1. Introduction

Inflation presupposes the existence of money, which evolved as an unplanned social institution by a number of inventions and innovations during a period of perhaps 2500 years. It was fully developed with the introduction of coins in Lydia and Ionia about 630 BC, and in China at about the same time.

It follows that inflation cannot be older than money. But it seems that especially rulers soon detected the potential to increase their revenues by tampering with its value. Already in antiquity we know of many cases of lowering the intrinsic metallic value of coins for this purpose. Examples are the minting of bad coins by Athens during the Peloponnesian War (Aristophanes, *The Frogs*, 719–37) or by Rome during the Second Punic War, especially from 217 BC (Heichelheim 1955, p. 503).

The damage and suffering caused by inflation during the course of history are enormous. Still, the worst excesses of inflation occurred only in the 20th century. This development was a consequence of the further technical development of money from coins to paper money and book money together with changes in the monetary regime or constitution ruling supply and control of money.

The use of the word *inflation* for an expansion of the money supply or an increase in prices, quite in contrast to the first occurrences of inflation as historical events, is of rather recent origin. The term derives from the Latin *inflare* (*to blow up or inflate*) and was first used in 1838 in the context of an inflation of the currency, according to the Oxford English Dictionary (1989). During the following years until 1874 it was also employed for an inflation of credit and an inflation of prices. This meaning of the word seems to have been strengthened during the American Civil War (1861–65), when the gold dollar was supplanted by the greenback, a paper money issued by the Government, which soon lost part of its value.

We will use the term ‘inflation’ only for an increase of the price level extending over a longer period, usually several years, as measured by one or several price indices. It follows that we do not consider the increase of the prices of a small group of goods like that of oil and its derivatives or of food caused by a bad harvest as inflation. In an inflation all or at least most prices rise according to this definition.

History has seen inflations of very different magnitudes, ranging from the
so-called price revolution of the 16th century, which was caused by the inflow of gold and especially silver looted and mined by the Spaniards in Latin America, to the biggest paper money inflation of all times in Hungary after World War 2. Whereas the former implied only an average annual increase of the price level by about two per cent over a period of nearly one hundred years, the latter led in a limited period of six years up to rates of inflation of about 350 per cent per day in the summer of 1946. Because of these different orders of magnitude it has become customary to speak of creeping or mild inflation, of galloping and accelerating inflation, and of high and hyperinflation, though mostly no clear delimitation of these terms has been offered. An exception is the definition of hyperinflation introduced by the American economist Philip Cagan (1956), which is present in all cases in which monthly inflation has reached in at least one month 50 per cent or more. It is convenient to adopt this somewhat arbitrary convention, which is arbitrary since many other high inflations show the same qualitative characteristics, as we will see. In this book, therefore, hyperinflations will be seen as extreme cases of high inflations. We will also employ the term moderate inflation. The borderline between this type of inflation and high inflations will be defined with the help of the real stock of money, as given by the stock of money divided by the price level and corrected by the growth of Gross Domestic Product, GDP. Whenever this corrected real stock of money declines during an inflationary process, high inflation begins according to our definition. It is true that this definition does not provide a clear dividing line in terms of a percentage inflation. But it has the advantage that it points our attention to the time from which the public tries to escape the loss of value of their money by reducing its use by a flight into other currencies or commodities.

The following chapters of this book will turn first to the description of empirical historical facts concerning inflations. In doing so we will especially analyse the qualitative characteristics of high inflations. By looking at these facts it will be relatively easy to explain political and economic causes of inflation, and to present a macroeconomic model of the latter relationships. A study of how inflations can be successfully ended concludes the book.

REFERENCES
