

*Inflation not Inevitable*

It is not necessary, before entering upon a discussion of this subject, to attempt to present a highly sophisticated definition of inflation. For all practical purposes inflation may be defined as a condition in which there is a persistent rise in the general level of prices. There are some who argue that inflation, defined in this way, has existed throughout the long sweep of history and that this historic trend can be expected to continue its inevitable course in the future. In support of this contention these observers point to the rise which they claim has taken place in the indexes of prices over the last several centuries. However, a close examination of the actual movements of prices in the United Kingdom, the United States and Canada does not support such a sweeping generalization. Professor Knox has explained that "In Great Britain and the United States, for instance, the record since 1800 shows great and long-continued swings in the general wholesale price level. Yet over that long period their indexes of wholesale price levels show no clear trend; increases have, in time, been offset by decreases . . . the price level (In Great Britain) in 1940 was almost exactly where it was in 1840, and yet there has been considerable growth in output over that period." These movements in the general levels of prices in the three countries may be observed in Chart I. It will be seen that over the past 150 years there has been no persistent trend. There have been long periods of relative stability and of decline as well as sharp upward movements. It is apparent that the major upswings were associated with extraordinary events, especially wars. It is strikingly evident that the effects of the Napoleonic Wars, of the American Civil War and of World Wars I and II have been the prime causes of all the pronounced increases in the price levels which have occurred.

Chart II shows the general movements in Canadian wholesale prices since 1867. From that date to the present the index has increased by close to three times but it is clear that the disturbances of wars have been the principal factor in this rise. Had the index risen consistently by an average of as little as 2% a year over the entire period the index would have been multiplied by more than six times instead of less than three. In fact, the sharp wartime increases have been offset in considerable degree by long periods of decline or relative stability. In evidence presented to the Committee by Mr. James Muir, President of the Royal Bank of Canada, it is pointed out that "... over the 33 year period from 1867 to 1900 we had an annual rate of growth in volume or "real" terms of almost 3 per cent, while the consumer price index declined 14 per cent. In the period 1920-29 we had an annual average rate of growth in real terms of 3½ per cent, but the consumer price index declined 16.9 per cent. (Almost completely stable prices prevailed from 1922-1929 . . . In real terms, therefore, inflation is not necessarily associated with periods of economic growth."

Historical evidence does not support the contention that inflation has been a necessary and inevitable condition of economic progress either in Canada, the United Kingdom or the United States. Nevertheless, it is now being suggested in some quarters that the circumstances of the present-day economic system and of modern society are such that a desirable or adequate rate of economic growth cannot be maintained without at least a moderate measure of continuing inflation. None of the witnesses which appeared before the Committee believed that inflation was inevitable, necessary, or desirable. Indeed the spokesman for large representative groups in the community expressed quite the contrary view. The Canadian Manufacturers' Association stated that "We do not accept the philosophy that inflation is either inevitable or desirable and we believe that the will to prevent inflation must be kept vital." The Railway Brotherhoods informed the Committee that "Our position (and we repeat this because here especially we want to be sure that we are not