HOW INFLATION TOUCHES EVERY MAN'S POCKETBOOK: Primer in H.C.L., ...

By JACOB H. HOLLANDER, Ph. D.

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INFLATION AND LIVING COSTS

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It is right that we should try hard to answer this question, not only to place the cause of all our present troubles exactly and to avoid further error; and, most of all, by retrace the steps to undo all or as much of the mischief as possible.

The answer is that Inflation is due to the folly of the Administration. The Inflation at Washington (1) while we were getting ready for war, (2) while we were in the midst of the war, and (3) when the war was over. During each of these periods the Treasury permitted and, in the case of the latter, carried to the country's money supply, with the cer- tainty of creating more money, a higher rate of inflation, a statement calls for some further explanation.

In the first place, the outbreak of the war in August, 1914, until the United States began to fight, we received a great influx of gold and silver. This was a windfall of money, a windfall supply of all our war supplies. This in itself would have been a dangerous addition to our money supply, and such corrective measures had been taken, a certain cause of rising prices. No such correct- measures were taken.

More than this, important changes were made in our banking system by which the new gold, as well as that which we already had, was transferred from the banks to the United States government for the war supplies. This was made possible by allowing the banks, in the first place, to use smaller percentages of the credit which they provided, and, in the second place, by permitting them to use other forms of security than gold as reserves. In other words, from 1914 to 1917 the United States added largely to its money sup- ply, and arranged to pyramid on the increases which it desired.

Where Treasury Erred.

(2) This pyramiding power was used by the Treasury during the war as a matter of course and it was done both leisurely and cheaply and easily with funds. It was done in two stages, First, by issuing certificates of indebtedness with the banks and receiv- ing in payment new and additional cred- its, and, second, by selling bonds at an artificially low interest rate, with the aid of cheap borrowing facilities at the Federal Reserve banks, so that bond buyers found it easier to obtain addi- tional bonds to pay for the bonds rather than use their sav- ings or such bank deposits as they al- ready had.

Even from the standpoint of the Treasury, this was a shortsighted, mis- taken and costly economy. During the civil war Secretary Chase obtained for the government $500,000,000 by issuing greenbacks, but we know now that the higher prices which the Government did not follow, since for its pur- poses cost the country more than the greenbacks yielded, to say nothing of the further harm they caused. In the present war the printing presses could have been used to much better advantage if we had worked fast enough so that instead of making and issuing addi- tional paper money the Treasury made and issued a larger amount of bank credit. Just as we speak of the greenbacks as flat money, so it is right to speak of Gov- ernment bonds as flat credit.

But instead that mistakes may have been made before we entered the war, because our Federal Reserve banks were at first lavish with the money that we had to face were new. Even more, while we were in the war it might be said that there were no such mistakes. In the matter of raising funds for ourselves it was right to use those means which would give quick re- sults, even though the after effects may have been serious. But neither of these excuses can serve to explain or justify what we did after the armistice, and that now is the last place.

Our Government came out of the war with a big floating debt, that is, with a dollars of unpaid bills over and above the Liberty and Victory loans. Instead of meeting this squarely, the Treasury kept the fact steadily in the background, and ex- tended the period of the loans. Further, it extended time borrowing of the peace period, that is to say, the Treasury

sustained and renewed its floating debt, having the banks create additional credit and then extend it and spend, and when so spent would come back to the people and so swell the total amount of money in the country.

In the second place, the war was sure and simple. It meant that the country was being provided week after week with more and more gold to finance the war, that the Treasury business required it, but because the country was willing to pay for it in this manner rather than to get what it must have by taxes or by real borrow- ing.

It ought to be added that the banks were always willing although not en- thusiastic to provide the money people wanted, because they could in turn borrow from the Federal Reserve Banks at a cheaper rate than the returns which the Government paid them.

Other Factors are Minor.

Is inflation the only cause why high prices? Have such things as high wages, excess prof- its, taxes, paper currency, the overthrow of the gold standard—have not the money supply, or real borrow- ing, or the workers been part of the cause? What have had little to do with it? Of course they have. But they have been contributing, not pri- mary cause. Our country is too vast and our business life too complex for a sudden change to come about in one part without starting a host of other changes. To throw a stone in a pond and the shore line will be disturbed by the first swelt but by the series of ripples that the waves make. I contend that Inflation is the primary cause of high prices, and that such things as excessive wages, high costs, taxes, restricted production are second- ary causes that would have had little effect but for the primary inflation.

But interesting as it may be to know the cause of high prices, as little of what can be done to control them as it is to consider this effect, the real question in which we are all concerned is—the remedy. Again, we do not have the moral strength to make the mischief, what are we going to do about it.

I believe firmly that a considerable part of the mischief can never be undone. Much of it has already hap- pened; more of it will have to be undone, and we expect relief will be afforded. If we try a short-cut operation we shall certainly bring about another business failure. But this operation may be successful but the patient will die.

But, on the other hand, we should cer- tainly not sit by with hands folded and watch presently all the things to improve, as long as there is a chance that by wise and intelligent action we can control, and not the end.

Remedial Possibilities.

There is such a chance and here are the particulars: First, the government at Washington should stop, first, last and all the time, adding to our money supply. This means that our $5,000,000,000 floating debt should be cared for, not by having the banks manufacture more credit for the purpose, but that the deficiency be met by re- ducing expenditures. The Treasury will have to raise tax revenue or by issuing debt obliga- tions which investors would absorb from their savings deposits made in this way as flat credit.

The second place, having seen it that no additional credit could be made, we should try wisely but bravely to re- duce that vast amount which is in ex- cess. Such a reduction would require courage and support the Federal Re- serve Board in the policy which they were now adopting and sitting in the matter of raising funds for ourselves. It was right to use those means which would give quick re- sults, even though the after effects may have been serious. But neither of these excuses can serve to explain or justify what we did after the armistice, and that now is the last place.

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