

The Bargyle



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THE DEAN THINKS

By Alexander W. Goldfinger

The Study of Economics

The United States, together with most other countries in the Western free world, is now experiencing what is sometimes called a "recession" or a "depression". Business concerns find that there is less of a market for goods and services than last year or two years ago, profit statements shrink or show a loss and millions of workers are unemployed and find difficulty in satisfying their daily wants.

In Congress and in the Executive Branch of our Government, much thought has been utilized as to what part Government may, can or must play in remedying these deplorable facts.

Millions of people daily, in their business and social life, discuss the problem of whether Government should take affirmative steps or let the economy rectify its own imbalance, whether, if Government is to intervene, it is better to lower taxes or to engage in a vast public works program.

Heated arguments are heard on all sides, and Congressional Committees have amassed millions of words of testimony of witnesses appearing before them, who advocate or oppose suggested legislation.

Many sincere people advocate the lowering of income taxes, not because the taxes, per se, are a burden or dampen incentive to produce, or siphon off so large a part of wealth production, but solely to put purchasing power into the hands of consumers. Who, they argue, will spend it and thus stimulate sales, which will create production of goods, which will require greater man-power, etc. Opponents of this argument point significantly to the fact that there is ample purchasing power in the economy not being used to buy consumer goods. They point to the statistical facts that savings of all kinds, instead of decreasing in this period of economic imbalance, are actually increasing. They also argue that this country became great and powerful with the highest standard of living in the world, not by consumers spending what they had produced for consumer goods, but by the risk-takers, the railroad pioneers, the men who risked the financing of production of goods for which there was no market—no consumers—telephones, electric lights, automobiles, radios, television, washing machines, refriger-

erators etc. They point to the fact that in previous recessions or depressions, economic conditions became better when costs of production, including rent and labor costs, were reduced so as to yield a profit when the goods sold at lower prices or because a new industry such as radio or television created a demand which had not existed, and thus absorbed an increasing part of the unemployment. They point to the rigidity of labor costs in our present condition, influenced largely by the determination of labor unions to maintain the high wages paid in unionized industries, usually requiring an increase in wages at stated periods, regardless of a commensurate increase in the productivity of labor—the production of one man per hour in units of goods. They point to the facts that for several decades the deficit spending by Government, the monetization of the mounting debt and the manipulation of our monetary system have caused an inflation of our currency which has caused prices to rise, increased the cost of living, and now when, following the pattern of previous recessions prices should be falling, they are in fact rising, and month by month the index of the cost of living rises. They argue that just reducing taxes and giving taxpayers the ability to buy more will not have any tangible effect upon the present conditions.

Those who advocate the Government sponsoring large scale public works argue that expenditures for this purpose will, not alone put spendable income in the hands of those working on such projects but will cause an increase in the production of all the machinery and raw materials used in such public works. They argue that a good part of the production of such materials is in the hands of a few big equipment, lumber, cement, iron and steel mills, trucking companies, etc., and argue that in these industries and in the public works themselves a vast labor force would be required, thus stimulating the exchange of goods and services in our economy.

Some others, who see nothing in the contemplated moves by Government intervention but the accumulation of large deficits in our Federal budget, the monetization of this increasing debt requiring the payment for years to come of "interest" thereon, and the inflation of our currency, thus reducing the purchasing value of our dollars, which seriously affect those whose savings, pensions or insurance is or will be their source

ment which will result in deficits in the Federal budget, whether by decreasing taxes or spending, will harm rather than help the economy.

Each of you has heard these arguments vehemently advocated by "the man in the street". Each one who holds an opinion as to what should be done and each one who argues for his favorite method is, consciously or unconsciously, applying economic principles. In all Nature, there is a relationship of cause and effect, of sequences and chains of causes and effects. As we delve more deeply into the study of these recurring causes and effects in Nature, and in human behavior, we find a recurring pattern emerging. Some call these "natural laws".

How incongruous it now seems to us that our ancestors tried to cure human illnesses with incantations, appeasements of a multitude of angry gods or by blood-letting? We, in our enlightenment (?) think it only reasonable to find the cause of the illness by study and the acquisition of knowledge and then treat the cause and eliminate the illness. Thus has medical science been able to practically eliminate cholera, small pox, diphtheria, and many other diseases in large areas of the world.

But in economics, the science which also embodies cause and effect and the chain reactions of the effect being the cause of another effect, etc., each individual, without study, without reasoning out the alternatives and implications of a given proposal, has firm convictions as to what "ought" to be done.

Is economics still in the state where medicine was when incantations and blood-letting were its remedies? One fact about a recession or depression becomes evident. It causes some people who have intellects to use them, to try to learn why conditions are as they are. If enough people had the curiosity to learn the answer to the "why" in our economic life, then perhaps the course of human existence would not be subject to the economic ills which now beset it.

All the answers to economic behavior are not yet known to man, just as all the answers to the cause of cancer, pneumonia, etc. In medicine, engineering, physics, chemistry, in fact in most of the physical sciences, the search for the answer to the external "why" is an incentive producing goal to many people of every nationality in all parts of the globe. But in the science which could, at least in the material sense, help man to live a full and richer life, there has not been an awakening of the curiosity which has led to the answers or the enlightenment of countless millions of human beings.

So we still have "business cycles", "booms and busts", "recessions" and "depressions". We still have the "haves" and the "have-not" nations with the animosities

and covetousness of the latter because man has not learned that in a free exchange of goods and services, the initial locus of the natural resources plays but a small part in the relative prosperity of even the "have-not" peoples (Switzerland is a good example). We still have wars, tariff barriers, threats of socialism or communism, poverty and misery, all because ignorance rather than knowledge motivates most of mankind, particularly in the science of economics.

We are not destitute of hope, however. Every bit that man has learned about this world in which we live came after centuries, sometimes eons of time, and because man is different from the animals in having a brain capable of reason (tracing cause and effect) and because man by the use of language and books is capable of learning by the experiences of all those who preceded him, we can expect that by gathering data as to man's economic behavior, by tracing causes and effects, eventually our progeny will live in peace and harmony with their fellow-man and will enjoy the bounties of earth and their own toil by applying the economic principles which will be most beneficial.

THE NEW CARS

It is a bit surprising that in all the discussion about the disappointing sales of the 1958 cars not much mention is made of the fact that possibly the manufacturers are putting out a product which is not satisfactory to the public.

Not only are the automobiles these days too long, too difficult to get into and out of, too easily damaged, and gas eaters, but their mechanical and riding qualities leave much to be desired. Invariably, the new car owner is recognized by his hangdog look as he complains of the defects in his car. It has taken friends of the writer from five to seven months to have their cars put in the shape they should have been when purchased. One of them suggested that the thing to do with a new car as soon as you get it is to take it to a good mechanic and have him put it in running order. No doubt if this keeps up, soon some of the more enterprising garages will have signs in their windows, "Bring your 1958 car to us. We'll make it run as good as the old one."

And when one mentions the "low priced three" he is quickly, sometimes violently corrected, and advised that the more accurate nomenclature is the "high priced three" as they simply do not produce a satisfactory low priced car today.

With so many complaints being heard on every side about the workmanship in the cars, the high initial costs, not to mention the maintenance costs, it is not surprising that people are reluctant to buy them. They would not be exercising ordinary common sense if they simply ignored these facts.

As for me, I'm convinced. I'm buying me a foreign car. O.B. Johansen

Letter to Editor and Reply

Mr. Gleason Densmore of San Francisco, Cal. writes: Re the "Price of Gold" by O. B. Johannsen: As a practical fact gold is NOT money in these U.S., for by the Gold Reserve Act it became the sole prerogative of the Gov. to own, possess and offer in exchange any gold in excess of 1/7th of an ounce.

In considering the question of money it must be remembered there are five types of money: (1) Standard money, usually gold or silver. This is sometimes called "commodity money" (2) Representative money; certificates that a certain amount of gold or silver are on deposit with the government with the implication that the gold or silver will be surrendered in redemption of the certificate. (3) Credit money; engraved paper promises to pay standard money of representative money on demand. (90% of all money in U.S. is credit money.) (4) Token money; metallic coins which are exchangeable at a value in excess of the value of the metal in the coin. (In relation to this it is interesting to note that our penny and nickel has a smooth edge while the dime, quarter, half and dollar have knurled edges to discourage clipping.) (5) Fiat money; paper money that has no promise to pay any other type of money or any means of establishing the value thereof.

Mr. Johannsen errs when he states "the paper is not money." Under Art. 1, Sec. 8, Congress has the power "To coin money, regulate the value thereof and of foreign coin, and fix the standard of weights and measures; ..." By virtue of that authority there appears this printed statement on U.S. currency, "This note is a legal tender at its face value for all debts public and private."

The purpose of money is to avoid the disability of barter, and since it involves rights and duties it is a legal matter; hence by that notice of legal tender on U.S. currency it becomes U.S. money.

There is error too in the statement that our Government is free to print as much paper as it wishes. It is bound by the amount of silver it can buy for monetary purposes and by its debt ceiling.

The greatest point of inflation was missed, and is missed by almost every one: inflation is a way of defeating land speculation! Suppose you make 100% on a land deal and get cash, (an unusual situation) what to do with the money. If you buy more land you will have to pay an inflated price for it; commodities the same. If you hold it the money loses value and your speculative profit is lost. Land value taxation is the only answer to inflation just as it is the answer to most of our economic ills.

Reply

In answer to Mr. Densmore, may it be pointed out that people and only people make a thing money, and they do it by using it as a medium of exchange. The fact the government forbids the use of gold makes it difficult for the people to use gold internally. However, the fact that

the government permits foreign central banks to redeem their dollar holdings in gold shows only too clearly that gold is money. If gold were not money, the government would not bother holding all that gold it has in its vaults nor be prepared to give the foreign governments the gold for the dollar credits they hold.

Mr. Densmore lists the so-called five types of money. This is the nomenclature usually given to these types of media. The writer feels that is where some of the difficulty enters in dealing with money. The word "money" must have a definite precise meaning, just as the word "wealth" must have a precise meaning. The fact that most people call land wealth has led to all kinds of confusion as Henry George pointed out. Mr. Densmore lists standard money, representative money, token money, credit money, and fiat money. That is all well and good but what does he mean by the word "money"?

The fact that governments make certain things legal tender, usually paper, does not make them money. If it were that simple no government would have any trouble with money. The fact that the government uses its monopoly of coercion to force people to accept such paper in payment of past debts does not mean that future debts will be so paid. The most the government can do is to accept its taxes in such paper, but for transactions between people if they will not use the paper, exchanges are simply not made. Barter, or some other medium of exchange is used.

As explained above, legality has nothing to do with whether a thing is money or not. People and only people make a thing money, not governments.

This writer did not say the government could print unlimited amounts of pieces of paper, although it practically amounts to that. The amount of silver it purchases does not limit it, nor does the debt limit it. What limits it primarily, at the present time, is the number of gold certificates due the Federal Reserve Banks. These Banks can issue four times the amount of gold certificates they have in the form of Federal Reserve Notes, or in the creation of demand deposits. However, this limitation can be changed by an act of Congress. It was changed in 1945. At that time, they could issue only 2 1/2 times as many FR Notes or demand deposits. When the amount was getting close to this limitation, they changed it to four times. No doubt, when the Reserve Ratio as it is called approaches 25%, they will have it changed, maybe to 10%, maybe 1%. If the ratio is 1%, they could issue \$100. in Federal Reserve Notes for each \$1.00 in gold certificates.

Inflation, of course, is as Mr. Densmore points out a means--a poor one--to defeat land speculation. As most rentals are on a contract basis, some of them long term, if you inflate you can pay your contract rent much easier. However, landlords soon wake up and insert all sorts of conditional clauses to take the inflation into account.

JOSEPH L. RICHARDS

DIZZY DICTIONARY

has carried the torch for many years, since 1909, at which time a provocative poster on the Henry George principles caught his attention. From that day to the present he has been active in the work.

Having graduated from Dartmouth College and University of Michigan Forestry School, he made an investigation, in 1916, of the general property tax on woodlands of New Hampshire.

During this time, he met the author of "People, Land, and Taxes." Mr. George H. Duncan. Together, they were active in Henry George work in New Hampshire; and in starting the Boston extension of the Henry George School. He was later part time Executive Secretary of the Extension until its growth made it possible, in 1948 to install Mr. Archie Matteson.

Mr. Richards has taught classes in the fundamental course; and gave chalk talks on Forest Taxation, organized the Boston S.A.G.E. and the Taxpayers Alliance of New England. He has lobbied for Henry George constitutional amendments before the Massachusetts legislative committees; and against sales and withholding and non-resident income taxes.

He has contributed articles to the HENRY GEORGE NEWS - did you note his discovery of a hitherto unknown letter, written by Henry George, published in the March 1958 issue? He is also active in writing letters to the press and would like to ghost, in the Boston papers, for people living outside New England in order to raise the amount of printed attention.

Mr. Richards, and his wife, Eleanor, have a son and daughter, both of New Hampshire.

He has a long string of accomplishments in the Forest Service, in research, in the Bureau of Plant Industry, and in his own business as Arborist and Forester.

In his communication to us, he enthusiastically recommends that we read Oragie on "Sales Tax vs. Land Tax."

Virginia Harvey

"Here are words with meaningless meanings fit for folks who like foolish fanciful sillies to color their vocabularies. They won't improve your intellectual standing but they will tingle your funny-bone.

When you spring them on your friends you may be the life of the party, but don't take our word for it!" - So writes Miss Dorothy Sara - and we will publish some of them in this issue and the remainder next time:

EXPERT - A mechanic away from home.

BOARDER - Sometimes he's only a rumor.

ALIMONY - Taxation without representation.

WOMAN'S TEARS - Waterworks that turn a man's mind.

HUSBAND - Only band that plays a solo.

AGED MILLIONAIRE - Has checks appeal for the ladies.

WOMAN - Wo (wee) added to man.

RHUMBA - Flip of the hip.

STRING OF FEARS - Bruised oyster's contribution to necks appeal.

AEROPLANE - Man gives horse-laugh to the bird.

STORK - Delivery service with a long bill.

PERFUME - Costs you dollars for only a scent.

MAESTRO - Band leader in need of a haircut.

COURTSHIP - The only vessel with two mates.

SUMMER - The interval between a spring and a fall.

PEACE - Season between wars.

GENTLEMAN - One who is only rude intentionally.

TEMPERAMENT - Is what you have; in the other person it's TEMPER.

ROMANCE - The ingredient of spice which seasons life.

DIPLOMAT - His vocabulary excludes "yes" and "no".

CORN - Keeps a chiroprodist well fed.

SWEATER - When worn by her it raises his temperature.

TRAILER - Covered wagon gets streamlined.

You will have to wait for the rest until September - next issue THE GARGOYLE

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