CHAPTER 2

INFLATION PRESENT

Our era is surely one of supreme paradoxes. Never have so many human beings simultaneously sought peace, yet trembled on the brink of self-annihilation by war. Never have so many of them simultaneously sought national and individual freedoms and welfare on so wide and swift a scale, yet thereby set themselves on the brink of losing all freedoms and welfare, under the tyranny of the State and in the hands of a tiny oligarchy. Never have human beings as a whole been brought so close together and made so interdependent by their techniques, yet been sundered so violently by the hang-overs of antique dogmas, myths, slogans, sentiments and attitudes, both within and between nations. Never have so many human beings simultaneously reposed so great hopes on such costly education of their offspring, yet taken such irresponsible political action as must—ere their young people come to full maturity—end in removing from individual citizens the width of decision, and scope of self-determination, for which all education is intended. Never have so many of mankind hoped, vaunted and dared so much on the basis of technical advancement, yet simultaneously meekly acquiesced in the monopolization of the rapidly unfolding powers of science by new and privileged groups of State functionaries. And finally, never have so many human beings believed so fervently that old economic evils have been for ever eradicated, yet acquiesced so wholeheartedly in political and economic policies which must re-create those very evils on a wider scale. 'Paradox in Paradise', indeed.

In the sphere of economic policy in the latter half of our twentieth century, it is safe to say that the outstanding problem—the most widespread, least solved, most intractable, and least party-political economic problem—is that of inflation. It is a problem so wide-ranging in our world, so damaging to societies at all stages of social and economic development, that the surprising thing is not the number of articles, broadcasts and speeches on so sinister an influence, but rather the paucity of their effects in helping to solve it.

Inflation is a condition into which a country gets when its total of *money* income in any period rises faster than its *real* income of goods and services. For brevity's sake, we can accept as a working definition of inflation not the continuous rise in prices—for this is merely the effect—but the causal swelling of the stream of money at a rate faster than that of the stream of things (goods and services of every kind) on which this stream of money is spent. Something keeps that torrent of purchasing power (of all kinds) swelling at a faster rate than the slower-growing flow of goods and services turned out. Instead of the two streams keeping matched in force, and parallel in pace, so that prices stay reasonably stable in their general level (though not, of course, any given price of any given thing) the money-stream continues in spate, but the flow of goods and services goes in more sluggish wise, now swelling, now contracting, like a river suffering from alternating periods of drought and rainfall. As this instability between the two streams—this unbalance between the supply of money and the supply of things on which to spend it—has now gone on for nearly twenty years of war and so-called peace throughout the world as a whole, and shows scarcely a sign of being cured, it is worthwhile beginning at the beginning, and asking how and why the Great Changeover came about: the big switch from the years of deflation between the wars and up to about 1937, to the years of inflation ever since.

The State's Addiction to Inflation

Economists have a reputation for being obscure if not obscurantists, and for publicly disagreeing more than most specialists. But the significant thing about their attitudes to this world-wide inflation is that—whatever their nationality, party-politics, or non-economic aims—they agree, more widely and easily than on anything else, on the social, individual and international perils of too rapid an inflation. In short, there is among economists in the whole wide world a broad measure of agreement that if inflation goes ahead at *too* rapid a rate, the monetary system collapses, barter returns, the State must ration everybody (both consumers and producers), it must tax everybody (to get the savings for investment, which will not be made in money), and thus the country's international economic (and, therefore, military and diplomatic) powers are weakened, simultaneously with the enfeeblement of its productive efficiency at home. The point was well made by a British Chancellor of the Exchequer:

'I must draw the attention of the Committee and of the country to a real danger which, because we in this country have in the past successfully avoided it, is often ignored; the danger that, if incomes and prices rise swiftly and continuously, there may be a progressive loss of confidence in the value of money. Were such confidence to be lost we should be plunged into inflation of the most violent kind, which in other countries has on more than one occasion brought the whole fabric of their social and political life to the edge of disaster.'[1]

Even in Britain, where Socialist economists have publicly advocated inflation as an economic method of expropriating the 'capitalist classes', or the owners of property and the State debt, or 'private enterprise'—that is, as a means of bringing about a political and economic system run by the oligarchy of the State—those same economists also publicly admit that *too* rapid a rate of inflation would stultify their own political aims. So they have admitted the necessity of tempering the inflationary wind to the shorn lambs, at least for the duration of the lambs' wool-bearing lives.[2] And one or two of them have even confessed that *too* rapid a rate of inflation would also perpetrate a continuous fraud upon the retired and pensioners, upon the growing proportion of the nation which becomes pensioned year by year, and upon all savers and contributors to those State and private pension schemes upon which British Socialism now builds great hopes of electoral advantage in the future—whatever may happen to the millions of worker-contributors and their pensions in a future more remote. Thus, the differences about this world-wide inflation among economists—and about its degrees and effects in their various countries—turn upon much the same basis as a dispute between

[1] The Rt. Hon. Hugh Gaitskell in *Hansard*, House of Commons, Vol. 486, No. 83, Tuesday, 10 April, 1951, col. 840.
[2] See Chapter III, p. 48.

alcoholics or dope-addicts about what is 'a drop too much'.

From the Peace of Versailles, excoriated in Lord Keynes's *The Economic Consequences of the Peace,* until 1921 there was also such a world-wide inflation, the aftermath of a war. From 1921 to 1933-7 (varying from country to country) there was on the whole a world-wide deflation (with ups and downs in between). In that twenty years of war and peace and preparations for new war, Lord Keynes and most other economists came to view the outstanding economic problem of the world (Western and Eastern, developed or not) as that of *swelling the stream of money enough* to employ fully the unemployed men, machines and materials, lying around in the world-wide depression of prices. The words used then were 'over-saving', 'under-spending', 'public works', 'budget for a deficit', 'reflation': but they all amounted to the same thing—namely, inflation. Just as, today, economists do not use the 'bad word' deflation, but talk instead of 'disinflation', so, then, they did not use the 'bad word' inflation (for everyone remembered defeated Germany and its marks) but talked instead of 'reflation', *et cetera.*

Yet the Thing-in-Itself was the same. It meant swelling the stream of money by State action, by printing notes or otherwise increasing the official supplies of money and credit in the banking systems, so that people should have more of it, wherewith to buy lots more things, and so get the unemployed men, and under-employed machines, materials and farms, going again at full pelt. The clearest examples of this reflation in practice were in Hitler's Germany in 1933 onwards under Dr Schacht, in expansionist and imperialist Japan after the Manchurian adventure in 1931, and in Roosevelt's America of the New Deal which was re-floated by a reflation in 1933. The British reflation occurred after the devaluation of the pound sterling in 1931 and the consequent housing boom and (later) the rearmament boom. 'The world that then was' rode headlong towards the second World War on a wave of reflation and rising prices.

From that time there has been no deflation, not even disinflation, in the world; and all prices, on the whole and on balance, in all countries, have continued to rise. Since war ended, all our perils have been the opposite of deflationary. We have had over-investment on capital account by State authorities, over-employment, over-spending by those same authorities on current account (a lot of it for Welfare State activities and bureaucracy), not enough savings. We got Keynesian methods and 'solutions' when we least needed them.

Inflations after 1945

The striking feature of the last twenty years of inflation is that most of it occurred *after*, not before, 1945. It has been, in short, an inflation of peacetime, or at any rate of war's aftermath, and not of wartime itself. There are many reasons for this. One is that the war took up whatever slack was still left in the ropes in 1939: as war demands for war goods rose on all hands and supplies dwindled, men and machines and farms and materials were brought up to full capacity. When that full capacity itself was passed, forced savings had to be made in one warring country after another: most obviously, by rationing all round, by the State taking over most of the supplying of materials and even men, whether for armed forces or for what remained of civil life. So the flow of money soon began to swell, especially in the pockets of the people, for those who were not in the armed forces could not find goods to spend it on. Again, it was Lord Keynes who, in Britain, in his pamphlet *How to Pay for the War*,[1] openly suggested compulsory savings, taken from people's earnings, and called 'post-war credits', on the theory that they would be given back some day after the war, when the men and machines and materials and farms might become under-employed again. They never did. The State saw to that by over-investment, overspending, and inflation.

Thus, even in the war the fears of post-war unemployment continued to haunt economists and statesmen. And when war ended, these fears were immediately and violently manifested, in Western Europe and even in America, although the war damage, the shortages, the running-down of countries' capital equipment and apparatus, the pent-up popular demands all over the world for decent standards of consumption and housing, and the general development of the technical improvements made in the war—all these reflation-demanding, these *inflationary*, influences were let loose upon the world even more quickly than the men and women (those who survived) could be let loose from the austerity of armed service.

[1] Macmillan, 1940, and see Chapter 6, p. 95.

Never, perhaps, in the whole course of economic history have so many economists been so wrong about so much, as they were between the end of 1944 and the end of 1947. They foresaw, they prepared for, deflation and unemployed resources consequent upon world-wide demobilization. Instead they got a breaking of all the wartime dams which had held up inflation. The streams flowing with money turned into torrents, while the streams flowing with goods and services (which the money was to buy) only gathered way slowly and in fits and starts. Thus began the wave of post-war inflation, everywhere: America, Africa, India, Russia, China, Europe. It continues to this day. Loss of purchasing power, currency crises and controls, wage-inflation, class and occupational and social tensions—all these wax with inflation, day by day, throughout the Western world and even beyond.

Consumption First

There were many other reasons, however, for the release of inflationary forces once the war had ended. The political revolutions of the world had been immense. They accelerated after the war. The Far East lived up to Field Marshal Smuts' prophecy a generation earlier, and went 'on the move' with a vengeance: China went Communist, India and many another ex-British dependent territory achieved independence and unleashed vast industrialization projects which were planned to be financed by inflation, new combinations of nations (on both sides of the Curtain) changed patterns of trade, and almost every nation (ex-belligerent or ex-neutral) set in hand ambitious programmes of capital development or of making good the ravages of war. Demands for foodstuffs and fodder, raw materials, sources of fuel and energy rose on all sides, and to levels unimaginable before or during the war. Whole peoples were tired and undernourished; whole industrial areas were badly in need of new equipment, communications, vehicles, buildings; homes did not as yet exist for families reunited; ports and ships were out of commission, run down, or lacking.

Then, again, as the reflationary (or inflationary) effect of the switch to full employment on civilian goods and services made itself felt, earnings rose and restraints upon spending were loosed. Everyone wanted consumer goods; yet the paramount need of the nations was rather for a continuation of saving so that the investment (in capital, *i.e.* producers', goods) could be financed, wherewith the demobilized millions were to be fully employed in the arts of peace, or within which (houses) they were to dwell. Instead, and perhaps it was natural in the people if not in their rulers, almost everywhere—save in the defeated lands and in the Communist countries—the emphasis was first placed on production of consumers' goods and services; and in the capital programmes, in Britain in particular, the consumers' durable goods of houses took more than countries could really afford, in comparison with their basic needs of new *productive* capital equipment and communications.

But the most pressing inflationary force came from politics: it came from governments themselves, because of one aspect of the political revolutions in the world since 1939. That aspect was due to the enormously expanded powers of the State all over the world. As the State—a short way of saying the minority of politicians and officials—had expanded its powers to fight war or safeguard neutrality, it hung on to powers (as politicians nearly always do) after the war. In countries like Britain, Sweden, France and others, where Socialists had come to power in and after war, Socialism, with its century-old demand for 'State ownership of all the means of production, distribution and exchange', took unto itself even more powers over the lives, property, rights and freedoms of citizens, and over enterprises of all kinds, over trade, transport and commerce. Therewith, in such countries, the State took unto itself the duties of doing for citizens what they would otherwise have done for themselves. For these expenditures the State had to secure revenues.

Thus to the heavy post-war expenditures for the making good of wartime wear and tear, for demobilization, for new debts and new houses and new equipment of all kinds, were now added new spending on social services, for which new revenues (or 'contributions' *plus*, in many cases—especially the British—new taxes) were needed. In the bulk of these nations—made up of the beneficiaries of the new social services, on balance, who contributed less than their share—consumers' everyday spending was thus subsidized; while for the minority in these nations, which paid most of the direct taxes and contributions and used to do most of the personal saving before the war, spending power and saving power alike were reduced. Thus, all the expanded powers of States over citizens in the Western nations had an inflationary effect on balance, added to the other inflationary effects. And as these nations prided themselves on still being democracies—defined as government by mere majority of votes—whatever political party or coalition got power found itself faced with the dilemma of halting inflation by measures likely to lose it power, or of keeping the power at the cost of continuous inflation. The choice was only too fatally easy.

Inflation in Germany

The German people in two successive generations learned about the inherent perils of inflation the hard way: after successive defeats in wars. The inflation after the first war robbed them, in addition to the war dead, of a responsible *élite* or *bourgeoisie* or class of leaders, independent-minded because of independent private property yet loyal to State and society because they guaranteed to them both property and responsible leadership. Instead the Germany of Social-Democracy between 1919 and 1933 led to one Leader, and after him the deluge. That was one lesson of one inflation. If, today, the younger generation of Germans, guaranteed its freedoms and property and abilities and rights to earn, refuses to enthuse either about re-creating a German army, or about policies leading to and based on inflation, outsiders should at least understand it.

It is only a dozen years since Dr Erhard and his able economic advisers ended the second German inflation after the second war, and established that Deutsche mark which is at present the strongest and freest West European currency next to the Swiss franc. And outsiders should also observe that German Socialism today flees and abjures policies necessarily leading to inflation, even at the cost of disalignment from its British Socialist comrades. It is evidently not prepared to trade what Dr Erhard miraculously built up in less than a decade, on the basis of a prostrate and defeated people in a bankrupt economy, for a mess of inflationary pottage, further inflated by politicians' promises that can never be fulfilled. Germans know a lot, which will last them for a long time, about inflationary disillusion.

Inflation in France

The French people have been plagued with inflation and many successive devaluations of the franc for forty-five years. Their economic recuperability as a nation never failed to astonish outsiders after 1815 and 1871—and is as astonishing as ever. It is founded on a rare, remarkable balance for any modern society: that between industry and agriculture. That balance is much more equal than the relationship between industry and agriculture in the United States (where industry o'ertops agriculture and heavily subsidizes it), Australia (where agriculture still o'ertops industry and subsidizes industrialization), Germany (which closely resembles the USA), Italy and Japan (like Germany), and Britain (which is the most heavily industrialized of all).

The basic economic strength of France renders her less vulnerable to the swings of world prices and trade. She is not so dependent on them. This enables her to sustain for surprisingly long periods such running sores as inflation itself, the enduring trouble in her North African territories, and the thirty-year succession of impotent democratic governments which ended with the fall of the Fourth Republic in 1958 and its supersession by the almost monarchical powers of the De Gaulle *régime*. Only with the advent of that kind of *régime* were the 'sound money men', particularly MM. Pinay, Rueff and Baumgartner, empowered to stabilize the purchasing power of a new, much-depreciated franc and thus make it reliable, and calculable for savers and investors. Only then did the franc become valuable to foreigners as well as to the French, the economy surge forward at a rate of growth unparalleled in fifty years, and private capital come out of hoards at home and abroad and be put to productive uses. The moral of the forty-five-year-long French inflation, and of the *débâcle* of democracy which (more than any other single factor) it finally caused, stands clearly writ in recent memories. In its way it is as striking as that of the thirty-year-long German inflation between 1918 and 1948.

American Inflation

Against the French and German inflations that of the United States has been insignificant. Dollar prices have not risen like all other prices, and dollar incomes have risen with American output per head. But inflation has not been negligible to Americans, despite American economic growth. It has only recently—since 1959—become the biggest single economic fear they profess.

They have as yet no confidence in their ability to keep up the fabulous rate of American economic growth and of full employment without inflation.

So far the US dollar, devalued and based on gold at $US 35.00 to the ounce as long ago as 1933, has not been devalued again. Its depreciation due to inflation (since war began in 1939), the fall in its purchasing power, has been no greater than that of the Swiss franc, and far less than that of the Swedish krona. (The currency of this other leading neutral industrial democracy has accompanied the pound sterling in its alarming inflationary losses and devaluations.) Partly, like France, the USA gains some stability for its prices by producing all its own food and most of its own raw materials, fuels and other primary products. It is a highly industrialized democracy—though not *proportionately* as industrialized as Britain—and by far the most efficient manufacturing country in the world. Its average output per head, and therefore average consumption per head (material standard of living), for hours of work is double that of the next countries on the list (Canada, Australia), more than double those of Britain, more than four times those of Russia, more than eight times those of India, and more than ten times those of China. And it is a two-party democracy *minus* any Socialism, Communism, other collectivism, or *dirigisme*.

As a politico-economic system it ranks with Switzerland alone in constitutionally guaranteeing its citizens' personal, corporate and economic freedoms in property and trade and exchange and safeguarding them by the powers not of elected Governments but of Law Courts. These two written democratic Constitutions are, happily for their citizens, extremely hard to change. They cannot even be changed by a simple majority vote. For these reasons it is worth noting the significant preservation of basic economic freedoms in the USA and Switzerland (both Federal Powers) alongside the least State centralization and inflation of their currencies to be seen in all modern industrialized democracies. Yet not even in America or Switzerland have their governments—more successful so far in holding inflation at bay than any other democratic governments—been able to banish the fear of future inflation.

Inflation in Less Industrial Lands

Of inflation in Latin American lands it is not necessary to write much. They are the laboratory of classic inflations. Their currencies have lost and still lose their purchasing power more swiftly, change their names more frequently, and cause more social and political upheavals than any others on earth. Their politics and societies are accordingly in continuous flux. No group, class, property or profession 'stays put'. Nothing is reliable or dependable. *Ce n'est que le provisoire qui dure.* Life is lived there, and business done, on the basis of provisional permanence or permanent provisionality. It clearly has not made for rapid economic growth, though for certain temperaments it is enjoyably stimulating.

Among the non-industrialized countries in the free half of the world—many of them having only recently gained their full and sovereign independence—an ambitious, if understandable, nationalism has often combined with an equally understandable straining after breakneck industrialization. This latter cannot even today—and never could—be achieved at breakneck pace: witness the forty-two-year-long travail of the Russian people. Accordingly in such still 'underdeveloped countries' the possibilities of private saving and investment have seemed to their governors too small and too slow. Open inflation as an instrument of policy has been chosen, avowedly a method of 'forcing savings'. Of such countries India, with her three Five-year Plans all reposing on a large amount of deliberate inflation, is the biggest example.