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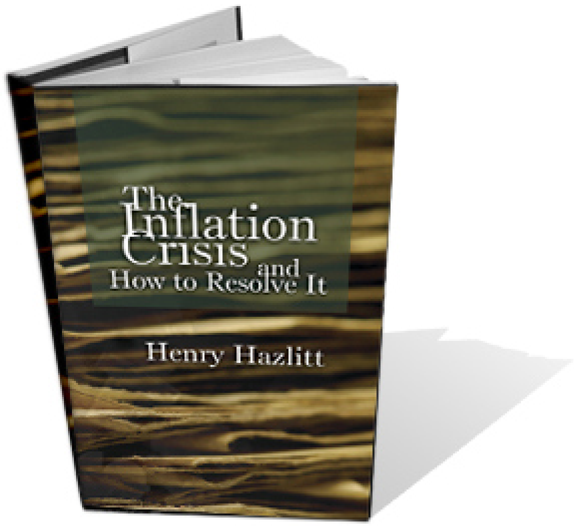
Boom! Crack! Crash!

*[*The Inflation Crisis, and How to Resolve It *• By Henry Hazlitt • Ludwig von Mises Institute, [1978] 2009 • 191 pages; and* Beyond Boom and Crash *• By Robert L. Heilbroner • W.W. Norton, 1987 • 111 pages; and* Manias, Panics, and Crashes: A History of Financial Crises *• By Charles P. Kindleberger • Basic Books, 1987 • 320 pages.]*



Things have come to a pretty pass when we have to hail economists for writing in clear, understandable English, for deigning to communicate with the public in an intelligible fashion. These days, of course, removing the veil of obscurantist jargon and mathematical charts and equations beloved by the economics guild is considered to be "unscientific" if not downright humanistic. As a distinguished economist expostulated when he found himself in a conference discussing the question of freedom, "What is this 'freedom'? I can't *measure* it!" There are no brownie points or National Science Foundation grants to be obtained by being understandable to the average reader.

Considering the current dismal state of the dismal science, all three of our authors deserve plaudits for daring to write briefly, in clear English, on a topic of great and continuing interest to the general public — inflation and economic crisis. Once said, however, the verdict on the merits of each of these three works must diverge sharply. It is not enough, after all, to be clear and brief; one must also have a pretty good idea of what one is saying.

Robert Heilbroner, like John Kenneth Galbraith, might be said to fall into the category of "popular economist" — that is, someone who knows virtually nothing about economics, yet manages to write a series of best sellers on the subject, read avidly and almost exclusively by noneconomists, who exclaim over the profundities therein. Even in this class, Heilbroner is a lightweight, for he knows even less economics than Galbraith does, and lacks the mordant wit (derived, if not cribbed, from Veblen) and the aristocratic lifestyle of the famous opponent of affluence. Still, Heilbroner has managed to belt out a series of books, each even less distinguished than its predecessor. His new volume is so skimpy as to fall into the category of "nonbook."

Heilbroner spends his time dancing around the topic of inflation and business cycles without once coming to any cogent conclusion on the subject. Indeed, he displays almost a genius for missing the point. He wonders how it is that markets work as well as they do, because he apparently cannot grasp the role of the price system's incentives in conveying knowledge of supply-and-demand conditions to all the market participants, who adjust their actions to that knowledge.

Because Heilbroner adopts the view, taken over wholesale from Victorian-era Marxism, that "susceptibility to crisis" is inherent in the process of business expansion itself, he obtusely has to reject any fundamental monetary explanation even of inflation. So anxious is Heilbroner to deny monetary causes for crises that he dismisses runaway inflation as unimportant and as occurring only as "the consequence of political collapse" —

a category in which it is difficult to fit either the runaway inflation of the American Revolution or the famous German hyperinflation of 1923.

Sometimes Heilbroner's whoppers are almost breathtaking. He believes, for example, that Keynesianism explains the current inflationary recession (or "stagflation"), when it is precisely this violation of all the canons of their creed that has caused many Keynesians to rethink their entire position. And there is his assertion that "the steady intermeshing of state and economy will be feared and fought [by the business community] as tantamount to a surrender to socialism." Surely, by now, every literate person knows that virtually every step into statism in our time has been led and supported by influential members of the business community, for reasons that are easy enough to fathom, because they have been among the chief beneficiaries.

Throughout the book, Heilbroner searches, almost desperately, for *something* that will propel society into the central planning that he alleges is inevitable. He considers inflation and business cycles, mutters about oil scarcity or perhaps oil surpluses, and finally falls back upon a fashionable concern for the "environment." He is never quite sure what will bring us to his promised land, but he *is* certain that something will turn up.

At the same time, Heilbroner avoids like the plague any discussion of some major problems centrally planned economies have experienced in the 20th century, from the failure of war communism and the liquidation of the kulaks in Russia to the breakdown of central planning in Eastern Europe and the forced draft of labor in Cambodia. Likewise, he neglects recent events that are indicative of larger difficulties — inflation in China and Yugoslavia, anti-price-hike riots in Poland, miners' strikes in Romania, roller-coaster changes of economic policy in China, corruption scandals in Vietnam, and shortages of staples in Cuba. Nor does Heilbroner choose to spell out in any kind of detail the consequences for human liberty of central planning, although in a recent essay in *Dissent* he candidly states that planning requires command from above and a moral conformism that treats dissent as heresy.

In a sense, Kindleberger's is the most curious of the three works. It is hard to know for whom he is writing, or to what point. A distinguished establishment opponent of Friedmanite monetarism in international trade, Kindleberger seems here to be carrying his war against Friedmanism into the field of money and business cycles. But it is done with such a bluff scorn for theory as to lapse into a kind of mindlessness. Concerned to deny the crucial role of money in business cycles, Kindleberger first rules out the broad field of cycles altogether in order to stick merely to financial panics. Concentrating on this narrow area, it is easy for Kindleberger to lapse into a mere nonanalytic recital of financial booms and busts, and to adopt the kind of witless "theory" that attributes these events to unexplainable "manias" and floods of "mass hysteria" that strike the market from time to time.

We need not adopt the Friedmanite "rational expectations" theory that the market always perfectly anticipates the future, about which Kindleberger has some shrewd things to say, in order to reject Kindleberger's "mania" approach. After all, entrepreneurs who are subject to such mood swings will fail at business very early in the game. Kindleberger refuses to give sufficient weight to the fact that all these speculative "manias" are made possible and brought about by bank-credit expansion. It is the continuing introduction of new money into the economy that raises prices and gives rise to the not-irrational expectation that prices will continue to go up. The inflationary bubble collapses, not because people suddenly become pessimistic, but because the banks collapse and credit contracts rather than expands. The business mood is a rational consequence of changes in objective conditions.

Neither in this book nor in his previous *The World in Depression, 1929–1939* does Kindleberger display any familiarity with the Austrian theory that expansion of money and bank credit *not only* causes inflation (the Friedmanite view), *but also* leads to uneconomic investments that require a recession to liquidate and set right. But then, by focusing solely on financial speculation and avoiding the structure of production, Kindleberger has precluded any consideration of such a theory.

Turning to Henry Hazlitt is a particular pleasure after the other two works. For Hazlitt not only has the clearest and most lucid writing style of the three; of all economists who are gifted at writing for a popular audience, Hazlitt has by far the soundest grasp of his subject. Hence, he is able to put correct and even profound analysis into a highly readable style.

Two decades ago, Henry Hazlitt wrote a primer on inflation, *What You Should Know About Inflation.* In the present work, he briefly summarizes his previous analysis, and then goes on to address various more complex problems on the subject of inflation. His subtle and clear blend of analysis and statistical illustration is a delight. In contrast to Heilbroner, Hazlitt understands full well the menace of runaway inflation, and he expounds and analyzes the German case of 1923. There is a devastating demolition of the revered "Phillips curve," which assumes an inverse correlation between inflation and unemployment. The Friedmanites are taken over the coals for their mechanistic version of the quantity theory of money, their concept of velocity, and their faulty and dangerous concept of indexating as a way of taking the sting out of inflation.

Alone of our authors, moreover, Hazlitt points out the class interest of politicians in promoting inflation. For increasing the money supply will enable prices to run ahead of wages, and will provide a flow of subsidies to favored political groups.

Above all, Hazlitt is totally familiar with Austrian theory, not simply with its business-cycle analysis, but also with its view that the value of money depends on subjective valuation rather than mechanistic correlations, and with adherence to gold money as a means of radically separating money from the state. Hazlitt understands that only such separation will put the problem of chronic and accelerating inflation to rest.

It is instructive to contrast the Hazlitt and Heilbroner volumes. It is not simply that they are at opposite poles, politically and economically. There is scarcely a fact or a hard piece of analysis in the Heilbroner book. All is cloudy and vaporous, tied only to windy rhetoric about a supposedly inevitable triumph of planning. In Hazlitt, there are facts and keen analysis aplenty, but all laid out clearly and forthrightly before the reader. If this were a just world, the Heilbroner volume would be quickly remaindered, while the Hazlitt would sell like hotcakes to a panting public. Perhaps this will be the time.

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