

INSTEAD OF WHAT?

**Government can't give us anything
without depriving us of something else.**

Take a recent news item almost at random:

WASHINGTON — The Department of Housing and Urban Development . . . said today it would release \$264 million over the next two years to help moderate-income families buy housing. The program is designed to provide 250,000 new and rehabilitated dwellings for families that earn \$9,000 to \$11,000 a year.

Never mind the details. In our era such projects have become a routine activity of federal, state, and city governments. Politicians

promise these and a hundred other kinds of "benefits" to the voters. The Congressmen who voted the appropriations for this housing, when they come to run for re-election, will remind their constituents who occupy the new housing:

I got you this. I not only provided you with these dwellings at a rental or buying cost far below what you would have had to pay in the market, but in addition my vote gave employment to thousands of construction workers. The funds appropriated gave \$264 million in increased purchasing power to so-and-so many people.

And so on. In fact, the politicians' claims probably will be even more sweeping than this. The Secretary of HUD who announced the foregoing project said her economists predicted it would stimu-

Henry Hazlitt, noted economist, author, editor, reviewer and columnist, is well known to readers of the *New York Times*, *Wall Street Journal*, *The Freeman*, *National Review*, *Human Events* and many others. Best known of his books are — *The Conquest of Poverty*, *Economics in One Lesson*, *The Failure of the "New Economics,"* *Man vs. the Welfare State*, and *What You Should Know About Inflation*.

late about \$6.5 billion in construction activity and create 500,000 new jobs.

Too many voters have come to accept such claims. Yet they could deflate them all if they asked their supposed political benefactors a single question: *Instead of what?*

You say you got us such-and-such benefits. Maybe. But instead of what? What was the cost? What did we have to give up for these benefits? In order to give Paul's family \$1,000 worth of "free" housing, you must have taken \$1,000 more away from Peter's family in taxes. In fact, you must have taxed the Peters a good deal more than you turned over to the Pauls, because a lot of the money never got into construction. It went (even disregarding possible graft) into salaries for extra bureaucrats to administer the program.

We may add the probability that a good deal of the money was taken from the Pauls themselves, and that they indirectly paid for at least part of their new housing.

So, we have to ask, what would have happened if this \$264 million had not been taxed away to pay for this government program? The original earners would have kept it. They would have had it to spend on something they themselves wanted, instead of having the politicians force this expenditure on them.

Let us say (assuming the average division reported by govern-

ment figures) that the taxpayers would have spent 92 per cent of this taxed-away income, and saved 8 per cent of it. This "saved" money would, of course, also have been spent, but on different things. It would have gone, for example, into savings banks, which in turn would have lent it as mortgages to help build private housing, or invested it in bonds of industrial companies. The money would have been spent, in other words, to increase the machinery and plant that would have further reduced costs and increased the nation's productive capacity.

And the 92 per cent of the retained personal income that was spent directly on consumption goods and services would have bought more . . . What? Food? Overcoats? Refrigerators? Stereo sets? Housing? And in what proportions?

We just don't know. And we will never know. Because these things were not allowed to come into existence.

This is the tremendous advantage that politicians and their spending schemes — their housing programs, for example — enjoy in the minds of so many voters. The houses exist. They can be seen, they can be admired, they can be lived in. But the goods and services (which would have included housing) that the taxpayers had

to give up, so that this government housing could be brought into existence, cannot be seen or felt because they have not come into existence. They have become merely hypothetical, merely so many might-have-beens, and therefore forgotten.

If something like this is pointed out to the spending politicians, the more sophisticated among them (or their professional advisers) may come up with one or more answers.

They may say, for example, that the housing did not cost the taxpayers anything because the money for it was not raised by taxes but borrowed in the market by selling bonds. This answer overlooks that the supply of real capital available for investment is strictly limited, and that the money borrowed for the government housing project absorbed funds that might otherwise have gone, say, into a new private oil refinery or chemical plant.

Again, they may argue, the money for the public housing project came neither from taxation nor from borrowing, but was simply printed by the government. Of course, this argument is almost never made openly in such plain blunt terms; but it is an assumption in the back of the spenders' minds. What is bought by inflation, it is thought, costs nobody any-

thing. But when more money is printed, creating new demand, it lowers the value and purchasing power of every dollar already in existence, by raising prices.

Inflation, A Vicious Tax

Inflation is, in fact, a form of taxation. It is a vicious form, because it does not fall on people in proportion to their income or wealth or in any other way that any reasonable person would consider equitable. Its incidence depends on the particular line in which each person happens to earn his living and on the particular form in which he happens to hold his assets. The inflation tax falls with particular weight on the non-unionized (i.e., most of us) and on the aged.

But in recent years the spenders have come forward with a new answer, supplied to them by Lord Keynes, the late British economist, and his disciples. This is that new housing or any other government spending project really causes nobody to have to give up anything, because it produces a net increase of goods and services that otherwise would not have been produced at all. If the additional spending comes when there is heavy unemployment, they say, this means that there are unused resources of men, machines, and materials. The additional public spending puts

them all to work, and is justified and necessary until it has brought "full employment."

It is true that it is possible to imagine circumstances under which this "Keynesian remedy" could temporarily work. If the previous unemployment has been caused by wage-rates or other costs that have been forced too high in relation to market selling prices, so that margins of profit have been wiped out, and if the government spending is financed by inflation — that is, by the government issuing additional quantities of money — then the spending may force up prices to the point where profit margins are restored, and full employment and production can again take place.

But this will prove at best a temporary solution. For the same inflation that raises prices will soon begin to raise wages and other costs just as much or more — especially as long as our laws continue to make unions so powerful that they can force these increased wages on employers. And then there will once more be the same discoördination of wages and prices that caused the original unemployment that the government spending was supposed to cure.

The basic error in the whole Keynesian theory is that it overlooks the unworkable relations between *particular* prices and costs,

between *relative* prices and wages, that have brought on the unemployment that the Keynesians are seeking to cure. The Keynesians persist in the false assumption that the unemployment has been caused by something they call a "lack of effective demand" or a "shortage of purchasing power." And so their cure is always more government spending, bigger deficits, more paper money — in brief, still more inflation.

What Causes Unemployment?

What the Keynesians have never done is to tackle or even notice the real cause of the unemployment they affect to deplore. This cause is practically always unworkable relations, maladjustment, and discoördination in the wage-price system. This discoördination is brought about by the very government interventions in the market that most of the Keynesians are chronically recommending. Not a higher price "level," but only the free market, only the daily and delicate market adjustment of relative prices and wages, only prices and costs in workable equilibrium, can bring full employment. And it is precisely this equilibrium that government intervention persistently prevents.

Our attention has up to now been focused on government construction of or subsidies to hous-

ing. But our basic question — *Instead of what?* — applies to government subsidies and handouts of every kind. These have become — not only in this but in other countries much further along the road to socialism than ourselves — too numerous even to list. They include food stamps, school lunches, job training, rent supplements, “model cities,” community action projects, legal services for the poor, and hundreds of other programs variously classified under such heads as social insurance, public aid, health and medical programs, veterans’ programs, education, and so on.

Recently, Senator Edmund Muskie of Maine, a long time “liberal,” began to express his doubts: “We have a system of grants-in-aid,” he said, “that has over 1,000 different programs, each with its own requirements, approach and money. In the health field alone, there are 228 different federal programs. There are 1,240 federal advisory boards, committees, commissions and councils.” “Do we really expect a majority of Americans,” he went on to ask, “to support national health insurance when estimated costs range up to \$100 billion a year?”

Of each of these thousand programs we have to ask ourselves our basic question: *Instead of what?* For the money that is ex-

acted from the taxpayers for each of these high-sounding programs means that each individual taxpayer has that much less of his own earnings to spend on the particular goods or services that he himself would have chosen.

No Net Gain

Nothing is added by any of these government programs to the total of goods or employment. At best what happens is that the community gets employment or production in one direction *instead of* in another. In a free market people tend to get the particular mix of goods and services that each individually prefers. In a welfare state they get the mix that the politicians and bureaucrats decide is good for them.

Why are these political spending programs so popular? Partly because real costs are seldom considered. The assumption is almost invariably made by the spending politicians that the taxpayers do not really need the money that is taxed away from them to pay for some grandiose public project. If the taxpayers were allowed to keep this money to spend on the things they themselves preferred, it seems to be assumed, they would merely spend it on luxuries or trivialities.

But even if the political spenders do not make such an uncon-

scious assumption, their imagination simply cannot encompass these costs. If they have spent the money for a great new housing project, the project when finished is big, visible, solid, perhaps imposing. But not only are the things that had to be given up by each family to pay for this public project not there for anyone to see; by comparison they are individually so small that they hardly seem to weigh in the scale. The political imagination simply cannot add up to any perceivable total the millions of big and little sacrifices that millions of taxpaying families have had to make. When the kings of Egypt commanded the pyramids to be built to the greater glory of themselves or their fathers, the toil, sweat and exhaustion of the slaves or other subjects who built them must have seemed utterly negligible in comparison with the spectacular result.

All this is not to deny that there are some public works — such as streets and sidewalks and sewers — that can be justified by their necessity. But the total of such projects can very easily be overdone. The excuse that they are needed to provide “full employment” is never valid. Too many public projects today are social luxuries, if not sheer social waste. We must try to make sure in every case that

the gain of producing them exceeds their real cost. We must always ask, in other words: *Instead of what?*

In pointing out earlier that nothing is added by most of these public projects and social programs to the total of goods, service, or employment in the community, we have in fact understated the case. These programs clearly reduce total production.

Wasteful Use of Resources and Lost Opportunities

First, they lead to overproduction and wasteful consumption of the commodity or service that is either given away or sold below its actual cost. When people have Medicare, for example, and are offered hospitalization, doctors' services or medicines for a trivial cost or for nothing, they demand them far more often and for far longer periods than if they had had to pay the full market rate. This increased demand drives up the market price of such medical services far beyond what it would otherwise reach for all those who do not get part of this price paid for them by the medical subsidy. The end result is greatly to overproduce the subsidized commodity or service — housing, medical care, or whatever — at the cost of underproducing something else. Such programs, in other words, lead

both to wasteful consumption and to lopsided production.

In addition, these programs must lead in the long run to a substantial cut in overall production. By taxing the productive to support the unproductive they diminish incentives at both ends of the economic scale. They lead people to become less efficient or to put forth less effort or to work fewer hours — either because they do not need to do more or because it no longer seems worth the trouble.

The heavier taxes on corporations, especially, reduce new investment in plant and equipment and new employment below what they would otherwise have been.

In sum, practically all these subsidy measures, all these schemes to redistribute income or to force Peter to support Paul, are one-eyed as well as shortsighted. They get their immediate appeal by focusing attention on the alleged needs of some particular group of intended beneficiaries. But the inevitable victims — those who are going to be asked to pay for the new handout in increased taxes (which directly or indirectly means almost everybody else) — are left out of account.

Only one-half of the problem has

been seen. The cost of the proposed solution has been overlooked.

The vast majority of would-be social reformers think of the “cost” of something as simply its money cost; and they persistently under-rate or dismiss even this because they think of money as something that can be turned out at will by a government printing press. But when economists talk of cost in the broader sense they mean whatever alternate opportunity must be forgone in order to produce the thing that is made. Everything we make, and everything we do, must be at such a cost. For every alleged benefit that the politicians confer upon us, they must necessarily deprive us of something else.

I have not raised here the political and moral issue involved when governments extend and pervert their powers to expropriate part of the earnings of Peter to turn them over as a handout to Paul, or force both to “buy” something with their earnings quite different from what either would have bought of his own free will. But even if we put aside this basic issue, the next time the politicians offer us some alleged economic gift, let us at least ask them the question: *Instead of what?* ☉