

# The Truth about Inflation

By Ludwig von Mises

The government provides a part of the funds required for rearmament by inflation, that is, by increasing the quantity of money in circulation and the amount of bank balances subject to check.

The unavoidable consequence of inflation is the emergence of a general tendency of all prices to rise. If the government had procured all the money it needed for rearmament by taxing the citizens, the increased demand on its part would have been counteracted by a drop in the purchases of the taxpayers. The expanded military consumption would have been neutralized on the market by a restriction in civilian consumption. But with inflation the additional demand of the armed forces comes on top of the non-decreased demand of the public and makes prices soar.

What the bureaucrats have in mind when talking about "fighting" inflation is not *avoiding* inflation, but *suppressing* its inevitable consequences by price control. This is a hopeless venture. The attempt to fix prices at a lower rate than that which the unhampered market would determine renders unremunerative the business of some producers; that is, those operating at the highest costs. This forces them to discontinue production.

Inflation, in conjunction with price control, brings about scarcity....

Economists know very well that there is only one means available to prevent a further rise in all commodity prices, namely, to end inflation entirely.

If the government obtains all its funds from the public and stops increasing the quantity of money in circulation and borrowing from the commercial banks, prices will remain unchanged, by and large, and there will not be any need for the activities of a price dictator.

But the administration does not want to stop inflation. It does not want to endanger its popularity with the voters by collecting, through taxation, all it wants to spend. It prefers to mislead the people by resorting to the seemingly non-onerous method of increasing the supply of money and credit. Yet, whatever system of financing may be adopted, whether taxation, borrowing, or inflation, the full incidence of the government's expenditures must fall upon the public.

With inflation as well as with taxation, it is the citizens who must foot the total bill. The distinguishing mark of inflation, when considered as a method of filling the vaults of the Treasury, is that it distributes the burden in a most unfair way, overcharging those who are least able to bear it.

## A Semantic Trick

To avoid being blamed for the nefarious consequences of inflation, the government and its henchmen resort to a semantic trick. They try to change the meaning of the terms. They call "inflation" the inevitable *consequence* of inflation, namely, the rise in prices. They are anxious to relegate into oblivion the fact that this rise is produced by an increase in the amount of money and money substitutes. They never mention this increase.

They put the responsibility for the rising cost of living on business. This is a classical case of the thief crying "catch the thief." The government, which produced the inflation by multiplying the supply of money, incriminates the manufacturers and merchants and glories in the role of being a champion of low prices. While the [the government] is busy annoying sellers as well as consumers by a flood of decrees and regulations, the only effect of which is scarcity, the Treasury [and the Fed] go on with inflation.