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No, inflation is not 'good for you'

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"**Inflation is good for you**!" proclaims a headline from the *Intercept*. "Inflation is bad for the 1 percent but helps out almost everyone else," the article claims.

Inflation "**may be a good sign**," agrees *New York Times* business writer Jeanna Smialek. "**Don't panic**" about inflation, says economist Paul Krugman.

Krugman believes that recent price increases are only temporary, but why would anyone think that inflation is a good thing? The *Intercept* article points out that, if you have a lot of debt, inflation will pay part of that debt for you. But the article implies that the 1 percent are all creditors while the other 99 percent are all debtors, neither of which are true.

If you foolishly **borrowed $35,000** to get a master's degree in puppeteering, then you might welcome inflation. The same is true if you are a transit agency that borrowed $2 billion to build light rail. But if you pay off your credit cards in full each month, rent your home, and maybe hope to buy a house someday, inflation is not your friend.

The worst part of inflation is that central banks respond to it by raising interest rates, which raises the price of housing, cars, or anything else that people buy on credit. The *Intercept* article claims this is an evil conspiracy by the 1 percent to keep everyone else poor. Instead, the article argues, we should just let inflation run wild. Tell that to people in **Zimbabwe** or **Venezuela**: because inflation discourages people from investing (remember that inflation hurts creditors), which leads to all sorts of shortages. The *Intercept* may not be advocating hyperinflation, but once started, inflation is hard to stop.

Smialek's reasoning for the headline claim that inflation "may be a good sign" is buried in her article. "Before the pandemic, advanced economies had spent years trying to coax inflation higher, trying to stop an economically damaging downward spiral that had begun to take hold," she says. Inflation's "downward trend in the 21st century has left less room for policymakers to cut rates to rescue the economy during times of trouble. That has helped to weaken recoveries, dragging inflation even lower and fueling a cycle of stagnation."

In fact, this has nothing to do with inflation and everything to do with inept central banking. Central banks (like the Federal Reserve Bank) responded to every downturn in the economy, such as the dot-com crash and the 2008 financial crisis, by cutting interest rates in order to stimulate a recovery. Then they failed to raise interest rates out of a fear that doing so would cause another crash. Eventually interest rates got so low they had no maneuvering room. Inflation would give them an excuse to raise interest rates, which would give them more flexibility in the future until they cut rates enough to work themselves into the same hole they are in now.

The fundamental flaw in this argument is that it assumes the purpose of the economy is to benefit central banking. I'm not sure how the convenience of central bankers justifies all of the costs that inflation will impose on millions of people.

Krugman's argument is the most reasonable of those quoted here. He doesn't claim that inflation is a good thing, only that the price increases we see are a one-time jump due to the pandemic. That would be more persuasive of all of the deficit spending that the government did in response to the pandemic was one-time-only, but history shows that once the government begins a program, it doesn't stop. The infrastructure bill is an example: on one hand, it was a continuation of deficit spending in the three COVID relief bills; on the other hand, when state and local governments run out of that money, they are going to pressure Congress to pass another bill.

Yes, if you have a lot of debt, inflation will help you pay that debt. But inflation slows economic growth, discourages investments in new infrastructure, and especially hurts renters, people on fixed incomes, and low-income people.

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