

The 3 Most Important Lessons in Thomas Sowell's *Basic Economics*

Compassion vs. Guilt in the Age of Barack Obama

July 13, 2011 by [David Swindle](#)



Surely at some point in his long-admired writing career Thomas Sowell has grown frustrated. What to do when the same issues arise over and over again in the national debate and he's already addressed them many times only to continue to be ignored by a political Left unwilling to deal with inconvenient facts? *Compassion Versus Guilt and Other Essays* is the first collection of Sowell's newspaper columns and features his selections from 1982 through 1986. Most of the pieces are as fresh and relevant today as when they were first published.

Sowell articulates the central theme that binds these essays together in the title essay. When looking at all the suffering around the world it's natural for Americans to have a sense of guilt since they were born into more prosperous circumstances by chance. The attempts to alleviate these feelings have often been efforts to show compassion for the less fortunate. Sowell warns,

Many of our attempts to share our good fortune with others, at home and abroad, have undermined the very efforts, standards and values that make that good fortune possible. Trying to ease our own guilt feelings is very different from trying to advance those less fortunate.

Just because a policy is put in place with the compassionate goal of trying to help those less fortunate does not mean that the less fortunate will be helped. This has been one of the central themes of Sowell's work in fields ranging from race relations to economics.

Sowell urges a “There, but for the grace of God, go I” mentality – an approach far removed from the Obama administration’s visions of helping the uninsured with new government regulations that will have unintended consequences. For example, surveys of business-owners recently showed that come 2014, when the law’s provisions kick in, [30% of employers plan on dropping](#) health coverage.

The common refrain from the President’s supporters when conservatives point out these unintended consequences is one Sowell anticipated decades ago: well what’s *your* solution?

Sowell challenges the “crusaders” and “deep thinkers” who think every problem has a solution. In an essay on the 1980s drug war – which could just as well be reprinted today [following Barney Frank and Ron Paul’s legislation on marijuana](#) – Sowell advocates legalization not as a “solution” but a trade-off. Noting that bootleggers often financed the campaigns to ban liquor, Sowell brings an economic perspective to the issue:

Legalization of narcotics would similarly destroy the profits of today’s drug pushers. There is no way that they can compete with drugs that can be mass-produced cheaply by big pharmaceutical companies.

This is not a complete “solution.” Nowhere is it written in stone that there are always answers in the back of the book. What we can do as a society is to cut our losses. It is bad enough that some people destroy their own lives with drugs. We don’t need to add vast numbers of innocent victims who are robbed, mugged or murdered by addicts trying to get money for a fix.

Sowell also has his eye on foreign policy and applies this paradigm of compassion versus guilt and solutions versus trade-offs. The United Nations was created with the noble, “compassionate” agenda of preventing wars and facilitating peace talks and negotiations. But this emphasis on trying to make negotiations the “solution” to every conflict has unequal costs for different nations:

Nothing is more predictable in any war today than a U.N. call for a “cease-fire” and “negotiations.” Non-democratic aggressors, like the Soviets in Afghanistan or the Syrians in Lebanon, ignore such calls with impunity. But in democratic nations, the political weight of this call from “world opinion” cannot always be brushed aside.

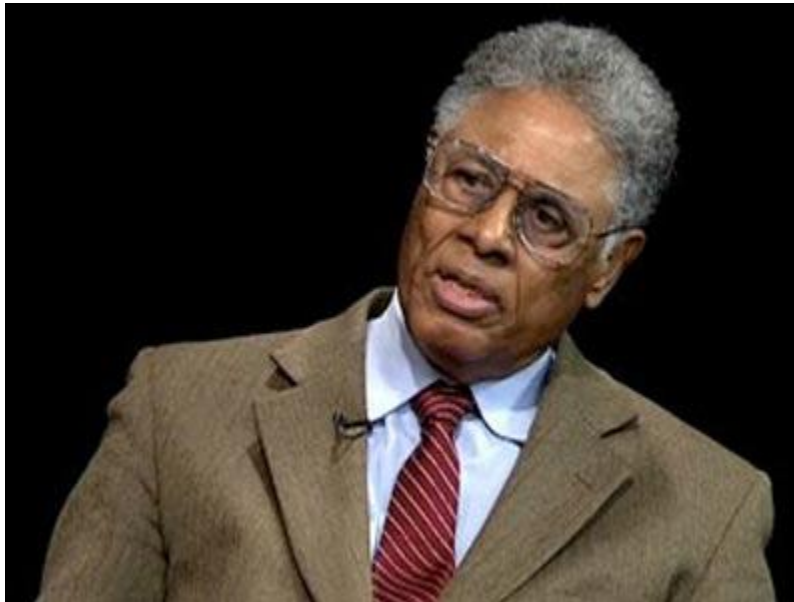
This has made aggression a game of heads-I-win and tails-we-tie.

Those words were published in September of 1983 but almost 30 years later they are just as relevant and accurate, particularly when it comes to the Jihadist war against Israel. This is what Caroline Glick means when she talks about Israel as a [“shackled warrior”](#) unable to fight its enemies properly.

A new Sowell column arrives only once a week. However for those who cannot get enough of the thinker’s insights and refreshingly straightforward prose, perhaps it’s time to dig into the archives a bit.

The 3 Most Important Lessons in 'Basic Economics'

July 27, 2011 by [David Swindle](#)



Editor's note: This article is Part II of an ongoing *FrontPage* series exploring the ideas of author Thomas Sowell. For Part I, see [Compassion Vs. Guilt](#).

Economist Thomas Sowell drew from his years of teaching the subject at some of the nation's most prestigious ivy league schools and gave himself a challenge: to create a book on economics for the lay reader without using technical language or visual aids. His book was a success, and is now in its fourth edition. *Basic Economics: A Citizen's Guide to the Economy* is a straightforward and readable guide to economics' core concepts.

It's difficult to count the number of economic myths Sowell debunks. More challenging is to determine which are the most important. Political ideologies can be a bit like dominos – just disrupting a single idea can be the beginning of a chain reaction that will eventually result in a changed mind. These three insights are perhaps some of the most important talking points to keep in mind when stumbling into political discussions with those less informed on basic economic principles.

3. We do not have enough resources to meet everyone's desires.

The very definition of Economics already begins to challenge any utopian scheme. Sowell cites the British economist Lionel Robbins:

Economics is the study of the use of scarce resources which have alternative uses.

Using resources to do one thing requires us to take resources away from somewhere else. And "resources" does not always refer to money or raw materials either. Time, manpower, talent, and knowledge are all resources too that individuals, businesses, governments, and families have to figure out how to use in the most effective way. And these resources can be used in any number of combinations, some much more effective than others.

With this point Sowell demonstrates that economics really isn't about money or becoming rich:

It is about the material well-being of society as a whole. It shows the cause and effect relationships involving prices, industry and commerce, work and pay, or the international

balance of trade—all from the standpoint of how this affects the allocation of scarce resources in a way that raises or lowers the material standard of living of the population as a whole.

In other words, Sowell and other economists are going to study what the real results are when certain policies are put into place, instead of focusing on the high-minded hopes and expectations of those who dreamed the into existence. It's this approach that he brings to analyzing such misunderstood concepts as prices and profits.

2. Businesses cannot survive if they arbitrarily set high prices because their owners are “greedy.”

One of the most persistent memes to embed itself within the popular consciousness is the idea that those participating in capitalism are “greedy.” It's all too easy to look at rising gas prices and rising oil company profits only to assume that it's because of “greedy” oil executives just adjusting the price in their favor.

Sowell summarizes the flip side of this economic fallacy to make the logical error more apparent:

To say that prices are due to greed is to imply that sellers can set prices by an act of will. If so, no company would ever go bankrupt, since it could simply raise its prices to cover whatever its costs happened to be.

Driving the idea that the “rich” are out to “exploit” the less fortunate is the fact that often the same goods one can buy in a rich suburb are more expensive when sold in the inner cities. Self-proclaimed advocates of the poor will point to this as evidence of malevolent, “predatory” capitalists taking advantage of those who supposedly cannot afford to travel to discount stores. They do not factor into their thinking the fact that any number of causes can affect the price a business charges. Smaller food markets in inner cities both have to order stock in smaller quantities and spend more on security. Thus, of course the prices are going to be higher than at some suburban Costco far away from crime.

1. Profits often go up because a business has figured out a way to make something that's actually at a lower price than someone else.

Sowell declares that profits are the most misunderstood idea in economics. He cites socialists such as George Bernard Shaw and Karl Marx who regarded profits as “overcharge” and “surplus value.” But profits are only half the story in a price-driven economy. The more important other half in Sowell's view is losses:

The hope for profits and the threat of losses is what forces a business owner in a capitalist economy to produce at the lowest cost and sell what the customers are most willing to pay for. In the absence of these pressures, those who manage enterprises under socialism have far less incentive to be as efficient as possible under given conditions, much less to keep up with changing conditions and respond to them quickly, as capitalist enterprises must do if they expect to survive.

Contrary to the idea from the previous point that businesses will raise prices to raise their profits, actually the opposite is how businesses succeed. An entrepreneur who can take an expensive product and figure out how to make it for less (a more efficient use of scarce resources) will enrich the lives of the poor who now have access to it. Where a few decades ago computers were bulky devices available only to the affluent now exponentially more powerful and less expensive cell phones are commonplace amongst those on welfare and food stamps. And in the process the profits for the technology industry have only grown.

That's the hidden pattern that Sowell reveals throughout *Basic Economics*: the more efficiently a society utilizes its scarce resources the more everyone benefits. And humans have yet to find a more efficient system than a free market economy coordinated by prices, profits, and losses.

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