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INFLATION.

¶ A realization of the meaning of value should protect us from belief in the delusive cure-all of inflation.

Inflation is one of the many words that are bandied about, like "capitalism", and "socialism", often without any very definite conception of exactly what they mean. Inasmuch as New Deal policy has generally been inflationary, it will be worth while to recall a little more vividly the meaning of it and its bearing on every day life.

Literally, inflation means blowing anything up to great size, with air or gas, as a balloon. Hence it comes to mean extraordinary amounts, numbers, or valuations. We can have an inflated labor market, if there are more willing workers than there is work to do; an inflated capital market, if there is more capital than there is opportunity for its profitable employment; an inflated commodity market, if there are more commodities offered for sale than there is a demand for. But the conventional meaning of inflation is the inflation of the amount of "money" in circulation.

Inflationary monetary policy has become rather general in the world. The idea is simple enough. If goods and services have come to be valued in money at excessively high prices, then we will make money correspondingly cheap. Where anything has doubled in price we will double the dollars, so that everything will be as before. It is as if a dangerously fat man fortunately lost fifty pounds and, finding his clothes too large for him, went to work to regain the fifty pouhds instead of ordering new clothes to fit his reduced size. When a to-heavy credit structure is jeopardized by fictitious valuations on which it has precariously rested, the idea is to make the dollar so cheap that it will represent the true valuation in dollars. That is, the dollar is inflated until valuation in cheap dollars approximates former valuation expressed in the dollars that are written down on paper.

The "joker" in this economic conception consists above all in the fact that this inflation, or cheapening, of the dollar reduces the purchasing power of every dollar in the land, no matter in whose pocket it may be. You cannot raise some prices and not others by inflation. Inflation could help only the theoretical person who was a debtor, producer or seller but who was not a buyer or consumer of other people's products or services. A man staggering under a burden of debt, with dollar payments to make at a time when he is receiving for his own product fewer dollars than when he contracted his debt, naturally thinks it would be a great relief to him if the dollar's value were cut in half, and he received (he imagines) twise as many dollars for his product, so that he would have twice as many dollars with which to pay his fixed debts.

As to the farmer, for example, it seems clear that the prices of his principal crops, such as cotton and wheat, could not rise in proportion to the fall of the dollar through inflation. It is true that great sums are being paid farmers to plow under crops, and to restrict acreage in cotton and wheat, etc. Naturally, each farmer will cultivate his reduced acreage more intensively. It is altogether doubtful whether this costly policy can produce scarcity sufficient to bring high prices to agricultural staples that nature, aided by science, has made superabundant. When a product is superabundant, only monoploy can keep its price high. Unless all farmers joined to keep their product off the market except at a certain high price, they would under-sell one another; and even with inflation the price rise of any superabundant crop would be disappointingly small. (It is assumed here that a prohibitive tariff would preserve the entire American market to the American farmer. The high domestic price, relatively to the world price, would of course have deprived him of the foreign market. The dollar, depreciated in foreign exchange through inflation, meets depreciated sterling, the leading influence on world prices, and the depreciated currency of practically an entire world temporarily off the real gold standard. So that low dollar exchange promises little or no help to agricultural export).

Another consideration is this. Before the farmer (or any one else) could fairly begin to enjoy paying off old debts in his cheaper and more easily gotten dollars, he would be dismayed to discover that the prices of about everything he had to buy had gone up further and faster than the prices of the products he had to sell. As said before, in the absence of monopoly the prices of superabundant goods tend to remain low. In the case of goods the supply of which at a fair profit roughly balances the effective demand (i.e. purchasing power plus purchasing <u>will</u>), their price will tend to go up in full proportion to the fall of the dollar through inflation. People will therefore find that most of the ordinary payments they have to make for goods or services will be affected in this fashion. They will find that their cost of living and cost of hiring help, and cost of production have gone up more than their income in inflated dollars, and that they are worse off than before.

If the American farmer would learn to diversify crops and to produce much more for his own consumption, to "live off" his farm to a great extent, as is done in various European countries, he could mitigate this bad situation. As matters stand the farmer of to-day, only less than the nation at large, is a consumer, a buyer, of a hundred things, while he is a producer, a seller, of only a few things. Inflation and high prices hurt every citizen in hundreds of ways. They may temporarily benefit producers, debtors, and sellers, as such, so long as they still have heavy past debts to pay off, and until their increased expenses catch up with their increased dollar receipts. But from that point on they will be no better off; indeed inflation's crippling of the purchasing power of fixed incomes will adversely affect all sales and profits.

The sooner we return to a "hard money" system the better. Then we shall know a little more as to where we are; and we shall have at least some curb upon fantastic credit juggling. The money question, of course, is an international as well as a national problem; so its solution is involved in exchange stabilization, international debt settlement, and ultimate return to a gold or bimetalic standard, at some agreed level, by the principal powers.

Aside from monetary inflation, if you inflate the amounts of commodities they will be a "drug on the market", and because too abundant, too cheap. If you inflate the amount of capital goods, machinery, plants and the means of production generally; or if you inflate the valuations of capital goods or of work, you will often have idle plants. Moreover the products of over-capitalized corporations will be so burdened with over-head, interest charges, etc., that their prices to the consumer will be exorbitant, it they are to pay aynthing to bond-holders and to pay decent wages. Valuations of urban real estate have been inflated to dizzy heights by means of the "sky-scraper", accompanied by over-crowding that is almost intolerable. Some farm lands have been inflated in valuation in boom periods. Consequently mortgages have been inflated. The very style of living has been inflated. Mortgaging, borrowing, speculation, instalment buying have contributed their part. Accumulated capital in seeking profitable outlet in investment, has lengthened the processes of production and distribution. After the Great War it had over-built plants and machines. It has often created an inflated credit structure, debt structure, or capital structure,--whichever one chooses to call it. The dead hand of this inflated debt burden (and now especially Government debt) bears heavily upon every American in the form of an excessively high taxes and cost of living.

If American economic life is to rest upon sound foundations, if the American people are to get their money's worth in a reasonable cost of living, the debt-credit-capital structure must be kept in line with earning power based on production at a reasonable profit on actual investment and payment of reasonable wages. Where this fundamental might require it, the sound money advocate and the bond-holder might have to give up their ideal of being paid 100% in dollars of full value purchasing power. Suppose the choice were between receiving, say, half as many dollars that were as good as ever, and receiving the full number of dollars the value of each of which had been cut in half by inflation. Either case amounts to a capital loss, a writing off if 50% of alleged value. And the workman would have to take a cut in dollar wages to regain purchasing power.

The inflationary method carries with it infinite uncertainties and attendant evils. Inflation is a dangerous paliative. A cure is needed.

If the Government had striven for a gradual reduction of the credit-debt-capital structure, the destruction or reduction of bonds, mortgages and other evidences of debt, and a lowering of those salaries and wages that are far in excess of real values; and if, to prevent too great suffering, and to preserve such essential institutions as banks and insurance companies, they had compensated holders in inverse ratio to their means of livelihood, the tax-payer could at least feel that his money had been used toward putting the nation on a firm foundation. Deflation is the natural penalty and cure for excessive inflation of the debt-credit-capital structure and the wage scale. A humane government may spend vast sums to mitigate the suffering caused by the process. But money spent to arrest deflation, before it has gone far enough to cure the disease of inflation, may well prove to be good money thrown after bad.

Moreover, it is unfortaunately not possible to gain the best results by a policy of wholesale inflation or deflation. Each great industry, indeed each great corporation, is a special case. Some are grossly over-capitalized; some are not. Some prices are too low; many are too high. The same is true of salaries, incomes, and wages. Such profound problems are not to be solved by currency or credit inflation. Changing the yard-stick does not change the thing it measures.

A sick world already burdened with debt and now crushed by new expenditure for tremendous armaments has a good deal of excuse for turning to monetary inflation to keep up the pretense of solvency. Even in America there has been some excuse for a moderate inflationary policy to pretend that goods and services were worth something like their dollar prices, by making the dollar cheap. But in the long run, immoderate monetary inflation, like other pretenses, is a feeble weapon against inexorable facts. Moreover, the inflationary measures of the New Deal give the impression of being designed rather more to please voters who are convinced and vociferous, if misguided, inflationists, than to serve the long-time welfare of the country.

A little inflation might be good, at times; but where is the doctor wise enough to control the dosage. Not in Washington.