Investors Can Temper Their Inflation Fears: Post-COVID Inflation is Unlikely to Resemble the Great Inflation of 1968 to 1982

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"According to the reports on business conditions in this district, received by us during the closing months of 1919, apparently few years opened with brighter business prospects than 1920. Labor was fully employed at the highest wages probably ever known, manufacturing plants were being operated at the greatest possible limit, supplies of goods were small, prices were continually advancing, the public was buying lavishly, and it was generally reported that goods were being consumed as fast as produced. The general opinion was that such business conditions would continue for at least 6 months. These conditions, which had been developing for some months, undoubtedly fostered buying and speculation in all kinds of commodities."[1]

- Richard L. Austin, Chairman and Federal Reserve Agent, Federal Reserve Bank of Philadelphia

Over the past 18 months, the COVID-19 pandemic caused severe disruptions to the global economy but failed to trigger a Great Depression-level event in the United States. This outcome was possible only because the Federal Reserve and Congress enacted massive monetary and fiscal stimulus in record time. As of the writing of this paper, cumulative fiscal stimulus had exceeded $5 trillion, and cumulative monetary stimulus (in the form of asset purchases by the Federal Reserve) had exceeded $4 trillion.[2] Now that the U.S. economy appears to be on a path to recovery, there is a new fear that massive "money printing" will trigger an era of high inflation reminiscent of the Great Inflation that lasted from 1968 to 1982. On December 10, 2021, the U.S. Bureau of Labor Statistics reported a 6.8% per year increase in the CPI, intensifying the ongoing debate about whether high inflation will be temporary or more lasting.[3]

This paper seeks to inform this debate by evaluating the conditions contributing to the recent uptick in inflation and comparing them to conditions that existed during similar episodes of high inflation in the past. The paper concludes that inflationary pressures are likely to be temporary, perhaps resembling the years immediately following World War I and World War II. It appears unlikely, however, that the United States is on the brink of another Great Inflation-like event. The primary reason is that the Federal Reserve of today appears much less likely to suffer from the philosophical biases, knowledge gaps, and political pressures that allowed the Great Inflation to occur.

If the conclusion presented in this paper is correct, it begs the question as to why investors fear the return of the Great Inflation so intensely. On this matter, the simple explanation may also be the correct one. Americans fear a return of the Great Inflation because (a) it is the only period of high inflation that most Americans remember; and (b) the relative severity and sheer duration of this event made these memories especially potent. In other words, lingering psychological scars from the Great Inflation may be causing investors to overestimate the severity of the risks implied by current conditions. While such misjudgments are understandable, they could prove costly if acted upon. Should elevated levels of inflation prove temporary (as the observations in this paper suggest), an over-reaction may lead to decisions that impair an investor's long-term objectives rather than foster their achievement.

[1] Seventh Annual Report of the Federal Reserve Board 1920. *Federal Reserve Board.* Washington, DC: Government Printing Office. (1921): pp. 404.
[2] This is, of course, in addition to the Federal Reserve's reduction of short-term interest rates to the zero bound.
[3] "Consumer Price Index – November 2021." *Bureau of Labor Statistics.* (December 10, 2021).

Evaluating Post-COVID Inflation from a Historical Perspective

In many ways, current economic conditions resemble those that existed immediately after the end of World War I and World War II. The post-World War I period is especially instructive because it overlapped with the end of the Great Influenza pandemic. In other words, current conditions are similar to both post-war and *post-pandemic* conditions. In contrast, conditions present during the Great Inflation were considerably different. The primary driver of inflation in the latter case was a toxic combination of monetary policy errors that resulted from factors, such as the Federal Reserve's poor conceptual understanding of the inflation/unemployment trade off, intentional bias toward unemployment reduction over price stability, and limited protection of the Federal Reserve Board from political influence.

In combination, these observations suggest that current conditions are likely to produce a temporary period of high inflation but are unlikely to devolve into an event comparable to the Great Inflation. The remainder of this paper explains this reasoning by revealing several fundamental dynamics of these historical periods and comparing them to current circumstances.

Fundamental Dynamics of the Great Inflation

There are few economic events in U.S. history that can be accurately labeled as "unprecedented," but the Great Inflation of 1968 to 1982 may be one of them.[4] Prior to the Great Inflation, the United States never experienced inflation averaging more than 5% for more than five years. In addition, when these rare periods occurred, it was always during or immediately after a major war involving a full mobilization of the U.S. economy. In contrast, the Great Inflation lasted for 14 years and was not triggered by a such a war.[5,6] Illustrating this point, **Figure 1** shows six periods in U.S. history in which annualized inflation exceeded 5% for at least two consecutive calendar years. **Figure 2** shows additional detail on the Great Inflation by providing the annual rate of inflation for each year spanning from 1968 to 1982.

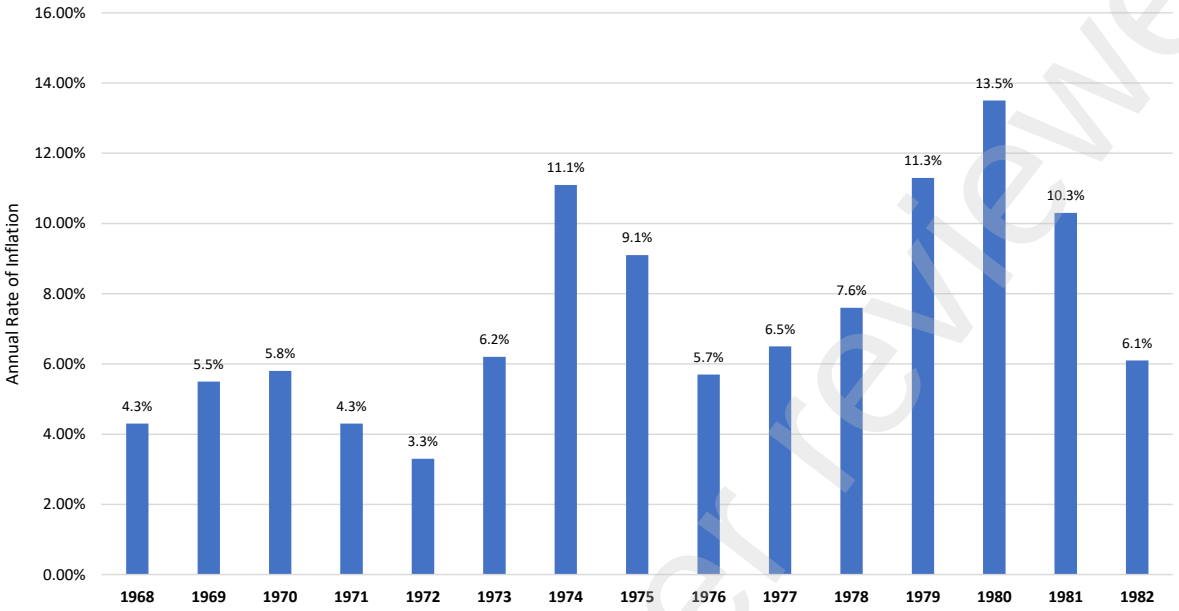
Figure 1: Historical Periods of High Inflation in the United States
(January 1, 1800 - December 31, 2020)

Inflationary Event	Time Period	Duration (Years)	Annualized Inflation Rate
War of 1812	1813-1814	2	11.1%
Civil War	1862-1864	3	20.3%
World War I and Post War	1916-1920	5	14.7%
World War II	1941-1943	3	7.3%
Post-World War II	1946-1948	3	10.2%
Great Inflation	1968-1982	14	7.9%

Source: Federal Reserve Bank of Minneapolis. (August 2021).

[4] To be clear, the Great Inflation is unprecedented in U.S. history, but it is certainly not unprecedented in the entirety of world history.
[5] The Vietnam War did impact inflation during the early years of the Great Inflation, but it was not the primary cause, and it ceased to be a factor after the Vietnam War ended in 1973.
[6] There is debate regarding the precise beginning and end date of the Great Inflation. For example, Allen Meltzer's research establishes the time period as 1865 to 1980. Regardless of which dates are chosen, the duration of this episode materially exceeds all others.

Figure 2: Annual Rate of Inflation in the United States
(January 1, 1965 - December 31, 1982)



Source: Federal Reserve Bank of Minneapolis. (2021).

Figure 1 reveals that the Great Inflation lasted much longer than all prior periods of high inflation. The average annualized inflation rate for the entirety of the Great Inflation was a bit lower than prior episodes; however, there were several two- to three-year periods that rivaled the double-digit rates of the Civil War and World War I. To understand why the Great Inflation persisted for so long, it is important to understand several key drivers of Federal Reserve decision-making at the time. These drivers explain why the Federal Reserve enacted monetary policies that remained overly accommodative for far too long. This, in turn, caused the money supply to grow at a rate that was unsupported by underlying economic growth, which, in the timeless words of Milton Friedman, is "always and everywhere" the root cause of inflation.[7] Several of the drivers of Federal Reserve policies are explained below, with most of the insights drawing from "The Origins of the Great Inflation," written by Allen H. Meltzer in the March/April 2005 issue of the Federal Reserve Bank of St. Louis Review.[8,9]

Key Drivers of Federal Reserve Policy During the Great Inflation

1. **Flawed Understanding of the Phillips Curve** — During the Great Inflation, many leaders at the Federal Reserve Board believed that there was a stable trade-off between inflation and unemployment — a relationship known as the Phillips Curve. The belief was that by allowing inflation to rise, the country would always enjoy an offsetting benefit in terms of reduced unemployment. Unfortunately, this is not how the Phillips Curve works in the real world. Famed

[7] Friedman, Milton. "Counter Revolution in Monetary Theory." *Institute of Economic Affairs.* Occasional Paper 33. (1970).
[8] These are not the only factors cited by Meltzer. Other factors included the limited understanding of the effect of the money supply on inflation, poor execution of monetary policy, and several others. Although not covered in detail in this paper, these factors have the effect of further distinguishing the Great Inflation from war-related inflation.
[9] One will note that the 1970s oil price shocks and wage pressures from labor unions are not included in this list. While these factors did influence inflation (especially the oil price shocks), they mostly functioned as politically-convenient excuses rather than fundamental root causes. The Great Inflation would have happened regardless of these factors; their presence just made it a bit worse.

economist, Milton Friedman, pointed this out in 1968 when he argued that once unemployment reached its natural rate, further attempts to increase employment would produce inflation with no offsetting benefit.[10] In other words, Friedman argued that the Phillips Curve would become *vertical* at the natural rate of unemployment. Increases in inflation beyond that point could be accompanied by a temporary reduction in unemployment, but it would not last.

2. **Bias Toward Full Employment** — The current, statutory mandate of the Federal Reserve is to promote maximum employment, stable prices, and moderate long-term interest rates.[11] Because these are competing objectives, the Federal Reserve is unable to favor one objective without sacrificing another. For example, if the Federal Reserve pushes unemployment below the natural rate, their ability to maintain price stability will be compromised. This explains why the Federal Reserve currently seeks balance in pursuit of its mandate, but this was not the case in the 1960s and 1970s. Instead, the Federal Reserve intentionally favored low unemployment at the expense of price stability. This practice had its roots in the Employment Act of 1946. Explaining the significance of this act, Meltzer explains, "the prevalent belief was that the Act required coordination of fiscal and monetary policy to achieve an unemployment rate of 4 percent or less. This became a national objective."[12]

   The Fed's strong bias toward maximum employment proved especially problematic in the late 1960s because it was compounded by their flawed understanding of the Phillips Curve. Not only did the Federal Reserve leaders miscalculate the effects of unemployment on inflation once the natural rate was breached, but they were also willing to tolerate higher levels of inflation. Unfortunately, once unemployment levels reached the natural rate, additional monetary stimulus caused higher inflation with no offsetting benefit in terms of lower unemployment. In effect, Americans paid the price of higher inflation without receiving any reward.

3. **Vulnerability to Political Influence** — In the 1960s and 1970s, the Federal Reserve technically established monetary policy free of political influence, but in comparison to today, their freedom was much more limited. When explaining these limits, Federal Reserve Chairman William McChesney Martin, Jr. privately stated that the Federal Reserve operated in manner that was "independent within the government, not independent of the government."[13] The existence of this philosophy emboldened politicians, and they exerted significant pressure on the Federal Reserve to support their political objectives. During the 1960s and 1970s, this translated into monetary policies that amplified politicians' expansionary fiscal policies, rather than offsetting their excesses.[14]

4. **Political Costs of Reversal** — Although the Federal Reserve belatedly became aware of the inflation problem – it is hard to ignore something that lasts for 14 years – they also knew that ending it would be extraordinarily painful. Breaking the back of inflation required draconian interest rate increases, the likes of which were never attempted in the United States. This would all but guarantee a painful recession and higher unemployment, which would, of course, have severe political consequences. President Johnson, President Nixon, President Ford, and President Carter had little interest in incurring such political costs until the cost of not acting became intolerable in the late 1970s.

[10] Friedman, Milton. "The Role of Monetary Policy." *The American Economic Review.* (March 1968): Vol LVIII; No. 1.
[11] "Statement on Longer-Run Goals and Monetary Policy Strategy." *Federal Reserve Board.* Adopted effective January 24, 2012; as reaffirmed effective January 26, 2021.
[12] Meltzer, Allan H. "Origins of the Great Inflation." *Federal Reserve Bank of St. Louis Review.* (March/April 2005): Part 2. pp. 152.
[13] Ibid, pp. 152.
[14] Ibid, pp. 153.

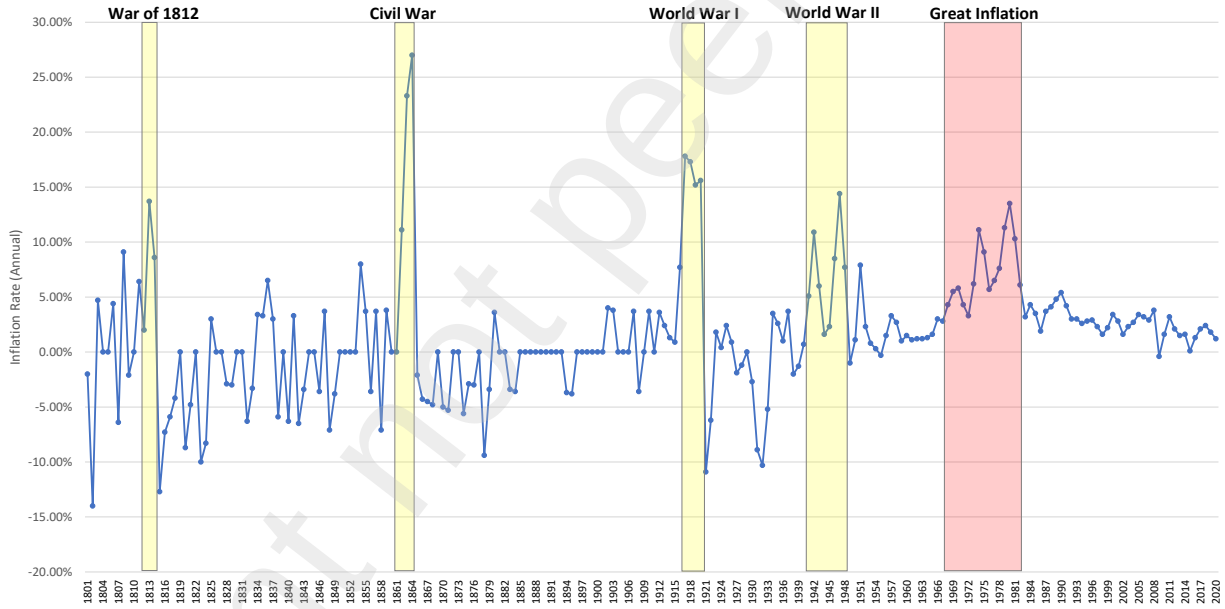
In summary, the Great Inflation was the byproduct of ineffective monetary policy stemming from the Federal Reserve's flawed understanding of the Phillips Curve, strong bias toward minimizing unemployment, and significant vulnerability to political pressure. Once inflation took hold, it was allowed to persist because the political costs of ending it were too painful. It was not until Americans themselves grew weary of the costs that President Ronald Reagan and Federal Reserve Board Chairman Paul Volcker gained sufficient public and political support to end it. The interest rate increases that followed in the early 1980s finally brought this unique chapter of U.S. history to a close.

Fundamental Dynamics of Wartime Inflation

Prior to the Great Inflation, sustained periods of high inflation in the United States were always associated with major wars that involved a full mobilization of the U.S. economy. **Figure 3** shows 220 years of annual inflation data for the United States. One can observe that most periods of high inflation occurred during and immediately after major wars. The one glaring exception, of course, is the Great Inflation from 1968 to 1982.

Figure 3: Annual Rate of Inflation in the United States

(January 1, 1800 - December 31, 2020)

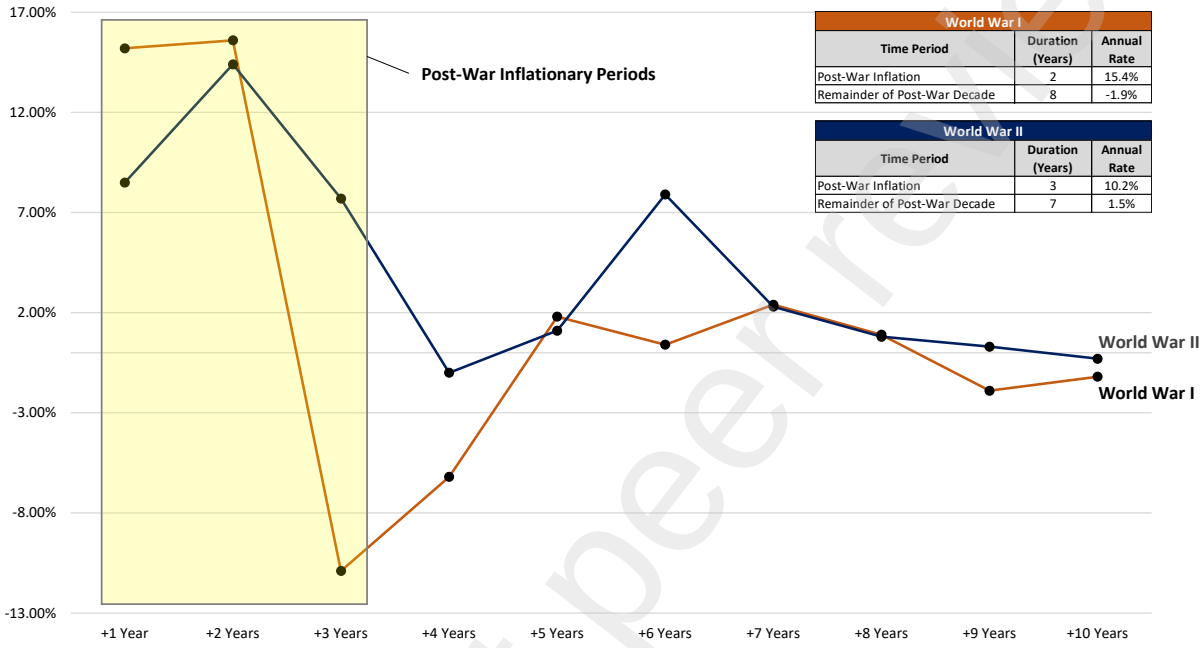


Source: Federal Reserve Bank of Minneapolis. (August 2021).

The reason that inflation rose during times of war is because the U.S. government financed a substantial portion of the war costs by issuing new currency (i.e., printing money). In fairness, this practice is hardly unique to the United States. Throughout history, governments have routinely employed this method of financing during emergencies because of its two convenient advantages. First, printing currency (as opposed to raising taxes) is a relatively easy strategy to execute. Second, because the average person has limited fluency in economics, they fail to attribute the pain of inflation to the politicians who cause it. Instead, politicians can shift the blame to faceless "market forces." In other words, the fact that most periods of high inflation in the United States occurred during major wars is not coincidental — it was very much intentional.

In addition to the tendency of inflation to rise during wartime, the United States has also experienced *post-war* inflation on two occasions. These occurred after World War I and World War II. **Figure 4** shows the duration and scale of these two post-war inflationary events by tracking the annual rate of inflation for the ten-year period following each of these wars.[15]

Figure 4: Annual Rate of Inflation in the United States for the 10 Years Following World War I and World War II



World War I		
Time Period	Duration (Years)	Annual Rate
Post-War Inflation	2	15.4%
Remainder of Post-War Decade	8	-1.9%

World War II		
Time Period	Duration (Years)	Annual Rate
Post-War Inflation	3	10.2%
Remainder of Post-War Decade	7	1.5%

Source: Federal Reserve Bank of Minneapolis. (August 2021).

The inflationary periods following World War I and World War II were ultimately caused by substantial increases in the money supply – as is always the case. However, the underlying factors that prompted the monetary expansion were markedly different from those that caused the Great Inflation. During both post-war periods, high rates of inflation were only present while the nation and the Federal Reserve transitioned from a wartime to peacetime economy. Once the adjustment was complete, inflation returned to a low level, and remained low for the remainder of the decade.

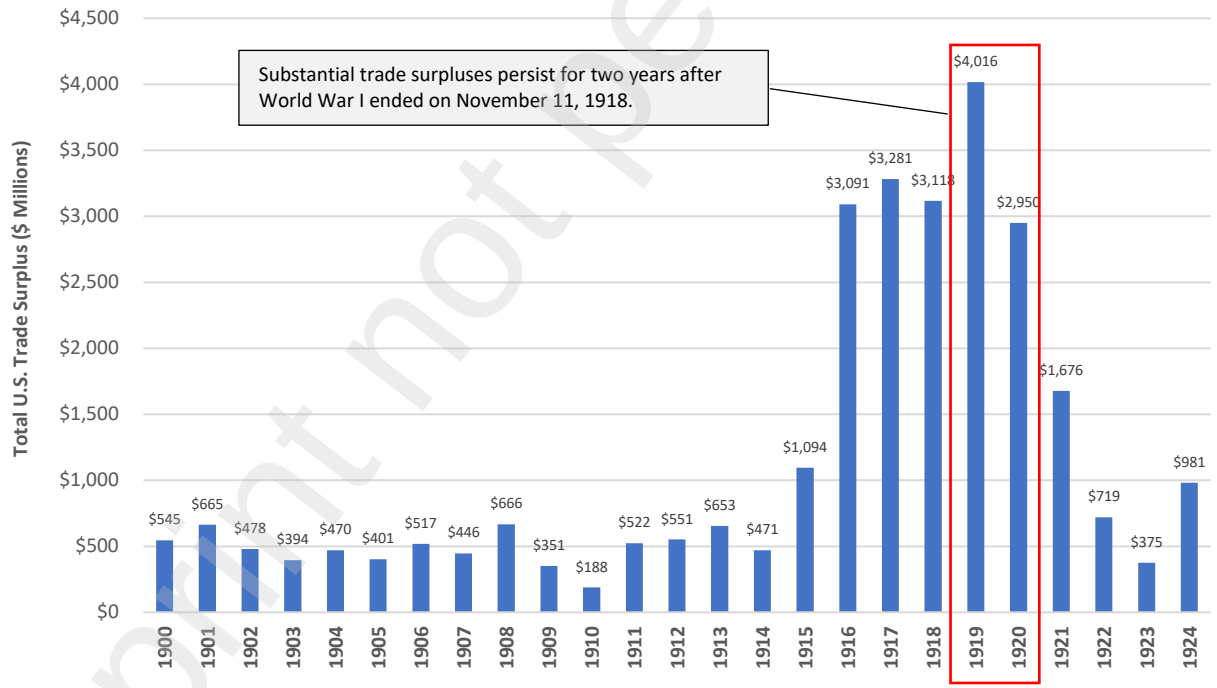
Again, the case of World War I is especially interesting because it overlapped with the Great Influenza. Ironically, although Americans had much to celebrate when World War I ended in November 1918, the Federal Reserve initially feared that a deep recession and *deflation* would likely follow. This belief was not without merit, as it was precisely what happened after the Civil War. The core thesis was that a substantial reduction in government spending would trigger the recession, just like it had in 1865. What the Federal Reserve underestimated, however, was that a surge in consumer spending in 1919, coupled with stronger than expected exports, would more than offset the cuts in government spending.

[15] The post-World War II data is somewhat tainted by overlap with the Korean War. For example, inflation in 1951 was 7.9%. However, the Korean War, much like the Vietnam War, was a relatively limited engagement. All else being equal, a conversion of the economy from a limited war to peacetime is less disruptive than a conversion from a state of total war.

On the consumer spending front, there were a couple factors that produced significant pent-up demand. First, Americans had curtailed their spending during the war due to war-related restrictions and general fear regarding the future. Second, spending cuts were amplified during the winter of 1918/1919 due to the Great Influenza pandemic. In fact, depressed spending related to the pandemic may have intensified the Federal Reserve Board's fear regarding a post-war recession. It is possible (if not likely) that the deadly second wave in October and November of 1918 magnified the decline in economic activity at the end of World War I, which could have easily been misinterpreted as a sign of an impending economic decline.

The second factor that eventually fueled a stronger than expected recovery in 1919 was U.S. exports. Both during and prior to U.S. involvement in World War I, the U.S. trade surplus exploded to levels far exceeding pre-war years. This was almost exclusively driven by demand for war-related materiel from the Allied Powers. The thought was that once this demand disappeared, it would create a significant drag on the U.S. economy. What was not factored into this analysis, however, was the potential offsetting demand associated with European reconstruction efforts. Sure enough, soon after the armistice was signed, increased exports to support reconstruction offset the decline in war-related materiel much more so than was expected. **Figure 5** shows U.S. trade surpluses from 1900 to 1924 and the persistence of extreme surpluses after the conclusion of World War I.

Figure 5: U.S. Trade Surpluses ($ Millions)
(1900 – 1924)



Sources: Statistical Abstract of the United States: 1929.

In summary, contrary to the Federal Reserve's fears (and the fears of many American citizens), after World War I ended in November 1918 and the third wave of pandemic flu subsided soon after, the American consumer began spending heavily and U.S. exports rebounded. By the summer of 1919, U.S. economic growth had risen much more sharply than was anticipated, and the highly accommodative monetary policy, which was essential during the war, drove inflation higher. Price pressure was further

amplified by the general lack of preparedness in the business community as they struggled to adjust to a peacetime economy. Companies required time to retool plants, hire and train new workers, and rebuild their supply chains. As this bumpy adjustment process proceeded, the nation suffered supply bottlenecks and raw material shortages, placing further upward pressure on prices.

Initially, the Federal Reserve did not grasp the strength of the economic recovery, nor did they fully appreciate the dangers of inflationary pressures that accompanied it. Making matters worse, even when they expressed concern in mid-1919, leaders at the U.S. Treasury pressured the Federal Reserve to keep rediscount rates low. This was largely intended to minimize the cost of a floating rate portion of the war debt that was issued over the prior two years and to protect the balance sheets of the financial system, as many banks had purchased large quantities of Liberty and Victory Bonds to fulfill their patriotic duty.[16] By the beginning of 1920, however, inflation had reached intolerable levels, and the Federal Reserve decided to act. Ironically, once the decision was made, they acted much too aggressively. In January 2020, the Federal Reserve Banks raised rediscount rates from 4.75% to 6.00%, and then followed with another increase from 6.00% to 7.00% in June 2020. By the end of 1920, prices had collapsed, the economy was in a depression, and the postwar/pandemic inflation of 1919-1920 had officially ended.

Fundamental Dynamics of COVID-19 Inflation

The inflation that the United States has experienced over the past seven months shares much in common with the post-war/pandemic inflation in 1919 and 1920. Fortunately, current conditions seem to share little in common with those present during the Great Inflation – at least not yet. One way to explain the current situation is to separate current economic conditions from the likely policy response of the Federal Reserve. *When viewed in this light, it appears that current conditions are likely to produce a temporary period of high inflation, but the probable policy response of the Federal Reserve is unlikely to allow it to devolve into a Great Inflation-level event.* The remainder of this section lays out this argument by first describing current economic conditions (i.e., temporary inflation determinants), and then detailing the conditions that currently shape the Federal Reserve's approach to monetary policy (i.e., long-term inflation determinants).

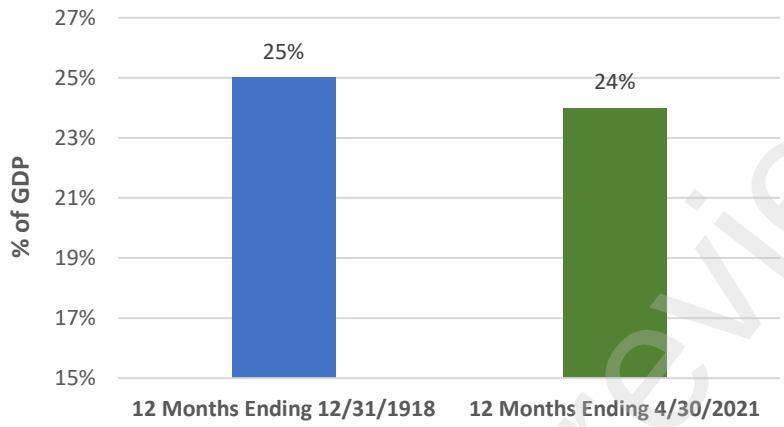
Current Conditions: Temporary Inflation Determinants

Although the COVID-19 pandemic is not technically a war, the economic effects look a lot like one. In effect, COVID-19 forced the United States to drastically alter economic production and human behavior at a scale that rivaled World War I. This degree of mobilization required substantial monetary and fiscal stimulus, which came in the form of more than $9 trillion passed over 18 months. Illustrating the similar scale of these two events, **Figure 6** shows fiscal stimulus used to offset the effects of the COVID-19 pandemic in comparison to total World War I-related spending in 1918.[17]

[16] Friedman, Milton and Schwartz, Anna. *A Monetary History of the United States, 1867-1960.* Princeton University Press: New Jersey. (1963): pps. 223-224.

[17] Costs are expressed as a percentage of national income. World War I-related spending is expressed as a percentage of Gross National Product (GNP), which was the convention used during this time; COVID-19-related spending is expressed as a percentage of Gross Domestic Product (GDP), which is the current convention.

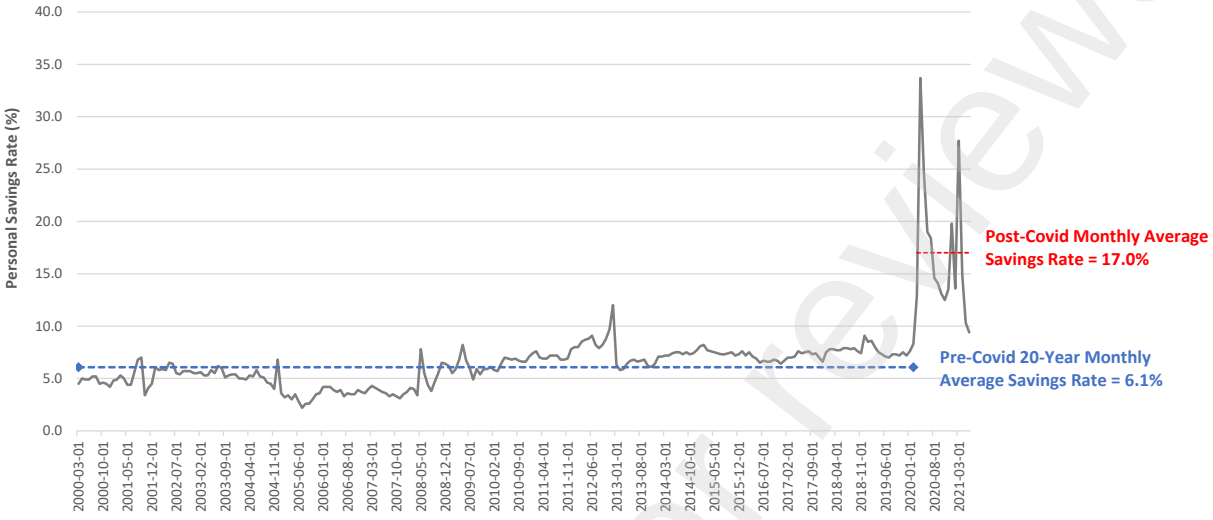
Figure 6: U.S. Government Spending as a Percentage of GNP/GDP[18,19]
(January 1, 2000 – June 1, 2021)



A second similarity between current and post-World War I conditions is the amount of pent-up demand that has accumulated. Changes in the savings behavior of Americans provides the best evidence of this trend. Over the 18 months ending on June 1, 2021, the U.S. personal savings rate averaged 17.0% versus only 6.1% for the prior 20 years. This has enabled Americans to amass well over $2 trillion dollars of excess savings, much of which is still waiting to be spent. **Figure 7** demonstrates the magnitude of excess savings by showing the rise in the U.S. personal savings rate during the pandemic and over the prior 20-year period.

[18] "Social and Economic Impacts of the 1918 Influenza Epidemic." *National Bureau of Economic Research* (May 2020).
[19] Newman, Patrick. "The Depression of 1920-1921: A Credit Induced Boom and a Market Based Recovery?" *Review of Austrian Economics, Forthcoming.* (December 5, 2015). Pp. 15.

Figure 7: U.S. Personal Savings Rate
(January 1, 2000 – June 1, 2021)



Source: U.S. Bureau of Economic Analysis.

In combination, these data reveal that a robust recovery in the United States has been building steadily since the onset of COVID-19 — much like it did in 1918. The elevated CPI readings during the second half of 2021 suggest that suppressed consumer demand is beginning to be unleashed. Although the timing, speed, and magnitude of the spending spree remains uncertain (especially considering the recent outbreak of the COVID-19 Delta and Omicron variants), when it occurs, it is virtually guaranteed to be messy. Businesses will struggle to adapt to post-pandemic demand patterns, which will produce temporary mismatches between supply and demand for various goods and services. This, in turn, will introduce further inflationary pressure, which is precisely what happened in 1919 and 1920.

The big remaining question is how high inflation will rise and how long it will last. Fortunately, unlike temporary bursts of inflation, long-lasting periods of high inflation cannot be sustained without the continuous support of lax monetary policy. In this respect, a repetition of the Great Inflation does not hinge upon the intensity of pent-up consumer demand; it hinges upon whether the Federal Reserve repeats many of the policy errors of the 1960s and 1970s. This is a scenario that seems unlikely.

Monetary Policy: Long-Term Inflation Determinants

It is impossible for the Federal Reserve to control every short-term spasm of inflation (or deflation for that matter). However, elevated levels of inflation that last for 14 years cannot happen without a continual presence of an overly accommodative monetary policy. Fortunately, many of the circumstances that allowed such policies to exist from 1968 to 1982 no longer appear to be present. The Federal Reserve today is simply different than it was in the 1960s and 1970s. In fact, several of these differences were established to prevent the recurrence of the Great Inflation! It is these differences that reduce the probability that the Federal Reserve will allow inflation to persist beyond a temporary adjustment period. A few of the more meaningful differences between today's Federal Reserve and its predecessor include:

1. **Balanced Federal Reserve Board Mandate** — The Federal Reserve operates under a clear mandate to balance the objectives of maximum employment and price stability. It cannot prioritize one objective without sacrificing the other. This was not the case in the 1960s and 1970s. Instead, minimizing unemployment was a much higher priority than price stability. Although there is no guarantee that the balanced mandate will last forever, it seems unlikely that it will change anytime soon. This being the case, should elevated levels of inflation fail to dissipate within a reasonable time frame, it would constitute a violation of the Fed's core mandate — and such a fundamental violation is unlikely to persist for very long.

2. **Coherent Model of Inflation/Unemployment Tradeoff** — The Federal Reserve made significant mistakes during the 1960s and 1970s. Examples include the misunderstanding of the Phillips Curve and their failure to implement effective processes for monitoring inflation and the growth of the money supply.[20] Although the Federal Reserve is certainly not immune to criticism for making policy errors in recent years, having a basic understanding of the causes of inflation and the true nature of the Phillips Curve is unlikely to trip them up. For this reason, it seems unlikely that they will repeat the fundamental miscalculations of their predecessors.

3. **Stronger Federal Reserve Independence** — The truth is that the Federal Reserve will never be completely immune to political influence, but it is considerably less vulnerable today than it was in the 1960s and 1970s. This is a difference that is difficult to quantify, but perhaps the best evidence is that investors give credence to the Federal Reserve's commitment to maintain price stability. Despite six consecutive months of CPI readings exceeding 5%, long-term inflation expectations, as proxied by breakeven inflation rates, have remained relatively stable. This suggests that the market believes the Federal Reserve is committed to preventing elevated levels of inflation from persisting too long.

Conclusion

The recent inflationary spike in the United States over the past several months is attributable to multiple factors that are similar to those that caused high inflation rates after World War I and the Great Influenza. These similarities support the thesis that the United States is likely to experience a temporarily high rate of inflation as the economy adjusts from a pandemic orientation back to normalcy. On the other hand, it appears considerably less likely that the Federal Reserve will allow inflation to persist at a level that would come close to resembling the Great Inflation either in magnitude or duration. Unlike their predecessors, the current Federal Reserve Board of Governors has a clear mandate to maximize employment within the constraints of price stability. In addition, the Federal Reserve is considerably less susceptible to political influence and has a much more coherent understanding of the trade-off between inflation and unemployment. All of these factors suggest that they will demonstrate a low tolerance for high levels of inflation for any extended period of time. Further validating this thesis, the Federal Reserve has signaled growing concerns about inflation in November 2021 and acted by announcing the tapering of asset purchases.

As a final note, this paper does not claim that a Great Inflation-like event can never happen again in the United States; but at the end of the day, investing is a game of probabilities, and a wager that the Great Inflation will repeat in the 2020s seems like a long shot. Ultimately, it is a bet that the Federal Reserve will (a) abandon its mandate to maintain price stability; (b) knowingly enact flawed policies due

[20] Meltzer, Allan H. "Origins of the Great Inflation." *Federal Reserve Bank of St. Louis Review.* (March/April 2005): Part 2.

to political pressure; (c) suddenly become ignorant regarding the very causes of inflation and its relationship to the money supply; or (d) enact policies based on some combination of all three. Each seems unlikely individually, and the combination of all three seems highly improbable. This is a potentially valuable insight, as some investors are considering changes to their investment strategies to prepare for what they fear may be a long period of high inflation. If elevated levels of inflation prove to be temporary, such changes may compromise their long-term investment objectives.

