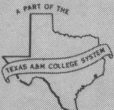


What Do  
You  
Want  
?

Inflation  
or  
Deflation  
?

THE AGRICULTURAL AND MECHANICAL COLLEGE OF TEXAS  
TEXAS AGRICULTURAL EXTENSION SERVICE  
J. E. Hutchison, Director, College Station, Texas



**What  
Do You  
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Inflation or  
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**JOHN G. MCHANEY, EXTENSION ECONOMIST**

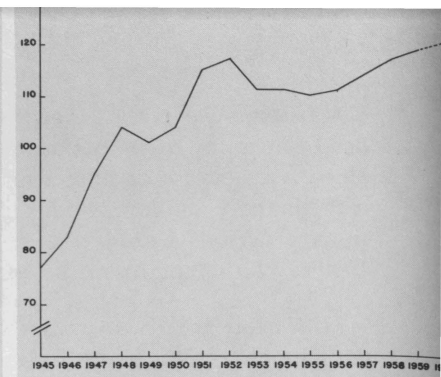
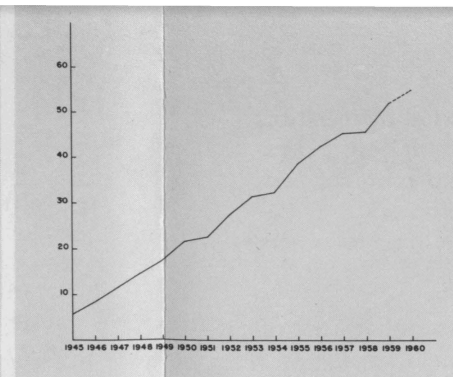
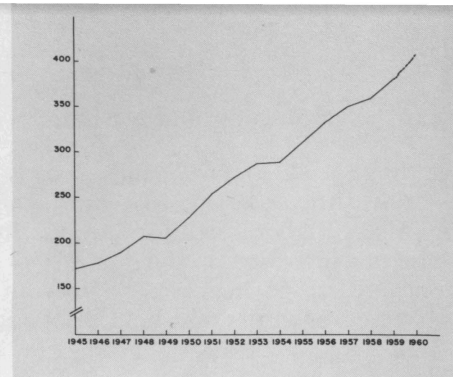
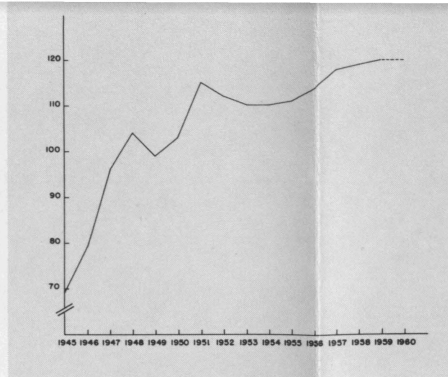
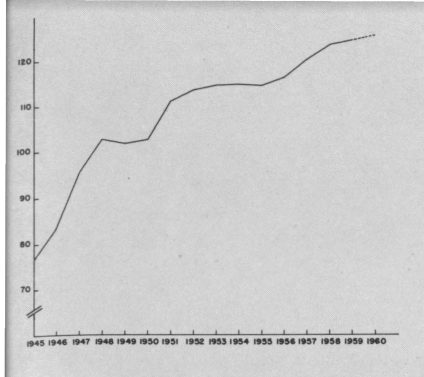
*The Agricultural and Mechanical College of Texas*

Do we want to stop inflation or do we really want continued price increases?

Do we want to stop it now or at a later date?

Do we want inflation to continue although some economists say that "runaway" inflation can bring about economic and social upheavals?

Had we rather have the dollars that inflation gives us today and let tomorrow's economic and social conditions take care of themselves?



Index of Consumer Prices, United States, 1945-60<sup>1</sup> (1947-49 = 100)  
<sup>1</sup>Estimated for 1960

Index of Wholesale Prices, United States, 1945-60<sup>1</sup> (1947-49 = 100)  
<sup>1</sup>Estimated for 1960

Total Personal Income, United States, 1945-60<sup>1</sup> (Billion Dollars)  
<sup>1</sup>Estimated for 1960

Consumer Credit Outstanding, End of Year, United States, 1945-60<sup>1</sup> (Billion Dollars)  
<sup>1</sup>Estimated for 1960

Index of Cost Rates and Prices Paid by Farmers for Goods and Services Used in Production, United States, 1945-60<sup>1</sup> (1947-49 = 100)  
<sup>1</sup>Estimated for 1960

**WHAT IS INFLATION?**

Inflation is a continuous general rise in prices. It is this rise that reduces the value of the dollar in terms of what it will buy.

**WHAT CAUSES INFLATION?**

Larger amounts of money bidding for fewer goods is the major cause of inflation. The spending of money brings on inflation. Factors that determine the amount of money that will be spent are:

1. Size of current incomes.
2. What people think will happen to future incomes and prices.
3. Size of consumer's liquid savings.
4. Size of governmental expenditures.
5. Availability of credit.
6. Interest Rates.

Prices rise because more money is being spent for goods and services by consumers, business and government relative to the amount of goods available. However, over a short period, the amount of money spent may have little effect on wage rates and prices. Wage and price increases over a long period are determined primarily by demand conditions confronting business and labor.

Bank credit also adds to inflation, because our banking system has the ability to increase several times the supply of money available.

The availability of consumer credit aids consumers in purchasing goods today with incomes they will receive in the future. This also tends to push prices upward.

During past wars large sums of money were spent by the government. This situation brought about an increase in personal income, but because of war needs, the production of goods for civilian use was curtailed. More money became available for consumer goods, but these items were scarce and prices rose. The result was inflation.

Inflation usually continues during postwar periods. For example, consumers and businesses came out of World War II with large savings and relatively small debts. They spent large sums of money for goods which had been in short supply for many years. Large government purchases of goods and services also continued and this added to inflation.

The post World War II period was one of increases in population, and one of population movements from east to west, from country to city and city to suburbs. These movements brought about increased demands and spending for housing and other items.

As consumers spend more, people earn more. One man's expenses are another man's income.

As a result, spending tends to increase. A rise in spending may increase prices faster than output which adds to the inflationary spiral.

**GOOD OR BAD?**

**Good**

Some people believe that we must choose between inflation and unemployment and that inflation is the lesser of the two evils.

Others believe that inflation is necessary for economic growth.

During periods of inflation the dollar buys less, but more dollars are available and some people may be better off than they were before inflation occurred.

Inflation enables people to pay off their debts with cheaper money.

Rising prices eventually will cause more production and higher incomes.

**Bad**

Inflation may be bad for people who received fixed incomes such as pensions, interest on bonds, savings and annuities. An inflationary spiral can bring about a period of economic stress for those people who receive salaries and wages that are slow to rise when prices increase.

History reveals that every period of inflation has been followed by deflation or falling prices. However, because of numerous government controls, many economists today believe that deflationary periods would not be as drastic as the 1930's. This remains to be seen.

Inflation greatly increases the dollar cost of government. This leads to deficit financing and an increase in the government debt.

## **CONTROLS AND COMMENTS**

The following controls have been suggested by some economists as a means of curbing inflation. If put into operation they very likely would control inflation, but do we want them? How would these controls affect you?

### 1. Economize in government.

The average citizen probably would endorse this method of control so long as the government does not do its economizing in his individual field of endeavor or in his business if it depends on large government expenditures. Through the years, our economy has become more dependent on government. Since government spending affects the lives of so many, it is not certain that people really want a great reduction in government expenditures. How would it affect your business?

### 2. Increase taxes.

Do you want to pay more taxes? Most people want to pay less taxes.

### 3. Buy only what we absolutely need.

If we all adopted this policy, how would it affect sales? A policy of this kind could reduce sales and production and create unemployment.

### 4. Curb credit and installment buying.

This policy also may reduce sales and production and create unemployment.

5. Expand production and get more goods.

Expanding production depends greatly on profits. It is difficult to increase profits while reducing prices. Labor also must have the funds to purchase this increased production. Does this mean continued wage increases? How can industry increase wage rates and hold prices down at the same time?

Inflation and its control affects differently the many segments of our economy. For this reason, the means of control are not always accepted wholeheartedly by all groups.

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