pseudo-economists, they could make everybody perfectly prosperous.

Let us test the three doctrines advanced for the support of this fable of government omnipotence.

The Santa Claus Power of the State

The state is God, said Ferdinand Lassalle, the founder of the German socialist movement. As such the state has the power to "create" unlimited quantities of money and thus to make everybody happy. Irreverent people branded such a policy of "creating" money as inflation. The official terminology calls it nowadays "deficit spending."

But whatever the name used in dealing with this phenomenon may be, its meaning is obvious. The government increases the quantity of money in circulation. Then a greater quantity of money "chases," as a rather silly but popular way of talking about these problems says, a quantity of goods and services that has not increased. The government's action did not add anything to the available amount of useful things and services. It merely makes the prices paid for them soar.

If the government wants to raise the income of some people – e.g., government employees – it has to confiscate by taxation a part of some other people's incomes and to distribute the amount collected among its employees. Then the taxpayers are forced to restrict their spending, while the recipients of the higher salaries are increasing their spending to the same amount. There does not result a conspicuous change in the purchasing power of the monetary unit.

But if the government provides the money it wants for the payment of higher salaries by printing it, the new money in the hands of the beneficiaries of the higher salaries constitutes on the market an additional demand for the not increased quantity of goods and services offered for sale. The unavoidable result is a general tendency of prices to rise.

Any attempts the governments and their propaganda offices make to conceal this concatenation of events are vain. Deficit spending means increasing the quantity of money in circulation. That the official terminology avoids calling it inflation, is of no avail whatever.

The government and its chiefs do not have the powers of the mythical Santa Claus. They cannot spend but by taking out of the pockets of some people.

The "Cheap Money" Fallacy

Interest is the difference in the valuation of present goods and future goods. It is the discount in

the valuation of future goods as against that of present goods. It cannot be "abolished" as long as people prefer an apple available today to an apple available only in a year, in ten years, or in a hundred years. The height of the originary rate of interest, which is the main component of the market rate of interest as determined on the loan market, reflects the difference in people's valuation of present and future satisfaction of needs. The disappearance of interest, that is an interest rate of zero, would mean that people do not care a whit about satisfying any of their present wants and are *exclusively* intent upon satisfying their future wants, their wants of the later years, decades, and centuries to come. People would only save and invest and never consume. On the other hand, if people were to stop making any provision for the future, be it even the future of the tomorrow, would not save at all and consume all capital goods accumulated by previous generations, the rate of interest would rise beyond any limits.

It is thus obvious that the height of the market rate of interest ultimately does not depend on the whims, fancies, and the pecuniary interests of the personnel operating the government apparatus of coercion and compulsion, the much referred to "public sector" of the economy. But the government has the power to push the Federal Reserve System and the banks subject to it into a policy of cheap money. Then the banks are expanding credit. Underbidding the rate of interest as established on the not-manipulated loan market, they offer additional credit created out of nothing. Thus they are intentionally falsifying the businessmen's estimation of market conditions. Although the supply of capital goods (that can only be increased by additional saving) remained unchanged, the illusion of a richer supply of capital is conjured up. Business is induced to embark upon projects which a sober calculation, not misled by the cheap-money ventures, would have disclosed as malinvestments. The additional quantities of credit inundating the market make prices and wages soar. An artificial boom, a boom built entirely upon the illusions of easy money, develops. But such a boom cannot last. Sooner or later it must become clear that, under the illusions created by the credit expansion, business has embarked upon projects for the execution of which it is not rich enough. When this malinvestment becomes visible, the boom collapses. The depression that follows is the process of liquidating the errors committed in