# The opposition and fear of deflation: Why monetary policy tends to be inflationary

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**Abstract** Deflation is widely feared and opposed. This paper provides arguments to explain an anti-deflationary bias. It is argued that the government favors inflation, that the main deflation theories have influenced negatively the public opinion on deflation, and that rent-seeking behaviour and group formation explains why the opposition to deflationary redistribution is stronger as the opposition to inflationary redistribution. Moreover, psychological insights as evidenced by the concept of anchoring, the endowment effect or the availability heuristic have contributed to the fear of deflation by causing a money illusion and a equalisation of deflation and recession.

**Keywords** Interest groups · Rent-seeking · Monetary Policy · Inflation · Deflation · Money Illusion · Endowment Effect · Availability Heuristic · Anchoring · Collective Corruption

## 1 Introduction

Deflation is widely feared and opposed. Following this fear of deflation, monetary policy has been largely inflationary. Explanations from a public choice point of view for the tendencies of monetary policies are scarce. An execption is Gylfason and Lockwood (1996) who tried to show that the

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interaction of policymakers and wagesetters can create a stagflationary bias.[2] In general there have been few applications of rent-seeking theory and the theory of group formation to monetary policy. Thus, there is still a need to explain any potential monetary policy bias. In this article, I analyze if there exists any political and psychological reasons for the fear of deflation, its opposition and the ubiquitous inflationary environment.

It is out of the scope of this paper to ask, in which cases and to which extent deflation is harmful to the economy. Thus, even though I did it at other places (Bagus 2003, 2006, 2015), I will not investigate here the controversial question if deflation actually has more harmful effects on the economy than inflation. I will rather show that just considering the redistributional effects of inflation and deflation as well as rent-seeking, group theory and behavioral economics, we can predict a deflation fear, or a anti-deflationary bias. Considering the redistributional effects of inflation and deflation as well as the psychological conditions of human beings it is not surprising that we experience more often inflation than deflation. In analyzing the political economy of inflation and deflation, public choice arguments as well as psychological arguments will help to explain why there is an anti-deflationary bias and a tendency towards an inflationary world.

## 2 Deflation theories, the government and public opinion

Theories influence the ideas that people have. If people hold the idea that something is bad for them, they will be opposed to this something. Most contemporaneous economic theories regard deflation as something harmful. In the economic mainstream, there are basically two main strands in contemporary deflation theories.

The first strand has representatives like Claudio Borio, Andrew Filardo, Michael Bordo, John L.

[2] For a critique see Cubitt (1997).

Lane, and Angela Redish.[3] Because this group views deflation as being good at times, and not at others, they might be called the Good-versus-Bad deflation school. For Good-versus-Bad deflation theorists, deflation has basically two causes (Bordo, Lane, and Redish 2004, 15). One cause is economic growth or positive aggregate supply shocks. There are high profits, asset prices, and rising real wages accompanied by a strong financial sector. This deflation they consider to be good deflation. The other cause is a negative demand shock with a non-vertical aggregate supply curve. As these negative demand shocks would have negative output effects, this type of deflation is considered to be bad deflation. Furthermore, these theorists argue that deflation produces only negative consequences when it is unexpected.[4]

The second strand can be represented by economists like Ben Bernanke, Lars E.O. Svensson, Marvin Goodfriend, or Paul Krugman. This group fears that deflation might put the economy in a liquidity trap and opposes all price deflation categorically. It represents the deflation phobia in its clearest form.

For the liquidity trap group, deflation "is seldom benign" and even when stemming from a positive supply shock, can lead to a deflationary spiral of prices and output (Kumar et al. 2003). Svensson (2003, 145) states that it is uncontroversial to hold that a liquidity trap and deflation should be avoided. According to this view, unanticipated negative demand or supply shocks may cause recession and deflation. Also substantial realized or anticipated negative aggregate demand shocks like bursts of asset price bubbles, doubts about government policies, or corrections of overly optimistic expectations would lower inflation and output and their respective forecasts Svensson 2003, 146). In this situation a central bank should lower interest rates to stimulate aggregate

3 For a book of selected essays that stand in this tradition, see Burdekin and Siklos 2004a. Good deflation is caused by a positive supply shock and bad deflation by a negative demand shock. In particular, see the Burdekin and Siklos 2004b and Bordo and Redish 2004. Borio and Filardo (2004, 7) even distinguish three types of deflation: "the good, the bad and the ugly." Good deflations are caused by productivity increases. Bad deflations are caused by nominal rigidities, while ugly deflations disrupt the economy in a self-reinforcing spiral.

4 Thomas Sargent and Neil Wallace (1976, 175) argue that fully anticipated price changes would not have any effect on the real economic activity. This implies that a fully anticipated deflation would also have no adverse effect on economic activity.

spending. However, due to a negative price premium in a price deflation nominal interest rates are already very low. It might be impossible to lower interest rates sufficiently as nominal interest rates cannot fall below zero. The central bank, as feared, has "run out of ammunition." The real cost of borrowing will be on a level higher than is necessary to stimulate the economy. The ineffectiveness of monetary policy is seen as a main threat of deflation. Considerable intellectual effort is spent in finding ways out of a liquidity trap via inflation of the money supply.[5] Thus, these theorists argue for an inflation rate that has some buffer against the danger of price deflation.[6]

Theories have an important impact on public opinion and help to explain the fear of deflation. However, the creators of theories can be themselves influenced by certain incentives. Nowadays, economic research in the money area is sponsored mainly by the government university system and fractional reserve banking system. The government is opposed to deflation as will be explained below. Also the fractional reserve banking system is opposed deflation, because it could trigger a liquidation spiral, and benefits from expansionary monetary policies. To grasp the influence of the Federal Reserve System on academic output, Lawrence White (2005, 325) points out "some 74 percent of the articles on monetary policy published by US-based economist in US-edited journals appear in Fed-published journals or a co-authored by Fed staff economists." The academic ideas concerning deflation are, then, brought to the general public via "second-hand dealers" of ideas, like the media and teachers.[7] Thus, one reason why deflation is opposed is that people are told again and again the price deflation is bad.

## 2 Why the government tends to prefer inflation

5 See Krugman (1998); Goodfriend (2001); Svensson (2003); and Leigh (2004).

6 For example, Svensson (2000, 30), justifies an inflation targeting of 2 percent instead of 0 percent by the negative effects of price deflation. Krugman, 1998, p. 161, even argues that when an economy is in a liquidity trap, it is stuck there, because the "economy needs inflation." He suggests a price inflation rate of 4 percent for 15 years for Japan.

7 On the influence of second-hand dealers of ideas see Hayek (1998).

Central banks buy government bonds from banks in open market operations and accept them as collateral for loans to the banks. Hence, there is a constant demand for government bonds. Via expansionary monetary policies this demand for government bonds increases. Thus, the state can indebt itself to a much higher degree than without the monetary inflation. This allows the government to ignore fiscal resistance to increase spending. This is especially important in times of war when governments try to hide the real costs of war by financing it via the printing press (Salerno 1999, Selgin/White 1999, 162). Hence, goverment can spend more and command more resources of society than without the monetary inflation.

In a monetary deflation or credit contraction this way to finance government debt and government expenditures is disturbed. For these reasons, deflation has been unpopular among interests connected with the state (Mises, 1971, 231-32). The advantages politicians and bureaucrats derive from an expansionary monetary policy, thus, can already explain great part of the pro-inflationary and anti-deflationary bias. However, there is another reason why politicians fear deflation. Deflation increases the real burden of debt and, consequently, leads to a redistribution from debtors to creditors. This has an important effect as historically the biggest debtor in an economy has been the state[8]. The real burden of government debt increases and a higher percentage of government revenue must be spent on debt payments. This means that the government, if it is not to increase unpopular taxes, has to reduce is spending on other ends. Instead of engaging in popular spending programs that may result in an increase in popularity or votes, the government has to use a higher real percentage of its revenues on debt payments. The government is likely to centralize fewer functions than in times of inflation and give more freedom to local governments and private citizens. Moreover, when prices start to fall a progressive tax system will cause tax revenues to fall over proportional, i.e. government tax revenue will fall faster than government´s costs.

[8] The almost 20 trillion $ of U.S. government debt (https://www.treasurydirect.gov/govt/reports/pd/mspd/2017/opds082017.pdf accessed 09/09/2017) exceeds by far the debts of any private debtor.

In sum, state power is likely to be reduced in times of monetary deflation. Monetary deflation tends to cause price deflation. The modern welfare state might collapse under the pressure of price deflation. In a price deflation the real burden of debt increases. Government revenues shrink while its nominal debts obligations remain constant. Therefore, government might get into difficulties to finance a welfare state without the help of monetary policy.

Not only, state power shrinks during price deflation, but also price deflation´s prescribed medicine is monetary inflation. This monetary inflation is, as explained above, for the benefit of the state and also connected groups. While it is easy to understand why the government has an anti-deflation bias, I will now try to explain the deflation phobia of the general population.

## 4 Redistribution and the opposition to price deflation

From a theoretical point of view, we understand why there might be reasons for some people to be discontent in a time of declining prices. In economic development winning and losing depends on the anticipation of future events and the coordination of one's action in function of this anticipation. In our case, winning and losing depends on the anticipation of falling prices and the exploitation of this anticipation. Falling prices imply losses for entrepreneurs who did not accurately anticipate the future, paying overly high prices for factors of production, i.e., factor prices that will lead them to incur losses. Also, those individuals lose whose real burden of debt is rising higher than expected. During a deflation debtors lose and creditors win. This helps to explain the historically strong opposition toward deflation as traditionally the establishment is indebted and creditors are hated (Mises 1971, 232). In the following, I will analyze in more detail why the redistribution caused by deflation is opposed more vehemently and effectively than the redistribution caused by deflation.

**Apparentness of losses**

The reason for the discontent lies in the difference of economic redistribution in times of price deflation, as compared to times of price inflation. The redistributional effects of price deflation go in the opposite direction of those of an price inflation when the creditors lose and the debtors win as the real burden of debt is reduced. So why is there more opposition towards price deflation than towards price inflation? The effects are not exactly the opposite of those that occur in a price inflation for several reasons. First, in price inflation the redistribution is obscured more than in price deflation. In inflation creditors lose slowly, not abruptly, as the money they receive on their loans loses purchasing power. Creditors can buy fewer goods and services than they would have bought without the inflation. This loss is hardly visible, almost unseen, because people do not know what they could have bought without the inflation. People do not lose something that they already have in their possession. Rather, they cannot buy something they could have bought if there would not have been the inflation.

On the contrary, in a deflation the burden of debts may become so heavy that the debt is renegotiated or the debtor goes bankrupt. In the latter case the assets are turned over to the creditor. This is not necessarily harming production, as only the ownership of productive assets is changed and during the bankruptcy process production can go on as before. One can even argue that it would be likely that production in the long run would be fostered by this redistribution. This might be so, because the redistribution goes from people who tend to save marginally less, debtors, to those who tend to save marginally more, creditors. Thus, total savings might be increased by such a redistribution.

The bankruptcy process, though, implies an important difference in the deflationary redistribution as opposed to the inflationary redistribution where there have been historically fewer bankruptcies

than usual. The bankruptcy redistribution is highly visible and often a personal tragedy. The person who declares bankruptcy is probably more aware of his loss than the creditor who loses in inflation. He loses things that were in his possession before.

According to findings from psychology the loser in a deflationary redistribution will tend to feel more strongly about his loss than the winner is to feel about his gain. This is so, because people tend to value a good or asset higher when they own it than if they don´t,. Once people own an asset the tendency is that they start to value it higher. This is called the "endowment effect".[9] Consequently, when due to price deflation an asset changes ownership from the debtor to the creditor (or the debtor gets into difficulties to pay the debt to keep his asset), the debtor will, according to the "endowment effect" become quite upset when he loses an asset that has become dear to him. He might protest vehemently. The creditor, however, will esteem the gain probably not so emotionally.[10] In addition, losses of things or assets tend to be more weighed stronger than possible gains of the same monetary value. Loss aversion may, therefore, psychologically explain why deflation phobia is stronger than inflation phobia. This is so, because in an inflation the redistribution is in the opposite direction from the creditor to the debtor. The creditor does not lose an "asset" that has become dear to him. He just loses prospective purchasing power, which has not objectivified into an asset yet, so no "endowment effect" could have developed. In a survey students were presented with two scenarios. In scenario one a debtor had to pay 200€ to pay down a car, which he failed to do to due price deflation (his wage was cut by 100€). He had to give the car back to the creditor. In scenario two there was the same debt relationship but prices rose 50 percent reducing the purchasing power of the sum received by the creditor. From pure purchasing power terms, the redistribution in both scenarios is the same. Both lose 100€. In scenario 1, the debtor due to the wage cut and in scenario 2, the creditor due to price inflation. Nevertheless, 75.9 percent of

[9] On the „endowment effect" see Thaler (1980) and Kahnemann (2011). It is an elaboration of prospect theory (Kahneman and Tversky 1979). According to prospect theory, individuals value an asset not absolutely but in relation to the status quo. They also tend to fear losses more than they esteem gains, i.e. there is loss aversion.

[10] Note that we are not talking here about apriori economic laws, but about psychological prepositions and tendencies.

participants believed that the debtor in scenario 1 was suffering more than the creditor in scenario 2 (8.6 percent sustaining that the creditor suffers more in scenario 2 and 15.5 percent arguing that they suffer the same). From a moral point of view, 59.9 percent found scenario 2 to be more just. 30.2 percent found the scenarios are considered to be the same from a moral point of view and 10.3 percent considered scenario 1 to be more just. We see here, the traditional moral preperception in favor of debtor and against creditors. As a consequence, 74.1 percent of participants found the deflation scenario to be worse for the economy than the inflation scenario.

**Spread of losses**

In inflation the burden of loss has usually been spread over many shoulders, over large parts of the population. Everyone that holds, or lends money is being affected in a price inflation. Therefore, with a slow and steady inflation, resistance or social unrest is not as likely as with deflation. This is so, because in deflation losses usually are not spread as much. Traditionally, the sellers whose selling proceeds are falling faster than their buying expenditure are fewer in number and better organized than the benefiting consumers.

Moreover, in historical financial markets one debtor, or debtor company usually has many creditors. That means that in a deflation the gain is spread over many creditors while the debtor (or debtor company) assumes all of the loss and may go bankrupt. As the burden is not spread over the shoulders of many, social unrest is more likely to occur than during a price inflation.[11]

**Organization of winners and losers**

11 Public choice literature emphasizes the costs of organizing an interest group in order to seek wealth transfers through state intervention or to defend the group against it. See Robert Ekelund, Jr. and Robert Tollison (2001). If the burden is spread on few shoulders it is easier to organize interest groups that seek wealth transfers because there is a higher incentive to do so. The protest against deflation is also relatively easy to organize when, there is already an organized group, that is used for other purposes.

Historically, the groups that lose in inflation are worse organized than the groups that lose in deflation.[12] In inflation, groups with a relatively fixed income as pensioners and creditors lose. These groups are quite large as everyone holding money is affected. They tend to be poorly organized, spreading the benefits of organizing across many shoulders, and making free riding easy. In contrast, the groups that lose in deflation are normally relatively small and can organize thereby relatively more easily. Groups with small numbers can easier form an effective interest group. This is so because the free rider problem is not so grave. The benefits from the organization of the group are high in relation to the personal costs that group members must assume.

Thus, traditionally the losing groups in deflation are well organized. Groups like fractional reserve bankers, indebted farmers, and businesses are in danger of losing considerably in deflation[13].

The good organization of the losing groups explains the strong opposition and successful organization. Those groups have typically also had the greater political leverage. Fractional reserve bankers have been very well organized due to the connectivity of their business and interests. By financing government expenditure, they also have good connections to government. The farmers have managed to organize quite a substantial group, as their organization offers services that can be withheld from non-members.[14] Also business interests can be organized easily in small groups with strong common interests. Businesses indeed have much to lose in deflation. Historically, the biggest debtors often are the business elite with good connections to the government. They will strongly oppose a deflation that can lead to their bankruptcy. They are normally very well organized with proven structure, are highly influential, and often "too big to fail", which implies a strong political influence. It is not surprising that they oppose falling prices since they suffer losses relative to other groups, and often suffer losses absolutely. In other words, they would profit by inflation for which

12 For the public choice literature on the question why some groups can easier organize for rent-seeking purposes and have a higher influence than others, see for instance, Tullock (1967), Olson (1971) or Chamberlin (1974).

13 Another losing group as mentioned in section 3 is the government. Governments, of course, can very directly influence or pressure monetary policy.

14 Olson (1971, 132) explains that the free rider problem can be overcome in large groups if they offer as a "by-product" services from which non-members can be excluded. For farmers these services could be farming magazines, educational services etc. In contrast, separate and selective incentives for the large group of inflation users are hard to think of.

they are lobbying. They are in a monopoly position of getting the newly produced money first, and thus engaged in rent-seeking[15].

The groups, however, that profit in a deflation are larger and usually not well organized. The vast masses of workers and consumers tend to profit in a deflation. Also savers and creditors profit in deflation. However, as stated above, their gains tend to be spread over more shoulders than the losses. To put it bluntly: Industry and farmer associations usually are much better organized with more political leverage than consumer associations or money holders associations, which usually do not even exist. Thus, the price deflation winners will not vehemently oppose the public pressure against price deflation that those well organized groups will exert.

The current fiat money system generates strong incentives for deflation phobia to grow. In a world of monetary and price inflation, it becomes a prudent strategy to indebt oneself in order to acquire assets, which prices will tend to rise in the long run, as well as incomes, thereby reducing the real burden of debt.[16] As next to everyone is indebted, the danger of a price deflation running out of control becomes a widespread threat.

Price deflation increases real debt burdens. If many actors are highly indebted the fall of one debtor may trigger through domino effects a general liquidation process; a giant redistribution of assets between creditors and debtors. The whole financial system may collapse. While in the long run, this redistribution may actually be beneficial, and lead to a sounder monetary system, people fear such a process, in which uncertainty rises, and they may become temporarily unemployed. Thus, even though the economy in general could profit in the long run from such a deflationary collapse, indebted individuals prefer to go stay on the safe path with no apparent disruptions. They oppose price deflation and are willing to accept inflation. We may regard this reason for deflation phobia as

[15] The theory of rent-seeking was originally introduced by Tullock (1967), Kruger (1974) and Posner (1975).
[16] See Hülsmann (2013) for the debt culture in fiat money systemns.

an example of collective corruption which makes people favor an inflationary monetary system.[17]

## 5 Money illusion and disillusion

Another reason why deflation might be opposed is a money illusion.[18] When there is a deflation, wealth and income in nominal terms is likely to fall. The money illusion can refer, therefore, to income and wealth.

Let us first turn to income illusion. People might feel poorer even though their real income has not changed or may even be increasing. Indeed, a psychological reason exists for the fact that falling prices are opposed more than rising prices. Many people are more concerned about their future as producers than their future as consumers (Stolper 1966, 137). Thus, when prices generally fall, people tend to overlook, that many prices of the goods they buy, also fall. Rather they will concentrate on the price of the one good or service they sell. As this price, be it of labor services, or of a produced good, seems so essential for the future they will oppose the price fall. A worker, whose wage falls, tends to put more weight on his wage fall than on the fact that his consumption prices also fall. A producer, whose products' prices fall, might also regard this as to weight more than that the prices of his factors of production and consumption prices also fall. In both cases, the selling price is conceived in a sense as a very "personal" price. The fall of this "personal" price is opposed.

Let us now turn to wealth illusion. In a deflation the prices of assets like machines might fall. Hence, businesses might suffer accounting losses, even though, they are not suffering losses in real terms. Yet, besides the accounting illusion there is also a disillusion caused by the fall in the

[17] For the term collective corruption see Polleit (2011) who defines it as „the development among the people of an increased personal interest in invasive action." (p. 410) In our case, an fiat money system via its debt cultures generates a personal interest among the people to prevent (strong) price deflation.

18 Bordo, Lane, and Redish (2004) argue that possibly this was the case for the 1880s and 1890s.

nominal value of wealth. Due to the fall in asset prices, people might feel poorer. For instance, in a bank credit contraction during a recession, asset prices fall. There might be a stock market crash. When stock market prices plummet, stock market investors suffer regret. They suddenly become aware of the fact that they invested, to a large part, in malinvestments during the artificial boom. Of course, the malinvestments were committed probably a long time ago, but only now does it become obvious to them that these investments were actually malinvestments. Before the stock market crash, investors under an illusion of wealth, were not aware of the destruction of real wealth in the malinvestments. Now, due to the asset price fall a painful disillusionment sets in.

Something similar to the stock market disillusion occurs when, in a deflation, there is a bankruptcy due to an increase in real debts. The debtor loses everything and the creditor often can only recuperate part of his investment in monetary terms. In addition, sometimes the creditor has to wait a considerable amount of time until he recuperates his investment. Due to the bankruptcy, it becomes obvious that an inviable investment project has been undertaken. The destruction of real wealth becomes manifest in the bankruptcy. The illusion consisted in the fact, that before the bankruptcy, the individuals were not aware of the destruction of real wealth. They think that the bankruptcy destroyed the real wealth. Yet, the destruction happened when the investments were undertaken. It only finally becomes manifest in the bankruptcy.

There is another possible disillusion concerning the wealth of people. In a credit contraction problems can occur for a fractional reserve banking system. When depositors cannot recuperate their deposits in total or have to wait to withdraw them, they become discontented. They are now aware that their bank has used and lent out their deposits. Their illusion that they could recuperate their deposits disappears. Yet, the incapacity of the bank to pay them out is only a manifestation of redistribution that had occurred before.

In contrast, in inflation, the opposite can occur. People feel richer, because of accounting profits and increases in asset prices and nominal incomes. Optimism is widespread and everything seems to be possible. This explains why there is less opposition to a price inflation than to a price deflation. Hence, the money illusion and disillusion might also be a factor in explaining the social unrest.

The money illusion can be explained by the psychological concept of "anchoring."[19] Anchoring refers to a "bias" that human rely strongly on the first information (number) available or given ("anchor") when making a decision or a judgment. Anchoring implices that human beings tend to concentrate on past nominal numbers rather than present or future purchasing power. People tend to biased to look on nominal values rather than real ones. They may correct their assessment by taking into account the development of purchasing power, but, according to psychological findings, not strong enough.

People, as a consequence, concentrate on their nominal wage or purchase price and do not rely so much on the development of purchasing power, an information only available later. In other words, when negotiating a new wage, the worker will focus on his last nominal wage (the "anchor") and negotiate accordingly. He will tend to evalue the negotiations´result in relation to his last nominal wage and not the expected real wage. A home owner will consider the buying price of his home, when he calculates his real wealth or selling options. Consequently, falling nominal wages or asset prices induce people to believe that they are poorer while that may not be the case in real terms.

Hence, anchoring and the focus on nominal instead of real values explains why people fear price deflation more than price inflation, since price deflation makes them appear poorer and price inflation makes them appear richer.

[19] See Tversky and Kahnemann (1974).

## 6 Deflation and recession

Deflation is also opposed because it has sometimes coincided with a recession and a bank credit contraction. The most famous point in case is the Great Depression. Deflation is thus associated with recession because it occurred at the same time. As stated above, in a recession it becomes obvious that the boom was partially an illusion and that many malinvestments were committed. Thus, people in general do not fare well in a recession. However, it is not only a period of disillusion but also a period of social hardship caused by the adaptation of the structure of production. Companies go bankrupt. Capital is shifted, and many people become unemployed and must find work elsewhere.

People tend to see the deflation as the cause of the recession, because in a recession there is simply sometimes deflation at the same time. However, a simultaneous occurrence does not establish a causal relationship. For instance, it could be argued that the deflation is not the cause of the recession but the consequence of the credit contraction, that itself has its roots in the bank credit expansion. Thus, the association of deflation with recession, is one reason for the opposition to price deflation.

Here we can refer to the "availability heuristic" found by cognitive psychologists[20]. According to the availability heuristic, people tend to evaluate a concept, topic, method or decision with the immediate associations and examples that come to their mind. If people associate deflation with negative consequences because examples of negative scenarios come to their mind when they hear the word, they will fear deflation even though after a more indepth analysis they would not find anything to fear. In an experiment, students where asked what they would associate with the term "deflation." The results show that the immense majority associated deflatlion with negative words

[20] See Tversky and Kahnemann (1973, 1974).

(such as recession 68.4 percent, depression 38.5 percent, or unemployment 17.1 percent) while positive associations are almost absent (4.3 percent associated prosperity with deflation, productivity increases 5.1 percent and innovation 0 percent). Most likely, people can remember the the Great Depression as an example of deflation more easily than say the price deflation in the US after the Civil War, a period of fast growth.

**Concluding remarks**

There exists a widespread deflation phobia among economists, media and the public in general. Neglecting the question if deflation is really as harmful as is usually suggested, it has been demonstrated that there exist strong interests and reasons for the opposition towards deflation as well for its fear. The government thrives in times of inflation. Banks get into troubles in a deflationary spiral. Moreover, economic theories suggest that, at least, some types of deflation are dangerous. There are also reasons why the deflationary redistribution is more opposed than the inflationary redistribution. The redistribution in deflation is more apparent, the losses tend to be more concentrated and the groups that lose are very well organized. Collective correption may get into the way of deflation in a highly indebted economy.

In addition, there might be also a poverty effect by declining prices. Indeed, psychological insights help to explain an "irrational" deflation phobia. The endowment effect makes people more resistant to price deflation than price inflation as they do not want to lose assets they already own. The anchoring effect makes them prefer price inflation to price deflation because they anchor on nominal values. Lastly, the simultaneous occurrence of deflation and recession in the past can people induce to think that the deflation is the actual cause of the recession. Negative feelings on deflation are just more available.

All this explains why there exists an anti-deflation bias as well as a strong opposition towards it and

why ubiquitous inflation has taken course, once monetary policy disposed of the chains of the gold standard. Considering the strong rent-seeking interest groups favoring inflation and harmed by deflation, it is likely that deflation is presented as more harmful than it actually is. Thus, more studies of deflation and studies comparing its effects with inflation are necessary to investigate the differences in their redistributional consequences.

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