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# Inflation – Deflation

The government world of policymakers is confident that massive reflation by central bankers will restore the economy. Financial history says it may not work and the problem is that interventionist theories have not fully understood financial history. In the jargon of economics, perhaps the most misunderstood term is "inflation". Indeed, it has been so chronically misunderstood that "they" must be paying people to deliberately not understand it. In one decade, such as the 1970s, when the cost of living was rising faster than take-home pay there was considerable social distress. Over the past 300 years there has been, in the senior economy, a number of such examples. Also, there have been periods when asset prices and wages deflate. Both trends have occurred whether the senior central bank was disciplined by a gold standard, or when allowed recklessness under a fiat currency.

In the 1970s inflation was a bad thing and the economics and central banking establishment resorted to semantics to lay the blame elsewhere. One buzz phrase was that "inflation" was caused by the public's "inflation expectations", which had nothing to do with the Fed's policies of chronic depreciation. It helps to have a degree in tautology.

Contrasting with this was that with the slow-growth economy until 2016, the Fed was trying to push CPI inflation to above 2 percent. Otherwise deflation would happen which is considered a "bad thing". Somehow this reminds of homeopathic medical "remedies". A little is good, a lot is deadly. In the 1920s the Fed was also concerned about low inflation and, not understanding inflation in financial assets, was far too easy.

Fortunately, the history of financial markets is really a due diligence upon every crackpot notion dreamed up. That's by folk in the private sector as well as financial adventurers in monetary policy. One of the grandest touts has been the most persistent. As "lender of last resort" the Fed would prevent credit setbacks that typically precede recessions. According to the NBER, there has been 18 recessions since the Fed opened its doors in January 1914. Clearly, the theory does not work.

In the early 1970s, this researcher became interested in how the financial markets worked. It took some 6 months of reading economics to conclude that it was essentially the history of ideas. A wrong turn.

The alternative was to read the history of markets as found in newspapers of the day or in journals or diaries. The conclusion was that major financial events recur. In patterns that has not been widely reviewed by the establishment.

Also, there are two kinds of inflation.

But the establishment focuses upon only one. The 1970s problem of inflation was explained away as due to "cost-pull" or "wage push". Of course, never due to the Fed's

chronic depreciation. Which gets us to the problem of two kinds of inflation with central bankers only understanding one.

The "new" kind of inflation arrived when there were enough stocks and traders in London to call it a stock market. That was in the 1660s, the first London market letter began publication in 1692. And the world of modern finance began with the central bank of issue, the Bank of England in 1694.

A nasty period of war, soaring inflation and shortages in consumables blew out in 1711. That in many ways was the old world, the new world arose from the crash as the public created the first financial bubble. In an instant, so to speak, and without any experience participants created inflation in financial assets which climaxed in 1720. The infamous South Sea Bubble.

Last week, a prominent goldbug was trying to explain the markets by using history. He advised that researchers should go back ***"as far as 1929"***. Our observations have been that there were four "1929s" before, well, 1929.

Which pattern shows with the biggest global speculations in commodities climaxing in 1920, and in crashing set up another "1929". All five great bubbles crashed in the fall, which is pattern. All were followed by lengthy contractions, with chronically weak prices.

Oddly enough, both central bankers and goldbugs believe in the omnipotence of intrusive central banking. The establishment remains convinced that credit issue forces economic growth. Well, it appears so in the decade when the public chooses to speculate in tangible assets, which is popularly called "inflation". Then, there is an amazing transition as the public chooses to speculate in financial assets.

In both leverage is employed aggressively, which expands credit proportionately. So, it is the same old credit instruments expanding, but the action is in stocks and bonds – the new game that ends with a mania. With no central planner instructing the game change or conclusion.

Using history this writer's presentations in 1981 included the observation ***"No matter how much the Fed prints, stock and bonds will outperform commodities"***. It was controversial then and regrettably, still perplexing to the establishment.

And a definition is needed to explain either speculation. The classic is ***"Inflation is an inordinate expansion of credit."***

By this understanding, inflation is not necessarily rising prices for goods and services. Nor is it the wildly soaring prices in a financial mania.

Inflation is the expansion of credit common to either boom.

If a researcher notes two occurrences of financial drama, it could be coincidental. Three suggests a recurring pattern. And noted, 1929 was the fifth "1929" providing a recurring pattern in financial history.

The Wuhan Flue scare has been used by central bankers to become the most reckless in history. They really believe that massive issue will reflate the economy. And going right

along with this, goldbugs are shouting "Inflation" and have knee-jerked the forecast of $10,000. Which was the magic target at the peak of convictions in 2011.

In the 1970s, the handwringing was about "galloping inflation". Now, inflationists are galloping. Are they right?

Not likely.

Here is the pattern.

Lengthy expansion. Commodity boom (last one completed in 2011). Crash. Inflation in financial assets. Bubble Peak (January 2020). Crash. Lengthy contraction (???). Worth emphasizing is that a great bubble could have completed in the ninth year following the global mania in commodities.

A contraction is scheduled and seems to be underway. This could eventually be described as another post-bubble deflation. Wherein, gold's real price goes up inspiring a bull market for the sector. The last such was in the 1930s and it was outstanding.

While there is no guarantee that the pattern will continue to work out, there is no guarantee that it won't.