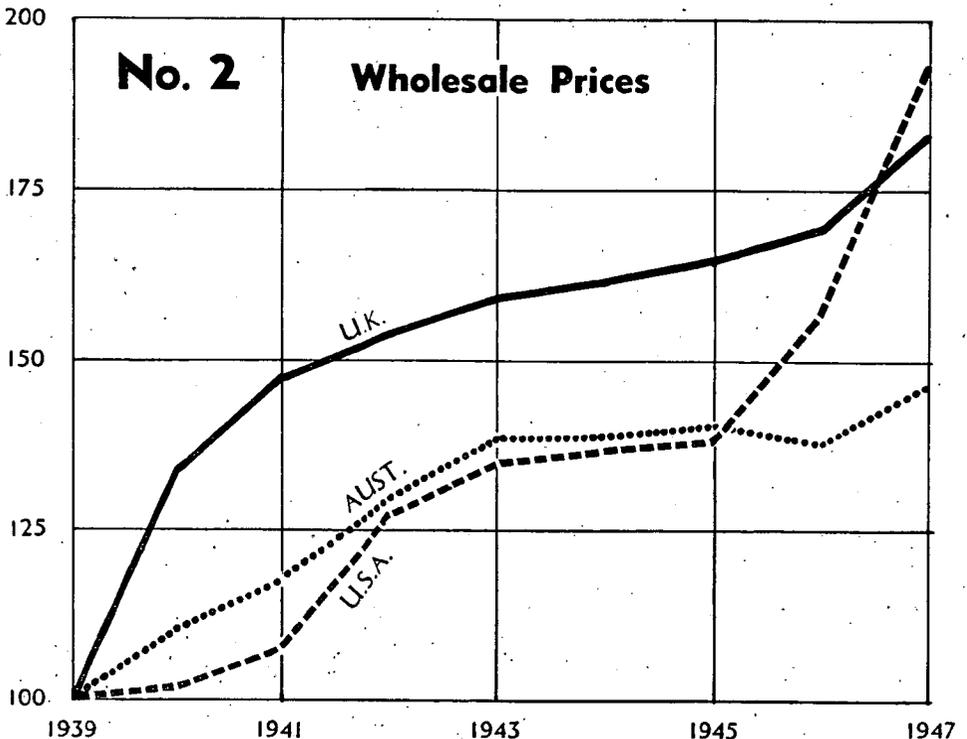
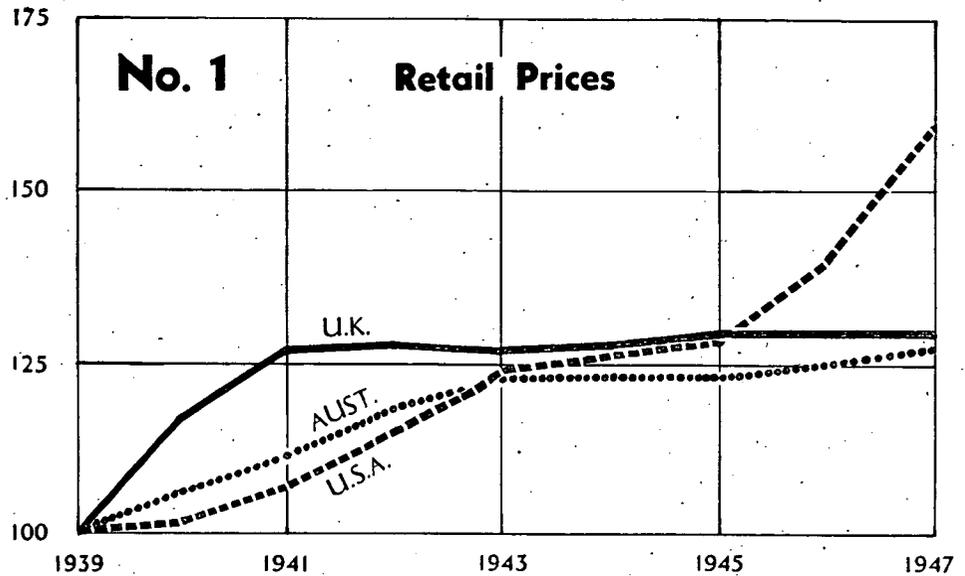


INFLATIONARY TRENDS

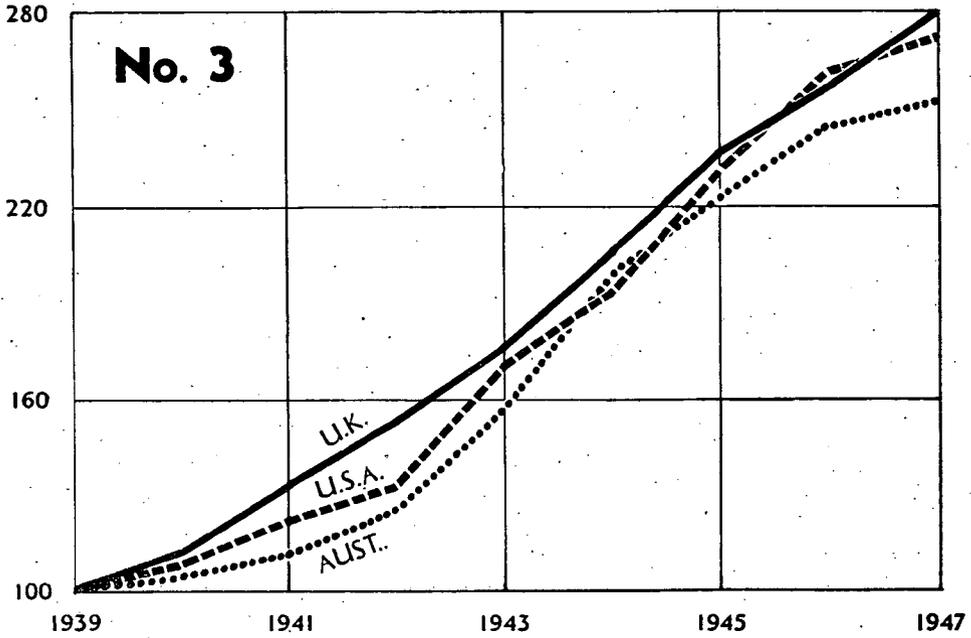
PRICE INDEXES
YEARLY AVERAGES: BASE YEAR 1939 = 100



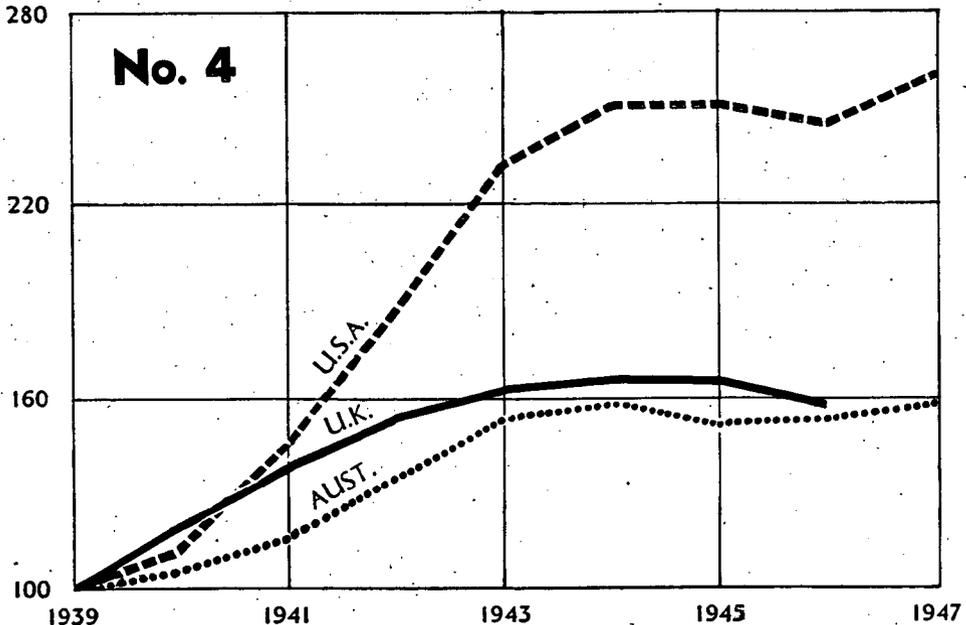
SOURCES: Graphs (No. 1 and No. 2) prepared by the staff of the Institute of Public Affairs—Victoria, from: United Nations Monthly Bulletin of Statistics.

INFLATIONARY TRENDS

VOLUME OF MONEY: BASE YEAR 1939=100



NATIONAL INCOME: BASE YEAR 1939=100



SOURCES: Graphs prepared by the staff of the Institute of Public Affairs—Victoria, from: (No. 3) Commonwealth Bank Statistical Bulletin, October, 1947. (No. 4) United Nations Monthly Bulletin of Statistics, September, 1947; United States Survey of Current Business, November, 1947.

INTERPRETATION OF GRAPHS

THE graphs on pages 22 and 23 give a broad picture of the inflationary developments in Australia, the United Kingdom, and the U.S.A. since 1939.

In order to describe the extent of inflation, the movements in three main economic factors need to be examined—prices, the volume of money, and the total national output of goods and services. Graphs 1 and 2 show the movements in retail and wholesale prices, Graph 3 shows the trends in the volume of money, and Graph 4 the trends in national income.

Rising prices are not the cause of inflation. They are the consequence of inflation. Inflation results when the volume of money—that is, liquid funds in the hands of the public in the form of cash and bank deposits—increases more rapidly than the supplies of goods and services available for purchase. Changes in the relationship between the volume of money and the supplies of goods need not, however, be reflected in an equivalent change in prices. During the war, all countries through price-control prevented the full effects of inflation from being reflected in the price level. But price-control did not prevent the inflation itself.

Inflation cannot be prevented through price-control, because price-control operates on the result—not the cause—of inflation. Price-control is a palliative not a cure. Palliatives are, of course, up to a point desirable; but insofar as they tend to conceal the existence of the disease itself, they contain elements of danger. The real task of the economic practitioner is to effect a cure, to eradicate the disease by eliminating the cause. Price-control cannot do this.

The severity of the malady—the extent of inflation—can be assessed roughly by comparing between two points of time the increase or decrease in the volume of money with the increase or decrease in the volume of goods. On this basis it is apparent that between 1939 and the present a very considerable degree of inflation has taken place in the three countries—Australia, the United Kingdom and the U.S.A. The disease has made dangerous inroads into the economic systems of all three countries. But it need not be fatal.

To stay the course of the disease and to restore economic health, the volume of production must be increased relative to the volume of money. Assuming that the volume of money remained stable, increased production could be a powerful factor in relieving the inflationary situation. But under present conditions it is inconceivable that, by itself, increased production would be sufficient. Steps also need to be taken to control and possibly reduce the volume of money.

There is a close correspondence in the degree of expansion in the volume of money since 1939

in all three countries—about 180 per cent. in the United Kingdom, 170 per cent. in the U.S.A. and 150 per cent. in Australia. In the case of national income, however, which is roughly equivalent to the value of national output, there is a very marked disparity. In the U.S.A. national income has risen by about 150 per cent., but in the United Kingdom and Australia only about 60 per cent. This, of course, represents the change in values not quantities of production. Total national production in terms of quantities has increased since 1939 by about 50 per cent. in the U.S.A., but in Australia and the United Kingdom it is believed to be roughly the same as in 1939—perhaps slightly greater.

We would not be safe, on the basis of this rather generalised picture, to jump to the conclusion that, since the beginning of the war, the magnitude of inflation in Australia and the United Kingdom has been greater than the U.S.A., because economic circumstances and conditions in all three countries differ profoundly. It is sufficient to point out that the inflation in each case has been most marked.

Nevertheless, the inflationary pressure in the U.S.A.—that is, the gap between goods and purchasing power—has already been to some extent relieved by the great increase in prices which has taken place in that country—much greater than in either Australia or the United Kingdom.

Retail prices in the three countries show a rapid rise to 1943, when as a result of stricter control over price increases and by subsidy payments, prices were stabilised. In the United Kingdom and Australia, retail prices have remained fairly stable since 1943, because of the maintenance of price control and subsidies, but in the U.S.A. a sharp rise in prices commenced in 1946, when price-control was removed.

The index of wholesale prices gives a less artificial picture of comparative price movements. It demonstrates the seriousness of the increase in wholesale prices in the United Kingdom in the early years of the war as compared with Australia and the U.S.A. But since 1941 there has been a rapid surge in wholesale prices both in the U.S.A. and the United Kingdom—although much more pronounced in the former country. Wholesale prices in Australia have not increased so rapidly. The marked disparity between the movements in wholesale and retail prices in the United Kingdom is largely accounted for by the effect on the index of retail prices of the immense government subsidies on food and other commodities—now well over £400m. a year.

Due to a variety of causes, the rise in both retail and wholesale prices in Australia has accelerated over the last six months. There is a strong probability that the tendency will become more pronounced during the current year as the full effects of the 40-hour week and higher wage costs and import prices make themselves felt.