

An Inflation Primer

If it feels like your dollar doesn't go as far as it used to, you aren't imagining it. The reason is inflation, which describes the gradual rise in prices and slow decline in purchasing power of your dollars over time. The impact of inflation may seem small in the short term, but over the course of years and decades, inflation can drastically erode the purchasing power of your savings. In this issue, Operation Wildfire looks at inflation, its impacts and the path to resolution.

Inflation is influenced by those you elect to represent you in Harrisburg and in Washington, DC. On May 25, 1961, President John F. Kennedy announced to Congress America's intention to land a man on the moon and return him safely to earth before the end of the decade. President Kennedy didn't say we would do that tomorrow, or even the next year. He recognized that it would take time, and there would be fits and starts, but he had a plan. On July 20, 1969, Neil Armstrong became the first man to set foot on the moon.

As you continue to read this issue paper, remember that we don't elect the cabinet secretaries, but we do elect the individual who will nominate them and a Senate that will confirm them in both Harrisburg and in Washington, DC. It's important that we choose wisely.

So how much longer will our elected representatives continue to impede progress, forcing change without considering the consequences? Or, when will they begin to work together to change course and take a page from President Kennedy's playbook, creating long-term opportunities? Will it take an election to make the change?

Here's a quick look at a day in the life of one member of the Wildfire team:

Recently I was reminded not once, but numerous times, about the immediate impact of inflation—dramatically higher prices!

I headed to the grocery store to pick up a few items. Here's what I noticed immediately. Traditional retail pricing levels used to hover around \$1.99, \$2.99, and \$3.99 each or per pound. Now, the price points are \$4.99, \$5.99, and \$6.99 for the same products. As my mentor in business reminded me over fifty years ago, "The tomatoes are not worth more, your dollar is worth less." The quick trip for a "few things" cost over \$74.00!

After leaving the store, I stopped to put gas in my car. The price was \$83.60 at \$4.799 per gallon. When I arrived home, there was an envelope on my door knob. It contained a bill from the propane delivery company. It was for \$215.00 for 36.9 gallons. That was \$5.83 per gallon.

In those three "events" I experienced a combined outflow of \$373.00 and it wasn't even noon yet. But my experience is not unique. Recent estimates by economists indicate at the current levels of inflation, the typical American household is spending an extra \$5,200 per year for the same mix of goods and services it purchased last year. Any time you increase the amount of money to cover previous purchases it is effectively a tax.

But the important point about high inflation is that it forces consumers to change their behavior. A favorite expression of many politicians is that inflation has the biggest impact on those on *fixed incomes*. This is code for senior citizens and other beneficiaries of government programs. Now that I have achieved senior citizen status, I realize that, for all practical purposes, I spent my entire working life on a fixed income. There was little to nothing that I could do to have an immediate impact on my household income in the face of raging inflation. All my family could do was change our consumption and saving behavior. And that's what's happening right now to millions of Americans.

A news article featured on CNBC.COM on May 31, summarized a poll conducted by BMO/IPSOS

Operation Wildfire: Good Things Happen When YOU Vote

Here are the highlights describing what's happening in our country:

The loss of net household income is changing Americans living patterns. The survey found that 80 percent of Americans will have to change their purchasing habits to offset Biden's inflation:

- 42% are changing how they shop for groceries. This includes opting for cheaper items, avoiding brand names and buying only the essentials.
- 46% are either dining out less or consciously spending less when dining out.
- 31% are driving less to offset the soaring cost of gas.
- 23% are spending less on vacations or canceling them altogether; and
- 22% are taking measures such as canceling subscriptions to the gym, cable, etc.

In the final analysis, the only cure for inflation is a change in buying behavior.

The Causes of Inflation

"Inflation is the one form of taxation that can be imposed without legislation" – Milton Friedman.

We know that inflation is too much money chasing too few goods and services. The excess of money comes from the government's printing of money, often at an uncontrolled pace. The government prints money in large amounts to: 1) finance its debt and 2) to provide "stimulus" by injecting massive amounts of money into the economy. The latter case is recently illustrated by the large cash distributions to American households during the pandemic. According to estimates, these injections totaled several *trillion dollars*.

In the current environment, the impact of the printing and injection of money into the economy was exacerbated by supply chain disruptions caused by the pandemic. Not only did vast numbers of American households have windfalls of "Free Money" at their disposal thanks to government largess, but consumers also found that they had fewer things to spend it on due to supply chain disruptions.

But wait, there's more! The people who make, grow, and move things found that raw materials and items necessary for production of products were unavailable or, more likely, more expensive due to raw material shortages in the manufacturing chain. Coupled with transport delays and increased costs, prices at all levels of the supply chain increased.

And the supply-chain breakdown impacted just about every American. Restaurants, stores and small businesses that provided products and services to people were all negatively affected as the cost to the consumer continued to rise. *The Washington Post* broke down the situation this way: "Ships wait off the California coast, unable to unload their cargo. Truckers are overworked and overwhelmed, often confronting logjams. Rail yards have also been clogged, with trains at one point backed up 25 miles outside a key Chicago facility." Where was Transportation Secretary Pete Buttigieg? No, we didn't vote for him, but we did vote for the U.S. Senators who confirmed him – by a vote of 86 to 13. Remember that when you cast your ballot in November.

Here's a small sample inventory of the shortages contributing to higher prices:

- A shortage of microchips hobbled the manufacture of automobiles and numerous consumer electronic products.
- Prior to the beginning of the pandemic, there was already a shortage of 81,000 long distance truck drivers. The shortage and price of diesel fuel magnified that problem.
- Fabric and wood for furniture manufacturing.
- Pharmaceuticals
- Fertilizer for crop production
- Food for livestock production
- Meat, poultry, eggs, wheat.... etc.

The list is endless. Each of us has an example from our lives as workers and consumers.

Operation Wildfire: Good Things Happen When YOU Vote

When the American consumers emerged from the pandemic isolation, flush with government cash, they went on a buying binge. In addition to consumables, people were buying durables. The waiting time for appliances stretched to months. Used vehicle prices increased forty percent. Home prices rocketed upward along with the cost of building materials.

What was that again? Too much money chasing too few goods and services. Now to be clear the current forty-year high in inflation was not “caused” by the federal government. It was fueled by the government.

Treasury Secretary Janet Yellen recently acknowledged that she mis-forecasted the country’s now record-high U.S. inflation rate when she said last year that it would only be a “small risk.” “I think I was wrong then about the path that inflation would take,” she said. Recently, while testifying before the House Budget Committee, Yellen couldn’t recall what the U.S. budget deficit was last year. We found the video of the exchange between Budget Committee Ranking Member Jason Smith and Treasury Secretary Janet Yellen at this link:

<https://video.search.yahoo.com/search/video?fr=yfp-t&ei=UTF-8&p=the+deficit+last+year+-+what+was+it%2C+you+tube%2C+forbes+breaking+news%2C+janet+yellen#id=1&vid=6f42f46f54069285734286b1f5355312&action=click> Again, we didn’t vote for Janet Yellen, but our U.S. Senators confirmed her – by a vote of 84-15.

It’s important to understand that the government controls the money printing operation. And, while it doesn’t own the means of production, it tightly controls production through regulation. Can you say, “baby formula”?

Federal regulatory ineptness and incompetence was a direct cause of the baby formula shortage – because the FDA looked only at how to shut down the plant in mid-February, not how to quickly reopen it. In fact, there was no plan to reopen until mid-May, despite the fact that after a six-week investigation, the FDA found no traces of bacteria in areas used to make the powder formula.

Former FDA officials say the agency is supposed to consider potential shortages that result from shutting down plants. So where was the Secretary of Health and Human Services? According HHS Secretary Xavier Becerra, they knew about the baby formula shortage last year, yet refused to do anything about it. And, they didn’t consider the repercussions. The FDA could have recalled the product without shutting the facility and averted a crisis. Secretary Becerra was confirmed by the U.S. Senate by a vote of 50-49.

But HHS isn’t the only agency that doesn’t have a plan. U.S. Energy Secretary Jennifer Granholm burst out laughing when she was asked about a plan to have oil producers raise output to cool off prices. Only now is she suggesting that the Administration address the problem that has become a major economic burden for the poor and middle class. Secretary Granholm was confirmed by a U.S. Senate vote of 64-35.

But wait, isn’t the mantra “never let a good crisis go to waste? Sometimes it appears that the crises over the past almost eighteen months are unnecessarily created due to inexperience and lack of planning.

What’s Next?

Someone once said, “The solution for inflation is higher prices.” Increasing prices eventually magnify the necessity for changes in behavior. As painful as it is, the solution to higher prices for a product or service is to refuse to buy it. Now certainly, politicians will say that inflation makes “necessities” unaffordable. While that may be true in some cases, the way that’s addressed in a market economy is through temporary reallocation of money from non-essentials to essentials. Is it painful? Yes, it is. If everything is essential, then nothing is essential.

The unfortunate reality is that over time prices fall when demand falls and supplies increase. There is a risk that the politicians will be tempted to apply price controls on commodities to sustain demand. This is a mistake.

Those of us involved in commercial enterprises in the 70’s and 80’s can provide testimony to the effect price controls have on supplies. The supply dries up whether it’s a truckload of printer’s ink or a vacant apartment in a rent-controlled city.

Operation Wildfire: Good Things Happen When YOU Vote

But what about the “R” word - Recession? Indications are that we will have one soon. That’s because Wall Street knows that the way inflation is defeated is through increased interest rates and the coinciding increase in the cost of credit which ultimately dampens demand. Unfortunately, the cost of recession is increased unemployment.

Business leaders are starting to use the “R” word openly. On June 3, according to *Bloomberg.com*: “Elon Musk told Tesla Inc. employees that plans to cut 10% of jobs would only apply to salaried workers, according to *Electrek*, clarifying an earlier report that he had broadly discussed a layoff without specifics.”

The comments came several hours after Reuters reported that Musk told company executives, he would reduce Tesla staff because he had a “super bad feeling” about the economy. The news sent Tesla’s shares down as much as 9.4% in New York trading.”

As reported in the Daily Caller online newspaper on June 1st, Jamie Dimon, CEO of JPMorgan Chase said the following in a recent speech at the Bernstein Conference: “... (T)he war in Ukraine combined with rising inflation and rising interest rates spell doom. Right now, it’s kind of sunny, things are doing fine. Everyone thinks the Fed can handle this.” Dimon said. “That hurricane is right out there down the road coming our way.”

What Can Be Done?

In a best-case scenario inflation is likely to be with us well into 2023, but could be longer than that. In January *The Washington Post* printed a feature article titled “What should the White House do to combat inflation? Experts weighed in with 12 ideas.” The experts offered a range of ideas including increasing private sector production; controlling the pandemic; investing in childcare; and implementing price controls.

All the recommendations have two things in common. First, they discuss issues relative to the whole economic system like national income, total savings and investment, total employment, etc. Second, all but two ideas involve increased, large-scale government intervention in the economy. Of course, that’s how we got in this predicament in the first place. Our research on the authors of the ideas found that most of them are advocates of economic central planning by the government. You can read the article here:

<https://www.washingtonpost.com/us-policy/2022/01/26/inflation-white-house-experts/>

The reality is that soon our only options are to manage our behaviors as consumers. It is important to do our individual best for our families and employees to reduce consumer debt and manage the allocation of discretionary income by making intelligent choices. This is a perfect time to make the conscious decision to “let the Joneses get ahead”.

Martin Luther King, Jr. had a dream – a dream that one day his children and grandchildren would be judged by the content of their character, not the color of their skin. Dr. King knew that change doesn’t happen overnight; instead, it takes hard work and experience. He knew that it also takes people coming together for the common good.

While we make changes in our consuming behaviors as best we can, we must choose better men and women to represent us. Electing better people to office is a strategic process. In these times it is not enough to vote and go home. It is necessary to be informed, to get involved – and stay involved.

The pain is very real. Inflation is a creation of government, and in the long term, it can only be addressed by the people expressing their will in the makeup of the government. Choose wisely.

Sources: *Bloomberg.com, Detroit News, CNN.com, DailyCaller.com, NBC News, The Hill, The Washington Post, Axios*