

DEFLATION OR INFLATION?

THE COMING ECONOMIC EARTHQUAKE by Larry Burkett (1994)

A NATIONAL BEST-SELLER

What is deflation; what is inflation? Remembering that this book was published in 1994—so as to keep the author's accounts and predictions in order—some definition of these two terms can still be extracted from the text for general application to economics, to our economy.

Deflation - in economics, deflation is when the value of money increases (and/or prices decrease) increasing overall spending power. This condition can cause a reduction in the circulation of cash and accessible credit (possibly due to higher interest rates), and a slow-down of the economy (due to less cash and credit) that can lead to recession.

Inflation – the opposite of deflation, inflation is when the value of money decreases ((and/or prices increase) decreasing overall spending power. Lower interest rates may discourage saving and investing but will also lesson effective date (because the value of the money or currency has decreased).

I have not heard much about deflation lately, but have heard a great deal about inflation. The recent TARP money authorized and release in part is a stimulus aimed at trying to stave-off a recession. From Wikipedia, TARP (Troubled Asset Relief Program), is intended to: purchase assets and equity from financial institutions to strengthen its financial sector. It is the largest component of the government's measures in 2008 to address the subprime mortgage crisis.

For the present economy, the TARP is intended to encourage banks to resume lending money or making loans (rather than remain nervous about further troubled assets). Accessible credit (low interest rates) will stimulate growth (or overcome recession) as described previously.

Well, much more is available through sources such as Wikipedia. For now, understand that such effort on the Federal Government is coupled with increase in national debt; and understand that the debt (of the Federal Government) is generally serviced through taxes, borrowing (from other governments), and the Federal Reserve. More debt has long-term consequences to the general stability and solvency of our nation.

In the particular chapter of his book, Larry Burkett speaks of the negative consequences of taxes. More taxes mean less discretionary or after-tax income for citizens—which lead to a “negative economic effect”.