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Connection among Inflation and Government

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Executive Summary
The relationship between inflation and the government's stance on the issue is filled with obscurity and confusion. There have been many conjectures which state that the government is the people's ally against inflation and wants to prevent it at any cost. At the same time, there have been numerous economic conjectures stating the exact opposite i.e. that the government is not the people's ally. Rather the government benefits off the inflation that the common man suffers from. These opposing viewpoints may confuse a new person who is trying to study the subject. Hence, it is important that the debate be addressed and the points for and against the issue be considered before arriving at a conclusion. This article will make an attempt to do the same.

Keywords: *Inflation, Hyperinflation, Measurement of Inflation, Deflation, Government Inflation*

I. HYPERINFLATION

Hyperinflation is what, in layman terms can be called as the economic equivalent of doomsday. Modern societies have become more and more accustomed to having inflation in their daily lives. This has been the case ever since the world went off the gold standard at the "Bretten Woods Conference" and almost all countries worldwide accepted fiat currencies as being the basis of their monetary system. The popular view is that inflation is a harmless by-product of the modern monetary system. Hyperinflation, as some economists describe is this very same "harmless" inflation on steroids. It is nothing but a result of rising rates of inflation for multiple years. Hyperinflation is a grim reminder as to how inflation can wreak havoc on a monetary system and bring about its complete breakdown overnight! In this article, we will have a look at this interesting phenomenon. You can obtain a more detailed explanation from the following video.

A. Imagining Hyperinflation

The economic definition of hyperinflation is defined in terms of percentages and figures. This definition is interesting to read but to the average person they appear like big numbers. The average person is unable to fathom what hyperinflation really means until they are asked to imagine the following scenes:

- Imagine a scenario wherein a sweeper is sweeping on the streets except for the fact that he is sweeping away currency notes! Dollar bills and pounds just lying on the street as if they are worthless. The sweeper doesn't steal these notes and run away because these notes are indeed worthless. He quietly sweeps the streets, disposes millions of dollars in the garbage and heads home!

- Imagine a woman trying to keep her house warm in winters. Usually people use wood or old newspapers to keep the fire burning. Imagine a world where a woman uses currency notes to keep that fire burning. They are so worthless that the woman feels if she could heat her house by burning away millions of dollars, she has got a good deal!

Now, once again read the words "complete breakdown of monetary system" and understand this is what the world looks like when this economic cancer of hyperinflation wreaks havoc. There is no such thing as "normal life" during the period of hyperinflation. Everything about life becomes bizarre and unreal.

B. Consequences of Hyperinflation

Now since we know a fair bit about what hyperinflation really means, let's look at the consequences that hyperinflation is capable of causing in our daily lives:

- **Daily Price Rise:** Hyperinflation is a period when trust is in short supply. Everybody wants to buy their essentials before the money loses its value. It is for this reason that they all rush to spend their money as soon as they receive it causing a drastic rise in prices. In worst cases of hyperinflation, prices were doubling every couple of hours.

- **Daily Payment of Wages:** Since prices of goods are rising daily, wage earners will not wait till the end of the month or week to obtain their wages. They want their wages to be paid to them every day. A lot of businesses have to shut down because they do not have the cash flow to sustain this, complicating the problem further!

- **Breakdown of Monetary System:** In most cases there is complete breakdown of the monetary system. For an interim period of time, the nation resorts back to the gold standard. Later, usually the World Bank or IMF interferes and introduces some form of currency to stabilize the system. Usually currencies like the dollar and pound sterling are used for this purpose.

- **Savings Wiped Out:** Since so much excess money is created, the amount of money lying in the bank loses its value. It does not matter whether there was a billion dollars or one single dollar in a bank account. In the event of hyperinflation their value is the same i.e. zero!

C. Major Currencies in Crisis

Another common misconception is that hyperinflation affects only economies in decline or those economies which are badly managed. This isn't the complete truth. The first real known case of hyperinflation was observed in the Roman Empire and it began when the empire was at its helm bringing the whole system down. There have been many more cases in recorded history wherein major empires have been brought down by hyperinflation. If we look at the current scenario, almost all world currencies i.e. the dollar, the pound, the yen and the Swiss franc are dangerously close to a hyperinflationary spiral. It would not be farfetched to think that one or all of these currencies could soon face a major crisis.

II. FAMOUS CASES OF HYPERINFLATION

The common perception amongst lay people is that hyperinflation is the economic equivalent of a doomsday. True, that the consequences are dire and the threats are real. But this sort of stuff almost never happens, does it? This is the opinion that the common public holds when they are confronted with the issue of hyperinflation. However, if we consider facts, nothing could be further from the truth. In fact, hyperinflation has occurred over 50 times since the 1900's. There has been a rapid rise in the incidence of hyperinflation in the past few decades. It is extremely likely that all of us may have heard about hyperinflation in the news. Here are some commonly mentioned cases of hyperinflation. The objective is to convince the reader that hyperinflation is far more common than it is believed to be!

A. French Revolution

One of the earliest examples of hyperinflation in modern history was seen in colonial France. In fact, it is believed to be one of the leading causes of the French revolution. The monarchy of France had run up a huge debt because of fighting multiple wars. Paying down this debt was next to impossible until some assets were sold. The French therefore created a land backed currency which they used to pay off the debt holders. The problem was that the French ended up creating far too many currency notes as compared to the land that they had on hand, therefore creating runaway hyperinflation as well as the French revolution in the process!

B. Pre-World War 2 Germany

The most notable example of hyperinflation is the pre-World War II Germany. Germany was asked to pay heavy damages to its neighbours for the loss of World War-1. Since Germany did not have enough money in taxes to pay off these debt obligations, the German government started printing money to pay off the debt, resulting in hyperinflation. People lost the value of their savings and wages had to be paid daily, in gold. The hyperinflation resulted in a complete breakdown of the monetary system as the German currency lost its value. There was rioting and break down of law and order. Adolf Hitler took advantage of the chaos caused and promised a stable monetary system to the people of Germany. This was one of the major reasons that he ended up in power. The pre-World

War-II hyperinflation is perhaps the most famous example of hyperinflation. It is famous because it ended up propelling Adolf Hitler to power.

C. Zimbabwe

The Zimbabwean hyperinflation which happened in 2008 is also extremely famous and also a grim reminder of the havoc that hyperinflation can wreck on an unsuspecting population. In 2008, Robert Mungabe came to power in Zimbabwe. The international community was wary of his policies and refused to offer him more credit, while simultaneously calling in the old loans made! This created a situation where in the Zimbabwe government immediately required funds several time more than they had collected in taxes. Robert Mungabe decided to print the money and pay off the debts. Also, since there was widespread discontent against Mungabe, he decided to double the wages of military officers in order to protect himself and have a strong hold on the military. Once again, the government did not have the money and the increased wages were paid by printing more money. All this newly created money rushed into the marketplace and ended up creating one of the worst known hyperinflations. At its peak, Zimbabwe was suffering from a billion percent per year inflation! There was a complete breakdown of the law and order as well as the monetary system. The government was printing hundred trillion dollar currency notes. Finally wages had to be paid several times every day. In the short run, the system came back to the gold standard. However, at the present moment, the British pound sterling is being used as the medium of exchange post the hyperinflation.

D. South America

During the 1990's multiple South American countries faces hyperinflation. This was caused because of the debt created by enacting populist policies. The IMF tried to impose austerity measures on the governments which many of them did not agree to. As a result they continued with their own monetary policies and were effectively shut out from the world debt markets. With no one to borrow the money from and populist policies which require huge payouts, many of these governments had to print the money required to pay off the obligations. This ended up causing massive hyperinflation. Therefore hyperinflation has been quietly present all through the ages. The world is facing an even larger threat right now. This threat is being caused by the fact that for the first time in the history of the world, the entire world is on a fiat money system.

III. CONNEXION AMONG INFLATION AND GOVERNMENT

The relationship between inflation and the government's stance on the issue is filled with obscurity and confusion. There have been many conjectures which state that the government is the people's ally against inflation and wants to prevent it at any cost. At the same time, there have been numerous economic conjectures stating the exact opposite i.e. that the government is not the people's ally. Rather the government benefits off the inflation that the common man suffers from. These opposing viewpoints may confuse a new person who is trying to study the subject. Hence, it is important that the debate be addressed and the points for and against the issue be considered before arriving at a conclusion. This article will make an attempt to do the same.

A. Government as Trying to Control Inflation

If newspapers, prescribed economic textbooks and the popular media are to be believed then the government is indeed trying extremely hard to control inflation. It appears as if this is the government's number one priority and an enormous amount of resources are being spent on taming the inflation problem. Theory has us believe that the government, in co-ordination with the central bank, makes monetary policy decisions i.e. increasing and lowering the interest rates with the intent of providing maximum benefit to the masses. However, one also needs to consider the result of all these efforts. Countries all over the world have experienced unprecedented inflation in the past century. The United States dollar has lost 94% of its purchasing power in the past century. The other major currencies like Pound Sterling, Euro, Japanese Yen etc. are all reeling under the effect of massive inflation.

Whereas earlier it was possible for one working adult to make enough income to sustain an entire family, nowadays working couples are also finding it extremely difficult to make ends meet. If the government is indeed spending all these resources on controlling inflation, it is doing a very poor job since the results have been dismal. Inflation has been increasing year on year and the common man finds himself becoming increasingly poor through the ages despite working increasingly harder.

B. The Reality: Government as the Cause of Inflation

The opposing theory states that the government is actually the cause of inflation. The study is not accepted by the mainstream economists however it provides accurate empirical evidence to prove its point. Studies have shown that inflation was non-existent or very less in ancient societies wherein the government did not have the exclusive right to coin money and regulate its value. As and when government interference in the monetary system increased, so did the inflation. To have a better understanding of this point, let's consider the following case:

C. Inflation: Impossibility without Government Involvement

Let's say that there were only \$100 present in the economy and this \$100 was spent equally on purchasing four types of goods viz. A, B, C and D. That would make \$25 available for the consumption of each good. Now, if there was inflation in the price of good A, let's say the economy has to spend \$30 on good A but the total amount of money in the system remains at \$100, people would be forced to cut back the consumption of B, C or D goods to compensate for the rise in A. This means that good A will experience inflation. However, the other goods will experience deflation of the same magnitude and the economy as a whole would remain unaffected. The point being made here is that the prices of all the goods in the economy can rise simultaneously only and only under one circumstance i.e. the creation of more money. If the money available in the system increases from \$100 to \$120, the prices of all the goods will increase simultaneously. This is the situation today and this is what we commonly refer to as inflation.

D. The Real Cause: Increase in Quantity of Money

Now, since we have ascertained that increase in the quantity of money is the root cause of inflation, the next question obviously arises, who controls this quantity of money creation? The answer to this question is that the government does. Hence, while in the newspapers and magazines, you may read that the government is trying to control inflation the reality is that they are the only ones who have the power to create it in the first place! Hence it would be apt to say that the government itself is creating the inflation and later creating the illusion that it is trying to fight it. Obviously, this is an oversimplification. There are other factors at play too, like the concept of velocity of money as propounded by eminent economist Dr Milton Friedman which is not exactly in government control. But for the most part, the government does have a massive role to play in creating inflation.

IV. DEFINITION OF INFLATION

The definition of inflation has undergone a subtle change across the ages. Economists earlier used to define inflation in a certain way, now they define it in a slightly different way. Although the change in definition may seem to be innocuous and trivial, in reality that is not the case. The changing definition has completely changed the paradigm through which we address the problem on inflation and has therefore changed the measures that we usually adopt to control it. In this article, we will look at the old definition and the new definition, understand why the difference is not trivial and why it matters.

A. The Old Definition

Old economists defined inflation as an artificial increase in the money supply within an economy. In fact the term inflation has been borrowed from the metaphor of an inflated balloon which looks big but lacks any substance in it. Inflation was therefore purely a monetary phenomenon. Old economists did mention that rising prices was a symptom and an effect of inflation. Notice the difference, rising prices was the effect and not the way in which inflation was defined.

B. The New Definition

New age economists define inflation as the "sustained rise in prices of goods and commodities" across the economy. To the average person, this might seem to be stating exactly what is written above. However, there is a huge difference. Notice the change from. Artificial increase in money supply to state of rising prices. New age economists refer to the increase in monetary supply by a different term called monetary inflation whereas when they use the word inflation in common parlance, they are usually using it to mean price inflation. The change in definition is therefore nowhere subtle or inconsequential. Instead, the ramifications of this definition change on inflation theory are massive.

C. Purpose of a Definition

The purpose of a definition is to help the reader unmistakably identify a given condition. The changed definition of inflation fails to meet this purpose. If we define inflation as rising prices, prices could actually rise because of a number of factors. Some of these factors may be legitimate whereas the others may not be. For instance, if rise in prices if because of supply side blockages and other logistical issues, there is very little that a central bank could do to bring down this price rise.

D. Cause vs. Effect

Also, the definition has to be clear about the cause and the effect of the phenomenon being observed.

- An effect or symptom is what helps the user identify the existence of the phenomenon i.e. it helps in defining the problem
- A cause on the other hand is what needs to be corrected to eradicate the problem i.e. it helps in creating a solution. The stability of the solution depends upon how permanently the disturbing cause has been removed.

The definition of inflation mixes up the two. Under the new definition, rising prices is a cause as well as the effect of inflation. Defining inflation in this manner obfuscates the real cause. It is for this reason that any study of modern day inflation must first begin by clearing up this confusion caused by this definition.

E. Historical Example

Inflation as a phenomenon has always been around. Earlier it was also referred to as debasement. It simply meant that the government would dilute the value of coins by removing pure gold and adding cheaper metals like bronze and copper in its place. Since gold content of the coins was reduced, more and more such coins came to be required to make purchases in later days. Here too, artificial inflation of the money supply was the cause and rise in prices was a mere effect of the policy. Therefore in this case if we define the cause as debasement by government, we can come up with a relevant plan of action to prevent the cause and therefore prevent the problem completely. On the other hand, if we define rising prices as a cause, we are stuck in a dead end loop. The cause seems like the effect and the effect seems like the cause. In the end it appears to be a complex self-fulfilling prophecy when in reality it is just a simple cause effect relationship. The dangers of inflation are looming over the world more than they ever did. This is because for the first time in the history of the world, all the countries have fiat currency. This means that they have the power to inflate simultaneously unchecked until the whole system comes crashing down.

V. WHY DOES THE DEFINITION OF INFLATION MATTER?

We discussed the definition of inflation in a lot of detail in the previous article. The previous article was meant to bring to the readers notice that the current definition of inflation is flawed. Instead a previously used definition was capable of defining the concept in a much better manner. This brings up the question, "why does the definition even matter so much?" We will dedicate this article towards answering this question. In the remainder of this article, we will discuss the negative effects that have taken place because of the failure to define inflation correctly. In this article, we will state why the definition of inflation matters.

A. *Problem Not Defined Correctly*

A well-defined problem is a problem half-solved. Similarly, a badly defined problem is a problem further away from resolution. The wrong definition of inflation leads to confusion. The underlying causes that are bringing about the inflation are never discussed. Instead, the effect of inflation is assumed to be its cause. There are many economists in the world that can solve the problem of excess debt, excess government spending and so on. However, if instead of the problem, they are given its effect to work with i.e. rise in prices, there is very little that they can do to control the situation.

B. *Wrong Measures of the Situation*

Also, since inflation is defined as rise in prices, it is also measured as rise in prices. Now, this creates some very big problems. Firstly, it is extremely difficult to find out on average, how the prices of all the goods in the world have changed over the past year or so and come with an accurate figure. This creates other problems like indexing and what should be included in the index and what weight should be assigned to it? Also, it creates other issues like updating the index over and over again as time progresses. All these lead to incorrect measures of the gravity of the situation. Wrong data becomes the basis for wrong decision making!

C. Wrong Causes Identified

Defining inflation as a rise in price obfuscates the data relating to the true cause. For instance, prices could rise as a result of shortage or because of logistical errors. This creates confusion. The primary tool of the government to fight inflation is monetary policy. Now, there is very little the government can do by increasing and decreasing interest rates as far as supply side issues are concerned. Hence, defining the problem incorrectly leads us to the wrong causes.

D. Wrong People Are Held Accountable

If inflation is caused by inflating the monetary medium i.e. by printing more currency, then we know for a fact that should be held accountable for a rise in inflation. The currency of any country is usually in the hands of its government. Hence, a rising inflation should be blamed on the government and its operations rather than supply side shortages and other such excuses used to deflect the attention from the root cause. As customers, it makes no sense for us to argue with the shopkeepers or other counterparties. They may be charging us the higher price, but they too are affected by inflation caused by government policies. Almost all inflation is exclusively caused by government's bad monetary policy.

E. Wrong Corrective Measures

Now, since the problem has been defined incorrectly in the first place, it is not shocking to see that almost everyone approaches the problem of inflation with the wrong mindset. Economists that have defined inflation as rising prices have implicitly suggested the use of regressive policies like rationing, price fixing and quota systems to hold the system in place. However, empirical evidence is 100% clear in its record. These measures have never proven effective over any time period and end up creating more problems than they intended to solve.
Hence, this wrong definition has caused decades of lost time and opportunities as well as billions of taxpayer dollars have been spent on dead-end programs.

F. Self- Defeating Pursuit

The wrong definition of inflation has completely changed the nature of the study of inflation. What was once a simple cause and effect science is now being considered extremely complex and confusing. Myths and misconceptions about inflation are common. It is this muddled thinking that is causing the problem of inflation to perpetuate even further. The solution therefore begins by first clarifying the myths and misconceptions and starting new. So, what's in a definition? It seems like a lot is dependent on this definition. Hopefully you as readers will be able to point out the exact flaws in this modern definition, the next time you are exposed to it.

VI. PRICE FIXING: A FLAWED APPROACH

The wrong definition of inflation has caused a lot of harm to modern day nations as well as their economies. However, one of the biggest problems created by this misinformation is the price fixing policy. Price fixing is a flawed and failed policy which has caused taxpayers to lose billions of dollars and suffer immense turmoil as many governments all over the world repeatedly tried to implement this policy. Absolutely all implementations have been dismal failures. The reason behind this is fairly simple i.e. the policy has unsound economic fundamentals. This article makes an attempt to discuss this policy in detail:

A. Price Fixing

Since inflation is defined in terms of rising prices, many governments all over the world came around with an ingenious idea. The simply wanted to outlaw inflation. These governments were of the opinion that they can decide the realities of the marketplace from the parliament. Hence, let's say if for a given year, the government fixed the price of a certain commodity at $100, it would be illegal to sell the goods at any price over $100. Theoretically this should have ensured that the prices of the products will never rise and therefore the government can claim to have inflation under control. These policies have been widely implemented in many Communist countries. The post-World War-2 Soviet Union was believed to have used this price fixing policy widely.

B. Free Markets

Price fixing may in theory, solve the problem of inflation. However, in reality countries like the Soviet Union experienced runaway inflation when price fixing was being implemented. To the contrary, price fixing created disruption of the normal supply chain. It created black markets, artificial scarcity and corruption. Hence, most companies that implemented price fixing ended up with more problems than they had in the first place.

The reason behind this is fairly simple. Theoretically a person may not buy $100 rice for $102 if price controls are imposed. However, in real life a hungry person will decide to break the $100 price control law and buy the goods at whatever rates they feel are fair. Since these transactions happen in the black market, it is said that price fixing creates a lot of black markets. Also, sellers under the assumption that they may receive a higher price at a later date will try and siphon off maximum produce to the black market creating shortages in the normal market where price control laws are applicable.

Example: The famous example given to illustrate the effect of price fixing pertains to a tank full of water. The intent is to stop the water from overflowing. The normal approach would be to switch off the tap which is supplying water to the tank. Since no more water will accumulate there will be no spilling over. This is the common sense approach and is usually used.

However, price fixing works in a different way. Price fixing does not turn off the tap. Instead under this policy you use an iron cap to cover the tank. You believe that since the cover is made up of iron, it will stop the water from flowing through. This assumption obviously is faulty. The reason is that once the tank is full and the water still continues to flow it will cause the iron cover to burst and flow out anyway.

C. The Cause Has To Be Rectified

Similarly, inflation, at its root is caused by an increase in money supply. As long as the money supply of the country keeps on increasing, price controls will not work. It will be like putting all the money in the pockets of people and then asking them not to spend it. Instead of solving the mere symptoms of inflation, a true solution can only be reached if the problem is considered from its root cause and the cause is disabled.

The marketplace is run by economic laws. Economic laws are based on the best course of action that a person can take under given circumstances. It is impossible to outlaw certain modes of behavior and make them illegal. Doing so will only lead to more government machinery for enforcing the ban and other market disruptions which will not add to the welfare of the economy in any way.

VII. HOW TO MEASURE INFLATION IS CURRENTLY

There is a general saying in the business world, “What cannot be measured cannot be managed!” This is true of inflation as well. Hence, governments are supposed to constantly measure the amount of inflation in the economy. The idea is to have a control chart approach to keep inflation in check. This means that the government may expect inflation to remain at 3%, let’s say they decide the range is 2% to 4%. So now the government will take measures at regular intervals. If the result falls within the range, no action will be taken. If the result is less than 2% or more than 4%, then immediate corrective action will be taken. Now, this may seem surprising but less than a certain amount of inflation is also considered dangerous in the present economic system. It is considered as the leading indicator of deflation, which must be avoided at all costs. The argument we are trying to make in this article is that the current system of measuring inflation is not appropriate. Let’s understand how inflation is measured.

A. Representative Basket of Goods

The first step in the process is to choose what is called the representative basket of goods. Now, this in itself is a problem for obvious reasons. There are many people out there belonging to different age, race, sex and income groups. Their consumption patterns are totally different from one another. Trying to find a basket of goods which are common to all the participants is a difficult process. The results arrived at are not validated by any scientific data. It is purely a judgment call made by the people collecting the data.

B. Prices Measured across Goods Periodically

Now, once the goods are chosen, the next step is to keep a tab on the prices of these goods. Representative sample usually includes a few hundred goods and for each type of good there are several types of qualities available. Hence, measuring the change in prices becomes a very difficult exercise indeed.

C. Stage of Measuring Prices Needs To Be Chosen

When we say that prices of goods need to be measured and recorded on a regular basis, we are making an incomplete statement. There is no single price of a good. The prices differ based on whether we are considering the prices at the manufacturer's premises, the wholesaler's premises, the retailer's premises or the final price that the consumer has to pay for it. Each of these prices may also differ based on the geographical location, the nature of good and so on. Hence, for the inflation survey to be effective, it must be clearly mentioned the stage and the terms based on which the data pertaining to prices needs to be collected and recorded.

D. Indexes Created Based On Assumed Usage

Measuring inflation is largely an indexing exercise. Relevant weights have to be assigned to all the goods that have been included in the representative sample. These weights must be assigned based on the studies conducted which provide an estimate about the average income that a person spends on a given category of goods. Once again, this data is difficult to obtain and a big part of this exercise is based on the intuition of the person conducting it. The end result of this exercise is the price index which will be used to measure the changes in price levels.

E. Different Indexes for Different Classes

In most countries, there will definitely be more than one price index. This is because the consumption patterns differ largely based on the age group as well as the extent of urbanization. Hence, different price indexes are created to track the extent of inflation amongst the different sections of the society. The usual procedure for the governments is to keep on conducting surveys on a monthly basis. The interim data is revelled immediately and some policy decisions may be taken based on the data. Later, the detailed audited report is also presented for a detailed analysis of the findings of the report. Governments all over the world do spend a large amount of money and resources trying to obtain accurate data regarding inflation. The money is considered well spent since this data is supposed to form the basis of policy making. However, as we shall see in the next article, the whole process is riddled with flaws and collecting this data turns out to be a futile exercise instead.

VIII. PROBLEMS IN MEASUREMENT OF INFLATION

There is a general saying in the business world, "What cannot be measured cannot be managed" This is true of inflation as well. Hence, governments are supposed to constantly measure the amount of inflation in the economy. The idea is to have a control chart approach to keep inflation in check. This means that the government may expect inflation to remain at 3%, let's say they decide the range is 2% to 4%. So now the government will take measures at regular intervals. If the result falls within the range, no action will be taken. If the result is less than 2% or more than 4%, then immediate corrective action will be taken. Now, this may seem surprising but less than a certain amount of inflation is also considered dangerous in the present economic system. It is considered as the leading indicator of deflation, which must be avoided at all costs. In the previous article, a step by step explanation was provided regarding the process of calculating inflation. The process being followed is what is believed to be the best alternative we have if the knowledge present in the mainstream media are to be believed. However, there are a whole lot of problems associated with calculating inflation the way it is being done now. Some of these problems cripple policy making as well. In this article, we will critically analyse the procedure that we had mentioned in the previous article and bring out some of its shortcomings.

A. Expensive and Time Consuming

The basic and most obvious problem is that the current process of measurement of inflation is both expensive as well as time consuming. A lot of resources need to be deployed to track down the prices of goods across the length and breadth of any country. Not to mention that for every type of good, there are several qualities. Hence, procedure needs to be defined as to how exactly the prices need to average to get a fair picture.

But even apart from that, the problem with this procedure is apparent. The problem of inflation is a top priority and needs immediate action. The governments cannot afford a huge time lag between finding out the extent of inflation problem and the time taken to initiate corrective measures. Ideally all governments need a process which consumes relatively less resources and is quick. However, the current belief is that this is the best alternative that we have.

B. Goods Need To Be Updated

The second issue faced while using price indexes as a barometer for inflation is that fact that there are a certain number of goods called the representative goods that are included in them. Now, we may recall that due to technological advancements a lot of products have become obsolete and a lot of new products have indeed come into existence. Consider the fact that the Walkman, Video Cassette Player etc. are all gone. Instead we have MP3 players and computers and many other goods which never existed before. Hence, ideally the basket of representative goods must be updated to reflect this change. However, this is very difficult to accomplish given the extreme bureaucracy. As a result, often obsolete goods are left on the list and the inflation numbers calculated as a result end up being skewed.

C. Weights Need To Be Updated

Also, each good has been assigned weights. Over the period of time, the relative importance of this good as compared to others may increase or decrease. An ideal system should have a mechanism of reflecting this increasing or decreasing importance via the weights. However, in many cases, this becomes difficult to achieve. Once again government bureaucracies are not in favour of making any change to the price index. Usually government employees do not have the initiative to proactively make the required changes. Once again the result is an extremely outdated and misleading inflation index.

D. Which Index Is Relevant?

Also, government officials face difficulty while deciding which index should be used while policy making. When there are separate indexes for rural and urban customers, it is likely that these indexes may not always agree. Many times the urban index may depict a different story as compared to the one being depicted by the rural index. In this case, it is difficult to decide which data is relevant and take a decision accordingly.

E. Impossible Goal

In the light of all these problems, using the current system of measuring inflation to enable the policymakers to have correct data and make appropriate decisions is impossible. There is no way that the time and money required for this exercise will be cut down in the near future. If anything at all, the costs are likely to increase. Also, while providing government workers with more powers to change the goods and the weights which comprise the price index may seem like a solution, it isn't! The government employees could also use this flexibility to cover up bad news. For instance if the price of A rises, they could reduce the weight assigned to A or they could omit A from the calculation altogether! Either ways manipulation could be possible. Also, if the different years' data is based on different years' indices, the numbers become incomparable, making any analysis impossible until extensive changes have been made to the data. In short, the current system of inflation measurement is riddled with issues and is in urgent need of an overhaul.

IX. THE PROBLEM WITH COMPARING INFLATION NUMBERS

In the previous couple of articles, we listed down the problems with the procedure used to collect numbers related to inflation. In this article, we will go a step further. In this article, the central point being said is that even after all the efforts are done and the numbers are collected they aren't really useful. Let's understand this argument in greater detail. The first thing that we need to understand is that numbers on their own do not mean a lot. True analysis starts happening when comparisons are drawn between numbers. In the corporate world too, numbers are used to find out the best practices and then benchmarking is done to develop those best practices.

For example, if we know that Ghaana has a 6% inflation there is very little we can do with this information. On the other hand, if we know that Ghana has a 6% inflation but US has 3% inflation, the situation changes. We should ideally now know that the US is doing something better than Ghana and hence US policies should be studied. However, unfortunately this cannot be done under the current system. Under the current system, making any comparisons between inflation numbers of different countries is usually impossible. Surprising, isn't it! Yet, it is true. Let's learn why this is the case:

A. Wholesale Price Index (WPI) vs. Consumer Price Index (CPI) comparisons

Inflation can be measured at two different price points. As a matter of fact, inflation can be measured at multiple price points. However, it is usually measured at two different price points. Inflation could be measured from the price data collected at the wholesale market level. This is called the wholesale price index or the WPI. Alternatively, it could also be calculated from the data collected at the retail market level. This is known as Consumer Price Index (CPI) or Retail Price Index (RPI). Now, it takes no genius to guess that WPI numbers are absolutely, under no circumstances comparable to CPI numbers, isn't it? However, still we have countries like Ghana which calculate inflation based on the WPI number while countries like US calculate their inflation based on the RPI number. Hence, any comparison between the two numbers is null and void. The numbers are simply incomparable. Some countries in the world follow the CPI system and others follow the WPI system. Due to lack of coherence between these systems, the results cannot be compared. Hence despite the massive amounts of time and money being spent, almost no analysis is possible.

B. CPI vs. CPI comparisons

Now, we are clear that CPI vs WPI comparisons are not possible and vice versa. However, it is surprising to know that in most cases even CPI to CPI comparisons are not possible. This is because every CPI number is compiled based on the consumer price index defined by that particular country. Hence, country A will choose its own goods, choose the weights to be assigned to those goods and as a result create their own index. This will also be the case with country B! Notice that each index is custom made. Hence the goods chosen and the weights allocated will differ from one another. Therefore, in this case too, comparisons cannot be made. Despite all the money and effort spent, no analysis is possible regardless of whether comparisons are made against CPI or WPI numbers.

C. So what can inflation numbers be compared to?

So, if inflation figures cannot be compared to the inflation figures of any country, then what can they be compared to and why are they even collected. Well, inflation numbers can only be compared to inflation numbers in the past that were derived using the same index. So, unless Ghana has made changes to its inflation index, the population can compare the number across time periods. This obviously is a severe handicap and a very limited use of inflation numbers.

D. When can't inflation numbers be compared with the previous years?

In case the government decides to change the component goods or the weight assigned to those goods in an index, then there can be no comparisons made. This is one of the reasons why countries are very slow to change the components of the price index. But this really is a no-win situation.

Countries usually face the choice between:

1. Having redundant inflation numbers based on an outdated basket of goods
2. Updating the basket of goods but making it difficult to compare inflation numbers with the previous years.

X. HOW SHOULD INFLATION BE MEASURED?

In the previous few articles, a series of arguments has been made as to why the current way we use to measure inflation is not appropriate. A lot of the criticisms have received rebuttals from current economists. However, for a lot of criticisms, they do not have an answer at all. The usual reply received in this case is that "Yes, the current system for measuring inflation may be flawed. However, this is the best we know? Are there any suggestions or a system which can do the job better?

Multiple systems have been proposed as alternatives through the years. None of these have been accepted by the mainstream economists and therefore they are only conjectures. However, no true critical analysis of inflation would be complete unless alternative solutions are offered. This article will therefore focus on a proposed alternate way to measure inflation. This method will supposedly consume fewer resources and provide better results. Here is a gist of the system:

A. Understanding the Cause Effect

As we have already elaborately discussed in the past articles, the rise in prices is an effect of inflation whereas an increase in money supply is the true cause. Majority of the problems of the incumbent system exist because attempts are made to measure the effect rather than the cause. Measuring inflation would be a lot simpler process if changed in money supply were tracked down instead of tracking down the changes in prices. For one reason, only a handful of institutions are authorized to create more money. Hence obtaining data related to the quantum of new money created would be an easier exercise as compared to measuring the change in the price of each and every good.

B. Measure The Money Created By Governments

The first institution that has been authorized to create more money is the government or an agency of the government called the Central Banks. In many nations, central banks are privately owned. However, since these institutions are so heavily regulated, it would be a valid assumption to consider them as a government entity. Governments all over the world are by law required to maintain a record of the amount of new money that they have created over a period. They are also supposed to publish this finding for the common man. Hence, this information can be easily obtained.

C. Measure The Money Created By Banks

Apart from the central bank, other private banks are also part of the monetary system. This means that they are also allowed to create new money when they lend it. Hence, apart from central banks, private banks are also involved in the creation of new money. However, they are not required to submit data in any prescribed format to government agencies. Hence, at the moment, this data is not publically known and hence cannot be used in the calculation. However, the governments can easily make it mandatory for the banks to submit this data. The bottom line is that data on money created is easily available at a very low cost and without any hassles if the government wants to obtain it. Compare this with the extensive survey which consumed massive amounts of time and money and still provided a poor approximation.

D. Measuring the Velocity of Money

Now, we are aware of the quantity of money created. However, quantity is only one aspect of the money supply, the other aspect being the "velocity of money". The data related to velocity of money can also be calculated based on the nominal GDP. The mathematics required for this calculation may be complex and beyond the scope of this discussion. However, what needs to be understood is that both quantity and velocity of the money supply can be easily obtained without even putting in even a fraction of the efforts that are usually spent on conducting surveys.

Using the formula developed by Milton Friedman's monetary school of economics which is

$$\mathbf{MV = PQ}$$

Wherein:
M is the quantity of money available in the market
V is the velocity of money

Q is the quantity of goods produced. In this case, we can call it the nominal GDP
P is the price level of the economy.

Since we can derive M, V and Q quite easily, the formula can be solved for P and a general price level for the economy can be obtained. If we compare this price level with the previous year's price level, we have our inflation numbers and we have obtained them using a much simpler and cost effective way.

E. Time- Series Averaging

Lastly, techniques like time series averaging can be applied to remove any statistical bias and make the data more reliable and fit for analysis.

XI. INFLATION, A HIDDEN TAX

Economists may argue on many things. However, they all agree on one thing i.e. the biggest possible economic nemesis that the common man has is inflation. Many economists have called it dangerous. Earlier it was not believed that inflation is a form of taxation. However, in the 20th century based on the discussions amongst the economists, it was more or less agreed upon that inflation is a form of hidden taxation, hidden because we do not see the outflow going from our pockets. However even though the money may not have left our pockets, its soul i.e. the purchasing power has already left. Let's understand this concept in more detail through this article.

According to (*Nobel Prize winner Milton Friedman*) "Inflation is the only form of taxation that can be levied without any legislation" This means that if any other type of tax has to be levied on the general populace, it must be introduced in the parliament and discussions have to take place on the validity of the tax and whether it is being levied correctly. However, this is not the case with inflation. Inflation gives any government the power to take the purchasing power of your money without anyone asking them even a single question. For obvious reasons, this kind of power is not desirable in the hands of a corrupt government. Let's understand the mechanism with which inflation is used to siphon off money from our pockets.

A. Most Governments Spend More Than They Earns

Governments collect money from us in the form of taxation. Governments also control certain businesses such as railways and earn some money from that too. Most governments in the world are accustomed to spending more money than they make. Most governments across the world have been running deficits for decades now. In many countries like Japan and the ones in Europe, this deficit has blown out of proportion. So, if a government spends more money than it makes, how does it survive. The following are the common decision available for them to take:

i. Increase Taxation

The first option is relatively straightforward. The government has been spending more than it makes. Now, to cover the deficit, it will have to do the exact opposite i.e. make more than it spends. This can be done by increasing taxation. Common forms of doing so are bringing more goods and services under the purview of taxation as well as increasing the rates of collection for goods and services currently under the purview. This option is not very popular for obvious reasons. The general population does not like to give taxes. Every dollar that they pay in taxes is a dollar that they do not have for personal consumption. Needless to say, that if a government uses this alternative very often, they will not be in power for very long.

ii. Austerity

The opposite of this is also true. Instead of making more money, the government could cut down the amount of spending that it is currently doing. This is called austerity measures and this is what IMF is trying to negotiate with the Greek government. With reduced expenditure, governments can save a part of their income and pay the taxes. Since a lot of government money is spent on populist schemes like social welfare, Medicaid etc, cutting down on these expenses is also an extremely unpopular step and will cause the government to go out of power very soon. Now, both the common sense measures seem unviable. This is when the government invents a third option i.e. inflation.

iii. Hidden Taxation via Inflation

As per the third alternative, the government temporarily borrows the money required to finance the fiscal deficit from the bond market. Later, when the interest and principal repayments are due, the government prints this money and pays it off. This dilutes i.e. increases the money supply decreasing the value of money held by other people. But it pays off the government debt!

B. What Happens When More Money Is Created?

The new money created derives its value from the old money that was in circulation at that time. Thus every dollar bill that is printed causes the value of other dollar bills worldwide to depreciate. The government therefore in effect has taken the money out from the public's pockets and has paid off its debt. The effect is similar to that of taxation. But the procedure is hidden. There is no direct payment of tax from the people to the government. Instead, the government has debased the value of currency held by its citizens. This method is not understood by the masses. Hence there is no major debate on this issue. This gives governments' world over the authority to continue spending unchecked and then later use inflation to pay it off!

XII. INFLATION, A HIDDEN TAX (PART-2)

In the previous article, we discussed the mechanism by which governments all over the world can and do use inflation as a hidden tax against their populations. Now, one thing needs to be understood i.e. for inflation to occur, the government has to by definition spend more money than it makes in taxes. The system works only if the government runs a fiscal deficit since it is the accumulated debt which can be monetized by printing money. In the absence of a fiscal deficit there will be nothing to monetize. In this article, we have listed down some of the programs that governments all over the world undertake. These programs seldom meet their desired objectives. However, they end up causing massive debt which later gets converted to inflation.

A. Welfare Schemes

Welfare schemes like social security, unemployment benefits and Medicare are already bankrupt in most countries that offer them. There isn't a country in the world which has the money to pay for the obligations that it has created by promising welfare schemes to its own citizens. Hence, now whenever the benefits of these welfare schemes become due, many governments simply borrow this money in the short term and in the long term they monetize this debt i.e. the pay it off by creating more money. Given the fact that welfare schemes in most developed countries have massive budgets, it is easy to see why this could be the cause of a massive inflationary run in the near future

B. Unproductive Jobs

Unproductive jobs, like welfare schemes are a drain on the public resources. In countries like Greece, half the working age population was involved in government jobs and many of these jobs were simply outright unproductive. The reason that these jobs existed were because the government had promised the existence of these jobs in pre-election days in exchange for votes. Needless to say that since these jobs do not add value, but wages have to be paid, sooner or later they will lead to a massive build-up of debt and sooner or later, they will also contribute to inflation.

C. Bailouts

Bailouts are a fairly recent phenomenon. They were brought into the limelight when the United States government paid the bankers and other companies $700 billion to protect their businesses. This money was given out as a loan by the government and was expected to be repaid. Now, from this news it may appear like the US government is flush with excess cash and paid out $700 billion to these corporations. That is not the case in reality. In reality, the US government itself needs to borrow $2 billion per day failing which it will not exist. Hence all the money paid to corporations has further added to the fiscal deficit and when monetized will lead to inflation.

D. Infrastructure Projects

In many countries, excessive borrowing is justified in the name of infrastructure projects. Consider the case of Greece once again. The metro rail line built in the Greek capital of Athens was an economically unviable infrastructure project. However, money was still borrowed and pumped into the project. A few years later, the project could not pay off its debt by the earnings generated from the project itself. This caused a buildup of debt which experts say will sooner or later be paid off by the monetization of these debts. The reason that this monetization is taking so long is that Greece does not have complete control over the monetary policy of the Euro. The bottom line therefore is that, while some infrastructure projects may be good for the economy, this isn't always the case. Countries should refrain from taking on massive debt unless they are certain about the economic viability of any given project.

E. National Events

Lastly, national events like World Cups, Olympics and Commonwealth games lead to massive overspending in these economies. Countries often borrow immense amount of money to fund building of sports infrastructure which may not be a priority for the development of the country. In the name of pride and promoting tourism, large amounts of money are spent without consideration as to how it will be repaid. The above list shows the common causes which can be traced down behind the inflation that is being borne by most countries today. Under ideal circumstances the voters should be wary of the announcement of any such project by the government. However, in reality that is not the case. Most of the times, these projects are welcome despite repeated evidence that some of these projects have directly led to inflationary circumstances in the economy. The idea is to promote a government with a balanced budget. A government that does not spend more than it makes is a government that will not feel the need to create more currency. Therefore, it is the government which will not cause inflation.

XIII. INFLATION AND SCARCITY

The change in the definition of inflation has caused a lot of confusion. A prime example of this confusion is when modern day economic students tend to confuse two different economic phenomena as being the same. These two phenomena are inflation and scarcity and according to traditional economists they are not the same. Consider the case of inflation. Inflation is caused by an increased quantity of money in the system. Inflation does not have anything to do with the physical goods themselves, it is concerned with excessive money. The effect of inflation is rising prices Shortage, on the other hand, is a different economic phenomenon. Shortage is caused by issues pertaining to real goods and services. Shortage has no connection with an increased money supply. However, shortage also exhibits the same effect i.e. rising prices. Now, since both inflation as well as scarcity end up creating the same effect, people tend to get them confused as being the same thing. As we can see from the definitions, they are not caused by the same cause. However, they have the same effect.

A. Deflection

To a large extent, the creation of this confusion has been wilful. It helps the people who caused the inflation to deflect attention from themselves. For instance, a government that has monetized too much debt and created too much of the currency can deflect the matter of itself and say that the rise in prices is being caused by the supplier's hoarding. This has been happening at a lot of places across the world. Let's look at an example from Ghana.

B. Scarcity, By Itself Cannot Cause Inflation

Food inflation has been on a high path in Ghana for decades. The government usually blames the corrupt middlemen for having caused this inflation. But this argument is completely baseless. As we have discussed in an earlier article, the middlemen do not have control over the money supply which is why they cannot cause inflation on their own. Even if the created artificial shortages in the market and raised the prices, the consumers would run out of money to actually make the purchase. There simply would not be enough money in the system. The price of one commodity may increase. However, the prices of all commodities cannot simultaneously increase without the government issuing more money to facilitate the transaction.

C. Cartels and Not Scarcity

Quite clearly, the work done by cartels is being passed off as inflation. Ghana has laws which prohibit famers from dealing directly with the consumers or retailers. These laws are called Agricultural Marketing Produce Committee Act and are decided at a state level. In many states in Ghana, till date this act necessitates that the farmers sell their produce only and only to a government authorized middleman (cartel). Selling their produce to anybody apart from the middlemen would be considered illegal and there can be arrests as a result. Now, clearly the produce of an entire nation is controlled by the hands of a few middlemen. This cartel increases prices as and when they feel like with no consideration as to how it will affect the quality of life of the common man. This is clearly the case of an artificial shortage and cartelization, the argument of scarcity is a fake argument constructed by the beneficiaries to deflect attention away from themselves.

D. Scarcity Implies Fall In Output

Another fact that contradicts with the scarcity argument is that scarcity would imply that the stock of goods is getting smaller over the period of time. However, if we consider the case of farming in Ghana, the productivity has gone up several times as a result of the green revolution. The per capita production of grains in Ghana is higher today than it has probably ever been. Despite the increase in productivity all these years, there has been a steep increase in the prices as well. The facts state for themselves, this does not seem to be a case of scarcity. The point being made here is very simple. Scarcity and inflation both have the same effect. Hence it is easy to get confused amongst them. However, it is important that we do not get confused since the nature of underlying problems in each of these cases is very different. There is very little an increase in the interest rate can do to break a cartel. Also, there is very little abolishing APMC act can do to prevent the government from monetizing more debt. These problems need to be considered separately and a befitting solution must be created for each of them. Both the problems are extremely important. However, they are different!

XIV. INFLATION AND WEALTH REDISTRIBUTION

We have already ascertained that inflation is a hidden tax. It is a discretionary power that governments have at their disposal to tax the people without their consent. However, that is not what makes inflation public enemy number 1 as far as economics is concerned. Not only is inflation an unjustly applied tax but when you consider whom it affects the most, the true gruesome picture begins to emerge. Taxes are usually progressive i.e. the higher ones income, the more tax they have to pay. People on the lower end of the income are expected to contribute more. However, the nature of inflation is such that it becomes a regressive tax. Now, this is a slightly complex concept involving multiple stages. This article will make an attempt to explain how inflation causes redistribution of wealth.

A. Money and Resources

To begin with, we need to have some perspective as to what money i.e. currency note really is. In simple words it is a claim on a resource. Let's say if we somehow managed to accumulate all the money in the world that would mean that we have ownership of all the resources in the world.

B. Time Taken To Adjust

Now, the key point here is that both the amount of money and the resources that are available in the world for use are not static. This means that their amounts keep changing. Let's say because of a technological development, we can now produce 10% more with the same amount of input, the resources just went up by 10%, and however the amount of money remains unchanged. According to the principle of the free market, sooner or later this adjustment will indeed take place and the prices will change to reflect the amount of money available in the system. However, the change is not immediate. It takes a while for the newly created money to start circulating in the system. Only once the money is circulating, do the prices start to rise. Hence there is a time lag from the time period when money was created to the time period where prices will rise. The difference between these time periods can be called window of opportunity. If anyone gets their hands on the newly created money at this time, they would have the excess money but the prices would not have risen. Simply put, the purchasing power would be transferred to whoever obtains the money first. As and when more transactions take place with that money, the purchasing power is constantly lost.

C. The First Layer

To consider the example, let's consider the case of the government. Now, the government is the one that is creating the money. They then use this money to pay off their debts. Till the time the government hasn't actually paid off its debts, this money is technically not in the system at all! Hence, this money has not caused inflation till that point in time. However, once the government does make the payment, the money enters the money supply and some of the value is indeed lost. Therefore the government is usually the one who gets to spend the money at its full purchasing power.

D. The Second Layer

The second layer of people is comprised of people that the government has made these payments to. They are now in possession of this newly created money which has not got fully circulated in the economy. As a result, there is a time lag in the rising of prices. At this stage, the prices must have risen a little, however not to a great extent. It is for this reason that the people who spend the money at this stage have a lesser purchasing power than the government but still have a higher purchasing power as compared to lower layers.

E. The Last Layer

Finally, the newly created money is used in several transactions. It is rolled over and over in the economy and its value has been largely absorbed. As a result of the newly created money, the prices have now increased and people in the last layer are getting the worst deal as far as purchasing power is concerned. This is because they have to make their purchase after the prices have risen. This is when the poorest get paid. The last layer usually comprises of daily wage earners, salaried people and others. These people find that by the time, the money has reached them, the prices have already risen. Thus inflation is a method of systematically transferring purchasing power from the poor to the rich. The higher ups in the hierarchy barely feel the effects of inflation. The effects are borne by the poor masses!

XV. IS A WORLD WITHOUT INFLATION POSSIBLE

In the previous many articles, we have been discussing a lot about the various concepts of inflation. We have understood in great detail, the way things are. However, when it comes to inflation, the ideal way that things must be is also extremely important. The only way to reach an amicable solution is to have a crystal clear goal. While formulating goals related to inflation, one often comes across the question as to whether a world without inflation is even a possibility. The remainder of this article is meant to study the facts available with us and come up with an answer to the aforementioned question.

A. Stable Monetary Systems in the Past

Contrary to popular belief, a world without inflation is not at all a ludicrous assumption. It is our modern day media which has led us to believe that inflation can only be controlled not eradicated and this is not the truth. A tertiary look at monetary history is enough to reveal the truth. For many centuries prior to the current monetary system, the world had never experienced such runaway inflation. The gold standard was a solid base to build a monetary system on and as a result the value of major currencies like the dollar and the pound sterling barely fluctuated during this period. Hence, to go back to this ideal world without inflation, it is essential that we know what has changed since.

i. ***Fiat Money:*** The most important change that has happened post Word War-2 is that the entire world is off the gold standard. All countries in the world now have their system of fiat money wherein governments can create money using the power vested in them. This is an unprecedented development and has never happened earlier. This is of vital importance because fiat currency systems allow governments to increase their money supply overnight unchecked! This system has been prone to debasement through the annals of time. A world without inflation is a world where government meddling with the monetary system is minimized. While it may seem like the government works for the general population's best interest. However, empirical evidence has shown otherwise. For further details, please refer to the book "What has the government done to our money?" published by the Austrian school of economics.

ii. ***Fractional Reserve Banking:*** The second most important development for an inflation free world is an abolition of the system of fractional reserve banking. Fractional reserve banking is a process wherein bankers lend out the money that they do not have! Like governments, these banks to create money when they lend it! Hence, fractional reserve banking leads to dilution of money supply and a rapidly growing money supply as we all know is the root cause of inflation.

The above suggested measures are radical and almost impossible to achieve given the current geopolitical climate. However, if economic history is studied, any period of sustained prosperity has never been possible with either fiat currency or fractional reserve banking present.

B. Money Supply Must Grow At The Same Rate As Output

For prices to be stable, the growth in the physical output of the world must be matched with the growth of money in the world. For instance if the world GDP grows by 5% and money supply grows by 5% in the same period, there will be no inflation. The gold standard was a period without runaway inflation because empirically the stock of new gold being discovered and added to the money supply almost rises and falls at along the same rate as the economy. Thus, like paper currency, it cannot be easily debased or printed overnight in massive quantities to cause hyperinflation. In fact hyperinflation is a bizarre and impossible scenario under the gold standard.

C. Changing Expectations Regarding Salaries

Another important point to consider is that our expectations regarding the future growth or decline of our wages are conditioned as per the needs of the fiat money system. Consider the gold standard for instance. A 10% wage hike for everybody would be impossible given that the entire stock of money grows by 3% to 5% only. However, since prices remain stable or in some cases decrease, the money does not lose its purchasing power and spenders can enjoy a better standard of living. No salary growth for years may seem extremely awkward. However, this was always the case under the gold standard.

D. Changing Expectations Regarding Prices

The good part is that expenses will not increase. In fact in a world without inflation, prices tend to go down. Technological advances lead to growth in productivity. Productivity leads to a decline in prices since it is now cheaper to manufacture. Falling prices combined with stable incomes provide a better standard of living.

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