IDEAS ON LIBERTY
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# Money Talks?

*by Gene Callahan*

When discussing business dealings, the phrase "Money talks!" often comes up. A similar aphorism is, "He who pays the piper calls the tune." The idea behind such sayings is that a person who is paying money is the superior of the person receiving the money. The payer gets to determine the nature of the relationship, while the payee can either conform or trade somewhere else.

On its surface, this seems to be a "capitalist" way of looking at things. After all, what could be more market-oriented than the payer's getting what he wants for his money?

I believe that such a view is fundamentally flawed. It obscures the most important aspect of market exchanges, and foments resentment against the market where it needn't arise.

To understand why, we must return to the roots of the marginalist revolution that swept economics 130 years ago. In 1871 the Austrian economist Carl Menger pointed out in *Principles of Economics* that parties to exchange cannot value the traded goods equally. After all, Menger asked, if they do so, why wouldn't they immediately trade the goods back? If Joe values a pig as equal to three chickens when he trades his pig for three of Mary's chickens, why wouldn't he take the pig back in exchange for the three chickens a moment later? Indeed, if exchanges took place when the goods were valued equally, why wouldn't the parties trade back and forth forever?

Clearly, if Joe trades one of his pigs for three of Mary's chickens, he must value three chickens *more* than he does one of his pigs, or he wouldn't bother exchanging. Similarly, Mary must value a pig *more* than she does three of her chickens. In other words, exchanges take place only when the parties *don't* value the goods exchanged equally. Each party values the goods he receives *more* than the goods he gives up.

When we apply this insight to an exchange involving money, we can begin to see the problem with the idea that "money talks." It is true that the laborer must value the wage he receives more than the time and effort he gives up to earn it, or he wouldn't bother working. But it is equally true that the employer must value the labor he receives more than the money he gives up to buy that labor, or he wouldn't bother hiring. Both parties are giving up something they value less in order to receive something they value more. Or, as we might put it more colloquially, no one is doing anybody else a favor.

The person offering money for labor is hoping to gain something, every bit as much as the one who offers labor for money. Neither is the other's benefactor, and neither has an intrinsically superior position in the transaction.

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The factory worker might find himself desperate for a job so that he doesn't lose his house. But the factory owner might find himself desperate for workers so that he doesn't lose his factory. In fact, in modern economies almost everyone both offers goods and services for money, and money for goods and services.

I worked for a time at Stew Leonard's in Norwalk, Connecticut, a business that gained renown as "the world's largest dairy store." Stew's successful operation was studied by businessmen from as far away as Japan. His motto was, "The customer is always right." A customer could return only the bone from a large roast, claim that the roast didn't taste right, and receive a refund. Stew always believed that he would get more business from the customer in the long run by fulfilling a bogus refund request than by turning the customer down. If someone's goal is to maximize his monetary profits, that's not a bad way to do business.

On the other hand, a businessman could also choose to operate like the Soup Nazi on "Seinfeld." That character knew he had the best soups in Manhattan. He also felt he was an artist when it came to creating soups. If a customer didn't feel like playing by his rules—for instance, if the customer asked about the ingredients in a soup—he would throw the customer out of the store. There is nothing "irrational" or "non-economic" about such behavior. The Soup Nazi had decided he would sacrifice some potential monetary gain in exchange for an increase in his artistic freedom.

## Renaissance Advance

George Mason University economist Tyler Cowen, in his book *In Praise of Commercial Culture*, notes that just such a decision marked a great advance in artistic freedom during the Renaissance. Throughout the Middle Ages artists had been subservient to their patrons, executing works in whatever manner the patron wanted them. But during the Renaissance, artists began to have their own ideas about what work they were willing to do and just how they would perform it. With Michelangelo, the independent artist had fully arrived. As Cowen says, "Customers paid fantastic fees for the privilege of hiring Italy's most famous artist."[1] Even Pope Julius II, "one of the most powerful men of the sixteenth century," could not force Michelangelo to compromise his artistic standards. When the Pope did not supply the building materials Michelangelo expected for a commission, Michelangelo walked out on him and returned to Florence. "It was the Pope who made concessions to Michelangelo to ensure his return to the project," Cowen writes.[2]

Cowen points out that such behavior "does not contradict the economist's notion of 'consumer sovereignty,' properly interpreted; rather, the artist himself is also a consumer bidding for his own time. If the artist prefers to satisfy his own tastes rather than to receive more money from buyers, that also represents satisfaction of a market demand—the artist's."[3]

The idea that the person offering money in an exchange is superior to the person offering other goods is a vestige of an antiquated, status-based way of viewing social relationships. During the Middle Ages, as Princeton historian Theodore Rabb says, "one's social standing relative to others was determined, at birth, by a web of rights and obligations that depended on land and its products."[4]

In feudal society it was usually the landed nobility who employed others. The employed were regarded as their social inferiors. As a result, the role of a person hiring another for money was usually seen as socially superior to the role of the person hired.

However, in certain cases the person receiving money might have had a higher status than the person paying him. The continuing effect of such a status-based view is apparent when we consider professions where, unlike at Stew Leonard's, "the customer is often wrong." We might include college professors, lawyers, doctors, and skilled tradesmen in such a list. All of those professions had a status above that of an "ordinary" laborer or peasant. To this day, none of those professions treat the customer in the same fashion as, for example, a typical supermarket or restaurant does. Doctors give their customers (patients) orders about how to conduct their lives and make them sit for 45 minutes in a waiting room. College professors do not ask students what they want to learn, but tell them what they must learn. Unlike at most stores, where the employees must park in special areas far from the entrance, saving the best spots for the customers, professors typically get the best parking spots at college campuses. The difficulty of getting a skilled carpenter or plumber to show up for appointments is legendary. These examples demonstrate that it is not the mere fact of being paid that makes the difference, but is instead the status attached to an economic role.

## Claims of Exploitation

The lingering belief that the person offering money in an exchange is somehow superior to the person offering other goods is damaging to the case for the market economy. It fuels Marxist claims of exploitation and breeds resentment among people who find themselves considered "inferiors" because they exchange their labor for money.

It is true that in the market economy "money talks." But so do labor, oil paintings, heads of cattle, and every other good offered for exchange. All offers are attempts to persuade another to trade. We all create the "economic pie," and we are only "entitled" to those portions of it that we have made ourselves or that we have persuaded others to voluntarily exchange with us. Once we recognize that, we'll see that we're all in this together. ☐

1. Tyler Cowen, *In Praise of Commercial Culture* (Cambridge, Mass.: Harvard University Press, 1998), p. 93.
2. Ibid., p. 94.
3. Ibid., p. 90.
4. Theodore K. Rabb, *Origins of the Modern West: Essays and Sources in Renaissance and Early Modern European History* (New York: McGraw-Hill, Inc., 1993), p. 163.

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# Regulatory Roadblocks to Turning Waste to Wealth

*by Pierre Desrochers*

The small industrial town of Kalundborg, located 75 miles from Copenhagen, shouldn't be on the radar screen of most visitors to Denmark. It has nonetheless become something of a Mecca for "sustainable development" theorists the world over.

Kalundborg's main attraction, apart from its twelfth-century cathedral, is a network of recycling linkages that have developed over the last three decades between four large industrial plants, the municipality, and a few smaller businesses. This "Industrial Symbiosis," as it is now known, originally comprised five core partners: an Asnæs power station (Denmark's largest), a Statoil refinery (Denmark's largest), a Gyproc plasterboard factory, Novo Nordisk's largest pharmaceutical and industrial-enzymes plant (which produces, among other things, 40 percent of the world's supply of insulin), and the City of Kalundborg.

Beginning in the 1970s a series of deals between these otherwise independent entities gave rise to various recycling linkages. For example, a few years ago, the Asnæs station supplied residual steam from its coal-fired power plant to the Statoil refinery in exchange for refinery gas that was formerly flared as waste. The power plant burned the refinery gas to generate electricity and steam, and sent its excess steam to a fish farm, a district heating system serving 3,500 homes, and the Novo Nordisk plant. Sludge from the fish farm and pharmaceutical processes became fertilizer for nearby farms. Surplus yeast from the biotechnology plant's production of insulin was shipped to farmers for pig food. The fly ash from the power plant was sent to a cement company, while gypsum produced by the power plant's desulfurization process went to the Gyproc gypsum-wallboard plant. The amounts of avoided wastes were significant, including 200,000 tons of fly ash and 130,000 tons of carbon dioxide, while Asnæs saved up to 30,000 tons of coal a year. While most of these linkages are still functional, a few were abandoned and new ones have since been created.[1] (See diagram.)

## A Spontaneous Phenomenon

By all accounts the Kalundborg industrial symbiosis was not designed by consultants or financed by Danish government officials, but rather was the result of several distinct bilateral deals between company employees seeking, on the one hand, to reduce waste-treatment and disposal costs, and, on the other, to gain access to cheaper materials and energy while generating income from production residue. Indeed, it was only in the late 1980s that the various participants in the symbiosis first recognized the environmental implications of the partnerships and exchanges that had evolved since the early

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