The Relation of Credit To Rent and Interest

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Part 2: *The Effect of Employment and Inflation on the Rent-Interest Index.*

THERE are two forces which may temporarily counteract the effect of a rise in the rent line and the presence of an adverse "rent-interest index." Their success in so doing provides illusory solutions to the problems of the cyclical production pattern.

One force is the drawing into the active labor pool, during times of compulsive production or steeply rising costs of living, of individuals who under optimum conditions of plenty should not be working at all. A conspicuous example is currently found in the necessity of young mothers to go back to work in order to live at a happy level of consumption. The use of more workers intensifies the use of land and capital so as to increase total production and temporarily permit continued debt servicing. The upward effect of this extra exertion is self-limited by the consequent lowering of the margin. In addition land holders are quick to exploit the association of more people with particular productive sites by speculatively increasing rents where and when possible.

With rents still rising, a continuous fear of falling behind the concomitant rising cost of graceful living pervades the population. This economic anxiety, combined with disruption in proper family relations due to the need for mothers to work, can act only to aggravate the mental illness, juvenile deliquency, marital tension and other social evils so widespread in the current scene. This is a state of affairs that can hardly be described as progress.

The "Full Employment" Hoax

The phrase "60,000,000 jobs" was a bit of word magic supposed to banish the threat of depression forever. Despite our now having more than this number employed, the menace of economic distress in the near future is disturbing the thinking of all.

The success of inflation in causing temporary bursts of increased production undoubtedly depends on incerasing the labor force. The decreased capacity of capital funds to supply the tools and commodities for production due to the rising price level leads to a lower productivity that can be compensated only by extra exertion. When a pool of new workers is available, this compensation takes place.

When the labor pool is exhausted, the momentum of the increased production level must run down. Further inflation can only lead to the economic woes of runaway inflation, in which the economy is featured by full employment and a retarded standard of living.

The policy of making jobs through controlled inflation is the wages-fund theory in modern dress. The vigor of revival can be seen in the rcent request of the head of one of the labor federations for the government to provide one and a half to two millions new jobs.

That the funds to supply tools to these workers comes from the organized state robbery called taxation, and deficit financing seems of no moment to this person. But this is to be expected in these days when double standards of morality are so commonplace in American civilization.

The Balloon Ascends

The other and more important force which serves to mask an adverse "rent-interest index" is inflation, i.e., increasing the quantity of money in circulation without increasing directly the supply of civilian goods. Widespread subsidies and war expenditures via deficit financing are favored techniques for so doing.

With the expansion of the money supply it becomes easier to obtain credit for production or consumption and easier to make credit repayments. Because of price rises which accompany all money expansions, the repayments are made in currency of lower commodity value. Holders of surplus funds are thus induced to invest further in production in order to protect the commodity value of the principal. Any lag in the rise of the rent line owing to prior contracts permits the "easy-money" production and the "surplus-investment production to rise fairly rapidly. This persuades many people that a little bit of inflation is a good thing.

In time, however, the rent line catches up. Land holders acting intelligently, quickly learn to include the factor of inflated currency in their speculative anticipations. This increased rent line combined with the decreased capacity through price rises of surplus funds to provide tools for production must ultimately give a "rent-interest index" that leads to a depressed rate of production.

This new period of retarded production is called variously deflation, recession and readjustment. These generalities are useful to politicians, professors and economists for they obscure mountains of confusion and ignorance.

Governments, true to centuries-old form, then try to counteract the detrimental effects of the inflation-deflation pattern with more inflation. Here in the United States the presence of vast land resources combined with an expanding population and accumulated capital operating in a free trade area have prevented the arrival of runaway inflation such as that now being experienced in Greece, Argentina and France, but we may be approaching it.

A tight money situation is now prevailing in the investment and credit market despite production being at an all-time high for conditions not marked by all-out war. In a healthy private-enterprise economy, the greater the production, the greater should be the surplus held by individuals and available for investment. The scarcity of investment funds is a symptom on the financial level of the inability of capital and labor to reach production sites at rent costs profitable to all participants. Surpluses can or will not be invested in risky times without risk insurance in the form of higher yields. These extra credit costs can only deter production.

What's "Normal"

Pronouncements by various politicoes, professors and economic writers have already been articulated to the effect that any recession that may appear shortly is merely a downward adjustment of the economy to normal production levels. The dominant economic philosophy of today seems to have the curious concept that normal economic times exist when less than the full labor force seeking work, is at work, and less than the full associated productive capacity is in operation. They regard as *normal* for any particular period an average somewhere between crest and trough of the contemporaneous section of their graphs of production activity.

The word "normal" has a connotation of healthful and optimum functioning. The only plausible meaning to the phrase "normal economic times" is a period of expanding production when there are enough dignified employment opportunities for all who seek employment. Associated therewith is a frequent turnover of capital actuated by rapid advances in technology, and the presence of large quantities of surplus funds seeking investment. In short, normal times are "boom" times.

The present administration in attacking inflation does not seem to be taking any cognizance of the speculative rent line. A down-trend may appear if the indicated inability of capital to circumvent or compensate for the combined effects of the rent line and inflation continues. This would put the administration in the embarrassing position of being accused of having caused the slowdown.

The Pressure for Control

If the level of production goes fairly low it will win many people to the belief that only controlled inflation can maintain prosperity. Washington will then feel compelled to continue in some measure the easy money policies of the five previous administrations, while praying that any respite so achieved does not precipitate a severer downturn.

Exhortative pep talks and hyperbole about the need for confidence, salesmanship, enterprise, liberty and initiative cannot stop the inexorable working of the laws of rent, wages and interest nor counterbalance the pernicious effects of land speculation on production. When are businessmen, politicians, college professors and ordinary citizens who ask the silly question, "what state agency enforces natural laws," going to realize that the terrible crises of war, depression and runaway inflation are the natural enforcement agencies of natural laws? It better be soon!

[Look for the third and final installment in this series in the January, 1954 Henry George News.]