

---

---

# Inflation – An Endemic Problem of Modern Capitalism

Nicholas Kaldor

---

---

The growth of modern capitalism in the 19<sup>th</sup> century meant a century of falling, rather than rising prices<sup>1</sup>. The engine which drove the industrial revolution forward was making things *cheaper*, in all branches of the economy (with the possible exception of the building industry). The textile revolution meant that cheap factory-made goods displaced relatively expensive hand-made products. Even when the displacement was complete, when power-driven machinery and the factory system became general in the cotton industry in the first half of the 19<sup>th</sup> century, prices continued to fall with improvements in productivity. We know from recent research that the very large increase of British exports in the first part of the 19<sup>th</sup> century was associated with an adverse change in our terms of trade, because owing to the intense competition between individual manufacturers, every improvement in productivity was passed on to the buyer in lower prices. (The market was dominated by *wholesalers* as intermediary traders; the manufacturer was dependent on wholesalers for orders and this meant keen price competition between manufacturers. The competition between wholesalers meant in turn that lower prices were rapidly passed on to the final buyers, home or foreign<sup>2</sup>).

Of course the movement of prices was much under the influence of the trade-cycle – both the short cycle which had a periodicity of 8–10 years, and the long waves (Kondratieff) of 50 years. Food and raw material prices rose or fell according as the growth of demand exceeded or fell behind the increase in supplies; these in turn reacted on industrial prices, both on account of the effect of food prices on wages and of changes in material costs. However, as we now know, wages were not as closely tied to food prices (the price of corn) as the classical economists suggested. They rose and fell with the state of the labour