

Fantasy Free Economics

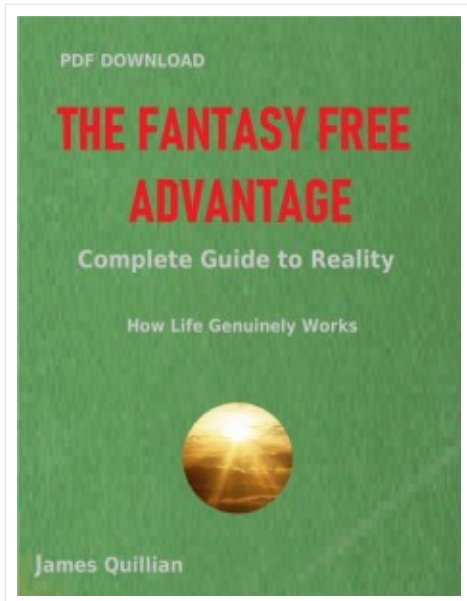
Have Dignity

Make Good Trades

Own Your Own Tools

A Fantasy Based Economy

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Karl Marx gets little respect, but he was the first economist to describe the business cycle. Karl Marx never explained why the business cycle exists for only one reason. He didn't know. I do know and I am going to give the explanation right here and now. I am fantasy free. That does not mean fantasy is bad. It only means it is a handicap.

Broad economic movements can be based on a fantasy. Regardless, fantasies developed over time. As the fantasy is pursued, economic growth accelerates. The more exciting the fantasy, the more robust the growth. Since robust economic growth is based on fantasy, the system always unravels. That is the business cycle. Things are great until a society runs up against a wall of reality.

This is a pattern that repeats over and over again. One great fantasy in economics is the notion that one group of people is intrinsically superior to others. This was the reasoning of ancient Romans. During the thirties, NAZIs in Germany fantasized that they were of a super race. With that reasoning Germany became an amazing economic power in just a few years. During the forties they encountered a wall of reality that demonstrated how wrong they were.

All fantasies are not that sinister. During the seventies, the United States faced a serious bottleneck in productivity. The country was in a serious recession. As the information technology era ushered in, the productivity of labor began increasing. That was genuine and organic. All sorts of fantasies were born on top of genuine opportunities. The internet changed lives and cut costs of doing business. It was wonderful but in time the fantasy of all that eventually would be far exceeded by what is reasonably possible.

This is the business cycle. The end of a fantasy – driven expansion is not the end of the world. Free markets handle fantasy and the business cycle just fine, except there are no free markets in the world today. There is not one major economy that is freer now than when the current expansion started. All genuine economic growth is private and organic. Based on today's situation, the kinds of periods of robust economic growth we have always known will have trouble getting started.

Prosperity comes from chasing dreams. The dreams can be real and worthwhile. Even when dreams are reachable, it is human nature to pile new dreams on older ones until all dreams become unreachable. That is the nature of the business cycle.

