**ECONOMICS IN ONE LESSON**
by Henry Hazlitt

Nobel Laureate in Economics, F.A. Hayek said in 1974 about Hazlitt's book: "It is a brilliant performance. It says precisely the things which need most saying and says them with rare courage and integrity. I know of no other modern book from which the intelligent layman can learn so much about the basic truths of economics in so short a time." (Back cover)

"This book is an analysis of economic fallacies that are at last so prevalent that they have almost become a new orthodoxy....its effort is to show that many of the ideas which now pass for brilliant innovations and advances are in fact mere revivals of ancient errors, and a further proof of the dictum that those who are ignorant of the past are condemned to repeat it." (pp. 9-10)

"As Morris R. Cohen has remarked: 'The notion that we can dismiss the views of all previous thinkers surely leaves no basis for the hope that our own work will prove of any value to others.'" (interior quote: *Reason and Nature* (1931), p.x.; Hazlitt, p.10)

"It is the beliefs which politically influential groups hold and which governments act upon that we are interested in here, not the historical origins of those beliefs....Fallacies, when they have reached the popular stage, become anonymous anyway." (p.11)

**The Lesson:**

"Economics is haunted by more fallacies than any other study known to man. This is no accident." (p. 15)

"While every group has certain economic interests identical with those of all groups, every group has also, as we shall see, interests antagonistic to those of all other groups. While certain public policies would in the long run benefit everybody, other policies would benefit one group only at the expense of all other groups. The group that would benefit by such policies, having such a direct interest in them, will argue for them plausibly and persistently. It will hire the best buyable minds to devote their whole time to presenting its case." (p. 15)

"[There] is the persistent tendency of men to see only the immediate effects of a given policy, or its effects only on a special group, and to neglect to inquire what the long-run effects of that policy will be not only on that special group but on all groups. It is the fallacy of overlooking secondary consequences. In this lies the whole difference between good economics and bad." (pp. 15-16)

"Doesn't everybody know, in his personal life, that there are all sorts of indulgences delightful at the moment but disastrous in the end?....Yet when we enter the field of public economics, these elementary truths are ignored. There are men regarded today as brilliant economists, who deprecate saving and recommend squandering on a national scale as the way to economic salvation; and when anyone points to what the consequences of these policies will be in the long run, they reply flippantly, as might the prodigal son of a warning father: 'In the long run we are all dead.' And such shallow wisecracks pass as devastating epigrams and the ripest wisdom.... Today is already the tomorrow which the bad economist yesterday urged us to ignore." (pp. 16-17)

"[T]he whole of economics can be reduced to a single lesson, and that lesson can be reduced to a single sentence. *The art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups.*" (p.17)

"[Bad economists] overlook the woods in their precise and minute examination of particular trees. Their methods and conclusions are often profoundly reactionary." (p. 18)

"[B]ad economists present their errors to the public better than the good economists present their truths....The reason is that the demagogues and bad economists are presenting half-truths. They are speaking only of the immediate effect of a proposed policy or its effect upon a single group. As far as they go they may often be right. In these cases the answer consists in showing that the proposed policy would also have longer and less desirable effects, or that it could benefit one group only at the expense of all other groups. The answer consists in supplementing and correcting the half-truth with the other half. But to consider all the chief effects of a proposed course on everybody often requires a long, complicated, and dull chain of reasoning. Most of the audience finds this chain of reasoning difficult to follow and soon becomes bored and inattentive. The bad economists rationalize this intellectual debility and laziness by assuring the audience that it need not even attempt to follow the reasoning or judge it on its merits because it is only 'classicism' of 'laissez faire' or 'capitalist apologetics' or whatever other term of abuse may happen to strike them as effective." (pp. 18-19)

**The Broken Window:**

"A young hoodlum...heaves a brick through the window of a baker's shop....A crowd gathers....After a while the crowd feels the need for philosophic reflection. And several of its members are almost certain to remind...the baker that, after all, the misfortune has its bright side. It will make business for some glazier....After all, if windows were never broken, what would happen to the glass business? Then of course, the thing is endless. The glazier will have $250 more to spend with other merchants, and these in turn will have $250 more to spend with still other merchants, and so ad infinitum. The smashed window will go on providing money and employment in ever-widening circles. The logical conclusion from all this would be, if the crowd drew it, that the little hoodlum who threw the brick, far from being a public menace, was a public benefactor....But the shopkeeper will be out $250 that he was planning to spend for a new suit. Because he has had to replace a window, he will have to go without the suit (or some equivalent need or luxury)....The glazier's gain of business, in short, is merely the tailor's loss of business. No new 'employment' has been added. The people in the crowd were thinking only of two parties to the transaction, the baker and the glazier. They had forgotten the potential third party involved, the tailor. They forgot him precisely because he will not now enter the scene. They will see the new window in the next day or two. They will never see the extra suit, precisely because it will never be made. They see only what is immediately visible to the eye.” (pp. 23-24)

**The Blessings of Destruction:**

“So we have finished with the broken window. An elementary fallacy. Anybody, one would think, would be able to avoid it after a few moment’s thought. Yet the broken-window fallacy, under a hundred disguises, is the most persistent in the history of economics.” (pp. 23-25)

“[D]emand and supply are merely two sides of the same coin....the farmers’ supply of wheat constitutes their demand for automobiles and other goods....This fundamental fact...is obscured...through such complications as wage payments and the indirect form in which virtually all modern exchanges are made through the medium of money....Mere inflation -- that is, the mere issuance of more money, with the consequence of higher wages and prices -- may look like the creation of more demand. But in terms of the actual production and exchange of real things it is not.” (pp.28-9)

“[W]ar destroys accumulated capital....the basic truth [is] that the wanton destruction of anything of real value is always a net loss.” (p.30)

**Public Works Mean Taxes:**

“There is no more persistent and influential faith in the world today than the faith in government spending. Everywhere government spending is presented as a panacea for all our economic ills....An enormous literature is based on this fallacy, and, as so often happens with doctrines of this sort, it has become part of an intricate network of fallacies that mutually support each other....Everything we get, outside of the free gifts of nature, must in some way be paid for. The world is full of so-called economists who in turn are full of schemes for getting something for nothing. They tell us that the government can spend and spend without taxing at all; that it can continue to pile up debt without ever paying it off, because ‘we owe it to ourselves.’...such pleasant dreams in the past have always been shattered by national insolvency or a runaway inflation....either immediately or ultimately every dollar of government spending must be raised through a dollar of taxation. Once we look at the matter in this way, the supposed miracles of government spending will appear in another light....With...public works, necessary for their own sake, and defended on that ground alone, I am not here concerned. I am here concerned with public works considered as a means of ‘providing employment’ or of adding wealth to the community that it would not have otherwise have had.” (pp. 31-32)

> [Consider an example during the Great depression by the WPA in Sarasota Florida. This was a burgeoning citing tending towards a playground for the rich. For example, a rich Chicago heiress had bought about a thousand acres on the waterfront. There was a great land speculation boom. Ringling (of circus fame) was building his mansion there, etc. Yet during this time the WPA built a public auditorium and a casino – the Lido! Why here and why a gambling casino? Was this really a proper use of federal funds or was it rather just a glaring example of Albert Nock’s contention that the state is simply an anti-social instrument of exploitation benefiting one group at the expense of everyone else? (The information came from a History Channel broadcast on 3/9/96)]

“If the bridge costs $10 million the taxpayers will lose $10 million. They will have that much taken away from them which they would otherwise have spent on the things they needed most. Therefore, for every public job created by the bridge project a private job has been destroyed somewhere else....at best there has been a *diversion* of jobs....More bridge builders; fewer automobile workers, television technicians, clothing workers, farmers....What has happened is merely that one thing has been created instead of others.” (pp. 33-34)

[But public works have great visibility which makes people not question their propriety -- after all they can drive over the bridge themselves. By contrast, people can’t see the items sacrificed in the process because first, they are not visible having never come into existence and second, they are too indirect and it is hard to follow all of their myriad paths. In response to this Hazlitt says:] “As a character in Bernard Shaw’s *Saint Joan* replies when told of the theory of Pythagoras that the earth is round and revolves around the sun: ‘What an utter fool! Couldn’t he use his eyes?’” (p. 35) [So who really was the fool?]

[Due to the inefficiencies involved] “it is highly improbable that the projects thought up by the bureaucrats will provide the same net addition to wealth and welfare, per dollar expended, as would have been provided by the taxpayers themselves, if they had been individually permitted to buy or have made what they themselves wanted, instead of being forced to surrender part of their earnings to the state.” (p. 36)

**Taxes Discourage Production:**

“The government spenders create the very problem of unemployment that they profess to solve....the larger the percentage of the national income taken by taxes the greater the deterrent to private production and employment.” (pp. 38-39)

“Government ‘encouragement’ to business is sometimes as much to be feared as government hostility.” (p. 40)

**Credit Diverts Production:**

“All credit is debt. Proposals for an increased volume of credit, therefore, are merely another name for proposals for an increased burden of debt. They would seem considerably less inviting if they were habitually referred to by the second name instead of by the first.” (p. 41)

**Government lending:**

“When people risk their own funds they are usually careful in their investigations to determine the adequacy of the assets pledged and the business acumen and honesty of the borrower. If the government operated by the same strict standards, there would be no good argument for its entering the field at all....The whole argument for its entering the lending business, in fact, is that it will make loans to people who could not get them from private lenders. This is only another way of saying that the government lenders will take risks with other people’s money (the taxpayers') that private lenders will not take with their own money." (p. 42)

"[W]hat is really being lent is not money, which is merely the medium of exchange, but capital....What is really being lent, say, is the farm or the tractor itself....The farm or tractor that is lent to A cannot be lent to B. The real question is, therefore, whether A or B shall get the farm. This brings us to the respective merits of A and B....There is a strange idea abroad, held by all monetary cranks, that credit is something a banker gives to a man. Credit, on the contrary, is something a man already has. He has it, perhaps, because he already has marketable assets of greater cash value than the loan for which he is asking. Or he has it because his character and past record have earned it. He brings it into the bank with him. That is why the banker makes him the loan. The banker is not giving something for nothing. He feels assured of repayment. He is merely exchanging a more liquid form of asset or credit for a less liquid form....But the government goes into the lending business in a charitable frame of mind because, as we say, it is worried about B. B cannot get a mortgage or other loans from private lenders because he does not have credit with them....Perhaps in an individual case it may work out all right. But it is obvious that in general the people selected by these government standards will be poorer risks than the people selected by private standards....There will be a much higher percentage of failures among them. They will be less efficient. More resources will be wasted by them. Yet the recipients of government credit will get their farms and tractors at the expense of those who otherwise would have been the recipients of private credit. Because B has a farm, A will be deprived of a farm. A may be squeezed out either because interest rates have gone up as a result of the government operations, or because farm prices have been forced up as a result of them, or because there is no other farm to be had in his neighborhood. In any case, the net result of government credit has not been to increase the amount of wealth produced by the community but to reduce it, because the available real capital (consisting of actual farms, tractors, etc.) has been placed in the hands of the less efficient borrowers rather than in the hands of the more efficient and trustworthy." (pp. 43-44)

"The proposal is frequently made that the government ought to assume the risks that are 'too great for private industry.' This means that bureaucrats should be permitted to take risks with the taxpayers' money that no one is willing to take with his own. Such a policy....would increase the demand for socialism; for, it would properly be asked, if the government is going to bear the risks, why should it not also get the profits?" (p. 45)

"[T]he amount of real capital at any moment (as distinguished from monetary tokens run off on a printing press) is limited." (p. 45)
"The private lenders, moreover, are selected by a cruel market test....a process of survival of the fittest. The government lender, on the other hand, are either those who have passed civil service examinations, and know how to answer hypothetical questions hypothetically, or they are those who can give the most plausible reasons for making loans and the most plausible explanations of why it wasn't their fault that the loans failed. But the net result remains; private loans will utilize existing resources and capital far better than government loans....Government loans, in short, as compared with private loans, will reduce production, not increase it." (p. 46)

"The government never lends or gives anything to business that it does not take away from business. One often hears New Dealers and other statists boast about the way government ‘bailed business out’ with the Reconstruction Finance Corporation, the Home Owners Loan Corporation and other government agencies in 1932 and later. But the government can give no financial help to business that it does not first or finally take from business. The government’s funds all come from taxes....When the government makes loans or subsidies to business, what it does is to tax successful private business in order to support unsuccessful private business.” (pp. 47-8)

> [President Hoover raised the top marginal tax bracket from 25% to 63% and Franklin D. Roosevelt raised it to 79%, then 81%, then 88% and finally, all the way up to 94%. One can only wonder how much business activity was discouraged, and even destroyed, with such exorbitant rates of taxation.]

**The Curse of Machinery:**

“Among the most viable of all economic delusions is the belief that machines on net balance create unemployment. Destroyed a thousand times, it has risen a thousand times out of its own ashes as hardy and vigorous as ever. Whenever there is long continued mass unemployment, machines get the blame anew. This fallacy is still the basis of many labor union practices. The public tolerates these practices because it either believes at bottom that the unions are right, or is too confused to see just why they are wrong.” (p. 49) [He gives examples of the stocking industry rioting over the invention and introduction of stocking frames to make the work go faster. And the invention of the cotton-spinning machine causing concern among spinners who used spinning wheels. In both cases, over time, industry employment went up not down.]

[Many people during the depression blamed things on machines. Fearing machinery, he gives many examples of ridiculous union featherbedding and make-work rules.] “By 1961 there was no sign that the fallacy had died. Not only union leaders but government officials talked solemnly of ‘automation’ as a major cause of unemployment. Automation was discussed as if it were something entirely new in the world.” (p. 53)

“If it were indeed true that the introduction of labor-saving machinery is a cause of constantly mounting unemployment and misery, the logical conclusion to be drawn would be revolutionary....Not only should we have to regard all further technical progress as a calamity; we should have to regard all past technical progress with equal horror. Every day each of us in his own activity is engaged in trying to reduce the effort it requires to accomplish a given result. Each of us is trying to save his own labor, to economize the means required to achieve his ends. Every employer, small as well as large, seeks constantly to gain his results more economically and efficiently -- that is, by saving labor....Why should freight be carried from Chicago to New York by railroad when we could employ enormously more men, for example, to carry it all on their backs?....Yet it is a misconception to think of the function or result of machines as primarily one of creating *jobs*. The real result of the machine is to increase *production*, to raise the standard of living, to increase economic welfare. It is no trick to employ everybody....Full employment -- very full employment; long, weary, back-breaking employment -- is characteristic of precisely the nations that are most retarded industrially. Where full employment already exists, new machines, inventions and discoveries cannot -- until there has been time for an increase in population -- bring *more* employment. They are likely to bring more *un*employment (but this time I am speaking of *voluntary* and not *in*voluntary unemployment) because people can now afford to work fewer hours, while children and the overaged no longer need to work." (pp. 54, 58).

> [In short, the fallacious fear about technology would logically lead us back to the grass hut era -- who really wants to do that? So his argument meshes with common sense.]
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> [He gives a detailed example of how the installation of a time-saving machine on net, is better for everyone in the long run -- of course there will be some uncomfortable dislocations in the process.]

"In brief, on net balance machines, technological improvements, automation, economies and efficiency do not throw men out of work." (pp. 55-57)

[How do machines on net benefit all of us in the long run? --] "by making goods cheaper for consumers [and] by increasing wages because they increase the productivity of the workers....in any case, machines, inventions and discoveries increase *real* wages." (pp. 58-9)

[He constantly cautions us to be mindful of the stress caused by the displaced workers and criticizes classical economists for appearing callused regarding them. He describes the plight of the displaced worker as follows: "he has devoted many years of his life to acquiring and improving a special skill for which the market no longer has any use. He has lost this investment in himself, in his old skill, just as his former employer, perhaps, has lost *his* investment in old machines or processes suddenly rendered obsolete. He was a skilled workman, and paid as a skilled workman. Now he has become overnight an unskilled workman again, and can hope, for the present, only for the wages of an unskilled workman, because the one skill he had is no longer needed." (p. 60) This underscores the need today for people to constantly upgrade their education and skills and to constantly forecast the future and prepare for it rather than just sitting back and mistakenly thinking that good times will always roll and that things can never change for the worse.]

"Allied to this fallacy [that a more efficient way of doing a thing destroys jobs, and its necessary corollary that a less efficient way of doing it creates them] is the belief that there is just a fixed amount of work to be done in the world....This error lies behind the minute subdivisions of labor upon which unions insist." (p. 61) [Then he gives a lot of egregious examples of such subdivisions.]

"There is no limit to the amount of work to be done as long as any human need or wish that work could fill remains unsatisfied. In a modern exchange economy, the most work will be done when prices, costs and wages are in the best relations with each other." (p. 66)

[An analogy that occurs to me is the military. Would anyone seriously argue that it would be unwise to constantly be expanding the envelope of technology and weaponry in order to give our soldiers the best chances of winning a war? Each side would naturally want the superior machinery and weaponry in order to make their soldiers the most productive and most secure. The same principles apply to free market competition. The worker with the best set of machinery and technology behind him is the most productive, the highest paid and the most secure. Besides, who would want to take a full-employment approach to war?]

**Disbanding Troops and Bureaucrats:**

[After every great war people have feared unemployment when the troops were disbanded.] "They see soldiers being turned loose on the labor market. Where is the 'purchasing power' going to come from to employ them? If we assume that the public budget is being balanced, the answer is simple. The government will cease to support the soldiers. But the taxpayers will be allowed to retain the funds that were previously taken from them in order to support the soldiers. And the taxpayers will then have additional funds to buy additional goods." (p. 67) Thus more civil demand will prompt economic expansion and more jobs which will be filled by the returning soldiers. Even if we assumed deficit financing, it "is irrelevant to the point that has just been made; for if we assume that there is any advantage in a budget deficit [which he takes issue with later in his book], then precisely the same budget deficit could be maintained as before by simply reducing taxes by the amount previously spent in supporting the wartime army." (p. 68)

"If we assume that the men who would otherwise have been retained in the armed forces are no longer needed for defense, then their retention would have been sheer waste. They would have been unproductive. The taxpayers, in return for supporting them, would have got nothing. But now [after discharge] the taxpayers turn over this part of their funds to them as fellow civilians in return for equivalent goods or services. Total national production, the wealth of everybody, is higher. The same reasoning applies to civilian government officials whenever they are retained in excessive numbers and do not perform services for the community reasonably equivalent to the remuneration they receive." (p. 68) [Turning them back into the civilian community like the soldiers would not be 'deflationary' for the same reasons discussed above.]

"I must insist again that in all this I am not talking of public officeholders whose services are really needed....But their justification consists in the utility of their services. It does not consist in the 'purchasing power' they possess by virtue of being on the public payroll. This 'purchasing power' argument is, when one considers it seriously, fantastic. It could just as well apply to a racketeer or a thief who robs you. After he takes your money he has more purchasing power....When your money is taken by a thief, you get nothing in return. When your money is taken through taxes to support needless bureaucrats, precisely the same situation exists. We are lucky, indeed, if the needless bureaucrats are mere easygoing loafers. They are more likely today to be energetic reformers busily discouraging and disrupting production [and thus employment]. When we can find no better argument for the retention of any group of officeholders than that of retaining their purchasing power, it is a sign that the time has come to get rid of them." (pp. 69-70)

**The Fetish of Full Employment:**

"The economic goal of any nation, as of any individual, is to get the greatest results with the least effort. The whole economic progress of mankind has consisted in getting more production with the same labor....All this is so elementary that one would blush to state it if it were not being constantly forgotten by those who coin and circulate the new slogans. Translated into national terms, this first principle means that our real objective is to maximize production. In doing this, full employment -- that is, the absence of involuntary idleness -- becomes a necessary by-product. But production is the end, employment merely the means. We cannot continuously have the fullest production without full employment. But we can very easily have full employment without full production." (p. 71)

"Nothing is easier to achieve than full employment, once it is divorced from the goal of full production and taken as an end in itself....Everywhere the means is erected into the end, and the end itself is forgotten. Wages and employment are discussed as if they had no relation to productivity and output." (p. 72)

"When we had our WPA, it was considered a mark of genius for the administrators to think of projects that employed the largest number of men in relation to the value of the work performed -- in other words, in which labor was least efficient. It would be far better, if that were the choice -- which it isn't -- to have maximum production with part of the population supported in idleness by undisguised relief than to provide 'full employment' by so many forms of disguised make-work that production is disorganized." (p. 72)

"The real question is not how many millions of jobs there will be in America ten years from now, but how much shall we produce, and what, in consequence, will be our standard of living? The problem of distribution, on which all the stress is being put today, is after all more easily solved the more there is to distribute." (p. 73)

**Who's "Protected" by Tariffs?**

What Adam Smith said in *The Wealth of Nations* back in 1776 is still true today: "In every country it always is and must be the interest of the great body of the people to buy whatever they want of those who sell it cheapest." (p. 74)
[He says that we shouldn't fear imports because in the long run they must equal our exports. By buying foreign goods, we give the sellers American dollars with which they can buy American goods. Because of this natural equilibrium we cannot be against imports if we want to encourage exports. If we let goods flow freely across borders, then American employment on net will not go down but production on net balance will go up.] "Labor in each country is more fully employed in doing just those things that it does best, instead of being forced to do things that it does inefficiently or badly. Consumers in both countries are better off." (p. 77) [Tariffs on whole reduce overall labor productivity and hence reduce real American wages along with the rest of the world. Even when we use tariffs to protect selected industries, in effect those industries are being subsidized by our other industries causing a drag on them. The difficulty with accepting this conclusion is that it is easier to see the immediate and direct effects on the protected industry but it is harder to see the indirect and spread-out effects on the industries doing the subsidizing and the consumers who are buying slightly higher priced goods and services, but these effects are there nonetheless. It is kind of like the straws on the camel's back -- each one individually may seem insignificant but collectively as a group they can break a camel's back. We always tend to pass off the straws as insignificant and fail to consider their cumulative economic effect -- we fail to consider secondary consequences as Hazlitt calls them.]

"In the long run it [a tariff] always reduces real wages, because it reduces efficiency, production and wealth." (p. 82)

"But we should not deny, as enthusiastic free traders have so often done, the possibility of these tariff benefits to special groups. We should not pretend, for example, that a reduction of the tariff would help everybody and hurt nobody. It is true that its reduction would help the country on net balance. But *somebody* [the ones previously protected] would be hurt. That in fact is one reason why it is not good to bring such protected interests into existence in the first place." (p. 83)

"As a postscript to this chapter, I should add that its argument is not directed against *all* tariffs, including duties collected mainly for revenue, or to keep alive industries needed for war; nor is it directed against all arguments for tariffs. It is merely directed against the fallacy that a tariff on net balance 'provides employment,' 'raises wages,' or 'protects the American standard of living.' It does none of these things; and so far as wages and the standard of living are concerned, it does the precise opposite." (p. 84)

"It is exports that pay for imports, and vice versa. The greater exports we have, the greater imports we must have, if we ever expect to get paid....When we decide to cut down our imports, we are in effect deciding also to cut down our exports. When we decide to increase our exports, we are in effect deciding also to increase our imports." (p. 85)

"Foreign exchange, in short, is a clearing transaction in which, in America, the dollar debts of foreigners are canceled against their dollar credits." (p. 86)

[A common fallacy when it comes to foreign lending] "runs like this. Even if half (or all) the loans we make to foreign countries turn sour and are not repaid, this nation will still be better off for having made them, because they will give an enormous impetus to our exports. It should be immediately obvious that if the loans we make to foreign countries to enable them to buy our goods are not repaid, then we are giving the goods away. A nation cannot grow rich by giving goods away. It can only make itself poorer....In the long run business and employment in American would be hurt, not helped, by foreign loans that were not repaid. For every extra dollar that foreign buyers had with which to buy American goods, domestic buyers would ultimately have one dollar less. Businesses that depend on domestic trade would therefore be hurt in the long run as much as export business would be helped." (pp.87-8)

"[I]t is stupid to give a false stimulation to export trade through export subsidies. An export subsidy is a clear case of giving the foreigner something for nothing, by selling him goods for less than it costs us to make them. It is another case of trying to get rich by giving things away." (pp. 88-9)

"[T]he real gain of foreign trade to any country lies not in its exports but in its imports. Its consumers are either able to get from abroad commodities at a lower price than they could obtain them for at home, or commodities that they could not get from domestic producers at all." (p. 89)

**Parity Prices:**

“Special interests, as the history of tariffs reminds us, can think of the most ingenious reasons why they should be the objects of special solicitude. Their spokesmen present a plan in their favor; and it seems at first so absurd that disinterested writers do not trouble to expose it. But the special interests keep on insisting on the scheme. Its enactment would make so much difference to their own immediate welfare that they can afford to hire trained economists and public relations experts to propagate it in their behalf. The public hears the argument so often repeated, and accompanied by such a wealth of imposing statistics, charts, curves and pie-slices, that it is soon taken in. When at last disinterested writers recognize that the danger of the scheme’s enactment is real, they are usually too late.” (p. 90)

[He talks about the plight of farmers and the supposed need to support their agricultural prices to keep them profitable by imposing artificial price supports to match some prior year of prosperity. The common thinking was that if we could cut back on supply, then prices would rise so we started paying farmers to take acreage out of production. It ended up creating more production since the farmers took their least productive acreage out of production and left the most productive acreage in production. The costs saved in the process were spent on more fertilizer for the remaining fields thus upping their yield. But even if we succeeded, what good would it do? None. On net, it would only hurt us. First, if we did succeed in helping the farmer artificially, the consumers would have to pay higher prices so that it would come out of their collective hides.

[Second, it makes no sense to produce less consumable food because that is the same thing as producing less wealth. You don’t increase our overall standard of living by artificially constricting the production of new wealth.

[Third, if we did manage to increase the price of a bushel of wheat, for example, while it is true the farmer will get more per bushel, but he will have fewer bushels to sell so have we really helped him much at all? After all, both price and volume factor into the equation of the farmer’s income.

[Fourth, if we succeeded in helping the farmers by hurting the consumers, the consumers will start asking for the government to bail them out of their economic plight but then the farmers would have to chip in for that bail out thus hurting them.] “But suppose we could solve this fantastic problem? What would be the point? Who gains when everyone equally subsidizes everyone else? What is the profit when everyone loses in added taxes precisely what he gains by his subsidy or his protection? We should merely have added an army of needless bureaucrats to carry out the program, with all of them lost to production.” (p. 96)

**Saving the X Industry:**

[On the theory that the sick industry is sick because it is overcrowded, one approach to a bailout would be to artificially prevent other firms or workers from getting in.] “Now if the X industry is really overcrowded as compared with other industries it will not need any coercive legislation to keep out new capital or new workers. New capital does not rush into industries that are obviously dying. Investors do not eagerly seek the industries that present the highest risks of loss combined with the lowest returns. Nor do workers, when they have any better alternative, go into industries where the wages are lowest and the prospects for steady employment least promising. If new capital and new labor are forcibly kept out of the X industry, however, either by monopolies, cartels, union policy or legislation, it deprives this capital and labor of liberty of choice. It forces investors to place their money where the returns seem less promising to them than in the X industry. It forces workers into industries with even lower wages and prospects than they could find in the allegedly sick X industry. It means, in short, that both capital and labor are less efficiently employed than they would be if they were permitted to make their own free choices. It means, therefore, a lowering of production which must reflect itself in a lower average living standard....Similar results would follow any attempt to save the X industry by a direct subsidy out of the public till. This would be nothing more than a transfer of wealth or income to the X industry. The taxpayers would lose precisely as much as the people in X industry gained." (pp. 100-101)

"The idea that an expanding economy implies that *all* industries must be simultaneously expanding is a profound error. In order that new industries may grow fast enough it is usually necessary that some old industries should be allowed to shrink and die. In doing this they help to release the necessary capital and labor for the new industries. If we had tried to keep the horse-and-buggy trade artificially alive we should have slowed down the growth of the automobile industry and all the trades dependent on it. We should have lowered the production of wealth and retarded economic and scientific progress. We do the same thing, however, when we try to prevent any industry from dying in order to protect the labor already trained or the capital already invested in it. Paradoxical as it may seem to some, it is just as necessary to the health of a dynamic economy that dying industries be allowed to die as that growing industries be allowed to grow. The first process is essential to the second." (pp. 102)

**How the Price System Works:**

"The scientists, the efficiency experts, the engineers, the technicians....[claim] they could turn out almost anything you cared to mention in huge and practically unlimited amounts. But, alas, the world is not ruled by the engineers, thinking only of production, but by the businessmen, thinking only of profit. The businessmen give their orders to the engineers, instead of vice versa. These businessmen will turn out any object as long as there is a profit in doing so, but the moment there is no longer a profit in making that article, the wicked businessmen will stop making it, though many people's wants are unsatisfied, and the world is crying for more goods. There are so many fallacies in this view that they cannot all be disentangled at once. But the central error, as we have hinted, comes from looking at only one industry, or even at several industries in turn, as if each of them existed in isolation. Each of them in fact exists in relation to all the others, and every important decision made in it is affected by and affects the decisions made in all the others." (p.104) [To illustrate he uses an example of Robinson Crusoe. There are many things he wants and needs as soon as he arrives on the island but he cannot have them all at once. He has to prioritize his needs and take things one at a time.] "[E]verything he does delays or prevents him from doing something else only a little less urgent. He is faced constantly by the problem of *alternative* applications of his time and labor." (p.104) [The Swiss

Family Robinson may be able through the division of labor to take care of their needs more quickly, but they still have the same problem facing them. If one kid has the assignment of gathering firewood and another the assignment of fishing for the family's dinner, the wood gatherer might complain that he would be able to gather twice as much firewood if only his fisherman brother would help him but to do so would prevent him from fishing. Thus] "one occupation can expand only at the expense of all other occupations." (p. 105) [Pricing serves the useful purpose of prioritizing the needs and wants of society so that things are done in the maximizing proportions and order.]

"These questions and conclusions stem from the fallacy of looking at one industry in isolation, of looking at the tree and ignoring the forest. Up to a certain point it is necessary to produce shoes. But it is also necessary to produce coats, shirts, trousers, homes, plows, shovels, factories, bridges, milk and bread. It would be idiotic to go on piling up mountains of surplus shoes, simply because we could do it, while hundreds of more urgent needs went unfilled.

" Now in an economy in equilibrium, a given industry can expand *only at the expense of other industries*. For at any moment the factors of production are limited. One industry can be expanded only by *diverting* to it labor, land and capital that would otherwise be employed in other industries. And when a given industry shrinks, or stops expanding its output, it does not necessarily mean that there has been any *net* decline in aggregate production. The shrinkage at that point may have merely *released* labor and capital to *permit the expansion of other industries.* It is erroneous to conclude, therefore, that a shrinkage of production in one line necessarily means a shrinkage in *total* production.

" Everything, in short, is produced at the expense of forgoing something else. Costs of production themselves, in fact, might be defined as the things that are given up (the leisure and pleasures, the raw materials with alternative potential uses) in order to create the thing that is made.

" It follows that it is just as essential for the health of a dynamic economy that dying industries should be allowed to die as that growing industries should be allowed to grow. For the dying industries absorb labor and capital that should be released for the growing industries. It is only the much vilified price system that solves the enormously complicated problem of deciding precisely how much of tens of thousands of different commodities and services should be produced in relation to each other. These otherwise bewildering equations are solved quasi-automatically by the system of prices, profits and costs. They are solved by this system incomparably better than any group of bureaucrats could solve them. For they are solved by a system under which each consumer makes his own demand and casts a fresh vote, or a dozen fresh votes, every day; whereas bureaucrats would try to solve it by having made for the consumers, not what the consumers themselves wanted, but what the bureaucrats decided was good for them." (pp. 108-9) [Consider Russia's experience.]

**"Stabilizing" Prices Above Their Natural Market Levels:**

"Attempts to lift the prices of particular commodities permanently above their natural market levels have failed so often, so disastrously and so notoriously that sophisticated pressure groups, and the bureaucrats upon whom they apply the pressure, seldom openly avow that aim. Their stated aims, particularly when they are first proposing that the government intervene, are usually more modest, and more plausible.

“ They have no wish, they declare, to raise the price of commodity X permanently above its natural level. That, they concede, would be unfair to consumers. But it is *now* obviously selling far *below* its natural level. The producers cannot make a living. Unless we act promptly, they will be thrown out of business. Then there will be a real scarcity, and consumers will have to pay exorbitant prices for the commodity. The apparent bargains that the consumers are now getting will cost them dear in the end. For the present ‘temporary’ low price cannot last. But we cannot afford to wait for so-called natural market forces, or for the ‘blind’ law of supply and demand, to correct the situation. For by that time the producers will be ruined and a great scarcity will be upon us. The government must *act*. All that we really want to do is to correct these violent, senseless *fluctuations* in price. We are not trying to *boost* the price, we are only trying to *stabilize* it.” (p.110)

“One of the most frequent [methods] is government loans to farmers to enable them to hold their crops off the market....The effect of this is to secure a higher price temporarily than would otherwise exist, but to do so only by bringing about later on a much lower price than would otherwise have existed. For the artificial shortage built up this year by withholding part of a crop from the market means as artificial surplus the next year....the loan policy is usually accompanied by, or inevitably leads to, a policy of restricting production -- i.e., a policy of scarcity.” (pp. 111-113)
[He uses the cotton program of the 1950s to illustrate. Because of such government programs, in 1956 the cotton carryover amounted to a full year’s normal production.] “To cope with this, the government changed its program. It decided to buy most of the crop from the growers and immediately offer it for resale at a discount. In order to sell American cotton again in the world market, it made a subsidy payment on cotton exports....This policy did succeed in reducing the raw-cotton carryover. But in addition to the losses it imposed on the taxpayers, it put American textiles at a serious competitive disadvantage with foreign textiles subsidizing the foreign industry at the expense of the American industry. It is typical of government price-fixing schemes that they escape one undesired consequence only by plunging into another and usually worse one.” (p. 113)

“The restrictionists usually reply that this drop in output is what happens anyway under a market economy. But there is a fundamental difference....In a competitive market economy it is the high-cost producers, the *inefficient* producers, that are driven out by a fall in price. In the case of an agricultural commodity it is the least competent farmers, or those with the poorest equipment, or those working the poorest land, that are driven out. The most capable farmers on the best land do not have to restrict their production. On the contrary, if the fall in price has been through an increased supply, then the driving out of the marginal farmers on the marginal land enables the good farmers on the good land to *expand* their production. So there may be, in the long run, no reduction whatever in the output of that commodity. And the product is then produced and sold at a *permanently* lower price.
“ If that is the outcome, then the consumers of that commodity will be as well supplied with it as they were before. But, as a result of the lower price, they will have money left over, which they did not have before, to spend on other things. The consumers, therefore, will obviously be better off. But their increased spending in other directions will give increased employment in other lines, which will then absorb the former marginal farmers in occupations in which their efforts will be more lucrative and more efficient.” (p. 114)

“To give farmers money for restricting production, or to give them the same amount of money for artificially restricted production, is no different from forcing consumers or taxpayers to pay people for doing nothing at all. In each case the beneficiaries of such policies get ‘purchasing power.’ But in each case someone else loses and exactly equivalent amount. The net loss to the community is the loss of production, because people are supported for not producing. Because there is less for everybody, because there is less to go around, real wages and real incomes must decline either through a fall in their monetary amount or through higher living costs.” (p. 115)

“The plan that started out so bravely to ‘stabilize’ prices and conditions brings incomparably greater *in*stability than the free forces of the market could possibly have brought.” (pp. 115-16)

“Just what the government planners mean by free trade in this connection I am not sure, but we can be sure of some of the things they do not mean. They do not mean the freedom of ordinary people to buy and sell, lend and borrow, at whatever prices or rates they like and wherever they find it most profitable to do so. They do not mean the freedom of the plain citizen to raise as much of a given crop as he wishes, to come and go at will, to settle where he pleases, to take his capital and other belongings with him. They mean, I suspect, the freedom of bureaucrats to settle these matters for him. And they tell him that if he docilely obeys the bureaucrats he will be rewarded by a rise in his living standards. But if the planners succeed in tying up the idea of international cooperation with the idea of increased State domination and control over economic life, the international controls of the future seem only too likely to follow the pattern of the past, in which case the plain man’s living standards will decline with his liberties.” (p. 116) [With Russia’s recent experience so vividly before us, how can anyone doubt what Hazlitt is saying here?]

**Government Price Fixing Below Their Natural Market Levels:**

“Though they [government price-fixing programs] are always economically harmful, if not destructive, they have at least a political advantage from the standpoint of the officeholders. By implication they put the blame for higher prices on the greed and rapacity of businessmen, instead of on the inflationary monetary policies of the officeholders themselves.”

“[W]e cannot hold the price of any commodity below its market level without in time bringing about two consequences....The first is an increase in demand ....The second consequence is to reduce the supply of the commodity. Because people buy more, the accumulated supply is more quickly taken from the shelves of merchants. But in addition to this, production of that commodity is discouraged. Profit margins are reduced or wiped out. The marginal producers are driven out of business. Even the most efficient producers may be called upon to turn out their product at a loss. This happened in World War II when slaughter houses were required by the Office of Price Administration to slaughter and process meat for less than the cost to them of cattle on the hoof and the labor of slaughter and processing.

“ If we did nothing else, therefore, the consequences of fixing a maximum price for a particular commodity would be to bring about a shortage of that commodity. But this is precisely the opposite of what the government regulators originally wanted to do. For it is the very commodities selected for maximum price-fixing that the regulators most want to keep in abundant supply." (p. 119)

"Some of these consequences in time become apparent to the regulators, who then adopt various other devices and controls in an attempt to avert them. Among these devices are rationing, cost-control, subsidies, and universal price-fixing....When it becomes obvious that a shortage of some commodity is developing as a result of a price fixed below the market, rich consumers are accused of taking 'more than their fair share'....If a rationing system is adopted, in brief, it means that the government adopts a double price system, or a dual currency system, in which each consumer must have a certain number of coupons or 'points' in addition to a given amount of ordinary money. In other words, the government tries to do through rationing part of the job that a free market would have done through prices. I say only part of the job, because rationing merely limits the demand without also stimulating the supply, as a higher price would have done.

" The government may try to assure supply through extending its control over the costs of production of a commodity....But as the government extends this price-fixing backwards, it extends at the same time the consequences that originally drove it to this course....Thus the government is driven to controls in ever-widening circles, and the final consequence will be the same as that of universal price-fixing [i.e. after all of the efforts, nobody is better off as a result].

" The government may try to meet this difficulty through subsidies....[but] unless the subsidized commodity is also rationed, it is those with the most purchasing power that can buy most of it....It becomes a little difficult to trace in this maze precisely who is subsidizing whom. What is forgotten is that subsidies are paid for by someone, and that no method has been discovered by which the community gets something for nothing." (pp. 120-22)

"When prices are arbitrarily held down by government compulsion, demand is *chronically* in excess of supply....If we ration one commodity, and the public cannot get enough of it, though it still has excess purchasing power, it will turn to some substitute. The rationing of each commodity as it grows scarce, in other words, must put more and more pressure on the unrationed commodities that remain. If we assume that the government is successful in its efforts to prevent black markets...continued price control must drive it to the rationing of more and more commodities....The natural consequence of a thoroughgoing over-all price control which seeks to perpetuate a given historic price level, in brief, must ultimately be a completely regimented economy. Wages would have to be held down as rigidly as prices. Labor would have to be rationed as ruthlessly as raw materials....The result would be petrified totalitarian economy, with every business firm and every worker at the mercy of the government, and with a final abandonment of all the traditional liberties we have known." (pp. 122-23)

[Hazlitt believes the inevitable response to government attempts to artificially keep prices down is black markets. Such black markets would exact a moral toll by putting a premium on dishonesty and an economic toll by reducing production and overall living standards.]

"What lies at the base of the whole effort to fix maximum prices? There is first of all a misunderstanding of what it is that has been causing prices to rise. The real cause is either a scarcity of goods or a surplus of money. Legal price ceilings cannot cure either....they merely intensify the shortage." (pp.124-25)

**What Rent Control Does:**

"Rent control is initially imposed on the argument that the supply of housing is not 'elastic' -- i.e., that a housing shortage cannot be immediately made up, no matter how high rents are allowed to rise. Therefore, it is contended, the government, by forbidding increases in rents, protects tenants from extortion and exploitation without doing any real harm to landlords and without discouraging new construction.

" This argument is defective even on the assumption that the rent control will not long remain in effect. It overlooks immediate consequences. If landlords are allowed to raise rents to reflect a monetary inflation and the true conditions of supply and demand, individual tenants will economize by taking less space. This will allow others to share the accommodations that are in short supply. The same amount of housing will shelter more people, until the shortage is relieved.

" Rent control, however, encourages wasteful use of space. It discriminates in favor of those who already occupy houses or apartments in a particular city or region at the expense of those who find themselves on the outside. Permitting rents to rise to the free market level allows all tenants or would-be tenants equal opportunity to bid for space....The effects of rent control become worse the longer the rent control continues. New housing is not built because there is no incentive to build it....landlords will not trouble to remodel apartments or make other improvements in them....[It will] create ill feeling between landlords who are forced to take minimum returns or even losses, and tenants who resent the landlord's failure to make adequate repairs....The accommodation for low-income groups, therefore, will deteriorate in quality, and there will be no increase in quantity. Where the population is increasing, the deterioration and shortage in low-income housing will grow worse and worse. It may reach a point where many landlords not only cease to make any profit but are faced with mounting and compulsory losses. They may find that they cannot even give their property away. They may actually abandon their property and disappear, so they cannot be held liable for taxes. When owners cease supplying heat and other basic services, the tenants are compelled to abandon their apartments. Wider and wider neighborhoods are reduced to slums. In recent years, in New York City, it has become a common sight to see whole blocks of abandoned apartments, with windows broken, or boarded up to prevent further havoc by vandals. Arson becomes more frequent, and the owners are suspected. A further effect is the erosion of city revenues [as the tax base continues to shrink].... **When these consequences are so clear that they become glaring, there is of course no acknowledgment on the part of the imposers of rent control that they have blundered. Instead, they denounce the capitalist system. They contend that private enterprise has 'failed' again; that 'private enterprise cannot do the job.' Therefore, they argue, the State must step in and itself build low-rent housing.**...So the government launches on a gigantic housing program -- at the taxpayers' expense. The houses are rented at a rate that does not pay back costs of construction and operation....The political possibilities of this favoritism are too clear to need stressing. A pressure group is built up that believes that the taxpayers owe it these subsidies as a matter of right. Another all but irreversible step is taken toward the total Welfare State.

" A final irony of rent control is that the more unrealistic, Draconian, and unjust it is, the more fervid the political arguments for its continuance....Even the opponents of rent control are...disposed to concede that the removal of controls must be a very cautious, gradual, and prolonged process. Few of the opponents of rent control, indeed, have the political courage and economic insight under such conditions to ask even for this gradual decontrol. In sum, the more unrealistic and unjust the rent control is, the harder it is politically to get rid of it....[for] tenants have more votes than landlords." (pp. 127-33)

"Men in other businesses, who support the imposition or retention of rent control because their hearts bleed for the tenants, do not go so far as to suggest that they themselves be asked to assume part of the tenant subsidy through taxation. The whole burden falls on the single small class of people wicked enough to have built or to own rental housing. Few words carry stronger obloquy than *slumlord*." (p. 132)

**Minimum Wage Laws:**

"We have already seen some of the harmful results of arbitrary government efforts to raise the price of favored commodities. The same sort of harmful results follow efforts to raise wages through minimum wage laws. This ought not to be surprising, for a wage is, in fact, a price....Thinking has become so emotional and so politically biased on the subject of wages that in most discussions of them the plainest principles are ignored." (p. 134)

[If by law we arbitrarily raise the allowable wage for unskilled work above its economic value to the employer, why would the employer want to hire the person?] "You cannot make a man worth a given amount by making it illegal for anyone to offer him anything less. You merely deprive him of the right to earn the amount that his abilities and situation would permit him to earn, while you deprive the community even of the moderate services that he is capable of rendering." (p. 135)

"It may be thought that if the law forces the payment of a higher wage in a given industry, that industry can then charge higher prices for its product, so that the burden of paying the higher wage is merely shifted to consumers....A higher price for the product may not be possible: it may merely drive consumers to the equivalent imported product or to some substitute or to buy less of it. While some workers in the industry may be benefited from the higher wage, therefore, others will be thrown out of employment altogether....There is no escape from the conclusion that the minimum wage will increase unemployment.

" A nice problem, moreover, will be raised by the relief program designed to take care of the unemployment caused by the minimum wage law." (pp. 135-36)

[Hazlitt then considered some possible responses. First he considered the possibility of creating a "safety net" (I use the contemporary phrase -- he didn't use this phrase but in substance it was the same thing) to catch those out of work.]

[He only addressed the situation where the safety net amounts were less than the minimum wage -- he didn't consider the possibility of the safety net package itself being worth more than what a person could earn through the minimum wage like we do today. I doubt that even he could conceive how anybody could ever be so stupid as to suggest such a possibility.

[He questioned the efficacy of the incentive to work the closer the safety net amount (that could be had without working) approached the minimum wage amount.

[Certainly he, *a fortiori*, would conclude a total absence of incentive to work if the safety net amount ever exceeded the minimum wage amount. Of course the liberal solution would probably be just to increase the minimum wage amount to again exceed the safety net amount, but then the merry-go-round just continues at a faster speed and does more ultimate damage.

[He consistently asks the question throughout the book "How can we increase our overall net wealth and standard of living if we pay people to be unproductive?"
[Second, he considers government make-work projects. Such work, he says,] "is necessarily inefficient and of questionable utility. The government has to invent projects that will employ the least skilled. It cannot start teaching people carpentry, masonry, and the like, for fear of competing with established skills and arousing the antagonism of existing unions." (p. 137)

[He says that past minimum wage laws did not cause an increase in the prevailing market wage rates but just followed that rise caused by economic growth.] "Though the legislation follows the rise of the prevailing market wage rate, the myth continues to be built up that it is the minimum wage legislation that has raised the market wage." (p. 138)

"The question is not whether we wish to see everybody as well off as possible. Among men of good will such an aim can be taken for granted. The real question concerns the proper means of achieving it. And in trying to answer this we must never lose sight of a few elementary truisms. We cannot distribute more wealth than is created. We cannot in the long run pay labor as a whole more than it produces. The best way to raise wages, therefore, is to raise marginal labor productivity....Real wages come out of production, not out of government decrees. So government policy should be directed, not to imposing more burdensome requirements on employers, but to following policies that encourage profits, that encourage employers to expand, to invest in newer and better machines to increase the productivity of workers -- in brief, to encourage capital accumulation, instead of discouraging it -- and to increase both employment and wage rates." (p.139)

**Do Unions Really Raise Wages?**

"The belief that labor unions can substantially raise real wages over the long run and for the whole working population is one of the great delusions of the present age. This delusion is mainly the result of failure to recognize that wages are basically determined by labor productivity." (p. 140)

[Although Hazlitt says that union strikes are legitimate tools used by labor to force employers to raise wages that are really below their true market value, he says] "the moment workers have to use intimidation or violence to enforce their demands -- the moment they use mass picketing to prevent any of the old workers from continuing at their jobs, or to prevent the employer from hiring new permanent workers to take their places -- their case becomes suspect. For the pickets are really being used, not primarily against the employer, but against other workers. These other workers are willing to take the jobs that the old employees have refused. If, therefore, the old employees succeed by force in preventing new workers from taking their place, they prevent these new workers from choosing the best alternative open to them, and force them to take something worse. The strikers are therefore insisting on a position of privilege, and are using force to maintain this privileged position against other workers....if they [the workers who would like to cross the picket lines and work] are in fact merely men and women who are looking for permanent jobs and willing to accept them at the old rate, then they are workers who would be shoved into worse jobs than these in order to enable the striking workers to enjoy better ones. And this superior position for the old employees could continue to be maintained, in fact, only by the ever-present threat of force." (pp. 142-43)

"Emotional economics has given birth to theories that calm examination cannot justify. One of these is the idea that labor is being 'underpaid' *generally*. This would be analogous to the notion that in a free market prices in general are chronically too low. Another curious but persistent notion is that the interests of a nation's workers are identical with each other, and that an increase in wages for one union in some obscure way helps all other workers." (p. 143)

"When strong labor unions in the past made it their function to provide for their own unemployed members, they thought twice before demanding a wage that would cause heavy unemployment. But where there is a relief system under which the general taxpayer is forced to provide for the unemployment caused by excessive wage rates, this restraint on excessive union demands is removed." (p. 145)

> [One can only imagine what Hazlitt would have said about the current state of affairs under New York law where strikers are entitled to unemployment compensation which is funded by employer premiums. Isn't that an odd state of affairs and a tremendous advantage given to the striking workers by the government? -- not only must the employer withstand the normal economic dislocations of a strike, but in New York, it must also indirectly continue paying the strikers during the strike. In other words, the law makes the employer fund the very strike being waged against it! I remember a few years back Congress was even considering legislation prohibiting employers from replacing striking employees -- what lunacy! Look what we are trying to turn our "free market" system into while still calling us a free people with a straight face.]

[What if we were able to achieve universal unionism? -- would that guarantee good wages for all? No. First unions would differ in relative strength because of the differing things they would make. Those in the more strategic areas would always fare better -- e.g. those making Cadillacs would probably get higher wages than those making beanies. Second,] "suppose, in spite of the self-contradictoriness of the assumption, that all workers by coercive methods could raise their money wages by an equal percentage? Nobody would be any better off, in the long run, than if wages had not been raised at all." (p. 146) [This would be because the resulting inflation would cause the real purchasing power to remain the same collectively.]

[Even assuming labor could effectively demand higher wages well in excess of their true market worth, it would not last long term. For example lets assume the railroad unions were able to do this and the market was such that the railroad could not raise ticket prices because they would lose more in lost volume of passengers than would be gained by raising the ticket prices on the remaining passengers. Would this be union nirvana? Hardly.] "If the money that they [the owners] have invested in railroads now yields less than money they can invest in other lines, the investors will not put a cent more into railroads. They may replace a few things that wear out first, to protect the small yield on their remaining capital; but in the long run they will not even bother to replace items that fall into obsolescence or decay. [Just like slumlords in a prior discussion] If capital invested at home pays them less than that invested abroad, they will invest abroad. If they cannot find sufficient return anywhere to compensate them for their risk, they will cease to invest at all. Thus the exploitation of capital by labor can at best be merely temporary." (p. 148)

"They [unions] have certainly been a force working to hold down or to reduce wages if their effect, on net balance, has been to reduce labor productivity." (p.149)

[Then he goes through a litany of examples where unions reduce productivity like rigid subdivisions of labor, seniority being rewarded rather than speed and efficiency, road blocking the introduction of improved machinery, make-work rules, etc.]

"Most of these policies have been followed under the assumption that there is just a fixed amount of work to be done, a definite 'job fund' which has to be spread over as many people and hours as possible so as not to use it up too soon. This assumption is utterly false. There is actually no limit to the amount of work to be done. Work creates work. What A produces constitutes the demand for what B produces....their [unions] net effect has been to reduce productivity below what it would otherwise have been. Their net effect, therefore, in the long run and for all groups of workers, has been to *reduce* real wages -- that is, wages in terms of the goods they will buy -- below the level to which they would otherwise have risen. The real cause for the tremendous increase in real wages in the last century has been, to repeat, the accumulation of capital and the enormous technological advance made possible by it [not the existence of unions]." (pp. 150-51)

> [On another History Channel presentation about the massive dam-building project known as the TVA project in Tennessee, men were paid a full day's normal wage for only 5 hours of actual work in order to make sure everybody had work. How could private employers compete with such largess funded by the taxpayers? Could it be that such massive government "help" actually prolonged the Great Depression?]

**"Enough to Buy Back the Product"**

[Over the years many have argued that wages are not fair or just unless they are high enough for the laborer to buy the products that he himself makes. Should the guy who puts on the hub caps really be able to earn enough to buy the Cadillac he has a hand in making?]

"[T]he passion for economic equality...is...a passion for getting as much as those above us in the economic scale already get rather than a passion for giving those below us as much as we ourselves already get." (p. 154)

"*In an exchange economy everybody's money income is somebody else's cost.* Every increase in hourly wages, unless or until compensated by an equal increase in hourly productivity, is an increase in costs of production....If a 30 percent increase in hourly wages all around the circle forces a 30 percent increase in prices, labor can buy no more of the product than it could at the beginning; and the merry-go-round must start all over again.

"Equilibrium wages and prices are the wages and prices that equalize supply and demand. If, either through government or private coercion, an attempt is made to lift prices above their equilibrium level, demand is reduced and therefore production is reduced. If an attempt is made to push prices below their equilibrium level, the consequent reduction or wiping out of profits will mean a falling off of supply or new production. Therefore any attempt to force prices either above or below their equilibrium levels (which are the levels toward which a free market constantly tends to bring them) will act to reduce the volume of employment and production below what it would otherwise have been." (p. 158)

"[T]he best prices are not the highest prices, but the prices that encourage the largest volume of production and the largest volume of sales. The best wage rates for labor are not the highest wage rates, but the wage rates that permit full production, full employment and the largest sustained payrolls. The best profits, from the standpoint not only of industry but of labor, are not the lowest profits, but the profits that encourage most people to become employers or to provide more employment than before.

" If we try to run the economy for the benefit of a single group or class, we shall injure or destroy all groups, including the members of the very class for whose benefit we have been trying to run it. We must run the economy for everybody." (p. 158)

**The Function of Profits:**

"The indignation shown by many people today at the mention of the very word *profits* indicates how little understanding there is of the vital function that profits play in our economy." (p. 159)

"Profits actually do not bulk large in our total economy. The net income of incorporated business in the fifteen years from 1929-43...averaged less than 5 percent...from 1956 to 1960 averaged less than 6 percent...1971 through 1975 also averaged less than 6 percent....Yet profits are the form of income toward which there is most hostility. It is significant that while there is a word *profiteer* to stigmatize those who make allegedly excessive profits, there is no such word as "wageer" -- or "losseer." Yet the profits of the owner of a barbershop may average much less not merely than the salary of a motion picture star or the hired head of a steel corporation, but less even than the average wage for skilled labor.

" The subject is clouded by all sorts of factual misconceptions. The total profits of General Motors...are taken as if they were typical rather than exceptional. Few people are acquainted with the mortality rates for business concerns....No trustworthy estimate has been made that takes into account all kinds of activity, unincorporated as well as incorporated business, and a sufficient number of good and bad years. But some eminent economists believe that over a long period of years, after allowance is made for all losses, for a minimum 'riskless' interest on invested capital, and for an imputed 'reasonable' wage value of the services of people who run their own business, no net profit at all may be left over, and that there may even be a net loss....It is clear, in any case, that any individual placing venture capital runs a risk not only of earning no return but losing his whole principle." (pp. 160-61)

"[G]overnment policy almost everywhere today tends to assume that production will go on automatically, no matter what is done to discourage it. One of the greatest dangers to world production today still comes from government price-fixing policies....When the economy is free, demand so acts that some branches of production make what some government officials regard as ‘excessive,’ ‘unreasonable,’ or even ‘obscene’ profits. But that very fact not only causes every firm in that line to expand its production to the utmost, and to reinvest its profits in more machinery and more employment; it also attracts new investors and producers from everywhere, until production in that line is great enough to meet demand, and the profits in it again fall to (or below) the general average level.

“ In a free economy, in which wages, costs and prices are left to the free play of the competitive market, the prospect of profits decides what articles will be made, and in what quantities -- and what articles will not be made at all. If there is no profit in making an article, it is a sign that the labor and capital devoted to its production are misdirected; the value of the resources that must be used up in making the article is greater than the value of the article itself.

“ One function of profits, in brief, is to guide and channel the factors of production so as to apportion the relative output of thousands of different commodities in accordance with demand. No bureaucrat, no matter how brilliant, can solve this problem arbitrarily. Free prices and free profits will maximize production and relieve shortages quicker than any other system. Arbitrarily fixed prices and arbitrarily limited profits can only prolong shortages and reduce production and employment.

“ The function of profits, finally, is to put constant and unremitting pressure on the head of every competitive business to introduce further economies and efficiencies, no matter to what stage these may already have been brought.” (pp. 161-62)

“Contrary to a popular impression, profits are achieved not by raising prices, but by introducing economies and efficiencies that cut costs of production. It seldom happens (and unless there is a monopoly it never happens over a long period) that *every* firm in an industry makes a profit. The price charged by all firms for the same commodity or service must be the same; those who try to charge a higher price do not find buyers. Therefore the largest profits go to the firms that have achieved the lowest costs of production. These expand at the expense of the inefficient firms with higher costs. It is thus that the consumer and the public are served.” (p. 162)

“Profits, in short, resulting from the relationships of costs to prices, not only tell us which goods it is most economical to make, but which are the most economical ways to make them. These questions must be answered by a socialist system no less than by a capitalist one; they must be answered by any conceivable economic system; and for the overwhelming bulk of the commodities and services that are produced, the answers supplied by profit and loss under competitive free enterprise are incomparably superior to those that could be obtained by any other method.” (p. 162)

“I have been putting my emphasis on the tendency to reduce costs of production because this is the function of profit-and-loss that seems to be least appreciated. Greater profit goes, of course, to the man who makes a *better* mousetrap than his neighbor as well as to the man who makes one more efficiently. But the function of profit in rewarding and stimulating superior quality and innovation has always been recognized.” (p. 163)

**The Mirage of Inflation:**

[I]t seems desirable to ask why inflation has been constantly resorted to, why it has had an immemorial popular appeal, and why its siren music has tempted one nation after another down the path to economic disaster.

"	The most obvious and yet the oldest and most stubborn error on which the appeal of inflation rests is that of confusing 'money' with wealth....Real wealth, of course, consists in what is produced and consumed." (pp. 164-65)

"[To many the conclusion seems obvious that if the government merely issued more money and distributed it to everybody, we should all be that much richer.

"	These are the most naive inflationists. There is a second group, less naive, who see that if the whole thing were as easy as that the government could solve all our problems merely by printing money....They would have it print just enough to make up some alleged 'deficiency,' or 'gap'....The more knowing inflationists recognize that any substantial increase in the quantity of money will reduce the purchasing power of each individual monetary unit -- in other words, that it will lead to an increase in commodity prices. But this does not disturb them. On the contrary, it is precisely why they want inflation. Some of them argue that this result will improve the position of poor debtors as compared with rich creditors. Others think it will stimulate exports and discourage imports. Still others think it is an essential measure to cure a depression, to 'start industry going again,' and to achieve 'full employment....Stripped down to its essentials, this is the theory of the Keynesians.'"(pp. 165-66)

[If we assume no increase in production, then on net as a nation, we are not any better off than before jumping onto the inflation treadmill. But individually, we will have winners and losers within the nation. The winners will be those at the front end who are first to get their wages raised and the losers are those at the back end who are last to get their wages raised. The earlier people gain at the expense of the later people because the people at the front end have more purchasing power to absorb the ripple effect of their wage increases that will be reflected in the resulting higher prices of goods and services while those who don't likewise have the benefit of a wage increase, must absorb those same price increases with pre-inflation adjusted income.]

"So inflation turns out to be merely one more example of our central lesson. It may indeed bring benefits for a short time to favored groups, but only at the expense of others. And in the long run it brings ruinous consequences to the whole community. Even a relatively mild inflation distorts the structure of production. It leads to the overexpansion of some industries at the expense of others. This involves a misapplication and waste of capital. When the inflation collapses, or is brought to a halt, the misdirected capital investment -- whether in the form of machines, factories or office buildings -- cannot yield an adequate return and loses the greater part of its value." (p. 170)

[This next quote is quite scary:]

"Nor is it possible to bring inflation to a smooth and gentle stop, and so avert a subsequent depression....for both political and economic forces will have got out of hand. The political pressure groups that have benefitted from the inflation will insist upon it continuance.

"	It is impossible, moreover, to control the value of money under inflation [because]....the value of money, as we have seen, depends upon the subjective valuations of the people who hold it....[That is why] in wartime the value of a nation's monetary unit, not on the gold standard, will rise on the foreign exchanges with victory and fall with defeat, regardless of changes in its quantity....[and] why, when hyperinflation has once set in, the value of the monetary unit drops at a far faster rate than the quantity of money either is or can be increased. When this stage is reached, the disaster is nearly complete; and the scheme is bankrupt." (pp. 170-71)

> [When he says it is impossible to turn things around without a depression once we have embarked upon the path of inflation, is he in effect saying that the piper will always have to be paid no matter what we do and the only benefit to doing it now is that it won't hurt as much as it will later if we just put off the inevitable?]

"Yet the ardor for inflation never dies. It would almost seem as if no country is capable of profiting from the experience of another and no generation of learning from the sufferings of its forebears. Each generation and country follows the same mirage. Each grasps for the same Dead Sea fruit that turns to dust and ashes in its mouth. For it is the nature of inflation to give birth to a thousand illusions.

" In our own day the most persistent argument put forward for inflation is that it will 'get the wheels of industry turning,' that it will save us from the irretrievable losses of stagnation and idleness and bring 'full employment.' This argument in its cruder form rests on the immemorial confusion between money and real wealth....The real purchasing power of goods, however, as we have seen, consists of other goods." (p. 171)

"What inflation really does is to change the relationships of prices and costs. The most important change it is designed to bring about is to raise commodity prices in relation to wage rates, and so to restore business profits, and encourage a resumption of output at the points where idle resources exist, by restoring a workable relationship between prices and costs of production.

" It should be immediately clear that this could be brought about more directly and honestly by a reduction in unworkable wage rates. But the more sophisticated proponents of inflation believe that this is now politically impossible. Sometimes they go further...[and call any such proposal] 'antilabor.' But what they are themselves proposing, stated in bald terms, is to *deceive* labor by reducing *real* wage rates...through an increase in prices." (p. 172)

"The more sophisticated advocates of inflation, in brief, are disingenuous. They do not state their case with complete candor; and they end up by deceiving even themselves." (p. 173) [He says they start out mixing up money for wealth and then get worse by talking about 'multiplier' effects where one dollar spent by government magically multiplies into several dollars added to the wealth of the country.]

" [T]he real causes [of depression], most of the time, are maladjustments within the wage-cost-price structure: maladjustments between wages and prices, between prices of raw materials and prices of finished goods, or between one price and another or one wage and another. At some point these maladjustments have removed the incentive to produce, or have made it actually impossible for production to continue; and through the organic interdependence of our exchange economy, depression spreads. Not until these maladjustments are corrected can full production and employment be resumed....Inflation, indeed, throws a veil of illusion over every economic process. It confuses and deceives almost everyone, including even those who suffer by it....Inflation is the opium of the people.

"        And this is precisely its political function. It is because inflation confuses everything that it is so consistently resorted to by our modern 'planned economy' governments....the belief that public works necessarily create new jobs is false. If the money was raised by taxation...then for every dollar that the government spent on public works one less dollar was spent by the taxpayers to meet their own wants, and for every public job created one private job was destroyed.

"        But suppose the public works are not paid for from the proceeds of taxation? Suppose they are paid for by deficit financing -- that is, from the proceeds of government borrowing or from resort to the printing press? Then the result just described does not seem to take place. The public works seem to be created out of 'new' purchasing power. You cannot say that purchasing power has been taken away from the taxpayers. For the moment the nation seems to have got something for nothing.

"        But now, in accordance with our lesson, let us look at the longer consequences. The borrowing must some day be repaid. The government cannot keep piling up debt indefinitely; for if it tries, it will some day become bankrupt. As Adam Smith observed in 1776:

> 'When national debts have once been accumulated to a certain degree, there is scarce, I believe, a single instance of their having been fairly and completely paid. The liberation of the public revenue, if it has even been brought about at all, has always been brought about by a bankruptcy; sometimes by an avowed one, but always by a real one, though frequently by a pretended payment.'

"        Yet when the government comes to repay the debt it has accumulated for public works, it must necessarily tax more heavily than it spends. In this later period, therefore, it must necessarily destroy more jobs than it creates. The extra-heavy taxation then required does not merely take away purchasing power; it also lowers or destroys incentives to production, and so reduces the total wealth and income of the country.

"        The only escape from this conclusion is to assume (as of course the apostles of spending always do) that the politicians in power will spend money only in what would otherwise have been depressed or 'deflationary' periods, and will promptly pay the debt off in what would otherwise have been boom or 'inflationary' periods. This is a beguiling fiction, but unfortunately the politicians in power have never acted that way....Deficit spending, once embarked upon, creates powerful vested interests which demand its continuance under all conditions.

"        If no honest attempt is made to pay off the accumulated debt, and resort is had to outright inflation instead, then the results follow that we have already described. For the country as a whole cannot get anything without paying for it. Inflation itself is a form of taxation. It is perhaps the worst possible form, which usually bears hardest on those least able to pay....It is a tax not only on every individual's expenditures, but on his savings account and life insurance. It is, in fact, a flat capital levy, without exemptions, in which the poor man pays as high a percentage as the rich man....

"        Like every other tax, inflation acts to determine the individual and business policies we are all forced to follow. It discourages all prudence and thrift. It encourages squandering, gambling, reckless waste of all kinds. It often makes it more profitable to speculate than to produce. It tears apart the whole fabric of stable economic relationships. Its inexcusable injustices drive men towards desperate remedies. It plants the seeds of fascism and communism. It leads men to demand totalitarian controls. It ends invariably in bitter disillusion and collapse. (pp. 173-176)

**The Assault on Saving:**

"From time immemorial proverbial wisdom has taught the virtues of saving, and warned against the consequences of prodigality and waste. This proverbial wisdom has reflected the common ethical as well as the merely prudential judgments of mankind. But there have always been squanderers, and there have apparently always been theorists to rationalize their squandering.

" The classical economists...showed that the saving policy that was in the best interests of the individual was also in the best interests of the nation....But today the ancient virtue of thrift, as well as its defense by the classical economists, is once more under attack, for allegedly new reasons, while the opposite doctrine of spending is in fashion." (p. 177)

> [He then compares two brothers -- one a spendthrift and the other a saver. While the spendthrift provides employment during his spending spree, so too does the brother who saved because it was lent out by the bank to those who would put it to productive use and in the process produce jobs. That's why he says: "*Saving, in short, in the modern world, is only another form of spending."* (p. 179) And when the spending spree is all over for the spendthrift brother and he is no longer able to create any employment for others and in fact needs a job himself, the other brother has his capital intact and continues to promote the creation of new employment although it is indirect in nature. He distinguishes saving from hoarding like putting the money in a mattress rather than in a bank.]

"Mere hoarding of hand-to-hand money, if it takes place irrationally, causelessly, and on a large scale, is in most economic situations harmful. But this sort of hoarding is extremely rare. Something that looks like this, but should be carefully distinguished from it, often occurs *after* a downturn in business has got under way. Consumptive spending and investment are then *both* contracted. Consumers reduce their buying. They do this partly, indeed, because they fear they may lose their jobs, and they wish to conserve their resources: they have contracted their buying not because they wish to consume less but because they wish to make sure that their power to consume will be extended over a longer period if they do lose their jobs.

" But consumers reduce their buying for another reason. Prices of goods have probably fallen, and they fear a further fall. If they defer spending, they believe they will get more for their money. They do not wish to have their resources in goods that are falling in value, but in money which they expect (relatively) to rise in value.

" The same expectation prevents them from investing. They have lost their confidence in the profitability of business; or at least they believe that if they wait a few months they can buy stocks or bonds cheaper....

" It is a misnomer to call this temporary refusal to buy 'saving.' It does not spring from the same motives as normal saving. And it is a still more serious error to say that this sort of 'saving' is the *cause* of depressions. It is, on the contrary, the *consequence* of depressions.

" It is true that this refusal to buy may intensify and prolong a depression....The real cause, however, is the uncertainty brought about by the government policies....To blame 'excessive saving' for the business decline would be like blaming a fall in the price of apples not on [the fact that there was] a bumper crop but on the people who refuse to pay more for apples.

“	But when once people have decided to deride a practice or an institution, any argument against it, no matter how illogical, is considered good enough. It is said that the various consumer’s goods industries are built on the expectation of a certain demand, and that if people take to saving they will disappoint this expectation and start a depression. This assertion rests primarily on the error we have already examined -- that of forgetting that what is saved on consumers’ goods is spent on capital goods, and that ‘saving’ does not necessarily mean even a dollar’s contraction in *total* spending. The only element of truth in the contention is that *any* change that is *sudden* may be unsettling.” (pp. 180-81)

[He gives an example showing that we are better off in net through savings than if not because the savings provided capital to buy new equipment in order to improve efficiencies, increase output, increase our overall national wealth and standard of living.]

“The only thing that will cause people generally to try to increase their holdings of cash, or that will cause banks to hold funds idle and lose the interest in them, is...either fear that prices of goods are going to fall or the fear of banks that they will be taking too great a risk with their principal. But this means that signs of a depression have already appeared, and have caused the hoarding, rather than that the hoarding has started the depression.”(p. 185)

“[W]e may define savings and investment as constituting respectively the supply of and demand for new capital. And just as the supply of and demand for any other commodity are equalized by price, so the supply of and demand for capital are equalized by interest rates. The interest rate...is a price like any other.” (p. 185)

“There is a psychopathic fear of ‘excessive’ interest rates. It is argued that if interest rates are too high it will not be profitable for industry to borrow and invest in new plants and machines. This argument has been so effective that governments everywhere in recent decades have pursued artificial ‘cheap money’ policies. But the argument, in its concern with increasing the demand for capital, overlooks the effect of these policies on the supply of capital. It is one more example of the fallacy of looking at the effects of a policy only on one group and forgetting the effects on another.

“	If interest rates are artificially kept too low in relation to risks, there will be a reduction in both saving and lending....

“	The effect of keeping interest rates artificially low, in fact, is eventually the same as that of keeping any other price below the natural market. It increases demand and reduces supply....It creates economic distortions....It tends, in fact, to encourage highly speculative ventures that cannot continue except under the artificial conditions that gave them birth. On the supply side, the artificial reduction of interest rates discourages normal thrift, saving, and investment. It reduces the accumulation of capital. It slows down that increase in productivity, that ‘economic growth,’ that ‘progressives’ profess to be so eager to promote.

“	The money rate can, indeed, be kept artificially low only by continuous new injections of currency or bank credit in place of real savings. This can create the illusion of more capital just as the addition of water can create the illusion of more milk. But it is a policy of continuous inflation. It is obviously a process involving cumulative danger. The money rate will rise and a crisis will develop if the inflation is reversed, or merely brought to a halt, or even continued at a diminished rate.

“ It remains to be pointed out that while new injections of currency or bank credit, can at first, and temporarily, bring about lower interest rates, persistence in this device must eventually *raise* interest rates. It does so because new injections of money tend to lower the purchasing power of money. Lenders then come to realize that the money they lend today will buy less a year from now, say, when they get it back. Therefore to the normal interest rate they add a premium to compensate them for this expected loss in their money’s purchasing power....Cheap money policies, in short, eventually bring about far more violent oscillations in business than those they are designed to remedy or prevent.” (pp. 186-187)

“[T]he last fallacy about saving....is the frequent assumption that there is a fixed limit to the amount of new capital that can be absorbed, or even that the limit of capital expansion has already been reached....

“ ...There will not be a ‘surplus’ of capital until the most backward country is as well equipped technologically as the most advanced, until the most inefficient factory in America is brought abreast of the factory with the latest and finest equipment, and until the most modern tools of production have reached a point where human ingenuity is at a dead end, and can improve them no further. As long as any of these conditions remains unfulfilled, there will be indefinite room for more capital....until everything can be produced at no cost at all -- there is no assignable limit to the amount of new capital that can be absorbed.

“ The steady reduction of unit costs of production by the addition of new capital does either one of two things, or both. It reduces the costs of goods to consumers, and it increases the wages of the labor that uses the new equipment because it increases the productive power of that labor....[even though American auto workers were paid the highest wages in the world](until about 1960) American motorcar makers could undersell the rest of the world, because their unit cost was lower. And the secret was that the capital used in making American automobiles was greater per worker and per car than anywhere else in the world.” (pp. 187-89)

“It is true that the U.S. has been losing its world economic leadership in recent years, but because of our own anticapitalist governmental policies, not because of ‘economic maturity.’” (p. 190)

**The Lesson Restated:**

“Economics, as we have seen again and again, is a science of recognizing *secondary* consequences. It is also a science of seeing *general* consequences. It is the science of tracing the effects of some proposed or existing policy not only on some *special* interest *in the short run*, but on the *general* interest *in the long run*....it is a science of recognizing inevitable *implications*. [Like a math problem...] *The answer already lies in the statement of the problem*....It was merely not recognized at once. For mathematics reminds us that inevitable implications are not necessarily obvious implications.” (pp. 191-92)

“[T]he economist, assigned a practical problem, must know both the essential facts of that problem and the valid deductions to be drawn from those facts. The deductive side of economics is no less important than the factual. One can say of it what Santayana says of logic...that it ‘traces the radiation of truth’...”(p. 192)

“Now few people recognize the necessary implications of the economic statements they are constantly making....we ought to make sure in each case that both sides of the coin have been considered, that all implications of a proposal have been studied. And this is seldom done." (p. 193)

"The analysis of our illustrations has taught us another incidental lesson....the conclusions we arrive at usually correspond with those of unsophisticated common sense.

" 'What is prudence in the conduct of every private family,' said Adam Smith's strong common sense in reply to the sophists of his time, 'can scarce be folly in that of a great kingdom.' But lesser men get lost in complications. They do not reexamine their reasoning even when they emerge with conclusions that are palpably absurd. The reader, depending upon his own beliefs, may or may not accept the aphorism of Bacon that 'A little philosophy inclineth men's minds to atheism, but depth in philosophy bringeth men's minds about to religion.' It is certainly true, however, that a little economics can easily lead to the paradoxical and preposterous conclusions we have just rehearsed, but that depth in economics brings men back to common sense. For depth in economics consists in looking for all the consequences of a policy instead of merely resting one's gaze on those immediately visible." (pp. 193-94)

"In the course of our study...we have rediscovered an old friend. He is the Forgotten Man of William Graham Summer [in his 1883 essay]:

> 'As soon as A observes something which seems to him to be wrong, from which X is suffering, A talks it over with B, and A and B then propose to get a law passed to remedy the evil and help X. Their law always proposes to determine what C shall do for X or, in the better case, what A, B and C shall do for X....What I want to do is to look up C....I call him the Forgotten Man....He is the man who never is thought of. He is the victim of the reformer, social speculator and philanthropist, and I hope to show you before I get through that he deserves your notice both for his character and for the many burdens which are laid upon him.'

" ...It is C, the Forgotten Man, who is always called upon to stanch the politician's bleeding heart by paying for his vicarious generosity." (pp. 194-95)

[He then gives a summarizing example where less efficient producers are forced out of the market but wealth cumulatively grows.] "The fact that there is more and cheaper coffee for everyone is lost sight of; what is seen is merely that some coffee growers cannot make a living at the lower price....

" But the solution is never to reduce supplies arbitrarily, to prevent further inventions or discoveries, or to support people for continuing to perform a service that has lost its value. Yet this is what the world has repeatedly sought to do by protective tariffs, by the destruction of machinery, by the burning of coffee, by a thousand restriction schemes. This is the insane doctrine of wealth through scarcity."

**The Lesson After Thirty Years:**

[The first edition of this book appeared in 1946. It is now...thirty two years later. How much of the lesson expounded in the previous pages has been learned in this period?]

" If we are referring to the politicians -- to all those responsible for formulating and imposing government policies -- practically none of it has been learned. On the contrary, the policies analyzed in the preceding chapters are far more deeply established and widespread....

" We may take, as the outstanding example, inflation. This is not only a policy imposed for its own sake, but an inevitable result of most of the other interventionist policies. It stands today as the universal symbol of government intervention everywhere." (p. 203)

"More than forty years after the publication of John Maynard Keynes' *General Theory*, and more than twenty years after that book has been thoroughly discredited by analysis and experience, a great number of our politicians are still unceasingly recommending more deficit spending in order to cure or reduce existing unemployment." (p. 204)

"An even greater irony is that, not satisfied with following such disastrous policies at home, our officials have been scolding other countries, notably Germany and Japan, for not following these 'expansionary' policies themselves. This reminds one of nothing so much as Aesop's fox, when he had lost his tail, urged all his fellow foxes to cut off theirs." (p. 204)

"One of the worst results of the retention of the Keynesian myths is that it not only promotes greater and greater inflation, but that it systematically diverts attention from the real causes of our unemployment, such as excessive union wage-rates, minimum wage laws, excessive and prolonged unemployment insurance, and overgenerous relief payments.

" But the inflation, though in part often deliberate, is today mainly the consequence of other government economic interventions. It is the consequence, in brief, of the Redistributive State -- of all the policies of expropriating money from Peter in order to lavish it on Paul.

" This process would be easier to trace, and its ruinous effects easier to expose, if it were all done in some single measure -- like the guaranteed annual income actually proposed and seriously considered by committees of Congress in the early 1970s. This was a proposal to tax still more ruthlessly all incomes above average and turn the proceeds over to all those living below a so-called minimum poverty line, in order to guarantee them an income -- whether they were willing to work or not -- 'to enable them to live with dignity.' It would be hard to imagine a plan more clearly calculated to discourage work and production and eventually to impoverish everybody.

" But instead of passing any such single measure, and bringing on ruin in a single swoop, our government has preferred to enact a hundred laws that effect such a redistribution on a partial and selective basis....These include, to give a random list: Social Security, Medicare, Medicaid, unemployment insurance, food stamps, veteran's benefits, farm subsidies, subsidized housing, rent subsidies, school lunches, public employment on make-work jobs, Aid to Families with Dependent Children, and direct relief of all kinds, including aid to the aged, the blind, and the disabled." (pp. 204-205)

"There is no more certain way to deter employment than to harass and penalize employers. There is no more certain way to keep wages low than to destroy every incentive to investment in new and more efficient machines and equipment." (p. 206)

"Yet this Draconian taxation has not brought revenues to keep pace with ever more reckless government spending and schemes for redistributing wealth." (p. 206)

“As I have pointed out, these inflations, themselves the cause of so much human misery, were in turn in large part the consequence of other policies of government economic intervention. Practically all there interventions unintentionally illustrate and underline the basic lesson of this book. All were enacted on the assumption that they would confer some immediate benefit on some special group. Those who enacted them failed to take heed of their secondary consequences -- failed to consider what their effect would be in the long run on all groups.
“ In sum, so far as the politicians are concerned, the lesson that this book tried to instill more than thirty [now fifty] years ago does not seem to have been learned anywhere....[in fact if anything they are] still being pursued, usually with increased obstinacy.” (pp. 207-8)

“The anti-capitalistic mentality seems more deeply embedded than ever. Whenever there is any slowdown in business, the politicians now see the main cause as ‘insufficient consumer spending.’ At the same time that they encourage more consumer spending they pile up further disincentives and penalties in the way of saving and investment. Their chief method of doing this today, as we have already seen, is to embark on or accelerate inflation. The result is that today, for the first time in history, no nation is on a metallic standard, and practically every nation is swindling its own people by printing a chronically depreciating paper currency....[on top of that there is a] tendency, not only in the United States but abroad, for almost every ‘social’ program, once launched upon, to get completely out of hand.” (pp. 208-9)

“Social Security was to be entirely a self-financed insurance plan based on strict actuarial principles. A reserve fund was to be set up sufficient to meet future claims and payments as they fell due. It never worked out that way....
“ It also turned out that in practically every session Congress found ways to increase the benefits paid, broaden the coverage, and add new forms of ‘social insurance.’ As one commentator pointed out in 1965, a few weeks after Medicare insurance was added: ‘Social Security sweeteners have been enacted in each of the past seven general election years.’
“ As inflation developed and progressed, Social Security benefits were increased not only in proportion, but much more. The typical political ploy was to load up benefits in the present and push costs into the future. Yet that future always arrived; and each few years later Congress would again have to increase payroll taxes levied on both workers and employers.
“ Not only were the rates continuously increased, but there was a constant rise in the amount of salary taxed....
“ No one can say today whether Social Security is really an insurance program or just a complicated and lopsided relief system. The bulk of the present benefit recipients are being assured that they ‘earned’ and ‘paid for’ their benefits. Yet no private insurance company could have afforded to pay existing benefit scales out of the ‘premiums’ actually received....
“ Yet Social Security today is still sacrosanct. It is considered political suicide....The American Social Security system must stand today as a frightening symbol of the almost inevitable tendency of any national relief, redistribution, or ‘insurance’ scheme, once established, to run completely out of control.” (pp. 209-10)

**“In brief, the main problem we face today is not economic, but political. Sound economists are in substantial agreement concerning what ought to be done. Practically all government attempts to redistribute wealth and income tend to smother productive incentives and lead toward general impoverishment. It is the proper sphere of**

**government to create and enforce a framework of law that prohibits force and fraud. But it must refrain from specific economic interventions. Government's main economic function is to encourage and preserve a free market. When Alexander the Great visited the philosopher Diogenes and asked whether he could do anything for him, Diogenes is said to have replied: 'Yes, stand a little less between me and the sun.' It is what every citizen is entitled to ask of his government."**

[Sensing a gradual shift in thinking among articulate conservatives and libertarians, he closes on an optimistic note by saying] "There is a real promise that public policy may be reversed before the damage from existing measures and trends has become irreparable."