CHAPTER 5 | Economic System

The free market economy - the system of supply and demand at a certain price - has ensured the development of our civilization over the past centuries. Without it, we would still be living in the Stone Age. Especially communists and socialists have tried to crack this system. Central planning of the economy was the magic word. Central planning means that there is a group of people - the now familiar political and administrative elite - who, whether or not on the basis of objective information, determine at some point what and how much of something is produced. The history of this experiment is well known. A centrally managed economy run by bureaucrats does not work. It has been shown that the bureaucrats do not have all the information needed to match supply and demand in such a way that wealth, rather than scarcity, is created. The operation of the free market is based on innumerable subjective choices (that which takes place in the mind of the person concerned), which are not known and the effect of which is not directly measurable. No human being can imitate, with his intellect, the optimal functioning of this system. This experience should have definitively confirmed to us that the free market can only work optimally if entrepreneurs, suppliers, workers, producers and consumers can act together in freedom, i.e. without any form of government interference. Only then will there be a constant balance between supply and demand, as well as price formation. This system requires a high degree of flexibility, especially on the production side. After all, products must at all times meet the needs of the customer. The free market system is therefore, by definition, self-regulating. It is too big and too complex to be managed by the human mind. The economist John Maynard Keynes (1883-1946) had died a few decades before the end of the greatest failed experiment with a centrally managed economy, the former Soviet Union. Miraculously, his ideas that the government could indeed play an important role in the functioning of the free market economy, sometime in the 1970s, have surfaced everywhere. Since then, every pupil in government schools has been taught his ideas without any restraint. Alternative economic visions, such as the Austrian Business Cycle Theory of the Austrian School of Economics, are not addressed. Keynes seems to have advocated that the government would do well, in times of economic headwinds, to use this money to stimulate demand for goods and services in certain sectors of the market. This plea is incomprehensible given the understanding of how the free market economy functions. It is not consumption, but production that creates sustainable economic growth. Our original economy is based on barter. In this economy, either living goods or goods created by human labour were exchanged for something else. Therefore, for there to be an economic activity, something of added value must be produced by labour. This principle still applies today. Money does not change this dynamic. The same goes for the government. Government itself is not a producer of goods nor a provider of services. Incidentally, a truly free market economy has no headwinds, but only proportional shifts in supply and demand between market sectors. These shifts may be caused, for example, by a (temporary) lack of

available factors of production, a saturation of markets or consumer preferences. In principle, the size of the market economy will remain the same. After all, supply and demand will always be in line with each other. In fact, it tends to grow precisely because of the realisation of more efficient modes of production that free up labour and capital. Money circulating in the free market economy as a means of exchange to determine the relative value of goods and services is in the consumer's wallet or in the bank as savings. These savings are available to be lent out to entrepreneurs who want to make investments for longer-term production. It may no longer be easy to accept, but in a truly free market economy there is always enough money in circulation. The communicating vessel forms its purchasing power. If you pump unsolicited new money into this system, it leads first and foremost to an imbalance in the money market. This disturbance returns to the economy in the form of inflation (depreciation) of the underlying currency. It is important to realise that the free market economy by its very nature has a value increasing effect (deflation) on money. Why? Because of innovations. Secondly, the extra money creates an artificial boom in investment and consumption in certain sectors of the market. Namely those sectors to which this extra money flows first. The extra money only leads to misallocation of capital goods and to overconsumption. At a macro-economic level, this is reflected in recessions. A recession is the result of a market trying to recover from a disturbance in its system. We can conclude that since the beginning of the last century, very serious economic recessions have regularly occurred worldwide. If you understand how the free market economy works, it can only mean one thing. Politicians and governments have actively intervened in the free market economy. The evidence is there for the taking. By means of (i) taxes and government spending, (ii) laws and regulations and (iii) the monopoly on money and its issuance through the (central) banking system, the functioning of the free market is structurally disrupted. The political propaganda that reappears with every recession is that capitalism - that is the political-economic system based on private property - and the free market are the culprits. Ignore this and understand that as long as politicians and government continue to intervene in this self-regulating and wealth-creating system, there can be no further sustainable economic growth. Quite the opposite will be true. The free market will come under increasing pressure. Central planning by bureaucrats, including in Western economies, will fill this space. This means that supply and demand will find it more difficult to match each other. Money that has been pumped into the market as a stimulus in astronomical quantities out of nowhere over the past decades will become worth less and less. In the long run, all this can only have one effect, namely scarcity and poverty.