STABILISING THE DOLLAR IN PURCHASING POWER"

It is a curious fact that bankers, just because they deal primarily in money, are often less interested in the fluctuations in the purchasing power of money than are ordinary merchants who daily watch the course of prices. Some banks have in past times too often dealt recklessly in their commodity, money, with little realization of the disastrous effects they thus produce on the price level and on business conditions.

But to-day, more than ever before, bankers recognize that they perform a public function. No class of business men has tried more conscientiously during the war to render patriotic service; and few, if any, other classes in civil life have played a more indispensable part in winning the war.

Now that the war is over, the banker sees before him new fields of public usefulness. Besides shouldering a large part of the responsibility for financing the gigantic task of reconstruction throughout the world, he has another great task, namely, to help reconstruct the banking and monetary systems of the world. I wish to speak of one fundamental but neglected part of this great task.

This is the problem of curing the instability of money so signally illustrated during the war. It is coming to be recognized that this problem of unstable money lies at the bottom of the problem of the High Cost of Living.

For many years the Bank of England, by regulating its discount rate and so controlling the volume of credit has, as Lord Cunliffe's committee recently noted, kept the price level of England in tune with the price levels of other countries. The time has now come when the price level of the world itself should be controlled.

Retail prices of food rose in the United States in the same period seventy-nine per cent., in England 133 per cent, and in France approximately 140 per cent. It is fair to say that the war doubled prices in the United States and Canada, and more than trebled them in western Europe, while in Russia it multiplied them by ten or twenty.

The price level of the United States is now three-fold the level of 1896. Expressing the same fact in terms of the purchasing power of money, our dollar of to-day is worth only about thirty-five cents of the money of 1896. In modern slang, we may say almost literally that, as compared with the biggest dollar we ever had, our present dollar "looks like thirty cents."

We cannot get far in explaining this great rise in the price level and fall in the purchasing power of the dollar if we seek the explanation in the directions where it is usually sought.

Profiteering is an effect rather than a cause of rising prices, while scarity of goods cannot in this country be alleged as an important factor.

War finance is a prolific source of monetary and credit expansion. The war has exemplified this in many forms. Russia indulged in the simple crass inflation of paying government bills by printing irredeemable paper. Before the Bolshevist regime the Russian government printing presses turned out, according to reports, a million roubles an hour, day in and day out for over a year at a stretch. Under Bolshevism the output has been even greater, a total of eighty billion dollars in nominal value having been issued, whic is more than the money of all the rest of the world put together.

Germany allowed the people, when a new loan was asked, to deposit the bonds of the previous loans at certain banks which were authorized to issue paper money to the depositor who then lent this paper money to the government. In the United States, Liberty Bonds were likewise used as collateral at banks which, in turn, deposited them with Federal Reserve Banks and received their notes.

War finance also brought us still another kind of inflation, the most modern and approved, due not to the increase of money proper but to the increased volume of bank deposits subject to check. Banks subscribed to Liberty Loans simply by writing deposits on their books to the credit of the government, and individuals lent to the government by borrowing of the banks, the sums so borrowed being likewise created by the banks as deposits on their books.

All these methods of war finance may be defended on the plea of necessity, but they are inflation none the less, even when gold redemption has been maintained, and they therefore tend to add to the cost of living. As Dr. Miller, of the Federal Reserve Board, has said, "Inflation is no less inflation when gilded with gold."

On the whole, the money in circulation in the United States rose from three and one-third billions in 1913 to five and a half billions in 1918, and bank deposits from thirteen to twenty-five billions, both approximately corresponding to the rise in prices.

The secret of the high prices then lies not so much in scarcity of goods or profiteering in trade or in the other conditions usuallly supposed, as in our money and banking conditions. The great cause lies in the fact that the *world's war debts have been pulverized into circulating media.* This first occurred in Europe, but we in America felt its reflex effect long before we entered the war. The European inflation sent their gold to us in payment for war supplies. The billion dollars of