http://www.thefreemanonline.org/features/what-spending-and-deficits-do/

About the Authors

Henry Hazlitt (1894-1993) was a noted economist, author, editor, reviewer, and columnist. His best-known books are Economics in One Lesson, The Failure of the "New Economics," The Foundations of Morality, and What You should Know About Inflation. ... See All Posts by This Author

- Henry Hazlitt

What Spending and Deficits Do

February 1977 • Volume: 27 • Issue: 2 • Print This Post• 11 comments

Henry Hazlitt, noted economist, author, editor, reviewer and columnist, is well known to readers of the New York Times, Newsweek, The Freeman, Barron's, Human Events *and many others. Best known of his books are* Economics in One Lesson, The Failure of the "New Economics," The Foundations of Morality, *and* What You should Know About Inflation.

The direct cause of inflation is the issuance of an excessive amount of paper money. The most frequent cause of the issuance of too much paper money is a government budget deficit.

The majority of economists have long recognized this, but the majority of politicians have studiously ignored it. One result, in this age of inflation, is that economists have tended to put too much emphasis on the evils of deficits as such and too little emphasis on the evils of excessive government spending, whether the budget is balanced or not.

So it is desirable to begin with the question, What is the effect of government spending on the economy–even if it is wholly covered by tax revenues?

The economic effect of government spending depends on what the spending is for, compared with what the private spending it displaces would be for. To the extent that the government uses its tax-raised money to provide more urgent services for the community than the taxpayers themselves otherwise would or could have provided, the government spending is beneficial to the community. To the extent that the government provides policemen and judges to prevent or mitigate force, theft, and fraud, it protects and encourages production and welfare. The same applies, up to a certain point, to what the government pays out to provide armies and armament against foreign aggression. It applies also to the provision by city governments of sidewalks, streets, and sewers, and to the provision by States of roads, parkways, and bridges.

But government expenditure even on necessary types of service may easily become excessive. Sometimes it may be difficult to measure exactly where the point of excess begins. It is to be hoped, for example, that armies and armament may never need to be used, but it does not follow that providing them is mere waste. They are a form of insurance premium; and in this world of nuclear warfare and incendiary slogans it is not easy to say how big a premium is enough. The exigencies of politicians seeking re-election, of course, may very quickly lead to unneeded roads and other public works.

Welfare Spending

Waste in government spending in other directions can soon become flagrant. The money spent on various forms of relief, now called "social welfare," is more responsible for the spending explosion of the U.S. government than any other type of outlay. In the fiscal year 1927, when total expenditures of the federal government were $2.9 billion, a negligible percentage of that amount went for so-called welfare. In fiscal 1977, when prospective total expenditures have risen to $394.2 billion-136 times as much–welfare spending alone (education, social services, Medicaid, Medicare, Social Security, veterans benefits, etc.) comes to $205.3 billion, or more than half the total. The effect of this spending is on net balance to reduce production, because most of it taxes the productive to support the unproductive.

As to the effect of the taxes levied to pay for the spending, all taxation must discourage production to some extent, directly or indirectly. Either it puts a direct penalty on the earning of income, or it forces producers to raise their prices and so diminish their sales, or it discourages investment, or it reduces the savings available for investment; or it does all of these.

Some forms of taxation have more harmful effects on production than others. Perhaps the worst is heavy taxation of corporate earnings. This discourages business and output; it reduces the employment that the politicians profess to be their primary concern; and it prevents the capital formation that is so necessary to increase real productivity, real income, real wages, real welfare. Almost as harmful to incentives and to capital formation is progressive personal income taxation. And the higher the level of taxation the greater the damage it does.

Disruption of the Economy

Let us consider this in more detail. The greater the amount of government spending, the more it depresses the economy. In so far as it is a **substitute for private spending**, it does nothing to "stimulate" the economy. **It merely directs labor and capital into the production of less necessary goods or services at the expense of more necessary goods or services. It leads to malproduction.** It tends to direct funds out of profitable capital investment and into immediate consumption. And most "welfare" spending, to repeat, tends to support the unproductive at the expense of the productive.

But more importantly, the higher the level of government spending, the higher the level of taxation. And the higher the level of taxation, the more it discourages, distorts, and disrupts production. It does this much more than proportionately. A 1 per cent sales tax, personal income tax, or corporation tax would do very little to discourage production, but a 50 per cent rate can be seriously disruptive. Just as each additional fixed increment of income will tend to have a diminishing marginal value to the receiver, so each additional subtraction from his income will mean a more than proportional deprivation and disincentive. The adjective "progressive" usually carries an approbatory connotation, but an income tax can appropriately be called "progressive" only in the sense that a disease can be called progressive. So far as its effect on incentives and production are concerned, such a tax is increasingly retrogressive or repressive.

Total Spending the Key

Though, broadly speaking, only a budget deficit tends to lead to inflation, the recognition of this truth has led to a serious underestimation of the harmfulness of an exorbitant level of total government spending. While a budget balanced at a level of $100 billion for both spending and tax revenues may be acceptable (at, say, 1977′s level of national income and dollar purchasing power), a budget balanced at a level above $400 billion may in the long run prove ruinous. In the same way, a deficit of $50 billion at a $400 billion level of spending is far more ominous than a deficit of the same size at a spending level of $200 billion.
An exorbitant spending level, in sum, can be as great or a greater evil than a huge deficit. Everything depends on their relative size, and on their combined size compared with the national income.

Let us look first at the effect of a deficit as such. That effect will depend in large part on how the deficit is financed. Of course if, with a given level of spending, a deficit of, say, $50 billion is then financed by added taxation, it ceases by definition to be a deficit. But it does not follow that this is the best course to take. Whenever possible (except, say, in the midst of a major war) a deficit should be eliminated by reducing expenditures rather than by increasing taxes, because of the harm the still heavier taxes would probably do in discouraging and disorganizing production.

It is necessary to emphasize this point, because every so often some previous advocate of big spending suddenly turns "responsible," and solemnly tells conservatives that if they want to be equally responsible it is now their duty to "balance the budget" by raising taxes to cover the existing and planned expenditures. Such advice completely begs the question. It tacitly assumes that the existing or planned level of expenditures, and all its constituent items, are absolutely necessary, and must be fully covered by increased taxes no matter what the cost in economic disruption.

We have had 39 deficits in the 47 fiscal years since 1931. The annual spending total has gone up from $3.6 billion in 1931 to $394.2 billion-110 times as much–in 1977. Yet the argument that we must keep on balancing this multiplied spending by equally multiplied taxation continues to be regularly put forward. The only real solution is to start slashing the spending before it destroys the economy.

Two Ways to Pay

Given a budget deficit, however, there are two ways in which it can be paid for. One is for the government to pay for its deficit outlays by printing and distributing more money. This may be done either directly, or by the government's asking the Federal Reserve or the private commercial banks to buy its securities and to pay for them either by creating deposit credits or with newly issued inconvertible Federal Reserve notes. This of course is simple, naked inflation.

Or the deficit may be paid for by the government's selling its bonds to the public, and having them paid for out of real savings. This is not directly inflationary, but it merely leads to an evil of a different kind. The government borrowing competes with and "crowds out" private capital investment, and so retards economic growth.

Let us examine this a little more closely. There is at any given time a total amount of actual or potential savings available for investment. Government statistics regularly give estimates of these. The gross national product in 1974, for example, is given as $1,499 billion. Gross private saving was $215.2 billion-14.4 per cent of this–of which $74 billion consisted of personal saving and $141.6 billion of gross business saving. But the Federal budget deficit in that year was $11.7 billion, and in 1975 $73.4 billion, seriously cutting down the amount that could go into the capital investment necessary to increase productivity, real wages, and real long-run consumer welfare.

Sources and Uses of Capital

The government statistics estimate the amount of gross private domestic investment in 1974 at $215 billion and in 1975 at $183.7 billion. But it is probable that the greater part of this represented mere replacement of deteriorated, worn-out, or obsolete plant, equipment, and housing, and that new capital formation was much smaller.

Let us turn to the amount of new capital supplied through the security markets. In 1973, total new issues of securities in the United States came to $99 billion. Of these, $32 billion consisted of private corporate stocks and bonds, $22.7 billion of state and local bonds and notes, $1.4 billion of bonds of foreign governments, and $42.9 billion of obligations of the U.S. government or of its agencies. Thus of the combined total of $74.9 billion borrowed by the U.S. government and by private industry, the government got 57 per cent, and private industry only 43 per cent.

The crowding-out argument can be stated in a few elementary propositions.

1. Government borrowing competes with private borrowing.
2. Government borrowing finances government deficits.
3. What the government borrows is spent chiefly on consumption, but what private industry borrows chiefly finances capital investment.
4. It is the amount of new capital investment that is chiefly responsible for the improvement of economic conditions.

The possible total of borrowing is restricted by the amount of real savings available. Government borrowing crowds out private borrowing by driving up interest rates to levels at which private manufacturers who would otherwise have borrowed for capital investment are forced to drop out of the market.

Why the Deficits?

Yet government spending and deficits keep on increasing year by year. Why? Chiefly because they serve the immediate interests of politicians seeking votes, but also because the public still for the most part accepts a set of sophistical rationalizations.

The whole so-called Keynesian doctrine may be summed up as the contention that deficit spending, financed by borrowing, creates employment, and that enough of it can guarantee "full" employment. The American people have even had foisted upon them the myth of a "full-employment budget." This is the contention that projected Federal expenditures and revenues need not be, and ought not to be, those that would bring a real balance of the budget under actually existing conditions, but merely those that would balance the budget if there were "full employment."

To quote a more technical explanation (as it appears, for example, in the Economic Report of the President of January, 1976): “Full employment surpluses or deficits are the differences between what receipts and expenditures are estimated to be if the economy were operating at the potential output level consistent with a 4 per cent unemployment” (p. 54).

A table in that report shows what the differences would have been for the years 1969 to 1975, inclusive, between the actual budget and the so-called full employment budget. For the calendar year 1975, for example, actual receipts were $283.5 billion and expenditures $356.9 billion, leaving an actual budget deficit of $73.4 billion. But in conditions of full employment, receipts from the same tax rates might have risen to $340.8 billion, and expenditures might have fallen to $348.3 billion, leaving a deficit not of $73.4 billion but only of $7.5 billion. Nothing to worry about.

Priming the Pump

Nothing to worry about, perhaps, in a dream world. But let us return to the world of reality. The implication of the full-employment budget philosophy (though it is seldom stated explicitly) is not only that in a time of high unemployment it would make conditions even worse to aim at a real balance of the budget, but that a full-employment budget can be counted on to bring full employment.

The proposition is nonsense. The argument for it assumes that the amount of employment or unemployment depends on the amount of added dollar “purchasing power” that the government decides to squirt into the economy. Actually the amount of unemployment is chiefly determined by entirely different factors–by the relations in various industries between selling prices and costs, between particular prices and particular wage-rates; by the wage-rates exacted by strong unions and strike threats; by the level and duration of unemployment insurance and relief payments (making idleness more tolerable or attractive); by the existence and height of legal minimum-wage rates, and so on. But all these factors are persistently ignored by the full-employment budgeteers and by all the other advocates of deficit spending as the great panacea for unemployment.

One-Way Formula

It may be worth while, before we leave this subject, to point to one or two of the practical consequences of a consistent adherence to a full employment-budget policy. In the twenty-eight years from 1948 to 1975 inclusive, there were only eight in which unemployment fell below the government target-level of 4 per cent. In all the other years the full-employment-budgeteers (perhaps we should call them the fulembudgers for short) would have prescribed an actual deficit. But they say nothing about achieving a surplus in the full-employment years, much less about its desirable size. Presumably they would consider any surplus at all, any repayment of the government debt, as extremely dangerous at any time. So a prescription for full-employment budgeting might not produce very different results in practice from a prescription for perpetual deficit.

Perhaps an even worse consequence is that as long as this prescription prevails, it can only act to divert attention from the real causes of unemployment and their real cure.

Perhaps a word needs to be said about the fear of a surplus that has developed in recent decades–ever since about 1930, in fact. This of course is only the reverse side of the myth that a deficit is needed to “stimulate” the economy by “creating purchasing power.” The only way in which a surplus could do even temporary harm would be by bringing about a sudden substantial reduction in the money supply. It could do this only if the bonds paid off were those held by the banking system against which demand deposits had been created. But in 1976, out of a gross public debt of $620.4 billion, $92.3 billion were held by commercial banks and $94.4 billion by Federal Reserve banks. This left $433.7 billion, or about 70 per cent, in nonbanking hands. This could be retired, say over fifty years, without shrinking the money supply in the least. And if the public debt were retired at a rate of $5 billion or $10 billion a year, private holders would have that much more to invest in private industry.

The Phillips Curve

A myth even more pernicious than the full-employment budget, and akin to it in nature, is the Phillips Curve. This is the doctrine that there is a “trade-off” between employment and inflation, and that this can be plotted on a precise curve–that the less inflation, the more unemployment, and the more inflation the less unemployment. But this incredible doctrine is more directly related to currency issue than to government spending and deficits, and can best be examined elsewhere.

In conclusion: Chronic excessive government spending and chronic huge deficits are twin evils. The deficits lead more directly to inflation, and therefore in recent years they have tended to receive a disproportionate amount of criticism from economists and editorial writers. But the total spending is the greater evil, because it is the chief political cause of the deficits. If the spending were more moderate, the taxes to pay for it would not have to be so oppressive, so damaging to incentive, so destructive of employment and production. So the persistence and size of deficits, though serious, is a derivative problem; the primary evil is the exorbitant spending, the Leviathan "welfare" state. If the spending were brought within reasonable bounds, the taxes to pay for it would not have to be so burdensome and demoralizing, and politicians could be counted on to keep the budget balanced.

http://www.mises.org/daily/6030/The-Crisis-of-Interventionism

The Crisis of Interventionism

Mises Daily:Monday, May 14, 2012 by Ludwig von Mises

[Human Action (1949). An MP3 audio file of this article, narrated by Jeff Riggenbach, is available for download.]

The interventionist policies as practiced for many decades by all governments of the capitalistic West have brought about all those effects which the economists predicted. There are wars and civil wars, ruthless oppression of the masses by clusters of self-appointed dictators, economic depressions, mass unemployment, capital consumption, famines.

However, it is not these catastrophic events which have led to the crisis of interventionism. The interventionist doctrinaires and their followers explain all these undesired consequences as the unavoidable features of capitalism. As they see it, it is precisely these disasters that clearly demonstrate the necessity of intensifying interventionism. The failures of the interventionist policies do not in the least impair the popularity of the implied doctrine. They are so interpreted as to strengthen, not to lessen, the prestige of these teachings. As a vicious economic theory cannot be simply refuted by historical experience, the interventionist propagandists have been able to go on in spite of all the havoc they have spread.

Yet the age of interventionism is reaching its end. Interventionism has exhausted all its potentialities and must disappear.

The Exhaustion of the Reserve Fund

The idea underlying all interventionist policies is that the higher income and wealth of the more affluent part of the population is a fund which can be freely used for the improvement of the conditions of the less prosperous. The essence of the interventionist policy is to take from one group to give to another. It is confiscation and distribution. Every measure is ultimately justified by declaring that it is fair to curb the rich for the benefit of the poor.

In the field of public finance progressive taxation of incomes and estates is the most characteristic manifestation of this doctrine. Tax the rich and spend the revenue for the improvement of the condition of the poor, is the principle of contemporary budgets. In the field of industrial relations shortening the hours of work, raising wages, and a thousand other measures are recommended under the assumption that they favor the employee and burden the employer. Every issue of government and community affairs is dealt with exclusively from the point of view of this principle.

An illustrative example is provided by the methods applied in the operation of nationalized and municipalized enterprises. These enterprises very often result in financial failure; their accounts regularly show losses burdening the state or the city treasury. It is of no use to investigate whether the deficits are due to the notorious inefficiency of the public conduct of business enterprises or, at least partly, to the inadequacy of the prices at which the commodities or services are sold to the customers. What matters more is the fact that the taxpayers must cover these deficits. The interventionists fully approve of this arrangement. They passionately reject the two other possible solutions: selling the enterprises to private entrepreneurs or raising the prices charged to the customers to such a height that no further deficit remains. The first of these proposals is in their eyes manifestly reactionary because the inevitable trend of history is toward more and more socialization. The second is deemed "antisocial" because it places a heavier load upon the consuming masses. It is fairer to make the taxpayers, i.e., the wealthy citizens, bear the burden. Their ability to pay is greater than that of the average people riding the nationalized railroads and the municipalized subways, trolleys, and busses. To ask that such public utilities should be self-supporting, is, say the interventionists, a relic of the old-fashioned ideas of orthodox finance. One might as well aim at making the roads and the public schools self-supporting.

It is not necessary to argue with the advocates of this deficit policy. It is obvious that recourse to this ability-to-pay principle depends on the existence of such incomes and fortunes as can still be taxed away. It can no longer be resorted to once these extra funds have been exhausted by taxes and other interventionist measures.

This is precisely the present state of affairs in most of the European countries. The United States has not yet gone so far; but if the actual trend of its economic policies is not radically altered very soon, it will be in the same condition in a few years.

For the sake of argument we may disregard all the other consequences which the full triumph of the ability-to-pay principle must bring about and concentrate upon its financial aspects.

The interventionist in advocating additional public expenditure is not aware of the fact that the funds available are limited. He does not realize that increasing expenditure in one department enjoins restricting it in other departments. In his opinion there is plenty of money available. The income and wealth of the rich can be freely tapped. In recommending a greater allowance for the schools he simply stresses the point that it would be a good thing to spend more for education. He does not venture to prove that to raise the budgetary allowance for schools is more expedient than to raise that of another department, e.g., that of health. It never occurs to him that grave arguments could be advanced in favor of restricting public spending and lowering the burden of taxation. The champions of cuts in the budget are in his eyes merely the defenders of the manifestly unfair class interests of the rich.

With the present height of income and inheritance tax rates, this reserve fund out of which the interventionists seek to cover all public expenditure is rapidly shrinking. It has practically disappeared altogether in most European countries. In the United States the recent advances in tax rates produced only negligible revenue results beyond what would be produced by a progression which stopped at much lower rates. High surtax rates for the rich are very popular with interventionist dilettantes and demagogues, but they secure only modest additions to the revenue.[1] From day to day it becomes more obvious that large-scale additions to the amount of public expenditure cannot be financed by "soaking the rich," but that the burden must be carried by the masses. The traditional tax policy of the age of interventionism, its glorified devices of progressive taxation and lavish spending, have been carried to a point at which their absurdity can no longer be concealed. The notorious principle that, whereas private expenditures depend on the size of income available, public revenues must be regulated according to expenditures, refutes itself. Henceforth, governments will have to realize that one dollar cannot be spent twice, and that the various items of government expenditure are in conflict with one another. Every penny of additional government spending will have to be collected from precisely those people who hitherto have been intent upon shifting the main burden to other groups. Those anxious to get subsidies will have to foot the bill themselves for the subsidies. The deficits of publicly owned and operated enterprises will be charged to the bulk of the population.

The situation in the employer-employee nexus will be analogous. The popular doctrine contends that wage earners are reaping "social gains" at the expense of the unearned income of the exploiting classes. The strikers, it is said, do not strike against the consumers but against "management." There is no reason to raise the prices of products when labor costs are increased; the difference must be borne by employers. But when more and more of the share of the entrepreneurs and capitalists is absorbed by taxes, higher wage rates, and other "social gains" of employees, and by price ceilings, nothing remains for such a buffer function. Then it becomes evident that every wage raise, with its whole momentum, must affect the prices of the products and that the social gains of each group fully correspond to the social losses of the other groups. Every strike becomes, even in the short run and not only in the long run, a strike against the rest of the people.

An essential point in the social philosophy of interventionism is the existence of an inexhaustible fund which can be squeezed forever. The whole doctrine of interventionism collapses when this fountain is drained off. The Santa Claus principle liquidates itself.

The End of Interventionism

The interventionist interlude must come to an end because interventionism cannot lead to a permanent system of social organization. The reasons are threefold.

First: Restrictive measures always restrict output and the amount of goods available for consumption. Whatever arguments may be advanced in favor of definite restrictions and prohibitions, such measures in themselves can never constitute a system of social production.

Second: All varieties of interference with the market phenomena not only fail to achieve the ends aimed at by their authors and supporters but bring about a state of affairs which — from the point of view of their authors' and advocates' valuations — is less desirable than the previous state of affairs which they were designed to alter. If one wants to correct their manifest unsuitableness and preposterousness by supplementing the first acts of intervention with more and more of such acts, one must go further and further until the market economy has been entirely destroyed and socialism has been substituted for it.

Third: Interventionism aims at confiscating the "surplus" of one part of the population and at giving it to the other part. Once this surplus is exhausted by total confiscation, a further continuation of this policy is impossible.

Marching ever further on the way of interventionism, first Germany, then Great Britain and many other European countries, have adopted central planning, the Hindenburg pattern of socialism. It is noteworthy that in Germany the deciding measures were not resorted to by the Nazis, but some time before Hitler seized power by Brüning, the Catholic chancellor of the Weimar Republic, and in Great Britain not by the Labor Party but by the Tory prime minister Mr. Churchill. The fact has been purposely obscured by the great sensation made in Great Britain about the nationalization of the Bank of England, the coal mines, and other enterprises. However, these seizures were of subordinate importance only. Great Britain is to be called a socialist country, not because certain enterprises have been formally expropriated and nationalized, but because all the economic activities of all citizens are subject to full control by the government and its agencies. The authorities direct the allocation of capital and of manpower to the various branches of business; they determine what should be produced and in what quality and quantity, and they assign to each consumer a definite ration. Supremacy in all economic matters is exclusively vested in the government. The people are reduced to the status of wards. To the businessmen, the former entrepreneurs, merely quasi-managerial functions are left. All that they are free to do is to carry into effect the entrepreneurial decisions of the authorities within a neatly delimited narrow field.

It has been shown that the managerial system, i.e., the assignment of ancillary tasks in the conduct of business to responsible helpers to whom a certain amount of discretion can be granted, is possible only within the frame of the profit system.[2] What characterizes the manager as such and imparts to him a condition different from that of the mere technician is that, within the sphere of his assignment, he himself determines the methods by which his actions should conform to the profit principle. In a socialist system in which there is neither economic calculation nor capital accounting nor profit computation, there is no room left for managerial activities either. But as long as a socialist commonwealth is still in a position to calculate on the ground of prices determined on foreign markets, it can also utilize a quasi-managerial hierarchy to some extent.

It is a poor makeshift to call any age an age of transition. In the living world there is always change. Every age is an age of transition. We may distinguish between social systems that can last and such as are inevitably transitory because they are self-destructive. It has already been pointed out in what sense interventionism liquidates itself and must lead to socialism of the German pattern. Most of the European countries have already reached this phase, and nobody knows whether or not the United States will follow suit. But as long as the United States clings to the market economy and does not adopt the system of full government control of business, the socialist economies of western Europe will still be in a position to calculate. Their conduct of business still lacks the characteristic feature of socialist conduct; it is still based on economic calculation. It is therefore in every respect very different from what it would become if all the world were to turn toward socialism.

It is often said that one half of the world cannot remain committed to the market economy when the other half is socialist, and vice versa. However, there is no reason to assume that such a partition of the earth and the coexistence of the two systems is impossible. If this is really the case, then the present economic system of the countries that have discarded capitalism may go on for an indefinite period of time. Its operation may result in social disintegration, chaos, and misery for the peoples. But neither a low standard of living nor progressive impoverishment automatically liquidates an economic system. It gives way to a more efficient system only if people themselves are intelligent enough to comprehend the advantages such a change might bring them. Or it may be destroyed by foreign invaders provided with better military equipment by the greater efficiency of their own economic system.

Optimists hope that at least those nations which have in the past developed the capitalist market economy and its civilization will cling to this system in the future too. There are certainly as many signs to confirm as to disprove such an expectation. It is vain to speculate about the outcome of the great ideological conflict between the principles of private ownership and public ownership, of individualism and totalitarianism, of freedom and authoritarian regimentation. All that we can know beforehand about the result of this struggle can be condensed in the following three statements:

<img src="http://mises.org/store/Assets/ProductImages/B810.jpg" border="0" alt="DiLorenzo, Thomas J.">

1. We have no knowledge whatever about the existence and operation of agencies which would bestow final victory in this clash on those ideologies whose application will secure the preservation and further intensification of societal bonds and the improvement of mankind's material well-being. Nothing suggests the belief that progress toward more satisfactory conditions is inevitable or a relapse into very unsatisfactory conditions impossible.

2. Men must choose between the market economy and socialism. They cannot evade deciding between these alternatives by adopting a "middle-of-the-road" position, whatever name they may give to it.

3. In abolishing economic calculation the general adoption of socialism would result in complete chaos and the disintegration of social cooperation under the division of labor.

Comment on this article.

Ludwig von Mises was the acknowledged leader of the Austrian School of economic thought, a prodigious originator in economic theory, and a prolific author. Mises's writings and lectures encompassed economic theory, history, epistemology, government, and political philosophy. His contributions to economic theory include important clarifications on the quantity theory of money, the theory of the trade cycle, the integration of monetary theory with economic theory in general, and a demonstration that socialism must fail because it cannot solve the problem of economic calculation. Mises was the first scholar to recognize that economics is part of a larger science in human action, a science that Mises called "praxeology." See Ludwig von Mises's article archives.

You can subscribe to future articles by Ludwig von Mises via this RSS feed.

Notes

[1]In the United States the surtax rate under the 1942 Act was 52 per cent on the taxable income bracket $22,000-26,000. If the surtax had stopped at this level, the loss of revenue on 1942 income would have been about $249 million or 2.8 per cent of the total individual income tax for that year. In the same year the total net incomes in the income classes of $10,000 and above was $8,912 million. Complete confiscation of these incomes would not have produced as much revenue as was obtained in this year from all taxable incomes, namely, $9,046 million. Cf. *A Tax Program for a Solvent America*, Committee on Postwar Tax Policy (New York, 1945), pp. 116–117, 120.

[2] Cf. above, pp. 301–305.