

Bach's general view is that, if wages and commodity prices are pushed up through governmental monetary and fiscal policies faster than is consistent with high employment and a stable price level, the results will not be good.

Such a policy, fully relied on, will remove most of the incentives for sellers to refrain from continually seeking ever larger income shares through higher wages and prices. We will be continually faced with the necessity of accepting inflation to maintain high level employment * * *.

* * * Indeed, it may become increasingly difficult to have full employment even with inflation, if inflation becomes increasingly accepted and expected. Unions, businessmen, and farmers can readily increase their asking price further the next time around * * *.

In a general way, Professor Baumol's position is a good deal like Professor Bach's.¹² As long as the public expects that inflation is not going to continue forever and believes it will end some day, this expectation can lead businessmen to liquidate inventory and postpone purchases. Another adverse development is the effect of rising prices upon savings and with the reduced real value of their savings, spendings will be curtailed. This reduction in savings will ultimately have adverse effects on investment. Again with inflation and the absence of real economic pressure, Baumol reminds us, the public will tend to reduce their standards of quality. Why produce better products, as Professor Baumol suggests, if the commodity can be sold anyhow?

PRICES AND OUTPUT—BY COUNTRIES

Another approach to this problem is to study the relationship between output and prices for a number of countries. On the basis of a study of Professor Kuznets, Professor Eckstein has produced figures for eight countries for a period of almost 100 years. These figures generally reveal the relation between price and output movements in one decade in relation to a preceding decade. In general these statistics do not prove very much. We do have large rises of output both when prices are falling and when they are rising. For example, in the United States from 1879 to 1888 the output growth was 88 percent above that of the preceding 10 years, while prices dropped by 19½ percent. From 1889 to 1898 the respective figures were 38.2 percent of growth and a price decline of 12.9. But from 1899 to 1908 the output growth was 56.4 percent and price rise 9.3 percent. Almost anyone would agree that a rise of output 10 times as great as in prices, say, an annual 10-percent rise of output and 1 percent in prices, would reflect a great achievement. But a 1-percent increase of output and a 10-percent increase of prices would spell failure. An acceptable and achievable policy lies somewhere in between. In later periods of 10 years, the relationship was more nearly a 1-to-1 relationship of prices and output rise. Of course, in the great depression the rise of output was small, 6.2 percent over 10 years, as against a fall in prices of 18 percent.

As might be expected, with growth, the relative rise of output tends to decline by 10-year periods, though this varies to some extent from country to country. These figures also suggest that one might have a very large increase of prices and one that might be considered almost catastrophic and yet output would rise.

¹² See the compendium, "Relationship of Prices, Economic Stability, and Growth," especially pp. 51-53.