



MACRO AND MICRO
**Economics
Renewed**

BRUCE KOERBER

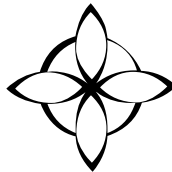
Divine
Economy
Theory

MACRO AND MICRO ECONOMICS
RENEWED

Macro and Micro Economics Renewed

*Books 1 and 2 of the
Divine Economy Theory Core Books*

BRUCE KOERBER



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MORE THAN LAISSEZ-FAIRE

To my wife Jeanne
and to my twin daughters,
Natalie and Leah.

THE HUMAN ESSENCE OF ECONOMICS

Dedicated to my classical liberalism lineage, which is as follows:

- Roger Garrison
- back to Murray N. Rothbard
- back to Ludwig von Mises
- back to Eugen von Böhm-Bawerk

and back to Carl Menger, who rekindled classical liberalism with the
publication in 1871 of

Principles of Economics[10]

“There cannot be too much of a correct theory.”

—Ludwig von Mises

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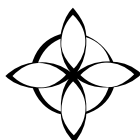
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I

MORE THAN LAISSEZ-FAIRE



Introduction: Economic Vim And Verve

Imbibing Knowledge, New and Old

PREFACE

As we walked along the path that took us into the forest we came upon a clearing and in the middle of the clearing was a fire burning in a fire pit. Drawn to it we approached this 'life force' with heartfelt interest, pausing reflectively and feeling inspired; suddenly resolved to try to make sense out of this world of ours. It was this resolve, this new quest, that was exceptional and it exhibited in us a strong sense of vitality.

Apparently we must have imbibed a spirit of enthusiasm from exposure to this 'life force' energy. With conviction we now determinedly realize that it is time to explore reality further. Filled with enthusiasm, and combining it with knowledge and wisdom, we take it upon ourselves to transform our quest into a journey. It is along this journey where new ideas are expressed and encapsulated into theory.

THE DISCOVERY

Our journey is a journey of discovery. What is remarkable is that without even taking a step we discover wonders that are awesome. The economy is everywhere. It is all around us and it is in us. Its pervasiveness is remarkable.

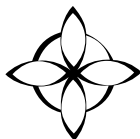
Additionally we find great potency and exuberant vitality at each point where the economy becomes manifest. To act is to bring into existence something new which coalesces with everything else that already exists. This powerful force is part of human life.

And yet few of us realize what is at our fingertips. With what enthusiasm should we embrace this inherent power that is our birthright? If we can get past being overwhelmed by such a thought then we can truly begin to appreciate this creative force. It is the mirror image of the creative force that brings together the letter B and the letter E to form the word 'BE' and it is!

THE CYCLE

The journey is part of our evolution and it is part of our maturity. What we discover during the journey is both the old and the new. From our vantage point it is the past that gives us footing, and it is the new reaches we make that take us towards the summit. But this perspective—the recognition that we are at a vantage point—is a sign of the times. We are at a special point in the cycle of human affairs.

The fact that the divine economy theory is now discovered is evidence that we are in a new cycle. At the same time this new cycle has a nature about it that requires a new theory. Reciprocally then, the discovery of the divine economy theory and the need for the divine economy theory are both important in this cycle, in this particular era of human history.



Chapter 1

Divine Economy Theory

Its Germination

PREFACE

Encapsulated within the shell of the seed coat is the theory of economics. It has set there for ages and is in direct contact with the earth and the earthly conditions. Those seeds that were not viable succumbed to the oxidizing forces of the earth. Among the viable seeds there were two kinds remaining: the weeds, and the true seeds of economic science. We want to discard the weed seeds and we want to understand the organism of true economic science, as set forth in the divine economy theory.

ACTIVATION

We will start by asking the question: What would it take to bring together the theory and the reality of the economy? The answer lies in a process similar to germination, a process which has been activated by the great forces at play in the world right now. Knowledge in the garb of newness perceptibly exists. It attracts our attention because we are remarkably entrepreneurial in spirit. At that instant a new germ begins to grow and the vital process within it has an inherent nature that transforms itself and its surroundings. Then this new and transformed knowledge of reality finds its way into theory, hence there is a union here between theory and reality.

How can our current plight and the past plight of humanity be reconciled with the human potential for good? Of course no one thinks

that humans are perfect. Errors and mistakes are clear signs of imperfection. However, relative perfection is possible and this degree of perfection occurs most readily when the flow of information is optimal. In our search for perfection each of us is attracted to those things that bring about human prosperity, which in essence is the equivalent of the 'expression of oneself.'

New insight into the economy will come shortly—as it is presented in this book—and these insights will reveal new possibilities. What has to be assumed so far from these introductory remarks is that what has germinated is a mighty apple tree that will grow stronger and stronger. And its branches will provide a sheltering canopy. The further along in its developmental stages the more it alters its own surroundings which then becomes a key feature in and of itself. As it matures its vitality becomes increasingly evident and significant.

ECONOMICS TO THE CORE

The origin of the economy is intricately intertwined with the origin of man, which is ancient and even still a mystery. It taxes all the discerning powers of historians and archeologists to discover the origin of man. Why does this veiled past have anything to do with the economy? The premise of this book is that the economy is a uniquely human institution and that without the human being there would be no such thing as the economy. Speaking in these terms it is obvious that they both appear and evolve concurrently.

The intimately woven fabric composed of both humanity and of the economy necessitates a deep examination into the nature of mankind. What we find is that the human urge to act is irresistible, and that human action stems from the same source as human reason.

Although rudimentary in the early stages of development, the early actions taken by primitive human beings were very much of the moment and yet they were also important agents of transformation. Notice the dynamic here—the spontaneity between the act and the transformation—a dynamic that conveys great meaning. One does not exist without the other and yet each spark of interplay reveals new possibilities. It is then this cumulative effect of human actions and the subsequent transformation, taken throughout time and across time, which brings to us the modern economy.

A moment of reflection is now needed for us to be able to discern what is real and foundational. As I just mentioned, the economy is a uniquely human institution. Since the human being can dwell in the world of relative perfection or imperfection the potential then exists for the economy to be in one of two states. If the higher nature of humanity is realized then the institution (the economy) that is a tool for the expression of human action will itself be elevated and celestial. Frankly, it is the divine nature of the human being which is his true reality and therefore it can be deduced that the highest potential of the institution of the economy is divine.

What is the current condition of the modern economy? It is true that the modern economy carries the cumulative effect of human actions taken over time. Errors from economic ignorance have accumulated, consequently along the way unnecessary burdens have been added. These add weight and bulk, since after all, the burdens are cumulative.

The metaphorical divine charger, because of these cumulative burdens, cannot traverse the span of contemporary history nimbly and ably. It may stumble. It may have to reverse or change courses. These burdens slow the arrival of the triumph of prosperity, which is our birthright provided we recognize and endeavor to attain our divine nature.

We must sort out the reason for the burdening or weakening of the institution (the economy) that serves to bring about our betterment. Understanding human nature sheds some light on the subject. The will to choose the higher perfections versus choosing the imperfections of our lower nature is at the crux. It turns out that ego-driven intervention is the best economic example of humans exercising their lower nature. Just as metal oxidizes and becomes corrupt, so too the economy deteriorates when it is corrupted by intervention.

THE NATURE OF THE ECONOMY

Herein lays the beginning of the problem that needs to be dealt with using economic science. The economy which is viewed as a human institution, has not been seen up until now and as I propose, as divine. The economy has a pure form to be striven towards.

How do we know what the uncorrupt economy looks like unless it is seen as having a pure form? Those who recognize that the economy

operates perfectly well independently hold “laissez-faire” up as the pure form. But they have not made any connection to the divine nature of the human being as an essential identity. This is a new thought and is worthy of consideration.

Granting that the economy is divine implies the following: that the actors are seen as expressive agents of the will of mankind, that there is no omniscience within the realm of human policy-making that can even minutely compare to the divine expression inherent in the market, and that the market is not a product of human design. The market is a divine institution that emerges spontaneously from human action. It is a social institution that forms for the sake of production. The market is the time and place where the convergence of all of this useful information transpires and where it is discovered.

THE MARKET PROCESS

Every exchange takes place in a market which makes clear the point that the word ‘market’ is most certainly universal and almost infinitely broad. As stated with eloquence by Mises:

Choosing determines all human decisions. In making his choice man chooses not only between various material things and services. All human values are offered for option. All ends and all means, both material and ideal issues, the sublime and the base, the noble and the ignoble, are ranged in a single row and subjected to a decision which picks out one thing and sets aside another. Nothing that men aim at or want to avoid remains outside of this arrangement into a unique scale of gradation and preference. The modern theory of value widens the scientific horizon and enlarges the field of economic studies. [19, p. 3]

It is clear then that subjective values are within the realm of economics. When an exchange does occur it is based on the knowledge-at-hand by the actors—the buyer and the seller. The knowledge-at-hand is relative and imperfect, yet at the same time it is fully coordinated within time and space. In other words, it could not be made more perfect as evidenced by the willingness of both the buyer and the seller to consummate the exchange, free of any coercion to do so.

There are those who object to the imperfect knowledge of the actors, insisting that they would have made a better decision if they had perfect knowledge. This objection is certainly naïve and contrary to the real world. Human beings are neither omniscient nor omnipresent. They cannot grasp all that came before nor do they know the future with certainty. All actors in the economy have only partial knowledge.

The “single mind” that has all knowledge does find expression in this new concept of a divine economy. It happens through the instrument (the market) nestled within the divine institution (the economy) bestowed upon mankind. In other words, the unique instrument of human expression that forms as the foundation of economics is the market.

Human planners of the economy are hopeless failures and can be more aptly described as oppressors. In the real economy (the divine economy) there is a ‘central planner’ who is all-knowing and all-seeing and perfectly just. It is God.

God is the creator of the economy as a human institution and His design allows the fullest expression of human diversity. In the divine economy there is decentralized planning to the n th degree, where n represents each individual or business entity that is actively interacting within the market process. The economy changes as the human race changes and yields its promised fruits conditionally—depending upon whether the current state of affairs exists as either a hampered or an unhampered market.

The state of affairs at any point in time reflects the spiritual maturity of mankind and the corresponding condition of the economy. As mankind, as a whole, matures he increasingly cares for himself and for others. The economy always fully serves at the level it is capable of as an institution with divine potential, but unfortunately it has historically been significantly constrained by human intervention.

Like all institutions the economy has the appearance of structure. Its structure in its pure form is the market, free from political intervention. The closer the economy is to a free market the greater its capacity to be a full expression of a divine economy.

Remember that there is interplay between the human actors and the market itself. There is a commingling of these two divine entities and both benefit from this dynamic process of discovery. Also there is a transforming power in this divine encounter.

This transforming power is perhaps the most essential element of the divine economy. There is a divine power—the power to transform the resources bestowed upon us into goods and services and which then enables us to serve one another as a tribute to our loving Creator.

MORE THAN MEETS THE EYE

The divine economy has the power to awaken us to our own potential, which finds expression in service to one another and to our loving Creator. That is why the progress of humanity, even for us as individuals, depends on a free market. Likewise, the discovery of the merits of the divine economy depends on the educative process—significantly derived from the market experience itself—from which proceeds the ever-advancing progress of humanity.

The critical need is to bring all of these processes of the divine economy into the realm of science. Here the groundwork has already been laid by the great minds who have described the methodology of subjectivism and who have expounded upon praxeology—which is the study and logic of human action. This great scientific heritage pays tribute to monumental thinkers such as Thomas Aquinas, Carl Menger, Eugene von Böhm-Bawerk, Ludwig von Mises, Friedrich von Hayek, and Murray Rothbard. From their work and the work that continues along these lines there is a scientific foundation that provides the tools needed to test and to advance the understanding of the processes at work.

Since human beings act purposefully the power to make the divine economy manifest rests with each individual. It rests; it resides, and becomes evident in these individual actions. Mises writes:

As long as a man lives, he cannot help obeying the cardinal impulse, the *élan vital*. It is man's innate nature that he seeks to preserve and to strengthen his life, that he is discontented and aims at removing uneasiness, that he is in search of what may be called happiness. [19, p. 882]

The power to make the divine economy manifest comes from the invisible world of thought and reason and enters the visible world through purposeful action. Since no action occurs in a vacuum each action becomes a part of the educative matrix of all actions, all of which follow the same subjective processes.

What is incredible is how the subjectivist methodology of classical liberalism allows the merging of science and religion. This subjectivist methodology can be used to discern the essential laws that apply universally to human beings when they are at the threshold of action, whether that act is an act of faith or a material act. These universal laws ultimately underlie our quest to know and to understand.

We are educated and we make advancements by the insights gained during our quest for understanding. In the realm of faith our souls progress and our nature becomes more divine. In the material realm we become more tuned in to how our interconnectedness with others can bring prosperity and how we benefit personally from that prosperity.

It is not something that we may even have to consciously make decisions about. It becomes, in a sense, just a realization. This parallels a statement attributed to the British mathematician and metaphysician Alfred North Whitehead, as quoted by Hayek, “Civilization advances by extending the number of important operations which we can perform without thinking about them.”[5, p. 528]

The divine economy is not separable from human civilization, nor is it separable from the advancement of human culture at the individual or societal level. The divine economy operates in accordance with the Will of God and it is a vehicle for the expression of the will of man. The implication of the divine economy is that there are laws and that there is order.

The power within and without the divine economy is beyond our grasp. Yet throughout history men have sought to grasp it. Examples throughout history abound. For the short while and ephemeral period that the power-hungry clutched the economy their illusion of control corrupted them, and the economy became distorted and diverted, leading to the suffering of many both near and distant. Ultimately the destiny of mankind was slowed by their intervention. Quoting Rothbard:

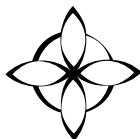
“The hidden order, harmony and efficiency of the voluntary free market, the hidden disorder, conflict and gross inefficiency of coercion and intervention—these are the great truths that economic science, through deductive analysis of self-evident axioms, reveals to us.”[13, p. 1124]

There is only One Being omniscient enough to see all that happens in the market matrix and only One Being that is not wholly

dumbfounded by what human minds see as uncertainty. The economy is divine, it is God's.

The economy provides channels through which the grace and bounty of God flow. According to the divine economy theory, the economy (itself a divine institution) is reciprocally a part of the human operating system. The sooner we learn this and trust this the sooner we can learn how to use this institution to bring about peace and justice.

The divine economy is here for our benefit. It forces us (acting man) non-coercively and by the tendencies of the forces of equilibrium to refine ourselves internally (heart and soul, spirit and intellect), and externally (human and non-human resources). And so it is that the equilibrium forces referred to in this book as the 'divine economy' direct our refinement.



Chapter 2

Divine Economy Model ©

Organic and subjective and splendid!

PREFACE

Our journey has now brought us face-to-face with another 'life force.' Unlike the fire encountered in the forest, this 'life force' is organic and subjective. Yet it is similar to the fire since it, too, is splendid. It is organic because of its symmetry and reciprocity and because it manifests characteristics of life. Its life-likeness is directly attributable to its DNA and its RNA; that is, to its foundation and its operation, which rest upon subjectivism. From this subjective nature we see what can fittingly be described as dynamic splendor.

THE CODE

Shortly I will begin to present to you a graphical representation of the divine economy model. But before we begin examining the model we will want to understand the conceptual basis of what is called the Cartesian coordinate system. In mathematics the applications of the two dimensional coordinate system and of the three dimensional coordinate system appear to be very empirical. Despite being used mostly for empirical work the Cartesian coordinate system is not restricted from more conceptual applications, as proven when it is expanded to higher dimensions, for example, the fourth dimension, the fifth dimension or even to the n th 'degrees of freedom.'

I take advantage of the conceptual potentialities of the Cartesian coordinate system and use it as a part of the design of my subjective

model. Just as the higher dimensions are abstract I make all of the dimensions of my model abstract. Referring to the Cartesian coordinate system, Bernhard Riemann in 1854 described the value of this abstraction: “Abstract studies such as these allow one to observe relationships without being limited by narrow terms, and prevent traditional prejudices from inhibiting ones progress.” In my model the two dimensional system is subjective or ‘abstract’ as is the third dimension and the fourth dimension and the fifth dimension, in other words, my model is five dimensional.

THE CONCEPTUAL MODEL

Now I will introduce the divine economy model to you. As the model is presented; its interconnectedness, reciprocity and symmetry will be discussed. One analogy that may prove useful is that of a complex organism made up of components that are more or less differentiated. Ourselves, we are made up of systems and organs and tissues and cells. Likewise the divine economy model has universal laws, foundational elements, concepts, and principles.

The center of the model is its reality and essence, summed up using the words ‘divine economy.’ These two powerful words clearly state the vital perspective of this model. These two words efficiently convey the source and the dominion. The implication here is far more magnificent than *laissez-faire* which merely suggests ‘not to meddle.’ The implication here is that the economy is above and beyond our human understanding and that it can be and is corrupted by human intervention alone.

The divine economy is both pervasive and subtle and its dominion reaches everyone in their daily affairs. It is basic and connected to the necessary acts of every man and woman and by its conveyance of information it allows people to function.

THE TWO DIMENSIONAL MODEL

Just as there are four cardinal directions; a north and south and east and west, the organic divine economy model has four petals. Gleaned from the knowledge and insight of many great thinkers I chose the following petals for the model: human spirit, transformation, law, and order. What we have is the model in its simplest form (see Diagram 2a).

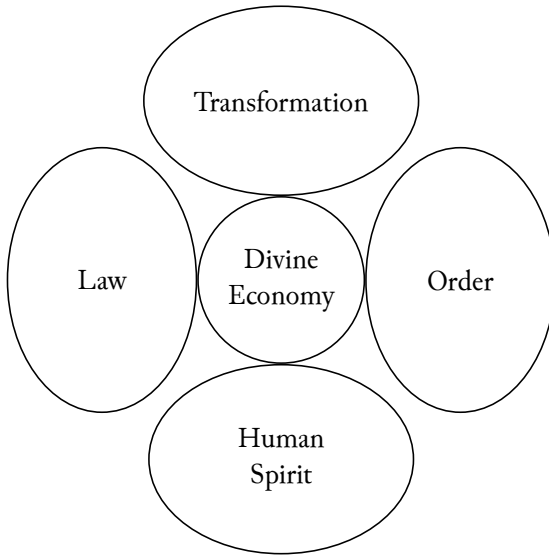


Diagram 2a: Anatomy of the divine economy

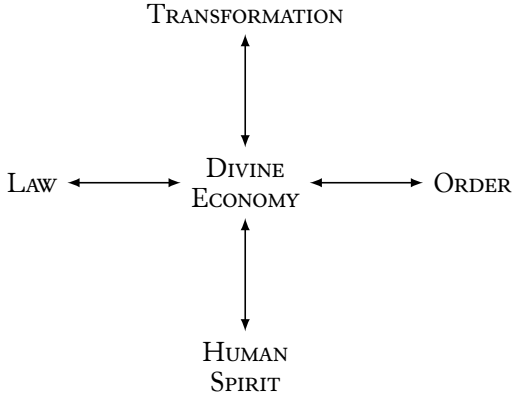


Diagram 2b: Skeletal structure of the divine economy

To the model we then add reciprocity and symmetry (Diagram 2b). From now on you will notice arrows on both ends of the lines to represent reciprocity and symmetry. The element of reciprocity adds the dimension of mutual exchange. Another way to describe what happens during an exchange is to see exchange as the fulfillment of

the double inequality of wants. I want what you have more than what I have and you reciprocate those feelings, therefore we exchange.

Proportionality and relativity manifest themselves in the world via the element of symmetry. For example, as transformation within the economy increases the other vital elements of the economy also increase and the economy as a whole increases. The model now becomes what is seen in Diagram 2b.

In this form the functionality of the model begins to emerge. It has a dynamic nature. Every point is relative to every other point and every understanding gained causes movement, advancing civilization.

To continue to improve the functionality of the model more scientific elements of the economy are added. These economic elements were discovered by great thinkers in the tradition of classical liberalism. These certain points of focus are added to the skeletal structure as intermediary potencies.

To the skeleton we add more substance making the model more realistic and bringing it to life. To the human spirit appendage we add action, purposeful action. To the transformation appendage we add capital structure. The law appendage fills out nicely with property rights and it is the market that beefs up the order appendage.

With this added substance, as shown in Diagram 2c, it begins to become evident to us how the model neatly incorporates the intermediary elements that make it operational. Using the analogies of a skeletal structure and appendages reminds us about the organic nature of the model.

This is the highest form of the two dimensional model and this is where the model begins to become complex. We will have to take a step back and examine more deeply the foundational components. Then the extremely potent intermediary elements will need to be explored.

Going back to the skeletal structure of the divine economy in Diagram 2b it is easy to see how interactive and cumulatively interactive it is. The human being has a nature that is subject to illumination. It is the human spirit that reflects that reality. Transformation is the illumination that takes place and this all comes about because we encounter the human spirit of others, directly or indirectly. The world is not a vacuum, people learn from others and from their environment.

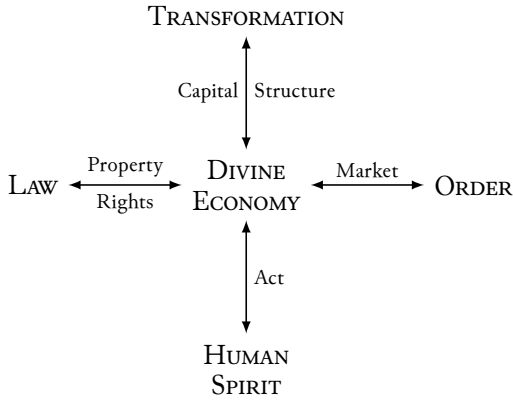


Diagram 2c: Modus operandi of the divine economy

The world has structure and incorporating structure into our lives creates order. Transformation is furthered by discovering the operational laws of that order. Completing the circle, then, the human spirit is illuminated by the transformation that has taken place.

The dynamic interaction of all of these interrelated elements is certain. Already it is clear that the complexity of the divine economy is mind boggling. We have to trust in its divine nature and content ourselves with understanding bits and pieces, ever humbled by the infinite greatness of the divine economy.

Now moving on to the more complex model in Diagram 2c—the modus operandi of the divine economy—we need to spend some time educating and re-educating ourselves about these intermediary elements. It would be inaccurate and naïve to pretend that there is a common understanding of these four elements in the economic literature or in the minds of most readers.

The four scientific elements that make up the modus operandi of the divine economy are property rights, human action, the market, and capital structure. These are potent forces which universally permeate human life on this planet!

Placement of these intermediate elements into the model relative to the initial foundational components expands the foundation of the model. The model readily accommodates the fluid manner in which these eight elements all juxtapose themselves.

Property rights interface closely with human action, the market and the capital structure. Property rights are truly foundational and have a strong connection to law in the divine economy since they anchor the economy to the human being. In its most basic and primary expression, property rights are human rights. The existence of a human being grants dominion, and its peaceful expansion toward food, clothing and higher attainments all fall within the domain of property rights.

The human spirit—each one of us as a unique expression of the grace of God—becomes foundational in the divine economy through human action. Human action is the expression of the human spirit, which implies that the human spirit is the locus of communication and serves as a channel for the two-way flow of knowledge.

Understanding that the economy is a uniquely human institution means there is also cognition that the human spirit is where it all begins and human action is where it becomes manifest. Without human beings, whose nature it is to act purposefully, there would be no economy.

There is a saying: ‘It takes two to tango!’ That is what the market is. It is the place where the solitary individual becomes a social being.

By this very broad definition the interaction of parents with their children could even be considered a market. Although an argument could be forwarded against this line of reasoning such an argument does not allow this very important point to be made therefore it serves no purpose here. The purpose of this broad definition is to remove the limiting definitions ascribed to the market and to remove the prejudices about the market.

The market is where individual human action undergoes reconfiguration into a more social entity. This is part of the dynamics between the ‘act’ and the ‘transformation.’ The market is where knowledge flows to and from in a civilization. And it is from this proverbial fountain of knowledge that order emerges. See Diagram 2d.

The three scientific elements just described—property rights, human action, and the market—are inherent and found in full potential in the divine economy. The fourth element differs slightly from the others because of its very strong ties to time.

The fourth element, capital structure, is also foundational. It contains and conveys the knowledge that all things in this world are subject

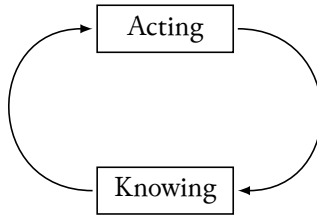


Diagram 2d: Proverbial fountain: part of the transformation process

to the law of time. Capital, the means of stretching production beyond the present, is necessarily foundational also.

Most significantly, of all factors in the economy capital is the most limiting. See if you understand why. Ponder: in the here and now—in the present—we cannot live in the future! That is our limitation. The reason capital is the most limiting is because it is what connects the present and the future in the economy within ‘our limitation.’ It is constrained by uncertainty yet its variation or structure determines the transformation that takes place in the economy.

Since capital is the most limiting factor, the movement or advancement of civilization depends heavily upon the structure of capital. This necessitates, optimally, that the capital structure needs to be a harmonious expression of the market so that it truthfully reflects the will of the people. In the divine economy fully vested human beings find and share knowledge in the market. Part of that knowledge reflects the importance of time which becomes manifest in capital and its relevant structure.

THE THREE DIMENSIONAL MODEL

The next modification of the divine economy model stretches the imagination a little by adding a depth dimension, the third dimension in this model. This can be grasped fairly easily by imagining the modus operandi of the divine economy given in Diagram 2c as submerged in a bowl of water. The water that surrounds and supports the model represents latent and active entrepreneurship. See Diagram 2e.

Entrepreneurship is alertness to one’s surroundings and the knowledge therein. This is nearly perfectly represented by the ‘submersion’ analogy. The water is what surrounds (‘one’s surroundings’) and submersion into the water introduces entrepreneurship. In this

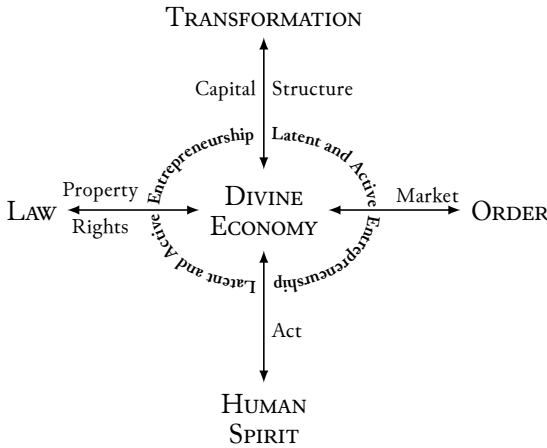


Diagram 2e: The driving force of the divine economy

entrepreneurial condition all that is within (“the knowledge therein”) potentially comes to light.

When entrepreneurship is in the latent state the divine economy and its components are in potential only. When alertness triggers a response the result is active entrepreneurship, which significantly, is the driving force in the economy.

If I am in a latent state of entrepreneurship I may simply buy a product that I like. Or I may begin to actively perceive opportunities and compare and contrast to see what other products are out there to buy or sell. Additionally I may look at the time horizon. I may weigh the various possibilities and decide to save so that I can buy a tractor because of the prospect of improved production, for example.

As an active entrepreneur I may discover discrepancies in the market that lead to inefficiencies and I may take steps to remedy the situation. When in a latent state, the water merely holds within it the divine economy. But when there is active entrepreneurship, energy is released which charges all of the elements in the water.

THE FOURTH DIMENSION

The fourth dimension of the divine economy model enters into the picture by identifying its poles. The divine economy has many

components just like the complex system of the planet Earth which has numerous components such as the water cycle, the ocean currents, the atmospheric forces, geothermal forces, and absorption of solar radiation to name a few. The Earth also can be understood more fully by examining these factors as they are influenced by rotation around its poles.

Similarly the divine economy can be more fully understood when the model includes the poles of unity and justice (Diagram 2f). It is around these two poles that the divine economy revolves. The axis of these poles represents the ‘nature and role of knowledge.’ The implication here—with this axis being centrally located within the model—is that knowledge flows throughout and that it is this free-flowing knowledge that best serves all of the divine economy processes.

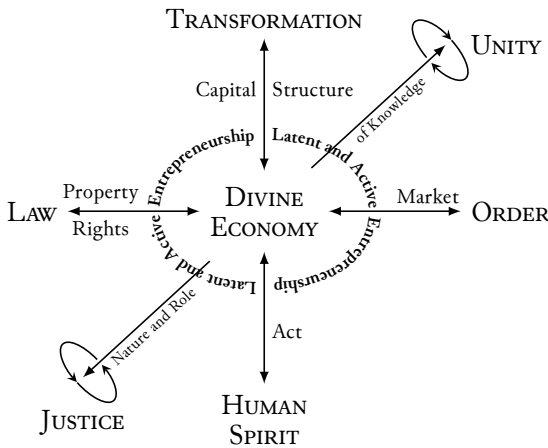


Diagram 2f: The complete Divine Economy Model independent of time

This is a key concept in the divine economy theory. It is the nature and role of knowledge that enables the equilibrium forces to maintain balance and harmony. Intervention by those with finite human understanding strikes at the ‘nature and role of knowledge’ axis—with the consequences being a condition of imbalance and disharmony and a corruption of the divine economy.

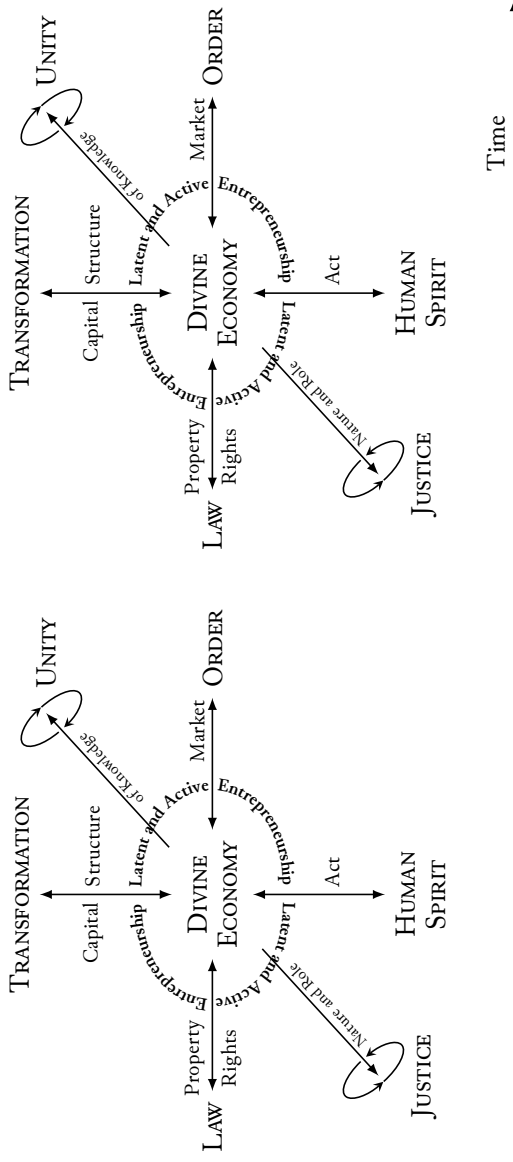


Diagram 2g: The complete Divine Economy Model over time

To clarify the importance of justice, it is justice that inextricably links the interests of the individual and those of society. Justice also implies non-violence and non-coercion.

Elaborating on the pole of unity; the pole of unity shines with prosperity for all. There is now an awareness of the historical and scientific knowledge that shows all of humanity as one people. As far back as A.D. 1573 Bartolome de Albornoz wrote:

Buying and selling is the nerve of human life that sustains the universe. By means of buying and selling the world is united, joining distant lands and nations, people of different languages, laws and ways of life. [3, Ch. 7, 29]

THE FIFTH DIMENSION

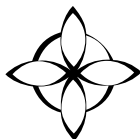
The fifth dimension of the divine economy model brings in the realism of time since there is no realism to any economic model that is static. The dynamicism of all of the elements of the model comes to life as changes take place over time (Diagram 2g).

Now that the complete model of the divine economy is defined we are ready to examine economic production. The Divine Economy Model © is conducive to the graphical and conceptual exploration of production possibilities frontiers, as you will find out in the next chapter.



Selected Exercises

1. What is it that convinces you that the Divine Economy Model © is a subjective model?
2. Explain how all of the elements in the Divine Economy Model © are affected by the equilibrium forces.



Chapter 3

Production Possibilities Frontiers

The Branches of the Divine Economy Model©

PREFACE

The structure of this organic and subjective organism is strong and its framework can withstand the test of time and the tests that come from outside forces. Growth is a main feature and a natural part of the process. Some conditions enhance and some conditions hinder this process. As stewards it is our responsibility to understand what causes growth so we can create a healthy environment for the economy.

A MACROECONOMIC TOOL

Now that the complete model of the divine economy is defined (Diagrams 2f and 2g) we can examine production. Production constraints, in general, are defined by laws such as property rights, by the order given within the market, by transformation that is molded within the capital structure, and by the human spirit which is entrepreneurial by nature and expressed as human action.

To begin we will start with the production possibilities frontier that is the most familiar. By familiar I do not mean readily understood but rather I mean that it is the one production possibilities frontier that has been examined most thoroughly in the economic literature. For example in *Time and Money: The Macroeconomics of Capital Structure*[4, pp. 40-45] Roger Garrison uses the standard production possibilities frontier (PPF) technique to illustrate the trade-offs between capital goods and consumption goods. See Diagram 3a.

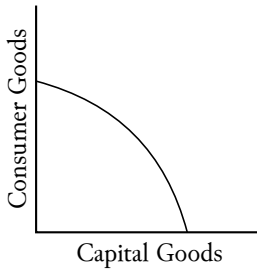


Diagram 3a: The standard production possibilities frontier (PPF)

As you can see it is an ‘either/or’ proposition. More of one ‘good’ comes at the expense of the other. In other words, to have more capital goods it is necessary to sacrifice some consumer goods. The underlying cause is that both have at least some of the same inputs meaning that the output of one channels the inputs away from the other. When we examine Diagram 3a it becomes obvious that the frontier is defined by two axes and these axes are two opposing aggregates. The relative position along the frontier is a net output. Since these are aggregates we are talking about macroeconomics.

It’s now time to see how the production possibilities frontier diagram works. At some point on the frontier the output gain over time from a certain mix of ‘inputs’ is equal to the output loss from channeling ‘inputs’ in the alternative direction. This condition represents a stationary economy, for example, consider an economy where gross investment is offset exactly by capital depreciation. Considering that capital is the most limiting factor in the economy, the consequence is a no-growth economy. See Diagram 3b.

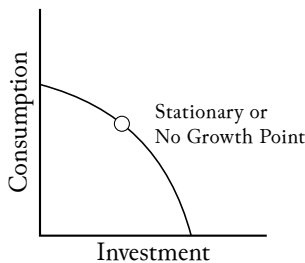


Diagram 3b: Stationary or no growth economy

This point can be viewed as a conceptual ratio of one output to the other. In our example the economy is stationary and at the ‘no growth point’ when consumption (C) = investment (I) in a symbolical sense, written in a shorthand form as the ratio of $C/I = 1$.

Let us now consider the two other economic conditions. If $C > I$ the point on the frontier lies north and west of the ‘no growth’ point. As such capital depreciation exceeds capital investment which weakens the economy. The cascading effect of this condition is economic contraction. Notice the inward movement over time in Diagram 3c.

Since capital structure is an essential part of the transformation process, capital is the most limiting factor in the economy.

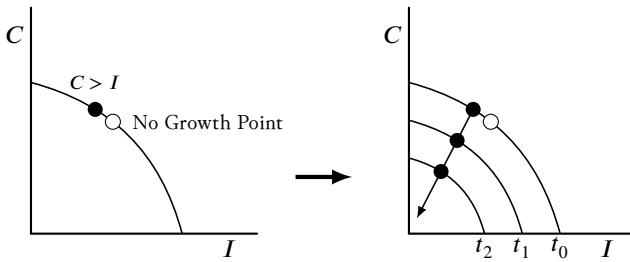


Diagram 3c: Economic contraction

Conversely if $C < I$ the point on the frontier curve lies south and east of the ‘no growth’ point. See Diagram 3d. Since capital is the most limiting factor in the economy the cascading effect of investment being greater than consumption is an expanding economy over time.

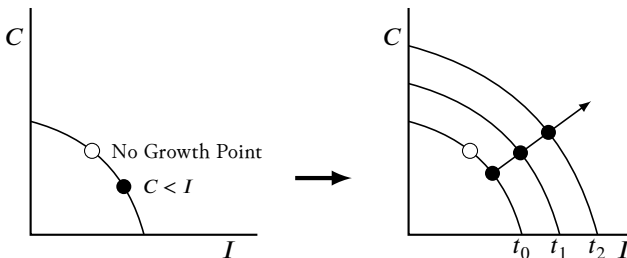


Diagram 3d: Economic expansion

Now the task becomes one of translating the production possibilities frontier into the language of the divine economy theory. Our starting point is the foundational component referred to in the Divine Economy Model© as ‘Transformation.’ The basic economic element of ‘Transformation’ is the capital structure which is also referred to as an intermediary potency. As you can see, not coincidentally, we are now able to connect the divine economy theory directly to the standard production possibilities frontier, and subsequently to contemporary economic literature, via the relationship of consumer goods to capital goods—the capital structure.

TRANSFORMATION ELEMENT OF THE DIVINE ECONOMY MODEL

This first link is sufficient to begin translating the rest of the foundational components of the Divine Economy Model© into the production possibilities frontier format for further analysis. In this first link shown in Diagram 3e (comparable to Diagram 3a) we start with ‘Transformation’ and we find that its production possibilities frontier is like a snapshot taken of the capital structure. Since this ‘Transformation’ PPF is identical to the ‘standard production possibilities frontier’ all that remains to be done is to select which divine economy component to examine next.

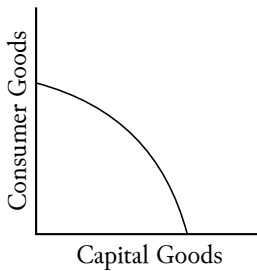


Diagram 3e: ‘Transformation’ production possibilities frontier

So next we will take a look at the most foundational of all of the components of the Divine Economy Model© and that is ‘Human Spirit.’ The economy exists only because humans exist and because they act as humans do. See Diagram 3f.

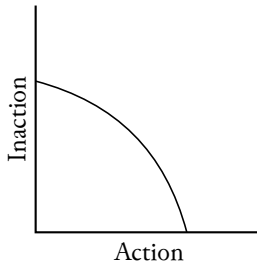


Diagram 3f: 'Human Spirit' production possibilities frontier

HUMAN SPIRIT ELEMENT OF THE DIVINE ECONOMY MODEL

The unique and challenging opportunity afforded us is to further define this frontier by identifying the equivalent point that represents a stationary or 'no growth' economy since such a point exists for all production possibilities frontiers. See Diagram 3g.

Most are entrepreneurially inactive.

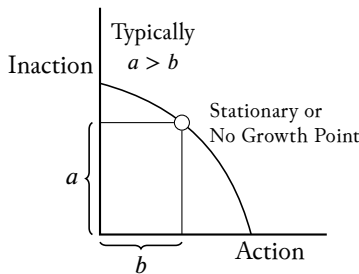


Diagram 3g: 'Human Spirit' no growth point

This 'no growth' point can be viewed as naturally occurring and as part of the response of humans to uncertainty and imperfect knowledge. The paralysis of growth at the 'no growth' point can be understood conceptually as Action = Inaction, in aggregate!

What a strange statement! What it means is that relative to a free market (or an unhampered economy) the inaction is great, so great that actions cannot offset the lost opportunities. For example, intervention increases the degree of imperfect knowledge in the market causing opportunities to be lost.

In contrast, however, if the point on the frontier lies south and east of the ‘no growth’ point, action prevails, which means the human spirit is being fulfilled. See Diagram 3h.

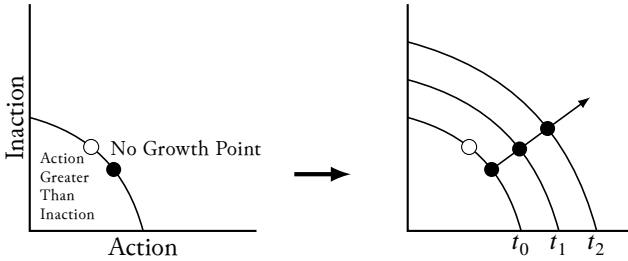


Diagram 3h: ‘Human Spirit’ expanding economy

When the point lies north and west of the ‘no growth’ point on the frontier inaction is greater than action which moves the human spirit in the direction of inertia, which is where the human spirit begins to resemble lower forms such as the animal or even a vegetative state. In other words, entrepreneurship is stifled. What could dampen the human spirit like that? The answer: Anything that creates veils so that uncertainty increases and imperfect knowledge becomes more pervasive and daunting. See Diagram 3i.

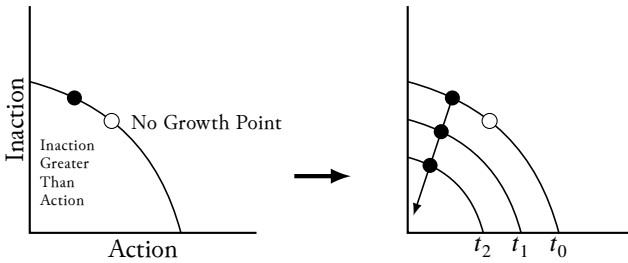


Diagram 3i: ‘Human Spirit’ contracting economy

The next production possibilities frontier illustrates how the potency of the third foundational component of the Divine Economy Model © ‘Law’—whether it is natural law or divine law or man-made law—constrains production.

LAW ELEMENT OF THE DIVINE ECONOMY MODEL

As it pertains to us humans the most basic of all rights is the human right and in the divine economy theory we have the following core identity: human rights = property rights, and its mirror image: property rights = human rights. The point on the production possibilities frontier that represents the stationary economy is where encumbrances exactly offset freedom. See Diagram 3j.

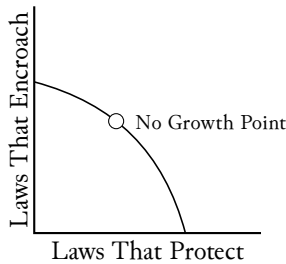


Diagram 3j: 'Law' production possibilities frontier and the no growth point

This production possibilities frontier is useful when contemplating the concept of liberty. If the point on the frontier lies south and east of the 'no growth' point then property rights are increasing and so are human rights and liberty. In an environment such as this the economy expands and people feel prosperous. See Diagram 3k.

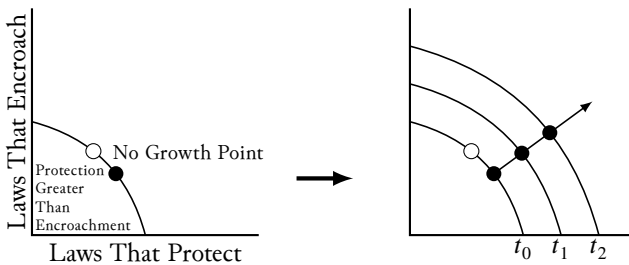


Diagram 3k: 'Law' expanding economy

In contrast, when the point lies north and west of the 'no growth' point on the frontier laws that encroach upon liberties cause their baleful effects on the economy leading to a contraction. As property

rights are whittled away, for instance, the production possibilities frontiers shrink, as shown in Diagram 3l.

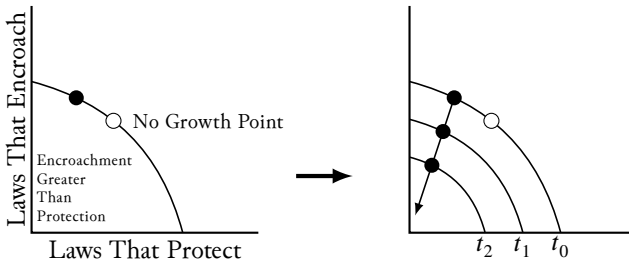


Diagram 3l: 'Law' contracting economy

The final foundational element of the Divine Economy Model © is 'Order.' Consider the different outcomes resulting from a system that has order and a system that is in chaos. It is in this sense that 'Order' affects production as portrayed by the following production possibilities frontier.

ORDER ELEMENT OF THE DIVINE ECONOMY MODEL

What is meant by spontaneous order is the unhampered market guided by voluntary actions. The 'no growth' point on the frontier has sometimes been referred to as a 'mixed economy' where the gains from knowledge flowing in the market are offset by losses that come from arbitrary and erroneous data caused by intervention in the economy. See Diagram 3m. For example, prices that are manipulated when the money supply is artificially altered send misleading signals throughout the market causing at the same time both over-consumption and malinvestment.

One of the great outcomes of the divine economy theory will be an economically literate humanity. Basic to such an understanding is the justice, the ethics, and the optimality of the spontaneous order of the market. A point lying south and east of the 'no growth' point is an example of movement in that direction and the result is an expanding economy. See Diagram 3n.

All interventionists, no matter how well intended, fall significantly short of comprehending the infinitely dynamic economy. Consequently

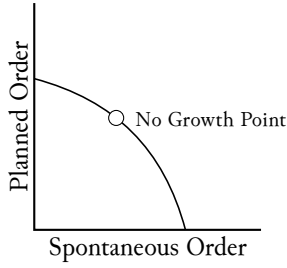


Diagram 3m: 'Order' production possibilities frontier

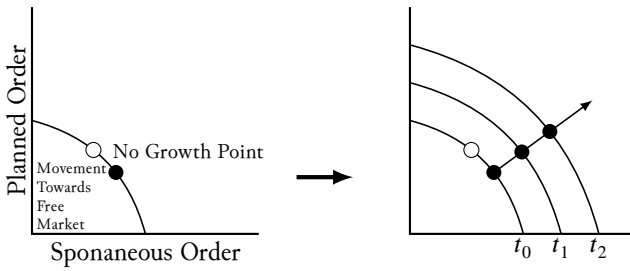


Diagram 3n: 'Order' expanding economy

all planning of the economy moves the point north and west along the production possibility frontier. The long run effects of all planning and intervention, despite the politically motivated short run results, cause a contraction of the economy. See Diagram 3o.

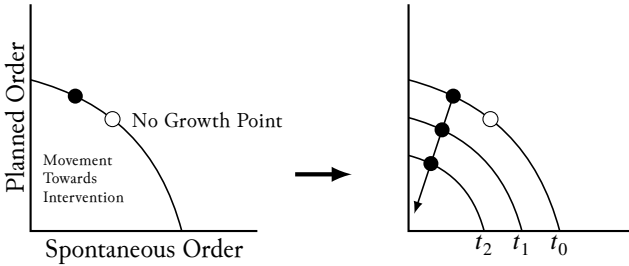


Diagram 3o: 'Order' contracting economy

I will conclude this chapter with a final thought. When conditions are right for an expanding economy the effect is universal. Similarly the effects of a contracting economy are also universal, however, the equilibrium force that is inherent in the economy naturally eliminates the deleterious effects of interventionism once the intervention is stopped at its source. It is cast ashore like the foam on the ocean and discarded as worthless. In contrast, the equilibrium force operating in the expanding economy nurtures in ways described in the divine economy theory, and that leads naturally to an ever-advancing civilization. See Diagram 3p.

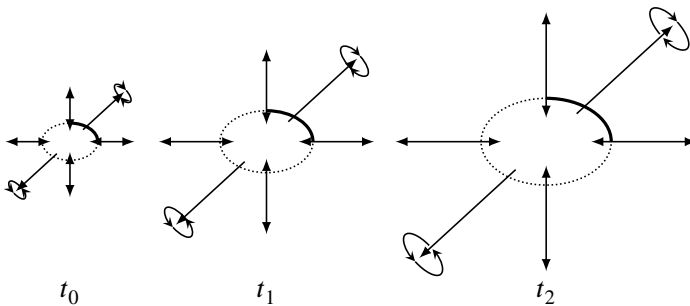


Diagram 3p: Divine economy sphere frontiers of an ever-advancing civilization

This is a good point in the book to bring to your attention the conceptual connection between the production possibilities frontier and

the divine economy sphere frontiers shown in Diagram 3p. Production possibilities frontiers are simply two-dimensional quadrant diagrams.

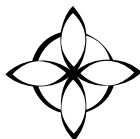
Notice in Diagram 3p the enlarging sphere for entrepreneurial discovery. Relative to the production possibilities frontier of the earlier economy (as it moves from t_0 to t_1 to t_2) there is more spontaneous order (market) and there is more law (liberty). Relative to the earlier economy the potential of transformation is greater and the capacity and potential of the human spirit is increased. Justice and unity are relatively more advanced due to the evolution of the nature and role of knowledge. These are the divine economy sphere frontiers that are a part of the divine economy theory.

And guess what, there is no reason why the relative changes of all of these potentialities cannot continue endlessly. The divine economy releases all of these energies, generation after generation. This is now a proven fact according to and given by the divine economy theory.



Selected Exercises

1. Describe the meaning of the frontiers (t_0 , t_1 , and t_2) in the standard production possibilities frontier and also in the divine economy frontiers (as shown in Diagram 3p) in terms of limited resources.
2. Contrast the difference between planned order and spontaneous order.



Chapter 4

Real World Economic Principles

The Leaves of the Divine Economy Model©

PREFACE

One of the beauties of the whole system is its reciprocity. Part of the wholesome environment that is sought comes from the health of the system itself. Leaves not only contribute to the growth but they also create a favorable microenvironment and eventually add nutrients back into the system, strengthening the roots. These real world economic principles are numerous like the leaves on a tree and their importance cannot be forgotten. Each leaf contributes in many ways to the overall health.

A CANOPY COMPOSED OF PRINCIPLES

With the foundation of the conceptual divine economy model laid out and production possibilities frontiers sufficiently examined it now becomes possible to insert economic principles into the model—fully aware of the interconnectedness of all of the principles. The locus of placement of the principles in the model is arbitrary yet it is logical. The logic of placement into the model can be deemed as a mental exercise, forcing one to examine just how interconnected the economic principles are. I take the liberty to begin the process.

To begin I divide the model into quadrants with a fundamental element on either side of each quadrant. Dividing the model into quadrants then sets the stage for examination of economic principles that have a strong tendency towards the following characteristics:

- A. human spirit / order
- B. order / transformation
- C. transformation / law
- D. law / human spirit.

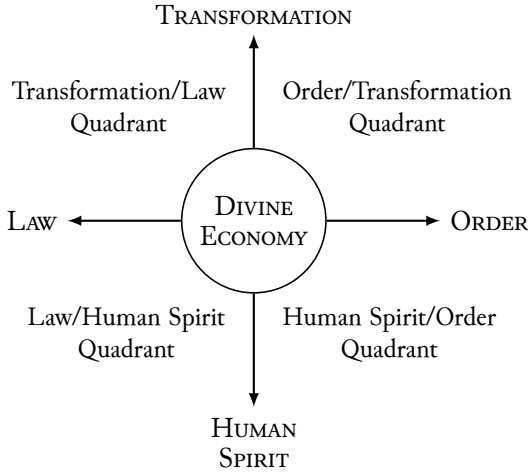


Diagram 4a: Quadrants of the Divine Economy Model ©



REAL WORLD ECONOMIC PRINCIPLES IN THE
HUMAN SPIRIT / ORDER QUADRANT

I have chosen eight economic principles for placement in this quadrant. These are principles that exist in, emerge from, and complement both the human spirit and the social order. They find origin from human action and yet they also inspire more human action. They find expression in the market and are amplified in the market and at the same time they continuously emanate knowledge via the market. See Diagram 4b.

Price Theory

With regards price theory, a good starting point is the law of supply and demand. Accordingly, if the supply of a good or service increases,

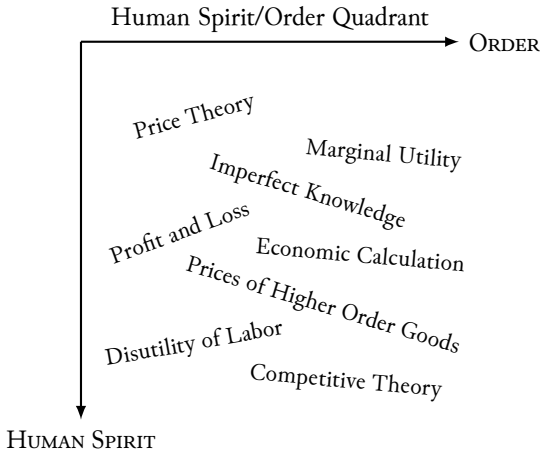


Diagram 4b: Economic principles in the human spirit/order quadrant

then the price decreases. Likewise if the demand for a good or service decreases, then the price decreases.

The price of a good or service in the real world is relative. It is relative to other goods and services and it is relative to the earlier price of that good or service itself which means that the system can be described as a floating price system. In other words, all prices are relative at the time and place of human action in the market. It is exactly that fact, that prices are relative to all others, that enables the price system to play an economizing role in decision-making.

Let us assume that you go to a marketplace with \$100, needing food and clothing and medicine but you find the market in a dysfunctional state—there are no relative prices. Only one price, \$45 for the clothing, is known at the time. Would you know how to prioritize, or whether to buy the clothing or not? A price system absent of relative prices strips the market process of its ability to function.

And now we have come to the point where there is a need to define the market to offset the commonly held prejudices against the market. The market is universal. It is a process where knowledge flows freely. The market is benevolent and its process is profoundly cooperative, and quietly consultative in nature.

The market is a conveyor of information just as is language. The following analogy is useful. Individually I can speak to myself alone or I can more fully use language and speak with others. Undoubtedly the full benefits of language as a human endowment come from its social nature. If I happen to speak vulgarly, language as a human institution should not be attacked as being harmful. In fact, the social nature of language empowers it to have a moderating and refining influence on individuals, thereby lessening the occurrence of vulgarity. The market, likewise, releases the full benefits of the human spirit and all of the associated resources. If someone acts in a crude or frivolous manner it is not the fault of the market. In fact it is the social nature of the market that will tend to moderate and refine individuals, ultimately facilitating the advancement of civilization.

The price system finds expression in the market in the form of relative prices which convey important information. For instance, factors which exhibit characteristics such as mobility or convertibility have a higher value than similar immobile or inconvertible factors. Here is another example: nominal wage rates mean little but real wage rates convey important information about wages since it is then put in terms that are relative to other prices. So even if all prices are decreasing but the wage rate is decreasing to a lesser degree then the real wage rate is actually increasing. The market is the vehicle for conveyance of this valuable information and people make decisions or choices based on it.

Business individuals active in the market assess costs and revenues and continually modify their plans due to the signals that come as a result of changes in demand and supply. These adjustments that are made as prices are influenced by demand and supply demonstrate that the price system is both dynamic and efficient.

Marginal Utility

Closely allied to relative prices is the concept of marginal utility. The market conveys information about the plethora of relative prices of goods and services but ultimately active decision-making by each person resides at the margin. The choice made is ultimately based on the subjective valuation about the perceived gain from the various choices. Whichever choice is perceived to bring the greatest satisfaction and

fulfillment at the margin is chosen. Let us assume that I am very hungry and that I can buy either a pencil or an apple for a quarter. I will readily recognize the greater marginal utility of the apple and buy it.

Imperfect Knowledge

This is an insurmountable and an inescapable reality! As imperfect knowledge is moderated by having some knowledge and having some certainty people make decisions and act.

Part of the uncertainty comes from a lack of information, and the corollary to this is the uncertainty about the other human beings on the planet and their subjective decisions and their actions. The relatively free and immediate flow of knowledge that is the potential of the market ameliorates this condition. Another part of the uncertainty comes from the time element, that is, the great unknown we call the future. The only certainties are: that there are uncertainties, that the world is dynamic, and that the market works best when it is unhampered.

Profit and Loss

Concomitantly there is no certainty and therefore there is no guarantee that any effort made by a producer interacting in the market will yield a profit. It is a simple fact that all exchanges that take place during the market process occur because of a double inequality of values. Will an exchange take place? Exchange occurs only when both parties value what they receive higher than what they give.

Involvement as an entrepreneur has risk because of uncertainty. The nature of the active entrepreneur is to be alert to opportunities, that is to say, to needs not being met or not being met as well as they could be. In the market it is possible that my perception as an entrepreneur is right or maybe it is wrong. It is possible that my perception of the resources that I happen to think are needed may combine to serve the consumer's wants better; or perhaps not.

This is a part of the constant ebb and flow that necessarily results from the uncertainty in the real world. The market encompasses all of the various facets of the economy, such as: profit and loss, entrepreneurship, communication, and knowledge; and the market conveys information in terms of relative prices.

In its earliest appearance in the primitive economy profit or loss was simply the outcome. If I raided a bird's nest I either found food or not. If my effort was not productive my failed effort represented my loss. If my effort was productive the food then profited me. The profit motive is a necessary and inherent feature of the human operating system. As humans evolved and as the economy evolved profits enabled producers 1) to provide wages and other factor incomes, and 2) to be one of the sources of the capital that encourages endeavors with lengthier production times.

Economic Calculation

Implied in the word 'calculation' is a basis of knowledge. It is then from this basis of knowledge that the next step—that of calculation—can proceed. Implied in the word 'economic' is information about the economy, which ultimately then is disseminated via the market.

But first things first! It just so happens that private property is an even more preliminary part of the market than the actual diffusion of knowledge. Values, of course, are necessary for calculation. Material and ideal 'things' are valued and are therefore sought after to be 'owned.' This 'value' is the basis of knowledge for calculation.

The economy is dynamic and composed of many trillions of needs and decisions that often change complexion. The basis of knowledge needed for economic calculation comes from the market in the form of relative prices. These prices are relative to all other prices at the current moment.

The freer the market is the quicker the information can flow and the greater the ability is for it to correct errors. Desires, needs, and resources converge in the market and find full expression in the form of relative prices. Economic calculation involves comparing and contrasting and speculating about the relative prices expressed through the market.

Any attempt to calculate economically using fictional non-market values—values arbitrarily assigned by someone removed from the market—ignores the dynamic nature of the knowledge within the market; which is tantamount to denying the human spirit. Use of non-market values is the reason why vertical production in an excessively large firm results in bureaucracy and calculation error, for instance.

This is also the reason why socialism fails, since it is an ‘error-based institution.’ What is meant by ‘error-based’ is the fact that the prices used for decision-making are arbitrary and imagined, not derived from the market process. These prices are erroneous and all decisions based on them are error-based.

Prices of Higher Order Goods

Not only does the market enable economic calculation but it extends beyond the here and now. The information in the market, the relative prices, also takes into account time. Goods which will reach the market in the future have a present value. And since they have value, so too, all of the resources needed in their production have value. In other words, factor prices also are relative prices.

However, without private property in factors of production there can be no realistic factor prices, and without factor prices cost accounting is impossible. To repeat, private property ownership is vital to the market. The economic calculation needed to realize profits, which pay the wages and factor incomes, depend on it. As decisions are made in the market—between consumer goods and higher order goods—a bridge forms between the present and the future. This bridging of the present and the future in the form of capital structure potentially leads to economic development.

Disutility of Labor

Exchange in the marketplace/market-process only happens if both parties feel that there is a gain. When an individual wishes to sell his services in the market he (she) checks to see what the relative prices (wages for example) are and then he must decide if the income is worth more than the alternatives, including leisure. What I mean by leisure is: whatever you would do instead of work if that was a choice that you could afford.

However, if leisure is subsidized in any way then less of the labor factor becomes available, which reduces the productive capacity of the economy and sends waves throughout the economy like ripples emanating from a pebble dropped in a pond. If leisure is subsidized then relative prices throughout the economy will change, leading to

a cascading of aberrant decisions. Such is the plight and blight of the 'welfare economy.'

There is nothing wrong with disutility of labor determining whether there is an exchange in the market as long as it is a true expression rather than one distorted by subsidies. There is nothing wrong with the disutility of labor; in fact, the disutility of labor is actually a motive force. It inspires alertness to choices and alternatives. Indeed, disutility of labor underlies entrepreneurship and it also underlies capital.

Competitive Theory

The natural tendency for humans is to make progress. That is what is implied in the act of exchange since exchange only takes place when both parties perceive a gain. This searching and questing and striving is part of the human operating system. That is not to say that there is not disorder in the economy, like the example just given about the disorder resulting from subsidizing leisure.

Making decisions at the margin, based on the relativities, and comparing where you are with where you want to be is natural and it is a human quality. Striving for excellence and refining oneself and one's circumstances are meritorious expressions of this human trait. The knowledge that flows from the market-process provides the individual with 'data' in the form of relativities. Judgment about what is available, what possibilities exist, and about one's current condition, hinge on information available in the market.

Competition in the market is not a negative like it is in the animal world where 'survival of the fittest' is the outcome. The economy is divinely at the service of mankind. Competition in the market among producers leads to new and better goods and services and better means of production. With this advancing prosperity there are no long-run losers.

Currently, corruption of the divine economy by ego-driven manipulators directs wealth towards favored ones and away from others. This human intervention hampers the divine economy and is what causes 'the rich to get richer and the poor to get poorer.' In contrast to the hampered economy created by the interventionists, the net efficiencies that come from competition in a free market benefit everyone.

*Human Spirit / Order Quadrant Example—
Disutility of Labor*

At a basic level each human being can distinguish between the ease or difficulty of the life task ahead. If a person is given the choice, that person will always prefer the easier of the two means of attaining their ends—as long as the task is not a recreational challenge or a personal development goal. What appears to be a non-productive urge—choosing the easy way—is actually a positive force. Disutility of labor is a sign of intelligence. It is a motivating force that leads to innovation. It inevitably causes advancement and progress.

Disutility of labor, despite being an underlying law of purposeful action, has been corrupted and turned into a negative characteristic in the economy under the current system of intervention. For instance, why work when your basic needs are met if you don't work? Or, why provide excellent service when you get paid the same either way, plus you cannot lose your job? These distortions caused by interventions pervert the inherent power of this economic law that is an inherent part of purposeful human action.

Human Spirit / Order Quadrant PPF Example

Developing production possibilities frontiers for each economic principle has never been done before! It requires contemplation and identification of the active principle and its antithesis. Let me take you through the thought process. A good place to start is to identify the meaning of the 'no growth' point. In this example—disutility of labor—the 'no growth' economy occurs when, in a relative sense, the aggregate satisfaction resulting from compensation for being non-productive equals the satisfaction resulting from compensation for being productive. See Diagram 4c.

If in aggregate the lack of productivity is rewarded the economy will contract as shown in Diagram 4d. This is why 'welfare economics' is counterproductive.

For those who say that 'welfare economics' is compassionate the end result is far from compassionate. A contracting economy, which inevitably results from this type of economic intervention, offers less goods and services, less employment, and lower standards of living. All

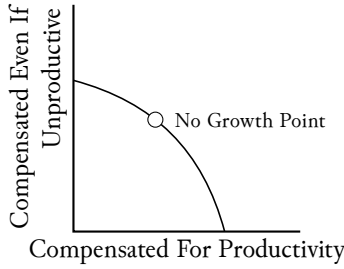


Diagram 4c: 'Disutility of labor' production possibilities frontier

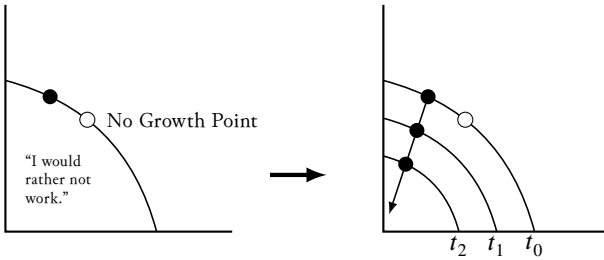


Diagram 4d: 'Disutility of labor' contracting economy

of this translates into increased human suffering so do not believe the 'so-called compassionate' ego-driven interventionists! See Diagram 4d.

Whereas this principle of the Human Spirit/Order Quadrant—disutility of labor as it occurs naturally in the divine economy—is an example of finding better ways to do things (Diagram 4e). Notably, it is where being productive is preferred over the tediousness of unproductive methods and habits.

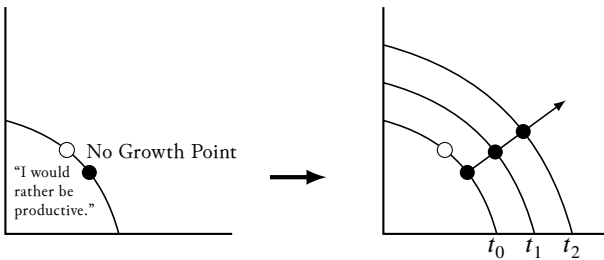


Diagram 4e: 'Disutility of labor' expanding economy

Summary of the Human Spirit / Order Quadrant

The market is a time and place where information about relative prices is discovered. It is also a process within which knowledge flows. Not all knowledge is expressed as a price, but all knowledge is relative, and it is the market where such knowledge is accessible to humans.

The market can be described as unplanned order. It is economic action in the market that creates wealth. For the sake of human enlightenment and for the sake of human prosperity the market needs to be unhampered. Human intervention in the market is inevitably a corruption and a disruption of the divine economy.



Selected Exercises

1. Find and describe a real world example for one of the specific principles in the Human Spirit/Order Quadrant.
2. Develop a series of production possibilities graphs that show ‘no growth’ and ‘contracting’ and ‘expanding’ economies for one Human Spirit/Order principle and describe the axes. Describe how the economy is affected if this economic principle is either understood or misunderstood.



REAL WORLD ECONOMIC PRINCIPLES IN THE
ORDER / TRANSFORMATION QUADRANT

I have chosen nine economic principles for placement in this quadrant. These are the principles that find expression in and emerge from both the market and its capital structure. It is through the instrumentality of capital that the order of the market undergoes transformation. Equally symmetric and reciprocal is the vital need for the dynamic flow of information from within the market-process so that capital can exist and its structure can serve everyone’s needs. See Diagram 4f.

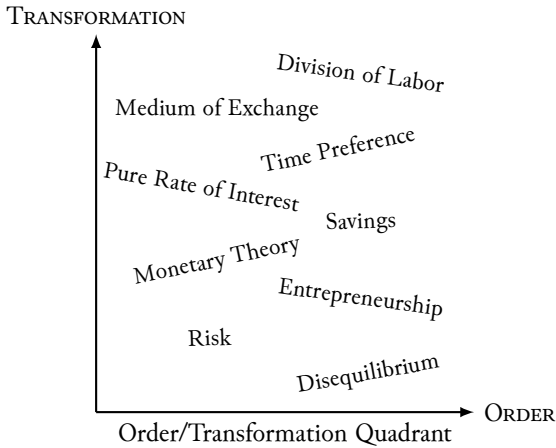


Diagram 4f: Economic principles in the order/transformation quadrant

Division of Labor

Without necessarily recognizing the concept of the division of labor, humans have operated according to this universal law. Praxeology, which can be defined as action logic, identified division of labor as a universal law of human action.

The moment a choice was made for the sake of efficiency there was division of labor no matter how primitive the historical culture. It is difficult to imagine even an early stage in the history of mankind when some degree of this law did not operate. It is as old as humanity itself and it is inseparable from humans.

These steps of efficiency and this production of wealth, this division of labor, is essentially the beginning of capital. Therefore it is a misconception to separate capital and labor since they are intricately interwoven, ‘peas of the same pod,’ and variations on the same theme.

Division of labor is expressed in the market as a type of social cooperation that comes from specialization—physical and intellectual specialization. The idea that the market process is quietly consultative in nature—which is a very high form of cooperation—implies that there is an intellectual division of labor, or in other words, specialization contained in the wisdom of each of the market-process participants. The increased wealth that results from division of labor provides incentive for such specialization.

The existence of division of labor indicates that there is a desire for more goods in the economy. Division of labor brings capital into existence, provides for diverse wisdom to enter the consultative market process, and it generates wealth which provides incentive for even more division of labor. It is an act of social cooperation. Mises concurs:

In a hypothetical world in which the division of labor would not increase productivity, there would not be any society. There would not be any sentiments of benevolence and good will. [19, p. 145]

Medium of Exchange

As the division of labor continued and the economy evolved it was discovered that certain goods were basic to human well-being and therefore commonly sought after. Some of these basic goods were relatively less perishable and relatively easier to transport which made them valuable not only as a commodity but as a means of indirect exchange.

All over the world there were a myriad of mediums of exchange that emerged from different cultures. The most universally accepted medium of exchange that naturally emerged from the unhampered market was gold. It so happens—in contrast—that artificial mediums of exchange instituted by the interventionists are highly susceptible to corruption since they only exist because of a corruption of the natural processes of the divine economy to begin with.

Just as the market historically sifted through the alternative mediums of exchange and settled on gold, the test of a good medium of exchange is that it serves the economy and leads to further efficiencies. Confidence that it has value that cannot be destroyed makes it an effective economic means of traversing the time element. Overcoming this time element in the economy brings with it new and wonderful possibilities.

Once a medium of exchange is in place and universally accepted then all goods and services produced are valued in those terms. This was a major advancement since it made cost accounting possible. Both inputs and the goods and services produced were then in the same terms. From this point forward it was possible to evaluate and to determine profit and loss.

However if there is counterfeiting of the medium of exchange of any kind then the counterfeiters, who have not contributed anything to production, cause the exchange value of the money to decrease. Subsequently, the purchasing power of the money is negatively affected and it falls. The counterfeiters get something for nothing but the productive members of society are ultimately stolen from. This is true no matter who is the counterfeiter, the guy down the street or the central bank. Additionally, counterfeiting undermines the time element efficiency gains that come from having a perpetually good medium of exchange.

Time Preference

Time preference is the praxeological law that explains how humans value time. All humans prefer to have whatever good or service they need, now rather than later. They prefer to have the needed good now so if they have to wait then a premium is assigned to the good. The present good is equal to the same good in the future plus a premium.

Time preference is high or low but always positive. One way of understanding time preference is to recognize that there is always a 'cost' involved with saving until later rather than consuming in the present. It is either relatively high or relatively low. The higher the time preference the higher the discounting applied to the future. If people foresee war or fear for the future they will have a high time preference and will save less. In their eyes it is more costly to save.

If people foresee peace and prosperity on the horizon then they have a relatively low time preference and will be more willing to save. A lower time preference has a reciprocal effect, it brings about a higher degree of prosperity. Let us assume that I see good things on the horizon, like peace and trustworthiness. That makes me feel secure and confident about the future. As a result I will save if I have income greater than my current needs. My savings will then be used to advance prosperity.

Pure Rate of Interest

The premium assigned to future goods relative to the same goods in the present would represent the pure rate of interest at the individual level. The collective expression of this valuation for each culture is the pure rate

of interest. The only way to get a sense of this expression of the cultural time preference is in the market since all real signals are sent within the market. What you find in the market is the market interest rate—which is the pure rate of interest, plus a premium to compensate for the risk incurred over time for the particular endeavor, plus a factor (that is often underestimated) which is an attempt to account for the changes in the purchasing power of the money if the money is being corrupted.

To get a realistic snapshot of the market rate of interest we look at the demand and supply of loanable funds. The amount of loanable funds available represents the supply side. The demand for loanable funds intersects the supply of loanable funds determining the market clearing price, which approximates the pure rate of interest. In brief, in an unhampered economy time preference is a major determinant of the supply of loanable funds and the demand for these loanable funds by entrepreneurs represents the demand side. See Diagram 4g.

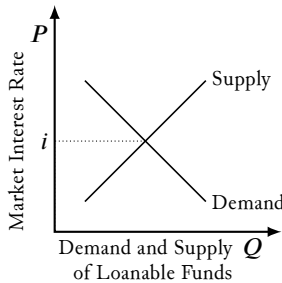


Diagram 4g: Market interest rate and loanable funds in an unhampered economy

Savings

The time element of the economy causes befuddlement among economists and non-economists alike. Savings is simply the allocation of income over time. Most understand that income is allocated among various goods and services in the present. For example, I spend some of my income on housing, food, clothing and entertainment, and that is understood. Expanding on this thought, now in addition to these I also allocate a portion of my income to a time horizon that extends into the future. This is savings. Savings then translates in the economy as loanable funds. The befuddled ones miss this point.

Economic growth is limited by loanable funds. Savings is simply another way of saying loanable funds. It is true that wealthier individuals have a larger portion of their income, in absolute and perhaps as a percentage of the total of their income, directed into some form of savings. These are the funds that people have willingly made available for use, in exchange for a rate of return based on their time preferences. Now, regardless of the current stock of savings and investment, the key to economic development is new and additional savings which releases new capital for use by entrepreneurs in already established and new productive efforts. This is what is meant by economic growth.

The market absorbs and conveys information about the present plus it conveys all of the time element information as perfectly well as is possible. Essentially, the market is in divine order.

It is one thing for the befuddled ones to miss the point that savings is simply an allocation of income over time, but it is quite another and more sinister thing for the befuddled ones to then impose acts of intervention on the market due to their ignorance of what savings is. An example of this would be lowering interest rates to encourage consumption and discourage savings. This act of interference is done because the interveners regard savings as the absence of consumption rather than as the conscious choice to consume at a later time. Intervention into this part of the economy, directed towards reducing savings, is extremely disruptive and it is destructive of capital.

Monetary Theory

Money is a medium of exchange that permits indirect exchange and brings about all the resulting efficiencies. Give consideration to these efficiencies by contrasting them with the awkwardness and impracticality of having to barter each and every time you wished to make an exchange.

One of the defining and determining qualities used when human societies chose its medium of exchange was the stock of money. Typically the medium of exchange was neither superabundant nor was it extremely rare. However once the medium of exchange is adopted in the market, because of its superior qualities and its performance as a medium of exchange, the stock of money is a non-factor. One stock

of money is as good as another. If the demand for money increases it simply causes the value of each unit of money to increase.

Prices of all goods and services are in terms of money so the relativities expressed in the market are maintained, which means that the market functions as always, conveying information about the relative prices of goods and services. The divine economy equilibrates quickly and it instantaneously adjusts itself to each market interaction regardless of the stock of money.

The stock of money circulates in the present and connects the present to the future through savings. Savings represents loanable funds which becomes capital. Capital is what enables people to get paid now for their present services even though the ‘end of the line’ fruit of their work does not make it to the market until some time in the future.

The medium of exchange that is chosen in the divine economy—due to its merits—is universally and voluntarily accepted, partially because it cannot be manipulated artificially. One such example is gold. In other words, no amount of alchemy can create gold out of thin air, which means that there is no such thing as a business cycle in the divine economy. God does not play games with the economy or with mankind. However, the interventionists are playing a monetary game with the economy by manipulating the stock of money. One of the most visible consequences of their intervention is the repeated occurrence of a business cycle. It is the mismanagement of the monetary system by ego-driven interventionists that causes these business cycles.

Entrepreneurship

The spirit of entrepreneurship is uniquely human. It is the quality of being alert to possibilities. It is the driving force in the economy and it has origins in the disutility of labor. Even though all human beings possess various degrees of capacity for entrepreneurship most of the time for most people it is only a potential, resting in latency.

It is the interactions that take place in the market, the sparks of information there, which activate entrepreneurship. The most active entrepreneurs intentionally go to the market in an alert state methodically seeking arbitrage or other opportunities. They systematically seek prospective differences between revenues and costs in excess of the

natural interest rate, taking into consideration price expectations. Some active entrepreneurs just happen to be at the right place at the right time but afterwards quickly return to latency.

There is some active entrepreneurship that is a response to a ‘gut feeling’ and some that comes from systematic calculation. Both are responses to opportunities perceived from the market information. The chances of success—yielding a profit rather than a loss—are greater when the entrepreneur has systematically examined the possibilities for profit or loss before taking action.

Regardless of whether it comes about from relative novices or experienced entrepreneurs the market process is driven forward by entrepreneurship. Opportunities are sought after and found. As described by Kirzner:

The entrepreneur’s activity is essentially competitive. And this competition is inherent in the nature of the entrepreneurial market process. Or, to put it the other way around, entrepreneurship is inherent in the competitive market process. [8, pp. 16–17]

None of this happens in a risk-free world of certainty. In fact the exact opposite is the reality. What an entrepreneur may discover to be an opportunity may never materialize. What seems like good timing may fail in real time. Or to the contrary, the timing and magnitude and location of an endeavor may indeed satisfy the wants and needs of consumers significantly more—just as alertly discerned. Profits and losses are regulating forces and both are inherent in the market. A market that is uncorrupted by intervention—that is, a free market—allows the entrepreneur to most clearly perceive the signals needed to serve all of our needs.

Risk

Risk is an inevitable part of the economy because there is uncertainty and imperfect knowledge. But there are market equilibrating forces that moderate risk. Savings, for one, serves to mollify risk since savings can be used to meet an immediate need or it can be directed toward production for the future. If risk is of an actuarial nature then purchasing insurance will lead to a reduction of risk.

Entrepreneurs take on the role of major risk-takers and relieve others of that burden. Additionally, there is the likelihood that many of the entrepreneurs are skillful and have gained wisdom from their experiences, which skews risk towards success, lessening the degree of risk. For instance, entrepreneurs skillfully calculate economically using market information about relative prices, revenues and costs, and the availability of capital, which adds systemization and discipline to the decision-making process.

Finally, the level of charity that a society has reduces risk accordingly. If people care about one another they will give assistance when the unpredictable leads to misfortune. This lessens the risk for those affected by dire circumstances.

There is enough uncertainty and risk in the economy without more being created by the interventionists. The claim is made by those who interfere with the economy that they are reducing risk. What that actually means is that they are trying to reduce the risk for some particular favored group.

These ignorant or ego-driven interventionists do not and cannot fathom all of the negative consequences that result from their acts of interference with the market forces. Their disruption of the market process, in and of itself, increases risk for everyone, even the “protected” and favored groups. Everything becomes riskier in a hampered economy since the flow of knowledge is impeded.

Disequilibrium

The fact that there is always uncertainty and imperfect knowledge implies that the economy is constantly in flux. Errors are inherent but fleeting; are followed by fleeting inherent errors again, and so on and so on. The equilibrating forces that operate in the market—one of them being entrepreneurship—constantly purge errors.

The forces underlying demand and supply move the economy towards equilibrium. Never is the economy in equilibrium but it is always tending towards it. Disequilibrium, with powerful tendencies toward equilibrium, is the norm. If errors persist and linger that indicates that the error has become institutionalized and to some degree impermeable to market forces. All institutionalized errors are caused

by human intervention and prevent the full expression of the divine potentials of the economy.

Order / Transformation Quadrant Example—Savings

Let us examine the difference between human savings and the savings of a squirrel. Apparently both anticipate the future! The squirrel's action is very strongly driven by instinct; however if environmental conditions change significantly the squirrel will modify the size of its cache. Likewise, human savings will be modified as a consequence of conditions. Human intelligence, which can span time conceptually and which can unravel the numerous and various complexities of the world, enables humans to save purposefully. Simply stated, savings is a productive and vital aspect of life.

Under the current system of economic intervention, the proponents of intervention come to the bizarre conclusion that savings is harmful. For example, Keynesian economics—a variant of which underlies the predominant economic systems practiced worldwide—demonizes people's choice to save. Their forced incentives to diminish savings is like force-feeding the squirrels this year only to find that their essential cache for the future is completely gone, ultimately leading to disaster.

Order / Transformation Quadrant PPF Example

Since this example (savings/dissavings) is so similar to the one (the consumption/investment PPF) used when I introduced the production possibilities frontier concept in Chapter 3, I will select a different principle—different from savings—to use as the example for this quadrant. Let's look at entrepreneurship. See Diagram 4h.

The 'no growth' point is where the potential of alertness is offset by distorted signals. As more and more economic signals are distorted the economy contracts as shown in Diagram 4i.

In an expanding economy the chances of successful entrepreneurship increase because the signals are real, and vice versa, since the signals are real the chances of successful entrepreneurship are greater. See Diagram 4j.

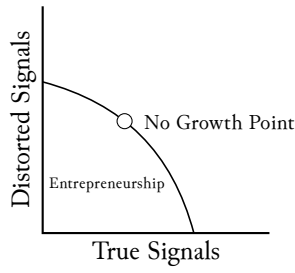


Diagram 4h: 'Entrepreneurship' production possibilities frontier

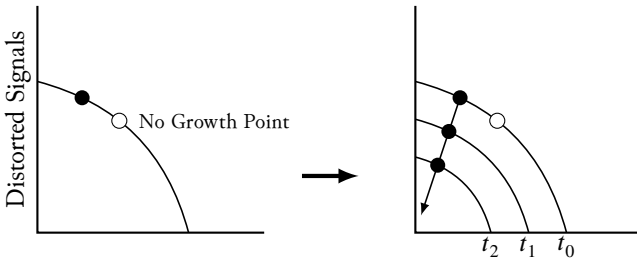


Diagram 4i: 'Entrepreneurship' contracting economy

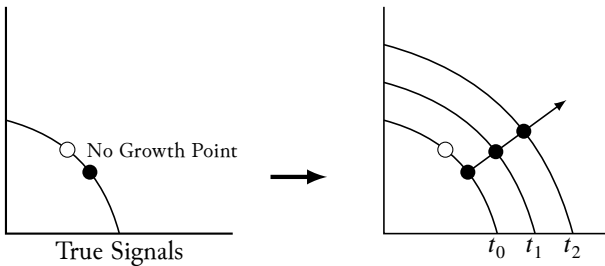


Diagram 4j: 'Entrepreneurship' expanding economy

Summary of the Order / Transformation Quadrant

Born from the womb of the economy are such specializations as division of labor and medium of exchange. Unborn—time seamlessly connects the present and the future economy via the price known as the pure interest rate. Savings, or the supply of loanable funds, is available to be used for economic development by entrepreneurs who see discrepancies in relative prices in the present and over extended time periods. It is discernment of the interactions within the market process that transforms from latent to active each hopeful entrepreneur. Human intervention into the market distorts market signals and causes dire consequences in the present and in the future. These distortions, at least the ones stemming from artificial interest rates, are called malinvestments.

*Selected Exercises*

1. Develop an 'Example' for one of the specific principles, other than savings, in the Order/Transformation Quadrant.
2. Identify what the 'no growth' point represents for each of the nine principles in the Order/Transformation Quadrant.



REAL WORLD ECONOMIC PRINCIPLES IN THE
TRANSFORMATION / LAW QUADRANT

I have chosen eight economic principles for placement in this quadrant. These eight principles demonstrate reciprocal action within the continuum bounded on one side by capital and on the other by property rights. This is a fascinating quadrant since it attempts to bridge the role of capital as it transmutes and transforms, with the non-transmutable nature of the law of human rights. See Diagram 4k.

Willingness to Work

If we assume that there is no coercion then the first order of incentive for the human being is to meet one's own needs. Since it is possible to meet

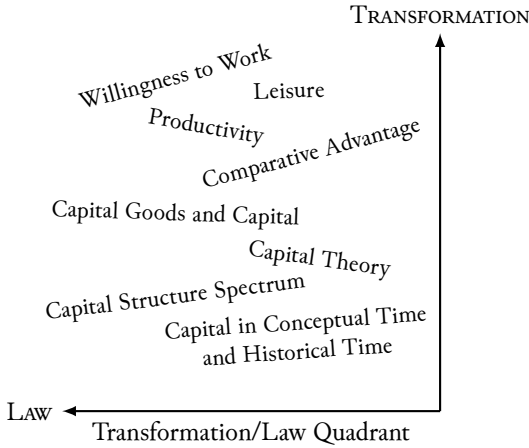


Diagram 4k: Economic principles in the transformation/law quadrant

one’s own needs by taking action; that is what is done. What we acquire from our labor we are able to keep, presumably. It can be deduced that this basic property right is necessary and sufficient to make a person willing to work.

A negative corollary is that without the right to receive the fruits of one’s labor there would be an unwillingness to work. Nothing destroys the willingness to work faster than removing the human right to ‘reap what you sow.’

Leisure

Leisure is having the time to appreciate any wealth above basic subsistence. Leisure describes the circumstance that exists once all vital needs are met and a choice is then made to refrain from work to pursue something more pleasurable. Consider the significance of leisure. Not only does the transformation of labor into property give an incentive to work but acquisition of even a most rudimentary property right—here given as time to rest—gives one the right to make choices. As soon as there are choices there is the potential for leisure, for division of labor, for active entrepreneurship, and for the emergence of capital.

Productivity

The more productive one is the more property rights one acquires. The more property rights one has the more choices there are, which further cascades into more loci for entrepreneurial action and more diverse types of capital investments.

Technological innovation springs from these diverse types of capital investments. Guess what? All of these lead to increased productivity. Productivity, then, is an expression of individual initiative and it leads to increased real wages.

Operating within this milieu is the productive actions of businessmen and the users of capital and it is their actions that generate profits. A portion of these profits then goes towards new capital in the form of wages and factor incomes. Businessmen and women and the users of capital play a guiding role, as stated by Mises:

What produces the product are not toil and trouble in themselves, but the fact that the toiling is guided by reason. The human mind alone has the power to remove uneasiness.[19, p. 142]

This advancing productivity is thoroughly described by Reisman:

The precise nature of the work of businessmen and capitalists needs to be explained. In essence, it is to raise the productivity, and thus the real wages, of manual labor by means of creating, coordinating, and improving the efficiency of the division of labor.[11]

The cascading continues. If I am more productive then my real wage will increase which translates into more savings provided the future is perceived as hopeful. This will create new capital which will be used to increase productivity.

Increased productivity can be defined as more consumer goods per productive unit. As the supply of goods increases the price of those goods decreases, which means an increase in the standard of living in real terms. What can be discerned from this is that property rights, which underlie productivity, serve as the foundation for development. Once the connection between property rights and productivity is understood a new work ethic will emerge.

Comparative Advantage

Comparative advantage is a derivation of the concept of relativity. Regardless of absolute advantage every person or geographic unit has a comparative advantage with regards some good or service relative to their trading partners. Trade occurs only if both sides benefit, implying that there is a double inequality in exchange. Both trade partners value what they get more than what they trade away.

Comparative advantage is also a derivative of the division of labor. Trading partners will divide their labors so that each is producing and trading the good or service that enables both sides to maximize their benefit from trade. This specialization from division of labor, combined with the secondary benefits that come from both trading and from maintaining a base of productive capacity, is what captures the benefits of comparative advantage.

The resources that are uniquely mine as part of my skill set and my property rights are such that I have a comparative advantage with regards something, relative to my trading partners' skills and property rights. If we engage in trade, the fact that we do trade means that we both have gained. Therefore the gain is in some degree an advancement which then can be consumed or otherwise used to expand my property rights—possibly into capital goods—either directly or indirectly through savings. To take full advantage of the opportunities that come from trade (exchange) I will specialize in producing the good or service in which I have the relative (comparative) advantage.

Capital Goods and Capital

These are intermediate goods or producer goods which make it possible for consumer goods and services to be made more readily available and/or of higher quality. Capital goods initially require the use of capital to pay those making or using the capital goods until there is a flow of income from the 'end of the line' consumer good or service. It is easy to see that capital structurally exists in different stages of development. Some capital goods are already completed and are producing goods. Other capital is tied up in capital goods which still are not completed and still are not producing goods.

Capital is a loan of the fruits of past labor. The users of capital—capitalists—pay for the factors needed, either as wages or as factor incomes (to factors other than labor), as part of the production process. These wages and factor incomes are costs to the capitalist.

If the returns to capital are greater than the costs of capital then the capital value increases. Additionally, if new or free capital becomes available it is alertly used since capital is the most limiting factor in the economy. Capital originates from loanable funds, that is, from savings. Just as economic growth is limited by capital, consumption is limited by production. Notice the sequence for an advancing economy: savings then capital then production of goods and services for consumption.

Something that has to be addressed: there is a severe prejudice towards the word ‘capitalist.’ The historical reason for this prejudice is outside the scope of this book. In the divine economy the capitalist is seen as a real and vital agent of the economy just like time is a vital element or entrepreneurs are vital agents, or just like property rights are considered as vital.

This book makes it clear repeatedly that there is a great deal of ignorance about economics and so there are many prejudices to be overcome. Mises broadens the view when addressing productive capital:

Production is not something physical, material, and external; it is a spiritual and intellectual phenomenon. Its essential requisites are not human labor and external natural forces and things, but the decision of the mind to use these factors as means for the attainment of ends. [19, p. 142]

Education is a type of capital. The education that is necessary for remedying the problems of economic prejudice and ignorance will not come from institutions that are funded by the interventionists. This book is one of the ways to gain clarity about economics, independent of contemporary prejudices.

Capital Theory

Of all the factors in the economy capital is the most limiting. Why? Look back at the sections about loanable funds and time preference. People strongly prefer things in the present. Therefore even under the most peaceful conditions only a small proportion of their incomes

will be saved. Whereas the other half of the loanable funds market is the demand for loanable funds; and that is a function of what can be described as an intense and determined search for capital in the market.

Capital is the most limiting factor in the economy because it is constrained by loanable funds. The economy is also most limited by capital since capital is the transformational element of the economy which, of course, would make it highly sought after. Remember the earlier discussion about the efficiency gain that comes from division of labor. Well, it is capital that yields a cumulative and collective efficiency gain for the economy that dwarfs all of the other economic factors. Capital is the key to progress.

Once the primitive economy moved beyond individuals being self-sufficient but barely subsistent, capital became the means of payment to labor and other factors used in the production of goods. In reality there is no rivalry between labor and capital except in the fictional model of the world imagined by Marx and those who are like-minded, where capital is selectively excluded from the economy. Labor is intimately and ultimately the beneficiary of capital just as are the owners of the other factors of production.

Let us consider the economically relevant subject of the formation of capital. Here, disutility of labor is a motivating element, as is time preference (which determines the level of savings). Refer to the interactive three-way relationship in Diagram 4l. Division of labor, a specialization that is an expression of human diversity, creates in the market loci for arbitrage and profit opportunities. This quickly draws the attention of alert entrepreneurs. Savings are then used as capital by the entrepreneurs to pay the wages and factor incomes until the time when revenues can. Sales revenue minus the money costs (wages and factor incomes) eventually yields a profit (or a loss). Some of the net income then re-enters

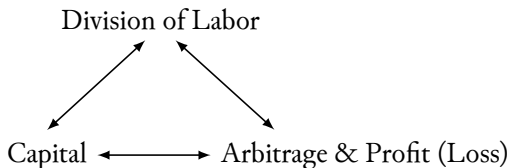


Diagram 4l: Interactive three-way relationship

as loanable funds, that is, as ‘new’ capital. Entrepreneurial alertness also contributes to the identification of ways to specialize, combining with capital to augment the division of labor. See Diagram 4l.

Another interesting economic benefit from capital is the actual generation of information about both revenues and costs as a result of the application of capital in the economy. It is the involvement in the economy by capitalists that creates wages and factor prices (these are their costs) and sales revenues. These wage and factor prices serve as a source of information, enabling entrepreneurs and capitalists to calculate so they can make rational decisions. If we assume these decisions are from the market signals in a divine economy (in other words, in an unhampered, free market, laissez-faire economy), they are fully compatible with the divine concepts of unity and justice.

In a ‘Crusoe’ situation—one person isolated on an island—the initial payment for his initial work (his wage) equals his profit. He works by climbing a coconut tree and he eats the coconut (profit). At that point the wage to profit ratio is equal to one. Once there is an opportunity to specialize (trading with others in a market) and there is savings, capital enters into the scenario which potentially generates wages and factor incomes. To see how capital benefits labor, refer to Diagram 4m. Notice the intricacies that make up the economic definition of an ever-advancing economy.

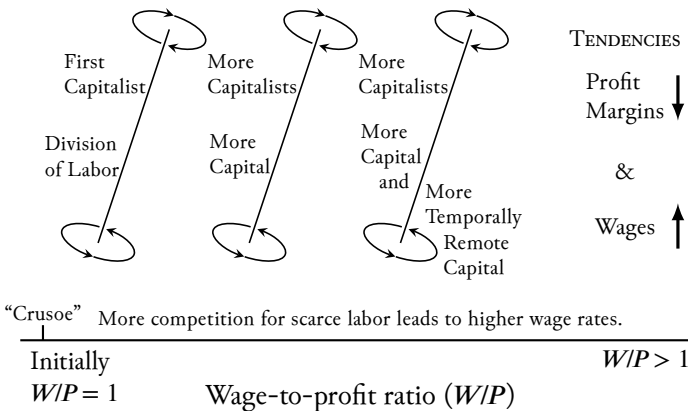


Diagram 4m: Capital benefits labor

If there are profits then that will end up creating 'new' savings. New savings means more capital which attracts those seeking capital. As the number of capitalists increases wages and factor incomes increase because there is competition for these scarce resources which puts upward pressure on the wages and factor prices.

Division of labor at the early stages near 'Crusoe' was crude but as it is directed by businessmen and capitalists, division of labor becomes more refined. The process continues. Generation of wealth not only brings more capitalists to the market but it also leads to an expansion of the use of capital to more productive, temporally remote production processes.

As the number of capitalists increases the profits tend to decrease, with each getting a smaller portion, independent of the wages and factor incomes paid out during production. In other words, wages and factor incomes tend to increase while profits tend to decrease. Additionally, every innovation and improvement that comes from this process ultimately reaches the consumers who benefit from both better products and lower prices brought about by innovation. In summary, the wage to profit ratio (W/P) increases as civilization advances.

There is a tendency toward a uniform rate of return on all capital invested which closely approximates the pure rate of interest. Mises makes a similar observation:

The history of mankind is the record of a progressive intensification of the division of labor—The operation of the principle of division of labor and its corollary, cooperation, tends ultimately toward a world-embracing system of production.[17, p. 234–5]

Business cycles do not occur in the divine economy since none of the signals in the market are distorted. The market interest rate truly reflects the amount of savings that people have, creating a balance throughout the capital structure between the present and the future. When an artificial interest rate is created by the deceitful practices associated with fiat currencies the entrepreneurs allocate capital incorrectly—in both the amount invested and the capital invested temporally across the time horizon—which leads to a business cycle.

If we make an assumption—that there is only a single act of intervention—then all the malinvestments would be purged by the

divine economy during the passage of one business cycle. But since resources are allocated across a span of time and across a spectrum of capital structure, a business cycle is not merely something that happens at one specific point in time. The negative consequences manifest themselves over many time periods or until all the malinvestments are purged for the duration of that cycle.

If consumer credit is extended in the market artificially, which means that it is unmatched by existing savings, capital is consumed. What is happening is that consumption is in excess of the productive capacity. Productive capacity in the economy is supported by the level of savings and the subsequent capital. The only way to now consume more is to use current savings, which was to serve as the loanable funds for 'new' capital and economic growth. This is the equivalent of consuming capital which consequently will cause the economy to regress, the typical consequence of intervention.

The important point to note here is that the divine economy heals itself and cannot be destroyed. All disruption and disorder in the economy comes from corruption caused by human intervention. Equilibrating forces begin to clear these afflictions almost immediately after intervention is halted. Rest assured that the power of the divine economy is indestructible and self-healing.

Capital Structure Spectrum

Production of all types requires capital. Some capital may be needed for a short time like a day or a week or a month. Other capital needs to suffice production for years. The picture that emerges is a wide array of production, funded for varying lengths of time, all of which makes up the capital structure funded by savings.

The starting point of an endeavor is very significant. If there is plenty of capital available at the beginning then the scale of production can be of a greater magnitude. Likewise, if there is plenty of capital the temporal remoteness from the consumer good can be greater. In other words, there can be more research and development when capital is relatively plentiful, which ultimately makes the possible fruits of that endeavor greater.

The concept of originary interest [19, p. 526] is closely related to time preference but it can be used to explain a different aspect of the economy. Originary interest is another of the praxeological laws that describes how humans act. People act in such a way that demonstrates that they value present goods higher than those same goods in the future, in relative terms.

In and of itself originary interest explains why people take action in the present. Without this conceptual reality operating in the human psyche there would be no consumption since there would be no preference for anything now. Humans devoid of originary interest would have no motivation to eat now, in the present, which would cause the species to go extinct. Needless to say, human beings do, indeed, place a high valuation on the present.

After considering all of these points it becomes clear that capital structure is really a spectrum. The most immediate end of the spectrum is current consumption: say, ice cream about to be selected from the freezer at the store. The more roundabout means of production, those that are temporally remote from the consumer, are located towards the other end of the spectrum. Capital is heterogeneous and inherent, beginning with consumption goods at the most immediate end of the capital structure spectrum. See Diagram 4n.

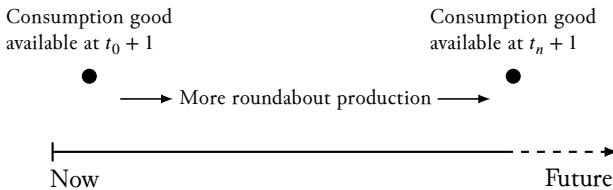


Diagram 4n: Fruits of the capital structure spectrum

The capital structure spectrum is a conceptual representation of the various fruits of capital (consumption goods) over time. This idea of one spectrum for all the various forms or structures of capital serves as another proof of the inseparability of capital from the consumption choices made to sustain and satisfy life. There is nothing evil about capital, in fact, capital is simply a vital element of the economy.

Capital in Conceptual Time and in Historical Time

When there appears to be no time other than the present ($t = 0$) the ordinary interest tells us that all consumption would be immediate. There would be no savings. When the time horizon expands ($t + 1$) the ordinary interest tells us that priority is given to the present time but that a pool of funding will begin to form unless, that is, the economy is in a primitive condition of basic subsistence. Of course the concept of time implies that there is a future. Thus, conceptual time shows that capital inevitably forms.

When the economy began in its simplest form, which let's say occurred at $t = 0$, the effort made just for survival meant that the gain (profit) was equivalent to the compensation for the labor (wage). In other words, the hunger was satisfied or the thirst was quenched. As the economy evolved ($t + 1$) and progressed past subsistence due to the development of division of labor, capital became available to pay wages and factor incomes (money costs) and the capital structure formed. Then the 'revenues minus costs' information brought about the ability to calculate which then enabled entrepreneurs to drive the economy forward. Historical time shows that capital emerges and serves to continually increase the wage-to-profit ratio. Notably, labor and productive factors are the beneficiaries of capital.

*Transformation / Law Quadrant Example—
Comparative Advantage*

Comparative advantage operates in human society because human beings are complex and they have a plethora of needs and wants. To some extent geographic distances act as a limitation. Since there are numerous trading partners with a great diversity of special skills and talents, all of whom also have a great number of needs, the law of comparative advantage operates without fail.

This law can be violated causing great harm to all and especially to those whose alternatives are the most limited. One example of intervention that does this type of damage is any kind of trade barrier, for example, tariffs. A regional, simple economy may need to have free access to markets for their comparative advantage to be realized. Tariffs may destroy the feasibility of its comparative advantage, depriving this

simple regional economy of the ability to transform itself. Without such interference the law of comparative advantage would activate all the agents of prosperity: division of labor, then trade, and possibly savings, capital, and entrepreneurship—that is, if we assume that property rights exist.

Transformation / Law Quadrant PPF Example

The ‘no growth’ point in this example (Comparative Advantage) is where free trade and division of labor are offset (negated) by trade barriers. See Diagram 4o.

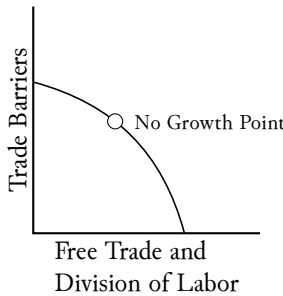


Diagram 4o: ‘Comparative advantage’ production possibilities frontier

As more trade barriers are raised there is less ability to take advantage of the division of labor. The result is a contracting economy. See Diagram 4p.

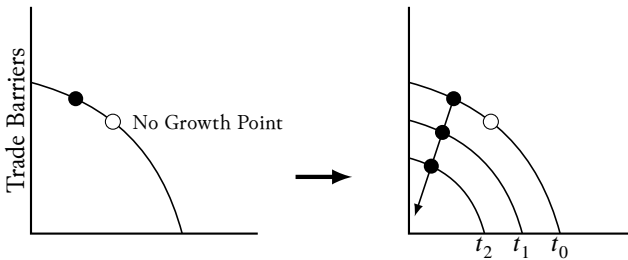


Diagram 4p: ‘Comparative advantage’ contracting economy

Free trade increases the division of labor which leads to wealth-generating specialization and capital formation. In this environment the economy expands. See Diagram 4q.

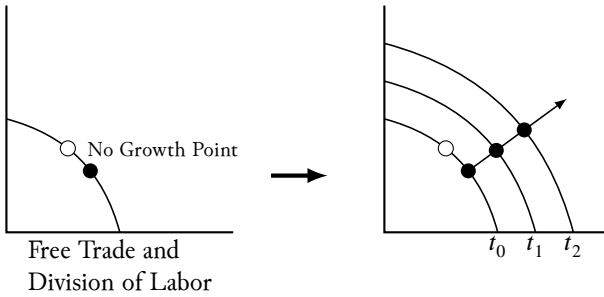


Diagram 4q: 'Comparative advantage' expanding economy

Summary of the Transformation / Law Quadrant

The divine economy rests firmly on property rights. In contrast, what suffers most in an economy hampered by weak property rights is people's willingness to save and the ability for capital to accumulate. The economy then loses its power to transform. The divine economy has an intricate capital structure which acts as an agent of transformation leading to economic development. Built into the divine economy are all the incentives that encourage movement towards more choices and towards the use of capital.



Selected Exercises

1. Identify the 'no growth' points for each of the eight principles in the Transformation/Law quadrant. Compare them in a simultaneous equations format and come to at least one conclusion.

Examples of simultaneous equations:

From last section:

Entrepreneurship + True Signals = Expanding Economy

From this section:

Free Trade + Division of Labor = Expanding Economy

2. Now state the conclusion that you arrived at in exercise one in terms of a non-interventionist policy.



REAL WORLD ECONOMIC PRINCIPLES IN THE
LAW / HUMAN SPIRIT QUADRANT

I have chosen five economic principles for placement in this quadrant. See Diagram 4r. What we have here is the blending of the human spirit as it operates according to the universal laws inherent in the human operating system; blended with a legal framework that is based on the divine principle of justice. At the heart of the divine economy is the transcendental property right—transcendental because there is no real separation between property rights and human rights. As presented by Rothbard:

In the first place, there are senses in which property rights are identical with human rights: one, that property can only accrue to humans, so that their rights to property are rights that belong to human beings; and two, that the person's right to his own body, his personal liberty, is a property right in his own person as well as a 'human right.' [12, p. 113]

All the various forms of human rights are merely different types of property rights and serve as a protection of the human spirit. Enforcement of law is within its proper bounds when it is limited to the defense of person and property against all types of violent and coercive intervention.

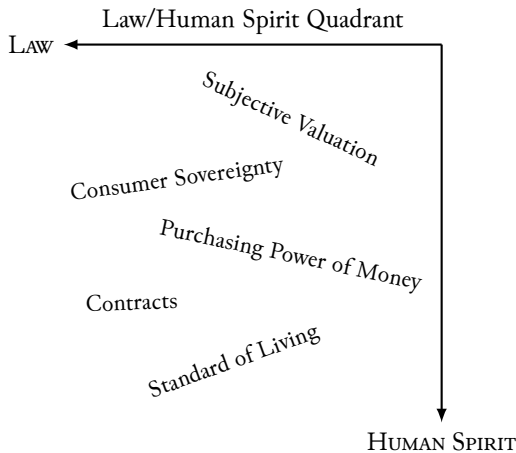


Diagram 4r: Economic principles in the law/human spirit quadrant

Private ownership of the means of production benefits everyone since the fruits of those means of production go to everyone via the market. This is part of a continuous and progressive process and it translates into what can be described as a rising standard of living. Prosperity, which can be defined as an ever-improving standard of living for everyone, is the outcome of exercising property rights in an unhampered market.

Subjective Valuation

Each person is unique and has unique interests—that is, both in the array of interests and the degree of interests. Each choice made is a reflection of that person's subjective valuation.

Subjective valuations do not have an empirical nature to them. There is no number that represents your like or dislike of an orange. Nor is there a need for such a representation since the market perfectly handles each subjective choice instantaneously and in conjunction with all the other relative and subjective choices. Subjective valuation is a human right emanating from the human spirit.

Consumer Sovereignty

Human beings are created noble, created in the image of God. The world and all of its wonders are for the glory and exaltation of humanity. In the end, all things in this world serve mankind. When a desire is manifested as a choice there is an opportunity for some of the resources of the world to be directed towards meeting that desire.

In a sense all forces are mobilized to answer the command of the king—the consumer. The entrepreneur, by nature, is alert to these opportunities and perceives the signals sent in the market. The motion set in order by the entrepreneur moves resources towards whatever means are needed to satisfy the consumer—the king.

Production of goods and services to satisfy the king—the consumer—necessitates that the producers hire labor and other resources. This consumer oriented production employs people directly or indirectly. In that way all of the 'subjects' benefit from the producers' service to the 'king.'

Wherever in the economy the consumers spend more the profits rise and this stimulates economic competition; followed by specific

investment and production. In other words, the pattern of investment and production follows the consumer spending pattern, in obedience to the ‘king.’

What if a righteous person notices that the consumers are choosing foolish things? Although the divine economy is always in operation, the degree of the maturity of humanity is always in a state of imperfection. The present position of the ever-advancing economy along the spiritual maturity spectrum (Diagram 4s) is due to the state of perfection that mankind has reached and due to the amount of hindrance of the divine economy by intervention. Relative to the future humanity at the present is immature, but relative to the past humanity is advancing toward higher ideals and values. See Diagram 4s.

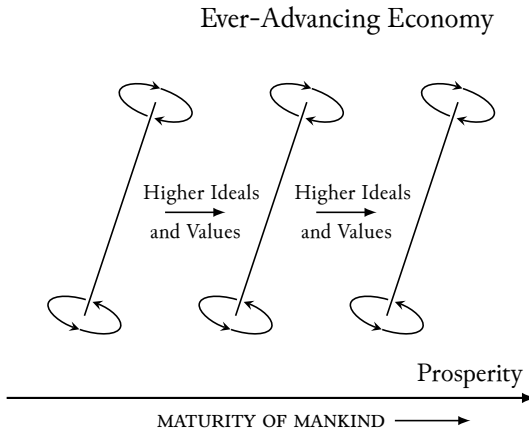


Diagram 4s: Maturity of mankind

The divine economy is not to be blamed for the present shortcomings evident in humankind. Instead, intervention needs to be removed so that information can flow freely and so that the divine virtues inherent in human beings can be more readily discovered and ‘acquired’ and polished.

Purchasing Power of Money

Money is the medium of exchange that enables the benefits of indirect exchange to permeate the market. It has value relative to all the other goods in the economy. The value of the money that I possess is my

property, in other words, it is a property right of mine. If I can expect to get 2 pounds of sugar for one dollar but instead, surreptitiously, I receive only one pound it is clear that there has been a theft. The equivalent value of fifty cents was quietly taken from me.

Likewise if the money is debased by deliberate actions, everyone who uses the money is a victim. Stealing incrementally from everyone who uses the money (and necessarily in ways that favor those with ties to the interventionists) does not make such an act, the debasement of the money, a just act by any righteous definition.

The value of money finds its real definition in the market relative to other goods and services but it is based on the demand for money and the supply of money. If there is the ability to print money (counterfeiting and central bank inflation, as examples), then by increasing the supply of money without respecting the property rights of all those who have money, the purchasing power of money—its value—will decline. All holders of money will then have their property rights violated.

Contracts

The purpose of contracts is to provide a legal framework for protecting private property and market operations. The gains from trade and exchange extend into the economy by the ensuring of both payments and delivery as accorded by contracts. This contractual protection of private property encourages savings and the accretion of capital across the time horizon which raises the standard of living for everyone.

Ownership: There can be only one person (or any of the larger business entities of ownership) that has the exclusive rights to a particular physical piece of property at the same time.

Rent and Interest: Ownership of land or of a durable good or of loanable funds confers the right to portion it out to others and to charge them for its use. Ownership does not necessarily equate with use. Use does not define ownership.

Insurance: The providers of this type of contract define the risk groups and discriminate between risk groups and establish a contractual relationship with the client based on actuarial data.

Standard of Living

A standard of living needs to be measured in real terms, not in nominal terms. In real terms the standard of living increases as capital increases and as division of labor takes place. To see how capital, incrementally new capital, leads to an improved standard of living refer to Diagram 4t. In other words, as productivity increases real wages increase even while market competition is pushing the economy towards a uniform rate of return on capital.

Ever-Advancing Economy
(Also Showing How It Is Interfered With By Intervention)

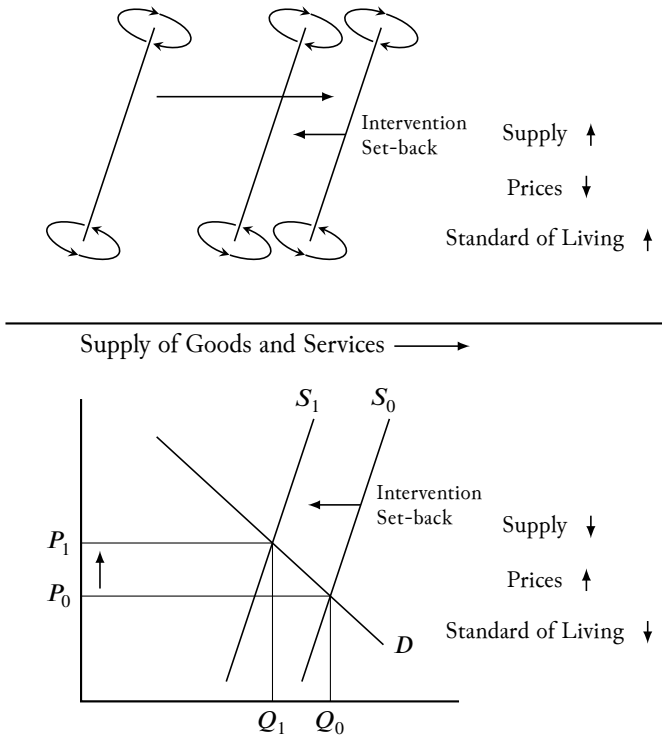


Diagram 4t: Capital advances standard of living but intervention does not

Now here is the vision of the standard of living that is possible in an unhampered economy, the divine economy. As capital increases productivity increases, which causes the supplies of goods and services to increase, thus causing their prices to decrease. And since productivity is increasing, in turn, real wages are increasing which means, overall, that the standard of living is increasing. As the standard of living increases the perception of hope and prosperity increases which means that the time preference lowers. A lower time preference translates into more savings which brings us back to the beginning stage of this ‘standard of living’ cycle: that is, an increase in capital resulting from an increase in savings. Notice the trends—capital increases productivity, prices decrease, real income increases, the standard of living increases and prosperity increases. (Contemplate the ever-advancing economy by studying Diagrams 4m, 4s and 4t.)

Increases in nominal wage rates without increases in productivity (which occurs in a hampered economy) are attributed to inflation of the money supply and this anomaly can be traced back to the interventionists. In the long run the standard of living decreases in real terms despite nominal increases. In other words, the supply of goods and services do not increase while prices do increase, because of inflation, which lowers the standard of living. See Diagram 4t.

*Law / Human Spirit Quadrant Example—
Subjective Valuation*

The divine economy rests on the foundation that each and every human being is created in the image of God and that each one is unique. Unique in the sense that there are no two alike, never were and never will be. How could there be anything other than subjective valuation in the human realm, then, by definition? If we are all different in the array of qualities of spirit and fabric then necessarily we will always intellectually function subjectively.

This is not a problem scientifically as long as the proper methodology is used. Applying the objective methodology of the natural sciences, as if we operate like atoms within a molecule, is inappropriate. Many of the economic fallacies, today propagated as economic facts, were derived from trying to use an objective methodology upon a creature which is subjective by nature.

Only the subjective methodology can accommodate free will. Free will is another foundational piece of the divine economy since all of the actors in the economy have free will. Free will is also a foundation of the creation of humankind; it is part of human nature. It manifests itself in the independence of each decision made within the mind of each person—which is subjective valuation. Each decision is unique to the circumstances deemed important by each individual, who are themselves unique and therefore subjective.

Law / Human Spirit Quadrant PPF Example

The ‘no growth’ point in the subjective valuation production possibilities frontier is where creative gains, in aggregate, are offset by the stifling that comes from restricted choices. See Diagram 4u.

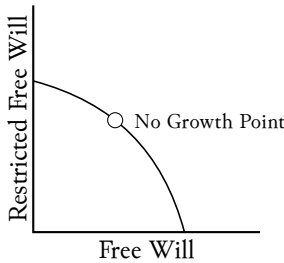


Diagram 4u: ‘Subjective valuation’ production possibilities frontier

As free will is restricted and as subjective valuation is unappreciated the economy contracts. See Diagram 4v.

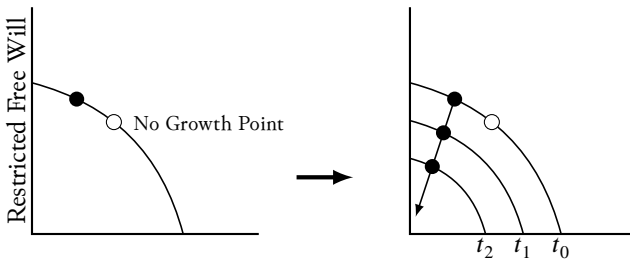


Diagram 4v: ‘Subjective valuation’ contracting economy

As non-violent free will is honored the information about what people value becomes known in the market and subsequently the economy expands. See Diagram 4w.

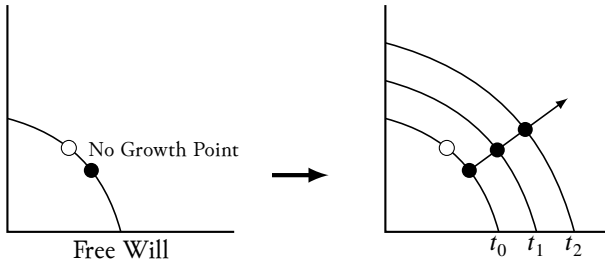


Diagram 4w: 'Subjective valuation' expanding economy

Summary of the Law / Human Spirit Quadrant

The really important part of this quadrant of the model is that there is a link to law: laws that provide a legal framework to support property rights; and laws of human action. The legal framework that supports property rights recognizes the importance of contracts and regards wholesale theft, such as the inflation of the money supply, as a crime just as it does any other violation of contract.

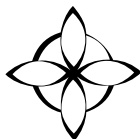
From a legal point of view there is a way to protect the economy from fraudulent practices. Individuals or individuals collectively can seek clarity and justice by refining the definitions of property rights and then by insisting that they are protected.

Inherently and in accordance with the laws of human action, the divine economy allows the diverse expression that comes from individuals exercising their free will non-violently; and it also satisfies human needs, and it leads to an ever-advancing prosperity.



Selected Exercises

1. Imagine equilibrium acting like a pendulum, always bringing external forces back to the center.
 - a. In your first diagram put ‘consumer sovereignty’ at the center position and imagine the forces that would cause movement away from consumer sovereignty. Describe these forces.
 - b. In your second diagram put ‘contracts’ at the center position and describe the forces that move the economy away from contracts.
 - c. Use the terminology of the divine economy theory to describe this tendency towards equilibrium.
2. Describe how the tendency of equilibrium is always present and yet at the same time the economy can still be ever-advancing.



Chapter 5 Economic Policy

The Fruits of the Divine Economy Model©

PREFACE

For all things there is a purpose and the purpose of the leaves and the branches and the purpose within, of creating a healthy microenvironment, is to yield fruit. This culmination once attained, and indicating maturity, continues over time and brings about prosperity. What we need to realize is that the fruit can be made more plentiful and more delicious when the system is balanced and wholesome.

HARVEST TIME

How do we get from the history of economic thought to useful steps for improving the economy? How can a model which is built upon recognition of the spiritual nature of man be of value in the real world? What good is it to tie economic principles to the modus operandi of the divine economy if there are no practical fruits? This is where policy comes in. It is a bridge between the theory and the application.

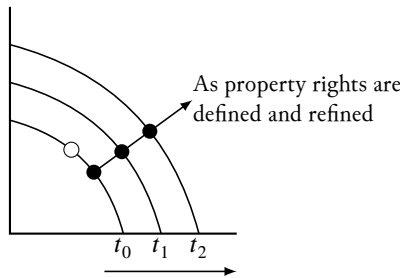
There are two things that I tried to clearly present about the divine economy. One is that it is powerful and transcendent, yet ever-present and nurturing. The other point of clarity is that the divine economy can be put into a corrupted or diseased condition by human intervention. The divine economy can never be destroyed, as evidenced by its equilibrating forces, but knowledge can be stifled and signals can be distorted by ego-driven intervention into the market process.

Knowing that the full potential of the divine economy can only be reached when intervention ceases may lead one to think that there should be no intervening policy. Contrarily, knowing that the justice that is inherent in the divine economy can only be reached if the market is free may lead one to think that there are policy steps to take to protect the divine economy from intervention, for the benefit of all mankind.

POLICY #1.

WELL DEFINED AND CONTINUALLY REFINED PROPERTY RIGHTS

It is clear that everything rests on property rights, which are mirror images of human rights. Not a single thing can happen that honors a person’s human rights without acknowledging that these are also his or her property rights. Once this most basic right, the human right/property right, is defined the market process begins. As the property rights are refined the divine economy will empower human civilization to advance. See Diagram 5a. Without secure private property there will be little savings and investment and therefore little prosperity.



An ever-advancing civilization

Diagram 5a: Production possibilities frontiers of well defined and continually refined property rights

What is the seed of property/human rights? The significant clue comes from Immanuel Kant: “Freedom . . . is the only original right belonging to every man by virtue of his humanity.”[6] When put into the context of the divine economy theory the uniqueness of each individual finds expression subjectively in one’s choices, free choices

that end up manifesting the characteristics of property in some form. As property rights are defined and refined the divine economy moves from t_0 to t_1 in Diagram 5b.

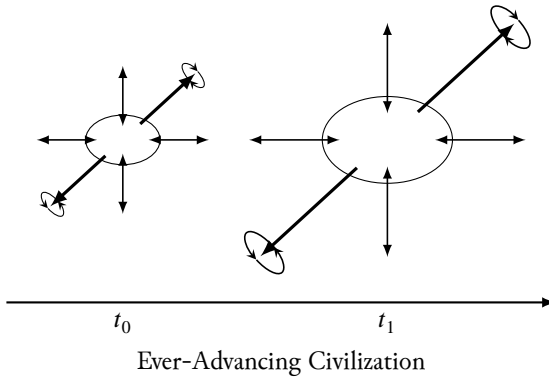


Diagram 5b: Well defined and continually refined property rights advance the divine economy

POLICY STATEMENT: A rational and just policy would be to develop discovered laws that specifically define, refine, and protect property rights in terms such that they are treated and considered as basic human rights.

POLICY #2.
THE RIGHT OF SECESSION

At the social level the corollary of freedom implied in individual property rights is the right of secession. For a jurisdiction to guarantee its prosperity it will have to be able to protect property rights which may mean removing itself from the yoke of the oppressor, moving from t_0 to t_1 as shown in Diagram 5c.

It is time to bring back into common use a term that is understood in the classical liberalism tradition. That word is subsidiarity. It is the necessary complement to federation. Without subsidiarity even the logic of federation is thwarted, thus becoming potentially tyrannical. The guarantee of the maintenance of the balance brought about by the complements of subsidiarity and federation is the right of secession.

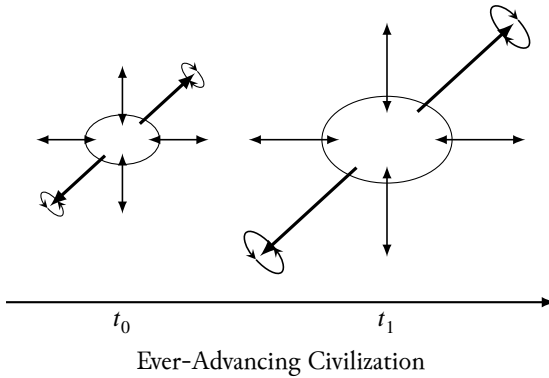


Diagram 5c: Benefits from decentralization

Policies that release individual creativity by protecting liberty increase the awareness of knowledge and the awareness of how this knowledge activates in others the desire to know. As the realization of the rights to secede is internalized people will act with more confidence, and creativity will increase. This can be seen in Diagram 5d as the divine economy moves from t_0 to t_1 and beyond. Starting with the visualization of the complex divine economy model in mind we will then go to a shorthand version of the divine economy over time. The shorthand version focuses on the Justice/Unity axis which emphasizes the nature and role of knowledge in human civilization. See Diagram 5d.

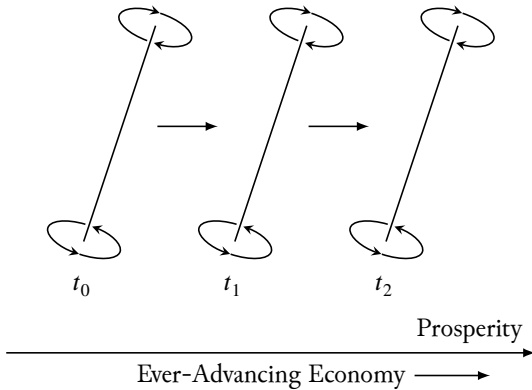


Diagram 5d: The right of secession advances the divine economy

POLICY STATEMENT: A rational policy would be to develop discovered law in such a way that a jurisdiction would not have to accept any intervention that a larger jurisdiction tried to impose upon its economy.

POLICY #3.

MARKET FORCES WILL MODERATE BUSINESS SIZES

In a market free from intervention firms can naturally become only so large. The inefficiencies of bureaucracy limit their sizes. For example, if a firm is vertically integrated—originally expanded in this manner to capture efficiency—but it becomes excessively large, then it begins to lose the ability to rationally allocate resources. Wages and factor prices in the internal (in-house) market begin to have no connection to the real market, become distorted and unrealistic, preventing the firm from being able to calculate. Smaller firms without these errors will begin to out-compete these overly bureaucratic firms.

When interventionist laws protect certain types of business ownerships by limiting the liability of the owners, it artificially encourages these firms to become very large since they are protected from the costs associated with damages to the property rights of independent third parties. In other words they are too large an entity to fight a legal battle against, plus finding out who exactly is responsible is very, very difficult. Therefore, limited liability for corporations causes distortions. Protection of property rights will ultimately make the economy serve the whole of mankind with justice rather than favoring institutions that are created by vested interests and which use intervention in an attempt to circumvent the forces of equilibrium. See Diagram 5e.

POLICY STATEMENT: A rational and just policy would be to remove the institutionalized barriers that prevent property rights from being protected, and to remove the special privileges that artificially protect any entity from the equilibrating forces of the divine economy.

POLICY #4.

ENFORCEMENT OF PROPERTY RIGHTS

The main policy recommendation derived from the divine economy model is to continually refine the definition of property rights. The corollary to this is to strengthen the legal system such that it can enforce property rights.

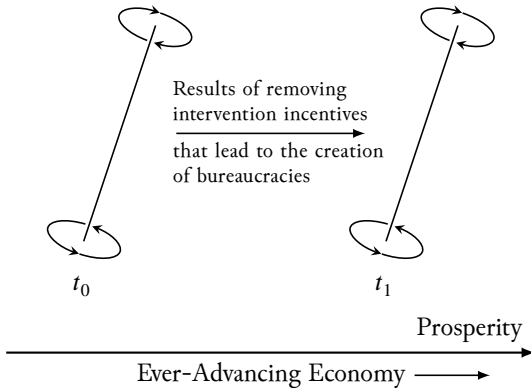


Diagram 5e: Allowing market forces to moderate business sizes advances the divine economy

The best means to protect private property rights is to strengthen the role of private enforcement providers since there is often a conflict of interest when the State is involved in protecting private property rights.

Both the definition of property rights and the ability to enforce property rights are currently weak, even weaker than they were 100 years ago. Needless to say the direction of that trend is wrongly oriented, away from progress, and needs to be set aright. See Diagram 5f.

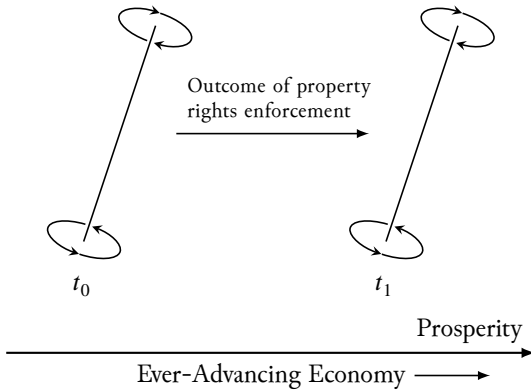


Diagram 5f: Enforcement of property rights advances the divine economy

POLICY STATEMENT: A rational policy would be to initially begin enforcing property rights at the level of the individual, and then to learn how best to refine property rights from these efforts. Within each community this right and responsibility exists and needs to be given due attention. The proper role of government is to protect its citizens from fraud or acts of violence by enforcing property rights, however, competition by private providers of legal protection will ensure that the best means of enforcing property rights is always available.

POLICY #5.
EDUCATION ABOUT ENTREPRENEURSHIP

Another policy that surfaces from looking at the divine economy model is to educate people about latent and active entrepreneurship. The purpose of educating people about entrepreneurship is basically to encourage and foster the acquisition of the skill of discernment. This comes from learning about the learning process in humans. The more discernment and alertness there is in the market the more quickly knowledge will flow and the more quickly will it be acted upon. This leads to an advancement of the market process and to prosperity. If the market is in an inefficient condition the solution is to educate people about entrepreneurship not to corrupt the divine economy by imposing arbitrary restrictions through intervention. See Diagram 5g.

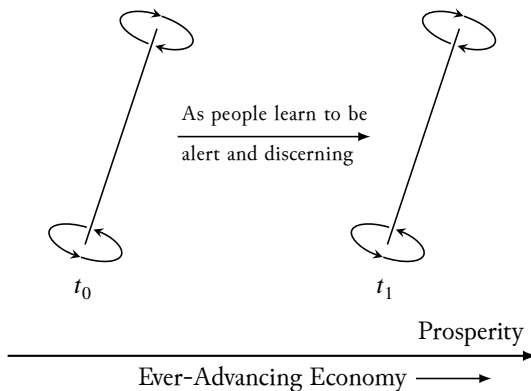


Diagram 5g: Education about entrepreneurship advances the divine economy

POLICY STATEMENT: A rational policy would be to encourage all providers of education to acknowledge the role of entrepreneurship in advancing prosperity and to teach any and all skills that help to make people discerning and alert.

POLICY #6.

WAR AND INFLATION VIOLATE PROPERTY RIGHTS

Another policy that emerges from the divine economy model places emphasis again on education. It is clear from the concepts in the divine economy model that if people can trust the future they will have lower time preferences which will amplify the transforming capability of capital.

There are very specific interventions into the economy that strongly influence the level of trust. If there is a tendency to choose war as the main or even as a viable alternative to diplomacy then the lessened trust that such an act engenders atrophies the economy. Or if there is a medium of exchange that can easily be debased by a central bank (for example, when there is a fiat currency) then the horizon of the time preference shortens, stifling prosperity. Both of these acts of intervention—war and inflation by the central bank—violate the property rights of humanity. See Diagram 5h.

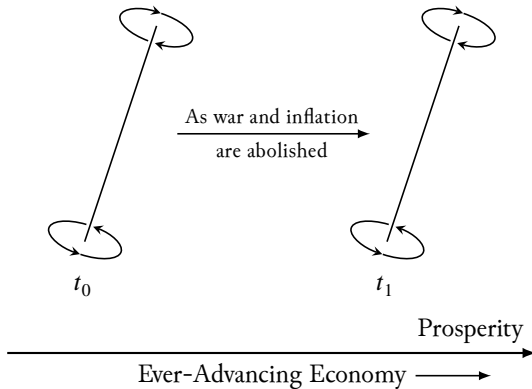


Diagram 5h: Abolishing war and inflation advances the divine economy

Those things that foster trust and trustworthiness need to be given particular emphasis as part of the learning process in the

education system. The pivotal nature of property rights needs to be made crystal clear.

POLICY STATEMENT: War and its exorbitant costs and the associated destructiveness, and inflation of the money supply by the central bank, are unacceptable violations of property rights and those who try to impose either of these should be held accountable by legal means. Authority to take these actions needs to be specifically assigned so that there is specific and definite accountability.

The legal liability for such acts needs to take precedence over the act itself. The government-created veils of self-protection and inculpability need to be removed so that property rights can be protected.

POLICY #7.

GOLD PASSES THE MARKET TEST

Inflation reduces the purchasing power of money: and it causes the redistribution of wealth towards the ones favored by the interventionists. Both of these represent theft of private property and both are acts of injustice. The free market chose gold as the medium of exchange simply because of the following: it optimizes the characteristics determined in the market to be necessary for a trustworthy medium of exchange. The ability to strongly prevent dishonest and untrustworthy acts by the interventionists is certainly one of those characteristics and is a good reason to return to the gold standard.

Free banking, where banks compete against each other for the trust of their customers, is almost completely sufficient to safeguard against fraudulent banking practices. Combined with refined and enforced property rights it is wholly sufficient. Having a strong and honest banking system has the advantage of encouraging savings.

Free banking is a very important component of a divine economy since it has the merits of self-regulation, and since it serves the people by providing a storehouse for capital. This is in contrast to the current banking practices which mask the insolvencies of banks and promulgate a system of capital consumption and wealth redistribution. See Diagram 5i.

POLICY STATEMENT: Clear the banking system of all of its barriers and restrictions—these are acts of intervention designed to control the

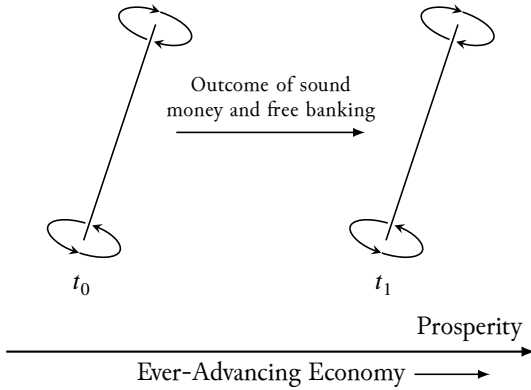


Diagram 5i: The gold standard advances the divine economy

economy and direct wealth towards the favored ones of the ego-driven interventionists—and let the market process determine if the current system is a viable one or not. Legal tender laws are unnecessary in a divine economy where the medium of exchange is universally recognized simply because of its independence from monetary intervention along with its other merits.

POLICY #8.

COUNTERACT THE MISINFORMATION ABOUT CAPITAL

There is a very difficult educational task ahead to counteract the institutionalized prejudice against capitalism. Capital has been maligned and misunderstood for so long that most people feel that capital is not really a part of themselves—that it is outside of themselves. One goal of the educator will be to help people to see that every choice or act to improve oneself is capital in process and capital made manifest. And the improvement made is then an advancement and the starting point for the next step.

Appreciation of capital, when seen as honoring one’s own progress, will go a long way towards reversing the poisonous bigotry directed at capital which permeates the world today. The anti-capitalist mentality is a malady emanating from Marxism, socialism and much of empirical economics. It stems from a combination of atheism and the adherence to an incorrect methodology for the social sciences, and it leads to a

removal of capital from its proper place in the human psyche. Our inherent nature declares capital to be a vital part of the human operating system—and the divine economy itself, which is entrusted to us, shuns such an ill-fated attempt. See Diagram 5j.

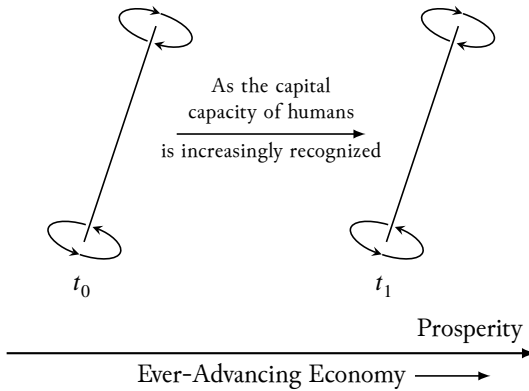


Diagram 5j: Understanding capital advances the divine economy

POLICY STATEMENT: Encourage providers of education to recognize that every improvement an individual makes—their education, for example—is a form of capital. Then instead of spreading negative impressions about capital the education system will compliment itself for being a contributor to capital formation around the world and will empower the next generation with knowledge about this factor—capital. This is a significant contribution to an ever-advancing civilization since capital is the most limiting factor in the economy.

POLICY #9.

NEW CAPITAL IS A GOOD START

Assuming that some of those who use this book will be concerned about an economy that is undeveloped (although this principle operates in more advanced economies as well), the first steps taken should be to encourage and nurture capital. Unprotected property rights are very often the reason people do not save. Any steps that secure property rights and foster trustworthiness lead to the emergence of new capital. New capital advances productivity and then the development process begins. See Diagram 5k.

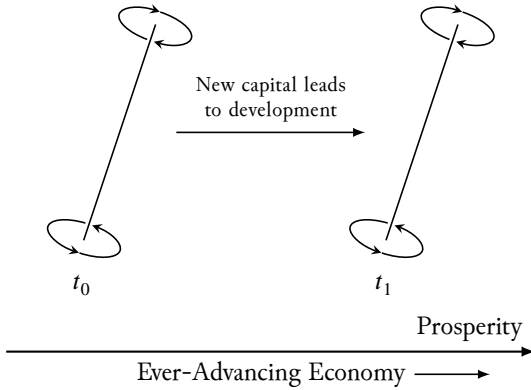


Diagram 5k: New capital advances the divine economy

POLICY STATEMENT: Recognize that having secure property rights leads to savings and then to new capital which then begins the advancement towards prosperity.

POLICY #10.
INTERNATIONAL FREE TRADE

Another self-evident policy recommendation is to recognize that the divine economy works at all times and it works regardless of scale. The same benefits that come to an individual when taking part in exchange in the market occur with trade at the international level. Only international free trade allows the prosperity of the divine economy to be fully released. Artificial and imaginary boundary restrictions are simply interventions that lessen the prosperity that can come from the divine economy and these interventions do damage to the advancement of civilization. Only international division of labor under a system of secure property rights and free trade brings the resources of the world to the market efficiently and with justice — for all to enjoy. See Diagram 5l.

POLICY STATEMENT: All trade barriers interfere with the divine economy and cause unnecessary suffering. ‘Free trade’ agreements are really acts of intervention and therefore are a misnomer. Free trade, in reality, is action not words and it will occur automatically if the ego-driven interventionists are removed from the picture.

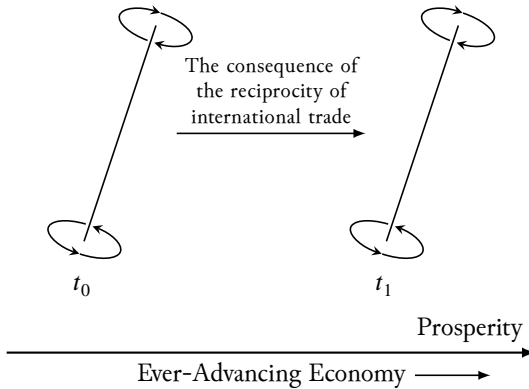


Diagram 5l: International free trade advances the divine economy

POLICY #11.
MINIMAL TAXATION

If you go back and look at the Divine Economy Model © you will notice that taxation does not appear to be present at all in the model. What this means is that, theoretically speaking, taxation is not necessarily present in a divine economy. Taxation is not necessarily absent either.

Economics is the study of the means to obtain the ends chosen. If some type of taxation is the best means for achieving order in a cooperative society that protects life and liberty then taxation serves a purpose and it is present. See Diagram 5m.

In a society where property rights are well-defined, and refined, and protected, taxation will be either minimal or absent. As long as taxation is restrained by laws that protect and enforce property rights then taxes will be held to a minimum. The law and order of the divine economy is a reflection of life and liberty which means that taxes need to be zero or minimal so as not to disrupt the flow of knowledge inherent in the free market process. See Diagrams 5n and 5o.

POLICY STATEMENT: Since under most circumstances taxation is a deterrent to private production and employment there is no sound economic reason to generate tax revenue to support a government beyond its purpose. The purpose of government is to protect life and liberty.

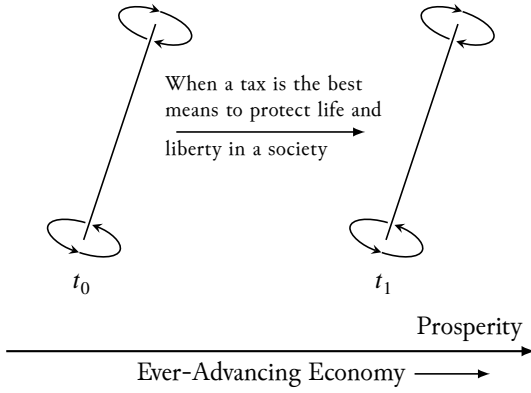


Diagram 5m: Minimal taxation advances the divine economy

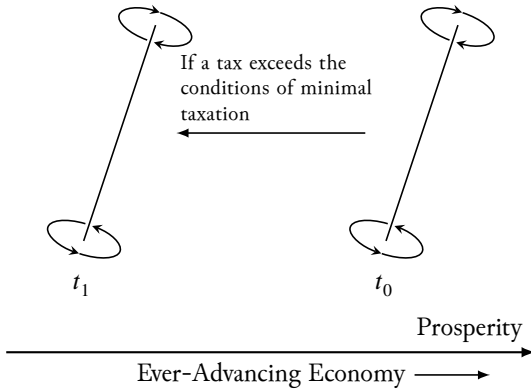


Diagram 5n: Contracting economy caused by taxation

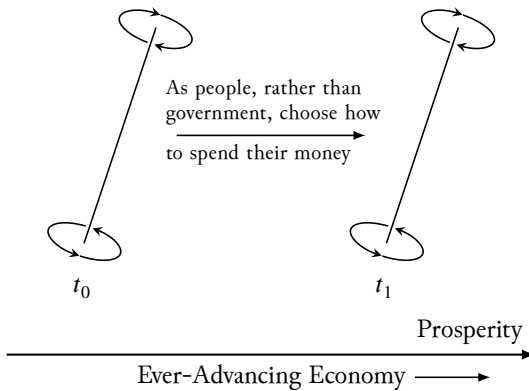


Diagram 50: When the economy reflects the people the divine economy advances

THE OVERARCHING POLICY— THE MORAL AUTHORITY OF THE DIVINE ECONOMY

To quote Ludwig von Mises: “The first condition for the establishment of perpetual peace is the general adoption of the principles of laissez-faire capitalism.” [16, p. 137]

I would like to modify his recommendation slightly. First, we can rest assured that the prosperity of an ever-advancing civilization emanates from the divine economy. Second, we can trust in the equilibrating power of the divine economy. Third, we can trust in the divine justice that comes from protecting property rights and that comes from recognizing that property rights are human rights.

Those who fail to admit their own limitations and then expect others to believe their assertions that they can comprehend all that is going on in the economy—thereby giving them the right to interfere—these are the ones who are now without authority. It matters not what position of influence one holds or what degree one has or what record of publication one has. There is no human act of intervention in the economy that is not feeble-minded when compared with the omnipotent and omnipresent nature of God.

All interference with the economy is necessarily ego-driven; and it lacks moral authority. The economy is a divine institution in the domain of human action and all human action emanates from the human operating system, which is divine—created in the image of God.

Using the concepts and graphics of the Divine Economy Model © we can focus our attention on policies that lead to an ever-advancing civilization. But first we have to understand the moral authority of the divine economy. As humans perfect themselves physically, intellectually and spiritually the divine economy expands and matures (moving from t_0 to t_1) as shown in Diagram 5p. Policies that support and sustain liberty and property rights as human rights allow the divine economy to move towards fruition.

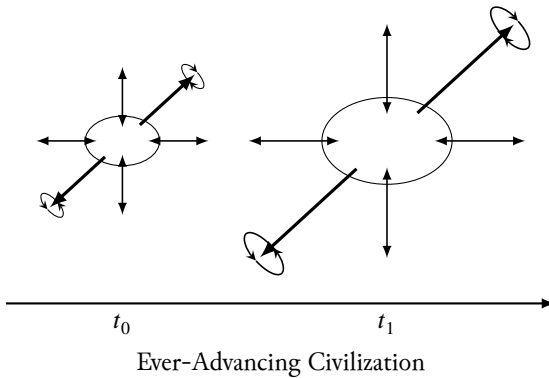


Diagram 5p: The divine economy expands

The driving force of the economy is entrepreneurship. It is the entrepreneurial spirit within humans that discovers betterment. See Diagram 5q.

Policies that convert latent entrepreneurship into active entrepreneurship and policies that encourage alertness and discernment expand the overall potential of entrepreneurship in the minds of all. When market information is free from the distortion caused by intervention the divine economy is in a charged state releasing an increased power of human creativity as shown in Diagram 5q. Policies that are conducive to building a link between capital and entrepreneurship complete the transformation implied and described by the recurring designation ‘Ever-Advancing Civilization.’

One thing is for sure and that is that the economy is dynamic, not static. It is always somewhere along a dynamic spectrum (Diagram 5r), either regressive or progressive.

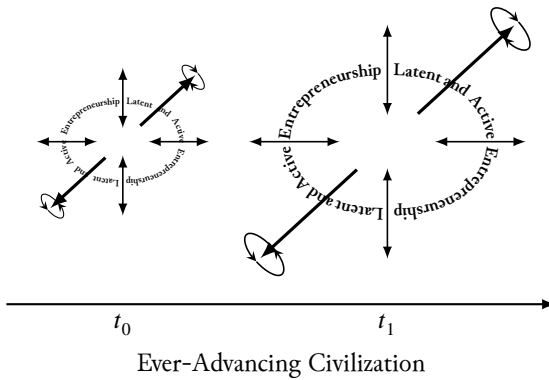


Diagram 5q: Expanding entrepreneurship in the divine economy

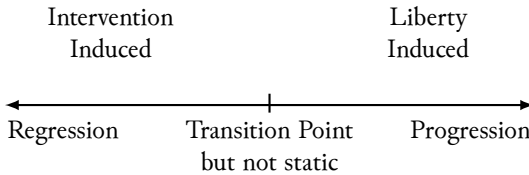


Diagram 5r: Dynamic spectrum of the divine economy

Policies that foster the nature and role of knowledge in the individual and in the market carry forward an ever-advancing civilization. Implied in the ‘nature of knowledge’ is the refinement and progress of human learning. And implied in the ‘role of knowledge’ is economic communication by the means of market prices and voluntary world-wide trade.

Policies that promote justice and unity (Diagram 5s) universally stem from the preservation of both the nature and the role of knowledge; that is, preservation and protection from those who have ego-driven motives. It is the ego-driven who try to interfere with the nature of knowledge since they are the ones who benefit from the existence of prejudices, superstitions, and ignorance. Likewise it is the ego-driven who try to manipulate the economy through intervention, all for the purpose of benefiting themselves directly or indirectly.

Each of these eleven simple policies given in this chapter fall within the overarching policy of the moral authority of the divine economy and

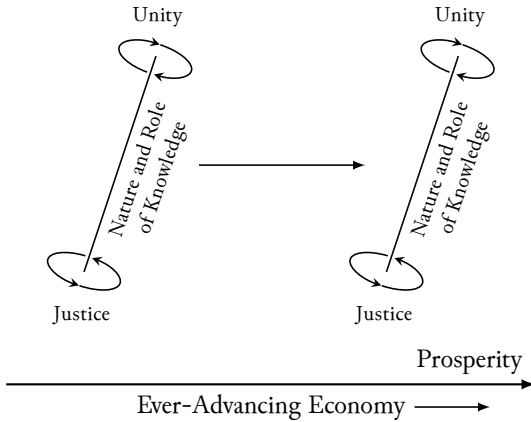


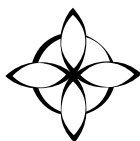
Diagram 5s: Divine economy and the ever-advancing civilization

will effectively promote an ever-advancing civilization in various ways. All of them also compliment each other. Of keen interest is the fact that all of these policies represent positive changes that have been brought to the forefront of our attention by the divine economy theory.



Selected Exercises

1. Which of these eleven policies do you understand the most? The least?
2. Why is the right of secession supportive of human rights and minimal taxation?
3. Compare and contrast the moral authority of laissez-faire economics with the moral authority of the divine economy theory.



Epilogue: Economic Transition

The Seeds of the Divine Economy Model©

PREFACE

Once the luscious fruit is discovered and its source and foundation is nurtured the time comes for its propagation. The advantage of propagating by seed is the ease of its ability to be distributed. It is something that starts small and it permits the steward to become more knowledgeable over time. It comes with a guarantee: if it is planted in the soil of inviolate private property rights it will survive and flourish and bring great prosperity.

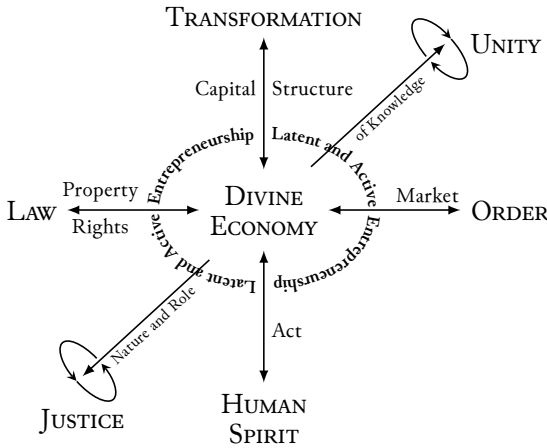
PLANTING THE SEED

The divine economy model introduced in Chapter 2 is a gem and a germ. It is a powerful tool for bringing economic principles into the light for further examination.

From this point forward I propose to you that the science of economics, which is often referred to as the ‘dismal science,’ is instead seen as a bright and hopeful study of purposeful human action!

I have written this book to uncover what seemed to be hidden and to connect it to the vast economic knowledge that emerged from the tradition of classical liberalism. My goal with this book is to make clear much of the mystery about how the economy works and to also make it clear that there is no justification for human interference.

I have played a useful role by creating, in this work, a palatable and moral economics model as suggested by Ludwig von Mises:



The flowering of human society depends on two factors: the intellectual power of outstanding men to conceive sound social and economic theories, and the ability of these or other men to make these ideologies palatable to the majority. [19, p. 985]

During the current period of economic transition that we live in, this book and other contributions to the divine economy theory^{1,2,3} are the seeds waiting to be planted in the fertile minds of the economists of the future. These seeds will germinate once they are watered with the pure water of subjectivism and fertilized with an ardent search for an understanding of divine reality.

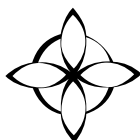
1. *HUMAN ESSENCE of Economics* (2009)

2. *ETHICAL ECONOMICS for today and tomorrow...* (2010)

3. *Liberty & Justice of Economic Equilibrium* (2011)

II

THE HUMAN ESSENCE OF ECONOMICS



Introduction: A Fine Gift!

Receiving It Graciously!

PREFACE

Wise travelers from a distant time and place find themselves mesmerized by the arrival of a long awaited event. Before they set out on their journey they devote all of their resources to the long trip and to capturing the exquisite simplicity of the honored gift. Traversing the sands of time and moving perceptively nearer and nearer to their destination a feeling of exhilaration and exaltation seizes the bearers of this priceless gift. After much sacrifice and toil the travelers finally approach the vicinity of the consummation of the consecrated task. At the threshold of the exchange all the surroundings are electrified with indescribable joy and wonder. A fine gift is presented and graciously received.

THE GIFT OF THE ECONOMY!

The wrapped gift is received. Do we really see it or are certain things hidden from our sight? Frankly, even if we gaze upon it we still may be unable to fully perceive what it is that is in front of us.

Blindfolded, or not, I can hold the gift in my hands and still not know what it is. Its surface may have a certain texture detectable to the touch. Whatever it is it has a certain weight to it. Even without a blindfold there is only so much I can be sure of, such as the color of the fabric that is wrapped around the object that is inside.

With all of our faculties fully available to us it is still a mystery. The economy is like this gift, wrapped in a fine and exquisite tapestry.

The gift is the whole thing: the beautiful covering and the undiscovered object of great value still concealed. These two parts of the gift are inseparable just like the economy is inseparable from that which makes it appear in the world—all the human beings in the world—like you and me.

Full appreciation of the gift comes from enjoying its wholeness without others imposing expectations on us. Those expectations would diminish the whole experience. What expectations have been tacked onto the economy, diminishing its value to us? We are told and expected to believe that the economy causes us to behave in certain ways, for example, some suppose that the economy beckons us to become rich and to bowl over others to achieve that goal.

This is the reverse of what is the true reality of the economy. Sure, we see such things happening in this manner but it is ultimately because the ego-driven interventionists are using the economy to benefit themselves. What we are seeing is this: we are seeing what the economy looks like when it is in a corrupted state, and like it or not we happen to be living in a time such as this. Correcting this error can be considered as our great challenge.

THE GRACIOUS ECONOMY!

In truth the economy is a reflection of human cooperation. It is that and more. The economy has the potential to reflect all of the inherent qualities of mutuality and reciprocity residing in humankind. The economy exists because human beings exist. Its potential is their potential! “Acting and thinking man is the product of a universe of scarcity in which whatever well-being can be attained is the prize of toil and trouble, of conduct popularly called economic.” [19, p. 236]

The economy is whole. And there is no separation within it. Those who try to carve it up are interventionists and their acts corrupt the economy. We see nations trying to carve out their piece of the economy, acting like mercantilists and ignorant of the destructive nature of their actions. How then can we expect a corrupted economy to bring about prosperity?

It is our great challenge and our responsibility to dispel this ignorance; and the reason we must do this is because it affects us very deeply, every day and everywhere. This omnipresent impact stems from

the universal nature of the economy. Our permitting and tolerating of intervention affects ourselves, and it affects everyone.

What does it look like to have no intervention? Some see it as a free market economy. I see it as that and more. God created human beings and endowed them with His names and attributes. Using these, and developing these in conjunction and along with our fellow human beings, creates the sparks in time and place when there is the appearance of the economy in the world. Since the potential of human beings is divine—i.e., the possession of and manifesting of the attributes of God—so also necessarily is the economy.

It is the appearance of human virtues which acts like a lodestone. When a person exhibits truthfulness, all the relationships that depend on truthfulness—business and personal—are drawn to that person. It is the appearance of these virtues, and the attraction that they create, that bring about both justice and unity. These divine qualities that are inherent in human beings are ultimately the source of prosperity.

And it follows that taking notice is the key. First of all, taking notice is one of the defining characteristics of a human being. Humans take notice because they are always seeking: seeking what is best. Secondly, taking notice is an incredible power and a motivating force. It is what causes us to seek loyal friends, honest partners, creative teachers, etc.

This inherent drive is all about being alert. Seen in this way it is evident that even entrepreneurship is essentially an exercise of a part of our spiritual reality. Those who exhibit praiseworthy characteristics will be found. And it is the desirability of human virtues that will continually move human civilization towards prosperity.

For centuries we have tried to direct the economy. It is now time to recognize the economy as a divine institution that encourages human development and brings about prosperity. The other way—intervention—is divisive and its failure is all around us and is progressively worsening. This shortcoming is necessarily so because intervention causes a corruption of the divine economy.

At the most basic level what we are talking about is a spiritual solution of the economic problems. By definition, a ‘foundation’ is what everything rests upon. Void of the spiritual qualities—the attributes of God—what kind of foundation is the economy built upon? It is clear that now is the time to leave the outworn ideas of intervention

behind because they offer no foundation and also because acts of intervention disrupt the flow of information and corrupt the potential of the divine economy.

In this book I find a logical starting point, despite the disparate views within economic circles. Next I build a model that allows you to be directly engaged in the process of the merging of science and religion. This will be a truly a remarkable experience for you since it is a brand new concept in the world, never done before, and you will be among the first to go there. Then I offer you, the reader, a strong economic foundation to counter the naysayers—and there will be naysayers!

Next, what follows in the book is a practical connection of theory, and of the model, and of how our economic life works, with examples that demonstrate how values originate. And finally I show that it is the entrepreneur who emerges, rising like a phoenix, as the one who activates all of the powers in the economy.



Chapter 1

What's Inside?

Is it a Gem?

PREFACE

The gift is wrapped and for this reason we do not know what is inside the wrappings of the beautiful tapestry. There really is only one way to satisfy our curiosity. Unless and until we faithfully unwrap the covering no amount of imagining will make it real. As soon as the contents are revealed by disrobing the gift, a whole new reality bares itself and everything changes.

In parallel how can it be regarded as satisfactory to have economic theory that does not fully encompass human nature or adequately serve humanity? Until there is such a comprehensive theory it can be said that economics still is in its infancy.

Until economic theory achieves that pinnacle it will continue to be inadequate and everyone will suffer. However, once that pinnacle is attained it will be like the monumental difference that occurred in medical science after the acceptance of germ theory compared with before. It's like knowing what is inside the wrapping.

WHERE DO WE GO FROM HERE?

Once that important threshold is reached, new vistas will open up. Try to imagine the difference! In economics it will be like the difference between being considered 'the dismal science' and being considered the science of human action—and even more monumental—being

considered the science of purposeful action by spiritual beings! The excitement builds! What is inside?

Imagine the difference in your life and the life of your children when what will be understood as the source of prosperity for you and for everyone is the acquisition of noble traits. The economic ills associated with contrariness will disappear. Imagine the effect on business ethics and consider the high attainment of civilization when entrepreneurial alertness is directed towards refinement of human virtues. Maybe what is 'inside' us is just as much a mystery and just as much a gift!

Although at first it may seem like a contradictory objective, it is the goal of this book to look at the real world and its circumstances in order to gain an understanding of the divine microeconomy. The choice of this goal is motivated by the search for an understanding of the economy that is logically whole. Getting there will require an effort to either find a bridge or to build a bridge between the spiritual foundation of the human being and the economy, and then to show how that foundation manifests itself in the realm of action.

“Acting man is always concerned both with “material” and “ideal” things. He chooses between various alternatives, no matter whether they are to be classified as material or ideal. In the actual scales of value material and ideal things are jumbled together. Even if it were feasible to draw a sharp line between material and ideal concerns, one must realize that every concrete action either aims at the realization both of material and ideal ends or is the outcome of a choice between something material and something ideal.

Whether it is possible to separate neatly those actions which aim at the satisfaction of needs exclusively conditioned by man's physiological constitution from other “higher” needs can be left undecided. But we must not overlook the fact that in reality no food is valued solely for its nutritive power and no garment or house solely for the protection it affords against cold weather and rain. It cannot be denied that the demand for goods is widely influenced by metaphysical, religious, and ethical considerations, by aesthetic value judgments, by customs, habits, prejudices, tradition, changing fashions, and many other things. To an economist who would try to restrict his investigations to “material” aspects only, the subject matter of inquiry vanishes as soon as he wants to catch it.”[19, pp. 233-4]

WHAT ARE THE BASICS?

To start we will consider demand theory which can be described more accurately by the designation 'consumer demand theory of value.' The reason this is an important clarification is because it identifies the consumer as the source of demand and indicates that it is the consumer who determines value. And since each human acts as a spokesperson for himself or herself it can be said that we make decisions subjectively.

It's decision time! When the time and place comes for a decision to be made it occurs at the margin, and it pertains specifically to a marginal unit. For example, an individual knows the value of an apple but is not concerned with the total value of all the apples in the world.

It is also true that each of us prioritizes our needs. If you are hungry, you will value an apple more than a pencil. This prioritizing is done ordinally not cardinally so, at the time and place of action, it matters not if the apple is twenty times or two times more valuable than the pencil—the apple is simply, subjectively, and ordinally preferred.

How do we do it? There are certain resources that serve as the means to be used towards the goal of achieving your ends. Economics is the "science of the means to be applied for the attainment of ends chosen." [19, p. 10] Humans like you and I take courses of action, using various means, which lead to an improved state of being. The applied science of economics pertains to productive efforts of any kind that are made to attain ends that seem to be within the realm of possibility.

What is the lingo? The scientific terminology that describes the operating power of the microeconomy is equilibrium and its tendency. That is what moves it! For example, the price system works like the governor of an engine. If the engine begins to run too fast the operating power of the governor slows the engine. The same moderating effect occurs if the engine is being bogged down and strained, with the governor accelerating it to bring it into balance. If the price for a good is too high the demand will lessen causing changes in the system until demand and supply are balanced.

Let it be stated that there is some compatibility between contemporary microeconomics and the new idea which is presented in this book. The new idea about to be introduced in this book is the divine microeconomy. But before I introduce more about the divine

microeconomy I need to make sure that you understand that there are conflicting views in the economic literature and the economic profession about how to approach the subject of economics.

WHICH APPROACH TO TAKE?

The standard version is what is called the contemporary price theory, the version of microeconomics that adopts the neoclassical methodology of empiricism. It is the present day school of thought that follows a lineage of Adam Smith, then Ricardo, Mill, Marshall, and Chamberlain. It was out of this tradition that the idea to dissect the economy came from. The economy was separated and partitioned into different parts and subsequently into micro and macro.

The predominant characteristic of contemporary price theory is its empirical equilibrium analysis. Out of this approach sprung the labor theory of value and the familiar Chamberlainian models of perfect competition, imperfect competition, oligopoly and monopoly.

What is overlooked and forgotten is that these Chamberlainian models are built upon specific mental constructs. The starting point for all of these empirical models is the assumption of equilibrium. They are in the state of equilibrium. In other words, nothing is moving them away from where they are!

Consequently and ironically there is no competition for the consumers' choices in the 'perfect competition model' (no deviation from the practices of the other producers) since supply equals demand in this balanced state of equilibrium. In these models the entrepreneur is seen as a *profit maximizing decision-maker* which leads to the conclusion that the entrepreneur is *responsible for the appearance of a monopoly*. With all due respect these are two examples of the economic fallacies (italicized in the previous sentence) that stem directly from the use of the empirical methodology, a methodology which, frankly speaking, is not suited for economic science.

The alternative approach which evolved concurrently from different minds is the science of economics that developed within another lineage. That lineage is comprised of the Spanish Scholastics and the French and Continental economic thinkers—a branch of economic thought which is regarded as the classical liberalism tradition. In the mid to late 1800's

there was a rekindling of this tradition. The lineage of this rejuvenated tradition extends to the present: beginning with Menger, continuing through Böhm-Bawerk, Mises and Kirzner; which brings this school of thought to the current microeconomic theory of classical liberalism—a theory best described as competitive entrepreneurship. [8]

The principal characteristic in competitive entrepreneurship is its analysis of the economy in disequilibrium since the economy is always in disequilibrium—tending toward equilibrium. In contrast to the neoclassical theory, the forces of equilibrium are unsettled and in disequilibrium and are always active, moving, and pressuring the economy. The application of the methodology of classical liberalism introduces the concept of subjectivism which then permits the study of economics to proceed as a qualitative science rather than a quantitative one. After all, economics is a philosophical science not a mathematical one.

You and I know what we value. The value scale that people use in real life is subjective. It reflects the subjective value of the marginal utility derived from each good and it reflects the ordinal (rather than cardinal) nature of value.

From this subjectivist perspective it is the entrepreneurs who are seen as the persons acting upon their awareness of price discrepancies within the economic system. The firm is seen as a combination of the entrepreneur and the resource owner. From this perspective it is understood that it is the resource owner that is responsible for monopoly.

Notice the vastly different conclusions (specifically how these two approaches regard the role of entrepreneurs and the cause of the origin of monopoly) that result from these different perspectives! These total incompatibilities make it clear that only one approach can be correct.

Traditions tend to be adhered to but not all traditions are valid. Contemporary price theory (Marshallian/neoclassical) treats competition and entrepreneurship in an unsatisfactory manner. Contemporary price theory adopts a fictitious 'economic man' (*Homo oeconomicus*) to facilitate the use of its mathematical models. *Homo oeconomicus* is a simple one-dimensional entity that (not *who*) maximizes material wealth. This one-dimensional entity can be traced directly to the use of an empirical methodology and its equilibrium analysis.

The belief that economic science has to be empirical to be valid is at the heart of this approach. This stems from the time when all the

sciences were newly developing in the 1800's and when social scientists had what can be called 'physics envy.' These positivists believed that only by adopting the methods used in the natural sciences, such as physics, could the social sciences develop.

But science has since moved on. No unbiased thinking person sees business firms in the real world as passive price takers, operating in a state of 'perfect competition' where they are locked into a world where nothing changes. It is erroneous to depict 'perfect competition' as a market packed full with no room for anyone else and where each participant is too weak to effect any change in price. Competition means the exact opposite in the real world!

Does contemporary price theory meet the market test? Equilibrium is the tendency but the never-arrived-at-state, so why pretend otherwise? Humans are active and creative rather than passive, automated and mechanical. We want realism in our science so why not analyze the economy as it is, rather than as an imaginary and unrealistic model?

What we know to be true is that human beings act purposefully and that human beings are social creatures; so they cooperate. Which begs the question: What about action? "Action always is essentially the exchange of one state of affairs for another state of affairs." [19, p. 194] It is always our intention to remove uneasiness and to become better off and to improve. However:

"Strictly speaking, people do not long for tangible goods as such, but for the services which these goods are fitted to render them. They want to attain the increment in well-being which these services are able to convey." [19, p. 233]

The objective, the goal of improvement is the attainment of an 'end.' Generally there are many ways and means available to use to reach those ends and so the natural tendency is to pursue the means of division of labor, which is what enables everyone to contribute in the economy. Isn't this how you function: finding the best way for you to achieve your personal goals?

Economics is the study of the ways and means to attain the ends. Even at this most basic level it is clear and evident that 'purposeful acts' and 'improvements' are not restricted to material goods and services and go beyond mere dollars and cents. There is a qualitative aspect

to all human action that is not subject to quantification. Empiricism cannot go there.

This is the reason why the divine microeconomy model, unveiled in Chapter 2, is so significant and powerful, and I must say, timely. And so the truth of the matter is—economics goes beyond the numbers, and even the subjectivist approach to economics continues to advance just like all good science does.

The underlying force of the subjectivist methodology is deductive logic. Deduction moves from theory to facts, from cause to effect, from general law to a particular instance and it is independent of observation.

Subjectivism is the appropriate scientific methodology for the social sciences since you and I make decisions subjectively. For example, the subjective theory of value states that economic goods are “valued subjectively in terms of the satisfaction that the user expects to derive from the incremental use.”[15, p. 7]

It is from the exercise of deductive logic that it can be said that: 1) all economic propositions are demonstrably true; 2) that the conclusions are arrived at by working from something that is already known to be true or self-evident; and 3) that they are empirical in the sense that they say something about *real* things.

The best way to prove that an economic theory is about real things is to put it to the market test. We know that the economy is always in disequilibrium tending towards equilibrium. The status quo for disequilibrium is imperfect knowledge and uncertainty. Simply stated, imperfect knowledge and uncertainty are the reasons why the economy always has to be in disequilibrium.

As described by Nobel Laureate F. A. Hayek: information exists “solely as the dispersed bits of incomplete and frequently contradictory knowledge.”[5, p. 519] Yet it is our encounters with these bits of knowledge that trigger our responses. Then through a series of systematic changes in the matrix of market decisions the market process manifests itself. A sequence, a process, ensues.

The market process is the appearance of this disequilibrium in an active form. It becomes manifest and evident in the form of a price. Manifestly, “the ultimate source of the determination of prices is the value judgments of the consumers. Prices are the outcome of the valuation preferring *a* to *b*.”[19, p. 331] In other words, people give things value.

Why is it so relevant to compare and contrast these two micro-economic theories? To address the relevance of examining the two different approaches to microeconomics I offer the following analogy to emphasize the contrast between contemporary price theory and the competitive entrepreneurship theory. Here is the analogy. The trajectory of a bullet is greatly affected by having the correct bearings at the start. If the bearings are incorrect at the beginning the bullet will miss widely.

We have been considering the realism of these two theoretical approaches, doing so by applying both the market test and logic. If the methodology used is inappropriate the end results will be way off. Real world competition is in no way represented by the 'perfect competition model' which was mentally constructed to just sit and be at rest in the state of equilibrium. In contrast, competitive entrepreneurship is intensely present in the 'real world' state of disequilibrium, as confirmed by the market test. Logic and the market test both make it clear then that the disequilibrium approach is the one that started by using the correct bearings.

The disequilibrium view of the economy, discovered by using the subjectivist methodology, shows that it is the 'market process' where communication and coordination takes place. And it follows logically that acts of intervention impede rather than improve the market process. Notably, those persons who are involved in conducting business and also the entrepreneurs; it is they who are the gems in the market process since they decipher the market information and activate production. Everyone, themselves included, need to know that what they do is extremely beneficial to humankind.

It is my proposition that there is a more insightful definition of, and term for, 'equilibrium' and its irrepressible tendencies. That designation is 'divine economy.' This new designation acknowledges the inherent divine nature of the human being. And it is this divine nature expressed as purposeful action which serves as the building block for the new model.

Consider the logic of a circle. It has no beginning and no end. It is self-contained and whole. Its dimensions are in balance and it is symmetrical. These qualities are symbolically compatible with the concept of equilibrium.



Diagram 1a: New designation for equilibrium

Circles are seen throughout creation, occurring naturally in organic and inorganic forms. Throughout history humans have attributed much significance to all of these qualities of the circle. Now I am using a circle to symbolize the core, the nucleus of the economy. Although the force of equilibrium has no boundaries, unlike the line representing the circumference of the circle, the concept of the centrality of the force of equilibrium in the economy is the dominant feature in the simple model shown in Diagram 1a.

Because of its infinite nature I have chosen to designate the force of equilibrium by a new name. I call it the divine economy.

The economy is a uniquely human institution and the economy works according to its inherently divine nature and its inherent divine power. Implied by this definition, therefore, is that all intervention is artificial and a source of corruption. The equilibrating tendency of the divine economy will eventually destroy any and all of these artificialities.

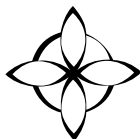
Before examining in more detail the divine microeconomy model I want to return to the logic of deduction. In my first book in the divine economy theory series, *MORE THAN LAISSEZ-FAIRE*, I introduced the Divine Economy Model©. The Divine Economy Model© is broad and general relative to the model that is newly introduced in this book—the Divine Microeconomy Model©. Following the deductive process I take the Divine Economy Model© and individualize it by going through a series of derivation steps, steps that define the Divine Microeconomy Model©.

In any real sense there is no separation between macro and micro, however, *deducing* by *reducing* takes the model closer to the realm of individual actions, to the realm of our immediate surroundings. And as a consequence new vistas open, as you will see.



Selected Exercises

1. How does contemporary price theory differ from competitive entrepreneurship regarding equilibrium and entrepreneurship? Can they both be correct?
2. In what way does tradition contribute to science and in what way does it stifle science?



Chapter 2

The Essence

Divine Microeconomy Model©

PREFACE

Inside the vessel that was carefully wrapped in the tapestry is a tinted liquid with a slightly viscous nature. It adheres slightly to the vessel walls as it is tilted back and forth. The impression given is that as soon as the stopper is removed a magical fragrance will waft through the air like an aromatic cloud. Excitement builds! No longer able to resist the urge, the stopper is purposefully extracted from the vessel and all of a sudden it is like an olfactory paradise. So palpable is the ecstasy caused by the released essence that the mind seems to register birds warbling their melodies and thunder rumbling in the distance! All things appear as new and organic.

DIVINE MICROECONOMY MODEL ©

This will be a model building experience for you. You may have never had an opportunity before to proceed step by step in an economic model to reach a coherent end. Additionally remarkable, this will be your chance to see first hand how to build a bridge between science and religion. Take your time and enjoy the process.

To begin I need to extract the Divine Economy Model©, Diagram 2f from Chapter 2 in the book entitled *MORE THAN LAISSEZ-FAIRE*. [9, p. 21] In this book that you are now reading, *The HUMAN ESSENCE of Economics*, I will not go into the details about how that divine economy model was formed and developed.

Our starting point will be the same as Diagram 2f entitled “the complete Divine Economy Model independent of time.”

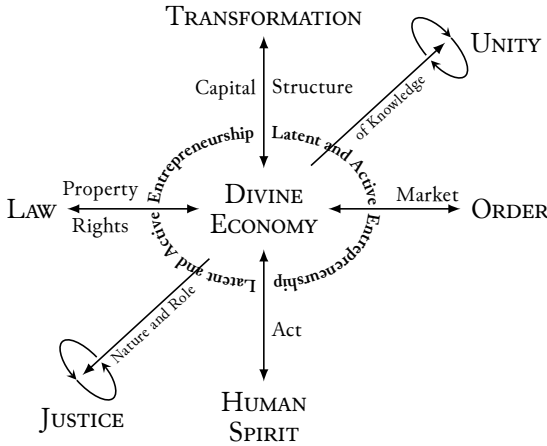


Diagram 2a: The complete Divine Economy Model independent of time

This is quite a complex and dynamic model in all of its applications but what we will take note of here, in particular, is that it is more than a two dimensional model. I now call your attention to the description of the model; notably when the model was transformed from the “Modus Operandi” stage to the “Driving Force of the Divine Economy Model” stage in the process of the unfoldment of the Divine Economy Model ©.[9, pp. 19–20] It is clear from the following description that it is more than a two dimensional model: “The next modification of the divine economy model stretches the imagination a little by adding a depth dimension. This can be grasped fairly easily by imagining the modus operandi of the divine economy . . . as submerged in a bowl of water. The water that surrounds and supports the model represents latent and active entrepreneurship.”

A more traditionally geometric way to see how the divine economy model takes on a higher dimensional nature comes on pages 20 to 23[9] when there is the addition of the axis called “The Nature and Role of Knowledge.” You are probably familiar with three dimensional graphics which show what results from the addition of a z axis to a two dimensional graphic with an x and a y axis.

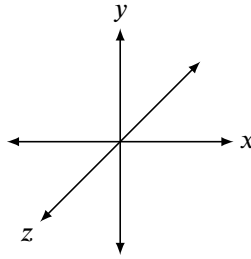


Diagram 2b: A standard three-dimensional figure

In this case we will assume that the “Nature and Role of Knowledge” axis is the z axis and imagine again that the three dimensional model is submerged, immersed in a matrix of latent and active entrepreneurship.

We will now begin assessing the divine economy model from specific vantage points for the purpose of achieving the objective, which is to create the divine microeconomic model. The vantage points will be the end points of each of these principal vectors; x, y and z, looking toward the center of the model. The center of the model represents the equilibrating power which in this model is referred to as the ‘divine economy.’

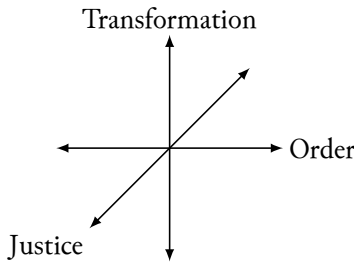


Diagram 2c: x, y, and z vectors of the Divine Economy Model

Looking toward the center from the vantage point of the end of one vector, opens a vista of a two dimensional plane defined by the other two vectors (see Diagram 2d).

This two dimensional plane can be seen not as different from planes that are very familiar to us such as a canvas of a painter, a tablet for verses, or a tapestry of fabric. Now is the best time to mention that all good science comes when science is artfully applied.

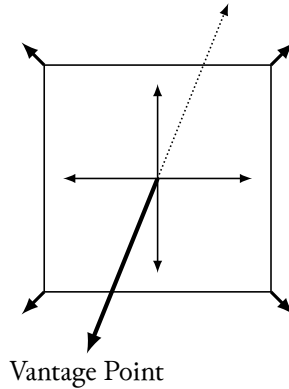


Diagram 2d: Vantage point view of the two-dimensional plane

The best in their fields of expertise are those who know both the art and the science of their profession and apply it wisely. This tapestry concept for the two dimensional plane is a reminder that there is an art to the application of economic science.

I will now introduce the first stage—the Vantage Point Planes—of the divine microeconomy model. This first stage will show the model as a tapestry from a series of perspectives, as mentioned earlier; perspectives from the ends of each of the six vectors: $-x$, $+x$, $-y$, $+y$, $-z$, and $+z$.

The x axis in the divine microeconomy model is represented by Law ($-x$) and Order ($+x$). The plane designation corresponds with the vantage point, so the Law/Order planes are seen in Diagram 2e.

The y axis in the divine microeconomy model is represented by Human Spirit ($-y$) and Transformation ($+y$). The Human Spirit/Transformation planes are seen in Diagram 2f.

The z axis in the divine microeconomy model is represented by Justice ($+z$) and Unity ($-z$). The Justice/Unity planes are seen in Diagram 2g.

Notice the pattern that I chose for labeling the planes, first one plane then the second one separated by a forward slash (e.g. Law/Order Plane). Although arbitrary to some extent, this naming pattern is motivated strongly by an understanding of cause and effect. Not in an absolute sense do things proceed in this manner but nevertheless there is a very real tendency for this pattern to be the dominant one. For example, if there is justice, unity can be established.

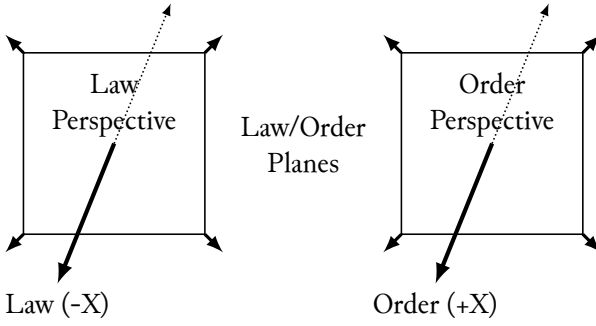


Diagram 2e: View of Law/Order planes

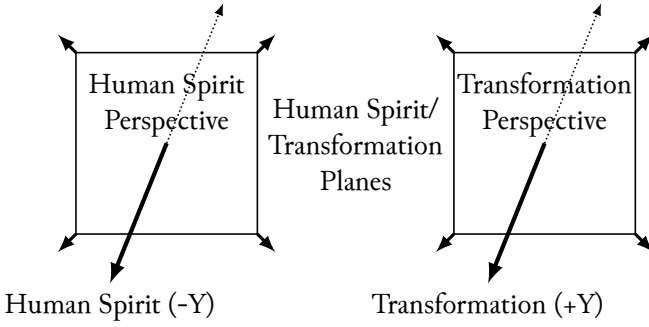


Diagram 2f: View of Human Spirit/Transformation planes

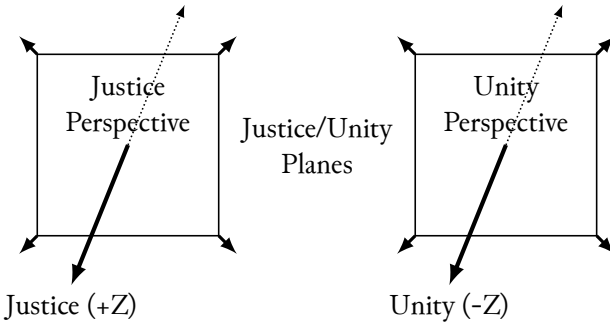


Diagram 2g: View of Justice/Unity planes

What is woven into the fabric of each of these tapestries? What is written upon these tablets? What is painted upon these canvases? The answer: human virtues!

The second stage of the divine microeconomy model, Virtues Akin to the Vantage Point, will be gone into more detail in Chapter 4. Suffice it to say that all these planes are the seats of the human virtues akin to the name of the vantage point. For example, those virtues which reflect the ideal of unity reside on the Unity Plane.

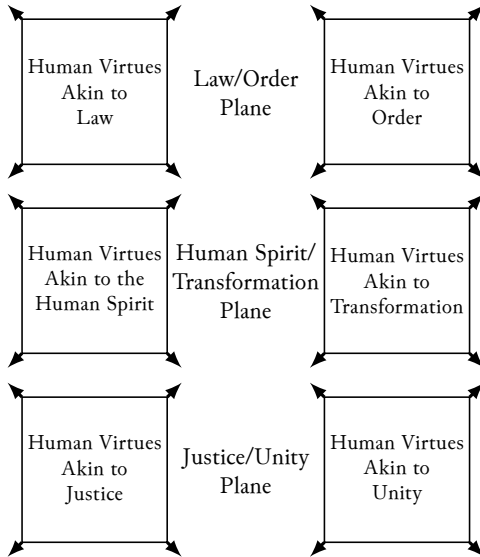


Diagram 2h: Virtues akin to the vantage point

The third and final stage of the divine microeconomy model, which is a divine microeconomic tapestry, incorporates two concepts that are deeply rooted in the human psyche. Our human logic and our understanding of the nature of the origin of things make these two concepts an essential part of human existence. One concept is cause and effect. The other concept is east and west. Both of these concepts appear to be strongly directional; from cause to effect, from east to west. However, the fact that new cycles can and do begin from the end-result shows an important degree of reciprocity.

Stage three introduces cause and effect, and east and west, by adding the element of service to the element of virtue. The symbolism of

east and west is compatible with the cause and effect, producing the following pattern: virtue leading to service (or product) which then may stimulate a new cycle. The idea that the acquisition of a virtue (cause) leads to service or a product (effect), which may *inspire* a *desire* to *acquire* more virtue(s) or service, fits the purpose of this model.

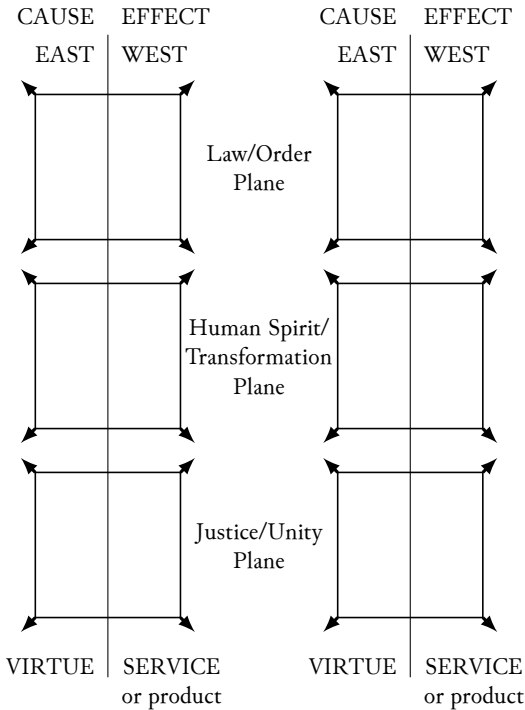


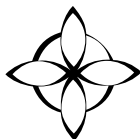
Diagram 2i: Divine Microeconomic Tapestry (also called the Divine Microeconomy Model ©)

Just like the Divine Economy Model ©, this Divine Microeconomy Model © is a complex and dynamic model. Its symmetry and reciprocity carry its essential simplicity forward, making practical applications of the model a real possibility. In essence this is a very powerful economic model!



Selected Exercises

1. Look at Diagram 2a for a moment or two and imagine it as something dynamic and organic. Now align yourself so that you are positioned to look directly along one of the vectors towards the center of the model. Which plane have you chosen to examine?
2. Ponder a moment and then name a virtue that would reside on the plane that you chose. What service to humanity that is valuable in a contractual society emanates from the virtue that you identified to be on the plane that you chose?



Chapter 3

Strands of the Fabric

Core Economic Concepts

PREFACE

Remembering how silky soft and fine the tapestry wrap felt to the touch we return to examine it more closely. Instantly, and also after thorough examination, the delicate nature and fairness of the silk strands intrigues us. If the strands—the most basic element of the tapestry—are nearly perfect in quality then the potential value of the tapestry must indeed be irrefutably very high. Such is the case with this loving gift.

THE ELEMENTS

We are about to closely examine how it all works—in the language of economics. The purpose of this chapter is to lay a foundation that cannot be refuted by those who may want to claim that there is no scientific economic rationale behind my model.

I included this rigorous exploration of economic concepts to combat the naysayers. My examination of the core economic concepts is organized in a different manner than usual, and so for this reason, you may find it quite interesting. If you want to stay engaged in reading this book but do not want to go deeper into basic economics, jump directly to Chapter 4 at this point!

As humans we share a pool of knowledge that holds certain concepts and motivations as true. For example, we perceive time as omnipresent and we recognize that our lifetime represents a scarcity of time.

Another way to describe this is to consider our wants. Our desires or wants are unlimited, however time is limited. We find that all of our wants are competitive with each other yet there is a scarcity of means. Nevertheless, whatever it is that we desire, whether it is a material thing or something else, these still remain the object of our quest.

This pursuit—our quest—is selfish (subjective) even if it happens to be a noble deed such as an act of generosity, since we are the ones that know our own selves and we act in our own behalf. Even if we can change our minds about what we consider to be the most valuable ‘thing’ to us, nevertheless, always what we value is undeniably given a subjective value by us.

In this matrix of people, time, and other resources—the economy—there exists the very great spark of human intelligence. Economic events are causal and complex but the laws that operate in this matrix are simple and universal.

Where do we begin this examination? Everything is so interconnected and interwoven. Wherever we start there will be abundant and continual overlap.

Our goal will be to try to focus and refocus on the individual, to keep ourselves in the microeconomic realm. This is not as easy as it sounds since humans are social beings and prosper in a cooperative society, a contractual society. The prosperity that applies at the level of the individual—like the benefits of voluntary exchange—applies in a comparable manner at the macro level where it would appear as the benefits of trade.

Nevertheless we can and will stay focused. We will accomplish this by adopting the vantage point of the entrepreneur. It is from that point that we will view the microeconomy.

The reason the entrepreneur is the key player in the economy is because of imperfect knowledge. It is the entrepreneur who *seeks information* through the experience of active and alert participation. This is significant since the market process is a discovery process, unfolding through time. The entrepreneurs are the driving force, always moving the economy towards equilibrium.

I dedicate Chapter 6 to entrepreneurs everywhere, by setting it aside to explore their action logic. Now the task at hand is to examine the core microeconomic elements. The core elements are: the individual, demand and supply, prices, production, and profit and loss.

THE INDIVIDUAL

Nothing could be *more* at the *core* than the individual. It is from the very essence of the human reality that both human reason and human action flow since they are ‘different aspects of the same thing.’ [19, p. 39]

Action is taken at discrete times and places and circumstances rather than in infinitely small intervals along a continuum. Each action rests upon a subjective valuation which is why subjectivism is the appropriate scientific method of analysis.

Individuals progress day by day and moment to moment. This is all a part of the learning process. As a consequence of the learning process there is a pattern of change in an individual’s decisions. The unfolding experience of the decisions themselves becomes part of the learning process with the goal being to remove uneasiness and to make oneself better off, that is, to survive and to prosper.

There is a conscious effort aimed at the attainment of the goal. Subjectivism recognizes that the seat of power rests with the individual. Every act of choice or preference entails a sacrifice, an opportunity cost. This subjective valuation is the origin and source of value for all things. Each marginal unit is given a subjective value and each additional unit of a specific good has diminishing utility and therefore diminishing marginal value.

Implied in the action at the margin to achieve one’s goal is the use of means. It is the goods or the means capable of satisfying our wants that we value not the wants themselves. These goods and means are used to exchange one state of affairs for another.

This can happen by barter but the truth of the matter is that we are in a relatively modern era of economics for the simple reason that a more efficient method of the means of exchange—money—predominates.

Once money was developed to facilitate indirect exchange, prices emerged. But don’t be fooled by prices. Know what they represent. Subjective values are ordinal not cardinal so the exchange price is sufficient for the exchange to occur, but it is not an objective valuation. Exchange takes place because there is a double inequality of wants between the trading partners. Each market participant values what they get more than what they give up. This interconnectedness with others brings about relative prosperity resulting from maximizing exchange transactions for mutual benefit.

Exchanges also represent valuable learning experiences. This learning process is more formally described as the market process, which is the ‘place’ where people embark on a knowledge gaining series, *each one more competitive than the preceding period*. It is impossible to have an economy without the market process.

In this marketplace world there is division of labor; individuals acting as resource owners and entrepreneurs and capitalists and laborers. Individuals exercise their property rights, they voluntarily exchange, and by taking human action they convey to the rest of the world their sovereignty as consumers—to be served by the market.

So despite the fact that there are latent elements in the economy and that sometimes resource owners and consumers are price-takers, the market operates—thanks to those who are the alert to opportunities. The consequence of this competitive entrepreneurship is the connecting of the desires of the consumers with everything needed to satisfy those desires. Take a moment to think deeply about the following statement: resource prices or ‘costs’ are derived from the expected prices of the consumers’ goods that the resources were used to produce. In other words, all values throughout the market are attributed to the values ultimately given by consumers.

One thing we know for sure is that everyone prefers to have lower prices and better quality. Not coincidentally this is the direction of the forces of competitive entrepreneurship. Immediately it becomes clear that competitive entrepreneurship serves everyone by bringing about lower prices and higher quality.

Competition and entrepreneurship are analytically inseparable in the market. The entrepreneurial alertness to these hitherto unnoticed opportunities is almost always exercised throughout the economy by many individuals at the same time. It is not the entrepreneurs who are generating the opportunities *per se*, but rather, alertly responding to opportunities is their function in the market.

The individual, referred to in the economic literature as ‘*Homo agens*’ is endowed with the propensity for alertness. Alertness is why the market is universally a learning experience and why fresh goals are continually surfacing and why previously unknown resources are discovered.

And finally let it be known that individuals are at the beginning of it all, their subjective value is at the origin, and it is their decisions

about what to consume that is ultimately the sovereign mandate. Business firms do provide a vital function but ultimately it is the individuals who need to protect economic freedom. That is their right and their responsibility.

DEMAND AND SUPPLY

Proceeding now into another aspect of economic science we will examine the law of demand. The demand curve is 'falling' because it is rooted in marginal utility. As you and I—consumers—see it: as the number of units of a particular good increases each one satisfies a lower degree of want so the chance that the marginal utility of a good exceeds the price of a good is greater as the price lowers. As prices go down the quantity demanded goes up. Translation: people prefer lower prices!

Demand is not the same as wants. Wants are unlimited whereas demand is a function of purchasing power. Therefore demand ultimately comes from productive effort and the income derived from that effort. Demand for a good indicates the preference for acquiring a good or service at the various prices. The demand then is a representation of the response to price. The lower the price the more will be purchased. It is the quantity demanded that changes as prices change.

Supply, on the other hand, is what is necessary to overcome scarcity. Since the wants are unlimited but the means are limited it is production that ameliorates this condition. In other words, production is the source of supply. Changes in demand and supply manifest themselves in the market as the dynamic and ever-present disequilibrium.

At any specific point in time production has already occurred and there is a certain market price where exchanges are taking place which means that, right then and there, the supply curve is vertical. The 'snapshot' taken at that specific point in time is not realistic in terms of it being economically comprehensive, but it will nevertheless prove to be instructive. See Diagram 3a.

Ultimately it will be market demand that determines prices but consumers' preferences are dynamic, ever-changing. As a result, market demand is always veiled in uncertainty but the best way to find out more information is to enter into the marketplace. Producers do just that and they enter with a price in mind (not knowing the true market price), an

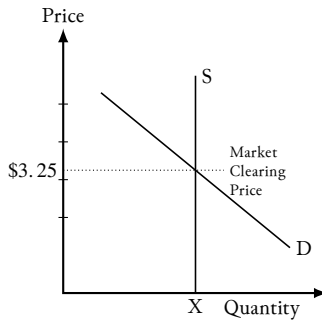


Diagram 3a: Snapshot of the demand, supply, and market price

estimated price that indicates to the producer that a profit opportunity exists. Thus a production plan is set forth in terms of the expected price per unit and the estimated number of units to produce.

Once the production program is completed the finished product will enter the market. Here is the snapshot of the market as faced by the producers for that particular planned sales period:

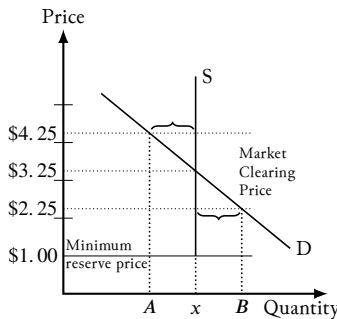


Diagram 3b: What is the market telling you to do?

The market clearing price is the price at which all of the product would be sold by the end of the 'planned sales period.' [14, p. 191] The minimum reserve price assumes that the product is non-perishable and could be put in storage for future sale if prices in the market are too low right now. In other words, no producer is willing to sell any units of the product below that minimum reservation price during this sales period.

Firms selling their product at the market clearing price of \$3.25 will be able to sell all of their products within that sales period. Now looking at Diagram 3b we can see what happens if the producer estimates the market demand incorrectly. Firm A expected to be able to get \$4.25 per unit but at that price not all units will be sold. There will be ‘x minus A’ number of units unsold ($Q_s > Q_d$).

The firm(s) selling at \$2.25 per unit will sell out before the end of the selling period ($Q_s < Q_d$). The shortage is represented by ‘B minus x’ with x being the units sold but B being the units needed to be sold in that sales period at that price.

If firms experience surpluses or shortages it is because they chose a disequilibrium price in their ex ante estimate. Ex post the market demand ultimately confirms or refutes the ex ante estimates of price and quantity. Adjustments need to be made and they are made.

Trying to portray a more realistic picture necessitates consideration of market disequilibrium and all of the systematic alterations in the pattern of prices and quantities, and also the systematic alterations in the pattern of product types and qualities, in an environment of competitive pressure. For instance, “a variety of product qualities may be produced for no other reason than that equilibrium has not been reached.”[8, p. 115] Crucial to understanding this series of systematic changes in the interconnected network of market decisions is recognizing how the competitive nature created by entrepreneurial alertness brings about changes in the buying, selling, producing and consuming decisions that make up the market process.

All of this dynamic action cannot be fully captured by a line graph. So what then is the relevance of the demand and supply curves to the

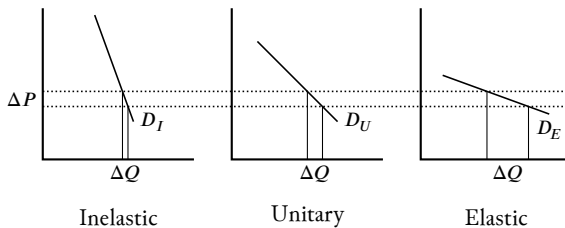


Diagram 3c: Demand elasticities

real world? The demand curve is a representation of the response to price. The more responsive to price, the more elastic the demand is said to be.

If the demand is inelastic there will not be much of a change in the quantity demanded if the price changes. If there is unitary elasticity the change in the quantity demanded will be proportional to the change in the price. If the demand is elastic the quantity demanded changes quite dramatically if the price changes.

The more choices there are in the minds of the consumer the more elastic the demand is to price. Necessarily the price elasticity faced by a firm is greater than for an industry. This is true because there are other competing firms to buy from, in other words, there are more choices.

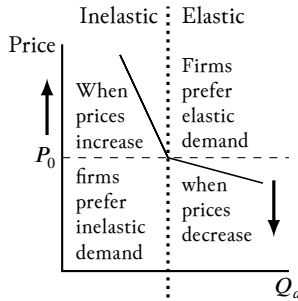


Diagram 3d: The ideal price elasticity from the perspective of the firm

Price elasticity reflects the complex interaction of close substitutes, competition, size of its relative price (e.g., consider the impact of a price cut on a high-priced item), the relative importance of the item (ones with strict minimum requirements), and the existing stock on hand; but it is consumers and not the firms that ultimately determine elasticity.

A businessperson, by the trial and error of changing prices (Table 3a), can get a sense for the degree of price elasticity within a certain price range associated with a particular product at a specific point in time. This very specific information—revealed as a total revenue schedule for that segment of the demand schedule—may have value in some cases.

The total revenue equals price times quantity ($TR = P \times Q$). Sometimes total revenue may not remain the same when the price changes. If a firm lowers (or raises) its prices the total revenue may

increase, decrease or remain the same. Refer to this equation, $TR = P \times Q$, when reading the next sentence. If P (price) decreases (causing quantity demanded to increase) yet total revenue decreases then there is relative inelasticity. The following table shows these relationships.

Price Change	Change in Q_d	Change in total revenue as an indicator of the degree of elasticity of demand	
$P \downarrow$	$Q_d \uparrow$	+TR	If Elastic
		-TR	If Inelastic
		No Change	If Unitary
$P \uparrow$	$Q_d \downarrow$	-TR	If Elastic
		+TR	If Inelastic
		No Change	If Unitary

Table 3a: How is total revenue affected by demand elasticities?

Here is another point of relevance: since firms face a more elastic demand curve than does an industry the equilibrium forces inherent in the market economy would tend to break any attempt to form a cartel. This is because: if a firm charges a lower price than the cartel price the result would be a significant change in the quantity demanded from the firm (drawing buyers industry-wide) and total revenue would increase for the firm. The increased total revenue is an irresistible incentive, enticing a firm to break the cartel.

PRICES

People value things. The things they value, and also the resources (factors) that are needed to produce those things, are valuable because they are scarce. Prices and scarcity are interrelated and interdependent but ultimately prices are determined by market demand.

Each thing is assessed independently, based on its marginal utility. The value of each thing is subjectively ascribed to it by individuals and is reflected in their purchasing decisions. Relative prices emerge as a result of this process in the market and they are the most widespread aspect of the market.

What does this process represent? “The market prices tell the producers what to produce, how to produce, and in what quantity.” [19, p. 258] It is the fact that people value things determinedly that leads to a fulfillment of their valuations.

Fulfillment of this valuation process is a description of what the market does. It is impossible to have an economy without markets. The market process is where the real world risks and uncertainties characteristic of the state of disequilibrium are overcome by the mechanism of prices and profit and loss, leading to the satisfaction of people’s needs and desires, even to the extent of capturing the non-price influences.

What is price? If I see the price go down for one of the goods that I desire, to me that is a good thing. A variant to this but still a ‘price’ is: if I see the quality of a good go up yet I still only pay the same price as earlier, that is a good thing. Both of these ‘prices’ are driven by equilibrium forces; the result of the forces of supply and demand. Decisions to buy and sell are pegged to this pivot, the price, the carrier of information.

Competitive pressures that occur in the dynamic state of market disequilibrium cause adjustments to be made in the pattern of prices and quantities but also in the pattern of product types and qualities. These pattern pressures influencing both price and quality are inseparable and analogous. The influence of the market forces affects prices, quantities and product qualities, styles, sizes, color, packaging and so on.

Prices also convey information to the seller. Their product is offered on the market at a speculative price but if the price is not ideal (equilibrium) the market feedback mechanism will send signals of disequilibrium. Unless the seller’s chosen price happens to be the market clearing price (equilibrium) potentially there will either be a shortage or a surplus of that good for that planned sales period. Price adjustments will need to be made.

In the real world, entrepreneurs and businesspeople are concerned with ‘prices’ because they affect total revenue ($TR = P \times Q$). In the real world, successful market clearing (optimal total revenue) is due mostly to good fortune. What are the chances that the entrepreneurial plans of the producer coincide exactly with the objective market conditions? Most of the time price adjustments will need to be made.

Resource prices (or costs) are proportional to the expected end value of the consumer good that comes at the end of the production cycle. “The prices of the goods of higher orders are ultimately determined by the prices of the goods of the first or lower order, that is, the consumers’ goods.” [19, p. 333] If the consumer doesn’t value some thing enough it will not be produced, neither will factors be used for that purpose. There are prices throughout the system and they all convey vital information.

Prices coordinate the system throughout all stages of production and at the end stage of consumption. From the end point the consumer demand infuses prices backward throughout the system. Ultimately, it is the consumers that determine prices and also the price elasticities of all goods and services.

It is towards consumer sovereignty, meeting their needs and wants, that producers must orient themselves. The firm enters the market with a price in mind but not knowing the true market price. Accordingly this producer has already committed to producing x units in this particular production cycle. This is the beginning of the drama that unfolds. In this opening act adjustments will need to be made. As the drama unfolds we encounter the unpredictable features of the market: uncertainty and changes taking place over time. It is an unending drama, richly human.

In a free market the equilibrium tendency drives the expected price of a good in the future (minus the pure interest) towards equalization with the price of a good in the present. There is also a tendency toward the establishment of a uniform price for the same good throughout the world which includes wage rates for the same degree of ability. These tendencies necessarily exist due to arbitrage which comes from awareness of price discrepancies and then action to capture the margins.

The ratio of the proportional difference between the expected price of a good in the future and the price of that good in the present, apart from uncertainty and risk, is also a price—pure interest—and it is an estimate of the time preference of that culture. It is this price ratio expressed as a percent that is a representation of time preference. The greater the time preference the greater is the pure interest rate. Time preference limits the investment of time, labor and land and therefore it limits the amount and structure of capital.

To continue to understand how prices coordinate the system throughout all the stages of production consider the difference between a good now and the same good a year from now. The price of the good one year from now equals the present price + costs of storage + allowance for the going rate of profit on the capital (based on the cultural time preference) that must be invested in storage.

Prices are infused throughout the economy and across the time horizon. As a result of competition and entrepreneurial action prices are imputed to each factor according to its marginal value product, which means—according to its productive share of the whole. Price formation in the market economy is the means of measuring the goodness of a good.

PRODUCTION

Producers serve either directly or indirectly. Production has value attributed to it subjectively by consumers because it ameliorates the condition of scarcity. Scarcity exists because humans have limited means but unlimited wants. Ultimately the purpose of production is consumption.

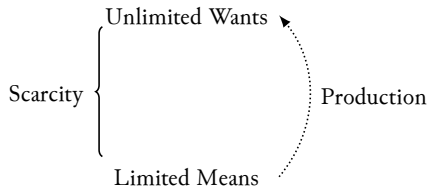


Diagram 3e: Scarcity and what alleviates it

Economics is the study of the means to attain the ends; so needless to say, production is a major economic topic. For goals to be met scarce resources are needed. Production is the conversion of resources into specialized goods and services through the division of labor. Goods produced either satisfy wants directly (meaning the actual consumption of the good) or indirectly by facilitating the production process, ultimately towards consumption.

The impetus behind production is the consumer's desire for better quality, more choices and lower prices. Of course, production is prior

to consumption. Consumers have the power to change the course of production by changing their spending patterns. Prices for factors come backwards from consumption and all of these market prices tell the producers what to produce and in what quantity. Being alert in this competitive environment, it is the producer who serves as a 'built-in' entrepreneur.

Production that leads to more choices, to better quality and/or lower prices raises the standard of living. Production will be either for direct use or a part of the market division of labor. Production that yields an increase in capital goods leads to a higher standard of living in the future.

One omnipresent limitation is time! Production takes time. And since production is a time consuming process it aligns itself with the time preferences of the consumers. Time preference for present goods manifests itself as a restraint on future goods, that is, on any and all such investment of time, labor, land and capital. Prices throughout the economy serve to convey this differential information.

The producer, acting like an entrepreneur in a competitive environment, searches high and low for profit opportunities. The producer (*as if it is easy*) merely needs to know where to buy resources at a price worthwhile to produce, such that the product can be sold at an attainable price in the future! Once found the producers' actions signal that a discovery was made.

The first stage of production just after this 'discovery' is *ex ante*; estimating, speculating, planning and investing. The second stage follows, which is the act of physical production signaling that a previously unperceived revenue possibility may indeed have been found. This is the 'announcement' made by beginning production.

As part of the production process there is what is called a derived demand for factors of production. Resource owners who find the payment offered by producers sufficiently attractive to make them willing to sell their resources do so. Wage earners fit into this category. Resource owners can also play the role of a capitalist if they are willing to sell their resources under an agreement which promises them revenue only at some time in the future.

Once labor is added to other resources it becomes either a capital good or a final consumption good. What is a capital good, or another

variation on that question, what is capital? “Capital is a way station along the road to the enjoyment of consumers’ goods.” [13, p. 52] Seeing capital as ‘works in progress’ demonstrates that capital has time structure.

Production requires investment. Capital is savings and investment that pays resource owners now even though there is no revenue yet. However, capital is not an independent productive factor since it depends on land, labor and time for any and all capital to accumulate. Again, saving and investing are necessary to build anything.

The time market, where the interest rate is the all-important price, permeates the entire production structure. Since there is alertness to all price discrepancies, the interest rate will tend to be uniform within and across the various stages of production (when there is no intervention). There are competitive pressures that cause this tendency; and these competitive pressures come from the purchasing of producers’ goods and services of any and all kinds at any point throughout the production structure of the economy. It turns out that this type of credit—taking advantage of the capital made available by these resource owners—is an even more important use of the ‘time market’ than the loan market.

Practically speaking there are two types of productive endeavors in the economy. Either long processes that are more productive or short processes that are less productive. These have to be chosen from and it is a relative abundance of savings and investment which makes it possible to choose the processes that take a long time.

There are three types of production for use-value. The first one is production for a more useful *form*. The second is production for the *place* more preferred or more valued. And finally there is production that is made available at a more desirable *time*. Capital and especially the combination of capital and storage make time production feasible. Producers’ goods are examples of time use-value.

Due to the equilibrating power of arbitrage the economy operates and is characterized by the tendency towards the principle of uniformity-of-profit. This is what keeps in proper balance the production of all types, and of all of the different items that are directly or indirectly necessary for our survival.

If in any one period the competitive process comes to a halt it does not mean a failure of the process. Disequilibrium—the real world condition—is characterized by widespread ignorance, meaning that

despite all the alertness that market participants have they still are unaware of all of the opportunities that exist. In this sense the competitive process is in a ‘potential’ state but as soon as the opportunities are perceived they will be pursued in a most competitive way.

From beginning to end what does production look like? “The production process of a typical ‘commodity’ consists of raw materials which must be gathered and worked on. Machinery and other factors used in production must be obtained, set up, repaired, etc. When the final product emerges it must be insured, transported and kept track of. It must be advertised and retailed. Records must be kept, legal works must be done, and the finances must be in good order.” [2, p. 166]

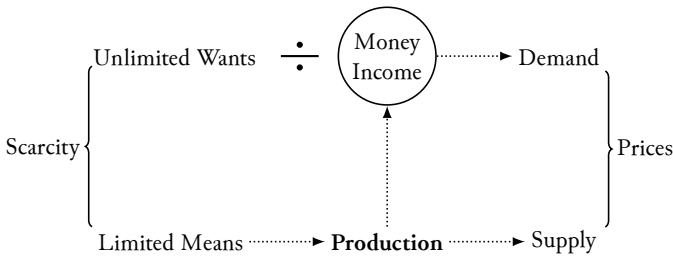


Diagram 3f: Production as the progenitor

The producer estimates the selling price and the numbers of units to produce for the first planned sales period. As the results in the market become known adjustments are made to minimize disappointment before the end of the planned sales period. At the same time a new strategy is formulated for the next time around, fully aware that the market is always changing.

Some empiricists try to dissect production for the purpose of examining ‘efficiency’ but we already covered how it is the equilibrating tendencies and forces in the economy that make it inherently efficient. Examples of these forces at work are arbitrage and competitive entrepreneurship.

There is a seamless nature to production. Everyone along the way contributes, everyone along the way is a ‘middleman.’ The process of production includes every step, all the way up until the good is consumed, including making the consumer aware of the availability of the product and the desirability of the product. Everywhere along

the production line someone playing this particular role of a middleman will perform this service. All of these 'selling costs' are all a part of the process.

Since consumers are often passive entrepreneurs it is the producer who must complete the production process by taking active steps to get the potential customers to know about these purchase opportunities. Producers reduce the uncertainty of the total supply on the market by product differentiation but this then suggests that the producer needs to educate the consumers about the product.

If the price signals have not been tampered with and if the producers correctly assessed the situation, then all the costs of production will have been initially anticipated. Production began because the producer anticipated that the consumer would value the product more than the sum total of all of the costs of production. To complete our understanding of Diagram 3f we need to remember that only production is the source of income and only production is the source of the supply of goods and services that can reduce or modify scarcity.

In the real world of uncertainty and imperfect knowledge there are no guarantees. The market process ultimately determines the selling price and the market price determines all costs. (Remember the backward reaching effect of derived demand?) In the end the result may be a profit or it may be a loss. And since production can continue only if it yields positive results (i.e., yielding a profit) there are limits to production. Unequivocally, it must be clearly stated that there is nothing evil about profit. It is what motivates production despite the uncertainty!

PROFIT AND LOSS

This is the climax, the culmination. Individual action—captured in demand and supplied by production at the price that brings into harmony demand and supply—is for the sake of generating income so the good(s) desired can be purchased. Profit, directly or indirectly, is the prime generator of incomes.

It is inaccurate to describe human beings as merely profit maximizing economizers! First of all, decisions made by humans are not simply monetary. There is a psychic cost, the lost 'utility' of the next best alternative that one has to forgo, to every action taken. And there is

a psychic revenue that results from the increase in happiness that comes from the action chosen.

In this sense profit is purely subjective and cannot be measured. Even if we were speaking about both monetary and non-monetary profit, profit maximization is a fleeting thing since the real world is always in a state of disequilibrium, never really reaching equilibrium.

Prices that are stated in the terms of the medium of exchange do facilitate the recognition of what is valued. Once the economy evolved to the point of adopting a medium of exchange all things were expressed in those terms. This major advancement of the economy took us out of the barter economy and made it possible for another innovation—accounting—and opened the door to a better understanding of profit and loss.

We humans, endowed with the propensity for alertness and classified as *Homo agens*, act upon the information about what is valuable. Some are passive, only finding ways to increase their own happiness. Others are out there as profit seekers, and their actions benefit everyone.

These profit seekers try to identify the relevant ends–means framework and how to make it more efficient. Through their efforts to discover price differentials throughout the economy and along the time horizon they bring to the surface market knowledge. Their actions benefit themselves but also everyone else.

What we have are price searchers; not the imaginary price-takers conjured up by the empirical economists. What is sought are the price terms and other contractual terms that work best given the constraints of the preferences of the consumers and given the competitive offers being made by alternative suppliers.

It is in this competitive and entrepreneurial condition where the profit seeker perceives something special, like when a good can be sold at a price higher than that for which it or the sum of its precursors can be bought, given the time preferences of the consumers. If that perception turns out to be true there will be a profit. If not, a loss.

The fact that some will make a profit, that some will just break even, and that some will take a loss is not problematic. First of all, the scale of the endeavors is widely various so that no one has to be tested beyond their abilities. Second, there is freedom to either be actively or passively alert to what is going on in the market. And third, the

continual and dynamic process of the selection of the fittest makes sure that it is primarily the most efficient entrepreneurs who are offering their services for the benefit of all.

Profit seeking is just that—seeking. There is no guarantee. The profit seeker is a risk taker that uses market prices to determine what to produce or what can be produced more efficiently. The risks taken to initiate new production or improved production will yield various outcomes such as: lower price, better quality, and/or product differentiation.

The enticing wonder of the discovery of a profit opportunity, which keeps the entrepreneur coming back and entering into the market process, is the discovery of something obtainable for nothing at all. It is the same as the quest of the explorer and the artist and the scientist and the philosopher—to discover something never known before. The profit seeking motive is this same motivation, this same human phenomenon. Therefore as you can see, the profit seeking motive is part of the human operating system, something to be appreciated—not to be condemned as an evil.

The ‘nuts and bolts’ of profit and loss is $TR - TC$ (total revenue minus total costs). If changing the price increases the total revenue, then because of the profit motive, that is what will be done. If changing the product quality improves profitability then that is what will be done. If making production more efficient (lowering total costs) makes the endeavor more profitable that is what will begin to happen.

These types of exploration for improved profitability constantly and perpetually motivate the profit seekers. If someone decides to stop their exploration, then someone else will make the discoveries and will capture the profits.

In the real world it is the producer who most often takes on the role of perceiving and making changes, motivated by profit opportunities. Many of the opportunities for more efficient use of resources simply go unnoticed by non-producers because only those who are involved in the production process actually encounter them or understand them. Often these opportunities are the result of imperfect coordination between transactions in the resource markets and in the product markets. By involvement in the market process profit seekers create the possibility of greater cooperation between otherwise disconnected segments of the economy.

Profit seeking has a revelatory effect in the economy. Seeking profit opportunities by examining them relative to each other, reveals what people want. This continually directs resources towards the production of those particular goods and services. The reason differential profits are possible in the real world is because not all firms are equally innovative or even able to mimic the innovation of others. In the real world innovation is an advantage, yielding differential profits because there is a lag time before others can catch up. The talents and creativity within firms is not equal and so part of the competitors' strategy to catch up with the innovator is to lure away key personnel, along with intensifying both market research and product research and development.

As a consequence, profit seeking advances the tendency towards homogeneity, ironically offsetting the tendency for product differentiation. Necessarily, the tendency is for the rate of profit among close competitors to become equalized. Economy-wide profit-seeking leads to the tendency for profits in all of the different fields of endeavor to equalize in the market.

All investors face the reality that the return on their investment is uncertain. Will the skilled worker get a return on the investment made to acquire those skills? Will the capitalist get a return on the savings invested?

Despite the constant changes in prospective earnings and related changes in capital values there are those who can successfully discount future prices. A premium is placed on the individual or the firm that is able to successfully read the uncertain future. Working back from a profitable expected selling price in a way that incorporates the sought-after profit margin and that determines the limit to factor outlays (per unit) is no easy task. Investors are looking for the firms that can do this successfully.

Market demand is out there. The profitable firms hold onto consumers' demand by the means of product differentiation, and they innovate, lowering costs and prices. All of this catches the attention of investors. Since investors prefer profitable firms more capital is made available to them. Alert firms that command sufficient capital funds will be the ones that fill the market demand gaps.

Any decisions by the profit seeker to proceed, to go forward with production plans, is a declaration that there is an opportunity to convert

the upcoming expenditures into a profit, once the future revenue stream begins to flow. These alterations, newly added to the market, set in motion systematic changes in the interconnected network of market decisions. The new knowledge infused into the market process alters the conditions of uncertainty and imperfect knowledge as it necessarily cascades throughout.

Armed with the knowledge that the expected benefit in the forecasted future warrants incurring today's costs, the endeavor begins. The significant test will be the market price itself which serves as the testing ground for sales and profit expectations. Facing the actual state of demand—the market price—the producer is then in the ex post and making adjustments most successfully depends on having some knowledge of the elasticity of demand.

In the ex post it is time to be alert to the sales status for the planned sales period. If sales are as expected then the market price is the same as the estimated market clearing price and profits will be optimal. If instead there appears to be disequilibrium outcomes—a shortage or a surplus—then the ability to adjust to the market conditions will determine the income fate of all participants in the production process.

But already the producer needs to prepare for the next planned sales period, the next time around (NTA). [14, p. 199] Based on the ex post results of the prior planned sales period, if a surplus is projected at the 'current price A ' there are three choices, all designed to *maximize profits by minimizing losses*. The producer could lower the selling price but what this means is that to be able to maintain the present profit

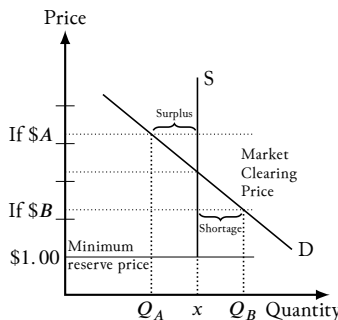


Diagram 3g: Maximizing profits by minimizing losses

margin costs must be cut. This could mean job losses. Or the producer could reduce the supply by cutting production. This could also mean the loss of jobs. Another option would be to try a combination of these, with the goal being to maximize profits by minimizing losses.

To adjust to a projected shortage for the next time around the producer could raise the price and face the social taboo associated with raising prices or he or she could increase the supply via an influx of capital investment thereby improving the production process and lowering marginal costs. Of course there are risks due to the uncertainty of the market demand. Enlarging productive capacity to increase the supply and to lower the unit costs may not prove to be necessary in the long run.

Why take the risk? The margin between the selling price and the per unit cost of a product, the price spread, is enticing as long as it is equal to or greater than other opportunities, such as earnings from investing in financial assets instead of production. Since production is the most basic of all endeavors it is always a prime candidate for investment. Potentially, profits emerge from production.

Profit has three components. The pure interest component is shared alike by production for profit and by other investments earning interest. What is expected for sacrificing present consumption for future consumption is the pure interest component. It is an expression of the natural time preference. No action would be taken if this pure interest component is not present.

The second component is entrepreneurial profit which comes about because the future is unknown. *Ex ante* estimates for production and price are educated guesses, with a certain amount of entrepreneurial profit potential. Astute entrepreneurial perception may lead to a lessening of the risks taken despite the uncertainty faced. Alertness then to the market reaction—*ex post*—is mostly where the entrepreneurial profit component is captured. For instance if excess demand is discovered early in the selling period a raising of the price would lead to increased profits making the entrepreneurial component of the profits larger. Of course also, a lack of entrepreneurial perception could lead to losses.

The third profit component is the purchasing power spread. This element is mostly seen nowadays as a phenomenon of monetary intervention which causes the purchasing power of the currency to decrease

due to inflating the money supply. A profit margin has to be built into the ex ante price because it takes time before the product reaches the market. Ex post the purchasing power will have declined when there is inflation making real profits significantly less than nominal profits.

The 'loss' half of 'profit and loss' occurs when there is a negative return on the investment. In general, the greater the potential of gain (or loss) faced by the investors the greater the risk. Losses in a market economy are just as necessary as profits since they also serve to allocate limited resources. This is what happens efficiently in an unhampered market economy.

Since profit is the prime generator of other incomes the destructive effect of monetary economic intervention on interest rates and on both entrepreneurial profit and the purchasing power component of profit have repercussions and reverberations throughout the economy. Other types of economic intervention (e.g., regulations) also constrain prices or production causing either shortages or surpluses that cannot be remedied by the natural market processes because of the coercive characteristics of the intervention. This is what happens in the unnatural condition of a hampered economy because it is being subjected to this type of political corruption of the economy.

Back to the unhampered economy, notice that most of the time the ex ante expectations need modified during the planned sales period. In other words, producer/entrepreneurs are trying to maximize profits mostly by minimizing losses. This is a little different from the ideal, the real objective, which is to reach the point of optimal profit which occurs when $MR = MC$.

Market information is very elusive because demand is fickle since it is a function of the subjective valuations of consumers, which can and do change over time. Of course this makes market information difficult to ascertain. Only engagement within the market process reveals this information for each selling period. Profit maximization is more a result of minimizing losses by entrepreneurial actions than actually attaining the point on the graph!

Those who are removed from the market and who are out of touch with how production needs to change to meet the demand cannot contribute anything. These are the empirical economists! They assume away the essential characteristics of how demand really operates in

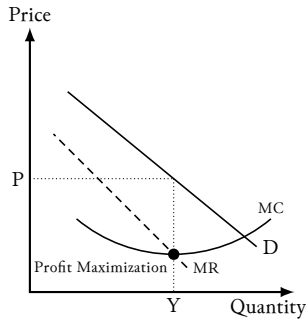


Diagram 3h: Demand and marginal revenue and profit maximization

the market—that it is intimately tied to subjective valuation. That erroneous fantasy is the starting point of their arbitrary and destructive economic intervention.

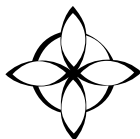
In the unhampered free market we have individuals, demand and supply, prices, production, and profit and loss all working beautifully to allocate limited resources to meet the unlimited wants as best as possible. Ultimately then, it is the profit motive of the profit seeker that acts upon the market process, stimulating production to increasingly meet the needs of the consumer. Therefore it can be said that the profit motive serves as an agent of continuous economic progress.



Selected Exercises

1. Regarding the individual, *Homo sapiens* indicates that humans are wise and *Homo agens* indicates that humans are agents of alertness. Describe how competitive entrepreneurship fits the economic behavior of individuals.
2. Regarding demand and supply, describe the disequilibrium in the market and how supply initiates knowledge of the state of affairs in the market.
3. Regarding prices, use language as an analogy to describe how prices work throughout the market and across the time horizon.
4. Regarding production, what would happen to production if speculation is restricted in any way because of ill-informed economic intervention?

5. Regarding profit and loss, how human would we be if the artist or the explorer or the scientist was deprived of the act of discovery? Describe why the discovery of a profit opportunity is a beautifully human act which benefits everyone.



Chapter 4 Weft And Warp

The Harmony of Economic Science and Religion

PREFACE

Why was the gift wrapped in an exquisite silk? For practical reasons the vessel carrying the essence needed to be protected and this was accomplished very well by the tightly woven silk strands of this fabric. The interlocking fibers added much beauty and the binding together of the weft and warp added strength, elasticity and durability, guaranteeing its integration with the vessel and adding to the integrity and the value of the gift.

Tightly woven together at the microeconomic level are thoughts and ideas, and the threads of human action. The fabric of the realities—the virtues—makes the divine microeconomy tapestry a source of prosperity for everyone.

EPISTEMOLOGICAL PURSUIT

It is not my intention to delve deeper into microeconomics—and to go to soul-stirring depths—simply because it may be fashionable, neither is it because it may be unfashionable. I am a scientist seeking high and low, seeking everywhere, along the path of truth—wherever it leads.

Science loses its power and purpose if it cannot go beyond the familiar. I disagree with the direction of some contemporary thought: “It is no longer fashionable in political science to refer to ‘self-evident principles.’” Indeed, any reference to self-evident or axiomatic propositions is taken to be evidence that a scholar is leaving the realm of science and entering

a mysterious netherworld consisting of tautologies, definitions, and metaphysical statements.”[1]

According to the above statement, limits are placed on science. However, the scope of human science encompasses more than observation. It has a philosophical basis. The branch of philosophy which investigates the origin, nature, methods and limits of human knowing is called epistemology. Epistemology is worthy of any attention given to it in the past, in the present, or in the future.

DUALISM

Dualism is part of the nature of the human being. There is the body and there is the mind. What about the dualism implied with regard both good and evil? How can opposites be a part of the same thing? It is the concept of dualism that allows humans to be described as both physical and spiritual.

Whatever direction a person is going, they are alive, having sentience and therefore they are an embodiment of change. Human beings are dynamic not static. In terms of moving in a direction, individuals progress day by day, moment by moment.

What about an assessment of progress? Necessarily there is dualism in the assessment also. To the human being, which has more value: a sumptuous dinner alone or a simple sandwich and soup with dear friends? If I value the love of my spouse it must be true that I consider it real, mustn't it?

Because human beings know things that are physical and know things that are spiritual both are seen as realities. Interestingly, as the lower aspirations—which tend to be physical needs—are fulfilled, higher aspirations are sought. The higher aspirations like love, loyalty, and friendship are not physical things; nevertheless they are the realities, the realities of human beings who are in a state of higher aspirations.

Methodological dualism defines the seemingly insurmountable bridge between “the external world of physical, chemical and physiological phenomena and the internal world of thought, feeling, valuation and purposeful action.”[19, p. 18] The cusp of social sciences is always near this enigma. The exploration of the human mind is the task at hand and it will be a task of primary importance for the foreseeable future.

Consider one evident manifestation of dualism: the act of rational self-interest that ultimately leads to the well-being of all. This is the very essence of the divine economy! As you can see the divine economy must be profound indeed!

THE VIRTUES PLANES

To begin the work of bridging the gap between science and religion at the microeconomic level I chose the 52 universally recognized virtues identified in *The Family Virtues Guide*[7]. My placement of these fifty-two virtues into the various Vantage Point Planes is arbitrary and is itself potentially a learning exercise for anyone who makes such an attempt. The outcome is quite revealing as you will soon see in Diagram 4b.

Meanwhile, Diagram 4a reveals that there is symmetry and reciprocity that extends across the aperture that exists between science and religion.

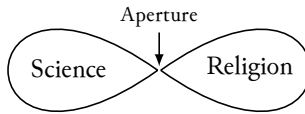


Diagram 4a: Trying to grasp infinity (∞)!

Identifying the human characteristics behind the actions, as part of the attempt to better understand economics, is not without precedent. In *Human Action* Ludwig von Mises writes the following:

“The buyer must always rely upon the trustworthiness of the seller. Even in the purchase of producers’ goods the buyer, although as a rule an expert in the field, depends to some extent on the reliability of the seller. This is still more the case on the market for consumers’ goods. Here the seller for the most part excels the buyer in technological and commercial insight. The salesman’s task is not simply to sell what the customer is asking for. He must often advise the customer how to choose the merchandise which can best satisfy his needs. The retailer is not only a vendor; he is also a friendly helper. The public does not heedlessly patronize every shop. If possible, a man prefers a store or a brand with which he himself or trustworthy friends have had good experience in the past.

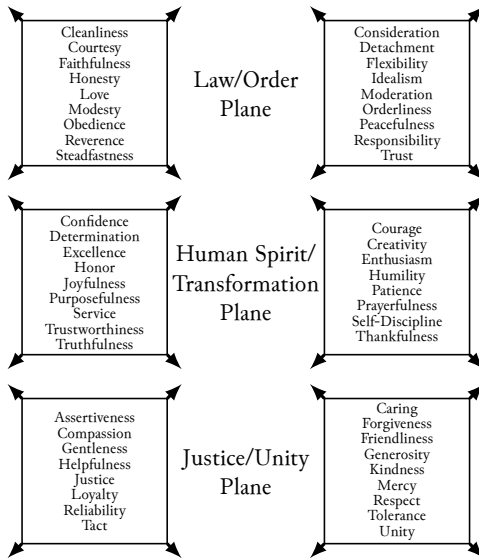


Diagram 4b: Six planes and fifty-two virtues

Good will is the renown a business acquires on account of past achievements. It implies the expectation that the bearer of the good will in the future will live up to his earlier standards. Good will is not a phenomenon appearing only in business relations. It is present in all social relations. It determines a person's choice of his spouse and of his friends and his voting for a candidate in elections. "Catalactics" [see quotation on the next page for a definition], of course, deals only with commercial good will.

It does not matter whether the good will is based on real achievements and merits or whether it is only a product of imagination and fallacious ideas. What counts in human action is not truth as it may appear to an omniscient being, but the opinions of people liable to error. There are some instances in which customers are prepared to pay a higher price for a special brand of a compound although the branded article does not differ in its physical and chemical structure from another cheaper product. Experts may deem such conduct unreasonable. But no man can acquire expertness in all fields which are relevant for his choices. He cannot entirely avoid substituting confidence in men for knowledge of the true state of affairs. The regular customer does not always select the article or the

service, but the purveyor whom he trusts. He pays a premium to those whom he considers reliable.”[19, pp. 379–80]

Restating that last point again, “He pays a premium to those whom he considers reliable.” Notice the clear assertion that a ‘premium,’ a price, is ascribed to the practice of the virtue, in this case ‘reliability.’ In other words, there is a commercial aspect to the virtue. It is a ‘traceable’ market phenomenon.

“Catallactics has accomplished its task only when it has succeeded in this process of generalization, only when it has *traced the formation of prices back to the point where acting man makes his choice* and pronounces his decision: I prefer A to B.

However, economics also stops here. It does not go further back.”[20, p. 221]

Who knows what advances in the social sciences will come in the distant future, whether the limit for economics identified above by Mises will always remain. But economics can advance beyond where it is now by approaching the limit that Mises defined. That is the objective of this book.

VIRTUES / SERVICE EXAMPLES

Given the precedent that already exists in the economic literature and following the example of Mises, I will proceed along similar lines. I will begin to exercise the Divine Microeconomy Model © by selecting one virtue per vantage point plane and then I will systematically look at the economics taking place at the micro level, at the level of the individual. Keep in mind the reciprocity and symmetry shown in Diagram 2i on Page 123 between the virtues and service.

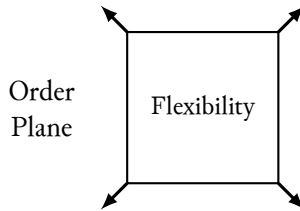
Example One—‘Flexibility’ in the Order Plane

Each of us knows that having flexibility as a part of the order of things makes life much more enjoyable. Flexible order in our lives makes it easier for us to adjust to changes—the inevitable changes that occur in our lives.

Employers who provide an environment that incorporates flexibility will tend to have a ‘happier’ workforce that most likely will translate

into a more productive and a more stable workforce. Also, customers appreciate having flexible and various options available to them if a product doesn't exactly meet their needs.

Flexibility incorporated into the production process—providing more options to employees and customers—leads to higher productivity and customer satisfaction, both of which are good for business.



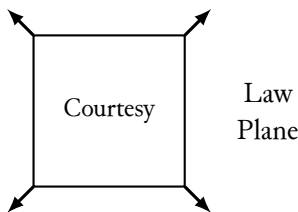
Virtue Illustration 1: 'Flexibility' in the Order plane

Here we have customer satisfaction as one possible example of the 'tangible goods and services' emerging from flexibility.

Example Two—'Courtesy' in the Law Plane

No one is offended by being treated with courtesy. It inspires greater respect for oneself and, most definitely, greater respect for the courteous person.

Since the market is the embodiment of social cooperation, courtesies become the norm. If it is courteous to be on time that becomes the standard, 'out of courtesy.' And each time these courteous practices are applied the social relationships advance to new levels of mutual respect. As a consequence cooperation and coordination improves.



Virtue Illustration 2: 'Courtesy' in the Law plane

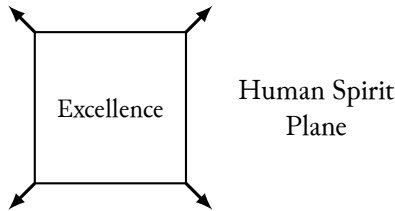
Here we have market cooperation and coordination as examples of the ‘tangible goods and services’ emerging from courtesy. By acquiring and practicing courtesy, work relationships will change and there will be a tremendous increase in productivity since cooperation and coordination will increase.

Example Three—‘Excellence’ in the Human Spirit Plane

As an expression of my will to live and love life, I show a particular keenness towards the things that I enjoy. It follows, then, that I will continue to strive for excellence in that pursuit, whatever it is.

Matching the right task with the right person to perform the task is one key to productivity and entrepreneurs are alert to this prospect. If those who are producing a good or service excel at it then everyone in the entire economy benefits, ultimately.

Imagine yourself having to choose between various products of similar prices but you happen to know that one company has a reputation for excellent production standards. This attribute is known as product quality and it is a major factor in decision-making. Of course you, as well as everyone else, will choose the best product.



Virtue Illustration 3: ‘Excellence’ in the Human Spirit plane

Here we have product quality as an example of the ‘tangible goods and services’ emerging from excellence. By acquiring and practicing excellence there will be a more refined division of labor which will translate into greater productivity.

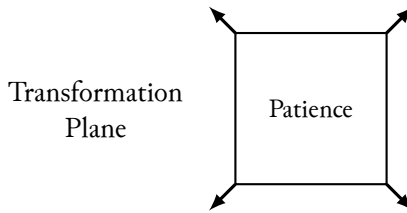
Example Four—‘Patience’ in the Transformation Plane

There is no way that everything can be understood instantaneously. Processing and understanding takes time. Those who are patient are

known for their wisdom, a wisdom that partially comes from the practice of patience.

The same is true for production. It takes time. The goods and services that people want need to be generated and those who can envision and nurture the production process patiently over time render a great service.

Everyone can participate in this patience-requiring production process by exercising patience themselves—exhibited in their lives by saving. This saving and investment then converts into the much needed capital used in production processes, which can be seen as the economic equivalent to patience since capital represents goods for the future.



Virtue Illustration 4: 'Patience' in the Transformation plane

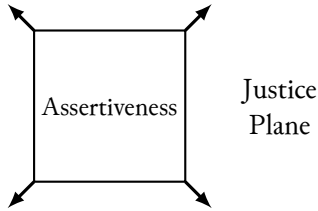
Here we have capital as an example of the 'tangible goods and services' emerging from patience. By acquiring and practicing patience, errors from short-sighted decisions will decrease and the savings necessary for economic growth will more likely be available.

Example Five—'Assertiveness' in the Justice Plane

Nobody can read your mind. If you take it upon yourself to make sure that others know what is important to you, then you can claim to be assertive.

The market is a dynamic process and it requires some assertive behavior to function properly. The alert entrepreneurs are actually assertive about the discrepancies that they find and they are assertive in applying their subsequent action.

It is this dispersal of knowledge that results from the actions taken by the entrepreneurs that keeps the whole system working and keeps knowledge flowing. Assertive and active entrepreneurs are, therefore, major contributors to the elimination of ignorance.



Virtue Illustration 5: 'Assertiveness' in the Justice plane

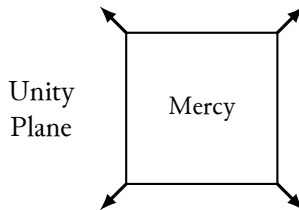
Here we have entrepreneurship as an example of the 'tangible goods and services' emerging from assertiveness. By acquiring and practicing assertiveness the speed and accuracy of the flow of knowledge will improve, leading to the discovery of more opportunities.

Example Six—'Mercy' in the Unity Plane

The world is a testing ground for our souls. Tests and difficulties exist and have to be dealt with.

How can we truly show that we care without a capacity for mercy? Those who feel blessed in plenteousness often show their feelings of mercy by contributing to or participating in some kind of charity. Charities channel peoples' mercy to those in need.

Mercy is one of the keys to prosperity. It is through the act of being merciful that one begins and continues to recognize the reasons to be thankful, and the act of being merciful also makes one feel prosperous. It is through mercy that those who are suffering are given their much needed sustenance which, too, is a prosperous feeling indeed.



Virtue Illustration 6: 'Mercy' in the Unity plane

Here we have the feeling of prosperity as an example of the 'tangible goods and services' emerging from mercy. By acquiring and practicing

mercy the extremes of wealth and poverty will lessen and a greater sense of prosperity will be felt by all. Those who show mercy will be recognized for this noble and valuable trait. A price, a 'premium' in some form, can be ascribed to the practice of 'mercy.' In other words, there is a commercial aspect to the virtue. It is a traceable market phenomenon.

THE ART AND SCIENCE OF ECONOMICS

Notice, this is another duality! The way to bring together, in practice, the art and science of economics is to keep in mind the symmetry and reciprocity of all things, both the 'ideal' and the material.

It is the non-directional nature of both virtues and service which makes the microeconomy divine. Virtues lead to service and service leads to the acquisition of virtues. No matter where you are in this cycle—acquiring a virtue or applying the virtue in some type of service—there is a continuous potential for inspiration that further energizes the cycle.

It is the directional nature of cause and effect that makes the human being economic, always seeking the best means to attain the ends chosen.

It is the combination of both the non-directional and the directional natures of the microeconomy, blending them together as a human expression and experience, which constitutes the art and science of economics. It is, also, the recognition that both means and ends have the potential to be either 'ideal' or material which broadens the scope of praxeology and begins to bring about a merging of the art and science of economics.

Here are a couple of examples. Entrepreneurial alertness is interfered with by ignorance yet by definition it helps to alleviate ignorance. If a person who is prejudiced tries to serve as an entrepreneur, will that entrepreneur correctly be able to find all of the opportunities? Will the role of knowledge as defined in the divine economy be fully exercised? No, not fully.

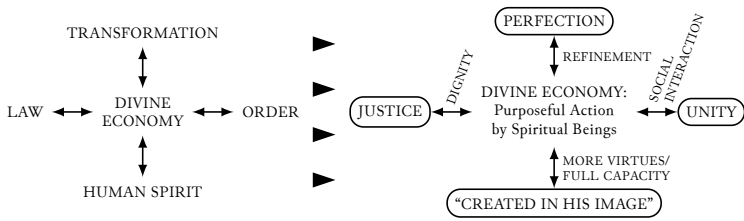
Here is another example; virtues and service are highly valued. Even though they are 'ideal' they can and are given value. These ideal goods and services are assigned values in terms of the medium of exchange thus making them comparable to material goods and services.

The art and science of religion and economics merge when the medium of exchange is seen as a way to represent the value of the virtue. That is true whether the virtue is being exchanged for indirectly—because it is a part of the total product (most of the time)—or whether the virtue is directly the product. If I am trustworthy I will be compensated in some manner for possessing that quality as it finds integral ways to contribute to the production process. And perhaps I may even receive a direct payment, a tip for instance.

Of course the process of the divine microeconomy works positively on the minds and hearts of mankind. Progress begins the instant someone enters into the market process. Progress begins with the inevitable exposure to the flow of knowledge, which eventually leads to personal conviction, and then that newly acquired knowledge is put into practice.

This process has a pattern: new knowledge, conviction, and practice. Each step is remarkable and uniquely human.

The condition that must be met for each step to proceed is the same. The condition that must be met is the independent investigation of truth. As it turns out independent investigation of truth is not a difficult condition to be met, since it is simply a part of our human operating system. Learning how to learn is directly related to the ability to unleash this power. Alertness, awareness, and purposeful action are all a part of the process.



Skeletal Structure of the Divine Economy Model ©

The Divine Spark

Diagram 4c: Derivation from the skeletal structure of the Divine Economy Model all the way to the Divine Spark

Again we are talking about something that is dynamic and ever-changing. The divine spark is dynamic and ever-changing. Once ignited it takes on the quality of ardor. In the Divine Microeconomy Model © there are four incentives that intensify the ardor. These are: Justice, Perfection, Unity and “Created in the Image.”

The omnipresent flint for the spark and the fuel for the ardor is purposeful action by spiritual beings. The economy exists because ‘man’ exists. The economy serves human existence. Its equilibrating power guarantees that it will fulfill its purpose.

As it turns out, individual virtues (the attributes of God) are at the heart of all actions. This process is dynamic, exciting, fulfilling, effective, inspiring and divine. As an art form the ‘spark’ has radial symmetry (one half is the mirror image of the other half) just like the human temple has radial symmetry.

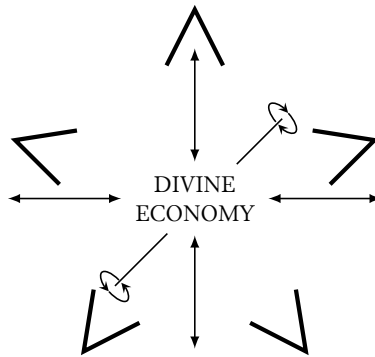


Diagram 4d: The symmetry of the Divine Spark

The spark, lying in potential in all human beings, is what leads to the manifestation of economic progress. It becomes manifest as purposeful action. The economy is the matrix where the flow of action becomes the flow of the grace and bounty of God, as depicted at the micro level in Diagram 4e.

Consider the complexity of this model. All these vantage point planes are actively in progress at the same time and all the virtues lying in those planes are more or less energized. The infinite scope of all of this resides within each individual from one moment to the next.

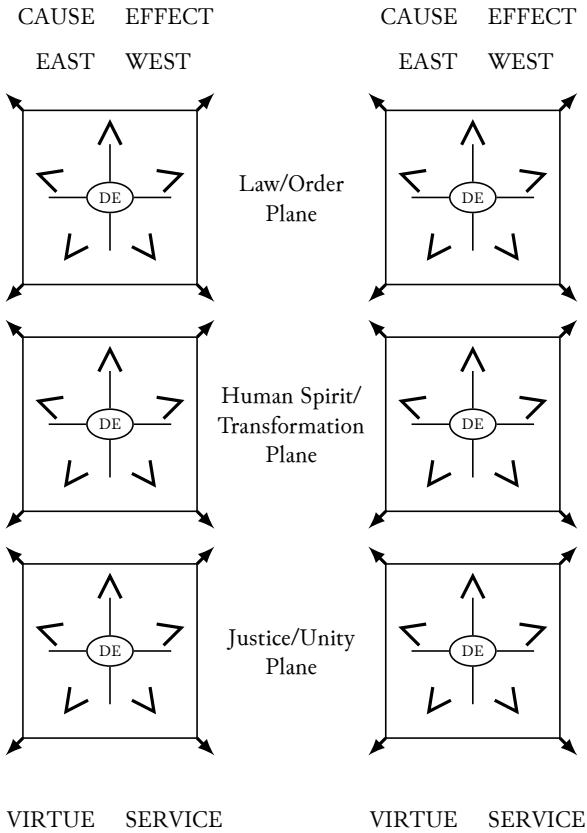


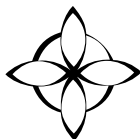
Diagram 4e: Divine Microeconomy Model with the Divine Spark

Then there are the inevitable encounters with others in the market process which further defines the divine economy. The complexity of the microeconomic model does not simply end there because these market encounters become a part of the market process which seamlessly extends across the time horizon and extends outward to affect everyone on the planet. In other words, at every instant the divine microeconomy is occurring within the divine economy. These simple yet complex models—the Divine Economy Model© and the Divine Microeconomy Model©—attempt to portray this exquisite symphony.



Selected Exercises

1. Select a vantage point and find a virtue on the plane that you want to develop into a virtues/service example. Describe the economic applications and outcomes.
2. Spend some time examining Diagram 4c. How can you describe in your own words what makes the divine spark an important economic entity?



Chapter 5

Twill

Connectivity Between Macroeconomics and Microeconomics

PREFACE

With the tapestry now unfolded and fully exposed it is not possible to fully appreciate it without spending time closely examining it and feeling its rich texture. There is a palpable depth to it, revealing yet another aspect of its marvelous complexity and artfulness. The texture of this tapestry is very much a perceptual treat which allows for new and different perspectives and further uncovers another layer of its overall complexity and connectivity, adding even more value and merit.

A SLIGHT DEMARCATION

What brings together the tapestry of economics as a whole—no matter which perspective it is that you are envisioning from—is its purpose. It is the study of the ways and means to attain the ends, whether the ends are societal or personal. Both means and ends are chosen subjectively in accordance with human nature.

The methodology of subjectivism gives us the power to discover new economic insights at the micro and macro levels. The same essential economic institutions serve as the foundation for both micro and macro considerations. These are: private property and private ownership of the means of production; savings and capital accumulation; the division of labor; voluntary exchange and money; financial self interest and the profit motive and economic competition; and the price system.

The market process is a required and necessary condition for the economy to even exist. The equilibrating power inherent in the divine economy will ultimately destroy any artificiality imposed on it. Quickly all intervention will be erased once the impetus ceases, with the market process re-emerging, purified and ready to go.

Across the entire horizon spans the economy. There is no distinct beginning or ending for the micro and macro portions since the economy is *entirely seamless*.

There are those in economics who have made distinctions and separated micro and macro in their artificial mental constructs. For instance the empiricist Irving Fisher in the 1920's claimed that price stability should be the macroeconomic goal (which is nothing more than price fixing when seen from the micro level)—which led to a bias against price deflation.

However, if prices go down it simply indicates that there is either greater productivity and/or a greater supply relative to the demand. This is a good thing, just like at the micro level where lower prices are desirable to you and me. This discrepancy between the micro level and the macro level promulgated by Fisher stands out as flawed logic. In other words, in the real world the economics at the level of micro and macro are always compatible and not at odds.

The deductive thought process that serves to identify the universal principles that operate holistically (macro) applies equally well at the level of the inspired acts of individuals (micro). There is however a small distinction that is detectable. Using deductive thinking, what may be better described as a 'fold line' rather than a 'seam' can be detected.

Microeconomics looks closely at the individual and the interaction of the individual with the market itself. Macroeconomics focuses on the market process and the market foundations.

MACROECONOMICS

What are the market foundations? To state it in broad terms: one, the desires of the populace are infinite; two, production is ultimately for consumption; three, production takes time; four, an increase in goods leads to an increase in the standard of living; and five, an increase in capital goods leads to a future increase in the standard of living. And

finally, making exchanges—as in trading—is made possible by and leads to specialization and the division of labor.

The market process is a series of systematic changes in the interconnected network of market decisions. It is where prices act as the signals and are used to put things together. It is this market process that serves to overcome imperfect knowledge and uncertainty. Prices emerging from the market are stepping stones through the unknown complexities of demand and supply.

In parallel, capital is like a bridge spanning the time horizon and the structure of that capital bridge is heterogeneous. It is heterogeneous in the sense that capital in the form of capital goods stretches all the way from savings through production, and continuing through distribution to the end points—which are the final goods and services. It is the profit-seeking entrepreneur who finds the ways and means to facilitate all of the cooperation that needs to happen in the economy for production to be successful across the time horizon.

Equally as important to understand, the market foundation has relevance because of purposeful human action and it rests upon property rights. By the design of the ego-driven interventionists the macroeconomic factors of capital, property rights, the market, and economic liberty receive the brunt of all of the economically harmful acts of intervention. Prosperity and peace suffer as a result of all intervention.

Economic intervention begins at the macro level and it trickles its way to the micro level and is very disruptive at both the macro and micro level. Interventionism starts at the macro level by interfering with the processes that bring order, or by obstructing the transformation processes. Not only that but laws are converted into legal codes for easy manipulation, and the attempt is to collectivize the human spirit when the economy is subjected to interventionism. These are all corruptions.

Artificially dissecting the economy into macro and micro is what makes interventionism possible. It follows the strategic plan of attack by the ego-driven enemy: divide and conquer! But macro and micro are one whole, inseparable. Separating them is a corruption.

MACRO/MICRO

What does it mean that the divine economy is seamless? Replying succinctly—the equilibrating power is always in operation throughout the economy, at both the micro and macro level.

Another way to answer the question is to recognize that there are no internal disciplines, no fields or subfields. There is no abstract separation from historical events or from politics; they are all happening within the economy. Nor is there a time zone where you enter the long run ‘time zone’ and leave the short run ‘time zone.’ It is an all-inclusive continuum.

Since the economy is one whole, there are no non-integrated portions exclusively studied by ‘experts’ that require special tools or devices. Praxeology, a general theory of human action, is the universal tool that can be applied by novice or master to understand the economy.

Playfully though, we will entertain ourselves by trying to discover the distinctions between micro and macro! Microeconomics focuses its attention on profit and loss by focusing on prices whereas macroeconomics broadens that view to look at the role of money as a medium and facilitator of exchange. Demand is a function of purchasing power and purchasing power is supposed to be a function of money. Calculation of profit and loss in each successive short run contributes to the functioning of the market process, which in the long run manifests itself as economic growth. So macroeconomics seems to be about the long run and about business cycles.

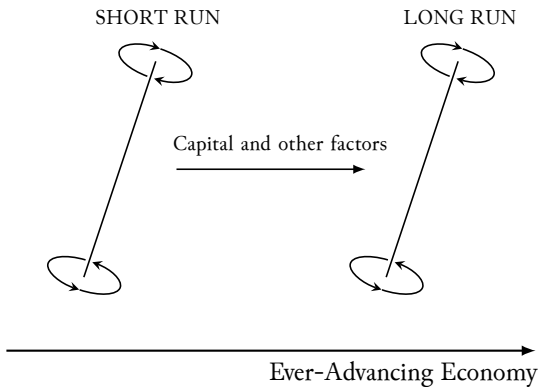


Diagram 5a: Economic Growth

Graphically translated we can represent economic growth and the long run as movement to the right of the axis of the nature and role of knowledge, as depicted in Diagram 5a. We can also graphically

represent the long run (notice that it is movement to the left) that occurs as a result of an intervention-induced business cycle, as depicted in Diagram 5b. These two diagrams are very similar to and derived from Diagram 4t which originally appeared in *More than Laissez-Faire* [9, p. 75].

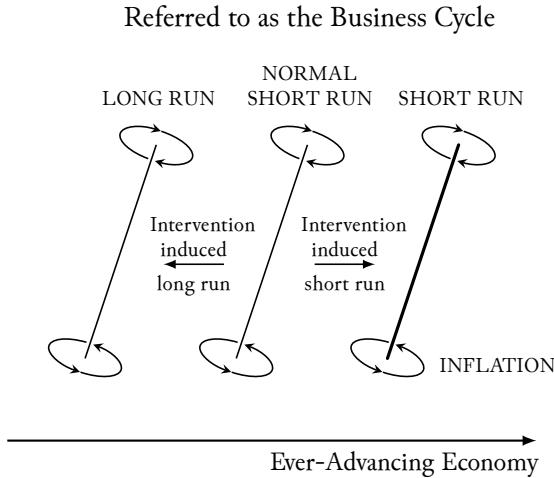


Diagram 5b: Hampered long-run economic growth

Notice in Diagram 5b that the consequences of intervention in the short run from the macro viewpoint may seem rosy but ultimately the long run economic growth ends up being hampered (when the bubble bursts). From the microeconomic viewpoint the trickle down effects of economic intervention are also destructive. As an example, when the money supply is increased it causes the purchasing power of money to decline. This is what makes nominal prices higher than real prices, which means that nominal total revenues are higher than real total revenues. Profits, necessarily, will be overestimated.

Now combine that with the effect on capital over time. Estimates used to decide whether production is a viable option will be distorted since the purchasing power of money will unforeseeably decline. Capital will not be accurately depreciated and the return on investment in the form of paying factors of production now for an investment return later will be less than expected since the money will be worth less in the future.

Additionally economic intervention in the monetary system makes the banking system inherently fraudulent and insolvent. In a centralized banking system it is through the banks that the inflated money enters and circulates. It is through the banks that the money supply is further inflated in a fractional reserve banking system.

In this way all sources of credit—from banks and also capital from firms and individuals—are subjected to theft due to the diminishing purchasing power of the money at pay back time. Business calculations are distorted—profits and returns on investments are overestimated, costs are underestimated—contracts are rendered increasingly meaningless and the ethics of the whole system fizzles out. As you can see human civilization recedes rather than advances as a result of intervention. Intervention causes the standard of living to decline. In this case the example of intervention was inflation of the money supply.

One definition of macroeconomics that then emerges is as follows: **it is a study of those factors and conditions that lead to the long run advancement of the standard of living for everyone on the planet.** By definition, then, economic intervention is bad economics.

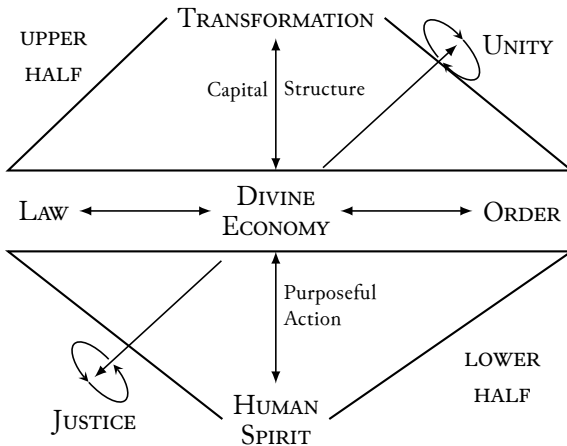


Diagram 5c: Macro and micro tendencies seen in the Divine Economy Model ©

Another playful representation of the distinction between micro and macro looks a little closer at the upper half and the lower half of the Divine Economy Model ©. Examine Diagram 5c and you will see

that the upper half seems to ‘speak of’ macroeconomics while the lower half ‘speaks of’ microeconomics.

Notice the upper triangle (macro portion) of transformation, law and order shares its base with the lower triangle (micro portion) of human spirit, law and order. Sharing the same base tends to blur the distinction between micro and macro—true to reality. In other words, the divine economy is seamless!

Regarding the upper half, the capital structure is a principal intermediary element in the model and it brings about transformation. Since capital is a significant feature of the long run time horizon the upper half has strong macroeconomic characteristics. Regarding the lower half, the human-spirit-motivated purposeful action is a principal intermediary element in the model, giving a strong indication that it is the microeconomic level of the individual—as a consumer, a producer, a resource owner, an entrepreneur, a capitalist, or part and parcel of some of each—that is being represented.

MICROECONOMICS

There is not much need to go into this since it was covered in detail in Chapters 3 and 4. Suffice it to say that for the individual, each interaction with the economy is a learning experience. Each experience in the series of market interactions—that are necessarily a part of life—leads to a furtherance of knowledge.

One definition of microeconomics that then emerges is as follows: **it is a study of how individuals discover and react to information in the market as part of their division of labor to produce and to earn income, so as to meet their personal desires for goods and services.**

Each experience in the series of knowledge gaining experiences is more competitive than the preceding period. In other words, we are constantly searching for ways to make things better for ourselves. And since competition and entrepreneurship are analytically inseparable these experiences act to stimulate our entrepreneurship. That is very good news indeed since releasing our potential, by changing our entrepreneurship from latent to active, leads to prosperity.



Selected Exercises

1. Use yourself as an analogy! Assume your personality is the microeconomy and your life is the macroeconomy. Comment on the empirical economists' attempts to separate the two.
2. Notice the horizontal 'fold line' in Diagram 5c. Even though there is no real separation what insights do you have after considering the definitions of microeconomics and macroeconomics given in this chapter?



Chapter 6

Potency of the Essence

The Praxeology of Entrepreneurship

PREFACE

What is the cause of the volatility of the olfactory elements within the essence? There is some activation that occurs due to the clashing between elemental factors and the environment. Whatever it is, the activator makes everything else about the essence—its true qualities and nature—come bursting into existence. The essence would be devoid of its true reality without the activator.

THE ESSENCE OF ENTREPRENEURSHIP

The *praxeology of entrepreneurship*! Hold on to your hats! These are two very powerful words! An alternative description for this chapter is—Entrepreneurship: The Premier Fruit for the Study of Human Action.

First we need to understand praxeology. It is the study of human action logic. It is action logic that takes into account time and causality. It is logic action in the passage of time. The notable characteristics of praxeology are time and causality and human action.

What emerges from this reflection is the consideration of the difference between a priori and a posteriori reasoning. A priori is from cause to effect, is based on something known—such as natural law—and it is valid independently of observation. A posteriori is based upon actual observation or upon experimental data, starting there and working back to their causes. Speaking about the power of science and the power of appropriate methodology, Mises says: “What makes

natural science possible is the power to experiment, what makes social science possible is the power to grasp or to comprehend the meaning of human action.” [18, ch. 1, section III]

Understanding human action is the goal of social science. Embedded, implied in human action is the learning process. Just like the ultimate competitor faced by an athlete is his own self or her own self, the learning process is competitive, with each learning experience topping the previous understanding.

Praxeology studies the form and the structure of human action. Human action occurs in the worldly condition of radical uncertainty. The urge to act is irrepressible, yet because of the uncertainty the consequences of the action are not known. This is part of the human condition—we act purposefully in an uncertain world.

Homo agens—us—we are endowed with the propensity for alertness toward fresh goals and the discovery of as yet unknown resources. This is the perfect complement to the matrix of our world, a world composed of uncertainty and imperfect knowledge. From this matrix, through the channel of alert human action, comes entrepreneurship.

If the economy ever reached a sustainable equilibrium there would be no need for alertness. But the real world is dynamically in disequilibrium, perpetually driven towards equilibrium. Alertness therefore is a main ingredient. This human propensity towards alertness shows up in two ways. Goals are pursued efficiently in a constant search to find the following: 1) which ends to pursue, and 2) which means are available.

Alertness is the entrepreneurial element in human decision-making. Now it is “possible to explain the pattern of change in an individual’s decisions as the outcome of a learning process generated by the unfolding experience from the decisions themselves.” [8, p. 36] Decisions are made based on what was learned from previous decisions.

The keys to understanding entrepreneurship are that the entrepreneur discovers opportunities, responds to opportunities and generates opportunities by bearing uncertainty. This process is a competitive process which exists when there is freedom; freedom for those with better ideas to pursue their ideas, and freedom for those with a greater willingness to serve to then go ahead and serve the needs conveyed via the market process.

As a result of competitive entrepreneurship the movement of the ‘knowledge axis’ is to the right, as shown in Diagram 6a, which is in the

‘ever-advancing’ direction and which can be attributed to the human propensity for alertness.

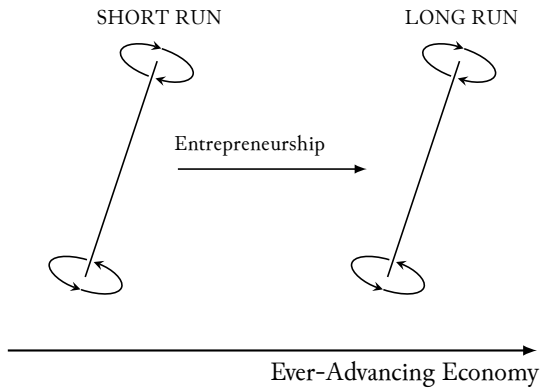


Diagram 6a: Entrepreneurship moves the knowledge axis to the right

Successful identification of the relevant ends and means is what ultimately determines whether a decision is right. If it is ‘right’ the axis moves to the right! The advancement of the market process and of the divine economy and of civilization is the motive; albeit hidden deep within the human reality.

There is no way to separate alertness from the competitive environment since they are parts of the same process. Superior awareness is the natural mode of operation and is potentially striven for by everyone.

Since the entrepreneur acts upon the economy, the entrepreneur is part of its dynamic character. This ever-changing character of the economy makes instantly obsolete any attempt to view the economy as static. What enables the subjective methodology to incorporate the instantly ever-changing economy into theory is the emphasis it gives to the praxeology of entrepreneurship.

FORM OF ENTREPRENEURSHIP

The first part of our praxeological study of entrepreneurship will look at its form. The action of entrepreneurs drives forward the tendency towards equilibrium and it generates a process which is competitive by nature.

It is truly competitive. One bit of evidence confirming this is the existence of purely entrepreneurial activity, pure arbitrage, which requires no resource ownership. In other words, there is no barrier to entry into the market since alertness is the only requirement. In this dimension of pure entrepreneurial activity the discovery of a profit opportunity represents the discovery of something for nothing at all.

Why are there unnoticed opportunities? One reason—imperfect knowledge. For example, resource owners and consumers are often passive in the very dynamic economy. What ‘unnoticed opportunities’ means is that there will necessarily be more efficient ways to coordinate transactions in the resource and product market. Whoever steps forward as an entrepreneur and bears the uncertainty inherent in the market will be the one who is in the position to capture these opportunities.

Moment to moment any market participant can become an entrepreneur or not, either now or later, or over and over again. And even though economic roles are multiple—yet still they are distinct. For instance, resource ownership and entrepreneurship are completely separate functions; nevertheless the same person may be an entrepreneur, a resource owner and a capitalist and yet still perform these functions independently.

It is in the competitive market where the entrepreneur plays a critical role. Paradoxically, as it happens, the market process is competitive because it is entrepreneurial. Market information is acquired through the experience of market participation. And entrepreneurial action is taken in response to the changes that occur in the market data, assuming that the changes are detected. So it is that prospective decisions of buyers and sellers at every step in the production process are subjected to this competitively alert scrutiny.

The entrepreneur discovers a profit opportunity when the prices of products somewhere in the production process are not properly adjusted to the prices of the resource services in the factor markets. A keen eye for assessing the marginal value product of each factor, relative to the final price of the good consumed, helps the entrepreneur determine whether its ‘productive share’ is undervalued (or overvalued).

Lower prices, higher quality, and more products to choose from are what people want so entrepreneurs are also striving for these and deserve the credit for bringing them about. Along the way the

profit seeking entrepreneur brings about new cooperative arrangements between previously disconnected parties. For example, resource owners may be made aware of a profit opportunity and then decide to take on the role of a capitalist. Another example, as a result of entrepreneurial discovery producers may begin working with new resource owners or they may begin producing for a different group of consumers.

Before leaving the examination of entrepreneurial form let us reconsider the fact that resource owners and consumers are often passive. They act as if the prices they see are 'equilibrium' prices. These errors yield opportunities for profitable activity.

'Enter the producers!' since they are never immune from competition. They inevitably and significantly take on the role of entrepreneur. The drive for producing the best products at the lowest prices, subject to competitive pressures, makes the producer a natural candidate for keen alertness.

STRUCTURE OF ENTREPRENEURSHIP

To examine the structure of entrepreneurship we will combine its form with the price system. If there ever appears to be a lull in entrepreneurial activities—and there happens to be no intervention—it simply means that the market participants have not yet become aware of the opportunities or are not willing to bear the uncertainties that are there. However, competitive entrepreneurship guarantees that the discovery and pursuit of the opportunities is on the near horizon.

Market participants will allocate resources to the investments with the highest present value and then to the next highest, successively, discounting the expected future value. In the real world economy this reckoning of the time horizon is of great importance. In a world like we have nowadays, most production processes are time consuming which means that entrepreneurial profit opportunities typically require capital, so it is that, capital is part of the entrepreneurial structure.

What is the nature of the forces that bring about changes in the existing market patterns? It is the successful identification of relevant ends and means.

With the goal being to successfully sell the product; all the costs incurred by the entrepreneur are for this purpose. This differs from 'pure' arbitrage in that input prices attributed to resource ownership precede

output sales. In this production process the entrepreneur ‘guesses’ that the future product price—the market price or the selling price—is not fully synchronized with today’s input prices. It is an educated guess, a risk, since the product prices do not exist at the time production begins. If the assessment proves true, this is what causes profits to emerge since the astute entrepreneur will have judged the future prices correctly across the time horizon.

The keen entrepreneur is able to forecast demand and costs in the competitive environment of the market. Very often entrepreneurs use capital to pay workers now and then reap a profit later. The competitive market ensures that those who are most able to satisfy the consumers’ desires earn the greatest profits, which means that the most adept entrepreneurs will always be the ones serving the consumers. This selection process benefits everyone.

Part of this structure, maintained by the entrepreneur, goes beyond the actual good produced. In the real world, the entrepreneur/producer assists the sometimes latent consumer by extending the umbrella of alertness. Their selling effort reaches out to potential consumers, trying to activate their alertness by persuasion (attempting to change consumers’ tastes) and by providing them with information about purchase opportunities. Likewise the umbrella of alertness, directly attributed to the entrepreneur, is extended to the resource owners and to the capitalists.

If a monopoly exists in any degree, independent of the artificial forms caused by intervention, it is because of resource ownership control. A monopoly simply cannot exist—because of the powerful dissecting force of competitive entrepreneurship—unless there is restricted access to needed resources which blocks potential entrepreneurs from discovering any of those unexploited opportunities for profit. Nevertheless even the monopoly position of a resource owner is always under intense competition and there is pressure to use the resource in the most efficient manner. A monopoly can only exist in the long run by protective intervention. If a monopoly is said to have a ‘structure’ then competitive entrepreneurship is the antithesis of that type of structure.

ENTREPRENEURSHIP AND THE FIRM

A detailed analysis of the firm is beyond the scope of this book but the survival of the firm, assuming there is no artificial support of the firm by way of intervention, depends on the nurturing of the spirit of entrepreneurship. The starting point is recognition that a firm is a complex entity.

Firms emerge. Owners of productive resources sell their services to the firm, to be used to satisfy the 'cries' of the consumer. It is those who are entrepreneurial, hearing the cries and seeing the opportunities and bearing the uncertainty, who originate the firm and who keep it viable.

Inside the firm there is a structure within which reward and punishment operates in all of its subtleties. Unlike with an individual the firm may have internal layers that move the productive efforts of the individuals away from direct interaction with market prices. Within the firm the incentive and disincentive strategy may or may not be reflective of the real world market. The further away the incentive/disincentive strategy of the firm is from the real world market the more likely there will be errors that will ultimately affect the viability of the firm.

And so it is necessary for the firm to create a culture of entrepreneurship in such a way that there are ties to the market process ideally at every locus of decision/action. Alertness must include detecting the closeness to market prices and discovering ways to stay close. If a firm has this as its goal it will inherently be innovative and a source of bounty for those within the firm. At the same time this kind of firm will be able to render service optimally to those people who desire what the firm has to offer.

If for legal reasons the firm takes on a corporate form, its goal—compatible with competitive entrepreneurship—is to put the resources to work “in the most lucrative way known to the relevant decision-makers.”[8, p. 63] Regardless of what the form happens to be this entrepreneurial selection of the business form is also a part upon which the viability of the firm rests.

Corporate decision-makers, managers, act as true entrepreneurs only to the extent that the entrepreneurial opportunities detected translate into personal benefit. Without this type of arrangement the full potential of the market process is wasted, untapped because the entrepreneurial potential is limited.

How could it not be limited? It is the incentivized entrepreneur who will seek to know who to hire and it is the incentivized entrepreneur who will seek to know where to find the market information that reveals profit opportunities. Also, it is the entrepreneur who will leave if the firm undervalues his or her services.

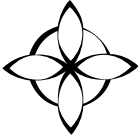
If the management is entrepreneurial it experiences the same forces of competitive entrepreneurship as everyone else, which necessarily leads to accountability. When a corporation moves away from this ideal then a different structure appears. If the stockholders lack the effective power to fire management the corporation takes on a degree of monopoly structure due to the incumbency of the manager. The management lacks accountability and is sheltering itself from the competitive entrepreneurship inherent in the divine economy.

Implied in the divine economy is the existence of pure entrepreneurial activity where price discrepancies throughout are detected and acted upon and where there are no obstacles to freedom of entry. Eventually these forces of competitive entrepreneurship will dissect and dismantle all firms that ignore what it is that drives the economy forward; and that is competitive entrepreneurship.



Selected Exercises

1. How does your understanding of prosperity change when you realize that pure entrepreneurship is the discovery of something for nothing at all?
2. How does entrepreneurship serve the consumers and how does it serve everyone in the production process?
3. What are some ways that strategies used internally within the firm can be made to be entrepreneurial?



Chapter 7 The Beauty of the Tapestry

Entrepreneurship and Human Virtues

PREFACE

Almost forgotten is the artistic panorama which unfolds as the beautiful tapestry is laid out completely. Apart from all of the intricacies of the tapestry as a piece of art that has practical uses, it is also a very real expression of human creativity and action. It incorporates and represents knowledge, volition, and action—within itself—which is the pinnacle of human existence. It symbolizes the goodness of human action.

DISCOVERY OF THE VALUE AND PURPOSE OF ENTREPRENEURSHIP

In the introduction to this book on page 105 I wrote the following: “This inherent drive is all about being *alert*. Seen in this way it is evident that even entrepreneurship is essentially an exercise of a part of our *spiritual reality*. Those who exhibit praiseworthy characteristics will be found. And it is the desirability of *human virtues* that will continually move human civilization towards *prosperity*.”

It is from this statement that the structure of this chapter is mirrored. Alertness, being an essence of our spiritual reality, makes us keenly aware of the human virtues which civilize us and make us prosperous. Although never perfected the changes and advancements along these lines lead to our refinement as individuals which then translates into an ever-advancing civilization with an ethical foundation. This is a classic example of cause and effect.

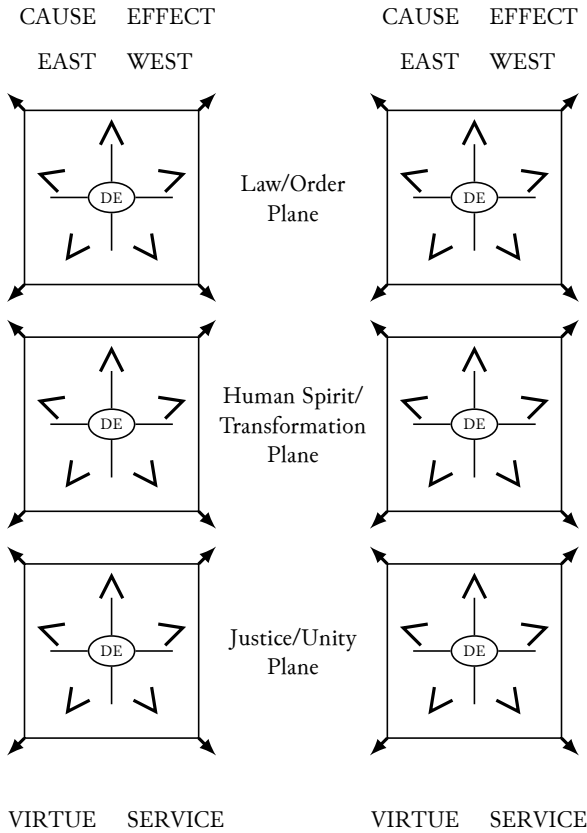


Diagram 7a: Classic example of cause and effect: entrepreneurial spark throughout the Divine Microeconomy Tapestry

ALERTNESS AND THE HUMAN SPIRIT AND TRANSFORMATION

Looking from an entrepreneurial vantage point it is obvious that the expression of wants is not only natural but it is also communicative. Perpetual changes are always a feature of the economy, a part of the mix, and those who are alert and active are energized, spreading knowledge to others.

Since imperfect knowledge is the normal state of affairs, the ones acting as discoverers across the time horizon forge themselves and others into new and transformed individuals. There is a new balance

that is brought about by the information about reality that is sought after, and this new equilibrium tendency influences everyone.

This dynamic is happening in countless loci, from unique individuals all striving for betterment, which then affects everything in the surroundings. Many of the opportunities that present themselves do not go unnoticed since our propensity for alertness is inherent.

So, from this constant flow of information in the real world matrix of imperfect knowledge and uncertainty gems are noticed. Patterns of discovery are learned and all of this is used to inspire and transform ones' selves and others.

LAW AND ORDER OF SPIRITUAL REALITY

It is the wonder of discovery that stimulates the potent and sometimes latent act of perception. What is especially enticing about the discovery is the possibility—that from what appears to be nothing something emerges. This is the quest 'to become' and this urge is part of the human operating system.

Inseparable is this quest from the desire for betterment. These combine to enhance the level of awareness and these operate within an individual and then overflow, affecting others. It is not something that ever comes to an end since we are finite in a world of infinite scope. Yet each discovery is a coordinating step that facilitates progress.

The search, high and low, culminates in action that indicates that a discovery is made. Then a new equilibrium tendency comes into existence with new transformation potentials which then gives new meaning to any subsequent human action.

The process is obviously evolutionary and stimulative. This is a process that releases our potential, changing our entrepreneurship from relatively latent to relatively active and the end result is relative prosperity. It is not something that can be helped—it is simply part of the human reality. In the worldly condition of radical uncertainty the urge to act is irrepressible. The motive hidden deep within the human reality is advancement.

If the learning process is successful then right decisions are made along the way. In other words, the alertness characteristic of the entrepreneurial spirit is the guide used to discover which ends to pursue and which means are available.

UNITY OF HUMAN VIRTUES

That is what is so unifying about human virtues. They are both an ends and a means. And not only that, the source of all value is traced back to them! This potency—having supreme distinction as a means, as an ends, and as the source of all value—is unique and it merits further consideration of yet another ‘unity’ distinction.

Human virtues ‘bring together as a whole’ the means, the ends, and economic value. Wow! And since there is nothing else that accomplishes this, another remarkable ‘unity’ distinction applies: *single and alone* it pulls together the ends (ethics), value, and the means (economics). Ethics and economics are brought together by human virtues!

Consequently, when the entrepreneurial spirit focuses its alertness on the appearance and the acquisition of human virtues there is a completeness that is unparalleled by any other act. Those who are truly entrepreneurial will recognize the importance of this and put it into practice which will then begin to transform and spiritualize the whole process.

PROSPERITY AND JUSTICE

And that entrepreneurial recognition and subsequent practice is what puts into effect the virtues-to-service cycles that are better known as prosperity! In this microeconomic matrix called the divine microeconomy, we are exploring a new twist on how economic life works. Regardless of any of the points of power and any of the essential realities, it is the entrepreneur who activates the powers in the economy like a spark ignites a flame.

Out of latency the alert ones connect the human desires and aspirations with those things that are needed to satisfy those needs and this is the source of prosperity. In other words, prosperity itself is latent and the entrepreneur is the one who is active in raising and creating an awareness that then propels the process forward.

As ends and means, the virtues permeate all things in the present and the future and it is the entrepreneur who helps to show how virtues are imputed throughout the economy and across the time horizon. This newly awakened awareness makes it possible for the individual actors in the economy to discern that the marginal value product of each factor

is a function of how much it has contributed to the infusion into the final good or service the attributes of God, the virtues. It is this which makes it a 'good.'

Prosperity is our birthright. It is latent in us. That is where pure entrepreneurship comes in since it represents the discovery of something for nothing. Discovery of true value all around us requires only awareness!

It is the ends and the more roundabout means that are not at the immediate fingertips of the entrepreneur. But these are highly valued and so capital will be readily applied ordinarily as soon as it is available for all the heterogeneous endeavors that are needed to meet the temporal needs of all of the diverse and subjective individuals in the world.

The entrepreneur is the principal catalyst that facilitates all of the cooperation that needs to happen in the economy across the time horizon. This is the glorious station of the entrepreneur! The increase in virtues and in services that translates into prosperity is brought about by alertness and is a wonderful expression and manifestation of justice.

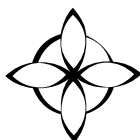
To better understand what I mean by justice I refer you to what I said on page 172 about entrepreneurship and freedom:

“A key to understanding entrepreneurship is that the entrepreneur does not generate opportunities, but rather, responds to opportunities. This process is a competitive process which exists when there is freedom; freedom for those with better ideas to pursue their ideas, and freedom for those with a greater willingness to serve to then go ahead and serve the needs conveyed, via the market process.”



Selected Exercises

1. Based on what you read in this chapter what would you say is the significance of 'seeing' from an entrepreneurial vantage point?
2. What is the relationship between entrepreneurship and prosperity?



Epilogue: Enriched by the Gift!

Adornment

PREFACE

Is there any reason to fragment the gift, or was the intention to confer as a whole both the potent essence and the tapestry? No doubt the gift was (and is) indivisible, intricate, exquisite, and purposeful. And it is the cause of great contentment!

ECONOMIC LIBERTY

Consider this shocking statement: one of the greatest tragedies of modern times is the association of economics with profit maximization and with efficiency! It is not that the concepts of profit maximization or efficiency cannot be simply understood in a different way, in a broader manner, but that is not what has happened. Instead, profit maximization and efficiency were defined narrowly and literally by empirical economists for the purpose of rationalizing their methodology.

I do not follow them down their road—a road that leaves behind the subjective nature of human beings—and I am not alone. Instead I take the path that honors the human reality—the path of subjectivism. This is a path with the rich heritage of classical liberalism which extends back centuries and which promises to extend well into the future. This classical liberalism tradition is rich with contributions from many different people over a long period of time. And it is also a very great tradition, with some exceedingly brilliant contributors to this valuable and notable heritage.

In a nutshell, classical liberalism provides an easy transition from the subjective nature of human beings to the economy and back again. What comes to the surface from using this classical liberalism approach, and its application of the subjective methodology, is a wealth of universal laws that pertain to human action. These laws then serve as the foundation for economics. ‘Just like that’ humans—not some imaginary creatures that fit equations—are the most important and yet still the most elusive part of the economy.

In subjectivism the economic world that the human faces is ‘permitted’ to be the actual real world, and the fact that it is always in disequilibrium is ‘allowed.’ Rather than trying to force everything into a *ceteris paribus* box to remove the real world conditions, subjectivism explores the real world as it ‘operates’ which leads to an understanding of the human processes of thought and action.

But not all thought and action pertain to material things. The ‘ideal’ and perhaps physically invisible things sought after, and applied, are nevertheless real to us—we who are the wonderful and great creatures known as human beings. Only the subjectivist methodology can penetrate into these largely unexplored, qualitative realms. That is what science is supposed to do, to penetrate the unknown, discovering new things.

I started this epilogue speaking about a modern tragedy. It is an exercise of ignorance to blame the economy for the ills facing mankind. The economy is a divine institution that brings the grace and bounty of God if we do not work against it. It is the vehicle for the expression of every person on the planet and a way for their unique talents and faculties to become known and to develop.

And at its most personal level—the microeconomy—this is where the attributes inherent in human beings can charge the world with goodness. The virtues and services that are the expressions of the motive force to act have been passed over and left out as economic realities, left out there somewhere in the oblivion of neglect, until now. Now they are tied tightly to the economic realities with the strong cord of economic science.

A new day is here and the horizon of subjectivism shines very bright indeed. Simply put, there is a spiritual solution to the economic problems. Subjectivism provides the bridge for understanding the

economics of the solutions, thus bringing economic science and religion into harmony.

Finally, since the flow of knowledge is the great force affecting the market process it follows that anything that interferes with the flow of knowledge slows the process. This retarding of prosperity affects the divine economy at the macro level and also at the very personal micro level. Acts of intervention distort and disrupt the flow of knowledge. At the level of the individual the intervention-induced distortions may cause a person to act greedily instead of with moderation or it may cause a person to impatiently spend rather than wisely save.

Do you see what I am saying? The ills that we easily recognize as ills and which have been incorrectly attributed to the economy (I just mentioned greed and excessive consumption) can now be correctly attributed to their true source—the distortions that come from the acts of ego-driven interventionists. Intervention (acts imposed from outside the market process and that prevent the free flow of accurate information); it is this intervention that distorts and corrupts the microeconomy and the macroeconomy.

Intervention is like a veil that prevents us from recognizing that the economy is divine. With this book I have attempted and hopefully succeeded in lifting that veil! Even better, together let's work to tear asunder the veil of intervention by vehemently objecting to intervention at all levels and in all forms so that the countenance of the divine economy can beam its glory.

Finally, do not relinquish the responsibility of your own self—your human essence—to another, to someone else. The human *essence* of economics *essentially* is for each person to find their *essence*, and to polish it as a gem, and in this way attain wealth and bring about prosperity.

Glossary

A posteriori: Reasoning from observed facts or events back to their causes.

A priori: Working from something that is already known or self-evident to arrive at a conclusion

Active Entrepreneurship: A state of alertness where opportunities are easily discerned to be acted upon.

Arbitrage: Buying and selling to take advantage of discrepancies in the price of a good.

Capital: The financial resources which are necessary for the production of most current goods and all future goods.

Catallactics: The analysis of those actions which are conducted on the basis of monetary calculations.

Competitive entrepreneurship: The inherent alertness that fascinates and motivates human action in the real world condition of scarcity of time and means.

Consumer demand theory of value: Value and demand ultimately come from the consumer.

Contemporary price theory: Economic analysis based on the assumption of equilibrium.

Demand: The expression of wants using income from production.

Derived demand: Demand for all factors of production is derived from the demand for the final good.

Disequilibrium: The real economic condition that exists in the world because of uncertainty and imperfect knowledge.

Disutility of Labor: Regarding the three qualities of the human reality—physical, intellectual, and spiritual—humans least prefer the strenuous pathways.

Divine Economy: The equilibrium force that is at the center of the divine institution—the economy—that has been bestowed upon humankind by God.

Divine Economy Model: A subjectivist model that describes the economy in the following terms: human spirit, transformation, law, order, purposeful action, capital structure, market, property rights, justice, and unity.

Divine Economy Theory: The theory that uses the subjectivist methodology to explore how the human identity of being created in the ‘image of God’ helps us to understand how the economy works.

Divine Microeconomy Model ©: A model that uses the subjectivist methodology to trace value back to its source and then opens new vistas for microeconomic exploration.

Divine spark: The irresistible tendency for humans to search for the truth that manifests itself as competitive entrepreneurship.

Division of labor: Since every human being is unique, as they pursue their goals there is the potential that they will make a unique contribution to production.

Dualism: A state in which something has two distinct parts or aspects, which are often opposites.

Empiricism: The use of data rather than theory to explain things.

Entrepreneur: The agent that is the driving force in the economy because of the exercising of alertness and the bearing of uncertainty.

Epistemology: The branch of philosophy that studies the nature of knowledge, in particular its foundations, scope, and validity

Equilibrium: The tendency towards balance and harmony.

Ever-advancing civilization: Humans, individually and as a whole, always aspire towards and potentially achieve greater perfections.

Ex ante: Before the event.

Ex post: After the fact.

Hampered Economy: This is an economy where acts of intervention interfere with the equilibrium forces.

Homo agens: He or she who exercises human action.

Human Operating System: All of the inherent human faculties that serve as the means to fulfill our human purpose, which ultimately is to know and love God.

Income: Purchasing power that results from production.

Inflation: Artificial expansion of the money supply.

Intervention: Imposition of finite human acts of control onto an infinite and divine system.

Laissez-faire: An economic philosophy based on the insight that the economy works best when there is no intervention.

Latent Entrepreneurship: A state of potential unachieved due to discernment dormancy.

Leisure: The desire to satisfy one's highest valued physical, intellectual, or spiritual aspiration instead of working.

Loss: Occurs when marginal costs are greater than marginal revenues.

Macroeconomy: A term used to indicate that aggregate indicators in the economy are being looked at.

Market: The place and process where information flows between and among participants.

Market clearing price: The price where the quantity demanded of a good will match what is supplied during that production cycle.

Market Process: A natural and universal process that functions like a language does to facilitate the making of exchanges.

Methodological dualism: No bridge connects the external world of physical, chemical, and physiological phenomena and the internal world of human thought, feeling, valuation, and purposeful action.

NTA (Next Time Around): Production for the next planned sales period based on information and knowledge gained from the previous planned sales period.

PSP (Planned Sales Period): That period of time by the end of which the firm expects to sell out of the quantity supplied to the market.

Praxeology: The study of purposeful human action taken by spiritual beings.

Price: Information conveyed during the market process about the exchange value of a good.

Price elasticity: The degree of change in the quantity demanded if the price changes.

Production: The creation of useful goods and services.

Production Possibilities Frontier: A macroeconomic tool using two opposing aggregates to explain the limits of production.

Profit: The motivation that stimulates producers to increasingly meet the needs of the consumer thereby serving as an agent of continuous economic progress.

Profit margin: It is marginal revenue minus marginal costs.

Purchasing Power: A measure of the value of the medium of exchange in terms of the goods that can be purchased per unit of money.

Reciprocity: A relationship involving mutual exchange.

Risk: Due to uncertainty and imperfect knowledge there is a possibility of a loss.

Savings: The portion of income set aside for future consumption.

Scarcity: Available resources at any given moment are insufficient or inadequate relative to wants.

Secession: The right to leave a jurisdictional arrangement in a contractual society.

Shortage: This occurs when demand exceeds supply.

Speculating: It involves sophisticated guesswork about future changes that are shrouded in uncertainty; it is alertness in a risk environment.

Standard of Living: An aggregate reference point assessing the degree of well-being and prosperity in relative terms.

Subjectivism: The scientific approach that recognizes that humans act subjectively, and this then leads to realistic and relevant scientific discoveries.

Subjectivist methodology: Using the science of human action to identify both laws and how they operate.

Standard of Living: An aggregate reference point assessing the degree of well-being and prosperity in relative terms.

Supply: The outcome of production.

Surplus: This occurs when supply exceeds demand.

Symmetry: When things are balanced and proportional.

Tautologies: These are propositions that are, in themselves, logically true.

Taxation: Coercive extraction of wealth by government.

Time Preference: The universal law of human action that states that people prefer to have a good now rather than that same good sometime in the future.

Unhampered Economy: A synonym for a laissez-faire economy and a free market economy. It is also the condition that exists in a divine economy.

Vantage Point Planes: The two dimensional surface, like a painter's canvas, seen from the perspective that is perpendicular to the plane.

Virtues: The human essence that is the origin of value, the source of wealth.

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About the Author

Bruce Koerber—the originator of the divine economy theory and the divine economy models.

The whole theory and the associated models developed as part of a deductive process. The simple model appeared to be organic and easily took on the characteristics inherent in the philosophy of classical liberalism. The first stage of its development ended with a dynamic macroeconomic model. Pursuing further the deductive process the model fit perfectly into a structural analysis that penetrated into the very heart of economic activity all the way to the origin of where value comes from. This discovery process yielded the microeconomic model.

Two major realms of the divine economy model remained unexplored. The first was the ethical strand which had to do with the connection between the human spirit expressed as purposeful human action, and transformation which is manifest in the capital structure. The perspective of the divine economy theory renewed macro and micro economics, granted, but the melding together of ethics and economics in theory and in a model had never been achieved before.

The last component of the divine economy model is just as earthshaking. This time the relationship between law and order brought to light the role of the equilibrium forces of the economy in the advancement of civilization by balancing all aspects of social cooperation, most notably liberty and justice.