How Inflation Happens

Kevin Williamson is one of the best economics writers around, especially for a non economist. His style follows in the tradition of Henry Hazlitt and his classic Economics In One Lesson, bringing economic theory into common experiences. This is from latest from National Review, How to Think about Low-Income Housing:

> *There is in economics something called Say's Law, which could be summarized as: "People produce in order to consume." What does that really mean? Consider the most basic and primitive economy, a small band of hunter-gatherers at the dawn of mankind. (The date of which we have just moved back by about half again, apparently.) Why did those hunter-gatherers hunt and gather? It was not for the love of hunting and the thrill of gathering, but for a much more obvious reason: to eat. The basic facts of economics are far removed from abstraction: The point of fishing is fish, and the point of picking coconuts is eating them. That holds true until the level of production and social organization is high enough to allow for the emergence of our old friends specialization, the division of labor, and comparative advantage, all of which is another way of saying that once Throg has more fish than he wants to eat and Grug has more coconuts than he wants to eat, they start swapping fish and coconuts between them. And then Warg figures out how to make useful tools out of flint, which is good for a lot of fish and coconuts, and Yawr learns that she's better at making thorns into fishing hooks than anybody else in the caveman clan, which is of great interest to Fisherman Throg, and eventually you get Corvettes and Google.*
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> *Money is basically information technology. It is a record-keeping system. One of the interesting implications of Say's Law — that we produce in order to consume — is that there are not really any objective economic values: Everything that is produced and consumed is valued relative to everything else*

that is produced and consumed. If one mackerel is worth six coconuts or four fishing hooks or one-tenth of a flint chopper, then that can get to be a lot for your average caveman to keep up with. But it's even more complicated than that: Not only is everything that is produced and consumed valued relative to everything else that is produced and consumed, everybody has different preferences, meaning that there are as many economic-value hierarchies as there are people — and those preference hierarchies can change from day to day or second to second. Again, this is easier to understand if you stick to the physical world rather than get mired in abstraction: You know whose kids get sick of apple pie? Those of the guy who owns the apple orchard. There's no metaphysically "correct" exchange rate between apples and oysters and shoes and arrowheads — everybody likes what he likes and wants what he wants and — here's the part that gets overlooked — has what he has.

Because we produce in order to consume, we value what we have in terms of the things we want. The emergence of money as a record-keeping technology makes that a lot easier to think about, but money is not the point: The things that money gets are the point.

This is important to understand because those valuations exist independent of money. That's how inflation happens: We value what we value just the way we value it, and introducing more money into the system does not change those value judgments; it just makes money worth less in terms of fish or coconuts. Conversely, taking money out of the system (less of a problem, usually) doesn't change those value judgments, either: It just makes money worth more in terms of fish or coconuts. You do not change the underlying value relationships by changing the record-keeping system.