

Inflation: A Monetary, Not a Fiscal Problem

T. O. EVANS

A SECOND SALVO at government-sponsored inflation has been fired by the Sponsoring Committee of the National Recovery Programme in their latest booklet *Expansion Without Inflation*.*

The public, says the booklet, has been led to believe that the economy of Britain is in a mess and that this mess is due to the fact that we have become a nation of spendthrifts. It is implied that the public as a whole has developed spendthrift habits and has not paid its way at home or abroad so that we are in debt to foreign banks.

"It is not surprising," say the authors, "that a common belief holds the minds of so many. For more than three years it has been obsessively cultivated by political leaders of all parties, and sedulously promulgated by commentators and other publicists through all the ways of informing public opinion."

This is not the situation at all, it is argued; the private sector has been living well within its means. The public sector—the Government—has not.

The Government's deflationary measures are being aimed at the effects of their own creation—not with the causes they themselves initiate. To fight the increased demand initiated by them, the Government resorts to increased taxation under the illusion that it mops up purchasing power. "Since public expenditure has consistently exceeded the public revenues, despite the escalation of taxes, the 'deflationary' measures which governments have applied in their supposed management of the economy have not, in fact, caused any reduction of total demand. Their only effect has been to increase public sector demand."

Attacking the "deflationary dogma" of the present Government, which asserts that the inflation that erodes the purchasing power of money is a consequence of over full employment of the working population, and that this is both the source and the result of excessive expenditure on private consumption, the authors state: "It is our view, based on statistical analysis of the factual figures in the official record, that the rise in wage rates has not been the cause of the inflationary spiral, but that, on the contrary, wage rates have been forced upward ineluctably by normal market forces as the result of inflation caused by mismanagement of the public sector's finances. A policy which pretends to institute an autocratic control of prices and incomes amounts, therefore, to a gross deception of the people of this country."

To enable expansion to take place without inflation, the paper suggests that the prevention of inflation should be a function of monetary policy and not of fiscal policy and that the aim of monetary policy should be to maintain the liquidity of the monetary system at such a vol-

ume that the general price level is held constant. Further, that we should cease to base economic policy on the level of unemployment used as the sole indicator of excessive demand in the economy; and finally that a new enquiry into the working of the monetary system should be undertaken as a matter of urgency.

Those of us to whom this analysis of the nature of inflation and its cause is not new might find many of the arguments used unnecessarily academic, but the unbelievers may be greatly helped and reassured by chapter, verse, tables and appendices.

If fault may be found in this paper it is not in what is said but what is left unsaid. A "programme for national recovery," to be really effective must contain far more than monetary reform, important as this undoubtedly is. The authors' description of the national economy, which is worth reproduction in full, would make an excellent starting point for a deeper analysis of the country's problems.

"The national economy is the total activity of all our people in their daily business of life, earning their living by contributing to the nation's production of goods and services, while enjoying life in consuming a share of those same goods and services. It is a self-contained and balanced system for the multiple exchange of demand and supply of goods and services. It is balanced because all production anticipates an equal demand; and because supply and demand are held in constant equality of value by the dual participation of a buyer and a seller, and their mutual agreement on a price, in every one of the myriad exchanges in the economic life of the country.

"This pervasive balancing influence derives from the familiar constraints of natural market forces which are not, and cannot be, centrally controlled, but which constitute an automatic adjustment mechanism that holds supply and demand in constant equality of value at current market prices. This is as true of the economy as a whole as it is of any of the manifold markets of which it is composed.

"The sum of the nation's production of goods and services is an entirely fortuitous aggregate. The decisions on what shall be produced where, and how, and by whom, and the decisions on where and how the product or service shall be marketed, are made severally by a host of autonomous managements. It follows that the size, shape dynamism and growth of the national economy—the jobs and material prosperity of every one of us—are determined, not by the fiscal and monetary policies of any government, but by the practical enterprise and efficiency of the nation's business managements in organising the employment of the nation's resources of capital, know-how and workers, and in competitive marketing at home and overseas."

*A Programme for National Recovery. Research Paper No 2. 7s. 6d.