Remembering Julian Simon

BY PAUL A. CLEVELAND AND ERIN HAGERT

The late Julian Simon was not a household name, but he left an indelible mark nonetheless by demanding that environmentalists produce evidence for their doomsday predictions. Meanwhile, he produced his own evidence showing that the planet was becoming more, not less, hospitable to human life.

Born in 1932, Simon grew up in a Jewish family in New Jersey and absorbed many of the popular environmental and economic misconceptions of his day. However, in time questions arose that eventually led him to reject those misconceptions and launch an offensive on behalf of sound thinking and human creativity.

Julian Simon (1932–1998)

People, Simon realized, are not mere consumption machines. As his colleague Stephen Moore noted in a eulogy for Simon, who died in 1998, it made no sense to him that when a calf is born in a country, per-capita GDP rises, but when a human being is born, per-capita GDP falls. The ability of people to create wealth gives rise to economic progress and promotes general well-being. From this realization Simon went on to dispel the myths of overpopulation and resource depletion.

Simon's adversaries derive their ideas from various faulty environmentalist assumptions traceable back to Thomas Robert Malthus. In the late eighteenth century Malthus put forth his famous but bleak principle that population growth would outpace food production. In modern times this kind of thinking has led to government intervention of various sorts, including the barbaric one-child policy in China.

But Malthus was wrong (as he conceded in later editions of his book). He assumed people would not innovate or change their behavior in connection with changes in their economic situations. As Simon noted, technological and economic advances permitted not only the maintenance of a larger population but also a significant increase in living standards. The rise in per-capita food production has exceeded population growth.

Though this truth is well established, it has not been well received in the academic world or generally. Environmentalists such as Paul Ehrlich persist in promoting Malthusian ideas, claiming that people are destroying the environment and that if anything is to be left for our children, the world must be protected from capitalism. In his 1968 book, *The Population Bomb*, Ehrlich wrote, "In the 1970s and 1980s hundreds of millions of people will starve to death. . . . At this late date nothing can prevent a substantial increase in the world death rate."

It never happened. Yet such nightmare scenarios are still promoted by the media, the public schools, and opportunistic politicians. The stories have been told so often that most people take for granted that we are running out of food and natural resources and that government needs to do something now.

But as Simon pointed out, "Every agricultural economist knows that the world's population has been eating

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ever better since World War II. Every resource economist knows that all natural resources have been getting more available rather than more scarce, as shown by their falling prices over the decades and centuries." The price of food relative to wages in the United States is now only about a tenth of what it was in the 1800s.

Simon was a pioneer in proving the doomsayers wrong. In many books and articles he used hard data to wage an assault on a vast number of environmental myths. In his best-known book, *The Ultimate Resource*, he went to the heart of the issue: human intelligence is the most valuable resource because it discovers uses for nature's materials. In other words, people *create* resources out of otherwise useless stuff. Moreover, he observed that the advance of human well-being has come in conjunction with free markets, which allow the greatest latitude for human ingenuity. As a result, life expectancy has increased, which in turn has led to the population boom.

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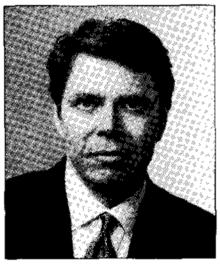
This conquest over premature death is something to celebrate not lament. Human beings live longer, healthier, and more comfortable lives than ever before. In a 1994 study Simon concluded that "everything we buy—pens, shirts, tires—has been getting cheaper over the years because we know how to make them cheaper."

What is even more astonishing is that "natural resources have been getting cheaper even faster than consumer goods." This is exactly opposite of what the environmentalists predict. Simon's key realization is that people, when left to their own devices, will forever improve their knowledge of how to make products cheaper and will constantly come up with better alternatives. For example, before its utility was discovered, crude oil was considered a nuisance that devalued property. Only when someone found that kerosene, an efficient illuminant, could be distilled from it did oil become valuable. "Minds matter economically as much as or more than hands or mouths," Simon said. "Human beings create more than they use, on average. It had to be so, or we would be an extinct species." He showed that "almost every economic and social change or trend points in a positive direction, as long as we view the matter over a reasonably long period of time."

The Bet

Simon was provoked to put his money where his research was when he heard Ehrlich say on "The Tonight Show" in 1980, "If I were a gambler I would take even money that England will not exist in the year 2000." Simon bet that any five resources of Ehrlich's choosing worth $1,000 would be less expensive in real terms in a decade. The loser of the bet would pay the difference in price to the winner. In 1990 Ehrlich's choice of copper, chrome, nickel, tin, and tungsten was not only cheaper after adjusted for inflation but also in nominal terms. On average the prices decreased 40 percent. As Simon had predicted, the metals became cheaper because human innovation created less-expensive ways of mining them as well as substitutes for them. Ehrlich paid Simon the $576.07 difference but said he had not changed his mind about the future. Which one was the scientist?

The Fed's Potent Power



BY DONALD J. BOUDREAUX

The Federal Reserve holds the fate of the U.S. economy in its hands. Or that's the conclusion many observers draw when they watch investors react wildly to the most minute details of the Fed's policy statements.

This conclusion is at once exaggerated and accurate.

It's exaggerated because, at bottom, the Fed controls only the supply of dollars. All the entrepreneurial creativity, the risk-taking, and the human effort that generate our prosperity are in the hands of each of us. If we consume without saving and laze about, or if other government agencies tax and regulate us imprudently, the economy will decline, regardless of how wisely the Fed behaves.

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Suppose we choose to save more. This change in our preferences would mean that we are willing to consume fewer things today in exchange for more things tomorrow. From each of our perspectives, this savings involves actions such as putting more money into savings accounts or buying more shares of corporate stock. From the economy's perspective, however, additional savings releases some resources from the need to produce goods for consumption today. These resources become available for use in producing more capital goods and services—more factories, machines, and R&D.

Regardless of perspective, an increase in savings reduces real interest rates. These lower rates help to "tell" investors to produce fewer consumption goods and more capital goods. Of course, each investor sees only the lower cost of borrowing. But this lower cost means that some investments that previously were unprofitable are now profitable. Profit-seeking investors rush resources into these now-worthwhile projects.

Now we can see the potential problem with the Fed's control of the money supply. Because savings, lending, and borrowing are done in dollars, when the Fed pumps out too many dollars it appears to banks as if saving has risen. Banks have more funds on hand to lend. Competing for business, banks then naturally lower interest rates, prompting investors to borrow more in order to produce more capital goods and services.

But increasing the money supply does not really increase people's willingness to save. The lower interest rates caused by money-supply growth are an economic lie. They trick investors into thinking that income earners have become more willing to supply resources over time to support investment projects. The genuine interest rate—the one matching people's willingness to save with investors' willingness to invest—has not fallen.

After the Fed's initial wave of new money works its way through the economy—sparking, by the way, some price inflation—banks find that people in fact are still saving at the same lower rate as before the Fed injected the new money. Banks will thus raise interest rates back to previous levels that accurately reflect people's willingness to save.

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