"give way and let things be done," or colloquially, "a fair field and no favour," or "an equal chance for all and no favour to any." It is the State's duty to clear the way (*laissez-aller*) by repealing laws that restrict or penalise production or maintain privilege; and then respect "the natural order of liberty" (*laissez-faire*) by preventing future interference with the equal right of all men to work for their living. Lady Megan's scornful dismissal of *laissez-faire* is typical of a section of the Liberal Party. It reveals either ignorance of the true meaning of the term, or a denial of liberal principles.

"Apart from such words as democracy and bourgeoise, there are no more ambiguous words in any language than freedom and liberty," writes Colin Bruce (*Liberal News,* December 22, "Liberty—Not licence.") To Communists, Fascists and extreme Tories, he says, freedom means a limited freedom to impose their ideologies on the rest of mankind, while to Socialists it means mainly freedom from unemployment, to secure which they are prepared to subordinate the nation to the tyranny of bureaucracy. "To the majority of Tories and the extreme Right Wing of our (Liberal) party, freedom takes the form of extreme individualism, of a *laissez-faire* system of economics, politics and sociology—in fact, a state of licence or anarchy . . . (These) individualists do not realise that if they are to be consistent they must also disagree with, for example, all forms of taxation and the use of a police force, for each involves interference by the Government . . . In the minds of would-be Liberal supporters from the Labour Party, however, the absolute use of freedom by the individualists in the Liberal Party, identifies us with the Tories; and so we lose many votes."

We reject the claim made by Mr. Bruce and others that freedom and liberty are ambiguous and conditional words. The authors of dictionaries who have no political axe to grind, or false economics to sell, have no difficulty in defining liberty and freedom. They are simply "the state of being free in any sense." Unlike the Anarchists who, as Henry George pointed out in *The Condition of Labour,* ignore the social nature of man and who "seem to us like men who would try to get along without heads," we assert that liberty, once established, will not be abused, neither will it degenerate into licence and chaos. Those who fear it will clearly fail to appreciate that liberty and justice are the reverse sides of the same medallion, and that justice is not merely a matter of ethics but also the highest form of expediency.

When freedom and the Just State is established by restoring equally free access to the bounties of nature, and abolishing all existing barriers to production and trade, all men being free to produce, to consume and to save, to buy in the cheapest and sell in the dearest markets they can find, whether at home or abroad, who will wish to rob his neighbour, or who will be able to exploit his fellows? In such a society the man who talks of "planning an ordered freedom" and who attempts to advocate or justify State Control of industry and investment, and other socialistic devices because advocates of free enterprise are awakened by alarm clocks will be regarded by the electorate with amused contempt.

P. R. S.

THE MIRAGE OF INFLATION—By Henry Hazlitt

*Extracted with the Publishers' permission from Chapter XXII of Mr. Hazlitt's book "Economics in One Lesson."**

Inflation may indeed bring benefits for a short time to favoured groups, but only at the expense of others. And in the long run it brings disastrous consequences to the whole community. Even a relatively mild inflation distorts the structure of production. It leads to the over-expansion 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.

Nor is it possible to bring inflation to a smooth and gentle stop, and so avert a subsequent depression. It is not even possible to halt an inflation, once embarked upon, at some preconceived point, or when prices have achieved a previously-agreed-upon level; for both political and economic forces will have got out of hand. You cannot make an argument for a 25 per cent. advance in prices by inflation without someone's contending that the argument is twice as good for an advance of 50 per cent., and someone else's adding that it is four times as good for an advance of 100 per cent. The political pressure groups that have benefited from the inflation will insist upon its continuance.

It is impossible, moreover, to control the value of money under inflation. For the causation is never a merely mechanical one. You cannot, for example, say in advance that a 100 per cent. increase in the quantity of money will mean a 50 per cent. fall in the value of the monetary unit. The value of money depends upon the subjective valuations of the people who hold it. And those valuations do not depend solely on the quantity of it that each person holds. They depend also on the *quality* of the money. 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. The present valuation will often depend upon what people expect the *future* quantity of money to be. And, as with commodities on the speculative exchanges, each person's valuation of money is affected not only by what *he* thinks its value is but by what he thinks is going to be *everybody else's* valuation of money.

All this explains why, when super-inflation 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.

Yet the ardour 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 forbears. 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

* *"Economics in One Lesson" by Henry Hazlitt. Published by Ernest Benn, Ltd., London. Price 6s. 0d. net. Copies available from our offices.*

employment." This argument in its cruder form rests on the immemorial confusion between money and real wealth. It assumes that new "purchasing power" is being brought into existence, and that the effects of this new purchasing power multiply themselves in ever-widening circles, like the ripples caused by a stone thrown into a pond. The real purchasing power for goods, however, as we have seen, consists of other goods. It cannot be wondrously increased merely by printing more pieces of paper called pounds. Fundamentally what happens in an exchange economy is that the things that A produces are exchanged for the things that B produces.

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 wage rates. But the more sophisticated proponents of inflation believe that this is now politically impossible. Sometimes they go further, and charge that all proposals under any circumstances to reduce particular wage rates directly in order to reduce unemployment are "anti-labour." But what they are themselves proposing, stated in bald terms, is to *deceive* labour by reducing *real* wage rates (that is, wage rates in terms of purchasing power) through an increase in prices.

What they forget is that labour has itself become sophisticated; that the big unions employ labour economists who know about index numbers, and that labour is not deceived. The policy, therefore, under present conditions, seems unlikely to accomplish either its economic or its political aims. For it is precisely the most powerful unions, whose wage rates are most likely to be in need of correction, that will insist that their wage rates be raised at least in proportion to any increase in the cost-of-living index. The unworkable relationships between prices and key wage rates, if the insistence of the powerful unions prevails, will remain. The wage-rate structure, in fact, may become even more distorted; for the great mass of unorganised workers, whose wage rates even before the inflation were not out of line (and may even have been unduly depressed through union exclusionism), will be penalised further during the transition by the rise in prices.

The more sophisticated advocates of inflation . . . do not state their case with complete candour; and they end by deceiving even themselves. They begin to talk of paper money, like the more naïve inflationists, as if it were itself a form of wealth that could be created at will on the printing press. They even solemnly discuss a "multiplier," by which every pound printed and spent by the government becomes magically the equivalent of several pounds added to the wealth of the country.

Inflation throws a veil of illusion over every economic process. It confuses and deceives almost everyone, including even those who suffer by it. We are all accustomed to measuring our income and wealth in terms of money. The mental habit is so strong that even professional economists and statisticians cannot consistently break it. It is not easy to see relationships always in terms of real goods and real welfare. Who among us does not feel richer and prouder when he is told that our national income has doubled (in terms of money, of course) compared with some pre-inflationary period? Even the clerk who used to get £5 a week and now gets £6 thinks that he must be in some way better off, though it costs him twice as much to live as it did when he was getting £5. He is, of course, not blind to the rise in the cost of living. But neither is he as fully aware of his real position as he would have been if his cost of living had not changed and if his money salary had been *reduced* to give him the same reduced purchasing power that he now has, in spite of his salary increase, because of higher prices. Inflation is the auto-suggestion, the hypnotism, the anæsthetic, that has dulled the pain of the operation for him. 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. We saw in Chapter IV, to take but one example, that the belief that public works necessarily create new jobs is false. If the money was raised by taxation, we saw, then for every pound that the government spent on public works one less pound 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 the purchasing power has been taken away from the taxpayers. For the moment the nation seems to have got something for nothing.

But . . . . 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 ever 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. Economic forecasting, moreover, is so precarious, and the political pressures at work are of such a nature, that governments are unlikely ever to act 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. On the assumption that inflation affected everyone and everything evenly (which, we have seen, is never true), it would be tantamount to a flat sales tax of the same percentage on all commodities, with the rate as high on bread and milk as on diamonds and furs. Or it might be thought of as equivalent to a flat tax of the same percentage, without exemptions, on everyone's income. 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.

But the situation is even worse than this, because, as we have seen, inflation does not and cannot effect everyone evenly. Some suffer more than others. The poor may be more heavily taxed by inflation, in percentage terms, than the rich. For inflation is a kind of tax that is out of control of the tax authorities. It strikes wantonly in all directions. The rate of tax imposed by inflation is not a fixed one: it cannot be determined in advance. We know what it is to-day; we do not know what it will be to-morrow; and to-morrow we shall not know what it will be on the day after. . . . . 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.

BOOK REVIEW

"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."

This is the theme of Henry Hazlitt's book *Economics in one Lesson.*

Developing this, he shows the failures resulting from public works, spread-the-work schemes, tariffs, price-fixing, wage-fixing, etc., and in illustration quotes modern examples in simple language.

The false assumption that the amount of wealth which can be produced is a fixed quantity, is obviously very popular to-day and accounts for the belief that the equal distribution of wealth means the equitable sharing of this fixed amount amongst the community, a belief which is being cemented by the modern Malthusians. Mr. Hazlitt deals ably with this illusion.

The great weakness one finds in this book is its apparent implication that wealth is distributed as wages and interest only. Either deliberately or ignorantly, the author does not mention rent, and so does not take this into consideration when he talks of increased productivity in a free economy.

It is surely absurd to talk about a "free" economy while the natural resources are not available to the population, because in such a society, recurring industrial depressions, brought about by land speculation as production increases, will prevent any permanent improvement in general living standards.

Nevertheless, the clarity with which the author examines and exposes modern economic methods makes it a book well worth serious study, and its freedom from technicalities and statistics makes it easy reading.

BETTY WALDEN.

QUESTION TIME IN PARLIAMENT

TOLL BRIDGES AND ROADS. The Minister of Transport, Mr. Barnes, gave information that there remained 41 bridge carrying roads, and 40 roads in the United Kingdom subject to daily tolls. Receipts from 10 bridges and five roads went to Nationalised undertakings. Asked why these toll bridges had not been abolished, Mr. Barnes made reply that "financial difficulties" prevented it.—*H. of C.,* December 11. On the same day the Minister pleaded the "need for economy" when asked about the acquisition of the toll rights of Selby Toll Bridge. It would be interesting to know the ransom being asked by the land owners when it is "on grounds of economy" that the Government turn down proposals to buy them out.

BULK BUYING AND GUARANTEED PRICES. Asked why the purchase of meat could not be handed back to private traders, Mr. Webb, Minister of Food, said: "The resumption of private importing of meat must be determined in the light of our ultimate policy for maintaining guaranteed prices to home farmers . . . ."—*H. of C.,* December 14.

STATE SERVANTS. In reply to a question regarding the number of people employed as civil servants, members of the Forces, local government employees and employees of nationalised undertakings, Mr. Isaacs, Minister of Labour, gave the following figures: Civil Service (including industrial staffs), 1,095,000; Local Government, 1,420,000; Nationalised undertakings, 2,510,000; H.M. Forces, 690,000; total, 5,715,000.—*H. of C.,* December 14.

INVISIBLE TARIFFS. Questioned how he intends to remove the discrimination against Canadian rubber footwear which is subject to purchase tax whereas identical British made footwear is purchase tax free, Mr. H. Wilson, President of the Board of Trade, gave an evasive and non-committal answer. This insidious form of protection makes nonsense of "Empire Preference."—*H. of C.,* December 14.

SPECIAL PLEADING. Mr. Peter Roberts asked the President of the Board of Trade whether he would give an undertaking that the British Tariff rates on cutlery will not be reduced as a result of the tariff negotiations at present proceeding in Torquay. He pleaded, of course, for the "necessary protection to our workers in the industry."—*H. of C.,* December 14. *The Times, House of Commons,* 1950, says of Mr. Roberts, "Engaged in industry in the Sheffield district."

QUEUEING FOR PRIVILEGE. Mr. Harold Wilson, replying to a question (*H. of C.,* December 5) said: "I have received applications from producers' organisations for the revision of import duties on a wide range of horticultural products and they are now under consideration."

FORBIDDEN TRADING. In the twelve months ending October 31, 1950, 1,967 applications were received for work to enable shops to open, of which 714 were refused.—Mr. Stokes replying to a question on building licences, *H. of C.,* December 11.

ROAD CARRIER MONOPOLY. Mr. Barnes, Minister of Transport, revealed the extent of the road transport monopoly when he gave the following information in reply to a question (*H. of C.,* December 11): "During the year ended December 30, last, some 16,800 objections were made to applications for carriers' licences. Of these approximately 5,000 were by the Railway Executive and 11,800 by the road hauliers, including the Road Haulage Executive." Instead of breaking down monopolies, the Government has promoted them. With its nationalisation schemes and controls, trade and industry is becoming a vast closed shop. Competitive enterprise is being slowly stifled out of existence and individual trading concerns are being replaced by State-fostered nests of monopoly.