

Inflation Is Evil

When will Americans demand that the government denationalize money and free the market to do what it does better than anything else: serve the general welfare rather than the special interests?

It's hard to know what it would take to bring this about, but inflation talk is once again in the air, and that's bad. Worse, it's in the shops. It had to happen after years of Fed Reserve's money creation, through the banking system, in the name of stimulating this or stimulating that. Forget the printing press. All the Fed has to do is buy up oodles of bank assets (government debt and bad private assets), leaving those institutions with billions of conjured-up dollars in their computer accounts. Eventually the funny money would get out among us and do its damage. It had to happen sooner or later. Only the schedule was in doubt.

So why was the monetary system ever trusted to politicians and their bureaucratic appointees in the first place? The idea that a free society cannot provide sound money was an article of faith based on no evidence, like the idea that a free society cannot provide roads or law and order. The alleged failures of market-based money were really the result of government intervention. The "authorities" could never resist tampering whenever they saw the chance. Power is a strong drug.

Inflation is insidious. When central-bank policy robs people of their purchasing power by reducing the value of money, life gets harder. It's obviously worse for the most vulnerable: the low- and fixed-income members of society, who can least afford the rise in the cost of living. But inflation does so much more. Savings melt away for most people, wreaking havoc with their ability to plan and to take care of themselves.

Even that does not exhaust the ways that the government's central bank harms us. Prices rise, but not uniformly as though the "price level" were a real thing rather than a construct. What counts are relative prices, which in the unmolested market reflect the relative changing of supply and demand. Market prices are indispensable for signaling that some things are being overproduced and while others are being underproduced. Since Fed-created money enters the economy at particular points in society, it changes *relative* prices in ways that differ from what would have taken place with market-based money. More havoc in the planning of production that would otherwise have served the general welfare.

Expectations change because of Fed policies, and those new expectations lead to employer and employee decisions that will turn out to be wrong when the inflation ends. When the Fed becomes nervous that things are getting out of hand, it will, as the saying goes, step on the brakes. Then many people will suffer anew from the recession, the great revelation

of all the mistakes made under the government-distorted signals. And that's not the end: the recession will be the excuse for new government interventions, which will only introduce further distortions. Never let a crisis pass without increasing power—that's the politicians' motto.

Does this sound like fun? Of course it doesn't, but that's what the state has done to us over and over. It keeps happening because government officials gain (though not necessarily in the traditional way), and they are good at blaming others for the bad effects. Economics is not intuitive, especially monetary economics.

Can we hope that the politicians and those who profit from their interventions will let go of the power? Why would they unless they had no choice? Inflation is magic: it, along with the power to borrow, enables our rulers to keep the support of constituencies without the explicit taxes they'd have to levy if the central bank did not exist. (Borrowing might still be an option but also might be more limited without central banking.) To put it another way, inflation is taxation by stealth, embezzlement rather than armed robbery. We pay for the largess the government bestows on special others, but much of it appears from thin air. When people pay the bill at the retail counter, most of them won't know the government is to blame. That's just evil.

Imagine if the government had to fight its decades-long wars with open taxation. Would Americans stand for global intervention if every penny of the trillion-dollar military had to be paid to the Internal Revenue Service? The poor military contractors might have to find other things to produce, maybe even things that consumers really want.

We owe it to ourselves and future generations to change this madness once and for all.