

The Prices of Commodities

The London "Statist" index numbers show that One Pound sterling in June, 1914, would purchase as much as 62s. 11½d. in June, 1920—
The Contest between Consumer and Producer

Our index-numbers for June will be of special interest at the moment, when universal attention is being focussed on the price-level, and when there is such a conflict of opinion as to the future course of commodity prices. As may be seen in the subjoined table, the final index-number for June is 225.7, making a decrease of 4.3 points, or 1.7 per cent., as compared with May, and bringing us back to below the February level. Compared with a year ago the cost of living has advanced 28 per cent., and compared with six years ago it has increased by 214.9 per cent. In other words, £1 in June 1914 would purchase as much as 49s. 2½d. a year ago, as 64s. 0½d. in May last, and as 62s. 11½d. last month. Or again: £1 in June 1919 would purchase as much as 26s. in May 1920 and as 25s. 7d. in June.

plus which was made possible in pre-War days by a healthy competition and a sufficiency of production has been encroached upon more and more by the ever-rising price-level, till now, at last, it seems to have disappeared almost completely, so that the consumer has been constrained to raise his scale of marginal utilities. This tendency has, of course, existed for a long time; but it would seem that the level of wholesale prices reached in April—higher than it has ever been in our history—has proved the utmost limit which the consumer could bear. Nor must it be forgotten that the purchasing power of the consumer has also been diminished by at least one other factor besides the rise in prices—namely, the enormous increase in taxation, though this is not altogether a distinct factor. It is but a truism to state

	—Monthly Index - Nos.—				Increase		
	June 30 1920	May 31 1920	June 30 1919	June 30 1914	p.c. June 1920 on— 1920	1919	1914
Vegetable Food	249.5	243.4	171.0	66.5	2.5	45.9	275.2
Animal Food	243.4	242.9	207.1	97.5	.2	17.5	149.6
Sugar, Coffee and Tea	265.7	253.3	130.6	51.8	4.9	103.4	412.9
Foodstuffs	250.7	245.3	176.7	74.8	2.2	41.9	235.2
Minerals	297.0	301.3	201.4	96.7	*1.4	47.5	207.1
Textiles	259.0	258.8	217.1	80.6	.08	19.3	221.3
Sundries	235.7	260.0	226.3	82.5	*9.3	4.3	185.7
Materials	259.4	270.7	216.3	85.7	*4.2	19.9	202.7
Totals	255.7	260.0	199.8	81.2	*1.7	28.0	214.9

* denotes decrease.

During the past month might be discerned the action of two forces, one—a decrease in consumption—making for lower prices, and the other—a decrease in production—making for higher prices. In other words, we have begun to experience a contest between the consumer and the producer.

Discussing the former influence first, perhaps we should describe it, not as a decrease in consumption but as a determination on the part of the consumer to go without many articles of consumption rather than pay the high prices asked. This influence has already put a stop to the rise in prices in other countries, and the wonder is that it has not made itself felt in the United Kingdom long before our price-level attained its present height. It represents not merely an unwillingness to pay on the part of the consumer, but in reality an inability to pay. It has featured in the United States as the now familiar "overall" movement, as the "purple armlet" movement in South Africa, and so in these countries we have come to experience the phenomenon of a staid gentlemen threatening to wear loin-clothes rather than pay the high prices asked for clothes. All during the War the consumer paid practically any price that was asked; indeed, the strength of the demand often astonished even merchants themselves; but all the time the tide of prices had been rising steadily, weakening more and more the purchasing power of the great mass of the public, until the high-water mark, reached in April of this year, threatened at last to submerge the consumer and forced him to reduce drastically his standard of living. Speaking in the language of the economist, the large consumers' sur-

plus which was made possible in pre-War days by a healthy competition and a sufficiency of production has been encroached upon more and more by the ever-rising price-level, till now, at last, it seems to have disappeared almost completely, so that the consumer has been constrained to raise his scale of marginal utilities. This tendency has, of course, existed for a long time; but it would seem that the level of wholesale prices reached in April—higher than it has ever been in our history—has proved the utmost limit which the consumer could bear. Nor must it be forgotten that the purchasing power of the consumer has also been diminished by at least one other factor besides the rise in prices—namely, the enormous increase in taxation, though this is not altogether a distinct factor. It is but a truism to state

that, as a nation, we are now much poorer than we were before the War, but the statement must be supplemented by saying that some sections of the community, largely the wealthier classes, have become richer absolutely, as well as relatively to the other sections, during the War. In other words, one result of the War has been to accentuate the pre-War inequalities in the distribution of wealth. This has been due to the huge amounts raised by internal borrowing, which have been lent for the most part by the moneyed classes, and on which the provision of interest forms so large a part of our annual national expenditure. Therefore the huge scale of war taxation has been relatively less onerous on the wealthier classes than on the poorer classes, who form the great bulk of the consuming public. It is probable, indeed, on the other hand, that some sections of wage-earners receive higher real wages now than they did before the War, but these can be ignored, as they form only a small part of the general community.

As regards the second of the influences mentioned above—namely, a decrease in production—it will be found to be the result of three main forces. In the first place, it is partly the consequence of the reduced consumption discussed above, or rather of the fall in prices which has recently occurred. The dealer, finding a falling-off in demand, and having to sell at cut prices, was forced to carry smaller stocks, and the manufacturer, in consequence, though he knows that there is nothing in the nature of over-production, is yet constrained to go warily lest he have to sell at a loss. In the second place, the decline in production has been caused by financial conditions. As is well known, the banks had recently

to adopt a policy of rationing of credits, discriminating against speculative activities. The result has been that many speculators who held accumulated stocks in anticipation of a rise have been compelled to unload, and, by thus temporarily over-supplying many markets, have retarded production. Finally, not the least powerful factor restricting industry has been the singularly vicious proposal of the Government to raise the excess profits duty from 40 per cent. to 60 per cent. The manufacturer will naturally try to shift the tax on the the consumer, but in order to pass on the whole burden of the increase—that is, in order to recover the same net profit after the imposition of the extra 20 per cent.—he will have to increase his selling price not by 20 per cent., but by 25 per cent. In reality, he would have to increase it by more, for the consumer would purchase less at the increased price. This supposes that the consumer would be willing to pay the increased price, but, as we have already said, he is unable to do so. The evil is further aggravated by the fact that the increased tax enters not once, but many times, into the selling price of each commodity, for each product will have to pay the tax every time it is handled by a different productive agent in the course of its development from the extraction of the raw material to the marketing of the finished product. Thus from whatever point of view the increase in the excess profits duty is regarded, it will be seen to react towards greater hardship on the consumer and also towards a restriction of production.

What, then, will be the outcome of this struggle between consumption and production? What will be the future course of prices? As we have seen, prices cannot rise much higher, demand being what it is; but, on the other hand, the conditions of production do not warrant a decline in the near future. Nevertheless, it will easily be perceived that it is at such a moment as the present, when the purchasing power of the consumer is so restricted, and when his patience with rising prices is exhausted, when banks are rationing credits, and when speculators are being forced to unload, that a sudden slump in prices is to be feared. A slump in prices, should it occur, would react severely on production, and could only be succeeded by another gradual rise in the price-level, and it therefore behooves all concerned to deal delicately with a delicate situation. This applies especially to financial operations. Much good undoubtedly can, and must, be done by attacking prices from the financial end, but the experience of the United States ought to warn us not to attempt anything of the kind till production has reached something like normal dimensions.

The decline in our index-number for June must again be taken with a reservation, for though the total index-number declined, yet foodstuffs, as will be seen by reference to the table, advanced by 2.2 per cent. The mineral group declined in spite of increases in coal and iron, the textile group as a whole remained practically unchanged, and "sundry minerals" declined by 9.3 per cent. But foodstuffs have increased more than proportionately to the other categories, not alone as compared with May, but also as compared with a year ago and as compared with pre-War days. This is only natural, for, apart for constant inherent tendency of agricultural produce to increase in relative value, food, being the most primary want and affording least scope for economy in the quantity consumed, is always in the lead of an upward movement in the price-level, and always in the van of a downward movement. Since the outbreak of the War the real wages of agricultural labor have advanced, and for the moment labor seems to shun agriculture, so that the rise in the value of foodstuffs as compared with other commodities seems likely to be retained until a more even distribution of labor is effected or agricultural machinery is still further improved.