

# Seeing the invisible

Economics for children

A book by Sanjeev Sabhlok



When you first grasp the explanatory power of economic ideas, you'll feel like the movie hero who suddenly grasps The Matrix and realizes he can pull bullets out of the air. - Rich Burkhauser

Nothing can be more important to every intelligent man than economics. His own fate and that of his progeny is at stake. ... All reasonable men are called upon to familiarize themselves with the teachings of economics. This is, in our age, the primary civic duty. – Ludwig von Mises

**Economics**  
*for*  
**children**

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# 1. How to be a smart detective

Some things in this world are really strange – like what happened to Alice after she fell into the rabbit hole in *Alice in Wonderland*. For example, the more the ice-creams you ask your parents to buy for you, the more the ice-creams that are produced. And since more milk is needed, more cows are produced. If no one liked ice-cream there would be fewer cows. How amazing is that!

So also, the more the chicken you eat, the more the chicken that are produced. There are nearly 20 billion chicken in the world because people eat a lot of chicken. If they wanted to eat more then there would be even more chicken.

But does this happen to other plants and animals as well? Is it possible that trees increase if we consume more of them – such as by consuming more paper? Yes. That's true as well. Of course, producing trees is a bit more complex than producing ice-cream, so we need to make sure that existing natural forests and wildlife are not destroyed in the process.

And will there be more tigers if – for the sake of argument – we were to eat them? You should think this through for yourself. This much we do know, that endangered animals such as crocodiles and deer are farmed in Australia and New Zealand and their skin or meat is sold under controlled conditions. We know that animals that are farmed will never face extinction. Similarly, in a farmland in China, we know that 30 tigers collected from different places were bred and within 25 years the farm had 1200 tigers.

Economists know that the production of almost anything increases if people want more of it and are willing to pay for it. This includes minerals and 'scarce' resources. Being scarce does not prevent more of the scarce thing being produced when more is demanded.

But how can more rare minerals be produced just because people want them? Well, that's exactly the kind of mystery that economics looks at. It is after all, the science of the invisible. Economists see how the world really works and predict some really amazing things.

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Almost everyone wants to be rich, but why are some people poor, and why are entire countries poor?

The answer to this is both simple and complex. But this much is clear, that the most obvious answer is probably not the right answer. Many people think that poor people are stupid, or that countries with a large population or hot climate are poor. They are wrong. We'll soon see the real reasons.

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And so, how does the world really run? There are many questions we ask when we look around us. Economics can answer all of them.

Questions such as: How are there so many things in shops? How do these get produced, how do they get to the shops, what explains their price? What is price, anyway? How do people get money to buy these things? What *is* money? Where does it come from? What is the thing called government? What does it do? How does it work?

These are all fun questions. Economics can answer all of them. It can also answer many other questions – about how many children people want to have, whom they are likely to marry, and many others. In fact, it is impossible to understand the world without applying the economic way of thinking. The world is like a jigsaw puzzle visible only to economists. An economist can see the relationship between everything. He is like a smart detective.

To be a scientist you need to understand the scientific way of thinking. Once you know that, you can discover almost anything about the physical world on your own. Similarly, becoming an economist is

about learning to see the invisible, it is a way of thinking. By the end of this book, you should start seeing the invisible: then you'll be able to call yourself an economist.

Are you ready? And prepared to have a lot of fun on the way?

Let's start!

## 2. Not too long ago all of us were very poor. But today many are very rich.

### 2.1 There wasn't much fun 100,000 years ago

Humans evolved over 100,000 years ago. Before that there were many creatures similar to us but these were not modern humans.

Now, while 100,000 years is a very long time, it is only a short time for evolution. Although evolution has been continuing, modern humans have not changed much during this period. Our ancestors were therefore as smart as we are. But humans have struggled to survive for most of the time that they have lived on Earth. The slightest drought, disease, or storm killed thousands of them. More than half the children died before they could become five years old. Of course, the children who survived did enjoy fun and games as all children do, even though they didn't have many things to play with.

Later, when larger societies started forming and kings came upon the scene, the kings were able to live somewhat decently, but even they would catch disease and die early. Times were still bad for ordinary people. During the wars many of them were captured and made slaves. The seven wonders of the ancient world were mostly built by slaves without the help of modern machine to carry large stones. Many workers died during construction. In general, people worked very hard but remained desperately poor. Even religions couldn't save people from poverty, disease and squalor.

A man named Thomas Hobbes said mankind's "state of nature" was "solitary, poor, nasty, brutish, and short".

### 2.2 Around 200 years ago things changed almost magically

But almost suddenly, around 200 years ago, things started to change quite rapidly in some parts of the world, particularly in Holland (also known as the Netherlands) and England (also known as the United Kingdom).

Scientific discoveries meant that fewer children died and people started becoming much more healthy. They also started becoming much taller than before. Inventors created machines and started producing vast quantities of things. Clothes, utensils and household goods became cheaper. Today, factories produce millions of computers, cars and telephones. Shops in the rich countries are full of things. The people have piped water and electricity. Many people have airconditioners or heaters to maintain a pleasant temperature inside their homes.

Mankind also produces so much food that there is more food than the world can consume. In the past, a farmer was lucky to get four grains for every grain he planted, today he can sometimes get nearly 60 to 70 grains.

Our life is very easy compared with our ancestors who spent a lot of time foraging for food or looking for water. People worked from early morning to late night. Today most people in developed countries work for less than 9 hours a day and have a lot of time to rest and take a vacation.

The magical thing is that all this has happened even as the number of people on Earth grew rapidly. Effectively, many parts of the world are now, as a whole, hundreds of times richer than they were just 200 years ago.

How did this happen? What caused this magical change? And why do many countries, such as India, continue to be almost as poor as our ancestors were?

## 2.3 The magic of freedom

In the past, only kings and priests mattered, but around 400 years ago, some people – a few in Germany and Spain but mainly in the Netherlands and England – began to think for themselves. They started asking questions. Science also began at that time.

People also realised that producers and traders were very important to their survival, not just kings and priests.

These changes were basically about new ideas. All ideas start in someone's mind.

But how does anyone get a new idea? For that they need the freedom to think and experiment. In the past, kings and priests stopped people from thinking new ideas and producing new things. They said that what our ancestors said and did was the only truth. But our ancestors were generally very poor and did not know much about anything. So mankind desperately needed new ideas and new things.

For that, the power of kings and priests had to be reduced, since they would sometimes burn to death anyone who said something new. It was not easy to reduce the power of kings. Some of them got killed in the process. Finally, the kings learnt the lesson that people are masters and kings are their servant.

This was a huge revolution for it turned the world upside down. Now, those who created new ideas and produced wealth were considered more important than kings.

All this went on for a long time. Only by 1800 did people in the West start appreciating these ideas.

People in the West became free. That's what changed. That was magical.

This principle, that government is the servant of the people and that scientists, inventors, producers and traders are the most important people in society, is still not understood in countries which remain poor.

Of course, people didn't overthrow government for that would be like throwing out the baby with the bath water. We do need government to provide security and justice, to catch and punish cheaters and bad people. In fact, a government must make sure there is the "rule of law" – which means that the rules must be the same for everyone, everyone should follow rules, and bad persons should be punished. The rule of law is the foundation of freedom.

Today, as a result of this change, producers like Bill Gates are very highly respected. Bill Gates and people like him, all of them richer than any king in human history, did not accumulate their wealth by killing people or making slaves. They produced wealth by creating new things from their mind.

In countries like India and China the people are still not free. As a result, hundreds of millions of Indians and Chinese therefore remain extremely poor. Unfortunately, some governments don't like the people being free. They stop people from producing or trading with each other. They prevent people from owning their own property. The extreme form of these actions takes place under conditions which are known as socialism or communism. The government then decides what should be produced, who shall have it, what shall be its price, and who shall do what. Such control over people is a really bad idea. When that happens, people don't feel free and don't produce many new ideas and things.

Hopefully, when children in such countries read books like this, they will realise the importance of freedom and good governance and will help to change these countries when they grow up.

### **The invisible things that economists can see**

If poor countries allowed their people become free, they too can become rich. Of course, there are a few other things involved, but freedom is the main ingredient.

### 3. Who makes wealth?

#### 3.1 A government should take less than 20 per cent of our money

Do you remember the story of the ant and the grasshopper in the movie, *A Bug's Life*? It was somewhat fanciful since real ants and grasshoppers are not quite like that. But it did have a very interesting message.

We can think of ordinary people as the ants and kings and governments as grasshoppers. Only ordinary people produce wealth through their idea and hard work. You never hear of any king producing new ideas or things because they simply take the money they want from the people through taxes. Since kings and governments live off the wealth the people produce, they are like the grasshoppers.

Of course, as we noted earlier, kings and government aren't exactly like the grasshoppers and do have an important job to do. They are supposed to protect us, the ants, from attack by other creatures and from bad ants. Even though we may not like it, there are thieves amongst humans. The government's job is to protect everyone's property. When people feel safe and their property is safe, their mind is then freed up to think up new ideas and produce more things.

In fact, it is important that governments not produce anything. We don't want them trying to run businesses. They must only do their one job: protect the people's life and property. For doing this one job well, we the people should pay them well.

How much should we pay government? Should we pay the government more than 2 dollars out of 10 dollars that we earn? Hmm. Probably not. That sounds more than enough. After all, it can't be that hard to catch thieves.

But governments actually take much more taxes than that: sometimes nearly half our money. Now, that is a problem. When governments take more than 20 per cent of people's money, they don't work as hard as they could. Why would they? – for they get to keep so little of what they produce.

Of course, there is another thing that economists like to pay attention to. A government should not charge everyone the same amount of tax. Those who can pay more or use a government service more than others should obviously pay more for. That way the poorer people can pay a bit less.

#### 3.2 Who produces wealth? How do they do so?

We have seen that wealth comes from new ideas and things produced by minds of ordinary people. The human brain is more complex and creative than the most sophisticated computer can ever be. That's why a man named Julian Simon called humans the ultimate resource. Humans are more valuable than diamonds! Of course, we need to be learn to think before we can invent useful things.

Some people complain that there are too many people in this world. But economists don't fret about the size of the population because they know that people are the most valuable resource. All we need is to educate the children so they become really smart. Children need to be given the opportunity to study and think. They should ask questions and try to understand everything about this world. Then they would be ready to produce wealth.

#### 3.3 How exactly is wealth produced?

Wealth is basically produced when we produce more things with the same time and effort. It is called working smarter, not harder. Of course, the things we produce should be things that people want. Producing things that no one wants is a sure way to destroy wealth.

A long ago, a fisherman could catch only one fish at a time. But today a fishing boat that uses powerful machines can catch hundreds of thousands of fish in one single sweep of the ocean. Similarly, today's farmers produce much more food than farmers produced in the past.

### 3.3.1 Are we losing jobs to machines?

When a single person now produces what it took ten persons to produce in the past, we say that the productivity of the society has increased. Wealth is all about productivity.

Some people worry about those who lose their job because they are no longer needed to produce what is now produced with the help of machines. Similarly, some people worry that robots will replace people.

But that's a good thing.

Economists know that each time fewer people are needed to produce something, they can now produce *other* things. But how can people produce more things unless the buyers somehow have more money to buy these other things?

Well, buyers become richer each time a machine produce things because what is produced by machines is generally cheaper to produce.

People have needs and wants almost without end. When a pretty dress becomes cheaper because machines produce more of it, buyers save money. This money can now be used to buy other things, for example, they can go to restaurants, travel abroad or learn tennis. We say that the market is becoming bigger, it is expanding.

When people spend their money on new things, new jobs are created – in those areas where they spend their money. People who have lost a job to a robot can now get a job in these expanding areas. In this manner, the society gets the same number of jobs and clothes it had, but has also managed to get many more things.

That's why modern society has hundreds of thousands of things while primitive societies have barely a few.

In the past almost everyone was a farmer. Today, less than one out of 100 persons in the West is a farmer. The 99 people who are not needed in the farm can now invent and produce new things. That way everyone becomes wealthier. Each time anyone finds a way to produce things cheaply, the entire society becomes wealthier. We must never worry about jobs since new jobs will always keep getting created.

### 3.3.2 Why do many people now live in cities?

It is costlier to live in cities than in villages. Even so, many people seem to want to live in cities.

That is because cities are important places for creating wealth. Cities started as places where government was located. Most started near rivers since they had to be close to drinking water. These were also a good place for traders to come together. As these towns grew, airports and railways stations were built which made it even more convenient for people. Cities then became places where factories were established. Even today, factories are often located on the edge of big cities.

Over time, smart people and inventors mostly preferred to live in cities. When people live closer together, they are able to learn from each other. This is particularly important in areas such as "knowledge industries" (such as computers). This is also important for education and health, so we find universities and big hospitals in cities. And it is more likely that you'll find a good tennis coach or singer in a big city than in a small town.

## 3.4 Why do people produce anything at all?

Except for someone who is unfortunately very sick, everyone needs to produce something useful in order to get paid and earn a living.

Your parents are great producers. That's why you have a home and many things at home. Your parents can produce things in many ways. There are thousands of useful things people can do, such as designing and producing machines, growing and harvesting food, or giving haircuts.

### 3.4.1 The baker produces bread in order to make a profit

Many people like to buy their bread from bakers early in the morning when it is freshly baked and hot and soft. To bake the bread, bakers have to get up in the middle of the night and make fresh dough and heat their oven. That's a lot of hard work.

Bakers don't produce bread only to make their customers happy. In the end, they need to look after themselves and their family by making a profit. A profit is what is left over after meeting all costs. If the profit is good the baker might be able to take his family on a vacation once a year.

Profit is a signal from the society to the baker that he is producing something useful. If he didn't make a profit he would go out business.

### 3.4.2 Very few people are born with money. Most have to work to earn it.

Your teacher teaches. After that she has to go back and run her house. She needs money to pay for food and clothes or to go to the movies or to travel on a holiday.

Your teacher can perhaps grow her own food, make her own clothes, build her own house even treat her own illnesses. But if your teacher did all these things and more, she wouldn't have time left to teach you. She'd be able to produce very few of the things she needs.

Instead, since she is good at teaching children, she chooses to teach children in school, instead. Grateful parents then pay her for her time at school. Parents don't always pay her directly, sometimes they do so through their taxes to the government.

Why don't parents teach their own children? Well, many of them do – if they have the time. Your mother and father perhaps teach you a little bit and help with your homework. But if they were to spend all their time teaching you, they wouldn't have time to earn money to run your house.

The fact that your teacher teaches you and your parents do other things is called division of labour.

### 3.4.3 People produce a lot of just one small thing

In this way most people just do *one* thing well or produce just one thing. But no single human can make even a single pencil by himself. So people generally produce just one *tiny* part of something that is complex.

If someone tried to make a pencil from scratch they would need to mine the lead from the ground, mine and produce the little metal strip that clamps the rubber on the pencil; grow, produce and cut wood for the pencil, grow and produce rubber, and produce paint. And each of these things in turn will require producing many other things, such as the tools to cut trees and machines to dig deep holes in the ground. Hundreds of thousands of people across the world are needed to produce even a simple thing like a pencil. There is a fun story about this called *I Pencil*.

It is quite amazing how producing even a simple pencil involves organising hundreds of thousands of people together. This can be likened with an orchestra in which different musicians combine to play beautiful music. Only that this is a much bigger "orchestra" and there is no human conductor to coordinate the producers. It is quite magical that so many people come together to produce things for us without anyone telling them what to produce or how much to produce.

The more the people the more the knowledge they have and the more the things they can produce. Even though most people will produce only one tiny component, what they produce all adds up. A large population with a lot of people is a good thing, of course, only if the people are well-educated and free to think.

### 3.4.4 Singers and sportsmen don't seem to produce a lot, so why are they rich?

To become rich, people either need to produce a lot of things that others want, or produce a few things of high quality. Singers and painters many not produce a lot of songs or paintings. Sportspersons can only produce one game at a time, such as one tennis match.

The main thing is that these activities are of high quality, and others are willing to pay to listen or watch them. Therefore, people don't always have to produce a lot of something in order to become rich.

Of course, activities such as singing, painting and sports are hobbies for most of us. Everyone should have a hobby but a hobby won't make anyone rich. To become rich one has to produce something for which others are willing to pay.

### 3.5 How do people find the money to set up large factories?

Let's imagine that one fine day, John gets an idea to produce a new gadget that will be very helpful to millions of people. He only has the drawing of his gadget. He has no money to build a model (or prototype, as it is called) and no money to build the big factory he needs.

While John is not interested in making huge profits, he knows that if the gadget can't sell well and make a profit, it won't be funded by anyone. He thinks it will sell well.

To get the money he needs, he has to begin by contacting people with money, such as rich individuals or banks. He then has to persuade them to take shared ownership of his factory or to lend him money. He is not the only one offering new ideas. Others have ideas too, and they might be promising even better profits. Further, because John doesn't have anything, such as a house, lending him is very risky.

Finally, a rich man chooses to take part-ownership of John's factory. This is called venture capital funding. In this way John can keep part of his future factory's ownership.

Now, something invisible to normal eyes has happened. By putting money into John's factory (this is called "investment"), the "capitalists" can't put that money into other factories. In this process, people like John (the "entrepreneurs") shift the capitalist's money towards inventions that are more useful for society. That's why no one produces old fashioned TV sets any more. In this manner, old things are replaced with new ones. A man named Schumpeter called this process "creative destruction". This is a core process that drives the creation of wealth.

This process of investment in new ideas is best organised by private people like John and the venture capitalists. Economists don't like governments "picking winners" among different inventions. Governments mostly end up picking the worst ideas anyway. Further, production and doing business are not the business of government.

#### **The invisible things that economists can see**

It is people's demand for useful things that ultimately decides what will be produced. Even though they don't provide money for the factories, these are set up only because the people are expected to buy what is produced.

In this way John and entrepreneurs like him, and the investors, are servants of the people. The profit a producer makes shows that he has made buyers happy.

### 3.6 Things produced must reach those who want them

Imagine that a farmer has produced a lot of bananas but the road from the farm is now damaged, so the truck hired to carry the bananas to the market can't come into the farm. The farmer now can't sell what he has produced. The bananas will rot, and people in the city who wanted to buy the bananas won't be able to get them. Both sides lose. If we then can't trade, then all of us suffer.

Trade is the lifeblood of mankind. A government can facilitate trade by creating roads and providing security to the people so the goods are not stolen while on the way to the market.

Now, some goods such as poison can be dangerous. For such goods, the government should ensure that these are produced and sold under careful conditions.

### 3.6.1 Some bad governments and bad people don't let others produce

Luckily for us today, most of us today have a chance to invent things or work hard and become rich.

Unfortunately, there are some bad governments that try to stop trade even of useful things. Or they put a high tax on goods. Everyone then suffers.

In particular, bad governments don't allow people to trade with people of other countries. Thus, China currently produces many things at a low cost but bad governments try to stop Chinese goods from entering their country. Sometimes, bad producers pay governments to stop others from producing. That is because they don't like those who can make things cheaper and better than them. Such bad producers often tell all kinds of lies to stop others from producing or trading.

The truth is that only through production and trade can people buy more things even as they save money and become richer. Let's never allow anyone to stop competition and cheaper goods.

#### The invisible things that economists can see

It doesn't matter who produces, whether in our country or abroad. Each time someone produces and trades something, the whole society, the whole world becomes better off.

## 3.7 Governments that don't protect producers' property end up making their society poor

We know that wealth is created because some people with smart ideas, new machines and new ways of doing things produce more things at a lower cost. We also know that this can't happen unless people have the freedom to think up new ideas.

But there is a very important additional thing: that their property must be protected by the government. If they can't keep their profits and earnings safely, they will not produce.

Sadly, over the past 100 years, many governments have actively stolen the wealth of producers in the name of "socialism". Socialists worry about "inequality". When they get into government they confiscate (steal) from the rich and give some of that stolen money to those who are not as rich. Even in some Western countries the grasshoppers (the government) now take away half the money that the people (the ants) earn.

Socialists don't understand economics. Let us look at three of their main mistakes:

First, it is a mistake to think that total wealth is fixed. Socialists think that producers grab a bigger share of this wealth and that others must therefore receive less. They think of wealth like they think of a pizza: that if someone gets more of it then others get less.

But economists know this is wrong. Producers continuously increase the total wealth in society, we can say producers continuously increase the size of the pizza. A society that respects its producers and traders becomes wealthier as everyone gains. New jobs are created and everyone save money by buying more things at a lower cost. Therefore, everyone gets more in the end than they had before.

Second, it is morally wrong to take away some people's wealth in order to give to others. A man named Adrian Rogers said: "What one person receives without working for, another person must work for without receiving. The government cannot give to anybody anything that the government does not first take from somebody else." That amounts to stealing. Just because a government uses taxes to do so doesn't make it less bad. If people choose to give their money to the poor out of their own choice, there would be no moral problem.

Third, if producers feel that government is taking away their hard-earned money, they feel bad and stop producing. They hide their money and stop building new factories. They may even leave and go to other countries which treat them with respect.

Some people think that taxing producers heavily makes them want to work harder because they will now feel poorer. But this is not how things work. Wherever possible, the producers will reduce the amount they produce and increase prices. The whole society will have fewer things. People will become poorer. Of course, things are more complex than this. Different taxes have different effects on production. Economists prefer taxes which have the least harmful effects on production. The best situation, of course, is to not tax more than 20 per cent of anyone's income.

Economists agree that a small amount of taxes can be used by government to provide some money for bare survival to the poorest of the poor – who are often unable to work despite their best intentions. Economists do worry about the poor, never about “inequality”.

#### **The invisible things that economists can see**

Economists see a big difference between supporting the poorest of the poor and making everyone “equal”. Therefore, they oppose redistribution and the idea of socialism which involves stealing from the producers. Socialism is sure to make everyone poor.

## 4. Economists pay a lot of attention to how people behave

Economists like to study people, since that tells us why they do things. That helps see things like incentives which are invisible to others.

### 4.1 Everyone likes to buy cheap and sell dear

Someone offers you a choice: which do you like more – \$10 or \$20? It is guaranteed that you'll take \$20. Of course, it is crucial that you never take any money from any stranger.

Now, consider this. If the same toy sells for \$10 in one shop and for \$20 in another, from where would you buy? Clearly, from the shop that sells it for \$10.

It is best to buy cheaper than dearer. People like to save as much of their money as they can. Having more money allows them to buy more things.

Now flip this around. You have a spare toy and want to sell it to your friends. Would you sell it at the cheapest possible price or the highest possible price? Everyone tries to sell at the highest price.

This is rational behaviour. People are rational in this basic sense.

#### 4.1.1 Are people being “greedy” when they buy cheap or sell dear?

Not at all. They are merely being prudent. It is good for people to be careful with their money.

But the most important things in the world can't be bought or sold – things like love, friendship. If someone is greedy in personal relationships, he will not find things like love and friendship. Some businessmen want to earn endless amounts of money. They spare no time for their family and children. They can't find love and friendship and end up unhappy.

### 4.2 If prices of something go up we buy less of it

If the price of a big screen TV goes up, less people will buy it and more people will buy a smaller TV. If the prices of TVs become very high, then some people will live without a TV.

On the other hand, if the price of big screen TVs comes down, more people will buy big screen TVs.

There was a time when only a few people could afford a TV. Today, TV producers produce many more TVs at a low cost, so almost everyone can now afford a TV.

### 4.3 Everyone is different

It is true that everyone prefers getting \$20 to getting \$10. However, not all people prefer the same thing. Some like it sweet, some like it sour. People should be free to choose what they like.

And people are different in many other ways. Some are good at one thing, others are good at another. As a result, someone may want to become a doctor when they grow up, others may want to become a tennis player. People should be free to choose what they want to do.

They should also be free to learn from experience and change their mind about what they like and what they want to do. Only then can they become the best person they can be. And only when will the whole world become the best place it can be.

### 4.3.1 People will earn different amounts of money

Since people are different in every possible way, they will produce different things which have different value in the market.

Socialists are jealous of those who earn more than them. It is foolish to be jealous. Instead, we should be happy for those who earn more than us. Many of the rich are heroes for they were born to poor parents and became rich only by serving the needs of the people. This is good inequality. Only when everyone produces the best they can, will all of us become better off. If Bill Gates becomes richer, it doesn't mean we are becoming poorer.

This was not true in the past. Kings and feudal lords used to grab people's money by force. That led to bad inequality. Most importantly, the big things of life are not measured in money: things like family, love, friendship, trust and cooperation.

### 4.3.2 Successful inventors actually give away most of the wealth they create

We have seen how entrepreneurs invent new things and new ways of doing things. Some of them like John set up a business. If they are providing a useful service, they make a lot of profit, else they lose a lot of money. We must be grateful to them for taking the risk to make life easier for us.

An man named William Nordhaus studied this and found that of every \$100 in wealth created by inventors, the inventors get to keep only \$2. Thus it is society that benefits most from any invention, even as the inventor may well become very rich.

Socialists are so, so wrong in everything about how the world actually works.

### 4.3.3 Yet, even the rich can't buy everything

Many important things in life are free. Everyone can have them. Air is abundant and free. But its real value is infinite. Without air we would not even exist. And even the poorest person can exercise their body and make themselves fit and healthy.

Many things that money buys are generally far less important than things money can't buy - things like family, love, friendship, trust and cooperation. Many times the rich get less of these since they don't give these things enough time.

Finally, no matter how rich someone becomes, they can't buy everything they want. Thomas Sowell said: "The first lesson of economics is scarcity. There is never enough of everything to fully satisfy all those who want it".

There is even less reason to be jealous of the rich. Let's honour the producers and respect them for the time and energy they give to society by producing things for us.

#### **The invisible things that economists can see**

Economists know that the most important things in life are either free or can't be bought with money. The rich generally sacrifice important things like family, love and health for the sake of others. They are our servants who are working very hard to make others better off. We should honour them, their ideas, and their sacrifices for society.

## 4.4 People spend their money better than others can spend it for them

No one knows better than us about the amount of money we have. No one knows better than us about what we like. Most importantly, no one knows the various things that are going on in our life and our priorities. Therefore no one can possibly know better than us about what we should buy and how much we should spend on something.

People buy or use their money to achieve the greatest value they can. No one can do this better than them.

Unfortunately, some people do spend in things that may harm them, such as excessive alcohol or gambling. This is not sensible behaviour. It is important for children to have good parents and good teachers so they can grow up into sensible people. But when their friends and family have failed to help them out and they start harming others, the government may need to step in to either support them to get better or to punish them for any harm they cause.

#### 4.5 There will always be some bad people

Sadly, the world is not perfect. There are always some bad people who try to make money by cheating others.

But the bad don't always succeed. In most cases life ultimately finds them out. Do you remember the story of the boy who cried wolf once too often? He developed a bad reputation and ultimately no one responded when the wolf actually came. Bad people's reputation is generally damaged for life and no one wants to do business with them.

Ultimately the only way to succeed and be respected in society is by honestly serving others' needs.

## 5. The secrets of becoming rich

Economics is not about becoming rich, but economists do have some hints about this. Sometimes even economists can become rich. The best of them get a Nobel prize, which includes a good amount of money.

### 5.1 Secret No. 1: Be good at one thing and do it really well

We know that it only in the most primitive societies do people need to themselves produce everything they need. Such people can't produce much. Their time and energy is used in making their fishing net, fishing, growing plants, harvesting them, collecting firewood, cooking, making their own clothes.

Tribal societies have no specialisation. Advanced countries have very high levels of specialisation. Specialisation has dramatically increased the number of inventions. Things like clocks did not exist in the past, but today, we can buy a clock (which is a very complex thing and no single person can invent from scratch on his own) for only \$2 – which is an amount that an average person in developed countries earns in two minutes. Or we can buy a pencil for a mere 10 cents. Even if someone were to spend an entire lifetime, they could never make a single pencil, alone, from scratch.

The lesson is that in the modern world no one should try to be self-sufficient. Each of us must just do *one* thing but do it very well. A Jack of all trades is actually the master of none.

A man named Ralph Waldo Emerson said: "If a man can write a better book, preach a better sermon or make a better mouse trap than his neighbors, though he builds his house in the woods, the world will make a beaten path to his door." Emerson was right.

#### 5.1.1 But don't be a one trick pony!

Times are changing. Machines and robots are going to do many more things for us than they did in the past. Many jobs will get displaced. It is important to know at least a couple of things well enough, so that what you produce (or the service you provide) when you grow up is always in demand. And it also means learning new things throughout life.

### 5.2 Secret No. 2: Produce only things that people will want

To get other people to give us their money, we need to make or do something that they want. Let's look at three examples:

- a) Sometimes, you and your friend eat lunch at school that your moms have packed. You want to try the delicacy that your Chinese friend's mom has made and your Chinese friend wants to try your mom's cooking. So you exchange each other's food. Both are happy! You just made a successful trade.
- b) A toy maker has made a lot of toys. Your father buys one of these toys for you. Your father wanted the toy, so the toymaker's efforts were not in vain. Both your father and the toymaker are now happy. Both say "Thank you!"
- c) Your parents bought JK Rowling's book, *Harry Potter* because they thought you'd like it.

To be a successful writer you'd need to write books that people want to read. Or you could make toys that people want to buy. Or you could produce software that people want.

### 5.3 Secret No. 3: What you do today will affect your future

Becoming successful in serving others' needs requires knowledge and skills – and developing these takes time and effort. We must listen to the man named William James who said: "Genius is 1 per cent inspiration and 99 per cent perspiration". Even if someone has talent, he or she cannot become great unless they practice a lot.

If you study lots of books on biology, you could become a successful doctor. If you practice swimming, you could become an Olympic swimming champion. But if you eat a lot and don't exercise, you may become fat and even sick in the future.

#### 5.4 Secret No. 4: Be aware of the trade-offs you make

There is only so much time in a day. If one chooses to study, one can't play tennis at the same time. Everything has trade-offs.

No one can get everything. One should probably not trade-off the most important things like love, friendship, trust and cooperation. These human qualities are important for our happiness. Some people work so hard they lose touch with their family.

No one else can define what success means to you. Everyone has to decide their life for themselves.

## 6. The secret tools of economists

Let's now look at the principles and concepts that economists use. These are tools that help them understand the invisible.

### 6.1 Tool 1: People react to incentives

We have seen that even though everyone is different, they all prefer to buy cheap and sell dear. And most people want a profit. The desire for profit makes people serve others and make useful things for them.

Economists say that people respond to incentives. The simplest incentive is money. People will generally work harder for more money. But people respond not only to profits but to praise and love. And sometimes people do things because of pride or because they want to be famous. All these are different forms of incentives.

#### The invisible things that economists can see

Economists are interested in what makes people tick, the incentives.

Incentives are invisible but if you ask enough questions, you'll ultimately find out why people do what they do. Incentives create forces for human action that are as strong as the force of gravity.

### 6.2 Tool 2: The value of something is what others will pay for it

A stone on the ground has no value. But what if it turns out to be an unpolished diamond? It would still mean nothing to a cow, pig, or to our ancestors who lived in the jungles. But today many people will be willing to pay quite a bit of money for it.

Why? They can't eat the diamond, and it is still an unpolished stone.

But they think that *others* will pay for it.

Similarly, a painting is just a piece of canvas with oil paint dabbed on it. But if a famous artist has put that point on the canvas, people think highly of it and want to buy it. Sometimes the painting might not even make sense to many of us. That doesn't matter. The value of a painting is determined by what others are willing to pay for it. Paintings are usually auctioned and even if just two people like it, they can bid the price very high.

Anything has a "monetary" value (i.e. a dollar value) only because others think it has that value.

It would seem there is no way to understand something's money value without first selling it in the market. That's right. That was a huge discovery for economists.

Not too long ago, people thought that things had value because of the amount of effort put into making them. But that kind of thinking led to a lot of problems. Pablo Picasso often made his paintings in minutes, not even hours, but these are valued much higher than paintings made by ordinary painters in ten days.

Finally, economists discovered that that "beauty is in the eyes of the beholder". This is how things have value in the marketplace.

#### The invisible things that economists can see

This tool prevents economists from assuming that just because someone has put in a lot of effort into producing something, it is somehow valuable.

### 6.3 Tool 3: No person can ever know all details about others

We have seen that people know about themselves and their situation better than anyone else can. This is the knowledge about our personal (local) circumstances. We can never hope to ever get the full personal information and details about other people.

Economists therefore know that any attempt to centralise people's decisions will fail since no person will ever be able to get enough information to do that.

But there is one method by which all useful local knowledge is actually extracted. It is an entirely decentralised system – the price system. Only economists are able to see how magical the price system is. We now take a look at it.

### 6.4 Tool 4: The price system is an Invisible Hand that coordinates all of us

It is said that Newton's great discovery of gravity was based on observing an apple that fell from a tree. Millions of people had seen gravity at work before but none asked "why?".

Similarly, Adam Smith is famous in economics because he noticed something for perhaps the first time.

He noticed that goods were being produced and supplied in the marketplace and people without anyone telling anyone what to produce and how much. Markets were full of things that people wanted and seemed to always be just in the right quantity: just the right number of meat shops, barbers, plumbers and sailors.

It was as if a hidden conductor, unseen by anyone else, was conducting an orchestra and directing everyone to do so many things. Smith exclaimed, "There must be an Invisible Hand behind all this!"

And he was right. There is – the price system.

But although he wrote a brilliant book that is one of the best ever written in economics, he could not quite understand the Invisible Hand. It took another man, two hundred years later, to tell us how the Invisible Hand works. F.A.Hayek wrote in paper in plain English in 1942 in which he described how the price system tells everybody what to do. It turns out that one of the biggest secrets of the world has been hiding in plain sight, just like gravity.

Once you understand the price system, you are well on the way to becoming an economist.

So far we know that everything has a price in a shop. We also know that value is subjective, i.e. determined by how much people are willing to pay for it. But how exactly does the price of an ice-cream become precisely \$4 in a particular shop?

The socialists believe that they can somehow make prices cheaper and make things better for the poor. But a man named Mises, who was Hayek's teacher for a brief period, showed that socialists were wrong. Governments can't fix prices, only markets can. Hayek showed that the *whole world* comes together to set any single price.

Prices take into account the preferences of all persons in the world and their ability to pay. Prices also take into account the supply of everything in the world. For each individual thing at each location on earth. Therefore, if there is any blockage to the free flow of information about prices, things will soon get mismatched. There will either be extra supply of something that people don't really want, or things that people actually want will not be produced in sufficient quantity. This happens all the time in socialist societies. In the Soviet Union, people lined up even for simple thing like bread.

In describing the power of the price system, Mises wrote:

"Consumers determine both the quantity and quality of production through the prices they pay and through the amount of their purchases. They determine directly the prices of goods and indirectly the price of all material used in

production and the money given to all workers. The market is a democracy in which every penny gives a right to vote and where voting is repeated every day.”

The man named Bastiat said the same thing in a simpler way: “In a free market, the consumer is the king.”

Now let’s look at an example of how the price system works.

#### **6.4.1 An example of how prices are determined**

We are now standing on the outskirts of Yelwa in Nigeria.

Let’s assume that China has suddenly increased its demand for steel as the production of its new car – the pilot of which was a closely guarded secret – starts to ramp up. As this sudden increase in demand for steel was not anticipated by the market, prices of steel jump up in response.

Now let’s meet Moremi. She is a poor housewife living on the outskirts of Yelwa, blissfully ignorant of this trivia about new Chinese cars. All she knows is that suddenly her careful plans have gone awry. Moremi had been mulling over the past month about upgrading from her terracotta cooking pot to a metal one for which she had been saving some money. But she now finds that the price of the steel pot she had wanted has suddenly increased.

What has happened, of course, is that the relevant information on the new Chinese car has been passed on to Moremi by the market. The Nigerian manufacturer of steel cooking pots has had to pay more for steel inputs. The local grocery shop, experiencing the higher wholesale price set by the manufacturer, has had to pass on this increased cost to consumers. In this manner, the production of new cars in China has changed things in Yelwa – Moremi is forced to rethink her choices. Steel is now deployed towards its most profitable and hence most productive use, diverting it from the production of household pots and pans. Given the higher price of steel pots, she can now either sacrifice other domestic needs and buy the high-priced steel pot or she can choose a cheaper aluminium pot instead, and keep the change. Moremi considers all options and opts for the aluminium pot.

So, is that a bad thing to have happened? Yes, our sympathies are with Moremi for not having achieved her most preferred outcome. But we also notice that everything that has happened has been just. Free peoples have made their individual decisions based on relevant information, with each of them working in his or her self interest. No one has cheated any other person. Also, everyone has become better off through these trades. For instance, by buying the aluminium pot Moremi has become a little bit better off than before; she is now more productive in her domestic work. The local grocery shopkeeper is a little better off than before, having marked the aluminium pot up to the price that is sufficient to allow his business to survive in the competitive retail market. We note that the free market doesn’t guarantee we will get what we want. It does ensure, though, that everyone involved will become at least a little better off each time they decide to trade.

More importantly, a number of things happen after Moremi buys her aluminium pot. Her choice is quickly communicated to all relevant producers in all parts of the world; people who have never heard nor will hear of Moremi. No emails or letters are sent by anyone; instead, with all other ‘Moremis’ (namely, buyers placed in a similar position to Moremi) of the world substituting towards aluminium pots, the demand for aluminium pots now begins to rise. This raises the price of aluminium metal by a wee bit. That increase in price then sends a signal to aluminium suppliers in distant Australia to increase their production of aluminium to take advantage of this higher price. More people are hired in Australia and start digging up more bauxite. In this way the entire world shifts, ever so slightly, in an invisible but exquisitely coordinated manner, to a substitute metal – aluminium.

In this magical way, thousands if not millions of people worldwide act in ways they would not have, had China not decided to produce more cars. Most importantly, these direct effects also have second order effects down the line. Since Moremi had some spare change left over after buying the aluminium pot, she takes her family out to the movies. That shifts the demand for movies and more movies are made the following year, in response; and so on. Thus, the entire world is integrated and coordinated by prices – each decision affecting every other decision. And thus, in choosing whether to eat cereal or fruit for

breakfast, or in deciding upon the amount of milk or sugar we put into our tea, each of us impacts the demand for, and supply of, all products in the world.

It is this way of spreading relevant information from hundreds of lands and thousands of people back to everybody's doorstep in every corner of the world at an amazing speed that Hayek explained. Only a free market can accomplish these amazing feats through the price system. Nothing else has the ability to always produce the best outcome locally for all parties involved in a trade, down to the level of crushed-ice candy sold to a child by a bicycle-riding vendor in a hot and dusty village in Bihar – a village that can only be reached after travelling through miles of narrow, bumpy roads.

#### **The invisible things that economists can see**

When economists see any price they see the invisible effect of billions of people's choices. They are able to understand how a particular thing is valued by people in comparison with other things.

The important thing is that none of these valuations are permanent and are constantly changing as billions of pieces of information change every minute across the world. By looking at how prices change, economists are able to identify the forces that are changing the world.

## 6.5 Tool 5: We need to look at hidden information, the full picture

Henry Hazlitt said 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".

This is a very important thinking tool of economists. They never look only at the immediately visible aspects of anything. They look closely at things – all consequences, all costs and benefits.

One day, while some girls were playing cricket, the ball went and hit a window. The window broke. The owner was very unhappy but some people were happy that the window had broken. They thought that the broken window is good for society, since now the window would need to be fixed, creating new jobs.

Bastiat explained why it is foolish to think in this manner. He asked us to look more closely at the situation. True, someone would now get paid for fixing the window and that was a "benefit" to that person. But it meant the owner could no longer buy a suit that he had saved money for. So he lost a suit. And the tailor who would have made the suit also lost that job.

Had the window not been broken, the owner would have had both the window and the suit. Now he only has the window. The job created to fix the window didn't stop the total wealth of society from reducing.

Surprisingly, a man Keynes never understood this. He wrote:

If the Treasury were to fill old bottles with banknotes, bury them at suitable depths in disused coalmines which are then filled up to the surface with town rubbish, and leave it to private enterprise ... to dig the notes up again..., there need be no more unemployment and ... the real income of the community ... would probably become a good deal greater than it actually is.

Keynes clearly didn't know much economics. He didn't know that you cannot create wealth by wasting human effort.

#### **The invisible things that economists can see**

Economists see the whole picture – people's actions and reactions, the consequences and unintended consequences, the costs and benefits.

## 6.6 Tool 6: There's no free lunch

Children are looked after by their parents but adults need to earn their living. They get something by giving something in return. No one gets a free lunch.

### 6.6.1 Are people “selfish” when they don’t give us things for free?

A baker may sometimes give bread to a poor beggar. But obviously he can't afford to do that for everyone. If he did that, he wouldn't be able to pay for the flour and the butter, or for gas to heat the oven. Soon, he'd have to shut down his shop.

Both buyers and sellers are “selfish” in that they both want to live and look after their families. The baker makes his customers happy but those who buy bread from him first have to make him happy by paying him for the bread.

Trade is a “win-win” situation for both parties. Both participate voluntarily in their self-interest. It is therefore foolish to say that trade is “selfish” or that making profits is “selfish”.

You can't expect to get things for free. There is no free lunch. If one doesn't have money to buy something then one must figure out a way to earn more money or to live without that thing.

### 6.6.2 Threatening others to give us their money is a very bad idea!

You do to a barber and want a haircut but don't have any money to pay for it. Is it a good idea to force the barber to cut your hair? No! No one likes being forced to do something.

Society can only prosper when everyone produces and buys things voluntarily – on their own, without force.

There is one exception: the government. We give the government the authority to take people's money (the taxes) by force, in order to provide everyone with security and justice.

But sometimes governments can misuse this power and start redistributing wealth. They take Peter's money and give it to Paul. That is a really bad idea! Although taxes are acceptable, redistribution is not.

### 6.6.3 Let's not be tempted by freebies offered by governments

We know that governments don't produce anything. All their money comes from forcing people to pay taxes. Since these taxes are authorised by people themselves (through their assemblies or parliaments) economists are not against taxes.

But things go really bad when governments start offering people “freebies”. Can you guess how this works?

When governments become too large and start doing everything, they are said to be socialist governments. In addition to providing security and justice, socialist governments offer to provide health care, education, water and electricity “free” of cost to everyone. Some of them also provide pensions for the elderly. Such governments say: “From each according to his ability, to each according to his needs”.

Even if you work hard and smart under a socialist government, you'll get paid only what others get, because everyone's needs are similar. All profits will be taken away by force and given to others.

But here's the problem with “free” things. If people end up getting the same money as others no matter how hard they work, they don't feel like working hard any more. Inventors and producers stop working and everyone ends up becoming poor.

There's yet another problem with “free” things. When anything is “free” people tend to waste it. If water is free, people will let it go down the drain. If people get free healthcare, they won't take care of their own health because they think: the government will fix them anyway, so why bother to exercise. No one spends their money better than the people themselves. It is best that governments don't get involved in things that people can do for themselves.

Worse, people soon lose their freedom in such societies. For example, once government takes control over people's health care, it will then restrict their freedom to eat and drink what they wish. This process

by which government grows and effectively enters our own homes, is called a “slippery slope”. The government becomes a “nanny state”: it tempts us with freebies but then takes control of our life.

When we grow up, we surely don’t want a nanny to look after us!

## 7. What should a government do?

Economists study government very closely and have suggestions on what a good government should do.

### 7.1 A government is needed to make rules for our safety

Most rules are set by society. For example, when someone leaves a bag on a chair in a movie hall, it implies that the chair is occupied. Other people therefore don't sit on that chair.

People follow such social rules on their own.

But sometimes governments are needed to make rules. For example, the traffic rules which allow us to determine who is at fault in a car accident. Or rules about buildings which allow us to identify who is at fault when a building leaks in a storm, or when a building falls down and crushes someone.

Rules made by government are called laws. The most important ones are made for our safety. The government lists bad things (crimes) and the amount of punishment for each crime. The police then catch the criminals and take them to judges who find out the truth and award the punishment.

Governments have made laws since a long time. Nearly 5000 years ago, Hammurabi made a law to punish bad builders. The law said: "If a builder builds a house for a man and does not make its construction firm, and the house which he has built collapses and causes the death of the owner of the house, that builder shall be put to death."

But laws must not enter into areas of private belief, faith and religion. The government is a servant of the people and can't tell the people what they must believe. Governments must not create unnecessary laws.

#### 7.1.1 A government may also be needed to prevent people from polluting the world

Sometimes the owner of a factory may not be careful, letting poisonous waste water be dumped into the nearby river. This can not only kill fish and plants, it can make the water undrinkable for everyone.

In such cases also the government is expected to make laws to punish those who pollute the environment. Such laws may require a factory to install a waste treatment system, or forbid the use of certain chemicals.

#### 7.1.2 When governments don't ensure justice, people leave the country

Governments can sometimes become bad. Bad governments may make different laws for different people, such as on the basis of people's religion, caste, or skin colour. Different people are then treated differently. And because the government has guns and weapons, people who are treated badly may not be able to defend themselves.

When governments become bad, people are often forced to leave their country as refugees. A few hundred years ago, refugees from Europe fled persecution by Catholic kings and formed a new country called the United States of America. Americans believe that people must have the right to defend themselves against bad governments that don't provide justice and security for all.

### 7.2 A government may be needed to make roads and bridges

While we may sometimes think that using a road is free, that is not true. There is no free lunch. Roads are paid by people either through taxes or tolls.

Wherever possible, roads and bridges should be built by the people themselves. The owner of the road or bridge can then charge a toll (a fee) for use. But it is often difficult to own the entire length of a road and to restrict access only to those who have paid. If someone can't control who uses a road, he cannot charge for it, so the road may not get built.

Such roads and bridges are usually built by governments through taxes. Sometimes, a government may give temporary ownership of a road or bridge to someone who then builds and maintains it by charging a toll.

### 7.3 Governments are generally not very good at what they do

A man named Milton Friedman wrote: "If you put the government in charge of the Sahara Desert, in five years there'd be a shortage of sand".

What did he mean by that? He was telling us that when a government does something it may do it badly. It may over-charge us for its services. It is very hard to stop governments from charging too much.

We must not forget that even though a government is essential in many cases, it sometimes behaves like the grasshoppers who ask too much from the ants (the people). That is why we should hire a government only where it is absolutely necessary to do so. We should not give it too many things to do.

### 7.4 Governments can't spend our money better than we can

No one knows us better than ourselves, so no one can spend our money better than we can. A government definitely can't. Governments often waste a lot of money and don't even achieve what they are supposed to do.

We should give governments only that much taxes that are needed to run the army, the police and system of judges. Plus maybe some more taxes to build and maintain roads. But that's about it.

All this, combined, should generally not exceed 20 per cent of people's money. The remaining 80 per cent should be left with the people.

### 7.5 Should government supply water, schools and trains?

A lot of people think that the government should supply water, hospitals, schools and trains.

But economists don't think like that since they see the invisible, and know that many things can go wrong if governments do things that people can do themselves.

Economists prefer to look at things that a government does and ask: can we give it back to the people? This is called "privatisation". And it works very well in many cases.

A few years ago England gave the management of water back to the people who have done an excellent job since then. Similarly, the Japanese government gave the management of trains back to the people.

When government managed trains, the toilets were dirty and the trains did not run in time. The government also failed to make a profit. But after the trains were sold to private persons, the toilets are well maintained, trains run on time and the company has been making profits.

We know that there is only one signal that someone is doing something right: that he or his company makes a profit. Many economists recommend that even schools and hospitals should be run on profit. In fact, a man named James Tooley has found that there are thousands of low-cost schools in India which do a much better job of educating children than government schools.

### 7.6 What is government's role in money?

Is anyone allowed to print number on a paper and call it money?

In the olden days, private banks issued money. They promised to pay the owner of the 'note' an amount of gold. We say that these notes were "backed" by gold. The fact that they had to give out gold when someone asked them in exchange for notes, limited the amount of notes they could issue.

But there was a problem. Governments often spend too much money, even more than the taxes they collect. They then need to borrow money from banks. Banks would not lend governments money since

there was no guarantee that governments would return the money. So governments seized the banks and started printing money themselves! Initially, governments said their money would be backed by gold. But that was hard to do, since governments kept on spending too much money.

Finally, the government stopped backing their money with gold. Today, you can't go to the government and get gold in return for your currency note.

Today there is no limit to what governments can print. Therefore, most governments print enormous amounts of money. When there is too much money, its buying power falls. If a toy costs \$20 today, then the same toy will cost \$40 when the amount of money is doubled.

The man named Hayek, whom we have met before, believed that governments should return money printing to private banks. That way money will not lose its value so fast. Another man, Satoshi Nakamoto, decided that he didn't like the idea of governments printing money, so he made a new type of money called Bitcoin that is not possible for governments to interfere.

## 7.7 Sometimes governments want to “do good” but end up harming society

A few pages earlier, we saw a tool that says, “We need to look at hidden information, the full picture”.

Unfortunately, governments don't understand it in many cases, so they try to “fix” problems but end up making things worse for everyone.

Take the example of Moremi whom we've met earlier. She was not able to buy a steel pot. So the government of Nigeria decided to ‘to set things right’. It fixed the maximum price for steel pots at the price they used to sell before steel prices rose across the world.

But clearly the government was not thinking about the full picture. No government (Nigerian or any other) can control world steel prices. The steel pots producers in Nigeria could not produce pots to be sold at the price fixed by the government. At that price they all made a loss and the steel pot factories shut down. Lots of people lost their jobs. Moremi still didn't get her steel pot.

So, instead of fixing the price, the government decided to subsidise steel. That too was done without thinking about the full picture. This meant there was no money left to build an important bridge.

No matter what the government did, it ended up messing up things for everyone.

Somebody has to pay for the “goodness” of governments. Most often the poor themselves get hurt in this process. Governments must not meddle with the price system or restrict free trade.

## 7.8 We must participate in government to prevent it from harming us

We can agree that governments are needed for certain things, but we also know that governments need to remain under our control, else it can waste our money and restrict our freedom.

How can we do this? Everyone needs to learn more about what the government does and how it works. It is also important that when you grow up you participate in the democratic process and even try to become a part of government. That way good people can join government and limit it to doing only the right thing.

## 7.9 Beware of government economists!

We have seen that governments often want more and more of our money. Government economists are supposed to tell governments about the things that are not visible to others. That way they are supposed to stop governments from doing the wrong thing.

Unfortunately, some of these economists end up providing bad advice since they may personally gain as the size of government grows bigger. Many of these economists use a term called “market failure”. This happens when free trade is working properly. Sometimes there is a bit of truth in these claims. Government economists often make use of this phrase to support the expansion of government. They end up making excuses for governments to grow big.

Good economists look for ways by which people can be motivated to fix the problem themselves. People need to be very careful about what such economists say. They must learn to think for themselves.

## 8. We are done. You are now an economist.

### 8.1 Well done!

Just like you become a scientist by understanding the scientific way of thinking, you don't need a university degree to call yourself an economist.

By understanding this book you have learnt the economic way of thinking. You now understand why it is so important to think like an economist – in order to see the invisible parts of the world. Very few people understand economics so well as you now do.

You now know why some countries are rich and others are poor. You now know how governments work and how they can be made to work better.

But this is not the end of the journey. Economists keep learning. They don't pretend to know everything. They are good at asking questions and looking through things that people generally overlook. The questions an economist asks include: who are the people involved, how are they hired, how do they get paid, how much do they get paid, what happens when things go wrong, and so on. By asking these and hundreds of others questions, economists can work out whether something is right or wrong.

It is very important to question the government to confirm that it is doing the right thing and in the right way.

### 8.2 What next? The journey to become a great economist

It is not necessary to get a degree in economics to become a great economist but it is important to read and think a lot. I particularly recommend the following books for young people, and it will always be helpful to come back to this book to review the principles.

*I, Pencil* by Leonard Reed

*Economics in One Lesson* by Henry Hazlitt

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*The Pretense of Knowledge* by F.A. Hayek

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