

Economics 101
By Henry Hazlitt

This article, by Mises Institute founding member Henry Hazlitt (1894-1993) was written and published in 1969.

One simple truth that could be endlessly reiterated and effectively applied to nine-tenths of the statist proposals now being put forward or enacted in such profusion, is that the government has nothing to give anybody that it doesn't first take from somebody else. In other words, all its relief and subsidy schemes are merely ways of robbing Peter to support Paul.

Thus, it can be pointed out that the modern Welfare State is merely a complicated arrangement by which nobody pays for the education of his own children, but everybody pays for the education of everybody else's children; by which nobody pays his own medical bills; by which nobody provides for his own old-age security, but everybody pays for everybody else's old age security; and so on. Bastiat exposed the illusive character of all these welfare schemes more than a century ago in his aphorism: "The State is the great fiction by which everybody tries to live at the expense of everybody else."

Another way of showing what is wrong with all the State handout schemes is to keep pointing out that you can't get a quart out of a pint jug. Or, as the State giveaway programs must all be paid for out of taxation, with each new scheme proposed the libertarian can ask, "*Instead of what?*" Thus, if it is proposed to spend another \$1 billion on putting more men on the moon or developing a supersonic commercial plan, it may be pointed out that this \$1 billion, taken in taxation, will not then be able to meet a million personal needs or wants of the millions of taxpayers from whom it is to be taken.

Of course, some champions of ever-greater governmental power and spending recognize this very well and like Professor J.K. Galbraith, for instance, they invent the theory that the taxpayers, left to themselves, spend the money they have earned very foolishly, on all sorts of trivialities and rubbish and that only the bureaucrats, by first seizing it from them, will know how to spend it wisely.

Another very important principle to which the libertarian can constantly appeal is to ask the statists to consider the secondary and long-run consequences of their proposals as well as merely their intended direct and immediate consequences. The statists will sometimes admit quite freely, for example, that they have nothing to give to anybody that they must not first take from somebody else. They will admit that they must rob Peter to pay Paul. But their argument is that they are seizing only from rich Peter to support poor Paul. As President Johnson once put it quite frankly in a speech on January 15, 1964: "*We are going to try to take all of money that we think is unnecessarily being spent and take it from the 'haves' and give it to the 'have nots' that need it so much.*"

Those who have the habit of considering long-run consequences will recognize that all these programs for sharing the wealth and guaranteeing incomes must reduce incentives at both ends of the economic scale. They must reduce the incentives both of those who are capable of earning a higher income, but find it taken away from them, and those who are capable of earning at least a moderate income, but find themselves supplied with the necessities of life without working.

This vital consideration of incentives is almost systematically overlooked in the proposals of agitators for more and bigger government welfare schemes. We should all be concerned about the plight of the poor and unfortunate. But the hard two-part question that any plan for relieving poverty must answer is: *How can we mitigate the penalties of failure and misfortune without undermining the incentives to effort and success?*

Most of our would-be reformers and humanitarians simply ignore the second half of this problem. And when those of us who advocate freedom of enterprise are compelled to reject one of these specious “antipoverty” schemes after another on the ground that it will undermine these incentives and in the long run produce more evil than good, we are accused by the demagogues and the thoughtless of being “negative” and stony-hearted obstructionists. But the libertarian must have the strength not to be intimidated by this.

Finally, the libertarian who wishes to hammer in a few general principles can repeatedly appeal to the enormous advantages of liberty as compared with coercion. But he, too, will have influence and perform his duty properly only if he has arrived at his principles through careful study and thought.

This brings me, finally, to one more single issue on which all those libertarians who lack the time or background or specialized study can effectively concentrate. This is in demanding that the government provide an honest currency, and that it stop inflating. This issue has the inherent advantage that it can be made clear and simple because fundamentally it is clear and simple. All inflation is government made. All inflation is the result of increasing the quantity of money and credit; and the cure is simply to halt the increase.

If libertarians lose on the inflation issue, they are threatened with the loss of every other issue. If libertarians could win the inflation issues, they could come close to winning everything else. If they could succeed in halting the increase in the quantity of money, it would be because they could halt the chronic deficits that force this increase. If they could halt these chronic deficits, it would be because they had halted the rapid increase in welfare spending and all the socialistic schemes that are dependent on welfare spending. If they could halt the constant increase in spending, they could halt the constant increase in government power.

At the moment of writing this, the dollar, to which practically every other currency is tied in the present system, is in the gravest peril. If liberty is to be preserved, the world must eventually get back to a full gold standard system in which each major country’s currency unit must be convertible into gold on demand, by anybody who holds it, without

discrimination. I am aware that some technical defects can be pointed out in the gold standard, but it has one virtue that more than outweighs them all. It is not, like paper money, subject to the day-to-day whims of the politicians; it cannot be printed or otherwise manipulated by the politicians; it frees the individual holder from that form of swindling or expropriation by the politicians; it is an essential safeguard for the preservation, not only of the value of the currency unit itself, but of human liberty. Every libertarian should support it.

I have one last word. In whatever field he specializes, or on whatever principle or issue he elects to take his stand, the libertarian *must* take a stand. He cannot afford to do or say nothing. I have only to remind him of the eloquent call to battle on the final page of Ludwig von Mises's great book, Socialism, written 35 years ago: ***“Everyone carries a part of society on his shoulders; no one is relieved of his share of responsibility by others. And no one can find a safe way out for himself if society is sweeping toward destruction. Therefore, everyone, in his own interests, must thrust himself vigorously into the intellectual battle. None can stand aside with unconcern; the interests of everyone hang on the result. Whether he chooses or not, every man is drawn into the great historical struggle, the decisive battle into which our epoch has plunged us.”*** Reprinted with permission of The Free Market, a publication of the Ludwig von Mises Institute. For more information, visit www.mises.org.