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Big spending policies fuel inflation

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In a stable economy, the only people who chatter about "supply chains," the "money supply" and "inflation" are economists. These days, almost every American is talking about these concepts after experiencing sticker shock at the grocery store and gas station. The shock is even worse for people shopping for big-ticket items such as homes or vehicles.

The data backs up public perceptions. Bureau of Labor Statistics data "shows fuel oil prices are up 59.1 percent, and energy prices are up 30 percent over the last year," according to a Time magazine report. "Food prices have also increased by 5.3 percent year over year," with prices up nearly 12 percent for meat, poultry and fish.

Overall U.S. inflation rates are up by 6.3 percent, which sounds manageable until one zeroes in on specific industries. Used-car prices are up an unimaginable 39 percent from last year – and home prices are up 24 percent since the beginning of the pandemic. If you don't think your earnings are going very far these days, you're not imagining it.

News reports have pinned the blame on COVID-related economic disruptions. Disruptions at factories in Asia certainly contributed to the backlog at the ports of Los Angeles and Long Beach, which has led to shortages in consumer goods as they languish on containers in idling vessels.

The automobile situation is unusual, as a shortage of microchips – caused largely by slowdowns in the semiconductor business at the start of the pandemic – has led to largely empty dealership lots. That in turn explains those eye popping prices for that "like new" SUV with 50,000 miles on the odometer.

But there's a deeper explanation. Different sectors of the economy always experience ups-and-downs based on specific supply and demand issues, but price increases have taken root across the economy. That in fact is the definition of inflation – "a persistent rise in the general level of prices," as the Cato Institute's James Dorn explained.

That generalized rise in prices is due, in large measure, to the federal government's profligacy. "Inflation is a quiet but effective way for the government to transfer resources from the people to itself, without raising taxes," wrote economist Thomas Sowell. The government has nearly $29

trillion in debt. When it prints money, it reduces the value of the money that already is in circulation.
An October study by Congress' Joint Economic Committee explained that, "rising inflation may be the direct result of government stimulus, which significantly increased household income and demand at a time when labor markets and other business functions remain below their pre-pandemic strengths."

For example, the cost of labor has risen as the government has provided stimulus dollars to U.S. households. Why work for $20 an hour if the government is providing workers with money to stay home? Or let's use a simple example. If the government provided, say, a $10,000 subsidy for people to buy cars, consumers would rush out to buy them – and car prices would obviously go up precipitously.

President Joe Biden has argued that federal spending actually "will enhance our productivity – raising wages without raising prices" and "won't increase inflation." The evidence suggests otherwise. Because the president and Congress don't recognize the connection, we expect that Americans will be discussing this issue for the foreseeable future.