

# **HIGH PRICES AND DEFLATION**

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High Prices and Deflation by Edwin Walter Kemmerer

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**EDWIN WALTER KEMMERER**

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BY

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With an Introduction by

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## PREFATORY NOTE

This book represents a revision and enlargement of three articles published during the winter of 1919-1920 by the Bankers' Statistics Corporation of New York City. The subjects of the three articles were respectively *Inflation*, *High Prices*, and *Deflation*. In view of the widespread interest shown in the articles, and of the receipt of numerous requests for copies of them, I have revised them for publication in book form. The Bankers' Statistics Corporation has kindly consented to this republication.

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## INTRODUCTION.

The six years from 1913 to 1919 are striking ones from many points of view. During this period we saw the fires of the world's greatest war smolder, break into flames and die away again; we witnessed the overthrow of great nations and the repartition of Europe along new lines; countries which had not existed prior to 1913 as national units sprang into being and vast armies of men were drawn from factories, desks and fields, trained and sent to battle from which many never returned. Coincident with these changes, problems of the first importance have developed in our economic life, problems which affect each of us to-day in a very vital manner and which demand intelligent study and correct solution. Chief among these problems is that of the high cost of living, its causes and effects, and the question of what is to be done to relieve the situation as it now exists. An enlightened public opinion on this whole subject is an urgent national need.

The increase in general prices throughout the world is the outstanding economic phenomenon of the period included between 1913 and 1919. In Australasia that rise was about 100 per cent; in countries having a gold stand-



ard still, such as the Scandinavian nations, Japan and the United States, it has varied from 150 per cent to 250 per cent, while in paper money countries, like Russia and Austria, it has mounted to several thousand per cent.

✓ It is evident that when the price level increases, the value of the dollar declines. To double the price level is to cut the dollar in half. Inflation, followed by the inevitable depreciation of money, has varied during these six years in different countries. Even in the same country different kinds of prices, as, for example, wholesale prices, retail prices, wages and prices for public services responded with different degrees of promptness and at different rates to inflationary forces. The same thing may be said of the various commodities within each of these groups.

The ever-present question of the "profiteer" can be traced back to the changing extents and varying degrees of promptness to which wholesale and retail prices, respectively, have responded to the forces of inflation. The reason for the high cost of living and for industrial disturbances, if tracked down, will lead back largely to the same cause. Increase in wages has not followed closely enough the increase in

price level, and the labor problem has thus continued to be a very troublesome one. Fixed or slowly rising rates for railroads and other public utilities under governmental control have not kept pace with the enormous rise in the costs of materials and services. The result has been retarded development of our transportation and transmission systems.

The true value of savings accounts has been cut in half by the rapidly depreciating dollar, and the same is true of paid-up insurance policies, of fixed incomes from bonds, mortgages, pensions and preferred stocks. Chief among the sufferers have been those who least deserved to be exploited—colleges, universities, benevolent institutions, and the thrifty people who in the past saved capital and put it to some productive use. All these have been penalized, and the newly rich, with extravagant spending tendencies, have watched gold pour into their purses. Teachers, clerks and others with fixed salaries have been hard hit. On the other hand, the facility with which money could be borrowed, owing to the low rate of interest demanded, led to dangerous speculation and shameless extravagance. Widespread discontent and extreme radicalism have resulted.

In this book *High Prices and Deflation*, Professor Kemmerer explains the process of inflation and the rise in the cost of living since 1913, examines the degree of inflation and considers the economic and social results flowing from it. He shows why prices must ultimately come down and points out the policy to be pursued in order to bring about deflation. There are no more important questions demanding our attention to-day than these, and an effort to put them squarely before the public in a simple, clear and concise manner is worthy of the highest praise and the greatest success. Professor Kemmerer's book is a most useful contribution to a very vital subject.

FRANK A. VANDERLIP.

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