3-17-1977

Toward Understanding Our Economic System: A Coin Has Two Sides

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TOWARD UNDERSTANDING OUR ECONOMIC SYSTEM
A Coin Has Two Sides

THE FARM PARITY INDEX since January 1 of this year includes as part of the calculation, the Consumer Price Index. It was decided that farm family living costs were so nearly similar to urban families that the separate family living index formerly computed by the Statistical Reporting Service for the Parity series was duplication. The CPI is published monthly by the Bureau of Labor Statistics.

DESPITE DROUGHT AND OTHER PROBLEMS, the U.S. Department of Agriculture reports that the average per-acre values of South Dakota farm real estate rose 17 percent between November 1975 and November 1976. The average value was $180 per acre, the same as the U.S. average. On an index basis, the South Dakota and U.S. averages have both increased 168 percent since 1967. High land prices are hard on beginning farmers but universally liked by current owners, for one thing because it gives them a greater equity in their business and frequently better borrowing leverage.

ECONOMIC GROWTH OR STAGNATION? In 1940 there were about 51 million people in the labor force in the United States. In only 36 years, there were 93 million—an increase of 42 million, or 82 percent! In the earlier years 16 and 17 year olds, not counted, numbered about 6 million. In any case these are staggering figures for those concerned with maintaining full employment and a balanced growth in an expanding economy.

WOMEN IN THE U.S. LABOR FORCE in 1976 numbered 38 million and men 55 million. The average educational levels of each are now 12.6 years of schooling. The percentage of high school graduates in the work force increased from 19.7 percent in 1940 to 41.6 percent in 1976. Even larger percentage increases were noted with persons having four or more years of college.

IT'S TRUE that the consumer will eat less meat when the price is high. The price rations the limited supply. Therefore, the average consumption in a given year does not necessarily reflect consumer preferences but the amount that was put on the market.

WHEN SHOULD THE GROCERYMAN CHANGE HIS PRICES? Let's say it is your store and you have 98 one-pound cans of coffee on the shelf with a retail price of $2.25 marked on them. You received a shipment today with a bill for $2.50 per pound and your new order sheet says the next shipment will cost you $3.00. The latest news reports are that a major firm announces that its wholesale price will be $3.75 and you know it will cost you more than that delivered from your distributor. You'd like to show some profit, too. What would you do? Coffee, today, is a good example of one of the storekeeper's daily dilemmas.

AFTER THIS YEAR'S DROUGHTS, BLIZZARDS, FREEZES AND FLOODS, will weather forecasting become an even more integral part of economic forecasting? It has been adequately demonstrated this year that weather affects more than just crop and livestock production, particularly when the whole country is affected by adverse conditions. The question is: how do you include such things in economic forecasting?

TAKING RISKS of financial gains or losses is basic to our economic system. Farmers know it. Businessmen know it. Even savers balance in their minds lower, guaranteed short-term interest rates and ready availability against
long-term investments that have higher potential gains or losses. Depending
on their individual circumstances and personalities, one person wants more
"insurance" against risks than the next. We pay a relatively small premium for
insurance to protect our family against the possibility that we could be one of
a statistically predictable number of people to die a natural death this year.
When the risks are very large and/or cover a lot of events that cannot be
accurately predicted, such as war, most insurance companies are not large
enough to handle the potential losses alone. So either several companies go
together to spread their individual risks or it may take government to han-
dle the possibilities of catastrophes. Drought insurance might be another ex-
ample.

A PROGRESSIVE TAX is defined as one
where the tax rate increases as income
increases, such as our income tax. A
REGRESSIVE tax is one that takes a
smaller proportion of income as income
increases. Our state sales tax is a
PROPORTIONAL tax of 4¢ on each dollar
spent for taxed goods and services; but
it is considered regressive because people with higher incomes do not usu-
ally spend as much for taxed goods or
may be able to avoid it in some way.
Therefore, it takes less of their in-
comes. PROPERTY TAXES are usually
"justified" by trying to relate them more directly to "BENEFITS RECEIVED"
such as police protection and grade and
high schools. Lawmakers have to wres-
tle with the problems of equity in col-
lecting taxes as well as how they are
spent.

DURING HIS FIRST DAYS IN OFFICE,
President Carter requested Congress to
pass legislation that would in effect
give almost everyone a $50 gift. Using
an estimate of 600,000 people in South Dakota that would be eligible for it,
this would amount to about $30,000,000 returned to the state. Depending upon
how the money was used, there would be some multiplying effects in addition.If
it were all spent for goods and ser-
ices in the state at retail, the ini-
tial effect could result in an increase
of $1.2 million in extra sales tax rev-
enues to the state. The multipliers
might cause these amounts to double. The
key is what the recipients do with the
money and the influence it has on ex-
pectations of investors and producers. This is considered a "one-shot" affair
to give the economy a boost by giving
consumers more to spend.

A SECOND PROPOSAL is to "perman-
etly" reduce income taxes. The bene-
fits in this case would likely go to
both people and business and could give
more to some than others. The probable
net results of this is harder to trace.
The intent of the proposal appears to be
to directly encourage investment,
jobs, and production, thus increasing
incomes and, in turn, consumption ex-
penditures and savings. The debates
center around short- and long-run ef-
effets on the various segments of this
complicated economy.

THE SOUTH DAKOTA STATE SALES TAX
REVENUES for fiscal 1976 were almost
$93 million. The motor fuel tax was the
second largest source of revenue at
nearly $36 million. These were followed
by $9.1 million for cigarette taxes; $7
million for beer and liquor taxes. Other
revenues in the millions of dollars
were: inheritance, $4.8; special fuel
users, $3.5; and bank franchise, $2.0.
The State Department of Revenue also
collected over $10 million for cities
having their own sales taxes. The De-
partment's total collections were $177
million.

BANKERS DO NOT PRINT MONEY, but they
do influence the money supply be creat-
ing credit - demand deposits (checking
accounts). A banker can lend you some
money from others' savings. Then you
have more to spend without anyone else
having any less. He, too, uses the
principle of large numbers. He can lend
some of the savings deposits because
not all savers are likely to want their
money back all at the same time. The
Federal Deposit Insurance Corporation
assumes this risk. Our Federal Reserve
System controls how much of this lend-
ing bankers can do. It, also, thereby
influences the money supply.

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