CHAPTER 10

DANGER AHEAD

The examples we took from the Roman world—and many more we can find in the medieval, Renaissance and modern world—emphasize society's growing dependence on capital formation, saving in all its forms, and on the long-run reliability of a standard of value.

Consider how little was the real capital, the productive equipment, of the ancient and medieval world, up to only 150 years ago. The horse was the only local means of locomotion until this century, at least by land. Yet in the last sixty years we in the West—who account even now for only one-sixth of mankind, and only one quarter if we include Soviet Russia and its European satellites—possess virtually all the capital of the world. There is little productive capital south of the equator. Yet we, like the underdeveloped world, demand more capital. We invent more opportunities for its use; and in so doing—and inflating meanwhile—we make the worldwide shortage of capital worse.

Never in human history have three trends coincided as they now do:

(1) the lengthening of the expectation of individual lives at birth by applications of medical science all over the globe, simultaneously;

(2) the simultaneous demands all over the globe, due to technical progress in communications, *et cetera,* for rapid increases in productive capital per man; and

(3) the simultaneous demands all over the globe, due to these and other reasons, for equally rapid increases in consumption per man.

Hitherto in history—even in the history of the relatively slow inflation in Western Europe flowing from the import of the New World's precious metals in the sixteenth century—the effects of an inflation, even a fairly rapid one (*e.g.* Germany, Hungary, France between the wars) have been confined to a nation or a society more or less immediately affected. But that has manifestly not been true since the last war.

Some national inflations have been faster than others; for instance, that of France has been faster than that of Britain; that of Britain faster than those of Germany, Switzerland, the United States, Canada, Venezuela. But throughout the trading world on our Western side of the Iron Curtain, the inflation flowing from the simultaneity of the three above-mentioned factors has been steady and progressive. Nor is there much sign that it will be politically brought under control as a matter of international governmental and administrative responsibility. Nor, indeed, is there much sign that democratic and representative governments (at any rate) will control it *in the long run,* however much or little they contrive to check it in the short run. Totalitarian States seem better at controlling it, but at the cost to their consumers and producers of controlling everything else and everyone in the State.

Accordingly we must be prepared for some explosive economic situation both within and between our Western nations whenever worldwide inflation gets loose again. Such an explosive economic situation in the contemporary world must also mean some pretty explosive political situations. Consider the mixture.

First there are the three factors I have mentioned as being at work all over the globe today—rapidly growing populations and lengthening lives, rapidly growing demands for productive (or investment) capital, and equally rapidly growing demands for consumer goods everywhere.

Secondly, at the rates we have clocked-up in the leading industrial nations of the West in the past fifteen years alone, such an inflation puts a premium on consumption and militates against the very saving which is the cure of the inflation.

Thirdly, being worldwide among us in the West, this inflation seems almost unsusceptible of *national* control, while our political and administrative institutions—particularly in economic affairs—are not yet sufficiently developed for an *international* agreement to end inflation, by due stabilizations and controls of monetary supplies, to be reached.

Fourthly, our technological progress has become so rapid and internationally all-embracing that scarcely one nation among us —and certainly not a leading industrial nation—can contract-out of such inflationary circumstances.

And fifth and lastly, in the light of these ingredients in the mixture, it remains difficult to damp down inflation politically. In democracies it seems easier to copy the 'antique Roman' manner—to buy the votes of those groups and classes who are doing well out of high taxes and inflation, to let the long-run reliability of the standard of value diminish, and to plaster-over any cracks in the social fabric (*e.g.* injustice to pensioners, holders of Government bonds, etc) by belated and random palliatives.

Inflation as Social Policy

If we look around us we can recognize many symptoms of the social disease of inflation such as one finds *mutatis mutandis* in every society which has suffered it. But we now see them on a cosmic scale. There is no need to emphasize the injustices—even more, the wastes and inefficiencies—of such inflations as we have had in Europe since the war: the advantaging of debtors, the pillaging *per contra* of creditors, the bureaucratic centralizations necessitated by governments unable to arrest (but willing to mask the symptoms of) inflation, the significant emergence of 'gold clauses' and what the French call *indexisation* for State and other loans at fixed interest, the absurdity of demanding more internal and international lending at fixed interest in the light of what has been happening to recent lenders, and the pervasive distrust of *all* money in economic transactions.

The equivalents of Roman legionaries in modern democracies are the politically or industrially organized mass of 'the workers'. Their votes put democratic Governments in or out. Political parties strive to buy those votes with the proceeds of repetitive raids on the property or earnings of the more responsible, more skilled, more productive minority. So a new privileged but unresponsible class is born, at the cost of the providers of that productive capital and know-how whereon economic progress depends. As private capital is eroded by inflation or raided by the State, a delightful mass-consumption seems like an enduring dynamic prosperity. But it is not dynamic; it is not reliable; and it is abruptly punctuated by recurrent monetary and other economic crises, both national and international; for the nations do not co-ordinate even their inflations. In dictatorships, paradoxically enough, the long-run reliability of their standards of value is more carefully (if forcibly) safeguarded, while their productive minority is relatively better rewarded. Thus we and our one-time opponents approximate, but travelling in opposite directions.

Stable Prices and Stable Societies

In the light of the trends already mentioned, what are our real needs—inside our still largely free societies in the West, and between all of them?

First, a standard of value reliable enough in the fairly long run to permit calculations of risks and to encourage saving and investment.

Secondly, an agreed international system—facilitated by governments positively, and negatively by their allowing a natural system to work—under which both borrowers and lenders can calculate risks and rewards in reliable monetary terms, *i.e.* in reliable *real* terms.

And thirdly, a far wider recognition that the Russians face precisely the same economic problems as we do in the West: namely, getting the savings, raising the productive efficiency, investing in underdeveloped territories, raising people's consumption, writing-off and replacing old with more and better capital, rewarding 'top talents' adequately, and so on.

Surely it is time we proclaimed the economic lesson of inflations in history, and of Russia's economic development these past forty years. That lesson is this: you can inflate and expropriate former *élites* and privileged groups out of their property and their existence; you can benefit new privileged classes; but you cannot rapidly develop even a totalitarian State (like Russia) or a totalitarian empire of client-States (like that of the Russians) without managerial *élites*, encouragements to enterprisers, and some going-without of consumption on the part of the mass of consumers. Surely we ought to teach this lesson to our own electorates. Surely the social and administrative—even the political—upheavals in Russia in the last few years, after all the

Russian people and their rulers have been through, show that economic calculability, monetary dependability, and the reliability of standards of value are the prerequisites of a dynamic society and of economic progress.

There seems to be precious little choice open to us between being democratically reasonable—that is, securing sound money and a free economy—and, on the other hand, attempting to get much the same economic results by totalitarian controls, force, blood and iron. If you try to straddle the two, you only get an inefficient, static, collectivist catastrophe: which is how a Socialism pledged to inflation appears as contrasted with Communism. It seems that too many of our Western intellectuals are crossing to the Russian side of the street just when Russian intellectuals, having trodden it long and painfully enough, have started to cross to ours. One can comprehend, though not support, the economics and politics of a 100 per cent totalitarianism. One can neither comprehend nor support those of an inflationary Socialism which spells social collapse into an eventual and inescapable totalitarianism.

Conclusion of the Matter

The working-out of inflations in history caused big social changes and injustices, from which (however) little, if any, real economic progress, little social dynamics, came. In some cases, especially that of Rome, the entire social fabric and civilization came down in ruins, and on the ruins little was built for over a millennium. In a few cases—that of sixteenth-century Spain—the continuation of steady inflation was not so much due to political cowardice or ineptitude as to sheer ignorance of the causes. But in most cases of uninterrupted, progressive and rapid inflation—from ancient Rome to modern Germany—the causes were appreciated, the inflation became policy, and the government utilized it for purposes of politics, *i.e.* of power. The ends of such policy-inflations were socially cataclysmic. Their outcomes were unplanned, though predictable.

That prospect still faces us in the now-interdependent trading world of the West. What happened in the American and West German economies in 1959-60 is but an indication. The built-in causes of inflation still operate: 'full employment' and inflation still seem synonymous. Yet we still face a choice, not a deterministic fate. The choice seems to be between an unplanned, really unwanted, but nevertheless inescapable social cataclysm, caused by deliberate prolongation of progressive inflation beyond the point of toleration by all classes of taxpayers, on the one hand; and on the other, reasoned and reasonable agreements—within and between our leading countries—to restore long-run reliability to standards of value.

True, if we make the latter choice, our peoples and their governments, groupings, vested interests, etc, will have to bear the practical implications of such rationality and reliability in both domestic and international affairs. These practical implications are what makes democracy difficult to run, politically, in one country; and what makes co-operation between democracies so difficult. What do the masses of our citizens, and their competing political leaders, really want? This challenge must be repeatedly and publicly put before them.

If, in fear of taking the difficult choice, they take the easier inflationary one, they will soon bring about the social and international upheavals already described—both in history, and as possibilities in the not-too-long-run future—as cataclysmic, abrupt, and uncontrollable. Planned, progressive inflation as a policy ends in unplanned, unwanted, but inescapable—and, above all, unforeseen—disaster. That is the lesson of all inflations in history.