

## THE BATTLE AGAINST INFLATION

Inflation occurs when purchasing power outruns supply of available goods by a considerable margin. The battle against inflation is the attempt to achieve balance between financial and physical aspects of the economy.

I. The main sector of the front: especially in war, the physical requirements have priority.

1. Requirements determined by general staff.

In physical terms - remainder of physical output - and NO MORE for civilians.

A. Why do armed forces need so much?

"The swifter our armies forge ahead, the greater their demands for supplies." - Donald Nelson

Hard fighting uses up material at a greater rate.

In training shoes last from 3 to 4 months.

In Sicily troops wore out shoes in 3 days.

To replace 60 bombers lost in one day in the raid on Schweinfurt, requires 1,000 airplane workers busy 40 hours a week for one year.

"...If the American people will concentrate every available ounce of energy on the production job, this war can be shortened by six months." - Donald Nelson

Hundreds of thousands of our boys will be saved.

**B. Industrial production for war and for civilians**

<u>Year</u>	<u>Total</u>	<u>Civilian</u>	<u>War</u>
1932	58	58	0
1935-1939	100	100	0
July 1939	106	—	—
July 1940	123	—	—
July 1943	239	72	167

Despite 8-10 million in the armed forces.

Even in all-out war civilian production is 25 per cent higher than in 1932; and we get only 30 per cent of total output because armed forces need 70 per cent.

This is an incredible accomplishment.  
Evidence of what a free people can do.

**2. The financial side**

**A. Once the armed forces have determined their physical needs,**

Congress appropriates (the amount depends upon physical quantities and prices)

**United States**

Appropriated.....\$300 bil.  
Spent (through Nov. 1943).... 146 "

Current monthly expenditures. 7½ "  
daily..... 250 mil.  
hourly..... 10 "

**B. Raising the funds**

Since we are paid for producing both war and civilian goods, our total national income is adequate to buy our entire output.

Balance is maintained if we transfer to the Government the amount that we get collectively for producing war goods.

Government will then have funds to pay for what it needs and we will still have left enough to buy at current prices our total civilian output.

And we can't get more collectively no matter how much we spend.

**(1) Taxes and borrowing**

- (a) Proper tax system - economic versus political**

To stimulate, not to stifle incentive

- (b) Wide ownership of securities**

Buying power for the future  
Participation in public affairs  
Sense of joint responsibility  
through thrift

(c) Federal budget

<u>Fiscal years ending June 30</u>	<u>Taxes</u>	<u>Borrowing</u>	<u>Expend. &amp; changes in bal.</u>
1939	5.7	3.3	9.0
1940	5.9	2.5	8.4
1941	8.3	6.0	14.3
1942	13.7	23.5	37.2
<u>1943</u>	<u>22.3</u>	<u>64.2</u>	<u>86.6</u>
July-Sept. 1943	10.5	17.6	28.1

(d) Borrowing from current income versus borrowing from banks

Changes in Ownership of Government Securities

<u>Fiscal yrs. ending June 30</u>	<u>Fed. Res. &amp; Com<sup>#</sup>1 Banks</u>	<u>Other Finance Cos. Insurance &amp; Mut. Savings</u>	<u>Others</u>	<u>Total change in Debt</u>
1940	.8	.8	1.0	2.6
1941	3.3	.8	2.8	6.9
1942	6.8	2.4	12.6	21.8
1943	30.6	5.3	27.0	62.9
<u>In June 30 1943</u>	<u>59.7</u>	<u>18.1</u>	<u>61.7</u>	<u>139.5</u>

II. Other sectors of the battle against inflation

1. Increased in output (about exhausted)
2. Limiting demand
  - A. Wage and price ceilings
  - B. Regulation W
3. Assuring equitable distribution of available civilian supplies.

Rationing

### III. The outcome of the battle

1. In democracy depends on the people  
Not their words but their actions  
It depends upon us, you and me.

2. Some evidences we are not losing ground

It appears now that with hard work the  
Treasury will have to borrow only small  
amounts if any more from banks.