

EDITOR'S NOTE

Dr. F. A. Harper, author of many books and articles, is a member of the Foundation staff.

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INFLATION



INFLATION CAN be prevented. Failure to do so is purely and simply a matter of negligence.

Inflation is a trick done with money. Suppose that the government were to provide vending machines all over the country where persons could deposit each dollar they now have and get two in return, by merely pressing a button. If everyone were to use this gadget, each person could then pay twice as much as before for everything he buys. That would be inflation in a clear and simple form.

People could, of course, put away some of this new money in "a sock" or otherwise hide it from circulation and use. But with this inflation gadget operating, there would be less incentive than before to keep the money in hiding, because it would become worth less and less with passing time. So the hoarding of money isn't likely to solve the present inflation problem, if it persists.

Inflation means too much money. The way to prevent inflation, then, is to close down the money factory. It is just that simple. All the complicated gibberish one hears and reads about inflation simply blocks an understanding of the essentials of the problem — though it may impress the ignorant, or hide the negligence of those who are responsible for inflation by making the task of preventing inflation seem hopelessly complicated.

WHERE IS the money factory? Who operates it?

The money factory in our present money system is operated by the federal government, either directly or by farming it out to sub-contractors under the control of government.¹ It makes paper money to replace that which has become dirty or worn out. It makes new paper money to increase the supply. It makes pennies, nickels, and the silver coins. It permits the banks to grant credit to borrowers, which becomes money that is interchangeable with any of the other forms of money in use.

But for purposes of seeing where responsibility lies in the inflation problem, we need not concern ourselves with all these different kinds of money. It is necessary only to say that at present all forms of money come out of the government factory, or are controlled by the government, under a complete monopoly.

If anyone doubts the existence of this money monopoly by the government, he can test it by manufacturing some money himself — even one cent. He would then be charged with counterfeiting, and be given a penitentiary sentence for having infringed on the monopoly. The policeman in this instance is the one who holds the monopoly.

The money monopoly is a strange one. We usually think of a monopoly as restricting output, which can then be sold at a much higher price.

¹ Beyond the scope of this analysis is the important question of alternative money systems, with advantages or disadvantages so far as the danger of inflation is concerned.

But in the money monopoly, the government can force the citizens to take the entire output of its product.

A HIGHLY PROFITABLE MONOPOLY

NOT ONLY THAT, but the operation is highly profitable — nearly 100 per cent, or almost the entire price of the product. This is one clear case of an “excess profit” which the victimized customers are forced to pay.

If the money monopoly were not so profitable, there would be no inflation problem at this time. The profit incentive works with money and stimulates its production, just as it does with anything else. In olden days when some otherwise useful commodity like gold, for instance, was used as money, anyone who wished could produce as much of it as he liked. The production of money was then legal and competitive, rather than being a crime as it is now. Its production was so costly in time and expense that the inefficient producers were crowded out, just as they are crowded out of the production of brooms or mouse traps.

But it is not so with present-day money, with the paper bills and deposits that make up most of our money of exchange. It doesn't cost much for the paper and ink and printing needed to make a \$100 bill. It is probably the most profitable monopoly that ever existed, and the entire force of the federal government is available to protect its monopoly against the infringement of private counterfeiting.

When a private citizen counterfeits money, the wrath of other citizens is aroused and they say:

“He did no useful work to get that money, and yet he spends it in the market place, taking food, clothing, and other things away from those of us who have earned our money by working for it. He takes useful things out of the market without producing other useful things to go into the market, as we do. The effect of his chicanery is that prices go up and the rest of us receive less and less for our money.”

This is a correct statement of what happens under counterfeiting. It is the reason for objecting to counterfeiting, because the counterfeiter gets something for nothing. And it is the reason for objecting to legal counterfeiting, too. If everybody tried to live off counterfeit money, one would at once discover its effect in the extreme. There would be nothing to buy with the money and it would be completely worthless.

When the government makes new money and spends it, the effect on the supply of things in the market to be bought by civilians with their earnings, and the effect on prices, is exactly the same as when any private counterfeiter does so. The only difference between the two is whether it is a private counterfeiter that gets benefits looted from others, or whether it is a counterfeiting government spending it on pet projects — projects that the citizens are unwilling to finance either by private investment or by tax payments.

THE WATERED PUNCH

COUNTERFEIT money affects what you can get for your money in the market much like water affects the punch at a bring-your-own party. Each

in attendance is to be allowed to dip into the punch bowl in proportion to the quantity of ingredients he has brought and dumped into it. All bring some pure ingredient wanted in the mixture.

Now suppose that one person brings water, and dumps it in. This dilutes the punch, but the person who does it is permitted to drink of the mixture the same as those who are being cheated. He gets something for nothing, and the rest get nothing for something by an equal amount. If everyone were to do the same as he has done, it would be perfectly clear what the adding of water does to the taste of the punch. So it is with counterfeit money, whether done privately or by the government.

WHY GOVERNMENT INFLATES MONEY

THE GOVERNMENT makes this new money in order to cover what it spends in excess of its income — its costs in excess of its tax revenues. The government makes up the shortage with the new money made in its monopolistic money factory. For our present purposes, it makes no difference whether this is done with paper bills directly, or with bills which it obtains by issuing another form of paper money — government bonds — which are forced upon the banking system.

What the government does is like a counterfeiter who continuously spends more than his earnings, and who goes to his basement print shop each evening and makes enough counterfeit money to balance the shortage. His print shop might put out either paper money direct, or coun-

terfeit bonds which he sells to the banks in exchange for the money; the effect would be the same in either instance.

LIVING WITHIN INCOME

THE WAY — the only way — to stop this form of inflation is for the government to live within its income. This can be done either by raising enough in taxes to meet its costs, or by paring down its costs to equal its income.

In a family, the housewife may try the former method — nudging the husband to ask for a raise, or to hustle for more sales — but in the end the family must always resolve the problem by spending less than it would like to spend, and living within its income.

The government holds unlimited power to tax every family in the nation, and for two decades has been raising more and more taxes, but it has never resolved the problem that way. It appears to have forgotten the possibility of reducing expenses as the means of living within its income and avoiding inflation. So we have had inflation almost continuously for twenty years, and are now faced with its acceleration.

The only way to prevent inflation is to prevent these governmental deficits; to pay currently and in full all the expenses of government that we either demand or tolerate. To do this it is necessary either to increase taxes or to cut down the costs of government. We are only kidding ourselves if we say that we can avoid both taxes and governmental frugality, by inflation-financing of the excess of its costs over its income.

INFLATION of the type we are discussing is in reality a form of tax, not an alternative to taxes. It is, in fact, perhaps the most pernicious form of tax, for the reason that it is not recognized as such. It can ply its evil way under cover of this ignorance, and without the resistances and disciplines of a tax that is open and recognized.

We speak of direct and indirect taxes. Property taxes or income taxes which are paid by individuals are direct taxes; only about one-third of all taxes are of this type where we can see them clearly. Indirect taxes, making up the other two-thirds, are collected at some point away from the consumer, and become buried in the prices of the things we buy and the services we employ. All these direct and indirect taxes are at specific rates which are set by a governmental body charged with that responsibility. They decide what will be taxed, and how much.

But with inflation, which is in reality also a tax, it is not these taxing bodies which designate the tax. It is a tax created by default. When the spending part of government outruns the taxing part, the difference is financed by governmental counterfeit, by inflation which falls as a tax on each person in the market place in the form of higher prices for what he buys. Everyone who uses money for buying in the market pays some of this form of tax. It is the close equivalent of a sales tax on everything. One who favors deficit spending — the inflation tax — should not be opposed to a sales tax imposed on all purchases of goods and services, without exception. The only

important difference is that the sales tax is known to be a tax, but the inflation-tax is thought to be avoidance or postponement of the tax.

POSTPONED TAXES A MYTH

THIS MAKES clear, I believe, why inflation is such a pernicious form of tax. People who would otherwise protest and curb the extravagances of government are lulled by the foolish notion that inflation is a means of postponing payment of some of the current costs of government.

It is especially tempting to try to avoid taxes when the government is spending with abandon for a "national emergency." It is then argued that "since the expensive projects of government are largely for the benefit of later generations," why shouldn't part of the costs be left for them to pay? This notion, as has been said, has become a steady habit in the United States, especially during the past two decades.

The truth is, however, that if the government this year dips into the national punch bowl of goods and services that are produced and available, what it takes out and squanders this year is not there for others this year. The more government takes and squanders this year, the less someone will get back this year compared with what he produces.

Why, if we ignore the minor item of foreign trade balances, is it believed that a nation can postpone this year's cost of government? Probably it is the presence of money that confuses us. If we were to think only of punch and potatoes and things — exchanged by barter — we would not be

confused, because we would then realize that we cannot eat potatoes this year which are to be grown next year.

A whole nation of persons can't go on year after year consuming more than it has to consume. It can't do it for one year, or even for one day. It can't do it by allowing inflation, or by any other means. Failure to realize that inflation is a form of tax leads to the false belief that inflation affords a means of postponing some of the costs of government. But it can't be done.

If it were possible for a whole nation to postpone one-third of this year's cost of government until next year, why not postpone half of it? All of it? And if it is possible to postpone it until next year, why not postpone it for two years? Ten? Forever? If this were possible, we would not need to wait for Utopia. We could have it now!

GUNS AND BUTTER

THE ERROR in this line of thinking leads us to false hopes about what the preparation for war will do to our living. We are being told that both guns and butter are possible, and that we can add the cost of a military machine without sacrifice in our civilian welfare.

We find these promises either stated or implied in statements given out by government and by some civilian "leaders." Civilians are to be protected, they tell us, against suffering any decline in their living. They are to continue to receive incomes about as high as before, after taxes. Wage rates are being increased by about as much as the prospective increase in personal taxes. The price

control program is offered as a promise to hold prices down. This amounts to a promise that each dollar of wages will buy as much as before the war program started. A promise of the same take-home pay, with a promise that each dollar will continue to buy as much as before, means a promise of no decline in consumption.

FOUR MINUS ONE IS FOUR

IT HAS BEEN claimed that the economy of the United States was running full blast — “full employment” — prior to going on a wartime basis. Now a part of the national output is to be absorbed into the military machine and its operation. One qualified economist estimates that in 1951 about one-fourth of the output will be drained off for that purpose, leaving three-fourths for civilian goods and services.

If one-fourth of our national effort is to be drained from consumer living into military use, then one who believes all these promises about no decline in consumer living must believe that 4 minus 1 is 4. He should have learned the error of this in first grade arithmetic. But apparently he did not — not in a form that prevents his becoming a dupe for all these dishonest promises.

A comprehensive survey shows that about half the people believe we can keep up our previous living standards, without any sacrifice, during this war effort. One person in six expects that living standards will even be increased!

There is much talk about suddenly increasing production to meet this added burden, by more output from no more employed persons. Small

increases may be possible, of course, but an increase of such proportions cannot be accomplished merely by somebody ordering it to be done. One who believes that must be obsessed with the authoritarian idea. If it were that easy, why haven't the orders accomplished it long ago? There has never been any shortage of the wish for more things, even in peacetime. If it could be done that way, why is the output per man-hour in Russia one-sixth below what it was in the pre-revolution days of 1913, and even below that of fifty years ago? If it could be done that way, why was the output per man-hour in manufacturing in the United States in 1945-46 lower than in 1940?

It is a terrible disservice to these persons to lead them into this trap of expectations. One might as well try to do a person a service by convincing him that if he walked off a cliff he would not fall and hurt himself. Such an illusion might be pleasant before its truth is tested, but it cannot cushion the fall.

GOVERNMENT FIGHTS GOVERNMENT

OUR PRESENT situation comes into clearer focus when it is realized that inflation is a form of tax. A part of the costs of government are paid for by what is commonly called taxes, in both direct and hidden forms, levied by the taxing part of government. The remainder of the costs of government is paid for by the inflation-tax, which is in reality levied by the appropriations part of government over the protest of the taxing part of government, which has refused to raise all the

taxes needed to cover all appropriations. This results in inflation, and prices rise.

There then is said to arise "need" for another big project in government, the "inflation fighters." A big force of lawyers, economists, and policemen are hired. They organize the citizens into community inflation-fighting gangs, to lend an appearance of local respectability to the endeavor. These local organizations also insure that neighbors will be enrolled to serve as policemen over their neighbors, in the front line trenches where the fiercest fighting is most likely to occur.

Why does all this new machinery seem to be necessary? What are they doing? The new branch of government is set up for the purpose of fighting the payment of the inflation-tax that has been assessed by another branch of government — the appropriations division. It would be as logical to have the government set up a big unit in Washington, with citizens committees and all that, to conduct a tax revolt against the payment of income taxes — to fight the Internal Revenue branch of the Treasury Department.

ECONOMIC QUACKERY

EVERY ILLUSION floats on a plausibility.

Quack medical doctors attack the most vivid symptom with something that is plausible to the suffering patient. The treatment may be to throw cold water on a fevered patient, or to throw hot water on one with chills. The quack doctor may use two thermometers — one that does not rise above 98.6 degrees which he uses for fever patients, and another that does not fall below that

point which he uses for chill patients — to "prove" that his "cure" has been effective.

A quack engineer might try to prevent an explosion by adjusting the pressure gauge downward or closing the safety valve. Or a quack railroad engineer might try to prevent a wreck by adjusting the speed gauge downward instead of reducing the speed.

All these are silly, indeed, but no more silly than their equivalents in the economic field. "Price control to prevent inflation" is also silly. The only reason why the medical plausibilities seem more silly than these economic ones is that medicine is further advanced and more widely understood. The economic mistakes we are now bringing upon ourselves may one day appear to our descendants to be just as foolish as the medical superstitions of old now appear to us.

FREEZING THE PRICE THERMOMETER

WHEN THERE is inflation, prices rise. It would appear, then, that inflation is caused by rising prices. And this is the weapon of plausibility selected by the price-control part of government to justify its fight against the appropriations part: "The way to fight inflation is simple — just establish price controls, and prohibit prices from rising."

There are two ways, in general, to test the truth of a proposal like this, and to prevent the practice of quackery: (1) judging from experience, and (2) reasoning to the right answer. By both of these tests, price control is shown to be economic quackery.

THERE HAS BEEN a wealth of historical experience with price controls. In fact, a recent archaeological discovery reveals that the oldest known laws in the world were price control laws — 3,800 years ago in ancient Babylonia.

One of the best summaries of historical experience with price controls is easily accessible to governmental officials and others. In 1922, Mary G. Lacy, Librarian of the government's Bureau of Agricultural Economics, addressed the Agricultural History Society under the title: "Food Control During Forty-six Centuries." She pointed out how her search of history over this entire period revealed repeated attempts in many nations to curb by law the inflationary rises of price. She said:

"The results have been astonishingly uniform. . . . The history of government limitation of price seems to teach one clear lesson: That in attempting to ease the burdens of the people in a time of high prices by artificially setting a limit to them, the people are not relieved but only exchange one set of ills for another which is greater. . . . The man, or class of men, who controls the supply of essential foods is in possession of supreme power. . . . They had to exercise this control in order to hold supreme power, because all the people need food and it is the only commodity of which this is true."

OUR SHORT MEMORIES

BUT WE NEED not go so far back into history, and to a foreign land, for evidence. Five short years ago we were experiencing some of the vivid consequences of these controls in the form of the "meat famine." It was not a true shortage of meat at all. The trouble was that controls were prevent-

ing its exchange, all along the lines of trade from producer to consumer. This was only one small sample of the consequences of those wartime controls. How short are our memories?

FREE PRICE IS ECONOMIC GOVERNOR

SOME MAY BE tempted to ignore this long history of failure of price controls on grounds that "conditions are now different." Then they evidently do not understand the reasons why price controls must always fail. These reasons are perhaps the best test of whether they are likely to fail of their avowed purpose this time.

It is impossible to consume something that has not been produced, and it is foolish to produce something that is not going to be consumed — to throw it away, or let it rot. It follows, then, that a balance between what is produced and what is consumed is the most desirable condition — if, in fact, it is not economically imperative to have this balance. How is this balance of "supply" and "demand" to be attained?

Under a condition of price freedom, those who produce and those who consume will resolve this problem peacefully. The means by which they do it can best be visualized by the use of a chart, simplified for purposes of illustration. The details, shown here as equal changes in price and quantities, differ from one product or service to another and change with passing time. But despite these differences, the principles we shall derive apply to each product; and they apply whether the price is controlled directly by government or by any other form of monopoly.

These are the principles of price — free and controlled — as revealed by the chart on page 19:

1. Reductions in price cause increases in the quantities wanted (on the chart, five times as much at 10 cents as at 50 cents).

2. Reductions in price cause decreases in the quantities offered (one-fifth as much at 10 cents as at 50 cents).

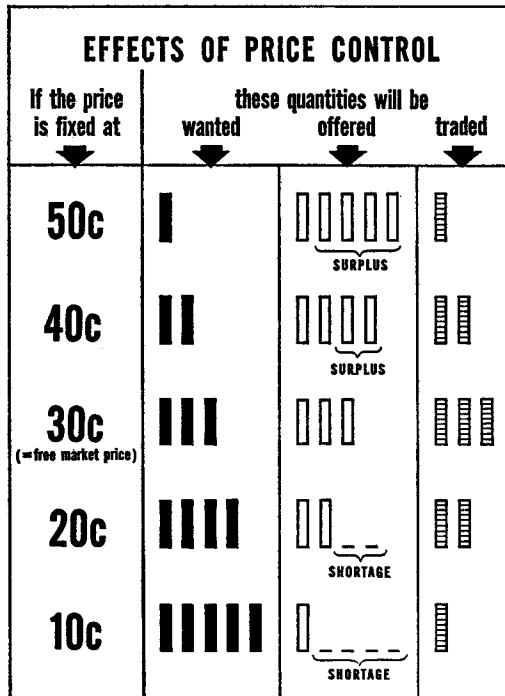
3. Supply and demand are equal at only one point — the free market price (30 cents); higher prices always cause surpluses (four-fifths remaining unsold at 50 cents); lower prices always cause shortages (four-fifths of the demand not supplied at 10 cents).

4. Trading and the economic welfare of both producers and consumers are greatest at the free market price, and are prevented as prices are forced either higher or lower.

The only instance in which “price fixing” fails to have these consequences is where it is set at the free market level (30 cents), in which event the governmental edict is a sham because that is where the price would be in the absence of this pointless edict. This is the point where people are freely acting in response to the inexorable signals of the market place. Yet, doing business at this price becomes “lawlessness” and “irresponsibility” by edict when price control sets it elsewhere.

Prices that are rigged very high or very low will kill off practically all trading. Attempts to stimulate production, consumption, and trading by forced labor, socializing of property, and subsidies to producers and consumers are all awkward attempts to replace the performance of people in a free market.

Under controls, those near the source of supply get most of it, and those at a distance have to go without. Black markets spring up. Distant consumers try to get some of the supply. Confusion increases and tempers mount. More and more price policemen are hired who, instead of producing useful things, try to quell the confusion and chaos. The bill for their salaries and other costs is sent to the unfortunate victims of the controls.



This simple chart reveals the answer to the question: Will price control stop inflation? All history has shown it to have failed. There is only

one point of price where supply and demand are in balance, where both shortage and surplus are avoided, where trade is most peaceful, and where welfare is at a maximum. If this incontestable fact is understood, the belief that we can escape reality by enacting price control laws must be dispelled as an illusion.

FROM PRICE LIES TO RATIONING

PRICE CONTROL really means that laws are passed to make official prices tell lies. One of the penalties for the lying is the creation of shortages that cannot be peacefully resolved.

The shortage, once created, must be dealt with by further powers of government and law. There must be "rationing" — rationing by the government of the shortage it has created by law, rationing of goods and services to individuals because the government failed to limit the output of its money factory.

When the free market is allowed to operate and to set the price at a point where supply and demand will equate, each person will have purchase tickets in the market which correspond to the supply of something he puts into the market. Gifts, of course, are an exception; but in the case of gifts, the rights to draw on the market are still given by the person who supplied the market with something to be bought. These purchase rights are tickets of merit based on production. And the whole thing balances out, as we have said, peacefully.

When the government intervenes with price control laws, this balance is no longer main-

tained. There are now more tickets for things than there are things to redeem. There are shortages created by law. Then governmental rationing seems to be needed, whereby government officials are empowered to decide who shall get the short supplies. This substitutes political considerations for the merit of production under a free price in a free market.

LAWS THAT PROMOTE DISHONESTY

NOT ONLY do government-controlled prices lie, but the process also rapidly promotes dishonesty among all groups — merchants, producers, consumers, government employees, everybody. The temptation of bribery of government officials becomes great. Late during World War II, a grocer of extremely high integrity and wide experience, told me that it was absolutely impossible for anyone to practice honesty according to the law and still stay in that business under price controls. The reason for this should be clear when we consider the legislated falseness and interference with business operations that become involved.

If this nation is to carry a role of moral leadership in the world, it will have to be founded on the morality of individual persons. And this is destroyed by such laws.

The shortages that result from price and wage controls are purely a legal creation, created by the price control law and nothing else. *In an otherwise free economy, the "success" of any price control law can be measured by the extent of the shortage it creates, or the decline in production which it causes. And if such controls were com-*

plete and effective, they would probably stop all production for trade, which uses money. This conclusion is inescapable.

Under present conditions of inflation, caused by rampant governmental spending — with laws aimed at the symptoms of inflation rather than dealing with its cause — the time is short for making an important choice. Its nature is indicated by what Lenin allegedly said in 1924: “Some day we shall force the United States to spend itself into destruction.” And Lord Keynes reports: “Lenin is said to have declared that the best way to destroy the Capitalist System was to debauch the currency. By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens.” Lenin probably knew that price and other controls — one of the main objectives of the system he favored — would then be imposed.

Unless the price control law is rescinded, its disrupting influence will lead to governmental enslavement of all labor and confiscation of all production facilities — to adopt, in other words, a completely socialist-communist system which we are presumably opposing.

A STRANGE DILEMMA

THE ONLY ESCAPE from the consequences of these laws would seem to be for the citizens to ignore them. This means lawlessness, technically, in the form of black market operations and all the other forms of evasion. This places the honest citizen who favors human liberty in a strange dilemma. He must choose between practicing lawlessness

in this technical sense, or supporting a socialist-communist regime.

If we add to a moral breakdown of the people the confusion that is created when illusions and wishful thinking bump up against economic laws which cannot be revoked by man-made laws, and add to this the animosity that grows under these conditions and the utter distrust of one another that is aroused, then the prospect is too sobering to be ignored.

A step in the direction of taking away the government's monopoly in the production of money, and restricting government to the judicial aspects of exchange, would be to compel the government to live within its income. This means limiting government expenditures, strictly and absolutely, to taxes that are openly acknowledged to be taxes. It means prohibition of the concealed and deceptive tax of inflation.

If this were to be done, there no longer would be an inflation problem of the type we now have. If this were to be done, there no longer would be any excuse for the enactment of socialist-communist measures — these deceptive processes of legalized price fictions and interference with exchange. If this were to be done, it no longer would be “necessary” to give up our liberty under futile controls aimed at the consequences of inflation rather than at its cause.

Ruthless measures are called for after the citizens have allowed their servant — government — to become their master. But it is better to be ruthless and successful in preventing inflation than to become the victims of both ruthlessness and failure.