How Economic Progress Is Made

RANDALL G. HOLCOMBE

The remarkable prosperity that people in capitalist economies enjoy at the beginning of the twenty-first century ranks at the very top of all achievements of human civilization. This prosperity is all the more remarkable when one realizes that the economic progress that has produced it dates back only a few hundred years. Prior to the Industrial Revolution, economic progress was so slow that people would not have been able to recognize it in their lifetimes, whereas today, such progress is so much a part of people’s lives that they take it for granted.

Economics as an area of inquiry has advanced along with the development of the economy, but in many ways the economy described by contemporary economic theory is not the same as the real-world economy that the theory should describe. Economic analysis, as it has developed through the twentieth century, is now heavily oriented toward understanding the properties economic equilibrium, and is not descriptive of the dynamic real-world economy that is characterized by economic progress.

The equilibrium approach views the economy as tending toward a stable equilibrium outcome, rather than describing a process of continuing economic progress that characterizes modern capitalism. The idea that people’s lives are improved more by economic progress than by moving toward that efficient equilibrium is foreign to the equilibrium approach. The entrepreneur—the central cause of economic progress—is ignored in the equilibrium approach to economic analysis. Instead, modern microeconomics depicts a competitive equilibrium as the benchmark for economic efficiency, and analyzes how economic policy can move an economy toward that equilibrium. This is done by correcting externalities, producing public goods, or controlling monopolies. For example, antitrust policy often attributes profits...
to monopoly rather than to innovation, penalizing innovative firms and slowing economic progress. In macroeconomics, stabilization policies work against progress by using monetary policy to interfere with price signals (mainly by manipulating interest rates) which are—as Austrian business cycle theory shows—destabilizing rather than stabilizing.

In macroeconomics, the goal is a full employment equilibrium with low inflation. But as in microeconomics, the idea of economic progress is largely absent. Even in more complex economic models, the focus is on income growth, and not on the entrepreneurial forces that generate economic progress. In the real world, however, prosperity is produced not by income growth, but by the introduction of new goods and services and new production processes. Income growth in itself cannot explain economic progress because there are limits to how much more food, or how many more horses, people will demand. Progress is able to occur when people are able to augment horse-drawn travel with automobiles, rail travel with aircraft, telegraphs with telephones, land lines with mobile phones, and wood-burning stoves with microwave ovens.

An entrepreneurial economy has a natural tendency to generate more entrepreneurship, partly because entrepreneurs provide examples to potential entrepreneurs, but mainly because entrepreneurial activity opens up new entrepreneurial opportunities. Obvious examples would be the opportunity to provide automotive services as a result of the innovation of the automobile, and the opportunity to provide digital content as a result of the microprocessor-led development of computing devices. Yet these developments which are central to economic progress are almost always omitted from the economic models economists use to describe the economy.

Much insight has come from the equilibrium models of the twentieth century, but too much economic research is devoted to understanding economic models which have little to do with real-world economic phenomena. The market-process approach of the Austrian School, on the other hand, offers a better method of analysis for understanding how the modern capitalist economy actually works.

My new book, *Producing Prosperity*, calls for a shift in the focus of economics. In the eighteenth century, the primary focus of economics was on how wealth is created, which is clearly shown in the title and the text of Adam Smith’s *An Inquiry into the Nature and Causes of the Wealth of Nations*. Since Smith’s day, the focus of economics drifted away from wealth creation toward other issues, and in the twentieth century, toward understanding the properties of economic equilibrium. *Producing Prosperity* argues that the focus of economic analysis should turn toward the big issue in eighteenth-century economics: Namely, producing prosperity.

To accurately represent real-world economic processes, economics should build on the work of Austrian School scholars who focus on factors such as entrepreneurship, wealth creation, and innovation which lead to an economy that is characterized by progress. This would make economic analysis much more consistent with the remarkable real-world progress and prosperity that characterizes the modern economy.
The Houston Mises Circle

The Mises Circle in Houston, sponsored by Jeremy and Helen Davis on January 26 was an enormous success with 600 attendees and more than 2,100 viewers online from 80 countries. Over 100 students received scholarships to attend the event. The Mises Circle followed the Mises Institute’s seminar for high school students on January 25, where 80 high school students and 700 online viewers learned from Peter Klein and Robert Murphy about the basics of free markets and the Austrian School. Writes Cheryle Cooper:

“I am writing to rave about the recent Mises Circle that I attended in Houston, Texas on Saturday, January 26, 2013. I enjoyed all of the speakers—(Bob Murphy was especially a riot!)—and I was very much encouraged by what each of them had to say. . . . It was wonderful to meet others (particularly so many young people) who are energized and knowledgeable of Austrian economics. It was an honor for me to meet Lew Rockwell for the first time, who I found to be so gracious and generous in taking the time to meet many of us. I also appreciated the abundance of excellent books from the Mises bookstore. As a homeschooling mom, I am teaching my high school junior all about Austrian economics and why it matters. We also plan to read Henry Hazlitt’s Economics in One Lesson, this term. Of course, it is always a treat to hear the wisdom and truth of Ron Paul.”

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Paul Cantor on Artists and Alien Invasions

The Free Market interviews Paul Cantor about his book The Invisible Hand in Popular Culture: Liberty vs. Authority in Film and TV, newly available from The University Press of Kentucky.

TFM: In Invisible Hand, you spend a bit of time explaining how film and TV are a collaborative process and not the product of any one artist. Why is this important to your view of popular culture?

PC: Many people who condemn pop culture and dismiss it as artistically worthless dwell on the fact that films and television shows are almost never the products of a single artist working on his own. It is therefore important to show that many of the great works of high culture grew out of a collaborative process too. There is nothing about cooperation in artistic creation that precludes high quality. Too many cooks may spoil the broth, but they may also each add a distinctive flavor and work together to bring the recipe to perfection. The processes of synergy and feedback work in popular culture just the way they do in other areas of human endeavor. This is all part of my defense of popular culture—to demonstrate that the conditions of production in film and television are not necessarily incompatible with artistic as well as commercial success.

TFM: In reading your chapters on UFO movies and Westerns of the 1950s and 60s, the important role of intellectual and political elites is emphasized in many cases. Do these same themes persist today?

PC: In later chapters, I show that many contemporary television shows express a fear of technocratic elites taking control of the lives of ordinary Americans. This is the hidden theme in many alien invasion narratives—a technologically advanced civilization shows up and asks Americans to surrender their freedom in exchange for all sorts of material benefits. In V, the aliens specifically promise universal health care, clean energy, and vast public works projects. Even the press picked up on the resonances with President Obama’s campaign promises. And of course no show does a better job than South Park of exposing the hypocrisy and pretensions of elites in America, especially in Hollywood.

CONTINUED ON PAGE 5
The article “The Oslo Housing Bubble Syndrome” by Senior Fellow MARK THORNTON was featured on the front page of the Norwegian Financial Times. From the article (translated): “In the U.S., Thornton is known to have warned in 2004 about the collapse of the U.S. housing market.” Dr. Thornton, along with Austrian economists and Mises Institute Alumni MALAVIKA NAIR and G.P. MANISH, were recently featured in The Economic Times of India. According to the article, “[t]he [Austrian] school, which originated in fifteenth-century Europe, believes that every individual plays a role in shaping a society and the economy is driven by entrepreneurial spirit, not by bloated, debt-ridden governments doling out subsidy cheques.” MALAVIKA NAIR, a former Mises Fellow and Ph.D. student of Austrian economist Ben Powell at Suffolk University, will be taking a position at Troy University in Fall 2013. There she will be joining the Economics Department and the Johnson Center for Political Economy as a tenure track faculty member.

The Congressional testimony of Senior Fellow JOHN COCHRAN was revised and published in the Indian Journal of Economics and Business in December 2012, titled “Fractional Reserve Banking and Central Banking as Sources of Economic Instability: The Sound Money Alternative.”

The sequel to Defending the Undefendable by Senior Fellow WALTER BLOCK will be available later this year under the title Defending the Undefendable II: Freedom in all Realms. Dr. Block co-authored an article with Robert Schuldt and Davis Woodall in the journal Humanomics titled “Drowning the Poor in Excessive Wages: The Problems of the Minimum Wage Law.” Dr. Block also co-authored with José Antonio Manuel Aguirre Sotelo, “Indifference Curve Analysis: Beyond Simplifying Assumptions” in the Fall 2012 Journal for Economic Educators.

CHRISTOPHER WESTLEY, former Mises Fellow, and Mises Institute Associated Scholar and Professor of Economics at Jacksonville State University, presented “Economic History as Micro Phenomenon” at the Asia-Pacific Economic and Business History Conference in Seoul, South Korea in February this year.


EDWARD STRINGHAM, Mises University Alum (‘96, ‘99) and Professor of Economics at Fayetteville State University, has created the Economics Music Video Contest. Students are invited to produce a music video on the topic “Economic Value is Subjective.” The contest is open to students nationwide and the winner will receive $2,500.

Mises Fellow (‘11) ABHINADAN MALLICK recently completed his M.Sc. in Economics from Birkbeck College at the University of London. Mallick, who also has a master’s degree in theoretical physics, titled his M.Sc. dissertation “An Essay on the Theory of Price: A Modern Reconsideration of the Contributions of Böhm-Bawerk and the Austrian School.” (January 2013.)
PAUL CANTOR
CONTINUED FROM PAGE 3

TFM: You dedicated your earlier book, *Gilligan Unbound*, to your VCR, which is now antique technology. How has the process of analyzing pop culture itself changed over the past decade?

PC: DVDs and DVRs have changed not just the way pop culture can be analyzed; they have changed the way it can be viewed in the first place. We can now read films and television shows the way we’re used to taking in books. We can view films and television shows at our own pace, pausing over moments we really like, and returning to points we might not have comprehended at first viewing. This allows creators of film and TV series to risk levels of complexity they never felt comfortable with before. That’s why we’re getting such convoluted and sometimes borderline-incomprehensible shows on TV today. And of course when it comes to analyzing these shows, DVDs and DVRs are a godsend. I don’t even want to think back to how difficult it was to rewind and fast-forward videotapes when I had to search for particular passages while writing *Gilligan Unbound*. Now I can find any scene I need in seconds. And DVDs often contain supplementary material that is a scholar’s dream. Interviews with writers, producers, and actors sometimes confirm one’s take on a given show. I often ask myself: what did scholars ever do for the entertainment business to deserve this kind of help from it? Deluxe DVDs with bonus material are among the most scholarly artifacts our civilization has ever produced. And no government planning was involved. For purely commercial reasons, the market simply generated archival material that should be the envy of any academic or government institution.

TFM: In *Invisible Hand*, you note that after 9/11, many commentators—who hold a more positive view of the nation-state than *The X-Files*—gloated at the possibility that 9/11 had killed *The X-Files*’s cynical approach to the nation-state. Yet—to paraphrase a line from another sci-fi franchise—could we say that the death of *The X-Files* has only made it more powerful?

PC: I’m not sure that *The X-Files* has become more powerful since it went off the air. After all, at its peak it had high ratings and an even higher profile in our culture. Still, it’s worth noting that the widespread prediction that *The X-Files* would drop off the cultural map after 9/11 has proven to be wrong. In the last part of my book, I argue that *The X-Files* still has much to tell us about the War on Terror and the assault on civil liberties in the United States. And in my last chapter, I show that *The X-Files* gave birth to all the alien invasion narratives that have proliferated on television since 9/11. *Fringe*, for example, is about rogue FBI agents, government cover-ups, mad scientists, paranormal events, the mysterious abduction of a child, and attempts by sinister forces to penetrate U.S. borders. How close can you get to *The X-Files* before you get sued? It may still be too early to tell, but it appears that Scully and Mulder have become permanent features of our cultural landscape.

TFM: While Hollywood clearly has a reputation as a place sympathetic to leftist and social democracy, there are a few shows with overtly libertarian themes. *Deadwood* is one, and *South Park* is another. You deal with both in your book. What do you think the success of these shows tells us about Hollywood and the viewing public?

PC: I won’t give away any secrets, but my sources tell me that there are a number of closeted libertarians in Hollywood. *Fringe* became overtly libertarian in its fifth and final season, even changing its “flash cards” in its opening credits to emphasize libertarian themes. Can you believe that the show spotlighted “ownership” in its opening catalog of the fundamental principles of human existence? Even when Hollywood isn’t operating with the full-fledged principles of Austrian economics (which, admittedly, is almost all the time), there is a good deal of what might be called “left libertarianism” in films and television shows. Creative artists often have an instinctive grasp of what freedom entails, and died-in-the-wool libertarians should be prepared to make common cause with such potential fellow travelers. As for the viewing public, it still responds to films and television shows that champion freedom. That is one of the central themes of my book. The American tradition of independence and self-reliance may no longer be as strong as it once was, but it has not died out. Thus the public continues to exert pressure on the entertainment industry to come up with visions of freedom. This is especially true in the case of science fiction, which is why my book dwells so much on flying saucers, alien invasions, and parallel universes. It doesn’t hurt that, when it comes to shape-shifting aliens, I’m still a little kid at heart, but I hope that I’ve found an intellectual and libertarian justification for my incurably adolescent taste in films and especially TV shows. People are always telling me to watch *Downton Abbey*, and I ask them: “Does it have a libertarian vampire in it?”

Paul Cantor is Clifton Waller Barrett Professor of English at the University of Virginia, and is an Associated Scholar of the Ludwig von Mises Institute.
Luddy: Business Owners Pessimistic

Entrepreneur and Mises Institute Donor BOB LUDDY was a recently-featured columnist for the Job Creators Alliance (JCA). Luddy, who has appeared on programs like Cavuto and The Stossel Show, noted that a recent JCA survey of 600 business owners suggested a grim future for many businesses. Luddy’s column (which was also featured in US News and World Report online) notes:

A key data point in the poll was small business owners’ overwhelming belief that the environment in Washington is becoming more hostile toward free enterprise, and also that they are pessimistic about the future.

It is audacious for the Federal Government to ask Small Business Entrepreneurs to pay a little more. Instead, I say let the Feds live on a whole lot less. And by the way, the pessimism crossed party and gender lines...

Ludwig von Mises clearly stated: “Entrepreneurs are [the] best capital allocators and bureaucrats are the worst…”

Mr. Luddy is a recipient of our Entrepreneurs Medal, founder of a very successful small company, and an Institute benefactor. Most recently, he is endowing a chair at the Institute in honor of the late BILL PETERSON, colleague and friend of Ludwig von Mises’s at NYU, famed teacher of the free market, and benefactor of the Institute.

“Entrepreneurs are those who are especially eager to profit from adjusting production to the expected changes in conditions, those who have more initiative, more venturesomeness, and a quicker eye than the crowd, the pushing and promoting pioneers of economic improvement.”

Ludwig von Mises
The cause of liberty and the Mises Institute in particular lost some very good friends. We mourn the passing, but celebrate the lives and achievements, of these great men. Their far-sighted concern for the future of freedom will always inspire us:

**Dr. Frank T. Kurzweg**

Dr. Kurzweg, a graduate of Harvard Medical School who trained at the Mayo Clinic, passed away on December 9, 2012. He was 95.

Dr. Kurzweg, his wife Harriet Britt Kurzweg, and his family have been generous Mises Institute supporters for many years. Their gifts have made possible academic facilities at the Mises Institute Campus, as well as fellowship opportunities for students and faculty. The Kurzweg Prize “for the defense of liberty, property, and personal responsibility,” is awarded in their honor each year.

**Mr. H. George Resch**

Mr. Resch passed away on December 12, 2012. He was 78. David Gordon wrote about Mr. Resch:

“Few persons have done as much as George Resch to advance libertarian scholarship. He was a protégé of the outstanding libertarian thinker F. A. ‘Baldy’ Harper and worked with Harper at the William Volker Fund. While working there, he became part of Murray Rothbard’s inner circle.”
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