

Secular Inflation by Friedrich-Karl Lage. D. Reidel Publishing Company, Dordrecht, Holland, 1961.

The main theme of the book under review is an inquiry into the nature and causes of secular inflation. In defining the term 'secular', the author has followed Simon Kuznets who defined it as an irreversible, continuous movement over a period 'greater than the average duration' of an economic cycle. 'Secular inflation', hence, may include every type of inflation as long as it extends over a secular period and in effect results into an irreversible money depreciation. As a measure and symptom of secular inflation, Lage, like many others, suggests price levels and cost-of-living indices. But due to the lack of accurate figures, a search for a direct proof of the existence and the scope of secular inflation is not always successful.

The author subdivides the causes of secular inflation into three separate groups. "Some originate from outside influences, others result from the wear and tear on money-stabilising institutions and, finally, some are the immediate result of human conduct". The last two are important especially in the context of a modern, industrialized economy.

Institutional framework in the fields of law and policies is often designed with a publicly pronounced high aim of which they often fall short. The government, the central bank, the credit institutions all of them have certain codes of conduct which are, in many practical cases, observed rather in breach than in obedience. Many governments talk of curtailing the activities of cartels and monopoly firms and yet they fall short of this aim either because of unwillingness on the part of them or the use of vague clauses in the anti-cartel laws and ordinances. Thus anti-cartel laws *etc.*, fail to check the monopoly practice of raising prices. However, in the ultimate analysis, it is the interests of different economic groups which matter most in causing 'wear and tear' to the institutional machineries. "The problem of group conflict appears to be basic".

Each economic group tries to share a larger chunk of the social product. A clash among group develops and "may result in a state of disequilibrium in the economy".

Production and distribution are two other factors which need examination in any analysis of secular inflation. Especially, in the context of the process of development, costs of production play an important role. Investments take some time to mature and then an income-capacity gap is created giving rise to a price rise which may often result in a price-wage spiral. Another case in point is that in most of the developing countries there is an intersectoral imbalance caused mainly due to the lack of flexibility on the part of the sectors in response to the demand of each on the other.

Another factor behind secular inflation is consumption behaviour, living beyond ones means as a result of "Duesenberry effect" may lead to secular inflation.

The author is right when he finds conflicting group interests to be the final cause of secular inflation. But his emphasis on wage-price spiral is somewhat one sided. As a matter of fact, he himself notes that the "monopolistic suppliers find it all the easier to insist on high supply prices the greater the demand or easier it is to pass on any rising prices that would decrease their income". The price-wage spiral resulting from investment-capacity gap and monopoly practice then raises wages elsewhere in the economy including the tertiary sector where the scope of increase in productivity is much limited. The overall price rise becomes more pinching in an industrialized economy of today because of the fast-growing prominence of the services sector.

The author should have clarified the above points more elaborately. He should have put equal emphasis on price-wage as well as wage-price spiral.

The author spends much time on how 'wear and tear' in the institutional machineries leads to secular inflation. He should rather have spent much more

time on how this 'wear and tear' is caused by the conflict of group interests which he himself claims to be basic.

Another drawback of the book is that it has not discussed the influence of money market. Group behaviours of speculators and bond-dealers are important especially in the case of an economy of the West.

It seems that the author has neglected or missed some points which, if discussed, could have enhanced the charm of the book.

A few minor points which would have made the discussion more interesting are the inclusion of an Asian country, like India, in the chapter on historical review. Perhaps, in the British period, statistics were not so scanty in India. Also, Lage could have mentioned Marx who described depreciation of money units in various European countries in his 'Critique of Political Economy'.

However, despite all its drawbacks, the book should be hailed as there are perhaps but a few books devoted exclusively to secular inflation and also because the author has been successful in pointing out the basic cause behind secular inflation.

M. Asaduzzaman
Pakistan Institute of Development Economics
Karachi