SHADOWS OF HYPER-INFLATION

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TO

MY WIFE

Who has more cause to resent inflation being concerned with things outside the study-room

BY THE SAME AUTHOR

Economics of Post-War India (Hind Kitabs)
Economics of the Cabinet Delegation's Proposals (Hind Kitabs)
The Budget and After (Hind Kitabs)
Modern Banking in India (Third Edition in Press, Hind Kitabs)
Foreign Banking Systems (in Marathi ; in Press, Hind Kitabs)

AND PROF. C. N. VAKIL

Currency and Prices in India (Longmans)

PREFACE

The present booklet is a restatement of a theme first advanced in an article contributed to the Independence Number of the *Forum* of Bombay and elaborated subsequently in four lectures delivered to the Banking Association of the Podar College of Commerce, the Marathi Literary Association of the Sydenham College, the Bombay Discussion Group and the Social Contact Group.

A few months before the end of the War, I wrote in *Economics of Post-War India*, "......the danger of a further inflation superimposing itself on the inflation of war years arises from more than one quarter—the unleashing of the pent-up forces of investment, the release of hoarded currency and bank balances, the super-normal level of cash reserves and subnormal level of loans and advances of banks............In an all-round sanguine environment like this a cheap money policy by the Reserve Bank can only aggravate the upward trend and make the ultimate crisis and collapse more certain."

In discussing the "International Background of Post-War Planning", I observed in the same book: "It is more consistent with the logic of facts that the co-operation of the future will be one of pacts, compacts and agreements and that behind this facade will operate not rational economics, but political power, pure and simple. If this analysis is correct, closed economy rather than inter-country mobility of capital and labour will be more compatible with the spirit of the future."

Immediately after the end of the War, I observed in the second edition of the aforesaid work: "It appears therefore reasonable to conclude that the volume of expenditure during war whether financed out of taxation and borrowing or by inflation need not leave behind it a legacy of adverse effects on the volume of output or employment."

Unfortunately, those who were in power and those wh offered themselves to be their advisers were all haunted by fears of uncontrollable deflation and they blundered into measures which kindled the fires of an uncontrollable inflation. Whatever chance there appeared for a short time of reaching stable conditions were more than destroyed by precipitate decontrol unaccompanied by any precautions to hold in check monetary factors.

The outcome has been described by some as an 'economic crisis'. We are certainly not in the midst of an economic crisis in the scientific sense of the term. We are at present treading the road to economic attrition and atrophy. The crisis, if it ever comes, will not be an economic crisis: it will be a crisis of social relations—between man and man, class and class, the power of Capital and the power of Labour. The voice of Economic Wisdom, if there ever was any in this country, will be as ineffective then as it has been in the past. In no country is Truth invoked more *ad nauseam*: in no country is Truth, when unpalatable, more resented or covered with genuine or calculated quackery.

I must acknowledge thanks to the Editor of the *Forum*, through whose kind courtesy the article referred to earlier has been reproduced as an Appendix in this book.

Sydenham College of
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S. K. Muranjan

THE FINGER OF HISTORY

HYPERINFLATION IN AUSTRIA

An economist who knew how to describe graphically all the phases of the inflation which spread from Austria to Germany would find it unsurpassed material for an exciting novel, for the chaos took on ever more fantastic forms. Soon nobody knew what an article was worth. Prices jumped arbitrarily; a thrifty merchant would raise the price of a box of matches to twenty times the amount charged by his upright competitor who was innocently holding to yesterday's quotation; the reward for his honesty was the sale of his stock within an hour, because the news got around quickly and everybody rushed to buy whatever was for sale whether it was something they needed or not. Even a goldfish or an old telescope was 'goods' and what people wanted was goods instead of paper. The most grotesque discrepancy developed with respect to rents, the government having forbidden any rise; thus tenants, the great majority, were protected, but property owners were the losers. Before long, a medium-sized apartment cost its tenant less for the whole year than a single dinner; during five or ten years ... the population of Austria enjoyed more or less free lodgings ... A man who had been saving for forty years and who furthermore had patriotically invested his all in war bonds became a beggar. A man who had debts became free of them. A man who respected the food rationing system starved, only one who disregarded it brazenly could eat his fill. A man schooled in bribery got ahead, if he speculated he profited. If a man sold at cost price he was robbed, if he made careful calculation he yet cheated. ... Because Austrian money melted like snow in one's hand every one wanted Swiss francs or American dollars and foreigners in substantial numbers availed themselves of the chance to fatten on the quivering corpse of the Austrian krone ...... Every hotel in Vienna was filled with these vultures; they bought everything from tooth-brushes to landed estates, they that this overexcitation was unbearable for the people, this being stretched daily on the rack of inflation......And secretly it hated the Republic, not because it suppressed this wild freedom, but on the contrary, because it held the reins so loosely ......Around Ludendorf, more than the then still powerless Hitler, the counter-revolution was already crystallizing openly: the officers whose *epaulettes* had been torn off their shoulders organized in secret, the small tradesmen who had been cheated out of their savings silently closed ranks and aligned themselves in readiness for any slogan that promised order... Nothing ever embittered the German people so much,—it is important to remember this—nothing made them so furious with hate and so ripe for Hitler as the inflation...The inflation served to make it feel soiled, cheated, and humiliated; a whole generation never forgot or forgave the German Republic for those years and preferred to reinstate its butchers......

—The World Yesterday
(Stefan Zweig)