

## Chapter 5

# On the Nature of Inflation

Nothing is more ironic than the fact that among the perhaps millions of words written about inflation, there is not one definition of the word, so far as I know, of which it might be said that it makes (a) what inflation is, (b) how it comes into existence, and (c) why it is so injurious to mankind so clear that its victims are moved to do something about it.

The explanation for this has its source in a curious fact: the fact that no meaningful definition of *inflation* is possible without defining its antithesis, *deflation*. And no meaningful definition of either inflation or deflation is possible without the definition of a word which designates a money supply which is *neither inflated nor deflated*.

Irving Fisher suggested the use of the word "stabilization" for this purpose. For a number of reasons I decided the best word to use was "normalization". Normalization suggests what should take the place of both inflation and deflation, and *normal* can properly be used to designate a money supply which is neither too large nor too small, which is therefore neither inflated nor deflated.

1. **Inflation:** Inflation occurs when the money supply is increased by issuing money for such purposes as: for meeting the deficits of a government; for capital investments, for speculation of any kind, for loans to buy or hold stocks, bonds, realty and other securities; for the development and modernization of underdeveloped nations; or for stimulating business or reducing unemployment. Under these circumstances the increase is inflationary, the money supply is inflated, and prices of all kinds raised.

The failure of the government to interdict by law such inflation of the money supply is governmental nonfeasance and misfeasance; the act of the government itself in creating such inflation, malfeasance.

Inflation, since it stimulates speculation, is uneconomic, and since it cheats all those who work and all those who save, dishonest.

2. **Deflation:** Deflation occurs when the money supply is decreased by a refusal to issue money when needed to those properly entitled to borrow it, or when the interest rate is raised to deliberately discourage production. Under these circumstances the decrease is deflationary, the money supply is deflated, and the price level pushed downward.

When the freedom of banks to issue money, particularly during a depression, is restrained or forbidden by any activity of the government (this is government misfeasance and nonfeasance) or the government permits such restraint by permitting the private monopolization and centralization of banking (this is government nonfeasance and malfeasance), deflation is not only made possible but inevitable.

Deflation, since it reduces production, is uneconomic, and since it cheats all those who either borrow money or produce goods, it is dishonest.

3. **Normalization:** Normalization occurs when the total money supply is maintained by issuing or retiring money in circulation so that it provides for all the short term needs, but

only for the short term needs, of the producers and distributors of goods. Under these circumstances the money supply is normal. With normalization, the price level tends to be stabilized; the price level tends neither to rise or fall because of anything done or undone by the issuers of money; speculative exploitation of the banking system is made virtually impossible, and wages and profits tend to rise only as productivity is increased.

Since such a money supply is both honest and economic, neither inflation or deflation, no matter how excused and rationalized is excusable.

If for the moment we postpone answering in detail what money should and should not be issued for until that question comes up later, then normalization of an inflated money supply calls for the retirement of money which should not have been issued at all; normalization of a deflated money supply calls for the issuance of new money which should have been issued to avoid deflation, while normalization of a normal money supply calls for the maintenance of a money supply which is already providing all the money properly needed—neither more nor less.