Quid Pro Something

by

Sam Aurelius Milam III
c/o 4984 Peach Mountain Drive
Gainesville, Georgia 30507

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caveat lector

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Physics

There are laws that describe the way that things behave in the physical world. The First and Second Laws of Thermodynamics are good examples. They deal with the facts that we can't get more useful energy out of a process than we put into it (First Law) and that, in practice, we can't get even that much (Second Law).

Cars are a good example. We put energy into them in the form of fuel and we get energy out of them in the form of speed. When we compare, in equivalent units, the energy that's inherent in the fuel to the energy that's inherent in the speed, we find that there's less energy in the speed than there was in the fuel. We can attribute the difference to such things as mechanical friction and air turbulence. The energy that's left after overcoming such things is inherent in the speed. We accept the difference because the smaller amount of energy that's inherent in the speed is more useful to us than the larger amount of energy that was inherent in the fuel.

The Laws of Thermodynamics also explain why perpetual motion machines can't work. For example, if we use an electric motor to turn a generator, then we can't expect the generator, by itself, to produce enough electricity to keep the motor running. The best that we can expect, ideally, is to break even. That's the First Law of Thermodynamics. However, if we consider the unavoidable inefficiencies that are inherent in the hardware, then we'll come out behind. That's the Second Law of Thermodynamics. To get as much electricity out of the generator as we put into the motor, we'd have to add energy from some other source.

Economics

I propose that there are also laws, so far undiscovered or at least unacknowledged, that describe the way that things behave in the economic world. I call them the First and Second Laws of Economics. They're analogous to the First and Second Laws of Thermodynamics. The First and Second Laws of Economics deal with the facts that, on the average, we can't get more value out of a transaction than we put into it (First Law) and that, in practice, we can't get even that much (Second Law).

A purchase in the grocery store is a good example. We put value into the transaction in the form of funds and we get value out of the transaction in the form of groceries. If we could use equivalent and objective units to precisely compare the value that's inherent in the funds to the value that's inherent in the groceries, then we'd find that there's less value in the groceries than there was in the funds. We can attribute the difference in value to such things as the costs of operating the lights in the store, and of paying the salaries of the people who work there. Those things are analogous to mechanical friction and air turbulence in the car example. In general, the value of the

funds that we trade for our groceries must pay for much more than just the groceries. That value must also pay for the total cost of growing the groceries, processing them, and transporting them. The funds that we spend in the grocery store are the only source of funding for the entire process. Part of the value of our funds must be used to pay for such things. Thus, only a portion of the value in our funds is actually inherent in the groceries. We accept the difference in value because the smaller amount of value that's inherent in the groceries is more useful to us than the larger amount of value that was inherent in the funds.

The First and Second Laws of Economics also provide a good reason why interest-bearing deposits cannot increase the actual value of the funds that we deposit in banks. An analogy might make it easier to understand. Suppose that you took a piece of lumber to a storage locker and stored it there. Suppose that the attendant measured the length of the board for you, when you stored it. Thus, you knew that it was eight feet long. A foot was the unit of measure. A year later, you went back to get your board and, when the attendant measured it for you again, you were delighted to learn that it had grown. It was 16 feet long! You'd doubled your lumber by placing it in storage! Actually, you'd been deceived. The attendant changed tape measures. On his new tape measure, each foot was half as long as it had been on his previous tape measure. You had more feet of lumber, as measured, but you didn't have more value in lumber. That's what happens to deposits in banks. The number of dollars increases because the "tape measure" keeps changing. The value of your deposit doesn't increase. We can't get more value from interest-bearing transactions than we put into them, just like you can't get more length from a board than it already has. The only way to get more value is to work and create the value.

Here's another problem. The value of the funds in the accounts, in the banks, must necessarily be used as the source of value to pay the costs of operating the lights in the banks, the salaries of the people who work in the banks, and all of the bank's other expenses. There isn't any other source of funds that the banks can use to pay such expenses. Most people will object that the banks get additional funds by loaning your funds at interest. However, that doesn't increase the value of the funds in the accounts. The banks might possess more dollars after engaging in such monkeyshines, but each dollar will represent less value. Indeed, the practice of fractional reserve banking is probably the most insidious and evil scam that was ever invented. It doesn't increase the value of the funds in circulation. It sucks value out of circulation, creating phoney funds that don't have any value at all, or even any real existence. See my essay *They Can Fool Too Many of the People Too Much of the Time*. We can't expect interest bearing accounts, by themselves, to produce more value than

the value of the funds that were deposited. It's analogous to the failure of perpetual motion machines in physics. See my essay *Interest-Bearing Transactions*.

Legerdemain in the Ledger Domain

Such differences in value are more obvious in physics and carpentry than they are in economics. The reason is that, in physics, the amount of energy per unit of measure is constant from time to time and from place to place. A joule is always the same amount of energy, whether it's inherent in a quantity of gasoline or in a quantity of speed. In carpentry, a foot is always the same length. In economics, however, the amount of value per unit of measure isn't constant. The value of a dollar keeps changing. When we deposit some value in dollars into an account and get a greater number of dollars back, we think that we've received more value. Actually, we've been deceived by the change in the unit of measure, the value of the dollars. We've received more dollars but we've received less value.

Science

In theory, it's possible to accurately compare the value that's inherent in the groceries to the value that's inherent in the funds that we traded for the groceries. The trick is to understand the value objectively instead of subjectively, to have a precise, repeatable, constant, objective unit of measure. That means that we must distinguish between the actual value of something and its subjective value. Generally, what we buy isn't equal in objective value to what we paid for it. What we buy is only more useful or desirable to us than what we paid for it. I believe that there is such a thing as objective value, or value in equivalent units. We just haven't figured out how to measure it. If we were to use an objective unit of measure, instead of dollars, then the measurement of objective value might not be as difficult as it is at present. If we ever learn how to precisely compare the values of different things using such a unit of measure, one that's constant in value from time to time and from place to place, then we will have transformed economics from legerdemain into science.

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