

## The Economics Profession is Utterly Moribund

As a career engineer I always appreciate and often marvel at the progress that science and engineering have made over the past century. We can all recognize the transformations in every major industry; air and auto travel, communications, housing, etc. We can also point to the miraculous progress in the field of medicine. Who might have dreamed that a 10-minute laser operation could painlessly replace an eye lens, or that a surgeon could robotically repair a critical body organ?

Unfortunately, as an outsider to the economics profession, I must ask whether we can say similar (or any) progress has transpired in that field. Why does the economics profession exist? I would like to think the purpose of economists is to aid in guiding monetary policy, government policy and regulations, and business strategies to generally enhance the overall citizenry standard of living and quality of life. Since economists are not engineers, designers, or doctors, they do not directly create the types of marvels and advances noted above. Thus, their role is to recommend policies and offer strategies that would enable the scientists, engineers, and docs to make the most progress possible in the time they have on earth in their respective fields.

To this end one could argue the economics profession is the most inept of all; an abundance of complex mathematic modeling has miserably failed at predicting economic cycles or guiding monetary and government policies to yield successful, balanced conditions. In fact, the disparate schools of thought have been constantly battling each other for more than a century. Those in political power can always point to a self-serving economic theory to rationalize virtually any actions. Of course, the academics of that temporarily favored school are more than happy to oblige, if for no other reason to enjoy receiving a short-term affirmation.

How can rational entrepreneurs and business leaders effectively plan for research and development investments, capital equipment purchases, production schedules, hiring employees, or even purchase materials when they live in an unsound monetary system (fiat currency), and are exposed to constant manipulation of the cost of money (interest rates), debilitating tax policy and regulations, and government overreach?

### Can We First Acknowledge Progress in Select Areas?

Thanks to some early visionaries there are some basic theories and principles that have been established in all professions universally. For example:

#### Engineering and Science:

1. Force=Mass x Acceleration
2. Energy=Mass x Square of the Speed of light
3. The earth is spherical in shape; i.e. not flat!

#### Medicine:

1. **DNA** (deoxyribonucleic acid); knowledge of DNA's chemical structure allowed scientists to understand for the first time how DNA replicates itself and passes information from one generation to the next.

2. Vaccination; use of a small planned exposure to a virus can prevent a debilitating or deadly illness.

### **Economics:**

1. Adam Smith's "Invisible Hand"; he saw the market system acting as an "invisible hand" which leads people to unintentionally promote society's interests while pursuing their own.
2. David Ricardo's Comparative Advantage; Ricardo demonstrated that for two nations without input factor mobility, specialization and trade could result in increased total output and lower costs than if each nation tried to produce in isolation.

### **Why is the Economics Profession Moribund?**

Most economists today cannot agree on the most basic fundamental tools (theories and definitions) within their field. If I spent 90% of my time arguing with a German engineer whether Force equals Mass times Velocity or Acceleration, or that the earth is in fact not flat, we would likely never make progress as a team or build from the work of another engineer who subscribed to some other basic engineering theories and definitions. In the medical field we would likely still have witch doctors conducting our medicinal services without ever having a fundamental basis of theories and definitions from which to build and advance research projects.

### **Can We Start With a Few Definitions?**

In any field it is critical that some fundamental definitions are established and broadly accepted as credible. It is from that basis that advanced schools of thought will develop. If two economists cannot even agree on the definition of the word **inflation**, for example, they will predictably build logic and models that must project wildly varying expectations and behaviors.

Below is an attempt to identify the diversity in definitions of some basic economic terms, then I will suggest in each case a "common sense" Austrian Economic definition for each term with explanations that might offer a starting point. If each economic school maintains its own slant on basic definitions, we can rest assured the profession will **NEVER** build into an advanced platform or philosophy worthy of use.

**Economics** (yes, even the definition of this word is as disparate as black and white!)

#### **Historical Definition:**

*The branch of social science that deals with the production and distribution and consumption of goods and services and their management.*<sup>(1)</sup>

#### **Austrian Economic Definition:**

*"Economics is a science which studies human behavior as a relationship between ends and scarce means which have alternative uses."*<sup>(2)</sup>

So, here we have a complete "apples and oranges" diversity in the definition of the field itself! The Austrian Economic definition is:

**Austrian Enginomics Definition:**

The branch of social science that deals with the production, distribution, and consumption of goods and services and their management, caused by individual human preferences.

The logic here is to create a comprehensive solution that states the obvious (...deals with the production, distribution, etc...), and also recognizes that human motivation and preferences drive all economic activity. I strongly embrace nearly all of the Austrian Economic Theory, but am inclined to offer some variations. In this case the Austrians say economics is not about production and consumption. This scope of the definition is a very difficult sell to any laymen.

**Money****Common definition:**

*Money is any object or record, that is generally accepted as payment for goods and services and repayment of debts in a given country or socio-economic context.<sup>(3)</sup> The main functions of money are distinguished as: a medium of exchange; a unit of account; a store of value; and, occasionally, a standard of deferred payment.<sup>(3)</sup> Any kind of object or secure verifiable record that fulfills these functions can serve as money.<sup>(3)</sup>*

**Austrian Economic Definition:**

*Money is the general medium of exchange, the thing that all other goods and services are traded for, the final payment for such goods and services on the market<sup>(4)</sup> ... or...*

*Money is the most marketable commodity<sup>(5)</sup>.*

**Austrian Enginomics Definition:**

Same as the Austrian definition: "Money is the most marketable commodity"<sup>(5)</sup>. Fiat currency should not be regarded as money. Never in recorded history has a fiat currency stood the test of time. They have all eventually led to a worthless and often catastrophic end.

**Inflation****U.S. Department of Labor's Bureau of Labor Statistics (BLS) Inflation definition:**

*The overall general upward price movement of goods and services in an economy.*

**Austrian Economic Definition:**

*"An increase in the supply of money that outruns the increase in the supply of goods."<sup>(6)</sup>*

**Austrian Enginomics Definition:**

An increase in the supply of money and credit relative to the output of goods and services.

How can we have a meaningful discussion if one group believes inflation is an “...upward price movement...”, another group says “...an increase in money and credit...”, and yet another says an increase in asset prices (e.g. stocks, bonds, or real estate).?

The most fundamental question regarding inflation is: What actually inflates? Does a house or car or hot dog inflate? ...Of course not. Might these goods or services change valuations and subsequent prices relative to each other? Of course, but that would not be inflation; it would be a change in individual human preference. If a tepee is worth 500 coconuts one day, then 600 coconuts the next day where no work was expended to change the tepee, the tepee did not inflate! It simply increased in value to an interested human relative to the devalued coconuts.

What actually inflates in today’s magical kingdom of economics? It’s the money and credit. If the collective banking system (central, commercial, and investment banks) expands money and credit relative to goods and services, it is the money and credit that inflate. Subsequent increases in the general price levels of goods and services due to the inflation of money and credit is the **result** of the banking system’s actions.

## Tax

### **Classical Definition:**

A charge usually of MONEY imposed by authority on persons or property for public purposes. <sup>(7)</sup>

### **Austrian Economic Definition:**

Hans Hoppe's explanation of taxation as "a coercive, non-contractual transfer of definite physical assets <sup>(8)</sup>... or...

Payments that the government exacts under the threat of invading the taxpayer’s property. Voluntary payments to the government are not taxation. <sup>(9)</sup>

### **Austrian Enginomic definition:**

The actual level of direct or indirect labor and natural resource utilization authorized by government whether those resources are government employees, contractors of government work, suppliers of food, medicine, capital goods, or etc., to fulfill a government purpose. <sup>(10)</sup>

Characterizing “Real Tax” as a labor and natural resource allocation is unique to Austrian Enginomic theory. Please refer to the “What is the Real Tax?” <sup>(10)</sup> article referenced below.

## **Conclusion:**

The economics profession is arguably the most inept of all in its ability to universally establish a few common-sense, *a priori* definitions from which constructive, useful theory may be developed. Hence, all other professions are challenged to advance **in spite of** the damaging blows and boat anchors thrown at them from modern day economists. Economists from the Austrian School are the only ones who correctly anticipated and warned of America’s first Great Depression. Today, many Austrian economists are expecting the same outcome very soon for

precisely the same reasons they predicted the last depression; massive malinvestment and asset bubbles due primarily to Central Bank monetary policy and the absence of a sound money system. Should we finally listen?

By Russell M. Randall, 2-25-2011

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