

FREEMarket

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DO CAPITALISTS PREY ON THE POOR?

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For lack of a better term I am dubbing it Woods's Law: whenever the private sector introduces an innovation that makes the poor better off than they would have been without it, or that offers benefits or terms that no one else is prepared to offer them, someone—in the name of helping the poor—will call for curbing or abolishing it.

Consider the Brookings Institution—that scion of the “moderate” left. It released a report that condemned rent-to-own stores for allegedly preying upon the poor. Wire services and local media have followed up with other reports on industries that supposedly prey upon the poor (“preying upon” evidently meaning “offering a service no one else was providing”). Their usual trope is to denounce these stores for the allegedly exorbitant payment structures that they charge their customers.

These denunciations suffer from two major flaws. First, much of their anecdotal evidence points not so much to the wickedness of rent-to-own stores as to the silly and irresponsible spending patterns of people who should watch their money more responsibly—a character flaw for which these stores are not to blame. Second, they fail to acknowledge the indispensable service that these stores provide to poor people with bad credit histories who cannot acquire the substantial items they need on any terms anywhere else.

Rent-to-own stores work as follows. Customers can rent merchandise for the short term—as little as a week—or they can rent into the longer term by making monthly payments. Once a customer completes his contract with the store, which typically runs no longer than 24 months, and sometimes even 12, the merchandise becomes his. (He also has the option of buying the product for less at any time earlier in the contract.) Merchandise is delivered free within 24 hours, serviced for free while the customer is making payments, and is replaced if it should break.

The *Buffalo News* tells us the story of Nicole Hennegan, who bought a used 36” color television from a rent-to-own store. Her monthly payment was \$80. After she missed her fourth payment, the television was repossessed. As if this weren't unjust enough, had she continued to make the payments she would have wound up paying over \$900 for a set that would have cost her \$300 at a retail store.



Before getting into the economics of all of this, a good question might involve why the family needed a 36" color television when it was obviously so financially unstable, or why Ms. Hennegan was spending her limited income so irresponsibly.

When I was young, our TV couldn't have been more than a 10" black-and-white, and that was what we had until my family became financially stable enough that purchasing a larger one became a sensible decision. Any large electronics store today can furnish you with a good 13" color TV for less than one of the monthly payments Ms. Hennegan assumed for her much larger TV—a TV that, until about five to ten years ago, hardly anyone but the wealthy or the merely ostentatious would have owned.

Since self-described advocates for the poor typically treat them as helpless imbeciles incapable of making sensible decisions or doing just about anything, we have to pause to consider the litany of objections to my 13" television scenario. Now if these points seem patronizing or insulting—as indeed they should to any self-respecting poor person—bear in mind that it is the left-wing excuse factory, not me, that comes up with them.

1. Ms. Hennegan may not have had a large electronics store nearby.
2. She may also not have had a car, or any friends who had a car, or any friends who had a car and who knew how to get to an electronics store.
3. She couldn't have used public transportation, though it is not exactly clear why not.
4. She couldn't order the product online, since she lacked Internet access.
5. She knew no one who had Internet access that she could use for 10 minutes.
6. She was also unable to go to the public library, where Internet access is available for free. She could not use public transportation to get to the public library; see #3 above.
7. Even if she could have ordered the television online, she couldn't have purchased the television because she lacks a credit card.
8. You don't need a credit card to order merchandise from Amazon.com—just a checking account—but she couldn't order the TV there because, well, she just couldn't.

In spite of all this, Hennegan is portrayed in the story as a helpless victim rather than a responsible adult who made a stupid decision that is no one's fault but her own.

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Mary Hayward wanted to buy a dryer and a computer for her 17-year-old granddaughter, and agreed to a \$184 monthly payment for both. Naturally, she will wind up paying much more for these items over time than she would have paid at a retail store had she had cash or modest credit. “It makes me feel sick,” she complained. “They’re terrible. They’re charging too much.”

A Best Buy circular that just came in the mail features a new \$300 eMachines desktop with an Intel Celeron D processor 352, 256MB PC3200 DDR memory, 100GB of hard disk space and double-layer DVD±RW/CD-RW drive—in other words, a stupefyingly more robust computer than anyone in the 1980s, when I was growing up, could possibly have imagined, much less owned. The \$300 also includes a flat-panel monitor.

If you can afford rent-to-own payments, why not save up your money for a few months instead, and then buy a system like this? People got by just fine without computers for more than 99 percent of human history, so waiting 90 days to save up for one is unlikely to lead to anyone’s premature death. Is it really so unreasonable to expect adults to make simple decisions like this, or to demand that they make themselves at least minimally informed?

Thanks to rent-to-own stores, the poor are able to acquire household items that in some cases no one, rich or poor, could have had even a generation ago, and on terms that no one else is willing to extend to them. That must count for something, right?

“Activists” don’t see it that way. “You’re stuck paying \$20 a week, and by the time you’re done paying for it, you’ve paid three times what it’s worth,” says East Side activist Michelle Johnson. “It’s robbery.” But that’s also true in a sense for 30-year mortgages: by the time I’m finished making the payments on my house, I have paid far more than the house is “worth.”

The point is that the house is “worth” more to me in the present than in the

future. I suppose I could live in a hut somewhere while I save up the money to buy the house in cash, but it turns out I’m willing to pay extra—a lot extra—to live in a house right now rather than hut now, house later. That is also the logic of the rent-to-own store: being able to use the merchandise up front, without a credit check and without having to pay out a substantial lump of cash, is a valuable service for a great many people.

Alma Medina, for example, a 24-year-old single mother, bought two beds for her children from a rent-to-own store, paying \$184 per month for them. If there were another place from which she could have purchased the beds she would presumably have done so.

Unattractive as it seems to us, the rent-to-own store was her best option, her next-best option being to get them even more expensively or, perhaps, not to have any beds at all.

“Medina now owns her beds,” the *Buffalo News* tells us toward the end of the story. The reporters then add, without the slightest sense of irony, “Just over a month after she started paying, her children’s father used his tax refund to buy the beds from the rent-to-own.” Want to hold your breath with me while we wait for the *Buffalo News*’s indictment of the withholding tax as an injustice toward the poor?

There are a lot of companies that, understandably, hesitate to enter into credit exchanges with people who have a poor history of meeting their obligations. Rent-to-own stores are willing to lease merchandise to people who are obviously credit risks (or who wouldn’t be shopping there in the first place).

I like the way economist David Henderson puts it: you don’t help the poor by looking at their list of options and eliminating the one they actually chose.

Rent-to-own stores are guilty of making furniture and large appliances available to people without credit or substantial savings, and at a relatively low monthly cost. If government should

punish the industry with price caps and other regulations (Brookings suggests that local governments use “licensing and zoning authority” to “crack down” on and “curb the development of these businesses”), marginal rent-to-own stores will simply close altogether and fewer will open in the first place.

Less and less will the poor be exploited by sinister appliance renters. Sure, they probably won’t be able to get the appliances, computers, or furniture they’d like any longer, but at least people like East Side activist Michelle Johnson can console themselves that justice has been done. ■

INFLATION: PUBLIC ENEMY

Llewellyn H. Rockwell, Jr.

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New wage data indicate what you might have suspected. Average wages are not keeping up with the cost of living. This has given rise to claims that we live in the first sustained period of economic growth that has failed to offer a similarly sustained increase in real wages. Indeed, wages have declined in real terms by 2 percent in the last three years.

The first concern is political. The Democrats, despite their moderating image, carry with them the intellectual baggage of a Marxist morality play in which business skims the excess productivity of labor’s value. This new data is framed in a way that plays right into this model. Productivity is up, the rich are richer, but the workers are losing out.

Meanwhile, the Republicans have a very strange response, as typified by the comments of pollster Frank Luntz. The bad economic news would not do serious damage to Republicans, he said, because voters will blame corporate America and not government for their problems.

Now, there is a lot buried in these comments. The Republicans have dined out on the mistaken impression that they are the antigovernment party. Here we see a change. The pollster just assumes

that antigovernment feeling will redound against the Republicans, since this is the party that controls government, after all.

I have my doubts that he is right. Republicans have controlled the White House—Carter and Clinton excepted—for the better part of 40 years, and yet somehow they are always able to get away with blaming government (which they imagine to consist of something outside themselves) for their problems. I can easily imagine that the Republicans will again trot out their antigovernment rhetoric this time around. But we shall see.

In the meantime, this data needs unpacking. The reason for the fall in income has nothing to do with corporate profits. The culprit is the public enemy called inflation. But more than ever, inflation data does not reflect the underlying reality we experience every day.

There is no such thing as a price level as such. There are only prices, some of which rise and some of which fall. What we call inflation is really just price phenomenon that shows increases beyond which they would not have risen in the absence of monetary expansion. In some

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News from the Institute

Sweet Home in Alabama

A European reporter for the *Wall Street Journal* kept hearing from students in France, Germany, Italy, and Spain about this wonderful institute in Alabama, where high standards and deep learning survives and thrives. Puzzled, he dropped by for a visit.

The result was a charming piece in the *Wall Street Journal*, August 11, 2006, by Kyle Wingfield, who writes the “De Gustibus” column. It appeared in Europe and the United States. He explained who Mises was and why his ideas are garnering such attention the world over. He discussed our publications and programs. He then finished with this: “At the heart of Austrian economics is a skepticism of powerful, central authority. And Southerners have always been distrustful of government. Our libertarian streak—which flares up from time to time, for reasons both good and bad—makes us natural allies for the Austrian tradition.”

“The institute’s location also says something about the quality and depth of American intellectual life. Having such an outfit so far away from the usual urban hubs is itself a rejection of the central planning and authority that Ludwig von Mises spent his life fighting. He might never have visited Auburn, but something tells me that he wouldn’t have put this institute any other place.” ■

Supporters Summit

Imperialism takes many forms, and is driven by many motivations, but its result has this in common with all forms of state interventions: it fails to achieve the overt aims of its proponents and it leaves the subjects touched by it less free.

This year’s Supporters Summit, October 27–28, in Auburn, Alabama, will explore what the Austrians have said on the topic of Imperialism, and how that differs from what the critics and proponents of global imperialism have to say. Please join us! ■

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For many reasons, we judged this year’s Mises University the best conference ever. The students were incredibly good, and took so well to the systematic approach of teaching we provide. The faculty were in top form. The oral examinations showed spectacular success. Thank you to all who made a contribution to make this program possible! ■

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We are also offering some impressive new shirts in addition to our Austrian collection. We call it the Champions of Liberty collection. The shirts have been hugely popular on campus! ■

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way, you can even have price inflation when prices are falling, providing that they are falling less dramatically than they otherwise would. There is no way that the government can collect enough information to make sense of it all and mash it into one piece of data called the Consumer Price Index.

Take a trip to Wal-Mart, for example. You don't see price increases here. You can buy shirts, jackets, and shoes for a fraction of what you would have paid 10 years ago. This is even true for electronics and most other goods you find in so-called department stores. How can we even talk of inflation with astounding realities like this?

Indeed, this is reflected in the broad data collected by the Bureau of Labor Statistics, which shows price decreases in this sector by 10 percent.

Roughly the same pattern is seen in apparel markets generally.

How can we account for this? Two factors: entrepreneurship and international trade. In the first category, we have to include Wal-Mart but also Target, as well as hundreds of other shops that carry discounted items. We love these stores, and their cost-cutting ways have been a boon for the American consumer. Imagine what would have happened to the overall CPI were it not for them.

And yet the people who are currently wailing about the declines in real income give these retailers no credit for keeping our living standards from falling lower than they otherwise would have. These stores are a major source of American prosperity, and we need ever more of them.

Their access to international markets for producer and consumer goods is another reason. Markets around the world are opening by the day. The division of labor is globalized as never before. This too has been great for the American consumer. Meanwhile, however, those who want to draw attention to the decline in real wages are apt to

blame trade for part of the problem, rather than giving credit where it is due.

How, then, can we account for the price data that is eating away at our living standards? Consider gas prices have increased 300 percent over the same 10 years, while electricity prices have soared too. So here we have the exact opposite pattern, and from a sector of the economy that is heavily regulated, taxed, and beaten to death by interventionist regulations.

There is far less supply flexibility in oil and gas because of trade restrictions, stupid wars, and insane and counterproductive environmental controls. When shocks hit, the only market response is to increase rationing via price increases.

The same story can be told about other government-controlled sectors such as education and health care.

There is a final underlying source of our troubles. Despite the Fed's continued interest-rate increases, the money supply continues to grow. The largest increases date especially from 2001 through 2004, pausing for a brief period in 2005. This year, the monetary increases have begun again. The United States benefits by being the host to the world's reserve currency, but eventually there is a price to be paid.

In other words, the increases in prices are due to both Fed policy and to sectors that are not responsive to market supply and technological change. The sectors in which prices are falling show the trends that they do despite Fed policy and precisely because they are responsive to market supply pressure.

The answer to our standard-of-living woes is a radical restructuring that would make education, health care, and energy look and behave much more like retail discount stores and apparel. What the American worker needs is more of what Wal-Mart offers and less of what the government offers. If we could then get rid of the Fed so that it would no longer water down the value of our money, we'd never have to worry about declining real wages again. ■



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