

Inflation in One Page

by Henry Hazlitt

1. Inflation is an increase in the quantity of money and credit. Its chief consequence is soaring prices. Therefore inflation—if we misuse the term to mean the rising prices themselves—is caused solely by printing more money. For this the government’s monetary policies are entirely responsible.

2. The most frequent reason for printing more money is the existence of an unbalanced budget. Unbalanced budgets are caused by extravagant expenditures which the government is unwilling or unable to pay for by raising corresponding tax revenues. The excessive expenditures are mainly the result of government efforts to redistribute wealth and income—in short, to force the productive to support the unproductive. This erodes the working incentives of both the productive and the unproductive.

3. The causes of inflation are not, as so often said, “multiple and complex,” but simply the result of printing too much money. There is no such thing as “cost-push” inflation. If, without an increase in the stock of money, wages or other costs are forced up, and producers try to pass these costs along by raising their selling prices, most of them will merely sell fewer goods. The result will be reduced output and loss of jobs. Higher costs can only be passed along in higher sell-

ing prices when consumers have more money to pay the higher prices.

4. Price controls cannot stop or slow down inflation. They always do harm. Price controls simply squeeze or wipe out profit margins, disrupt production, and lead to bottlenecks and shortages. All government price and wage control, or even “monitoring,” is merely an attempt by the politicians to shift the blame for inflation on to producers and sellers instead of their own monetary policies.

5. Prolonged inflation never “stimulates” the economy. On the contrary, it unbalances, disrupts, and misdirects production and employment. Unemployment is mainly caused by excessive wage rates in some industries, brought about either by extortionate union demands, by minimum-wage laws (which keep teenagers and the unskilled out of jobs), or by prolonged and overgenerous unemployment insurance.

6. To avoid irreparable damage, the budget must be balanced at the earliest possible moment, and not in some sweet by-and-by. Balance must be brought about by slashing reckless spending, and not by increasing the tax burden that is already undermining incentives and production. □

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BOOKS

The Roads to Modernity: The British, French, and American Enlightenments

by Gertrude Himmelfarb

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by Richard M. Ebeling

In 1945, Austrian economist F. A. Hayek delivered a lecture on what he called “Individualism: True and False.” The gist of his argument was that there had been a great deal of confusion and misunderstanding concerning the relationship between the individual and society, both in terms of social theory and practical politics.

He juxtaposed what he suggested could be considered two traditions of social and political individualism: the British and the French. The British tradition included such thinkers as John Locke, Bernard Mandeville, Edmund Burke, David Hume, Adam Smith, and Adam Ferguson (the last three of whom were among those often referred to as the Scottish moral philosophers). For these British thinkers, social theory began with a focus on the individual because they understood that “society” is not an entity separate from the interactions of the individuals who comprise it. To understand the origin and evolution of society, we must understand the logic and interactive processes of human action.

Furthermore, in this British tradition the conception of man is not that of a rational calculator presumed to possess perfect knowledge and guided only by a narrow material notion of “self-interest.” Instead, man was seen as motivated by passions as much as by cool reason, with imperfect and limited knowledge. The social order and many of its institutional traditions, customs, and rules of interaction have evolved slowly and in unanticipated and unpredictable ways over many human lifetimes. Much of what is called human society and civilization is seen

as “the result of human action, but not the execution of any human design” (to use the phrase coined by Ferguson and often quoted by Hayek).

Thus the British tradition of individualism had little confidence in the ability to plan society. And particularly because of man’s imperfections and foibles, these thinkers were reluctant to see power centralized in the hands of government. Far better to decentralize decision-making in the private competitive market so as to limit the potential damage from error and abuse.

In the alternative French tradition represented by thinkers such as Descartes, Hayek argued, there was a tendency toward hyper-rationality, a belief that man through his reason could understand clearly and definitely how to remake society. All social institutions and traditions not “provable” through logic and rational reflection to be “useful” or “good” were to be criticized and torn down. In their place would be constructed a new world according to a politically planned design. In many of his writings over the years, Hayek tried to show the “fatal conceit” in those who presumed to possess the knowledge and ability to reconstruct man and society in their own “enlightened” image.

From a different conceptual vantage point and with other interpretative purposes in mind, the historian Gertrude Himmelfarb offers a similar contrast between these two traditions in her recent book, *The Roads to Modernity*. She highlights those aspects of the French Enlightenment that emphasized the power of man’s reason to comprehend not only the natural world, but the social order as well. Superstition—and all religion in the eyes of many of these French thinkers represented superstition—blinded man from seeing the world as it really is. Pure reason could cut through the jungle of irrational tradition and custom to clear the way for man to remold society to his liking. But such reasoning was not open to all men, most of whom were mired in ignorance and unable to think clearly. An elite of enlightened thinkers could be trusted to design a utopia for mankind. Himmelfarb reminds us that