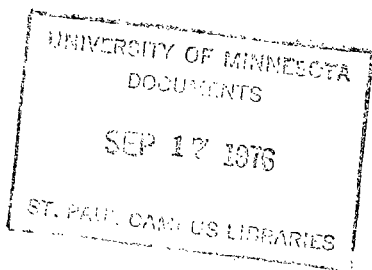


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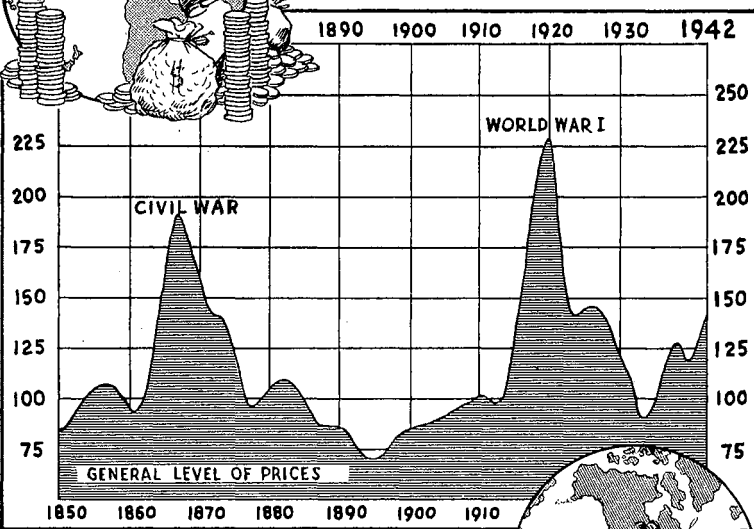
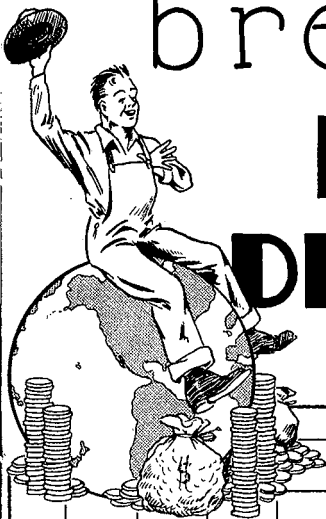
INFLATION BREEDS FARM DISTRESS

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INFLATION

breeds

FARM DISTRESS



by
O. B. JESNESS



WE CANNOT have "business as usual" in an all out war. A large share of our resources must be used for war production instead of for satisfying everyday requirements. Our labor, materials, and plants have to be used for making bombers, tanks, ships, guns, and ammunition instead of for cars, radios, refrigerators, houses, and a host of other consumer needs. The government becomes the leading buyer in the market and war production takes first place. War activity increases total employment and output, which increases payments to workers, plant operators, and sellers of materials.

Consequently, war increases consumers' money incomes, while it decreases the supply of many goods and services which they desire to buy. In terms of dollars and cents, the outlook for 1942 is about as follows: Individual income payments may amount to about 117 billion dollars. Allowing 31 billion dollars for saving and tax payments, leaves 86 billion dollars available for consumer spending. However, because of the curtailment of output, the supply of goods and services available for consumption in 1942 will total only about 69 billion dollars (at April 1 prices). In short, there will be an excess of consumer spending power of about 17 billion dollars during 1942. If this situation is left uncontrolled, the outcome is clear. Prices will rise decidedly and rapidly. Consumers will not get more goods but will pay more for them.

The cause of inflation is clear. It is due to an excess of spending power in the hands of consumers. Of course, the consumer has not run out of wants, but during wartime we cannot produce enough goods to satisfy all the needs for which civilians now have money. Naturally many individuals feel that they have no excess spending means. They say they need more rather than less. However, they are thinking in terms of wants and needs, not in terms of the supply of goods and services available in the market. The supply of goods and services available is the limiting factor in wartime.



Inflation Has Already Added 35 Billion Dollars to the Cost of Our War Program

Why Worry About Inflation?

A few individuals look upon rising prices as an indication of prosperity. They welcome the rise in price but overlook the serious consequence of a violent inflation. The rise soon becomes a steep spiral. Farmers, finding that their costs are increasing as well as their prices, want still higher prices. Wage earners press for higher wages to offset the rising cost of living. Employers seek higher prices to pay higher wage and material costs. This race goes on until eventually the inflation bubble bursts. Then there are serious problems of adjustment. When the reaction sets in, prices farmers receive tend to fall further and faster than their costs, and they find it difficult to make ends meet.

An inflationary price rise provides strong temptation to bid up land prices and a speculative land boom develops. This brings with it a rapid increase in farm debt. When prices break, foreclosure and debt distress follow. The speculative land boom during the first World War more than doubled land prices in the Middle West. The farm mortgage debt for the country tripled. Farmers have ample reason for not wanting to go through another debt-swelling inflation.

Inflation is undesirable for another reason. Rapidly rising prices tempt persons to seek returns by holding goods for higher prices. It draws attention away from production. Difficulties of production are increased because costs change so rapidly. Contracts become subject to frequent change. Inflation tends to interfere with rather than to aid production essential to winning the war.

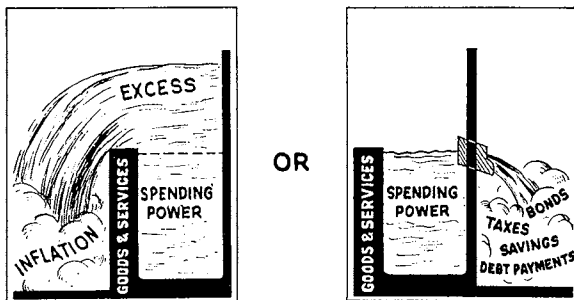
Inflation also is objectionable because it adds to the costs of war. The last war cost us about 31 billion dollars. Had there been no inflation, the bill

would have been 13 billion dollars less. The price rise since the war started in 1939 has already added 35 billion dollars to the cost of the authorized war program. If the inflation of the last war is repeated, the increase will be much greater. This means an added burden to all who share in federal taxes, which includes most of the population. Moreover, people on fixed incomes or whose incomes rise more slowly than prices are often hit hard by an inflation.

Can We Control Inflation?

An individual cannot do much to stop an inflation. However, he can protect himself against some of its results. He can avoid incurring debts which are not likely to be paid off during high prices. If he is in debt, he can use increased money income or income for which goods are lacking, for reducing or retiring debt. This will help lessen the pressure where supplies are short and place him in better position to meet any postwar deflation. He can save part of his income for use when his income is smaller and the opportunities to buy goods and services are greater. He can assist in financing the war effort by investing in war bonds. He also can lend his support to the adoption and enforcement of public programs for checking inflation.

Major reliance has to be placed on governmental action to check inflation. The establishment of price control accompanied by rationing of some commodities is one of the steps taken by the government to curb price rises. Prices were fixed on a number of strategic war materials in 1941 and ceilings on the wholesale and retail prices of many lines were established in May, 1942. Price control by itself is not adequate when supplies are short. Rationing is needed to regulate the distribution of the available supplies. Rationing of steel, aluminum, copper, automobiles, and tires became necessary to make limited supplies serve the nation's war needs most effectively.



What Shall We Do with Our Excess Spending Power?

For Successful Price Control...

1. All important factors in the price picture—commodity prices, wages, and profits—must be included directly or indirectly.
2. The program must serve interests of the people generally rather than of special groups.
3. The controls must be unified in a capable and effective administration.
4. Public understanding and cooperation are important.

tively. Sugar rationing, on the other hand, is concerned mainly with distributing the available supply among consumers as fairly as possible.

Price control and rationing are important in protecting the interests of the nation and the individual in times of war. They are important checks on inflation and, therefore, deserve the full support of everyone. However, price controls and rationing are far from simple. Experiences of other countries illustrate difficulties of determining proper prices and enforcing regulations.

Price control should not carry the full burden of checking inflation. It must be supplemented by other measures. The situation which threatens inflation is the excess of spending power in consumers' hands in relation to the supply of goods and services available. The threat of inflation can be reduced, if not entirely eliminated, by diverting the excess purchasing power from individuals to the government. The government needs this purchasing power during war and the goods are available to the government. This diversion of income may be accomplished either by the sale of government bonds or through taxation.

The purchase of war bonds out of current income will serve at least three important purposes:

1. **It will aid in financing the war.**
2. **It will lessen the danger of inflation.**
3. **It will provide purchasing power for bond holders in the postwar period when the supply of goods again probably will become adequate for civilian needs.**

The case for much heavier federal taxes for war purposes rests (1) on the importance of paying as much of the war costs as possible during the war and (2) on the place of taxes in checking inflation. The material costs of fighting the war cannot be postponed. Today's battles are fought with material and manpower now available. The materials come from past and current production. Next year's output is not available for this year's battles. In other words, we cannot borrow production and materials from the future. Realizing this helps us understand that we can, if we will, pay a large share of the money costs of the war while it is being fought. **It is better to pay as much of the bill as possible now while money incomes are high and while other uses for the money are limited.**

Many considerations play a part in deciding upon the details of the taxing methods to be employed. One is that if bond purchases and new taxes are to be effective in checking inflation, they must absorb a large share if not all of the excess incomes. As mentioned before, this excess is expected to total 17 billion dollars in 1942. This represents about 15 per cent of the expected national income.

Another fundamental is that to check inflation, taxes must draw off spending power from the rank and file. Increased taxes on those of higher incomes are necessary for paying for the war. They are not important in checking inflation because the number receiving the larger incomes is relatively small and their purchases of consumer goods do not represent a large share of the total. The spending power which hastens inflation is in the hands of the masses of the people. Much of the increase in income resulting from war activities has gone to the rank and file. **If taxes are to check inflation effectively, they must tap the incomes of the great majority of the people.**

Taxes to be effective in controlling inflation must be collected currently. Taxes payable in 1943 are likely to be paid out of the income of that year rather than to check purchases with the 1942 income.

This Calls For Sacrifice

Buying of war bonds and paying of war taxes are commonly spoken of as sacrifice. However, it is the war which makes these sacrifices necessary. Regardless of money incomes, standards of living cannot be maintained on customary levels during war because the supply of goods and services available to civilians cannot be maintained. Those who seek to increase their incomes in order to maintain their accustomed level of living lose sight of this elemental truth. The reduction of goods and services caused by war may reduce living levels to that of the worst depression year of the thirties, or perhaps even lower. The difference is that during depression lack of income was the reason while in wartime it is limitation of supply. The lowering of standards is spread much more generally during war than it was during depression.

If inflation gets out of hand, the rise in price will draw off the average individual's purchasing means without providing an adequate return. The question, therefore, is not whether sacrifices have to be made. It is one of whether or not inflation is to have a hand in how and by whom they are made. The sacrifices involved in holding inflation in check are likely to be less for the average individual than the sacrifices which inflation will impose.

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