The Myth of the Falling Dollar

By JOSEPH DANA MILLER

[This hitherto unpublished article by Joseph Dana Miller was written in 1930, in reply to an editorial in *The New York World* (Oct. 5, 1930) on the subject of monetary inflation and prices. At the present moment, when inflation is engrossing the minds of expert and laymen alike, this article should be of interest.—Ed.]

DURING and succeeding all modern wars the Dollar has "fallen"—that is, the relation of the money unit to commodities has undergone a marked change and has bought less of everything. This has sometimes occurred as a consequence of "inflation" and has resulted, not so much from the increase in the volume of money, as deterioration in *quality*. But quite as often it has been due to causes which have been entirely overlooked.

During the World War prices everywhere rose, as prices do in war time. But in the years succeeding we have witnessed a continuance of high prices and the blame for this has been visited on what has been called a "fifty cent dollar." It will be of interest to examine the evidence on which the theory rests and see if there be not other and more conclusive reasons for the high price level.

The only way we measure the value of a dollar is by the amount it will buy. If the dollar buys less than at a former period we say the dollar has fallen. This is the popular terminology and serves its purpose well enough. But when "the best minds" give to this theory a fixed economic interpretation that attributes all the phenomena of high prices to a "depreciated dollar," ignoring everything that is going on at the other end of the line, so to speak—the commodity line—it is clear, or should be clear, that a great mass of evidence furnishing a sufficient explanation of high prices is being entirely overlooked.

THE "FALLING DOLLAR" AND THE FARMER

The buncombe of the "falling dollar" has been very useful to those whose favorite occupation is fooling the farmer. When the price of wheat went up, the speculator on the exchange said it was due to the falling dollar and as the farmer was compelled to pay more for what he bought, he would of necessity get more for his grain. But when the bottom dropped out of the wheat market the farmers were told by the same people that the low price was caused by the inability of Europe to buy our wheat. The manipulators have made no effort to reconcile these two theories.

By this time the farmer had begun to realize that their troubles were due to other causes than a falling or fluctuating dollar. When the value of their crops fell, many of them were compelled to increase the mortgages on their farms. When the price of wheat again began to rise, the public were told that there would be a shortage in wheat due to decreased production in Canada owing to "wheat rust." The argument for the fallen dollar was retired for the nonce.

The farmer who is getting from three to four cents a quart for his milk, and the city man who is paying from seventeen to twenty cents a quart, will listen with varying emotions to the argument for a fallen dollar. Both will want some reasonable explanation for this difference in price.

The farmer who receives an average of four cents a quart for his milk must provide the cows, pasture, fields, barns, cans and feed for his cattle. He must milk and clean the cows and transport the milk to the station. The milk companies do the distribution. What they receive is out of all proportion to what the farmer gets.

This we must bear in mind. There is no monopoly in cows, but there is an organization of milk dealers who have driven the little fellows out of business so that today there are practically two companies in control of the entire milk supply of New York City. And the manipulators and creators of public opinion send forth the information that all this high cost in one of the prime necessities of life is a money, not a monopoly problem.

REAL CAUSES OF HIGH PRICES

The claim that would visit upon the dollar the indictment of high prices is an all too convenient explanation. Every speculator and monopolist, every highly protected manufacturer, seeks to escape responsibility by pointing to the scapegoat dollar.

But if this is not the explanation of the high price level, where then shall we seek it? We shall find on examination a variety of causes that furnish abundant proof that economists are pursuing the wrong track; that conditions of production and distribution afford a wholly sufficient group of reasons for the prevailing era of high prices.

This misconception in the popular mind would not so greatly matter if it did not lead us to visit the blame for conditions on mistaken causes—that it tends as well to encourage the advocates of every fiat money nostrum. To know the remedy for any evil we must know the cause. In this instance we are treating an effect as a cause and are thus likely to be led astray in the adoption of defective solutions for the evils complained of.

Any comparison of prices that prevailed in 1913 and those of any period down to 1928 loses sight of some very important facts. 1913 was a year of intense business depression. Nearly four million men were out of work. Their purchasing power was nil. Rents were low because there were many vacant apartments and stores. We were getting more for the dollar in many cases than could be produced for the dollar, for merchants and manufacturers were selling at a sacrifice in order to get ready cash. A panic was on. The dollar was rising, not because the dollar was scarce, nor because anything had happened to it, but because there were serious disturbances at the commodity end of the line.

With the beginning of the World War in 1914 all this was changed. There was a great demand for our products from abroad. Great numbers of workers found employment in making arms, ammunition and supplies for the Allies. With our entry into the war an era of hectic prosperity began such as always occurs in war times; wages, profits and prices rose. With the conclusion of peace these conditions continued. The high wage scale wrung from war conditions was maintained by restriction of immigration and renewed demand for our goods from abroad. Also, the lessons of profiteering out of situations created by the war had been too well learned.

Besides, the habit of extravagance in buying and spending took possession of the workers, now in receipt of wages greater than they had ever known. The high wage scale was highly deceptive, of course, since the workers were paying for rents and commodities more than they had ever paid. But the prosperity was real nevertheless. And because they saw no end of it the orgy of spending continued uninterruptedly. This operated to prevent a diminishing price level such as overtook the era of high prices following our own Civil War.

MONOPOLY AND PROFITEERING

With the introduction and improvement in labor-saving machinery the cost of production has been reduced. This should have been followed—and normally would be followed—by a slightly rising dollar, that is, the dollar would have bought somewhat more of the products of labor. But much of this gain has been absorbed by monopoly and the profits of middlemen. In many instances a commodity whose cost of production has been reduced has actually risen in price. When the cost of making a pair of shoes was lowered by a reduction in the price of leather, the price of shoes went up. The tariff and wastage in distribution, not the falling dollar, were the main factors in this increase.

Rail rates were increased at the request of the railroads. The reasons given for such demand were the higher wages they were compelled to pay. Statisticians have figured that these higher rates have increased the cost for construction of dwellings about $250 per room.

Up to a few years ago the department stores of New York and other cities were owned by individuals and were under their personal direction. Now it is the custom of these stores to incorporate and put their capital stock on the market. It has been figured out by the statisticians of Harvard University that following these incorporations the "overhead" of department stores went up from 28 to 50 per cent. This increase must be added to the price of goods before any profit can be made, and the dividends must have a further tendency in maintaining high prices.

Perhaps it would not be wholly unfair to indict the department stores and instalment houses on another count, that of encouraging the almost universal practice of buying goods on the instalment plan. To this there can be no objection *per se*; it is only when carried to extremes, as it is in modern practice, that it has an injurious influence on prices. The mortgaging of the future in this way has passed all safe and reasonable bounds. As the family budget is arranged to provide for these future payments ready cash is not available for the purchase of current necessities, for bargains that may be offered in the markets, and often for the most pressing needs.

Where so large a sum is set aside to be drawn upon at future dates, the demand on current production is lessened, and in consequence production itself slackens. But the direct influence occurs in this way: Where payment of sums so enormous in the aggregate involves a large element of risk, higher prices are the insurance for this hazard. And thus we have another factor in the many we have indicated for high prices. The "falling dollar" argument begins to look a little frayed at the edges.

The Tariff Commission in its investigations made some time ago showed how certain articles bought from the manufacturer had a 300 per cent profit added by the retailer. Of course, if profits could not be added there would be no handling of goods. Profits in reality are returns on investments, plus an amount for service. But abnormal profits due to monopoly, the follies of a buying public, the irrational decrees of fashion, together with enormous wastage in distribution, are all factors in high prices. The millions spent for advertising all kinds of wares, which has reached almost fabulous proportions, must all be added to price.

GENERAL TENDENCIES

Passing from particular causes we come to some more general tendencies making for a high price level. American parents, for the most part, both native and foreign born, are educating their sons to earn a living without physical effort. They are being taught to regard as an inferior class the mechanic and the laborer. They are adding to the numbers of the largely unproductive class of the population already out of all proportion.

Our girls are being taught to evade household and family responsibilities, so that they may make advantageous marriages with aristocratic and well-to-do young men who are removed from the necessity of laborious occupations.

While these tendencies contract both the numbers and sphere of actual wealth producers, the trades unions are adding to this contraction by limiting the number of opportunities in the crafts, through the medium of curbs on apprenticeships, reducing by perhaps fifty per cent the number of recruits to the manual professions that would otherwise make good the losses caused by death and old age. And at the same time they are reducing the output. There has been, too, in recent years a great increase in the ranks of unproductive workers, bond salesmen, solicitors for investments, realtors, etc., all contributing as factors to the stabilization of prices.

We have had a widely extended housing shortage. In consequence the cost of building mounted. The "falling dollar" again, of course. Only it happens that here the explanation lies nearer at hand. Labor unions in the building trades hampered building operations by excessive wage demands. Worse than that, they put into effect oppressive regulations to which employing builders must conform or go out of business. In some trades, too, five days constitute the week's work.

To sum up; high prices are caused by combinations in trade, exorbitant tariffs, patent rights, re-sale agreements, styles, demands for goods of which there is a market shortage, decreased production on the part of producers for the purpose of keeping up prices, taxes on production, land speculation, restriction of output by trade and labor organization, strikes, bonuses for financing industries, and last but not least, stock jobbing. Every little concern is now capitalized and its stock floated and sold to the public. If you want lower prices the manipulators will tell you that then your dividends will be less, and what the holders of stock want are dividends. These represent prospective earnings at present prices. It may be said that conditions making for high prices set in motion by the war have been continued under peace conditions and there is yet no sign of an arresting tendency.

That there is something that looks very like a conspirators' agreement among the organs of public opinion, banking and financial circles, to lay all the blame for high prices on a "fallen dollar," is obvious. When did the dollar fall and from what great height has it fallen? Who precipitated it? How comes it that a "falling dollar" falls so unequally? That it blesses the milk distributors in cities and leaves untouched the four cent milk of the farmers? That it rebounds so lightly on the white collar workers and falls so heavily in favor of the workers in the building trades with their powerful and compact organizations? The theory of a "falling dollar" whose descent is so eccentric is open to grave suspicion.

The dollar, facing all of which it stands accused, can point to what has happened along the road it has travelled since 1913 and retort, "Thou canst not say I did it." There is too much in favor of its innocence and integrity. The responsibility for what has occurred, the influences and tendencies which the dollar must reflect, lie elsewhere. It stands acquitted.

Strength and Activity

By J. L. BJORNER

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IT is a sad sign of weakness, when time after time we have been told in the press that "what we need is a strong and active government." Let it be said at once that this is not the voice of the people, fortunately, but just a journalistic expression of the day. God forbid that we should have "a strong and active government." What the country—our country as well as all other countries—needs is a strong and active people; then the activity and strength of the government will automatically be that of the people, and will be neither too strong nor too weak.

The people will become strong and active when they have the right to live their own life without law-made monopolies for individuals or groups, together with equal right for all to elect the government—that is, home rule. And they must also have the right to make mistakes. A self-ruling people, whose industries are not weakened by monopoly and restrictions will always be a strong and active people, and its government the respected servant of the state.

The director of the government of Greenland, K. Oldendow, recently made a speech about Greenland. The Greenlanders, he said, were a strong and active people, like all other esquimaux. Ordinarily, when the white man came into contact with the esquimaux, this hardy tribe deteriorated. But not those in Greenland. The Danish Government took the fate of the Greenlanders in its hand. The Greenlanders were permitted to keep the earnings of their own work; and they were not only permitted, but helped to keep their own language—also when it was in print. The Greenlanders were well situated economically; and because there is in Greenland no land monopoly there is no unemployment. They were well taken care of. The Danish-Greeland government acted as a mild, enlightened, absolute power. And yet—the Greenlanders did not thrive. It seemed that their development had come to a standstill.They became stunted under the Danish, humane dictatorship.

Then, half a century ago, the Danish-Greenland colony-managers gathered to discuss what could be done to help the Greenlanders. A clever man said: "What the Greenlanders need is to have some responsibility or co-responsibility in the ruling of their own affairs." This was done—and behold! Almost instantly the advantages of self-responsibility could be seen. The Greenlanders again came to life and became the happy, strong and active people they had been before.

It is consequently not enough for a people—as Henry George says—to be well governed. The people themselves must govern their own fate, good or bad. Only that gives strength and activity.