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Economics in one lesson – Henry Hazlitt

Summary

Chapter 1: The lesson

Hazlitt starts off by mentioning that the study of Economics is haunted by many fallacies. The new economists tend only look at the short-term benefits of a policy to a special group while ignoring the long-term effects of such policies on other groups or the society as a whole, or as Hazlett puts forward, the fallacy of overlooking secondary consequences. They only present half of the truth. A bad economist sees only the direct consequences of a proposed course while the good economist looks also at the longer and indirect consequences. We are already suffering due to the long run consequences of the policies of the remote or recent past. The new economists flatter themselves that this is almost a revolutionary advance over the methods of the "classical" economists, because the former take into consideration short-run effects which the latter often ignored.

Chapter 5: Taxes Discourage Production

The government displays the image that taxes transfer a certain percent of the national income from private purposes to public purposes. The government spenders often take money from one party to pay it to another party. While the later party benefits from this transaction, the effect on the former is forgotten and ignored.

Income tax that is collected is not the same for everybody. Taxes effect the actions and incentives of those from whom they are taken. Corporations lose the entire amount during loses, but they are permitted to keep only 60% of their gains. When it cannot offset the years of losses against its years of gains, its policies are affected. They stop expanding operations and minimize their risks. It discourages people to start new enterprises. Employment reduces and fewer people become employers. Due to the lower revenues, there is a slower capital formation. Thus, in the long run, consumers are prevented from getting better and cheaper products while the wages are also low.

With the huge taxes on personal incomes, it discourages people from working and investing in new enterprises. Taxes prevent capital that provides new private jobs from coming into existence. The government spenders create the very problem of unemployment that they profess to solve.

Taxes are of course indispensable to carry on essential government functions. Reasonable taxes for this purpose need not hurt production much. The government services provided in return for taxes must safe guard production rather than compensate for it. The larger the percentage of the national income that is taken by taxes, the greater is the deterrent to private production and employment. When the total tax burden grows beyond a bearable size, the problem of devising taxes that will not discourage and disrupt production becomes insoluble.