

them to another class, which class is in turn robbed as time brings other changes in the value of the dollar."

The Swedish economist, Gustav Cassel, who has already been quoted above, is a prominent European exponent of the relation of the volume of credit and the price level. Writing as of the middle of November, 1929, for the Journal of the American Bankers Association he found in the course of prices in the United States a stability which had in fact been largely brought about by the federal reserve system. After commenting upon a rising tide of production in the United States from the end of 1927 and the trade cycle of which this tide was a part, Professor Cassel continued:

"In one respect this trade cycle has been quite unique. It has not been accompanied by any rise of the general level of commodity prices. In all previous cases such a rise in prices has been a very conspicuous feature of the rising tide.

"For instance during the boom of the first part of the seventies Sauerbeck's index of wholesale prices for Great Britain was carried from 96 in 1870 to 111 in 1873 and thrown back to 96 in 1875. At the same time the group 'Minerals' showed an increase from 89 to 141 and thereupon a reduction to 101. Similarly the wave of prosperity at the end of the century carried the general level of prices in the period, 1896-1900, from 61 to 75 and the index of minerals from 63 to 108.

"In the present case nothing of that kind has occurred. The general index of commodity prices of the United States Bureau of Labor statistics computed on the basis of 100 for 1926 never rose to more than 100.1, which was in September, 1928. For the most part of the period it stood in the neighborhood of 97 and for August, 1929, it was 97.7. The group 'Metals and metal products' has shown a slight increase up to a maximum of 106.4 for March and April, 1929. For August, however, the figure was down to 104.3. For building materials the index reached a maximum for March of 98.8 and was down in August at 96.7.

"This is indeed an extraordinary experience. A regular and strong tide of industrial prosperity coupled with the most complete stability of commodity prices! From the fact that prices have not been inflated during the rising tide the very important result follows in that now no deflation is required. The level of commodity prices must be regarded as quite sound as it is and this gives a great strength to the present industrial situation.

"Economists have given much attention to the question of why rising tides are regularly accompanied by a rise of the general level of prices. Some authors have held that such a rise was solely due to the action of the central bank which supplied the country to a too liberal extent with means of payment. With a more restrictive policy, they have said, it would always have been possible to keep the general level of prices constant and to avoid stimulating the boom that follows from a too abundant supply of means of payment.

"Other authors have not been willing to go so far. They have believed that the upward movement of the trade cycle in itself possessed a power of raising the general level of prices and that it was impossible for a central bank to resist this power. However, it is clear that rising prices, particularly during a time of increased industrial activity, require a more abundant supply of means of payment, and if this supply is not forthcoming the rise of prices must come to a standstill.

"The experience of the United States of the rising tide that has now come to an end has given the first practical decision in this very important question. As a matter of fact, the federal reserve system has succeeded in so restricting its supply of means of payment that an enhancement of the general level of prices has been avoided. This very remarkable result has been attained by an administering of the rates of discount

*Recent Stability*

*Trade Cycle*

*Earlier Price Changes*

*Recent Price Level*

*Theories*

*American Accomplishment*

(Continued on page 35)