

ordering goods either from an early postwar Sears, Roebuck catalog (say, 1948) or a current (1957) catalog. If he were permitted to spend the money in terms of only one catalog, which catalog would he choose? The 1948 catalog has substantially lower prices, but also less advanced products. If the 1957 catalog were chosen, it could not be said that the prices rose from 1948 to 1957, despite the evidence of the price indexes. Different people would undoubtedly answer this kind of question differently, but it is by no means certain that an overwhelming majority would choose to spend their money under the 1948 price and product conditions rather than on the 1957 conditions, despite the fact that the implicit price indexes of consumer goods have risen about 17 percent since 1948.²

It is scarcely necessary to remind the reader that the extent of inflation depends, in no small part, upon the base period chosen. For example, if we take 1913 as the base year for the Consumer Price Index, we would find that the annual rate of inflation from 1913 to 1958 was 2.4 percent, but from 1920 the increase would be 1 percent, and from 1955, 2.5 percent. But from 1939 the rise would be 3.9 percent. We often discuss the 50-cent dollar, meaning the reduction of value since 1939; but note that in comparison with 1929, the dollar is now worth 59 cents. In other words, part of the inflation was a correction of deflation in the 1930's.

The 1958 dollar was worth as follows, in relation to various base years:

	<i>Cents</i>		<i>Cents</i>		<i>Cents</i>
1913-----	36	1933-----	45	1950-----	83
1920-----	69	1939-----	48	1951-----	90
1922-----	58	1945-----	62	1953-----	93
1929-----	59	1948-----	83	1955-----	93

Source: Business Week, Aug. 3, 1959, p. 95.

I am to discuss later the problem of whether the current inflation is an excess demand, that is a classic inflation, or a cost-push and administered price inflation. I have discussed this problem at various times.³ Indeed, an excess demand inflation is likely to have a different incidence on the distribution of the costs of inflation than a wage-push inflation. A wage-push inflation obviously means that wages (and other costs) rise first and then prices follow, and, therefore, one would assume that labor does reasonably well in such an inflation. The excess demand inflation may more likely result in a lag of wages behind the rise of prices and, therefore, a less satisfactory position for labor income.

CHAPTER 3. INFLATION AND GROWTH

INTRODUCTORY

One of the strongest arguments used on behalf of inflation is that it is a necessary price to pay for progress. The argument seems to be especially valid when applied to the history of the 1950's. But it could also be relevant for an understanding of our history since 1939. Only when a wartime demand was superimposed on a modest peacetime demand did this country achieve real prosperity. As late as 1939, unemployment was still at 9.5 million or about 17 percent of the labor

² Joint Economic Committee, "Relationship of Prices, Economic Stability, and Growth," compendium of papers submitted by panelists appearing before the Joint Economic Committee, March 1958, p. 298.

³ For example: the "Investigation of the Financial Condition of the United States. Pt. 7: An Analysis of Pts. 1-6 Held During the 85th Congress," Senate Committee on Finance, August 1959, pp. 2140-2143.