

CHAPTER III

PRICES OF COMMODITIES AND MONEY RATES OF WAGES

PRICES and money rates of wages — a particular kind of price which it is convenient to examine separately — constitute the link between the real and the money worlds, between real resources and their output of real income on the one hand and money income on the other. Rising prices mean that money income is running ahead of real income, falling prices that it is lagging behind. The changing relations in which the two sorts of income stand to one another react to modify the absolute magnitude of both. Thus prices and price movements are at once effect and cause, playing a central part in all short-period economic changes. The purpose of this chapter is to set out the broad facts concerning them over the course of our period.

During the Breathing Space between November 1918 and April 1919 the *Statist* index number of wholesale prices fell by 5 per cent, the *Economist's* by 7 per cent. The Board of Trade Cost of Living index, if we take the middle of the two limiting figures given by Bowley for November 1918, fell by 7 per cent. Money wage rates were approximately unchanged.

This preliminary period was a prelude to the large upward price swing of the Boom year. Between April 1919 and April 1920 the *Statist* index number rose 44 per cent and the *Economist* number 43 per cent. Since the method of construction of the Board of Trade index number was altered in January 1920, it is not suitable for

use over this period.¹ During the war the corresponding movements had been as follows. Wholesale prices, whether measured by the *Statist* or the *Economist* index number, rose fairly steadily by about 2 per cent (cumulative) per month, *i.e.* 27 per cent per annum, till the middle of 1917. After that, until the Armistice, they rose much less rapidly. The total rise over the sixteen months from June 1917 till November 1918 was under 10 per cent. This check was, no doubt, partly due to the fact that price control was extended over a large number of commodities from the middle of 1917 onwards. Thus the upward swing of the wholesale price indices was substantially higher during the year of post-war Boom than it had been during any war year. British wholesale index numbers relate in the main, it must be remembered further, to raw materials and articles of food. According to the Federal Reserve Board, the increase of these was substantially less in our period than the increase in the general body of British wholesale prices. The Board has constructed an index number worked out for six groups of commodities, namely Goods Produced (55 items), Goods Imported (42 items), Goods Exported (40 items), Raw Materials (38 items), Producers' Goods (35 items) and Consumers' Goods (24 items). Between April 1919 and April 1920 prices for the Raw Materials group rose 41 per cent, a figure slightly less than those of the *Statist* and *Economist*. But for the group Goods Exported they rose enormously more, and for the group Producers' Goods very much more; with the result that the Federal Reserve Board's final index for all commodities (*i.e.* goods produced plus goods imported) at wholesale in this country rose, not by 41 per cent, but by 56 per cent.

¹ If we ignore the change of method and take the figures printed in the Abstract of Labour Statistics at their face value, the April-April rise works out at 38 per cent. Mr. Rothbarth has made for me an adjustment to cover the transition, and, if this is used, the rise amounted to 42 per cent.

Turning to retail prices, we find that between the two ApriIs the Ministry of Labour's Cost of Living index rose by 18 per cent, and its index for food alone by 19 per cent. This movement was of the same order as those experienced during the war. It should be noticed, however, that, while April 1920 marked the end of the up-swing in wholesale prices, the Cost of Living and the retail price of food continued to rise for several months longer. When they reached their maximum, in October 1920, they were respectively 35 and 41 per cent higher than in April 1919.

Between the same two ApriIs Dr. Bowley's index of money wage rates in the United Kingdom, which is based on the payments stipulated for a normal week's work¹ in eleven broad groups of industries, rose by 14 per cent. But this is somewhat deceptive, since in May 1920 the index took a large jump above what it was in April. If we compare the two Mays, the rise works out at 21 per cent, which, no doubt, gives a truer picture. During the war period, indices of general wage movements should, in view of the wide dispersion of rates, be looked at somewhat distrustfully. Dr. Bowley has, however, offered estimates for the successive Julys of the war years.² If we use the upper figures of the ranges that he suggests — very little difference would be made by using the lower ones — we get a rise of 10 per cent between July 1914 and July 1915; 9 per cent between July 1915 and 1916; 15 per cent between July 1916 and 1917; and 28 per cent between July 1917 and 1918. Thus for the first three years of the war wages had lagged behind the Cost of Living, but

¹ London and Cambridge Economic Service, Introductory No., p. 14. It must be remembered that the normal week contained on the average one-tenth fewer hours in 1919 than in pre-war times. *Per contra* the efficiency of wage-earners in producing output was probably increasing, partly in consequence of improved equipment. Lord Keynes (*A Treatise on Money*, vol. ii, p. 178) suggests that 1 per cent per annum might be allowed for this.

² *Prices and Wages in the United Kingdom, 1914-20*, p. 106. The percentage rise between July 1918 and July 1919 was 19; between July 1919 and July 1920 21.

thereafter gained rapidly. On the background then of war experience, the rise in money wage rates during the year of post-war Boom was neither abnormally large nor abnormally small. Like the Cost of Living and retail food prices, money wage rates continued to rise after wholesale prices had turned down; but the rise was continued for three months longer — till nine months, instead of six months, after this. In January 1921, at their highest level, money wages were 18 per cent above what they were in April 1920, notwithstanding that, by that date, the *Statist* wholesale number was 26 per cent lower than in that April. The wage rise was considerably more marked among labourers than among skilled workers.¹

This movement of wage rates, it should be observed in passing, was accompanied by very serious labour unrest. On 16th July 1919 a strike took place in the Yorkshire coal mines, involving 140,000 men, which lasted nearly a month. It affected adversely employment in the iron and steel and in the woollen industries.² From 27th September till 5th October there was a general railway strike, which, it is estimated, in one way or another rendered 375,000 work-people unemployed for varying periods.³ In October there was a strike of iron founders, with considerable reactions on employment in engineering and ship-building. It was not settled till 12th January 1920, its cessation then being partly responsible for the improvement in employment that occurred in the following months.⁴ During 1919 as a whole no less than 2,600,000 work-people were directly involved in disputes, and the working days lost by them, apart altogether from unemployment induced elsewhere, numbered 34,000,000 — a total that had only been exceeded before in 1912.⁵ During 1920 the total

¹ Cf. Bowley, *Prices and Wages in the United Kingdom, 1914-20*, p. 106.

² *Labour Gazette*, 1919, p. 389.

³ *Ibid.* p. 415.

⁴ *Ibid.* 1920, p. 57.

⁵ *Economist*, 1919, p. 384.

number of work-people directly involved in disputes was 2,000,000 and the number of working days lost 27,000,000.¹

In the Slump which followed the Boom, wholesale prices fell. The *Economist's* index number turned down in April 1920, the *Statist's* in May, the Federal Reserve Board's (for Great Britain) in June, and the Board of Trade's in August. Thereafter these prices fell even more rapidly than they had risen. The *Statist* and the *Economist* index numbers stood, in April 1921, at 8 and 14 per cent and the Federal Reserve Board aggregate index number for Great Britain at about 4 per cent, below their level when the Boom started in the April of two years before. From then onwards the decline became less rapid, but still continued. After another year, in April 1922, a fairly stable level was reached; and by December 1922, when, on our reckoning, the Slump was over, the *Statist* index number had fallen to 30 per cent below its level in April 1919 and to some 49 per cent of its peak level. The Federal Reserve Board's general index for Great Britain once more stood in its old pre-war relation to the raw material index. It had fallen to some 22 per cent below its level in April 1919 and to half its peak level.

Cost of Living and retail prices, which had gone on rising till October 1920, six months after wholesale prices had turned, fell rapidly till September 1921. They then stood once more at about their level in April 1919. The Government subsidy on bread was, as stated in Part IV, Chapter II, withdrawn in November 1920, but the concurrent reduction in the import price of wheat enabled this to be done without bread prices being much affected. After September 1921 the Cost of Living and retail prices continued to fall slowly till May 1922, when a rough stability was attained. In December 1922 the Cost of Living stood at about two-thirds of what it had been at

¹ *Labour Gazette*, 1921, p. 6.

its maximum (in October 1920), and 13 per cent below its level in April 1919. The corresponding figures for the retail prices of food were three-fifths and 15 per cent. The fall from the peak, like the preceding rise, was in a substantially smaller proportion for these indices than for wholesale prices. But approximate stability was reached for the two sets at about the same date, April 1922. Thus the period of fall for the Cost of Living and the retail price of food was shorter, whereas the period of rise had been longer, than for wholesale prices.

Money wage rates did not turn till February 1921, and in the April of that year were still much above what they had been in April 1919. After that they fell rapidly, much more rapidly than the other price indices, till December 1922, when they were at two-thirds of their maximum and 14 per cent below their level in April 1919. Their swing-down since February 1921 had been some 9 per cent greater than that of the Cost of Living and some 6 per cent greater than that of retail food. In April 1922 they stood again in substantially the same relation to these prices as they had done three years before.

The end of 1922 marks, on my way of reckoning, the end of the Slump and our entry into the Doldrums. It is characteristic of this period that, by an early stage in it, the widely dispersed indices of various sorts of prices had gathered themselves together, so that their relative levels approached again fairly closely to what they were in pre-war times. This is very clearly brought out in the summary table on p. 167 prepared by Dr. Bowley,¹ to which I have added a final line for money wages, *i.e.* the price of labour. As Dr. Bowley points out, apart from exports, by the third quarter of 1923 all the indices of wholesale prices are within the limits, as against 1913, of 150 ± 7 . The export figures in 1923 show an appreciation of 22 per cent in terms

¹ London and Cambridge Economic Service, Special Memorandum No. 5, p. 1.

MOVEMENT OF PRICE INDICES

			1913, Average	1920, Maximum		1923, Third Quarter
				Date	No.	
Wholesale Prices	General	Board of Trade . . .	100	April	324 ²	157
		<i>Statist</i> . . .	100	Feb.	309 ²	149
		<i>Economist</i> . . .	100	March	310	157
	<i>Food</i> —	Board of Trade . . .	100	Sept.	280	155
		<i>Statist</i> . . .	100	June	323	156
	<i>Materials, etc.</i> —	Board of Trade . . .	100	March	356	157
		<i>Statist</i> . . .	100	Feb.	314	143
	<i>Imports</i> —	All . . .	100	2nd Qr.	297	153
		Food . . .	100	4th Qr.	336	152
		Materials . . .	100	2nd Qr.	328	156
		Manufactures . . .	100	4th Qr.	293	154
		<i>Exports</i> —	All . . .	100	3rd Qr.	376
	Materials . . .		100	3rd Qr.	497	192
	Manufactures . . .		100	3rd Qr.	376	192
	Retail Prices	Food . . .	100	Oct.	284	168
Cost of Living . . .		100	Oct.	270	173	
Cost of Living ex- cluding rent . . .		100	Oct.	301	178	
Money wage rates (price of labour per week)			100	Jan. 1921	277	174

* Dr. Bowley's table appears to contain two slips. The Board of Trade maximum was 325 in April 1920, the *Statist* maximum was 313 in April 1920 (cf. *Statistical Journal*, 1921, p. 260).

of general prices. "Part of this excessive rise", Dr. Bowley writes, "is connected with the increase of wages both for manufacture and for transport."¹ The rise of retail prices and of money wages was on the average, as against 1913, some 13 per cent greater than that of wholesale prices

¹ *Ibid.* p. 2.

other than those of exports. All the retail indices and the money wage index are within the limits 173 ± 5 .

During the course of the Doldrums down to April 1925 the movements of our several series were as follows. Between January 1923 and June 1924 the Board of Trade wholesale index number moved up, with a slight wobbling, by some 4 per cent; the Cost of Living index moved down by about 4 per cent; the retail price of food moved down by about 6 per cent; the money rate of wages moved up by 1 per cent. After June 1924 all of these indices, other than money wage rates, rose a little till the end of 1924, but thereafter relapsed again by April 1925 towards the level of June 1924. The money rate of wages was 1 per cent higher in April 1925 than it had been in that June. Thus, not only relatively to the large movements of the preceding three years, but absolutely also, prices and money wage rates during the portion of the Doldrums with which we are concerned were not far from stable.