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| **Scarcity** – the limited nature of society’s (or personal) resources | | | |
| **Economics** – the study of how society manages its scarce resources {Limited resources and unlimited wants} | | | |
| **Efficiency** – the property of society getting the most it can from its scarce resources | | | |
| **Equality** – the property of distribution economic prosperity uniformly among the members of society | | | |
| **Opportunity Cost** – whatever must be given up to obtain some item | | | |
| **Rational People (Economics)** – people who systematically and purposefully do the best they can to achieve their objectives | | | |
| **Marginal change** - a small incremental adjustment to a plan of action | | | |
| **Incentive** – something that induces a person to act (does not have to be money) | | | |
| **Market Economy** – an economy that allocates resources through the decentralized decisions of many firms and households as they interact in markets for goods and services | | | |
| **Property rights** – the ability of an individual to own and exercise control over scarce resources | | | |
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| **Money illusion** refers to the failure to distinguish dollars framed as “nominal” from dollars framed as “real”—that is, after inflation. For example, a 2% increase in a nominal annual salary, say from $100,000 to $102,000 is a 1% decrease in the real annual salary when the annual inflation rate is 3%. | | | |
| Rational investors are immune to the money illusion, but many normal investors are not. And that is not to the benefit of the normal investor. | | | |
| We see the distortions caused by money illusion in the current concern about the low yields of bonds. For example, the average nominal yield on 3-month Treasury bills during the first nine months of 2020 was a meager 0.42%. The real yield is even lower, a negative 0.98%, because the rate of inflation during the period was 1.40%. Indeed, inflation has exceeded Treasury-bill yields in most years since 2002. | | | |
| Yet there was less concern in 1979 when the nominal yield on 3-month T-bills was 10.07% and the rate of inflation was 12.26%, implying a negative 2.19% real yield. This is because many normal investors are misled by the money illusion, comparing the low 0.42% nominal yield of 2020 to the high 10.07% in 1979, while neglecting to note that the real yield in 2020, while negative, is higher than in 1979. | | | |
| Moreover, 1979 investors paid higher taxes on a 10.07% yield than 2020 investors pay on 0.42%. Investors tend to overlook this 2020 tax balm. | | | |
| Framing money in nominal terms is easier than in real terms because it does not require knowledge of inflation rates and how to use them to convert nominal dollars into real ones. Yet such framing is not smart when it misleads us to act as spendthrifts when high inflation pushes nominal interest rates up, and as misers when low inflation presses nominal interest rates down. | | | |
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| **Nominal Interest rate = Real rate of return + Inflation** | | |  |
| Remember that you only save when you expect a positive real rate of return otherwise your would have been better off to spend your money instead of save it | | | |
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| **Factors of Production** |  |  |  |
| The first factor of production is **land,** but this includes any natural resource used to produce goods and services. This includes not just land, but anything that comes from the land. Some common land or natural resources are water, oil, copper, natural gas, coal, and forests. Land resources are the raw materials in the production process. | | | |
| The second factor of production is **labor.** Labor is the effort that people contribute to the production of goods and services. | | | |
| The third factor of production is **capital**. Think of capital as the machinery, tools and buildings humans use to produce goods and services. Some common examples of capital include hammers, forklifts, conveyer belts, computers, and delivery vans. (Remember not money !!!) | | | |
| The fourth factor of production is **entrepreneurship**. An entrepreneur is a person who combines the other factors of production - land, labor, and capital - to earn a profit. The most successful entrepreneurs are innovators who find new ways produce goods and services or who develop new goods and services to bring to market | | | |
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| Money is not capital as economists define capital because it is not a productive resource. While money can be used to buy capital, it is the capital good (things such as machinery and tools) that is used to produce goods and services. | | | |
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| Remember, goods and services are scarce because the factors of production used to produce them are scarce. In case you have forgotten, scarcity is described as limited quantities of resources to meet unlimited wants. Consider a pair of denim blue jeans. The denim is made of cotton, grown on the land. The land and water used to grow the cotton is limited and could have been used to grow a variety of different crops. The workers who cut and sewed the denim in the factory are limited labor resources who could have been producing other goods or services in the economy. The machines and the factory used to produce the jeans are limited capital resources that could have been used to produce other goods. This scarcity of resources means that producing some goods and services leaves other goods and services unproduced. | | | |
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| **How Saving Grows the Economy** | |  |  |
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| Fish, to the islanders, is a **consumers’ good:** something that is used to pursue their goals directly (in this case, the goals of satisfying hunger and not starving). But, fish can only be a consumers’ good when it is ready for consumption. The fish do the islanders no good while they are still swimming in the sea. So the islanders must engage in production. They must produce the product of “fish on a plate,” which is the true consumers’ good. | | | |
| **labor** is the act of fishing: using their eyes to spot the fish and their hands to grab them. Another factor they must use is **land**, or natural resources: in this case, “fish in the sea.” “Fishing labor” + “fish in the sea” = “Fish on the plate.” | | | |
| with such **low productivity**, “This is survival and that’s about all.” It is a state of extreme poverty. | | | |
| **a capital good**, or produced factor of production. Producing a net also requires factors, including natural materials (land), like sticks and vines, and net-building labor. | | | |
| The upside of hand fishing is that it has a short period of production. Able starts production, and then gets to eat later that very same day. The downside is its low productivity, and Able’s resulting chronic state of poverty. | | | |
| The upside of net fishing is its higher productivity, | | |  |
| The trade off is “more and later” vs. “less and sooner.” | | |  |
| **personal time preference**, or the premium he places on the immediacy with which he achieves his ends. Time preference is the importance of “sooner.” The lower someone’s time preference is, the more willing someone will be to delay consumption. And the higher, the less. | | | |
| ***Able’s low time preference*** puts him on the fast track of an ascending spiral: a virtuous “Cycle of Growth.” **Saving (delaying consumption) supports more capital goods, which boosts productivity, which creates more to save**, and around he goes. | | | |
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| In fact, the primitive community, far from being happy, harmonious, and idyllic, is much more likely to be ridden by mutual suspicion and envy of the more successful or better favored, an envy so pervasive as to cripple, by the fear of its presence, all personal or general economic development. | | | |
| the anthropologist Clyde Kluckhohn found among the Navaho the absence of any concept of “personal success” or “personal achievement”; and such success was automatically attributed to exploitation of others, and, therefore, the more prosperous Navaho Indian feels himself under constant social pressure to give his money away. | | | |
| Allan Holmberg found that the Siriono Indian of Bolivia eats alone at night because, if he eats by day, a crowd gathers around him to stare in envious hatred. | | | |
| To maximally benefit from his tremendous productivity, he must offer his products to others in the community in exchange for goods and services. And through exchanges like investments, loans, and wages, non-savers can get access to capital goods that would have otherwise been out of reach. For example, Able rents out his nets and loans out his fish at interest. This enables higher-time-preference islanders like Baker and Charlie to increase their productivity and living standards. And since all exchanges are, by definition, projected by both willing parties to be beneficial, the more exchanges the saver makes, the more he benefits the public. | | | |
| If every time someone saves more, he is pressured to relinquish his “excess wealth,” that can only discourage savings. And knocking out savings knocks people off the Cycle of Growth. It also knocks them onto a Cycle of Impoverishment. | | | |
| This is because low savings can lead to capital consumption. “Consuming” capital doesn’t mean “eating the net.” It means that the net eventually wears out with use, and to maintain it requires diverting possibly consumed resources away from consumption and toward repair/replacement. Without sufficient savings, capital goods enter a state of disrepair. | | | |
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| ***Every single performance in this ceaseless pursuit of wealth production is based upon the saving and the preparatory work of earlier generations***. We are the lucky heirs of our fathers and forefathers whose saving has accumulated the capital goods with the aid of which we are working today. We favorite children of the age of electricity still derive advantage from the original saving of the primitive fishermen who, in producing the first nets and canoes, devoted a part of their working time to provision for a remoter future. | | | |
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| **Conning the Competition - Certificates of Need** | | |  |
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| A certificate of need (CON) is a government-mandated permis-sion slip to start or expand a business. Think of a CON like an expensive admission ticket to access an exclusive club. You can be sure that those who are lucky enough to get in do their best to keep others out. | | | |
| CON programs were conceived with the goal of controlling healthcare costs and increasing access to care. But they have been proven to do the opposite. | | | |
| The overwhelming evidence, including the unwavering opinion of the federal government for more than three decades, has been that CON laws are a policy failure. The solution, then, is obvious. States should repeal CON laws. | | | |
| Moratoria are more dangerous than CONs. Twelve states maintain moratoria, which typically prohibit specific facilities from opening or adding beds. | | | |
| In 34 of 39 jurisdictions, competitors may object to CON applications. When a competitor objects, it often triggers the equivalent of a full-blown trial requiring the applicant to hire an attorney and a team of consultants and experts to introduce evidence that the proposed project is “needed.” | | | |
| CON programs advantage established players. Multi-million-dollar hospital conglomerates have attorneys who can wade through the web of CON requirements and who know how to use CON procedures as a weapon to stifle competition. | | | |
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| Basic economic theory predicts that supply is inversely correlated with cost. That is, if you increase the avail-ability of a good or service, prices fall. If you restrict the supply of a service, prices rise. CON laws, then, attempt to contradict this basic logic. They restrict the supply of healthcare facilities and services in hope of controlling costs and increasing access to care. | | | |
| The original theory behind CON laws—which has since been debunked—says that, in the healthcare arena, supply drives demand.4 The flawed thinking was that reducing the supply of healthcare would reduce overall healthcare expenditures. In 1964, New York enacted the nation’s first statewide CON law.5 | | | |
| In 1986, Congress repealed NHPRDA because it “failed to control healthcare costs and was insensitive to com-munity needs.”12 Since that time, in a rare admission of a policy failure, the federal government has continued to disavow CON laws.13 | | | |
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| Alabama is one of eight states to require CONs across all six broad categories—hospital beds, beds outside hospitals, equipment, facilities, services and emergency medical trans-port | | | |
| Alabama maintains 47 individual CON requirements, 19 of which apply to facilities and buildings. The state also maintains a catch-all CON. That is, if no specific CON applies, the catch-all CON requires healthcare facilities to obtain a CON if they intend to spend $4 million or more for any reason. Ala. Code § 22-21-263(a)(2). In Alabama, a public hearing is required for all CON applications before the CON Review Board will issue a decision. Ala. Admin. Code r. 410-1-7-.17. | | | |
| On April 2, 2020, Governor Ivey issued a proclamation requiring relevant state agencies to “promulgate emergency rules to provide for temporary waivers to the Certificate of Need process to permit new services, facilities, and other resources needed for the treat-ment of patients affected by the appearance of COVID-19, or to free up bed and treatment space at existing healthcare facilities to permit such needed treatment.” | | | |
| In Alabama, the CON application process typically takes 90 days. Ala. Admin. Code r. 410-1-7-.09. The Certificate of Need Review Board is required to hold a public hearing for CON applications at least 80 days, but not more than 90 days, after an application is complete. Ala. Admin. Code r. 410-1-7-.17(1)(a). Applications can be submitted at any time. The fee for a CON application ranges from $3,500 to $12,000. Ala. Admin. Code r. 410-1-7-.06(1)(b). Competitors can intervene in the application process and can offer evidence or argument as to why an application should be denied at the public hearing. Ala. Admin. Code r. 410-1-7-.13, -.17. | | | |
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| **US Debt Clock - Numbers and Terms** | |  |  |
|  |  |  | The last time the US Gov owed $0 was in 1835-36 (President Andrew Jackson 7th President of the US) |
| US Federal Debt | 27.8 trillion | | Current amount borrowed (the sum total of previous deficits since 1835) |
| US Federal Debt per person | 84 thousand | | Debt / US Population |
| US Government Annual Spending | 6.6 trilliom | |  |
| Medicare/Medicaid | 1.3 trillion | | Mandatory Spending - Written into Law |
| Social Security | 1.1 trillion | | Mandatory Spending - Written into Law |
| Defense | 0.7 trillion | | Discretionary Spending - needs to be approved on an annual basis |
| Interest on Debt | 0.4 trillion | 1.48% | Interest /US Debt |
| US Deficit | 3.2 trillion | | The annual difference between Income & Expenses if negative = Deficit if positive = Surplus |
| US Tax Income | 3.5 trillion | | All tax income comes from you |
| Income Taxes | 1.6 trillion | |  |
| Payroll Taxes | 1.3 trillion | |  |
| US Population | 330 million | |  |
| US Taxpayers | 125 million | | People that are required to file a tax return - might not owe any taxes |
| US Retired | 55 million |  |  |
| Food Stamps | 45 million |  |  |
| Median Income | 35 thousand | | In statistics and probability theory, the median is the value separating the higher half from the lower half of a data sample, a population, or a probability distribution. For a data set, it may be thought of as "the middle" value. |
| Median Home Price | 326 thousand | | In statistics and probability theory, the median is the value separating the higher half from the lower half of a data sample, a population, or a probability distribution. For a data set, it may be thought of as "the middle" value. |
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| **Premium flower demand drives Colorado wholesale marijuana prices to nearly five-year highs** | | | |
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| Wholesale marijuana flower prices in Colorado have climbed to levels previously seen in 2016, fueled by increased demand during the coronavirus pandemic and growing consumer interest in pricier, premium flower brands. | | | |
| The gains are a welcome turnaround for marijuana cultivators, who were confronting wholesale flower prices in the $700-a-pound range only two years ago. | | | |
| On the flip side, the more than doubling in the wholesale price means marijuana manufacturers and retailers must pay higher prices for product. | | | |
| As the cannabis market matures in one of the country’s oldest recreational programs, so too have consumer tastes. | | | |
| “People are willing to pay for the higher quality,” said Zachary York, inventory manager for Denver-based vertically integrated cannabis company Lightshade. | | | |
| When the pandemic began last year, the initial trend was for consumers to stock up on the most affordable product on the market, which is typically budget flower. | | | |
| Spadafora attributes that buying behavior to an ***evolution in consumer taste.*** | | | |
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| As the pandemic continues to rage, tourism to Colorado has declined. So much of the increase in demand for marijuana product seems to be locally driven. | | | |
| Consumers spending their disposable income on cannabis rather than restaurants, movie theaters or other entertainment is another explanation for the increase in wholesale prices. | | | |
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| **Surging Grain Prices Fuel Surprise Farm Recovery** | | |  |
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| Higher commodity prices are benefiting grain farmers but could lead to higher prices at the grocery store | | | |
| Prices for corn, soybeans and wheat have soared to their highest levels in more than six years as dry weather and strong export demand from China drain U.S. stockpiles. | | | |
| The rising commodity prices are rippling through the food chain, helping drive a sharp increase in U.S. farm income and lifting the prospects for a swath of rural businesses, from grain traders to equipment manufacturers and fertilizer suppliers. | | | |
| China’s push to increase pork production and fulfill recent trade commitments are propelling huge volumes of U.S. crops overseas. American food processors and manufacturers also are racing to ensure they have adequate grain and oilseed supplies to meet burgeoning consumer demand. | | | |
| Inventories of corn, soybeans and wheat are on track this season to hit their lowest in at least six years, according to U.S. Agriculture Department forecasts. | | | |
| “Farmers are going to be bidding for farm ground, replacing combines and talking about ways to put another 10 bushels per acre into their bins,” said Michael Swanson, agricultural economist at Wells Fargo & Co., a major farm lender. | | | |
| Stronger commodity markets already are pushing up farmland values, according to farmers, lenders and land managers. David Englund, chief executive of Farmers National Company, said the farm-management company last fall sold some parcels of land at prices that neared those last seen in 2012 , during the last farm boom. | | | |
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| A turnaround on grain farms will mean high prices for others. U.S. livestock producers and poultry farmers this year could see a 27% jump in prices for grain, the main cost of raising animals, | | | |
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| **Bill Gates' 20,000 acres in Nebraska help make him the top farmland owner in the U.S.** | | | |
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| Bill Gates is now the largest private owner of U.S. farmland, including more than 20,000 acres in Nebraska, | | | |
| Bill Gates' net worth was estimated at $121 billion | | |  |
| Across the U.S., the Gateses own 242,000 acres of farmland as part of their personal investment portfolio, according to The Land Report. | | | |
| That’s cropland, not ranchland or grassland, which some private owners hold in larger quantities. Ted Turner famously owns about 2 million acres, much of it ranchland in Nebraska, South Dakota and New Mexico. | | | |
| “When you have somebody like Bill Gates come in, even the local big guys with deep pockets can’t compete,” he said. “And once you put this land into very big parcels, it rarely breaks up.” | | | |
| Having one entity own so much land can also be bad for local communities and economies because the owner isn’t a stakeholder in the community and might buy its supplies directly in bulk instead of supporting local businesses, Hansen said. | | | |
| The rancher was surprised to hear that Gates was the owner — but not overly so.“They lease it to local farmers, and nobody even knows anything about it,” he said. “You really don’t know who the corporate people are.” | | | |
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| **Marijuana vape market share down as manufacturers work to rebuild consumer confidence** | | | |
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| The marijuana vapor pen market sector grew at almost half the pace of overall sales for cannabis products last year, despite vape companies’ efforts to reassure consumers about the safety of merchandise sold by legal retailers. | | | |
| The coronavirus pandemic and lingering fallout from the 2019 vape health crisis have weighed on vape pen sales. | | | |
| Across the California, Colorado , Nevada, Oregon and Washington state cannabis markets, recreational marijuana vapor pen sales increased by 20%, from $1.5 billion in 2019 to $1.8 billion in 2020, according to Seattle-based data analytics firm Headset. | | | |
| While that appears to be strong growth, the overall market for marijuana products grew by nearly double that amount – 39% – over the same time period, Headset reported. | | | |
| Consumers staying at home during the pandemic might not have as much need for the discretionary nature of vape pens. And the vape health crisis  that began in the summer of 2019 had an impact on the sector. | | | |
| As marijuana consumers become more sophisticated and educated about products, they are helping to prod the vape sector to manufacture healthier products. | | | |
| “There’s no question that people are starting to pay more attention to what is in their vape,” said Alex Pasternack, executive vice president of Denver-based infused products company Binske. | | | |
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| **GameStop's Stock May Have Exploded, But Traffic To Its Stores Is Still Tumbling** | | | |
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| In December, visits to GameStop were down 24.1% year over year , according to foot traffic analytics firm Placer.ai. For the entire year of 2020, average monthly traffic was down 27.8% | | | |
| ***The boom in stock prices (which has largely fallen from its most recent peak on Friday) has been pegged to day-to-day trading realities and social media, not directly to any changes at the company or its circumstances.*** | | | |
| Chewy founder and former CEO Ryan Cohen bought more than 10% of the retailer's stock through his investment firm with an activist plan to transform GameStop into a "technology company" and away from brick-and-mortar retailing. | | | |
| "Unfortunately, it is evident to us that GameStop currently lacks the mindset, resources and plan needed to become a dominant sector player," Cohen said in a November letter to GameStop's board. | | | |
| "The Company remains in long-term secular decline due to its apparent unwillingness to pivot with urgency and grow with gamers." | | | |
| In the coming years and beyond, GameStop faces an existential challenge  in adapting to the digitization of its core product. | | | |
| Many in both the investing and retail world have compared it to Blockbuster and other media retailers  that have struggled with the advance of digital technology. GameStop has tried to adapt through sales of other products, partnering with game makers, and a (not thoroughly outlined) plan to turn its stores into cultural hubs for gamers. | | | |
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| **Chinese Duck Farmers Become Overnight Millionaires As Half Of China's Pigs Die** | | | |
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| China began to import more pork in March 2019 when domestic wholesale prices started to rise. Imports of US pork – which fell 75% to 1,609 tonnes between July and December 2018 after China retaliated with tariffs in response to US duties on Chinese goods – have soared. Since January, imports from the US have more than tripled from 5,788 tonnes to 17,603 tonnes in May. While US pork imports to China face a 62% tariff, Bloomberg has cited unnamed sources saying that Beijing has approved duty waivers for some Chinese companies. | | | |
| China’s middle class accounts for around 400 million people, or 28.6% of the 1.4 billion population. | | | |
| Meanwhile, and as a result, prices for other meats including chicken and duck, are also expected to rise substantially, putting further pressure on the discretionary spending of Chinese consumers. | | | |
| Expect demand for ducks to soar, for the simple reason that the deadly pig disease has already reduced China’s hog herd by more than a quarter, according to official data, however as many as half of the country’s breeding sows are thought to have died or been slaughtered to cope with disease outbreaks. | | | |
| As the SCMP also reports, about 80% of the world’s ducks are raised in China, but are traditionally eaten in the south, where fried duck tongues, braised feet and spicy duck neck are popular snacks, and duck intestines make up a hotpot. | | | |
| In recent years, as pork prices spiked, more ducks have been processed for use by cost-conscious catering firms, supplying large canteens feeding schools, factories, businesses and the military. These buyers are now switching as much pricey pork as they can to duck. | | | |
| Ironically, any rapid expansion carries its own disease risks, as in densely stocked farms, diseases like bird flu, several  strains of which are circulating in China, will spread easily. | | | |
| And it remains to be seen whether duck farmers can hold on to a bigger share of the meat market when pork output recovers. | | | |
| As a reminder, in 2012 and 2016, duck farmers were forced out of the industry in droves when overproduction killed profits, and most people still want more pork dishes than any other meat, said the catering company manager. | | | |
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| **Winter disease surge hampers China's hog production recovery** | | | |
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| A surge in hog disease outbreaks this winter in China, the world’s biggest pork producer, will slow the industry’s rapid recovery since the African swine fever contagion three years ago, according to industry participants and analysts. | | | |
| China’s pig herd rose 31% in 2020, according to official data, as the industry rebuilt. | | | |
| As the world’s biggest pork consumer, Beijing is under pressure to restore its hog supply and lower meat prices that remain at high levels, pushing up inflation and drawing in record imports. | | | |
| PED is not usually fatal to grown pigs but can kill piglets. It is also more likely to infect young sows without immunity to it, said a veterinarian with a pig producer in southern China currently dealing with PED outbreaks. | | | |
| That has increased the intensity of this winter’s outbreak because so many new farms, built to replace the swine fever-reduced herds, are stocked with young females that have passed the virus to their offspring, he said. | | | |
| “It can kill one month of suckling pigs just like that,” he said. | | | |
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| **Covid-19 Lockdowns Spur Shift to High-End Liquor** | | |  |
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| Americans are splashing out on pricier whiskey, tequila and other spirits during the pandemic , helping distillers post their strongest sales in four decades despite widespread bar closures. | | | |
| “Consumers’ behavior has shifted as a result, in part, of certain things they’re unable to do or not do to the same degree,” said Kathryn Mikells, finance chief of Johnnie Walker maker Diageo  PLC. “They’re spending more money on food and beverage. They’re interested in treating themselves.” | | | |
| Spirits costing above $40 per 750 milliliters accounted for 40% of the U.S. spirits industry’s growth last year, compared with 34% in 2019, according to DISCUS. High-end liquors are among the most profitable spirits for alcohol makers. | | | |
| Unlike in Europe and other parts of the world, Americans have long drunk more at home. Even before the pandemic, four out of every five alcoholic drinks in the U.S. were bought in liquor stores, supermarkets and other “off premise” channels, rather than in bars and restaurants. That trend has accelerated. | | | |
| Through the pandemic, ***the spirits industry accelerated its previous share gains over beer and wine.*** While sales of sparkling wines have done well, still wine—a popular buy at restaurants—has declined, industry tracker IWSR said. Beer also has suffered partly because of a shortage of aluminum cans , an interruption to brewing in Mexico  and out-of-stock issues in addition to the closure of bars , it added. | | | |
| Distillers have benefited from law changes in many states  allowing restaurants and bars to, for the first time, offer cocktails for home delivery or click-and-collect. Ohio and Iowa last year both moved to make their cocktails-to-go measures permanent. DISCUS, which has joined forces with restaurant trade associations, is lobbying for others to do the same. | | | |
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| **The Cobra Effect: Lessons in Unintended Consequences** | | |  |
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| Human beings react to every rule, regulation, and order governments impose, and their reactions result in outcomes that can be quite different than the outcomes lawmakers intended | | | |
| Every human decision brings with it unintended consequences. Often, they are inconsequential, even funny. | | | |
| When **Airbus**, for example, wanted to make its planes quieter to improve the flying experience for travelers, it made its A380 so quiet that passengers could hear, with far too much clarity, what was happening in the plane’s bathrooms. | | | |
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| ***The US health care system is a case in point. It emerged in its present form in no small part because of two governmental decisions.*** | | | |
| First, wage and price controls during World War II caused employers to add health insurance as an employee benefit. Why? T | | | |
| The law prohibited employers from raising wages, so to attract workers, they offered to provide health insurance. Then, in 1951, Congress declared that employer-provided health insurance benefits would not count as taxable income. | | | |
| This made it cheaper for employees to take raises in the form of increased tax-free insurance benefits rather than in the form of increased taxable wages. | | | |
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| **Cobras** |  |  |  |
| In colonial India, Delhi suffered a proliferation of cobras, which was a problem very clearly in need of a solution given the sorts of things that cobras bring, like death. | | | |
| To cut the number of cobras slithering through the city, the local government placed a bounty on them. This seemed like a perfectly reasonable solution. | | | |
| The bounty was generous enough that many people took up cobra hunting, which led exactly to the desired outcome: The cobra population decreased. And that’s where things get interesting. | | | |
| As the cobra population fell and it became harder to find cobras in the wild, people became rather entrepreneurial. They started raising cobras in their homes, which they would then kill to collect the bounty as before. | | | |
| City officials did a reasonable thing: They canceled the bounty. In response, the people raising cobras in their homes also did a reasonable thing: They released all of their now-valueless cobras back into the streets. Who wants a house full of cobras? | | | |
| In the end, Delhi had a bigger cobra problem after the bounty ended than it had before it began. The unintended consequence of the cobra eradication plan was an increase in the number of cobras in the streets. | | | |
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| **Venezuela** |  |  |  |
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| But perhaps nothing illustrates the scope of the potential problems arising from unintended consequences better than Venezuela’s terrible game of whack-a-mole that began with the 1976 nationalization of its oil industry. | | | |
| The government’s intent was to keep oil profits in the country. | | | |
| ***But when the government takes over a once-private industry, the profit incentive to maintain physical capital is lost, and physical capital deteriorates.*** | | | |
| The deterioration plays out over a decade or so, and that’s what made it appear—at least for a while—that unlike everywhere else socialism had been tried, Venezuela’s socialism was working. | | | |
| But as the oil industry’s physical capital broke down, oil production fell. | | | |
| Coincidentally, it was around this time that oil prices fell also—a fact socialism’s supporters point to as the real culprit. | | | |
| As oil revenues and production plummeted, Venezuela’s government acted the way governments inevitably do when revenues disappear. It borrowed and taxed as much as it could, and then it started printing money. | | | |
| The printing led to the unintended consequence of inflation, then prices rose so high that people could no longer afford food. | | | |
| To respond to this unintended consequence, the government imposed price controls on food. But this created a new unintended consequence wherein farmers could no longer afford to grow food. | | | |
| And so the farmers stopped growing food. Finally, the government forced people to work on farms in order to assure food production. | | | |
| **The ultimate unintended consequence of Venezuela’s nationalizing its oil industry was slavery.** | | | |
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| **Human beings react to every rule, regulation, and order governments impose, and their reactions result in outcomes that can be quite different than the outcomes lawmakers intended.** | | | |