Affirmative: Justice

By Josiah Hemp

***Resolved: Economic stability is more important than economic growth***

Many cases this year will focus on the economics of the resolution—which side leads to more prosperity or a better quality of life. This case focuses in on moral issues—is it just to take away someone’s earnings for the sake of artificial growth.
With this case it is very important to keep a few things straight. First, this is not arguing that growth causes inflation. The negative may seek to muddy the waters on this one but the affirmative needs to make very clear that this is not the case. Instead, it is arguing that the Fed believes inflation leads to growth. Thus if growth is valued, inflation will be used, and that will be unjust.
Also, arguments about hyperinflation/runaway inflation are interesting, but not directly relevant to this case. Because it is difficult to prove that the small amount of inflation that is used to spur growth will lead to hyperinflation, it is a difficult argument that valuing growth first will lead to a runaway inflation leading to another Great Depression. That argument could be made, but that is not the argument this case is making. This case is arguing that even on a small scale, inflation harms the most vulnerable.

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Affirmative: Justice

Think of a young man with a family. He works hard in a factory job but makes a small amount of money. Then runaway inflation occurs in his country. His tiny paycheck becomes practically worthless. He and his family face severe poverty.This man is a victim of the central bank thinking they can make people’s lives better. They chose to value growth over stability, and it led to neither stability nor growth. Because it is unjust for the central bank to harm stability by artificially inducing growth that I affirm the resolution, resolved: Economic stability is more important than economic growth.

DEFINITIONS

Economic Stability

Frank Shostak 2019 (Frank Shostak is an Associated Scholar of the Mises Institute. His consulting firm, Applied Austrian School Economics, provides in-depth assessments and reports of financial markets and global economies. He received his bachelor's degree from Hebrew University, his master's degree from Witwatersrand University, and his PhD from Rands Afrikaanse University and has taught at the University of Pretoria and the Graduate Business School at Witwatersrand University.) “Does Economic Stability Contribute to Growth?” The Mises Institute (A economic thinktank that promotes Austrian/Monetarist/Chicago School Economics). https://mises.org/wire/does-economic-stability-contribute-growth

“Economic stability refers to an absence of excessive fluctuations in the overall economy. An economy with constant output growth and low and stable price inflation is likely to be regarded as stable. An economy with frequent boom-bust cycles and variable price inflation would be considered as unstable.”

This means two key things. First, economic stability will have a consistent and constant growth. Second, it will have low inflation.

Economic Growth

*Prateek Agarwal, 2020 (Studied Economics and Business at USC, where he studied economics and business. He started Intelligent Economist in 2011 as a way of teaching current and fellow students about the intricacies of the subject. Since then he has researched the field extensively and has published over 200 articles.) “Economic Growth” Intelligent Economist. April 18, 2020.* [*https://www.intelligenteconomist.com/economic-growth/*](https://www.intelligenteconomist.com/economic-growth/) *Accessed August 22, 2020.*

“The economic growth of a country is the increase in the market value of the goods and services produced by an economy over time.”

Basically, it means a bigger economy.

Inflation

There is one more term we need to define: inflation.

Richard J. Maybury, 2015 (President of Henry Madison Research, Inc. Author, lecturer, and geopolitical analyst. He consults with business firms in the U.S. and Europe. Former Global Affairs editor of MONEYWORLD. His articles have been published in The Wall Street Journal, USA Today, and other major publications. Well known free market economist.) Whatever Happened to Penny Candy? 7th Edition. Published by Bluestocking Press, 2015. Print.

“INFLATION. An increase in the money supply. Causes money to lose value, so prices rise.”

Inflation works like this: the government increases the supply of money. Because of the laws of supply and demand, when there is more money and the same amount of value of products, prices rise. This can be devastating when inflation is too high.

VALUE: Justice

Definition

Noah Webster’s 1828 Dictionary, “Justice.” <http://webstersdictionary1828.com/Dictionary/Justice>. Accessed August 22, 2020.

“The virtue which consists in giving to every one what is his due; practical conformity to the laws and to principles of rectitude in the dealings of men with each other; honesty; integrity in commerce or mutual intercourse. justice is distributive or commutative. Distributive justice belongs to magistrates or rulers, and consists in distributing to every man that right or equity which the laws and the principles of equity require; or in deciding controversies according to the laws and to principles of equity. Commutative justice consists in fair dealing in trade and mutual intercourse between man and man.”

Reason to Prefer: Duty of Government

One might ask, why talk about justice on an economic issue? But economic issues are also moral issues. The government’s first duty is to justice, and thus when formulating economic policies the guiding principles ought to be based on justice.

It was an economist, namely Adam Smith, who said of society,

Adam Smith, 1759 The Theory of Moral Sentiments. Edition Copyright © Jonathan Bennett 2017. Originally Published 1759. <https://www.earlymoderntexts.com/assets/pdfs/smith1759.pdf>. Accessed August 22, 2020.

“What society can’t do is to survive among those who are constantly ready to harm and injure one another. The moment that injury begins, the moment that mutual resentment and hostility kick in, all society’s bands are snapped and its different members are (so to speak) dissipated and scattered around by the violence and opposition of their discordant affections. (If there is any society among robbers and murderers, they must at least. . . .abstain from robbing and murdering one another.) So beneficence is less essential than justice is to the existence of society; a lack of beneficence will make a society uncomfortable, but the prevalence of injustice will utterly destroy it.”

CONTENTION 1: Valuing economic growth over economic stability leads to excessive inflation

Inflation is believed to lead to growth

Now I am not saying that growth causes inflation. Growth is good, and actually limits inflation. But inflation can most certainly lead to short term growth. But more importantly, many *believe* that the central bank and politicians can create growth or “stimulate the economy” through inflation.

Kimberly Amadeo 2020 (President of WorldMoneyWatch, U.S. Economy expert for The Balance. M.S. in Management from the Sloan School of Business at M.I.T. More than 20 years of senior-level corporate experience in economic analysis and business strategy.) “Does the Economy Really Need to Keep Growing Quite So Much?” Reviewed by Michael J. Boyle. The Balance. Updated May 19, 2020. <https://www.thebalance.com/what-is-economic-growth-3306014>. Accessed August 25, 2020.

“A nation's central bank can also spur growth with monetary policy. It can increase the money supply by lower interest rates. Banks make loans for auto, school, and homes less expensive. They also reduce credit card interest rates. All of these boost consumer spending and economic growth.”

Again, increasing the money supply is inflation.

Application: The Fed and interest rates

James Garrett Baldwin, March 16, 2020 (graduate of the Medill School of Journalism at Northwestern University, has a master’s degree in economic policy from The Johns Hopkins University, an MS in agricultural economics from Purdue University and an MBA in finance from Indiana University. 15+ years of experience in financial publishing, competitive and market intelligence, corporate advocacy, and financial planning) “The Impact of Interest Rate Changes by the Federal Reserve.” Investopedia. <https://www.investopedia.com/articles/investing/010616/impact-fed-interest-rate-hike.asp>. Accessed August 25, 2020.

“On September 18, 2019 the Federal Reserve cut the target range for its benchmark interest rate by 0.25%. It was the second time the Fed cut rates in 2019 in an attempt to keep the economic expansion from slowing amid many signs that the slowdown is well under way. Then, at the beginning of the global coronavirus pandemic, the Fed cut interest rates further on March 15, 2020 in a dramatic move to near 0%.

“Why does the Fed cut interest rates when the economy begins to struggle or raise them when the economy is booming? The theory is that by cutting rates, borrowing costs decrease which prompts businesses to take out loans to hire more people and expand production - and the logic works in reverse when the economy is hot. Here, we take a look at the impact on various parts of the economy when the fed changes interest rates, from lending and borrowing to consumer spending to the stock market.”

Essentially, the Fed thinks that by cutting interest rates, the economy will grow. But why? It all comes back to inflation.

In the same article Baldwin writes,

“Inflation is when the general prices of goods and services rise in an economy, which may be caused by a nation's currency losing value or by an economy becoming over-heated -- i.e. growing so fast that demand for goods is outpacing supply and driving up prices. When inflation rises, interest rates are often increased as well, so that the central bank can keep inflation in check (they tend to target 2% a year of inflation). If, however, interest rates fall, inflation can begin to accelerate as people buying on cheap credit can begin bidding up prices once again.”

When interest rates are lowered, it becomes easier to borrow money. This essentially means that there is more money in the system, which means inflation.

CONTENTION 2: Inflation harms

Inflation is stealing

Mahua Paul (Assistant Professor at Institute for Studies in Industrial Development Vasant Kunj, New Delhi), and Pooja Sharma (Phd Scholar at Energy Studies Program, SIS, JNU Assistant Professor Department of Economics, Daulat Ram College, University of Delhi, New Delhi). “Inflation rate and Poverty: Does poor become poorer with inflation?” (February 4, 2019). Available at SSRN: [https://ssrn.com/abstract=3328539](https://ssrn.com/abstract%3D3328539). or <http://dx.doi.org/10.2139/ssrn.3328539>.

“Inflation increases poverty, the problem of poverty is aggravated when the prices of commodities increase. Inflation is therefore considered as ‘cruelest tax ‘on the poor. Cardoso (1992) argued that inflation increases poverty in two ways: Inflation tax reduces disposable real income. Another reason is that when nominal wages increase less than the price of goods consumed by wage earners then automatically the worker’s real wages decline. The author evidently showed that the main effect of inflation on poverty was through real wages. Increased level of inflation resulted in increased poverty. It is, therefore, crucial to examine the trends in the pattern of inflation.”

Think about this: a poor man works a minimum wage job at Home Depot. He has a wife and three kids, and they struggle to pay rent and buy groceries. But he is working hard and doing a bit of overtime, and they are making it work. But then the government decides that they need to “stimulate” the economy. So they cause inflation. Now the Home Depot continues to pay the man minimum wage. But his rent and grocery bills go up.

For many, the little amount of money that is lost by inflation is no big deal. But for some, it destroys their hard-earned livelihoods. This is stealing. And stealing is unjust.

CONTENTION 3: The other way

We can have growth—but stability must come first

Of course, we should have growth too. But when we value stability first, we can have both.

FEDERAL RESERVE BANK OF SAN FRANCISCO. “Does inflation hurt long-run economic growth?” (June 1998). <https://www.frbsf.org/education/publications/doctor-econ/1998/june/inflation-economic-growth/>. Accessed August 25, 2020.

“There are a number of reasons to think the answer is yes. First, inflation creates distortions in economic decisions concerning saving and investment when the tax system is not fully indexed to inflation. An example of such a distortion is the mortgage interest deduction. It becomes more valuable and induces more (over-) investment in housing at higher rates of inflation, since higher inflation leads to higher nominal mortgage interest rates. Second, there are so-called "shoe-leather costs" of holding money. When inflation is high, currency and non-interest bearing checking accounts are undesirable because they are constantly declining in purchasing power. People will use valuable economic resources (including their time and "shoe leather") to economize on their holdings of such money balances.”

When growth is valued as the ultimate goal, the government will create policies such as inflation that will harm people directly, but also will not lead to long term growth. It is a failure in two ways. When stability is valued, the central bank will seek to avoid inflation. This will prevent the injustices occur from inflation. But there is one more thing…

Stability means constant growth

Frank Shostak 2019 (Frank Shostak is an Associated Scholar of the Mises Institute. His consulting firm, Applied Austrian School Economics, provides in-depth assessments and reports of financial markets and global economies. He received his bachelor's degree from Hebrew University, his master's degree from Witwatersrand University, and his PhD from Rands Afrikaanse University and has taught at the University of Pretoria and the Graduate Business School at Witwatersrand University.) “Does Economic Stability Contribute to Growth?” The Mises Institute (A economic thinktank that promotes Austrian/Monetarist/Chicago School Economics). https://mises.org/wire/does-economic-stability-contribute-growth

“Economic stability refers to an absence of excessive fluctuations in the overall economy. An economy with constant output growth and low and stable price inflation is likely to be regarded as stable. An economy with frequent boom-bust cycles and variable price inflation would be considered as unstable.”

In a country that favors stability, not only will low income workers not have their wage decreased by inflation, but they will have more opportunities as the economy continues to grow. It will be a country where everyone justly is able to receive the reward for their work, and it will not be stolen by inflation.

Negative Counter-Brief: Justice

The affirmative case rests on the claim that inflation is something that is very bad, and that the kind of inflation that the Fed uses to stimulate the economy will substantially harm poor people. This rebuttal focuses especially on that claim, and also points out what could be argued is an inconsistency in the Affirmative’s case.

Inflation does not lead to growth

My opponent admitted that inflation does not actually lead to growth. Here is what he said:

FEDERAL RESERVE BANK OF SAN FRANCISCO. “Does inflation hurt long-run economic growth?” (June 1998). <https://www.frbsf.org/education/publications/doctor-econ/1998/june/inflation-economic-growth/>. Accessed August 25, 2020.

“There are a number of reasons to think the answer is yes. First, inflation creates distortions in economic decisions concerning saving and investment when the tax system is not fully indexed to inflation. An example of such a distortion is the mortgage interest deduction. It becomes more valuable and induces more (over-) investment in housing at higher rates of inflation, since higher inflation leads to higher nominal mortgage interest rates. Second, there are so-called "shoe-leather costs" of holding money. When inflation is high, currency and non-interest bearing checking accounts are undesirable because they are constantly declining in purchasing power. People will use valuable economic resources (including their time and "shoe leather") to economize on their holdings of such money balances.”

Since my opponent admits that inflation HARMS growth, it does not make sense that a inflation would be used to cause growth. Yes, the definition of stability explicitly says that there is not inflation in a stable economy. But inflation is not an example of a harm that comes by valuing growth.

(low) Inflation is not that bad

Timothy B. Lee April 14, 2012. (Timothy B. Lee was a staff writer and later adjunct scholar at the Cato Institute. He covers tech policy for Ars Technica and blogs at Forbes​.com. He has written extensively about copyright and patent law, civil liberties, online privacy, and network neutrality regulation. His writings have appeared in numerous publications, including the New York Times, Slate, Wired​.com, and Reason magazine. While earning his master’s degree in computer science at Princeton, he was the co‐​author of RECAP, a software project that promotes public access to federal court records.) “Why Inflation Isn’t a Moral Issue” <https://www.cato.org/publications/commentary/why-inflation-isnt-moral-issue>. Accessed August 27, 2020.

Clearly, really high levels of inflation have devastating economic consequences, as Weimar Germany and modern‐​day Zimbabwe have discovered. But so long as inflation is kept at the moderate, largely single‐​digit levels Western democracies have seen in recent decades, moralizing about inflation simply doesn’t make sense. There’s no particular reason to prefer an inflation rate of 0 to a 2 percent or 4 percent inflation rate, and indeed, the latter may have important advantages.

Recent increased money supply has not led to increased prices

Federal Reserve Bank of Philidelphia, August 14, 2020 “Short-Term and Long-Term Inflation Forecasts: Survey of Professional Forecasters” <https://www.philadelphiafed.org/research-and-data/real-time-center/survey-of-professional-forecasters/historical-data/inflation-forecasts>. (Under the downloadable spreadsheet “One-Year-Ahead and 10-Year-Ahead Inflation Forecasts from the Survey of Professional Forecasters”) Accessed August 26, 2020.

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| --- | --- | --- | --- | --- |
| **YEAR** | **QUARTER** | **INFPGDP1YR** | **INFCPI1YR** | **INFCPI10YR** |
| 2020 | 1 | 1.93 | 2.16 | 2.20 |
| 2020 | 2 | 1.37 | 1.86 | 2.14 |
| 2020 | 3 | 1.52 | 1.77 | 2.03 |

The “INFCPI1YR” is the Inflation in terms of the Consumer price index per one year. This means that in the first quarter of 2020, inflation was at 2.16%. Then it dropped to 1.86% and then 1.77%. Two percent is considered a safe inflation rate. This is normal inflation. This means that what the affirmative claims about the Fed cutting income rates harming poor people by severely raising prices is inaccurate.

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