

# THE Ayn Rand LETTER®

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## EGALITARIANISM AND INFLATION

### Part III

If you understand the function of stock seed - of savings - in a primitive farm community, apply the same principle to a complex, industrial economy.

Wealth represents goods which have been produced, but not consumed. What would a man do with his wealth in terms of direct barter? Let us say a successful shoe manufacturer wants to enlarge his production. His wealth consists of shoes; he trades some shoes for the things he needs as a consumer, but he saves a large number of shoes and trades them for building materials, machinery and labor to build a new factory - and another large number of shoes, for raw materials and for the labor he will employ to manufacture more shoes. Money facilitates this trading, but does not change its nature. All the physical goods and services he needs for his project must actually exist and be available for trade - just as his payment for them must actually exist in the form of physical goods (in this case, shoes). An exchange of paper money (or even of gold coins) would not do any good to any of the parties involved, if the physical things they needed were not there and could not be obtained in exchange for the money.

If a man does not consume his goods at once, but saves them for the future, whether he wants to enlarge his production or to live on his savings (which he holds in the form of money) - in either case, he is counting on the fact that he will be able to exchange his money for the things he needs, when and as he needs them. This means that he is relying on a continuous process of production - which requires an uninterrupted flow of goods saved to fuel further and further production. This flow is "investment capital," the stock seed of industry. When a rich man lends money to others, what he lends to them is the goods which he has not consumed.

This is the meaning of the concept "investment." If you have wondered how one can start producing, when nature requires time paid in advance, this is the beneficent process that enables men to do it: a successful man lends his goods to a promising beginner (or to any reputable producer) - in exchange for the payment of interest. The payment is for the risk he is taking: nature does not guarantee man's success, neither on a farm nor in a factory. If the venture fails, it means that the goods have been consumed without a productive return, so the investor loses his money; if the venture succeeds, the producer pays the interest out of the new goods, the profits, which the investment enabled him to make.

Observe, and bear in mind above all else, that this process applies only to financing the needs of production, not of consumption - and that its success rests on the investor's judgment of men's productive ability, not on his compassion for their feelings, hopes or dreams.

Such is the meaning of the term "credit." In all its countless variations and applications, "credit" means money, i.e., unconsumed goods, loaned by one productive person (or group) to another, to be repaid out of future production. Even the credit extended for a consumption purpose, such as the purchase of an automobile, is based on the productive record and prospects of the borrower. Credit is not - as the savage believed - a magic piece of paper that reverses cause and effect, and transforms consumption into a source of production.

Consumption is the final, not the efficient, cause of production. The efficient cause is savings, which can be said to represent the opposite of consumption: they represent unconsumed goods. Consumption is the end of production, and a dead end, as far as the productive process is concerned. The worker who produces so little that he consumes everything he earns, carries his own weight economically, but contributes nothing to future production. The worker who has a modest savings account, and the millionaire who invests a fortune (and all the men in between), are those who finance the future. The man who consumes without producing is a parasite, whether he is a welfare recipient or a rich playboy.

An industrial economy is enormously complex: it involves calculations of time, of motion, of credit, and long sequences of interlocking contractual exchanges. This complexity is the system's great virtue and the source of its vulnerability. The vulnerability is psycho-epistemological. No human mind and no computer - and no planner - can grasp the complexity in every detail. Even to grasp the principles that rule it, is a major feat of abstraction. This is where the conceptual links of men's integrating capacity break down: most people are unable to grasp the working of their hometown's economy, let alone the country's or the world's. Under the influence of today's mind-shrinking, anti-conceptual education, most people tend to see economic problems in terms of immediate concretes: of their paychecks, their landlords, and the corner grocery store. The most disastrous loss - which broke their tie to reality - is the loss of the concept that money stands for existing, but unconsumed goods.

The system's complexity serves, occasionally, as a temporary cover for the operations of some shady characters. You have all heard of some manipulator who does not work, but lives in luxury by obtaining a loan, which he repays by obtaining another loan elsewhere, which he repays by obtaining another loan, etc. You know that his policy can't go on forever, that it catches up with him eventually and he crashes. But what if that manipulator is the government?

The government is not a productive enterprise. It produces nothing. In respect to its legitimate functions - which are the police, the army, the law courts - it performs a service needed by a productive economy. When a government steps beyond these functions, it becomes an economy's destroyer.

The government has no source of revenue, except the taxes paid by the producers. To free itself - for a while - from the limits set by reality, the government initiates a credit con game on a scale which the private manipulator could not dream of. It borrows money from you today, which is to be repaid with money it will borrow from you tomorrow, which is to be repaid with money it will borrow from you day after tomorrow, and so on. This is known as "deficit financing." It is made possible by the fact that the government cuts the connection between goods and money. It issues paper money, which is used as a claim check on actually existing goods - but that money is not backed by any goods, it is not backed by gold, it is backed by nothing. It is a promissory note issued to you in exchange for your goods, to be paid by you (in the form of taxes) out of your future production.

Where does your money go? Anywhere and nowhere. First, it goes to establish an

altruistic excuse and window dressing for the rest: to establish a system of subsidized consumption - a "welfare" class of men who consume without producing - a growing dead end, imposed on a shrinking production. Then the money goes to subsidize any pressure group at the expense of any other - to buy their votes - to finance any project conceived at the whim of any bureaucrat or of his friends - to pay for the failure of that project, to start another, etc. The welfare recipients are not the worst part of the producers' burden. The worst part are the bureaucrats - the government officials who are given the power to regulate production. They are not merely unproductive consumers: their job consists in making it harder and harder and, ultimately, impossible for the producers to produce. (Most of them are men whose ultimate goal is to place all producers in the position of welfare recipients.)

While the government struggles to save one crumbling enterprise at the expense of the crumbling of another, it accelerates the process of juggling debts, switching losses, piling loans on loans, mortgaging the future and the future's future. As things grow worse, the government protects itself not by contracting this process, but by expanding it. The process becomes global: it involves foreign aid, and unpaid loans to foreign governments, and subsidies to other welfare states, and subsidies to the United Nations, and subsidies to the World Bank, and subsidies to foreign producers, and credits to foreign consumers to enable them to consume our goods - while, simultaneously, the American producers, who are paying for it all, are left without protection, and their properties are seized by any sheik in any pesthole of the globe, and the wealth they have created, as well as their energy, is turned against them, as, for example, in the case of Middle Eastern oil.

Do you think a spending orgy of this kind could be paid for out of current production? No, the situation is much worse than that. The government is consuming this country's stock seed - the stock seed of industrial production: investment capital, i.e., the savings needed to keep production going. These savings were not paper, but actual goods. Under all the complexities of private credit, the economy was kept going by the fact that, in one form or another, in one place or another, somewhere within it, actual material goods existed to back its financial transactions. It kept going long after that protection was breached. Today, the goods are almost gone.

A piece of paper will not feed you, when there is no bread to eat. It will not build a factory, when there are no steel girders to buy. It will not make shoes, when there is no leather, no machines, no fuel. You have heard it said that today's economy is afflicted by sudden, unpredictable shortages of various commodities. These are the advance symptoms of what is to come.

You have heard economists say that they are puzzled by the nature of today's problem: they are unable to understand why inflation is accompanied by recession - which is contrary to their Keynesian doctrines; and they have coined a ridiculous name for it: "stagflation." Their theories ignore the fact that money can function only so long as it represents actual goods - and that at a certain stage of inflating the money supply, the government begins to consume a nation's investment capital, thus making production impossible.

The value of the total tangible assets of the United States at present, was estimated - in terms of 1968 dollars - at 3.1 trillion dollars. If government spending continues, that incredible wealth will not save you. You may be left with all the magnificent skyscrapers, the giant factories, the rich farmlands - but without fuel, without electricity, without transportation, without steel, without paper, without seeds to plant the next harvest.

If that time comes, the government will declare explicitly the premise on which

it has been acting implicitly: that its only "capital asset" is you. Since you will not be able to work any longer, the government will take over and will make you work - on a slope descending to sub-industrial production. The only substitute for technological energy is the muscular labor of slaves. This is the way an economic collapse leads to dictatorship - as it did in Germany and in Russia. And if anyone thinks that government planning is a solution to the problems of human survival, observe that after half a century of total dictatorship, Soviet Russia is begging for American wheat and for American industrial "know-how."

A dictatorship would find it impossible to rule this country in the foreseeable future. What is possible is the blind chaos of a civil war.

It is at a time like this, in the face of an approaching economic collapse, that the intellectuals are preaching egalitarian notions. When the curtailment of government spending is imperative, they demand more welfare projects. When the need for men of productive ability is desperate, they demand more equality for the incompetents. When the country needs the accumulation of capital, they demand that we soak the rich. When the country needs more savings, they demand a "redistribution of income." They demand more jobs and less profits - more jobs and fewer factories - more jobs and no fuel, no oil, no coal, no "pollution" - but, above all, more goods for free to more consumers, no matter what happens to jobs, to factories, or to producers.

The results of their Keynesian economics are wrecking every industrial country, but they refuse to question their basic assumptions. The examples of Soviet Russia, of Nazi Germany, of Red China, of Marxist Chile, of socialist England are multiplying around them, but they refuse to see and to learn. Today, production is the world's most urgent need, and the threat of starvation is spreading through the globe; the intellectuals know the only economic system that can and did produce unlimited abundance, but they give it no thought and keep silent about it, as if it had never existed. It is almost irrelevant to blame them for their default at the task of intellectual leadership: the smallness of their stature is overwhelming.

Is there any hope for the future of this country? Yes, there is. This country has one asset left: the matchless productive ability of its people. If, and to the extent that, this ability is liberated, we might still have a chance to avoid a collapse. We cannot expect to reach the ideal overnight, but we must at least reveal its name. We must reveal to this country the secret which all those posturing intellectuals of any political denomination, who clamor for openness and truth, are trying so hard to cover up: that the name of that miraculous productive system is Capitalism.

As to such things as taxes and the rebuilding of a country, I will say that in his goals, if not his methods, the best economist in Atlas Shrugged was Ragnar Danneskjöld.

Ayn Rand

#### OBJECTIVIST CALENDAR

Starting on November 21, the taped lectures of Dr. Leonard Peikoff's course, Modern Philosophy: Kant to the Present, will be given in Montreal. For further information, contact Ferial Balassiano at (514) 739-2631 (8 A.M.-8 P.M.). B.W.