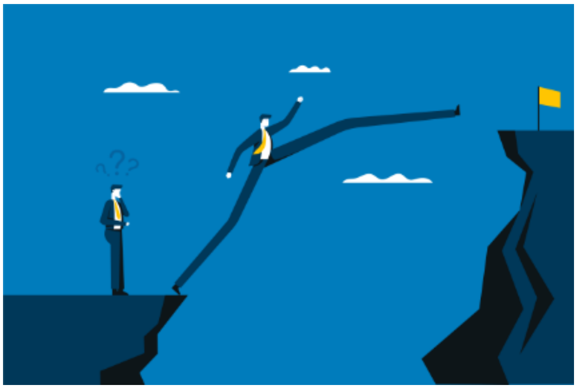
Letter to the editor

Michael Towsey, November 2023



Ravi Batra's fascinating article (NHR, September 2023) on the 30-year inflation cycle suggests that the cycle can be explained by the following causal sequence:

Social crisis → *Government deficit spending* → *Increased money supply* → *Inflation.* (Each arrow to be read as "causes".)

This sequence requires serious social crises to arise regularly every 30 years. It also requires us to accept Milton Friedman's dictum that inflation is "always and everywhere a monetary phenomenon". However, this dictum has not gone unchallenged. At issue is causality: of the link between money and prices, which is cause and which effect.

An alternative account proposes that in a capitalist economy dominated by monopolies and oligopolies, powerful corporations take opportunistic advantage of social crises to jointly increase their prices. These price increases flow through the economy and force investors and households to borrow increased amounts to accommodate the higher price structure. In short, increased money supply is the result of increased prices, not their cause. Batra acknowledges "monopoly capitalism" and the power of large corporations to "exercise considerable influence over the prices they charge" but he does not appear to link that to the inflation cycle. Using this alternative understanding of inflation, the causal sequence becomes:

Social crisis → *Oligopolies increase prices* → *Inflation* → *Increased borrowing* → *Increased money supply.*

I suggest that this second causal sequence has been driving the 30-year inflation cycle at least since the mid-20th Century when monopoly capitalism fully matured.

The difference between these two causal sequences is important because they imply quite different cures for inflation. The first suggests that inflation must be controlled by eliminating government deficits (welfare spending is usually the first to be cut) whereas the second suggests imposing price controls on those corporations that spark chain reactions of price increases. Typically, these are powerful gas, oil and metal corporations. The imposition of price controls has most recently been proposed by heterodox economist, Isabella Weber. She refers to such inflation as "sellers' inflation".

Both the above sequences start with "social crises" that are expected to erupt every 30 years to drive the cycle. But it seems highly improbable that social crises erupt on a 30-year timetable. It is also improbable that crises arise cyclically at the end of each decade. This requires selective ignoring of events such as the attack on New York's twin trade-towers and the subsequent Gulf War that occurred in the early 2000s.

There is an interesting observation that major bridge collapses occur every 30 years. The proposed explanation is that, as engineers push the boundaries of what is technically possible, they forget the safety lessons of the previous generation of bridge engineers, a working generation being 30 years. The economic equivalent could be Hyman Minsky's proposal that financial institutions 'forget' the lessons of financial prudence of the previous generation, leading to financial instability and collapse. Batra's 30-year cycle is highly suggestive of a generational "forgetting" of commercial and financial prudence. The result is that every 30-years the economy has increased reactivity to whatever social crisis arises.