

INFLATION

INFLATION IN ONE EASY LESSON

BY HARRY SCHERMAN

THE LAST LINE OF DEFENSE



William Allen White

"This short study—being distributed by the Council For Democracy—sets forth moderately and clearly the major facts about the problem of Inflation, during the war and after it. It presents the opinion in understandable language of the leading monetary authorities of the nation. It should be read carefully by every American family, and everyone engaged in enlightening the people about public affairs should help in spreading this necessary information."

—WILLIAM ALLEN WHITE

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INFLATION IN ONE EASY LESSON



WHAT would a catastrophic inflation mean to us as individuals? If a dollar could buy only a tenth of what it now does, nine-tenths of the savings each one of us has slowly accumulated—in banks and War Savings Bonds, principally—would be wiped out as purchasing power.

The 145,000,000 life insurance policies in force in the nation would provide enough money—most of them—for our funerals; and the millions of these being carried by poor people for no other purpose than to provide a decent burial, would end perhaps by providing a pathetic wreath.

Yet the loss of life savings, painful as it might be for each one of us, is only a small part of the story; it would represent the pay-off, the final impoverishment, when at last a new and far higher price-level had been established.

What would happen *while* prices were skyrocketing would be far more distressing. The money we all currently earn means far more in our daily existence than the money we have saved. The weekly wages and salaries of some 50,000,000 persons would have to be adjusted time and time again—and *most of them would lag far behind*—at each uncertain stage of the upsurging price level.

All employers would be as badly off. Every business unit in the land, from the tiniest to the hugest, would face such maddening uncertainties in every item of its costs—and in its prospective sales—that the economic dis-

order would be beyond imagining; to say nothing of the civil war of political passions sure to rage throughout such an economic melee.

The Key Fact About Inflation

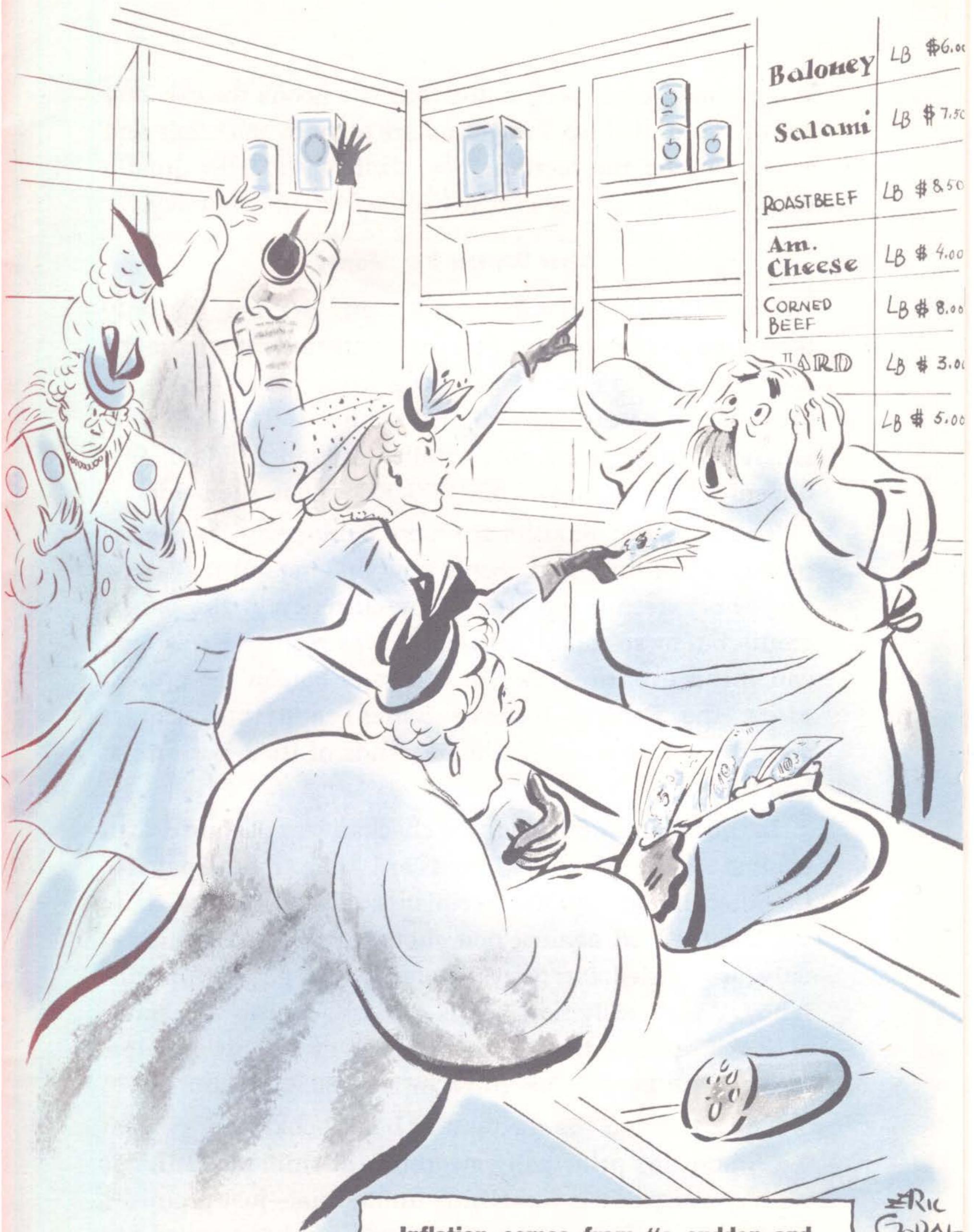
Our money authorities know exactly what must be done to avert such a national calamity. Their principal obstacle is an ominous state of the public mind: the present plain widespread belief *that we can escape a catastrophic inflation without taking the necessary drastic measures.*

One current evidence of this perilous complacency—there are plenty of others—is the activity in Congress to raise farm prices and of certain unions to raise wages still further. It is a mistake to attack this as greed. It is a truer picture to see it as a total absence of understanding of how dangerously we are flirting with inflation, and of what it would mean to all of us and to the world. This incomprehension is not confined to farm and labor leaders.

The bald truth is that the only way we can now beat inflation is not only by as strict maintenance as possible of the present price and wage controls, *but in addition by a major operation on the pocketbook of every solitary income-earner.* The time for that operation, long overdue, has come. The elementary facts, when known, will lead every open-minded citizen to that conclusion.

There have been scores of catastrophic inflations throughout history. There are good records of them going back eleven hundred years. Every single one has had the same central feature: *a sudden and enormous increase of money among a people without a corresponding increase of things to buy.*

Precisely that state of affairs now exists in this country.



Baloney	LB	\$6.00
Salami	LB	\$7.50
ROASTBEEF	LB	\$8.50
Am. Cheese	LB	\$4.00
CORNED BEEF	LB	\$8.00
PIZZA	LB	\$3.00
	LB	\$5.00

Inflation comes from "a sudden and enormous increase of money among a people without a corresponding increase of things to buy."

ERIC GODAL

We are all aware, personally, that the goods we can buy are fast diminishing. Few of us are alive to the other and graver side of the picture: how swiftly and how greatly the money we all use is being increased, unavoidably.

What We Use For Money

The familiar dollar bills and coins are not the only things we use for money. To a far greater extent we use the so-called "checking deposits" in our commercial banks. At the first of the year these totalled around \$60,000,000,000, whereas the currency only totalled around \$15,000,000,000, of which around \$1,600,000,000 was in the banks.

The checking deposits are mere bank-promises-to-pay-money. Most informed people now understand that these "deposits" are not represented by currency in the banks' vaults, but by so-called "loans and investments." Each bank can, if it is ever necessary, sell these or borrow upon them (from the Federal Reserve Banks) and thus acquire enough cash to meet all the demands of its depositors at any time.

In the meantime, millions of checks every day are drawn against these "deposits," and are then made payable to other banks by the recipients. These checks daily are balanced off against one another, and the differences only are settled for; very rarely by the passing of currency. What really happens is a vast inconceivable series of bookkeeping entries, ending each day with this principal result: each bank either owes, or is owed, more money.

Thus, through the medium of bank bookkeeping, what we Americans principally swap for the millions of things we buy every day is something immaterial—just promises, bank-promises-to-pay-money. They have been called our "invisible money." They do at least nine-tenths of the

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work of exchanging property that currency formerly did, before our business civilization became as complex and trustworthy as it now is.

How Much Increase Already

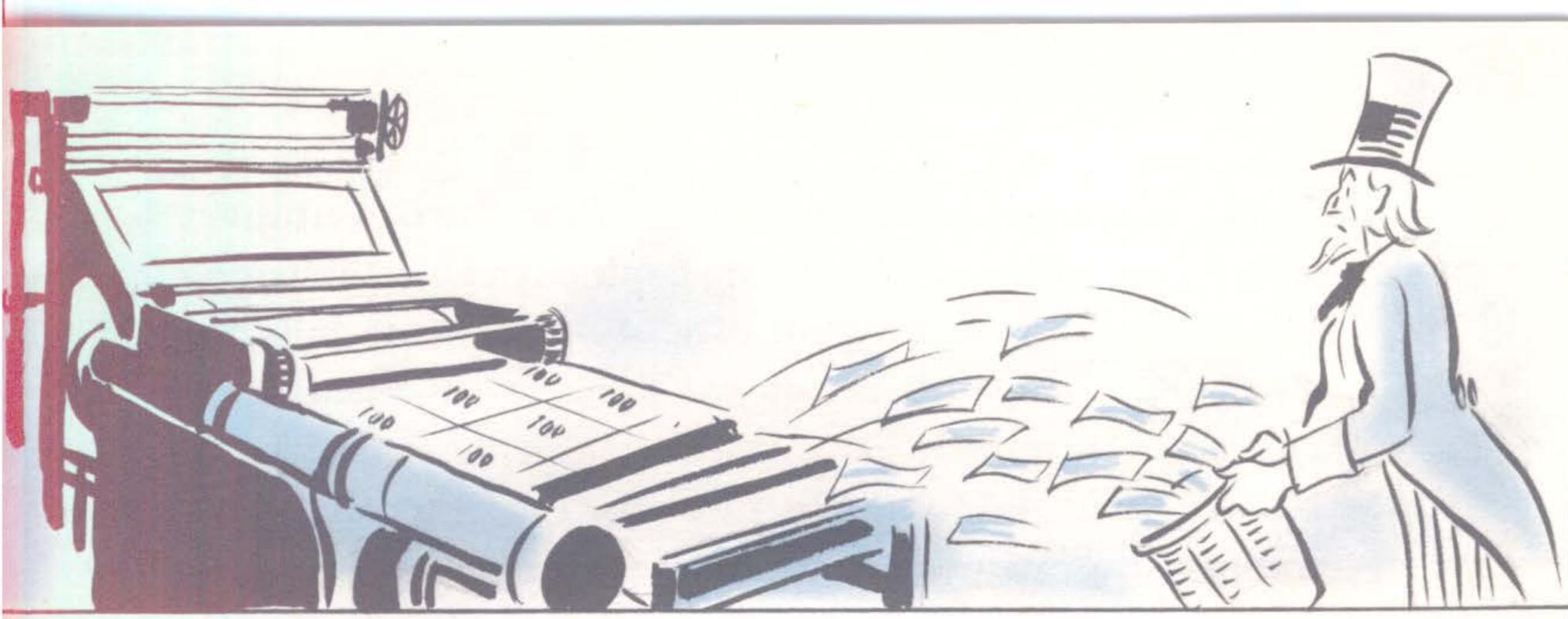
Our active money-supply—checking deposits plus currency in circulation—totalled around \$75,000,000,000 at the beginning of the year, an increase of \$38,000,000,000 since the beginning of 1939! Our money-supply has doubled in that time.

Of this, \$30,000,000,000 was an increase of the checking deposits. Why has the “invisible money” increased so much more than the visible variety?

This has come about through governmental borrowing from the commercial banks. Just how such borrowing creates additional checking deposits cannot be explained briefly, but it is a fact imperative for every citizen to know—*because every modern disastrous inflation has had its beginning in governmental borrowing from the banks.*

This runs counter to an almost universal fallacy: that a catastrophic inflation begins through the printing of vast quantities of paper money, as in Germany in the twenties. What happened in Germany was due to the fact that the Germans, in their business transactions, were far behind us in the practice of paying bills with checks. When the German government needed money beyond its tax receipts, it went to the German central bank, gave its notes, received newly-created paper marks in exchange, and in paying its bills that paper money went flooding out among the German people.

Our own Government doesn't do it that way. Running money off the printing presses is unnecessary with our



INCREASING OUR CHECKING DEPOSITS, OUR "INVISIBLE MONEY", HAS THE SAME EFFECT AS RUNNING BILLIONS OF DOLLAR BILLS OFF THE PRINTING PRESSES.



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highly developed banking system. When the Government sells its securities to a bank, the bank pays by establishing an *additional* "checking deposit." In paying its bills the Treasury draws checks against these newly-created deposits, each recipient deposits the check thus received in his own bank, and thus the *total* checking deposits at the command of the people are increased from then on.

The lesson is plain: *any disastrous inflation that may develop in this land is certain to come far more from an increase of the nation's checking deposits — its invisible money — than of its paper money.*

The Grand Strategy Against Inflation

Apply these facts to our present situation. In 1943 the Government expects to have to pay bills totalling around \$95,000,000,000. It expects to receive in taxes—from the present rates—around \$25,000,000,000. Conservative estimates are that it may get another \$30,000,000,000 in loans from individuals, corporations, insurance companies, savings banks, etc. (The source of such loans is *already existing* checking deposits or currency, hence they are not inflationary.) The difference between these expected receipts and expenses—\$40,000,000,000—would have to be obtained by borrowing from the commercial banks, *increasing our checking deposits by that amount.*

Since our money supply totalled \$75,000,000,000 at the beginning of the year, at its end the total would thus become around \$115,000,000,000.

Suppose—as we must in prudence—that the war lasts two years beyond that. If the war expenses keep at the same level, and receipts from taxes and non-inflationary loans remain the same—either may rise, or both, so these "ifs"

ELEMENTARY ARITHMETIC

GOVT HAS TO PAY OUT IN 1943... \$95,000,000,000
IT EXPECTS \$25,000,000,000 IN TAXES AND \$30,000,000,000 IN NON-INFLATIONARY LOANS..... \$55,000,000,000
IT WILL THUS HAVE TO CREATE NEW MONEY BY BORROWING FROM THE BANKS - ABOUT..... \$40,000,000,000
IF THE WAR LASTS THROUGH 1945, AND TAXES AND NON-INFLATIONARY LOANS REMAIN UNCHANGED, IT WOULD HAVE TO CREATE AN ADDITIONAL..... \$80,000,000,000
OUR MONEY SUPPLY AT THE BEGINNING OF 1943..... \$75,000,000,000
TOTAL MONEY SUPPLY AT THE COMMAND OF THE PEOPLE BY THE END OF 1945 \$195,000,000,000



ERIC GOYAL

must be carefully kept in mind—that would be a further \$80,000,000,000 added to our money supply; a total by the end of 1945 of \$195,000,000,000.

With such an avalanche of new money, and with a diminishing supply of goods to buy, the difficulties of averting a ruinous inflation would be really acute.

The grand strategy this situation calls for maps itself out. Some increase of our money supply during the war is unavoidable, since the war expenses are so much greater than any possible revenue. *Therefore the only thing the Government can do is to keep down the creation of new money to the lowest possible total.*

This plainly means borrowing as little as possible from the commercial banks. In turn it means getting far more money in taxes and loans from the people.

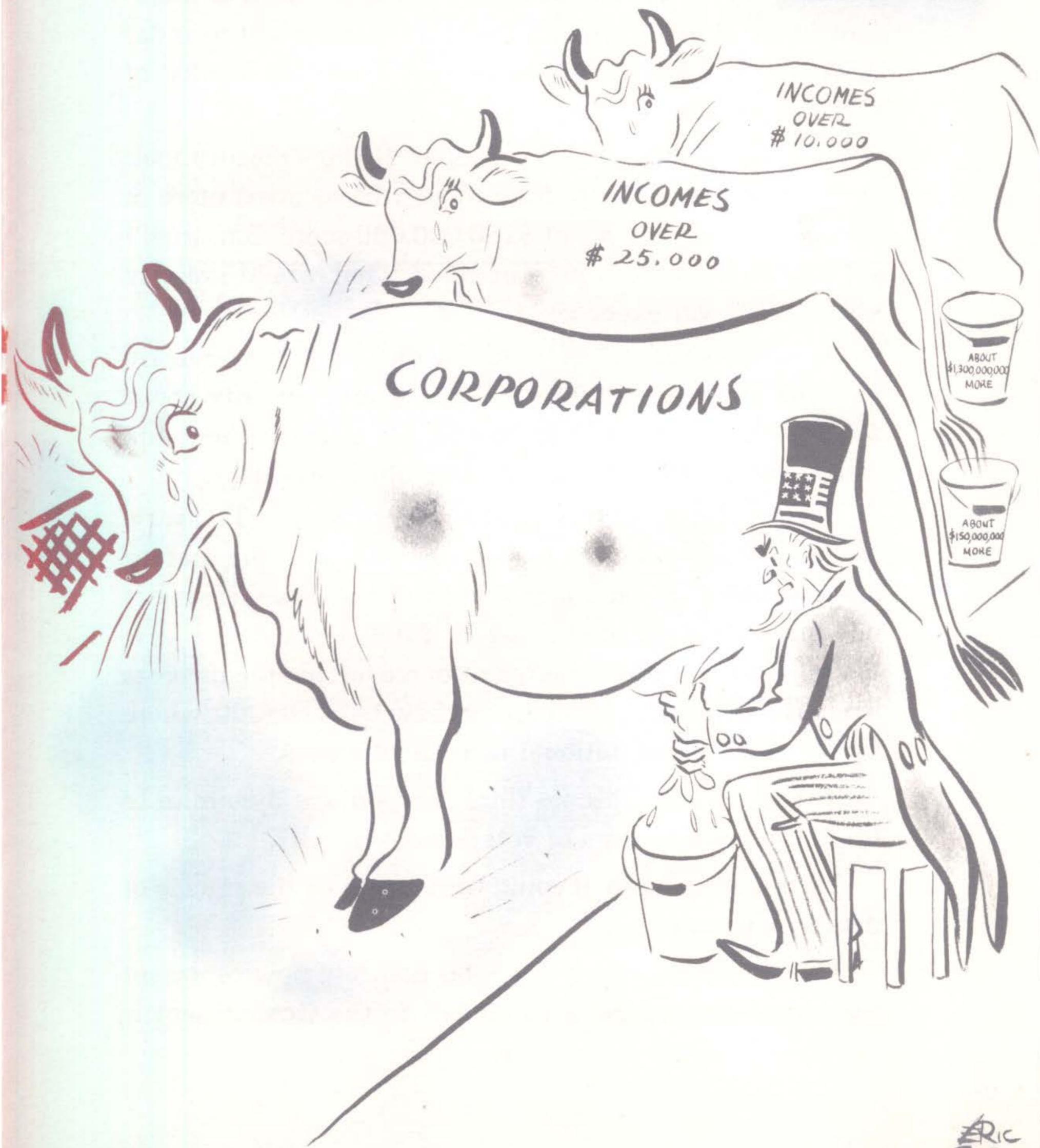
Sad Facts About The Rich

The first thought of everybody at this point is: "Why not get more money in taxes from the big corporations?" But very little more can now be got from them.

In 1942, it is estimated, all the corporations in the land earned around \$20,000,000,000, and of that they will pay in federal taxes around \$12,000,000,000. They may distribute half of the remainder in dividends, and that portion will be very heavily taxed to the individuals who receive it. All the corporations in the land will then retain around \$4,000,000,000 from their colossal 1942 earnings. Both Congress and the Treasury now seem pretty well agreed that they cannot afford to take much out of this. Even if they took all, the figures show, the extra revenue would help only a trifle.

But our corporations, backbone of our production sys-

"If we are to avoid the perilous increase of our money supply at the rate of \$40,000,000,000 a year during the war, the only large resource left are the incomes from \$10,000 down, particularly those below \$5000, where by far most of our national income now goes."



tem, employ a great portion of our labor. They will be the chief reliance in the vital post-war problem of re-employing millions of returned soldiers, and even more millions of displaced war workers. They must not be so crippled financially that they cannot quickly build up their old lines of business after the war, as well as new ones. Reserves of working capital are indispensable for this, and it is therefore doubtful that Congress and the Treasury will consider it wise to add further to the present heavy tax burden of the corporations.

How, then, about our rich people? If the Treasury took everything over \$25,000 from those who received more in 1942, it would get a scant \$150,000,000 more than it will get anyway from the present rates. That would not pay half a day's war expenses.

Go lower; suppose the Treasury took all that everybody received above \$10,000 in 1942. It would get only about \$1,300,000,000 more than it will get under present tax rates—enough to pay war expenses about five days!

The conclusion is inescapable; Congress, the Treasury, and everybody who has looked carefully into the matter, agree about it. If we are to avoid the perilous increase of our money supply *at the rate of \$40,000,000,000 a year during the war*, the only large resource left are the incomes from \$10,000 down, particularly those below \$5000, where by far most of our national income now goes.

It may, as some people think, be political dynamite to tax these great masses of voters more heavily.

On the other hand, it could turn out to be the suicide of democracy not to.

That income-earners of \$5000 and less now represent the only large source of funds left to the Government is

shown by some simple figures that will be surprising to many. It is estimated that in 1943 the money income all of us will receive will be about \$135,000,000,000. There will be around 49,500,000 families and independent earners receiving \$5000 and less. *They will get around \$102,500,000,000.*

Post-War Inflation Must Be Averted Now

President Roosevelt in his January budget message asked for \$16,000,000,000 additional revenue, and the swords will surely be crossed in Congress over how much should be in the form of taxes and how much in so-called "forced loans." That contest will really be over what will *be* better for the American people and what will *sound* better to them. It will certainly sound better to say that a good part of the money taken will be paid back as soon as the war ends. But there is no doubt in the minds of all non-political experts that it will *be* far better for the country, if the entire \$16,000,000,000 were taken in taxes.

The principal objection to heavy forced loans (payable immediately the war ends) arises from the certainty that our inflation-difficulties will not end with the war's end. Indeed, many experts believe that only then will they really begin.

For, as indicated, we shall then have a far greater money supply than ever in our history. The price and wage-controls, under a peacetime psychology, may present far greater political difficulties than now.

Also, the Government will have an enormous "demand-debt" hanging over it at the war's end, in the form of War Savings Bonds. It will always be ready to pay off those who want to cash these bonds, but its first great task after the war will be to transform most of the War Savings Bond

debt into "long-term debt." This can be done in several ways, *without loss to any original investor*—it has often been done successfully by nations following a costly war. But if the Treasury were then also faced with an enormous volume of "forced loans," which the Government had promised to pay at the war's end, it would almost certainly be compelled to go to the banks, *and add still more money to an already vastly increased money supply.*

This is what is principally in the minds of the more prudent economists, who are concerned about doing the right thing now, in order to avert *an after-the-war inflation*, when it may be far more difficult to control.

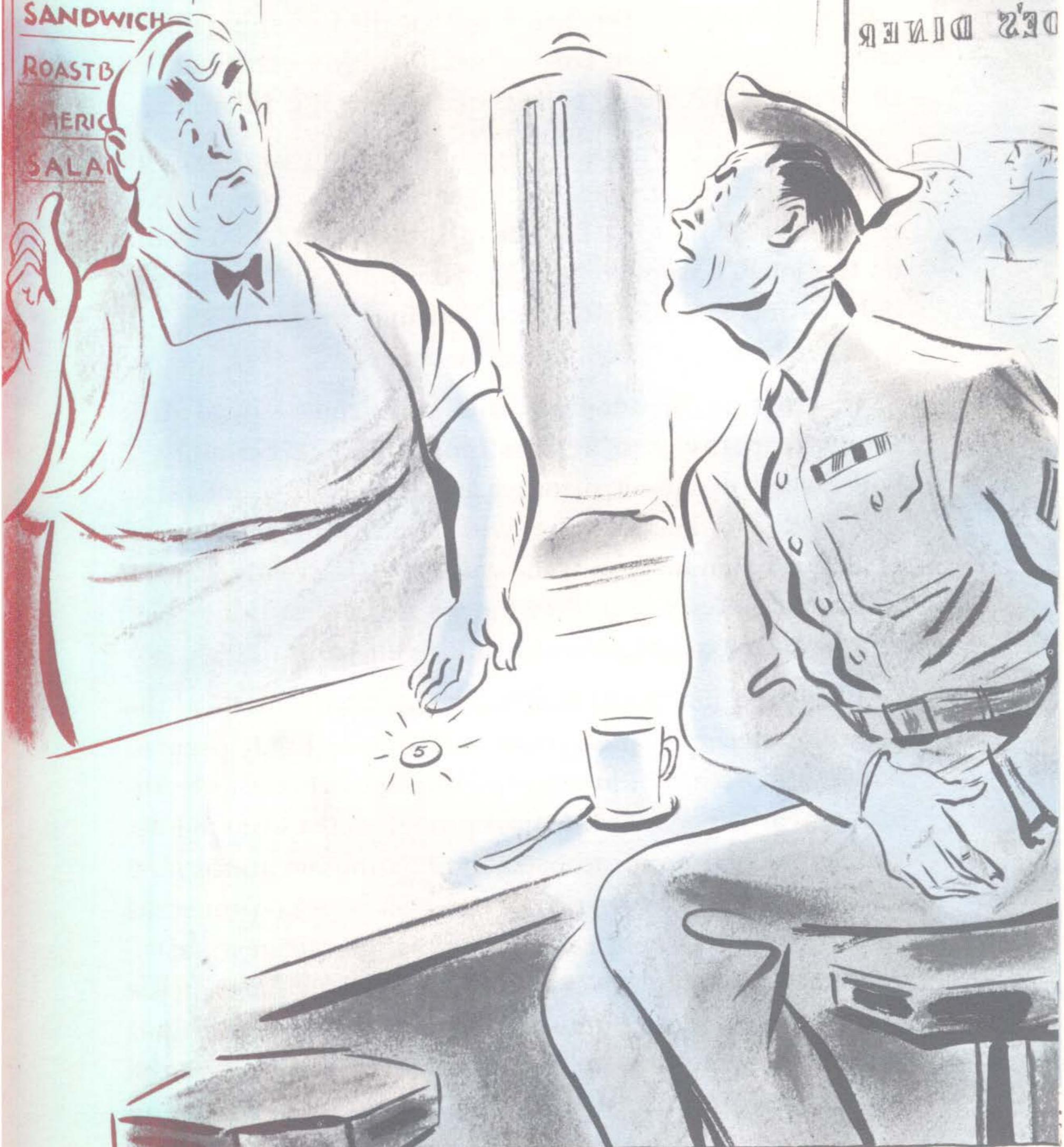
"Repudiation"

Too frequently one hears it said that our total federal debt will rise to such levels that eventually it will have to be "repudiated." Few things are more certain than that the United States Government will never fail to give dollar for dollar on the face amount of its debt. It will do so even if it is obliged to create additional money for the purpose. But how much will those dollars buy? Quite obviously, the proper worry should be whether the dollars the Government pays out in settlement of its debt will then buy only half, or a third, or a tenth of what it now does. In other words, will we eventually see a great inflationary rise in the price-level? We have seen what would cause that: a continued unchecked creation of money.

It is not unfair, accordingly, to point out that the Enemies Number One of the American people—after the Germans and Japanese are disposed of—will be the irresponsible monetary theorists who are leading many people to believe that our federal debt can go on increasing indefinitely. *Such debt-increase means nothing now but the crea-*

COFFEE 50¢
WITH CREAM 75¢
HAMBURGER \$1.00
WITH FRENCH FRIED POTATOS \$1.50
SANDWICH
ROAST B
AMERIC
SALAD

DE'S DINER



SHALL WE LET HIM COME HOME TO THIS?

ERIC GOYA

tion of more "invisible money," which—we must all never forget!—can buy anything greenbacks could buy. This money-creation, unavoidably, will have gone to such lengths by the time the war ends that the first thing necessary will be to stop it. Unchecked it would be the one certain course that would plunge us into a tragic inflation.

How can it be checked? By sufficiently heavy taxes on a high national income—for example, 25% federal taxes on an average national income of \$100,000,000,000 would do the job. Those who hold that our national income can only be increased by "deficit-financing" overlook our impressive history of economic growth.

If — instead of adopting this wise course — we drift through apathy into a disastrous inflation, certainly it will involve economic disorder and political passions that may go to any length. What will then become of the hope of all good men for a brave new world? If we really want to achieve a better world after the war, the "first thing first" will be to have our governmental finances in order.

This need not mean that we should fail to relieve the appalling misery that will then exist among many peoples. Aside from decent humanitarian impulses, that is as legitimate a war-expense as the mass production of war engines. But global "economic reconstruction" is another matter, and the help we give other peoples in this direction must, as Governor Lehman has said, be "on a plain business basis." Certainly it must not be carried on through further increase in our own Government debt—that is, by further additions to an already swollen money supply. How can we be the Atlas of the world, if we are standing shakily on stilts, and not on two well-braced legs?

Neither does this necessary policy—of quickly stopping



“How can we be the Atlas of the world, if we are standing shakily on stilts, and not on two well-braced legs?”

our debt-increase when the war ends—mean that we have to abandon the thought of any desirable social objectives, such as the Beveridge Plan being discussed in England. During the thirties, while we were increasing our federal debt by billions for “social objectives,” the British were doing far more than we along the same lines, *with no increase in their debt*. They were paying-as-they-went for the social policies they regarded as desirable. The parliamentary debates on the Beveridge Plan already make clear that once again the sensible British will try to achieve no greater social reforms than they can pay for through year-by-year taxation. What they have done in the past, what they will surely do after the war, we can do just as well if we want to. It is merely a matter of governmental decision.

Inflation Can Be Beaten With Common Sense

A grim truth is still to be learned by the American people: that it is no easier to beat inflation than to win a war. Morally, it is harder, for there is no glory nor excitement in this type of sacrifice. Yet there is not the slightest doubt that a disastrous inflation can be averted.

If the war lasts three more years—through 1945—we could easily knock off sixty or seventy billions from the \$195,000,000,000 which we may have if things go on unchanged. How? First, by increasing taxes \$16,000,000,000 or more each year the war lasts—that alone would knock off around fifty billions of it over a three-year period. Second, by some drastic federal economies that are still possible. Third, by raising more than has been expected in voluntary loans from the people.

This last holds the greatest hope. Out of \$135,000,000,000 yearly income, even with far heavier taxes, there is plenty left to raise more than the \$30,000,000,000 which

conservative opinion now expects in non-inflationary loans.

This is Every-American's problem, without exception. Every single dollar spared for a bond—in such campaigns as the Second War Loan Drive now going on—*means that the Treasury is not compelled to create new money by borrowing from a bank.*

Is it too much to expect that most people will finally learn this, and also come to realize sharply what it will mean to them personally if, through their own apathy, the nation drifts into a tragic inflation?

It is quite true that under any circumstances we would still end the war with an uncomfortably large money supply. But if we do not then swell it further, this will of itself generate decided anti-inflationary influences.

Recall the key fact about inflation: that it comes from an enormous increase of money among a people *without a corresponding increase of things to buy.* The second part of that definition is quite as relevant as the first. At the war's end, the average American family will have far more money than ever before—in their pockets and in the banks, quite aside from War Savings Bonds—and this should result in an enormous increase in the production of all goods and services. Nothing better could happen to keep prices from shooting up.

Another helpful anti-inflationary factor will be the fact that there will hardly be a family in the land, when the war ends, that will not be a good-sized creditor of the United States Government. If there is a great inflationary rise in prices, who will get hurt most? The Government's creditors. Who will they be? All of us. Who will want to see his dollars—those he has saved and those he currently earns—buy a half or a third or a tenth of what they now do?

The universality of this debtor-creditor status between

the Government and the people is a new fact in our social history. Its political consequences may go deep. It could easily result in an irresistible nationwide pressure on our governmental managers—whether they are Democrats or Republicans—to leave nothing undone that will avert the general ruination that a catastrophic inflation in this country would mean, to ourselves and the whole world.

The entire problem of inflation can be summed up in one easy lesson that anybody can understand and explain to others: *we must keep to a minimum the creation of new money during the war, and then stop it dead as quickly as possible when the war ends.*

What this means in action is just as simple and clear: First, the Government must economize in every possible way that will not affect the winning of the war. Second, we must all pay much more than we do in federal taxes. Third, we must all lend the very limit we can to the Government, and not cash those bonds except for the most genuine personal emergency.



“A lesson that anybody can understand and explain to others: we must keep to a minimum the creation of new money during the war, and then stop it dead as quickly as possible when the war ends.”

Spread This Message

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