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After-War Readjustment: Rectifying the Price Situation

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NOW that the war has been fought and won, "what next" is the question everybody is asking and for lack of some other sounding word or phrase, nearly everybody is answering "reconstruction." It is our national habit when we have to move on from one position to another to help ourselves along with a word or a phrase; so it was during the war, when we heard much of "unification," "coördination," and "conservation." Now that we have left the war behind and are looking forward to after-war problems, we hear much of "reconstruction." We have borrowed the word from Europe where the war has left conditions very different from those obtaining here. It is just as well that we should recognize the differences. The war has left us with some difficult financial and economic problems but it has not left us with any such problems of reconstruction as it has Europe, unless we are going to embark upon the venture of trying to "make the world over." It will help much, I believe, to put us in the right frame of mind toward our after-war problems if we substitute for the word "reconstruction" the less ambitious but nevertheless suggestive phrase used by the President the other day in his address to Congress, of "economic and industrial readjustment."

Europe's Problem, Reconstruction: America's, Readjustment

Contrast for a moment our situation with that of the European belligerents which have had four years of war. Sixty millions of men at one time or another have been drawn to the front. Two or three times that number have been drawn into work so closely related to operations on the front that they were virtually in the line of battle, so far as the normal processes of economic and industrial life were concerned. Ten millions have been killed, fifteen or more millions are left so maimed and diseased that they will be of doubtful industrial value, unless or until they are "reconstructed." These killed and maimed and diseased represented much of the flower of the industrial population of Europe. They represent a heavy and grievous loss to their countries' industries. Their loss must somehow or other be made good through finding and training others to take their places. Until this is accomplished, the industries which depended upon their skill will limp. Here is a problem of reconstruction.

The lands in many of the choicest and most fertile districts of Europe were laid waste by the war; farmsteads were burned, tools and live-stock are gone; the very soil itself is destroyed. Here is work of veritable reconstruction. Factories, mills and foundries in France's busiest workshop district have been destroyed or so badly injured or dismantled that much must be done before they can again take their place in the industry of the world. Here again is reconstruction. It is clear, also, that much work must be done, not only in the fought-over and devastated districts of Europe to repair the work of ravage and destruction, but also even in those where the sound of a gun was never heard. There has everywhere in Europe been such deterioration of industrial equipment through enforced neglect of upkeep that much must be done before factories and mills are brought back into good working order and are able to turn out products which can be used by their own people or sent into the markets of the world in payment of needed supplies and materials. This also means reconstruction.

No such fundamental economic and physical problems as these are left to us as a heritage of war. Our situation has been one of comparative immunity and safety. Our losses of life have fortunately been few and our losses of property negligible. The main cost of the war to us, apart from the pecuniary cost which is reckoned in the amount of our national war debt and taxes, is to be found in the disorganization of industry through the necessary shift from a peace basis to a war basis. It has been estimated that, including the men who went into the armed service, some eighteen million persons have been involved in war work of one kind or another, mainly in industries producing for the support of our armies and the supply of our European associates. Some of these and in some cases many will have to be shifted from their present employments.

Places will also have to be found for the returning soldiers.

But it would be a mistake to exaggerate the extent of the redistribution of the labor force of the country that will be thus occasioned. It must not be overlooked that many of the basic industries, such as steel, copper and the metal trades generally, which were speeded up or enlarged for the purposes of war production, are normally very large industries and it is altogether probable that they will remain permanently enlarged to meet the heavy after-war demands for their products and that consequently many of those who first found employment in these industries, as a result of the war, will remain with them. At the most, taking the situation by and large, our after-war condition will present a problem of reëmployment, or reorganization, rather than a problem of reconstruction. It is a problem that we may well believe will find its own solution in due course—indeed is already finding its solution—if the process of economic and industrial readjustment is kept measurably free from unnecessary interference on the part of the government, and if good temper, forbearance, and a spirit of accommodation are shown by all interests during the period of transition. Government help there may have to be in stabilizing industrial conditions from time to time through employment on public works, but the intervention of the government should be by way of supplement to, rather than substitute for, normal business agencies. The problem is mainly a business problem to be handled by business men.

EUROPE'S ECONOMIC AND FINANCIAL NEED

It is even likely that in Europe the process of reconstruction and recuperation will be speedier and more complete than many now imagine. The parts of Europe that have borne the brunt of the war are those whose people are possessed of the greatest economic capacity—energy, ambition, inventiveness and determination. They are impatient to wipe out the traces of war and get themselves back into working order. Much assistance will be needed by them from the outside world in the first steps of the process and that means chiefly from us. But with that assistance, the repair of waste and the accumulation of new capital may be expected to go forward rapidly in Europe in the next few years. Indeed the rapidity of Europe's industrial recovery is likely to be one of the economic marvels of all time.

Europe will need goods and credit from us if she can get them on a reasonable basis. The goods she will need are mainly foodstuffs, raw materials of industry and the basic materials of construction. Provided she can get these at reasonable prices, she will take them in large amounts, and trade and industry may be expected to be active in the United States for a few years and our problem of economic and industrial readjustment may be expected to find much of its solution in this way.

The credits Europe will need will be both short-term or commercial and long-term or investment. The former we can easily provide through the further development of acceptance credits and the aid of the federal reserve banks. Long-term or investment credits present a different problem; they call for capital, and capital must first be accumulated or saved before it can be loaned or invested. It may confidently be expected, however, that if Europe finds in the American market the goods it needs at reasonable prices, ways will be found of financing the purchases and investments with the aid of our bankers and the investing public. The main pivot of the after-war economic situation, particularly in its international aspects, is prices. Europe cannot afford to buy much from us on the basis of present war prices without endangering her economic solvency and it may well be doubted whether it will be to our permanent interest, if we undertake to finance her reconstruction, to encourage her to buy much at war prices if her solvency is thereby threatened. Much will, therefore, depend, both for us and Europe, on the course that prices take during the coming months and years as to whether the period of transition, readjustment or reconstruction, whichever it may be, is to be a short and satisfactory one or a long and wearing one.

The Price Situation

Of all the financial difficulties confronting the country at the close of the war the price situation is, in a business way, the most serious and the one calling for the most immediate correction. Fortunately for the United States, this situation is not confined to us. The whole commercial world has been involved in a series of extraordinary price disturbances growing out of the war. While the situation is worse in some countries than in others, it is serious in all. The general dimensions and the gravity of it are sufficiently disclosed in the broad statement that, in the course of the four years of war, the world level of prices has risen by one hundred per cent. In some countries prices mean depreciated paper prices, in others gold prices, but in all an increase has been experienced that makes the problem of price rectification one of urgency everywhere.

It cannot be emphasized too insistently that economic life can never be normal and that business conditions can never be safe until prices in leading world markets work their way back to some sort of a stable or normal level adjusted to conditions of national and international demand and supply, as these will be when industry and trade among the nations have recovered from the shattering effects of the war and have resumed something that can be called a normal course. How quickly this process will be worked out will determine how long the world will be in the uncertainties and difficulties of a period of transition. Periods of transition are always periods of strain. To shorten them by such means as can be foreseen to have a desirable effect is the part of good economic and financial policy, both for the individual business man and for the nation and for the commercial world at large.

There is already much welcome indication that the more foresighted of the American business communities are looking ahead to the falling of prices as something that is inevitable in the normal course and, instead of waiting, are anticipating and assisting the process of readjustment by voluntary price reductions. Such was the action recently taken by the steel trade, the greatest of the country's barometers of industry, an action that is bound to have a decisive effect in many related fields. Many merchandising establishments, also, are looking ahead and taking such precautionary measures as they can to prevent being involved in avoidable loss in the transitional period of price readjustment. Bankers are scrutinizing credit statements and are advising clients to be careful not to be caught with large inventories on a falling market, and the advice meets many prepared minds and much ready acceptance.

Such mental preparation paves the way and thereby hastens and makes safe the process of price readjustment. But when all is done in this way that can reasonably be expected of the business man, it will still remain true that much of the readjustment of prices must come about through other action in which the community at large must have a principal part.

What is it that has driven prices to the dizzy heights that have prevailed during the past four years? In general, the answer of course must be war—the economic and financial disturbances the war has produced. It is difficult enough, even under normal conditions, to specify the factors which determine the level of prices. The price situation, as we find it in any given country at any given time, is the result of a complex of forces in which the production and costs of goods, market demands, the saving and investment of capital, the state of credit, and the volume of money and currency, all have their measure of influence. These have all been at work during the war, but they have been so complicated in their action by the war that no simple explanation of the movement of prices in our own or other countries is adequate fully to explain the causes of what has been taking place.

High Prices: Scarcity and Inflation

From the very beginning, the war caused a great intensification of the demand for a great variety of materials and supplies needed in modern warfare. With all the efforts that have been made to adjust the productive organization of the different countries to the supply of these much-needed things, there has, until quite recently, been a relative shortage of many of the primary materials and basic commodities of war. To that extent, they have commanded "scarcity values" and their prices would have ruled high even had there been no alteration in general monetary conditions. Much patient and methodical statistical investigation will be needed to determine the exact extent to which high prices during the past four years can properly be regarded as "scarcity values."

To the extent that the prevailing high prices have been "scarcity values" we may expect the situation to right itself in due time as industry shifts from war production to peace production and the vast numbers of able-bodied workers, who have been withdrawn from productive industry to military service, are reinstated in the industrial army. The production of many basic materials and commodities, which have been in short supply, will gradually catch up with the demand, and values be brought back more nearly to normal. This movement has already begun.

Looked at from this point of view, the problem of reëstablishing a normal price level is a problem in *production*, one to be worked out in factory, farm and workshop. Prices will move toward normal, and goods will become cheaper as they become more abundant. They will become more abundant as the wasteful processes of war consumption come to an end and production resumes its normal ways.

But "scarcity" is a relative term and there is so much evidence of an artificial abundance of money in comparison with the things that are purchasable by it that the abundance of money must be credited with at least an equal influence in explaining the high prices which have prevailed. Special attention will, therefore, have to be directed in the process of a return to a normal basis of prices to the condition of banking credit and currency, which has promoted or sustained the upward flight of prices.

The balance sheet of the belligerent world has been swollen by the addition of about two hundred billions of public debt on the liabilities side of the account with only partial offsets in the way of newly created wealth on the assets side of the statement to insure economic solvency among the European belligerents and especially the Central Powers. Not the least of the wonders worked by the war has been the ease with which vast public debts have been contracted on what must be considered a relatively favorable basis so far as concerns interest rate and other terms.

The fact that the war was not merely or mainly a war of armies but a war of nations in which everybody had his part to play does much to explain the unprecedented financial achievement of all the belligerent nations. Patriotism may have run as high in other wars but never before did it so nearly embrace whole communities to the last individual in its magnificent sweep. It has become a matter of commonplace observation in the United States that our people of many different races, creeds and conditions have never before been so nearly one in thought, feeling, spirit, purpose and action, as during the war. All of the four great liberty loans have given the evidence and measure of the people's devotion to the nation's cause. Twenty-one million subscribers to the fourth liberty loan tells much of the story of our financial achievement—much, but not quite all. For the achievement is not quite all that it appears to be and must become. The rest of the story will be found in the expanded condition of the banks.

Of the eighteen and a half billions of loans thus far put out by the government, it may be estimated that six billions are being carried by or in the banks. To the extent that subscriptions to government borrowings are paid, not out of cash which the subscriber has actually saved out of his income, but by credit borrowed from his bank, the payment of the subscription must be regarded as having given rise to an expansion of bank credit to approximately an identical amount. Such expansion of credit, unless it sets in motion new forces of saving, results in inflation, first of credit, then of currency, and, as a consequence of both, inflation of prices. A bank's deposits and currency are the children of its loans and investments. When the loans and investments, therefore, which occasion an increase of deposits and currency, are not definitely tied to the production or saving of goods, they must cause a rise of prices. When the rise of prices resulting from an expansion of credit and currency is not able, or until it is able, to induce a commensurate increase of productive industry to match the increased buying power of the community, the resulting condition is one of inflation, that is, one in which there is more purchasing power, in terms of money, afloat in the community than is called for.

This condition has not been peculiar to the United States. Credit expansion and currency expansion—*inflation*, for short—have everywhere played their part in the financing of the war, fortunately not so much in the United States as in other countries, but yet enough to cause concern; not disastrously as in former wars, but not without producing some serious consequences and leaving in some of the belligerent countries grave dangers and in all of them, ourselves included, a troublesome after-war situation. The great central note-issuing banks of the modern world—such are also our federal reserve banks—have made inflation easy. In the estimation of many they have also made it safe. They certainly have done much to make it technically safe. The theory upon which the great note-issuing banks pretty generally have proceeded is that the test of banking safety is to be found in the reserve ratio. The more gold, the more credit and currency. Such appears to have been their monetary logic. Acting upon this theory, they have scoured their respective countries of most of the scattered gold.

"GOODS" VALUE VERSUS "GOLD" VALUE

So long, therefore, as the great central banks could gather in gold enough to maintain a suitable mixture of gold in their resources and thus clothe their liabilities with a suitable covering of gold, their position was one of technical safety, and appearances were good. It may be admitted that appearances count for much in the psychology of credit and banking. But more than appearances and more than technical safety and, therefore, more than gold, are necessary to the good functioning of reserve and note-issuing institutions. The character of their general assets as well as the adequacy of their reserves determines their real condition. There must be wisdom—great wisdom—and, at times, courage as well as wisdom in the administration of note-issuing and reserve credit banks if more than a condition of technical banking strength is to be maintained and the world made safe against the costly evils of inflation. That lesson the world is about to learn as a result of the experiences of the past four years. Until it is learned and the credit and currency situations in the leading countries rectified accordingly, the business of the world will be in a state of maladjustment with the industrial unrest and strife that are usually bred of maladjustment and financial confusion.

The fact that inflation in the United States has not been caused or attended by suspension of gold payments or a discount on paper currency, such as was experienced during the Civil War, should not blind us to the realities of the situation. Suspension of specie payments may take place without producing a state of inflation. (Such was the case in France during the Franco-German War of 1870–71, when the Bank of France suspended specie payments but managed its note issues with such care that they were never at any time over-issued and never went to anything more than a nominal discount as compared with gold.)

Recent events, particularly in the United States and among the northern neutrals of Europe,—which like the United States have experienced enormous accessions to their supplies of gold during the period of the war,—show that inflation may take place without a suspension of specie payments or the occurrence of a discount on paper. It was the very abundance of gold that helped to advance prices in the United States before our entry into the war. The currency of the United States now, as then, is a gold currency. Prices in the United States are, therefore, gold prices. This fact is incontestable. There is gold enough and more than enough to assure the absolute convertibility of our paper currency in gold. The trouble with our situation is not that the paper dollar is not as good as the gold dollar; just the reverse is true: it is. The trouble with our situation is that neither the paper dollar nor the gold dollar will buy as much as they did before inflation of prices began. At prices as they are, the paper dollar buys as much as the gold dollar. The gold dollar is no better than the paper dollar. The two are interchangeable. Our trouble, therefore, is with dollars, irrespective of their kind. It is one of quantity, not of quality, or, at any rate, not of quality in terms of gold. Our elastic note issue system has enabled us to place the production of paper dollars on a "quantity basis" without endangering the integrity of their gold value. The trouble is with the goods value, not with the gold value of the American dollar. Our difficulty is,—and therein consists our inflation,—that dollars, good financial dollars, "safe" dollars, gold dollars, have been created in such abundance in comparison with the amount of goods purchasable by them that they have, as a necessary result, lost in their purchasing power—in other words, the supply of money has become disproportionate to the supply of goods with rising prices as the inevitable result.

Since the beginning of the European War, or between the dates of July 1, 1914 and September 1, 1918, the total money in circulation in the United States, as shown by the Treasury statement, increased from $3,402,015,000 to $5,621,311,000, an increase of $2,219,296,000 or 65 per cent. Total deposits of all banks,[1] between the dates of June 30, 1914, and June 29, 1918, the latest date for which complete figures are available, increased from $21,279,000,000 to $32,589,000,000, an increase of $11,310,000,000 or 53 per cent. Loans and discounts for the same dates show an

[1] National, state and private banks and loan and trust companies.

increase from $15,340,000,000 to $22,059,000,000, or $6,719,000,000, an increase of 44 per cent. Total investments for the same dates show an increase from $20,924,000,000 to $31,982,000,000, or $11,058, 000,000, an increase of 53 per cent.

Since our entry into the war, or between the dates of July 1, 1917, and July 1, 1918, the total money in circulation in the United States, as shown by the Treasury statement, increased from $4,850,360,000 to $5,621,311,000, an increase of $770,951,000 or 16 per cent. Total deposits of all banks,[2] between the dates of June 20, 1917, and June 29, 1918, the latest date for which complete figures are available, increased from $30,443,000,000 to $32,589,000,000, an increase of $2,146,000,000 or 7 per cent. Loans and discounts for the same dates show an increase from $20,502,000,000 to $22,059,000,000 or $1,557,000,000, an increase of 8 per cent. Total investments for the same dates show an increase from $28,611,000,000 to $31,982,000,000, or $3,371,000,000, an increase of 12 per cent.

The index number of wholesale prices in the United States computed by the Bureau of Labor Statistics shows a rise from 98 in June, 1914, to 202 in August, 1918, a rise of over 100 per cent. The index number for retail prices for the same dates moved from 99 to 171, an increase of about 73 per cent. Since the entry of the United States into the war, the index number of wholesale prices has risen from 171 in April, 1917, to 202 in August, 1918, an increase of 18 per cent, the index number for retail prices for the same dates having moved from 145 to 171, an increase of 18 per cent.

These figures certainly reveal a very considerable increase in the volume of banking operations in the United States since the beginning of the European War in 1914. An aggregate of probably over ten billions (an increase of about 50 per cent) of new purchasing power since the beginning of the European War, mainly in the form of bank deposit-currency, has come into existence during this period. The portion of this increase, which is to be charged to the period beginning with our entry into the war, cannot be accurately determined for lack of adequate data. But an indication is supplied by the increase between the dates of June 20, 1917, and June 29, 1918, noted above, in the figures for total deposits and money in circulation, an increase of the two

[2] National, state and private banks and loan and trust companies.

together of 8 per cent. It seems within the probabilities that, of the ten billions of new purchasing power which there is good ground for believing have been created in the United States since July, 1914, a fourth may conservatively be regarded as chargeable to the period since our entry into the war.

To the extent that this increase in the supply of the purchasing media of the country has not been offset by a like increase in the production of goods, it must be regarded as unnecessary and superfluous from the economic point of view, whatever may be said in justification of it from the point of view of political and general financial expediency. To the extent that it has been offset by increased production, it presents no difficulty. That there has been an enormous increase in the physical output of goods in the United States during the past four years cannot be questioned. Never before has the country come so near to realizing its full productive capacity; never before has there been so little unemployment or idleness. Some estimates place the increase in the physical product of the country during the past four years as high as 25 per cent. If we take a more conservative figure, of 20 per cent, it would suggest the inference that a commensurate proportion of the volume of credit and currency existing in 1914, or some four billions of dollars in the aggregate, was probably legitimately called for by the growth of production in the past four years.

In estimating the amount of credit and currency contraction that will have to take place before our price situation can be regarded as in a fair way to become normal, these four billions should properly be deducted from the statement of the present volume of these items. It would appear probable, therefore, that some six billions of credit and currency in the aggregate have been created in the past four and one-half years that cannot be regarded as having been occasioned by the requirements of industrial growth, as measured in terms of physical units. This is also approximately the amount of war securities and war loan paper, as has already been stated, that the banking system of the United States is today carrying. To this extent the expansion of banking credit and currency would appear to have been occasioned by the banks having assumed the burden of assisting the placement of Treasury borrowings by the extension, use and lending of their credit. Such use of credit is almost of necessity inflationary in its immediate effects and in its continuing tendencies until corrected.

Rectification of the Price Situation

There can be little question of what form the correction should take. Where there has been *inflation*, there must follow *deflation*, as a necessary condition to the restoration of economic health. Contraction of bank deposits and currency, through the liquidation of war loan accounts, is clearly indicated as the next and necessary step in the process of bringing the credit currency and price situation back to normal. Those who in our liberty loan campaigns were persuaded to borrow and buy must now be made to save and pay. "Save and pay up" should henceforth be our slogan. The problem of correcting a state of banking inflation is mainly a problem in saving. We must either put more goods behind the outstanding volume of credit and currency—that means production—or we must reduce the volume of credit and currency to suitable proportions—that means saving.

Expenses and spending must be kept down; money must be saved. As it is saved, it must be paid to the banks in liquidation of war loans and other non-productive borrowings. If the money saved is in the form of deposit or checking credits, then the total volume of these in existence and in use will be diminished as they are used to cancel an equivalent amount of loans and thus will the banking structure be contracted and prices be rectified. If in the form of bank notes, the cash holdings of the banks will be built up and they will be enabled to reduce their borrowings from their reserve banks and in this wise the notes will find their way back to the reserve banks, reducing at once the volume of their outstanding note liabilities on the one side and their holdings of bills discounted on the other. Thus will saving effect the reduction in the volume of outstanding currency and credit. There is no escape from this necessity. So long as inflation exists, the nation must continue to practice thrift. Only thus can the capital be created and supplied which will wipe out the inflation that already exists and avoid or minimize such new inflation as may threaten in connection with the great borrowings that must still be made for the use of our government and the governments associated with it, to say nothing of the large demands for capital that will be made on the American investment market by Europe in the process of reëstablishing her industries.

The government's requirements for the remainder of the fiscal year have been stated as likely to be not less than seven billions. This amount, added to the six billions of outstanding war securities which, it is estimated above, have not yet been permanently absorbed, gives us a total of thirteen billions of public securities which must be taken up out of genuine savings if our financial and credit system is to be sterilized of the taint of inflation which at present is upon it. When this is accomplished, prices are likely to be at something that can be regarded as a normal level. Until it is accomplished, there will be an unstable price situation. As it is gradually accomplished, prices will go back to a normal basis in an orderly manner. But if a considerable part of the new borrowings, which the government must make during the fiscal year and until war accounts are finally closed up, are financed by any considerable expansion of banking credit, we are likely to have more inflation and an aggravation of a price situation which is already sufficiently serious and burdensome.

Replenishing Capital

Europe's post-war financial and industrial requirements cannot even be conjectured. But they are likely to be very considerable if, as has already been suggested, goods can be bought in the American market at reasonable prices and capital obtained on reasonable terms. The destruction, waste and deterioration of plant facilities and other industrial equipment must amount to an aggregate, taking all of the European belligerents together, that it will take some billions of dollars worth of materials and supplies to replace or repair. The amount which Europe is indebted to the United States on the financial account because of the heavy borrowings that have been made in the American market the past three years, will probably be not far from five hundred millions of dollars for interest alone when peace is established. Europe could probably use to good advantage two or three times this amount in the process of replenishing her capital during the next two or three years if conditions generally were favorable. It may be expected, therefore, that capital will be in strong demand in the post-war period and that much financing of an investment character will have to be undertaken by America in the process of helping the reconstruction of Europe and the reëstablishment of normal conditions throughout the world.

The situation presents a duty to be undertaken by the people of the United States, as well as an opportunity to be embraced. Investment rates of interest are likely to rule high for some years and to make saving a remunerative sacrifice. There is no method by which capital can be created except by saving—by saving productive power from the production of goods destined for immediate consumption to the production of goods destined for capital equipment. It is essential from every point of view that the depleted capital of the belligerent countries shall be restored and the terrible gap torn in the industrial structure of Europe by four years of war filled up. Just as the war taught us to draw with closer approximation and finer appreciation a line between industries and goods according to their bearing on the prosecution of the war—the "essentials" being those that helped, the "non-essentials" those that delayed or hindered—so the same principle, in view of the urgent economic condition with which the war has left the belligerent countries, suggests an analogous application of the same principle—after-war essentials being those that help industrial recuperation, the non-essentials those that hinder or delay. The consumption and, therefore, the production of non-essentials must be kept down in order that the production of the new essentials may go forward at prices that will attract demand.

Europe cannot afford to buy great quantities of goods in the American market, urgent as is the need for materials of post-war industrial reconstruction, unless our prices fall, no matter how ready we stand to finance them, because Europe cannot afford to handicap her reconstructed industries with a capitalization that will not be warranted by earnings when post-war prices get back to normal, as sooner or later they will. For her industries to do otherwise would be to invite serious losses and possible bankruptcies.

Indeed, much the same may be said of our own domestic business situation. Increase of the capital account will, in general, be a perilous proceeding for any undertaking involving large permanent investment and heavy fixed charges, so long as prices of materials of construction are on an inflated basis. Thus does an inflated state of prices tend to check industrial enterprise and, therefore, to retard industrial recovery. More than that, an inflated state of prices always adds to the uncertainties and, therefore, to the hazards of business, when once the crest of the movement has been passed. Thus is a speculative tinge given to even ordinary business in periods following inflation of prices and credit. Such periods, it has frequently been observed, tend to promote speculative activities and to breed business crises. For whatever adds to the uncertainties and hazards of business not only tends to induce speculation but also, for that very reason, to add to the chances of business miscalculation and, therefore, to the percentage of business misadventure. And it is business misadventure, when the percentage runs high enough, that makes for crisis. For the business crisis is merely to be regarded as a rough and wholesale method of adjusting the capitalization of business to the indubitable facts of the market—through earnings to prices—when capitalization has gotten out of line with the price trend, the business crisis being little other than a swift and violent method of correcting errors of business miscalculation, when such errors have been extensively committed.

CONCLUSION

The more the matter is pondered, therefore, the more, I believe, the heart of our national after-war business and financial problem will be found in the price situation. There are many other factors—such as wages, taxes, interest rates—but none that is comparable in its importance to the price situation nor unaffected by it. If our price situation is quickly cleared up by deflation, wages and taxes may be expected to adjust themselves to the altered conditions. Industrial enterprise can then make its calculations on something like a stable or normal basis and the period of postwar readjustment need have little terror for us. The whole world is inflated.

A great opportunity, therefore, awaits the country, which is the first to be able to begin marking down its prices toward peace levels. The world needs us and what we can produce. It needs copper, cotton, steel, machinery and many other things. Some of these it will take at any prices but it will take much if our prices are such as to invite foreign demand, and we need give little attention to artificial methods of taking up the slack in the labor market and otherwise stabilizing industrial conditions, if we take up promptly and proceed vigorously with the solution of the price situation.