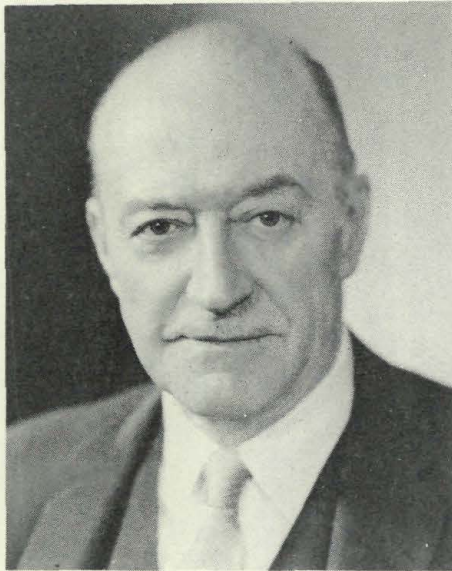


The ENTREPRENEUR

VOL. 2, NO. 2

GROVE CITY, PENNSYLVANIA

JANUARY, 1977



POVERTY AND WELL-BEING

An Interview with Dr. Henry Hazlitt

Henry Hazlitt is a well-known economist, lecturer, and author. His writings include not only economics but literary criticism, philosophy, ethics, politics, and finance. He has written for the *Wall Street Journal*, the *New York Times*, *The Freeman*, *Barron's*, *Human Events*, *Newsweek*, and others. His books include *The Conquest of Poverty*, *The Failure of the New Economics*, *Man vs. the Welfare State*, *The Foundations of Morality*, and his classic *Economics in One Lesson*.

Poverty and well-being are subjects that concern everyone. In this interview Dr. Hazlitt discusses the problems of poverty and evaluates the popular "cures" for it. The interview was conducted at his home in Connecticut on August 19, 1976, by Minerva Currier, Dallas George, and Mark Spangler.

Q. What is the problem in trying to define poverty and in saying what poverty really is?

Poverty is a matter of definition, and the definition keeps changing. When people talked about eighteenth century poverty in England, they meant something much lower than what we call poverty today. When people today in India talk about poverty they mean a condition much lower than present-day Americans mean when they talk about poverty. We call poverty a condition that would be considered affluence in India. Poverty is a relative concept. When the newspapers want to point out how poor some family is, they say, as Mises used to point out, "the family lives in a cold water flat." In the eighteenth century even kinds did not have running cold water. This is the kind of question with which we are dealing.

Q. Lower standards of living will always be considered poverty, but how are these lower standards raised and therefore the levels of poverty reduced?

The cure for poverty is always production, and the way to increase production is not merely to have human work and skill, but to have increasing capital investment. More capital investment means more production, in both quality and quantity.

Q. Would the interests of underdeveloped countries best be served by capitalism?

Their interests would be served by promoting capital investment, and the only way that can be promoted is by capitalism.

Q. Do you think the International Monetary Fund's giving "loans" to the third-world countries will help solve the poverty problem?

No. Practically all these redistribution plans only prolong poverty. Most of the underdeveloped countries are socialistic, which is one reason they are underdeveloped. If they can be financed by the so-called developed countries, they are able to continue their socialism longer. So, the result is that these loans do not diminish their poverty but prolong it by prolonging bad policy. Inflation, government expenditures, and government waste are being subsidized.

Q. Other countries look at America as a country of wealth and do not realize the cause of it. What is the cause of America's wealth?

We have been from the beginning dominantly a capitalistic country, a country that encouraged free enterprise. In addition, the people who came here had to be devoted to the so-called work ethic. These things in our early history led to production. Also, we have a great deal of accumulated capital investment, which leads us still to keep producing.

Q. Do you think that in the drive for charity many people overlook the economic reality of production as the cure for poverty?

Yes. Practically all reformers today have only one fundamental plan, which is to take from the rich and give to the poor. This redistribution policy discourages incentive at both ends of the scale. It discourages the incentive of the people who are getting something for nothing, and it discourages the incentive of people who are being forced to give up their income.

Q. Would you comment on the Humphrey-Hawkins bill that is now in Congress?

In general, this is an effort to try to solve the employment problem by providing government jobs at the taxpayers' expense. Now, there is no way in which the government can increase the number of jobs in the economy. The tax burden is increased, which reduces the number of jobs in private industry. Previous private employment is simply turned into public employment.

(Continued on page 3)

Remembering Ludwig von Mises

by Mark Spangler

Among the important writings penned during this century stand the economic teachings of Ludwig von Mises. Professor Mises was born on September 29, 1881, and died just three years ago on October 10, 1973. He identified himself with the "Austrian school" of economic thought, known as such because its founder and most able descendants were of Austrian origin, including Mises. Having added new knowledge to the work of his predecessors, Mises became the new leader of Austrian economics.

Professor Mises authored a remarkable nineteen books (forty-six including revised editions and foreign translations) and hundreds of articles.¹ His economic analysis and reasoning led him to conclude that the unhampered market economy is the only viable and rational economic order. However, in the wave of the "new economics" of government intervention and control, Mises' contributions to economic knowledge remain ignored in most academic and professional circles.

While personal facts about the life of Ludwig von Mises are interesting,² the purpose of this piece is to mention a few of his most important contributions to economics.

Professor Mises showed the impossibility of economic calculation where a government owns or controls all the factors of production (socialism). Economic calculation is important for knowing if production is efficient or wasteful. In a market economy, economic calculation is accomplished through the pricing system. Prices, which result from the actions of consumers, are expressed in terms of a common denominator, money. Thus, the costs and revenues of producing goods and services can be calculated. The social profit or loss is then known, and factors of production will be shifted to socially profitable concerns.

Where government owns or controls factors of production, neither markets nor market prices exist. Economic production and direction are the arbitrary decisions of central planners. Every step towards eliminating free markets and prices leads to chaos in the economic order.

Another major accomplishment of Professor Mises was his monetary theory of the trade cycle. By integrating monetary theory into general economic theory, he provided a logical explanation of the "booms and busts" that have been attributed to free markets. Actually, deviations from free markets have caused the trade cycle. Government monetary authorities expand the quantity of money and credit, and this interferes with credit markets by creating "artificial" funds for lending. This causes credit institutions artificially to lower interest rates, which induces businesses to borrow and to expand facilities. But this business expansion is not the result of normal market conditions. The use

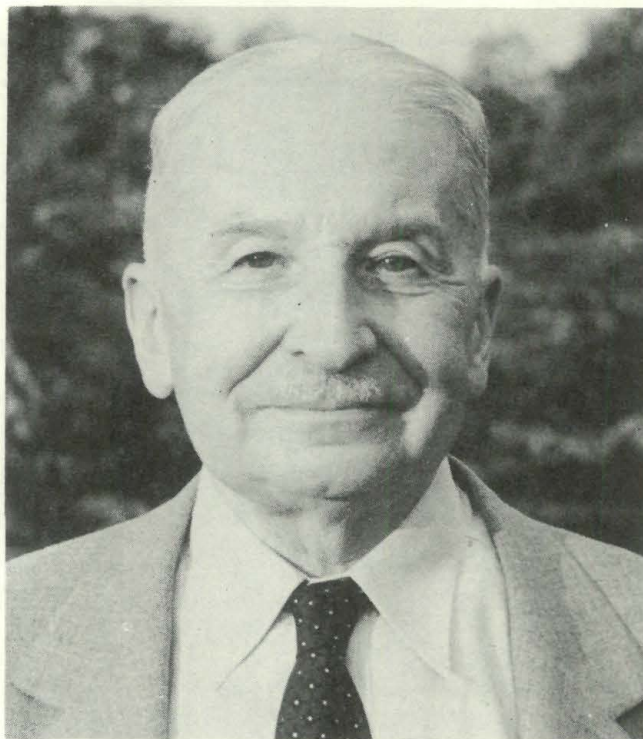


Photo courtesy of Bettina B. Greaves

of these artificial funds causes shifts in the economy and diverts factors of production into unprofitable areas. The credit expansion causes malinvestments throughout the economy.

When monetary officials reduce the credit expansion, market conditions return to normal and the malinvestments become apparent. The businesses that were misdirected by the credit expansion must then liquidate. This is the "bust." So, interference with the free market in areas of money and credit generates the cycle. After formulating this theory, Mises had been one of the very few economists to have foreseen the great depression of the 1930's. This theory no less explains the frequent booms and recessions of modern economic history.

Professor Mises also showed that economics is a science of human action and is grounded in the fact that all human action aims at substituting a more satisfactory state of affairs for a less satisfactory one,³ (and economics does not assume that men aim only at what is called material well-being⁴). Furthermore, economics is not a matter of opinion but of logic. The validity of economic theory and policy must be determined by the use of logic. This use of logic makes the study of economics a science and not mere notions and judgments.

Truths are not determined by popularity contests. Columbus was ridiculed for concluding the earth is spherical as was Copernicus for thinking the sun is the center of the solar system, yet this knowledge is

valid. Mises' writings cannot be dismissed as invalid simply because they are unpopular. Mises' contributions to economic knowledge deserve to be remembered. Even more, can they be ignored without bringing economic ruin to mankind?

Endnotes

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An entrepreneur earns profit by serving the consumers, the people, as they are and not as they should be according to the fancies of some grumbler or potential dictator.

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The market economy is essentially characterized as a social system in which there prevails an incessant urge toward improvement. The most provident and enterprising individuals are driven to earn profit by re-adjusting again and again the arrangement of production activities so as to fill in the best possible way the needs of the consumers, both those needs of which the consumers themselves are already aware and those latent needs of the satisfaction of which they have not yet thought themselves.

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In choosing between capitalism and socialism people are implicitly also choosing between all the social institutions which are the necessary accompaniment of each of these systems. If control of production is shifted from the hands of entrepreneurs, daily anew elected by a plebiscite of the consumers, into the hands of the supreme commander of the "industrial armies," neither representative government nor any civil liberties can survive. Wall Street, against which the self-styled idealists are battling, is merely a symbol. But the walls of the Soviet prisons within which all dissenters disappear forever are a hard fact.

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Poverty and Well-Being

(Continued from page 1)

Q. What effect do unions have on unemployment?

The government has consistently compelled the employer to bargain with unions. The Taft-Hartley Act does this. To compel the employer to bargain is in effect to compel him to make concessions. The law also protects mass picketing and the violence that unions use. All this raises wage rates beyond marginal productivity levels in one industry after another, and so creates unemployment.

Q. How does inflation, an increase in the quantity of money which causes higher prices, effect unemployment?

We are at the level now where inflation actually increases unemployment because it disorganizes industry. Inflation makes it impossible for employers to calculate and compare future wage scales and future costs with future prices. Thus, industry and employment are disorganized.

Q. What is the basic fallacy in the government's trying to guarantee every person a job?

What does it mean to guarantee employment? Is a man to be given employment no matter how incompetent he is? Suppose a worker comes in late and leaves early—his job is guaranteed. Suppose he is a dishwasher and breaks more dishes than he cleans. He cannot be fired because his job is guaranteed. What does it mean to guarantee a job? A productive job cannot be guaranteed. It is impossible. Some people are unemployed through no fault of their own, but many people are unemployed through some fault of their own, and this has to be faced. Guaranteed jobs would simply undermine efficiency and production, and increase impoverishment.

Whenever there are appeals for reform through government coercion, immediate consequences only are kept in mind and secondary consequences are forgotten.

Q. Would you comment on the push for a national health care program?

We already have the situation of medicare, which has enormously increased the cost of hospitalization for everybody. When there is national health care, people will tend to check in for any slight illness or imaginary illness, and this will fill the hospitals. The number of doctors and nurses then has to be increased enormously, which results in comparative overproduction of health services and a great diversion of resources from other production. Health is important, of course. But if medical care is

free, an immense number of people are going to insist on it for trivial cases. Taking care of the pressing cases becomes harder and harder.

Q. About a year ago a big item in the news was the "skyrocketing" rates of malpractice insurance for doctors. What is the cause of this?

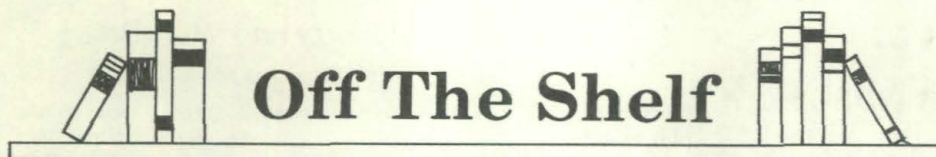
The insurance companies cannot be blamed for the skyrocketing rates. They have to protect themselves. After all, if these insurance rates were excessive, somebody would offer lower rates because it would pay them to do so. What has happened is that people have found that a doctor can be sued for any amount. A jury sees the "rich doctor" and the "poor patient" and makes fantastic awards. The jury is having fun thinking how generous it is. Who is going to be a doctor under these circumstances? Malpractice suits should be taken out of the hands of juries and put into the hands of a special court that would at least be able to pass a reasonably trained judgment. Secondly, there should be a scale of maximum damages. The problem is in the juries making ridiculous awards and making so many of them. It has become a racket.

Q. What is the basic fallacy of urban renewal by government?

The basic fallacy is simply not depending on the free market. Under a free market, houses are torn down when they deteriorate to such an extent that nobody is willing to pay rent for them, and new and better houses are put up. Urban renewal proponents are saying that people are not spending enough for housing and too much for other things. Urban renewal is the decision of a bureaucrat that people should be forced to spend money in the directions he approves of rather than the directions they would individually approve of.

Q. Do you have any concluding remarks?

We have today schemes for bringing improvement by government coercion rather than private initiative. Attempts to make improvements by government coercion means political control, and this is control that talks best in a speech. Whenever there are appeals for reform through government coercion, immediate consequences only are kept in mind and secondary consequences are forgotten. Only the persons whom the reformers are trying to help are kept in mind; the general effects for the whole society are overlooked.



Off The Shelf

The American Economic System . . . and your part in it

Prepared by the Advertising Council and the U. S. Department of Commerce, 1976, 20 pages

Reviewed by Minerva Currier

On May 20, 1974, The American Economic Foundation made a proposal to the Advertising Council to mount a campaign to improve economic understanding. After two years of great effort and a great expenditure, this plan has come to fruition.

The purpose of the booklet was stated to be that of providing "fair and honest information in depth." This is in order to have the people more informed so as to make better decisions about the economy, but the booklet never presents enough information for the reader to form his opinions about economics, and just as important, to make his decisions as to the size of his government.

When speaking of government, the ever growing size of it, and regulation by it, the booklet suggests that we need more government because as our population grows our lives are rapidly becoming more complex. This is ignoring the fact that governmental regulations and agencies are the force that is making our lives more complicated.

"There is no hint that the free market has been degraded into a hampered market, and that political interference in the economy, excessive governmental spending, excessive taxation, and the forcing of wages above the free market level are tying our economy into knots, generating inflation and unemployment, and lowering our standard of living.¹"

The American Economic Foundation criticizes the booklet for creating more confusion than understanding on important economic subjects:

1) **Capitalism.** It's called a system in which "resources are owned primarily by individuals and groups." The classical definition, stronger and more precise: Capitalism is a system based on private ownership (and control) of the means of production and distribution

—under which government is limited to defending individual rights, preventing theft and fraud, settling disputes and maintaining a competitive marketplace.

2) **Socialism.** It's termed simply a system which depends heavily on governmental economic planning and on state ownership and control, and is presented as compatible with democracy. The booklet fails to say that socialism aims ultimately, to place all production under government direction, is inherently authoritarian, and tends to end in dictatorship.

3) **Consumers.** The booklet does not explain the consumer's sovereignty in a free market economy—that how much consumers will pay for goods or services determines wages in a free market, or that the more government enters into the decision making process, the more the consumer's freedom is limited.

4) **Savers.** While the booklet implicitly encourages consumer buying, it does little to encourage individual saving or investment. It does say that more than any other one thing, continuation and improvement in our living

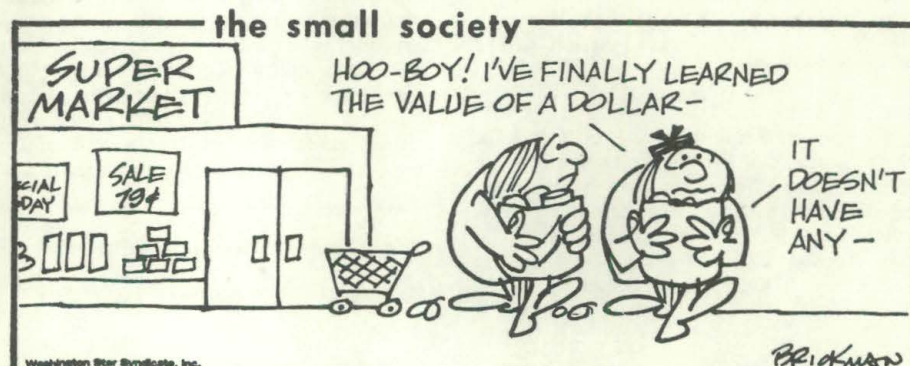
standard depends on the continuing increase in capital.

5) **Inflation.** The booklet informs us that "inflation means a rise in the general level of prices." This definition is neither educational, helpful nor precise. To understand the problem, we need a definition that explains its cause. Inflation means an increase in the quantity of money—a government created increase in the volume of money and bank credit in relation to the volume of goods—a crucial fact which this booklet does not reveal.²

Never will you find it said in the booklet that freedom is indivisible, that economic and civil liberty are inseparable, that this nation's unbelievable growth in its first two centuries was the result of the expression of this freedom, nor that this freedom is gradually being taken away.

ENDNOTE

1. Charles H. Wolfe, "The New Ad Council Campaign about our Economic System—Will it Improve Economic Understanding?" New York: American Economic Foundation, 1976.
2. Ibid.



The Entrepreneur is published at Grove City College by students of the Department of Economics.

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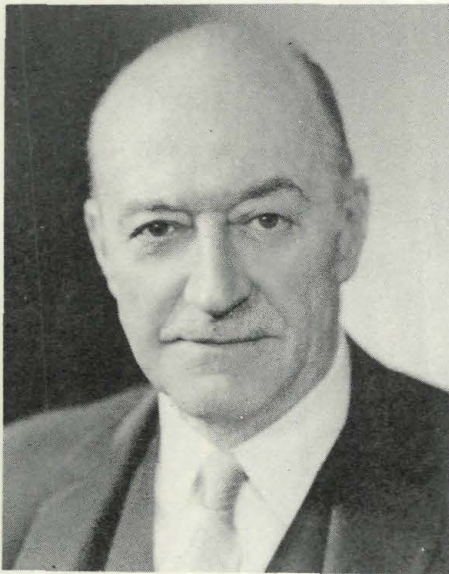
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Q. About a year ago a big item in the news was the "skyrocketing" rates of malpractice insurance for doctors. What is the cause of this?

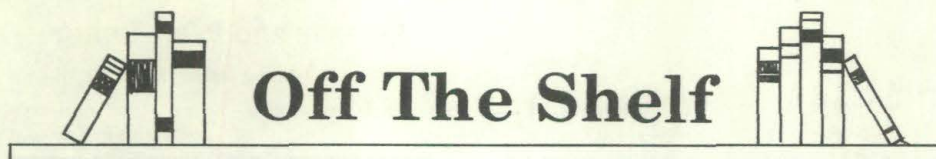
The insurance companies cannot be blamed for the skyrocketing rates. They have to protect themselves. After all, if these insurance rates were excessive, somebody would offer lower rates because it would pay them to do so. What has happened is that people have found that a doctor can be sued for any amount. A jury sees the "rich doctor" and the "poor patient" and makes fantastic awards. The jury is having fun thinking how generous it is. Who is going to be a doctor under these circumstances? Malpractice suits should be taken out of the hands of juries and put into the hands of a special court that would at least be able to pass a reasonably trained judgment. Secondly, there should be a scale of maximum damages. The problem is in the juries making ridiculous awards and making so many of them. It has become a racket.

Q. What is the basic fallacy of urban renewal by government?

The basic fallacy is simply not depending on the free market. Under a free market, houses are torn down when they deteriorate to such an extent that nobody is willing to pay rent for them, and new and better houses are put up. Urban renewal proponents are saying that people are not spending enough for housing and too much for other things. Urban renewal is the decision of a bureaucrat that people should be forced to spend money in the directions he approves of rather than the directions they would individually approve of.

Q. Do you have any concluding remarks?

We have today schemes for bringing improvement by government coercion rather than private initiative. Attempts to make improvements by government coercion means political control, and this is control that talks best in a speech. Whenever there are appeals for reform through government coercion, immediate consequences only are kept in mind and secondary consequences are forgotten. Only the persons whom the reformers are trying to help are kept in mind; the general effects for the whole society are overlooked.



Off The Shelf

The American Economic System . . . and your part in it

Prepared by the Advertising Council and the U. S. Department of Commerce, 1976, 20 pages

Reviewed by Minerva Currier

On May 20, 1974, The American Economic Foundation made a proposal to the Advertising Council to mount a campaign to improve economic understanding. After two years of great effort and a great expenditure, this plan has come to fruition.

The purpose of the booklet was stated to be that of providing "fair and honest information in depth." This is in order to have the people more informed so as to make better decisions about the economy, but the booklet never presents enough information for the reader to form his opinions about economics, and just as important, to make his decisions as to the size of his government.

When speaking of government, the ever growing size of it, and regulation by it, the booklet suggests that we need more government because as our population grows our lives are rapidly becoming more complex. This is ignoring the fact that governmental regulations and agencies are the force that is making our lives more complicated.

"There is no hint that the free market has been degraded into a hampered market, and that political interference in the economy, excessive governmental spending, excessive taxation, and the forcing of wages above the free market level are tying our economy into knots, generating inflation and unemployment, and lowering our standard of living.¹"

The American Economic Foundation criticizes the booklet for creating more confusion than understanding on important economic subjects:

1) **Capitalism.** It's called a system in which "resources are owned primarily by individuals and groups." The classical definition, stronger and more precise: Capitalism is a system based on private ownership (and control) of the means of production and distribution

—under which government is limited to defending individual rights, preventing theft and fraud, settling disputes and maintaining a competitive marketplace.

2) **Socialism.** It's termed simply a system which depends heavily on governmental economic planning and on state ownership and control, and is presented as compatible with democracy. The booklet fails to say that socialism aims ultimately, to place all production under government direction, is inherently authoritarian, and tends to end in dictatorship.

3) **Consumers.** The booklet does not explain the consumer's sovereignty in a free market economy—that how much consumers will pay for goods or services determines wages in a free market, or that the more government enters into the decision making process, the more the consumer's freedom is limited.

4) **Savers.** While the booklet implicitly encourages consumer buying, it does little to encourage individual saving or investment. It does say that more than any other one thing, continuation and improvement in our living

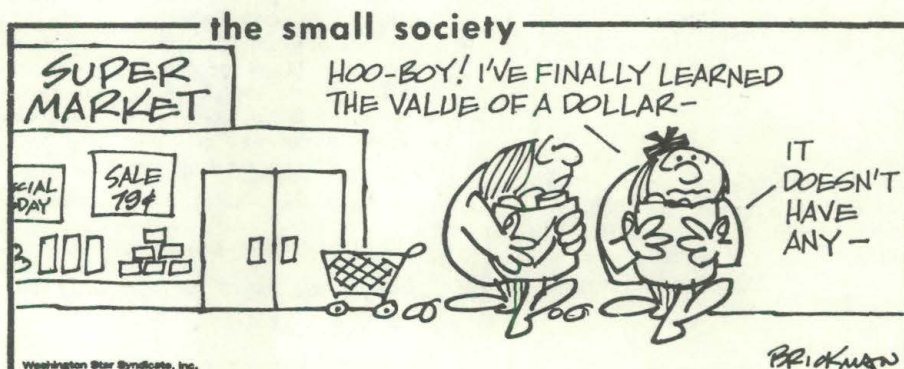
standard depends on the continuing increase in capital.

5) **Inflation.** The booklet informs us that "inflation means a rise in the general level of prices." This definition is neither educational, helpful nor precise. To understand the problem, we need a definition that explains its cause. Inflation means an increase in the quantity of money—a government created increase in the volume of money and bank credit in relation to the volume of goods—a crucial fact which this booklet does not reveal.²

Never will you find it said in the booklet that freedom is indivisible, that economic and civil liberty are inseparable, that this nation's unbelievable growth in its first two centuries was the result of the expression of this freedom, nor that this freedom is gradually being taken away.

ENDNOTE

1. Charles H. Wolfe, "The New Ad Council Campaign about our Economic System—Will it Improve Economic Understanding?" New York: American Economic Foundation, 1976.
2. Ibid.



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