



# GOVERNMENT AGAINST SCARCITY: HOW IT CHANGES WHO WE ARE

**Labor, Money, Consumption Habits  
and Social Support**



Lithuanian  
Free  
Market  
Institute

## **GOVERNMENT AGAINST SCARCITY: HOW IT CHANGES WHO WE ARE** Labor, Money, Consumption Habits, Social Support

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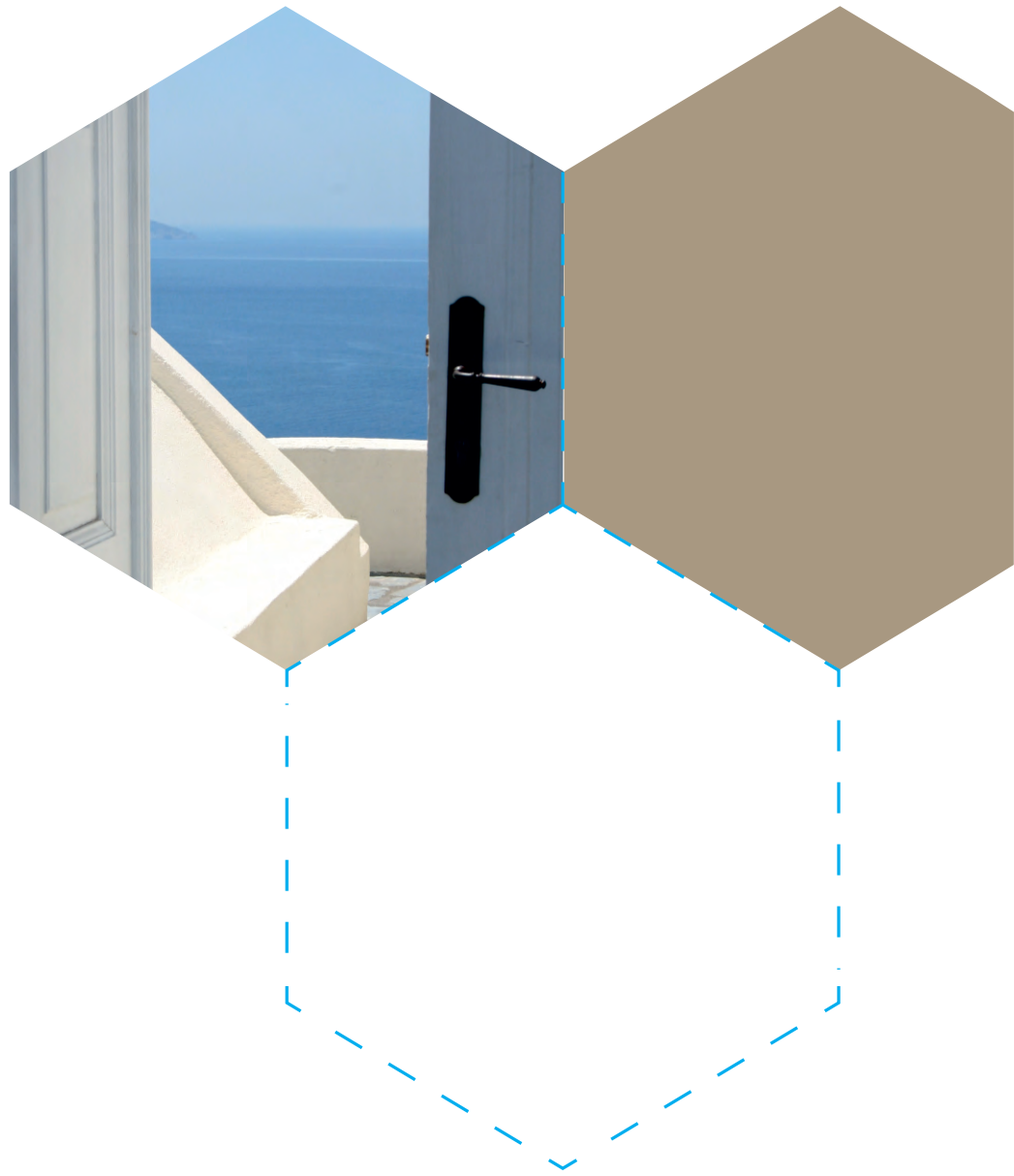
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# CONTENTS:

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INTRODUCTION	1
INTERDISCIPLINARY INSIGHTS INTO SCARCITY	3
Human Action as a Response to Scarcity	5
Man, Culture and Economy	6
How Does a Free Society Respond to Scarcity?	7
How Does Government Intervention Deal with Scarcity?	8
A PARADIGM FOR PUBLIC POLICY BEYOND ECONOMIC ARGUMENTS	9
Labor	11
Money	17
Consumption Habits	23
Social Support	28
ANNEXES	33

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# INTRODUCTION



# INTRODUCTION

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In public discussions economic arguments are often accused of disregarding justice, ignoring morality, or reflecting simple insensitivity. Few people have doubts that the free market advances material well-being. However, the distribution of goods through market processes is considered unfair, and the principle of profit maximization is seen to be at odds with moral values. Economic behavior is considered to be one of the main causes of moral and cultural crises. Increasingly, the blame is put on freedom.

The advocates of freedom are called to take a fresh look at how freedom, economy and morality relate to each other. This handbook on public policy is intended to enrich free-market arguments with moral and cultural insights in areas where government interventions are increasingly crowding out voluntary decisions: labor relations, money, consumption habits, and social support. It offers a new approach to understanding these interrelations by unfolding the concept of scarcity and the role it plays in the order of being and human life. An accurate understanding of scarcity points to a simple fact that the only alternative to peaceful cooperation is coercion in its various forms, such as theft, plunder, and war.

Through the concept of scarcity, this handbook offers a new perspective on – and assessment of – how human relations and values change when the government assumes responsibility for dealing with scarcity. Moral and cultural arguments are formulated in a descriptive manner.

This handbook is intended for intellectual entrepreneurs, politicians, and public opinion leaders who want to better understand the regularities that determine voluntary human action and human action under government intervention. It shows how government regulation distorts the natural relation between humans and the order of being: how it changes behavior, personal and social relationships, erodes morality, and diminishes culture. The paradigm that underlies this assessment may be applied across policy areas.



# INTERDISCIPLINARY INSIGHTS INTO SCARCITY

# INTERDISCIPLINARY INSIGHTS INTO SCARCITY

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This publication is a continuation of a recent interdisciplinary peer-reviewed study on scarcity, *The Phenomenon of Scarcity: Being, Man and Society* (2016).<sup>\*</sup> A team of 20 scholars analysed scarcity as a universal concept, with a view to stepping over the borders of conventional and purely economic understanding.

Scarcity, lack, and deficiency all state the fact that tangible and intangible things in this world, like human beings themselves, are limited and finite. Our interdisciplinary research revealed that scarcity is:

- ontological, one of the elements of being, along with form and matter (philosophy);
- a precondition for freedom and a sign of blessing (theology);
- an evil caused by the imperfection of nature or man which may take the form of a natural or moral lack (philosophy, theology);
- poverty, the lack of tangible resources (anthropology);
- a state of non-satisfaction of biological and social needs (psychology);
- a tension between natural needs and socially constructed wants (sociology);
- the lack of specific resources (economics).

For methodological clarity, it is important to note that scarcity in this handbook is used as a general term for all of the above aspects which we experience in our everyday life as privation, deficiency, lack, limitation, or imperfection. It also refers to human frailty and fallibility: people are limited by their body, life span, abilities, spirit, and knowledge, while their wants are limitless. Scarcity is intrinsic to us.

The study revived the primordial purpose of scarcity and its relation with other ontological elements (matter and form) identified by ancient Greek philosophers and made it relevant to the present. Scarcity is found everywhere; it permeates every becoming and every change.

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<sup>\*</sup> *The Phenomenon of Scarcity: Being, Man and Society*, edited by Leontjeva, E., Vainė, A., Vyšniauskaitė, M., 2016. See also, Leontjeva, E., Vyšniauskaitė, M., *A Synthesis of an Interdisciplinary Inquiry into Scarcity: Research Approaches and Perspectives*. Available at <https://en.llri.lt/wp-content/uploads/2015/06/synthesisEN.pdf>, 2016.

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Philosophers use the concepts of formless material and statue to explain how a lack of form transforms into the potency of material, and the latter acquires the form of a statue. In the physical world, scarcity is understood as one of the main causes of change. If there were no scarcity, if atoms filled the whole space, they would not move and create new combinations. The physical reality, which opens up to our senses as changing, originates from matter, form and scarcity (space and opportunities).

According to social science, humanity experiences scarcity in two ways: as a stimulus to create and advance, and as insecurity that needs to be reduced. Importantly though, the analysis pinpoints that scarcity is largely disguised and escapes cognition. Grasping the essence of scarcity helps to accept its challenges and take action to mitigate its manifestations. It opens the path to reconciliation with one's limitations and peaceful co-existence with others.

As everyone feels the pressure of scarcity, the necessity of moral norms becomes obvious. Understanding scarcity allows us to better understand the reality in which we live and act, and to deepen our perception of morality. Ontological scarcity gives rise to economic phenomena: labor, ownership, exchange, and money. Economic activity is intended to create material wealth and overcome particular shortages. However, scarcity never ends; it never ceases to pose challenges. This might explain why people have a tendency to mistakenly attribute its appearance to the economic phenomena.



*If only we have the strength to accept scarcity as our existential fate and an absolutely necessary part of our human selfhood, we will wisely see what is positive in scarcity... This will inspire us to seek every kind of fullness, the fulfilment of our being; it best allows us to unleash our human potential to the limits of our ontologically possible perfection, set by our limited human nature.*

Naglis Kardelis, *The Phenomenon of Scarcity: Being, Man and Society*

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Our interdisciplinary inquiry reveals a pivotal distinction between the manifestations of primordial scarcity and secondary scarcity caused by human imperfections and forces of nature in an imperfect world. Freedom of choice may bring injustice, damage, or loss. Morality serves as a safeguard: It provides protection against secondary scarcity, or at least helps to minimize it. When people make decisions, they may choose to rely on norms tried and tested for centuries. Those norms help people to avoid possible repercussions for themselves, others, and the world.

## Human Action as a Response to Scarcity

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The analysis of scarcity as the precondition of the economy and an element of being provides a fresh perspective on the links between freedom, economy, and morality. Scarcity resides in the physical shortage of resources and time, and within people themselves.



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Everyday experiences of scarcity cause insecurity, discomfort, or anger. The desire to alleviate those experiences stimulates human action, creativity, and cooperation. People gradually develop and deploy economic means, such as ownership, labor, exchange, profit-seeking, and competition.

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*The incentive that impels a man to act is always some uneasiness. A man perfectly content with the state of his affairs would have no incentive to change things. He would have neither wishes nor desires; he would be perfectly happy. He would not act; he would simply live free from care.*

Ludwig von Mises, *Human Action*

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Scarcity serves as a catalyst, sparking people’s internal engine and incentivizing them to set goals and act. The primordial nature of scarcity makes scarcity inescapable. Only the human mind is capable of recognizing scarcity and the potential opportunities behind it, while at the same time experiencing the gap between reality and potential as suffering.

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*Due to the human mind's capacity to recognize a new potency, people invariably and inevitably experience new forms of scarcity as something yet unrealized at this moment.*

Bishop Kęstutis Kėvalas, *The Phenomenon of Scarcity: Being, Man and Society*

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## Man, Culture and Economy

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People are born free and rational. Actions have consequences for oneself, others, and the world. People have the potential to learn from their mistakes and better themselves. Human decision-making is guided by reason and moral norms. In the pursuit of our goals and better choices, we analyze the regularities that determine the consequences of our actions and then adjust our behavior. Such models of personal behavior transform into convictions and get rooted in traditions, creating cultural norms or the prevailing attitudes to economic behavior and institutions.

Cultural norms form through people’s repetitive behaviors, are passed on from generation to generation by imitation or learning, and are adapted in accordance with experience and changing circumstances. Economic behavior is a natural reaction to ontological scarcity through which responses (labor) and spontaneous institutions (exchange and money) evolve. Dealing with tensions associated with those responses and institutions (tensions themselves being manifestations of scarcity) is either by voluntary decisions or by government intervention.

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## How Does a Free Society Respond to Scarcity?

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A free society develops ways of responding to scarcity that bring the best possible, albeit imperfect, result. Freedom and scarcity interact continually. For this reason a better understanding of scarcity can help to better understand the importance of freedom. It also helps to recognize the spontaneity and timeliness where the response occurs. People respond to scarcity through voluntary decisions and bear personal responsibility for the outcomes. In that way, human reason, creativity, and will are refined, and morality is advanced. In the long run, actions that prove to serve the purpose best are repeated, spread, and transformed into spontaneous institutions. Movements of the Sisters of Mercy start by attending to one patient, lump-sum support commences a charity, and a single media publication gives birth to a private rating system. Such institutions function in accordance with the structure of being and its physical limitations. They foster peaceful cooperation and the advancement of morality, and they unleash human potential.



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*It is only where the individual has choice, and its inherent responsibility, that he has occasion to affirm existing values, to contribute to their further growth, and to earn moral merit.*

F. A. Hayek, *The Moral Element in Free Enterprise*

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It is natural for people to care not only for their personal conditions, but also for those of their fellow citizens. Voluntary concern and reaction to others is always characterized by subsidiarity. People naturally tend to tackle the problems arising in their immediate environment, particular community, or region. Such problems can be easily recognized and cause the biggest concern, and so the best solutions can be employed. Voluntary institutions evolve as a natural response to provide missing goods, qualities, relations, or order. When those who immediately face or recognize scarcity handle it, the response is targeted and fit for purpose.

Obviously, it is impossible for a free society to eliminate all social problems. When some forms of scarcity are removed, others emerge: a lack of money may follow a lack of time, declining health may lead to weakened social ties, and accomplished education may stir a lack of purpose. Some wants invariably remain unmet: insecurity, a lack of physical or spiritual goods, or conflicts never cease. People make mistakes and not everyone is willing to cooperate. In freedom, the results of human efforts may not be immediate. Nevertheless, only freedom can nurture individual morality and responsibility. Only freedom facilitates the most suitable ways of dealing with scarcity and blacklists inappropriate or immoral choices.



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## How Does Government Intervention Deal with Scarcity?

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A free society may not respond to scarcity perfectly. Scarcity is often seen as an outcome of inappropriate human activity. That leads people to look for perfect solutions through government, a modern form of coercion. That option is made possible because many perceive freedom – and responsibility that comes with it – as a burden and choose to shift it onto the state. The hope is that political decisions will fix all imperfections. However, unintended consequences follow: people’s ability to make free choices is impaired, the readiness to take on challenges recedes, and chances to learn from one’s mistakes diminish.

Political promises to eliminate scarcity and insecurity in their different forms are utopian. Such utopias seem inevitable when the public mind is filled with misconceptions of scarcity and illusions that scarcity can be removed. At the same time, human individuality and rationality (the ability to make decisions and to choose objectives and ways to achieve them) are not respected. The fact that people tend to handle scarcity through productive activity *or* by making demands is ignored. In the former, human action and creativity bear fruit, but in the latter, force or political power is used to achieve results by expropriation and redistribution.

When such behavior is rewarded with special rights, benefits, and exemptions, it tends to spread. Cooperation and human advancement are curbed. Attempts to tackle scarcity and satisfy individual needs in a centralized, one-size-fits-all manner are doomed to fail. The ability to take personal responsibility weakens. Nationalization of values and directive morality erodes solidarity, a sense of virtue in society, and respect for the state.

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*It is true that a free society lacking a moral foundation would be a very unpleasant society in which to live. But it would even so be better than a society which is unfree and immoral; and it at least offers the hope of a gradual emergence of moral convictions which an unfree society prevents.*

F. A. Hayek, *The Moral Element in Free Enterprise*

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# A PARADIGM FOR PUBLIC POLICY BEYOND ECONOMICS

# A PARADIGM FOR PUBLIC POLICY BEYOND ECONOMICS

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The following chapters present a sketch of moral and cultural arguments relating to labor, money, consumption habits, and social support, areas which are increasingly being seized by government. So long as the origin of scarcity is ill-conceived and regarded as evil, government intervention spreads. It is a popular belief that scarcity can be eliminated, and that making it a government responsibility is the only solution. When it happens, people's ability to act on their own weakens, and ever more powers are delegated to the government. The alleviation of scarcity comes at a high price. Freedom is curtailed, and moral practices recede. Unrealistic expectations rise, and values are crippled.

Each chapter describes tensions, or challenges, that people experience in those areas. Then we outline the ways in which a free society deals with those tensions and discuss their impact on individual, the development of virtue, and cultural norms. Finally, we look at how government intervenes to tackle the tensions and what distortions it brings to human behavior, morality, and culture.

The respective paradigms of action are rooted in the perceptions of the structure of being. If scarcity is only seen as something negative, all institutions that represent people will focus on "freeing" them from scarcity. Unlike this line of reasoning, the work of free-market think tanks intuitively revolves around restoring an accurate understanding of scarcity and the individual's relationship with this fact of life. Those efforts are embedded in the perception that scarcity plays a vital role as a catalyst of change and advancement; that the order we defend has not been devised by some human genius or wilful decision. It is the order encoded in the structure of being and in humanity, characterized by scarcity and people's intrinsic power to respond to it.

If we can better understand people's expectations and the impact of government intervention undertaken in their pursuit, we will be better equipped to bring those expectations closer to reality, revise the existing policies, reconsider prevailing social perceptions of justice, and rediscover morality. Government intervention will start losing appeal when people relate freedom and personal responsibility with the ways they are called to respond to scarcity.





# LABOR

# LABOR

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Labor is humanity's primary response to scarcity. Without resorting to force, people can alleviate scarcity and improve their condition only by labor and exchange (the extraction of resources, creation, and exchange of goods).

People exchange the results of labour or goods and also labor itself – their knowledge, experience, and physical or mental abilities that the other party highly values and deploys. Division of labor is an important prerequisite for exchange, and as such is preconditioned by people's different skills and abilities. Division of labor allows us to focus on particular activities and to unfold our abilities at the highest possible level. In this way, everyone gets an opportunity to better their condition.

Labor relations take place when particular services are exchanged for remuneration (wages), one contractual party (the employee) acknowledges the other party's (the employer's) leadership, and the employer provides their property as a work tool and offers the employee a guarantee of payment.

**Problem:** Interpersonal and social conflicts in labor relations.

## Why do labor relations cause tension?

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- In all types of human relations, individual virtues and vices manifest. Both the employer and the employee can make erroneous or immoral decisions.
- Individual character determines the degree of tension in labour relations. For some people, needs stimulate action, whereas others get paralyzed. Some satisfy their needs through productive activity, others by wanting possession without making any effort. People who lack certain strengths of character, such as a thirst for knowledge, perseverance, honesty, enthusiasm, and benevolence, experience greater tension at work.
- The labor market accommodates people with different abilities and priorities. Attitudes to work vary, and so do expectations about labor relations.

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- To reach a labor agreement, both parties sacrifice some objectives for others. They make decisions under conditions of uncertainty with limited means and knowledge. The results of their decisions may not always reflect their expectations.
  - Employees seek to earn as much as possible, whereas employers seek to spend as little as possible. Reaching an agreement on the price of labor is not easy, as different interests must be aligned, while the valuation of human labor is typically equated with human value.
  - Personal qualities, or a lack of time or knowledge, may lead the employer to disregard the importance of human relations. Competition requires that the employer aligns profit-seeking with the expectations of their customers and employees and takes responsibility for the outcome. That puts further pressure on the interpersonal relations.
  - Due to misconceptions about economic principles and the phenomenon of scarcity, the employee may regard the employer's decisions as immoral and treat oneself as the weaker side in their relations.
  - Competition among the employees causes tension and evokes feelings of insecurity. The employer experiences the same type of insecurity from business competitors.
  - Employers compete for limited resources, including labor force, and this creates tension. Employers understand that they may lose their employees if they do not offer at least as good working conditions as their competitors.
  - Cooperation — and trust — between the employer and the employee is undermined by a low level of social mobility and a common belief that labor involves coercion and exploitation. Equally harmful may be negative public perceptions of entrepreneurs and entrepreneurship.

## How does a free society ease tensions in labor relations?

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Labor relations form spontaneously on the basis of voluntary agreements. Through voluntary agreement, the employer and the employee seek the best possible arrangement for each of them in the pursuit of their objectives at a particular point in time. Labor heterogeneity, competition, freedom of contract, and the market mechanism of price formation secure the bargaining power of the employer and the employee alike. Those institutions stimulate moral behavior between the parties. Both employers and employees learn from their mistakes and failures immediately and may adjust behavior and improve relationships. Voluntary institutions such as career counselling, labor psychology, employer ratings, and employee associations evolve to reduce the problem of information asymmetry and personal insecurity in labor relations.



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# The influence of voluntary labor relations on people and culture

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**People have an opportunity to fulfill their potential and lead a meaningful and rewarding life.**

People develop a perception that labor is more than just a source of living. They feel self-confident and able to make a change. Through labor, they can find a meaning in life as acting and self-developing individuals.

**People have wider opportunities to socialize.** At work, people feel a sense of belonging to a particular social group. They enjoy a broader network of fellowship and a richer community life.

**People have more possibility to satisfy individual interests.** People have different expectations with regard to labor, and these expectations can be met through negotiating the terms of employment. Some care about self-actualization and self-development. For others, income and status matter. Yet others value workplace flexibility.

**More opportunity exists for equal bargaining power.** Mobility, market competition for the labor force, and possibilities of self-employment strengthen the employee's bargaining powers. The employer in turn can take advantage of the competition among employees and offer employment conditions that better meet individual needs.



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*<...>Workers interested in improving their position must focus their attention and effort primarily upon two things: first, improving their employer's position in the market and, second, increasing the significance of their own contribution to the total product. These are the fundamental prerequisites to real improvement of the bargaining power of workers.*

Petro Sylvester, *The Labour Policy of the Free Society*

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**There is more space for practicing morality.** As employers and employees can freely choose their counterparts, both more readily face the consequences of their decisions. Character strengths such as honesty, benevolence, teamwork, resourcefulness, courage, and self-control may develop. Evolving conflicts remind us that scarcity is intrinsic to all relations and that we all face it and need mutual understanding.

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## How does government intervention deal with tensions in labor relations?

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Labor laws are adopted to protect the employee from the employer, who supposedly has superior bargaining power. The forms of employment contract, individual agreements on working conditions (working hours, holidays, remuneration), and the terms for termination of contracts are controlled in an attempt to reduce the employee's insecurity. Mandatory, one-size-fits-all requirements are imposed, and government oversight of the enforcement is authorized.

## The consequences of government intervention for people and culture

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**Individual needs are disregarded.** A standard, statutory package of working conditions cannot satisfy every worker. Some wish to contribute to the welfare of society. Others hope to remain active after retirement and expect social, rather than financial, benefits from labor. Yet others work to gain experience for a future career. The standard employee welfare required by law is broad and expensive, and most employers cannot afford to offer personalized motivational schemes on top.

**The ability to cooperate declines.** When government dictates employment conditions, the culture of bargaining deteriorates. Employees have less incentive to negotiate for their individual needs. In the long run, government is expected to ensure justice. Employers are discouraged from fostering bargaining practices and work culture that would favor both sides in the best possible way.

**A sense of helplessness spreads.** For people who have a predisposition toward a sense of helplessness, statutory provisions of employment contracts reinforce the conviction that external circumstances, not personal efforts, determine life results. Such people become less confident that they can change their situation by negotiating better working conditions or changing jobs. Responsibility for personal decisions shrinks, as independent decision-making (like learning from one's mistakes) is crowded out.

**Employees are pitted against employers.** There is an illusion that the government can take care of fair remuneration and appropriate working conditions. A conviction spreads that employers have no interest in the employees' well-being and are unwilling to share their profits. Employers begin to treat employees as a threat intimidating business.

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**Dependency mentality spreads.** People are imprisoned in unemployment. The long-term unemployed become dependent on social support, are stigmatized, and experience social exclusion. Chronic unemployment destroys self-confidence. It incites resignation and living from day to day. Children growing up in such families tend to adopt the same attitudes and do not strive for a better life.

**The most vulnerable groups are hurt the most.** Stringent hiring and firing requirements discourage employers from offering jobs to people with less work experience or questionable qualifications. Young people, the long-term unemployed, people with disabilities, and immigrants find it hard to get a job. A high statutory minimum wage prevents lower-skilled individuals from obtaining work experience that would help them find a better-paid job.





# MONEY

# MONEY

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Money evolved naturally and spontaneously as a means to facilitate exchange under conditions of scarcity.

Resources are limited, and it is impossible to satisfy all needs. Some wants must be given up. A lack of money is the most obvious reflection of scarce time and resources. It denotes the inevitable lack of economic goods. Yet erroneous perceptions that money is the source and culprit of scarcity – rather than its reflection – are common. Money is seen as the seal of evil, as a restriction on human freedom and choice. For most people money, not scarcity, is a core problem.

Money has become synonymous with the economy, a symbol of the material world. Given that money is an irreplaceable element in human relations in the marketplace, many tend to transform negative perceptions of money to the economy, the market, and even human cooperation. Understanding why money exists in the first place and why government's manipulation of money does not solve, but rather creates, problems can help remove this stigma.

**Problem:** Misapprehension that money creates scarcity.

## Why does money cause tension in society?

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- Money reflects the inevitable scarcity of economic goods; the money supply is therefore limited.
- A shortage of material goods is primarily perceived through the lack of money.
- Human wants are unlimited; yet, they are constrained by the scarcity of resources, economic goods, and time.
- Economic activity, labor, exchange, and money facilitate the alleviation of scarcity but do not guarantee satisfaction of all wants.
- Scarce resources and scarce money as a sign of scarce resources make people economize and deploy resources for the satisfaction of the most immediate needs and wants.

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## How does a free society ease money-related tensions?

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To survive in the conditions of scarcity, people must engage in value-generating activity. Money earned from labor and productive activity allows people to alleviate scarcity and meet their needs to the best of their ability. Money provides security and comfort. A high degree of exchangeability of money ensures that all market players are able to exchange money for desired goods at any time. Money offers a universal tool to denominate prices of goods. As a result, human efforts get economized and economic activity can be expanded.

## The influence of money on people and culture in a free society

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**Money broadens the range of choices and directs human activity.** Monetary valuation of the efficacy of economic behavior enables specialization and facilitates more complicated procedures and production methods. Without money and prices, it would be complicated to compare the relative value of things and to choose the most profitable/desirable activity that would bring the biggest benefit to society.

**Money is indispensable for a complex society to function.** Money enables and serves the spontaneous order in which people can pursue their individual goals. Personal freedom is combined with peaceful cooperation.

**Providing for the future is made easier.** Monetary and economic stability, when money is not multiplied by government decrees, makes it possible to plan and save. Money enables the formation of capital, which can be put to use in mobile and creative ways to address issues of scarcity in different domains of human life. People can provide for their old age, important life events, or contingencies. When money is stable, people do not need to preoccupy themselves with savings, investments, and fluctuations in the value of money. The purchasing power of savings does not shrink significantly over decades. On the contrary, the value and purchasing power of money goes up due to falling prices. Saving does not require specialized knowledge or time.

**Cooperation is fostered.** People pursue their personal objectives through indirect cooperation. People satisfy others' needs even without their knowledge and communication with others. Cooperation brings monetary remuneration.

**Savings culture spreads.** When the supply of money is stable, and the amount of goods constantly grows, prices fall. As a result, people are less motivated to take on debt, and so interest rates fall. Borrowing declines as people understand that large debts narrow choice and possibility. Those who have enough patience not to overspend get rewarded with lower prices.



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**People invariably face the dividing line between monetary and non-monetary relations, as they lack both material and spiritual things, including love and friendship.** Keeping this line is primarily a personal challenge. Even when money is sound, the key is to keep money where it belongs.

## How does government intervention deal with money-related tensions?

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Governments attempt to solve the problems of scarcity by expanding the money supply and developing mechanisms for the artificial multiplication of money. Such mechanisms rely on government decrees. Money as the good that can be used in exchange for all other goods is replaced by a decree asset. In a central bank system, money is no longer a good and only legal tender laws enable it to be used for all other goods.

Governments monopolize money creation and multiply money to stimulate the economy, boost employment, and maintain a stable growth of prices. To increase the supply of money, central banks regulate interest rates and collateral policies, buy and sell financial assets, and set minimum reserve requirements.

If money is to fulfill its function as a means of exchange, its supply must be limited so that money retains its value. A lack of this understanding leads people to think that scarcity can be removed by making money unlimited.

## The consequences of government intervention for people and culture

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**An illusion is created that scarcity can be removed and unlimited wants can be satisfied.** New money that flows on the market mitigates the scarcity of resources in the short-run. People get an impression that they are better-off and can buy more. The fact that the multiplication of money does not bring an increase in the amount of goods is disregarded. An artificial and short-term feeling of certainty and satisfaction vanishes when a financial crisis strikes.

**The payment for the illusion that scarcity is defeated is postponed and shifted onto less protected and future generations.** Unless there are more of the goods that money buys, creating money may only give an initial advantage to those who receive the newly created money first, before prices start to go up. In the long run, creating more money without there being more goods means that goods cost more. Inflation is born and maintained as a disease that arises from not facing up to scarcity.

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**The financial future instils fear.** It is harder to protect oneself against future uncertainty. Business cycles, which the multiplication of money inevitably creates, cause rapid economic growth and price increases, along with fluctuations in the employment rate. Dramatic changes in income, prices, and savings bring insecurity, while inflation creates more uncertainty about the future.

**Personal financial planning becomes complicated.** As prices continue to grow, and money continues to depreciate, saving requires more knowledge and time. To avoid losses in saving, money must be invested in assets that will not depreciate in the future. That is an uphill task for people who have little knowledge of investment practices. Managing money and assets requires more time and attention.

**The feeling of helplessness intensifies.** Those who are not in a position to lift the financial burden and avoid dependence on banks are driven into despair. Those who have limited knowledge or fail with investments risk losing a significant share of their life savings. That creates a feeling of injustice, disappointment, and apathy. Self-confidence is lost, and mistrust grows.

**Consumerism and life-long indebtedness spreads.** When banks increase the money supply and lending, the motivation to save falls. People are incentivized to borrow and immediately satisfy their wants. Saving for several decades in order to buy a house is no longer an option in a system characterized by never-ending increases in money supply and prices. Borrowers win and savers lose. Short-term consumerism reaps rewards.



*Inflation thereby encourages a mentality of immediate gratification that is plainly at variance with the discipline and eternal perspective required to exercise principles of biblical stewardship – such as long-term investment for the benefit of future generations.*

Thomas E. Woods, *Money and Morality: The Christian Moral Tradition and the Best Monetary Regime*

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**Financial dependency grows and causes stress.** Growing prices and low interest rates makes borrowing attractive. An indebted person becomes dependent on financial institutions and cannot afford to err. Even a short period of unemployment may bring stress and depression for the whole family.

**A sense of injustice and inequality grows in society.** New money favors those groups who receive and spend it before prices increase. Those who are last to receive the new money lose the most. Well-off people enjoy access to the new money because they can offer collateral; such a system relies on extensive borrowing. At the same time less well-off people have difficulty receiving a loan for a lack of property. Such inequality erodes natural social processes, enriches those who do not necessarily deserve it, and increases dissatisfaction and alienation in society.

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**Friction between consumers and business people grows.** Consumers who have limited understanding about the functioning of the monetary system may blame entrepreneurs and businesses for continuous price increases and falling incomes and purchasing power.

**People create hyperreality.** Money is perceived as a tool to achieve one's life goals. Money is one of the main measures of value, a source of stability, sustainability, and sociality. However, money multiplied by government decree does not possess those qualities. It is not a reflection of actual goods; one banknote simply denotes another banknote. Money is a simulacrum, a copy of something that does not have an original. Everything else may thus seem unreal, and the sense of value fades. Mistrust of money leads to mistrust of reality.

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*By making money worthless, inflation threatens to undermine and dissolve all sense of value in a society.*

Paul Cantor, *Hyperinflation and Hyperreality: Thomas Mann in Light of Austrian Economics*.

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# CONSUMPTION HABITS



# CONSUMPTION HABITS

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People work and spend their earnings to finance their housing, food, education, leisure and other needs. On a personal level, many people happen to face doubts about their consumption choices. Government turns those doubts into a matter of principle. The argument goes that many people are incapable of making the right spending decisions, so government should intervene.

Paternalism rests on the idea that government knows best what is good for the individual and can force "the right" decisions through commands and prohibitions. Paternalism justifies limitations on freedom of choice when intervention ostensibly maximizes the benefit and minimizes the harm to individuals. Nanny state regulation applies to a range of consumption goods and habits involving but not limited to health hazards. Regardless of human imperfection though, people are still better decision-makers than the government.

**Problem:** Hazardous consumption habits or decisions.

Consumption habits are individual decisions on how to best meet one's wants and needs. They refer to lifestyle choices that are based on personal limitations, dispositions, and values.

Producers, consumers, and goods all are affected by scarcity. Producers lack resources, time, and knowledge. If more were available, everyone would offer better products. Similarly, if consumers had more resources, time, and knowledge, they would collect more information and make better choices.

## Why do consumption choices create tension?

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- People make mistakes and their choices are not perfect. They choose the best among available alternatives on the basis of their knowledge, intellectual capacity and time constraints. People may pursue inadequate aims or choose inadequate ways to achieve adequate aims.

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- It is impossible to predict all consequences of one's behavior. People neither possess nor seek to possess all the information related to their actions and potential outcomes. Information is dispersed and fragmented, and people have to make many decisions even though they do not have enough time, ability, or energy. Circumstances constantly change because of reasons beyond our control.
  - Products are not perfect. Consumers' wants and possibilities have to be aligned. Scarcity of resources and time has to be considered. It would be desirable if, for example, forms of energy were more efficient, more easily accessible, and more environment-friendly and cheaper, but having it all together is quite unrealistic.
  - Information asymmetry occurs when one party to the deal has more knowledge about the product. Sellers typically have an advantage in this regard. As buyers have incomplete information, they may err and opt for something that will not fulfil the expectations.
  - People are imperfect. The other party to the deal may cheat. For the sake of short-term benefit, sellers may provide misleading information.

## How does a free society ease consumption-related tensions?

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Producers and consumers are interested in ways to minimize negative consequences of products and services. They collect relevant information and search for the best options. Information is shared. Consumers rate sellers and producers, and producers and sellers evaluate clients. In competing for consumers, businesses try to ease tensions buyers face by providing relevant information, using product certification, and accepting returns. As much safety as is affordable is guaranteed.

## The influence of voluntary decision-making on people and culture

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**People learn and improve themselves.** In order to make a decision, people want to know more, experiment, and learn from their mistakes. They seek feedback and take responsibility for their choices. As a result, decision-making becomes easier over time and people adjust behavior to achieve desired results. The consumer, producer, and seller all learn and improve themselves.

**Direct cooperation is fostered.** Both parties to the deal face no formal constraints to solving problems themselves and changing unsatisfactory conditions without external interference. In this way, solutions are as accurate and fast as it is affordable, and negative consequences are less likely. Both parties restore and foster trust. They make an effort to reduce the other party's uneasiness and maintain cooperation.



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**People have incentives to trust and care for their fellow citizens.** Potential consumers use the information that other buyers provide about the producer or the quality of goods and services from other buyers. It is in the interest of consumers to find and leave feedback. Positive feedback is important for the seller's reputation. Information sharing reduces information asymmetry and creates a culture of community and trust.

**A culture of innovation spreads.** To enhance consumer safety and satisfaction, novel solutions to satisfy consumers, producers, and sellers are sought. Technological progress will require ever new abilities to meet changing needs. Only by exercising those abilities can we keep them adequate for rising up to challenges.

## The consequences of government intervention for people and culture

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**An illusion spreads that perfect decisions are possible and the government should make them happen.** Intrinsic limitations of this world and human nature are ignored: It is impossible to have all the information about available choices. No judge exists who can make perfect and objective decisions for others.

**Personal development stalls.** Freedom of expression and personal development are compromised when people are no longer free to pursue their aims with their chosen means. Responsibility for the outcomes of one's decisions, learning from one's mistakes, and personal judgments are curbed, and control is handed over to the government. In a way, personality becomes a construct of the government.

**The ability to make independent decisions declines, and paternalist expectations rise.** As regulation crowds out independent decisions in one area, decision-making ability deteriorates and government is expected to step in and take control in other areas. Government control is supposed to prevent chaos. A belief spreads that rationality applies to government, not people.

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*Since under modern conditions we are for almost everything dependent on means which our fellow men provide, economic planning would involve direction of almost the whole of our life. There is hardly an aspect of it, from our primary needs to our relations with our family and friends, from the nature of our work to the use of our leisure, over which the planner would not exercise his 'conscious control.'*

F.A. Hayek, *The Road to Serfdom*

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**Universal moral norms suppress individual values.** People have different expectations, values, and convictions about what is right or wrong, useful or harmful. Paternalism does not recognize individual convictions and is intended to create a universal system of values. People are made to conform to moral norms which the government considers to be right. As a result, people lose their moral compass. Forced values are opposed against traditional moral norms.

**The educational role of family declines.** Political power displaces family education and guidance, and navigates behavior and moral practices.

**Civil society declines.** When the government creates an illusion of safety, manipulating the individual gets easier. People's ability to make independent decisions and take responsibility atrophy. Freedom of expression shrinks. Members of society no longer feel the need to exchange information and choose to rely on paternalist instruments. Decision-making becomes a government responsibility. Societal trust declines.



# SOCIAL SUPPORT

# SOCIAL SUPPORT

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There will always be situations where something is lacking. Governments are widely expected to be the first to provide solutions to hardships and deprivation. Cash benefits and allowances are the most common policies. Yet government support is centralized and anonymous. It rests on generalized criteria and does not necessarily address individual circumstances. Entitlement programs are not only ineffective and costly. They involve serious repercussions beyond the economy.

Poverty means the absence of resources, or inability to use them, that prevents people from meeting basic physical needs (food, accommodation, or clothing) as well as objective needs according to the accepted standard in a particular society.

A lack of material goods, poverty in its extreme form, or the lack of time, ability and relationships, are all specific manifestations of ontological scarcity. Scarcity is also imprinted in human nature: People are imperfect, deficient, and fallible.

When people face different types of scarcity, they feel tension and make an effort to reduce it. They act and participate in exchange. In general terms though, scarcity remains inescapable and unavoidable.

Realizing that deprivation is a natural state and that scarcity is inevitable does not mean that supporting those in need is meaningless. People care when others cannot satisfy basic needs, and they tend to offer help.

**Problem:** A lack of resources, or inability to use them, for securing personal or family well-being.

## Why does poverty exist?

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- Because of mental and physical disorders, or personal character, some people cannot provide for themselves: They cannot work, do not have property, and have nothing to exchange.
- Poverty may be caused by adverse conditions of the physical environment.
- In adverse social environments poverty is passed on from generation to generation.



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- Character weaknesses or inappropriate personal decisions, such as improvidence, laziness, indebtedness, or overspending, may lead to poverty.

## How does a free society reduce poverty?

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Charity is intrinsic to human nature. People care about those who cannot provide for themselves and tend to donate voluntarily. When single acts of giving become repetitive, support institutions based on voluntary participation evolve. That was the case prior to the establishment of the state social support system. Those who cannot earn income may receive assistance from family and neighbours, brotherhoods, the church, or charities.

## The influence of voluntary giving on people and culture

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**Positive personality traits such as love, attachment, benevolence, and solidarity develop.** They are nurtured in voluntary and mutual relations, and turn social assistance into traditions and moral norms.

**Direct personal relations thrive.** Personal ties allow givers to identify themselves with the beneficiaries: The more people are familiar with the conditions of the person in need, the more they are willing to help. The gap between the beneficiaries and supporters is narrowed.

**Giving to a community member in need is a moral duty.** In a community social ties are strong and people feel obliged to extend help to destitute members. If needed, minimum assistance is nearly always offered in the immediate environment. Evidence shows that less well-off members of society are more inclined to give because they readily identify with deprived groups.

**Voluntary support is not limited to material goods; it embraces socialization.** Voluntary help more readily includes communication, cooperation, or job references. In individual cases, those types of assistance might be even more important than financial or material support.

**Givers experience personal satisfaction.** When people help others directly, they satisfy their need for social relationships. Contributing to positive changes brings the highest degree of satisfaction, and this is particularly true of voluntary decisions.

**Private support is intended to empower people.** It is typically meant to help the beneficiary take responsibility for their life, provide for themselves and become worthy members of society. Private assistance is personalized and best fit for purpose.

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**Personal dignity and self-esteem build up.** As private support is typically intended to empower people, personal efforts, responsibility and investment into income-generating abilities are encouraged. That boosts self-confidence and self-respect.

**Charity will always be in demand.** As hardships and deprivation remain, they alert us and prompt to action, to further ties and sharing.

## The consequences of government intervention for people and culture

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**People get disconnected from labour, the primary source of well-being.** When entitlement benefits replace labour income, people lose incentives to exploit their potential. The willingness to invest in productive abilities and the motivation to learn and improve oneself decline.

**Social support is seen as something one rightly deserves, rather than as assistance and favor.** An illusion that poverty can be eliminated without personal effort is created. Recipients of social benefits develop an attitude that responsibility for saving them from poverty should fall on someone else. In the long run, they develop a sense of helplessness.

**Support is seen as a way of life rather than an opportunity to get back on one's feet.** People adapt to the social entitlement system. A social class who choose to live on benefits, rather than getting a job or starting a business, forms.

**Formal entitlement criteria incentivize fraud.** People are tempted to provide false information about themselves and may intentionally adjust to meet established criteria. For example, when support is provided only to single parents, couples may choose to misinform authorities about their marital status.

**Givers' motivation wanes.** Society develops an attitude that someone else should take care of unfamiliar people. The responsibility is transferred to the government. Empathy and altruism weaken.

**Donors receive less satisfaction.** People who finance the social support systems have no ties with the beneficiaries. They do not feel like they are contributing to positive changes.

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**Donors are pitted against beneficiaries.** Recipients of social support develop a belief that someone's deprivation is the source for another's enrichment. Givers may consider the beneficiaries as "leeches" on the system. Some taxpayers oppose the expropriation of their property for social provision.

**The foundation of charity is impaired.** Charity and solidarity get "nationalized." Directive support creates an illusion that those virtues may be delegated. Genuine solidarity can only build on moral convictions or mutual relationships. Moral decisions are impossible without voluntary decision-making. A centralized allocation of social care by the state relies on anonymous forced donations.



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*Ultimately, there's no reason to believe that politicians are more compassionate than the people who elect them, and judging by the effects of the politicians' programs, there's not much reason to think they're any smarter either.*

Lawrence W. Reed, *Incentives and Disincentives: They Really Do Matter!*

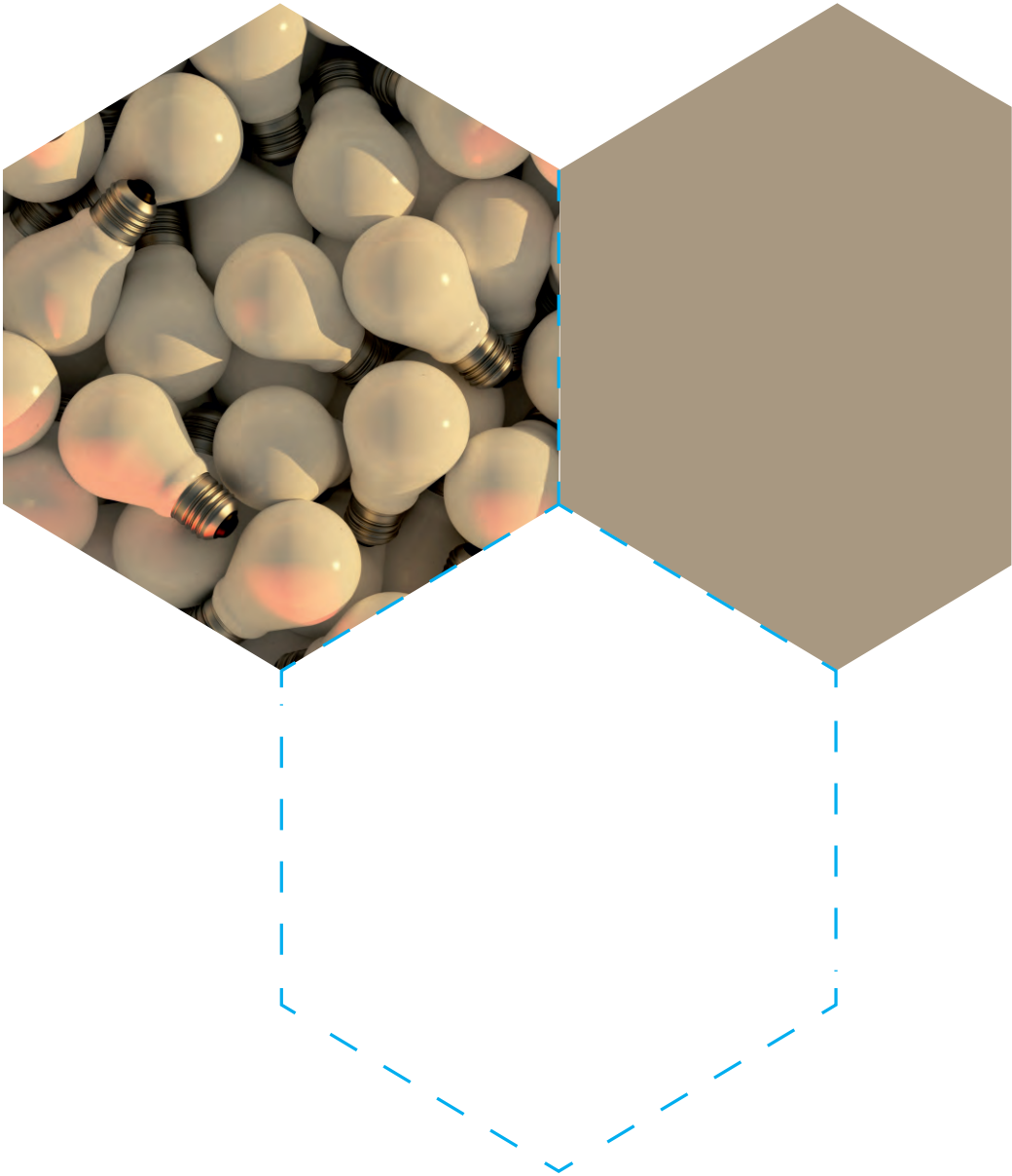
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**The foundation of social ties is shaken.** Alienation grows. People lose community ties, and the ability to recognize and respond to the needs of fellow citizens is impaired.

**The tradition of caring for loved ones dissolves.** Weaker members of society who have limited power to deal with poverty, such as children and elderly people, suffer.

**People have fewer incentives to create family.** Single parents may expect more generous state support than married couples, regardless of their actual needs.

**Cash benefits may not be the best solution.** Social assistance is generalized. Financial support may fail to address the underlying causes of poverty which may be related to character or specific circumstances and disabilities.



# ANNEXES



# ANNEXES

## ANNEX 1. Responses to scarcity and their implications

Understanding the paradigms of the responses to scarcity in a free society and under government intervention helps to assess the implications the two ways have for people, morality, and culture. The same logic may be applied across areas of public policy.

*In a free society*

*Under government intervention*

### Status with regard to the natural order of being

Natural, reflecting the order of being and human nature.

Constructed in a forced manner, dissociated from the natural order of being

### Conception of scarcity

More opportunity to comprehend the phenomenon of scarcity given that response to scarcity occurs on a personal or community level.

Limited opportunity to comprehend the phenomenon of scarcity because response to scarcity occurs through government.

More opportunity to understand the positive role of scarcity as an irreplaceable driving force, and to see human action as a path to advancement.

A tendency to delegate responsibility for the alleviation of scarcity to political institutions.

A constant interaction of an individual with scarcity.

Scarcity is seen as injustice that needs to be eliminated by political means.

People do not recognize emerging forms of scarcity and are numbed to the pressure of reality.

### Response to scarcity, emergence of institutions

The response is spontaneous and gradual. When people respond to scarcity directly, their decisions are tested and repeated. Voluntary institutions evolve.

The response is delegated to the government. Political institutions are created following public complaints, petitions, media reports, political programs, and lobbying. Political decisions are made to alleviate different types of scarcity, measures are adopted, funding is allocated, and political authorities are established.

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### Result of the response to scarcity

Partial results are possible, and space is left for further voluntary effort and improvement.

The natural predisposition to save time and resources while responding to scarcity is maintained.

Partial results are possible, and space is opened for further government expansion.

The natural predisposition to save time and resources while responding to scarcity is lost.

### Moral implications

Moral behavior is not perfect, but space exists to exercise free will and experience the consequences of one's decisions.

People can be guided by and can practice personal values.

Morality is largely delegated to the government. Free will is disregarded. It is harder to exercise personal values. The practicing of morality is reduced to decisions whether to agree or disagree with imposed rules. Irresponsibility and social indifference spread. Moralization replaces morality.

### Reaction to negative consequences

When the results are unsatisfactory, behavior is adjusted to avoid or minimize negative consequences in the future.

In the face of crisis, people have less ability to adjust behavior.

Laws, petitions, media reports, political programs, and corruption multiply until failures are acknowledged, interventionist decisions are made, new policies and laws are adopted, and funding is allocated.

## Annex 2. The conception of scarcity and its implications

*When the principle of scarcity is misconceived*

*When the principle of scarcity is properly conceived*

### On limitations of the world and human nature

The natural order and the limitations of the world and human nature are disregarded or denied. Natural scarcity is seen as unjust and evil. That leads to utopias and illusions.

A realistic worldview leads to actions that better reflect the structure of being and human limitations. A positive role of scarcity may be accepted, and conditions for personal harmony and social peace improve.

### On human action

Human action is seen as a means to eliminate scarcity, while failures lead to dissatisfaction, conflicts, and centralized alternatives.

Human action is seen as a natural response to the catalyst function of scarcity, as a way to improve the world and promote personal advancement.

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## On freedom, creativity, and labor

A conviction spreads that free and uncontrolled human action is flawed and fruitless if it fails to abolish scarcity. There is a temptation to fix “imperfections” through centralized government action.

Freedom, creativity and labor are understood to be in a permanent dialogue with scarcity, although they neither can nor have to eliminate it. It is taken for granted that one form of scarcity is replaced with another, previously disguised and unseen. When scarcity is accepted as an inexhaustible, positive element of being, that understanding advances personal harmony and social peace.

## On the origin and purpose of institutions and economic principles

Institutions and economic principles that naturally evolve to help humanity deal with scarcity are blamed for generating deficiency, deprivation, or hardships.

The origin of labor, ownership, exchange, money, and other institutions may be properly understood. People can better apprehend and accept economic principles and act in line with them. Well-being and peace are advanced.

## On failure of voluntary human action

Primordial and secondary scarcity, and their manifestations, are confused. Individuals or social groups are blamed for any types of scarcity. There is a temptation to delegate responses to scarcity to the government, which is expected to deliver better results. Freedom and morality are threatened. Neither utilitarian nor moral accomplishments are possible.

The distinction between primordial and secondary scarcity (secondary scarcity being determined by human imperfections or processes of nature) may be understood, and human action can match the regularities conditioned by primordial scarcity with the designation of institutions. The motivation to practice morality and to avoid secondary scarcity is enhanced. Reliance on personal, not centralized, responses to scarcity, is promoted. Society is better equipped to resist the illusion that an effective mechanism of dealing with scarcity can be designed by political will. People’s abilities to demystify political promises enhance.

