Inflation Is Improperly Defined

In August 2009 I wrote:

> *I do not believe in cost-push inflation. By example, union pressure to increase wages is not an inflationary event. An economy will adjust for higher wages without a general increase in the level of prices across the economy. Inflation is strictly a monetary event: i.e., too much money chasing too few goods. Milton Friedman was the dean of the monetary inflation fraternity. Whenever you come across an article on M.F., be certain to read with care as you will improve your understanding of a lot of things.*

Writing for *Real Clear Markets*, John Tamny echoes my sentiments, and those of Milton Friedman, that inflation is a monetary event, writing:

> *To witness the search for actual inflation (a decline in the monetary unit) among economists and pundits is like watching a hunt for green M&Ms in a bowl full of yellow ones. It's futile.*
>
> *Which is something to keep in mind with "inflation" well in mind. Searches for it will be fruitless, misleading, or both, so long as the problem (inflation) is improperly defined. And improperly defined it is.*
>
> *Consider the focus on wages at the moment. Supposedly rising wages are evidence of inflation. Don't you get it? If people have more money to spend, spend it they will on the way to rising prices. Except that it's not as simple as economists and their lickspittle media enablers make it out to be.*

If employees have higher wages, logic dictates that someone is paying those higher wages. It’s not as though the funds directed to workers are pulled from another planet, or picked off of a tree on which they grow. For an employee to receive more pay is only mathematically possible insofar as the employer has fewer dollars. In other words, even if you believe that rising wages cause higher prices born of “demand,” you can’t ignore that someone, somewhere has reduced “demand” born of funding those higher wages.

Prices are no different. If chicken breasts are pricey, and they seemingly are at the moment, life is about tradeoffs. If chicken breasts are enjoying increasingly sizable wallet share, logic dictates that some other market good (perhaps popsicles) is being left behind at the grocery store as a vivification of the truth about tradeoffs.

Back to wages, logic dictates that they would rise the most amid a lack of inflation. Which is kind of a statement of the obvious. Compensation doesn’t just happen any more than jobs are “created” or just “happen.” Jobs are an obvious consequence of investment in new businesses and/or new ideas altogether. And when investors invest, they’re plainly pursuing future returns in terms of a monetary unit, in our case the dollar.

From the above it’s no reach to conclude that investment would shrink amid periods of currency devaluation. Put more bluntly, inflation is anti-investment. Really, why would those with title to money put it to work in search of returns coming back in dollars that are shrinking in value? Why indeed.

Still, lost-in-the-stone-age economists and the pundits who hang on their every word believe higher wages cause inflation. They don’t. To say that higher wages or higher prices cause inflation is like saying upset stomachs cause chocolate. Causation is plainly being reversed.

Read that last paragraph again. Then watch Milton Friedman's Money and Inflation talk given at the University of San Diego in 1978 below.