# THE USE OF GOVERNMENT FINANCES TO CONTROL INFLATION(1)

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Our era has been termed the "age of inflation". So it seems to be, not because inflation is the dominant single characteristic of the times but because it is an important, continuing, and almost universal feature. By now may be excused for feeling that it is a tiresome subject, one about which so much as been said that another commentary has no appeal and little justification for existence. Such an attitude, while understandable, will not rest upon confidence that the problems have been solved. Certainly, they have not been solved in practice. And, I suggest, there has not been "solution" in (public or even professional) understandint of two central points : (1) The seasons why price-level stability has great value for mankind's well-being and (2) the "causes and the cures" or, hopefully, the preventives.

## PRICE - LEVEL STABILITY AS AN OBJECTIVE

### Definition and Measurement

Although the term "inflation" has different meanings in different contexts, the one used here is a *rise in the general level of prices*. In other words, we mean a drop in the purchasing power of the unit of money. No fully satisfactory measure of the *level* of prices of all goods and services is possible. In the United States the two best indexes, the Consumer Price Index (CPI) and the Wholesale Price Index (WPI) of the U. S. Department of Labor, cover much of what policymakers ought to know But not all. Is the adjustment for change in product quality ade-

1) Views are my own and not necessarily those of any organization with which I am associated.

quate? A feeling that the CPI has a bias which shows price-level increase when there has been none, helps account for some lack of vigor in U. S. policy[2].

**Scope of the Discussion Here**

The attention here will focus on the possibilities of using government finances to prevent inflation. Inflation, even of a mild sort, is evil — by no means society's worst evil but one bad enough to warrant serious, vigorous, determined, unending effort to eliminate —. The following paper reproduces in modified form materials I prepared for another occasion to explain why inflation of the creeping sort — 2 or 3 or 4 percent a year, modest by the standards of much of the world — has bad effects. These include impediments to achieving other objectives which *are* truly important to human welfare. For present purposes let us accept that price-level stability is a desirable goal[3]. Let us also assume, which is not the fact, that available measures (indexes) of "the" price level do provide reliable measures of the prices which in total are those of significance for human welfare.

The conditions envisioned, the environment which is assumed to exist, will be more or less as that existing in several major industrial countries, most specifically the United States for many years now. As regards one major feature is includes the absence of great war. This assumption may seem unrealistic for the U. S. Our economy is supporting

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2) The Consumer Price Index does **not** indicate the "cost of living." To compute the latter requires **two** kinds of measurement : (a) prices and (b) the constituents of the "market basket", the things consumed. The total and the patterns of what families do actually consume both change over time. Even though prices are stable, the **cost of living** can go up when families consume (a) more or (b) better quality goods and services. The CPI measures the price of an unchanging "market basket"; the housewife may often feel that prices rise more than they actually do because the standard of living, the contents of the "market basket", improves. Sometimes the WPI and CPI indicate different movements, not only in amount but even in direction. A broader measure, the Implicit Price Deflator for Gross National Product, is even less satisfactory as an indicator of the level of prices as a whole.

3) In some economies a corresponding short-run goal may be a material reduction in the rate of inflation. For present purposes such a difference in degree can be accepted as also the concern of this paper.

half a million fighting men in a distant part of the world in bitter hostilities, and many more in other countries, to help protect mankind from the evils of Communism. Why, then I make the assumption? I do so with two things in mind (1) For as long as we can see, the United States and several other lands are doomed to using a sizable amount of each year's production for military purposes. Therefore, in planning economic policy we must treat such conditions as part of the apparently permanent structure of the economy, not the temporary exception of times like the wars before 1940. (2) As regards the U. S. economy, the inflationary results discussed here were occurring before fighting intensified. The economic cost of Vietnam has not loomed large in the sense that wars in the past have involved large amounts. As a marginal factor, of course, the 3 to 4 percent or so of GNP now being used to carry on hostilities in Vietnam has more effect than the absolute money amount may suggest.

The institutional conditions of government, the banking system, industry, labor unions, all these do differ from country to country. Analysis based on American conditions will have application which, though somewhat limited, has more that applies generally.

**Role of Government**

Government is man's agency for collective action on a broad scale. It is one we can use to do some things which cannot be done by acting freely and individually in the market. If we want price-level stability must we not use government to achieve it? Certainly our individual actions taken freely and independently in the market place will not bring us, indivually, general price stability. The whole concept of individual action and responsibility for the price level seems so unrealistic that one can hardly even conceive the notion.

For very large groups —labor unions big industrial groupings, farmers or huge cooperatives, even perhaps one or two giant corporations — the effects on the price level of its own actions may not be inconsequential. For present purposes, however, we shall treat the control of inflation as the job of the national government.

The role of government in preventing inflation might better be viewed as simply to give up causing inflation. True — or almost so. But not quite,

or at least an oversimplification. A few comments on the causes of inflation can help the discussion later.

**Causes of Inflation**

Inflation's causation is not a simple matter. Inflation results from causes which themselves have causes. The discussion here will exclude for the most part elements not involved in government finances.

*Demand Pull,* (1) Individual prices and (2) the general price level will go up if *demand rises more than supply.* A more accurate statement relates (a) the dollars of total demand for the economy as a whole to (b) the dollar value of the output of goods and services. "Excess" demand is the key. If total *money demand rises* 1 percent and the physical volume of output also rises 1 percent, no change in the *average* level of prices would be expected (assuming no large amount of price and wage inflexibility and resource immobility). If the total *dollar* spending rises by 2 percent, however, and *physical* output goes up only 1 percent, prices on the average will rise. Buyers are trying to get bigger quantities. Sellers naturally seek to obtain more for what they ofter. (Who does not want more income? Is not one way to do so in the normal functioning of the economy to raise one's asking price?) The "sellers" may be workers providing their labor or businesses with goods for sale. In an economy producing millions of kinds of goods and services of final output, there is no way of determining which prices will be affected.

When will *demand-pull* inflation occur? Two conditions must be examined : (a) the potential for rise in *output* and (b) the possible change in total *money* demand.

The United States has no fully accurate measures of (a) existing productive capacity or (b) growth in capacity from month to month. "Demand pull" can always pull some more output from the economy. Yet one thing is clear : As workers and businesses reach the point of turning out about as much as they consider "capacity" (e.g., the 40 hour week or "preferred operating rates"), then greater obstacles must be overcome to get much additional output. Human and nonhuman bottlenecks appear. To overcome them frequently requires more inducement per unit of output, i.e., higher wage rates and prices must be paid. These additional payments tend to offset,and eventually to exceed, the advantages of (a) spreading fixed costs over greater volume and (b) the bringing of new, more efficient, machines into use.

In general, the more the push for fuller utilization, the greater the cost of the additional output. The amounts will differ from company to company, product to product, occupation to occupation, industry to industry, area to area, season to season. What seems to be a "capacity" operation may be one at which output is forthcoming only at higher costs per unit, and prices. On the *cost* side, in other words, fuller utilization of existing capacity (labor and plant) due to demand pull, while leading to greater output, will also involve some upward movement in unit costs. Thus, in times of demand pull prices go up as a result of cost (as well as demand) pressures.

Capacity in some parts of the economy will be used to its practical limit while slack remains elsewhere. In this reality lies one of the most perplexing of our challenges. If added purchasing power were pinpointed on goods and services which could be turned out with productive capacity otherwise idle, we could get more output in a real sense without (so much) upward pressure on the price level. But to the extent that added demand goes for things for which there is no unused capacity, the expansion potential does exist. And "in between" lie many cases, many parts of the economy, about which conditions are by no means clear. Rarely can the policymaker be sure where the flows of new demand will exert their influence.

*"Cost Push"*. Many prices and wage rates can go up from the sellers decisions. Labor unions, for example, succeed in negotiating wage aggrements which raise costs. Can the average level of price through the whole economy be raised by "cost push"? This question may be debated, partly because of questions of definition, partly because of the time horizon involved. For present purpose it is enough to know that forces of great power exist to raise some wage rates and prices. Will they be overcome by any foreseeable restraint on demand? Nothing that seems politically possible, or really desirable, will be so great. Yet less extreme restraint on demand would not leave them unaffected. If demand is the unemployment resulting from wage-price increases would be "greater" than otherwise, and idle and underutilized labor and other productive capacity will exercise some indirect restraint.

*Total demand.* Money demand for final output of the economy is conveniently separated into three groups. (A fourth, net foreign buying, can be ignored here). (1) Consumer goods and services; (2) Investment goods and services; (3) Government purchases of goods and services.

The money to buy these various things will come *primarily* from payments received for producing them. Goverment's taxes however present an exception to the extent that "rerouting" is involved. Three more exceptions to the general rule, that *total* demand tomorrow results from income reecived today, are of crucial importance for inflation. Holdings of cash may be built up or drawn down. (a) Some money received as income is saved and may not be used at once to pay for new productive capacity. People may decide to hold more dollars in their checking accounts for the time being, and no one else can use *these* dollars in their checking accounts for the time being; these funds are not available for bank lending to others as are the dollars turned over in getting a time deposit. (b) Businesses, households, and governments at all three levels use more of their cash on hand, that is, they draw down cash balances. (c) Money can be *created* in the process of lending by commercial banks. These added dollars are like any others in paying for goods and services. But the borrower who *first* spends these dollars has not received them for productive services rendered.

A rise in total dollar demand (greater than the rise in total real output) lies at the heart of the inflation process. And growth in the supply of money is a key element.

**Change (Increases) in the Stock of Money (Currency and Demand Deposits)**

For most purposes the stock money is considered to consist of (a) coins and currency in the hands of the public (outside banks) plus (b) demand deposits. A growing economy needs more money from month to month. What growth in the quantity of money will best accommodate growth in the economy as a whole? Those who have studied this question reach somewhat different conclusions, but for the United States a figure of around 4 percent a year would probably be generally accepted as conservative[3].

(1) Coins and paper currency for hand-to-hand transactions are supplied by the Federal Reserve and the Treasury in response to public wishes. The amount in circulation varies from season to season, while

3) The absence of growth in the money supply from 1958 through 1960 helps account for both (a) the sluggishness of the economy until early 1961, and (b) price-level stability during that period and for some time thereafter.

growing more or less in line with increases in the general level of business. Neither the causes nor the processes of currency issue are of direct importance here.

(2) Most of the medium of exchange consists of demand deposits against which checks are written. One person makes deposits from which others receive payments. But deposits also come into existence as a result of the lending by (borrowing from) commercial banks. From week to week most bank lending does not in effect change the *total* of demand deposits; the loan to one borrower is the relending of dollars received in loan repayment by an earlier borrower.

What determines the amount of change? The amount depends upon the (a) *legal lending capacity* of banks as determined by the Federal Reserve[4] and (b) the *demand* of businesses, consumers, governments, and others for borrowed funds.

*Velocity of Turnover of Money.* When a dollar is used, it is *not used up.* A unit of money continues to exist, to be spent by the person receiving it. *In effect, dollars once created serve repeatedly in paying for one transaction after another.* Therefore, for the study of inflation — total money demand — it is important to realize that each dollar in the stock of money can do more or less "work" in any period, month, year or five-year period. For the economy as a whole, the total money amount of buying in any month or year will depend in part upon the frequency with which holders of money use each dollar of currency and demand deposit.

The variation in demand deposit turnover constitutes one source of difficulty (a) in forecasting future levels of buying and (b) in "regulating" the flows of total spending and (c) therefore in preventing inflation[5].

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4) Although a particular American bank may alter its own legal lending capacity by borrowing from the Federal Reserve — paying whatever rate of interest has been set by the Federal Reserve — the "Fed" can fully offset any such action by one bank (and by all member banks) by other actions in the open market. The individual bank may sell securities to get dollars to lend; it may borrow from other banks. The total for the banking system does not change in this process. In fact, therefore, actual capacity of the banking system to expand demand deposits or compulsion to reduce them is set within narrow limits by the Federal Reserve.

5) What factors make for a rise or fall in money turnover? Our knowledge is incomplete. (a) The general state of **liquidity** certainly makes a difference. Some types of assets cannot themselves be used to make payments but may be converted quicky into cash — savings and loan accounts, CDs,

## NATIONAL GOVERNMENT FINANCES AND INFLATION

Two aspects of the relation of national government spending and financing to inflation can be noted. They are quite different in process, effect, and magnitude.

### 1. Government as Buyer and Types (as Different from Amount) of Taxes

A. As *employer* and *buyer* the U. S. government has considerable leeway in the wage rater and the prices it will offer, especially in paying *above* what would be free market rates. Much the same is probably true in other countries. If the government offers *less* than prevailing market prices, it may not be able to get items or services at all, quality may suffer, etc. But if it pays higher wages and prices, it just pays more, without fear of bankruptcy as would face a business. It can raise *wage rates above* what competitive conditions demand. And such action may set an example with effects extending elsewhere in the economy. The precedent might influence labor unions in their demands, ete. Where the civil service has influence, it may tend to raise its sights for pay increases when more money flows into the Treasury. The prices which the national government pays for specialized purchases (defense and space exploration items and some construction and land acquisition) can be above the "appropriate" market price. It is difficult to judge the significance of such forces for the economy as a whole. Yet the larger the total of employment and spending the greater the total of buying

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very short-term obligations of prime creditors, time and savings deposits. The larger the holdings by businesses and families of such highly liquid assets, the smaller the amounts which need to be held in checking accounts for any given volume of business. (b) As interest rates go up and down. the willingness to hold non-interest-bearing demand deposits changes. (c) Psychological factors make a difference — confidence (or lack of it) in the economic outlook; expectations about possible changes in prices; for example, if people come to expect prices to go up, buying may be stepped up, moving dollars from hand more rapidly. (d) Changes in business organization and practice influence the longer-run use of money. The variability of deposit turnover in the short run, and the change in the general level in recent years, constitutes one reason cited against focusing federal monetary and fiscal policy on a single formula such as a pre-set rate of change in the stock of money alone. Forecasting methods which utilize monetary variables encounter difficulties in the velocity element.

and employment that are not restrained fully by the power of competition in the market. In the short run, of course, suppliers of specialized materials and services can be forced to work for less than they might get in a free market. But over time the degree of specialization gets weaker and smaller.

B The types of taxes and other revenues (e. g., postal rates) are not all the same as regards effects on the prices people pay. (a) Some commodity or excise taxes — such as those on cigarettes and gasoline — clearly enter into prices; if the tax goes up, so will the price charged to the consumer. (b) To lesser extent, somewhat the same price effect applies to taxes on business such as corporation income tax and social insurance payroll taxes. (c) Personal income taxes, however, are obviously different. An increase in tax rate will reduce the individual's dollars available for spending rather than boosting the price he must pay, as does an excise tax or a postal rate increase.

To the extent that discussions of inflation focus on quoted prices or a price index, some slight significance can attach to the form a tax change. Per dollar of revenue, the personal income tax has much less price raising effect social insurance payroll taxes an the employer are less easily categorized. In the first few months they may have little opportunity to get into prices, but as time passes they are more likely to do so.

### 2. Government as Borrower

*The* source of inflationary pressure is often said to be government budget deficits. Deficits in many countries for many years have been inflationary. Even in such stark, simple form this statement appears frequently in expressions reported in the press in the United States and in editorial comment. The fact that there can be much truth does not mean that the statement is always true. Pointing out the exceptions, though in itselfs of interest, seems a helpful way to highlight relations and processes of basic importance.

Government spending which exceeds tax revenues (plus other sources such as charges for services of enterprise-type activities) will lead to a budget deficit which, it is said, will be inflationary. The solution, then, is said to lie in reducing expenditures, raising taxes, or some combination. Despite the great amount of truth in this general line of argument, it is at best oversimplified. Therefore, it can lead to bad policy. No one "correction", no single addition, will offset the oversimplification.

A deficit itself if one can think of it as something "itself alone" is neither inflationary or deflationary. The story must be completed. A big part of the completion is the way the deficit is financed. What will convert the deficit of a government budget into an "engine of inflation" is the financing by money creation. Ignoring certain possible exceptions and qualifications, what makes a deficit a source of inflation is the decision of someone — the voting public, the executive branch, the legislature, some combination of them, or no identifiable group — to create money to meet the bills. The process may be to use the printing presses. Or it may be deposit creation by the banking system (over and above what otherwise be created). The method by which government borrowing from the banking system leads to an expansion in the banking system is familiar. Perhaps, however, one aspect in my statement deserves explicit explanation. At least in the United States, it can be of some importance; the deficit and its financing will not in a strict sense lead to *net* money creation if private money creation is curtailed to the extent that money is created for government. Though this distinction may seem to be a quibble, it does have some policy significance. Treasury borrowing (and related financing by other federal agencies) puts the Treasury in competition with other borrowers. The Treasury is one of many "demanders" of funds available for lending by all who supply loanable funds to the market. The Treasury's relative importance in the market can change widely as the size of the deficit changes[6].

The ability of banks to acquire Treasury obligations depends upon the lending capacity made available by the central bank (the Federal Reserve); The actual decisions will also depend upon the preferences of banks for lending to the Treasury, as against other borrowers.

The Treasury may merely *displace* other borrowing (that is, if the government gets by borrowing, and then spends, dollars that would otherwise go to businesses, state-local governments, or households). If

6) In the United States the actual procedures of Treasury borrowing differ from those used by other borrowers. The differences do not bear significantly upon the results as regards inflation. The Treasury offers its shortest-term issues, Treasury bills, on the open market. Banks may, if they wish, bid for such issues rather than using their lending capacity to supply funds to business. The Treasury does not sell directly to the central bank (the Federal Reserve); the latter's holdings are acquired by its open-market purchase. The Treasury does not negotiate directly with commercial banks as do businesses and individuals when they borrow.

so, neither (a) the *total* of buying nor (b) the *inflation* potential has been affected by the budget deficit. But someone else "goes without". Like a payment of taxes, this borrowing will force restraint in consumption or investment. The difference is that private or state-local capital formation, or debt-financed family consumption, has been reduced to pay for federal spending.

This displacement result may seem undesirable on one or another ground, i.e., shift to government from use of resources. Yet this method of borrowing government can finance a level of its own spending in excess of tax revenue. The process by which Treasury borrowing displaces private borrowing bears upon the generation of inflation in complicated ways.

(1) If there is *no increase in demand deposits* (money), then the deficit is not a source of inflation. This conclusion will apply even if the economy is operating at full capacity. (No new dollars are added to facilitate larger consumer, or business, buying in later periods).

(2) If Treasury borrowing expands demand deposits, then (a) if the economy is operating at essentially *full capacity*, the spending which is financed by the expansion of demand deposits will tend to raise the level of prices in the initial period. As the new dollars flow around the income circle, while the amount of economic slack is large — as in the early 1960's in the United States — no appreciable inflationary effect would be expected. Government spending can be increased (financed) without displacing private. (c) When there is some slack in the economy but not a great deal, the results are much less easily predicted. Such has been the situation much of the time in recent years in the United States.

Sometimes there will be doubt about the extent to which an increase in government borrowing does in fact displace private access to credit. One important variable factor is under deliberate control by the monetary authorities. That is the lending capacity which the Federal Reserve grants to the banks. Within considerable limits the central bank has power to let commercial bank lending grow to accommodate *both* the Treasury and private business without an apparent "shortage" of credit. But such additions to the supply of money will have other effects later.

The Central bank can prevent or permit. Here is the central fact of the major inflation process - not the Treasury deficit so much as the amount of money creation, if any, to finance it.

## NONINFLATIONARY FINANCING OF A BUDGET DEFICIT

It is possible to finance a deficit, large or small, in ways having no inflationary effect. That method is well recognized. It requires the Treasury to borrow in the capital market, getting savings that would go for other purposes, e.g., to businesses. But — and this qualification must always be kept in mind — the action of the central bank must not as result be different in an offsetting direction. The Treasury by paying the necessary interest rates can borrow in noninflationary ways. Those rates may seem high. The question, then, is whether taxes for the full amount or some portion of debt — say $ 7 billion — are better or worse then the interest payments required. The question does not have to be inflation or not. Other aspects of the problem involve issues not directly related to inflation, for example, the relative effectiveness of governmental as contrasted with private use of savings .

Money creation on a scale which will produce inflation can, of course, occur when the government's budget is balanced.

The fact that a budget deficit can be financed in ways that are not inflationary does not by any means provide basis for concluding that a defict will be financed in such a way. The amount may be so large in relation to the available savings flowing into financial institutions that as a practical matter government officials cannot, or will not, rely upon such financing as contrasted with money creation. For understandable reasons political pressures and short-run conditions in the capital markets may reinforce the inclination of officials to use what is an easier method. Two reasons should be noted. They may help explain choices which in fact mean avoidable inflation. The first is that the level of general public understanding (and even that among high officials of government and business) may not be sufficiently high to provide any broad base of comprehension of the true merits of alternatives. (2) The second is that the short run effects may differ widely from those of the longer run; and the near future gets the most attention. Consequently, budget deficits do lead to money creation. They are a major source of the underlying causes of inflation.Control of spending growth, therefore, stands in fact as basic element.

### "Cost Push" Forces : Labor Unions

"Cost push" as a cause of inflation presents problems which seem to be more difficult of "solution" than those of government finance.

Certanly, some of the aspects of cost push present problems for which U. S. ecomonists cannot yet propose satisfactory solutions.

In a society which allows freedom of people to associate to advance their interests as groups, rather than as individuals only, people will often do just that — use opportunities for joint action. Some form labor unions to bargain collectively on wages and get them higher per hour would otherwise be the case. Farmers, business men, professional groups, and others also join into associations. Perhaps they have the support of government in one way or another. One objective is to raise the prices they get — in doing so, to keep the quantity of goods or services supplied lower than otherwise in order to make higher prices effective.

In the case of labor union action, the effect of higher wage rates will be *direct increase in costs* (unless man-hour productivity has gone up equally). This aspect of cost push seems to me much more influential than do others of this broad type, especially those of businesses; for, at least in the United States, the latter are held in check by diffusion of market power, competition, and weaknesses in groupings. Wages, however, are the biggest element of cost. They can go up because of forces quite independent of changes in productivity.

The normal, natural thing is to use the influence which has been acquired by organization into groups to try to get (higher price) than would be possible in free markets. Yet if economic analysis teaches us anything — and the "law of supply and demand" (as phrased carefully) has not been "repealed" — it is that the higher the price, the lower the quantity demanded. The larger the amount supplied, the lower the price needed to clear the market. Sometimes the quantity response is slight relative to price change (inelastic demand or supply). Sometimes quantity changes are relatively greater than those of price. And so on. This is not the place to deal with the general nature of elasticities. This is the place, however, to make explicit the fact that the quantity of real goods and services purchased — and the quantity of labor to produce them — will be *influenced by price*. This conclusion applies to output of the economy as a whole as well as to any particular product or service

The power which enables labor unions (or other groups) to get wage rates (or prices) higher than would otherwise be the case is also power to reduce the quantity of employment. This conclusion, to repeat applies to labor as a whole or to any particular type. This relationship

however, gets less recognition than it should. Friends of the labor union movement, as well as the persons directly involved in it may not always recognize the relationship[7]. And when they do recognize it they are understandably reluctant to admit openly that policies which they advocate will mean unemployment for others. The widespread, almost universal, ignoring of this vital relationship has created a large gap in understanding and awareness. Even professionual economists whose training makes them aware of the tie between price and quantity, often fail to recognize or to call attention to the relation between wage and price increases and the quantity of employment and unemployment. Custom, habit, and fashion do not call for relating unemployment to wage rates, Yet in this relationship lies some of the reason why the forces which lead to cost push are so fundementally obstreperous. They do not lend themselves to solution by means of government financial (including monetary) policy.

The United States, therefore, faces a difficult dilemma in any short-run period. Essentially full employment means arising wage and price level. Then the rise in wage rates leads to an unemployment problem. More money injection will then be needed to raise total demand enough to achieve full employment at the higher level of wage rates. Labor unions doing the job for which they exist, one which seems so desirable to union members, will create difficulties for others including the whole economy. The "trade off" of something in price level stability for something in unemployment seems cruel.

The problem of inflation arises, of course, from several interrelated sources. One unfortunately, stems from the fact that military costs are high even in times of peace. Though tax rates are very high, budget deficits appear frequently. They are not financed entirely by the brrowing of real savings as distinguished from money creation.

A second force is the existence of groups, especially labor unions, which have both the power and the inclination to push wage rates up faster than man-hour productivity rises.

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7) The argument that higher wage rates mean higher purchasing power and more demand for labor frequently appears, sometimes as an "answer" if one is requested. The facts, of course, lead to a different conclusion. The persons paying higher wage rates lose purchasing power equal to that gained by the recipients. Shifting occurs but no net increase. A net rise in purchasing power comes about through monetary action which in itself may result from government finances.

Still another source of modern inflation in countries like the United States may be expressed as impatience in overcoming the curse of scarcity. Economics as a science starts from the fact that our world is one of *scarcity* in the sense that man's wants are greater than his ability to satisfy them. Fortunately, evidence shows that the ability to produce can be increased. Expansion of productive capacity can be more or less rapid. Who will not want the faster pace? Since many of the things needed to expand productive capacity require the spending of money, more money seems to offer promise of getting ahead more rapidly. And modern money can be created easily. So money creation proceeds - and more rapidly than the real increase in output. Same of our challenge, then, is to restrain aspirations, to keep them pressing up to the limits of possibilities of realization - but not beyond.