



Dent Basics 5: *Inflation*

The Young Drive the Dollar

The common definition of inflation is “too much money chasing too few goods,” which makes it, to paraphrase Milton Friedman, a monetary event. That can happen, and we’re seeing some of it as the government sends out trillions of dollars in relief spending. But there’s another way to get inflation, which is by spending more and getting the same or less in terms of goods and services.

Think of a couple with a young child. The baby doesn’t earn any income, and yet the young couple must feed, clothe, house, and eventually educate the child. The higher spending, without a commensurate rise in income,



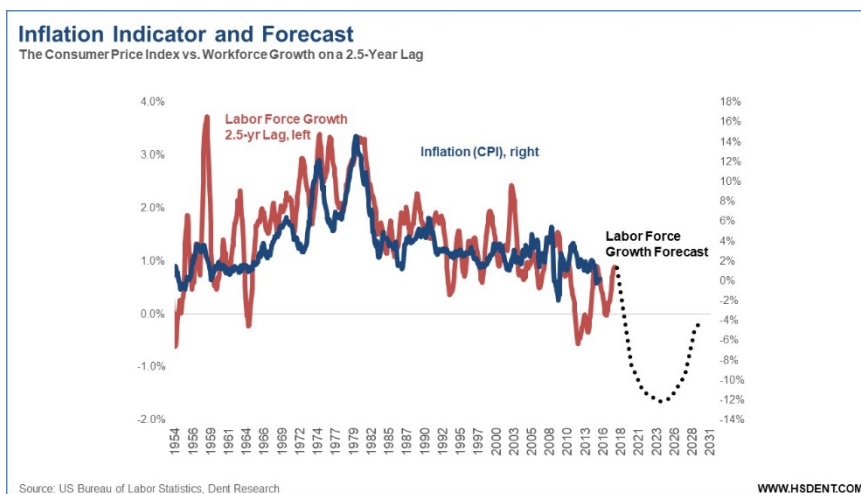
means that the young couple now has a lower standard of living. That’s inflation, with a twist. Paying for the child is an investment in the child’s future, helping it to remain healthy and learn enough to be a productive member of society.

These costs, borne by the parents and others, like school, paid for by the state, are more of an investment than anything else. But because the dollars

are spent over years without a specific payback to the parents or the state, there's no obvious return on investment. That's inflation.

Businesses go through the same process when they hire young, inexperienced workers, although the businesses have a specific payoff in mind.

Companies make large investments in workspace, technologies, and training when they hire new workers. As Harry Dent often says on stage, "Young people cost everything and produce almost nothing!" In modern economies, where commodity prices are a small percentage of GDP, it is the expense or, better put, the investment to incorporate young, new workers into the labor force, that is the greatest driver of inflation. Once they enter the labor force and become productive, they generate more revenue than they cost, a trend that continues for years. The best correlation with inflation that we have found is workforce growth on a 2.5-year lag. This implies that it takes about 2.5 years for the average new worker to become consistently productive and profitable for the company.



The expense or investment needed to incorporate the massive Baby Boom generation into the workforce was what caused much of the unprecedented inflationary

bubble of the 1970s. Using the Immigration-Adjusted Birth Index, we can track the number of people 22 to 23 years old entering the labor force and estimate inflationary pressure more than two decades in the future!

By putting the Dent Basics information together, we get a picture of economic growth and inflation for years and even decades to come. In the final installment, Dent Basics 5: The Maturity Boom, we will provide a snapshot of what lies ahead.

Got a question or comment? You can reach us at info@hsdent.com. Want great financial research? [Sign up here](#) for *The HS Dent Forecast* and *The Rodney Johnson Report*.
