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THE QUARTERLY JOURNAL OF THE ECONOMIC RESEARCH COUNCIL

Contents

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ISNN 0045-2866

£10 (plus £2.50 p&p)

SPRING 2015 ▪ VOL 45 NO 1

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Book Review: Inflation Matters

Jim Bourlet reviews Pete Comley's latest book, "Inflation Matters" (2015)

This easily readable book (it is mercifully free from equations, jargon and excessive references) serves two purposes. The first is to describe and explain the concepts involved and the implications of inflation at various levels. It answers the textbook need for a clear and straightforward grasp of the subject. There is an admirable no-nonsense value in calling inflation a tax and going directly to the question of who pays this tax and why it is imposed. A spade, after all, should be called a spade. The second purpose is to derive a very long term pattern of cycles which, being likely to continue into the future, may assist in prediction and thus in making investment decisions. Comley wisely disclaims any responsibility for investment performance based on his cyclical observations – he is clearly aware that only too often seeing into the future is easy enough but predicting the timing of that future is quite a different matter!

In "Part 1" – the first six chapters – inflation is defined and the concept of money supply explained. The key insights of contributors from Copernicus, through Irving Fisher, Milton Friedman and John Maynard Keynes are stated in concise terms. A clear distinction is drawn between price inflation and asset inflation and the historic relationship between each and the "supply" of money. We then move on to deflation both "good" and "bad" and the issues for public policy making that this creates. Part 1 then concludes with an account of the various indices used to measure the rate of price increases (or decreases). The chapter is useful in showing why different measures are attractive to various interests – to the government, to pensioners, to tax payers, etc. - and, in chapter 6, there is a useful description of the ways in which the "inflation" indices can be subtly manipulated to truly reflect or to perhaps distort the figures in the direction that suits the authorities.

Turning from blunt definitions to long-term description, "Part 2" – the next six chapters – enters more controversial territory. Based on the obviously scanty accounts covering the past one or two thousand years, Comley lays out a picture of periods, each something like a hundred years during which prices rose sharply, after which there was a similar time period of stable or slightly falling prices. The cyclical pattern seems convincing from the graphs. The suggestion is then made that an "inflationary mind set" powers increases in inflation during each of the inflationary periods the culmination of which is a "cresting of the inflationary wave" which is accompanied by some calamity or war following which a "deflationary mind set" takes hold and a long period of price stability occurs. During the inflationary periods, governments, companies, house buyers and speculators all benefit. The very long term upward inflation trend correlates with population growth.

We are then treated to a detailed account of 20th century events – everything from Germany's 1920s hyperinflation to the sad effects of the 1930s depression, to government borrowing (and non-repayment) and on up to the 1970s moment of high inflation and the efforts of central bankers to counter it. This is generally well executed, though one can have minor quibbles. If we are talking about creeping inflation and hyperinflation, why no mention of strato-inflation? The three types do, after all, have different causes and different effects. Comley wrongly states (page 106) that Resale Price Maintenance laws created lower prices. In accounting for the very high 1975 UK inflation peak he should have mentioned the effects in that year of allowing the nationalised industries to raise prices after a long period of government imposed price restraints.

"Part 3" – chapters 13 to 17 – successfully exposes the wickedness of policy makers during the recent three or four decades. £23bn per year in the UK alone is being lost by savers through inflation and artificially low interest rates! There is a "conveyer belt" extracting wealth from some groups in society and handing it to other groups. It is time the losers as well as the winners became aware of what is going on. Japan, of course, has to be brought along to support the analysis, though a mere ten pages barely scratches the surface in explaining Japan's experiences. For example, one cannot explain the Japanese experience without an account of the phenomenal increases in corporate held wealth.

In "Part 4" we finally move towards predictions – that the next big period will bring deflation. The current inflationary wave will, perhaps fairly soon, reach a tipping point that could be followed by three policy steps. Firstly, control of the money supply increases, secondly, the end of enough inflation to extinguish the current latent inflation held in overpriced assets and thirdly a lot of debts will need to be reduced or written off. And then governments will need to increase taxation to make up for their foregone “inflation tax”. Meanwhile, during the “transition period” investors should hold gold, but once deflation or “lowflation” is established they should hold shares and property.

This seductive thesis has however two major weaknesses. It has already been mentioned that timing is crucial for investment decisions and Comley’s cyclical observations produce only very vague notions of how long it may be before a war or catastrophe marks his next “tipping point”. The other point is the reliance of correlating inflation long term with population growth. If one is looking at one or two thousand years, then practically everything correlates with inflation – the upward momentum of technology, the productivity of land, the extent of knowledge, the growth of education, the awareness of a better life. That list is endless. Whilst he quotes another author as the source of this population correlation claim, this book is unconvincing to me. And anyway, there are plenty of examples now and in the past of countries experiencing strong population growth and deflation, and plenty of countries experiencing population decline alongside inflation. This whole notion of rises of inflation correlating with rises in population doesn’t seem convincing.

We need a theory with stronger links between the financial and the “real” world. The stock of useful assets (buildings, cleared land, knowledge, brands, management, production processes, infrastructure, etc.) has, long term, increased at an increasing rate. Ownership of these assets brings income and wealth inequality and sometimes envy, the struggle over ownership and an excess of claims that leads to conflict and destruction. These conflict moments seem to fit Comley’s periodicity. After the destruction caused by war, business opportunities occur, income expectations are modest, productivity improves and relatively stable prices ensue. On top of this I am always intrigued by J. K. Galbraith’s historical stages of growth – the transitions from slavery to feudalism, to capitalism and now to managerialism, all linked not to population growth but to the development of technology (see his 1967 book “The New Industrial State”).

But if a book is to enable one to assemble a body of knowledge constructively and systematically and if one hopes in the process to be stimulated into new thoughts, then “Inflation Matters” is not only well worth reading but a book that amply justifies its title. ■