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Inflation Trends

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THE dollar of 95 years ago now has a purchasing value of 25 cents. The 1933 dollar is worth 44 cents. There have been only brief interruptions to this trend. Inflation appears inevitable for the future. Why?

People usually approach the fear of inflation with one of two questions: how can I avoid loss personally, or, how can we prevent inflation in order to insure a more vigorous incentive society for all?

A retired pensioner, for example a teacher, has every reason to feel that economic injustice has been done. Since 1939 his expenses have more than doubled, having risen some 120 per cent — but his pension income is fixed. Inflation is a cruel tax. It robs people of savings accumulated in life insurance, savings banks and pension funds. Why then do they fail to protest with all their might to representatives in Washington in an effort to establish a sound dollar? Probably because the average man is usually a member of some group pressing for rising prices for goods or services in which its group has an interest. His group and every other desires lower prices for the goods and services its members buy.

While inflation covers a wide base, it could be said that farmers, laborers

and the armed services have contributed most significantly to the present dilemma.

Farmers, especially the small farmers, demand high prices for their products although the more efficient farm operators keep decreasing their costs and buying more land. Where the federal payment for *not producing* was \$5,000 a year, a farm would have a valuation of \$100,000 on the government payment alone, with added valuation for the farm production. Is it any wonder that farm land continues to rise year after year? The Department of Agriculture reports that farm real estate values are now at 163 per cent of 1947-49 prices. Good farms for sale are increasingly hard to find.

Labor, which was relatively weak up to the 1930's, can exact higher wages faster than new capital and new tech-

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niques can increase productivity. Thus union leaders press employers into price rises to meet union demands—a constant upthrust into further inflation.

That the major military groups vie with each other for increasing defense budgets is well known. Now, especially, they claim the Soviet Republic is ahead of us and no one should question funds for defense. The 40-odd billions of spending compete for the nation's supply of raw materials and labor.

Our foreign aid program, which we seem to take for granted, also spends billions of dollars. The gifts to foreign governments are used to buy goods and services from us without giving us a tangible return. Business organizations interested in selling plants, products or dams abroad, favor the U.S. credits from which they are paid. As a practical measure to win the respect and good will of the world and assure peace, I believe free trade is the only sound foreign policy.

Inflation is further deepened by tariffs and quotas, stockpiling and subsidies, and FNMA loans for housing. Groups develop powerful lobbies around each of these policies to continue or expand them. Our response as a nation to the mild 1957 recession was a massive injection of government spending. Voters approved large spending programs in the recent elections. Taxes are already so high that opposition to rises is vocal. The preference means further long term depreciation of our money, though there may be delays in the shorter term.

The tug of war between spenders and sound dollar advocates in Con-

gress should make for numerous ups and downs in the 1959 stock market. Well advised investors will continue to place the bulk of their funds into assets likely to command advancing market prices to offset long term deterioration of the dollar. Should inflation give promise of galloping, companies with assets in the ground can become attractive for investment purposes. In gradual inflation, assets in the ground or above the ground have proved less significant than management's ability to increase income from operations. Growing revenues increase the dividend income, and capital increment follows.

If we are to continue permanently to improve our standard of living it is my conviction that we require the taxation of land values. Because this would remove the present penalty on building improvements and reduce the price of locations, there would be an increase in all kinds of opportunity. Australian cities have been voting, one after the other, to exempt buildings from taxation. Five recent ones report great building improvement immediately following this salutary change in the "rules" or incentives.

One of the national transportation changes which may influence business this year is the coordination of trailers with flat cars on rails. This shipping of freight is called piggy backing. It accounted for only about one per cent of rail freight in 1958, but new and lower cost techniques will increase this figure sharply in 1959. The seeds of other great developments in many areas are being sown with each day's expanding horizon. Research and development may be said to be the watchwords for 1959.