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## Why Don't I Have a Bicycle?

**Child:** Tell me Grandpa, why are we poor? Why don't I have a bicycle?

**Grandpa:** Why do you say that Johnny? We're very happy and relaxed here—enjoying the fishing, the fresh air, the sun. Why do you think we're poor?

**Child:** Well, I've been walking around different neighborhoods, and I've seen other children with nicer homes, bicycles, and new clothes. We don't have any of those things.

**Grandpa:** Those children are also poor. They can't do everything they want because their day is also only 24 hours long. Their stomachs don't hold much more than what you eat. They don't receive more love and care than you. It's true that they don't have financial difficulties and because of that, they have more material things, but in reality, even though the difference seems great, what you should understand is that they are simply *less poor* than us. They also want lots of things they can't have.

**Child:** Okay, Grandpa, I hear what you're saying, but that doesn't answer my question. That's just a nice way of explaining it to me so I don't feel bad.

**Grandpa:** Listen Johnny, I'm going to explain something to you: Your daddy had a bicycle when he was your age as well as the rest of the things you say the other children have, but the ups and downs of life have brought us to where we are now. I have high hopes that you, with a good education and profession, can give your children nice things.

**Child:** But Grandpa, you still haven't answered my question. Why, if you had so much before, do we now have nothing?

**Grandpa:** Because I lost my fortune!

**Child:** Why?

**Grandpa:** Well, I used to own the largest candle factory in the region. Many men and women worked in my factory, and I made a lot of money. When electricity came along, at first it was very expensive. Some people bought it, but it was a luxury. Candlelight continued to be cheaper, and as a result, people preferred the inconvenience of candles to the high price of electricity. I thought electricity would continue to be a novelty available only to the wealthy.

However, some people had time and resources that they were willing to risk, speculating on how to make electricity cheaper. Little by little, better methods and materials were discovered that lowered the cost.

At the time these men seemed crazy to us—dreamers. I preferred the safe, familiar, traditional way. I laughed at those men and invested my savings in improving my candle factory.

Suddenly, I realized I had been wrong, but it was too late. I realized that in order to continue earning money and keep my fortune, instead of buying machinery for making candles, I should have invested in the electricity company. That way I would have transferred capital from my candle factory to the electric energy factory.

I eventually lost everything and all of our workers were unemployed.

**Child:** And what did you do for the people who had lost their jobs?

**Grandpa:** Well what could I do? My company was no longer worth anything. I had spent my fortune on resisting competition. I invested in improving the production of something that soon would no longer be of value. I couldn't raise more capital. I was ruined and had to close the factory. To pay my debts, I sold the land.

**Child:** Why couldn't you raise more capital, Grandpa?

**Grandpa:** Because those who held capital saw that there was more to gain investing in electricity than candles. The capital was invested where the expected earnings were greater.

**Child:** That's fine from the point of view of those who held and managed capital; but is it what's best for everyone? Why should capital be invested where it gives the most profit? Shouldn't the government ensure that it's invested where it helps society the most? Think about how many workers lost their jobs!

**Grandpa:** Well, son, progress has a price. Don't you think electricity is better for everyone? Imagine how much time people save and how much can be accomplished due to the use of electricity instead of candles.

**Child:** Yes, but even though in this case it turned out well for most people, I don't think capital should be invested just for purely selfish ends, but instead where it helps society.

**Grandpa:** Well, that automatically happens, son, because those who produce electricity provide a better service to society than I did, and so they earned more. As a result, more capital was invested in electricity production. This outcome was good for everyone except me.

**Child:** So you mean the transfer of capital was guided by the pursuit of profit?

**Grandpa:** Yes, son, and it's a continuous process, even though the holders of capital don't want it to be! The use of capital is driven by expected profits, as long as coercion doesn't prevent this

from happening, of course. Earnings serve two purposes: on one hand they guide investment, and on the other, they're a source of capital. If there are no earnings, there's nothing left to invest.

**Child:** But who owns the profits? Shouldn't society be the owner?

**Grandpa:** Son, society is the owner, at the end of the day. The "owner" decides how to invest his profits, as long as he is successful. If he isn't, "society" takes these profits and gives them to someone more successful.

When he doesn't perform as well as others, "society" (clients) will give the profits to someone else. This is what drives profits. As long as he performs well, society will follow. As long as he performs well, his children will have bicycles.

**Child:** But I know some people that have been successful due to pure luck. They sure aren't particularly bright.

**Grandpa:** Society doesn't care about the reasons for success. If a man is successful out of pure luck, his company will be recognized by society just the same and receive higher profits.

**Child:** And what about rich people, why did they get to inherit their wealth?

**Grandpa:** Well, son, that's because their grandfather didn't make a big mistake or he had good luck. But if someone inherits wealth and doesn't manage it well or has bad luck, his fortune will quickly be redistributed.

**Child:** Go back to what you were saying before, because I had heard you had a rug factory, not a candle factory. I've never heard of that candle factory.

**Grandpa:** I forgot, son, you're right. I had the candle factory a very long time ago, and basically everyone except me has forgotten about it.

**Child:** So, what happened then?

**Grandpa:** After the candle factory failed I decided to try my luck again. I went to another country where I learned the carpet business. I took your father and aunts. After many hardships and sacrifices we started making progress and getting ahead.

We returned and convinced some people to invest capital in the carpet factory. We were very successful, and I made my fortune again. Your daddy was older, and even though he had not gone to school because we were very poor, he liked to read and he taught himself. He eventually became an expert in the rug business. As I began to grow old he became responsible for more and more of our company, which was growing nicely.

**Child:** What happened this time?

**Grandpa:** We used mostly imported wool. We bought it for cheap. We did buy some domestic wool, but it was only a small amount because only a few were willing to produce it for the low prices we were paying.

**Child:** Why only a few?

**Grandpa:** Because the methods and systems used by domestic wool producers were inefficient. So, very few earned good money, because capital was being invested in things other than producing wool. As a result, it was cheaper for us to import the wool.

**Child:** And if firms here had been paid more for wool, wouldn't they have produced more?

**Grandpa:** Yes, but then our profits would have fallen, and we wouldn't have been able to raise the capital necessary to run the factory. The factory cost Q750,000 and had 150 employees.

**Child:** You mean each worker cost Q5,000?

**Grandpa:** Yes.

**Child:** And you earned good profits?

**Grandpa:** Excellent profits!

**Child:** And what did the shareholders do with the profits?

**Grandpa:** Well, first of all, they spent it on their families and improving their homes. They sold their old cars to people who couldn't afford new ones and bought better ones for themselves. They invested the money in other things as well.

**Child:** And they didn't hoard all the money?

**Grandpa:** Well son, it's not possible to hoard money, even if you wanted to.

**Child:** Why not? Can't you just put it all in a bank account to earn interest and not invest in anything?

**Grandpa:** Yes, the person who deposits the money isn't investing it himself, but society is investing it. It's precisely those deposits that banks loan to others who don't have enough of their own money to invest in something they want to do; but they have enough so the bank can see they're serious. So, for the owner of the money, it is simply being saved. But in reality, it's being invested, and invested well. Because the money loaned from the bank doesn't belong to the bank, it is very careful not to make bad investments and lose it.

**Child:** So what happened with the wool?

**Grandpa:** The government decided to promote the domestic production of wool!

**Child:** And isn't that a good thing?

**Grandpa:** No. Listen, "promote" means "help." But "promoting" a specific group usually means to help some at the expense of others.

**Child:** But doesn't the government pay for the help it gives?

**Grandpa:** The government only has what citizens give it through taxation. The government can only promote by giving to some, what it has taken from others, or by forcing some to give more to others than they would otherwise freely give.

**Child:** The first part I understand, but the second . . . I don't understand how the government can force someone to give more to others.

**Grandpa:** Well this is what happened with the wool. The import taxes increased, and it became more expensive for us to import wool than to buy it here. This encouraged investment in domestic wool production, which increased the domestic supply of wool.

**Child:** But that's good! It created jobs for a lot of people.

**Grandpa:** No, because that capital was diverted from other investments that also would have created jobs. Even though they would have been profitable, they wouldn't have been as profitable as the protected wool business. The tax was levied precisely to divert investment into the production of wool. The jobs, instead of being created in other areas, went to the wool industry.

**Child:** So what happened?

**Grandpa:** We had to raise the price of our carpets. Then the government raised the taxes on imported rugs so we wouldn't have to close the factory, because the imported rugs had become cheaper than ours at our new cost. Of course, we lost our export market, which much of our business depended on. We became poor once again. The government still tried to save us by raising the taxes again on imported rugs so that we could increase our prices further and still sell rugs in our country.

People who wanted to buy rugs were forced to pay us more than they were really worth. So, by supporting us, they stopped spending money on other things. Then everyone had less money available, except those who invested in sheep. Since everybody else had less to spend, this prevented new enterprises from being formed due to a lack of market. In the end, we had to close the factory because hardly anyone wanted rugs. Worst of all, we were misled by the false profitability of the sheep, so we had invested everything in our own herd. Son, we ate mutton for a long time!

**Child:** And that's why I don't have a bicycle?

**Grandpa:** Don't worry, son, you will.

**Child:** How?

**Grandpa:** There's only one way. Learn to provide the most valuable service to others, to produce what they value most. People will pay you well as long as you serve them best. Your wealth will be determined by how well you can figure out how to do that. If you can accomplish this you will have served society—your clients—the most.

Don't rely on the government to solve your financial problems. They can change the way they do things overnight, and for trivial reasons or political interests. Always choose the uncertainty of the market over the government's promise of security.

Above all, understand that progress means change: to stop doing things a certain way in order to do them a better way. At the same time, this is the definition of insecurity, instability. Progress is instability: it's change. If you are judged capable and decent by others, then, and only then, will your children have bicycles, earned honestly by their father.

**Child:** And if I don't have good luck in becoming an entrepreneur?

**Grandpa:** Don't worry. Just work for someone who is an entrepreneur. Work hard for him so that through him, you can provide excellent service to others. He will serve others well because you serve him well. When he doesn't serve society well, someone else will become your employer, either because you chose to change jobs, or because someone else took over the company and became the new employer. But one thing will always be true: the more entrepreneurs there are, the more demand there will be for your work. The greater the profits, the more entrepreneurs there will be, and the higher your salary will be.

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**Translated from the original Spanish**

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