Inflation--How It Occurs

By THEODORE H. MILLINGTON

"We are headed for inflation" is an expression frequently heard and read. But what does the speaker or writer mean by "inflation"—does he mean inflation of money? Does he mean inflation of credit? Does he mean inflation of prices?

The word "inflated," as everybody knows, means that a thing has become larger than its normal size or value. As applied at money, we must first know what is its normal value before we can determine when it is "inflated." We must also know what kind of money—whether redemption money, called sound money, or first money, called printing-press money.

Sound money is the kind of money issued against gold and silver in the hands of the government in full or in part, and which by act of Congress has been made redeemable in gold or silver according to information printed on its face—i. e., the holder can present such money at any bank at any time, demand gold or silver and get it. Congress regulates the value of it. That is, only Congress has the right to fix by law the number of dollars that will be issued against the amount of gold on hand and the weight of gold that it will pay in redemption of a five dollar bill. That gives, therefore, such paper money, called "currency," a fixed value in gold.

Not Now Redeemable

Our present paper currency is not so redeemable, because the country is off the gold standard—i.e., the value of our money is at present not measured in terms of gold.

It is believed, of course, that this is only temporary, pending the time when the European countries, most of whom also went off the gold standard, and the United States can re-arrange an agreement mutually satisfactory whereby each country will pass laws fixing the weight in gold which it will pay in redemption of a given amount of its paper currency.

This kind of paper currency has come into general use because of its greater convenience and the bother of the weight and danger in carrying gold and silver in the pocket.

Agreement Broken

The inflation of sound money, therefore, would mean that a government has failed to keep its sacred agreement with other nations as to the amount of money that it would issue against an ounce of gold, and that it has issued a great deal more than its total gold reserve. Such over-issue is "inflation," because by that act it will take more paper currency to obtain an ounce of gold in redemption, and it makes problematic its ability to redeem. It also will take more currency to buy a sack of flour or any other commodity.

It will therefore be seen that inflation of prices is the same as deflation or devaluation of money. The less money is worth, the more of it it takes to buy something. Therefore, the man who has anything to sell, or who owes debts, wants inflation of money-volume (inflation of prices on what he has to sell), and deflation of the unit-value of money, which is, of course, a kind of cheating. Conversely, the person who has a fixed income in salary or from money loaned or invested does not want this condition because the money he would get would buy less in commodities. This condition was brought about when President Roosevelt raised the price of an ounce of gold from, roughly, $21 to $35.

However, aside from the rise in the price of gold, commodity prices did not generally begin to increase until the fall of 1934, which shows that supply and demand is a more powerful factor in inflating or deflating prices than any government alteration of money values. In fact, the terrific inflation of prices from 1924 to 1929 was created entirely by a hectic demand for anything and everything regardless of prices; yet there had been no government devaluation of our money at that time.

Benefit Obscure

It is hard to believe that, in the long run, devaluation of a country's currency is of any benefit to anybody; because, as soon as prices are adjusted to the new money value, the relation of buyer and seller, debtor and creditor, will be the same again. While labor will, of course, get more dollars per day, those dollars will buy less and less food, clothing and housing. Likewise, while a farmer might get $2 for a bushel of wheat, he would also have to pay $10 for a pair of shoes that formerly cost him $5. So he has gained nothing.

When can credit be said to be normal, and when is it inflated?

I should say that "normal credit" is where the borrower or debtor is abundantly able to meet interest and principal when due. If that is true of the individual, it is equally true of the nation as a whole. In this connection, however, it is well to remember that, in view of the ever-present probability of emergencies, the careful individual always carries ample reserves and never exhausts his credit. A nation should follow that same practice. Did we do that from 1924 to 1929? A few did, and they not only have weathered the storm, but can now invest at bottom prices in properties lost by the less conservative.

Demand Drops

When, however, the individuals and corporations of a nation have so far extended their individual credit that their earning power or income no longer is sufficient to meet interest and principal, then we have inflation. There follows then a falling-off in demand for goods, a slowing-up of production and manufacturing. Unemployment, foreclosures, bank failures and bankruptcy occur in progressive continuation till that low point is reached where those who did not exhaust their credit, but kept ample reserves, can step in with their funds and reap the benefit.

Whether these are individuals or corporations is of no importance—it is the operation of natural law. And because it is the operation of natural law I am not much of a believer in the ability of any government to do anything about it excepting in necessary welfare efforts during the depression.

The important thing to remember is that a prudent business man tries to buy at the bottom, and then only when he feels sure of a rise in prices. So long as he keeps his money in the bank, as he is doing now, there is no chance for a rise; and so long as the government keeps the future uncertain, he will keep his money.

Price Inflation

Price inflation is what we call a general rise of prices. But if prices go too high for the income of the people, then the people cannot buy; so prices fall again. Government fixing of prices does no good. Price is of no importance when you are broke anyway.

I believe, however, that many people, when they speak of "inflation," have in mind printing-press money—i.e., the kind of money which is not backed by or redeemable in gold—like poker-chips won that cannot be cashed.

The Patman Bill represents such an idea. It is a proposition to have the government pay off its debts to the veterans by the simple expedient of printing some pretty pieces of paper, calling it money, and with that paying off a few billions of its debts to our veterans. It is the same as if I wrote checks to pay my debts knowing that they could not be cashed.

At first, of course, the veterans could buy things with that pretty paper, because our people have sublime faith in the integrity of the government. But as the presses would continue to print dollars at the cost of a small fraction of a cent per dollar, the dollar purchasing-value would drop; which is only another way of saying that prices would go up, and the last holders of those pretty slips of paper would find themselves defrauded by their own government.

Gold On Hand

It is objected to this view of the bill that the government would eventually redeem that money. If eventually, why not now? We have the gold to do it.

It also is said that the bonus payment is only a little inflation, and if controlled, will not hurt.

Secretary Morgenthau said over the radio a few days ago that our dollar has proven itself "the soundest money in the world." Morgenthau knows better than that. Though he is Secretary of the Treasury he cannot legally redeem a single five dollar gold note, even though the note says on its face it is redeemable. He knows, of course, that the money now being issued says on the face of it "redeemable," not in gold, but "in other lawful money." That is the same as claiming that a debt is paid by continually renewing it.

Our present money is *not sound money*. It has purchasing power only because the world has faith in its ultimate redemption. But once start the printing presses and the world will lose that faith. The presses will have to continue, for the government no longer will be able to sell its bonds to borrow money.

The difference between printing-press money and redemption money is this: The value of printing-press money depends upon fickle faith and confidence; while the value of sound money lies in its redeemability in gold, regardless of the question of faith or confidence. That is because gold is indestructible, has universal value, and has been so held since long before known or written history. Sound money can be hoarded without losing value; printing-press money must be spent immediately because the longer it is kept the less it will buy.

World Has Faith

Our people and the whole world believe that sooner or later the gold in the U. S. Treasury again will be placed behind our money, making it redeemable. The world believes, and so does the writer, that Uncle Sam only temporarily has closed his gold-safe, and that soon he will again meet his honest obligations.

If, however, Uncle Sam could honestly and fairly pay his legitimate debts to the soldiers with pretty paper, why stop there? Why not go on, printing enough to pay for the $4,800,000,000 work-relief program, instead of borrowing that money on bonds or levying taxes to get it? It costs less to print money than to collect taxes. And then, if the presses wore out, we could take some of the pretty paper and buy new ones, and run enough more pretty paper to pay off the whole $35,000,000,000 government debt.

The men and corporations who now hold all those bonds would get that money and spend it—and how! The states, cities and counties could probably get the national government to print money for them at a few cents a thousands dollars and pay off all their own debts. All business concerns would pay their debts and retire their stocks. Every individual would pay his debts—if he could lug around enough money to do it. That would be inflation, and would end in a bonfire of pretty paper.

No Security Investments

After all debts were paid there would be no investments in securities, and therefore no incomes from stocks or bonds; so everybody would have to invest in real estate (which would go sky-high) in order to get incomes, or else go farming and get paid for wheat they wouldn't grow and pigs they wouldn't raise. That scheme would beat the Huey Long and Townsend plans for dividing the wealth 40 way for Sunday! German and Russian war-money would have nothing on us! However, those countries could do nothing else. They had no gold left, they could borrow no more money from their people; so they just naturally printed some.

But our government has gold enough and to spare for backing all the money we have any use for. As it stands now, the government confiscated the gold from the people, giving them pretty pieces of paper which had cost only the price of the paper and the labor, in payment. If redemption is not resumed, that act will remain as a fraud by the government upon its people! Such a thing is unthinkable.

We will not have that kind of inflation.

Credit inflation to retail merchants by the manufacturer and jobber might be a good thing if its terms were long enough. Bank credit cannot be increased excepting as would-be borrowers can show ability to repay promptly.

FINED AS DRUNK

James W. Swindells, 38 years old, of Lone Pine road, Bloomfield Hills, was fined $10 on a drunk and disorderly charge Saturday by Justice Forbes S. Hascall. He was arrested here Friday night.

HAMMOND'S HEARING DEFERRED TO JUNE 7

Examination of Edward P. "Ted" Hammond, Jr., of Bloomfield Hills and Grosse Pointe, on a negligent homicide charge, which was originally scheduled for last Friday, was postponed until June 7 by Justice John E. Brondige in Royal Oak Municipal Court. His bond of $1,000 was continued.

Hammond, popular polo-playing member of the young social set, was arrested on a warrant issued on the complaint of Waldo H. Durbin, husband of Lucille Durbin of Hazel Park, one of two women killed in a collision June 17, 1934, at Twelve Mile road and Woodward avenues. Hammond was the driver of one of the cars which figured in the collision.

When first arraigned Hammond stood mute and a plea of not guilty was entered for him by the court. The warrant on which he was arrested was issued without a recommendation from the prosecutor's office.

In 1933 the grand total of membership in all church denominations in this country reached 60,800,000.