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The entrepreneur

A Newsletter of The Center for Private Enterprise Education

Harding College Division of Business

Economics Students' Project presented "Award for Excellence"

A 150-page book developed by an army of one hundred twenty Harding College economics students as a free enterprise education project, has become the object of the Arkansas State Chamber of Commerce "Award for Excellence" in civic betterment. **Locating in Searcy, Arkansas — Facts for Business and Industry** *is the result of 1,000 student hours put in on a project organized by the Economics Team. Now in its second printing, we have received reports that such a thorough publication is seldom found, even in a metropolitan area of 500,000 people.*

Perhaps the following quote from the editorial in the local paper, The **Citizen**, *says it best. It's entitled "Another Bonus"*

"We have just finished perusing the remarkably complete and well prepared survey of 'Facts for Business and Industry' prepared for the Searcy Chamber of Commerce by The Center for Private Enterprise Education. It is a quality effort in all respects and calls attention again to another of the cultural benefits to Searcy from Harding College, parent of the Center.

"The students did it at very little cost and that is a significant contribution to all the people who will get jobs from the new industries attracted and all the people who will have need of any part of the information now made available.

"Without the college and without such contributions, Searcy would be a far less desirable place to live. We have just received another bonus from having the college available to us."

This is just one of the many good things that has happened along the way to bring Searcy and Harding closer together. This new informational guide will be a big factor in recruiting a proper mix of people and industry necessary to aid the Chamber to move Searcy forward as a thriving rural center of commerce and agribusiness.

Let's Face the Facts on Inflation

by The American Economic Foundation

If you are an average citizen, you are, according to the polls, unaware of the basic causes of inflation and high prices.

You have every reason to be, because the average citizen did not go to college and the basic laws of economics have not been taught in our high schools.

If you tried to learn about these things on your own after you finished your formal education, your confusion has been compounded by the conflicting statements of our politicians in government, special interest groups and the self-appointed authorities whose writings appear in leading newspapers. The net result is that you have gotten the cause of high prices all mixed up with the effect.

If the truth is not made plain, and if the policies that cause high prices are not understood, there is the great danger that the American people will start demanding anti-inflation miracles from their politicians. In the field of economics, there are no miracles.

If we stay with simple fundamentals, we do not have to be political scientists or economists to understand what has been going on. We merely need to discard the ten-dollar words and the technical phrases that are now hiding the truth from us.

The truth is that prices are high for a very definite and simple reason, and no political party will do very much about it until the average citizen understands the real cause of inflation and demands action.

Too Much Money . . . Too Few Goods

We must think of inflation not in terms of results (increased prices), but in terms of the cause (increased supply of money).

The story of our present inflation starts in the 1930's. At that time the Federal government announced a policy

This issue courtesy of Mr. Steve Phillips, Phillips Lumber Co., Inc., Dallas, Texas

of driving up sluggish prices. There are only two ways of doing that: creating a scarcity of goods or creating an abundance of money through deficit spending.

First the politicians tried to drive up prices by devaluing the dollar against its gold reserves. Then the idea was to increase prices by having the government spend more money than it had: that is, *to create new, unearned money through the banking system, add it to the money already in circulation and thus raise prices by reducing the purchasing power of all the money.*

The method of creating this extra money was well stated by former Secretary of the Treasury Robert B. Anderson. He described the process this way:

"Now suppose I wanted to write checks of $100 million starting tomorrow morning, but the Treasury was out of money. If I called up a bank and said, 'Will you loan me $100 million for six months if I send you over a note to that effect?' the banker would probably say, 'Yes, I will.'

"Where would he get the $100 million with which to credit the account of the United States Treasury? Would he take it from the account of someone else? No, certainly not. He would merely create that much money, subject to reserve requirements, by crediting our account in that sum and accepting the government's note (debt) as an asset. When I had finished writing checks for $100 million, the operation would have added that sum to the money supply.

"Now certainly that approaches the same degree of monetization (creating money) as if I had called down to the Bureau of Engraving and Printing and said, 'Please print me up $100 million worth of greenbacks which I can pay out tomorrow.' "

Private Sector Credit Expansion Not Problem

The people can also contribute to inflation. For example, the commercial banks could easily create some new money for you or me. All we need to do is to take to the bank something of value and pledge it against a loan, or buy something with a credit card.

The banks gives us a line of credit and the money supply of the nation is increased by the amount of our debt to the bank. This new money is just as real as if it were paper or metal money.

This new extra inflationary money created for our private use is short lived: it disappears from the nation's money supply as soon as we pay our debt to the bank. But the extra money created for government stays and stays and stays.

Faulty Cause and Effect Reasoning

The point most often forgotten is that high prices do not cause the issuance of this money: *it is the issuance of this money that causes high prices.*

The reason that this extra money increases prices is that it does not represent the production of any extra goods or services for which the money can be exchanged; the people simply use more dollars to produce and exchange the same quantity of things.

We hear demands from some quarters for some sort of political or economic magic that will bring back the purchasing power of the dollar without reducing the number of dollars in circulation.

This wishful thinking ignores the fact that the flood of new, unearned money has forced each citizen into chasing his own tail in an endless effort to keep his wages or income abreast of living costs, and that a great part of every raise or increased income he got was almost immediately taken from him by still higher prices.

These higher wages are called "social gains" and the higher costs are called "greediness of the selfish interests."

As it happens, neither of these definitions is true. It is simply the inevitable response to cheap money.

Wage-Price Inflation Follows Gov't Inflation

One of the most frequently asked questions is: *What is the reason that prices rise every time wages and salaries rise?*

The reason is that the selling prices are practically the same as wages and salaries.

Let's suppose that payroll and other benefits become 10 per cent higher.

Where would the money have come from? You can answer this yourself — it would have come from the customers.

And where would the customers have gotten the money to pay it? Most of it would have come from the corporations, because most of the customers are the same people who receive the payroll and other benefits.

Thus we see the complete pattern — we get paid money for producing, and we use it to buy what we have produced. If we *get paid* more for a given volume of prodcution, we have to *pay out more* when we buy it.

That is called wage-price inflation which follows government inflation.

To be realistic, we must face the fact that when any substantial increase is made in wages, without a corresponding increase in hourly productivity, prices will go up.

It follows just as surely as night follows day.

Resultant Wage-Price Spiral Feeds on Itself

The basic trouble is that we have pumped billions of dollars of stage money into our economy and have sought desperately to avoid the inevitable penalties of its presence.

The government started out to inflate prices and that gave organized pressure groups a rational foundation on which to base demands for increased income. The demands which have accelerated the upward price spiral are not limited to people in business, but include pressures for higher government payrolls because public employees must also pay higher prices for what they buy.

The *"forgotten ones"* in this whole procedure are those on fixed or near-fixed incomes, owners of savings accounts, life insurance, Federal savings bonds, and millions of people trying to live on pensions and annuities.

Government, Business, Taxpayers Affected

In addition to the high cost of living, inflation creates three other problems.

One is a government problem.

Government has to spend billions of dollars for many things such as airplanes, missiles, etc., that take a long time to build.

When inflation is going on, the cost of these things goes up *between the time the money is appropriated and the time of completion.*

The original budget is not enough.

This extra money must come either from more taxes or from the creation of more unearned money through the banking system, thus adding more inflationary fuel to the fire.

The second is a business problem.

Inflation has made it enormously difficult for corporations to replace their obsolete or worn-out equipment.

The reason is that the law permits business to set aside for the replacement of assets only an amount equal to the original purchase price.

If you had a $10,000,000 plant that was 20 years old and had to be replaced, you would have only ten million tax free dollars with which to do it.

Assuming that the new plant would cost at least $20 million, maybe a lot more, you would have to get the rest of the money out of profits (if you could) after paying as much as 48 per cent Federal tax.

In other words, the replacement of your $10 million plant would require that you collect about $30 million from your customers instead of the $10 million that would have been the case without inflation.

To assure understanding let's restate it.

You would have the $10 million allowed by depreciation.

You would have to get the other $10 million by collecting from the customer about $20 million of before-tax profit, about half of which would be paid to the government.

So, as far as the customer is concerned, he must, because of inflation, pay you $30 million to enable you to replace your plant, the original cost of which was $10,000,000.

Naturally, your prices will have to be higher.

The third is a taxpayer problem.

As wages increase in an attempt to keep up with the higher prices caused by inflation, the wage earner finds himself in a higher tax bracket under our progressive income tax system. As a result, he keeps a smaller percentage of each pay raise. For example, under present tax laws a family of four earning $10,000 a year and taking a standard deduction pays $446 in Federal income taxes. If family incomes increases 7 per cent the following year, they would pay $575 in income taxes — an increase of 29 per cent.

Strange Numbers Game of Price Controls

There are still many ignorant but optimistic people who want to keep prices down by law; who want to control prices by freezing profits and wages.

What they really mean is that they want to control the *price tag on the product*, which is a very different thing from controlling the *cost to the customer.*

There is nothing unique about the predicament in which we find ourselves.

Since the beginning of recorded history, governments have been cheapening currencies and then trying to avoid the consequences by passing laws against high prices.

The modern punishments for black marketing are nothing compared to the historical methods used by desperate governments in their efforts to keep prices from going up as the money supply went up.

The histories of Egypt, China, Turkey, Assyria, Rome, England, and Colonial America will bear testimony to the impossibility of repealing the law of currency inflation.

It would seem that the earlier types of punishment would have been effective, because they included nailing the offender's ear to his own door, amputation of hands, skinning alive, tearing in two, boiling in oil, branding and exile.

But the laws of human nature and the laws of economics change for no government.

It would be childish to pretend that we have not violated the law that controls prices, and it is more than childish to believe that we can avoid the penalty of high prices.

The *basic* cause of high prices is the whopping amount of new, unearned money that has been pumped into the economic system.

When we stop *this*, we will control inflation.

ENTREPRENEUR'S CREDO: "I do not choose to be a common man. It is my right to be uncommon . . . if I can. I seek opportunity . . . not security. I do not wish to be kept a citizen, humbled and dulled by having the state look after me. I want to take the calculated risk; to dream and to build, to fail and to succeed.

I refuse to barter incentive for a dole; I prefer the challenges of life to the guaranteed existence; the thrill of fulfillment to the stale calm of Utopia. I will not trade freedom for beneficence nor my dignity for a handout. I will never cower before any master nor bend to any threat.

It is my heritage to stand erect, proud and unafraid; to think and act for myself, to enjoy the benefit of my creations and to face the world boldly and say: This, with God's help, I have done. All this is what it means to be an Entrepreneur."

Courtesy of International Association of Entrepreneurs

Sound As A Dollar (?)

by Dr. Donald L. Kemmerer
Professor of Economics, Emeritus
University of Illinois

Today if your doctor says you are as "sound as a dollar," you have reason to worry.

The dollar's "soundness" is its ability to keep its buying power over period time. Put another way, if most prices are continually rising, the dollar is not sound, any more than your health is sound if your body temperature goes up and up and up.

We see this price inflation all around us: the once 5-cent cup of coffee is now 35 cents; the once 3-cent postage stamp is now 15 cents. What it cost $1.00 to buy in 1932 now costs about $4.50. What it cost $1.00 to buy in 1967 now costs about $2.00.

Politicians, journalists and economists of differing schools of thought offer many reasons for this price inflation; but one cause common to virtually all inflation towers above the rest. That is an excessive rise in the quantity of money and bank deposits.

Economist Carl Wiegand points out for example, that the U.S. money supply grew by 78 per cent between 1971 and 1976 while the output of goods and services rose by only 18 per cent. One should not be surprised that the price level grew by an in-between figure of 50 per cent.

Why then does the Federal government print too much money? Because the Federal government pays out each year more than it takes in in taxes and can borrow on terms that it considers acceptable.

So they authorize government expenditures in excess of income and create inflation. The dollar's loss of buying power in the decade from 1967 to 1977 was almost as great as its loss during the Civil War or during World War I, and was worse than during World War II.

Why can't we keep the dollar "sound" — that is, maintain its purchasing power? Because we have given up the only meaningful restraint on government spending that this country, or for that matter any other country, has ever devised — namely making the dollar convertible on demand into gold.

The world's supply of gold is limited. It increases only at the rate of 3 per cent a year, about the same as the rate of increase of goods and services. Maintaining the convertibility of paper dollars into gold on demand, as was done prior to 1933, tends to set an upper limit to the growth rate of the supply of money and bank deposits.

The United States operated under the system called the Gold Standard most of the time between 1834 and 1933. In that year we abandoned all but a few remnants of it. Whatever remained of the Gold Standard we got rid of in 1971.

It's true, the Gold Standard did not provide a perfectly stable money. Fallible humans probably never will achieve that. But it did give us a far more reliable money than the paper money system we have been using since 1933, and especially since 1971.

The Gold Standard was long regarded as the best money system man had ever devised. It's obvious that since World War I economists and politicians have given us a worse system — witness the price inflation the change has brought us. Isn't it time that we returned to the more dependable Gold Standard, and freed ourselves from the ever-increasing pains of a chronic price inflation?

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