

The Future Level of Prices

Money inflation has had more influence in raising prices than probably all other factors combined

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In view of present peace talk, whether anything eventuates therefrom or not, it will be well worth while to consider the trend of future prices. This can be done only in the light of past and present experience. As is well known, there has been a steady and steep advance in the prices of food, clothing, building material, ocean and inland transportation, and so forth, since the outbreak of hostilities. This change in prices has almost provoked a social revolution; and it is incumbent upon our political and industrial leaders to take thought of the situation as it exists today — a situation that is full of menace to the working classes. The immediate question that confronts us is whether high prices will continue to be charged for the necessities of life, as well as for the material needed to carry on business enterprise, at the conclusion of the war, when the millions of men now engaged in the destruction of property and life return to peaceful pursuits.

Certainly many persons in Canada, as well as those close to the war zone, are wondering whether they will ever again see the 5-cent loaf, 20-cent beefsteak, 25-cent butter, 5-cent cotton, 50-cent potatoes and other products at ante-bellum prices. This is not a mere academic question, but one that concerns vitally the prosperity and welfare of the whole nation. Upon the way this question is answered will largely depend the solution of the labour problem and the harmonizing of the interests of workmen and capitalists. It is a problem that demands solution, moreover, in the immediate future, although it has been long with us; for it will be recollected that the present price movement had its origin before the war and first attracted serious attention at the beginning of the present century.

It is common knowledge that every war has brought a period of rising prices. The days of the Napoleonic struggle saw almost famine prices in the United Kingdom; and the Revolutionary War, as well as the Civil War in the United States witnessed a similar state of affairs. In truth, ever since the rise of the modern great States central governments have made war depend as much upon capital as upon men; and it is just in that direction that the origin of price inflation is to be traced. We have all heard of the fabulous prices demanded for food and other products in the days of the Revolutionary War, and in the Southern States between 1861-65; and quite recently this phenomenon appeared again in Mexico where a pair of boots, or even a hat, cost — in paper money at least — a small fortune. And this leads us to the root of the price difficulty that confronts, at this time, the entire world.

MANY FACTORS.

We are well aware that innumerable forces and factors operate in determining prices, and that there is no single or simple explanation of the problem. Mr. Hanna himself has seen a great light in this respect, and warns the nation not to expect a solution of the cost-of-living problem overnight. At the same time it is well to direct attention to the fact that more than 25,000,000 men have been withdrawn from production, and that this in itself explains, in a measure at least, the change in prices of food, clothing, housing and the other necessities of life. And yet, this colossal army of men comprises only a small percentage of this effective labour power of the world; and cannot be said, through its withdrawal from industrial pursuits, to have materially affected the supply of products. Their places have been filled by women and children; the factories of Europe are being operated twenty-four hours a day; and machinery is utilized to full capacity by means of three eight-hour shifts. Nor can high prices be traced directly to increased ocean freights, record-breaking as these have been. Only a small part of Canadian and American food supplies comes from Europe, and marine rates can therefore have no bearing upon food prices on this continent — at least as far as imports are concerned. Notwithstanding the great loss of tonnage it is probably safe to say that not more than 10 per cent. of the world's shipping has been lost or destroyed during the course of the struggle, replacements considered. Without pursuing further the obvious causes that have given rise to an increase in prices, we may now turn dir-

ectly to an examination of the one factor which, in our opinion, has operated most in increasing the cost of living — namely, inflation.

Money inflation has had more influence in raising prices than probably all other factors combined. It is usual to say, especially in connection with food prices, that the explanation for this high cost of living lies in a diminished output of all food products; but the fact is, taking one year with another, production of food has remained on almost the same level as obtained in the decade preceding the outbreak of war. It is rather in the relation between money and goods that the key to the price-problem is to be found, than in a falling-off of output, high freight rates, the withdrawal of man-power from peaceful pursuits and so forth, so commonly mentioned as the cause of advancing prices.

PRICES ADVANCED.

As is well known, there was a steady advance in the cost of living between the years 1895-1913, years of almost profound peace broken only by the relatively-minor struggles in South Africa, in Cuba and in the Far East. During those years, however, there was an enormous increase in the output of gold and in the money media circulating in Europe and America. For example, the gold in circulation in the forty chief countries of the world increased, in the years 1895-1917, from \$3,827,000,000 to \$8,560,000,000. True, silver money declined from \$3,825,000,000 in 1895 to \$2,600,000,000 in 1917; but this was more than offset by the enormous increase in "unsecured" paper money which, in the same years, increased from \$2,178,000,000 to \$13,500,000,000. The total amount of money of all kinds in circulation in 1895 was \$9,830,000,000, as against \$24,660,000,000 in 1917. It is important to note here that the increase in the amount of money in circulation in the forty leading countries of the world amounted, during this period, to 150 per cent., while the population of these same countries, including the rest of the world, increased only 13 per cent. "Unsecured" paper money increased from \$2,799,000,000 in 1913 to \$13,500,000,000 in July, 1917 — an increase of 400 per cent. It is interesting to observe in this connection, that gold and silver money has increased very little since the outbreak of war. The following table indicates the astonishing increase in "uncovered" paper money, in the chief belligerent countries, during the last four years:

Country.	1913.	1917.
United Kingdom.	\$ 115,000,000	\$ 660,000,000
Germany.	262,000,000	1,613,000,000
France.	326,000,000	2,900,000,000
Italy.	182,000,000	661,000,000
Russia (1915).	804,000,000	4,285,000,000

Beyond peradventure the chief factor in advancing prices is found in money inflation. If in addition to the data already presented there is added the amount of bonds and debentures floated by the various nations at war, another cause of prevalent high prices will be revealed — or, rather, a similar cause in a slightly different aspect. For, as every student of finance knows, bonds may be pledged with banks and other institutions as the basis of credit and loans, and the cheques drawn against loans (which are left in the form of deposits) are but another form of money, or of the medium of exchange. It is essential to observe, in this connection, that the total debt (net) of the world in 1895 was \$28,750,000,000 as against \$43,840,000,000 in 1913. By July 1917 the world's debt had mounted to the stupendous total of \$106,000,000,000; or nearly four times as much in 1917 as in 1895, and three times as much as in 1913.

Now, it is important to observe that the principal index numbers of Europe and America, including that of Canada, indicate almost parallel increases in the cost of living and the prices of materials and commodities of all kinds. The index number of the London "Statist", which is a continuation of Sauerbeck's figures on the cost of living, shows an advance from 61 in 1895 to 85 in 1913, and from 108 in 1915 to 170 for the first half of 1917.

Bradstreet's index number, the best known in the United States, shows an average of 64 in 1895, 92 in 1913 and 161 for the first half of 1917. The index number of the United States Department of Labour,

based upon wholesale prices of farm products, food, clothing, fuel, lighting, metals, lumber, drugs, chemicals, house-furnishings, etc., shows an average of 57 in 1895, 81 in 1913, and 120 in March 1917. The index number of the Department of Labour in Canada shows that the increase in the cost of living has practically paralleled the movement in the United States. In all these index numbers the selection and range of commodities, as well as the methods used, differ; and it is therefore all the more surprising to discover that the price movement has been on the same scale in America as in Europe — leaving out of consideration the even higher prices obtaining in Germany, Austria-Hungary and Turkey. An examination of the data presented above will show that the cost of living advanced 50 per cent. in 1895-1913, and 90 per cent. in 1913-1917.

It remains to consider whether any material lowering of prices may be looked for at the close of hostilities. If our analysis of the chief causes for present high prices be correct, it will be useless to expect any sudden, or substantial, diminution of prices at the close of the war. True, there will be many readjustments, and commodities will be affected in their exchange relations with one another. It is not to be denied that the return of some 25,000,000 men to factory, farm, and mine will materially alter conditions of production and of distribution, and therefore of the relation of goods to one another in exchange. But it should be carefully observed that the problem considered in the present article is that of the general level of prices, and not of altered prices in the case of particular commodities. In other words, we have considered the relation of goods in general to the standard money commodity of the world — namely, gold.

Now, if gold be superseded in large part, or in any considerable degree, by "unprotected" paper money and credit based upon the national debt of each belligerent, it becomes perfectly plain that quoted prices will not be gold prices; and that they will be in large part paper prices, and therefore high prices. How long will this condition last?

Paper money, unprotected by gold, and various other forms of promises to pay will long remain in evidence at the close of hostilities. The interest upon the combined, net national debt of the world, at the outbreak of war, was \$2,000,000,000; at the end of the present year it will be at least \$5,000,000,000, or even greater when the huge war debt of the United States is considered. It will take at least a generation to so reduce the world's national debts as to affect the chief money markets of America and Europe. It is greatly to be feared that the unprotected paper money issues of the Great Powers, with the exception of those of the United Kingdom, will remain outstanding as a menace for years to come to the well-being of the common people.

WHO SHALL GO SHORT?

Lord Northcliffe States the Food Issue Frankly.

Lord Northcliffe, speaking in Toronto on Monday night of last week, said that the question of the food supply of the army was, with the solitary exception of transatlantic shipping, the vital question of the war.

"I believe you have a very good Food Controller" said Lord Northcliffe. "At any rate he shares the same quality as the Food Controllers of Britain and the United States — he is not concerned with what people say about him."

"This question of saving food is not a question of saving money, but it is known to economists that the world's supply of food is not sufficient to feed the world's armies and the civilian population, too."

"Now, which is going to go short?" he asked. "I am one of those who prefer that the boys in the trenches do not go short for us. Either the civilian population has got to reduce its consumption as in Britain or our soldiers will suffer."

In an interview with newspapermen before the meeting, Lord Northcliffe said:

"Most unpopular man in the world is a Food Controller in any country. It is perfectly understandable. No man likes to have his food allowance cut. You know yourselves. How would you like your breakfast cut in half and the prices doubled? The question is simply this, you have got to eat less if your armies are going to be fed."

"Is profiteering in Britain stopped?" he was asked. "Of course it isn't. You can't have it so. There are individual convictions from time to time, but you can't completely control prices or quantities."