The Future Level of Prices

Paper money and prices—Agriculture the important factor for Canada—Price reduction gradual

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The future level of prices presents a problem of fundamental importance. The prosperity of the nation depends upon the full employment of its capital and labour, and this in turn depends upon the price received for manufactures and the output of agriculture. It is certain that neither Canada nor the United States can replace the export trade, created by war conditions, by exports of manufactured goods and raw materials for the rehabilitation of Europe unless prices fall to lower levels. As long as France, Belgium, Poland and the other devastated nations are compelled to pay war prices for the commodities they require, only essential works will be undertaken by them, and much permanent construction will be held over for a later period when the purchasing power of money shall have been increased. In general, the money side of the price problem is relegated to the background or ignored altogether.

And yet, the changes that have been effected in prices by alterations in the volume of currency in circulation, and by the issue of paper money by all the European belligerents, have had a profound influence upon the determination of the prices of products. Most discussion centering about values has been carried on with reference to demand and supply alone, and the money question has been ignored. Yet France alone has issued, through the Bank of France, 29,500,000,000 francs; while the paper money issues of the European nations engaged in the war stand at $30,000,000,000. Be it recalled, moreover, that all the belligerents, with the exception of the United Kingdom and the United States, have suspended specie payments since August, 1914, so that these paper currencies are out of all proportion to gold holdings. When one realizes that an issue of only $450,000,000 by the United States during the Civil War, in the form of paper currency unsupported by gold, raised prices by July, 1864, in terms of paper, to approximately three times gold prices, it is easy to understand the very great effect of such an enormous issue of paper notes upon the general price level prevailing in Europe.

Add to this the tremendous issue of war bonds made by each belligerent—the United Kingdom having financed more than $40,000,000,000 of credits alone—and it becomes clear how difficult it will be to bring back prices to a gold basis throughout the world. These bonds, in themselves, create a new kind of currency, inasmuch as they may be pledged at the banks to form the basis of credits against which cheques can be drawn. The paper money, the bonds of small denomination passing from hand to hand, the new credit currency, one and all will operate in keeping general prices at a high level on the Continent. It may be expected, nevertheless, that the United Kingdom will quickly reduce prices to nearer the normal level, since gold payments have never been suspended there, and since production of peace goods will shortly be undertaken on an enormous scale. Great Britain has now a superb mechanical equipment, a trained and efficient labour force, almost 6,000 new factories, many new and improved shipyards, and a financial organization hardly approached anywhere else throughout the world. It is certain that the United Kingdom, both because of its strategic position with reference to the European market and its maintenance of gold prices will prove a formidable competitor of the nations seeking to export manufactured goods to the markets of Europe. Many shrewd observers, indeed, predict that the United States will find it almost impossible to compete, in point of price, with British manufacturers in the immediate future. Wages are extraordinarily high in the United States and Canada, and can only be lowered as the cost of living is lowered. The latter cannot take place, however, until manufacturers readjust their businesses to peace conditions, and the producers of raw materials discover that permanent prosperity cannot be built upon factitious prices brought about by the abnormal demands of war. In the long run it will be to the advantage of labour to accept a lower scale of wages, for not otherwise can steady employment be assured. It is futile to imagine that government work, federal, provincial or municipal, can be utilized to fill the gap created by the suspension of hostilities. Prosperity cannot be manufactured to order; it depends upon the enterprise, capacity and application of capitalists, industrial leaders and workmen, alike. In the long run such trade as is built up by individual initiative will provide the safest foundation upon which to establish a high standard of living and a high level of material prosperity.

The situation is not parallel in the case of agriculture. Prices of food products will be abnormally high for many months to come—probably for two years after the signing of peace, with gradual readjustments to normal production and consumption. This is a matter of supreme importance to the economic life of Canada. Five out of nine persons in the Dominion live upon the land, and a brisk demand for their products, at good prices, quickly makes its effects felt everywhere throughout the country. Particularly is this true of the West, which is becoming more and more valuable as a market for Eastern manufacturers. Preparations are under way for putting under crop in 1919 the biggest acreage ever sown in the West. Even with a normal yield per acre, a fair average, the West will prove in 1919 the balance wheel, stabilizing the economic activities of the country. As wheat plays such a prominent role in the agriculture of the West, it may be well to survey briefly some of the factors affecting its price to the local producer and the final consumer.

As is well known, the price of wheat is fixed for the crop up to August, 1919, so there need be no apprehension for the immediate future. A price has been guaranteed which can readily be paid by the Government, since hungry Europe must in turn pay that price for some time, and more. In 1920, however, matters will be different when the chief wheat-growing countries of Europe have begun to get production back to normal; and when the supplies in Australia, the Argentine and elsewhere will be available for quick shipment to the European markets. Demand and supply as expressed through the Grain Exchanges, will then function as before, and the price of wheat will be determined by the total world supply as balanced against the total world demand. Many farmers have insisted that the prices of the basic food products should be regulated by international agreement; but it is safe to say that, in the long run, the interests of producers and consumers alike will be best served by permitting economic forces to determine market prices.

Canada's chief competitors in the marketing of wheat in normal times are: The United States, Argentina, Chile, Uruguay, Hungary, Bulgaria, Roumania, Russia, Turkey, India, Australia and North Africa. The total production from all these countries will not suffice for at least a year to come to meet the European demand. Indeed, it is safe to say that it will take some of the devastated nations years to recover their former position in agriculture, and during that period the price of wheat and other foodstuffs will rule high. In Great Russia, hundreds of thousands of horses have died from lack of fodder; incalculable losses have been suffered in farm buildings, equipment and machinery; many square miles of fertile lands have been rendered useless without intensive and careful treatment, which cannot be afforded under present circumstances. The same is true of Germany, where the lands have been denuded of their fertility under high pressure production with insufficient application of fertilizers. Indeed, it is not generally recognized, or known, how terribly some of the most fertile areas of Europe have suffered through the war, owing to the lack of labour power, devastation caused by the march of armies, and general neglect. Authentic reports come from Russia to the effect that even seed grain is not available outside of the Ukraine and Siberia, and that many millions are on the brink of famine.

Nevertheless, it must not be thought that wheat prices can remain high indefinitely, nor for a longer period than land can be brought under cultivation to raise the minimum of food supplies essential to the people. Be it recalled that all northern European countries make large use of rye bread, and that larger areas will be sown to rye, oats and other coarse grains, for food purposes, than before. Besides, there is a limit to what these peoples can pay for bread, and the law of substitution will inevitably come into play, as soon as primary necessities are satisfied, to keep prices down. For eighteen months or two years longer we may count upon relatively high prices, then, for wheat, and other foodstuffs. Profitable farming in the West will create an active market in that event for the products of Eastern factories and distributing houses.

At present every effort must be made to increase the output per acre on the lands under cultivation in Canada; but ultimately, the ideal must be a large output per man, and not per acre, to keep the standard of living high. Much unfair criticism has been directed against the "extensive" methods of cultivation followed in the West. These methods may be wasteful in some measure, but they are preferable to those that might be followed under more intensive culture with more workers upon the average farm. In that event, the output would be larger per acre, but the general standard of living much lower. Nevertheless, as soon as famine conditions in Europe are remedied we may expect, with falling wheat prices, to find Western farmers turning to stock-raising to a greater extent than ever before. Farmers are realizing that it pays them, in marketing products, to place upon the market as far as possible the finished commodity.

It may be said, then, that high prices for foodstuffs will guarantee a splendid market for the manufactures of the East, in the prairie provinces. These high prices for wheat and other grains will not fall abruptly, but only over a fairly long period. Sinc[e] animals and their products cannot be produced as rapidly as wheat, oats, and so forth, and since the slaughter of swine, sheep and cattle since August 1914, has tremendously reduced the supply on the Continent, it may be predicted that prices will b[e] maintained at rates to yield good profits for a long time to come. Certainly the prices of animal food products will not fall as rapidly as those of breadstuffs. All of this has an important bearing upon the wages of labour, the costs of manufacturing, and the maintenance of our export trade.

If foodstuffs remain high for the next five-year period, the crucial period of readjustment, wages must also remain relatively high. This means that manufacturing costs cannot be reduced sharply to the level obtaining in 1914. Nevertheless, wages must decline with declining food prices, and especially with the prices of other commodities—coal, clothing, rents, and so forth. It would be disastrous to the economic life of Canada if labour insisted upon maintaining the level of wages reached during the war. Indeed, it may be asserted that the only assurance that the Dominion has of overcoming the obstacles that lie in the road of economic expansion, in the future, is the full application of the productive labour power, and the capital equipment of the country in such a way as to guarantee the utmost output of marketable commodities. There is a relation between output and wages which labour would do well to study and investigate.

CANADA'S STATUS.

Canada is not a "dependency." She is an incorporate nation of the biggest union of nations that ever happened.—London Free Press.