



Economic Myths, Fallacies and Stupidity

That's a stupid question. In the world of economic decision making, there are no solutions — only tradeoffs, where having more of one thing means having less of another. Having one desire fulfilled means having another unfulfilled. For example, there's no solution to our health care issues. Congress' health care law simply substitutes its judgment on the delivery of medical services in the name of helping the uninsured. The tradeoff is that Americans have less of something else such as fewer personal choices, less after-tax income and very likely a lower quality of medical services.

How about the criticism that businesses are just in it for money and profits? That's supposed to be an anti-business slam but upon simple examination, it reflects gross stupidity or misunderstanding. Wal-Mart owns 8,300 stores, of which 4,000 are in 44 different countries. Its 2010 revenues are expected to top \$500 billion. Putting Wal-Mart's revenues in perspective, they exceed the 2009 GDP of all but 18 of the world's 181 countries. Why is Wal-Mart so successful? Millions of people voluntarily enter their stores and part with their money in exchange for Wal-Mart's products and services. In order for that to happen, Wal-Mart and millions of other profit-motivated businesses must please people.

Compare our level of satisfaction with the services of those "in it just for the money and profits" to those in it to serve the public as opposed to earning profits. A major non-profit service provider is the public education establishment that delivers primary and secondary education at nearly a trillion-dollar annual cost. Public education is a major source of complaints about poor services that in many cases constitute nothing less than gross fraud.

If Wal-Mart, or any of the millions of producers who are in it for money and profits, were to deliver the same low-quality services, they would be out of business, but not public schools. Why? People who produce public education get their pay, pay raises and perks whether customers are satisfied or not. They are not motivated by profits and therefore under considerably less pressure to please customers. They use government to take customer money, in the form of taxes.

The U.S. Postal Service, state motor vehicle departments and other government agencies also have the taxing power of government to get money and therefore are less diligent about pleasing customers. You can bet the rent money that if Wal-Mart and other businesses had the power to take our money by force, they would be less interested and willing to please us.

The big difference between entities that serve us well and those who do not lies in what motivates them. Wal-Mart and millions of other businesses are profit-motivated whereas government schools, USPS and state motor vehicle departments are not.

In the market, when a firm fails to please its customers and fails to earn a profit, it goes bankrupt, making those resources available to another that might do better. That's unless government steps in to bail it out. Bailouts send the message to continue doing a poor job of pleasing customers and husbanding resources. Government-owned nonprofit entities are immune to the ruthless market discipline of being forced to please customers. The same can be said of businesses that receive government subsidies.

The ruthlessness of the market discipline, which forces firms to please customers and thereby earn profits, goes a long way toward explaining hostility toward free market capitalism.

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