Magic Growth: Free Choice & the Path of Change
Part 2 of 2, December 2022
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Is there a conspiracy to keep ordinary people down, or does a free-market economy serve all its members well, orchestrated as if by magic? Who or what guides it? We do! In part one of this essay, a few entities that direct and control large sums of money were identified. Readers were reminded that, when money changes hands, it supports recipients in pursuit of their goals.

It Matters Whom We Trust

Here we consider why it matters whom we trust when we decide how to spend our money. First, we need to note that, in economics, one-size-does-not-fit-all—easy to remember, even as we cannot remember everything. For example, not every organization will best achieve its mission by making a profit. And, the economic environment, with its human-made rules and institutions, cannot serve everyone equally well.

Organizations, Missions, Behaviors Differ

Businesses earn a living for their owners by selling a product or service for more than its cost, which situation earns a profit. We are accustomed to buying from businesses such as auto dealerships, table makers, and trash collection services. Usually, these businesses can make a profit selling what people are willing to buy. But, if a recycler's cost to process used containers is greater than the income from selling them to their next users, then the recycler's business operates at a loss. If the society wants to encourage recycling, it must cover this loss.

Charities often arise to care for people who cannot care for themselves. Charities work with donations and volunteers. Shall we ask volunteers to behave like paid workers? There is no paycheck, the potential loss of which could be used to coerce them. How might we persuade them to cooperate? We will likely need different methods from those a business might employ.

Governments are responsible for what economists call "public goods." These are goods, such as national defense, from which everyone benefits, whether or not everyone pays for his or her share. Private industry does not provide national defense because it cannot collect all payments due, although it may sell products or services to governments, for defense. A government taxes private entities to cover the cost of providing public goods.

Government may provide other public services, such as road building; making and upholding the law; funds for emergencies; education; and the postal service. Consider, for example, the postal service. Shall we refuse to serve sparsely-populated rural regions because it costs more to serve them than they pay for stamps? That depends on whether we think our mission is to serve all citizens or to recoup all costs.

Insurance organizations may develop, to share risk among many participants. This type of organization works best when many people contribute affordable sums, while few people claim. The insurance mission may fail, if the insurance organization excludes high risk individuals; if low risk individuals decline to participate; or if the insurance organization is reluctant to pay legitimate claims. Competition on price may encourage some or all of the above.

Organizational differences, in sum: What earns profits in business may not be appropriate behavior for governments or charities whose missions place service ahead of profit; nor may the free-market profit motive be helpful in a competitive environment, for providing insurance that covers everyone.

Economic & Financial Environments

Note: This section contains more of Annie's own research findings than you might see in typical economics textbooks.

Agricultural regions versus urban regions. Resources under the overarching umbrella of a complex industrial operation, such as one or several large factories—resources such as workers, machinery, housing (purchased out of salaries), and manufacturing subcontractors—are usually located in a city.

A nearby rural region contributes money to the city and its businesses, when rural residents buy city products, such as items made in the city's factories. Perhaps, a less competitive business which belonged in the rural community has been lost to a more competitive business, headquartered in the city, which takes much money out of the rural community and returns little money, although it may deliver products. The question to consider is whether rural residents can afford enough city products, as the city grows, to maintain the rural region's vitality.

It appears that, accompanying a financial environment that benefits cities and their growth, we often see loss of rural vitality. We may lose not only small family farms, but also nutritional quality in farm products--because large agribusinesses may compete on price, perhaps at the expense of quality. For example, agribusinesses may prefer to use pesticides or herbicides which end up in the food chain, rather than to pay workers to pick off pests or to weed by hand. We may also see that farm regions cannot support large state-of-the-art hospitals or good schools, as they lose population and income.

Personal service industries vs. high-tech industries. Some products are characterized by falling costs, as producers learn to make them better and cheaper. If a business also earns more revenues (i.e., quantity sold multiplied by sales price) when its costs decline, this is a winning situation. As costs decline, the business can either reduce its price or add functionality. People perceive a bargain and flock to buy. The business can pay workers well, pay shareholders high dividends, absorb many intermediate inputs, allocate research funds for technological advancements, and continue to grow. This situation is characteristic of many high-tech industries. (I call them "money-magnet" industries).

On the other hand, some products and services are not easy to deliver more cheaply. If a business or organization producing such a product or service faces, in addition, lower revenues (i.e., quantity sold multiplied by sales price) when its costs decline, then to do what works for cutting-edge technological industries—to cut costs, challenge workers, and attempt to improve functionality in order to maintain a competitive price—may threaten the organization's survival.

Remember, revenues are different from profits. If we lose more revenue from selling at a lower price than we gain from selling *more* at that lower price, we will have less money than we had before we reduced the price. We have lost financial power, whether or not we continue to make a profit.

Or, as often occurs in the real world, we may come under pressure to keep price increases below cost increases. This is another way in which we can lose purchasing power. In this case, we can say that profits are squeezed between increasing costs and too-low sales prices.

That is, in some types of organizations, we may need to make limited funds, or a declining yearly budget, go farther, year after year. This situation is characteristic of many personal services industries, such as healthcare, education, legal services, policing, or local-news reporting. (I call these types of industries "resource-losing" industries, because some resources have to be given up when budgets reflect lower purchasing power. Lost resources are often workers, but they can also be good-quality supplies to the production process, etc.)

Resource-losing (i.e., revenue-challenged) industries and organizations compete with money-magnet industries and organizations for workers and supplies. But resource-losers find it hard to match the compensation-deals that money-magnets offer. Over the long run, resource-losers may become unable to achieve their goals with the resources available to them. Then, they close their doors and are gone.

Economic environments, in sum: When we develop economic rules that encourage high-tech industry, large organizations, and big-city growth, we indirectly make economic viability harder for personal service businesses, smaller businesses, and agricultural regions.

Moreover, when we chase high-tech bargains with our spending decisions, we often feed money-magnet industries and reward input-hungry behavior, including absorption of skilled workers into tech industries, perhaps at the expense of personal services such as education and health care. (Young people select their field of training based partly on perceived future prospects.)

Spending on technological convenience not only disrupts delivery of personal services and sustainable farming, but may also concentrate financial power in the hands of a few major money managers. They may continue to follow the money-magnet business model—it works for them—increasing the concentration of financial power, accompanied by a potential loss of personal services and good nutrition by and for ordinary people. Is this what we prefer?

Summary and Discussion

Summary: We give financial power when we give money. In part one, we promised to expand on why it matters whom we trust with our money. As explained above, in economics one size does not fit all. Some organizations are created for service, not profit. Cutting any loss-making sub-sections of an organization can interfere with good service. And, what energizes cities may weaken agricultural regions. What draws money into large, technological organizations may bid resources away from, and challenge the survival of, personal service organizations.

Discussion: As explained above, when we purchase the products of money-magnet industries, such as products with more functionality than we want or need, we may encourage a drain of resources from resource-losing industries. In other words, attraction of people and supplies to cutting-edge industries may indirectly result in—via complex financial disincentives—for example, absence of a good nurse, a nutritious fruit, or social services.

If individuals want both free choice and a better-functioning economy, it is time to acknowledge that what once appeared to work well may have become a self-reinforcing concentration of financial and technological power. A belief that technological progress leads to everyone's betterment may have become, unintentionally, a set of institutions and processes that reinforce and reward the financial, business, and technological acumen of the few.

Knowledge, information, and technology are tools. They can be used wisely, or not so wisely. If we care about the future, we might wish to consider the unintended consequences of our decisions today, and to allocate our money where we expect it to be used wisely.