BOOK ONE CHAPTER SIX

THE STRUCTURE OF SOCIETY ITSELF

By the end of the 19th Century Europe had transitioned from a poor subsistence economy to an economy of excess in a few key cities. “The Gilded Age” was demonstrated in a book by Upton Sinclair *The Jungle.* This book showed contrasts between the rich and the poor. The rich reaped the benefits of an economy of excess, living in palatial mansions with gold gilded bannisters, while the poor struggled with tuberculosis. On the other hand, the railroad allowed cities to be supplied with the vast stream of goods that they needed in order attain populations of millions of people. The greed of the industrialists had led to a functioning supply system that I have called “Commoditized World”, a world where people are less dependent on the natural capital immediately around them. Instead, they can join the system and reap the benefits of an economy that uses few inputs to produce vast outputs. If it were any other way, a population of millions of people would soon strip the countryside bare of every living tree and animal.

This marks a turning point in the book. I have mentioned the economic fundamentals of the transition to the “Great Enrichment”. Now we have to see the economy as a vast system. This system consists of services for money. The services for money has to have some institutional control: there need to be assurances that services will be provided. If it were not for institutions like the US FTC’s Bureau of Consumer Protection, which according to it's website: “stops unfair, deceptive and fraudulent business practices by collecting complaints and conducting investigations, suing companies and people that break the law, developing rules to maintain a fair marketplace, and educating consumers and businesses about their rights and responsibilities”, people who acted in bad faith would be able to get away with taking money but not providing a service in return.

In economic terminology, the taking of money without providing services is known as rent seeking. The mob provided no benefits to businesses when it ran its protection rackets. In these rackets, they would shake down businesses for money for their own “protection”. However, this prison mentality benefitted the mob at the expense of society, because police officers are supposed to provide the service of protection. Thus the mob would have been considered to engage in rent seeking.

The actions of the three major players in an economy, the government, businesses and consumers determines how efficiently money is spent. The growth in efficiency of money spent or in the utility of money during the Great Enrichments was analyzed in the preceding chapters. The fact that these three players were able to spend their money more efficiently made the difference in creating an efficient economy. Economies that have all the ingredients for creating their own Great Enrichment (in terms of engineering solutions) but who still struggle with social cooperation vs rent seeking remain non-efficient economies due to having histories of behaviors where these major players benefit themselves at the expense of society.

**How do business owners spend money?**

In an efficient economy they invest the proceeds they make into expanding their businesses. The Walmart Effect will cause the utility of money to go up if they make their businesses efficient. For example, if all their trucks are full they will pay less for transportation.

In the cut flowers problem, sending flowers from Columbia to consumers in California is actually less expensive than sending flowers from California to consumers in California.

If the businesses got together to create a central distribution center like the Colombians do, they would be able to compete on cost with the Colombians. (naturally they are competing on price, because the market is price sensitive)

Sometimes addressing social needs happens as an unintended consequence because corporations create efficiencies by using intellectual capital, and thus increase their profits. A corporation addressed the aggregate social need of city dwellers to be supplied by food by creating a mechanism that the city could use to supply itself. In doing so the rail corporation reaped the profits from supplying the consumer market of the citizens who lived in the city.

**How do consumers spend money?**

In an efficient economy there are transparent markets. Consumers are able to know what they are getting when they pay for an airline seat. Consumers will opt for the best value for the money, aka they will maximize the utility of their money naturally.

When credit agencies chose where to invest they will also optimally have transparent markets. Determining a persons past financial behavior and giving them a credit score provides such transparency. Note that in this case the financial institution is the consumer, because they are at the demand end of the market.

**How does the government spend money?**

We saw in the case of Munich and their admirable rail system, that when government gets a large tax base it can use money to benefit the system in terms of infrastructure. People will have more freedom of movement as a result.

**The strength of Government**

The strength of government may be important in implementing a system. People need to have faith in and respect the government. This is because reducing crime and punishing those who do not cooperate socially will weed these people out and lead to there being increased trust in society. Once there is increased trust in society markets become more transparent and the transactional cost of doing business in the country goes down. It is important that the government not be a corrupt rent seeker in this system.

Often money is spent most efficiently when social needs take precedence over individual needs when it comes to creating efficiencies. This is the whole basis for price controls in the agricultural market.

As discussed in the first chapter, South Korea, every person has their own sets of priorities when it comes to time management. These kinds of priorities can lead to efficiencies. For example, Samuel Pepys, who wrote the most complete diary of the Victorian Era had a very acute sense of if his time was being wasted. He would get angry if he was supposed to meet someone for an appointment and that person did not show up. He applied his professionalism to the system of the Royal Navy itself, making sure that the money the Royal Navy spent was spent correctly.

EFFICIENCIES WITH SOCIAL COOPERATION BETWEEN MANAGEMENT AND LABOR

Social priorities in European countries are higher than in the United States. In the chapter on Germany I discussed how industry works collaboratively with the primary education system. With this system, the structure of society itself in Germany excels in providing human capital to industry.

In addition, there is the idealism to reward loyalty with pay. There is no division between management and labor. Management is cooperative with labor, and companies are willing to pay high wages. Many goods that Germany manufactures go into the export market, and Germany has a current account surplus because it is receiving net income from other countries. Distributing wages to workers is the most efficient way to redistribute money in an economy. It is more efficient in that the money will be spent more rapidly if it is given to workers rather than if it is given to the higher ups on the corporate totem pole. This means that the “velocity” of money is higher and the multiplier effect of money goes up.

Note: some may say that the reason wages are high in Germany is because of strong organized labor. However, the tone of discussions between organized labor and management tends to be less combative and more cooperative. Management recognizes the dignity of laborers and allows people to represent laborers.

Social priorities also permeate government. Recognizing that every person needs an efficient way to get to work the transportation system has been developed so that people waste less of their time getting to work. The one city in Germany that I have personal experience with is Munich.

PROFESSIONALISM AND EFFICIENCIES

Professionals have a “duty of care”. This happens through social learning.

For example, the scientists discussed in the chapter on France have the duty of care to give honest opinions about climate change.

In addition people recognize the dignity of others. This also happens through social learning and will be the heading of the next chapter. (Nigeria has “rent seeking” which detracts from the services model of society and the cooperative system model of society)