# *Principles and Precepts of Economics*

**This chapter requires a companion activity book in which students respond to questions on text content. Answers are found in the Teacher's Resource Kit.**




# *Chapter 1 Text*

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# *Introduction: Principles and Precepts of Economics*



Contrary to common perception, ***economics*** is not boring facts and statistics about ***money*** and the economy. Economics is about people, ***resources***, and ideas. It is the story of history. People and nations learned to ***trade*** and interact in ways that brought ***prosperity*** and peace through the wise use and distribution of resources. Economics is also the story of how bad ideas have negatively impacted millions of people, depriving them of the ability to live in freedom and enjoy the fruits of their own labor.

This course will help you to discern between good ideas that make men free and prosperous, and bad ideas that make men slaves or dependent. You will understand how resources such as equipment, personnel, and money can be used wisely to bring about good things for yourself and others, and how resources are often used *unwisely* to restrict freedom.

You will learn about various ***economic systems***, including capitalism, feudalism, mercantilism, and socialism, as you discover why America's economic system has created the wealthiest, most prosperous nation in the world. Finally, you will learn how you can use sound economic principles to help you thrive in life!

## VOCABULARY

***Economics:*** allocation of resources through supply and demand
***Money:*** coins or bills used to pay for debts, goods, services
***Resources:*** sources of economic wealth
***Trade:*** buying, selling, or exchanging goods or services
***Prosperity***: financial well-being, affluence
***Economic Systems:*** distribution and allocation of goods and services



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# *Principles and Precepts of Economics*



**Topic 1**
*Defining Economics*

# *Chapter 1*

## Section One
***Introduction to Economics***

***Defining Economics***



An economy is basically how people use limited resources for more than one purpose. For example, if you have enough wood for one project, but need a new picnic table and a new set of porch steps, you will have to decide which project to build now, and which one to put off until additional resources are available. That is essentially what people mean when they talk about ***scarcity*** in economics. Wise people learn to use limited resources responsibly. Economics is the science of how money and goods are exchanged.

Perhaps you have experienced financial conflict in your own family. Understanding a ***family economy*** helps you to understand how a national economy works. Your parents work to exchange their time, skill, and effort for financial ***compensation***. Then, the money is exchanged at stores or online shopping sites for goods or services needed by your family. Those resources must then be shared; otherwise, conflicts will arise.

You can probably think of some things your family needs weekly, such as groceries or fuel. Perhaps you can recall other items that were bought with far less frequency, such as a new vehicle. Most likely, you can think of a time when your family had a need, but finances were not available to meet that need right away. As such, you have first-hand knowledge of the concept of scarcity.

Scarcity is also a community issue. The community could be your neighborhood, your scouting group, or even your local church. Each community has needs and a limited amount of resources to meet those needs. People learn to find new ways to get additional resources through cost-cutting, extra jobs, shopping at thrift stores, or garage sales. For these endeavors to

### VOCABULARY

***Scarcity:*** limited resources
***Family Economy:*** family policies to acquire goods and services
***Compensation:*** payment for goods or services

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be successful, people invest their time and personal resources for the greater good. The more successfully you and your family handle your own resources, the more good you can do to help others.



Another type of economy is a local city economy. People in towns and cities must find ways to raise funds to take care of sidewalks, provide for police, fire, and ambulance services, and a lot of other things that require time and money. Cities raise funds in many ways, including local property or sales taxes, license fees, ***punitive fees***, and through utility fees for water, electric, and waste management.

A state economy works much like a local city economy, but on a much larger scale. Each state needs to provide services such as maintaining state highways and providing for the common defense through a state national guard, and maintaining the state government. These things can be expensive, so in addition to ***revenue*** sources used by local cities, a state can also require its citizens to pay an ***income tax*** or sales tax.



Municipal Firemen

The largest of all economies is the federal economy. Our Federal Government oversees all aspects of governing the nation, including raising revenues and providing protection and essential services. As we will see later, our Federal Government provides far more services and resources to its citizens than our ***Founding Fathers*** ever imagined or intended. We will learn whether that is a good or bad thing. Just as state governments use state income taxes to raise funds, the Federal Government collects federal income taxes, as well as many other types of taxes, to raise revenue.

Money drives most modern economies, so let's examine different types of money. In order for paper money to have value, it must be backed by something of value. We will learn more about the history of money later, but for now let's just consider some basic concepts.

***Commodity money*** refers to using a ***tangible*** item of some kind as a source of money. The most common type of commodity money in history has been precious metals, like silver and gold. These commodities are rare (so they have value), are easy to mint into coins, and their value is universally recognized and accepted.

## VOCABULARY

***Punitive Fees:*** fees collected by government as punishment
***Revenue:*** money collected through taxes
***Income Tax:*** a tax imposed on annual earnings
***Founding Fathers:*** individuals who designed America's founding documents
***Commodity Money:*** money based on the value of silver or gold
***Tangible:*** an item detected by human senses

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Commodity money is the safest kind of money. Until recent times, the United States dollar bill was backed by gold and silver, therefore a one dollar bill had value because it could be traded for the same amount of gold or silver. People had faith in the paper dollar because it was backed by precious metals. Remember, commodity money is the best kind of money.




Another type of money is called ***representative money*.** This really isn't money at all, but *represents* real money. A classic example is a check. If your employer pays your wages with a check, you are paid in representative money. You can take it to a bank and exchange it for cash, which you can then spend on goods or services. Of course, you can deposit the funds into your own checking account and write checks for the things you need, thus using representative money.

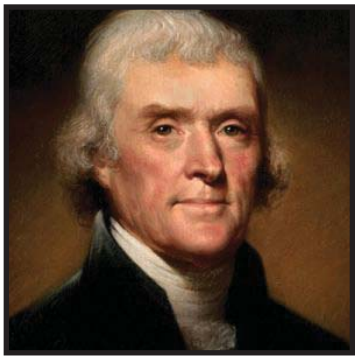
***Fiat money*** represents the worst kind of money, because it has no ***intrinsic*** value. People accept fiat money as payment for goods or services because most governments operate on fiat money. It has no real value of its own, and is not backed by anything of real value. In and of itself, it is worthless. So, we will study where fiat money originates, and why it is accepted as payment for goods or services. For now, remember this: every American bill currency, regardless of the ***denomination*** (one's, five's, ten's, twenties, etc.) is fiat money. Americans accept it because the federal government operates on fiat money.

**In the next topic, we will learn about how government policies affect household economics.**

## VOCABULARY

***Representative Money:*** check, money order, or bank draft
***Fiat Money:*** money made legal through government decree
***Intrinsic***: in and of itself
***Denomination:*** the printed value of currency

# *LIFE PRINCIPLE*:



*"Never spend your money before you have earned it."*

-Thomas Jefferson
(Founder, 3rd U.S. President)

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# *Principles and Precepts of Economics*



**Topic 2**
*Governments and Economics*

# *Chapter 1*

## Section One
***Introduction to Economics***

***Government and Economics***



At the heart of every economic system is a set of ideas. We refer to a system of ideas as ***philosophy***. Philosophy is influenced by whether you believe in ***absolute truth*** or ***relative truth.***

If you believe that truth exists as a fixed concept, that is, truth is truth and it never changes (that's what makes it absolute), then you subscribe to absolute truth. Logic and reality demand that we view the world in this way. For example, if someone falls off a 30-story building, absolute truth based on the law of gravity confirms that while the fall won't hurt him a bit, the landing will be unpleasant! No matter what that guy believes on the way down, he's a "gonner" when he hits the ground. As Aristotle put it, "A is A." Saying that "A" is "B" does not make it so, no matter how hard we wish it. Successful people learn to accept reality as truth, and then learn how to make something good come of events, regardless of circumstances.

Relative truth alleges that fixed, absolute truths do not exist. People who subscribe to relative truth believe that absolutes exist only in the minds of men, and as such, truth is subject to change. Whichever "truth" is accepted as the reigning philosophy greatly impacts every area of life, including economics.

Once a government implements an economic system based on the philosophy embraced by those in authority, certain policies will arise. Good philosophy leads to good policies, and bad philosophy leads to bad polices that negatively impact people and resources. An example of this perspective pertains to property.

## VOCABULARY

***Philosophy:*** the study of ideas and the nature and meaning of life
***Absolute Truth:*** the belief that truth is a fixed, unchanging, universal concept
***Relative Truth:*** the belief that "truth" exists only in the minds of people, and is therefore subject to change

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In the United States, individuals have the right to own ***private property***. Collectively, US citizens own property as well, and we refer to this as ***public property***, such as National Parks and Monuments. People mistakenly think that government owns these, but in America, government is made up of representatives of the people; so, in reality, the term "government property" should really be "public property."

In some countries, people have no liberty to own private property. Communist-ruled North Korea is a good example. The government (economic system), controls all people and property.

In the United States, people have personal liberty to own property, express beliefs, and worship God. People in North Korea, have no such liberty. Most people would rather live under a system that promotes personal liberty. That is why millions of people immigrate to the USA.

VOCABULARY

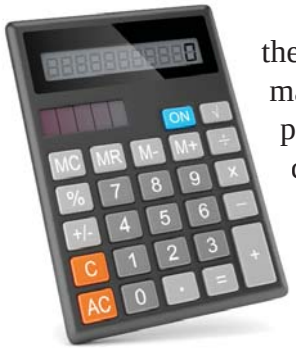
***Private Property:*** property owned by an individual
***Public Property:*** government property
***Fundamental:*** the most basic, important thing
***Progressive Income Tax:*** a greater percentage of income tax to be paid as income increases

Another important concept pertains to public verses private property. When property is "public," no specific people have a vested interest to take care of it. On the other hand, when people own personal property, they assume responsibility to take care of it. People tend to neglect or ignore something they do not own. Remember, the freedom to own private property is of ***fundamental*** importance.

Now, let's consider some other concepts that impact economics. We mentioned in the first lesson that governments raise revenue through taxes, so let's look at a couple of specific examples of taxes.

The simplest tax to understand, and one used by most states, is the state sales tax. In some states, taxes are as high as 10% on all products purchased. So, if you walk into your favorite clothing store to buy a $20 shirt, the cost will actually be $22 because the store will collect the 10% sales tax ($2 in this case) and forward that money to your state government.

Income taxes, as the name implies, tax income. Suppose that you were paid $50,000at your job last year. If the income tax rate was 10%, then the government will keep $5000 of your income. As a result, your take-home pay is only $45,000, not the $50,000 you earned.




In reality, the more money you make, the greater the percentage government collects from you. That is called a ***progressive income tax***. In fact, if you make $50,000, the tax rate is actually 25%. Right now, you can see that excessive


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government ***regulation*** causes serious problems in private lives and in economies.

As the term implies, to regulate is to control. Depending upon the philosophy held by those who govern, people experience a lot or a little control (regulation). Presently in America, people are experiencing a lot of government regulation. In fact, so many laws are on the books, that no one can count them!



On a practical level, regulations govern every aspect of our lives, especially economics. Government regulations dictate what kinds of businesses people can start, how they are required to run their businesses, and who a business may or may not hire. Later, we will learn about how excessive regulations cost a lot of money, waste a lot of resources, and take away a lot of personal liberty.

***Inflation*** is another way people lose freedoms through bad economic philosophy. When a government creates more paper money than it has silver or gold to back it, the value of money *decreases*.

Assume that you have one ounce of silver for every one dollar bill printed by the government. Each dollar bill is backed by one ounce of silver. Everyone knows that one paper dollar equals one ounce of silver, so they gladly accept dollar bills as payment for goods or services.

At some point, the government realizes it has taxed people too much, and government officials know taxpayers would revolt if taxes were raised again. So, to obtain more money to spend on projects, government officials print more paper money. Consequentially, each dollar bill would be backed by a smaller portion of silver.

If government agencies spend new money first, people will not know that the value of the dollar bill has just been reduced. Thus, the Federal Government spends dollar bills that still have the ***perceived*** value of one ounce of silver. Once the money has circulated, however, the people will figure out that the money supply has perhaps doubled and each dollar is really worth only a portion of the original value. As a result, merchants will increase prices of products. The grocer who sold a loaf of bread for one dollar may charge two dollars in order to earn a profit and stay in business.

In our example, the government inflated (increased) the money supply. The effect was that prices went up. Unfortunately, most consumers don't understand that inflation causes prices to rise; because, once businesses realize the value of US currency has dropped, retailers will raise prices to compensate for the loss of ***monetary*** value.

**Inflation is bad policy. Monetary policy determines how an organization in charge of the money supply adds or subtracts from the amount of money in circulation. Oftentimes, raising or lowering *interest rates* on loans and investments enters into the monetary policy picture, as well. We will learn more about this when**

## VOCABULARY

***Regulation:*** a rule issued by a regulatory agency
***Inflation:*** an increase in the fiat money supply
***Perceived:*** appeared to be as such via the senses
***Monetary:*** pertaining to money
***Interest Rates:*** rates charged for the use of money

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**we study the Federal Reserve System in Chapter Two.**

## *LIFE PRINCIPLE:*




*"By failing to prepare, you are preparing to fail."*

-Benjamin Franklin (Founding Father)

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# *Principles and Precepts of Economics*

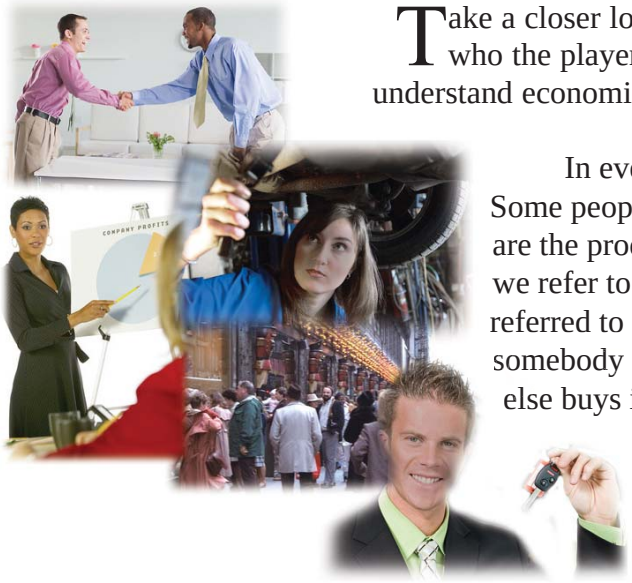


**Topic 3**
*Relationships in Economics*

# *Chapter 1*

***Relationships in Economics***

## Section One
***Introduction to Economics***



Take a closer look at how an economy works in practice; who the players are, and other concepts that will help us understand economics.

In every economy, two groups of people participate. Some people make the things or provide the services; they are the producers. Others buy or use products or services; we refer to them as consumers. This process is also referred to as "***production*** vs. ***consumption.***" In other words, somebody makes the burger at a restaurant and somebody else buys it.

Imagine that you pull up to the drive-through window at Joe's Happy Burger Place to discover that Joe is out of burgers. Joe could not get more meat due to a drought that had negatively impacted the cattle industry. The drought resulted in a lack of grazing lands, causing difficulties for ranchers to fatten cattle for market. So, when Joe's Happy Burger Place sold out of hamburger meat, the supply was depleted. You wanted a burger (that is referred to as the "***demand***"), but Joe did not have enough meat (that is referred to as the "***supply***"). When the demand of a product is greater than the supply, unpleasant results can impact the economy.

VOCABULARY

***Production:*** the process of turning raw material into products
***Consumption:*** customer purchases of goods and services
***Demand***: the amount of goods or services consumers want
***Supply:*** the total amount of goods or services available

First, some people go without. Remember, that is called scarcity. Second, when supply is low, but demand is high, businesses will raise their prices in order to stay open.

The greater the demand for a product (burger), the greater its value. This is a simple, but important, law of economics. Prices rise when supply is low and demand is high. If you want something badly enough because the perceived value is high, you'll pay more for it when you are competing with other consumers who want the same product. That is one reason eBay is such a great success. People bid against one another to get something they perceive has

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value. The opposite is also true; the increased supply of products creates more choices among customers, who will seek the lowest prices.

Now, back to our example. With less grass for cattle feed due to the drought, fewer cows are raised to sell for meat. Moreover, ranchers must pay for expensive irrigation systems. Installing irrigation systems raises the cost of producing meat.

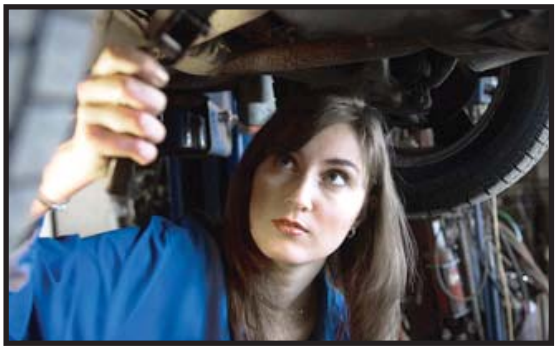
These two factors impact the price of beef. The cost of supplying meat has increased, and that expense is passed on to restaurants, which in turn pass the price increase along to consumers. Another factor impacting the price of burgers is the supply vs. demand issue. The same number of people competing for meat will cause the restaurant to raise its prices. So, the product goes to the consumer who will pay the restaurant for its products. This isn't being selfish; it is simply making the most productive use of limited resources. After all, the more successful the restaurant, the more likely it will stay in business and keep providing consumers with desired products. Everyone benefits when supply equals demand, and when government does not cause inflation by taxing, spending, and increasing the money supply beyond equal value of gold and silver deposits.

You can see the importance of understanding economics. If you want to be able to buy that new tablet and that new surfboard, you will want to learn about economics and how to use that knowledge to your benefit, so you are less apt to suffer the effects of scarcity.

Another economic factor is government. Government regulations almost always cost consumers more money. For example, if the government decides that cars need to be more fuel-efficient because of a perceived carbon monoxide threat to the environment, federal agencies might pass a regulation requiring car manufacturers to produce more fuel-efficient cars.

Here is how that often plays out: car manufacturers must hire scientists and engineers to produce technology to create more fuel-efficient cars. Then, they must either hire a company to make the new required parts, or create or purchase machines to make the new parts. Next, they train employees to install and service the new parts.

As a result of one new government regulation, car manufacturers may need an additional $800 to produce each car. The new regulation could cost manufacturers hundreds of millions of dollars! Keep in mind, that's just with one government regulation! Manufacturers could not stay in business if they kept taking financial hits like that, so they consider options to ***mitigate*** their losses.



The first option is to cut manufacturing costs. This may mean laying-off hundreds of employees and shifting their workloads to employees who remain employed. Everyone works harder for the same pay, because fewer employees perform the same volume of work. They do not complain too much, because they still have their jobs! Another way to handle


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the increased cost of complying with a new government regulation is to pass production cost increases along to consumers. In fact, according to an online article by the Heritage Foundation on December 17, 2012, new costs of government regulations will raise the price of the average car in excess of $3000 by 2025! Most manufacturers use a combination of cost-cutting and price increases to ***alleviate*** increased manufacturing costs caused by government regulations.

Regulations impact everyone in the economic chain. Mining and lumber companies extract or harvest natural resources, such as iron ore and trees, and haul them to factories, which turn the natural resources into usable products. Transportation companies use trucks, trains, and ships to haul finished products to wholesale distributors. Wholesale distributors purchase products more cheaply, because they buy in large quantities. Then, wholesalers sell products at a profit to retailers – the stores from which consumers buy products. Retailers also increase the cost of each product so they can make a profit, as well. Profit is necessary to remain in business. Most businesses operate with only 5 to 10 percent profit.




In addition, retailers hire advertisers to draw consumers into stores or to online websites. Sales personnel assist consumers in making the best purchase possible. Financial institutions (banks and investors) provide ***capital*** to enable players in the economic chain to function. ***Entrepreneurs*** at every stage of the economic chain provide the ideas, drive, and motivation to get things started and see them through to completion.

Keep in mind, in order for economic players to function and flourish, they must operate in a ***free enterprise system*** where people can take risks to make profits. A free nation that is not unduly burdened by government regulation becomes a wealthy, prosperous nation with a healthy ***Gross Domestic Product*** rating. Productivity will be high and new technology will create new opportunities for even greater productivity. Such a nation can trade products with other nations, sometimes for money, and sometimes for other goods.

A ***favorable balance of trade*** takes place when a country is exporting more products than it is importing from other countries. In other words, a country that sells more goods to other countries than from which it buys products has a better financial situation and is less dependent upon other countries.

One philosophy argues that trade should be regulated to restrict foreign

## VOCABULARY

***Mitigate***: to make something less severe
***Alleviate:*** to reduce the pain or trouble of something
***Capital***: wealth obtained for production
***Entrepreneurs***: assume risks for starting a business
***Free Enterprise System:*** capitalism; profit from privately owned goods and property
***Gross Domestic Product (GDP):*** total market value of goods and services
***Favorable Balance of Trade:*** more exports than imports

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***imports***, so domestic manufacturers will not have to compete with foreign manufacturers. That might sound good, and even patriotic. Many unions advocate this approach. Some consequences, however, need to be kept in mind.



For example, if the United States wants to limit imports from Japan, the US can pass a ***tariff*** on goods imported from Japan. In other words, Japan will have to pay a type of tax on each product it exports to the United States. Oftentimes, Japan will retaliate against the United States by passing tariffs on ***exports*** from the United States! Now, you have what is known as a trade war. Not only is one country trying to sell more products to the other country than is being imported, but now it is trying to penalize the other country for being productive and creating a better product!

## VOCABULARY

***Imports***: Goods or services obtained from a foreign country
***Tariff***: a tax on goods coming into or leaving a country
***Exports***: goods or services sold to a foreign country
***International Trade:*** trade of goods or services to other countries

Nations are wise to avoid trade wars. Just as free enterprise within a country brings greater freedom, innovation, and prosperity, so will free ***international trade*** ultimately benefit all countries in the long run. If American cars are not as good as Japanese cars, the solution is not to exclude Japanese cars. The better approach would be for American car manufacturers to make better cars. Not only would Americans buy the cars, but so would Japanese consumers!

**In the next topic, you will learn more about how the American economy works.**

# *LIFE PRINCIPLE:*

*"Never let the things you can't do, stop you from doing what you can."*

-Ronald Reagan
(40th U.S. President)



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# *Principles and Precepts of Economics*

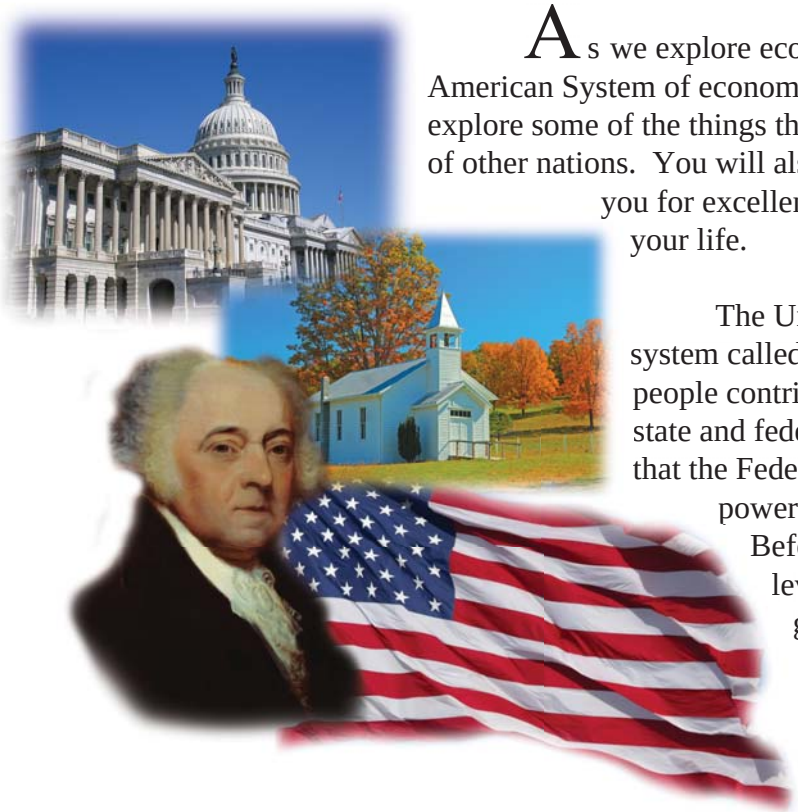


**Topic 4**
*An Overview of the American System*

# *Chapter 1*

## *An Overview of the American System*

## Section One
***Introduction to Economics***



As we explore economics, you will discover that the American System of economics is unique. In this lesson, we will explore some of the things that have enabled America to be the envy of other nations. You will also learn things that will better prepare you for excellence in whatever you choose to do with your life.

The United States government is based on a system called ***Federalism***. In our Federalist system, people contribute to government at two levels: the state and federal levels. Federalism helps to ensure that the Federal Government does not become too powerful, forcing its will upon the 50 states. Before we examine the impact of these two levels of government, let's examine local government in the American economic system.

At the local level, ***municipal*** laws are passed to regulate commerce. Local towns and cities enact sales taxes, property taxes, and other taxes to raise ***revenue*** to fund essential services such as water, sewer, street lights, police, and firemen.




***Federalism***: a union of states under a central government
***Municipal***: pertaining to a town
***Revenue***: moneys, income

The tradition of people governing themselves on the local level goes back to some of the earliest settlers in America. In fact, prior to getting off the Mayflower at Plymouth Colony in 1620, the Pilgrims wrote the Mayflower Compact, a document whereby the people in the new colony agreed to govern themselves by certain rules and guidelines. Their guidelines were taken primarily from the Bible, as most of the people were devoted Christians, who were seeking freedom to assemble to worship God and live by Biblical principles.

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*Freedom of association* was a basic ***tenet*** of the Pilgrims. They believed that people have a God-given right to associate with whomever they wish (or not to associate, as the case may be). That is why they wrote the Mayflower Compact — to enter into voluntary agreement with one another to work together for the common good. This philosophy also means that people are free to choose their own leaders from among themselves in accordance with the dictates of their own conscience.



Eventually, the people of New England developed the tradition of the town meeting, whereby citizens of the town gathered to decide local issues. Those democratic meetings were based on the ***polity*** of early settlers. Local churches were, by and large, little democracies where voting members made decisions impacting their local church. During early years in the colonies, only church members could vote. Since church buildings served as the town meeting places, settlers naturally chose to use the same system of government as their churches did to conduct town business. This tradition of local democracy continues today in many parts of New England. It also greatly influenced our Founding Fathers when they wrote the Declaration of Independence and United States Constitution. You will learn more about those documents in Chapter 2.

Now that you understand the concept of local government in the American System, we will move up one level to state government. You will notice a separation of powers — the existence of several branches of state governments as well as of the Federal Government. The initial colonial idea was to keep any one branch of government from becoming too powerful and exerting too much authority over the people.

Since the government is "of the people, by the people, and for the people," no one serving in any branch wanted members of the other branches to become too powerful. In essence, each of the three branches wanted to protect its own power, and therefore kept the other branches in their appropriate places. This philosophy was rooted in the Founders' firm belief in the teaching that all men are, by nature, ***degenerate,*** and therefore liable to abuse their power (as King George III did prior to and during the Revolutionary War [1776-1783]).

In keeping with this belief, states were established with a governor and a ***bicameral*** legislature (Nebraska is the one exception – it has a ***unicameral*** legislature, although that did not happen until the 1930s). The bicameral legislature is made up of two distinct houses (governing body, or branches), each with its own functions. Usually, one house initiates economic and financial policy, and the other house must approve it. When both houses

## VOCABULARY

***Tenet***: a principle that is an accepted belief
***Polity***: governance of a nation, state, church, or organization
***Degenerate***: base, crude, dishonest
***Bicameral***: a legislature consisting of two chambers
***Unicameral***: a legislature consisting of one chamber


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agree on a version of a new economic bill, the new bill is sent to the governor's desk to sign or ***veto***. Then, state supreme courts approve or disapprove of the legality of any bill that is challenged in court.

Like most state governments, the United States Federal Government consists of three branches: Executive (President), Legislative (Congress – bicameral with the two houses, called the House of Representatives and the Senate), and Judicial (Supreme Court). We will examine them briefly in relation to how they impact economics.



United States Capitol

***Funding bills*** originate in the House of Representatives, where debate produces a final version of new bills. Bills are passed along to the Senate. Senators also debate details of the bill, and on occasion, send it back to the House of Representatives with suggested revisions. Once both houses of Congress agree on a version of the bill, it is sent to the President to sign or veto. If it is not signed or vetoed by a certain date, the bill dies. In reality, that is the same as a veto and is often referred to as a "pocket veto." Oftentimes, presidents who do not like a bill, but are too concerned about what people would say if it is vetoed, will use the pocket veto. In addition to the pocket veto, legislation may be stopped by the courts.

The US Supreme Court often decides the Constitutionality of a law. If a law violates the Constitution, the Supreme Court can strike it down, essentially killing it. Originally, the Supreme Court limited its role to settling disputes between the states or in US Territories, but the Court's influence and power have evolved since the 18th Century.

Early in the life of the United States, men in government felt very strongly that the best government was the one that governed the least. Thomas Jefferson declared: "My reading of history convinces me that most bad government results from too much government." Originally, citizens were free to pursue their economic dreams unrestrained by government regulations. Early Americans believed that their ***inalienable rights*** came from God, rather than from government.

Personal freedom enabled Americans quickly to become the most productive people on earth. In about 50 years, America surpassed England as the most productive industrial economy in the world.

Men minded their own business and tried not to force their views on others. "Live free or die," the official motto of New Hampshire, was on everybody's mind in early American government and culture. Again, quoting Jefferson:

> *I know no safe depository of the ultimate powers of the society but the people themselves; and if we think them not enlightened enough to exercise their*

## VOCABULARY

***Veto***: power of a chief executive to prevent enactment of legislation
***Funding Bills:*** proposed legislation pertaining to finances
***Inalienable Rights***: God-given, not manmade

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*control with a wholesome discretion, the remedy is not to take it from them but to inform their discretion by education. This is the true corrective of abuses of Constitutional power.*

This level of thinking enabled people to enjoy life, liberty, and the pursuit of happiness, which Jefferson emphasized in the Declaration of Independence, our Nation's mission statement.

Indeed, the early ***fiscal policy*** of the day reflected the ***frugal*** nature of our Founders. They shunned debt. John Adams, second President of the United States said, "There are two ways to enslave a nation. One is by the sword. The other is by debt." Having experienced the dangers of fiat money during the Revolutionary War, our nation's new leaders ensured our currency was backed by silver or gold. Economic measurements were simple: ***revenues*** minus ***expenditures*** = ***surplus***. If the expenditures exceeded the revenues, the consequence was a ***deficit***. Surpluses were good; deficits were bad.

**Things were relatively simple at the beginning of what was known as the "American Experiment." The Founders were men who believed in Judeo-Christian perspectives regarding liberty, and thus established a government with three branches to guard against *usurpations* of power. The Federalist System further reduced opportunity for abuses of power by the Federal Government, because power was shared with state governments. From local governments to the Federal Government, belief in liberty to pursue happiness, unfettered by government intervention, resulted in the greatest prosperity and wealth the world has ever known. Unfortunately, economic policies in the 21st Century are very different than policies established by our Founding Fathers.**



John Adams (Founder, 2nd U.S. President)

## VOCABULARY

***Fiscal Policy***: government taxation and spending policy
***Frugal***: careful spending
***Revenues***: financial assets obtained from taxes, licenses, and fees
***Expenditures***: monies spent by government
***Surplus***: assets after expenditures
***Deficit***: assets that exceed revenues
***Usurpations***: wrongful seizure or exercise of authority

# *LIFE PRINCIPLE:*

*"Representative government can endure only with a moral population that embraces the concept of individual freedom."*

-R.E. Cass
(Educator)



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# *Principles and Precepts of Economics*

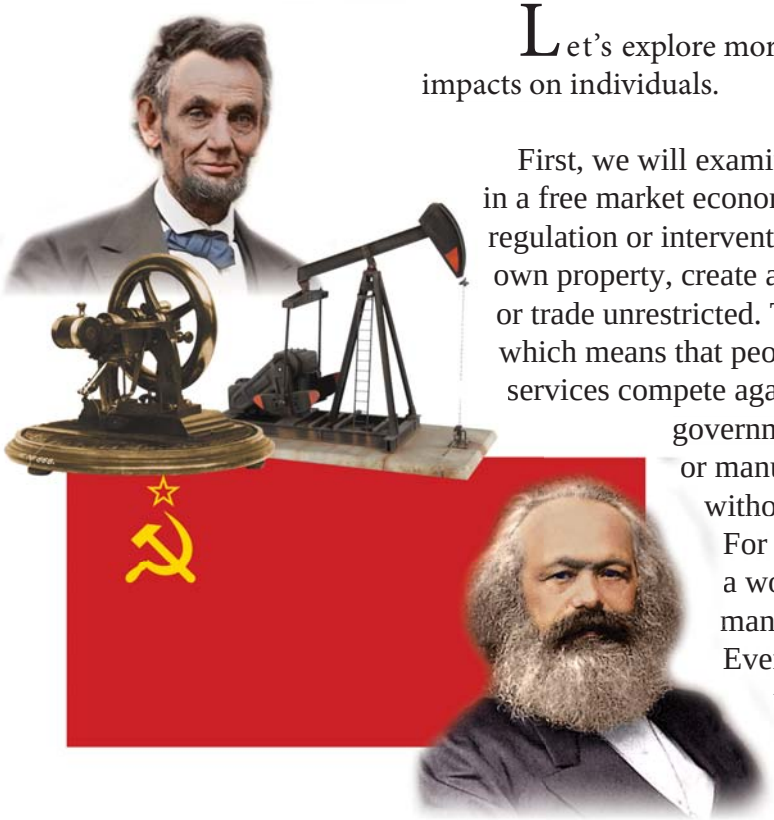


**Topic 5**
*How Economic Policies Impact Individuals*

# *Chapter 1*

## Section One
***Introduction to Economics***

***How Economic Policies Impact Individuals***



Let's explore more economic concepts that have practical impacts on individuals.

First, we will examine a free market economy. Remember, in a free market economy, very little, if any, government regulation or intervention impacts people. Men are free to own property, create a product or service, and then buy, sell, or trade unrestricted. This process leads to pure competition, which means that people who create goods or provide services compete against one another for customers, with no government interference. Often, individuals or manufacturers can create similar products without negatively impacting competition. For example, a carpenter might create a wooden bookshelf, while a large manufacturer might create a steel bookshelf. Even though the products are similar, they tend to attract different consumers, so they are not in close competition with one another. A private citizen might want a wooden bookshelf, while a school library would purchase a steel bookshelf.

Entrepreneurs who create the best products or provide the best services at the lowest prices usually become very successful. Economic growth occurs as more and more people succeed in business. Wealth and jobs are created as a result of the free market economy. Over time, some situations could arise in a free market economy that could prove disadvantageous to both consumers and producers. For example, with an ***oligopoly***, a small number of businesses involved with the manufacture or sale of the same product could join forces to impact prices artificially by agreeing to fix their prices to avoid competition with one another. In other words, they all agree to sell product "X" for the same price.

VOCABULARY

***Oligopoly***: control by a small number of producers

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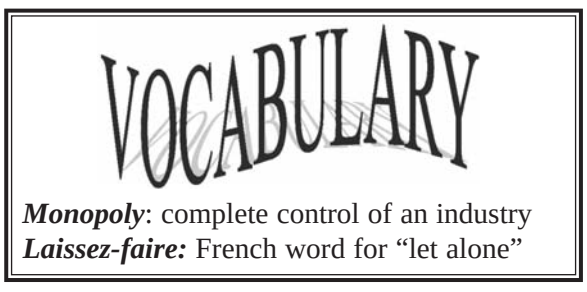
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They could also agree to produce only a certain amount of a product to keep prices from falling. You might recall the supply and demand concept we studied earlier. In an oligopoly, the players interfere with the natural course of the supply and demand process, and thus are able to manipulate supply and prices.

On rare occasions, a single business or individual can successfully put competition out of business, thus creating a ***monopoly***. In a monopoly, competition is eliminated, so the one remaining business can control the market completely in regards to a specific product. The monopoly controls both supply and pricing.


Oil Well

This was the case with John Rockefeller and his Standard Oil Company. In 1911, the United States Supreme Court ruled that Rockefeller illegally held a monopoly on oil production. The Supreme Court forced Rockefeller to dissolve his company into many smaller companies to reintroduce competition in the oil production marketplace. This action by the Court has been followed by many government regulations to control businesses since that time. Some might argue that government intervention in the economy helps to create an "even playing field," making the free market fairer for smaller businesses. Others would argue that as soon as the government gets involved, the nation no longer operates in a truly free market. History proves that once a governmental agency is given permission to regulate the economy, in just a matter of time economic and personal freedom will be lost.



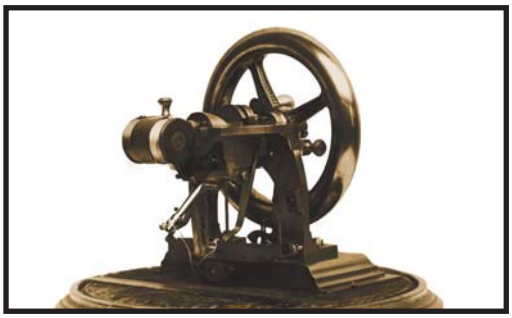

Various terms define a free market economy. The term "***laissez-faire*** economics" refers to a free market economy. In other words, the government leaves people free to do as they please regarding their economic affairs. This expression is often used to describe America's economic system at the nation's birth and for several decades thereafter. Sometimes, a free market economy is referred to as a *free enterprise system*. The word "capitalism" also refers to a free economic system. Today in the United States, the economy is often referred to as a capitalist economy, although as we will see later, that is no longer technically correct. Keep in mind that the terms *capitalism, free enterprise*, and *laissez-faire* describe a free economy, and mean the same thing.

Life under a free market economy is unique. It is the only economic system whereby men and women are truly free. For that reason, capitalism was embraced by the Founding Fathers and entrepreneurs. Following are some examples of people who participated in the unique, free economy of the United States.

Elias Howe, Jr. is credited with invention of the sewing machine. He was employed in a machinist's shop in Boston, Massachusetts in 1837. An intelligent man and fast learner, Howe began exploring ways to create a mechanical sewing machine. Up to that point, sewing was done by hand and was very time-consuming. Around 1845, Howe began demonstrating his sewing machine, which could create 250 stitches per minute. That was several times faster than a skilled seamstress could do by hand.


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Howe received a ***patent*** for his lockstitch sewing machine in 1846 in New Hartford, Connecticut. For the next nine years, Howe struggled to sell his sewing machine. In the meantime, other inventors created similar devices using Howe's ideas without paying Howe any ***royalties***. Howe sued them and eventually won the right to collect royalties for each machine sold by other manufacturers using his ideas. Howe's annual income jumped from $300 per year to $200,000 per year! Thanks to the free market, Howe was able to improve his life as a low-earning ***blue-collar*** worker, becoming an inventor worth a fortune.



Howe's Sewing Machine

Henry Miller came to America from Germany at the age of 14 in 1846. He moved to San Francisco, California with only $6.00 in hand when he arrived. Working seven days a week as a butcher's assistant, Miller finally earned and saved enough money to open his own butcher shop. He used his profits to purchase land and cattle, and through wise management of his resources, he acquired 1.3 million acres of land during the next 50 years. He eventually invested in irrigation systems that brought water to thousands of acres of unproductive desert, transforming it into land usable for grazing his cattle, and employing people.



Of course, other Americans improved their economic situations without becoming millionaires. For example, Maurice Charland was born in 1937 in Enosburg Falls, Vermont, where his father and mother had nine children, and struggled financially. In fact, when Maurice was a boy, he and a few of his siblings went for a time to live on a relative's farm in Williston, Vermont to help ease financial strain on the Charland family. Though he came from a poor family and did not earn a high school diploma, Maurice put himself through barbering school, working by day and attending school at night.

He graduated from barbering school and started barbering in the late 1950s. He eventually opened his own barbershop in Richmond, Vermont. By the early 1970s, the ***hippie culture*** had so diminished the demand for haircuts that Maurice decided to leave barbering. Working odd jobs to support his family, he was eventually hired to do custodial work for a major commercial oven manufacturer. Impressed with his ***integrity*** and skill, the company trained Maurice to be a welder. For the next quarter of a century, Maurice worked diligently for the company,

## VOCABULARY

***Patent***: exclusive right to use an invention or process
***Royalties***: payments for the right to use a product developed by another party
***Blue-collar***: people who earn a living through physical labor
***Hippie Culture:*** a counterculture characterized by drugs, unique behavior, dress, and music
***Integrity***: adherence to moral and ethical principles

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earning many raises along the way. Over the years, he built a two-car garage and transformed his small mobile home into a large house using his skills, labor, and the monies earned and saved from his job.



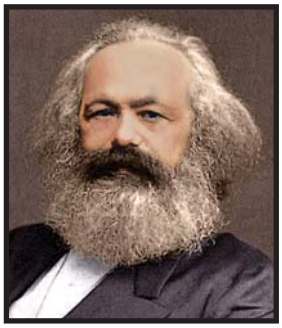
Abraham Lincoln
(16th U.S. President)

Consider also the remarkable **saga** of Abraham Lincoln. Though born into poverty, he became the 16th president of the United States because of his honesty, integrity, and perseverence. Only in America are such things possible.

While we often enjoy reading success stories of a "***rags-to-riches***" nature, the truth is that far more Americans were able to improve their economic circumstances with hard work in order to create a better future for their families. These Americans, and thousands of others, owed much of their success to America's free market economy.

VOCABULARY

***Saga:*** a story or narrative
***Rags-to-riches:*** going from poverty to wealth
***Communism***: complete government control over society, elimination of private property
***Marxism***: the political theory of socialism leading to communism, designed by Karl Marx
***Collectivist***: one who subscribes to progressivism, socialism, and/or communism
***Expendable***: subject to sacrifice to gain an objective
***Yugoslavia***: a country in Europe, now divided into other nations
***Brainwash***: forced indoctrination



Karl Marx

In the history of the world, however, far more people have lived under economic systems that are not free. ***Communism***, also referred to as ***Marxism*** after its architect, Karl Marx, is one such system. Communism is based on a ***collectivist*** philosophy in which the group as a whole is important and individuals that comprise that group are ***expendable*** and have few or no rights. In a communist system, the government owns most property and the means of production. People are not free to start their own businesses, own their own homes (with certain exceptions), or choose their own careers. Government agents make the majority of decisions for people. Following are a couple of examples of people who have lived under communism's economic system.

A man named France from ***Yugoslavia*** (then under communism) escaped to America in the 1980s to live with his American cousin. France told how his family once owned a beautiful farm. The communist government confiscated their farm and controlled everyone and everything. They could not even cut down a tree on their property. Speaking against the communist government put one's life at risk. France was even afraid to walk in his own yard for fear of being shot. People rarely owned pets because families needed all the food for themselves. In fact, people would put both hands to their mouths when they ate for fear of dropping crumbs. Marxist government officials controlled education and changed history books in order to ***brainwash*** the people into accepting communism. When France was in America, he was always nervous and looking around. He said he was afraid the communists had followed him or were looking for him. France warned his American relatives


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that the things he was seeing in America were the same things he saw in his country when the communists started taking over. He warned that what happened in Yugoslavia could happen in the United States someday.



Soviet Union (Communist) Flag

Another person who lived under communism was a man named Simon Bilo, an assistant professor of economics at Allegheny College in Pennsylvania. Simon lived under communism for the first six years of his life in the Soviet Union before its collapse in 1989. He remembered, "There were shortages. We had to wait in lines for bananas and oranges. Everything was very expensive. You had to have special privileges to buy nice things. Jeans were considered luxury goods." Many of the things Americans take for granted were either unavailable or very difficult to obtain.

Finally, we will look at life under a socialist system of economics. Like communism, socialism has its roots in a collectivist, progressive philosophy, where the perceived needs of the group are more important than individual rights. Unlike communism, socialism allows some personal freedom, but the government still controls many aspects of society, especially economics. People may own personal property, and start and own businesses, but government control through regulation is so great that no one is truly free. The motivation behind a socialist state is the belief that all citizens are entitled to "fairness," "equality," and certain economic "rights" controlled by progressive government officials.

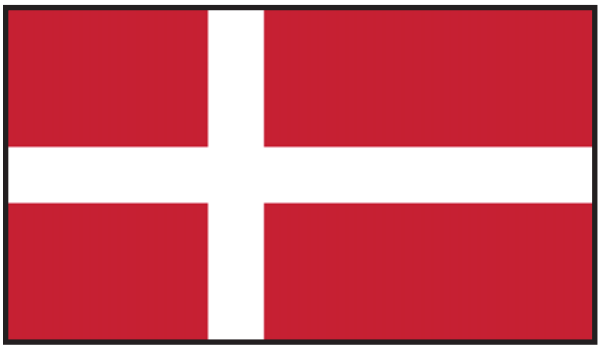
Rights as defined by America's Founding Fathers were inalienable, and summarized in the Declaration of Independence: "life, liberty, and the pursuit of happiness" granted by God. In our pursuit of happiness, we may or may not acquire some of the things we want, like a good education, health care, or a prosperous retirement, but we have the right to pursue them.

Under a Socialist, progressive state, the things our Founding Fathers considered goals to be obtained through hard work and determination, are viewed as economic "rights" to which all citizens are entitled, regardless of personal efforts. To fund these very expensive "rights" (called *entitlements*), very high tax rates are put on individual earnings and on business profits, among other things. This aspect of socialism is termed, "spreading the wealth."

For example, Denmark is a well-known socialist country. The top income tax rate for people in Denmark is 60.2% for those earning above $55,000. To pay for the "free" healthcare, education, childcare, etc. that the country provides to all of its citizens, some people are giving the government more than 60 cents of every dollar they earn at work. Additionally, the sales tax rate in Denmark is 25%. That means each time people spend a dollar in Denmark, they pay an additional 25 cents in tax. Buying a $100 item really costs $125. Since health and education services are government-provided, citizens do not have a choice regarding such services as do people in a free economy. People cannot simply choose to go to another health clinic if they do not like services provided at a designated government provider. In a socialized economy, the government owns a monopoly on most services people need.

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Flag of Denmark

In order for a Socialist economy to operate, the people must be willing to sacrifice personal liberty and property to some degree, oftentimes to a large degree. Many unemployed people are content to do this, embracing a life ***subservient*** to the government in exchange for welfare benefits. Millions of Americans, influenced by decades of pro-socialist ***propaganda*** in schools and media, are much more willing to sacrifice their personal freedoms in exchange for government welfare benefits, free healthcare, and free education. But, those services are not really free. Excessive national taxes are collected from businesses and individuals to support government services. Tragically, high taxes force businesses to lay off employees, thus increasing welfare rolls.

**In Chapter Two you will learn how America has slipped from its place as a Nation of freedom-loving individuals to embrace socialistic, progressive economic policies.**

VOCABULARY

***Subservient***: compliant and obedient to authority
***Propaganda***: communication designed to influence opinions, emotions, attitudes, or behavior

# *LIFE PRINCIPLE:*



*"There is no difference between socialism and communism, except in the means of achieving the same ultimate end: communism...enslave(s) men by force, socialism — by vote."*

-Ayn Rand
(Author, Philosopher)

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# *Principles and Precepts of Economics*

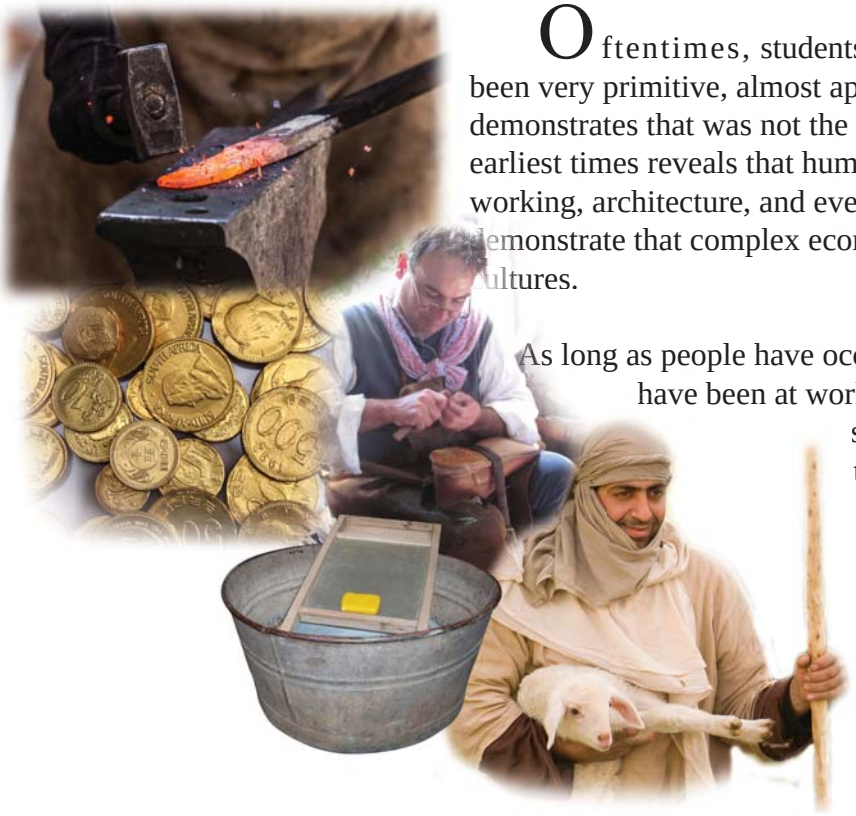


**Topic 6**
*Early Economics*

# *Chapter 1*




## Section Two
***Ancient to Modern Economics***



Oftentimes, students perceive early mankind as having been very primitive, almost ape-like. ***Archaeological*** evidence demonstrates that was not the case. In fact, evidence from earliest times reveals that humans were highly skilled in metal working, architecture, and even surgical abilities. Those skills demonstrate that complex economies existed among ancient cultures.

As long as people have occupied earth, economic principles have been at work. Every person is created with special abilities and talents. From the beginning, people naturally used personal talents and abilities to benefit themselves and others.

As villages grew into towns, and towns into cities, people applied their talents and abilities to thrive. Some people had talent for leather working and made excellent shoes, belts, and sheaths for knives and swords. Some people were skilled at metal working and made knives, swords, and plows. Others excelled at wood working and made products such as houses and handles for tools. This is referred to as *specialization*; that is, each person specializes in one trade or skill rather than doing everything for himself. Specialization is one of the many benefits that derive from living with other people in organized communities. Few people can do everything well, but each person can learn to do some things very well.

VOCABULARY

***Archaeological***: pertaining to the study of ancient cultures

Do not think that specialization was always preceded by a primitive system whereby each person did everything for himself and his family. The move from being self-sufficient in all tasks to a society of specialization is not always a one-way street. For

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example, as America's early pioneers moved west and settled the land, they had to become self-sufficient and do all things for themselves. They were "jacks of all trades;" that is, they could do a little bit of everything, though not always doing each task equally well. They moved from communities that were already well-established with ***craftsmen*** specializing in various trades. In doing so, pioneers had to embrace that "jack of all trades" approach to living, until skilled people moved into frontier areas to offer specialization.

When a new community formed, people simply traded goods or services to someone else who had a different product or service that was needed. This is called ***barter***; the bartering system makes good sense. Barter allows people to get what is needed or wanted without having to make it. Barter is a form of trade, and specialization leads to trade with both local people and people who live far away.

Of critical importance is the need to understand that this simplest form of economic activity requires the freedom of each individual to own personal property. Without private property rights, craftsmen cannot barter or engage in other economic activity. This is another proof that man was created to be free, as our Founding Fathers expressed in the Declaration of Independence. People are designed with an inherent nature to use skills and talents to create private property from natural resources, and then use that property to enhance life through free trade. Thus, bartering initiated the early stages of a free market economy.

The bartering system in America eventually led to a ***monetary system*** as a means of paying for goods or services. Notice below an example of how use of money proved to be better than bartering, especially where long-distance trade is concerned.

Suppose a pig farmer had plenty of pigs to sell. His family needed new shoes, and he agreed with the town ***cobbler*** that one pig was worth two pairs of shoes or boots. Having a large family, he decided to trade his pigs for eight pairs of shoes. To get them, he had to take four pigs to the cobbler's house, which was 15 miles away. The farmer quickly realized that purchasing shoes with pigs could be difficult; pigs are not easily herded or even led by a leash. Consequently, farmers and cobblers realized that a monetary economic system would be more efficient than bartering.



Cobbler
(colonial reinactment)

In some early monetary systems, certain items that were of perceived value, but small enough to fit in a pouch or pocket, sufficed for money. Early monetary items such as shells and beads were useful, but were not always durable. Also, they were not always valued by other cultures in long-distance trade. Eventually, most civilizations concluded that ***precious metals*** such as silver

## VOCABULARY

***Craftsmen***: people skilled in making things
***Barter***: To trade one good or service for another
***Monetary System***: a system of trade which involves currency
***Cobbler***: a craftsman who makes or repairs footwear
***Precious Metals***: rare metals used as currency


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and gold were excellent forms of money. Precious metals are valuable because they are rare. You will recall from the section on supply and demand, that rarity of an item often increases its value. So, the rarity of silver and gold made it a valuable source of exchange. Such metals are also easy to ***mint*** into coins.



Coins can be assigned different values, based on their purity and size. Since silver and gold tend to be soft metals, other metals that are harder are often added when the coins are minted to give them strength so they will last longer. When mixed with silver or gold, other metals, such as copper, tin, and nickel, are referred to as ***base*** metals. The greater the content of base metals, the less pure the silver or gold coin will be, and thus of less value. Of course, the opposite is true; the more silver and gold and the less base metal, the greater the value of the coin. Naturally, larger coins are worth more than smaller coins of the same purity.

Once a civilization begins to trade gold or silver coins for goods, an economy can thrive and the people can experience greater prosperity. Long-distance trade can flourish, and entrepreneurs arise to direct the affairs of commerce. Craftsmen can see that the more they produce, the greater their profits. The ***profit motive*** encourages people to work harder and smarter, and be more productive. The greater the productivity, the greater the profit. The greater the profit, the easier it is to buy more preferred items or services.

Small businesses will arise in such a free economic environment to satisfy the demand for goods and to create a ***diversity of goods*** to meet the needs and desires of customers. Increased trade with other cultures may also impact the diversity of goods positively in an economy. The law of supply and demand directs the economy. Where great demand exists, the profit motive encourages entrepreneurs to supply demand. Consequently, people start businesses to create products or provide services that are in demand. Businesses that meet needs best will flourish. Entrepreneurs know how to predict which products or services will soon be in great demand, and then begin the work of meeting that demand. That is capitalism.

In time, people recognized that in order to deal in great volumes of goods, coins were not sufficient to meet the needs involved in buying and selling. For example, if a man owned a large fishing business in one part of the country and he wished to buy several ships made by a ship manufacturer further down the coast, he would have difficulty hauling hundreds or thousands of silver or gold coins over hundreds of miles to make the purchase. In addition, bandits could rob travelers transporting heavy sacks of coins. Some merchants hired protective military escort. This is an extreme example, but keep in mind, even the average consumer would benefit from a monetary system that did not require hauling heavy coins in pockets or bags.

The idea to use paper as a form of money is thought to have originated in China more than a thousand years ago. Money made

## VOCABULARY

***Mint***: manufacture of coins for currency
***Base***: ordinary, not of great value
***Profit Motive***: an individual's desire to make a profit through economic activity
***Diversity of Goods***: a large variety of goods in the marketplace

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from paper is practical in that it is lightweight and easy to transport in purses or pockets. A man walking down the street with $10,000 of paper money in his pocket is not obvious; however, a man hauling $10,000 in silver or gold coinage would attract attention from thieves.



Disadvantages occur with the use of paper money. As you might have guessed, it can rip, fade, or simply wear out. For these reasons, paper money must be replenished on a regular basis. Moreover, even greater problems arise with paper money: it can be counterfeited easily. More serious is the ***propensity*** of governments to inflate the paper money supply, leading to a decrease in its value. Inflation not only weakens the value of money, it can lead to a complete economic collapse.

**In the next topic, we will look more closely at how inflation can ruin an economy, and how *devious* government agencies can cause inflation.**

## VOCABULARY

***Propensity***: a tendency to behave in a particular way
***Devious***: someone using indirect, unethical ways to get what is desired.

## *LIFE PRINCIPLE:*



*"Success is not final, failure is not fatal: it is the courage to continue that counts."*

-Winston Churchill
(Former British Prime Minister)

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# *Principles and Precepts of Economics*



**Topic 7**
*Ancient Rome*

# *Chapter 1*

## *Ancient Rome*

## Section Two
***Ancient to Modern Economics***



Few people truly understand history. That is a tragedy, for unless we understand events of history, we have no way to understand logically events that are impacting us today. To understand history, we must understand the term "cause and effect." Everything that happens (effect) has a cause. If someone drops a rock on your foot (cause), the result (effect) will be pain.

History is full of cause and effect relationships. Like a chain reaction, each effect can become a future event's *cause*. For instance, the Empire of Japan attacked the United States Naval Base at Pearl Harbor, Hawaii, on December 7, 1941. That attack was a cause that resulted in many effects. For example, the United States declared war on Japan. That effect was also a cause that led to many effects in the United States. Men volunteered for war (effect). Men going to war caused women to go to work in factories due to the shortage of men. Women working in factories was, in turn, a cause that led to other domestic effects.

In our example, a study of the history of women in the workplace during World War II would be very incomplete if the study did not consider how the war impacted American culture. So, this study of economics must include information on key historical events in order for you to comprehend economics and why and how ancient Rome is an important part of that historical, economical equation.

The information about ancient Rome is fascinating! You will learn that some people purposefully ***obscure*** or rewrite history to ***manipulate*** and control other people. That is why knowledge is essential to freedom.

VOCABULARY

***Obscure***: make unclear, vague
***Manipulate***: to influence or control someone to your advantage

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Roman Coliseum

References to ancient Rome apply to the city in Italy, as well as to the Republic of Rome, and later the Empire of Rome. In fact, they emerged in that order. The city of Rome is believed to have been founded around 753 BC The term BC means "before Christ," or prior to the birth of Christ. (The term AD is short for anno Domini, which is Latin for "in the year of our Lord" and refers to events after the birth of Christ.)

Modern textbooks often use the term "BCE" which means "before the common era" instead of using the term BC. In reality, they mean the same thing. Jesus Christ was the central figure in the history of Western Civilization; and the Judeo-Christian philosophy of the importance of the individual was central to the birth of liberty in the United States. Some modern philosophers reject individualism in favor of collectivism, and attempt to obscure Christ's role in history.

## VOCABULARY

***City-state***: a city and its surrounding territory that compose an independent state
***Monarchy***: a country controlled by a king or queen
***Republic***: a state in which citizens elect representatives, who make laws
***Dictatorship***: the form of government in which absolute power is exercised by a dictator

Thus, the term BCE is frequently used instead of BC.

The ***city-state*** of Rome had, as its initial form of government, a ***monarchy***. Citizens were ruled by a king. By 509 BC, the city of Rome and its expanding territory had become a ***republic***. Citizens elected representatives to govern the republic. Like many civilizations, Rome expanded its territory through warfare and conquest. This aggressive policy lead to major problems later.

One characteristic of the Roman Republic was its evolving law. Like ancient Greeks, over time, the Romans had developed a legal code. By the mid-fifth century BC, the original legal foundation consisted of 12 Tables of Laws, put on public display. Roman citizens were provided with certain rights to include a fair trial when accused of a crime, establishment of the principle that all citizens were equal before the law, and the right to own private property.

Unfortunately, the Romans promoted slavery, and political rights did not extend to slaves. Slavery in the ancient world was not based on a person's ethnicity. Slaves were typically people captured in battle by Roman armies. Children of slaves became slaves, as well. Slavery was not only a violation of the rights of man, it eventually helped lead to the downfall of Rome.



Caesar Augustus

Over time, the Roman Republic, which had been fairly stable for several centuries, began to experience internal struggles and conflicts that eventually led to a ***dictatorship***. The



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Roman Empire was established in 27 BC with Caesar Augustus as the first Roman Emperor, in essence a dictator. Eventually, emperors became so powerful they were considered gods with absolute power and authority. People were forced to bow in worship to Roman emperors, or be executed.

The Roman government, under authority of emperors, required a lot of money. The government built ***elaborate*** roads, canals, bridges, coliseums, and other public projects, which were expensive. Rome also maintained large armies to conquer and rule over vast territories. At its height, the Roman Empire extended from England to parts of Africa, and from the Atlantic Ocean to the Middle East

By conquering more territory, however, the Romans had to bring in more finances through additional trade, taxation of conquered peoples, and more slaves. It was a vicious circle of cause and effect: the Romans conquered more lands so they could increase their finances, and the more they conquered, the more expenses were required to maintain control. Also, the work required to expand the empire resulted in a greater demand for slaves.

Wealthy landowners used slaves to cultivate farms. Poor farmers, who could not compete with slave-owning wealthy landowners, sold their farms to the wealthy landowners. In time, ***displaced*** farmers moved to cities to obtain jobs. Since a large supply of workers competed for jobs, ***impoverished*** Roman citizens became dependent upon the government for food. Rome was one of the first large civilizations to develop and maintain a welfare system. The government provided free grain to the people, and later, free bread. In reality, nothing of value is free. Someone has to pay for products and services in order for someone else to receive goods without paying for them.

In addition, the Roman government provided free "entertainment" in its coliseums. These large, outdoor theaters provided seating for thousands of people. The ancient, cruel Romans enjoyed watching gladiators fight one another to the death in bloody battles. Prisoners of war, and Christians who refused to bow in worship to the emperor, were hustled to coliseums where hungry lions and tigers devoured the captives.


Gladiators

The phrase "bread and circuses" has its origins in ancient Rome, and has been used to describe what powerful governments do to keep people content so they do not rebel. Providing the masses with welfare benefits and entertainment also keeps people dependent upon government, and thus under government's control. In ancient Rome, this was a way of life — until Rome collapsed.

Fighting expensive wars, maintaining huge armies, funding building projects, and maintaining the ever-expanding welfare system created massive debt. Initially the government relied on burdensome taxes collected from its citizens to fund programs. Over time, and faced with the threat of revolts

## VOCABULARY

***Elaborate***: complex, detailed, expansive
***Displaced***: forced out of a residency or position
***Impoverished***: extremely poor

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over the high taxes, the government had to create another way to get money. They resorted to inflation. You might wonder how the Roman government could create inflation without paper money.

The primary source of money for Romans was the silver denarius. It was 94% pure silver with some base metal added for strength during minting. It was a trusted form of currency at first. To increase the money supply (inflation), the government began clipping the edges off of coins. By shaving the edges just a little, they could get additional silver to mint more coins.

Eventually, coins became so small that people realized what was happening. A smaller coin meant a coin had less silver value, and as you may have guessed, the Roman merchants started raising their prices to counteract the loss in value of coins. Prices rose higher and higher, putting a great strain on the economy.

Eventually, people demanded that the government stop the clipping, and to prevent it from happening again, the edges of the coins were ***reeded*** so clipping would be obvious. This practice continues today, but not without an element of ***irony***. In the United States, prior to 1965, when some coins were minted with real silver, the edges of the coins were reeded. Take a look at a dime, quarter, half-dollar, or whole dollar coin. You will notice the reeded edges, but you will also notice that the middle part of those coins is made of base copper. Coins not made of precious metals have smooth edges (like pennies and nickels) because nobody wants to shave or hoard them.



The irony is that coins were initially reeded to prevent the government from inflating the economy; now inflation in the United States is a primary monetary policy of the Federal Government. The face value of Roman reeded coins became far less than the value of silver used to mint them. For example, the amount of silver in a United States quarter was actually worth two or more dollars! Nobody would spend a quarter at its face value of 25 cents, if it was really worth $2.00!

As a result of hoarding, the Roman government stopped using precious metals for reeded coins, and used base metals instead. However, the government kept making them reeded because that is what people were accustomed to seeing. Soon people began to ***stockpile*** silver coins. In essence, the bad money (coins made of base metals) drove the good money (money made of silver) out of circulation. People did not want to spend good money. This natural outcome of a government's inflationary practices is referred to as Gresham's Law: bad money drives good money out of circulation. That is precisely what happened in ancient Rome and the United States.

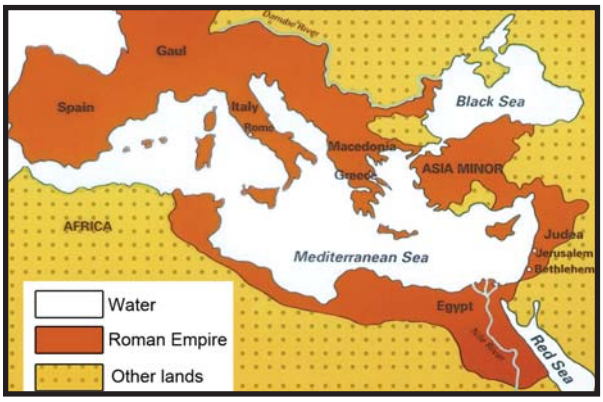
Once Romans inflated the money supply, poor people needed even more welfare benefits, which meant the government needed

## VOCABULARY

***Reeded:*** engraved with small grooves around the edges
***Irony***: a different result than expected
***Stockpile***: to acquire a large quantity of something


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more money. You can see the vicious, downward spiral the Roman government had created with its inflationary practices. The economy eventually became so weak, it contributed to collapse of the Roman Empire.




The oppressive economic policies of the Roman government were not the only cause of Rome's eventual collapse in the 5th Century. You might recall that Roman morality was not based on absolute truth regarding right or wrong. The people's morality changed according to what emperors decreed as law. If an emperor committed acts of sexual ***immorality***, such as public nudity, adultery, or perversion, then the people felt that such behavior was acceptable. If emperors sanctioned killing of Christians or other people declared as "undesirables"

in coliseums, then the people agreed and enjoyed the cruelty.

Another cause of Rome's demise, was the welfare state which the Roman government encouraged. When people no longer had to work for their daily bread, they became lazy. They developed an entitlement mentality. In essence, they believed that government handouts were their rights as citizens. When this mindset became a national mindset, producers of goods and services became discouraged, and dropped out of the economy. Much of what they worked hard to earn, the government took away through confiscation and taxation to give to those who did not work. Consequently, the Roman economy plummeted.

Many people will attribute the fall of Rome to the fact that the Empire overextended itself and became unable to defend against invading Barbarian tribes. That is only a partial reason for Rome's eventual collapse. The violation of basic human rights, ***encroachment*** of the welfare state upon business owners and individuals, and the immorality of the people, all contributed to collapse of the greatest empire that ever existed up to that time.

**The next topic will reveal how collapse of the Roman Empire (a cause), had a dramatic impact (an effect), on Europe for the next thousand years!**

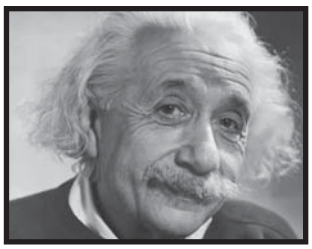
## VOCABULARY

***Immorality***: character or conduct contrary to traditional standards of right and wrong
***Encroachment***: to take control or possession gradually

# *LIFE PRINCIPLE:*

*"Whoever is careless with the truth in small matters cannot be trusted with important matters."*

-Albert Einstein
(Scientist)



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# *Principles and Precepts of Economics*



**Topic 8**
*Middle Ages Economics*

# *Chapter 1*




## Section Two
***Ancient to Modern Economics***



Rome fell. Its collapse came, not in a fast, furious fashion, but rather over time – gradually, until the 5th century. We have already discussed many reasons: loss of individual liberty after Rome became an Empire, slavery, lust for power, ***expansionism*** as a government policy, inflation to fund government programs, growth of the welfare state, and finally, immorality which led to sexual vice, cruelty, and persecution of minority groups, such as Christians.

At the close of the fourth century, Emperor Theodosius divided the declining Empire into two halves. Rome remained the capital of the Western Empire and Constantinople became the capital of the Eastern Empire. At its height in the 500s, the Eastern Empire included most of the Balkan Peninsula, Asia Minor, Syria, and Egypt.

After collapse of the Western Empire, the Eastern Empire continued for about 1000 years, until invading Muslims conquered the region. Comparatively speaking, however, the Eastern Empire was much smaller and had a much narrower impact on European civilization. Our focus at this point, therefore, will be on what happened in Europe after the fall of the Western Empire.

At its height, Rome had built tens of thousands of miles of roads and many bridges which not only made travel easier for their armies, but also served as pathways for commerce. Trade among nations flourished during the rule of Rome, and Roman armies kept law and order on its extensive roads, ensuring travel was safe for the average citizen. After collapse of the Western Empire, all of that changed.




***Expansionism***: to enlarge the economy or territory of a country

Without Rome's powerful armies to keep the peace, criminal activity flourished. It became very dangerous for anyone to attempt to travel Roman roads. Trade in Europe came nearly to a standstill.

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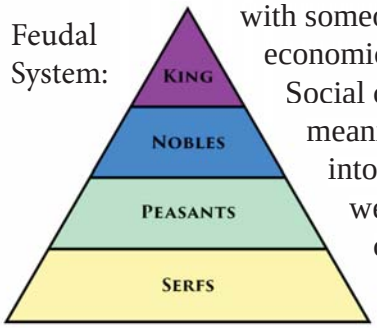
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In addition, without Rome's vast financial resources, roads and bridges began to fall into disrepair. However, many still survive today and are, in fact, still used to an extent, which is a ***testimonial*** to the excellent skill and engineering feats of ancient Romans. Nonetheless, without regular maintenance, many of the roads and bridges became impassible.

In this new, dangerous environment, cultures changed dramatically throughout Europe. Without trade and regular communication among cities, towns, and villages, people became isolated from one another. Whereas previously people could trade safely with other people in distant lands, trade without protection became impossible. Each community had to become self-sufficient. The social structure that eventually evolved by AD 900 is known as ***feudalism***. Feudalism was the primary societal system during the Middle Ages, also referred to as the ***medieval*** period, or Dark Ages, and lasted about a thousand years.

People living in feudalistic societies were separated into several distinct and fixed classes. They were distinct in that they were separate: a person did not intermarry with someone of another economic or social class. Social class was *fixed*, meaning that the class into which people were born was the class in which they remained throughout their lives. Unlike in America, where a person born into a poor family can rise to become wealthy and prosperous, people in feudal systems were forced by societal norms to remain "in their place." Food, clothing, and work were all predetermined, based upon the class into which a person was born.

Feudal System:




Three primary classes existed in the feudal system. Nobility included kings, barons, and by the 12th Century, knights. The clergy included bishops, priests, and monks. The lowest class included laborers, either peasants or serfs. Let's look at how these classes fit together in a feudal society.



A king ruled over a large kingdom. A castle was usually constructed for his protection. Initially made of wood and earth, they evolved into more elaborate stone ***edifices*** surrounded by moats with high walls and ***parapets*** used to provide protection for soldiers. The castle was surrounded by a village where most of the people lived, raised animals, and maintained farms.

## VOCABULARY

***Testimonial***: evidence that something is true
***Feudalism***: the entire social, political, religious, and economic system in which nobles were protected and maintained by royal land owners; involved fixed social classes
***Medieval***: the Middle Ages (about 500 AD to 1500)
***Edifices***: Massive buildings, structures
***Parapets***: walls with openings through which soldiers shot arrows at attackers


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The king would ***lease*** large ***estates***, known as ***manors***, or ***fiefs***, to his barons. In exchange, the baron (also referred to as the lord of the manor) promised to provide soldiers for the king's defense. He did this, in turn leasing pieces of land to knights, who would fight for the baron in exchange for the land they leased. Initially, knights formed a sort of middle class, but by the 12th century, they were also considered nobles. Barons and knights also built and lived in castles.

Both barons and knights employed peasants or serfs, who worked on estates. Peasants were free, and rented their land from the lord of the manor. They paid their lease and a variety of taxes, with products they had made or crops they had grown.

Serfs were peasants who were considered as part of the land. In other words, they were not free to leave, and if the estate on which they worked was sold, they were considered bound to the estate and had to remain. They could not marry anyone from another manor. Marriages were usually based on convenience rather than love. Joy was not prevalent. Both peasants and serfs worked primarily in agriculture, though some were employed in trade and industry.

## VOCABULARY

***Lease***: use of property for an agreed period of time in exchange for money or services
***Estates***: large parcels of property
***Manor***: property over which a lord had domain
***Fiefs***: properties or fees granted by a lord to a knight or nobleman in exchange for his services
***Opulence***: rich in appearance
***Manorial System***: the economic structure of medieval manors

Serfs were not considered slaves, because they enjoyed some of the natural rights of man, including the right to life and to worship God. They also had the right to marry, and could not be forced to separate from their spouses and children. They could live in their own homes and farm small plots of land for their family's sustenance. The distinctions between slaves and serfs may not seem great for people who have lived in a free land like the United States, but the distinctions were real, nonetheless.



A sub-concept in feudalism, called the ***manorial system***, allowed each baron or knight to provide food, clothing, shelter, and protection to his serfs in exchange for their loyalty and labor. Serfs paid taxes via crops or in the form of merchandise that they had produced in small cottage industries.

Roman Catholic clergymen had their own class distinctions, with bishops considered as "nobles' of the clergy, living in ***opulence*** with power and influence in politics and courts. They were responsible for overseeing many parishes, or districts, with each parish having its own priest. Priests often lived sacrificially while ministering to the parish people. Monks were members of a separated religious order and by choice denied themselves most of the comforts of life, choosing to live simple lives in solitude, believing that self-sacrifice and poverty were pleasing to God. Overall, the Catholic clergy at all levels played a large role in European economics during the Middle Ages.

Feudalism describes the entire societal structure, including the political and religious

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relationships among all members of society. Manorialism defines the more specific, local economic structure of the manor.

Feudalism restricted the rights of most people. Members of society were bound by culture, obligation, and dependency upon others, for existence. This sometimes complex structure of interwoven roles provided a measure of protection and security after the collapse of the Roman Empire and the failure of ***subsequent*** rulers and kings to maintain order and unity in Europe. However, the price paid for that security was great in terms of loss of freedom. In addition, with existence of constant wars, the security provided was not very consistent. Europe reeled in chaos!

Not only did people lose many of their natural rights under feudalism, but separation from others and long-distance trade had another terrible effect. Over time, people lost knowledge of the world. Education became non-existent for everyone but wealthy people and the clergy. This is one reason so many people living as peasants and serfs were so subservient. They did not understand the concept of freedom, and simply accepted their lot in life. As we mentioned previously, ignorant people are easily controlled. That is why that period of history is referred to as the "Dark Ages."

In time, the feudal system led to the emergence of larger kingdoms united under powerful monarchs. Kings fought wars among themselves to expand their kingdoms and territories. Much of the history of the late Middle Ages in Europe includes wars of conquest and expansionism.

**Fortunately, by the end of the Middle Ages, the *innate* spirit of liberty began to find voice once again. In the next lesson, you will learn about the Renaissance: the rebirth of culture, knowledge, and freedom in Europe, which eventually led to exploration of the world and discovery of America.**

## VOCABULARY

***Subsequent***: occurring or coming later
***Innate***: a quality with which one is born

# *LIFE PRINCIPLE:*

*"Liberty, when it takes root, is a plant of rapid growth."*

-George Washington
(Founding Father, 1st U.S. President)




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# *Principles and Precepts of Economics*

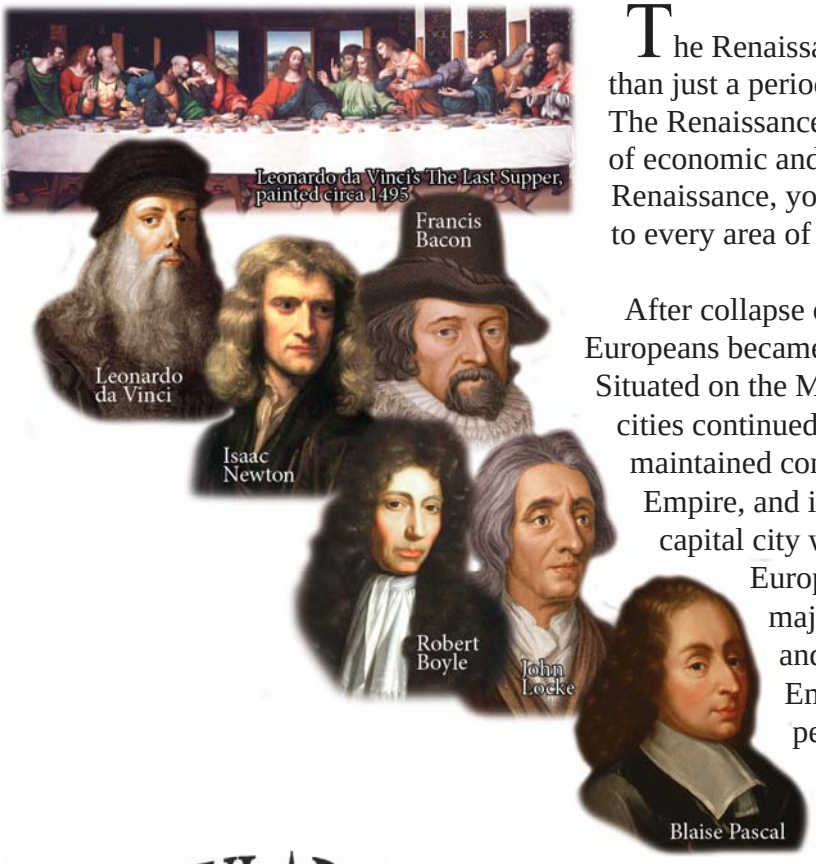


**Topic 9**
*Renaissance Economics*

# *Chapter 1*

## Section Two
***Ancient to Modern Economics***

***Renaissance Economics***




The Renaissance, which means "rebirth," was more than just a period of time (roughly 1350 – 1600 AD). The Renaissance was a great European ***awakening*** of economic and social ideas. By studying the Renaissance, you will see how economics is relevant to every area of life.

After collapse of the Western Roman Empire, Europeans became isolated. One exception was Italy. Situated on the Mediterranean Sea, many Italian port cities continued to trade with other regions. They also maintained contact with the Byzantine, or Eastern Empire, and its capital at Constantinople. This capital city was on the Bosporus Strait, where Europe and Asia meet. It continued to be a major trade route between Asia, Europe, and Africa long after the Western Empire had collapsed. Whereas most people in the former Western Empire became isolated from each other and the outside world, many people in Italy enjoyed the economic benefits derived from trade with other cultures, primarily by ships and caravans.

VOCABULARY

***Awakening***: revival of interest
***Humanism***: movement emphasizing application of art and literature to attain excellence
***Secular Humanism***: a belief in the advancement of humanity by its own efforts; rejection of belief in a Creator

Trade had enabled Italy to avoid many economic woes of the Dark Ages. In addition, Byzantine scholars had kept alive much of the learning from the ancient Greek culture, especially in Florence, Italy, which is considered the birthplace of the Renaissance. The ancient Greek concept of the "ideal person" was also resurrected. The ideal person was considered well-rounded in their knowledge of politics, sports, arts, literature, and music.

The quest for the ideal person led to the rise of ***Humanism***. Not to be confused with the ***Secular Humanism*** popular today,

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humanism of the 14th Century referred to a movement that valued classical writings and artistic styles of ancient Greeks. Humanists studied Greek and Roman languages, literature, art, history, and philosophy.



Renaissance Italy

With a major emphasis on trade and renewed interest in the individual (brought about by exposure to ancient Greek classics), the economy in Florence ***flourished***. The wealthy Medici Family, which emerged in the 13th Century as a powerful influence on banking, commerce, and politics, encouraged humanistic philosophy. Their support of humanism contributed to birth of the Renaissance in Florence.

Banking emerged as a way to manage business finances, with the Medici Family controlling much of the banking industry. In Florence at this time, bankers and merchants were the most powerful social class. They, along with shopkeepers and artisans, contributed to the emergence of a large middle class. Over time, wealth and ability became more important than ***aristocratic*** titles and land ownership. ***Entrepreneurship*** became more common, and people could start businesses and become wealthy, enabling their upward social mobility.

Eventually, the ideals of humanism spread to other parts of Italy. By the late 1500s, Rome replaced Florence as the leading renaissance city, with much resistance from the Catholic Church, which preferred the power and influence it enjoyed under the feudal system. Eventually, Venice emerged as the leading Italian Renaissance city.

The Renaissance extended beyond Italy to impact Europe. In 1494, France invaded Italy. The French invaders embraced the Renaissance so much that they brought artists, including Leonardo da Vinci, back to France. Soon, other European monarchs began importing Renaissance scholars and artists.

A new love of learning among all classes in Western Europe emerged in places that had previously been void of education. Some of the brightest Christian minds to emerge during this time were Sir Isaac Newton (called “the Father of Modern Science”), Sir Francis Bacon (originator of the Scientific Method), Sir Robert Boyle (“Father of Modern Chemistry”), John Locke (“Father of Classical Liberalism” — the opposite of modern liberalism), and Blaise Pascal (Scientist and mathematician who helped create two new areas of scientific research: economics and social science).

As common people became educated, they also desired a better lifestyle. People

## VOCABULARY

***Flourished***: to fare well; prosper
***Aristocratic***: a ruling class
***Entrepreneurship***: promoter of private business ventures


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learned of distant places, like India and China, where wonderful trade goods were available. Kings and countries raced to find new trade routes to the Orient. The age of exploration had begun!

In time, countries like England, France, Portugal, and Spain were involved in a race to find a sea passage to India by sailing west across the Atlantic Ocean. Eventually, each country claimed new lands. The resultant colonies' primary purpose was to provide natural resources for manufacturing in the "mother country." Explorers, especially the Spaniards and Portuguese, also sought gold and silver, which was critical to the success of their economies.

By the 16th and 17th Centuries, the primary form of economy in most European nations was ***mercantilism***, the practice whereby nations sought to acquire the natural resources and wealth of a colony to increase the prosperity of the mother country. Nations desired to create products and export them to other countries in greater quantity than the products they were importing from other countries. Acquiring precious metals helped to offset any trade imbalances.

Mercantilism created competition among nations for two reasons. First, as nations emerged from ***stagnation*** of the Dark Ages, they recognized the importance of powerful armies and navies to fend off enemies, and acquire new territory to increase resources. The more wealth a nation had, the more powerful it became in relation to other nations. Second, mercantilism assumed that a fixed quantity of wealth existed in the world, and thus great competition emerged to acquire wealth before other nations obtained it. The reality that wealth can be created through productivity, and is not limited to a fixed quantity already ***extant***, had not yet taken root in the minds of most Europeans at that time. Americans would be the first group of people to develop fully the concept of producing wealth with unlimited potential from natural resources, freedom, and ***ingenuity***.

Once Christopher Columbus had discovered the Americas in 1492, other explorers set out to explore the strange new North American continent. Initially, explorers sought a water passage through the continent so merchants could reach India without having to sail around the horn of Africa. By the end of the 17th Century, the value of the natural resources in America was recognized by England. In 1607, the London Company, with a charter from King James I, established the first permanent English settlement in North America at Jamestown in Virginia. With arrival of Pilgrims at Plymouth Colony in Massachusetts, Protestant Christians were well on their way to establishing a new land of freedom and opportunity.

**We will explore that amazing story in more detail in Chapter Two. Understanding the role in history of economics can help prepare your own life, as it is impacted by contemporary economics.**

## VOCABULARY

***Mercantilism***: an economic philosophy by which commerce increases a country's financial wealth
***Stagnation***: stay the same, not grow
***Extant***: in existence.
***Ingenuity***: the skill of using things in new ways

# *LIFE PRINCIPLE:*

*"Money is a good reward and a bad master."*

-Francis Bacon



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# *Principles and Precepts of Economics*

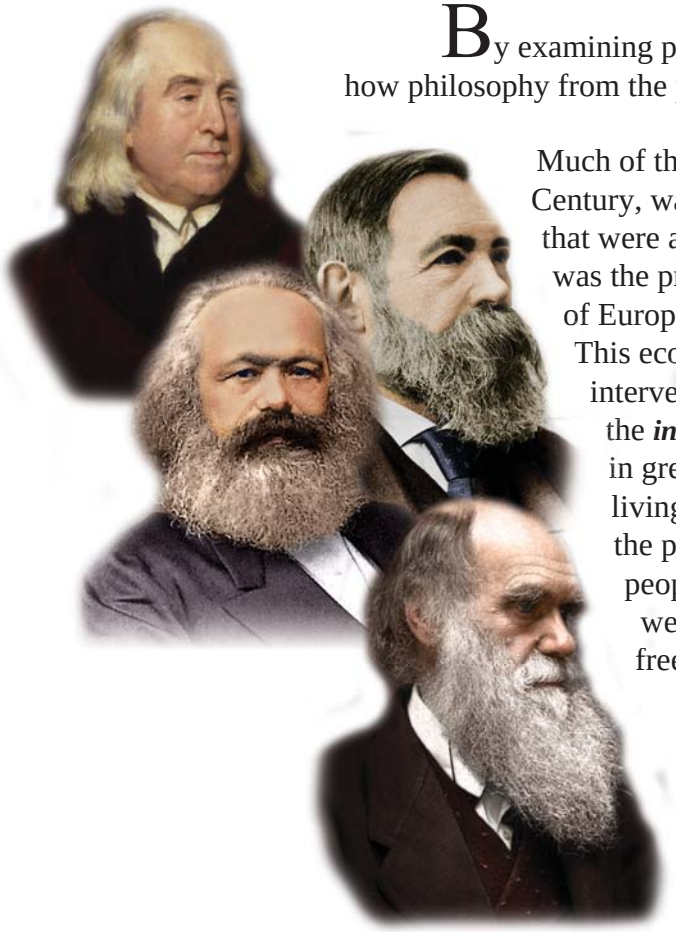


**Topic 10**
*19th Century Ideology*

# *Chapter 1*

## *19th Century Ideology*

## Section Two
***Ancient to Modern Economics***



By examining philosophies of the 19th Century, we learn how philosophy from the past impacts politics and economics today.

Much of the ***ideology*** that emerged in the 19th Century, was a reaction to ideas and methodologies that were already extant. Laissez-faire economics was the predominant economic philosophy in parts of Europe and in America during the 18th Century. This economic system, in which government intervention and regulation were minimal, led to the ***industrial revolution***, which in turn resulted in great productivity and a better standard of living for the vast majority of people. Even the poorest people were far better off than poor people in previous times. Freedom to create wealth in the United States stimulated greater freedom and opportunity for everyone.

America became an economic haven for several reasons: colonists and pioneers (1) had to be industrious in order to survive in harsh conditions, (2) believed in inalienable rights bestowed by a Creator, (3) learned to take care of themselves rather than depend on landlords or government officials, (4) used natural resources prudently, and (5) helped each other in times of need. They applied the belief, "necessity is the mother of invention." They worked hard, saved money, took financial risks, and invented products that could be sold or traded.

Unfortunately, freedom not only allows men to do great things for the betterment of mankind, it can also allow some bad men to take advantage of other people. Greed can become more desirable than anything else, even preserving the lives of others. For example, in early factories and mines, many workers died due to a

### VOCABULARY

***Ideology:*** a belief system about human life and culture
***Industrial Revolution***: the transformation of manufacturing during the 18th and 19th centuries

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lack of understanding regarding appropriate safety measures needed to prevent explosions, and accidents. Once people learned how to keep workers safe on the job, it became a ***moral obligation*** of the factory and mine owners to take appropriate measures to remedy dangerous situations.



Businessmen who invested in safety measures lost money initially, due to the expense of implementing new procedures. However, they saved money in the long run by preventing accidents which could have shut down operations. Those who did not make needed changes, because they did not want to invest money, continued to experience accidents, which tended to "legitimize" complaints of people who opposed the free market system.

Rather than faulting individual businessmen who made bad choices, some people faulted the free market system itself. To use an analogy: suppose you hit your thumb with a hammer, then blame the hammer, rather than your bad aim. Naturally, blaming the hammer does not make sense, but this approach was applied to economic policy, removing responsibility from the individual and placing it on the economic system itself. The answer, reformers believed, was to empower the government to make safety and economic decisions in place of individual business owners.

In essence, what drove many 19th Century ideologies was the desire to make the group, or collective, more important than individuals. As a result, ***progressives*** in government wanted to take away freedom that existed for everyone in laissez-faire capitalism, and replace it with intrusive government control over the economy. Because of the immoral actions of a *few* unwise industrialists, progressives blamed the hammer, rather than the person swinging it.

Another thing that vexed reform-minded people, was working conditions in many factories. Men, women, and children often worked 12 or more hours every day. Wages were often low, and in some instances, entire families had to work long hours just to get by financially. Reformers wanted working conditions to change.

What many people today fail to realize, is that employees perceived working conditions years ago differently than we do today. In the 18th and 19th Centuries, people were accustomed to working 12 to 15 hours each day on family farms, and even then, they often barely earned wages sufficient to meet basic needs. That was the expectation for most people. When people moved to cities to look for jobs as a way to escape life on farms, factory jobs with long hours were considered normal.

Unlike today's worker, who enjoys an eight hour work day with breaks and a lunch hour, workers prior to the 19th Century would have thought an eight-hour work day to be a

VOCABULARY

***Moral Obligation***: responsibility to behave with moral integrity
***Progressives***: people who promote Marxism through government action


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fantasy. We should not judge workers in the 19th Century by current standards of living. Instead, we must understand the context in which 19th Century employees lived. Life was much harder then, but the free market eventually led to the easier lifestyles of today.

Reformers also had the tendency to condemn differences between the wealthy lifestyle enjoyed by factory or mine owners, and conditions of their employees. Reformers were angry that business owners lived in ease and luxury, while their employees worked long, hard hours for little pay and lived in small, cramped apartments. Comparing business owners with workers is ***an apples-to-oranges comparison***. In other words, it is not a valid comparison.

Factory workers had not invested long hours and resources to get the business started. Employees did not provide capital in business ventures that could have easily failed. In fact, many factory and mine owners went bankrupt when their companies failed. Employees did not pay wages to the laborers to build the factory or dig the mine. The worker did not risk losing everything he owned for the sake of the business. All the worker had to do was show up for work, labor honestly, and then go home at the end of his shift. Wealthy factory and mine owners did not become wealthy by wishing their way to prosperity. They worked hard, invested, took major financial risks, and, as a result, enjoyed the fruits of their labors while creating jobs.

## VOCABULARY

***Apples-to-Oranges Comparison***: comparing two things in a misleading way
***Slothful***: lazy



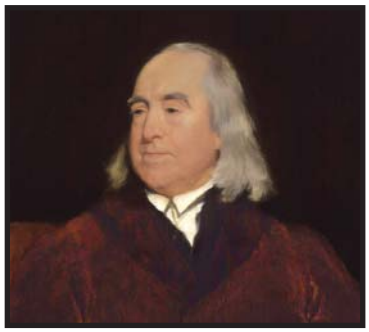
The appropriate comparison to be made, then, would be between the poor worker in a free nation living under laissez-faire capitalism, and the poor person living in other parts of the world where dictators and monarchs ruled. The poor worker in America usually had a secure job, enough to eat, a decent house in which to live and raise a family, more than one set of clothes, and at least one day off per week to rest. Poor people in other countries often had no job and had to beg or scrounge for food seven days a week (often going hungry). They usually had nothing more than the clothes on their backs, and usually lived in mud huts, shacks, or in the open air. As mentioned previously, free markets improve the quality of life for everyone, even the poorest people of society. One other thing is important to note. In a free market economy, even a poor man with a great idea and willingness to work hard can rise to become a business owner. That privilege rarely happens in countries that embrace progressive economic systems.

Do not be fooled by critics who compare rich and poor people in a society. Due to human nature, some people will be hard-working and others will be ***slothful***. Every society has people with good business sense and others who are good employees. Some people are equipped with creative genius, while others have limited creative ability. These differences comprise a diverse, vibrant society. They also ensure that outcomes will never be equal for everyone.

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Progressives who insist that everyone should be equal are really advocating use of force via government control to implement collectivist objectives.



Jeremy Bentham

One such experiment involved Jeremy Bentham, a 19th Century English philosopher who promoted the concept of ***Utilitarianism***. Under this system of thought, concepts of right and wrong were no longer based on absolute moral principles such as the Ten Commandments, but rather on what benefited the most people in society. He flatly rejected the concept of individual rights. Therefore, if an economic policy did more good to the poor than it did harm to the rich, than it should be implemented. For example, a policy of taking wealth away from the rich and giving it to the poor was considered the right thing to do. Naturally, this spread-the-wealth, progressive system of thought runs contrary to laissez-faire economics and individual freedom. His theory was implemented with disastrous economic consequences.

VOCABULARY

***Utilitarianism***: to take advantage and abuse people with no regard for individual rights or morality
***Utopian***: an alleged society in which collective rights replace individual rights, making everyone equal
***Serial Monogamy***: a succession of short, one-person-at-a-time sexual relationships

Bentham's views, and other collectivist systems, were championed by many people in England and America in the early 19th Century. For example, in the early 19th Century, wealthy industrialist Robert Owen promoted the ***utopian*** ideas of 16th Century author, Sir Thomas More. More was a staunch Roman Catholic who opposed the Protestant Reformation, and in his 1516 novel, *Utopia*, he promoted what came to be known as communism through a fictitious story. Two centuries later, Owen attempted to put More's principles into practice by setting up utopian communities, without religious values based on moral absolutes.

In essence, people like Owen who embrace a "utopia" are convinced that belief in a supernatural being is irrational. Owen believed that man's reason alone could lead to a "heaven" on earth (utopia). In other words, man could create the perfect society apart from God's laws (also called the Laws of Nature). This was in sharp contrast to beliefs of most other people at the time. It demonstrates, however, the connection between philosophy and outcomes (cause and effect). People who promote humanism apart from God's Laws tend to promote collectivism and progressive government policies, while people who practice Judeo-Christian views tend to embrace individual liberty and limited government.

Owen set up a communistic community in Scotland called New Lanark. He established a second colony in New Harmony, Indiana in 1825, hoping it would set an example for New Lanark; it failed within two years. In both communities, everything was considered public property with no private ownership. Marriages between one man and one woman were condemned. Owen promoted "free love" in the form of ***serial monogamy***. While Owen promoted collectivist communities as the pinnacle of

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science, education, and art, in reality they were experiments in sloth, ***elitism***, and ***sexual promiscuity***.



Karl Marx and Friedrich Engels

Where Owen had failed in spreading his collectivist ***dogma*** through philosophy, German philosopher Karl Marx succeeded with military force. Marx and Friedrich Engels, a wealthy British ***industrialist***, published the *Communist Manifesto* in 1848 (recall that Marx was mentioned briefly in Section 1, Topic 5). Ironically, Marx was supported financially throughout most of his career by Engels. Engels owned a factory and got rich by exploiting the poor class he and Marx claimed to champion. Apparently, their motto was "do as I say, and not as I do."

According to the *Communist Manifesto*, society passes through economic stages. Marx described four stages through which he believed Europe had already passed: primitive, slave, feudal, and capitalism. He believed that capitalism allowed the ***exploitation*** of workers (proletariat) by the middle class (bourgeoisie). This alleged exploitation would eventually lead to the ultimate conflict when workers would rise up and overthrow the middle class to build a society in which everyone would be equal and in which no one could own private property. Without private property, class distinctions would theoretically disappear and people would allegedly live in peace and harmony. The guiding principal would be "from each according to his ability, to each according to his need."

Of course, elite, powerful leaders would have to oversee the revolution and redistribution of wealth. (After all, someone had to determine what each person's "needs" were.) According to the theory, those in power would eventually give up their power once all people were on an equal economic level. However, history shows that people in power continue to enjoy the privileged status their authority enables, while the masses continue to live as peasants (***e.g.*** Cuba, North Korea, China, Iran).

Many problems inhabit Marx's theory. Marxism, whether expressed in communism or socialism, fails to take into account human nature and personal desire to improve one's lot in life. Likewise, it assumes everyone will voluntarily give up most of their individual liberties and become subservient to the state. History has shown that in order to get people to "fall into line" in progressive societies, elitist leaders use brutality to force people to conform to the dictates of the state. People who rise up in opposition are simply murdered or imprisoned. In the former Soviet Union alone, at least 80 million people were murdered under communism.

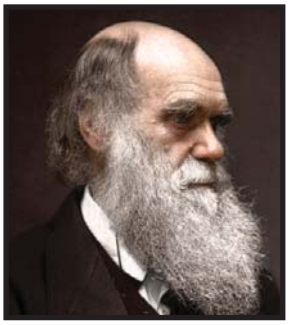
## VOCABULARY

***Elitism***: belief that society should be governed by a select group of self-appointed individuals
***Sexual Promiscuity***: Having sexual relations frequently outside of marriage
***Dogma:*** biased beliefs authoritatively proclaimed
***Industrialist***: a person who has substantial control of an industry
***Exploitation***: to use someone unfairly for personal advantage
***E.g.*** : for example; as in

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You might wonder how Marxist philosophy could spread. Another 19th Century ideology helps to explain this. In 1859, Charles Darwin published *On the Origin of Species by Means of Natural Selection or the Preservation of Favoured Races in the Struggle for Life*. Because the title demonstrates the clearly racist nature of evolution, the title has been shortened to *On the Origin of the Species by Means of Natural Selection*. This is another example in which some people try to distort history. Evolution, as it is taught today, has, itself evolved since Darwin published his ***tome***; but the book inspired collectivists to promote their theories. While the intention of this course is not to delve deeply into scientific matters, we need to examine the evolution perspective so you can see its impact on public policy, including economics and politics.


Charles Darwin

Evolution states, essentially, that the universe started with a Big Bang, or an explosion. After the explosion, matter was allegedly propelled throughout the universe and eventually formed planets, suns, moons, and stars. Earth was allegedly bombarded for billions of years, and simple amino acids slowly combined in the ***primordial*** soup of the primitive oceans of Earth to bring forth the simplest forms of life. Eventually, life supposedly evolved into more complex organisms, until man evolved. The concept of a Creator God never enters the picture, as He is either considered a myth, or irrelevant. Evolution embraces the idea that mankind is considered the highest form of life, and determines right and wrong for himself.

Darwin was not the originator of the theory of evolution; the idea had been around since at least the ancient Greeks. He was, however, the first person to promote the theory of evolution successfully, with some semblance of scientific structure. Soon, evolution was taught as both theory and fact in colleges and universities, in opposition to strict ***biblical*** practices considered to be oppressive. Evolution's counterpart, creationism, or intelligent design, was (and is today) ridiculed by collectivists as unscientific, and thus unworthy of inclusion in modern science texts and classrooms. However, the success of capitalism is a strong argument in support of economics based on individual liberty and belief in inalienable rights bestowed by a Creator.

In reality, both evolution and creationism are unprovable, from a purely scientific standpoint. Since observation and experimentation are necessary parts of the ***scientific method***, neither evolution nor creationism can be proven *scientifically*. If creationism is true, nobody alive today was around to watch it happen, and if evolution is true, no one can live for millions of years to observe it happening. Likewise, if God created everything in the distant past, we cannot recreate that in the lab. Neither can one recreate evolution in science labs.

Ultimately, the evolution model was applied to society. Some "races" were considered more evolved than others, and this

VOCABULARY

***Tome***: a large book
***Primordial***: existing since the beginning of time
***Biblical***: pertaining to the Bible
***Scientific Method***: to prove a theory by observation and testing

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belief was used to justify slavery in the 19th Century. Evolution has been used to justify racism, ever since. The belief that some races are superior to others even led to mass murders in the 20th Century, and virtually all of these were justified, to some extent, using evolutionary theory and rejection of God's existence. Adolf Hitler based his concept of a superior ***Aryan*** race on Darwin's evolutionary concept, thus the Nazi party attempted to exterminate all Jews.

In addition, the Darwinian concept of "survival of the fittest" was applied in the business world, which led to various ruthless business practices, further encouraging reformers to criticize laissez-faire economics. This was another case of blaming the hammer instead of the person swinging the hammer.

Ultimately, evolution seeks to eliminate God from culture. Thus, collectivists consider mankind to be the highest form of being; in essence, man becomes "god." Collectivists want to determine right and wrong, and make "truth" subject to change. This is called relative truth, which we discussed in Section 1, Topic 2. Evolutionary philosophy accommodates collectivist views. Government becomes, in essence, "god" and controls man's "universe."

**You will learn in Chapter 2 that such philosophies are foundational to modern, progressive economics. These concepts may seem radical to you at this point, but they will begin to come together for you in the next section.**

## VOCABULARY

***Aryan***: Nordic, white supremist

## *LIFE PRINCIPLE:*



*"If we are not governed by God, we will be ruled by tyrants."*

-William Penn
(Founder of Pennsylvania)

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# *Principles and Precepts of Economics*



**Topic 11**
*Individualism vs Collectivism*

# *Chapter 1*

## Section Three
***Modern Economic Systems***

## *Individualism vs Collectivism*








Thus far, we have examined conflicting concepts pertaining to individualism and collectivism. You will recall from history that the United States was founded on Judeo-Christian philosophy, especially the Ten Commandments. Six of them are paraphrased here:

- Honour your father and your mother: that yourdays may be long upon the land which the Lord your God gives you.
- You shall not kill.
- You shall not commit adultery.
- You shall not steal.
- You shall not bear false witness against your neighbour.
- You shall not covet your neighbour's house, wife, manservant, maidservant, ox, donkey, nor any thing that is your neighbour's property.

The Ten Commandments formed the basis of laws that were ***codified*** in America during colonial times, impacting the economic system by introducing the principles of free enterprise and personal property rights. These same precepts can be found in the laws of many civilizations through time. For example, Hammurabi's Code, from ancient Mesopotamia, dates from around 1800 BC, and had 282 legal codes, including numerous precepts that were similar to the Ten Commandments, which promote the individual rights of man, and forbid infringement upon personal property and individuals. Founding Father John Adams, when describing the property rights of men, said:

*The moment the idea is admitted into society, that property is not as sacred as the laws of God, and that there is not a force of*

VOCABULARY

***Codified***: organized into an official system of laws

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*law and public justice to protect it, anarchy and tyranny commence. If "Thou shalt not covet," and "Thou shalt not steal," were not commandments of Heaven, they must be made inviolable precepts in every society, before it can be civilized or made free.*

WATCH VIDEO:
Historical Display of Ten Commandments in Washington, D.C.

The Ten Commandments are engraved in marble in the United States Supreme Court building, along with a depiction of Moses, who, according to the Bible, received the Ten Commandments from God. This sculpture of Moses, holding the Commandments on government property, demonstrates the relevance of the Commandments to American history, economics, and ***jurisprudence***. The point here is that many precepts embedded in America's economic system emphasize the rights and responsibilities of individuals.

This is why our Founding Fathers promoted individual liberty and laissez-faire economic principles in the Declaration of Independence, Constitution, and Bill of Rights. As a result, America became a wealthy, prosperous nation, surpassing Great Britain as the industrial giant of the world in less than 50 years!

## VOCABULARY

***Jurisprudence***: system of laws
***Vice-versa***: reversed order
***Framework***: A set of assumptions, values, and practices
***Elite***: wealthy people who consider themselves superior to the masses

The other side of the economic spectrum is based on collectivism, an ideology born from secular humanistic philosophy. Secular humanism is unlike humanism of the Renaissance, when scientists, artists, and scholars sought to discover and express the world they believed was set in motion by a Creator. Secular humanists reject the concept of absolute truth. They favor relative truth – that which is considered wrong to one generation may be acceptable in the next, and ***vice-versa.***



Without acknowledging a Supreme Being to guide them, secular humanists pass whatever laws are believed to be best for the *state*, with no regard for individual liberty. Karl Marx used communism as the system and ***framework*** for implementing utilitarianism and collectivism.

Collectivism gained popularity in Europe and Asia. The ***elite*** used brute force to compel citizens to comply with the collectivist economic agenda: no free market, constant scarcity of goods, and absence of personal liberty. In the 20th Century, more than 100 million people were murdered at the hands of collectivist states, including Nazi




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Germany, Soviet Russia, Cuba, Communist China, North Korea, and North Vietnam.

**You will learn in chapter two how collectivist reformers were successful in transforming society from individualism to collectivism in America. The process took much longer here than in Europe. The way they did it is rather fascinating, but for now, *suffice* to say that a definite, causal relationship exists between the decline of the American free enterprise system and the *ascendance* of collectivist ideology.**

**The next lesson will focus specifically on several nations that suffered after embracing communism.**

## *LIFE PRINCIPLE:*




*"If men will not be governed by the Ten Commandments, they shall be governed by the ten thousand commandments."*

-G.K. Chesterton
(Author, Philosopher)

### VOCABULARY

***Suffice***: to be enough
***Ascendance***: the act of rising



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# *Principles and Precepts of Economics*

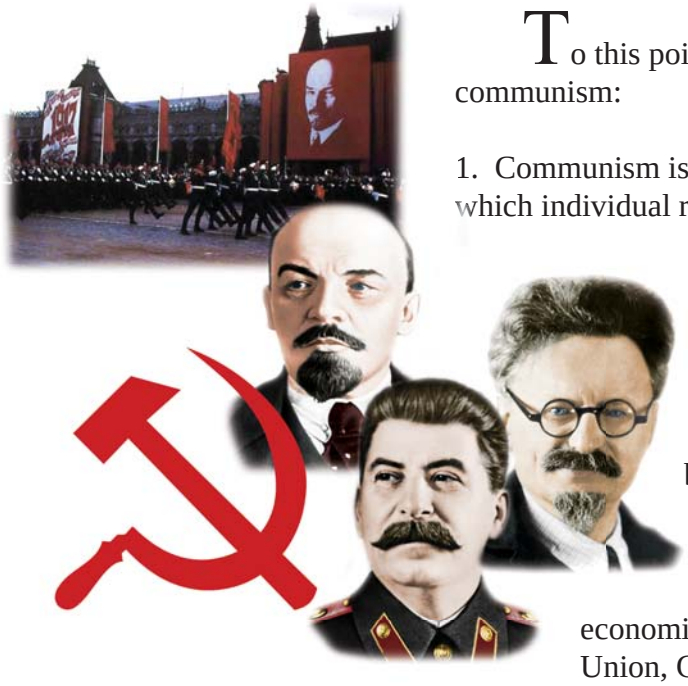


**Topic 12**
*Communism*

# *Chapter 1*

## *Communism*

## Section Three
***Modern Economic Systems***



To this point, we have already learned several things about communism:

1. Communism is based on an atheistic, collectivist philosophy in which individual rights are not protected, and God does not exist.

2. Karl Marx described and promoted that philosophy in his 1848 *Communist Manifesto*.

3. People who live in communist societies suffer greatly, because the government uses brutality to control the ***populace***.

This lesson will examine, in more detail, the rise of communism and its effects on economies and people, particularly in the former Soviet Union, Communist China, and North Korea.

Most people, under stable circumstances, are not inclined to embrace communism. Therefore, ***agitators*** who want to force communism on a population attempt to inject disorder and chaos into society so that people will eventually welcome ***totalitarian*** rule to get order and stability. In other words, communist agitators create the mess, then offer to clean it up – for a price: Loss of freedom!

Revolutionaries who want to take over a country initiate political, ethnic, or economic rivalries, or some other factor which tends to cause division between people. If rivalries already exist, agitators inflame them. Eventually, internal rivalries create such violence and disorder, people demand government intervention.

Another approach is to sabotage the current economic system. Revolutionaries know that if they leave the free market alone, people will never accept collectivist economic policy. As such, instigators infiltrate political office and pass laws restricting

VOCABULARY

***Populace***: people who live in a particular place
***Agitators***: persons who promote social unrest
***Totalitarian***: complete governmental control of every aspect of life

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the free market, convincing people that the new laws will make the free markets more "fair." Continual chipping away at freedom results in a market that no longer operates effectively. When the economy begins to suffer, proponents of collectivism declare the free market experiment a "failure." At the same time, they promote the so-called "virtues" of communism and acceptance of a ***benevolent*** dictator who can ensure everyone gets a "fair share" of resources.

Collectivists believe that their goal is good and that, therefore, any method used to achieve it is acceptable – even lying, cheating, stealing, and murder. Communist governments were established after agitators encouraged disorder and chaos, sabotaged economies, and embraced moral relativism, or "relative truth," to accomplish their goals.

In the early 20th Century, Russia was a ***tumultuous*** place, governed by all-powerful czars. Over time, a variety of groups demanded change. Peasants wanted more freedom and opportunity; minorities, such as the Jews, were suffering severe persecution; middle class reformers wanted a constitutional monarchy; and factory workers (former serfs) were disgruntled over poor living conditions. Chaos and rioting became commonplace. The economy collapsed.



Lenin, Trotsky, and Stalin

While some Russians demanded more freedom, the Bolsheviks led by Vladimir Lenin and Leon Trotsky wanted a communist society they could control. They believed a violent, bloody revolution led by a few organizers was necessary to accomplish the goal of overthrowing the Czar. Communist thugs killed, raped, and ***plundered*** property owners, clergymen, and wealthy families.

In March 1916, Russia's last Czar, Nicholas II, ***abdicated*** his rule in favor of a ***provisional*** government. In November 1917, the Bolsheviks staged a ***coup d'état***, successfully overthrowing the provisional government. During the uprising, the Czar and his family were imprisoned. In July 1918, they were executed by the new communist government. The rule of the Czars was over, and the communists, under Lenin, were in control.

Lenin died in 1924, and his successor, Joseph Stalin, came to power. Two of Stalin's goals were the ***industrialization*** and ***collectivization*** of the Soviet economy. When farmers resisted this state-sponsored tyranny, Stalin's response was to confiscate their land and exile them to prison camps for forced labor in remote places. Millions were exiled or murdered. Millions of others who resisted Stalin's tyranny were deliberately starved to death. About 80 million people were exterminated under communism in the Soviet Union between 1917 and 1987.

## VOCABULARY

***Benevolent***: kind and helpful
***Tumultuous***: great unrest or disorder
***Plundered***: robbed, looted
***Abdicated***: position given up or renounced
***Provisional***: temporary
***Coup d'état***: sudden violent overthrow of a government by a small group
***Industrialization***: extensive industrial development
***Collectivization***: forming of governmen-controlled communities


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The ***atrocities*** committed by communists were horrible. The Soviet experiment with violent revolution spread to other parts of the world. One of the basic tenants of Soviet communism was that the entire world would have to become communist. During its time of power, the Soviet Union used slave labor to finance the spread of communism, until nearly a third of the globe was suffering under its control.

In the 1980s, US President Reagan persuaded Soviet political leader Mikhail Gorbachev to reject communism in favor of free markets and individual freedom. Unfortunately, Russia began returning to its former communist policies with the ascendency of former ***KGB*** agent Vladmir Putin to the Russian presidency in 2000, and the election of Barack Obama in the US in 2008.

China was also a victim of communist agitators. In 1911 the Qing Dynasty was overthrown and a republican government was established. The Nationalist party supported ***nationalism***, democracy, and a socialist economy.

Despite the formalities of a republic, chaos still reigned and the time following 1912 is often referred to as the "warlord" period when various political factions vied for power. In 1928, the Nationalist Party brought more unity to China, but then the Japanese invaded China in 1937. Following World War II, the Nationalist Party resumed power, but was opposed by communists, who had gained influence. In 1949, a civil war erupted between the Nationalists, led by Chiang Kai-shek, and communists, led by Mao Tse-tung (or Zedong). With help from the Soviets, Mao's communist party established the People's Republic of China.



Mao Propaganda Art

Not content to transform China's economic system, Mao also implemented harsh measures to reinvent Chinese culture. He redistributed land and implemented Soviet-like policies relating to industrialization. With the communist government in complete control of the economy, millions of people starved to death. Mao began to use slave labor to prop up the communist economy.

With the death of Mao in 1976, China slowly moved towards more economic and intellectual freedom for its people. Today, China is still a communist nation, but with more foreign trade and the loosening of restraints against individual liberty, life has improved a bit for the Chinese people, though slave labor enables China to "under sell" other nations. Families are limited to one child.

China has become more prosperous due to its increased trade with free market nations, and its growing prosperity has helped North Korea to survive. After WWII, the United Nations divided the Korean peninsula into two halves at the 38th Parallel. The northern part was put under control of the Russians, who installed the pro-communist leader, Kim Il-sung. The southern part of the peninsula was assigned to the United States, which installed an anti-communist

VOCABULARY

***Atrocities***: cruel acts by an armed force
***KGB***: Soviet secret police
***Nationalism***: promotion of interests of one's own country

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leader. After the Russians withdrew in the late 1940s, Kim Il-sung decided to unite the entire peninsula under communist rule. In 1950, with backing from Communist China, the North Koreans invaded South Korea, starting the Korean War. The United States and other UN member countries joined forces to repel the North Korean invasion. After three years of fighting, a peace treaty was signed and borders returned to the 38th Parallel. However, all militray plans were monitored by the United Nations Security Council, in which Russia had veto power over US plans to defeat Communist forces. The Korean War was the first time in history that the United States' armed forces were not permitted to pursue victory over enemy combatants, due to being placed under UN directives.



Sketch by a North Korean Prisoner shows deplorable conditions

Tensions have always remained high between North and South Korea. Throughout the ***Cold War***, the Russians and Chinese provided support to the impoverished North Korean nation, while the United States and its allies provided support to South Korea. South Korea has been largely prosperous, while the North has not.

Under communism, the Kim regime (presently in its third generation) has ruled with an iron fist, crushing rebellion and forcing millions of people into prison and slave labor camps. Starvation is widespread. The people of North Korea live in grinding poverty with little individual freedom. To survive, people started illegal, localized markets, selling food items obtained on the ***black market***. This underground capitalist economy saved many lives, and actually expanded. Black markets grew to become an important part of the North Korean economy, helping to feed the people. Under communism, North Koreans have suffered immensely, as has been the case in every country that has embraced collectivist economic policies. Only a hidden free market, growing secretly from the bottom up, helped to stave-off massive starvation and complete economic collapse. Other nations that have suffered under communism include North Vietnam, Cuba, and certain nations in Central and South America.

**While communism collapses around the globe, progressive politicians continue to promote the collectivist, freedom-killing ideology of communism through its less-severe sister, socialism. In the next Topic, we'll examine a prominent country that has embraced socialism.**

## VOCABULARY

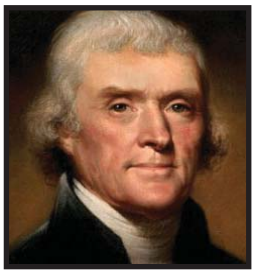
***Cold War***: a period of political tension between the United States and the Union of Soviet Socialist Republics (USSR) between 1945 and 1991

***Black market:*** illegal trade in goods

# *LIFE PRINCIPLE:*

*"Tyranny is defined as that which is legal for the government but illegal for the citizenry"*

-Thomas Jefferson (Founder, 3rd U.S. President)





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# *Principls and Precepts of Economics*



**Topic 13**
*An Overview of Socialism*

# *Chapter 1*

## *An Overview of Socialism*

### Section Three
***Modern Economic Systems***



Socialism is an economic system based on cooperation rather than competition, and which utilizes centralized government planning and distribution of resources. According to the socialist view, individuals do not live or work in isolation, but live in cooperation with one another. Furthermore, everything that people produce is in some sense a social product, and everyone who contributes to the production of a good is entitled to a share in it. According to socialists, society as a whole should own, or at least control, property for the benefit of all its members; private ownership is discouraged through excessive taxation and regulations.

The Socialist Party USA defines socialism as follows:

*In a socialist system* the people *own and control the means of production and distribution through democratically controlled public agencies,* ***cooperatives****, or other collective groups. The primary goal of economic activity is to provide the necessities of life, including food, shelter, health care, education, child care, cultural opportunities, and social services.*

Notice how the Socialist Party USA defines the collective as "the people," which sounds much more ***palatable*** than calling socialism what it really is: government control.

Notice that they also mention "democratically controlled public agencies, cooperatives, or other collective groups." Again, this refers to government control, accomplished via the ballot box, rather than by the "bullet," as with communism. Socialists simply insist on bringing about change from free enterprise to collectivism from the "bottom up," that is, by convincing people to

VOCABULARY

***Cooperatives***: businesses or organizations that work together
***Palatable***: acceptable

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vote for collectivist politicians and economic policies, rather than a "top down" strategy of brute force and mass murder. This is why government control of industry, health care, media, or education is ***deleterious*** to free enterprise, which is based on individual effort, initiative, and moral values.

Finally, notice what the Socialist Party USA has as its goal: "to provide the necessities of life, including food, shelter, healthcare, education, childcare, cultural opportunities, and social services." In other words, if you own more things than the socialists consider "the necessities of life" (such as a second house, a luxury car, or a summer home on the lake), then allegedly someone else must have had to go without, because your assumed greed prevented other people from getting their "fair share" of the "necessities of life." Wealth is created by individuals through hard work, ingenuity, and wise use of resources. The man or woman who has accumulated property or wealth has not deprived other people who have less material wealth! Likewise, people who have less wealth have opportunity to acquire more in a free enterprise system.

As you can see, socialists and communists use a form of double-talk, whereby they assign opposite meanings to good words. When communists took over a country, for example, they were "liberating" the people. "Social justice," among other things meant to take from the rich and give to the poor. The term "progressive" derives from *progress*, which means to move *forward* to a higher, better, more advanced stage. Socialist meaning of the word is government control of economics and culture — moving people *backwards* into economic bondage. Lying is standard ***protocol***, following the example of Lenin, who said, "*Promises are like pie crusts — made to be broken*."

VOCABULARY

***Deleterious***: causing harm, often in a subtle or unexpected way
***Protocol***: a prescribed standard of behavior

Ultimately, socialism is about control. Socialists celebrate Marx and Lenin as heroes, while denouncing Stalin as having twisted "true socialism."


Winston Churchill

England, a once prosperous capitalist nation, embraced socialism and experienced its economic weaknesses. Like many European nations, England had its share of proponents of collectivist ideas in the 18th and 19th Centuries. Not until after World War II, however, did socialists come to power via the Labour Party. The populace disregarded the counsel of Prime Minister Winston Churchill, who had guided the nation during the war, and who, on one occasion had stated: "*Socialism is a philosophy of failure, the creed of ignorance, and the gospel of envy...the equal sharing of misery*."

In 1945, when the war ended, England was in shambles. Damage to industry, housing, and trade as a result of war plunged England into great debt. Normally, a nation such as England, with ingenuity and perseverance, would bounce back from such disaster in short order. Unfortunately, rather than unleashing the limitless potential of the English people, government (under the banner of socialism) undertook to place people in a type of bondage, that even the German war machine had been unable to inflict.


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During World War II, government had taken control of many aspects of the day-to-day affairs of England, a situation that is not so unusual during times of war and crisis. However, a nation with a strong economic foundation based on liberty, like the United States, will quickly dismantle government controls implemented during an emergency situation. In England, however, people had grown accustomed to government controls during the war, and this dependency paved the way to implement socialist controls.



Flag of Great Britain

Government agencies in England dominated education in 1944, a year before the Labour Party rose to power, but ***nationalization*** of education was supported wholeheartedly by socialists. After 1945, government assumed control over every major industry, healthcare, housing, agriculture, and schools. Virtually no aspect of life was untouched by government ***bureaucrats***. Government agencies controlled what types of factories could be built, where they would be built, and what and how many products would be produced. The government encouraged entrepreneurs to build public houses rather than private residences. Since bureaucrats issued building permits, they controlled what could and could not be built. They wanted people to live in government-owned housing, use public utilities, and work in public jobs. Remember, by "public" we mean government-controlled.

VOCABULARY

***Nationalization***: to place business, industry, or land under government control
***Bureaucrats***: government agency personnel
***Stagnate***: to stop developing
***Strike***: when workers refuse to work

Clarence B. Carson, (in *The Fall of England*), describes the result of the socialist movement in England:

> *…socialism had made the English people dependent upon government. They were made dependent for food, for markets, for education, for health services, for licenses, for loans, for subsidies, for jobs (it became necessary to belong to a labor union to work in unionized employments), for maternity benefits, for funeral subsidies, for unemployment benefits, for disability payments, for building permits, for the amount that could be taken abroad, for priorities for buying, for authorizations to sell, for houses in which to live (in the case of numerous renters), for broadcasting facilities, and so on. Such dependence has not customarily been known as freedom; the generic term for it is bondage.*

The socialist experiment failed miserably. While standards of living in the United States rose considerably after WWII, they ***stagnated*** or rose at a much slower pace in England. By the mid 70s, inflation rose to 24%. The British government created money to pay for its programs, but in doing so, lowered the value of its currency, causing prices to soar. Taxes skyrocketed, with most people in England paying close to 40% of their income to support government agencies and programs. By the late 70s, many workers in the public sector went on ***strike*** so regularly that economic growth was further hindered. Under such awful circumstances, England's Conservative Party leader, Margaret Thatcher, was elected in 1979 as Britain's first female Prime Minister.

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Margaret Thatcher

Thatcher strictly maintained:

*"A man's right to work as he will, to spend what he earns, to own property, to have the state as servant and not master — they are the essence of a free economy, and on that freedom all our other freedoms depend."*

Thatcher's leadership benefited the British economy greatly. New laws restricted socialist labor unions, which had often stalled the economy with strikes and demands that added financial stresses to the nation. The government ***denationalized*** such industries as British Airways and British Telecom. With industries back in private hands, the profit motive of the free enterprise system kicked in, and soon efficiency and productivity began to rise. Deregulation of the British stock market in 1986 enhanced economic prosperity. Roy Batchelor, professor of banking and finance, noted:

*In purely [Gross Domestic Product] terms it was hugely beneficial, and since then London has never been overtaken as a financial center. Global businesses came to London, creating jobs, and the City provided finance to Britain and around the world. The impact on growth and the level of economic activity was a tremendously positive step. London was a leading financial center…*

Under Thatcher's direction, a return to free enterprise policies brought renewed hope and prosperity to England. Unfortunately, when Thatcher left office in 1990, the Conservative Party that had helped her to implement many free market polices began to lose influence. As has been pointed out, when free markets are ***constrained*** with government controls, they do not function to their potential. Government controls were again put in place over the British economy. Consequently, England reverted back to a socialist economic system.

Unfortunately, when people are ignorant regarding how free enterprise markets operate, they tend to blame problems on the free market itself, rather than on socialist policies that hinder the free market. One of the purposes of this course is to inform readers of the difference between free markets and socialism so the fruits of capitalism can be enjoyed and the consequences of collectivism avoided!

For example, the Labour Party in England regained power in 1997, and maintained control until 2010. The back and forth struggle between the Labour Party and the Conservative Party demonstrates the problem with a poorly educated population, which does not vote based on principles. Instead, they support whatever ***pragmatic*** solution comes along that voters believe will improve their present situation with no regard for the long term impact on the economy, the nation, or individual liberties. The same

VOCABULARY

***Denationalize***: to transfer industry from governmental to private ownership
***Constrained***: to confine or limit
***Pragmatic***: advocating perceived practicality over truth

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problem exists in the United States and is the reason elections swing back and forth between Republicans, Democrats, and Independents. The watering down of knowledge about capitalism is also why, over time, the differences between the political parties narrow.

**People in socialist countries usually give up essential liberties in exchange for a seemingly easier life. They would rather be "guaranteed" a little wealth from the state, than risk having nothing in a free enterprise system. But, as you have already seen, liberties lost at the hands of a collectivist state can cost people everything, including their lives.**

## *LIFE PRINCIPLE:*



*"They who can give up essential liberty to obtain a little temporary safety deserve neither liberty nor safety."*

-Benjamin Franklin (Founding Father)

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# *Principles and Precepts of Economics*



**Topic 14**
*Islamic Economics*

# *Chapter 1*




## Section Three
***Modern Economic Systems***







Approximately 1.3 billion people embrace Islam, due to family growth and forced compliance. The vast majority live in the Middle East and Africa. They are divided into two groups: Sunni and Shiite. Students are wise to learn about Islamic economic practices. People in the United States are concerned that Islamic law will undermine the United States Constitutional form of government. Islam has impacted economies in other parts of the world, and the possibility of Islam impacting economics in the United States is growing.

Islam began in Mecca, Saudi Arabia, by a man named Mohammed in 610 AD. He claimed to have received ***revelation*** for a new religion from the angel Gabriel, which led to the writing of the Muslim holy book, the ***Koran***, after Mohammed's death. Muslims are instructed to embrace the ***Hadith***, which is a compilation of Islamic traditions dating back to Mohammed. Muslims are taught to follow the Five Pillars of Islam, which include daily confessing that Allah is God and Mohammed is his prophet. Muslims are advised to pray daily, pay ***alms***; fast annually during the month of Ramadan; and make a pilgrimage to Mecca at least once in a lifetime if finances allow it. Islam is ***monotheistic***. Muslims believe that adherence to the commands of their sacred writings is essential for salvation. This explains the ***rationale*** behind common Islamic practices. Strict adherence to Islamic Law cultivates a collectivistic mentality.

From its origins, Islam was spread primarily through warfare and conquest. Conquered peoples were given the choice either to convert, or be killed. In some instances, ***subjugated*** peoples were allowed to live without converting, if they were willing to pay taxes

## VOCABULARY

***Revelation***: A manifestation of divine will or truth
***Koran*** (or ***Quran***): the sacred book of Islam
***Hadith***: legend about Mohammed and his followers
***Alms***: Monies given to help poor people
***Monotheistic***: belief in only one god.
***Rationale***: reasoning behind thoughts or actions
***Subjugated***: defeated and ruled; no freedom

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| Activity | Consequence |
|---|---|
| Criticizing the Koran, Mohammed, or Islam | Death penalty |
| Leaving Islam | Death penalty |
| Converting a Muslim to another faith | Death penalty |
| A non-Muslim marries a Muslim | Non-Muslim put to death, property confiscated |
| Victim of rape | Death, beating, or banishment |
| Stealing | Amputation of right hand (subsequent limbs removed for repeat offenders ) |

(jizya – a penalty) and be subservient to their Muslim conquerors. In reality, Islam is not just a religion; it is a political and legal system tied to a religion. In most countries where Islam is predominant (such as Iran, Egypt, Saudi Arabia), some semblance of theocracy exists. In other words, Islamic law is the law of the land and governs political, economic, religious, and civil conduct.



In Islam, every Muslim is commanded to follow a strict code of ***Sharia Law***. As such, Muslims have few individual freedoms compared with those in societies founded on Judeo-Christian principles. Consequences for breaking Sharia law are very harsh. Refer to the table at the top of this page. Under Sharia law, not all members of society are equal. For example, a woman's testimony in court is worth only "half" of a man's testimony. If a woman is raped, the assault must be ***corroborated*** by at least four male witnesses. If a woman lies about having been raped, she is subject to being put to death. Her testimony is worth half of her assailant's, and she needs four men to testify on her behalf.

Obviously, women have little freedom and respect under Sharia law. Even their clothing is dictated — only their eyes may be seen while wearing their dark-colored ***burka***.

Non-Muslims are not afforded the same rights as Muslim citizens. Non-Muslims cannot hold political office. Non-Muslims are divided into two groups. The first group is known as Dar-ul-Harb (or the Household of War); these people are not bound by a peace treaty or covenant, and as such, their lives and property are NOT protected from Muslim laws regarding ***vendetta*** or retaliation. In other words, they may be killed, raped, and ***plundered*** with no legal protections afforded them. The household of Peace, is divided into three categories:

## VOCABULARY

***Sharia Law***: Islamic law based on the Islamic holy books and writings
***Corroborated***: supported or proveable
***Burka***: female garment prescribed by Sharia Law, covers all but the eyes
***Vendetta***: a strong desire for revenge against a person or group
***Plundered:*** ravaged, looted, wrongfully treated


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1. Zimmis (those in custody) are non-Muslim subjects who live in Muslim countries and agree to pay the Jizya (tribute) in exchange for protection and safety, and to be subject to Islamic law. These enjoy a permanent covenant.

2. People of the Hudna (truce) are those who sign a peace treaty with Muslims after being defeated in war. They agree to reside in their own land, yet to be subject to the legal jurisprudence of Islam like Zimmis, provided they do not wage war against Muslims.

3. Musta'min (protected one) are persons who come to an Islamic country as messengers, merchants, visitors, or students wanting to learn about Islam. A Musta'min should not wage war against Muslims and he is not obliged to pay Jizya, but he would be urged to embrace Islam. If a Musta'min does not accept Islam, he is allowed to return safely to his own country. Muslims are forbidden to hurt him in any way. However, when he is back in his own homeland, he is treated as one who belongs to the Household of War.

You might wonder why any nation would allow Sharia law to become the law of the land. In Middle Eastern countries that have strictly adhered to Islamic tenents since its early days, Sharia has always been in place. In western nations, like the United Kingdom, Sharia creeps in slowly. Muslim immigrants to the country normally have large families. Within a generation or two, these large Muslim populations form their own sub-cultures, with entire sections of the host country partitioned off, becoming Islamic. Often, to avoid appearance of being ***Islamophobic***, the host country will allow Sharia law to be practiced within the Muslim population. An estimated 85 Sharia law courts have been established in the United Kingdom. In practice, over time, Islam can dramatically impact national policy through Sharia partitions.

VOCABULARY

***Islamophobic***: fearful of Muslim culture
***i.e.***: that is
***Speculation***: investments with possibility of large profits or losses
***Global Economy***: economic activity around the world



Since its origins, Islam has been spread by warfare. Many African nations are in danger of being conquered by radical Islamists who want to spread Islam through war and terrorism. Violence is a daily way of life in numerous African and Miidle Eastern countries.

Islamic economies hinder individual economic freedom. Like communism and socialism, Islamic economics are based on collectivist ideology. The group is more important than individuals. Sharia-based society imposes very strict economic codes. For example, people and businesses are forbidden to charge interest for loans; Muslims must avoid uncertainty in business dealings (***i.e.***, ***speculation***, such as stock market investments); and gambling is strictly forbidden. Interestingly, Muslim economists have invented creative ways to avoid prohibitions so they can participate in the ***global economy***.

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Some items, such as alcohol, pornography, female sports attire, and cosmetics, are forbidden to be bought or sold in Islamic economies. Doing without some of these forbidden products might be a positive thing. However, in the free market system, consumer demand dictates which products to produce and market.

Inequalities in material wealth are also officially condemned — another Marxist concept embraced by Islamic economics which limits private property rights of people. Elites in Islamic society disregard this principle, as can be seen with wealthy oil ***sheiks*** in such countries as Saudi Arabia and Iraq. As in all collectivist countries, one set of standards applies to the ruling elite, and another set for the masses. Naturally, inability to achieve greater wealth greatly limits productivity, because incentives are limited.

Muslims pay a tax to fund social programs for people who cannot take care of themselves. This is like socialist programs in Canada, the United States, and the United Kingdom; however, non-Muslims in Muslim countries do not qualify for benefits.

The Islamic concept of Jihad, or "holy war," has two meanings to Muslims; it can mean a personal, internal struggle against sin, and it can refer to actual warfare against infidels (non-Muslims). Muslims are often classified as radical or moderate, depending upon their perspective on Jihad. Those who are radical believe in killing non-Muslims as a part of Jihad. Such Muslims commit acts of terror in the name of Allah, such as the September 11, 2001 attacks in New York City and Washington D. C., the Fort Hood (Texas) massacre, and the Boston Marathon bombings, as well as acts of violence in Syria, Iraq, Spain, France, Belgium, African nations, and Turkey. Such acts dramatically impact local economies. Jobs are lost. Schools are destroyed, and industries shut down.



Another Islam concept is called Taqiyya, the practice of Muslims lying to non-Muslims to gain an advantage during Jihad. For example, if the United States signs a nuclear non-aggression pact with a Muslim country (such as Iran), then based on Taqiyya, that treaty may be ignored by the Muslims without breaking Islamic law if those who signed it did so to deceive what they perceive to be an enemy (such as the United States or Israel).

**War and conflict are waged between two main branches of Islam: the Shiites and Sunnis. These two tribes have been at war with one another for more than a thousand years. Death and destruction of factories, schools, museums, and churches continue to affect the economic conditions of countries where Shiites and Sunnis fight.**

## VOCABULARY

***Sheiks:*** wealthy men in an Arab society

# *LIFE PRINCIPLE:*

*"The hardest thing to explain is the glaringly evident which everybody has decided not to see."*

-Ayn Rand (Author, Philosopher)





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# *Principles and Precepts of Economics*



**Topic 15**
*The United States of America*

# *Chapter 1*

## Section Three
***Modern Economic Systems***

## *An Overview of the American System*





Beginning with the Mayflower Compact in 1620, America stands as a unique nation among nations. America has inspired liberty and offered prosperity via free enterprise to more people than many nations combined, and has helped more people outside national borders than any other nation in history. These qualities derive from, and help define, "***American Exceptionalism.***"

Because America's Founding Fathers believed in individualism, private property rights, and limited government, they established a *Republic* with a laissez-faire economic system. The concept of individual freedom, built into our founding documents, enabled the innate desire for self-government to accelerate rapidly.

Great freedom led to great opportunity for every American. Several men, born into poverty, became prosperous industrialists or Presidents of the United States! As the Nation flourished, some philosophers began to take a dim view of this freedom and prosperity, focusing on the poorer members of society. Rather than encouraging the poor to use personal ingenuity to improve their economic conditions, intellectual elites began to criticize the free market economic concept. Instead of accepting the truth that some men work harder, smarter, and more persistently than others (and therefore can expect better, different outcomes), elites focused their energies on *destroying* the free market system. Elites disregarded the fact that the free market system brought prosperity and improved living conditions to so many people (including the poorest in society).

VOCABULARY

***American Exceptionalism***: the concept that America is different from other nations due to its Judeo-Christian heritage, capitalism, and individualism.

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Ultimately, the collectivist philosophy, spelled out so ***succinctly*** by Karl Marx in 1848, became the goal of many philosophers and politicians. In the 19th Century, collectivism was so ***repugnant*** to the average, freedom-loving, American that elites did not attempt to change the economic system by revolutionary means, as happened in parts of Europe. Rather, collectivists gained entry into universities, where alternative ideas usually gain a ***foothold***. Collectivist faculty trained future generations of educators, lawyers, judges, and politicians to ***denigrate*** capitalism and embrace collectivist ideology and methods.



Franklin D. Roosevelt (32nd U.S. President)

By the early 1930s, collectivist politicians, including President Franklin D. Roosevelt, began to transform American society through progressive, socialist programs, using redistribution of wealth. Taking from the rich and giving to the poor became standard practice through intrusive government programs and laws.

In time, many poor people saw government social programs as their "ticket" to an easier life. By the 1960s, such people habitually voted for politicians who would pass more and bigger welfare programs. As collectivist politicians promoted government control over the education system, students perceived that American Exceptionalism was bad, and that wealthy people had cheated the poor out of their "fair share." Benjamin Franklin and other Founders warned that democracy, without integrity, could turn into mob rule. America's founders established a ***republic*** based on moral values. A pure democracy encourages people to vote to spend other people's money – to collect taxes from producers and place the money in a public ***coffer*** for redistribution. That is one reason why collectivists preach the need to "spread democracy" around the world. People actually vote away their rights to shrewd politicians in exchange for the promises of an easier life with monthly government handouts. To take from the rich to give to the poor becomes a mob mentality.

In the 1970's, greater government control was tolerated over the economy, with massive increases in business regulations and tax increases, which made success in business much harder. Consequently, people hesitated to invest money to start businesses. The result was that fewer jobs were created, and opportunities for employment were lost among thousands of poor people.

A brief resurrection of the free market occurred during the 1980s when President Ronald Reagan again popularized the founding economic principles of America. Unfortunately, by the 1990s, the United States was back on its collectivist track.

## VOCABULARY

***Succinctly***: clearly and briefly expressed
***Repugnant***: distasteful; offensive
***Foothold***: a firm position that enables further advancement
***Denigrate***: speak ill of; defame
***Republic:*** supreme power belongs to the people who elect their leaders, who then govern by Constitutional law and are responsible to the electorate
***Coffer***: place to store finances


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Ronald Reagan
(40th President)

In 2008, Barack Hussein Obama became the first President openly hostile to traditional American values. He promised to "transform America" and bring "hope and change." The usual collectivist ***rhetoric*** was in play. Productivity dropped, while unemployment rose. By 2015, one-fourth of Americans were receiving some form of government economic assistance.

After nearly a century of collectivist ideology in America's political and economic systems, citizens have less individual liberty and less chance of prosperity. For the first time in US history, parents do not expect their children to have a better life than did previous generations.

## VOCABULARY

***Rhetoric:*** effective use of words
***Grassroots***: local people level
***Work ethic***: hard work with integrity and diligence

If the story ended there, it would be discouraging. But, it does not end there! By 2015, a strong ***grassroots*** movement began sweeping the Nation. More and more people began recognizing the negative effects of collectivism, and the need to return to America's founding economic principles.

**In the next Chapter, you will learn, in detail, some of the ideas and people who made America an exceptional nation, as well as how you too can apply the *work ethic* that enabled millions of Americans to reach economic stability.**

# *LIFE PRINCIPLE:*



*"A person's personal property is an expression of his initiative and effort."*

-R. E. Cass (Educator)

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# *Principles and Precepts of Economics*

## *Three Branches of Government*

| EXECUTIVE | LEGISLATIVE | JUDICIAL |
|---|---|---|
| • President<br>• Cabinet | • U.S. House<br>• U.S. Senate<br>• State Legislatures | • Supreme Court<br>• Appelate Courts<br>• State Supreme Courts<br>• Civil Courts<br>• Criminal Courts |

| PILLARS OF CAPITALISM |
|---|
| • Personal Property<br>• Religious Freedom<br>• Right to Assemble<br>• Ability to Earn Profit<br>• Trial by Jury<br>• Right of Appeal |

**Recommended Supplimental Study:**

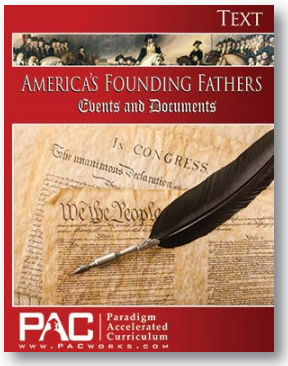
*America's Founding Father's, Events, and Documents*

Full Course Kit Product #: 76217

Text Product #: 76191

Activity Product #: 76215

Teacher's Resource Kit Product #: 76216




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