

essential differentiation, clearly formulated !

NEWLY REVISED  
Perpetua & Felicitas MMV

; -}} another masterpiece in argumentation

## CAUSES AND CONDITIONS OF INFLATION<sup>1</sup>

Printed in: *Acta Monetaria*, Yearbook of Monetary System and Monetary Policy, vol. 1 (1977), page 131 to 133.

(1) With the monetary inflation in most countries during recent years there corresponds an inflation of literature to explain the increase of price level. So we are faced to-day with a lot of theories each of which tries to show how one or more factors bring about an inflation. In general these factors are called "causes". So cost-push, demand-pull, increasing velocity of money, changes in the quantity of money, alterations of the socio-economic framework, counter-entropical forces<sup>2</sup> and others are regarded as "causes" of inflation.

(2) Let us first refer to the classical concept of cause and distinguish between the *material cause* and the *efficient cause* as shown in table 1.

Table 1

Cause	
That which brings about any I strike a match to smoke a cigar	that which is brought about, or change the effect The cigar is burning
<b>Material cause</b> (CAUSA OCCASIONALIS) Power to act Inflammability of the match	<b>Efficient cause</b> (CAUSA EFFICIENS) Impulse which activates this power Striking the match

<sup>1</sup> I would like to thank *Professor Ronald H. Preston* (University of Manchester) for his suggestions on an earlier draft.

<sup>2</sup> See *Daloz (1974)* and the critics of *Merk (1975)*.

(3) The relation of cause and effect is always influenced by *circumstances*. Some incidental circumstances are of no importance for the event. Circumstances which are essential to the outcome are *conditions*. (A condition could also occur as a negative event. When I strike a bell it gives forth a ringing sound. But if a stiff body touches the bell then the sound is damped). There are conditions which make possible the action of the cause and without them there would be no effect. Dew is brought about by condensation of water vapour from the air into the surface of objects freely exposed to the sky. But this does not occur always but only under special conditions: the air must be calm and the night dear. The logical name for this condition is *necessary condition*; see table 2.

Table 2

<b>Circumstance</b>
That which exists or occurs incidentally to some event The time at which I strike the match; the place where I do so; etc.
<b>Condition</b>
Circumstances which influence the event The type of wood of the match; my way of rubbing the match; etc.
<b>Necessary condition</b>
Circumstance, in the absence of which the event would not occur If I fail to rub the appropriate part of the match-box or if the match is not dry the flame does not result.

(4) Of course we know that from the viewpoint of philosophy the causal principle is a problematic and questionable one. Nevertheless the logical distinction between cause and necessary condition leads to a dearer insight into that what generally is called "causes" of inflation.

(a) Cost-push, demand-pull, and demand-shift are to be regarded as *the material causes*.<sup>3</sup>

---

<sup>3</sup> See Zebot (1961), p. 354.

(b) An enlarging quantity of money or an increasing velocity of money are *efficient causes*.

(c) A *necessary condition* of inflation is that the additional created demand is directed to resources of the country concerned, leading to bottlenecks in some or all branches of the economy.

(5) To discriminate between the producing cause, the acting cause, and the necessary condition of inflation clears up most of the confusion occasioned by the discussions of the New Quantity Theorists. It also shows that limiting the quantity of money by the central bank is an adequate instrument. Though this is no *causal* therapy which would fight the material cause, the central bank by this policy engages in a *symptomatic* therapy which fights the *efficient* cause.

### References

Jean-Pierre Daloz (1974). "Inflation et entropie du système économique". *Économie Appliquée*, 27 (1974), 5 – 26.

Gerhard Merk (1975). "Die 'Ursachen' der Inflation". *Monatsblätter für freiheitliche Wirtschaftspolitik*, 21 (1975), 276 – 278.

Cyril A. Zebot (1961). "Toward an Integrated Theory of Inflation in the United States". *Weltwirtschaftliches Archiv*, 87 (1961), 351 – 371.

Money has little value to its possessor unless it also has to others.