INFLATION AND GROWTH

What inflation does to the economy depends to some extent upon the relationship between price movements and the growth in the economy; and here by growth I mean largely the rise in per capita income at stable prices, though, of course, one should also consider to some extent the increase in the numbers on the labor market and, therefore, relate it to the rise of population.

A historical examination of the movement of prices and the rate of growth of the economy does not yield any very clear-cut results. Apparently we have had growth of substantial proportions in periods of falling prices as well as of rising prices. We are equally surprised by the extent of growth in periods of falling prices as we are by that in periods of great inflation. One cannot be sure; but if we had not had the fall of prices, for example, in the last quarter of the 19th century, we might have had an even greater rate of growth. There is a considerable amount of evidence that the economy was not getting enough money, and the failure to achieve an adequate increase in the supply of money may have contributed both to falling prices and to a somewhat lower rate of growth than the potential.

KIND OF INFLATION

At any rate, the major controversy here revolves around the period since 1950. Much more support is given to the general theory that in the last few years, that is, from 1955 to 1958, we have had a peculiar type of inflation when prices rose by 8 percent in the midst of a so-called peaceful world. Many more economists now believe that inflation is what is known as a cost-push inflation, that is, an inflation that is brought about by rising wage and other costs. But even here one must be cautious because this kind of inflation cannot be continued without providing adequate supplies of money and appropriate fiscal policies. This type of inflation is in contrast to the usual, the classic type, which is supposedly related to an excess of demand, that is, an excess flow of purchasing power and of demand in relation to the flow of goods. It is generally assumed that monetary policy can adequately deal with the excess and demand kind of inflation, although increasingly we seem to want a larger contribution from fiscal policy.

Of one thing we may be reasonably sure, namely, that in periods of great unemployment it is important to expand the supply of money and therefore the amount of spending greatly in order to achieve an improvement in the economic situation. This was shown clearly in World War II, for as late as 1939, unemployment was still at 9.5 million, or about 17 percent of the labor force. By 1944 military purchases had risen to $88 billion and unemployment had fallen to 1 million.

We may conclude that if inflation is one of the costs of growth, then, of course, against the inequities and adverse effects of a given degree of inflation on the economy, we have to put any increased amount of output and employment that result from the inflationary process. We, of course, all want price stability, full employment, and maximum growth. But often we are unable to achieve all these objectives, in part because our instruments are blunt. We may have to choose be-