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“A ‘Greater Fool’ Economy”

Under which economic system do we operate in the US: Capitalism, Socialism, a hybrid of the two? Economists can debate this question, but we sought to comprehend not the system’s philosophical/theoretical framework, but the fundamental operational nature of the system. We concluded that today’s US economy operates on the “**greater fool**” principle, which is also operational elsewhere in the world.

We consider three examples involving a retail entrepreneur, a first-time home buyer, and a US Government elected official:

- To live the American materialistic dream of becoming rich, a retail entrepreneur purchases overpriced products from a manufacturer or wholesaler and invites consumers to shop at inflated prices. The entrepreneur concludes that consumers are too ignorant or too lazy to perform a search process that will yield desired products at more favorable prices either in a brick-and-mortar store or online. The entrepreneur comprehends that he is a fool to purchase overpriced products, but views consumers as “**greater fools.**”
- To live the American materialistic dream of homeownership, a first-time home buyer agrees to purchase a property that is overvalued by an appraiser who considered “comparable” properties that may not have been so comparable after

all. Besides, the appraiser is an extension of the mortgage company that wants to maximize the loan amount. The first-time home buyer knows that he is a fool to purchase the overvalued property, but envisions the day not too far away when the property can be sold at an even more inflated price to a “**greater fool.**”

- To ensure reelection, US government elected officials accept campaign contributions from industry. These elected officials then prepare and approve legislation that rewards industry through subsidies, tax provisions, or contracts to provide goods and/or services that may not be essential. Also, to ensure reelection, elected officials extend promises to provide social benefits (e.g., income and health support) to the citizenry into perpetuity. In addition, to ensure reelection, elected officials suppress tax collections. This over-spending and under taxation produce borrowing requirements. Now that the US Government is recognized to be on an unsustainable fiscal path, as opposed to taking strong and decisive measures to restore fiscal sanity and sustainability, elected officials maintain the *status quo*. Elected officials not only receive hefty compensation for their service, but many of them also engineer untold benefits from their political activities—especially after they leave office. These elected

officials know that they are fools for not being able to get as fat at the trough as those in industry, but they view voters as even **“greater fools,”** who will suffer from higher future taxes; from a depreciated dollar; from future wars that are initiated to stimulate a faltering economy; from diseases designed to reduce the elderly population and, thereby, reduce the fiscal burden; and from financial crises that result from a loss of confidence in the US fiscal condition and economy.

To ensure that you do not succumb to becoming a **“greater fool,”** consider adopting the following responses to these examples:

- Eschew enterprises that attempt to sell products at inflated prices.
- Time home purchases to coincide with economic recessions when home prices and interest rates reach low levels.

- Only elect officials who spurn the *status quo* and who pledge to place the US fiscal house in order.

You should not be disparaged by the fact that you may have acted as a **“greater fool.”** The reality is that all consumers have cooperated as “greater fools” to create conditions that we experience today. Otherwise, the US Federal Reserve Board would not now be engaged in efforts to halt the madness evidenced by elevated prices for many goods and services—especially home prices—and government spending run amuck.

We can all do better at avoiding roles as **“greater fools,”** and acting to transform economic operations so that they resemble fundamental and favorable known or new economic systems.

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