

"Bubbles Bursting in Air"

By STANLEY SINCLAIR

WILL THE world soon be engulfed in a major war? This is today's most frequently asked question. Probably even the Kremlin's walrus mustache doesn't know the answer.

Second on the list is: Will our present military spending catapult us into another boom comparable to that of the '40's? Everyone is aware of what happened when fighting started in Korea. No one wanted to be caught in the price spiral. Everyone wanted to get his hands on goods expected to become scarce. The immediate result was higher prices. The Journal of Commerce price index rose almost 10 per cent from mid-June to mid-September.

Public reaction against this further depreciation of the dollar was swift. And with an election close at hand, the office holders responded. The ponderous wheels of government are being set in motion to curb inflation.

Were it not so serious, it would be ludicrous to watch the anxious scurrings of the lawmakers, the bureaucrats and the money changers. With their heads buried in the sands of money fallacy and formula, become orthodoxy by repetition, they are frantically waving their tails at the operation of economic law.

Depreciation of the dollar cannot be arrested by passing a law. The solons will not succeed in keeping real prices down by using the police force any more than those same policemen were able to keep people from getting drunk in the '20's. An excess profits tax will merely be an added brake on production, and a wage ceiling only a hardship for salaried workers.

The only way to combat inflation is to step up production of goods so that greater demand will not force prices higher. This increase in output must, of course, be accompanied by a reformation of our credit policy. Credit must be expanded with and for the expansion of production and not merely as a function of government fiscal operations.

The question remains: Will the frenzied legislation and the hasty bureaucracy be necessary even if it could halt cheapening of the dollar?

The latest news from the Korean front would indicate we are not being pushed into the Pacific. On the contrary, it would seem the high moguls of Moscow might well begin to regret their belligerency. Further we may infer from Mr. Malik's continued, though obstreperous, presence at the United Nations Security Council that a face saving device will be worked out in the council when the military situation has been stabilized around the 38th parallel.

Add to this military-political condition the facts that our armament appropriations are small compared to those during our last war effort; the money will be spent over a long period of time, and it will drain a far smaller percentage of our expanded production machine than did World War II.

In short, the prospect is there will be plenty of goods available. It would seem, therefore, that the brakes being applied to production and the artificial curbs being clamped on demand might well result in fewer buyers than there will be goods on the market.

Of course, the reds might pull an atom bomb from their sleeve and upset all calculations. But barring this eventuality, it would seem the savants in Washington might better worry about whether they will call next winter's downward trend of business activity a "recession," a "cut-back" or merely a "period of indigestion."