Inflation in One Page

By Henry Hazlitt

A correspondent, heading a group of "Inflation Fighters," recently sent me a one-page typewritten summary of their case against inflation, and asked for my opinion of it. The statement was sincere and well-intentioned, but as with the great bulk of what is being written about inflation, it was confused in both its analysis and its recommendations.

I wrote approving his effort to "do something," and approving also his idea of trying to state the cause and cure for inflation on a single page, but suggested the following substitute statement.

Cause and Cure of Inflation

1. Inflation is an increase in the quantity of money and credit. Its chief consequence is soaring prices. Therefore inflation—if we misuse the term to mean the rising prices themselves—is caused solely by printing more money. For this the government's monetary policies are entirely responsible.

2. The most frequent reason for printing more money is the existence of an unbalanced budget. Unbalanced budgets are caused by extravagant expenditures which the government is unwilling or unable to pay for by raising corresponding tax revenues. The excessive expen¬ditures are mainly the result of government efforts to redistribute wealth and income—in short, to force the productive to support the unproductive. This erodes the working incentives of both the productive and the unproductive.

3. The causes of inflation are not, as so often said, “multiple and complex,” but simply the result of printing too much money. There is no such thing as “cost-push” inflation. If, without an increase in the stock of money, wage or other costs are forced up, and producers try to pass these costs along by raising their selling prices, most of them will merely sell fewer goods. The result will be reduced output and loss of jobs. Higher costs can only be passed along in higher selling prices when consumers have more money to pay the higher prices.

4. Price controls cannot stop or slow down inflation. They always do harm. Price controls simply squeeze or wipe out profit margins, disrupt production, and lead to bottlenecks and shortages. All government price and wage control, or even “monitoring,” is merely an attempt by the politicians to shift the blame for inflation on to producers and sellers instead of their own monetary policies.

5. Prolonged inflation never “stimulates” the economy. On the contrary, it unbalances, disrupts, and misdirects production and employment. Unemployment is mainly caused by excessive wage rates in some industries, brought about either by extortionate union demands, by minimum wage laws (which keep teenagers and the unskilled out of jobs), or by prolonged and over-generous unemployment insurance.

6. To avoid irreparable damage, the budget must be balanced at the earliest possible moment, and not in some sweet by-and-by. Balance must be brought about by slashing reckless spending, and not by increasing a tax burden that is already undermining incentives and production.

Henry Hazlitt (1894-1993) was the great economic journalist of the 20th century. He is the author of Economics in One Lesson among 20 other books. See his complete bibliography. He was chief editorial writer for the New York Times, and wrote weekly for Newsweek. He served in an editorial capacity at The Freeman and was a board member of the Foundation for Economic Education.

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