Spotlight on Keynesian Economics

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Its Significance

Fifty years ago, an exuberant American people knew little and cared less about economics. They understood, however, the virtues of economic freedom, and this understanding was shared by the economists, who supplemented common sense with sharper tools of analysis.

At present, economics seems to be the number one American and world problem. The newspapers are filled with complex discussions of the budget, wages and prices, foreign loans, and production. Present-day economists greatly add to the confusion of the public. The eminent Professor X says that his plan is the only cure for world economic evils; the equally eminent Professor Y claims that this is nonsense — so whirls the merry-go-round.

However, one school of thought — the Keynesian — has succeeded in capturing the great majority of economists. Keynesian economics — proudly proclaiming itself as "modern," though with its roots deep in medieval and mercantilist thought — offers itself to the world as the panacea for our economic troubles. Keynesians claim, with supreme confidence, that they have "discovered" what determines the volume of employment at any given time. They assert that unemployment can be readily cured through governmental deficit spending, and that inflation can be checked by means of government tax surpluses.

With great intellectual arrogance, Keynesians brush aside all opposition as being "reactionary," "old-fashioned," etc. They are extremely boastful of having gained the allegiance of all the young economists — a claim that has, unfortunately, a good deal of truth. Keynesian thinking has flourished in the New Deal, in the statements of President Truman, his Council of Economic Advisers, Henry Wallace, labor unions, most of the press, all foreign governments and United Nations committees, and, to a surprising extent, among "enlightened businessmen" of the Committee for Economic Development variety.

Against this onslaught, many sincere liberal-minded citizens have been swayed by the Keynesians — particularly by their argument that the wide governmental intervention they advocate will "solve the problem of unemployment." The most dismaying aspect of the situation is that the Keynesian arguments have not been countered effectively by the liberal economists, who have generally been helpless in the tidal wave. Liberal economists have confined their attacks to the political program of the Keynesians — they have not dealt adequately with the economic theory on which this program is based. As a result, the Keynesians' claim that their program will insure full employment has largely gone unchallenged.

The reason for this weakness on the part of liberal economists is understandable. They were brought up on "neoclassical economics," which is grounded on careful analysis of economic realities and based on the actions of individual units in the economic system. The Keynesian theory is based on a *model* of the economic system — a model that drastically oversimplifies reality and yet is extremely complex because of its abstract and mathematical nature. For this reason, liberal economists found themselves confused and bewildered by this "new" economics. Since Keynesians were the only economists equipped to discuss their system, they were easily able to convince the younger economists and students of its superiority.

To launch a successful counterattack against the Keynesian invasion, therefore, requires more than righteous indignation toward the proposals for government action in the Keynesian program. It requires a well-informed citizenry who thoroughly understand the Keynesian theory itself, with its numerous fallacies, unrealistic assumptions, and faulty concepts. For this reason it will be necessary

to tread a difficult path through a complex maze of technical jargon in order to examine the Keynesian model in some detail.

Another difficulty in the task of examining Keynesianism is the sharp difference of opinion between various branches of the movement. All shades of Keynesians, however, agree in sharing a common attitude towards the function of the State, and all accept the Keynesian model as a basis for analyzing the economic situation.

All Keynesians conceive of the State as a great potential reservoir of benefits, ready to be tapped. The prime concern for the Keynesian is to decide on economic policy — what should be the economic ends of the State and what means should the State adopt to achieve them? The State is, of course, always synonymous with "we": What should "we" do to insure full employment? is a favorite query. (Whether the "we" refers to the "people" or to the Keynesians themselves is never quite made clear.)

In medieval and early modern times, the ancestors of the Keynesians who advocated similar policies also proclaimed that the State could do no wrong. At that time, the king and his nobles were the rulers of the State. Now we have the dubious privilege of periodically choosing our rulers from two sets of power-thirsty aspirants. That makes it a "democracy."[1] So, the rulers of the State, being "democratically elected" and therefore representing the "people," are allegedly entitled to control the economic system and coerce, cajole, "influence," and redistribute the wealth of their reluctant subjects.

A recent important illustration of Keynesian political thinking was the Truman message vetoing income tax reduction. The main reason for the veto was that high taxes are necessary to "check inflation," since a "boom" period calls for a budget surplus to "drain off excess purchasing power."

Superficially, this argument seems convincing, and it is supported by almost all economists, including many non-Keynesian conservatives. They are all very proud of the fact that they are opposing the "politically easy" route of reducing taxes in the interests of scientific truth, national welfare, and the "fight against inflation."

It is necessary, however, to analyze the problem more closely. What is the essence of inflation? It consists of rising prices — some prices rising more rapidly than others.[2] What is a *price*? It is a sum of money (general purchasing power) paid *voluntarily* by one individual to another in *exchange* for a definite *service* rendered by the second individual to the first. This service may be in the form of a tangible commodity or an intangible benefit.

On the other hand, what is a *tax*? A tax is the coercive expropriation of the property of an individual by the rulers of the State. The rulers use this property for whatever purposes they desire — usually the rulers will distribute it in such a manner as to insure their continuance in office, i.e., by subsidizing favored groups. In addition, the rulers decide which individuals will pay the taxes — the decision consisting of expropriating the property of groups disliked by the rulers.

A *price*, therefore, is a free act of voluntary exchange between two individuals, both of whom benefit by the exchange (else the exchange would not be made!). A *tax* is a compulsory act of expropriation, with no benefit accruing to the individual (unless he happens to be on the receiving end of property expropriated by the State from someone else).

In the light of this distinction, advocating high taxes to prevent high prices is similar to a highway robber assuring the victim that his robbery is checking inflation, since the robber doesn't intend on spending the money for quite some time or that the robber might use it to repay his own debts. When will the American people wake up to the realization that robbery only benefits the robber, and that the edict "thou shalt not steal" applies to rulers (and Keynesians) as well as to anybody else?

The Model Explained

The Keynesian theory (or model) highly oversimplifies the real world by dealing with a few large *aggregates,* lumping together the activity of all individuals in a nation.

The basic concept used is *aggregate national income*, which is defined as equal to the money value of the national output of goods and services during a given time period. It is also equal to the aggregate of income received by individuals during the period (including undistributed corporate profits).

Now, the fundamental equation of the Keynesian system is *aggregate income = aggregate expenditures*. The only way any individual can receive any money income is for some other individual to *spend* an equal sum. Conversely, every act of expenditure by an individual results in an equivalent money *income* for someone else. This is obviously, and always, true. Mr. Smith spends one dollar in Mr. Jones's grocery — this act results in one dollar of income for Mr. Jones. Mr. Smith receives his annual income as a result of an act of expenditure by the XYZ Company; the XYZ Company receives its annual income as a result of expenditures made by all its customers, etc. In every case, expenditures, and only expenditures, can create money income.

Aggregate expenditures are classified into two basic types: (1) final expenditure for goods and services that have been produced during the period equals *consumption*, and (2) expenditure on the means of production of these goods equals *investment*. Thus, money income is created by decisions to spend, consisting of consumption decisions and investment decisions.

Now, an individual, upon receiving his income, divides it between consumption and saving. Saving, in the Keynesian system, is defined simply as not spending on consumption. A fundamental Keynesian tenet is that, for any particular level of aggregate income, there is a certain definite, predictable amount that will be consumed and a definite amount that will be saved. This relationship between aggregate income and consumption is considered to be *stable*, fixed by the habits of consumers. In the mathematical Keynesian jargon, aggregate consumption (and therefore aggregate savings) is a stable, passive function of income (the famous *consumption function*). For example, we shall use the consumption function: *consumption = 90 percent of income*. (This is a highly simplified function, but it serves to illustrate the basic principles of the Keynesian model.) In this case, the savings function would be *savings = 10 percent of income.*

Consumption expenditures are, therefore, *passively* determined by the level of national income. Investment expenditures, however, are, according to the Keynesians, effected *independently* of the national income. At this stage, what determines investment is not important — the crucial point is that it is determined independently of the income level.

We have left out two factors that also determine the level of expenditures. If exports are greater than imports, the total amount of expenditures in a country is increased, hence national income increases. Also, a government budget deficit increases aggregate expenditures and income (provided that other types of expenditure can be assumed to be constant). Setting aside the foreign trade problem, it is obvious that government deficits or surpluses are, like investment, decided independently of the level of national income.

Thus, *income = independent expenditures* (private investment + government deficit) + *passive consumption expenditures*. Using our illustrative consumption function, *income = independent expenditures + 90 percent of income*. Now, by simple arithmetic, income equals ten times independent expenditures. For every increase in independent expenditures, there will be a ten-fold increase in income. Similarly, a decrease in independent expenditures will lead to a ten-fold drop in income. This "multiplier" effect on income will be achieved by any type of independent expenditure — whether private investment or government deficit. Thus, in the Keynesian model, government deficits and private investment have the same economic effect.

Let us now examine in detail the process whereby an *equilibrium* income is determined in the Keynesian model. The equilibrium level is the level at which national income tends to settle.

Let us assume that aggregate income = 100, consumption = 90, savings = 10, and investment = 10. Also assume that there is no government deficit or surplus. For the Keynesians, this situation is a position of equilibrium — income tends to remain at 100. A position of equilibrium is reached because both main groups in the economy — business firms and consumers — are satisfied. Business firms, in the *aggregate*, pay out 100. Of this 100, 10 is invested in capital and 90 is paid

out while producing consumers' goods. Aggregate business firms expect this 90 to be returned to them through the sale of consumers' goods. The consumers fulfill the expectations of business firms by dividing the income of 100 into consuming 90 and saving 10. Thus, aggregate business firms are just satisfied with the situation, and aggregate consumers are satisfied because they are consuming 90 percent of their income and saving 10 percent.

Now, let independent expenditures increase to 20, either because of an increase in private investment or because of a government deficit. Now, income payments to consumers is 90 + 20 = 110. Consumers, receiving 110, will wish to consume 90 percent of it, or 99, and save 11. Now, business firms, who had expected a consumption of 90, are pleasantly surprised to see consumers bidding up prices and reducing merchants' stocks in an effort to consume 99. As a result, business firms expand their output of consumer goods to 99 and pay out 99 + 20 = 119, expecting a return of 99 in consumption sales. But again they are pleasantly surprised, since consumers will wish to spend 90 percent of 119, or 107. This process of expansion continues until income is again equal to ten times investment — when consumption is again equal to 90 percent of income. The point will be reached when income = 200, investment = 20, consumption = 180, and saving = 20.

It is important to notice that equilibrium was reached in both cases when aggregate *investment* = aggregate *saving*. The above equilibrium process can be described in terms of saving and investment: When investment is greater than saving, the economy expands and national income rises until aggregate saving equals aggregate investment. Similarly, the economy contracts if investment is less than saving, until they are again equal.

Note that two very important things must remain constant in order that equilibrium be reached. The consumption function (and therefore the savings function) is assumed to be constant throughout while the level of investment is constant at least until equilibrium is reached. The question now arises: what is so important about aggregate money income that it should be the continual focus of attention? Before this question can be answered, it is necessary to make certain assumptions.

Assume that the following things be considered as *given* (or constant): the existing state of all techniques, the existing efficiency, quantity, and distribution of all labor, the existing quantity and quality of all equipment, the existing distribution of national income, the existing structure of relative prices, the existing money wage rates (!), and the existing structure of consumer tastes, natural resources, and economic and political institutions.

Then, given these assumptions, for every level of national money income, there corresponds a unique, definite volume of employment. The higher the national income, the greater will be the volume of employment, until a state of "full employment" is reached. (We can define full employment as simply a very low level of unemployment.) After the full-employment level is reached, a higher money income will represent only a rise in prices, with no rise in physical output (real income) and employment.

Summing up the above model, known as the Keynesian theory of underemployment equilibrium: To each level of national income there corresponds a unique level of employment. There is, therefore, a certain level of income to which corresponds a state of full employment, without a great rise in prices. An income below this "full-employment" income will signify large-scale unemployment; an income above will mean large price inflation.

The level of income, in a private enterprise system, is determined by the level of independent investment expenditures and consumption expenditures that are a passive function of the income level. The resulting level of income will tend to settle at the point where aggregate investment equals aggregate saving.

Now (and here is the grand Keynesian climax), there is no reason whatsoever to assume that this equilibrium level of income determined in the free market will coincide with the "full-employment" income level — it may be more or less.

This is the model of the private economy accepted by all Keynesians. The State, assert the Keynesians, has the responsibility of keeping the economic system at the "full-employment" income level, since "we" cannot depend on the private economy to do so.

The Keynesian model furnishes the means by which the State can fulfill this task. Since government deficits have the same effects on income as does private investment, all that the State must do is to estimate the expected equilibrium income level of the private economy. If it is below the "full-employment" level, the State can engage in deficit spending until the desired income level is reached. Similarly, if it is above the desired level, the State can engage in budget surpluses through high taxes. The State, if it so desires, can also stimulate or discourage private investment or consumption via taxes and subsidies, or impose tariffs if it desires to create an export surplus. The favorite Keynesian prescription for stimulating consumption is progressive income taxation, since the "rich" do most of the saving. The favorite method of "encouraging private investment" is to subsidize "progressive" and "enlightened" industrialists as against "Tory big business."

The Model Criticized

We remember that for the Keynesian model to be valid, the two basic determinants of income, namely, the consumption function and independent investment, must remain constant long enough for the equilibrium of income to be reached and maintained. At the very least, it must be *possible* for these two variables to remain constant, even if they are not generally constant in actuality. The core of the basic fallacy of the Keynesian system is, however, that it is impossible for these variables to remain constant for the required length of time.

We recall that when income = 100, consumption = 90, savings = 10, and investment = 10, the system is supposed to be in equilibrium, because the aggregate expectations of business firms and the public are fulfilled. In the aggregate, both groups are just satisfied with the situation, so that there is allegedly no tendency for the income level to change. But *aggregates* are meaningful only in the world of arithmetic, not in the real world. Business firms may receive in the aggregate just what they had expected; but this does not mean that any single firm is necessarily in an equilibrium position. Business firms do not make earnings in the aggregate. Some firms may be making windfall profits, while others may be making unexpected losses. Regardless of the fact that, in the aggregate, these profits and losses may cancel each other, and each firm will have to make its own adjustments to its own particular experience. This adjustment will vary widely from firm to firm and industry to industry. In this situation, the level of investment cannot remain at 10, and the consumption function will not remain fixed, so that the level of income must change. Nothing in the Keynesian system, however, can tell us *how far* or *in what direction* any of these variables will move.

Similarly, in the Keynesian theory of the adjustment process toward the level of equilibrium, if aggregate investment is greater than aggregate saving, the economy is supposed to expand toward the level of income where aggregate saving equals aggregate investment. In the very process of expansion, however, the consumption (and savings) function *cannot* remain constant. Windfall profits will be distributed unevenly (and in an unknown fashion) among the numerous business firms, thus leading to varying types of adjustments. These adjustments may lead to an unknown increase in the volume of investment. Also, under the impetus of expansion, new firms will enter the economic system, thus changing the level of investment.

In addition, as income expands, the distribution of income among individuals in the economic system necessarily changes. It is an important fact, usually overlooked, that the Keynesian assumption of a rigid consumption function assumes a *given* distribution of income. Therefore, the change in the distribution of income will cause change of unknown direction and magnitude in the consumption function. Furthermore, the undoubted emergence of capital gains will change the consumption function.

Thus, since the basic Keynesian determinants of income — the consumption function and the level of investment — cannot remain constant, they cannot determine any equilibrium level of income, even approximately. There is no point toward which income will move or at which it will tend to

remain. All we can say is that there will be a complex movement in the variables of an unknown direction and degree.

This failure of the Keynesian model is a direct result of misleading aggregative concepts. Consumption is not just a function of income; it depends, in a complex fashion, on the level of past income, expected future income, the phase of the business cycle, the length of the time period under discussion, on prices of commodities, on capital gains or losses, and on the cash balances of consumers.

Furthermore, the breakdown of the economic system into a few aggregates assumes that these aggregates are independent of each other, that they are determined independently and can change independently. This overlooks the great amount of interdependence and interaction among the aggregates. Thus, saving is not independent of investment; most of it, particularly business saving, is made in anticipation of future investment. Therefore, a change in the prospects for profitable investment will have a great influence on the savings function, and hence on the consumption function. Similarly, investment is influenced by the level of income, by the expected course of future income, by anticipated consumption, and by the flow of savings. For example, a fall in savings will mean a cut in the funds available for investment, thus restricting investment.

A further illustration of the fallacy of aggregates is the Keynesian assumption that the State can simply add or subtract its expenditures from that of the private economy. This assumes that private investment decisions remain constant, unaffected by government deficits or surpluses. There is no basis whatsoever for this assumption. In addition, progressive income taxation, which is designed to encourage consumption, is assumed to have no effect on private investment. This cannot be true, since, as we have already noted, a restriction of savings will reduce investment.

Thus, aggregative economics is a drastic misrepresentation of reality. The aggregates are merely an arithmetic cloak over the real world, where multitudes of firms and individuals react and interact in a highly complex manner. The alleged “basic determinants” of the Keynesian system are themselves determined by complex interactions within and between these aggregates.

Our analysis is confirmed by the fact that the Keynesians have been completely unsuccessful in their attempts to establish an actual, stable consumption function. Statistics bear out the fact that the consumption function shifts considerably with the month of the year, the phase of the business cycle, and over the long run. Consumer habits have definitely changed over the years. In the short run, a change in family income will only lead to a change in consumption after a lag of a certain period of time. In other cases, changes in consumption may be induced by expected changes in income (e.g., consumer credit). This instability of the consumption function eliminates the possibility of any validity of the Keynesian model.

Still another fundamental fallacy in the Keynesian system is the assumed unique relation between income and employment. This relation depends, as we have noted above, upon the assumption that techniques, the quantity and quality of equipment, and the efficiency and wage rate of labor are fixed. This assumption leaves out factors of basic importance in economic life and can only be true over an extremely short period. Keynesians, however, attempt to use this relation over long periods as a basis for predicting the volume of employment. One direct result was the Keynesian fiasco of predicting eight million unemployed after the end of the war.

The most important device that insures the unique relation between income and employment is the assumption of constant money wage rates. This means that in the Keynesian model, an increase in expenditures can only increase employment if money wage rates do not rise. In other words, employment can only increase if *real* wage rates fall (wage rates relative to prices and to profits). Also, there cannot be an equilibrium level of large-scale unemployment in the Keynesian model unless money wage rates are rigid and are not free to fall.

This result is extremely interesting, since classical economists have always maintained that employment will only increase if real wage rates fall, and that large-scale unemployment can only persist if wage rates are prevented from falling by monopolistic interference in the labor market. Both Keynesians and liberal economists recognize that money wage rates, particularly since the

advent of the New Deal, are no longer free to fall due to monopolistic governmental and trade-union control of the labor market.

Keynesians would remedy this situation by deceiving unions into accepting lower real wage rates, while prices and profits rise via government deficit spending. They propose to accomplish this feat by relying on trade-union ignorance, coupled with frequent appeals to a "sense of responsibility by the labor leadership." In these days when unions emit cries of anguish and threaten to strike at every sign of higher prices or larger profits, such an attitude is incredibly naive. Far from having a sense of responsibility, the aim of most unions seems to be wage rates that increase rapidly and continuously, lower prices, and nonexistent profits.

It is evident that the liberal solution of reestablishing a freely competitive labor market through the elimination of union monopolies and governmental interference is an essential requisite for the rapid disappearance of unemployment as it arises in the economic system.

Keynesians, particularly those who are rabid partisans of the "liberal-labor movement", attempt to refute this solution by contending that cuts in money wage rates would not 1ead to a reduction of unemployment. They claim that wage-incomes would be reduced, thereby reducing consumer demand, and lowering prices, leaving real wage rates at their previous level.

This argument rests on a confusion between wage rates and wage incomes. A reduction in money wage rates, particularly in industries where wage rates have been most rigid, will lead immediately to an increase in hours worked and the number of men employed. (Of course, the amount of the increase will vary from industry to industry.) In this way, the total payroll is increased, thus increasing wage incomes and consumer demand. A fall in money wage rates will have an especially favorable employment effect in the construction and capital-goods industries. It is just these industries that now have the strongest unions.

Furthermore, if wage incomes are reduced, then the incomes of entrepreneurs and others will be increased and total "purchasing power" in the community will not decline.

The "Mature Economy"

It is important to recall that Keynesianism was born and was able to capture its widespread following under the impetus of the Great Depression of the thirties, a depression unique in its length and severity, and, especially, in the persistence of large-scale unemployment. It was its attempt to furnish an explanation for the events of the thirties that gained Keynesianism its popular following. Using a model with assumptions that restrict its application to a very short period of time, and completely fallacious in its dependence on simple aggregates, all Keynesians confidently ordered government deficits as the cure.

In interpreting the significance of the Depression, however, Keynesians part company. "Moderates" maintain that it was simply a severe depression in the familiar round of business cycles. "Radical" Keynesians, headed by Professor Hansen of Harvard, assert that the thirties ushered in an era in the United States of "secular (long-run) stagnation." They claim that the American economy is now mature, that opportunities for investment and expansion are largely ended, so that the level of investment expenditures can be expected to remain at a permanently low level, at a level too low to ever provide full employment. The cure for this situation, according to the Keynes-Hansenites, is a permanent government program of deficit expenditures on long-range projects, and heavy progressive income taxation to permanently increase consumption and discourage savings.

Where the Hansen stagnation thesis goes beyond the Keynesian model is in its attempt to explain the determinants of the level of investment. Investment is supposed to be determined by the "extent of investment opportunities" that are, in turn, determined by (1) technological improvement, (2) the rate of population growth, and (3) the opening of new territory. The Hansenites go on to draw a gloomy picture of private investment opportunities in the modern world.

The decade of the thirties was the first in American history with a decline in population growth, and there is no new territory to develop — the "frontier" is closed. Consequently, we can rely only on

technological progress to provide investment opportunities, opportunities that have to be much greater than in the past to "make up" for the unfavorable changes in the other two factors. As for technological progress, that too is slowing down. After all, the railroads have already been built and the automobile industry has reached maturity. Whatever minor improvements there might be will probably be withheld by "reactionary monopolists," etc.

Let us examine each of Hansen's alleged determinants of investment. The gloom concerning the lack of new lands to develop — the vanishing of the "frontier" — can be dispelled quickly. The frontier disappeared in 1890 without appreciably affecting the rapid progress and prosperity of America; obviously it can be no source of trouble now. This is borne out by the fact that, since 1890, investment per head in the older sections of America has been greater than in the recent frontier sections.

It is difficult to see how a decline in population growth can adversely affect investment. Population growth does not provide an independent source of investment opportunity. A fall in the rate of population growth can only affect investment adversely if

All the wants of existing consumers are completely satisfied. In that case, population growth would be the only additional source of consumer demand. This situation clearly does not exist; there are an infinite number of unsatisfied wants.

The decline would lead to reduced consumer demand. There is no reason why this should be the case. Will not families use the money that they otherwise would have spent on their children for other types of expenditures?

In particular, Hansen claims that the catastrophic drop in construction in the thirties was caused by the decline in population growth, which reduced the demand for new housing. The relevant factor in this connection, however, is the rate of growth in the number of families; this did not decline in the thirties. Furthermore, Manhattan has had a declining total population (not merely the rate of growth) since 1911, yet in the 1920s Manhattan had the biggest residential building boom in its history.

Finally, if our malady is underpopulation, why has no one suggested subsidizing immigration to cure unemployment? This would have the same effect as a rise in the rate of growth of population. The fact that not even Hansen has suggested this solution is a final demonstration of the absurdity of the "population growth" argument.

The third factor, technological progress, is certainly an important one; it is one of the main dynamic features of a free economy. Technological progress, however, is a decidedly favorable factor. It is proceeding now at a faster rate than ever before, with industries spending unprecedented sums on research and development of new techniques. New industries loom on the horizon. Certainly there is every reason to be exuberant rather than gloomy about the possibilities of technological progress.

So much for the threat of the mature economy. We have seen that of the three alleged determinants of investment, only one is relevant, and its prospects are very favorable. The Hansen mature-economy thesis is at least as worthless an explanation of economic reality as the rest of the Keynesian apparatus.

So ends our lengthy analysis of the most successful and pernicious hoax in the history of economic thought — Keynesianism. All of Keynesian thinking is a tissue of distortions, fallacies, and drastically unrealistic assumptions. The vicious political effects of the Keynesian program have only been briefly considered. They are only too obvious: the rulers of the State engaging in direct robbery through "progressive" taxation, creating and spending new money in competition with individuals, directing investment, "influencing" consumption — the State all-powerful, the individual helpless and throttled under the yoke. All this is in the name of "saving free enterprise". (Rare is the Keynesian who admits to being a socialist.) This is the price we are asked to pay in order to put a completely fallacious theory into effect!

The problem of the explanation of the Great Depression, however, still remains. It is a problem that needs thorough and careful investigation; in this context, we can only indicate briefly what appear to be promising lines of inquiry. Here are some of the facts: during the decade of the thirties, new investment fell sharply (particularly in construction); consumer expenditures rose; tariffs were at a

record high; unemployment remained at an abnormally high level throughout the decade; commodity prices fell; *wage rates rose* (particularly in construction); income taxes rose greatly and became much more sharply progressive; strikes and trade-union membership increased greatly, especially in the capital-goods industries. There was also a huge growth of federal bureaucracy, burdensome "social legislation," and the extremely hostile antibusiness attitude of the New Deal government.

These facts indicate that the Depression was not the result of an economy that had suddenly become "mature," but of the policies of the New Deal. A free economy cannot successfully function under the constant attacks of a coercive police power. Investment is not decided according to some mystical "opportunity." It is determined by the prospects for profit and the prospects of keeping that profit. Prospects for profit depend on costs being low in relation to expected prices, and the prospects for retaining the profit depend on the lowest possible level of taxation.

The effect of the New Deal was to drastically increase costs through building up a monopoly union movement, which led directly to increasing wage rates (even when prices were low and falling) and to lowered efficiency via "make-work," slowdowns, strikes, seniority rules, etc. Security of property was jeopardized by the continual onslaughts of the New Deal government, especially by the confiscatory taxation that dried up the needed flow of savings and left no incentive to invest productively the savings that remained. These savings, instead, found their way into purchasing government bonds to finance all types of boondoggling projects.

Economic well-being, therefore, as well as the basic principles of morality and justice, lead to the same necessary political goal: the reestablishment of the security of private property from all forms of coercion, without which there can be no individual freedom and no lasting economic prosperity and progress.

Notes

[1] This does not imply that democracy is evil. It means that democracy should be considered as a desirable technique for choosing rulers competitively, so long as the power of these rulers is strictly limited.

[2] The cause of rising prices is generally an abundance of fiat money created by past or present government deficits.