

Have you heard the story of “I, pencil?” It’s a remarkable narrative originally authored in the 1950s by a really sharp economist by the name of Leonard Read, the founder of the Foundation for Economic Education or FEE, a nonprofit with significant positive impact to this very day. Read’s story of the pencil is simple...and the power of the story is surprisingly stunning—so much so that Milton Friedman, a Nobel Laureate in Economics and probably the most famous economist of the 20<sup>th</sup> century, later condensed and recorded a version of that very same story. I am now going to quote Friedman’s shortened version.

“Look at this lead pencil. There’s not a single person in the world who could make this pencil. Remarkable statement? Not at all. The wood from which it is made, for all I know, comes from a tree that was cut down in the state of Washington. To cut down that tree, it took a saw. To make the saw, it took steel. To make steel, it took iron ore. This black center—we call it lead but it’s really graphite, compressed graphite—I’m not sure where it comes from, but I think it comes from some mines in South America. This red top up here, this eraser, a bit of rubber, probably comes from Malaya, where the rubber tree isn’t even native! It was imported from South America by some businessmen with the help of the British government. This brass ferrule? I haven’t the slightest idea where it came from. Or the yellow paint! Or the paint that made the black lines. Or the glue that holds it together.

“Literally thousands of people co-operated to make this pencil. People who don’t speak the same language, who practice different religions, who might hate one another if they ever met! When you go down to the store and buy this pencil, you are in effect trading a few minutes of your time for a few seconds of the time of all those thousands of people. What brought them together and induced them to cooperate to make this pencil? There was no commissar sending out orders from some central office. It was the magic of the price system: the impersonal operation of prices that brought them together and got them to cooperate, to make this pencil, so you could have it for a trifling sum.

“That is why the operation of the free market is so essential. Not only to promote productive efficiency, but even more to foster harmony and peace among the peoples of the world.”

You know that Friedman is right. Left solely to our own devices, neither you nor I could make even one standard #2 yellow pencil from scratch. Yet, we are quickly offended when that pencil costs more than, say, just a few cents at the office supply store! How crazy is that? And that observation, that thinking can be expanded to virtually everything we can so easily obtain in a free market—from a can of vegetables to a cell phone to a car...goods produced so efficiently and abundantly that we tend to take them for granted.

And, of course, that integrated, cooperative, know-how creates, embeds, and then multiplies efficient processes and has ultimately—almost magically—created a higher standard of living for literally billions of people, especially in the past few decades. This is what savvy economists called the “betterment” of billions of people from free markets.

The original economist who first described this phenomenon in highly effective, written form was the pioneering Adam Smith, publishing his thoughts just about the time of America’s founding, 1776, doing that in his justly famous book *The Wealth of Nations*. Smith described this process as the “invisible hand” of many willing people each contributing their individual part in the making of goods. In this way, every person participating in what’s called the “supply chain” in the modern era, well, then every person gets rewarded for playing their part in the solution—in this case, the providing of a pencil. As opposed to feudal systems where a few kings and nobles control lives and the factors of production—as was the case for many centuries around the world—well, in contrast, free markets opened up, and that fostered rewards for the gifting of the ordinary person being exercised for the good of many others.

So as free markets came to be generally encouraged and fostered in places like England and America, the standard of living of the average citizen in those countries skyrocketed. Competing systems like socialism and progressivism and communism simply held ordinary people down while benefiting the few at the top.

We see this happening in recent history, when a highly prosperous country like Venezuela embraced socialism and, in so doing the past couple of decades, literally destroyed vast amounts of wealth and opportunity for its citizens. In these years of socialism reigning in Venezuela, there have been citizens who actually sold their hair to provide food for their families! At the very same moment in time, countries that have embraced free markets have created opportunity for wealth for average citizens...spread according to efforts expended, when a properly just rule of law for market participants has been established.

Companies like Amazon and Walmart in America are often criticized for creating great wealth for their founders and leaders. But tell that to hundreds of millions of consumers who enjoy incredible access to inexpensive goods, over and over again—especially when contrasted to the availability and affordability of goods in modern-day Venezuela. You see, Jeff Bezos and the Amazon ecosystem of many thousands of sellers and many millions of buyers provides razors and health ointments and books, and yes, pencils, to countless consumers. Just like the pencil itself can be seen as magical, so can Amazon's extraordinarily efficient processes to deliver those pencils and books and razors directly to your front door. You see, Bezos is wealthy precisely because these huge numbers of people voted with their pocketbook and budget priorities—yes, wanting goods faster, better, cheaper. Just ask those many millions of consumers if they want Amazon or Walmart to disappear from the shopping landscape! And did I mention the truck driver employee of Walmart who was with Sam Walton from the beginning and retired a millionaire?

This really irks the government elitists who want to step in and control people's lives. Here's a key glimpse into their thinking: "Can't these low-level people, can't these low-level citizens understand they are being exploited by people like Jeff Bezos and Sam Walton?" You see, the government-focused elitists all-too-conveniently presume pencils and cars and cell phones just magically show up because doing that kind of activity is and always has been easy and that business activity is inherently just a little bit seamy and unethical. Instead, government is seen as the supposedly more noble enabler who values the "little man" more than the host of people playing their part in providing inexpensive pencils and efficient cell phones. But look at Venezuela's political leaders with their privileges...just who's really set up to do the exploiting—a businessperson competing against many others or a monopolistic government leader?

But do unethical people participate in free markets? Well, of course! That's the sin problem. But the "free" in free markets that promotes competition means that the consumer can avoid the unethical participants and simply choose to do business elsewhere. In fact, that's a very efficient way to solve the problem of crooked sellers in the marketplace...honest and ethical sellers simply step in as a preferable alternative! In contrast...in places like Cuba and North Korea, and yes, Venezuela, where citizens are controlled by largely unchecked power to government officials who have supposedly "fixed" the free choice embedded in free markets...well, then, sadly, citizens have to resort to selling their hair to provide a family meal.

A straightforward look at real economic history reveals that free markets have lifted many hundreds of millions out of deep poverty around the world in recent years. But "history" can be a funny thing: people craving power craft their own versions of history. Sadly, this "crafting" can ultimately become lethal--when they do gain power and force others to live under their selected solutions is where freedom falls and prosperity evaporates. Maybe not overnight, but soon enough. So. As leaders rise and fall, take note: the freedom and prosperity of free markets can be illustrated by the story of a low-cost, humble pencil!

## *A&A: Application & Action*

1. How many products that you routinely utilize or consume would you be able to efficiently produce on your own? Do you think others should or should not be required to provide those goods at a price that you deem to be affordable? Articulate and defend your position.
  
2. What's your understanding of economic history with regard to political systems like free markets or socialism? Explain. (If you want to work at sharpening that understanding, check out [whitestone.org/bookshelf](http://whitestone.org/bookshelf).)
  
3. Millions of employees and hundreds of millions of consumers who can work for and shop at countless other places willingly choose to engage with Amazon and Walmart each year. But often direct competitors and partisan politicians dislike Amazon and Walmart. Is an individual's choice to engage with very large companies like Amazon or Walmart inherently unethical? Explain.