

Latent

INFLATION: Talk by
Karl R. Bopp to the
City Business Club,
Friday, September 25,
1942, at the Bellevue
Stratford Hotel.

INFLATION

Preliminary

Disclaim any official inspiration for the talk.

Bill ~~Clem~~: "I do not call them the way I see them;
I call them as they are."

Do not know how well acquainted with the field you are
so may repeat some things well known.

Definitions not as important as understanding what is
taking place.

Farmer Jones: "Is it correct to say, 'A hen is
sitting' or 'a hen is setting!'"

Farmer Brown: "When a hen cackles, it is much more
important to know whether she has
been laying or lying."

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I. Set of the problem

A. Winning the war, not inflation, is the most important
problem today.

Wars are won by the side which puts into the struggle
the better ~~ability~~ and quantity of resources—human
and material. In other words, it is morale, logis-
tics, strategy, manpower, and equipment that win.
As a corollary, wars are never lost because of in-
ability to finance them. Finance is important only
in so far as it affects the real factors.

B. Finance does influence the distribution of the costs of war.

Inflation is a topic of importance because it is one of the methods of financing a war—or determining who shall bear the burden.

II. Financial requirements of the war.

A. The amount of funds involved.

1. Expenditures by fiscal years.

1942-43..... \$ 77 billion
 1943-44..... 100 billion

2. Rapid growth in monthly expenditures.

March 1941.. \$0.8 billion
 March 1942.. 3.1 "
 August 1942. 5.2 "

3. Growth in the public debt.

(In billions)	Aug. 31, <u>1942</u>	8 mos. <u>1942</u>
Non-market issues	\$24	+ \$8
Market issues....	<u>62</u>	+ <u>14</u>
Total.....	\$86	+ \$22

B. Sources of funds and their significance.

1. National income.

(In billions)	<u>Change since</u>		
	<u>1942</u>	<u>1941</u>	<u>1940</u>
^{Sep. rate} Total.....	<u>\$112.2</u>	+ <u>\$17.5</u>	+ <u>\$34.9</u>
Spendable by			
individuals...	103.0	+ 14.5	+ 29.1
Net savings by			
individuals...	24.2	+ 11.5	+ 16.5

2. Distribution of national income illustrated.

a. In terms of goods.

Suppose:

National income.....	\$112 billion
Government wants.....	<u>62</u> "
Available for civilians.....	\$ 50 "

b. In terms of money.

National income.....	\$112 billion
Gov't. taxes..	\$25 "
Purchases of Gov't. secur- ities.....	17 "
Gov't. portion.....	<u>42</u> "
Money available for civilians.....	\$ 70 "

c. Illustration of "the gaps".

(1). The civilian gap.

Money available..	\$70 billion
Goods available..	<u>40</u> "
Consumer gap.....	\$20 "

(2). ^{fiscal} The physical gap.

Goods needed by Gov't..	\$62 billion
Money available to Gov't.....	<u>42</u> "
^{Fiscal} Physical gap.....	\$20 "

(3). Closing the gaps.

Everyone would insist that the Government close the physical gap in some way. Both the physical gap and the consumer gap can be closed if civilians invest \$20 billion additional in Government securities. If they do not, the Government will have to secure the necessary funds elsewhere—from the banks—and prices would have to increase 40 per cent to close the consumer gap.

fiscal

I. Inflation.

A. How much have we had?

	Since <u>1939</u>	Since Jan. <u>1942</u>
1. Business:		
Production (183).....	+ 73%	+ 10%
Employment.....	+ 42	+ 5
Payrolls.....	+122	+ 19
Retail trade.....	+ 54	+ 15
Prices:		
Wholesale.....	+ 32	+ 6
Farm.....	+ 75	+ 12
Food.....	+ 52	+ 11
Retail - cost of living	+ 19	+ 6
Food.....	+ 35	+ 11
Clothing.....	+ 25	+ 9
House furnishings...	+ 21	+ 4
Hourly factory wages...	+ 32	+ 7
2. Credit and banking:		
Loans.....	+ 29	- 6
Investment in Governments.	+ 75	+ 23
Demand deposits.....	+ 50	+ 4
Money in circulation.....	+ 88	+ 20

B. Effects of uncontrolled inflation.

1. Impoverishes the middle class.
2. Ruinous to fixed income group.
3. Endangers endowed institutions.
4. Disrupts trade and industry.
5. Costly to the Government - taxpayer.
6. Destroys capital - unemployment, stagnation.
7. Impairs the morale of the people.

C. Integrated policy and program against inflation.

1. Ineffectiveness of piecemeal approach.
2. Attack on all basic fronts.

a. Heavy taxation.

- (1) Congress working on tax bill since March.
- (2) Maximum expected \$24 - \$27 billion.

b. Control of prices - retail, wholesale, rents.

- (1) A general maximum price ceiling imposed to keep cost of living down.
- (2) But farm prices and wage rates are not controlled. Since December 1941-
Controlled prices..... + 2%
Uncontrolled prices.... + 14%

c. Stabilisation of wages - wage ceilings.

- (1) No definite policy - a body of principles. Case-by-case method.
- (2) The famous "Little Steel" case in July.
A "Yardstick" - 15% above Jan. 1, 1941.
Two elevator clauses -
(a) "Substandard" wages.
(b) "Inequalities" of wages.
Sacrifice?

d. Stabilisation of farm prices at "parity".

- (1) Many farm prices above parity.
- (2) As food costs go up, labor demands higher wages.
- (3) As wages go up, production costs go up.
- (4) Farmer must pay more for what he buys.
- (5) Hence, a demand for a new and higher parity.

The chicken and the egg dilemma. Or a dog chasing its own tail.

Parity causes higher wages.

Higher wages cause higher parity.

How to stop this upward spiral in the cost of living?

The farm bloc and the labor bloc.

e. Rationing of essential scarce commodities.

- (1) Only a few items - tires, automobiles, gas, sugar.
- (2) Need for an over-all program to avoid inequalities.

How to avoid "black markets."

f. Control of consumer credit.

- (1) Reduce credit and instalment buying.
- (2) Encourage debt payments.
- (3) Promote savings.

g. Purchase of Government securities.

- (1) War Savings Bonds -
Monthly rate..... \$ 700 million
First 8 mos. 1942. 5,600 "
- (2) Other securities - bills, notes, bonds.
- (3) Tax savings notes.

D. Effects of a controlled economy.

1. Invasion of individual rights, but this is war.
2. Controls upset the traditional pattern of living but - our stake is great.

Must win victory.

3. Need for a new mental attitude.

The task calls for "...pliancy and resiliency of mind, for a willingness to discard old routines and ways of thought, for readiness to adapt one's self to the unexpected. It outlaws mental conservatism; it demands the same kind of self-reliant independence and readiness to experiment which the frontier demanded. Upon our ability to develop and use those traits depends our national survival today. That is a part of the challenge

that confronts your generation."

Donald M. Nelson, University
of Missouri, June 9, 1942.