Economics in One Lesson Essay Contest

a program of the Free Enterprise Institute, 9525 Katy Freeway, #303, Houston, TX 77024-1415

Telephone: (713) 984-1343
Toll-Free 800-884-2189
Fax: (713) 984-0409
E-mail: PAMich@aol.com

Philip A. Michelbach
Program Officer

May 15, 1996

To: Rotary Vocational Chairmen
From: Philip Michelbach

Dear Rotarian:

Attached is a one-page synopsis of the Free Enterprise Institute's proposal to Rotary chapters for sponsorship of individual school contests within the *Economics in One Lesson* Scholarship Program. I have also included information about the current contest and a copy of the contest study guide and an agreement to sponsor a local contest.

I look forward to working with you to sponsor local scholarship programs. I thank you in advance for your interest in the Institute and the *Economics in One Lesson* Program.

Sincerely,

Philip A. Michelbach

Economics in One Lesson Program Proposal

for

Rotary Vocational Lane of Service

May 15, 1996

The Free Enterprise Institute proposes that Rotary Chapters sponsor individual high schools in the *Economics in One Lesson* Scholarship Contest. The purpose of the *Economics in One Lesson* Scholarship Program is to promote economic literacy based upon students' reading, analyzing and writing on topics taken from Henry Hazlitt's classic introduction to economics. In addition, the program provides valuable financial aid to college-bound high school students. Attached is information detailing the current Scholarship Contest.

Rotary sponsorship would allow targeting of scholarships to specific high schools. The Free Enterprise Institute would take all responsibility for promotion and program administration. This includes:

- Production and distribution of all materials (free classroom copies of *Economics in One Lesson*, study guides and entry information)
- Judging of contest entries
- Distribution of scholarships
- Press releases to local papers announcing the contest and the winners
- Certificates of participation to all contest entrants

All Rotary Club sponsorship will be used toward the school(s) chosen by the club. This includes promotion, scholarships, materials and contest administration.

Economics in One Lesson Scholarship Contest
Sponsorship Form

We would like to sponsor local *Economics in One Lesson* Scholarship Contests in the following school(s). All sponsorship will be used toward the school(s) chosen by the club. The Free Enterprise Institute will be responsible for promotion, materials and administration of the contest and scholarships.

Schools chosen:

Amount of Sponsorship:

Rotary Chapter:

____
Chairman of Vocational Lane of Service

____
President of Rotary Club

Return to: Philip Michelbach, Free Enterprise Institute, 9525 Katy Freeway, Suite 303, Houston, TX 77006 Phone: (713) 984-1343 Fax: (713) 984-0409

Henry Hazlitt's ✎ Study Guide and Entry Info ✏ $3,000 1st place ✎

Economics in One Lesson Essay Contest 1995-1996

First Place

$3000

College Scholarship

Two 2nd Place

$1000

Scholarships

Five 3rd Place

$500

Scholarships

WHAT IS ECONOMICS?

Spanish economist Faustino Ballve' defined his discipline by explaining what it studies: "the economic domain is constituted by human action directed toward the satisfaction of wants by the exercise of the power of choice." Economics is the study of how people get the things they want. An axiom of economics is that demand is infinite while resources are scarce. Infinite demand means that no matter how much we have, we always want more. This scarcity in the face of unlimited demand is referred to as "the economic problem." That resources are scarce does not mean that resources are being "used up"—new resources are constantly being discovered, developed, or substituted. Scarcity means that as individuals compete for resources, they are forced to make choices. (You can think of many more ways to spend tomorrow than you have time for, and there are many more things you would like to buy than you can afford right now.)

What's it worth?

Until the last century, economists believed that a thing was worth the labor put into it. This "labor theory of value" was accepted by everyone from Adam Smith to Karl Marx. Under this theory, if a worker dug and filled up a hole all day long, the resulting mud would be worth one day's labor. In the early 1870s, Austrian, English, and French economists independently published explanations of a new "subjective theory of value." They argued that value is assigned by individual buyers. A rare stamp may be worth a lot to a stamp collector, but nothing to a coin collector. To a man dying of thirst in the desert, a drink of water may be worth an immense amount. The value of something is not an objective and intrinsic part of it. Something is worth what people will pay for it. When English author Oscar Wilde said, "A cynic is a man who knows the price of everything and the value of nothing," he

continued on page 2

Essay contest & entry information, see page 5

WHAT IS ECONOMICS?, CONTINUED FROM PAGE 1

missed the point: the price *is* the value.

How do people decide what something is worth (what they will pay for it)? Subjective, individual taste is a large part of it; you know what you like and how much you like it. Also, the cost of something is the value of *everything* given up to obtain it. For example, a candy bar doesn't cost just fifty cents, it cost everything else you could have bought with the fifty cents—a pencil, a newspaper, photocopies, etc. When you buy something, you choose to give up buying other things. A key factor is also what economists call "marginal utility."

Economists asked themselves why diamonds cost more than water. Everyone knows that water is more useful than diamonds, yet diamonds cost more per unit than water. The old explanation was that more labor goes into diamond production; water is plentiful and easily obtained. The new theory argued that goods have a *diminishing marginal utility;* each additional unit of a good is less useful than the last one. For example, there is a limit to the amount of water you can drink in a day. Beyond this amount, water is practically useless. Once your desire for water (or anything else) is satisfied, you can devote your money or resources to less important things.

Free Exchange

In a free market, individuals engage in free and voluntary exchange of goods and services (labor, money, commodities). Both parties to each exchange expect to gain from the exchange. For example, if I buy a magazine for $5, I value the magazine at more than $5 (I think I'm getting a good deal or else I would not pay). The magazine seller wants my $5 more than his magazine (he thinks $5 is worth more than the magazine). If either one of us is disappointed with our exchange, we do not have to repeat it. There is no loser—both parties win. There is no exploiter or exploited. Exploitation only occurs when one party forces the other to do something he does not want to do. The absence of this coercion is what makes a free market free.

Why No Numbers?

Economics is numbers and graphs, isn't it? So why aren't there equations or graphs in *Economics in One Lesson*? Henry Hazlitt explained in his essay "Understanding 'Austrian' Economics":

Perhaps something should be said about the chief differences today between Austrian economics and what we may call "orthodox" or "mainstream" economics. The difficulty here is that "mainstream" economics itself would be hard to define. Economists are still divided into a number of recognizable "schools"—neoclassicists, Keynesians, the Chicago school, the Lausanne school, and so on. The limits of space forbid me to go into the distinguishing doctrines of each of these schools. But one outstanding difference of the Austrians from all of these lies in their method of reasoning. The Austrians emphasize methodological individualism. *That is, they not only begin by emphasizing human actions, preferences, and decisions, but* individual *actions, preferences, and initiatives. Mainstream economists are concerned with "macroeconomics", with averages and aggregates; and those of the Lausanne school, trying to reduce economics to an "exact" science, and therefore seeking to quantify everything, are obsessed with complicated mathematical equations that try to stipulate the conditions of "general equilibrium."*

"Austrian" economists believe that the tools of the physical sciences (statistics, mathematics) are misapplied in the social sciences. In addition, data which reflects society-wide economic trends necessarily leads to thinking about the large group as if it existed aside from the individuals who make it up. Non-Austrian economists tend to want to tinker with the numbers the group produces, ignoring the impact on individuals.

THE PRICE SYSTEM

Hazlitt's discussion of the price system begins with the idea that a nation has, at any given moment, a limited productive capacity. This economy-wide capacity can change over time, either expanding or declining, but at any given time a nation has just so many workers and tools. Increases in productive capacity occur when accumulated wealth (savings) is used on capital improvements (more machines, factories, roads, etc.). Given this situation, the decision to produce shoes (using Hazlitt's example) is a decision not to produce hammers, baby carriages, cars, toothpicks and everything else that could be produced. Hazlitt explains:

Now in an economy in equilibrium, a given industry can expand only at the expense of other industries. For at any moment the factors of production are limited. One industry can be expanded only by diverting it labor, land and capital that would otherwise be employed in other industries. And when a given industry shrinks, or stops expanding its output, it does not necessarily mean that there has been any net decline in aggregate production. The shrinkage at that point may

continued next page

have merely released labor and capital to permit the expansion of other industries. It is erroneous to conclude, therefore, that a shrinkage of production in one line necessarily means a shrinkage in total production.

Everything, in short, is produced at the expense of forgoing something else. Costs of production themselves, in fact, might be defined as the things that are given up (the leisure and pleasures, the raw materials with alternative potential uses) in order to create the thing that is made.

If production is distributed among many goods and services, what tells producers what to make? The market tells producers through price.

Price tells producers what to make because it signals demand. (Demand and need are not the same: "Effective economic demand requires not merely need but also corresponding purchasing power.") High price signals that a product is scarce in the market. This price is an inducement to produce more of it (in order to profit):

Prices are fixed through the relationship of supply and demand and in turn affect supply and demand. When people want more of an article, they offer more for it. The price goes up. This increases the profits of those who make the article. Because it is now more profitable to make that article than others, the people already in the business expand their production of it, and more people are attracted to the business. This increased supply then reduces the price and reduces the profit margin, until the profit margin on that article once more falls to the general level of profits (relative risks considered) in other industries. Or the demand for that article may fall; or the supply of it may be increased to such a point that its price drops to a level where there is less profit in making it than in making other articles; or perhaps there is an actual loss in making it. In this case the "marginal" producers, that is, the producers who are least efficient, or whose costs of production are highest, will be driven out of the business altogether. The product will now be made only by the more efficient producers who operate on lower costs. The supply of that commodity will also drop, or will at least cease to expand.

The price system works not only at the level of final, finished products, but also for labor, raw materials, etc. The market acts as a knowledge-producing machine that tells everyone in it the relative scarcity of everything through its price. Suppose a huge demand for copper suddenly emerged; someone is building a new power plant, and copper is needed for the generators. This new demand will be reflected in all commodities markets that deal in copper and in the price of every consumer good that contains copper. It will become profitable to mine more copper, or replace copper cables with fiber optic cables to salvage the copper, or begin substituting other materials for copper (using zinc instead of copper in pennies, for example). The knowledge that copper is in demand is instantaneously transmitted to every consumer through the scarcity-tracking computer that is the market.

Hazlitt devotes much discussion to government price fixing. He explores the negative effects of fixing prices both above and below market value. When the government fixes prices above the market rate (price supports), the results are overproduction, inefficiency and waste (the most efficient producer no longer has an advantage), a diversion of productive capacity from other industries, and higher prices to consumers both directly (the price support) and indirectly (increased a scarcity of other products because resources are diverted away from their producers). In the case of the price support called the minimum wage, the result is unemployment. When the government fixes prices below market value, the commodity in question is quickly depleted—shortages and rationing are common in such cases. In addition, in the case of low-cost government timber sales, environmentally harmful land use is encouraged by the policy.

But why should the market know better than well-educated, well-meaning governmental economic planners? The market is made up of literally billions of individuals. Each of these individuals has a unique perspective, a "local knowledge". No governmental planner can possibly know enough to know about all conditions everywhere, and therefore cannot make truly informed decisions.

Economics in One Lesson for speech and debate

The difference between a good debater and a great debater is the ability to see the Big Picture. *Economics in One Lesson* gives the debater a mental touchstone, a device for quickly making sense of information. This helps both before the round (in researching cases and new arguments) and in analysis during the round.

Economics in One Lesson teaches key economic concepts in a clear and simple way, leading readers toward what economists describe as an "economic way of thinking." What emerges is a coherent world view—a consistent approach to problems. The tools this book teaches help the debater to more quickly sift through and understand new information.

In Extemp, the key to winning is telling the best Story. *Economics in One Lesson* helps to make sense of topics. It is also filled with examples and explanations that can be used to make a more compelling speech.

About *Economics in One Lesson*

"Henry Hazlitt is one of the few economists in human history who could really write."
— H.L. Mencken

Economics in One Lesson first appeared in 1946. Eight translations and numerous printings later, it has been praised by many noted economists.

Critical acclaim

"Students actually read the book, understand it, and change their ideas because of it...*Economics in One Lesson* is a superlative book. It is the finest introduction to economics in existence, and page for page there is simply no better book on economics, period."
— Dr. George Reisman, an economist at Pepperdine University who uses the book in his classroom

"It is a brilliant performance. It says precisely the things that need most saying and says them with rare courage and integrity. I know of no other modern book from which the intelligent layman can learn so much about the basic truths of economics in so short a time."
— F.A. Hayek, winner of the Nobel Prize in Economics

Hazlitt's lessons

"The bad economist sees only what immediately strikes the eye; the good economist also looks beyond. The bad economist sees only the direct consequences of a proposed course; the good economist also looks at the longer and indirect consequences."

"There is no more persistent and influential faith in the world today that the faith in government spending."

"The belief that machines cause unemployment...leads to preposterous conclusions. Not only must we be causing unemployment with every technological improvement we make today, but primitive man must have started causing it with the first efforts he made to save himself from needless toil and sweat."

This Economics in One Lesson Essay Contest study guide and flyer was written and compiled by Philip Michelbach. Send questions or comments to PAMich@aol.com or call (713) 984-1343.

About the Free Enterprise Institute

A not-for-profit educational organization based in Houston, Texas, the Free Enterprise Institute sponsors educational programs and publications for teachers and students. These include:

1) The interdisciplinary American Idea Seminars, held each summer for teachers.

2) Economics in Argumentation seminars and publications for high school speech and debate students.

3) The Economics in One Lesson Essay contest for high school students.

For more information on these or other programs, please call or write.

ESSAY TOPICS

Referencing Hazlitt's ***Economics in One Lesson****,*
write on ***one*** *of the following three topics:*

1 Many people argue that unacceptable job losses will occur if government spending is cut. Using *Economics in One Lesson*, discuss the ability of government spending to create jobs and the impact of cutting funding for government jobs.

2 Some people worry that continued technological progress, including automation and mechanization, threatens employment opportunities. Using *Economics in One Lesson*, comment on the consequences of technological advances for *all* workers.

3 Some politicians say that, "We can't afford tax cuts." What do they mean? Using *Economics in One Lesson*, discuss the impact of taxes on the economy and the consequences of cutting taxes.

Mail or e-mail your essay and a cover sheet to:
Economics in One Lesson Contest, Free Enterprise Institute
9525 Katy Freeway, Suite 303, Houston, TX 77024
Direct questions to: **Phone:** (713) 984-1343 **Fax:** (713) 984-0409
E-mail: PAMich@aol.com (essays should be sent as RTF or TXT files)

CONTEST RULES

1. Entrant must be a high school student, & the essay must be the original work of the entrant.
2. Essay must be 2-4 typewritten, double-spaced pages (about 750-1000 words).
3. Entries must be postmarked no later than May 3, 1996. Winners will be notified in May 1996.
4. All entries become the property of the FEI.
5. Essays must have a cover sheet which includes: entrant's name, address, phone number, year in school, school name and address, and the selected topic number. In addition, include teacher's name if he or she encouraged you to enter this essay contest.
6. Decisions of the judges are final.

The Broken Window Fallacy

Destruction is not good. You wouldn't burn down your house to create jobs—yet a recent Secretary of the Treasury extolled the "positive" effects of the Midwest flood of 1993: "A lot of concrete will be poured. You have to look at all the jobs that will be created to repair the damage." If something isn't good for an individual, it isn't good for the collection of individuals we call society. Hazlitt writes:

Many of the most frequent fallacies in economic reasoning come from the propensity, especially marked today, to think in terms of an abstraction—the collectivity, the "nation"—and to forget or ignore the individuals who make it up and give it meaning. No one could think that the destruction of war was an economic advantage who began by thinking first of all of the people whose property was destroyed.

Hazlitt explains that the confusion stems from the difference between need and demand. Need is simply the lack of something people desire, whereas demand is this lack *plus* purchasing power. In the end, purchasing power comes only from earned wages—the wages from production:

Those who think that the destruction of war increases total "demand" forget that demand and supply are merely two sides of the same coin. They are the same thing looked at from different directions. Supply creates demand because at bottom it is demand. The supply of the thing they make is all that people have, in fact, to offer in exchange for the things they want. In this sense the farmer's supply of wheat constitutes their demand for automobiles and other goods. All this is inherent in the modern division of labor in an exchange economy.

All demand comes from production—the monies taxed from businesses and workers and given to the poor are simply redistributed demand. But the demand comes from production. The salaries of government employees also come from taxes.

Hazlitt talks about an optimum rate of replacement for capital goods like factories and machinery. He cites the example of the Germans and Japanese after World War II; they had newer and better factories than Americans since their old ones were destroyed during the war. The Germans and Japanese did have a temporary productive advantage (especially since the U.S. paid for their new factories). However, American businessmen did not ask the Air Force to bomb their own factories, because to do so would destroy their investment in their current facilities, which could be improved and replaced over time, as needed. The reason for this is that,

"Plants and equipment cannot be replaced by an individual (or a socialist government) unless he or it has acquired or can acquire the savings, the capital accumulation, to make the replacement. But war destroys accumulated capital."

Taxes discourage production

If government spends money, it must be paid for with taxes:

Everything we get, outside of free gifts of nature, must in some way be paid for. The world is full of so-called economists who in turn are full of schemes for getting something for nothing. They tell us that the government can spend and spend without taxing at all; that it can continue to pile up debt without ever paying it off because, "we owe it to ourselves"... Here I am afraid that we shall have to be dogmatic, and point out that such pleasant dreams in the past have always been shattered by national insolvency or a runaway inflation. Here we shall have to say simply that all government expenditures must eventually be paid for out of the proceeds of taxation; that inflation itself is merely a form, and a particularly vicious form, of taxation.

Hazlitt discusses government spending in the chapter "Public Works Mean Taxes." He reminds us that each dollar spent by the government is a dollar taken from private hands. Thus, each dollar used to create a public job is a dollar *not* used to create a private job. The true cost of government spending is the unseen consequences of the private spending which will never happen. He points out that the oft-touted "multiplier effect" of government spending (a dollar spent by the government produces X dollars in private spending) ignores that the private dollar would have been spent too.

Taxes retard economic growth; under high taxes, companies either cannot expand, or must expand slowly. This means that fewer jobs are created and consumers get new goods more slowly because innovation is strangled. Also, money that would otherwise be saved by individuals (and loaned to businesses) is taxed away.

If the government were as good as or better at allocating money than the private sector, none of this would matter—the taxpayer would be getting exact value for each

Cont. next page

dollar. However, there are many reasons why government spending hurts the individuals in a nation. First, there can be no net gain in production through government spending—the wealth used to fund the government job taxed away jobs from the private sector.

Additionally, jobs are only as valuable as the goods or services the worker produces. It is impossible to gauge whether the job "created" by government is of greater value than the job that was destroyed, since the private job is "unseen" and now will never be created.

Second, government agencies are often in the business of slowing economic growth; excessive governmental regulations cost businesses billions of dollars a year.

Third, government is in the business of exacerbating social problems; everything that the government has declared war on, from poverty to drugs, has gotten worse as a result of its intrusion.

Fourth, government often competes directly with "unseen" business opportunities. For example, government-funded radio and television stations destroy opportunity by filling a want private stations could serve (A&E, Discovery and the History Channel compete with PBS).

Why should government be worse at allocating resources than private individuals and businesses? This is clearly the case (contrast Federal Express and the Post Office). The incentives a private enterprise faces are completely different from those faced by a government agency. A private enterprise must provide a high quality product at a low price. It must please its customers. It must strive toward greater efficiency. It measures its success in whether or not it shows a profit. A governmental agency has different incentives. First, it wants to justify more funding by doing more—even if it is a failure. In fact, failure is often the reason given to legislators as a reason for increased funding. (Imagine Coca-Cola increasing the funding to New Coke because nobody likes it.) Second, the government agency is open to influence by special interests. The only special interest the business serves is its customers. An additional reason for the non-ability of government agencies to allocate resources is a lack of knowledge. In an economy, knowledge is dispersed. Even well-meaning bureaucrats neither have the incentive nor the knowledge to act wisely. F.A. Hayek wrote,

The point which is so important is the basic fact that it is impossible for any man to survey more than a limited number of needs. Whether his interests center round his own physical needs, or whether he takes a warm interest in the welfare of every human being he knows, the ends about which he can be concerned will always only be an infinitesimal fraction of the needs of all men. This is the fundamental fact on which the whole philosophy of individualism is based. It does not assume, as is often asserted, that man is egoistic or selfish or ought to be. It merely starts from the indisputable fact that the limits of our powers of imagination make it impossible to include in our scale of values more than a sector of the needs of the whole society, and that, strictly speaking, scales of value can exist only in individual minds, nothing but partial scales of values exist —scales which are inevitably different and often inconsistent with each other.

Taxes take money from where it can be used efficiently and place it where it cannot. EOL

The Mirage of Inflation

Government control of the money supply is at the root of many economic problems. Hazlitt points out that this is a result of the confusion about what money is. It is a symbol. A paper dollar has no real value, it is only a promise that the US government will back it. Since 1971, dollars have been pure "fiat" money. This means that they are not backed by anything other than the word of the government. (Dollars used to be backed by specific amounts of gold.) Wealth does not exist in money—paper dollars themselves do not provide people with any pleasure (with the exception of misers).

Real wealth, of course, consists in what is produced and consumed: the food we eat, the clothes we wear, the houses we live in. It is railways and roads and motorcars; ships and planes and factories; schools and churches and theaters; pianos, paintings and books. Yet so powerful is the verbal ambiguity that confuses money with wealth, that even those who at times recognize this confusion will slide back into it in the course of their reasoning. Each man sees that if he personally had more money, he could buy more things from others. If he had twice as much money he could buy twice as many things; if he had three times as much money he would be "worth" three times as much. And to many the confusion seems obvious that if the government merely issued more money and distributed it to everybody, we should all be that much richer.

Most money is created by Federal Reserve Board lending policies and deficit spending by the government. The worst economic problem the U.S. ever had was a result of inflation by the Federal Reserve. Economist Mark Skousen writes,

The Great Depression was caused in large measure by the fact that the Western governments, especially that of the United States, artificially lowered interest rates in the 1920 while remaining on the gold standard. As the gold

continued next page

started to flow out of the United States, the Federal Reserve stopped inflating in 1929, and the world suffered a stock market crash and massive economic collapse. There were many other reasons why the depression was so severe and endured for so long, but central bank policy was the principal culprit.

Hazlitt talks about the problem of halting inflation once it has started,

Nor is it possible to bring inflation to a smooth and gentle stop an so avert a subsequent depression. It is not even possible to halt an inflation, once embarked upon, at some preconceived point, or when prices have achieved a previously agreed upon level, for both political and economic forces will have got out of hand.

Inflation & demand

New money does not create demand. (Remember, demand is created by the wealth from production.) When the government inflates currency—increases the total amount of money—it dilutes the amount each dollar is worth. If 10 units of demand corresponded to 10 dollars before inflation, 10 units of demand corresponds to 11 dollars after inflation. This does not increase demand, it just spreads it thinner. In addition, inflation erases the value of savings (a dollar earned at 10 to 10 is indistinguishable from one earned at 10 to 11, and prices go up as a result of inflation). Rising prices are the result of inflation, not the cause of it. Inflation comes *only* as a result of the government printing more money. Price increases in certain goods do occur independent of inflation—they are a signal of scarcity (see "The Price System"), but such increases cannot be systemic in a normally functioning economy. When the Fed raises interest rates to "combat inflation", they are really saying, "We are raising interest rates to slow the artificial boom in new dollars we ourselves are creating." As Hazlitt says,

Mere inflation—that is, the mere issuance of more money , with the consequence of higher wages and prices—may look like the creation of more demand. But in terms of the actual production and exchange of real things it is not.

It should be obvious that real buying power is wiped out to the same extent as productive power is wiped out. We should not let ourselves be deceived or confused on this point by the effects of monetary inflation in raising prices or "national income" in monetary terms.

Consequences of Inflation

Inflation does benefit some; the people who receive the new dollars first are able to buy goods with their fiat dollars even as they are diluting the value of all dollars:

It may indeed bring benefits for a short time to favored groups, but only at the expense of others. And in the long run it brings ruinous consequences to the whole community. Even a relatively mild inflation distorts the structure of production. This involves a misapplication and waste of capital. When the inflation collapses, or is brought to a halt, the misdirected capital investment—whether in the form of machines, factories or office buildings—cannot yield an adequate return and loses the greater part of its value.

Here we shall have to say simply that all government expenditures must eventually be paid for out of the proceeds of taxation; that inflation itself is merely a form, and a particularly vicious form, of taxation.

In the long run, all of the new money created by deficit financing must be paid back. If it is paid back through taxes, it means loss of jobs; every dollar spent to retire the public debt is one not spent in the private sector. If the debt is paid with fiat dollars, the result is the same:

Inflation itself is a form of taxation. It is perhaps the worst possible form, which usually bears hardest on those least able to pay. On the assumption that inflation affected everyone and everything evenly (which, we have seen, is never true), it would be tantamount to a flat sales tax of the same percentage on all commodities, with the rate as high on bread and milk as on diamonds and furs. Or it might be thought of as equivalent to a flat tax of the same percentage, without explanations, on everyone's income. It is a tax not only on every individual's expenditures, but on his savings account and life insurance. It is, in fact, a flat capital tax levy, without exemptions, in which the poor man pays as high a percentage as the rich man. EOL