Common Error No. 28 [1]

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28. "A small rise in inflation is a legitimate price to pay for reducing or eliminating unemployment."

There is no trade-off between the two. A "small" rise in inflation means that the government is creating false demand, and sending false signals about the real cost of investment. Making more money available pushes down the cost of borrowing. It also steals from people by making money worth less than it was, reducing the real value of their savings, and it therefore discourages thrift.

There is over-investment in producer goods as a result of the false demand. This does indeed create temporary jobs, jobs which will be lost as soon as the money which sustains them stops being pumped in. Furthermore, the loss in everyone's purchasing power which results from the inflation means that jobs are lost in the wider private sector because people can afford fewer of its goods and services.

Governments tried in the past to sustain the job expansion by increasing the rate of inflation. All this did was to postpone the day of reckoning for a little while. The "small" inflation does not lead to a reduction in unemployment on any permanent basis. What it does lead to is a larger and larger rate of inflation as government struggles to ride the tiger.

When hyper-inflation comes and the squeeze is applied, all of the "new" jobs are lost, together with many more as the economy plunges into recession. It actually happened in Britain, as in other countries.

The point is that inflation, even at modest rates, distorts the economic process with false signals, and leads to investment in areas where there is not the genuine demand to justify it. The real way to reduce unemployment is to achieve honest money that holds it value and the right conditions for enterprise. Then genuine economic growth will create the new jobs.

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