To Federal Reserve Chair Ben Bernanke, deflation is regarded as Public Enemy Number One.

In the words of *New York Times* columnist and Nobel Prize-winning economist Paul Krugman, the “real [economic] threat is deflation.” Krugman advocates additional and even more aggressive government deficit spending.

The normally on-target Ambrose Evans-Pritchard, international business editor of *The London Telegraph*, favors more “quantitative easing” (i.e., a policy whereby the Fed would create trillions of new dollars with which to buy government bonds and other financial junk) to prevent deflation.

Why is deflation – by which Bernanke et al. mean “widespread declining prices” – so feared?

First, we must distinguish between benign deflation and traumatic deflation.

In a truly free market with a monetary gold standard, benign deflation would be the norm. Human productivity, unfettered by government intervention, typically increases total wealth several percent per year, whereas it is geologically impossible for the supply of gold (money) to increase at that fast a rate, and so prices tend to trend gradually downward.

The deflation that is possible today is traumatic. It is what economists describe as a “variety-rapid decline” in prices and spending. That kind of deflation triggers an accelerating, self-reinforcing cycle of widespread bankruptcies (both personal and business) and soaring unemployment. Mountains of debt would be vaporized by a chain reaction of defaults.

Make no mistake about it: We are talking about very hard times here. You can see why policymakers in Washington are scared to death of this kind of deflation. No politician wants to face the wrath of the electorate by having such a wrenching deflationary cycle happen on his or her watch, so they will encourage Bernanke and the Fed to pull out all the inflationary stops to try to avert it.

Before you throw your support behind inflationary policies and hail the Fed and Uncle Sam as our economic saviors, there are two things you should understand: (1) The conditions that make us ripe for a traumatic deflation were caused by the very institutions that now propose to save us from it; and (2) deflation would be the lesser of two evils.

Traumatic deflations are the inevitable aftermath of prior massive inflationary bubbles. A bubble can’t burst if a bubble doesn’t exist. The sole cause of economic bubbles is government. The Fed’s inflationary monetary policies – holding interest rates artificially low, thereby over-stimulating fundamentally uneconomic investments – caused the still-deflating housing and mortgage-backed-security bubbles. Now, they are currently inflating bubbles in commodities, in government bonds, and surely in other markets.

Government’s fiscal policies of tax and spend are the other culprits that warp production into unnatural, uneconomic patterns. Fiscal policies in a democratic system suffer from the same inescapable problem that plagues socialist economies: The government cannot know what the people want nearly as well as the people themselves know, and so government inevitably over-stimulates production of things that people wouldn’t freely choose while depressing production of what the people do want. Hence, government “experts” make society poorer than it otherwise would be.

Today, due to decades of massive government distortions of economic activity, market forces are impelling us toward deflation. The official policy is that the Fed will try to thwart these market forces by issuing floods of new dollars (i.e., inflation).

Economically speaking, inflation is like heroin addiction. The “highs” are enjoyable, even exhilarating, when bubbles inflate and the good times roll – but underneath the surface, the health of the system is wasting away. Just as the addict has to suffer the wrenching pains of withdrawal to recover his physical health, so our economy needs to endure the short-term pain of a deflation in order to purge decades of malinvestments, uneconomic patterns of production, and unfathomably massive amounts of unpayable debts.

The U.S. economy is a dead man walking – a zombie on life support. If we don’t bite the proverbial bullet and go through a painful cleansing – a healing period of deflation – the ultimate price we pay will be even worse. Like the heroin addict who can’t kick his habit and eventually overdoses, someday the Fed will go too far in its inflationary policies. It will ignite a hyperinflation, thereby annihilating the dollar, wiping out the country’s capital – not to mention, the savings of the middle class – and collapsing the economy.

We can pay a painfully high price for past government follies sooner, or an even more horrendous price later. Incidentally, a deflationary cleansing need not last a long time (e.g., the depression of 1920-21, when President Harding opted for market forces over government intervention). However, a quick deflation isn’t possible today, because of our policymakers’ mindsets. Congress, the president, and Bernanke & Company believe blindly in government interventions to try to “help” us. They don’t understand that such quackery leads to economic ruin.

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