

Comments Accompanying a Notice of the Posting of a 1976 Chinese Pamphlet on Inflation

[In February 2009 I scanned and posted a pamphlet from China in 1976, during the Mao era, entitled “Why China Has No Inflation”. I sent out a notice to friends about this posting, along with some comments about the likelihood of its relevance in the future in this country. One of my correspondents responded, and I then replied to him. The letters are in date order below. —S.H.]

[Scott’s letter to friends on Feb. 17, 2009:]

Hi everybody,

Right now inflation is not a major problem in the U.S., though for those of us on fixed incomes it is still not an insignificant problem when it comes to buying groceries. The government at the present time, however, is much more worried about what they consider to be “excessively low inflation” or even the possibility of significant long-term *deflation*.

In an effort to get out of their still growing economic crisis they are running enormous budget deficits (now on track to top \$2 trillion this year alone), and pouring more trillions into the banks and financial institutions. Will this eventually cause some serious inflation? Yes, it will! Might it even lead to the collapse of the dollar? Yes, it might!

In preparation for such events—even if still down the road a ways—I have scanned in and posted a 44-page pamphlet, “Why China Has No Inflation”, by Peng Kuang-hsi (Peking: 1976). This excellent little pamphlet explains not only why China during the socialist era had no inflation, but also why capitalist countries in the imperialist era almost always do (to one degree or another).

There are three chapters in the pamphlet:

Chapter 1 gives the details about the stable living costs for Chinese workers in the early 1970s, focusing on one particular family.

Chapter 2 describes the hyper-inflation during the last decade of the Chiang Kai-shek regime, and how the new People’s government quickly brought it under control when they came to power in 1949.

Chapter 3 describes more of the details about how the socialist economic system is able to permanently prevent all inflation.

For most American readers today, chapters 2 & 3 will be of the most interest, but the whole pamphlet is quite good. The pamphlet is online at: <http://www.massline.org/PolitEcon/China/Inflation-pamphlet.htm>

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Inflation is not really a very difficult thing to understand in its essentials; it just means expansion of the money supply faster than the expansion of production. If you double the money supply at a given level of production, you halve the value of the unit of currency. But things can get more complex when monopoly conditions apply, when there is rampant speculation, when interrelationships with foreign governments and their currency is considered, and so forth. And this pamphlet gives a good background for understanding some of these complications a bit better.

Scott

P.S. If anyone sees any scanning errors, or has any other suggestions regarding this pamphlet, please let me know!

[Response by “John”, on Feb. 16, 2009:]

hello scott,

i remember reading the pamphlet it 1977 and it was interesting then. If my memory is correct the Chinese then eliminated inflation by absolute control of the money supply. goods and services matched the money in the market. that worked well in china into the 1980's 'til the central govt. lost control over the money supply when they allowed different provinces to create money thru the provinces controlling provincial banks and issuing loans without the oversight of the central govt.

John

[Reply by Scott sent on Feb. 17, 2009:]

Hi John,

Right, the abandonment of the central control of the money supply was one of the early factors which led to inflation once again in China. But Western-style monopoly capitalism requires independent banks, with the ability to create loans (and hence money). As socialism was more and more dismantled in China, inflation began to more and more rear its ugly head again. A couple years ago this was really starting to get quite serious in China, but since the start of the current world crisis Chinese inflation has fallen back quite a bit as it has in most countries (for now!).

Neo-capitalist China has also shown at least as much willingness to run huge Keynesian deficits as Japan, the U.S. or any other country (other than the always reluctant Germany). China's huge deficits during the Asian Financial Crisis of the late 1990s were some of the reasons that it got through that episode much better than most other Asian countries did. I have no doubt that they will also now run even more massively increased deficits for quite a number of years. This means that inflation will in a few years be picking up in a major way in China too.

While the world economy sinks into depression there are strong deflationary pressures everywhere, but the truly massive (and ever-expanding) government deficits which are rapidly becoming the norm will eventually overpower that initial effect.

One of the factors that is (so far) keeping the dollar from outright collapsing is that all the other major currencies are also being debased. The other related, but even bigger, factor is that investors around the world still think that U.S. Treasury bills are the safest place to put their money. But the situation is inherently extremely unstable, and I think a sudden panicked shift in world investor sentiment is likely at some point. The likelihood of an early shift in “Sovereign Wealth Fund” willingness to keep buying U.S. government debt is harder to gauge. But troubled times always bring a falling out among even “friends”, let alone marriages of convenience.

Scott