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Working Paper

Inflation! The Battle Between Creditors and Workers

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Economics from the Top Down

new ideas in economics and the social sciences

Inflation! The Battle Between Creditors and Workers

Blair Fix

March 26, 2023



I've been writing about inflation for the [better part of three months](#). It's been exhausting. Most of my time has been spent debunking misconceptions promoted by mainstream economists. Fortunately, I'm ready to move on.

What's interesting about inflation is not the fact that prices rise. What matters is that prices rise at *different rates*. In other words, inflation creates winners and losers — it redistributes income.

In this post, I'll dive into the redistribution dynamics between wage workers and creditors.¹ When inflation rears its head, both groups try to bolster their income. But they rarely have equal success.

Looking at over two centuries of US price history, I find (perhaps surprisingly) that inflation tended to benefit workers at the expense of creditors. Since the 1970s, however, the reverse has been true; inflation has systematically benefited creditors at the expense of workers.

So what changed?

Two things. First, the US labor movement was crushed. Second (and far less discussed), US policy makers adopted a new way to 'fight' rising prices. When inflation reared its head, central banks attempted to quell it by aggressively hiking interest rates. Today, it's received wisdom that this policy 'works'.

¹I'll define 'creditor' as any investor who earns interest. That obviously includes banks, which are sometimes called 'lenders'. It includes credit card companies. It also includes investors who own bonds. Finally, it includes anyone with a bank account — people commonly referred to as 'savers'. But let's not kid ourselves; if you give money to your bank, you haven't 'saved' your cash; you've 'invested' it.

Of course, the policy *does* work — but [not for its stated goal](#). Never mind ‘fighting inflation’. When you raise interest rates, you give creditors a raise.

Framed in this light, it’s unsurprising that inflation has recently become a boon for US creditors. Backed by monetarist ideology, the government is now dedicated to preserving the return on credit. When it comes to class struggle, there’s nothing like having the sledgehammer of the state to back you up.

With credit returns in mind, here’s the road ahead. Before diving into the dynamics of class struggle, I’ll take a quick look at the language used to describe rising prices. Next, I’ll quantify the price struggle between creditors and workers. Finally, I’ll measure how this struggle has changed over time, and how it relates to the ideological currents of the period.

Inflation and the English language

To start our journey into income redistribution, let’s talk about terminology. The word *inflation* ... what does it describe?

To many people, ‘inflation’ refers to a decrease in the value of money. While this thinking is not wrong *per se*, it is needlessly abstract. We cannot measure the ‘value of money’. Instead, we measure *price increases*.² Speaking of the phrase ‘price increases’, this language is also indirect. After all, prices don’t raise themselves. If prices go up, it’s because someone raised them. To bolster my profit, I *raise prices*.

My point here is that there are different ways to talk about the phenomenon of ‘inflation’. And paradoxically, the word ‘inflation’ is itself quite opaque. When ‘inflation’ rears its head, what’s actually going on is that groups of people compete to ‘raise prices’.

Now, if English writers cared about accuracy, you’d think that they would favor terms that are clear. And yet when it comes to price hikes, the opposite is true.

²To quantify ‘inflation’, we take a group of commodities and measure their average increase in price. Now, because price change is [differential](#), there is no such thing as *the* rate of inflation. There’s just an average that, by convention, we define to be the general rate of price increase. (More on this can of worms [here](#).)

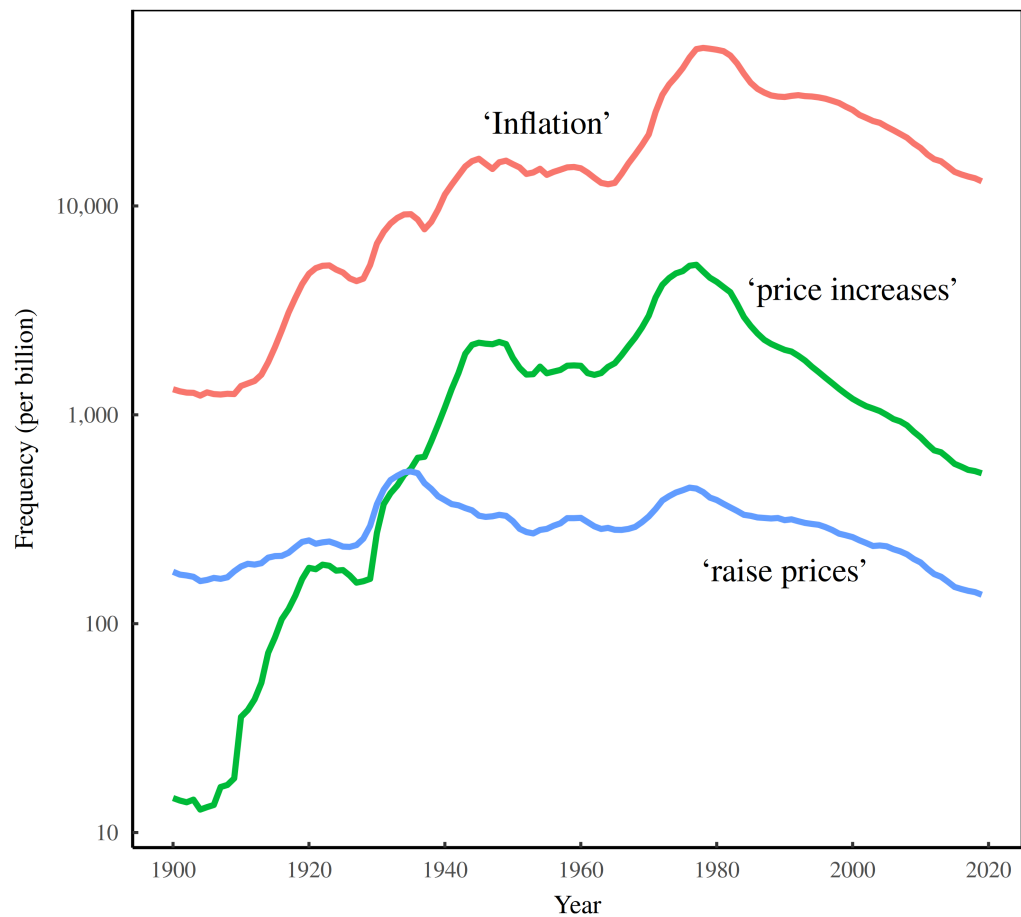


Figure 1: Burying the lede; talking about ‘inflation’ without ‘raising prices’

Using the Google English corpus, this figure measures the frequency of three different ways of describing ‘inflation’. Most frequent is the word ‘inflation’ itself — a term that is ubiquitous yet surprisingly abstract. Less frequent is the more concrete term ‘price increases’, which better describes what’s going on (prices are rising). And buried in obscurity is the action phrase ‘raise prices’, which requires a subject to make sense. In other words, if prices increase, it is because someone raised them. [Sources and methods](#)

Figure 1 runs the numbers. Here, I’ve plotted the frequency (in the Google English corpus) of three different phrases which describe the same phenomenon: ‘inflation’, ‘price increases’, and ‘raise prices’. The opaque term ‘inflation’ is ubiquitous. The more descriptive term ‘price increases’ is about 10 times more rare. And the action phrase ‘raise prices’ is vanishingly scarce.

Why do English writers avoid plain talk about ‘raising prices’? Well, a feature of plain language is that it’s easy to understand. But as George Orwell [observed](#), sometimes people *want* to be misunderstood.

Those people tend to be the powerful, and their goal is to distract you from their actions. On that front, talk of ‘raising prices’ highlights the folks doing the raising. Who is raising the price of food? That would be [grocery retailers](#).

If you want to downplay your price-raising culpability, start by removing the subject (you). Talk instead about ‘price increases’, as if prices raise themselves. Or better yet, speak about ‘inflation’. By doing so, you’ll take the focus off of prices and put it onto vague problems with the money supply.

The struggle to raise prices

Now to the science of inflation, which starts with concrete language. I define ‘inflation’ as the *general struggle to raise prices*.

This inflationary struggle involves everyone. Firms play the price-raising game. But so do landlords, proprietors, wage workers and creditors. Because of this generality, the struggle to raise prices is best thought of as a herd competition. Everybody plays. But not everybody wins.

I see your price hike, and I raise my wage

Diving into the struggle to raise prices, let’s look at how US workers play the game. When firms raise prices, the cost of living goes up. Unsurprisingly, workers respond by seeking higher wages. The result is a tit for tat between commodity prices and wages. When one goes up, so does the other.

Figure 2 shows the pattern in the United States. The blue curve plots the annual change in the consumer price index. The red curve shows the annual growth rate of wages. Over more than two centuries, the two series are tightly coupled.

Looking at Figure 2, what’s interesting is that for most of the last two centuries, wage growth exceeded price growth. (The red curve lies above the blue curve.) In other words, from 1770 to 1970, workers saw their purchasing power grow. But what’s ominous is that after 1970, workers took a beating. For the last fifty years, wages have barely kept up with rising prices.

Seal this stagnation into your memory, as we’ll return to it later. But right now we’ll move on to another tit for tat.

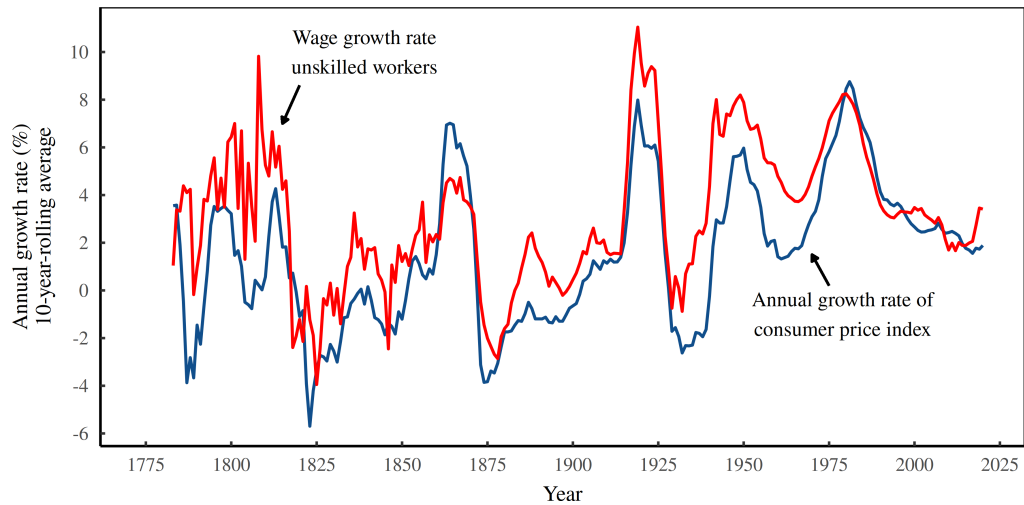


Figure 2: In the United States, wage growth is tightly coupled to rising commodity prices

This figure illustrates the long-term connection between wage growth and the growth of commodity prices. The red curve shows the annual growth rate for the wages of unskilled US workers. The blue curve shows the annual change in the US consumer price index — a common measure of inflation. To highlight the long-term pattern, I’ve smoothed both series using a 10-year trailing average. [Sources and methods](#)

I see your price hike, and I raise my return on capital

When it comes to raising prices, capitalists play the same game as workers. The main difference is that capitalists don’t receive a ‘wage’; they receive a ‘return on investment’.

Like the various flavors of labor income (wages, salaries, commission, etc.), there are different flavors of capitalist investment. The two most important are *equity* and *debt*. Each flavor comes with its own category of income. If I invest in equity, I earn ‘profit’. But if I invest in debt, I earn ‘interest’.³

When faced with inflation, these investment flavors require different strategies for preserving income. Let’s start with equity. When you buy equity, you purchase the legal command of a firm (or at least part of it). So when your competitors raise prices, you tell your firm to do the same. Profits preserved.

³Investors can also earn ‘capital gains’ when their property appreciates in value. But I’ll ignore this income here.

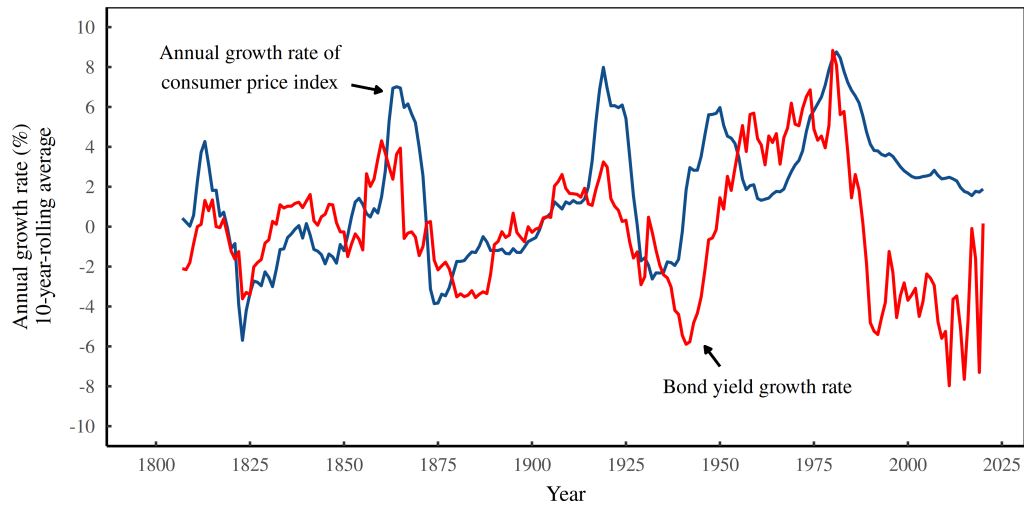


Figure 3: In the United States, the growth rate of bond yields is coupled to rising commodity prices

This figure illustrates the long-term connection between bond yields and the growth of commodity prices. The blue curve shows the annual change in the US consumer price index. The red curve shows the annual growth rate of US bond yields. (Note that I do mean growth *rate*, not percentage point change. So if the bond yield changes from 5% to 6%, that counts as a 20% increase.) To highlight the long-term pattern, I’ve smoothed both series using a 10-year trailing average. [Sources and methods](#)

If you purchase debt, however, you have no formal say in the debtor’s decisions, and no right to their bolstered profits.⁴ Instead, your investment return is fixed. It is set at the purchase date by the rate of interest. So if you are a creditor (meaning you own debt), the obvious response to inflation is to raise the rate of interest.

Because of this income-preserving behavior, interest rates tend to rise and fall with other commodity prices. Figure 3 shows the pattern in the United States.

Some things to note about the data in Figure 3. First, I’ve proxied the rate of interest using the yield on long-term bonds.⁵ Second, the vertical axis shows the *growth rate* of bond yields, not the percentage point change. So if the

⁴Creditors are not ‘owners’, and therefore have no formal right to command a firm. But as every mafia boss knows, when someone owes you a lot of money, it’s quite easy to influence their actions. For an excellent discussion of the power involved in debt, see Tim Di Muzio Richard Robbins’ book [Debt as Power](#).

⁵Here’s the difference between a ‘bond yield’ and the rate of interest. Think of a bond as a term deposit. Like a bank term deposit, a bond pays a rate of interest that is determined at the date of issue. Also like a term deposit, the bond has a maturity date, at which point

bond yield jumps from 5% to 6%, that counts as a growth rate of 20%. The idea is that we're measuring the growth rate of simple interest earned on a fixed quantity of credit.

Looking at Figure 3, it's clear that bond yields rise and fall with commodity prices. But then again, it would be astounding if they didn't. When faced with inflation, creditors bolster their income ... just like everyone else.

The struggle between creditors and workers

To summarize the evidence so far, we know that during bouts of inflation, both US workers and US creditors raise their prices. Now we'll see how these two groups fare against each other.

The way I'll do that is by measuring the growth gap between bond yields and wages:

$$\text{bond-wage growth gap} = \text{bond-yield growth} - \text{wage growth}$$

The idea here is that the bond-wage growth gap quantifies the price struggle between creditors and workers. When bond yields grow faster than wages, it signals that creditors are winning the struggle. But when bond yields grow slower than wages, it signals that workers are winning the battle.⁶

you're paid back your principle, plus the interest earned. Unlike a term deposit, however, bondholders can sell their asset before it is mature. The catch is that the market value of this sale can be different from the book value of the bond (i.e. the principle you invested).

To calculate a bond yield, we take the interest payments (sometimes called the 'coupon payment') and divide them by the market value of the bond. Now, since the market value of a bond changes with time, if you sell your bond early, your yield can be different from the rate of interest attached to your bond.

For example, suppose you buy a 30-year bond that pays 1% interest. Next, suppose that interest rates rise to 5%. If you sell your bond early, you have to compete with newly issued bonds that pay a higher rate of interest. In other words, you'll have to lower your selling price below the book value. So your bond yield will rise, even though the coupon payment stays the same.

What's this yield got to do with the rate of interest? In practice, investors use the rate of interest when pricing bonds. As a result, bond yields are tightly linked to the current rate of interest.

⁶Note that the bond-wage growth gap takes a narrow view of creditor income because it assumes simple interest on a static amount of capital. Obviously, real-world creditors reinvest some (or all) of their returns, and therefore earn compound interest. But we'll ignore that complexity here.

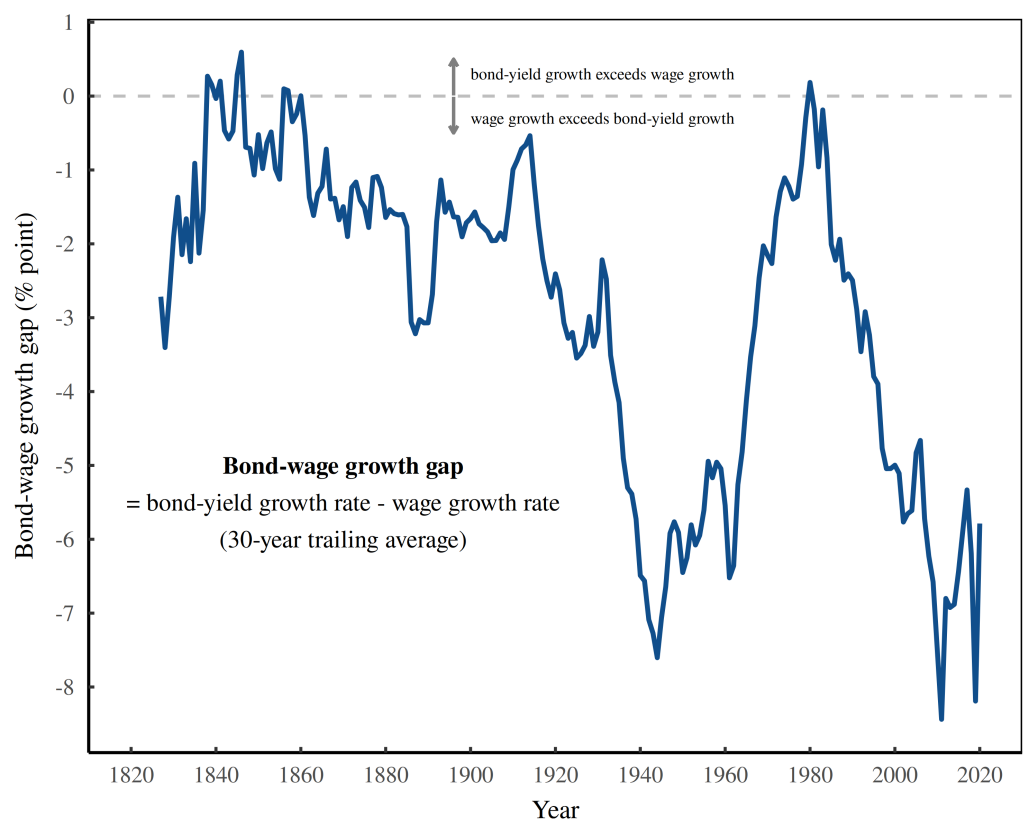


Figure 4: The bond-wage growth gap in the United States

This figure illustrates the history of what I call the ‘bond-wage growth gap’. This gap is the difference between the growth rate of bond yields (Figure 3) and the growth rate of wages (Figure 2). Because the bond-wage growth gap is quite volatile, I’ve smoothed the trend with a 30-year trailing average. [Sources and methods](#)

Figure 4 shows the history of the bond-wage growth gap in the United States. Note that the growth gap is quite volatile, so I’ve smoothed it with a 30-year trailing average.

Looking at Figure 4, let’s note some important features. First, the bond-wage growth gap is mostly negative, meaning US bond yields tended to grow more slowly than US wages. That’s expected. Over the last two centuries, US wages grew exponentially; bond yields did not.

Second, the bond-wage growth gap saw some major swings — a stark decline in the early 20th century, followed by a reversal after 1970. These swings — and how they relate to inflation — will be the focus of our story.

Price battles and price wars

To understand how rising prices relate to class struggle, it's helpful to distinguish between two forms of price competition: price *battles* and price *wars*.

Price *battles* are the incessant skirmishes fought between competing groups. They happen everywhere, all the time, as when a gas station raises prices in response to a competitor. I consider the struggle between workers and creditors a price battle, in the sense that it never stops.

Price *wars*, in contrast, are less frequent escalations of conflict. They are what happens when everyone joins the price-raising game.

Why does this battle/war distinction matter? Well, because when price wars break out, they affect the outcome of price battles. In other words, when inflation rears its head, class struggle intensifies.

On that front, political economists [Jonathan Nitzan and Shimshon Bichler](#) have done pioneering research. Looking at the United States, they've found that during bouts of inflation, [corporate profits tend to rise](#) relative to wages. Similarly, rising prices tend to benefit the [bottom lines of big corporations](#) at the expense of small businesses.⁷

Taking a cue from Nitzan and Bichler, I'm going to see how inflation affects the battle between US creditors and US workers. To do that, I'll measure the correlation between the rate of inflation and the bond-wage growth gap. If the correlation is positive, it signals that rising prices benefit creditors. But if the correlation is negative, it indicates that inflation benefits workers.

The results; I find that over the last two centuries, the bond-wage growth gap correlates *negatively* with the rate of inflation ($r = -0.11$). In other words, price wars have historically benefited US workers at the expense of creditors. That's surprising. But what's more interesting is that this correlation has varied wildly over time.

Let's have a look.

⁷How far back in time does Nitzan and Bichler's redistribution pattern extend? And is it universal across countries? The answer is that we have no idea. It's research waiting to be done.

A rolling battle

In Figure 5, I've plotted the 30-year rolling correlation between US inflation and the bond-wage growth gap. If you know what that means, skip ahead to the results. But for the uninitiated, here's a brief tutorial.

A rolling correlation begins by taking a correlation on a subset of the data. Here, I use a window of 30 years. So I start by taking 30 years of inflation data and correlating it with 30 years of data for the bond-wage growth gap. For example, from 1798 to 1827, the correlation between these two series was 0.09. I record this correlation and attach it to the year 1827 (creating a 'trailing' correlation). Next, I move the correlation window ahead (to the years 1799–1828) and repeat the analysis. I attach that correlation to the year 1828. Finally, I continue to 'roll' the correlation ahead until I run out of data.

Now to the results. If a relation doesn't change over time, a rolling correlation will return a (roughly) constant value that's the same as the long-term correlation. But in the case of the price battle between creditors and workers, that's not what happens. Instead, we find that our rolling correlation has wild fluctuations. Figure 5 shows the pattern.

To help you understand the results in Figure 5, I've used color to tell the story. When the rolling correlation is colored red, it indicates that inflation benefited *creditors* at the expense of workers. But when the rolling correlation is colored blue, it indicates that inflation benefited *workers* at the expense of creditors.

Looking at the historical trends, we see that US workers typically won the price battle. From about 1860 to 1970, the rolling correlation was overwhelmingly negative, meaning that during bouts of inflation, wages grew faster than bond yields. In fact, prior to the 1970s, there were only a few moments when inflation benefited US creditors. (Creditors came out on top during the run-up to the Civil War, and then briefly during the gilded age of the early 20th century.)

Despite this long-term victory for workers, the price battle has recently shifted. For the last 50 years, inflation has systematically benefited US *creditors* at the expense of workers. What changed?

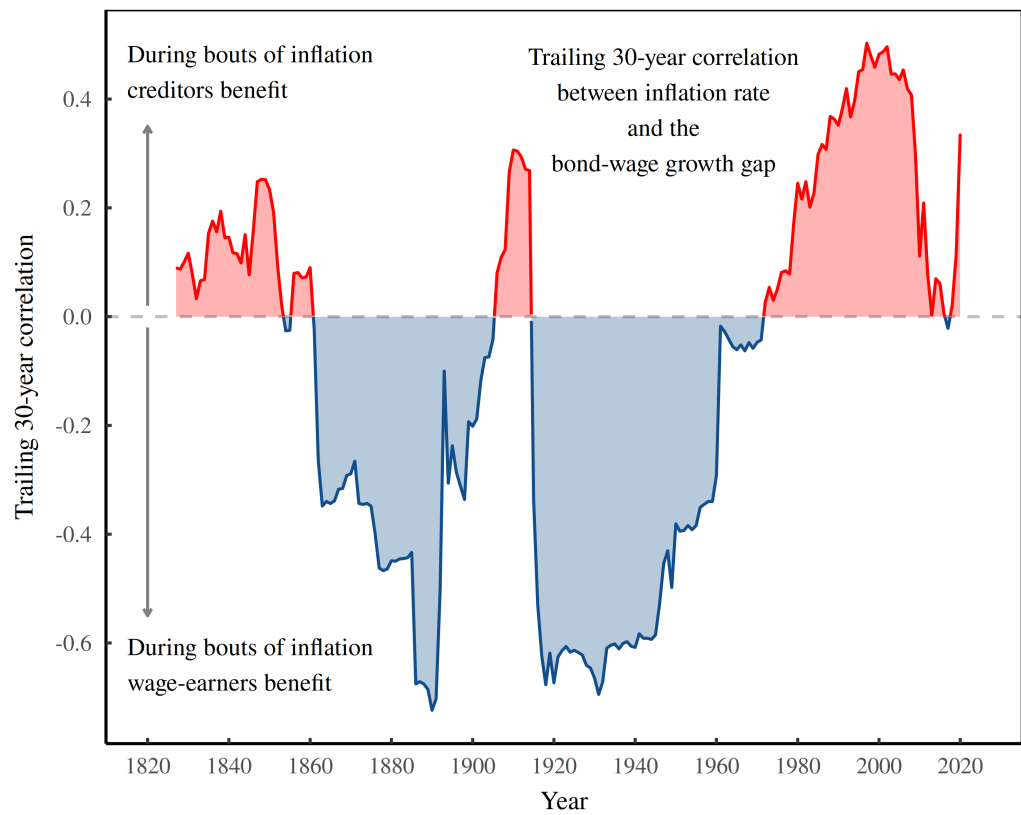


Figure 5: Who benefits from inflation? The rolling struggle between creditors and workers in the United States

This figure quantifies the degree to which rising prices have benefited US creditors versus US workers. The curve shows the 30-year trailing correlation between the annual change in the consumer price index and the bond-wage growth gap (pictured in Figure 4). When the correlation is positive (red), rising prices benefit creditors. When the correlation is negative (blue), rising prices benefit workers. [Sources and methods](#)

The government sledgehammer

To understand the recent tide against workers, let’s talk hammers. If institutions are hammers for getting your way, the government is a fifty-pound sledge. When you wield it effectively, you win.

Workers should know. A big part of the labor movement was getting the government to back the right to organize and strike. (More on that in a moment.)

Of course, creditors also want government on their side. And so they have their eyes on the US Federal Reserve — the arm of government which regulates banking. While the Fed does many things, one of its main tasks is to

set the [federal funds rate](#) — the interest rate at which banks trade federal funds overnight. By determining this rate, the Fed effectively sets a minimum return on credit.⁸



Source: [Wikimedia Commons](#)

On that front, the Fed is basically a capitalist equivalent of the Department of Labor. The DOL sets the minimum wage for workers. The Fed sets the minimum return for creditors. It's really that simple.

(Sure, the Fed is surrounded by mystique. But so is everything to do with capitalist income. Mystique is part of the toolkit of power.)

Looking at this government structure, the trick for workers is to get the Department of Labor to bolster their income. The trick for creditors is to get the Fed to do the same. The problem for both groups is that success is never guaranteed. (Just ask minimum-wage workers, whose income have stagnated for five decades.)

⁸More generally, you could argue that central banks (including the Fed) set the minimum return on *capital*. In other words, the point of investing in equity is to beat the return on long-term government bonds — the so-called 'risk-free rate'.

It's worth emphasizing that this investment game is one big power struggle, wrapped in its own cosmology. Here are Nitzan and Bichler [commenting](#) on this development:

Over the past century, the power logic of capitalism has been incarnated in the process of differential capitalization; that is to say, in the belief that there is a 'normal rate of return' and that capitalists are obliged to 'beat' it. This is the gist of the new capitalist cosmology. Instead of the Holy Scriptures, we now have the universal language of business accounting and corporate finance. The power of God, once vested in priest and king, now reveals itself as the power of Capital vested in the 'investor'.

(Nitzan and Bichler, 2009)

When it comes to influencing the Fed, creditors have had their work cut out for them. Created in 1913, the Federal Reserve was given a [three-pronged mandate](#) that said nothing about preserving creditor's income. Instead, the Fed was tasked with ensuring 'maximum employment, stable prices, and moderate long-term interest rates'.⁹

For fifty years after its creation, the Fed seemed to balance these three mandates. However, when Paul Volcker took the helm in 1979, he [signaled](#) that the triple mandate would be collapsed to a single order. Going forward, the Fed would focus on stabilizing prices. According to Volcker, the goal was to regulate "the supply of reserves which ultimately controls the money supply". Or in plain prose, the Fed was about to jack up interest rates in the name of fighting inflation.¹⁰

Volcker's policy didn't come from nowhere.

For decades prior, the economist Milton Friedman had been claiming that central banks could control inflation by using interest rates to regulate the supply of money. The problem for Friedman was that few economist took him seriously.

That changed in the 1970s for a host of reasons. Perhaps most importantly, the business climate shifted. During the post-war era, the economy boomed, but profit margins steadily dwindled. By the late 70s, business leaders were clamoring for pro-business policies backed by pro-business 'theory' (read 'ideology').

With Milton Friedman, business had its man. A prolific writer, Friedman churned out 'theory' that had the trappings of science, but always recommended policies that were pro-business. And so with capitalists behind him, the stage was set for Friedman's triumph. By the 1980s, his theory of 'monetarism' became wildly popular.

Back to Volcker. By using interest rates to target the money supply, Volcker was channeling monetarist ideology. Of course, the rhetoric was about 'fighting inflation'. But the *direct* effect of Volcker's rate hikes was to bolster the return on credit.

⁹Actually, a reader has [pointed out](#) to me that this triple mandate was introduced in 1977. I regret the error. However, my main point still stands, which is that circa the late 1970s, the Fed changed its behavior.

¹⁰For a discussion of the Fed's policy shift, see Tim Di Muzio's recent article '[Do Interest Rate Hikes Worsen Inflation?](#)'. And for a dive into the internal politics of Volcker's tenure at the Fed, see Eric Tymoigne's piece '[The Volcker Myths](#)'.

In other words, Volcker was telling creditors that he had their backs. Never mind ‘full employment’ and ‘stable interest rates’. Going forward, the Fed’s goal would be to preserve and protect the income of creditors. Unsurprisingly, the policy worked. Since Volcker’s 1979 declaration, inflation has systematically benefited US creditors at the expense of workers.

A dose of monetarism

Now the thing about policy is that it can change. So when Volcker left the Fed in 1987, his policies could have been reversed. And yet they were not. Instead, another Friedmanite (Alan Greenspan) became chair.¹¹ Of course, we can blame individuals for these decisions. However, the bigger picture is that the Fed’s policies stayed the course because of a larger shift in ideology. In short, monetarism became the new dogma.

Figure 6 tells the story. Here, I’ve replotted the rolling correlation between the inflation rate and the bond-wage growth gap (first shown in Figure 5). Beneath the curve, I’ve plotted the frequency of the word ‘monetarism’ in written English. (Darker grey indicates that the word is more frequent.) It seems that just as monetarism became popular in the late 1970s, inflation started to benefit US creditors. I doubt it’s a coincidence.

¹¹Milton Friedman died in 2006, at the height of Alan Greenspan’s celebrity. The Heritage Foundation responded with this [gushing tribute](#):

Friedman’s bold prediction that monetary policy would become the dominant economic tool of the modern age proved prescient. Today, few, if any, government officials have more economic influence than the Chairman of the Federal Reserve. The cult of Alan Greenspan that grew over the last 20 years owes more to Milton Friedman than it does — with all due respect — to Alan Greenspan. And modern U.S. economic policy, despite all the predictions of the 1950s, is based on limited government interference, monetarism, and the free market — Friedman’s then-heretical ideas.

([Peek, Kane and Beach, 2006](#))

The irony here is that the tribute came just two years before the 2008 financial crisis, which ruined Greenspan’s reputation. In October 2008, as the government spent wildly to stave off financial collapse, Time Magazine danced on Friedman’s grave, [declaring](#) “We are all Keynesians now.”

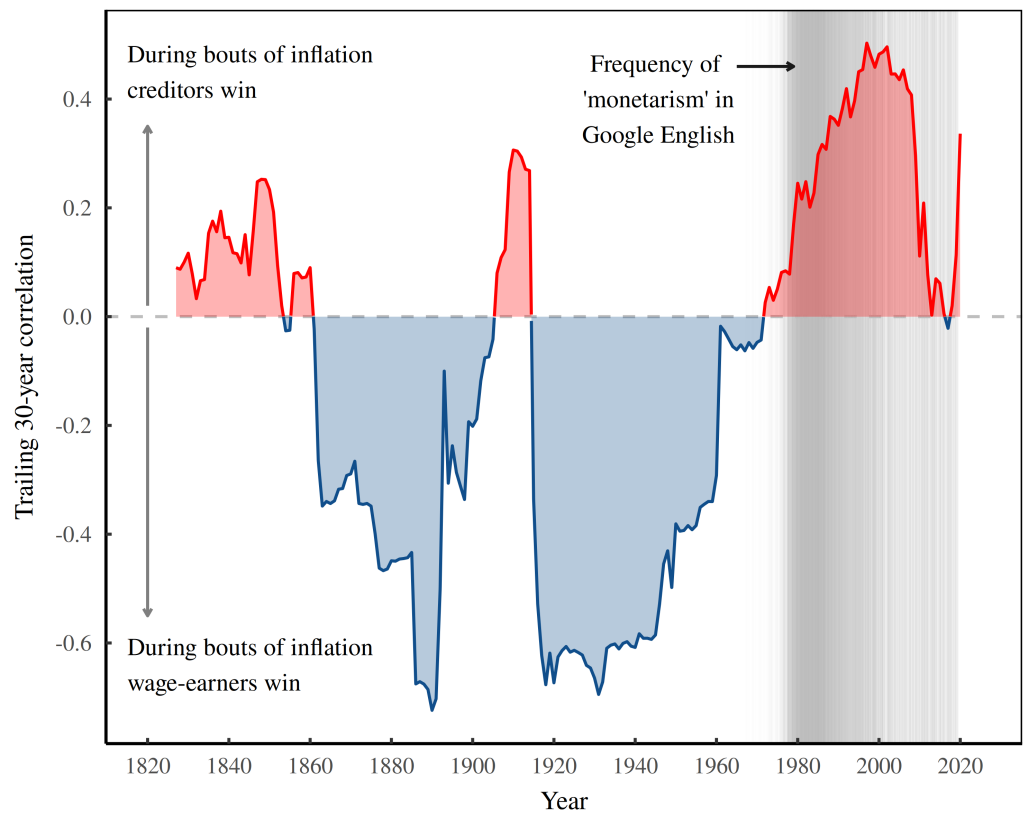


Figure 6: As monetarist ideology spread, inflation began to benefit US creditors at the expense of workers

This figure replots (from Figure 5) the rolling correlation between the inflation rate and the bond-wage growth gap. Beneath the curve, the grey region illustrates the rise of monetarist ideology, as measured by the frequency of the word 'monetarism' in the Google English corpus. Darker grey indicates higher frequency. Evidently the spread of monetarist ideology helped creditors bolster their income during bouts of inflation. [Sources and methods](#)

The rise and fall of the labor movement

Perhaps the main legacy of monetarism is that it put the focus on limiting the *rate* of inflation rather than dealing with the redistributational consequences of the price war.

Here's a case in point. Today, workers assume that inflation is 'bad'. After all, it erodes their purchasing power. But what many workers don't realize is that this erosion is not a feature of inflation; it's a feature of *class struggle*. Wage erosion signals that today, when firms start raising prices, workers lack

the power to bolster their income. Historically, however, this lack of power was not the norm. As the labor movement was heating up in the early 20th century, wage growth far outstripped inflation.

The path to achieving this ‘living wage’ was difficult to implement, but conceptually straightforward. Workers used the sledgehammer of government to raise their income. In the US, the battle came to a head in 1912, after textile workers mounted a [tumultuous strike](#) which prompted the first minimum wage legislation (passed in Massachusetts). A decade later, 15 states had minimum wage laws.¹²

Now, just as the Fed’s monetary policy can change, wage legislation can be bolstered or clawed back, depending on who’s influencing government. So the real story of the labor movement isn’t legislation *per se*, but the cultural transition that came with it.

On that front, we can see the cultural impact of the labor movement by charting the frequency of the phrase ‘labor movement’. It rose during the early 20th century, and fell from the 1970s onward. Unsurprisingly, that’s the same period during which inflation benefited workers at the expense of creditors. Figure 7 tells the story.

¹²It’s worth remembering that the early 20th century, the US Supreme court was [openly hostile](#) to workers and consistently ruled that minimum wages were unconstitutional. In 1935, the court overruled Roosevelt’s first attempt at a federal minimum wage. It took until [1941](#) for the court to deem a federal minimum wage constitutional.

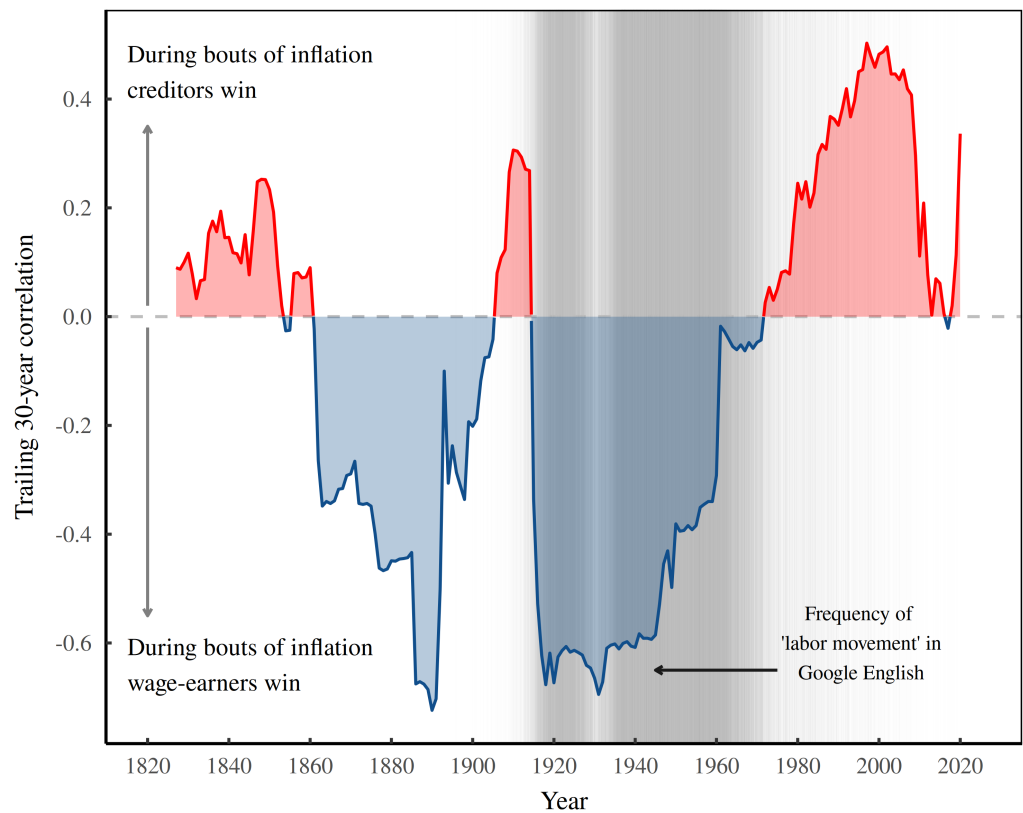


Figure 7: As the labor movement spread, inflation began to benefit US workers at the expense of creditors

This figure replots (from Figure 5) the rolling correlation between the inflation rate and the bond-wage growth gap. Beneath the curve, the grey region illustrates the rise of the labor movement, as measured by the frequency of the term 'labor movement' in the Google English corpus. Darker grey indicates higher frequency. [Sources and methods](#)

The freedom to invest

Looking at the tight relation between the outcome of the worker-creditor class struggle and changes in the social climate, I can't help but think of Milton Friedman's apologetics. When evidence for his monetary policy didn't turn up, it was no problem. The failure simply indicated that his policies worked with considerable delays:

There is much evidence that monetary changes have their effect only after a considerable lag and over a long period and that the lag is rather variable.

([Milton Friedman, 1960](#))

Given Friedman's equivocation, it's ironic that his policies *did* work — and immediately so — but for reasons that he preferred to leave unstated. On that front, Friedman's ideas were part of the wider rise of neoliberal ideology — a movement that professed a faith in 'free markets', yet demanded that the sledgehammer of government be used to crush workers.

And so over the last fifty years, we got a Federal Reserve that, in the face of inflation, acted 'independently' to bolster the return on credit. Tellingly, we *didn't* get an 'independent' Department of Labor that bolstered labor income by hiking the minimum wage. It's almost as if the Fed's 'independence' was code for '[regulatory capture](#)'.

In short, when Friedman proselytized 'freedom', he had in mind the freedom to invest. And that, Nitzan and Bichler [remind us](#), is code for the "*freedom to impose and capitalize power*".

An imaginary blessing

Let's wrap up our story. Because we (modern humans) are immersed in prices, we tend to forget that these numbers are conventions for quantifying our social relations. In other words, we misunderstand the social system which we have created.

In this regard, we are in good company. A basic feature of all ideologies is that they distract people from what's right in front of them. Take the example of divine kings. By evoking the will of god, the king distracts people from the hand of power. And so as the tribute flows in, the king's subjects see a reciprocal flow of divine blessing.

The return on credit operates the same way. When creditors hike the rate of interest, the effect is that their income rises. But to the masses, the move comes in the name of an imaginary blessing — a 'fight against inflation'.

It's a testament to our indoctrination that many people believe these claims. And yet it was not always so. Today's inflation-fighting rhetoric is a recent invention, cooked up at a moment when US workers were winning the price battle and creditors were losing.

On that front, here's a way to inoculate yourself against monetarist bullshit. Define 'inflation' as a general struggle to raise prices. In this light, the 'medicine' of higher interest rates is self-evident poison — a price hike that

bolsters the income of the powerful at the expense of everyone else. It's divine kingship in a new form: a real windfall in the name of an imaginary blessing.

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Sources and methods

US wages

- Wage data for US unskilled workers is from [MeasuringWorth.com](https://measuringworth.com)

US consumer price index

- Consumer price index from 1774 to 1912: Historical Statistics of the United States, series [Cc1](#).
- Consumer price index from 1913 to 2021: Bureau of Labor Statistics, series CUUR0000SA0.

US bond yields

- Bond yields from 1798 to 1959: Historical Statistics of the United States, [Table Cj1192-1197](#) (long-term bond yields). This table contains several series for bond yields, each of which covers a different period of time. To construct the long-term index, I calculate the average (the unweighted mean) of the reported data in each year.
- Bond yields from 1960 to 2022: FRED series [IRLTLT01USM156N](#), long-term government bond yields, 10-year.

Google English corpus

I accessed Google's word frequency data using the excellent R package [ngramr](#).

Further reading

Di Muzio, T. (2022). Do interest rate hikes worsen inflation? *Strange Matters*.
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