

Schiff, Peter D. & Schiff, Andrew J. – How an Economy Grows and Why It Crashes*John Wiley & Sons, 2010, [Economics] Grade ★★★★★*

This is an unusual book - it's part comic book, part short novel. *How an Economy Grows and Why it Crashes* is something as rare as a basic primer on Austrian economics in fictional form. Irwin Schiff was an Austrian economist during the heydays of Keynesianism and later a tax protester who 2015 died in penitentiary, imprisoned for his refusal to pay income tax. During the upbringing of his sons Peter and Andrew, Irwin tried to instill his economic views through stories he would tell. This book was called "The Fish Story" in the family. The story was first published in a chapter in Irwin's 1972 book *The Biggest Con* and latter as a separate comic book in 1979. After the great financial crisis his sons – by then a well know investor and a communications expert - decided to update and republish The Fish Story.

The story has an initial build-up phase and an ending bust phase. The first phase describes how the island of Usonia starts as an economy where everybody catches the fish that they need for the day. All that is caught is consumed and that's it. The fate of the island turns when one day a person refrains from catching fish and while going hungry he builds a net, the first productive capital equipment in the economy. The net allows him to double his catch and starts a spiral of increased productivity, savings, credit, and investments in more productive capital equipment and later of division of labor, an employment market and trade with other islands. This gives an abundance of cheap products and increased leisure time for everybody. The money on the island is fish and to solve the storage problem plus professionalize the investment of savings a bank is set up. As savings now are pooled, larger projects can be funded and infrastructure is built to the benefit of all.

The negative phase starts with the forming of a democratic government. Initiated on the sound premise that it should protect the Usonians from theft and invasions plus solving civil disputes, the state soon gets more ambitious. In order to

purchase votes and with the help of fiat money, politicians compete on spending more money than they have and starts a downwards spiral of debt, monetary expansion and a crowding out of productive private business activity.

In the 1979 story the focus is on the inflationary effects of the expanding state. The spiral continues south until the characters finally get their act together and starts building new nets to restart the positive cycle. In this new version the overconsumption is temporarily bridged by the appearance of the neighboring Sinopians who, dazzled by the apparent wealth of Usopia, decide to deposit their fish in return for Usopia bills. The cycle ends with a "hut glut" caused by the low interest rates due to the influx of Sinopian savings. The housing crash that follows brings everything down to the reboot status of the earlier version.

There are arguably a number of learning's. One is that a large and complex economy in principle is the same as a smaller and simpler. What is unsustainable on a family level doesn't work on a national level either. Further, when the government funds someone it's done on the expense of someone else. The financing can be through taxing today's citizens or by debt, i.e. by taxing tomorrow's citizens. It's not possible to increase long-term economic prosperity through stimulating consumption. It is the better ability to increase production despite limited resources that does. Savings, investments and innovation build wealth. Demand is a by-product. To talk with Henry Hazlitt "*Supply creates demand because at bottom it is demand. The supply of the thing they make is all that people have, in fact, to offer in exchange for the things they want. In this sense the farmers' supply of wheat constitutes their demand for automobiles and other goods.*"

With the book's unpretentious form the authors effectively drive home a number of lessons that the layman, politicians and FED committee members all would benefit from digesting further.

Mats Larsson, July 27, 2016