

Economic Facts and Fallacies

By Thomas Sowell

Can a book on economy be captivating or life changing? That depends on one's view on what the study of economy really is. In this report, I will portray new insights I have gained and new views I have adopted from my most recent exposure to the world of economics. The most enlightening concept produced from this read dealt with my personal perception about what is "alright." In large political and economic issues, moreover, the very definition of what requires change has been altered in my mind. This is an adjustment of view on how the world actually works. In this reflective writing report, I examine the implications and perspectives which have come to mind through reading "Economic Facts and Fallacies" by Thomas Sowell. I read the Second Edition, published in 2011 by Basic Books.

Throughout my studies in my course, "Economic History of the United States," as well as in this recent read, I have seen the world work in different rules than I have first imagined. In a way, the world is a much less sinister and mysterious place. When the concepts of this class and book are understood, many parts of life follow the lines of simple cause and effect. One example of what I mean relates to my earlier comment about what is "alright" or "requires change." The book looks into a common misconception about "terrible inequalities" in our current financial system. This issue (like many others) had personal significance to me, as I have friends protesting about this issue this very week. They belong to the "Occupy Wall-Street" movement. This movement (among other things) is against the large gap in our society between the rich and the poor. They are in favor of the "equalization in wealth distribution."

The very wording of this view shows the misconceptions of its advocates. Sowell points out in his work that many of our preconceptions get in the way of our perception of the facts. The way things actually work have no allegiance nor pay homage to our personal beliefs. This was profound to me, and is applicable in countless discussions. For the sake of this report, I believe this topic provides adequate example. He explained that wealth isn't something that is "distributed" by some over-seeing third party. The world is a lot simpler than that. People simply pay other people what they believe their products or services are worth. Money doesn't appear magically to people who are "rich." For example, a high executive is paid millions of dollars because he/she makes high risk decisions that can make a difference of billions of dollars for his/her company. We, as consumers pay for the company's products and

services. Investors invest in the company hoping for a high return. The company uses that money in its best interests to try to secure a productive future. It uses this money to pay that man or woman to make those hard decisions. That is why that man or woman is rich. There is no magic wand, no government conspiracy, and no robbing Joe Blue working his eight hour shift.

Of course, the first rule in Economics is that nothing is really so strait forward. Entire chapters are dedicated to reassuring the reader that statistics, political word choice, prejudices, and so forth must be carefully (if not suspiciously and critically) examined. One must consider the source. One must think critically and be objective. So many things are taken at face value, which leads to many false ideas and erroneous conclusions. Simply put, one must do their homework. (Sowell does a much better job at explaining this, but he also has a couple hundred pages to do it.) There are many factors to understanding how we spend our money and how governments are funded and so on. But my point is that much of our economy is the result of natural cause and effect. From my above example, the Rich are rich because they have had high positions available to them through ambition, connections, hard work, and high education. It would be very unnatural and perhaps immoral to penalize such a person on behalf of a “poor” worker who has chosen, let’s say, not to sacrifice to get a higher education. The idea that an artificial hand of the government must reach down to correct this “inequality” has proven time and time again to make matters worse. This is the political view of Sowell, and he is very convincing.

Sowell is in favor of a “laissez-faire” government. His distaste for Keynesian economics is very apparent from the first page. He supports this view with many, many examples of specific historical instances of where the US government becomes involved in a private business matter with devastating results. One such example deals with a case of rent-price regulation. Basically, the Government set a set price for rent in apartment complexes in a specific geographic region. This was done to help tenants enjoy a simpler “better” life with cheaper rent and more affordable housing. Yet now, apartments could not charge the higher prices they used to. With that cut in money, they had to look elsewhere to maintain their profit margins. Therefore, maintenance was cut. The complexes themselves dropped in value. This became a growing trend until only low quality housing was available. Less and less new apartments would be built or repaired because this was no longer a good market for investors or owners to get into. The situation would continue to spiral until families were sharing low quality rooms. The situation, because of government involvement, was much worse. Renters and Tenants would all be

better off if the simple rules of supply and demand were left to work. Without government involvement, prices can be competitive, and capitalism is allowed to flourish.

As a voter, and an active member in my community, this perspective is valuable to me. The reason I chose this book was because I did not want to make major decisions based off of half-thought-out prejudices or shallow intuitive inference. Like so many things, Economic issues have proven to be areas requiring careful examination before high-stakes choices can be made, intelligently. Politicians pandering to public opinion, business owners unreasonably following tradition, and activist groups behind causes with no obtainable goals are all things which smudge the public concept of real economic facts. The issues of “overcrowding,” “pollution,” “discrimination,” and so many other things are buzz words meriting a great deal of response. But what are the true natures of these issues? Once one has done his/her “homework,” the very view of what needs attention and what is best left alone changes. As a voter, it is my job to stick with the facts as I can best find them and not rely on quick sound bites of good sounding information.

It has been a pleasure reading this book. This class has also opened my eyes to the hidden truths of cause and effect over our past. The United States has made very positive and important decisions. Some of them have led to our prosperity. Others have led to some of the world’s greatest problems today. I also had no idea that I had so many false ideas. I had no idea that so many parts of my everyday life has come from government and cultural economic developments over time. I probably feel like many first year college students in that I look critically at government actions and social trends. I recognize that there are many people much better educated in this than me who make the biggest decisions in this society. Yet it is exciting to know that I now know the game these men and women play. I now know how to begin to listen to economic news in a more objective way. I have dipped into the economic jargon and the political issues. I feel like I have taken a step into a new world. Yet, the irony is that we have all been living in this world this whole time. The decisions in how I spend my money and the decisions of the White House have been entwined in ways I have never connected before. This is the world that we live in, and it is good to know a little more about how it works.