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Inflation Fears Spike Amid Federal CCP Virus Spending Explosion but Economists Divided on What's Ahead

Mark Tapscott

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When Congress enacted the $2.2 trillion Coronavirus Aid, Relief and Economic Security Act (CARES), numerous experts warned that inflation always follows when government dumps massive amounts of new money into the economy

Typical of such warnings was the April 23 Wall Street Journal op-ed headlined "Get Ready for the Return of Inflation" in which economist Tim Congdon called the CARES measure an "over-reaction" that ensures America will "soon see an inflation boom."

On the same day, economic analyst Martin Hutchinson, writing in National Review, predicted inflation will hit "low double digits in the United States by the first months of 2022." The country hasn't had double-digit inflation since December 1981 when it reached 10.3 percent.

April's steep hike in food costs — the biggest monthly increase in five decades — seemed to validate such fears. Consumers paid 4.3 percent more for meat, poultry, eggs and fish, 1.5 percent more for fruits and vegetables, 2.9 percent for non-alcoholic beverages, and 2.9 percent more for baking products and cereals.

But the same April Bureau of Labor Statistics (BLS) report made public May 12 that highlighted costlier food also said the overall Consumer Price Index (CPI) declined 0.8 percent.

And the next day, the BLS Producer Price Index report for April showed a 1.5 percent seasonally adjusted decrease, the largest since the measure was introduced in 2009.

One month of data doesn't make a trend either way, of course, but it was certainly enough to give advocates on both sides of the inflation issue conflicting facts to ponder.

Clouded Crystal Ball

Not everybody sees an inflationary Hell around the next corner. In a recent post entitled “Return of the Inflation Mongers,” George Selgin, director of the Cato Institute’s Center for Financial and Monetary Alternatives, dismissed predictions of imminent disaster, citing Congdon and analyst Hutchinson.

Selgin, who is also Professor of Economics Emeritus of the University of Georgia, noted in an April 27 post on Alt-M that Hutchinson wrote in his National Review analysis that “here we have around 20 million people who have been forcibly prevented from working by the government and the coronavirus.

“At least in the short term, there is no way to put them back to work and make them productive. The output they would have produced is lost forever; a restaurant meal not served in April cannot be served in August.

“Hence the extra money inserted into the economy has no goods to buy. That is the position we had in World War II — ‘too much money chasing too few goods.’ It caused inflation.”

Importantly, Hutchinson also conceded that his crystal ball is “clouded.”

Opposite Directions

Recent interviews with economists and other analysts by The Epoch Times suggest Hutchinson’s isn’t the only cloudy crystal ball, because the CCP Virus pandemic — also known as the novel coronavirus — and the nationwide lockdowns it prompted have sparked multiple economic reactions, including some pulling in opposite directions.

On the one hand, the economy is contracting, with 33 million unemployed Americans, as millions of small businesses are closed and may never reopen, scores of factories are idle and retail outlets are shuttered. The economy shrank 4.8 percent in the first quarter alone.

On the other hand, Congress has approved an estimated $4 trillion in pandemic relief measures, with a result, Hutchinson pointed out, that the money supply expanded 7.7 percent in the six weeks ending April 2. If the inflation rate corresponded to this increase in the money supply, over a year that would be 90.4 percent.

But Selgin sees a temporary reprieve in the opposing trends, telling The Epoch Times that he doesn't "want to create the impression there is nothing to worry about. That's not true … we have a lot of sensationalist reporting on both sides, though mostly on the inflation side. That tells us that maybe we don't have to worry about either."

Selgin insisted, however, that "we're only safe for about six or seven months. After that, we'll have to start to worry more about inflation." Over the long-term, Selgin said he is optimistic that the Federal Reserve Board (FRB) "will beat deflation."

Norbert Michel, an economist who is also director of the Heritage Foundation's Center for Data Analysis, agreed, telling The Epoch Times inflation "is not an immediate concern" that outweighs the pandemic response.

"Any time you have a crisis like this where the demand for money goes up and people are just holding on to money and not spending it, you should not, if you're the central bank, you should not worry about inflation, you should try to prevent a collapse."

But, Michel cautioned, "there is a limit and unfortunately nobody knows what it is and there is a length of time that you can get away with it and a point in time when it comes back to bite you, but nobody knows exactly when that hits."

American Institute for Economic Research (AIER) Senior Fellow Richard Ebeling told The Epoch Times that "looking to the end of 2020 and then into 2021, if you assume A and you assume B, I just don't see how we're not going to see the emergence of some significant price inflation looking that far ahead."

Ebeling is the BB&T Distinguished Professor of Ethics and Free Enterprise Leadership at The Citadel.

He cautioned that any increase in inflation would be greatly affected by the degree and speed with which states loosen up their economies, the pace of returning employment and production, and the impact of federal policies like the extra $600 in weekly unemployment benefits.

Politization

Both Ebeling and Michel pointed to what they consider an even bigger long-term economic and political problem resulting from the official responses to the CCP Virus pandemic, the politization of the FRB.

Ebeling said the FRB "played a trick" during the Great Recession of 2008 with what was called "quantitative easing" and the creation of an estimated $4 trillion created in the banking system.

"Many of us then asked, 'how can you create so much money, and then it multiplies through the banking system without having price increases." But, of course, it didn't," he said.

The reason inflation didn't come about then was because the FRB created the new money in the banks, but then paid them a higher interest rate to hold on to it, according to Ebeling.

Asked if he is comfortable with the expanded role of the FRB in making loans to particular businesses, Ebeling said he thinks "institutionally, this is a disaster. It is so threatening to set precedents of micromanaging politization of lending and political decision-making in who you support for business."

China's central bank, which micro-manages that nation's economy "as a totally politicized financial market, which means it's not telling the truth about real supply and demand, what the real cost of borrowing could or should be," he said.

The FRB's expanded role via the pandemic response is "creating a political lending institution rather than a market-based lending institution," he said.

Michel agreed, saying "this puts [the FRB] in a terrible position because "now it has Maxine Waters and Ted Cruz, anybody, can say" a specific firm or group should get money from the FRB without worrying about inflation.

"I'm not saying it won't get reversed and it won't be kept under control, but you're a heck of a lot closer now to a bigger problem," Michel warned.

Contact Mark Tapscott at Mark.Tapscott@epochtimes.nyc