

The

FREEMarket

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THIS BOOK IS SO ME

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Writing the introduction to *Economics in One Lesson* by Henry Hazlitt was a labor of love for me. You know how women sometimes say to each other “This dress is you!”? Well, this book is me! This was the first book on economics that just jumped out and grabbed me. I had read a few before, but they were boring. Very boring. Did I mention boring?

In sharp contrast, *Economics in One Lesson* grabbed me by the neck and never ever let me go. I first read it in 1963. I don’t know how many times I have reread it since then. Maybe, a half-dozen times in its entirety, and scores of times, partially, since I always use it whenever I teach introductory economics courses.

I am still amazed at its freshness. Although the first edition appeared in 1946, apart from a mere few words in it (for example, it holds up to ridicule the economic theories of Eleanor Roosevelt, about which more below) its chapter headings appear as if they were ripped from today’s headlines. Unless I greatly miss my guess, this will still be true another 60 years from now, namely in 2068. Talk about a book for the ages.

Other books on Austrian economics, too, are classics, and will be read as long as man is still interested in the subject. Mises’s *Human Action* and Rothbard’s *Man, Economy, and State* come to mind in this regard. But those are epic tomes, numbering in the hundreds of pages. This little book of Hazlitt’s is merely an introduction, written, specifically, for the beginner. I wonder of how many introductions to a subject it can be truly said that they are classics? I would wager very, very few, if any at all.

There is nothing that pleases a teacher more than when that expression of understanding lights up a student’s face. The cartoons depict this phenomenon in the form of a light bulb appearing right above the depiction of the character. Well, let me tell you: I have gotten more “ahas” out of introductory students who have read this book than from any other. I warrant that there have been more conversions to the free-market philosophy from this one economics book than, perhaps, from all others put together. It is just that stupendous.

The only thing I regret in this regard is that never again will I read this book for the first time. That, gentle reader, is a privilege I greatly envy you for having.

A word about style. The content, here, we can take for granted. But the number of economists who could *really* write can be counted upon one’s fingers. Hazlitt is certainly one of them. His verbiage fairly leaps off the page, grabbing you by the neck. In ➞



fact, I now venture a very minor “criticism”: the author of this book is so elegant a wordsmith that sometimes, rarely, I find myself so marveling at his presentation that I take my eye off the “ball” of the underlying economic message.

But enough of my personal slaving, drooling appreciation for *Economics in One Lesson*. Let us now get down to some specifics. The core of this book is, surely, the *lesson*: “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.” Coupled with Hazlitt’s suspicion of the “special pleading of selfish interests,” and his magnificent rendition of Bastiat’s “broken-window” example, the plan of *Economics in One Lesson* is clear: drill these insights into the reader in the first few chapters, and then apply them, relentlessly, without fear or favor, to a whole host of specific examples.

Every widespread economic fallacy embraced by pundits, politicians, editorialists, clergy, academics is given the back of the hand they so richly deserve by this author: that public works promote economic welfare, that unions and union-inspired minimum-wage laws actually raise wages, that free trade creates unemployment, that rent control helps house the poor, that saving hurts the economy, that profits exploit the poverty stricken; the list goes on and on. Exhilarating.

No one who digests this book will ever be the same when it comes to public-policy analysis. I cannot leave this introduction without mentioning two favorite passages of mine. In chapter 3, “The

Blessings of Destruction,” Hazlitt applies the lesson of the broken-window fallacy (who can ever forget the hoodlum who throws a brick through the bakery window?) to mass devastation, such as the bombing of cities.

How is this for a gem: “It was merely our old friend, the broken-window fallacy, in new clothing, and grown fat beyond recognition.” Did Germany and Japan really prosper after World War II because of the bombing inflicted upon them? They had new factories, built to replace those that were destroyed, while the victorious United States had only middle-aged and old factories. Well, if this were all it takes to achieve prosperity, says Hazlitt, we can always bomb our own industrial facilities.

And here is my all-time favorite. Says Hazlitt in chapter 7, “The Curse of Machinery,” “Mrs. Eleanor Roosevelt . . . wrote: ‘We have reached a point today where labor-saving devices are good only when they do not throw the worker out of his job’.” Our author gets right to the essence of this fallacy: “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?” No, in this direction lies rabid Ludditism, where all machinery is consigned to the dust bin of the economy, and mankind is relegated to a Stone Age existence.

What of Hazlitt the man? He was born in 1894 and had a top notch education, so long as his parents could afford it. He had to leave school. A voracious reader, he learned more and accomplished more than most professional academics. But he remained uncredentialed.

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No university ever awarded him its Ph.D. degree in economics. Hazlitt was all but frozen out of higher education. Apart from a few Austrolibertarian professors who assigned his books such as this one to their classes, he was ignored by the academic mainstream.

When it came to publishing and writing, Hazlitt was a veritable machine. His total bibliography contains more than 10,000 entries. That is not a misprint. (As you can see, those who relish *Economics in One Lesson* will have a lot of pleasant reading in front of them.) He was at it from the earliest age, initially making his way in New York by working for financial dailies. Hazlitt made his public reputation as literary editor for *The Nation* in 1930. He was interested in economics but not particularly political.

The New Deal changed all that. He objected to the regimentation imposed by the regime. *The Nation* debated the issue and decided to endorse FDR and all his works. Hazlitt had to go. His next job: H.L. Mencken's successor at the *American Mercury*. Some of the best anti-New Deal writing of the period was by none other than our man.

By 1940 he had vaulted to the position of editorial writer at *The New York*

Times, where he wrote an article or two every day, most of them unsigned. Then he met Ludwig von Mises and his Austrian period began. Writing for the paper, he reviewed all the important Austrian books and gave them a prominence they wouldn't have otherwise had.

It was at the end of his tenure there that he wrote this book—just before coming to blows with management over the wisdom of Bretton Woods, and leaving for *Newsweek*, where he wrote wonderful editorials, while contributing to every venue that would publish him. He died in 1993.

In summary, I feel like a party host introducing two guests to one another, who hopes they will like each other.

I hope you will like this book. But more, I hope it will affect your life in somewhat the same way it has mine. It has inspired me to promote economic freedom. Indeed, to never shut up about it. It has convinced me that free-market economics is as beautiful, in its way, as is a prism, a diamond, a sunset, the smile of a baby. We're talking the verbal equivalent of a Mozart or a Bach here. This book lit up my life, and I hope you get something—a lot—from it, too (available at mises.org/store). ■

THE MARKET WORKS IN RECESSION

Llewellyn H. Rockwell, Jr.

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It is a marvelous thing to see the market work, in good times and bad. Just look at the way that marvelous, unplanned barometer of wise resource use—the price system—has reacted in response to the human reality of economic downturn.

As we prepare for the future, consumers are wondering whether it is a

wise thing to take on too many new financial burdens. They are cutting back and still somewhat indecisive about the economic climate. For most people, the only real evidence of downturn they see is the devastation that has been wrought on their retirement accounts. This causes quite a psychological hesitation to buy.

What consumers need to spend is a solid inducement, one that coordinates financial responsibility with their material needs. And the retailers are there to provide it. Thus are prices being chopped from one end of the country to the other. Earrings that were \$700 are now \$250, purses that were \$1000 are now \$250, large-screen televisions that were \$2000 are now \$1,200, and suits that were \$900 are going for \$400. Deals are everywhere, from laptops to cell phones to cars. The street wisdom is that now is the time to buy.

Imagine if these prices were fixed by a central committee. The response would be slow in coming if it happened at all. The committee would likely stick by some cost-plus pricing rule that wedded present realities to past expense. But in the free market, there is only one reality and that is the present problem of balancing consumer demand with economic viability.

The price mechanism provides a means of coordinating consumer demands with producer realities. Retailers are wildly overstocked with goods now, having made their purchases for Christmas back in the spring or summer. (We should never forget that sellers have to buy goods before they sell them, and that this is always a speculative enterprise.)

The downturn hit hard and suddenly, and its impact has been felt up and down the structure of production. Retailers find themselves with a serious problem of overstuffed inventory, a declining cash flow, and a financial sector that is risk-averse. The solution is to disgorge, and this accords precisely with the demand of consumers. So in this one signal of the price we see a remarkable coordination taking place.

When you put all these price cuts together—and they are pervasive—you end up with a macroeconomic setting that is a great relief to consumers in troubled times. Wouldn't you know that the press would find this to be a cause to bellyache about the supposed dangers of

“deflation.” And in a crazy, upside-down way, we find politicians, financial managers, and economists quoted all over the place who have deduced that the real problem with the economy is falling prices.

They are confusing cause and effect. The cause of the downturn is that the bubble burst, and the effect is downward pressure on prices. The interests of producers and consumers are being coordinated here. For central planners to interrupt this process will only end up punishing everyone, so that consumers will not be able to save money on good deals and businesses will end up carrying more inventory than they can afford.

We will be robbed of the blessing of lower prices, which are, contrary to what some people say, wholly compatible with economic growth.

Also, the less that consumers spend now means the more they have left over to save for the future, which also seems to be a wise choice today.

Not only that: falling prices are an important means for flushing economic error out of a system that is rife with mal-investments generated during boom times. I won't go into this point further but rather point you to the mind-opening work of Guido Hülsmann: *Deflation and Liberty*.

Those who posit a disharmony of interests between consumers who want falling prices and overall economic health are showing an attachment to Keynesian-style thinking, which at its most fundamental level asserts that prices don't work to coordinate supply and demand. In fact, we see them working every day. The market, if left alone, is the means by which harmony among all market actors is achieved.

Many people have wondered how it is possible that the Federal Reserve would be engaging in such a massive expansionary trend, creating money without limit, even as prices tend to fall. The answer can be found in the balance sheets

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News from the Institute

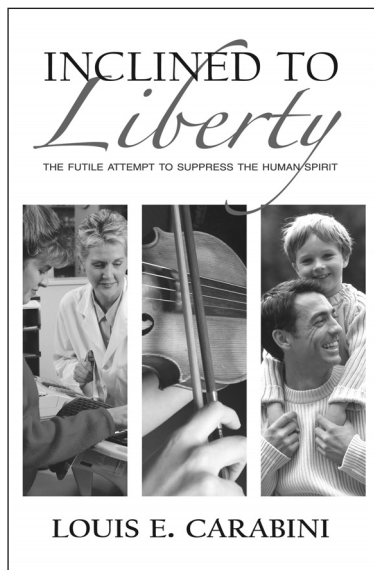
Carabini's Inclination

We are surrounded every day by anti-capitalist clichés. We encounter them in casual conversation constantly among family, friends, and casual talks at the store or church, to say nothing of the media.

Famed investor and businessman Louis Carabini, the founder of Monex, has been hearing this all his life. He wrote this book to answer the critics of the free market in a way that they could understand and accept. His overriding theme is that all attacks on capitalism are an attack on liberty and the human spirit. His argument is that these attacks are futile. They backfire and don't work to achieve socially desirable ends.

There are two ideological tendencies: to be inclined toward liberty (letting others live their lives in any peaceful way) or to be inclined toward mastery (permitting others to live only as another sees fit).

The Mises Institute is so pleased to have been chosen as the publisher. We've even assisted in a special site for it: <http://inclinedtoliberty.com>. ■

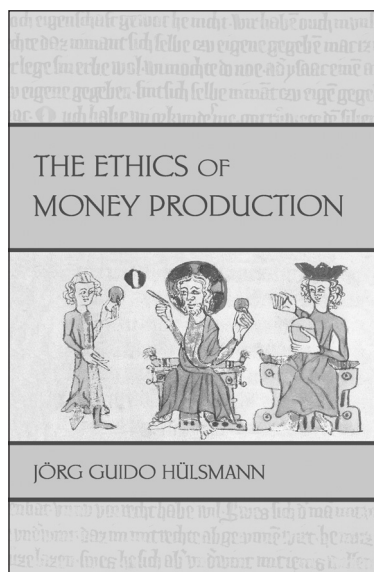


Right and Wrong about Money

The Ethics of Money Production by Jörg Guido Hülsmann is a pioneering work about ethics and making money. He is speaking not in the colloquial sense of the phrase “making money,” but rather the actual production of money as a commodity in the whole economic life. The choice of the money we use in exchange is not something that needs to be established and fixed by government.

In fact, his thesis is that a government monopoly on money production and management has no ethical or economic grounding at all. Legal tender laws, bailout guarantees, tax-backed deposit insurance, and the entire apparatus that sustains national monetary systems, has been wholly unjustified. Money, he argues, should be a privately produced good like any other, such as clothing or food.

With a crazed inflationary policy seizing Washington, the timing couldn't be better! ■



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of the banking system. The reserves are there but they are finding few willing borrowers. We often hear about the credit crunch, but the real source of the supposed problem here is a borrowing crunch. Borrowers are not in any position to expand and invest for the future. This is why, despite the Fed's effort to expand, the money supply today is actually shrinking.

The Fed is pushing a variety of workarounds that would inject trillions in new money into the economy while bypassing the banking system altogether. Time will tell whether or not this will succeed. Meanwhile, a serious danger lurks around the corner. Once the recession is over, the lending will start again. With fractional-reserve banking and limitless supplies of cash on hand, we will likely see the overall price trends reversed, from deflation to inflation to possible hyperinflation. The timing and the

extent entirely depend on many unknowns, but it is something worth thinking about today.

The urgency of price declines today, then, becomes all the more apparent. Now is the time to cut prices as low as possible. Yes, this means growing business failures, unemployment, and much worse, but this is precisely what is needed. As the Austrians have long said, the recession is a necessary phase. It is not an economic blight but a tonic that heals. If we let the market work without trying to interfere with its operations, we will see that the recession will bottom out and the economy prepare for future growth.

There is nothing that the government can do today—apart from repealing laws and regulations—that will make an improvement on the workings of the market. As Mises wrote in *Profit and Loss*, the price system is our guide to both success and failure under conditions of freedom. We need to be as tolerant toward one tendency as the other. ■

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