the Government responsible for raising the revenue and spending it, and also on our international position. The "real" problem which we cannot completely disregard is the relationship between inflation and growth. One of the effects of inflation is, of course, to what extent it contributes to a rise or fall of output.

In this particular study, I am concerned primarily with what we generally refer to as "creeping inflation." In the minds of most, this means a rise of the prices of 1, 2, or possibly even 3 percent, though the last is such a serious increase that it should not perhaps be included under creeping inflation. A long continued rise of prices of 3 percent a year bring serious results even in a generation.

I shall say very little about the larger doses of inflation, for example, the experience during the French Revolution, when prices seemed to have risen 200 times in a period of several years, the Russian inflation after World War I, which was apparently brought on partly to expropriate all those who had claims to rubles, or the Chinese inflation and certainly not the postwar Hungarian inflation when prices rose 10^{17}—a world's record. These are tremendous inflations and they bring about problems and effects that are largely irrelevant for the kind of problems we are discussing today. Indeed, much has been said of the possibility of a creeping inflation bringing on a galloping inflation. But when one considers that over 120 years we have had a rise of prices averaging a little more than 1 percent, I do not think the dangers are as serious as often made out, though I am also convinced that the more we talk about these dangers the greater the chance that a creeping inflation will result in a galloping inflation.

I shall not discuss here wartime inflations. Indeed, in World War II the rise of prices was surprisingly moderate, an increase of roughly 30 percent from 1940 to 1945; but the price rise was contained by various control measures, and once the controls were removed, we had a much more serious rise of prices in 1946 and 1947.

At any rate, inflations in wartimes are likely to be much more than creeping inflations despite the great progress made in handling inflations during wartimes. I once estimated that, if one allows for the proportion of economic resources used for war purposes, inflation in the Civil War was about 12 times as great as in World War II, and the inflation in World War I was about 4 times as great as in World War II. Nevertheless, despite our increased capacity to handle inflation during war times, it is unlikely that in a major war the inflation would proceed at a rate of less than, say, 2 percent a year. I might even go further and say that in a modern atomic age the rate of inflation, in view of the great destruction that would be done, would be a matter of tertiary importance.

I also assume that the inflation we are discussing is genuine. By that I mean there has been a good deal of discussion of the point that the statistics on price rises overestimate the increase in prices, because we allow inadequately for quality. This point has been made numerous times.

Professor Ruggles has made this point effectively in the compendium before the Joint Economic Committee. He said:

> * * * It would indeed be interesting if price comparisons, taking quality and improvement into account, could be made between periods. This question might be asked another way. Suppose an individual were given $1,000 and a choice of