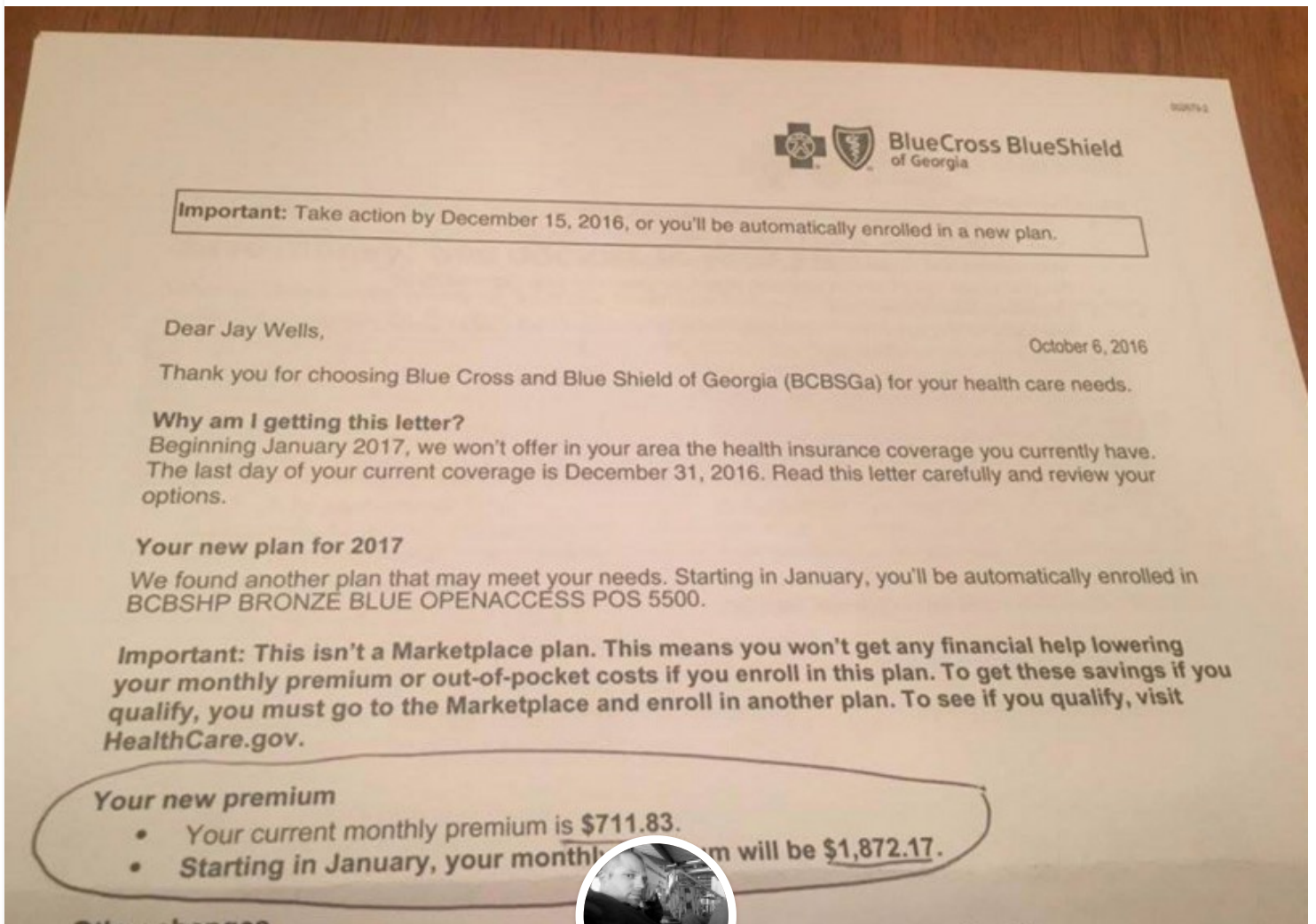


Interest • Policy

America's Social Problems are Partly Economic

by AJ Powell 2 Comments 28 min read

Written by [AJ Powell](#)

Above all things remember this, there is no such thing as “free”.

Let's face facts here... The United States has some serious problems. The nation suffers from out-of-control government spending, retains the most debt of any other nation in history, mounting social division on political issues is tearing the nation apart. Entire generations of people are taught that violence and crime are acceptable and that hate and distrust of authority is correct. We have racist, violent hate-groups posing as

victims while committing crimes across the nation. There's a growing racial divide, accountability and acceptance of responsibility have gone out the window, corruption is continuously exposed at every level, and a biased main-stream media only makes it all worse by pushing single-sided agendas...

America is quickly nearing a breaking point, to say the least... but many of these social problems are not entirely isolated. Indeed many of them do share a common source of frustration, and the reality exists that much of the nations social issues are economic at their source. Millions of people are simply angered that the cost of living their lives continues to rise, but many simply don't understand why that is. They're all looking for someone – or something – to blame, when the answer has sat right in front of them all along.

The truth is, that American economic problems are a root source that shares part of the blame for many social issues today, and most of our economic problems are the direct result of liberal-minded policies and entitlement attitudes. Big government, socialized programs, spending beyond our means, a thousand needless taxes, social freeloading, needless and excessive bureaucracy, and an absolute refusal to accept responsibility and accountability at all levels has led to digging an economic hole that is tearing the nation apart from many different directions. What we have here is a classic example of a cry for real change, but nobody wants to actually *be* that change. No one thinks they are a part of the problem, and worse, attempts to fix the problem have consistently taken the lack of responsibility approach of, "it's always someone elses fault", while finding home in the liberally-minded arguments that, "It's the governments job to fix it."

Unfortunately, big government is not the answer, and to prove it, we must first help educate some readers here on some simple economics before we move on. After all, without a general understanding of the reasons *why* the issue is the way it is, you'll never be able to intelligently follow the conversation. (If you do, however, have a firm grasp of economics, then consider this first part merely a simplified refresher) So moving on, let's start with the most basic principle, the foundation of all economics... There's no such thing as a free lunch.

Some Basics of Economics

There's no such thing as "free" [1]

We hear politicians and advertisements say the word "free" all the time, don't we? In a recent online article, [Obama stated at a news conference](#), "... thanks to Obamacare, Americans now got free preventive care, free checkups for women, free mammograms, and allowed children to stay on their parents health care plans into their 20s." (There's a specific reason this particular article was quoted, and we'll get to that, so just stay with us here) But just for a second, lets take a step back and do some critical thinking... is it all *really* "free"? Where did all those services come from? They had to be created somehow, right? Someone has to manage them, someone has to provide them, resources need to be brought in and provided to customers, and all of that costs money. People don't work for free, so it's safe to say that the healthcare professionals who provided those services don't work for free either. If you as the customer who took advantage of those *free* programs didn't pay for them, who did? How did those people get paid, and how do the programs get paid for?

Just let those thoughts sit in the back of your mind while we move on. We'll come back to this later on.

Monopolies [2]

Next, it's important to understand some basic economic principles of monopolies. I know what you're thinking... "Whoa... what do monopolies have to do with anything?..." Trust me, we'll get to that. For now, just understand that once you remove competition from a market, price ALWAYS increases. It's the rule of the monopoly after all.

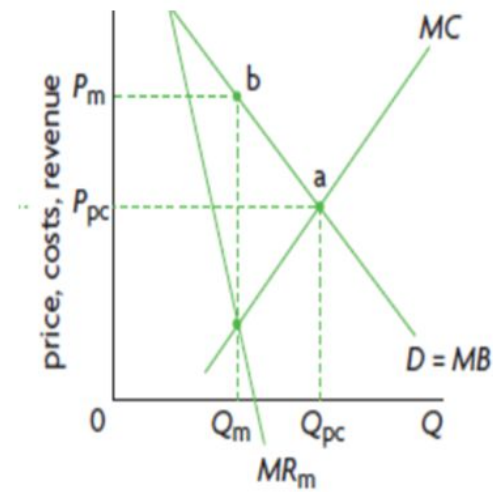
ALL monopolies work the same way. Because there's no market competition, a price floor is introduced to raise the price to the highest point to where the maximum profit is yielded (i.e., the highest apex of the monopolistic demand curve). This means that the price of a good in a market controlled by a monopoly is always higher, and the quantity supplied of that good is always lower, than either one of them would be in a market where competition takes place. Why is that?

Comparing Perfectly Competitive Market and Monopoly

- Assume the same demand and supply curves for the perfectly competitive industry and the monopolist
- The perfectly competitive firm will charge P_{pc} and produce total of Q_{pc}

But **if** the perfectly competitive industry was organized by a monopolist, the MR curve will **no longer** be the demand curve (P and AR). It will lie below the demand curve

- → this is the only/fundamental difference!
But lots of implications!!



Think about it. Let's say you own a business that produces computers, and you use windows as your operating system. Well, there are tons of other companies who also produce similar computers that use the same or a similar operating system to run them. If they share similar aspects, you're all in a competitive market together. You're each competing for consumer purchases of your product. Customers will always choose to maximize their own utility, which means they want the best product they can afford for the cheapest price. If your company is able to keep its cost of producing your product lower than your competition while still producing a quality product, you can offer a cheaper price, and customers will buy your product over your competitors. This is a win for the consumer as competitive markets always have the consumers' best interests in mind.

However, a market ruled by a monopoly does not have the consumers' best interests in mind, it has the monopoly's best interests in mind – or rather, it's profits. Businesses who have no need to worry about competition have no need to worry about placing a product on the market at a competitive price. The company will still try to keep all its production costs as low as possible, but it will produce less and charge more for the same product in order to maximize its profit. This creates a “false” sense of the true price of the product that is fed by the same level of demand found in a market that has competition in it. Essentially, it creates a bubble through the use of a “false” shortage.

If you're now thinking that producing less and charging more to earn maximum profits is not in the best interests of consumers, you're exactly right. Monopolies create highly inefficient markets and lots of consumer loss compared to what *could* have been produced in a comparably competitive market. You're also

probably still thinking, just what does all this have to do with the economic problems of the United States, and what does *that* have to do with the social problems the nation is facing?

Remember we started off by stating that American economic problems are the direct result of two distinct factors: liberal-minded policies and entitlement attitudes.

Social Policies and Public Goods Dilemma's

Public Goods (aka “Social” or “Collective” Goods): Goods that are nonrival in consumption and their benefits are nonexcludable.[3]

Now let's not create a misunderstanding here... Liberal policies have created some good things for society in the past. Public goods – for example – are the product of liberal-minded policies that have produced things we all need and benefit from. Peace Keepers (Police), National Defense (Military), Infrastructure (Roads, Utilities, etc.), and even Conservation (Environmental Policies) are all things we benefit from as a society. However, all liberalism must be tightly controlled by conservatism if society is ever going to make those policies work, and furthermore, not all liberal-minded policies are a good idea. There must be a balance. Back to the public goods examples just mentioned, just because *some* public goods are positive to the benefit of everyone, doesn't mean all are. After all, to state that, “what is good for some is good for all” is a fallacy. All public goods create dilemma's, some to such severity that they can tear down a nations entire social structure long down the road. To prove this point, let's quickly look at an example we already mentioned: Police.

Free-Rider Problem

Free-Rider Problem: A problem intrinsic to Public Goods: Because people can enjoy the benefits of Public Goods whether or not they pay for them, they are usually unwilling to pay for them.[4]

Lets say you live in a neighborhood that has a law that everyone who lives there gets emergency services provided to them by virtue of living in that particular neighborhood. To provide for these services, everyone who lives there pays for them collectively as part of their monthly bill. For this, lets say each resident currently pays \$50 a month. Now, the next neighborhood over has been struck with an increase in criminal activity. You and many others want more police protection, and you are each willing to pay an extra \$10 a month for it, but the problem is that nothing is contingent on an increase in payment to what's already being paid.

Think about that. First, police services are already available with what everyone already pays, your neighborhood has little to no crime, and all residents are happy from the benefit... But one or more of your neighbors realizes something... The law states that all who live there must be provided with the services regardless. In other words, they would get the benefit of increased police protection whether they pay for it

or not. Even if everyone else chips in extra money for increased protection, the one who refuses still gets a free ride. This dilemma is called the Free-Rider Problem, and all socialist programs create this problem.

Drop-in-the-Bucket Problem

Next, let's increase the size of the problem to a whole city instead of a neighborhood. Everyone's individual cost to support the service increase is minuscule relative to the amount that is already collected to support the service in the first place. The amount it would cost to produce more of the service to such an extent to where everyone equally sees an increase in the service is equal to or greater than what they already contribute. A small increase in amount per person won't create a significant impact comparatively whether you contribute or not, and as such, the average person would never opt to contribute. Consumers will always act in their own self-interest, and as such, have no incentive to contribute voluntarily to the production or increased production of public goods. This is called the Drop-in-the-Bucket Problem.

Social Freeloading and the Entitlement Mentality

Now, the problems with the Free-Rider Problem and the Drop-in-the-Bucket Problem are that they lead to a number of social issues, and this is exactly where those entitlement attitudes we mentioned before come into play.

For example, because some costs are not readily seen (they are hidden), many people have come to falsely believe that some things are "free". For example, emergency services are often paid for by taxes, and most people don't always think about those costs in their daily lives. Because they are used to this mentality when thinking about the product or service in question, they falsely come to believe it *should* be free. This creates the problem of Social Freeloaders – whereby people who believe certain services should be free will refuse to pay for them if they can find a way to get it without paying for it. Social Freeloading is responsible for cost increases in socialized programs because more people are using the services these programs offer than are paying for the costs of running the programs. Essentially, they believe it *should* be free (despite the fact that it costs money), and because they refuse to pay (and the costs must still be paid), the bill shared by everyone else who does pay increases.

But Social Freeloading occurs in other ways too. Illegal immigrants, for example, are social freeloaders when they invade a society and because they are criminals and don't want to get caught, they don't contribute to paying society's bills (taxes), despite taking advantage of socialized programs and benefits. The same goes for people who refuse to find work because they are comfortable living off of welfare and a variety of other socialized benefits. In short, the fewer people who pay to support a public good or service, combined with more people who use those goods and services without paying, the higher the bill will be for those who do pay for it, and this is what leads to increased social division between those who do pay (but the bill keeps getting more and more expensive), versus those who don't (but believe they are entitled to the benefit).

Let's look at one more example. Not many people would readily pay admission to a park to see fireworks. After all, once the firework is lit off, people can see it for miles in the sky. So upon arriving at a location to see a nighttime firework show at a normally public park, and finding there's an admission fee for the event, people will simply travel a little ways down the road and find a place to watch them for free – like a loft, a multilevel parking garage, or simply a different park. After all, why pay for something when you can get it for free? But the social-psychological aspect of it all is far deeper than that... Many people think they should *never* have to pay to see fireworks. They think it should *always* be free, so they will never willingly pay for it, and instead, many cities take the cost of the event out of their annual budget. People pay for it with taxes, and essentially, are never given the choice whether or not they want to contribute. Essentially, the firework show is a good example of a public good creating an economic dilemma (freeloading), and to solve the issue, the local government turned the show into a socialized program, whereby it takes tax money to pay for the costs of the show.

In reality, this may or may not cause a tax increase, it strongly depends on the specific city or local government, but the point here is, that many people refuse to accept that there is no such thing as “free”. All resources in the world are finite, and therefore, everything comes at a cost to produce it. The material to make the fireworks costs money, the people who put them together must be paid for their work, the company that puts on the show must pay its bills, the space used for the show must be rented or a permit must be paid for, and even the clean up services required after the show costs money. Yet while these costs of putting on a firework show must be paid, and while people want to see a fireworks show, most will readily refuse to pay for it if ever given the choice. They believe it should be free.

Other examples of society at large falsely believing (and in some cases outright demanding) that some things should always be free are Internet websites and services. Social media and this Journal are just two such examples. People have gotten used to using social media websites by now, of which the major ones are seemingly free to use. These sites allow the sharing of information that the user sees as provided at no cost to themselves – but they would be wrong in that assumption. Major social media sites are big business, and they make millions and billions off their users information. They take anything and everything their users do and sell that data for major profit to advertising companies, special interest groups, marketing conglomerates, information brokers, government agencies, and anyone willing to pay for it. In return for being able to use the site, users pay with their digital data. Yet because users don't readily see this transaction take place, they seem to believe social media use is free.

So when the average social media user comes across a website that requires a paid subscription to access its information or services (like this one and a large number of others that offer paid services), they are often angered at the notion of being required to pay for the information. In short, they believe it should be “free”. They don't care that the site costs money, the information produced costs time and money, or that the authors should be fairly compensated for their work... they simply see just another website, and since they think the Internet is a right, not a privilege, and all websites therefore should be “free” for them to access and use, they are immediately disinterested in the idea of paying for a service.

Social Freeloading is a problem of both a lack of education and bad mentality. Part of the problem is caused when the individual has little to no real understanding of economics – for example, the most basic principle that we discussed earlier, that there is no such thing as “free”. They have a limited or false understanding of what it takes to produce a product, how markets work, or why even seemingly “free” services are not actually free at all. The other part of the problem is created when people falsely believe they are entitled to something they have not earned or that someone else has. This creates social friction between those who are forced to pay for the benefit versus those who refuse but believe they are entitled to use it. Of course this is not to suggest that all who are in need of a benefit but cannot readily pay for it are therefore “freeloaders”. Some people truly are in need, and rightfully so, should be helped. But actual Social Freeloaders both suffer from ignorance and have an entitlement problem; they are a drain on society as a whole, and unfortunately, these attitudes are the basic stances of liberal-minded policies.

The Connection to Socialism and Society's Problems

The liberal stance is that government should work for the benefit of all, and so liberals believe big government is the answer to solving social problems. The problem with that is that government control over any production of a public good is socialism, and socialism is what ruins markets.

Removal of Choice

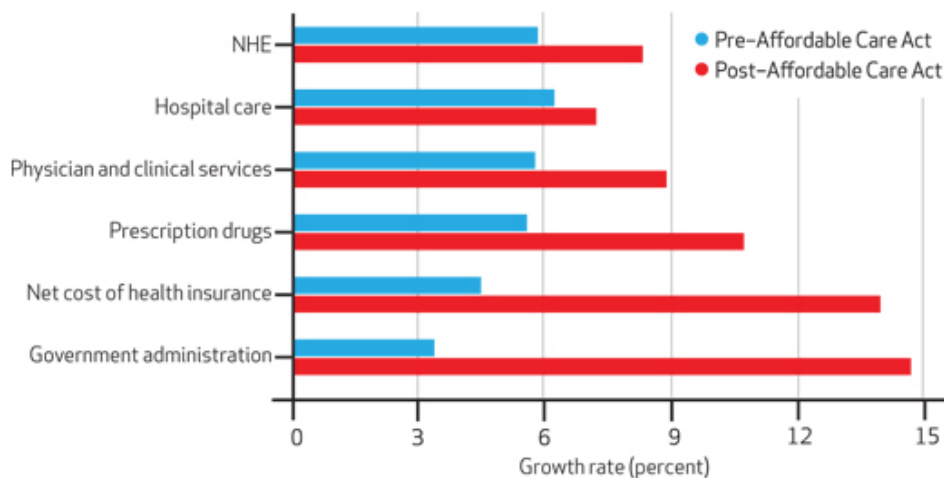
The first way that socialism ruins markets is through the removal of choice. Socialism comes in many forms (like Communism, for example), but it all works the same basic way... The freedom of choice in a market is removed from the consumer by taking a resource away from the individual by force (either military force or through public policies like taxation or through enforcement policies like federal penalties) and then

redistributing that resource to everyone. Socialism can come in the form of an entire government forcibly redistributing all goods and services equally, or in the forms of laws that create government-run social programs designed to offer goods and services to everyone (like Obamacare). But the problem is that all forms of socialism automatically take away free-market participation (effectively removing private and public industry from competitive market participation), and consolidates resources (products and services) under government control. This removes consumer “choice” in the market, and therefore removes the ability FOR “choice”. Since whether the government now controls a part of the market or the whole market, they are now creating monopoly in that particular market. Once a monopoly is created, competition is removed, and the freedom of choice is removed, price will always go up to the highest profitable level.

Government Inefficiency [5]

The next way that socialism ruins markets is through the problem of Government Inefficiency. We all know that the rise and fall of entire industries is at the whims of consumer interest. Let’s think about that for a second. All businesses past and present only exist because people take interest in what they produce and are willing and able to buy their product. (The key words there are *willing* and *able*) Businesses must compete for profits in a market and only efficient firms producing goods that consumers can and will actually buy survive. If a firm is inefficient – for example, it is producing at a cost higher than necessary – the market will drive it out of business. Therefore, all businesses have a real incentive to produce efficiently in order to survive. However, the government has no incentive.

How Will Health Reform Affect Health Care Spending?



Government officials – those who run agencies like the TSA, DHS, the State Department, DOJ, FBI, IRS, the VA, and even members of Congress – are individuals with their own agendas and objectives. Government officials should always be assumed to maximize their own utility, not the utility of the public, because there is never the threat of their agency being put out of business. If a government bureau is producing a necessary service (like the FBI, the State Department, or the DOJ) or one that is mandated by law (like DHS, the VA, or Obamacare), it does not need to worry about customers. No matter how bad or wasteful the service is at spending too much and/or producing too little, everyone has zero choice in either the production of the product or the continuation of the agency. As far as the government is concerned, the costs of those agencies is paid for by taxes, and you WILL pay taxes.

Case, Fair, and Oster point out that government-run monopolies are a convenient source of easy revenue for the government.[6] Remember when we discussed the differences between businesses in a competitive market versus monopolies? Since you have zero choice in paying taxes, any market the government is allowed to step into instantly suffers the same effects felt by a market controlled by a monopoly. However,

what makes a government-run monopoly far worse than a private monopoly, is that the government doesn't need your consent to participate in the market. Even if the production costs are out of control, it has zero incentive to bring them under control and lower them because taxes guarantee the continued funding of the government-run monopoly. And since there's no competition, the price for consumers to participate in the market is not set at the point that benefits the consumer, but instead at the point that makes the highest profit.

Shortages [7]

The third way that socialism ruins markets is through shortages. Remember when we talked about how monopolies create shortages? Well, socialism automatically creates "shortages" too. Remember, in economics, a shortage is when there is too little of something being produced to keep up with demand. Further, shortages ALSO equals price increases. This is because as demand rises, and supply is limited, price will always rise to generate maximum profit. With socialism, once prices start to rise, less and less people can actually afford to participate in the market. However, the demand remains the same despite lack of consumer ability to participate. Remember our previous example of the neighborhood that shared the cost of police protection? Just like with all public goods and government-run socialized programs, the "law" is written that the government must provide access to the public good to all... So less people can afford to pay, but all are required to be covered. Socialism's answer to this is higher taxation to cover the costs of the monopoly, thus vastly increasing the cost of production. This inflated "cost" is of course a "fake" cost, not a "real" cost. It rises because output is beyond input. In other words, more money is now spent than is made.

Remember our earlier discussion on Social Freeloading? There will always be freeloaders in society. Whether it's the individuals who refuse to pay the increased costs associated with the program because they don't see the benefit of doing so but still take every advantage of the benefit regardless, or it's the illegal aliens needlessly burdening the system by using it but not contributing to it because they don't want to be caught, Social Freeloading is a major part of creating shortages, and another reason why government-run programs are so expensive. Again, lots of people demanding the use of a public good for free. Back to the firework example, as more and more people want to watch the fireworks show without paying for it, the cost of the show for each person who actually does pay the bill increases. Eventually, those who do pay "their fair share" will get sick of doing so because it continues to get more and more expensive, and before you realize what is happening, both sides are divided and angry at each other.

How Economic Problems Become Social Problems

Big government, liberal-minded policies, socialism, and entitlement attitudes each work to create several massive economic problems... They create monopoly, which drives up price by removing free choice and market competition. They create shortages by removal of market participation and market competition while maintaining high demand. They create three forms of false increases in price. The first is due to social freeloading, which raises prices due to lack of input. The second is due to lack of participation capability after prices eventually rise beyond what people can afford to pay. And the third is created by the problem of government inefficiency, which leads to higher costs caused by ineffective and out of control government spending habits. And finally, they create a vast array of social problems like the Free-Rider Problem, the Drop-in-the-Bucket Problem, Social Freeloading, and eventually lead to social friction and strife.

Because people can effectively get what they need without a requirement to work hard to earn it, they don't care to work hard to earn it. Why pay for something when you can easily get it for free, right? We demonstrated this with the police and firework examples, and we see this every day on the internet when people demand information for free simply because they believe it "should be free". Because of freeloaders, those who DO work hard and contribute to the system are forced to contribute more despite already paying more than their fair share. So instead of being taken advantage of, some eventually chose to work less because they see no benefit to working more and paying more, and others will simply take their money and move somewhere else... Now there's even LESS being contributed to the system, isn't there? This leads to yet another tax hike... Of course, and yet another repetition of the downward spiral too.

Finally, because so many are demanding more for “free” (which isn’t actually “free”), and those who are clearly being taken advantage of don’t want to be taken advantage of anymore, both sides get angry with each other and begin to blame the whole mess on each other... and social strife, hate, division, and blame increases. Millions of people are angered that the cost of living their lives continues to rise, and this economic problem is at the source of a great many sociological issues tearing the nation apart today. People commit a vast array of crimes due to financial stress. Education is more difficult (but never impossible) for some to attain due to financial hardship. Illegal immigrants working jobs under the table, using public healthcare services, voting illegally, not paying taxes, and taking up space in prisons places severe financial burdens on the system – which only equals higher costs legal taxpayers have to pay. Massive government spends more with little to no accountability because no one has the real power to end those habits or shut down those agencies. And at the source of the problem is the liberal mentality that says government should provide for all (despite the fact that this equals socialism), and when the system starts to break or becomes too costly to run, more government can fix it (despite that it would equal more spending on the same stuff). Why? Because these “things” *should* be free (despite the fact that there’s no such thing as “free”).

Back to the Beginning

So you see... Economical issues are a direct contributing factor to many of the problems the nation faces today, and these problems are the direct result of liberal-minded policies and entitlement attitudes. Government control over production of a public good is socialism, and socialism is what ruins markets by creating public good dilemmas. Ruin a good market, and you upset the economy. Upset the economy and you destroy a society financially. Destroy a society’s finances and you create division, anger, and strife... The nation is directly responsible for the creation of its own economic and social problems, and because so many falsely believe throwing *more* policy at the issue is the answer, they instead compound those problems and make them worse.

Are we saying that fixing economic problems will fix all of the nations problems? Absolutely not! After all, we’re only saying it’s a contributing factor. We still have millions of people with an entitlement problem. We have millions who think gangs, violence, and drugs are “cool”. We have millions who think everyone else is the problem and refuse to look at themselves, **take charge of their attitudes, and accept responsibility for their own lives**. We have racist hate-groups committing violent criminal acts across the nation, and uneducated and opinionated PC SJW groups pushing biased and baseless agendas on campuses, across the internet, and in the streets. We have an extremely biased media with zero integrity that garners zero public trust who pushes biased political agendas, instead of being a 100% impartial media who cares about real truth even if it doesn’t agree with the individuals point of view. We have hoards of illegal immigrants, voting fraud directly impacting our elections, and real criminals running free instead of sitting behind bars. We have all these other problems, so it would be short-sighted to suggest that fixing one will fix them all... But as a source problem, fixing economic problems could fix many or most. And THAT would be a good start. All that’s left is to discuss how to fix them...

I could easily suggest that government agencies to which are useless or repetitive to government process should be shut down (the U.S. has more than 90,000 bureaucratic institutions today [8]), that the size of the federal government should be made smaller, and that absolute accountability over government spending should be implemented across the board. I could tell you definitively that it is economically impossible to “tax a nation into wealth”, that the wealthy already pay more than their “fair share”, and that even taxing the top percent 100% still wouldn’t fix anything. I could define why social policies, programs, and laws should be suspended, reviewed, and only those absolutely necessary to the functioning of society and its safety should be retained, that control over those programs that offered services to which public and private markets are fully capable of maintaining efficiently should be returned to public markets without any government participation, and finally, that enforcement of laws that protect the nation from economic freeloading issues (like illegal immigration) should actually be enforced across the board for a change – with sweeping streamlining of the processes to reduce cost measures... I could easily lay out an argument for all these things and much more, but those would be completely separate arguments, whole other articles, and it wouldn’t leave much room here for public discussion on all we just talked about... ...now would it?

SOUND OFF!

What are **YOUR** thoughts? We WANT to hear from you!

Take a moment to collect your intelligent, reasoned thoughts, then let us know what you think in the **comments below!**

Open discussion helps everyone learn and grow.

References:

[1] Case, Fair, and Oster (2014). Principles of Economics. Eleventh Edition. Pearson. New York, London, Tokyo. p. 3.

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[3] Case, Fair, and Oster (2014). Principles of Economics. Eleventh Edition. Pearson. New York, London, Tokyo. p. 341.

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[7] Case, Fair, and Oster (2014). Principles of Economics. Eleventh Edition. Pearson. New York, London, Tokyo. p. 280.

[8] Peters, B. (2013). American Public Policy. Ninth Edition. Sage Publications. Washington D.C., London, Singapore. p. 3.

Featured Image:

This letter showing health insurance premiums raising has made rounds throughout the Internet several times over, and highlights the continued problem with the “Affordable Care Act” (ACA – Obamacare). As a socialist program, costs will rise due to monopolistic costs and public goods socialistic problems.

Choice Competition Cost Demand Economics Economy Free
Market Government Healthcare Monopoly Price Production Shortage Socialism Supply

About the author



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AJ is a retired U.S. Army NCO who served in both the U.S. Navy and U.S. Army. He is a combat veteran, and has participated in contingency operations around the world. AJ is the Owner of Veteran Leadership Solutions, the Founder and Editor in Chief of The Warfighter Journal, and is a published Sociological Analyst, Researcher, Guest Lecturer, and Public Speaker. He is a graduate of Pennsylvania State University with a focus on Sociology and a science degree in Organizational Leadership, and is published in the field of sociology. AJ is an inductive analyst; public figure; researcher/writer; aviator; a certified advanced operational diver; professional instructor, trainer, mentor, and adviser; snowboarder; motorcycle rider; world traveler; he enjoys long distance endurance events, and much more.