

Keynesism in a Nutshell

Henry Hazlitt, a frequent contributor to *The Freeman*, has a long and distinguished career as an economist, journalist, editor, and literary critic. Best known of his numerous books is *Economics in One Lesson*, originally published in 1946 and since translated into eight languages with sales of more than 700,000 copies. The recently revised edition is once more available in inexpensive paperback.

JOHN MAYNARD KEYNES was, basically, an inflationist. This has not been clearly recognized because he never spelled out, step by step, the consequences of his proposed remedy for unemployment and depression. That remedy was deficit spending by the government. He recognized that increased government spending paid for by equally increased taxation would not "add purchasing power." The increased taxation would offset any "stimulus" that the increased government spending would provide. What counted, he confessed, was the government deficit. But he failed to take his readers beyond this step. How

would that deficit be financed? Either the money would have to be borrowed, or new (paper) money or credit would have to be created. But if the money were borrowed, then the previous spending stimulus would be reversed by a deflation when the borrowing was repaid. The only thing to prevent this reversal would be to allow the new spending to remain outstanding. In other words, the Keynesian solution to every slowdown in business or rise in unemployment was still another dose of inflation.

I may point out (if that is still deemed necessary in this inflationary era) that no inflation of which we have historical knowledge resulted in sound and continued business expansion but only in currency depreciation, a wanton redistribution of profits and losses, disorganized output, and economic demoralization. This has been true whether we begin with the coinage debasement of ancient Rome or the paper money scheme of John Law in 1716.

The lessons of inflation are soon forgotten. They apparently must be relearned in every generation. ☉

ECONOMIC DEMOCRACY

DEMOCRACY is a hallowed word in our society. Its very name denotes free choice, relief from oppression, self-determination, civil liberties and rights of expression. Indeed, the word, according to theologian Michael Novak, is considered "so favorable that even the least democratic of nations insist upon calling themselves by the name which most condemns them."¹ Yet, at the same time, it is a misused term, one that all too often brings semantic confusion rather than enlightenment to the social agenda. "Economic Democracy" is such a term, a "hook"

that gives the promise of liberty in the marketplace while in reality it promotes the opposite: collectivism.²

Economic Democracy in the 1980s comes in many forms. There is a well-known political movement concentrated mostly on the West Coast that has received much publicity not only for its doctrines of political economy but also for the celebrity status of many of its leaders and supporters.³ The term is also used by politicians and public figures not officially associated with the western political movement, but who "favor some sort of plan in which workers have a share in either the management of their industries, or profits, or both."⁴ Advocates of Economic Democracy have also been called social democrats.

Whatever the degree of associa-

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