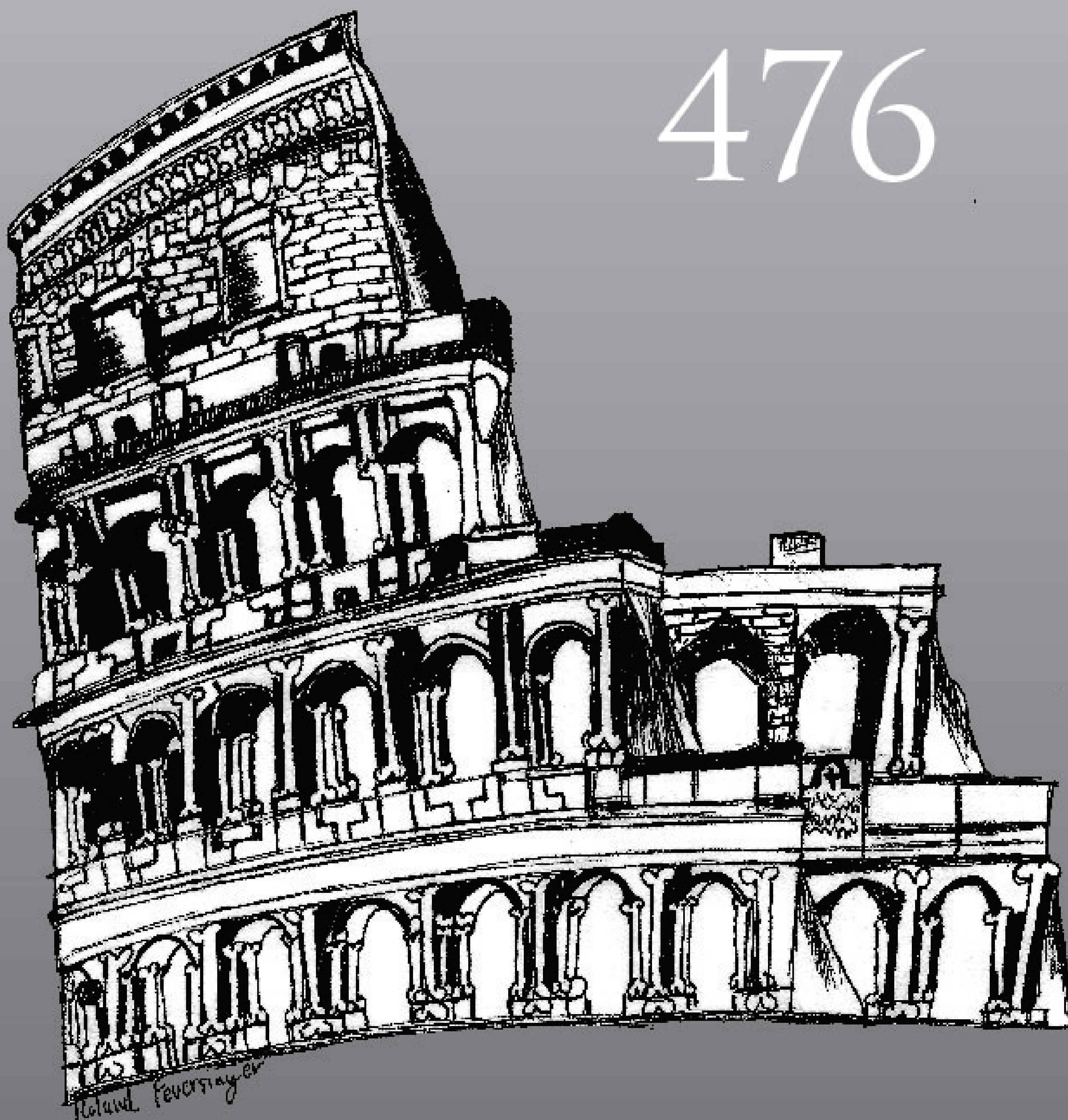
Rome 476



David Parker Essays

Volume Three

Rome fell in 476.
With it Western civilization, civil rights, scientific and technological progress. Followed by the Dark Ages.
One thousand years.

Why did Rome fall?
Because its soldiers didn't lift a finger to stop the Huns.
Why? Those soldiers hadn't been paid.
Why? All tax revenue went to service interest on the debt.

B. Business and Economics

The Corporate State

Brer Rabbit says to Brer Fox, who finally caught him, "Oh, please, please, please, please, whatever you do, don't throw me in thet briar patch!"

Of course, country Fox throws crafty Rabbit into the briar patch.[12]

Today, large corporation Brer Rabbit pleads with progressive government Brer Fox, "Oh, please, please, please, please, whatever you do, don't regulate me!" Progressive fox, of course, is unaware that crafty rabbit *wants to be regulated*. Why? Because massive regulation, Sarbanes–Oxley/Dodd–Frank, is so expensive, millions of dollars just in legal fees per year, that only large corporations with their low, long-run average costs (economies of scale) can afford to comply—then gobble up the small firms that cannot.

Having created monopolies, a nation without competition, government now orders those few monopolies to do its bidding: raise prices above market and give the excess profit to government (as taxation). Government then distributes that money to every citizen—as complete social services: health insurance, pension, education, college education, unemployment insurance, cultural access to the nation's great theaters, concert halls, fine restaurants and tourist attractions.

Those ten surviving corporations have what they want: monopoly; government has what it wants: high tax revenue (to pay for public services); citizens have what they want. Except, to receive those public services, citizens gave government what government really wanted: their political freedom. In sum, the corporate state.

Conceived by Otto von Bismarck in Germany, 1870, the "corporate state" is how strong-arm governments remain in power:

[12] *The Chandler Stories*, like *Huckleberry Finn* (America's second-greatest novel), are no longer taught in the nation's public schools. With their rural 1850s Southern dialect, those authors are politically incorrect.

National Socialism. In the 1920s, communism—socialism from the Left: Lenin, Stalin. In the 1930s, fascism—socialism from the Right: Hitler, Mussolini. Today, Putin, Xi. The abbreviation for National Socialism is NAZI.

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The very purpose of a firm is to incorporate elements of production under one roof. It's cheaper than jobbing those elements to other companies (or other countries). In economics, theory of the firm.

Firms also incorporate to obtain liability protection for their owners—from lawsuits that would otherwise extend to owners' personal assets: home, pension, children's college funds. In England, corporations are "limited liability companies," Ltd; in France, "sociétés anonymes," S.A.; in the U.S., "incorporated," Inc.

The goal of every business is to produce a well-made product. And provide income to owners and employees. Except, in a competitive market economy, profit is zero: efficient-market hypothesis, the notion that as new firms rush in whenever profit rises above zero, that competition returns profit to zero. Throw a dart at the stock market page: the return is the same for all firms. The moment any firm's profits rise, professional investors rush in and buy. When traffic backs up on the freeway, the moment one lane begins to move, cars jump in such that there was no profit in changing lanes. Karl Marx's greatest error: the idea that there is profit to distribute to workers (if they owned the means of production). Error also because workers are not interested in running a business, a difficult skill to acquire. They care about their paycheck—plus, unions would never let workers forgo their weekly paycheck for a percentage of the firm's yearly net income, even if that amount were twice their salary.[13] Asking workers to run a business is like asking stagehands to play in the orchestra—what citizens in

[13] Unions have convinced workers not to fall for that trap: "Put in a day's work; get paid!"

communist countries traded their political freedom for: a dream. Then, watched their nation return to the Middle Ages.

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What about B corporations—corporations that devote a portion of their profit to worthy causes? Again, Marx's error: there is no profit to distribute. Corporations would have to raise the price of their products—and risk being driven out of business. No free lunch. Milton Friedman was correct when he said firms should stay focused on earning a profit. In a competitive economy, they should not get sidetracked with charitable work. Of the top 100 firms on the Dow Jones Industrial Average in 1961, three exist today. If they wish to contribute, as individuals, employees and owners should choose charities and causes of *their* choice, not the firm's choice.[14]

The Five Laws of Economics

There are only five laws of economics. None evident, all counterintuitive. Abstracted from a universe beyond our grasp, the subject of economics is difficult.

Law One: Comparative Advantage
Nations should produce according to their comparative, not absolute, advantage.

The wise merchant-philosopher, Solon, told 6th century Athens: Stop farming! You have the best farmers but the worst soil. You're wasting your time. Produce olive oil (anyone can plant olive trees), put it in painted pottery (created by your excellent artists), and ship it everywhere (in your highly developed shipping industry). *That* is your comparative advantage. You know how to farm, but

[14] Firms contributing to causes: marketing. Firms diversifying their employee base: marketing. Firms adjusting to climate change: marketing.

farming is your *absolute* advantage (which isn't an advantage). Greece earns ten dollars an hour producing and shipping pottery, whereas farming nations in the region earn one dollar an hour. Continue farming, and Athens loses nine dollars an hour, a stiff opportunity cost, whereas Athens' trading partners, at one dollar an hour, lose nothing. They're not competing with Athens; they're not losing the opportunity to paint and ship pottery.

Comparative advantage is the ability to produce a good or service at a lower opportunity cost than another person or country.

Athens followed Solon's advice. Genius. It allowed 5th century Athens to flourish. No longer producing everything themselves, Athens now traded for everything. Throughout the Mediterranean, goods and services were produced at their lowest price, standard of living rose for *all* nations. Athens became rich.[15]

The region's best artists and businesspeople flocked to Athens. Trade and commerce developed to an extraordinary level. And then, by miracle, Athens developed the notion of individual rights, Western civilization, the idea that the rights of the individual precede those of the state.[16]

Everything we know today about art, architecture, science, mathematics, literature, poetry, philosophy, politics, and democracy started or was outright discovered in 5th century Athens. Everything around you, every building, road, theater, museum, university, scientific research facility, institution of democracy you owe to 5th

[15] If imposing tariffs destroys the benefit of producing according to comparative advantage, why do nations do it? Because populist politicians win elections saying they will protect jobs by imposing tariffs on foreign goods, and progressive politicians win elections by saying they will spend whatever it takes to cure the nation's problems—which guarantees that *all* citizens will pay higher than market prices for *all* goods and services. In other words, when nations lose jobs, it is because they no longer have the comparative advantage. Or, throwing money at social problems is never the solution.

[16] Western civilization means that the needs of the community do not precede the rights of the individual. If you live in the West and disagree with that, leave. You have no business trying to turn the West into something else. That philosophic leap, East to West, was an evolutionary step forward for humankind.

century Athens (plus modern government to 1st century Rome and contemporary social, political and economic freedom to 18th century Britain, Scotland, France and America).[17]

Law Two: Marginal Utility Theory

Another economic principle based on relativity is marginal utility theory: the notion that all economic decisions are based on an individual's perception at a moment in time—in relation to how much of something that individual already has. Marginal utility means that all decisions, economic or not, are subjective.

As Solon told Athenians to forget what they did in the past, so, too, marginal utility theory says forget about what happened in the past. At a moment of decision, "at the margin," the past is irrelevant. If you flipped a coin 50 times and it came up heads 50 times, what are the odds the next flip will be tails? An irrelevant question. At the next flip, the odds are what they were at *each* of those 50 flips: 50–50.[18]

Marginal utility is the amount of added utility gained from an additional unit increase in consumption of a particular good.

Related, the principle of diminishing marginal utility says that the greater the consumption of some good or service, the smaller the increase in utility from an additional unit consumed.[19]

Value (of anything) is determined "at the moment." Why? Because value is subjective, different for everyone. The value of a

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[17] Postmodernist multiculturalists, wishing to create inclusiveness, preach that 5th century Athens, 1st century Rome, 18th century Age of Enlightenment, i.e., Western civilization, is only one of the world's many cultures—and that public schools better teach those other cultures and economic systems, socialism, for example, which today they do. It bodes badly for the free world.

[18] A minority population debating whether to leave a country where they have been badly treated is still making a decision at a moment in time. To stay because they feel their nation owes them something, reparations, is a mistake (unless they really believe they're going to get a big check) if their future is better elsewhere.

[19] A restaurant offers another pizza "on the house." "Oh, no more, please. I can't eat another bite." The pizza has no value to that diner (unless he can sell it, in which case it has exchange value).

glass of water, removed from a moment in time for a particular person, is unknowable. Value is not objective.

At home (with running water), a glass of water has little value. In Death Valley, 110 degrees, empty thermos, dying of thirst, that glass of water is worth the diamond ring on your finger. Twenty-five hundred years ago, Aristotle couldn't figure out this famous "diamond–water paradox." Two hundred fifty years ago, Adam Smith couldn't figure it out. In 1871, Carl Menger did: value is not objective; value is *subjective*, in relation to how much one has "at the moment." It's different for every human being.[20]

Law Three: Price Is a Function of Supply and Demand

When demand for products rises and supply doesn't, price rises. Pent-up demand for goods and services from consumers (demanders) not spending during COVID-19 lockdowns (2020 and 2021), along with supply backed up from producers (suppliers) closing their factories, caused prices to rise in 2022. That's not inflation! That's supply and demand.

Inflation is government increasing a nation's money supply at a rate faster than the rate of increase of the nation's population.[21] Government payments to citizens suffering loss of income during COVID-19, by printing money but not asking citizens to repay it via a permanent line-item on their federal 1040 income tax return for 20 years, cause inflation. Producers, believing the nation's price rise stems from a genuine increase in demand, increase production—

[20] Income inequality exists because every human being values money differently. The notion of economic justice is pure nonsense. Had Karl Marx understood marginal utility theory, he would have remained an economist, and 100 million people wouldn't have died fighting for or against communism. He wouldn't have written the *Communist Manifesto*. Unfortunately, Marx thought the value of a good or service was the value of the labor and material that went into its production: "labor theory of value." Absolutely wrong. Value is a function of supply and demand. Adam Smith was correct about everything he wrote except that he, too, believed the labor theory of value, the one thing Marx took from him (instead of everything else), believing that the higher the product's price, the higher labor should be paid, that workers should be paid well enough to purchase what they produce, that a worker making Cadillacs should be paid three times a worker making Fords, even though the work is exactly the same.

[21] Increase the money supply 3 percent when the population increased 2 percent: inflation!

until they realize the rise in price was not from a genuine increase in demand, then, fire their workers. Recession.

American health care is a perfect example. Medicare gives citizens (patients) a level of health care way beyond what they're asking for.[22] Remove citizens from negotiating price, as Medicare does, and the market disappears. Government intervention in health care killed that market—why health insurance in the U.S. today is simply prepaid health care. Citizens pay between $1,200 and $2,000 a month for health insurance, when prior to Medicare and Medicaid, health insurance was the price of auto insurance, about $200 a month ($50 for a young person). Americans would be better off receiving that $1,200 to $2,000 differential each month in cash, paying $200 for health insurance, and depositing $400 into a medical savings account to pay for routine care. After a $5,000 deductible, insurance would kick in (although $400 a month multiplied by 12 is $4,800). Health insurance would return to what it once was for: major medical.[23]

The law of demand states that the quantity of a good demanded rises as its price falls (and drops as its price rises).

When government intervenes in a market, hands out huge sums of money for COVID-19 relief, hands out enormous health coverage, consumers will be indifferent to what things cost. Remove consumers from price negotiation, the market fails—why socialized health care costs three times what it should.

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[22] The last six months of life alone may cost $500,000. If that means wiping out your personal savings, leaving nothing for your children or grandchildren, most Americans would not spend that money. But, since it's paid for, who cares? My father always checked the bill at the restaurant, yet walked into a hospital during his last years and declared, "Take care of me. I don't care what it costs!"

[23] Do the math. Keep that $12,000–$24,000 differential every year. At the end of your 40-year career, you will have $480,000–$960,000 in cash in the bank. You could have bought a couple of apartment buildings. When you retire, with those loans paid off, the rent is your pension, $60,000 a year (6 percent on a one-million-dollar building). Plus, had you been allowed to keep your 15 percent Social Security contribution (7½ percent + 7½ percent) $7,500 a year if you earned $50,000 a year over a 40-year career, there's another $300,000.

Law Four: The Law of One Price

There is one price in the world.

Competitive markets guarantee there is only one price in the world: its lowest. With profits pushed to zero, what competitive markets do (efficient market hypothesis), the degree to which the price of a particular good or service is higher in one country is the degree to which that country's government intervenes in the market. Price is higher because risk of doing business there is higher.[24]

Entrepreneurial compensation is another matter. CEO salaries of $100 million a year (also for nonprofit corporations) in efficient markets are still at their lowest. An expense to a firm, a reduction in profit, those salaries are carefully calculated: as a percent of the increased revenue (or stock price) a particular individual personally generates. Professional athletes' salaries are similarly determined. Remove Steve Curry from the San Francisco Warriors' lineup and the extent to which attendance drops, ticket prices drop, revenue from radio and television broadcasting drops—*that's* Curry's salary: 50 percent of the drop. Fifty million dollars.

The notion of "one price in the world" is part of a larger concept, the idea that rates of return on capital are timeless: for 4,300 years, since Babylon, 1–2 percent on savings (what banks pay for deposits); 2–3 percent on mortgage lending (what borrowers on real estate pay for a loan); 3–5 percent on venture capital (what investors

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[24] Most of the world's currencies (2022) are undervalued—because the dollar is too strong. On the Big Mac index (created by *The Economist*), a Big Mac costs £3.69 in Britain and $5.15 in the U.S. The implied exchange rate is 0.72 (3.69/5.15). The difference between this and the actual exchange rate, 0.83, suggests that the British pound is 13.8 percent undervalued [0.72/0.83 = 86.2 percent]. Undervalued would mean that Britain is intervening in its economy, but since *all* the world's currencies are undervalued compared to the dollar, it means the U.S. government is intervening in its economy—increasing the nation's interest rate. The rate of return on U.S. treasuries (2022) is now twice that of the euro, three to four times that of the yen. To purchase U.S. treasuries, the whole world is competing to acquire dollars, hence, its price is pushed up.

The Economist created the Big Mac index as a fast way to compare the price level of a common good or service (or a similar basket of goods and services). The index is based on the theory of purchasing-power parity, the notion that in the long run, exchange rates should move toward the rate that would equalize the price of an identical basket of goods and services in *any* two countries.

pay for money, higher because risk is higher). Those rates are a function of the time value of money, what the market will pay for the use of capital.[25]

In Babylon, where property lines were recorded on clay tablets, owners could borrow against their real estate. Those mortgages were then sold on the secondary market (collateralized mortgage obligations), what Fannie Mae does: purchases mortgages that banks make to homeowners—which puts money back into the banks for them to make more loans. President Bill Clinton pressured Fannie Mae to purchase loans from borrowers who didn't really qualify: subprime loans. Clinton thought every working American with good credit should have a home (what a progressive would think). When borrowers defaulted on those loans (what a conservative would predict), that created the 2008 financial crisis, which lasted ten years. As Franklin Roosevelt caused the ten-year Great Depression (in 1933, forcing the New Deal onto the nation when the depression of 1929–1932 was over), Bill Clinton caused the Great Recession (pressuring banks to make bad loans when it wasn't necessary). Both presidents, progressives, wanted government to help the less fortunate. Conservatives and the Supreme Court warned them not to.

In efficient competitive markets, where profit is driven to zero, timeless rates on savings, mortgage lending and venture capital are not really rates of return; they are the *time value of money*, what demanders of capital will pay to use capital over a period of time. Capital is surplus production, not gold or currency. Gold and currency represent capital; they facilitate the purchase of goods and services, they replace barter, they are a store of value, but they are not capital.

Nations, then, that accumulate gold or currency (more than needed for daily money transactions) create inflation, not wealth.

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[25] There is so much capital in the world today that the price of capital is low (which, worldwide, pushes up asset prices: real estate, stock, art, future capital projects). In competitive markets, where profit is driven toward zero (entrepreneurial compensation is something else), where material prices can be high, not even value-added projects make sense—why today's investors are simply looking to preserve capital, why banks in Switzerland charge depositors to hold their money, why Chase Bank in the U.S., with $500 billion in cash, no longer accepts new depositors.

Inflation, an inconvenience to the market, causes an increase in the price level in *all* markets, not an increase in value. To the contrary, price increases from inflation wipe out the value of a nation's savings (retired persons living off their savings) by raising the price of all goods and services. Adam Smith wrote *Wealth of Nations* to say just that (among other great things). It was his warning to Europe that what Spain was doing, robbing the New World (in the 16th and 17th centuries) of all its gold, was a worthless endeavor: it simply created inflation throughout Europe. With all its gold, Spain was, then and now, the poorest nation in Europe.

Law Five: Say's Law

When an economy is in recession, governments should stay back. Markets self-correct faster than anything done through interference.

Recessions are the result of an overextension of credit.—Jean-Baptiste Say (1803). Always, producers borrow too much, overproduce, then, when the inventory doesn't sell, lay off their employees. Recession.

How long? Until there is demand again for that inventory, one, because old goods wore out, two, because there was natural population growth of 2 percent. Automatically, the economic cycle restarts. Production rises, employees are rehired.

Government, however, cannot stimulate an economy to pull it out of recession by infusing it with cash (unless it infuses enough to pay for a world war). Government stimulation during COVID-19 lockdown (approximately the cost of World War II) was not to cure a recession but to prevent one.[26]

Government cannot stimulate an economy. Producers know that money given to consumers, not earned, can easily be withdrawn. If not confident, producers will not resume production. The Keynesian argument that money thrown into an economy will have a multiplier effect, that every $10 will generate $7.50 worth of new

[26] Why is it okay for government to hand out $3 trillion so citizens can stay home to binge-watch television, not care where their next paycheck comes from? Worse, that the $3 trillion was borrowed with no intention of paying back. Where's *that* clause in the Constitution?

demand, thus new production, new employment, is false.[27] Consumers will hoard that $10. They don't know how long the recession will last. This liquidity trap, the Ricardian equivalence, i.e., human nature, is market reality.

Market reality is that in a free economy, suppliers, not demanders, make the decisions. A free economy, a supply-side phenomenon, resumes only when producers start producing. What they produce in surplus to their own needs is itself the definition of capital, surplus production, that which gives producers something to trade for other things. Barter, except that in a modern economy, capital is traded for money.[28] In this sense, producers, as suppliers, are automatically demanders—because it is only they who have the means to trade, which is what an economy is: trade.

Say's Law: Supply creates its own demand.

Implied: there is always demand, recession or not, if the price of labor and materials is flexible.[29]

Conclusion

These five laws of economics, five laws of nature, are not to be toyed with. Let government intervene in the economy to lessen the impact of creative destruction—the natural phenomenon of whole industries disappearing because of new technology or better ways of doing things—and that nation's economy will be left behind.

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[27] Keynesians argue that the multiplier effect works its way through the entire economy. If the marginal propensity to consume is .75, the multiplier is four times. An increase of $10 to the economy will generate $40 of new production (in the same way as a decrease in the economy of $10 generates $40 in lost demand). Keynesian progressives advocate throwing money at all societal problems. Believing national economies are inherently unstable, but that governments *are* stable, Keynesians believe that government is a powerful vehicle for remedying instability. If the nation's government has no savings, it needs only borrow. U.S. citizens see nothing wrong with the nation's $30 trillion national debt.

[28] The free trade of capital, capitalism, is economic freedom—as the free trade of ideas, free speech, is social freedom.

[29] Union inflexibility prolongs recovery from recession.

The U.S. has the comparative advantage in high technology. All Americans, therefore, should work in that industry. Then, trade for everything else. Solon. The standard of living of America and all its trading partners will rise enormously (as it did in Athens).

Reality: Six percent of the U.S. workforce is qualified to work in high technology—the only ones who made the effort to do so.[30] And because progressive domination of public education has turned that institution into a center of inclusiveness (where no one fails because academic standards were lowered), Americans today no longer compete. U.S. Department of Education test scores show that only 36 percent of the nation is "proficient" in reading and math,[31] why 70 percent of tech employees in Silicon Valley are foreign-born.[32]

The American Revolution was fought to create a nation based on maximum individual freedom—coupled with maximum individual responsibility.[33] In 1933, Franklin Roosevelt reversed that. A progressive decided that government interference in the economy was a good idea—without realizing the U.S. would become a nation of dependent citizens (Social Security, Medicare, Affordable Care Act), with enormous regulation of business (Sarbanes–Oxley, Dodd–Frank), with government agencies controlling citizens and the economy (the EPA, the Department of Education), today's aristocracy, although historically, all of this is specifically what Americans fled—as do today's immigrants.

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[30] U.S. Bureau of Labor Statistics, "Beyond the Numbers," May 31, 2018, bls.gov/opub/btm/volume-7/high-tech-industries-an-analysis-of-employment-wages-and-output.htm.

[31] National Center Education Statistics, U.S. Department of Education, "The Nation's Report Card," National Assessment of Educational Progress (NAEP), https://www.nationsreportcard.gov/mathematics/nation/achievement/?grade=4 [see also grade=8, and substitute reading for mathematics]. Not just public schools, all schools.

[32] Ethan Baron, "H-1B: Foreign Citizens Make Up Nearly Three-Quarters of Silicon Valley Tech Workforce, Report Says," *The Mercury News*, January 1, 2018, updated May 8, 2018, https://www.mercurynews.com/2018/01/17/h-1b-foreign-citizens-make-up-nearly-three-quarters-of-silicon-valley-tech-workforce-report-says/.

[33] Alexis de Tocqueville, in *Democracy in America*, was absolutely amazed at how responsible Americans were. Nothing like that existed in Europe.

China and Russia are having a field day exploiting a nation whose schools no longer teach a core curriculum, no longer teach love of country, nor the history and culture of British and American democracy. Rather, American schools today praise failing students (to encourage them) and cater to identarian politics.

Having "progressed" from the Founding Fathers, from the U.S. Constitution, America today is a nation without principles.

And then, my five laws of economics mean precisely that it makes no difference what country, what culture, what ideology holds sway, whether a nation upholds principles or not—those laws cut right through. Those who understand them profit from them. Impossible under communism, but those who grabbed all the industries in Russia in 1989 had prepared for that day long before. *They* are the ones who would have owned those industries.

Business Insights

1. If you want great financial success, don't go to college. Great athletes, great artists, great thinkers, many did not. Those years, 18 through 22, are your most mentally fertile. Einstein, sitting in a patent office, made his great discoveries. To make a great fortune, play professional sports, develop great ideas; it takes ten years of concentration. There's a lifetime for study afterward.

Andrew Carnegie.

2. Income and wealth are two separate matters. Income is to live on, wealth is to acquire—if one's economic goal is financial independence.[34]

[34] Not everyone has that goal.

Economics - Personal Finance

"In *Rome 476*, author David Parker awakens readers to the wisdom of 5th century Athens, 1st century Rome and 18th century Age of Enlightenment. Gleaning from the great thinkers and statesmen of the past is also the vision of Ashbrook Center, whose mission is to educate our fellow Americans in the history and founding principles of our country through America's core documents such as Thomas Jefferson's Declaration of Independence, Abraham Lincoln's Gettysburg Address, and Martin Luther King Jr.'s I Have a Dream speech. We share Mr. Parker's concern for drawing insight and inspiration from history and believe his books will spark serious reflection in students and teachers across the country."

~Jeffrey Sikkenga
Executive Director, The Ashbrook Center

In keeping with his first two books, *Income and Wealth* and *A San Francisco Conservative*, Parker again reminds us to return to the ideas of America's Founding Fathers, to their most fundamental idea:

government must not intervene in the lives of its citizens.

In Rome 476, readers will encounter important ideas:

- In 1976, former California Governor Jerry Brown ran for president calling for the government to diminish in size—because "[t]here are many things that lie beyond or beneath government."
- Most problems are personal—not solvable by spending money. Discrimination in employment is not the reason some minorities have failed to achieve financial success.
- The New Deal, the War on Poverty. They divert attention from the true solution to the nation's problems: individuals each pursuing their interests. Society, as if led by an invisible hand, will then automatically design itself. Adam Smith.
- The U.S. Constitution is a pinnacle document. A step in any direction is a step down, a return to aristocracy.

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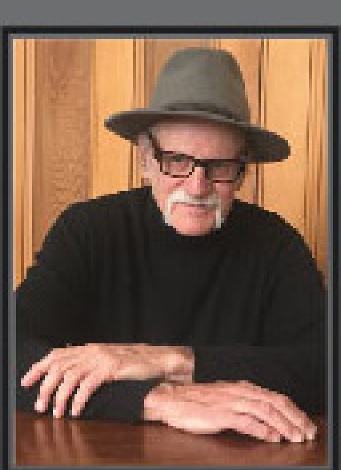

DAVID PARKER served students in San Francisco's public schools for 40 years. During his teaching career, he simultaneously became a real estate investor and the jazz bassist leader of the Dave Parker Sextet. He is the author of *Income and Wealth*, *A San Francisco Conservative*, and *Rome 476*.

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