The Chapel Hill Weekly

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SUBSCRIPTION RATES

One Year	$1.50
Six Months	1.00
Three Months	.75

Entered as second-class matter February 28, 1923, at the postoffice at Chapel Hill, North Carolina, under the act of March 3, 1879.

We've Got the Roads

Writing in the Greensboro *News* about the high-powered propaganda campaign to put George Ross Pou in as chairman of the state highway commission, in place of E. B. Jeffress, Tom Bost recalls a similar movement in support of the late Henry B. Varner. When a new highway commission was created by the legislature 14 years ago, Varner, aspiring to the chairmanship, had powerful political backing, and the endorsement of leading politicians was re-enforced by well-managed boosting that reflected the fervor of the familiar war-time "drive." Governor Bickett received delegations, and a flood of letters, extolling Varner. But the Governor appointed Frank Page, in whose behalf almost no noise was made, and, says Bost, "never ceased to thank heaven for leading him to Page."

In the course of his despatch, Bost says: "Bickett was still living when the state issued its first $50,000,000 of bonds for roads. He was fearful that this was going too fast. Subsequent conditions proved him a prophet as to that."

By prophet Bost means, evidently, a true prophet. That is, he thinks that the state *was* going too fast when it issued bonds for highways.

We dissent from this.

The fact that a depression has come upon us, and that North Carolina has not collected enough revenue to meet its expenses for the last three or four years—this is no reason to conclude that the state's bonding itself for roads twelve years ago was a reckless venture. It was not. It was a wise venture.

The good highways have added to the wealth of the state. They have saved owners of automobiles untold millions of dollars in repairs and depreciation. Their usefulness to business in the state and the pleasure they have given to the people of the state—these are beyond calculation. If the highways had not been built before the depression came, there is no telling how many more years we would have to wait for them.

When there is talk of North Carolina's having been on a "joy ride," it is well to reflect that if its citizens hadn't spent their money on license tags and gasoline taxes (thereby paying for the roads) they would surely have spent it in other ways, and the chances are a hundred to one that those other ways would not have been of anything like so much benefit to the state.

Governor Bickett, says Bost, "never ceased to thank heaven for leading him to Page." And North Carolina ought never to cease to thank heaven that it went ahead and provided itself with a modern highway system.

When you hear anybody lamenting the money that North Carolina spent on road-building, don't forget this important fact: We've got the roads.

Koch and Connor in Colorado

F. H. Koch and R. D. W. Connor will conduct courses at the University of Colorado during the annual writers' conference there, July 24 to August 12.

The University's junior class in civil engineering will begin its summer surveying camp June 12 near Brevard.

Bailey on Inflation

(Continued from preceding page)

of this feature of the Bill is irresistible. They would exchange their certificates, whereas bond holders would not exchange their bonds for the simple promises to pay in the form of greenbacks or printing-press money. But this would not sufficiently inflate the currency and there would be an immediate demand that the Government print more money and pay its public servants or its building program off with this money. The effect of this would be to create two sorts of money in the country, one money payable in gold and the other money payable in undefined money for whatever it might be worth. Money payable in gold would immediately go out of circulation and this would call, of course, for more of the printing-press money. National bank notes and Federal Bank notes being secured in gold would go out of circulation. The total consequence would be the placing of America on the printing-press money basis.

This, of course, would mean ruin. It has always meant ruin when tried heretofore. It would destroy the value of life insurance policies, of bank deposits, of existing contracts, of rental contracts, and no man would know from one day to the next what the value of the money he dealt in was. This happened in France, it happened during the Confederacy, it happened in Germany, and it is folly to think that if it should once be started here it would not happen here. There are those here who think we could stop it, but they think so wholly because they have not thought the proposition through. They do not see that one issue would inevitably lead to a further issue, and then a still further issue of plain paper money without value behind it.

3. The third plan proposed is the plan of cutting down or reducing the weight of the gold in the gold dollar. This is the plan that I favored. I favor this plan because it preserves the principle of value in money. Further, it is definite and stable; and, further, it is just and moral because gold has acquired an abnormal economic value. Compare the rise in gold with the falling of cotton, or corn, or wheat, or hogs, or lands, or any one of the entire 784 commodities dealt in by the American people, and we see at once that these commodities have gone down in price because gold has gone up in value. Gold has gone up because each nation is hoarding it and many individuals are hoarding it. The reduction of the gold content of the dollar would correct the abnormal value of the gold in the dollar.

Mr. Walter Lippmann of America and Mr. Keynes, the foremost economist of Great Britain, take the same view of this matter that I do. Mr. Salter does the same and Mr. Casell of Switzerland also takes the same view. I am prepared to argue that this course is moral in that the new dollar would be equal in value to the old dollar as between debtor and creditor, as of when the greater portion of the present indebtedness of the American people was contracted. To be definite, the present gold dollar is worth 12 pounds of cotton. The gold dollar of 1928 was worth 5 pounds of cotton. When the farmer borrowed his money, in 1928, he borrowed the equal of 5 pounds of cotton. It is wrong to require him to pay 12 pounds where he borrowed only 5 pounds. I use cotton as an illustration, but it is a safe proposition that practically every known commodity, including lands, has lost value in terms of gold by at least fifty per cent in the last four years. So the illustration with reference to cotton may be applied generally. No one would complain if the price readjustment should be had by means of credit inflation. Why then complain if it be had by mechanical devaluation? One is as moral as the other.

I was in favor of giving the President this power and confining him to it because I considered that the other two methods were impracticable and unsound and I knew that they would stand in the way of the one sure and stable method. There is an old saying "That the good is the enemy of the better." I do not think the other two could be classified as good, but I consider them, even if they were good, as being in the way of the better method.

It is my judgment that in the coming World Economic Conference Great Britain and the United States will stabilize their moneys, the pound around $3.70 and the dollar around 70 cents. If so, my view will have been confirmed.

My view is confirmed by the recent rise in commodity prices. What has happened? There are people who think the Farm Bill brought about this rise. The truth is the Farm Bill has not been put into effect. Probably some of the rise was due to speculation upon the effects of the Bill, but it should be remembered that the rise took place very quickly after the United States abandoned the gold standard on April 18th. We ceased to maintain the gold value, that is, we let the gold dollar slide, made no further effort to maintain it at the 100 per cent parity, and when we did this, having ceased to maintain the value of the gold dollar or the gold in the dollar, we released commodity prices from the effect of adverse transactions with the United States by foreign nations not on the gold standard.

In other words, we had been maintaining gold at the expense of commodity prices. We ceased to maintain gold prices and thereby gave commodity prices an opportunity to rise to their barter value in the world market. What we need, now, of course, is stability. We have no standard by means of which to maintain monetary stability. The problem is to find the point at which to fix this stability. Whenever we agree on the point with Great Britain and fix the value of the pound and the value of the dollar according to this agreeing point, there will be an end of deflation of commodity prices, and a stabilization around the current prices, for the current prices are approximately the barter prices.

Once we have reached this point of stabilization we may trust to the decrease in the wheat crop, and we have this year the shortest spring wheat crop in twenty-five years, to the decrease in the corn crop and the decrease in the cotton and tobacco crops and the peanut crop, to operate normally the law of supply and demand, and the consequence ought to be with reduced crops, a decidedly increased price.

The law of supply and demand does not work by direct ratio. It tends to work in an arithmetical ratio, that is to say, if the cotton crops should be reduced by thirty per cent as compared with the normal demand, the rise in price would not be thirty per cent, but would come close to ninety per cent. That may surprise you, but it is well established by experience and was developed very skillfully by Achille Loria of Italy in a famous work on economy published about 1916. An increased demand or a reduced supply would have a most gratifying effect upon prices. Our Government is operating with the view to both.

Prices have been so low because there was not only excess of supplies, but very greatly reduced demand. So we had both ends of the law of supply and demand working against us and working in an arithmetical rather than a direct ratio. The effort now is to have both ends work for us.

The Government is now about to authorize the expenditure of $3,300,000,000 in public works and the loaning of at least $2,000,000,000 in mortgage refinancing. This is loan expenditure or credit inflation. It is the same sort of inflation that we have normally had in periods of prosperity with the difference that the Government is both the borrower and the lender of money. I am supporting these measures. They are indicated as necessary by the extreme condition of unemployment and also by the extreme paralysis of business. I think these measures will have a sounder and much more effectual inflationary effect than any of the features of the so-called inflation section of the Farm Relief Bill.

I mention this matter in order to indicate the difference between credit inflation and monetary inflation. Each deals with money, but credit inflation is simply an expansion of borrowing power such as we had in the great rise from 1922 to 1929. On the other hand, monetary inflation, that is printing-press money or even devaluation of the dollar value by reducing the gold content of the dollar, produces inflation by reducing money value.

By monetary inflation we do not really increase the total amount of money available, but only increase the number of tokens representing money. It is as if a man had a dollar and divided it into four quarters, but it would serve him but little purpose to call each quarter a dollar. However, the reduction in the gold content of the dollar is indicated as necessary wholly by reason of the fact that gold has reached an economic abnormal value. And debts contracted under credit inflation, which of itself devalued gold and the gold dollar, cannot be paid. Credit inflation is much to be preferred to any other form or means of affecting monetary value. If we could reduce the value of gold, not just the gold dollar, but of gold, the correction would be had by the reduction in the value rather than in the content. Ordinarily this may be done (as it was in 1924-28) by credit inflation, but we have found it very difficult since October, 1929, by reason of the depth and magnitude of the factor's of the depression. Credit inflation operates by increasing velocity of circulation rather than volume available for circulation.

The whole subject of money is one requiring a great deal of study and some capacity for abstract thought. I do not pretend to have any special knowledge on the subject, would not for a moment offer myself as an expert, but I have been very faithfully and arduously studying standard economic works, ancient and modern, and standard works on money for fully two years. I have also studied the monetary and banking systems of our country and have applied myself night and day to the conditions presented by the situation which we describe as the depression.

I recognize that the difficulties are very great and the problems are new. I am rather gratified that our President is disposed to be bold and to break new ground. I have been amazed to see with what readiness the business men of America have realized the failure of their plans and are welcoming the leadership of the President. I am going to help him every way I can, and I think one way to help him is to be intelligent in the consideration of the problems which are presented to him and the Congress. I am supporting him on his program as a whole, and I have been very much gratified by concrete evidence that he is relying on those features of the Farm Bill which I approved and is rejecting the features which I did not approve. Already he has abandoned for one year the processing tax and he has had the Simpson Price Fixing Amendment stricken from the Bill, which indicates that he would have opposed it in the Senate just as I did. He has so far hesitated to impose the processing taxes and the higher tariffs provided in the bill; and there are statements in the New York *Times* to the effect that he will not tolerate the proposition of printing-press money. Altogether I think his views and mine on the subject of the Farm Bill were almost in line. The difference is that I had to vote "yes" or "no" on each feature, while all he has had to do is to select the good and reject the bad. No one blames him for rejecting the bad features, against which I voted, and no one will at length blame me for doing it before he did.

J. W. Bailey