

TENTMAKERS

Financial Counsel for Pastors, Deacons, and Seminarians

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RECESSION, THEN REINFLATION

by Gary North

Herbert Hoover coined the term used to describe the economy in 1932: **depression**. He thought it sounded a lot better than "**panic**." Now the very threat of a depression can cause a panic. It doesn't always make things better when you think up a new word to **hide** the crisis.

Recession is the word used in the post-World War II world. A recession signifies any economic slump that is less severe than the 1930's. Officially, it is defined as "two consecutive quarters marked by falling GNP." The non-profit, independent National Bureau of Economic Research has been awarded (by someone or other) the right to announce, in retrospect, when we have had a **recession**. The NBER looks at the **Gross** National Product statistics to **figure** out if the definition applies.

Recessions are dismal times for charitable organizations. **People** believe that charity begins at home. They have almost no concept of the required tithe to God. Our era is very much like the era of Malachi's day, when men stole from God with impunity, never understanding that their failure to pay their tithes constituted theft from God. Not many people would accept such a doctrine today, including a lot of pastors. Therefore, when recessions come, church budgets and other charity budgets begin to sag, usually more than the incomes of their supporters have sagged.

Fear is one reason. People read about hard times, and they begin to fear for their jobs. Salesmen and other economy-sensitive workers feel the pinch before salaried people do. Any church which has a high percentage of non-salaried people on its rolls can expect trouble during a recession. As **people** become convinced that their income may dry up, they start a crash savings program—the kind of program Christians should be on all the time. People slash expenditures, and charities get hurt.

One reason why pastors and Bible teachers should be preaching the tithe and family thrift all of the time is so their parishioners get **used** to giving the tithe, in good times and bad. When things do **well**, the charities' income increases, and they can put money aside for the tight-money periods. They should recommend the same procedure to the members. Then, when the economy tightens, both the churches and the members have reserves to get them through the hard times without panic.

Cutting Back

Men should be sensitive to shifts in the economy. They are responsible for their own economic decisions, and ignorance can be very expensive. **There** are numerous signs that the U.S. economy is heading into a recession, along with the rest of the free world economies. Tight money has combined with the universal psychology of inflation to produce record high interest rates. Businesses have expanded, using borrowed money, in order to hedge against further price inflation. Now, however, the Federal Reserve System, our nation's central bank, is pursuing a tighter-money policy. The FED is not buying up U.S. government securities, and therefore it is not injecting fist money into the economy at the older, higher pace. This means that the government has to borrow directly from the public, which pulls money

out of the private capital markets. Interest rates skyrocket, and only the biggest and most credit-worthy companies can find the money they need for expansion—or **even** more operating expenses.

The interest rate is the price for money. It goes up when the demand is high and supply is low. Rates will drop when demand for money fails. Demand for money traditionally falls when private businesses give up, pull out of the credit markets, and start cutting back on projects. In other words, tight money pushes up interest rates because some companies and individuals continue to borrow as if a boom were still in progress, and then the economy falters. Then **people** begin to face up to the new economic conditions, pull back, and stop borrowing. Interest rates then fall.

A drop in short-term interest rates will signal the coming of the recession. You can check these rates by looking at the figures for money-market funds, published each Friday in the *Wall Street Journal*. Or you can subscribe (free of charge) to *U.S. Financial Data*, a weekly booklet published by the Federal Reserve Bank of St. Louis (P.O. Box 442, St. Louis, MO).

When interest rates, especially short-term rates (90 days or under) begin to fall, start getting ready for reduced giving. In fact, begin preparing immediately. You can expect a recession in 1982. You can also expect continuing high rates, until the FED starts buying up Federal government debt. This means that a sharp drop in short-term rates probably will not occur. The rates will stay high, but there will be some reduction, as private borrowers quit. Sooner or later, 20% prime rate expanses will convince businessmen to pull out and cut back.

High rates reduce business opportunities. A business might borrow at 15%, if a profit potential warranted it, but at 20%, all those opportunities that would have looked good at rates under 20% now look impossible. The higher rates go, the more opportunities businessmen will abandon for the time being. This will affect small businesses even faster, since they are not credit-worthy when rates get this high.

Consumers face the same reality. They tend to reduce debt levels slightly in a recession. They are up to their ears in debt, so this means that they have to cut back on new expenditures. They may try to pay off old debt, but the average family's budget generally won't tolerate rapid repayment of old debt. So it's a process of attrition. Money that might have been given away now goes to debt reduction, or to buy items that would otherwise have been purchased by an increase in family indebtedness.

If church members are not convinced that the first 10% of their income should go automatically to the church or charities, then they will be tempted to place debt reduction higher on their value scales than charitable giving.

The Church's Response

If businessmen have to cut back, and consumers face the same problem, what should churches do? The dollars coming in to the collection plates may be increasing slowly, but the purchasing power of the total income stream will very likely take a

dip. If this happens, what is the church's best approach?

First, preaching **should** be aimed at helping people to have confidence in their own abilities. Hard-working, morally upright people are still a scarce commodity. There is still demand for the services of such people. They should be encouraged to continue to work hard, and perhaps even harder.

For those working on commission, hard work sometimes is insufficient. The market has simply dried up. These people should be counseled not to panic, but to cut their expenditures to the bone. Deacons should find out if there are people who need spatial counseling on how to cut family budgets. Perhaps the wife or teenage children have grown accustomed to the high income of the father. Deacons should work with the other family members to explain the realities of financial self-discipline.

This may be the time for deacons to establish a church **co-op** buying service, to help families reduce total expenditures. The church needn't run it, but deacons as individuals could direct it and get it started, if no one else can do it.

For those few people who have lost their jobs, the deacons must be ready to offer job-hunting counseling. They must see to it that the unemployed person is constantly searching for work, mailing resume's, and so forth. If the church has a photocopying machine, reproducing resume's might be one use it could be put to. The important thing for the unemployed person is to know that he is doing all that is within his power to find work. He needs people to show confidence in him. He also needs others to know that he is doing his best to find work.

This is also the time to begin to preach the moral requirement of the tithe. God's warning to those who refused to build His temple also applies to non-tithing Christians: "Ye have sown much, and bring in little; ye eat, but ye have not enough; ye drink, but ye are not filled with drink; ye clothe you, but there is none warm; and he that earneth wages earneth wages to put into a bag with holes" (Hag. 1:6). The very self discipline of budgeting for a tithe is transferred to budgeting for everything else. Men make fewer mistakes with their capital.

Men should be warned in times like these against the pitfalls of debt. Their debt obligations swell in relation to their fears and perhaps even in relation to their actual income. They create traps for themselves by borrowing heavily in boom periods, on the assumption that the boom period is normal, and that bust periods never come. The farmers of the world have done this for millennia, and the result is familiar: bankruptcies.

The Food Problem

Churches in rural areas will feel the pinch in 1982. This may be the worst crisis facing America's farms since the depression of the 1930's. If the market price of raw farm commodities drops further, we will see massive bankruptcies, yet there is a very strong possibility that prices will fall, as farmers liquidate the last remaining overhang of stored grains. Those selling products to farmers are already feeling the recession in agriculture.

I realize that not one church in a hundred—perhaps in a thousand—will take the following bit of advice, but here it is. Farm land prices are dropping. By next summer, there may be a real rout. Sometime in 1982, it would be wise for churches to buy up farm land for cash (and negotiate a lower price whenever you offer cash). Buy a few acres, and then make a deal with the farmer to sharecrop it for, say, one-third of the crop.

Buy land that is on the highway, so that ~~the church can~~ get access to it if necessary. At the very least, get access to the road. Land off the highway should sell for less, obviously. There is more of it. The church then has a hedge against the almost certain rebound of agricultural prices. It has taken out an insurance policy against mass inflation, which **should** begin in 1983, as the FED starts pumping money back into the economy.

As soon as the FED starts pumping in money by purchasing Federal debt, start looking for rural property. Urban churches should work with like-minded rural churches, so that the rural church can purchase land for both. Offer a commission at say, 20% of the land to the rural church for locating good farm property. Especially desirable is land that has been farmed organically, and land that grows several crops, including an orchard. Mono-crop agriculture is more vulnerable to nature's pests and the greater pests: Federal bureaucrats.

The churches should begin looking to the future. They should see what comes when nations inflate their currencies. Traditionally, agriculture becomes **unprofitable**, and farmers start hoarding crops, selling them "under the table" and bartering crops for "real goods" instead of depreciating cash. Urban dwellers are the ones trying to get food for money. There is a pattern in history for wealth to flow toward the cities for generations, and then, in crises, the stored-up wealth (heirlooms, pianos, jewelry, and cash) in panic moves back to the food producers in rural areas. When the FED starts pumping in money, it will be time for urban dwellers to start hedging against this disastrous reversal of the direction of the flow of wealth.

One important service that **parachurch** organizations or denominations could perform would be to provide churches with an opportunity to pool their assets and buy up farm property. I am especially partial to farms specializing in produce—vegetables, fruits, and potatoes—since these crops are less easily controlled by Federal administrators. Farms in the Ozarks **WOULD** be good, because of the central location nationally, but in Virginia or the Carolinas there are good farm areas. The organization could find young families without capital to come in and work the farms for 70% of the crop.

However, this probably wouldn't work for most churches, since they couldn't be sure of the management of a distant farm, unless a trustworthy local rural church would supervise the operation. So we are back to the food storage solution: individual families buying food. It's expensive looking, since each family member is being supplied with a year or more's worth of food—a one-time cash outlay. But it is a critically important solution.

I receive no kick-backs, nor does ICE. I offer advice. Two outfits operated by Christians can provide details on food storage. I list both, so that no one thinks I am favoring a particular company.

Simpler Life Foods
P. O. Box 866
Hereford, TX 79045

Twelve Baskets Distributors
10021 Main St.
Bellevue, WA 98004

Expect to pay at least \$1,000 for an 18-month supply of food (1,750 calories per day, 96 grams of protein per day, two dozen foods) for each family member. If families can't do it, then the deacons should begin. Simpler Life offers a "Bronze Unit" for \$964, plus freight, which includes \$400 worth of vitamins. Inquire about the "ICE Tentmakers Special." Begin preparing people mentally for the mass inflation that lies ahead.

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