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Bidenflation Rages


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When Joe Biden moved into the White House in January 2021, the annual inflation rate was reported at 1.4 percent. In less than a year, that number jumped fivefold — the yearly rate of inflation as measured by the Consumer Price Index (CPI) climbed to seven percent in December. The rate has not been that high since June 1982.

Inflation can pack a huge wallop. A fellow who was once known to be as phony as a three-dollar bill is now up to fifteen dollars.

Even the methodology used to create the Consumer Price Index has been altered to minimize the appearance of inflation's influence, making long-term comparisons more difficult. The CPI, notes Alfredo Ortiz (president of Jobs Creation Network), no longer "directly measures housing prices, which were part of the index until 1983. This omission means that the current CPI doesn't fully account for housing prices that have increased by 19.5% over the last year. According to economist Peter Schiff, if the CPI still included housing prices, it would be growing at around 11% rather than 6.8%."

According to a recent analysis by the Penn Wharton Budget Model, low- and middle-income American households spent about seven percent more in 2021 for the same products they bought in 2020 or in 2019. The gloomy experience is becoming known as "Biden's pay cut."

In other words, if Bidenflation were computed more truthfully, it would be Jimmy Carter-esque.

Expanding the Money Supply

There is no doubt that we have an inflation problem, yet part of the difficulty in understanding it lies with a general misunderstanding as to its definition. While increases in the prices of groceries, energy, wages, and other products and services are certainly related to inflation, those are *effects,* not the prime driver.

Here's a clear dictum in the words of famed economist Milton Friedman: "Inflation is always and everywhere a monetary phenomenon."

Often, however, in common use or in shorthand fashion, the meaning gets conflated or equated with all sorts of increases — to include the bumps in the government's Consumer Price Index, rises in gasoline prices, jumps in the cost of healthcare, and so forth. Yet, strictly speaking, inflation refers to the drop in the purchasing power of currency that results when a central bank expands the money supply. To be brief, the Fed prints more money.

Federal Reserve Bank officials know this, and they used to admit it on occasion — but not very often these days. Indeed, last February, Fed Chairman Jerome Powell said during testimony to Congress that the growth in the money supply (specifically the broad measure known as M2) "doesn't really have important implications." That's telling.

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Daniel Lacalle, a professor of global economy at IE Business School in Madrid and a best-selling author, was much more candid for Mises.org not too long ago:

> Inflation is not the Consumer Price Index (CPI). Inflation is the loss of purchasing power of the currency that leads to a persistent rise in most prices regardless of their sector, demand, supply, or nature, and is a direct consequence of the wrongly termed expansionary monetary policy. Inflation is a direct cause of currency debasement.

Treating inflation as if it were a mysterious fluke also tends to keep the public in the dark. Steve Hanke and John Greenwood, in multiple pieces last year in the *Wall Street Journal*, shed light on the subject, even while pointing out that mainstream media's reporting "about U.S. inflation rarely contains the words 'money supply.' We are repeatedly told that the most recent upticks in inflation are anomalous and 'transitory.'" That's incorrect, as the pair recognized. (Hanke is a professor of applied economics at Johns Hopkins University in Baltimore; Greenwood is chief economist at Invesco in London.)

They are also on target in saying that "the inflation upticks aren't temporary and were predictable, driven by an extraordinary explosion in the money supply." The economists are similarly spot on in observing how the media ignores the immediate instigator of inflation. For an example, we offer a *New York Times* article that appeared (in print) on December 25, purporting to be "Inflation 101: Stark Facts and Nuances." The entire piece of nearly 1,700 words did not use the words "money supply" a single time. That's telling, too — by not telling.

Last fall, Hanke and Greenwood likened the monetary expansion during the early months of the COVID-19 pandemic to opening a gusher from a faucet, saying:

> Between December 2019 and August 2021, the U.S. money supply, measured by M2, grew by $5.5 trillion, a stunning 35.7% increase in only a year and a half, driven primarily by the Fed's purchases of Treasurys and mortgage-backed securities. [Author update: As of December 2021, the Fed had increased the money supply more than 40 percent over the previous two years.] In light of anticipated Federal Reserve tapering, we estimate that by the end of 2024 the money supply will grow another $5.1 trillion.

Persistent, not transitory, inflation "will be with us for the next two to three years," as the two economists put it. And that is assuming that the Fed counters its previous actions immediately.

Scapegoats, Summers, and Pseudo-stimuli

Washington, of course, affects supply and demand in multiple ways — usually to our detriment. (State governments often do likewise.) As a result, prices change. For example, the Biden administration's interference affects transportation and energy production, lockdowns harm production, and unemployment rates are exacerbated by paying people excessively to not work.

Rather than doing the right thing, or even stopping its harmful practices, the Biden administration and its allies (notably including Massachusetts Senator Elizabeth Warren) have been looking for diversions and others to blame for the inflationary damage. Warren, for instance, has blasted major oil and gas producers, as well as grocery chains, for dastardly "profiteering." While she gets positive left-wing publicity for trying to scalp the food-distribution chiefs, Warren ignores the facts to do so. “Big Grocery,” as has been explained by *National Review* writer David Harsanyi, “is one of the *least* profitable major businesses in the United States, with average margins coming in at a little over 2 percent.” (Emphasis in original.)

Looking everywhere but in the mirror, the president has sicced the Federal Trade Commission on oil and gas companies, alleging that their “anti-consumer” behavior was responsible for inflated gasoline costs. The Federal Maritime Commission was directed to look for “price gouging” by shipping companies said to be implicated with the troubled supply chain.

In addition, Biden employed executive authority against alleged unfair practices in the agribusiness industry, directing the Department of Agriculture to investigate large meatpacking companies, and calling for new rules under the Packers and Stockyards Act. This came, as it happens, after passage of the massive $1.9 trillion stimulus package known as the American Rescue Plan — which included awarding around $600 million in new subsidies to the meat industry. Then in January 2022, the president threw more money at the situation, pledging $1 billion to smaller meat and poultry companies (Little Meat?) as part of his blame game against Big Meat for higher prices.

All of this is more than a distraction, it’s also counterproductive.

The *Wall Street Journal* quoted a spokeswoman from the North American Meat Institute, who explained that

> labor remains the biggest challenge for the industry and that meat companies can’t operate plants at full capacity because they struggle to employ a long-term stable workforce. “New capacity and expanded capacity created by the government will have the same problem,” she said.
>
> The U.S. Chamber of Commerce said the Biden administration’s plan could further constrain supply and push prices higher.
>
> “It is pretty clear that the administration is attempting to use higher prices to justify their pre-existing agenda to overturn decades of bipartisan consensus around antitrust and competition policy in favor of a ‘government-knows-best’ regulatory approach,” said Neil Bradley, the group’s executive vice president and chief policy officer.

Administration efforts were doomed to fall flat from the start — a point obvious to one prominent “liberal” economist in particular. A veteran of the Obama and Clinton administrations, former Treasury Secretary Larry Summers has publicly taken Biden to task for his “antitrust” actions — supposedly against inflation — pointing out that such efforts are more likely to cut supplies and reduce innovation. (By contrast, the establishment leftist *New York Times* applauded. A front-page piece on December 26 was headlined “As Prices Rise, Biden Deploys Antitrust Team,” with the subhead celebrating the search for “Gouging by Big Business.”)

In February 2021, Summers wrote in a *Washington Post* op-ed that the massive spending package could help overheat the economy. He warned that a “macroeconomic stimulus on a scale closer to World War II levels than normal recession levels will set off inflationary pressures of a kind we have not seen in a generation, with consequences for the value of the dollar and financial stability.”

Summers kept up his efforts. This was recapitulated well by Issues & Insights (though the publication acknowledged not being a long-term fan of the economist):

> In March, after Biden had signed his $1.9 trillion monstrosity into law, Summers called it "the least responsible macroeconomic policy we've had in the last 40 years."
>
> In May, he said that "Whatever was the case a few months ago, it should now be clear that overheating — not excess slack — is the dominant economic risk facing the U.S. over the next year or two."
>
> It's important to point out that Summers' predictions came before the (unexpected) return of COVID and before the supply chain bottlenecks and shortages gripped the nation — both of which are now getting blamed for the inflation surge.
>
> It's also important to point out that, despite what Biden kept saying, the economy didn't need rescuing. The nation's GDP had almost completely recovered from the COVID lockdowns by March, and unemployment was tumbling. What's more, vast amounts of money for the previous two COVID stimulus bills under President Donald Trump still hadn't been spent.

A recent tweet by Harvard economist Summers is likewise blunt: "The emerging claim that antitrust can combat inflation reflects 'science denial.'" There are, he maintained, "many areas like transitory inflation where serious economists differ. Antitrust as an anti-inflation strategy is not one of them." As reported by MarketWatch in late December, Summers also explained that "there's been little change in corporate concentration as U.S. inflation soared this year to the highest level since the early 1980s."

Inflation, as it happens, doesn't affect everything: After all, we still have two-bit politicians. Reading the notes given to him, Biden has continued to claim that even more deficit-financed spending will — somehow — cut prices.

Still, according to the International Monetary Fund, we are tops — after a fashion: Among the top 35 developed nations, the United States has the highest level of inflation.

Even More Deficits, Debt

Facing all that, the Biden administration still wants to throw more gasoline on the inflationary fire — figuratively, of course, since such fossil fuel is reputedly an enemy of the People and Mother Climate. More deficit spending is planned. Much more. This follows the post-pandemic package (about 15 percent of GDP, beyond the New Deal's response to the Great Depression), the $1.9 trillion stimulus bill, and a $550 billion infrastructure bill.

Sadly, subsequent generations will learn the value of the dollar when they have to pay the resultant debt.

Manhattan Institute senior fellow Brian Riedl lays out the encapsulated pain that is still in the works. The proposed (albeit struggling) program called

> Build Back Better ($3 trillion in deficits assuming Congress repeals the fake expiration dates), and new discretionary spending ($1 trillion over the decade) would add up to $6.5

> trillion in additional ten-year debt from one year of legislation. This is quadruple the cost of the 2017 tax cuts, and it exceeds 20 years of domestic and international costs related to the war on terrorism. Nor are Democrats finished yet, as President Biden still has campaign pledges related to health care, Social Security, education, and other areas that would add an additional $3 trillion in debt.
>
> This deficit spending would take place on top of growing baseline deficits and push the national debt — less than $17 trillion before the pandemic — past $44 trillion a dec-ade from now.

As it is, as computed by the Congressional Budget Office, the wizards in Washington have already approved of spending that projects a stunning $112 trillion in additional baseline deficits over the next three decades. That would push the national debt beyond 200 percent of GDP.

It would be comforting to think this couldn't happen here. And wrong. Inflation, you see, also means that the buck doesn't stop anywhere. Disaster, however, is not inevitable. What is vital is to stanch the bleeding: End Washington's excessive, largely unconstitutional spendathon.

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