

Inflation Revisionism

Talk about revisionist history! A recent tweetstorm from an opinion leader at the NY Times says that, looking back, he wonders what all the fuss was about inflation in the 1970s. It wasn't "that high," he says, and so the risk of returning to that kind of inflation should not be a serious concern today, because it wouldn't even be that bad if we went back there.

Just so we get our facts straight, here are the consumer price inflation rates per decade looking backward. The 1950s - 2.2%, 1960s - 2.5%, 1970s - 7.4%, 1980s - 5.1%, 1990s - 2.9%, 2000s - 2.6% and 2010s - 1.7%. So, while the US in the 1970s and early 1980s was not Zimbabwe, it was the worst sustained inflation in US history. Prices were doubling every 10 years and the Fed had to push interest rates up to 20% to stop the damage.

Nonetheless, the "revisionists" say that the inflation of the 1970s was good for many people. They argue that home ownership rose, student debt got wiped out, and inflation reduced the value of the national debt. In other words, if you can see these benefits, why don't we do it again?

First, it is true that home ownership rose in the 1970s, but it was rising even faster in the second half of the 1960s. Moreover, Savings & Loans provided assumable mortgages in the 1970s, which allowed buyers to assume a lower, pre-inflation mortgage rate. Eventually, this led to the collapse of the Savings & Loan Industry.

Second, because student debt has fixed interest rates, of course it would disappear faster with higher inflation. In addition, people with student debt tend to have higher lifetime incomes than people without that debt. Is he really arguing in

favor of using inflation to redistribute wealth to people with above-average lifetime incomes?

Third, the national debt did fall as a share of GDP after World War II. But almost all of the decline happened between 1946, when debt was 118% of GDP, and 1969 when it fell to 36%. It only fell by another 4 percentage points of GDP, to 32%, by 1981. And from 1946 through 1969, inflation averaged 2.5% per year. In other words, the inflation of the 1970s was not the key behind reducing the national debt.

The primary problem, with 1970s-style inflation is that everyone involved in the economy – every business owner, every worker, every investor, every manager, every entrepreneur – would have to spend time trying to forecast it. Borrowing and investing would pose danger on both sides of the transaction. The same goes for labor contracts.

Here's what the 1970s-inflation apologists don't say: unemployment averaged 4.6% in the 1950s and 1960s then averaged 6.2% in the 1970s. It was even higher in the 1980s, but that's because the early part of the decade had to be dedicated to a tight monetary policy to wrestle inflation under control.

Ultimately, inflation is a "hidden" tax that doesn't stay hidden. People adapt by redirecting resources away from production and toward inflation-hedging, which doesn't raise standards of living over time.

The problem is, at this point, you have to be relatively old to remember the 1970s. With each passing year, a smaller share of the population actually lived through it. And so we forget the pain it caused. Hopefully, we are not condemned to repeat it.

| Date/Time (CST) | U.S. Economic Data | Consensus | First Trust | Actual | Previous |
|------------------------|--------------------------------|-----------|-----------------|-------------|----------|
| 6-1 / 9:00 am | ISM Index – May | 61.0 | 60.9 | 61.2 | 60.7 |
| 9:00 am | Construction Spending – Apr | +0.5% | +0.2% | | +0.2% |
| 6-2 / <i>afternoon</i> | Total Car/Truck Sales – May | 17.4 Mil | 16.6 Mil | | 18.5 Mil |
| <i>afternoon</i> | Domestic Car/Truck Sales – May | 10.3 Mil | 12.6 Mil | | 13.9 Mil |
| 6-3 / 7:30 am | Initial Claims – May 29 | 388K | 400K | | 406K |
| 7:30 am | Q1 Non-Farm Productivity | +5.5% | +6.2% | | +5.4% |
| 7:30 am | Q1 Unit Labor Costs | -0.4% | +2.1% | | -0.3% |
| 9:00 am | ISM Non Mfg Index – May | 63.0 | 63.3 | | 62.7 |
| 6-4 / 7:30 am | Non-Farm Payrolls – May | 653K | 667K | | 266K |
| 7:30 am | Private Payrolls – May | 600K | 600K | | 218K |
| 7:30 am | Manufacturing Payrolls – May | 21K | 15K | | -18K |
| 7:30 am | Unemployment Rate – May | 5.9% | 5.9% | | 6.1% |
| 7:30 am | Average Hourly Earnings – May | +0.2% | +0.3% | | +0.7% |
| 7:30 am | Average Weekly Hours – May | 34.9 | 34.9 | | 35.0 |
| 9:00 am | Factory Orders - Apr | -0.3% | -0.1% | | +1.1% |