Can Inflation Be Averted?

By L. LEO GREENWALD

[Mr. Greenwald feels that too many Georgeists forget their fundamentals during war, and become subject to the bombast and arguments of pseudo-economists. He has therefore written the following for both neophytes and advanced Georgeists.—ED.]

INFLATION is one of those subjects about which we all talk, but of which we know too little. Unfortunately, most of us confuse inflation with its effects.

Inflation is the attempt of business to make up for non-productive expenses.

Civilization began when two or more families first co-operated. Subsequently progress and the division of labor went hand in hand. With the division of labor came trade—and trade is business. Anything which hinders business interferes with the progress of society. Conversely, anything which aids trade aids in the advancement of our civilization. Man's wants are unlimited, and it is through the exchange of goods and services that he seeks to satisfy those desires with the least effort. Business is constantly striving to free itself from the evil effects of non-productive expenses, and other restrictive influences imposed upon it. Inflation is one of these attempts. Inflation may be delayed until our present stock of commodities is exhausted, but unless the causes are completely eliminated, you can't prevent it. For like a swollen stream temporarily held in check by dikes, there will come a time when the angry waters will burst through, spreading desolation and ruin.

What are these non-productive costs which hinder business in war-time and result in inflation? They are the existence of the same monopolies which cause unemployment, poverty, demands for security during depression times. They are the monopolies with which every Georgeist has become familiar: natural resources, patents, and tariffs. The crushing impact of these monopolies upon businessman and consumer is heightened during war-time by unusually heavy taxation and increased rents.

A monopoly based upon the sole and exclusive control of raw material will result in increased costs to all users of that material, as well as in a direct or indirect increased cost of living to all. Of course, competition does tend to exert a restraining influence upon almost all monopolies. A monopoly in oil may compete with a monopoly in coal; while a monopoly in aluminum will vie with a similar monopoly in iron or copper. For rubber there is yet no satisfactory all-round substitute; the same holds for tin. But the greatest monopoly of all raw materials, that which has no competition whatsoever, is sulphur. This element is found in comparatively few places. Its control by a small group is almost absolute. It is needed in the preparation of almost every product used by man. Farm products, buildings and bridges, rails, automobiles, tires, gasoline, shoes, shirts, raincoats and socks, food, newspapers, movies, telephones, pocket knives and combs, cigarettes, matches, the new medicine, sulfanilamide—all these have the slight aroma of sulphur about them.* The oil industry, chemicals, plastics, coal products, paints, the metallurgic industries, rayon, explosives, cellulose films, and our many varied war industries use untold quantities of sulphur.

Here is monopoly with a vengeance. The prices of this element increase rapidly as it passes from extractor to manufacturer, to finished product.

The influence of monopolies in patents vary. The Bessemer Steel converter kept certain giant steel plants rolling in huge dividends decade after decade. The open-hearth and electric furnace created a competitive factor, and new steel giants rose to battle with the old. But the right of patent (as presently constituted under United States law) still kept the cost of steel products at a rate beyond universal customer use.

And tariffs, too, play their part in inflation. Country "A," highly industrial, depends to a great extent for food produced in Country "B." The imposition of tariffs between "A" an industrial country, and "B" an agricultural country, raises the prices of goods for both, increases the poverty of both. Whether a tariff is for purposes of "revenue"—and collected at a nation's point of entry, or whether it is a "sanitary license" imposed on a truckman crossing a State line in our

* For a sound analysis of sulphur, see "The Brimstone Game," by R. H. Montgomery, The Vanguard Press.

country, the price is raised, consumption is lowered, and the producer's return continually in jeopardy.† This, too, is inflation.

Speculation is another source of inflation. General speculation may cause prices to rise even though not affecting relative values. Speculation in a single commodity usually will not last long before consumers find a substitute for it. But you can't substitute anything for land, and it is significant that newspapers have reported a recent increase in the transfer of land holdings: "Purchasers feared the effects of inflation, and preferred to put their money into land." Such speculation, besides making sites such as airfields, war plants, and Army camps costly to the Government, create an inflation spiral that is uncontrollable.

Even Georgeists don't always realize that one of the greatest single causes of inflation is taxation. At least 90 per cent of all the funds raised by the Federal, state, county and city governments, and all funds of local school, bridge, tunnel, road, sanitary and water authorities are derived from taxes and tolls chargeable against labor and capital. And simultaneously rents are increased on the abutting properties.

Let's take a simple tax example: Here in New York City is a manufacturer whose annual labor costs are $20,000. His income from the business is $5000. Unemployment insurance and old-age pensions, at 4 per cent, will amount to an annual tax of $1000. Where should this come from? From the wage-earner (who will be deprived of wage increases)? From the employer? Or shall the firm sell an inferior product to make up for the unproductive expense? In some way or other, an aspect of inflation has resulted: Lower wages, lower interest, or inferior merchandise.

New York City has a 1 per cent sales tax on all merchandise except food. The average retailer nets about 10 per cent from his annual gross business. A 1 per cent sales tax, if not collected by the retailer, but absorbed in the price of his goods, will amount to a 10 per cent tax on his income. No retailer can afford that tribute. If he is forced out of business, and two or three neighboring dealers are also foolish enough to absorb the sales tax, the fewer dealers in business can raise their prices.

In "good times," like now, money flows freely. Men are working, and they want to exchange their labor for satisfactions. The greater the proportion of those working to the total number of employables, the higher will wages rise. And when wages rise, interest also rises. The manufacturer, jobber, and retailer seeing the increased wages about them feel they too are entitled to higher wages and interest, and they will increase prices.

Even the stabilization of prices by Government order is unsuccessful, as the Office of Price Administration is continually demonstrating by its fluctuating policy: what purchaser or body of purchasers can be depended upon to keep the retailers, jobbers, and manufacturers in line with a price level of a certain date? The policing is incomprehensible.

Our present industrial system with its minute division of labor would be impossible without a medium of exchange. Money plays an important part in inflation. Its degree will vary inversely with the confidence of the public. Money as a medium of exchange is a measure of present and future values, usable to exchange past and present labor for future satisfactions. The increase in the amount of money, without an appropriate increase in wealth will immediately affect its usefulness as a measure of value.

Anything which hinders trade interferes with the progress of society, and leads inevitably to the creation of black markets. Commerce and industry must be freed from the non-productive expenses of both taxes and the private monopolization of rent to survive.

Inflation *cannot be averted* by maneuvers of the Government. In peace-time or war-time, the conditions which cause financial panic are the same: Taxes and the private monopolization of rent.

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† For a more detailed study of tariffs, see "Picking America's Pockets," by David L. Cohn, Robert Schalkenbach Foundation.