

Invisible Value

by Jane S. Shaw

My father lives in a home that has been in the family for half a century. It is full of heirlooms collected by an earlier generation—crystal glassware, china, Currier & Ives prints, and antique silverplate. My father is trying to figure out what to do with such things.

A kindhearted person, he would like to give them away, perhaps to a young bride furnishing her first home. It bothers him to think that a newlywed couple is buying an expensive new set of crystal glassware when a perfectly good (although perhaps incomplete) set is sitting unused on a remote kitchen shelf in his home.

But brides in the family are few, and none lives nearby. No one is likely to make a special trip to St. Louis to look at these heirlooms, and the chance of any one bride preferring this particular set of glassware or china, rather than something modern, is not great, anyway.

There may be people near his home who would love the crystal, the Haviland china, or the engraved samovar, but which people are they? Lack of knowledge (on their part and on his) means that good intentions are not going to get these collectibles to the people who really want them.

Readers of these pages know that there is a way to move these items into the hands of those who want them the most. People who specialize in discovering valued antiques

can buy them and distribute them to places where would-be brides (or perhaps their mothers or grandmothers) are likely to shop. These people may be called antique brokers or secondhand dealers. (Working a little differently, some are managers of house sales.)

Through markets, these people accomplish what good intentions cannot.

But sometimes owners are reluctant to enter the market. For example, my father would really rather give these items away. The only “payment” he wants is the knowledge that the items are being enjoyed and appreciated. If he sells them through the impersonal market, he will never know who receives them.

Furthermore, by entering the market, he will have to face the fact that the market may evaluate the items differently than he expects. Perhaps the crystal isn’t worth much, after all. The set may be badly chipped, out of fashion, too fragmentary, or perhaps not very precious to begin with. Even though my father does not want the heirlooms, and doesn’t need the funds they might bring, he has lived with them for many years. Having decided to sell them, he might find it painful to learn that the market doesn’t think much of them.

Such considerations explain some of the distaste we all have, at times, for market transactions. But there may be a more fundamental reason as well.

Markets like the antique market require “middlemen.” These are people who redistribute goods over space and time. They

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have a vital role, but the value they add is often invisible.

In his classic book *Knowledge and Decisions*, Sowell illustrates this role.¹ During the Second World War, markets sprang up in prisoner-of-war camps even though everyone's rations and Red Cross packages were identical. Trade occurred because people's preferences for the items differed and because the contents became more valuable if they were saved until most packages had run out. Some people—middlemen—saved their rations and arranged trades, providing services that others wanted. But they were also resented.

Why? Sowell explains that the prisoners accepted the "physical fallacy." Physically, the cigarettes and food packages were all the same. Trade occurred because the values increased when the items were moved through space or time.

But since the physical qualities of the items did not change, many people thought the value hadn't changed. Prisoners who received what they thought was a pittance for their cigarettes were resentful when the middleman resold them for a higher price. And the people who paid the higher price felt cheated by the middleman who had obtained them so cheaply. Indeed, the failure to understand the role of the middleman helps explain the resentment of people who fulfill this distributive role throughout the world and over centuries.

Fortunately, most of the time we accept the services of middlemen without thinking much about them. We recognize that a new appliance delivered to our door is more valuable than one we must pick up and bring home ourselves, and we are willing to pay the extra. Because the American economy is so efficient, such charges are usually quite small.

But every once in a while, when the role of the middleman looms larger than usual, the "physical fallacy" takes front stage. It

can happen when we try to dispose of unwanted heirlooms, if we fail to understand that a samovar gathering dust in the attic is less valuable than the same samovar sitting in the dining room of someone who loves antiques.

It may also loom large when we want to sell our home. Most of us go to a real estate broker, a middleman who has expert knowledge about prices and market conditions. But if we think that this person is merely "showing" the house, something that we can do ourselves, we may try to sell it ourselves and bypass the broker. We avoid a commission but we avoid the benefits of specialized knowledge as well. Similarly, we sometimes avoid literary agents, stockbrokers, and other individuals whose chief service is providing knowledge that brings buyers and sellers together. Doing this, we may be making a mistake.

So, for people reluctant to enter the market, I conclude with some advice. First, remember that free markets are composed of willing buyers and sellers, and a seller can reject any offer. Second, recognize that the market can be a vehicle for generosity. The proceeds from a sale can go to one's favorite charity.

As for the "physical fallacy," the problem is an intellectual one: understanding that distribution and related activities increase value. We get rid of what we value less than others will, and send it along the market chain to someone who values it more.

Moving heirlooms to someone who values them is my father's goal. If he is armed with a willingness to turn down an unsatisfactory offer and if he is ready to give the proceeds to charity, he can accomplish his objective through the market and feel good about the process. □

1. Thomas Sowell, *Knowledge and Decisions* (New York: Basic Books, Inc., 1980), pp. 67-72.



Liberty and Entrepreneurship

by Brian Lee Crowley

Once upon a time, in ancient Greece, sailors were transporting a cargo of natron, a washing powder, somewhere in the Mediterranean. They stopped to prepare a meal on a fine white sandy beach. Lacking stones on which to support their kettle, they used lumps of natron to hold the kettle over the fire. The heat from the fire fused the natron and the sand, creating glass. For all we know, similar accidents may well have occurred elsewhere without anyone seeing and appreciating what had happened. In this case, however, the accident and an intelligent observer worked together to bring a highly valuable creation to humanity, increasing, not by design but by happy circumstance, our power to achieve our purposes.

The nameless sailor who saw the shiny crust that had formed under the fire and whose mind rushed on to the possibilities implicit in this discovery was an entrepreneur. He had discovered, by accident, a single bit of useful information, one of nature's slumbering secrets. By seizing it, experimenting with it, and then exploiting it, he unknowingly unleashed a series of powerful transformations and innovations. It became possible to have both warmth and

natural light in buildings. Pots could be glazed. The seeds of mason jars, petri dishes, and the great stained glass masterpieces of Chartres had been planted.

Multiply this ancient example across all the many fields of human activity and we gain a new perspective on the entrepreneur's trade. Part of our human character is an urge to chafe against and try to transcend the limits on our freedom to realize our dreams. We want constantly to expand the areas in which we are not merely subject to mute and uncontrollable forces, but in which we control our actions and remake the world nearer to our heart's desire. When we are successful, we expand the realm of freedom, not only for ourselves, but to all to whom we make our knowledge available.

In this natural history of freedom, the entrepreneur's role is often neglected or overlooked because the contribution, while central, is little understood. Just as the ubiquity of the air we breathe masks its indispensability to life, so too the workaday character of the entrepreneur's contribution passes unremarked.

If it is true that human beings chafe against their limitations, then one way of defining the entrepreneur is as the person who makes experiments in transcending our limits, rather than merely contemplating them, who strives to make the first candle and thus to transcend the darkness. Entrepreneurs are the drones of the knowledge discovery process, the footsoldiers in our never-ending battle to beat back the frontiers of human ignorance.

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