American Journal of Economics and Sociology, Inc.

Time and Inflation
Author(s): Frank C. Genovese
Source: *The American Journal of Economics and Sociology*, Vol. 54, No. 3 (Jul., 1995), p. 304
Published by: American Journal of Economics and Sociology, Inc.
Stable URL: https://www.jstor.org/stable/3487096
Accessed: 25-02-2023 18:53 UTC

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Time and Inflation

ALFRED MARSHALL said it was difficult to deal with economic problems that involved time. The frequently convoluted literature on interest and capital and, by extension, money and banking bears this out, both in their accomplishments and their deficiencies. A time-deficiency in banking literature seems quite important and thus, worth noting.

In banking, timing is everything. The fundamental bases upon which banks have always existed is 1) that everyone in not expected to withdraw their funds at the same time; and 2) that solvency depended on having funds, of more-or-less guaranteed sequestering for x period of time, at y cost to the bank, and loans outstanding equal to x or a shorter period of time, at a return to the bank of more than y. In other words, by matching maturities on the basis of something over costs the banks could function forever.

In discussing the operation of the economy, and even in the operation of the needed apparatus to ensure banks' continued solvency (against their natural competitive urge to blow each other out of the water, as well as poor judgment, cupidity, fraud, theft and the like) insufficient attention has been directed to the implication of changes in the mechanics or institutional nature of payment and credit mechanisms.

It has not been clearly established that every use of a credit card (or cards issued by gasoline sellers and other merchants, or "open book credit") increases the money supply. The mechanism of "third-party payment" is another factor to be reckoned with currently.

Nor has sufficient stress been laid upon the impact on prices of changes in conventional loan terms and the scope and purpose of loans. Thus it seems a reasonable contention that housing prices could not have risen as they have over the last several decades had the conventional term of mortgages remained at three to five years, which was what it was in the 1920s. (Of course, such loans were renewable, *sometimes*!) If auto sales had had to be limited in credit terms to payment within three years, the industry would have had to function in a very different milieu with quite different results.

Nor could college tuitions have climbed as they have if student loans (supported by governmental guarantees) had not exploded. But this is to get on dangerous grounds in a *Journal* that circulates mainly among academics.

FRANK C. GENOVESE

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