

force. Then came defense and war and by 1944 military purchases had risen to \$88 billion and unemployment had fell to 1 million. Prices rose by 25 to 30 percent and the real rise was concealed by controls. A price rise seemed to be a necessary condition for increased output. Growth is one aspect of the problem of incidence of inflation.

But I do not want to carry this argument too far. The historical and geographical material summarized in this chapter does not yield a clear-cut picture of the positive relation of price rise and output. But it does suggest that even with very large inflation (and in some instances a galloping inflation) output continues to rise. But the effects of galloping inflation are so serious in other respects that few would endorse it.

Perhaps the strongest argument for inflation as a price to be paid for rising output can be raised by the experience in the last 10 years. Here there seems to be a real danger that excessive concern with the price level and restrictions on monetary supplies may bring unnecessary curtailments of output and recessions.

INFLATION, A NECESSARY COST OF GROWTH?

The relationship between the price level and growth has had a long history. The view widely held for many years has been that when prices rise output also tends to rise. The explanation of this, in part, is that with rising prices the businessman profits because costs do not increase as rapidly. The assumption is that wages lag behind and fixed charges also tend to become less burdensome as prices and sales increase. Of course, as trade unions become more powerful and as they tend to eliminate the lag and perhaps even anticipate the rise of prices through an increase in wages, this argument loses a considerable amount of its force.

But in recent years, the problem has become of much greater general interest. The charge has been made, for example, that the present administration is too much concerned with the stability of the currency, and in order to achieve absolute stability endangers the economy by reducing supplies of money and therefore tends to bring about a fall of prices, or at least a reduction in the available supply of money and thus induces unemployment.

There is no doubt but that the administration does stress greatly its anti-inflation policy. Especially since the Democratic Party was in power during the Great War and postwar inflation, the party in power now tends to exploit the inflationary trends in the economy. Their concern emerges partly in trying to protect the interests of those that have claims to dollars and who would, therefore, suffer through a rise of prices, and in particular those who have bonds, other kinds of property and income that do not respond to the rise in prices, and particularly older men and women who have relatively fixed incomes; and since they are not generally members of the labor market, are unable to protect themselves.

Many have been critical of the administration and monetary authority, particularly in 1953 and in 1955-57, for restrictive monetary policies were followed by recessions. Undoubtedly there are other explanations of the recession; for example, the excessive rise of investments from 1955 on, but many do believe that restrictive monetary policies contributed toward the resultant recession.