

Our Changing Economy

Inflation Depicted As Handy Scapegoat

By Philip Stoddard Brown

INFLATION is wrongly blamed for a lot of financial pressures—the inability of government to spend more for education, public housing or foreign aid, and for the difficulties many of us experience in paying Christmas bills and the January 15th installment on our Federal income tax.

Prices alone do not determine the cost of living. It's the number and types of things we buy as well. We complain about the cost of new cars. But what's so unreasonable about the price of a car, 208 inches long, with a 200-h.p. engine, automatic transmission, power steering, power brakes, tube-like or delta-wing rear fins, dual headlights and white wall tires?



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Less expensive cars are available, but 45 per cent of Ford's output is now of Galaxy models. Chevrolet's big seller, too, is its most expensive line, the Impala. Moreover, even these models aren't good enough for many who are hard pressed to pay last month's bills. They require a car 225 inches long and 81 inches wide with more power, a positive-tractor differential and a transistor radio.

All the increase in the price of haircuts and dental fillings is often attributed to inflation. This too is wrong. Even if the consumer-price index for all items had not risen in the past 10 years, such costs would have increased.

Standards Rise Also

Many Washington families whose expenditures have risen 50 to 100 per cent in the past decade may be surprised to learn that the consumer-price index has risen only 19 per cent. It's not just that prices have gone up; it's our standards that have gone up. Inflation is more in the mind than in actual pricing of goods when we pay \$5 for a necktie instead of the \$1.50 we used to pay.

Likewise, inflation is not solely responsible for disparities that have developed among the earnings of people whose income used to be the same. Chemists, engineers and architects might have gained more in real wages than teachers and government workers even if there had been no inflation. The purchasing power of pensioners would have fallen relative to that of employed persons.

The most perjorative thing about a rise in the general price level, in my opinion, is not the further maldistribution of incomes that it causes, but the more accidental distribution of capital gains and losses. One man who borrowed heavily to buy a house ten years ago finds the appreciation of his property exceeds all the money he has saved since then. Another man who because of family sickness couldn't afford the downpayment, is just out of luck.

Even without inflation, capital gains and losses are fortuitous enough. By accident, one person owns a parcel of land that turns out to be at the intersection of two highways unplanned when he bought the land. Another happens to own land depreciated by circumstances no one could have foreseen.

Worse Things Than Inflation

But there are worse things than inflation. One of these is great waste of manpower, idle plant and neglect of natural resources. This is bad at any time—but especially at a time when our way of life and that of other peoples is in jeopardy. If "a price creep" were necessary to achieve labor peace and fuller utilization of resources, surely a little more irrational distribution of income and capital gains would be tolerable.

Is inflation necessary? For four years, 1952-56, we had nearly full employment and stable prices. The big creation of additional credit began in the fall of 1954 and continued through 1957. It occurred—as it so often does—at a time when it was not needed to create new jobs . . . But, while inflation may not be necessary, it may—in a sense—be inevitable in the present political and economic climate.

"Inflation and high taxes are the two greatest evils of the day," says one of the topmost government officials. Most businessmen agree. They talk fervently about the need for cutting government expenditures and resisting the demands of labor. At the same time—and here I have in mind the record of Harlow Curtice, former President of General Motors, and others—they bitterly assail the "Fed" when it imposes mild restraints upon the increase in credit. They have maintained prices, and unit-profit margins, wherever possible, and laid off workers when sales lagged.

Liberals Want It Both Ways

Many liberals criticize the Administration for permitting inflation and raising interest rates. At the same time, they deplore the reduction of price supports on farm products, inadequate foreign aid and too little spending for education, conservation, public health and national defense. But they never advocate or even suggest, the need for higher taxes.

Hypocrisy is where you find it. I usually detect it in "others" when they talk about inflation—especially when they begin by professing "great sincerity" . . . Once a month, when I discover scarcely enough money in the bank to pay bills, I have a faint suspicion—which I quickly suppress—that I have bought a few things that were beyond my means.

Sincerity is a virtue that most of us profess, but few achieve. It tops my list of words that should be deleted from all speech and writing . . . If the word "inflation" were also banned, this too might be good. People would have to think about what they mean—until another all-purpose word were invented.