

# Dismantling Arguments that Promote Inflation and Malign Deflation

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**Abstract:** Despite inflation substantially eroding the value of money over time, decreasing the living standards of fixed income earners, pension recipients and the poor, as well as raising the cost of doing business for firms, the economists promoting big government continue to assert the claim that inflation has “good effects” because it is the outcome of increased spending that generates economic growth. However, this line of reasoning to justify tolerating inflation is superficial at best and misleading at worst. Deflation on the other hand, is described as a bad outcome that should be prevented because it leads to reduced economic activity and at worse, either zero or negative output growth. This claim is also a fallacy because deflation or falling prices due to increasing productivity and more efficient production technologies benefit the consumers and generates more economic growth. Deflation is also the natural correction process that occurs after an economic downturn caused by the accumulation of several years of rising inflation created by expansionary monetary policy. It is only government intervention that prevents deflation from naturally correcting a recession and moving towards economic recovery. This paper provides an explanation on why the “good effects” of inflation are misleading and that deflation causing a recession is a fallacy.

**Key words:** inflation; deflation; budget deficit spending; fiscal stimulus; depression

## 1. INTRODUCTION

Despite inflation substantially eroding the value of money over time, decreasing the living standards of fixed income earners, pension recipients and the poor, as well as raising the cost of doing business for firms, the economists promoting big government continue to assert the claim that inflation has “good effects” because it is the outcome of increased spending that stimulates production and generates economic growth. However, this line of reasoning to justify tolerating inflation is superficial at best and misleading at worst. An initial dose of inflation (caused by increased budget deficit spending and rapid money supply growth) may stimulate aggregate demand initially, but its effects consequently wear off, as the cost of living and doing business continually increases which slows down both private consumption and investment spending in the medium and the long

term. Subsequently, bigger doses of inflation are always needed to avoid an inevitable economic slowdown, but this ultimately becomes less effective in succeeding years as the accumulating price increases continue to dampen consumption and investment spending in the private sector. Finally, when the inflation rate goes beyond the target set by the Central Bank, interest rates are ultimately increased, money supply growth is reduced and the economic slowdown gets worse, leading to a recession with rising unemployment, the closure of businesses and increasing loan defaults.

Economists that promote increasing government intervention in the form of rising budget deficit spending defend the so called “good effects of inflation” because whether they admit it or not, inflation is the outcome of Central Bank money creation backed by government debt. Yearly budget deficits accumulate

into a rising public debt, particularly when tax and non-tax revenues are inadequate in paying off both excessive government spending and maturing public debt securities issued during the previous years. This is the reason why inflation is always made to appear as having good effects when in fact, it hurts consumers, firms, savers, retirees and the poor not only in the short run, but more extensively in the medium and the long term as well. Central Banks in general, prefer a low and stable inflation rate despite the fact that 2 or 3 percent inflation per year becomes a 20 to 30 percent accumulated overall price increase over a ten-year period which obliterates a substantial portion of the value of money being earned, saved and invested.

Deflation on the other hand, is described as a bad outcome that should be prevented through the use of both expansionary fiscal and monetary policy. Economists that subscribe to the position of having bigger government (through more budget deficit spending) along with Central Banks (that adhere to the view that increasing money supply should accommodate economic growth) both consider deflation as a problem that should be avoided because it leads to reduced economic activity and at worse, either zero or negative output growth.

However, the claim that deflation is a bad economic outcome that leads to a recession is not true. Deflation does not lead to a recession but is a consequence of the economic slowdown initially caused by rising prices (due to deficit spending and rapid money supply growth) and made worse by a Central Bank increasing interest rates in order to reduce the inflation which it created in the first place. Deflation is the natural correction process that should occur in order to get rid of unsold inventory and liquidate unsustainable and unprofitable investments in plant property and equipment. This paper provides an explanation on why the “good effects” of inflation are misleading and that deflation leading to a recession is a fallacy.

## 2. METHODOLOGY

The paper provides explanations which **refute** the mainstream arguments of inflation having “good effects” and deflation imposing bad outcomes on the economy. The paper actually examines the claims

presented in an article entitled: “Inflation: Prices on the Rise” published by the International Monetary Fund (IMF) and written by Ceyda Oner, Deputy Division Chief of the IMF Finance Department. The paper also discusses the link between inflation as a policy outcome and examples of failed fiscal stimulus programs.

## 3. RESULTS AND DISCUSSION

Presented below are the major premises stated in the article; “Inflation on the Rise” which focuses on the “good effects of inflation” followed by the “bad outcomes” of a deflation. This paper provides a critique of each premise and discusses the fallacies behind it.

**3.1 Premise 1:** Low predictable inflation is good for the economy because it is easier captured in price adjustment contracts and interest rates reducing its distortionary impact.

**Critique:** **Removing the inflation caused by money creation and backed by government debt securities (under budget deficit spending) will be much better for the economy as compared to low predictable inflation which accumulates over several years and gradually destroys the value of money earned, saved and invested.** Removing inflation (caused by budget deficits and funded directly or indirectly through money creation) will have a much smaller impact on price adjustments in contracts and interest rates. As long as government spending is confined to the amount of tax and non-tax revenue that it collects, then inflation will be closer to zero and will lead to much lower price adjustments in contracts, lower interest rates and a lesser distortionary impact.

Because inflation can be made to be low and predictable, this implies that it is a policy outcome. “Inflation is not an act of God, it is not a natural catastrophe of the elements, or a disease that comes like the plague, it is a policy used by government” (Mises, 2006, p. 12). Inflation is the outcome of expansionary monetary policy implemented alongside budget deficit spending under expansionary fiscal policy. Low predictable inflation based on the target set by the Central Bank (between 2 to 4 percent) is actually a hidden or implicit tax because it is the

consequence of budget deficit spending funded by debt securities which are used to back money creation under a regime of expansionary monetary policy (Greaves, 2021, Keynes, 1919, Mises, 2006, Reisman, 2003).

#### **Lesser adjustments in wage contracts and interest rates**

There will be lesser demands for wage increases if the inflation caused by money creation and deficit spending is eliminated. Workers will focus on raising productivity in order to increase wages rather than joining militant labor unions to demand wage increases induced by inflation and the rising cost of living. It will not be necessary to raise interest rates to fight inflation if there is no inflation pressure because government is operating under a balanced budget. Eliminating budget deficit spending, implies no new money creation backed by government debt and no inflation caused by excessive money creation. The stable value of money encourages more consumption, investment and the production of more goods and services which is the true source of economic growth.

The fluctuations in market prices (without artificially induced demand) will send more accurate signals about the true scarcity of goods and services that people really need, relative to a situation with sustained annual price increases caused by money creation and budget deficit spending, that distorts consumption, investment and production decisions. When individuals know that the money they are earning can buy a consistent amount of goods and services, then there will be no need to artificially stimulate demand. Effective demand is created by individuals who earn an income from producing a good or providing a service which they are willing to trade with one another, and these are the activities that generate real economic growth. When firms know that their money can buy a consistent amount of production inputs, and that consumers are willing to pay for their products with a stable currency, then, more production will be undertaken and more workers can be hired, particularly if wage rates are based on productivity and not on inflation adjusted minimum wage laws.

**3.2 Premise 2:** Knowing that prices will be slightly higher in the future gives the consumers an incentive to make purchases sooner which boosts economic activity.

**Critique: Making purchases sooner because of higher price expectations only worsens inflation and further reduces the purchasing power of money, and decreases the living standards of the middle class and the poor who rely on fixed incomes.**

Demand declines when prices increase. When prices rise particularly for non-food items, demand will fall if the consumers treat these goods as non-essentials. The declining demand leads to lesser sales and profits for firms who will either cut production or close down if losses are mounting.

Consumers buying products before prices increase is actually the behavior of individuals in countries suffering from hyperinflation (inflation of 50 percent or more per month caused by excessive money creation funding massive budget deficit spending). Consumers attempt to purchase as much as they can before prices increase and before products become sold out and shelves are emptied (this is actually panic buying, which is a behavior that should not be encouraged or condoned).

An initial dose of inflation, might temporarily increase demand, but as the inflation accumulates over time, then the cost of doing business increases and investment declines as profits are reduced by the higher prices of inputs. Workers demand wage increases and when these are granted, results to more unemployment as firms reduce the size of their workforce to cut down on labor cost. Larger doses of inflation will be needed to stimulate economic activity in order to avoid an economic downturn, but this becomes even more ineffective as demand further slows down because of the accumulated price increases, and firms reduce their workforce to cut down on losses because of declining sales. Larger doses of inflation would ultimately prove to be self-defeating and leads to a vicious cycle of rising prices, increasing costs of production, higher wages, reducing output and raising unemployment, leading to zero or at worse negative economic growth.

Even without money creation to fund budget deficits, economic activity will continue to increase because of the need of individuals in the private sector to trade goods and services. These activities are supposed to meet personal and household needs as well as produce other goods and services—without having to induce panic buying behavior. Money is the medium of exchange and as long as the value of money is stable (with no inflation caused by budget deficit spending and money creation), the trading of goods and services among individuals will naturally occur and increase when needs are being met in a free market. A fiscal stimulus is not necessary as long as the medium of exchange has a stable value.

**3.3 Premise 3:** Deflation is not desirable, consumers delay their purchases anticipating that prices will fall further which leads to less economic activity and zero growth similar to the experience of Japan.

**3.3.1 Critique:** **It is not true that deflation is not desirable and that consumers delay their purchases with the anticipation that prices will further decline. This premise is highly exaggerated and assumes that the delay in spending will last in perpetuity, which is obviously not true.**

In reality, even in a situation when prices are falling, consumers and firms will still at some point in time purchase the goods and services particularly when they are desperately needed. Consumption cannot be delayed forever. In the electronics and computer industry, there is more value in using an iPhone or an Acer laptop over the next six months than the savings which could be obtained in delaying its purchase (Casey, 2014). Food, clothing, shelter and healthcare are urgently needed and, thus, spending on these goods cannot always be delayed. Only for expensive non-essentials is consumption delayed which actually happens during inflationary periods. People generally put a greater value on spending in the present (particularly for goods that provide greater and more immediate satisfaction) as compared to spending in the future.

Falling prices because of increasing productivity and more efficient production technologies actually benefits the consumer and generates more economic growth. This can be observed in high technology

goods where falling prices occur. The computing power that a consumer can purchase for a dollar today is much greater than what could be purchased several years ago (Mayer, 2002).

Two major episodes of deflation occurred in the United States from 1810 to 1900, wherein stable economic growth was recorded at an average of slightly above 4 percent (Bureau of Economic Analysis, U.S. Congressional Budget Office, Office of Budget and Management, N.S. Balke & R.J. Gordon, C.D. Romer, 2010). A deflation of 53 percent occurred from 1815 to 1860, but the United States economy grew by an average of roughly 4.2 percent during the period. Similarly, the United States had a deflation of 48 percent from 1865 to 1900, but the average economic growth during this period was 3.88 percent (McCusker, J., 1991). When output growth is faster than money supply growth, prices fall and this benefits consumers given that more goods and services are made available as the economy expands. Output growth was faster than money supply growth during this period because limits on money creation were imposed under a gold standard.

#### **Deflation as a natural correction for inflation and recession**

Deflation is the natural correction that occurs after an economic downturn which is initially caused by the rising and accumulating inflation created by expansionary monetary policy. Under deflation, the faster that prices are allowed to decrease, the quicker is the disposal of excess production in the economy along with the liquidation of unprofitable plant property and equipment which is the outcome of the mal-investment problem. Falling prices allow firms to get rid of unsold inventory, and encourage consumers to begin purchasing these goods after abstaining from it during the periods of high and rising inflation.

#### **The natural correction of the Forgotten Depression of 1920-21**

The United States depression of 1920-21 occurred after the Federal Reserve System increased money supply by 15 percent per year from 1915 to 1919, resulting to the consumer price index increasing by 14.1 percent per year from 1917 to 1920. The rapid

inflation caused a severe economic downturn between 1920 and 1921 wherein real gross national product shrank by 9 percent and unemployment increased to 15.3 percent (Salerno, 2019).

During the downturn, a deflation occurred with consumer prices falling by 10.9 percent in 1920 and 6.3 percent in 1922, wholesale prices declining by 56 percent within 1920 to 1921, alongside an 11 percent reduction in wages over the two year period from 1920 to 1921. After wages and prices were allowed to fall, the depression ended by August 1921, approximately 18 months after it had begun (Salerno, 2019). This was actually confirmed by the Keynesian economist Robert A. Gordon:

*The downswing...was severe...but relatively short. **Its outstanding feature was the extreme decline in prices...**Government policy to moderate the depression and speed recovery was **minimal**. The Federal Reserve authorities were largely **passive**...Nor was any use made of fiscal policy...The Federal budget was deflationary while the downswing was in progress. Despite the **absence** of a stimulative government policy, however recovery was not long delayed.”(Gordon, 1974).*

According to the National Bureau of Economic Research, which officially announces the beginning and the end of recessions, the depression began in January 1920 and actually ended in July 1921, which is also a period of roughly 18 months (Rockwell Jr., 2015).

#### **Government intervention prevents the natural correction performed by deflation**

On the other hand, the Great Depression of 1929 to 1941 lasted for more than a decade because of massive government intervention that prevented deflation and the natural correction of the economy during the first two years of the downturn. High protectionist tariffs in 1930 reduced imports but had the more harmful effect of decreasing agricultural exports by nearly one third. Nominal wages were kept high by President Hoover’s administration, taxes were increased

(personal income, corporate and estate taxes) and new taxes were imposed (new gift, gasoline and auto taxes). President Roosevelt’s New Deal extended the depression by keeping the prices of agricultural products high through price support and subsidizing farmers with higher taxation on firms processing agricultural products. Output production was restricted in order to keep prices high under the National Industrial Recovery Act and the Agricultural Adjustment Act. Nominal wages continued to remain high under a minimum wage law, and personal income taxes were further increased (with the top marginal income tax rate raised from 24 to 63 percent under the Hoover Administration in 1932 and further increased by the Roosevelt Administration to 79 percent and consequently to 90 percent). This was done to finance massive public works projects that took money from the private sector which further delayed recovery (Reed, 2010).

#### **Failed fiscal stimulus**

President Herbert Hoover increased government spending by 48 percent from 1929 to 1933 and had budget deficits at 52.5 percent and 43.3 percent of total federal spending in 1931 and 1932. Despite the substantial increases in government spending, it failed miserably to control the rise in unemployment which grew from 3.2 to 24.9 percent from 1929 to 1933 (Horwitz, 2011).

Under President Franklin Delano Roosevelt, government expenditures increased by 83 percent and Federal debt rose by 73 percent between 1933 to 1936 (Reed, 2010). Unemployment continued to be above 20 percent from 1933 to 1935 and dropped to 16.9 percent in 1936. However, this remains far from recovery because it is still way above the 3.9 percent unemployment rate in 1929. His administration further increased federal spending by 66.67 percent from 1936 to 1940, but unemployment remained at double digits with the highest at 19 percent in 1938 to 14.6 percent in 1940 (Peters, 2021; the [U.S. Bureau of Labor Statistics](#)). Unemployment fell from 9.9 percent in 1941 to 1.2 percent in 1944 primarily because 12.209 million Americans were subjected to military conscription (The National WWII Museum, 2024). Sending millions of people to a war zone is not a solution to an economic depression, but is simply a

diversion of resources away from producing consumer goods and capital goods that improve lives to the production of military hardware that destroys lives in other countries.

#### **Recovery from reduced government spending**

After World War II, a drastic reduction in government spending in 1945 was predicted by Keynesian economists to produce another massive economic downturn (Gordon, 1986). **They were absolutely wrong.** In 1946, private sector investment rose by 156 percent and both private consumption and investment combined added 7 percentage points to gross domestic product growth, despite a 66 percent reduction in government spending (Pethokoukis, 2013).

Government spending in the United States fell from a peak of 44 percent of gross national product (GNP) in 1944 to only 8.9 percent in 1948. This represents a substantial reduction of \$72 billion or a 75 percent decrease in federal spending. Despite the drastic reduction in government spending and the return of more than 10 million Americans from military duty, unemployment stayed low at 3.9 percent in 1946 and stayed at an average of 3.5 percent from September 1945 to December 1948 which was way below the double digit unemployment rates recorded under President Hoover and President Roosevelt who undertook massive government spending programs (Reed, 2025). Aside from cutting government spending, private investment increased because top corporate income tax rates were also reduced from 94 to 38 percent, excess profit taxes were eliminated, price controls were abolished and product rationing ended (Reed, 2025).

*“The Great Depression was caused by the Federal Reserve increasing the money supply by more than 60 percent from mid-1921 to mid-1929”* (Rothbard, 1975). The Federal Reserve also decreased interest rates from 7 percent to 3.5 percent during the same period which created a stock market bubble and increased borrowing to finance both good and bad investments giving birth to the roaring twenties (Rothbard, 1975). However, this bubble was burst after the Fed began gradually raising interest rates from 3.5 percent to a high of 6.0 percent in 1928 and started selling more government securities for months (monetary

contraction) after the 1929 stock market crash (Reed, 2010). This started the recession and became a prolonged depression when massive government intervention was implemented (Reed, 2010).

**3.3.2 Critique: The premise of deflation leading to less economic activity and zero growth similar to the experience in Japan is erroneous because the recession in Japan was not caused by deflation. Deflation does not cause a recession but is the consequence of a recession and is the correction which needs to occur in order for the economy to recover.**

Expansionary monetary policy, implemented by the Bank of Japan from 1986 to 1989 (using its window guidance system that increased money supply through credit expansion of 15% each year across four years), inflated the asset bubble (Werner, 2003). This increased land prices by 245 percent and stock prices by 240 percent between 1985 to 1989 (Werner, 2003). This was then followed by contractionary monetary policy to make the asset bubble burst in 1990 which started the recession. The recession was made more severe as the Japanese government decided to implement a 146 trillion yen fiscal stimulus program from 1992 to 2002. The Japanese government funded the fiscal stimulus program by selling bonds to commercial banks and insurance companies; taking resources away from the private sector. Real economic recovery can only come from production in the private sector. If this sector is deprived of resources, then there will be no recovery and the recession will be prolonged, as it was in Japan from 1990 to 2002. The deflation that occurred in 1995 and from 1999 to 2003 (The World Bank Group, 2025) did not cause the Japanese recession but was a symptom or a consequent outcome of a prolonged recession which started after the bubble was burst in 1990 and was extended and made worse by a failed fiscal stimulus program that took resources away from the private sector (Werner, 2003).

During the “Lost Decade”, the Japanese government used ten fiscal stimulus packages amounting to 146 trillion yen which was spent from 1992 to 2002 (Werner, 2003). This increased government spending by 60.68 percent from 69.655 trillion yen in 1990 to 111.926 trillion yen in 1998. Public spending remained above 92.4 trillion yen for the years 1999

and 2000. The ratio of the budget deficit to gross domestic product continually increased from 0.5 percent in 1990 to 10.6 percent in 1998. This ratio stayed above 6.4 percent from 1999 to 2000 and was at 5.9 percent and 6.7 percent for the years 2001 and 2002 (ADB Key Indicators Report for Asia and the Pacific, 2005).

Despite the rapid growth in government spending, **the fiscal stimulus did not work.** *“From 1990 to 2003, more than 5 million workers became unemployed and did not find jobs elsewhere, suicide became the leading cause of death for men between the ages of 20 to 44 and 212,000 companies went bankrupt (Werner, 2003). The stock market dropped by 80 percent and land prices in the major cities decreased by 84 percent”* (Werner, 2003). From 1990 to 1993, gross domestic product growth decreased from 4.8 percent to -0.5 percent. From 1996 to 1999, economic growth also decreased from 3.1 percent to -1.3 percent and -0.3 percent. From 2000 to 2002, economic growth decelerated from 2.8 percent to 0.4 percent and consequently 0.0 percent (World Bank Group, 2025).

Deflation in Japan was not the cause but a result of the economic downturn. The economic slowdown was caused by the use of contractionary monetary policy in order to burst the asset bubble which was inflated using expansionary monetary policy implemented from 1986 to 1989. Falling prices are responses to an economic slowdown. Falling prices do not cause a recession but actually brings about the initial stages of recovery as it encourages more purchases by consumers and the liquidation of unprofitable businesses.

The faster that prices fall, the quicker is the natural correction (sale of excess inventory and liquidation of idle plant property and equipment) occurring in the economy and consequently its recovery. **The recession in Japan would have been short-lived and a natural correction would have occurred if government did not take financial resources away from the private sector to fund its fiscal stimulus program.**

Deflation is the natural correction which needs to occur particularly if there was mal-investment or excessive investments in non-viable and unsustainable projects. Mal-investments or excessive

expansion in unsustainable projects occur because businessmen are misled to borrow and excessively expand productive capacity because of interest rates which were kept artificially low by a Central Bank and high unsustainable demand caused by easy access to cheap credit as an outcome of expansionary monetary policy (Rothbard, 2019).

The deflation and the natural correction do not occur when government intervenes by keeping wages and prices from falling as well as increased spending on projects which accumulate public debt, require higher taxation and divert resources away from the private sector drastically reducing the opportunity for a more immediate recovery.

#### **Other examples of failed fiscal stimulus programs**

Keynesian economists often argue that inflation is good for the economy because it induces more economic growth particularly if it comes from increased government spending which is supposedly pump priming the economy. However, massive government spending to stimulate the economy has a track record of failure. Aside from the failed fiscal stimulus programs implemented during the 1929 to 1941 Great Depression, and Japan's Lost Decade from 1990 to 2003, other examples of these are the stagflation years from 1969 to 1974, the George W. Bush years from 2004 to 2009 and the Obama stimulus plan in 2009.

#### **The Stagflation Years**

US federal government spending increased by 474 percent from 1965 to 1982. It increased from \$118.2B (under President Lyndon Johnson) to \$678.2B on the first year of President Ronald Reagan. This reflects an annual average growth rate of government spending at 11.44 percent during the 17-year period. From 1965 to 1982, real GDP growth **slowed down** nine times (in 1967, 1969, 1970, 1974, 1975, 1977, 1979, 1980 and 1982) and economic growth was actually negative (indicating a recession) in 1974, 1975, 1980 and 1982. This period included rising inflation from 1.6 percent in 1965 to 5.5 percent in 1969 to 6.2 percent in 1973 along with double-digit inflation rates of 11.1 percent in 1974, 11.3 percent in 1979 and 13.5 percent in 1980. Unemployment was

consistently high from 1970 to 1982. It was above 5 percent from 1971 to 1972, was between 5 to 8.5 percent from 1974 to 1975 and surged from 5.8 percent in 1979 to 9.7 percent in 1982 (World Bank Group database, 2025, Peters, 2021). These were the stagflation years which massive government spending could not correct, but actually made the situation worse. The international oil crisis in the early as well as in the late seventies were always used as an excuse for the economic slowdown as well as for the rising inflation. However, these are not valid excuses considering that the United States is a producer of oil and other petroleum products and therefore, should not be as badly affected by the international oil crisis relative to Germany and Japan. In addition, Germany and Japan who do not have oil reserves and are completely dependent on imported oil, have inflation rates much lower than those of the United States. Money supply growth is much faster in the United States relative to Germany and Japan which explains the difference in inflation rates (Friedman, 1980).

*“In the five years after the 1973 oil shock, inflation in both Germany and Japan declined, in Germany from about 7 percent a year to less than 5 percent; in Japan from over 30 percent to less than 5 percent. In the United States, inflation peaked a year after the oil shock at about 12 percent, declined to 5 percent in 1976, and then rose to over 13 percent in 1979. Can these very different experiences be explained by an oil shock that was common to all countries? Germany and Japan are 100 percent dependent on imported oil yet they have done better at cutting inflation than the United States which is only 50 percent dependent, or than the United Kingdom which has become a major producer of oil” (Friedman, 1980).*

Many phenomena can produce temporary fluctuations in the rate at which prices increase, but they can have lasting effects on prices only if money supply growth is more rapid than the increase in output production (Friedman, 1980).

The US economy was only able to move away from stagflation by reducing money supply growth from 12.064 percent in 1981 to 10.032 percent in 1982 and

8.271 percent in 1983. This reduced inflation from 13.5 percent in 1980 to 10.3 percent in 1981, 6.1 percent in 1982 and 3.2 percent in 1983 (World Bank Group database, 2025)

### **Decelerating Growth under George W. Bush**

President George W. Bush had record breaking budget deficits compared to his predecessor with \$377.6B in 2003, \$412.7B in 2004, \$458.6B in 2008 and \$1.4127T in 2009. The budget deficit was above \$318B, from 2003 to 2005 and above \$157B in 2002, and 2007 (Peters, 2021). In spite of these huge budget deficits, the gross domestic product growth fell from 3.84 percent in 2004 to 3.5 percent in 2005, 2.8 percent in 2006, 2.0 percent in 2007, 0.1 percent in 2008 culminating into a recession at -2.6 percent in 2009 (World Bank Group database, 2025).

### **The Obama Stimulus**

The Obama fiscal stimulus package of \$831B which was spent between 2009 up to 2017 did not lead to sustained growth over the 8-year period. Budget deficits were between \$1.076T and \$1.299T from 2010 to 2012 and stayed within the range of \$442B to \$679B from 2013 to 2017 (Peters, 2021). **The growth in gross domestic product decreased in three out of the eight years** of the administration with the lowest growth rates averaging at 1.83 percent. The other five years of accelerating growth was only at an average of 2.58 percent (World Bank Group database, 2025). The average economic growth of the decelerating and accelerating years combined is at 2.3 percent which is disappointing given the size of the fiscal stimulus, and the record-breaking budget deficit spending.

When the Obama stimulus plan was passed in 2009, the administration expected to achieve 4 percent economic growth from 2011 through 2013. However, the actual economic growth was only at an average of slightly above 2 percent from 2009 to 2012. Unemployment was still at 9 percent after two years of the stimulus plan and it would have been higher if not for the millions of Americans who dropped out of the labor force because jobs were scarce and simply settled for unemployment benefits. *“The plan was supposed to help the middle class but the median*

*household income fell through 2011” (Moore & Laffer, 2020).*

*In 2015, the Joint Economic Committee of Congress (JEC) compared the Obama recovery with the previous eight recessions and found that per capita income growth after 2009 was thousands of dollars below the average. The JEC’s conclusion was that in terms of economic growth, the Obama recovery ranks dead last among the previous recoveries from a recession (Moore & Laffer, 2020).*

More federal deficit spending to stimulate the economy does not work when its inflationary effects accumulate, which increases the cost of doing business, reduces profits and discourages new investment and job creation. Price increases that accumulate will consequently dampen consumer spending, reducing the sales of firms leading to lower output production or in extreme cases the closure of businesses because of mounting losses. Correcting rising unemployment with more doses of inflation coming from budget deficit spending and money creation will only work temporarily. When unemployment again begins to rise, as the economy slows down because of the accumulating price increases, a greater dose of inflation with larger budget deficit spending will be needed in order to avoid the forthcoming recession. The problem with this approach is that the higher doses of inflation from larger budget deficit spending become less and less effective as inflation moves from one higher level to another.

#### 4. CONCLUSION

There are no good effects from inflation. Inflation which accumulates over several years destroys the value of money, increases the cost of living and reduces the purchasing power of fixed income earners, pension recipients and the poor. It increases the cost of doing businesses across time which discourages investment and is a hidden tax because it is the outcome of budget deficit spending that uses government securities to back the creation of new money by a Central Bank. Inflation is a policy

outcome that erodes the value of income earned saved and invested.

Deflation or falling prices due to increasing productivity and more efficient production technologies benefits the consumer and generates more economic growth. When output growth is faster than money supply growth, prices fall and this benefits consumers given that more goods and services are made available as the economy expands. Money becomes more valuable when prices fall as the amount of goods and services that could be purchased increases.

Deflation is also the natural correction process that occurs after an economic downturn caused by the accumulation of several years of rising inflation created by expansionary monetary policy.

In a deflationary period, the faster that prices are allowed to decrease, the quicker is the disposal of excess inventory in the economy along with the liquidation of plant property and equipment which is necessary so that resources can be redirected and used more efficiently by firms who were not misled by artificially low interest rates and unsustainable demand fueled by money creation and cheap credit. Deflation and the natural correction process do not occur when government intervenes by keeping wages and prices from falling as well as increased spending on projects which accumulate public debt, require higher taxation and divert resources away from the private sector drastically reducing the opportunity for an earlier recovery.

Stable inflation is promoted by government and the Central Bank as having good effects because it becomes the excuse to continue the practice of excessive deficit spending under expansionary fiscal policy and money creation under expansionary monetary policy. Deflation is depicted as resulting to bad outcomes which becomes the other excuse to continue deficit spending and expanding the money supply.

Economic growth occurs not because of increased government spending but in spite of it, because the private sector is always finding new ways to produce more goods and services in view of all the increasing

tax and regulatory burdens being imposed by big government. Real economic growth comes from the private sector producing goods and services that both consumers and firms are willing to trade for. Government can only exist and function by taxing and taking resources from the private sector.

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