Increased Production: The Only Cure for Poverty

One of the worst features of all the plans for sharing the wealth and equalizing or guaranteeing incomes is that they lose sight of the conditions and institutions that are necessary to create wealth and income in the first place. They take for granted the existing size of the economic pie; and in their impatient effort to see that it is sliced more equally they overlook the forces that have not only created the pie in the first place but have been baking a larger one year by year.

The only real cure for poverty is production. The way to maximize production is to maximize the incentives to production. And the way to do that, as the modern world has discovered, is through the system known as capitalism—the system of private property, free markets, and free enterprise. This system maximizes production because it allows a man...freedom to earn and to keep the fruits of his labor....When each of us recognizes that his reward depends on his own efforts and output, and tends to be proportionate to his output, then each has the maximum incentive to increase his effort and output....

...the condition of poverty, moreover, is relative rather than absolute. What we call poverty in the United States would be regarded as affluence in most parts of Africa, Asia, or Latin America. If an income sufficient to enable a man to “to live with dignity” ought to be “guaranteed” as a matter of “absolute right,” why don’t the advocates of a guaranteed income insist that this right be enforced first of all in the poor countries...where the need is most widespread and glaring? The reason is simply that even the better-off groups in these nations have not produced enough wealth and income to be expropriated and distributed to others....

Allowed to continue to operate with even the relative freedom that it has enjoyed in recent years, the capitalist system will continue to produce these miracles. It will continue to make progress against poverty by a general increase in income and wealth. But short-sighted and impatient efforts to wipe out poverty by severing the connection between effort and reward can only lead to the growth of a totalitarian state, and destroy the economic progress that this country has so dearly bought.

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From Man vs. the Welfare State, 95–97
ing and self-expression, Hazlitt was able to supplement his income by contributing—at 75 cents each—many pieces to the Journal’s “By-the-Way” column. During these early years, Hazlitt received a largely self-taught education in financial affairs and in writing for publication.

As is always true of self-education, he relied heavily on intense reading of literary and philosophical classics, devouring such writers as William Shakespeare, Charles Darwin and Herbert Spencer. He tried to educate himself about the philosophical foundations of the important social and economic issues of the day.

Hazlitt was only 22 when Thinking as a Science—the first of his many books—was published. In 1916, Hazlitt left the Wall Street Journal to write economic columns for the New York Evening Post and, soon thereafter, for the New York Daily Mail. During America’s years of involvement in World War I, he served in the Army Air Corps, returning to his old job at the Evening Post in uniform the day he got home at the war’s conclusion.

Hazlitt’s desire to be a writer was as strong as ever; and he resumed his self-education through reading, especially about economic issues. He was influenced greatly by several books during this period, among them Philip Wicksteed’s The Common Sense of Political Economy, Benjamin Anderson’s The Value of Money and Ludwig von Mises’ Theory of Money and Credit. These works led him to an intellectual understanding of the pro-free-market Austrian school, an understanding that later became personal when he championed the school’s leading theorists in print, and then met and became friends with them.

Hazlitt met Mises when the latter fled Europe in 1940 to escape the problems being created by World War II. Hazlitt had praised Mises’ book Socialism in a New York Times review in 1938 and applauded his Human Action when it appeared in 1949. Hazlitt also avidly supported F. A. Hayek’s 1944 national best-seller The Road to Serfdom.

Although the work of these Austrians influenced him enormously, Hazlitt remained an eclectical thinker whose economics blended classical, neoclassical and Austrian insights.

Hazlitt’s principled defense of free markets and politically unpopular positions cost him editorial jobs. He refused to blame capitalism for the Great Depression (The Nation), promote the New Deal or the Bretton Woods agreement (The New York Times), or endorse the Great Society and the ever-growing welfare state (Newsweek). In 1951, he wrote The Great Idea (later reprinted as Time Will Run Back), a remarkable novel in which, under new ruler Peter Uldanov—a sort of futuristic Peter the Great—the Soviet Union rediscovers free markets. Although pessimistic in its portrayal of Soviet domination of the United States, overall the book is optimistic. Peter ultimately triumphs against Bolshevik counterrevolutionaries, and the novel argues that great ideas can never be permanently lost or repressed because the truth can always be rediscovered by the application of human reason.

Hazlitt is best known for his 1946 book Economics in One Lesson, a collection of short refutations of economic fallacies prevalent at the time. When first published, the book immediately
made the New York Times best-seller list but disappeared rapidly because only 3,000 copies were printed, despite its serialization in Reader’s Digest. Since that original misstep, the work has been reprinted many times, translated into at least eight languages and has sold over a million copies.

In 1959, Hazlitt published The Failure of the ‘New Economics,’ his chapter-by-chapter critique of John Maynard Keynes’ The General Theory of Employment, Interest, and Money. Many academic economists dismissed the work because Hazlitt was not one of them. But it remains a fascinating, clear and hard-hitting analysis of many of Keynes’ contentions that have come to be seen as weaknesses in The General Theory. Hazlitt also edited a 1960 volume of essays by other economists critical of various aspects of Keynes’ doctrines.3

After leaving the grind of daily journalism, Hazlitt continued to write prolifically. Along with books that touched on many topics, he wrote short articles on freedom and free markets for The Freeman, a publication of the Foundation for Economic Education. He completed his final book, on the Stoic philosophers, when he was 90 years old. By the time he died in 1993 at age 98, he had written 20 books and countless book chapters, magazine articles and newspaper editorials. At a dinner honoring him on his 70th birthday in 1964, Hazlitt closed his speech with these memorable words:

“Even those of us who have reached and passed our 70th birthdays cannot afford to rest on our oars and spend the rest of our lives dozing in the Florida sun. The times call for courage. The times call for hard work. But if the demands are high, it is because the stakes are even higher. They are nothing less than the future of human liberty, which means the future of civilization.”

No one worked harder, nor had the courage of his convictions more, than Henry Hazlitt, a tireless advocate for free markets who devoted his life to communicating important ideas to everyday people. He was, as the great American writer and satirist H. L. Mencken once said, “one of the few economists in human history who could really write.”

— Robert L. Formaini
Senior Economist

Notes
Sources and Suggested Reading

By Henry Hazlitt:


(The 1972 and 1973 works can be downloaded from www.hazlitt.org).


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A Remarkable Prediction

…Precisely what is poverty? Of the thousands of books and articles on the subject that have appeared over the last two centuries, it is astonishing how few have troubled to ask this question. Their writers have taken it for granted that both they and their readers know precisely what is being discussed.

It is obvious, however, that all merely relative definitions of poverty make the problem insoluble. If we were to double the real income of everybody, or multiply it tenfold, there would still be a lowest third, a lowest fifth, a lowest tenth.

Comparative definitions lead us, in fact, into endless difficulties. If poverty means being worse off than somebody else, then all but one of us is poor. An enormous number of us are, in fact, subjectively deprived. As one writer on poverty succinctly put it nearly sixty years ago: “It is part of man’s nature never to be satisfied as long as he sees other people better off than himself.”

Most of those who try to frame a definition of poverty no doubt have in mind some practical purpose to be served by such a definition. The purpose of the Federal bureaucracy is to suggest that any income below its definition constitutes a problem requiring government relief….If we go back only a little more than forty years ago in our own country, we find that in the so-called prosperous year 1929 more than half of the people in the United States would have been labeled “poor” if the “poverty-threshold” [inflation adjusted] income since developed by the Council of Economic Advisers had then been applied…. It is difficult, and perhaps impossible, to frame a completely objective definition of poverty.

Our conception of poverty necessarily involves a value judgment. People in different ages, in different countries, in different personal circumstances, will all have different ideas of what constitutes poverty, depending on the range of conditions to which they themselves are accustomed. But while the conception of poverty will necessarily be to some extent relative and even individual, we should make every effort to keep it as objective as we can. Otherwise if, for example, our national income in real terms continues to rise as much in the next forty years as in the past forty years, our social reformers will tend to raise correspondingly their standard of what constitutes “poverty.” And if this happens, the paradoxical result will be that the problem of poverty will seem to them to be getting larger all the time when it is really getting smaller all the time. [Emphasis added]

—From The Conquest of Poverty, Chapter 3

Why Socialism Doesn’t Work

But how can this appallingly complex problem of supplying goods in the proportions in which consumers want them, and with the most economical production methods, be solved if the institutions of capitalism—private ownership, competition, free markets, money, prices, profits and losses—do not exist?

Suppose that all property—at least in the means of production—is taken over by the State, and that banks and money and credit are abolished as vicious capitalist institutions. How is the government to solve the problem of what goods and services to produce, of what qualities, in what proportions, in what localities, and by what technological methods?

There cannot, let us keep in mind, be a hundred or a thousand different decisions by as many different bureaucrats, each allowed to decide independently how much of one given product must be made. The available amount of land, capital, and labor is always limited.

We must keep in mind that without free competitive markets, money, and money prices, the economic planner would be helpless. The problems of centralized direction of an economy are so insuperable that in socialist countries there are periodically experiments in decentralization. But in an economy only half free—that is, in an economy in which every factory is free to decide how much to produce of what, but in which the basic prices, wages, rents, and interest rates are blindly fixed or guessed at by the sole ultimate owner of the means of production, the State—a decentralized system could quickly become even more chaotic than a centralized one.

...in brief, socialism is incapable of solving the incredibly complicated problem of economic calculation. That problem can be solved only by capitalism.

—From The Conquest of Poverty, Chapter 15