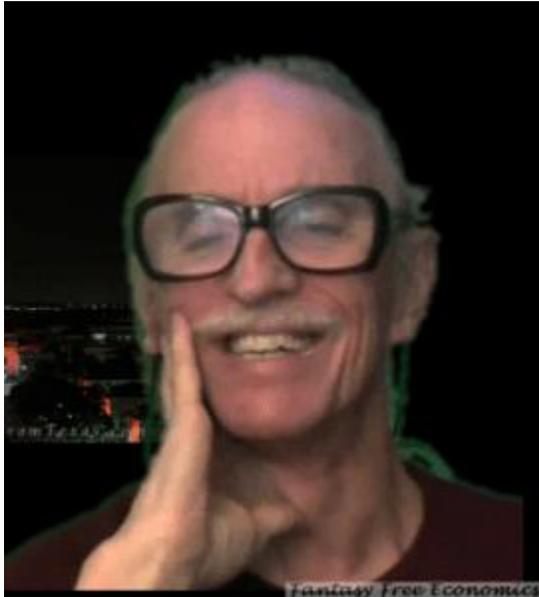


The Case For Deflation

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Inflation is the current problem and fear. That is fine for mainstream economics. But, thinking is not allowed in economics. First, deflation is not bad for an economy. Inflation favors the wealthy, government and others who have borrowed. Deflation favors the working class. In a free market, economy power naturally shifts back and forth from one sector to the other. Deflation occurs naturally when the productivity of labor increases. Inflation occurs politically. When power starts to shift in the direction of the working class, the upper class can and does create inflation politically as a means of maintaining its advantage.

“During the period between 1873 and 1879, prices dropped by nearly 3% every year, yet real national product growth was around 7% during

the same time period. However, despite this economic growth and the rise of real wages, historians have called this period “The Long Depression” because of the presence of deflation.” Investopedia

Prices dropped profoundly during the 1970s during a long period of economic growth. Real wages increased significantly. At this time procedures for enhancing economic activity by way of “stimulus” had not yet evolved. A degree of economic power did shift to the working class for a while.

In our modern era, the Federal Reserve has been fighting deflation since the Reagan administration. Increases in the productivity of labor have been monumental. Yet, real wages have stagnated. Profit margins of corporations have increased. Prices have been very stable until recently. This is no accident. The working class has been robbed of the productivity bonus it would have received had prices been allowed to fall. This has all been accomplished politically. Now it is politically expedient to create inflation as a means of shrinking the debt size of heavy borrowers.

Deflation has been defeated for 40+ years but deflationary forces are still present and have increased. Unlike other economies where runaway inflation has taken hold, the United States has massive production capabilities which can be used. An enormous amount of demand has

been in non essential goods and services. There are also plenty of substitutes for all we buy and consume. Creating ever rising prices will be an enormous task.

One of the many negatives with respect to stimulus is that resources become more and more inefficiently allocated over time. Recessions occur because businesses are not getting the profits they expect from what they are currently producing. Recessions disappear and business finds more productive ways to use its resources. Inflation prevents this from happening.

In economics, if we prevent what will occur naturally, what would occur naturally occurs anyway eventually.

Notice, I am not citing numbers or pointing to lines on charts. I don't need to. Instead, I think things through and as always am focused on what causes numbers to be what they are instead of thinking the statistics just happen to fall into place the way they do.

So, I am expecting things to reverse. Inflation will give away to deflationary forces and the overall price level will fall. Lets see what happens.

We are facing a depression, not a recession. Deflation, honestly is more likely.