best future technology, and mandating today’s safest tends to block research and development of alternatives that might turn out to be even safer.

Regulations to reduce the release of bilge water and waste from cruise ships, for example, not only will raise costs, but will tend to freeze today’s best available technology into the regulatory code. As with safety features like double-hull tankers, yesterday’s best technology is often very different than tomorrow’s. Regulators try to get around this sometimes by mandating the use of “best available technology” in new and refitted factories and power plants (as with today’s Clean Air Act). The problem here is that the best becomes the enemy of the good. The latest, greatest pollution-control technology tends to be—just like the latest, greatest laptop computers—the most expensive. The rich buy these but the rest of us wait until the price comes down, and until some of the latest most-sophisticated features prove to be worthwhile. Companies have little incentive to develop newer better technologies if in doing so they are forced by regulation to implement them widely while they are still expensive. That is, the “best-available technology” might reduce pollution 40% but cost three-times as much as an intermediate technology that lowers pollution just 30%. If the existence of the expensive technology prevents the deployment of the intermediate technology, then the public is stuck with the pollution from the still older technology, since firms will refuse to upgrade at all if the price it too high.

Also, new pollution restrictions for cruise ships docking at U.S. ports might turn out to be good news for airlines. Airlines will fly people to Mexico, Canada, or the Caribbean, to board the cruise ships there that this new regulation would prevent from docking in the U.S.

#4 Private ownership promotes responsibility and cooperation.

Private ownership is one of the least understood institutions of the free society—a fact that can be of enormous value to debaters and extempers looking for a fresh, unexpected angle on an issue. Many people assume that because ownership entails the right to use property as one sees fit and to exclude others from using it, private property is anti-social and dangerous. A resource owned by a private individual (rather than commonly owned, or government-owned) is subject to whatever capricious idea that person might have about its use. The public has no recourse to prevent irresponsible or even dangerous uses of resources, the argument goes, when property rights are consistently defended. From there the argument claims government control is the answer, either through outright public ownership or through regulations that take away some of the property owners’ rights. Economic reasoning shows that this argument gives too little credit to private owners and too much to government’s wisdom and beneficence.

Private property does give owners a degree of freedom but it also makes them accountable for their actions. The owner of a dog is legally responsible for the damage his dog does to his neighbor’s rose garden. The owner of a building is responsible for making repairs if the roof leaks on his tenants. This accountability ensures that property is not used in a way that harms other peoples’ rights.

Consider furthermore that one of a private owner’s rights is the right to sell his resource to someone who values it more and has the resources to pay for it. This opportunity forces people (both owners and potential buyers) to take into account the value that others place on the property. When natural gas was discovered under the Rainey Wildlife Preserve in Southern Louisiana, the environmentalist group that owned the land considered the commercial value of the gas and sold the right to extract it under tightly controlled conditions.

The environmentalists didn’t care so much about heating homes as they did about the additional wilderness areas that the gas revenue would permit them to buy. Likewise, the gas company that won the bid for the right to drill didn’t develop special extraction technologies with low environmental impact because they loved the wildlife but because they knew that this would increase their chances of winning the drilling rights. Each party had the incentive to cooperate with the other and to take their values into account.

When property rights are not clearly established or property is held in common, the incentives are reversed. This typically results in irresponsible resource use. The water crisis is a good example. Farmers who share the water in underground aquifers throughout the Western United States know that the aquifers are being exhausted faster than they can be replenished. Without plentiful ground water, millions of acres of valuable cropland will some day be useless, yet no farmer has much incentive to conserve this dwindling resource. Each knows that his own conservation efforts will be to no avail unless others do the same. Each pays little or no cost for wasteful uses of water. He may as well use the water while it lasts and hope that his children don’t go into farming.

By contrast, if each farmer had a share of the water that was his own, his conservation efforts would be rewarded since he could sell the rights to any unused water to other water users. If water became more scarce the price would

---

increase and the reward for conservation would become even greater. Responsible water use would prevail.

The reckless waste and abuse of commonly owned (or unowned) resources has been dubbed the “Tragedy of the Commons” by economists and is a problem that is evident in some form in almost every area of public policy. Here are just a few examples. Learn to watch for the signs of the “Tragedy” and to trace its cause:

- **Housing**: Publicly owned housing projects quickly fall into disarray and disrepair since no one has any stake in maintaining them. Apartments that the government deeds back to the tenants are better maintained and the owners take more responsibility for getting involved in issues that affect their building.

- **Endangered Species**: Unowned blue whales are hunted to extinction while privately-owned African elephants flourish in Zimbabwe, despite (or because of?) large profits to be had from the sale of their tusks. Privately-owned rhinos in the south of Africa flourish on private ranches, while rhinos on public lands further north continue to decline (check Google for “rhino ranching” for more information). Salmon species or sub-species decline when their spawning grounds are commons. Plus, once at sea, salmon are in another commons.

- **Law Enforcement**: Much of the time and resources of “commonly-owned” government police is wasted with false alarms, low-priority calls, and functions inessential to providing security. Meanwhile hired private police focus on the crime problems most important to the customers who hire them and charge customers who have excessive false alarms.

- **Wilderness Land Use**: Timber companies operating on private land have the highest rate of replanting and sometimes generate extra income by maintaining scenic areas for hunters, hikers, and other sportsmen. Meanwhile companies on public land have the highest rates of clear-cutting and are not allowed to collect revenue from sportsmen.

- **Health Care**: People who pay for their health care out of a common insurance pool spend 25 percent more on health care and are more likely to receive unnecessary treatment than people who spend their own money from a medical savings account. Today only 19 cents out of each dollar of physician’s fees is paid by patients using their own funds. Meanwhile the demand for health care has exploded, and health care costs with it. Countries where all health care is financed out of tax revenues are scrambling to privatize their systems.

- **Oceans**: It would be hard to find a bigger commons than the world’s oceans (maybe the atmosphere and outer space would qualify). Inside each 200-mile Exclusive Economic Zone (EEZ), a country claim’s control, but much of these EEZs are still managed as commons. Outside the EEZ no country’s laws apply. And now technology is ramping-up to where this commons can be rapidly depleted.

Many of these examples also illustrate the conflict that results when political forces are brought to bear to control common-pool resources. Political control of resources does not eliminate competition; it only changes it from market competition to competition among political interest groups. Whereas competitors for privately owned resources have strong incentives to accommodate each other (as in the Rainey Wildlife Preserve example), political competition is usually a winner-take-all affair. Political struggles over health care, the environment, and many other issues have been heated and sometimes even violent because competing groups have nothing to gain from accommodating each other and everything to lose.

#5 Trade creates wealth.

For centuries people believed that for exchange to occur the goods exchanged must be of equivalent value. Old habits die hard. This is still one of the most common economic fallacies. But the intense interest that people take in trading, whether they trade dollars for a new stereo, or their labor for a paycheck gives the lie to this misconception. With only a little reflection it is easy to see that in every exchange we make we give up something we value less than what we receive…and so does the person with whom we are trading. Voluntary exchanges benefit both parties to the exchange and this benefit is rightly seen as an increase in wealth for both. Remember, more wealth doesn’t mean “more stuff”; it often means getting stuff into the hands of the people who value it most. Air conditioners in Arizona and space heaters in Saskatchewan.

Exchange creates wealth in indirect ways, as well, by creating the possibility of specialization and division of labor. Most of us would be desperately poor, even to the point of starvation, if we had to produce everything we needed for ourselves. But by specializing in one type of production that we do very well and exchanging that product or service for the other things we need, we can be much better off. Along with the division of labor comes division of knowledge—people gaining specialized knowledge and skills that benefit millions of other people who can be blissfully unaware of how it all comes together. The increased division of labor and division of knowledge are the chief sources of the economic growth that has

---


7 See Bruce Benson, The Enterprise of Law, 1990

8 John Goodman and Gerald Musgrave, Patient Power, 1992, p. 20
occurred in human history. And they are only possible because of the freedom to exchange.

The significance for debaters and extempers is this: be alert to proposals to limit, regulate, or restrict free exchanges between people. Many a nation has choked off economic progress and trapped its people in poverty by imposing a morass of regulations, licenses, permits, taxes, and fees on every type of transaction. Gwartney and Stroup use the extraordinary example of Peru as a nation whose economy has stagnated under the weight of bureaucracy and regulation, yet the U.S. may be almost as good an example. Economist Thomas Hopkins has estimated that the current cost to the U.S. economy of government regulations is over $500 billion per year 9. Tariffs and quotas on imports alone cost consumers $80 billion a year —over $1,200 per family 10. These trade restrictions destroy American jobs by reducing the dollars available for foreigners to purchase American exports and by leaving consumers with less money to spend on other things.

Oceans are the main highway of world trade. It is much, much less expensive to ship goods by sea than by land. Shipping costs from China to the West Coast are, for many goods, less than from the East Coast. Though there are many pollution concerns with regard to ocean transportation, is it important to realize the degree to which ocean shipping weaves together the world economy and lowers prices of a vast array of goods. Every policy that restricts free trade, free contract, or free entry into the market diminishes opportunities to increase wealth.

Trade issues are important for the oceans policy topic. Trading relations between countries bring benefits to people in both countries and these trading networks reduce nationalistic tensions. But just as most people benefit from international trade, there are strong and well-organized groups that don’t. Americans may shout in anger at the French national bicycling team beating the American team at some international competition. But their anger diminishes when consuming a bottle of fine French wine. Some, upset by France’s lack of support for the U.S. invasion of Iraq, made a show of pouring out bottles of French wine. Many, many more Americans, however, rushed to the nearest wine merchant hoping the prices for fine French wine had dropped. Americans were also upset when a Chinese fighter plane collided with an American spy plane in international air space. But thousands that same day purchased inexpensive electronics equipment made in China.

Governments, prodded by special interests, usually domestic producers, regularly stir up resentment between the people of different nations. But people on their own naturally create a harmony of interests as they gradually specialize in producing some goods and services while trading for goods and services produced in other countries.

It is worth noting again that not everyone benefits from open trade. Those companies in the U.S. that are struggling to compete with inexpensive goods made in China naturally harbor resentment and are often the first to call for boycotts of Chinese-made goods claiming deep concern about environmental or foreign policy issues. Lobbyists for U.S. manufactured goods are often the first to back dramatic trade restrictions under the guise of national defense measures or environmental concern.

#6 Profits direct businesses toward activities that increase wealth.

“Profit” is often considered to be a derogatory term today, especially when it’s referred to as a motivation for human activity. It is fashionable today to talk about the need for business to temper its pursuit of profits by being more socially or environmentally conscious. The concern that business people behave responsibly and with all due awareness of the ways their decisions affect other people is certainly noble and good. But the implication that pursuing profit is socially irresponsible is based on economic misunderstanding.

Profits are not snatched from the mouths of hungry children by greedy businessmen. They are earned by people who provide a product or service that other people are willing to pay for. More accurately, they are earned by the people who most creatively and judiciously employ their resources to satisfy the needs of others. The pursuit of profit demands the imagination and alertness to anticipate those needs and the wisdom to meet them without wasting scarce resources. Even if the entrepreneur’s immediate goal is making money, the economic criterion for doing so is to help others accomplish their own goals.

There is nothing automatic about this process. Many business people suffer losses because the cost of the resources (labor, capital, materials, etc.) was higher than anticipated or they were inefficient in employing them. Others lose money because the demand for the product was insufficient. In all these cases, losses signal to the entrepreneur that the resources would be more valuably employed in a different manner. Those entrepreneurs who persist in losing ventures eventually lose their businesses and the resources are freed up for other more socially beneficial lines of production. While sad for the owner who must sell the business, this process is beneficial for the public as a whole since scarce resources are conserved for only the uses that consumers value most highly.

“Corporate downsizing,” the practice of trimming excess workers and managers from company payrolls to lower costs and increase profitability, is often described as a symbol of weakness or corruption in our economy. This is because people judge only by the obvious visible consequences without tracing the invisible ones—they

---


ignore Hazlitt’s Lesson. What is seen are people losing their jobs. What is not seen are the new goods and services which the economy can now produce because this valuable labor and know-how is available for starting new businesses. This is one reason why this period of corporate downsizing has corresponded with very low rates of unemployment, rapid innovation, and low prices for consumer goods.

Fisherman are businessmen and they can’t be profitable unless there are lots of fish in their future. Just as cattle ranchers profit in the future from keeping their livestock healthy and plentiful, fisherman would as well tend their “flocks” if they could protect them. The difference is that today’s fishermen can’t keep others away from “their” fish (except in a limited sense where Individual Fishing Quotas (IFQs) or Individual Transferable Quotas (ITQs) have been instituted). “Excess” profits are not a problem associated with overfishing. As fishing stocks are depleted, no one profits. When IFQs were instituted for the Alaska Halibut Fishery in 1995 not only did the fishing season stretch from two or three days a year to 245, but the higher percentage of fresh halibut sold at higher prices raising profits for fisherman. The combined value of all the IFQs or “fishing rights” to Alaska halibut rose from $295 million in 1995 to $492 million in 1998. Where did the extra $200 million value come from? Those who invested in the IFQs had by 1998 a combined profit of $200 million on their investment. 11 Did this somehow harm the halibut fishery? Exactly the opposite. Where under the old “race-for-fish” commons total catches were regularly way over targets, with IFQs total catches can easily be matched to targets. Who could tell how many halibut were being caught when nearly the whole season took place during a 24-hour frenzy deep at sea? Now that the season is eight months long, much more information can be collected about the number of fish caught and available each week, and the halibut fishing season can be easily adjusted.

#7 Competition increases efficiency and innovation.

Competition is a source of discipline in the market, or in any social organization for that matter. Producers who are earning profits for the time being can rarely afford to rest on their laurels. A single new entrant producing a better, cheaper product can turn those profits to losses very quickly. As long as entry into the market is open, competition (actual or potential) ensures that entrepreneurs stay on their toes by constantly increasing efficiency and finding new, better ways to produce. It is the producer’s perpetual “reality check.”

When competition is reduced by legal restrictions, regulations, tariffs, or quotas market discipline is partially suspended. Efficiency, innovation, and quality of service are reduced since they are no longer as necessary for the protected industry to stay profitable. When the author moved from Wichita, Kansas to Houston, Texas he learned this lesson first hand. In Wichita, trash collection is a competitive industry. Dozens of local companies offer subscriptions to pick up residential waste. The fact that a dissatisfied subscriber can make two phone calls and change her trash company has resulted in low prices, and excellent service. Companies provide and maintain free 90-gallon trash barrels with sturdy wheels and hinged tops. On trash day (twice a week) they come up to the house to get the barrel and take it out to the street. Most services pick up almost any kind of trash that is left for them—even large appliances!

In Houston, by contrast, the city maintains a legal monopoly in residential waste pick-up. Competition is forbidden. No barrels are provided. In fact, Houston trash collectors won’t touch trash barrels of any kind—all trash must be placed by the resident in plastic bags at the curb. What about heavy items that won’t go into bags? Houston residents must remember to put those at the curb on a particular day that comes once each month. Sometimes the city will pick them up then. If not, haul the stuff back in the garage and try again next month!

Competition is one of the most important reasons why the market is superior to government as a system for producing goods and services. Those who fear that economic freedom will allow producers to take unfair advantage of people often neglect this fact and call for industries to be tightly regulated or taken over by government. As a rule, these government-run industries are inefficient, costly to taxpayers, and far less innovative than private firms operating in a competitive environment.

Privacy regulations may be a serious threat to competition if they limit the capacity for new entrants to the market to gain critical information about consumers and prevent them from playing profitably on a field where established firms are already quite dominant.

Competition is especially strong in fish farming for example. Salmon farming and other fish farming operations are a fairly new industry. Though there are many complaints about pollution, this is a very dynamic industry with many competitors in the U.S. and around the world. Even over the last few years pollution for salmon farms have decreased significantly as entrepreneurs have discovered new ways to feed and manage their fish. Also, fish farming technology is moving to new species of fish, like tilapia, that apparently are easier to raise with less environmental impact. The Economist magazine’s Blue Revolution cover on the promise fish farming story (August 7, 2003), highlights recently advances in the industry and its importance for providing high-quality, low-cost protein to the world.

11 Don Leal, Fencing the Fishery, page 13.


### #8 Taxation and regulation discourage production and destroy wealth.

How hard we are willing to work depends on how much we are offered in pay. Incentives matter. Taxes lower our incentive to work just like a reduction in pay, since that is exactly what they are. If allowed to keep only half of every dollar we earn, alternatives to working for money begin to look more attractive. Some people will work less overtime and enjoy more leisure, some will find non-taxable work in the home (and stop paying daycare and cleaning people), some will retire earlier, etc. Businesses whose income is heavily taxed may withhold undertaking new ventures since the share of the profits they are allowed to keep doesn’t justify the risks. Investors, too, find alternatives to putting their money to work in a high-tax environment: they invest in countries where the tax rates are lower or they simply consume more of their surplus income. All these choices illustrate that high taxation discourages productive activity, and thereby reduces the wealth that is created in society.

Equally important for the general welfare is the fact that taxation diverts enormous amounts of time and resources into non-productive activities. Businesses and individuals spend billions of worker-hours each year (in America, 5.5 billion, to be exact) just completing taxation paperwork. This includes the wasted talent and labor when lawyers and accountants are hired to find legal and not-so-legal ways of sheltering income from the tax collector. These jobs in the tax industry create no wealth for society as a whole, rather they deprive us all of the valuable services these individuals could be producing for the market. The higher the tax rate, though, the more people hire such experts to help them.

Tax cuts reduce the percentage of income government collects, but because of the stronger incentives to produce they also increase the tax base (the total amount of taxable income generated in the economy). This means that cutting tax rates doesn’t necessarily reduce the revenue government takes in. When taxes are very high, tax cuts have even increased total tax revenue, thanks to the economic growth produced. This is not “voodoo economics”—it is just common sense. Consider that if we were taxed at a rate of 100%, government revenue would be almost zero since few people would bother working for money knowing they would receive no take-home pay. Tax cuts from that level and from levels substantially lower would obviously increase income-producing activity, and tax revenue along with it. Significant tax cuts during the Kennedy and Reagan administrations were attended by increased tax revenues in the years that followed, just as this theory would predict.

For debaters this means that raising taxes is a questionable option for funding plan mandates! For everyone, the economic reasoning provides a framework to assess conflicting claims about taxes within the media.

### #9 Political decision-making favors plunder over production.

The great French political economist, Frederic Bastiat, wrote in 1850:

> Man can live and satisfy his wants only by ceaseless labor; by the ceaseless application of his faculties to natural resources. This process is the origin of property.

But it is also true that a man may live and satisfy his wants by seizing and consuming the products of the labor of others. This process is the origin of plunder.¹³

Bastiat went on to say that the purpose of law is to protect property by preventing people from using plunder against each other. This is a pretty important function. For one thing, the entire market economy is based on this foundation of secure property rights, which creates strong incentives to produce and to cooperate through peaceful, voluntary exchange. Preserving this fabric of civil society by protecting individual rights is usually the primary reason people give for having a government with the legitimate right to use force.

But governments often do much more than protect people from plunder and coercion. Government’s power to tax can indeed be used to pay for police, courts, and military defense but the same power may be used to dispense other benefits. To someone who can influence the government, its power can be a tool for gaining access to other peoples’ property. Bastiat called this “legal plunder” and argued that it was no more just and no less destructive than the criminal plunder of a thief. If people can compete for legal access to their neighbors’ wallets and purses through the political process, it will not be long before a government designed to protect peoples’ rights becomes one of the greatest threats to those rights.

Understanding the dangerous incentives inherent in concentrating power in a central government, the founding fathers sought to constrain the government with a binding Constitution. Under the Constitution, Congress was to have only those powers delegated to it as enumerated in the document. “The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.” Specifically Congress was permitted to raise taxes to provide for the common Defense and the General Welfare” of the people, but not for the special defense or welfare of particular groups. Madison and Jefferson insisted

---


that this clause be included as a shield guarding against the misuse of federal powers.

The majority of the modern federal budget is devoted to the transfer of resources from the taxpayers to various particular groups in society: farmers, industry, small business owners, homeowners, scientists, artists, the poor, the elderly, nature lovers, classical music lovers, even peanut lovers. In fact, government has grown so large with programs for each special interest group that today more than 35 percent of what we produce (GDP) is consumed or redistributed by federal, state, and local governments.14

A great deal more legal plunder is perpetrated by regulations that protect one group’s economic interests at the expense of others. Labor unions lobby for a higher minimum wage to protect union jobs from competition by cheap labor. Taxi drivers and hairdressers ask for mandatory state licensing to reduce competition from upstart new entrants. And hundreds of domestic industries pressure the International Trade Commission and Commerce Department to impose heavier tariffs on consumers when they try to buy foreign-made goods. Those who benefit most directly by subsidies, tariffs or protective legislation have strong incentives to be politically organized, while the much larger group who share the costs tend to be less vocal. Government officials pay most attention to those who are paying attention to them.

As more of what people receive comes to them through government and less through their individual labors, this has predictable effects on their productivity. More resources are devoted to plunder and less to production. Living standards grow more slowly, or even decline. Poverty becomes entrenched. International comparisons cited in the Gwartney and Stroup book show that a nation’s economic progress is generally inversely related to the size and scope of its government.15

For debaters and extempers the lesson here is clear. Be wary of proposals to expand the aspects of our economic lives over which politics has control. Political decision-making delivers the spoils to the groups that are most politically organized (most likely to determine election outcomes). In the free market, by contrast, resources tend to flow to where they are most valuedly employed in satisfying consumers. Whereas market competition tends to increase wealth by expanding the range of opportunities available, political competition tends to consume wealth by diverting resources into organized legal plunder. Lobbyists, lawyers, and government relations departments are the private sector counterparts to the government bureaucracies and agencies that spend billions of tax dollars each year directing benefits to various special interest groups.

#10 Central planning wastes resources and retards economic progress.

Human reason has given us enormous control over our environment. The technology that reason has produced helps to feed, clothe, and shelter us from the cold blasts of nature which kept our prehistoric ancestors huddled and half-starved. With the Enlightenment came the faith that nothing was beyond man’s ultimate capacity to control if reason was his guide. If science could help us design a better bridge, then why not a better society—one that is organized and planned to suit our needs, instead of one where everyone pursues their own disconnected plans in that bewildering, competitive, uncontrolled game called capitalism? As well as we have done muddling along with nothing but profit and loss to guide us, one might imagine that the messy process of market competition would be better replaced by a consciously designed economic system that is rationally planned.

This basic line of reasoning is at the foundation of a great many debate cases, as well as countless real-world proposals for reforming our economy. But as reasonable as it sounds, it is fallacious. In fact it is possibly “The” great economic fallacy of the 20th century; the one that brought us Soviet socialism and German fascism, to say nothing of the untold economic misery of dozens of Third World countries who patterned their policies after socialist governments in Europe. It is also the essential vision behind proposals for comprehensive national health insurance, national industrial policy, social engineering, government-funded scientific research, and all manner of government-business partnerships.

The fallacy of central planning, which Nobel Laureate Friedrich Hayek16 called the “fatal conceit,” lies in a misunderstanding of the kind of knowledge required to organize the plans of a large number of people into a successful economy (or health care industry, etc.). The knowledge to construct even the simplest item we use—say, a pencil—is known to no individual on earth. It is dispersed among millions of individuals who neither know each other nor are aware of each others’ activities. Graphite miners, tool manufacturers, forestry experts, mill designers, paint chemists, rubber growers, truck drivers and machine operators each contribute their specialized knowledge to the production process. No central planner could hope to understand even a fraction of the detailed knowledge needed to guide the construction of a single pencil, much less an industry or an economy.

And even if a planner could master this knowledge, how would he go about evaluating which resources should be devoted to which projects in the economy? What would tell him which things are most important or valuable? In a


16 See Friedrich A. Hayek, The Fatal Conceit, 1988
free, competitive market, fluctuating prices signal the value of resources and guide production decisions. If a large chromium mine collapses in Zaire, the American pencil maker is signaled that he needs to substitute paints with non-chromium dyes. How? By the higher price of chromium paint. People with less urgent needs for chromium reduce their consumption without having to know the details—or even that chromium is in the paint they use. Thus, supply and demand generate prices which spontaneously direct resources to the most important uses. Without competitive markets and prices to guide him, the central planner has no way to accurately judge what are efficient uses of resources.

The problem of central planning is deeper still when incentives are taken into account. People who gain resources by virtue of their position in “the plan” rather than by better satisfying consumers tend to have a stronger interest in catering to the planner than to the supposed beneficiaries of their work. The collapse of communism is now widely understood to have occurred because of perverse incentives that rewarded corruption and waste, while neglecting even the most pressing needs of the people.

Centrally planned government programs in America show the same pathologies. Medicaid clinics, paid by the government according to the number of clients they serve, often bureaucratically set prices for many Medicaid services are too low to compensate doctors for the liability risks involved, so these services—including prenatal care—are becoming less and less available. A pregnant Medicaid patient who is willing to supplement the doctor’s reimbursement with her own money to receive prenatal care or a higher quality of service cannot legally do so since this would defeat the purpose of the plan. Similar irrational results can be found in other “rationally planned” government programs.

For debaters and extempers the principle to keep in mind is that individuals are generally better able to produce, purchase and provide for themselves what they need than even the best-intentioned bureaucrat in a remote office. With economic freedom, society tends to spontaneously order itself to maximize peoples’ chances of carrying out their plans successfully. This coordination may seem mysterious—we are trained to believe that where there is order there must be a designing hand that created it. But most of the order and cooperation in a complex society such as our own must be generated in this spontaneous manner, for no designer could ever accomplish the task.

Given the problems with central planning, why is fisheries management in the U.S. mostly a centrally planned operation? The advantage of transferable fishing rights and claims, they decentralize decision-making. Instead of having decisions handed down by a government panel or a few dozen agency “experts,” decisions are made by thousands of fishermen and decentralized monitors who collect information about the size of each year’s fishing stock.

Solving the problems of ocean pollution and over-fishing will require either a system of ocean property rights, or an alternative system that allocates something like property rights through ITQs, Private Harvesting Agreements, or TURFs. Once these legal institutions exist, powerful incentives are created not only to stop over-fishing, but to find ways to increase the quality and quantity of fishing stocks.

**Conclusion**

The economic way of thinking begins with just a few common-sense ideas: goods are scarce, incentives affect peoples’ behavior, and the consequences of individual actions and government policies usually extend far beyond the obvious short-term effects on their immediate beneficiaries. But as you begin to apply these common-sense ideas you will often come to conclusions strikingly different from what you are accustomed to hearing. This is because few people make the effort to be consistent and persistent in tracing the logic of human affairs. Learning to do this will put you at a tremendous advantage in analyzing policy issues before and during your tournaments. And it will give you the rare capacity to make reasoned, independent judgments on complex issues, without always having to uncritically accept the opinion of self-proclaimed “experts” in the media or the political arena. That’s a powerful edge to have in competition and in life.

An online version of this essay, along with other articles and links for speech and debate students, is available at: www.EconomicThinking.org

*Published by Economic Thinking, a program of E Pluribus Unum Films, a non-profit educational organization based in Seattle, Washington (for more information see www.EconomicThinking.org).* This essay was originally published by the Center for the American Idea in Houston, Texas.

---