The Fallacies We Live By

THAT ECONOMIC CONTROLS CURE INFLATION

The entire industrialized world, except Russia, is in the grip of inflationary forces and there is no end in sight. As bad as it now seems in the United States, we have had the lowest rate of inflation of all the principal nations.

The classic curative approach which, historically, has never worked, is selective economic controls. This is like trying to move a single marble in a jar full of marbles. They are all leaning against each other.

Every economic action brings on reaction followed by other reactions. A good simple example is the sale of grain to Russia by the United States. We sold too much and created a domestic shortage. This drove up the cost of feeding beef cattle and chickens, which were under price control. With sharply reduced profits in sight, the irate ranchers exercised their right to cut back production. This put price pressure on pork and fish, which were not controlled. The price of bread (also not controlled) followed the increased price of wheat as surely as night follows day. So the marbles moved and moved.

Historically, this number of troubles was probably par for the course. An examination of the current oil problems would show at least as many.

There is an ancient Chinese proverb regarding the use of government economic controls. It reads something like this: "He who rides the tiger dismounts at his own peril." In other words, it is easier to start than to stop.

Most controls are inspired by special interest groups which believe that they will benefit from them. Government is therefore pressured into action. Then, as the marbles begin to move, there must be more controls followed by still more. To be effective, price control must be total, as in Russia. This being politically unacceptable in democratic nations, effective price control, as far as the free world is concerned, is impossible.

There is a simple cure for shortages and high prices: *Stop trying to repeal the law of supply and demand*. Permit prices and profits to rise until the attractiveness of the market becomes irresistible to sources of increased production and the balance of supply and demand is restored. In a free economy this doesn't take long. But when the people are chafing under high prices, it takes a brave politician to tell them that the solution is to let prices become, temporarily, still higher.

The most unchangeable factor in economics is human nature. Man is profit oriented. When free to make it, he works economic miracles. When denied this freedom, his performance falls off. Almost nobody is interested in making a better world for somebody else. This may be an unadmirable quality but it is an enduring truth with which we must live.