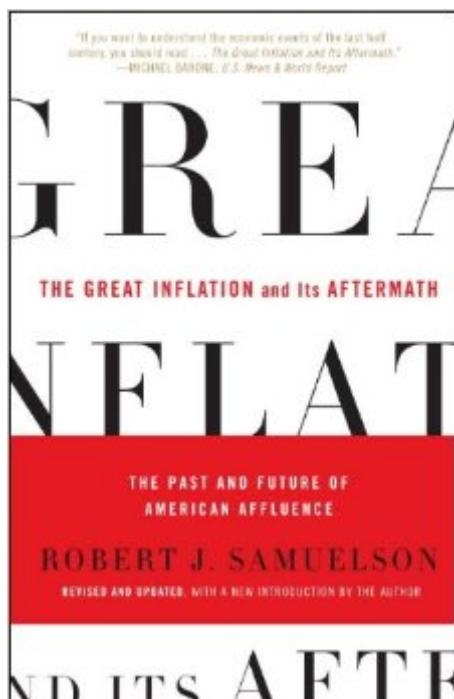


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# The Great Inflation And Its Aftermath: The Past And Future Of American Affluence



## **Synopsis**

The Great Inflation in the 1960s and 1970s, notes award-winning columnist Robert J. Samuelson, played a crucial role in transforming American politics, economy, and everyday life. The direct consequences included stagnation in living standards, a growing belief "both in America and abroad" that the great-power status of the United States was ending, and Ronald Reagan's election to the presidency in 1980. But that is only half the story. The end of high inflation led to two decades of almost uninterrupted economic growth, rising stock prices and ever-increasing home values. Paradoxically, this prolonged prosperity triggered the economic and financial collapse of 2008 and 2009 by making Americans "from bank executives to ordinary homeowners" overconfident, complacent, and careless. The Great Inflation and its Aftermath, Samuelson contends, demonstrated that we have not yet escaped the boom-and-bust cycles common in the nineteenth and early twentieth centuries. This is a sobering tale essential for anyone who wants to understand today's world.

## **Book Information**

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## **Customer Reviews**

There is no economist - that I am aware of - writing for a weekly magazine (Newsweek) and daily newspaper (Washington Post) that is more objective and nonpartisan than Robert Samuelson. Not only does he avoid promoting either Republican or Democratic economic policies, he is very critical of both. In this book, he talks about the great inflation, which many of us remember; and the lessons learned, which many of us have either forgotten or never learned in the first place. The great inflation of the 60s and 70s was, according to Samuelson, the result of misguided attempts by the

government to keep artificially high levels of employment, and to keep the economy from falling into recession. Lyndon Johnson's Great Society programs were instrumental in creating a wage-price spiral that didn't end until 1980 when Ronald Reagan was elected. Even Richard Nixon could not stop the spiral with the imposition of a wage-price freeze. Nixon too was guilty of tampering with the system by urging the Fed chairman to keep the economy out of recession. During Jimmy Carter's presidency inflation was running at 14 percent and there was indeed an economic malaise. These inflationary times should be duly noted by the incoming Obama administration as many of the advisors are speaking urgently about applying big Keynesian stimulus packages. When Ronald Reagan came into office he did a very brave and politically unpopular thing: he urged Paul Volcker, the Fed chairman, to raise interest rates and tighten credit in order to kill the inflation beast. (One of the few compliments I have for Ronald Reagan.) This precipitated the most severe recession since the Great Depression, but it did succeed in halting inflation.

Robert Samuelson is a journalist, not an economist. But his writing on economic issues makes him sound, to my ear, like an economist. Samuelson's columns in the Washington Post often catch my eye, and I have read many of them. Until I read this book and saw Samuelson's brief biography, I thought he was an economist. But Samuelson has a way with words that marks him as a journalist. When I saw a Newsweek article by Samuelson based on this book, I thought the book worth a read. It is indeed. Samuelson looks to economic history, in particular the "great inflation" of the 1970s, for lessons that it teaches us about today's world. In fact, Samuelson believes that the roots of the current credit crisis are firmly planted in the great inflation. That is, that the "disinflation" we grew to enjoy as the great inflation was brought under control led us into bad habits that have finally come to roost. I won't summarize the book here. If you want a good summary, the Newsweek excerpt that Samuelson himself wrote does a better job than I can. The core of the book is there. To get much more, you have to read the book. And I encourage you to read the book. Samuelson sometimes has the air of a didactic "know it all." Maybe that comes with the territory when you are a columnist (not a self-doubting profession) for both the Washington Post and Newsweek. That air can annoy -- it did annoy me a bit in this book. But it has not kept me from benefiting from Samuelson's work. Be warned, though. Samuelson says he wrote this book for the general reader. Readers without an interest and some background in economics may find the book tough going. It's not a collection of columns. It's an in-depth economic history and analysis.

Robert J. Samuelson asserts in this book that the last half-century has been one long economic

cycle dominated by the rise and fall of inflation. Inflation surged in the 1970s, after many years of economic policies designed to smooth out business cycles and to keep unemployment as low as possible, even at the risk of higher inflation. Fighting inflation was not a top priority in the presidencies of Nixon and Carter. Samuelson believes that Ronald Reagan would not have been elected president had there not been double-digit inflation during the Carter years, and also believes that Reagan was the only president who would have allowed Fed chairman Paul Volcker to raise interest rates to the extent necessary to minimize inflation. The author demonstrates that the taming of inflation led, in the following years, to milder and briefer recessions, globalization, and the boom in stock prices and home prices. However, while economic growth was robust in the 1980s and 1990s, jobs were not as secure as they were in the 1950s and 1960s. Samuelson believes that the half-century economic cycle defined by inflation is ending, and speculates about what might come next. He compares the present moment to the late Fifties, just prior to the rise of inflation in the Sixties, and discovers many similarities. He offers his opinions on what should be done for the economy (starting with, of course, controlling inflation) in the coming years. Hopefully, the incoming administration will favor a strong currency and resist the temptation to implement more and bigger social programs, which would stifle economic growth. It is heartening to see that Paul Volcker is one of Barack Obama's economic advisors.

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