TREND OF PRICES

PROFESSOR GREGORY'S PROPHECY

WORLD ECONOMIC PROBLEM

Factors that have operated to cause the downward trend of prices and the probable continuation of that trend, are dealt with by Professor Gregory in this the third instalment of his Fisher lecture.

I want to draw your attention to one very important and significant consequence which has not in the least been realised either in this country or in others. Inflation in Europe had the very bad effect of destroying the average man's belief in the virtue of buying Government bonds. That is inevitable. The Wall-street crash has destroyed the average man's belief in the virtue of buying ordinary shares, because shares he bought last year at 100 are now standing in the neighborhood of 40. Consequently the whole process of investment on which, in the last resort, our entire economic civilisation depends, is being held up in all countries at the present time by the destruction in the minds of ordinary investors of any faith in the virtues of investment either in bonds or in ordinary securities. What effect that is going to have in the long run nobody knows, but at the moment it is exceedingly difficult to present a convincing case for investing in bonds, and it is obviously an exceedingly difficult thing to present a convincing argument for investing in ordinary shares, as the average man you talk to has had experience in both directions. He has either put money into pre-war German 3 per cents. and got nothing out of them, or put it into United States steel, or something of that sort, and lost 50 per cent. He now asks what he is to do, and the answer is, "Nobody knows."

Unemployment and Price Levels

That brings me back to the ultimate question which I want to discuss this evening. These money market problems are very fascinating, but there are ultimately more fascinating problems still. These questions are only facets, only sidelights, if you like, on a very much deeper problem still, the problem of what is going to happen to the purchasing power of money, and what is going to happen to the price level in the future. The price level at the present time is being affected by two rather dissimilar series of causes. There is first of all the backwash of the Wall-street crash. That is very serious. In 1928 and in the early part of 1929 I was in New York. Up to the end of August, 1929, very few people indeed believed me when I said the crash was to come before Christmas. In 1928 and 1929 it is true to say that, although there was some, and perhaps very considerable, unemployment in the United States, unemployment as a national problem was hardly conceived by even the most pessimistic of American observers. Nobody knows how many unemployed there are in the United States to-day, but it is pretty safe to put the number down in the neighborhood of 5,000,000 people. There are more than 2,000,000 unemployed in Great Britain, and nearly 3,000,000 unemployed in Germany, if not more. That is a part of the problem of price level at the present time. We are face to face with one of the most serious and difficult of any of the economic problems we have had to face in the lifetime of any man now living. Part of it is backwash from the Wall-street crash, but some portion of it has to be associated with the general tendency of prices to slide downwards, which has been in progress since 1920.

Looking Into the Future

If anybody asks me what the future of prices is going to be I do not like to answer: I am not a journalist; I am an economist. However, I shall put it something like this. I say that, in so far as present world prices have been depressed in consequence of the Wall-street slump and its various sequelae, I am inclined to think that prices by, say, the end of 1931 will be somewhat higher than they are at the end of 1930. Nevertheless, 1931 prices will be lower than 1929 prices, and the general trend will be downwards. That is to say, there will be a bit of a recovery, and then the general trend will be to slide down again, because there are at work two entirely different sets of factors. The first is the backwash from Wall-street, and the second is the problems and difficulties which arise from the general gold and central banking position as it is in the modern world. I am surrounded by some brother economists, and I ask their forgiveness for talking about reactions from the Wall-street slump, instead of saying, as I ought to say, in purely technical language, that we are now suffering from one of the effects of a cyclical movement of prices. That is what I really mean. These cycles, of good and bad trade, existed in the nineteenth century, and presumably from all we know after the Wall-street crash will go on existing in the twentieth century. Prices are, therefore, constantly the result of the long period movement, the effects of which are slower. The short period movement varies between years of good trade and years of bad trade. I venture to express the opinion that, enormous as has been the amount of statistical work and economic study put into the elucidation of these cyclical movements of trade, although we know a great deal more about their details than we did before, we do not know a great deal more about their causes than was known in the middle of the nineteenth century. However, we know that there are these two sets of factors.