

The Inflation Hoax

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Yes, prices are rising, but not for the reasons the Federal Reserve says. When I say inflation is a hoax, I mean the purported cause is a hoax. The Fed is fighting a consumer inflation, a "demand-pull" inflation. But what we are experiencing is a supply-side inflation caused by the Covid lockdowns and economic sanctions that closed businesses, disrupted supply chains, and broke business relationships while reducing energy supplies to the UK and European countries, thus forcing up costs in a globalized economy. One of the many neglected problems of globalism is that inflations and recessions are no long simply a national problem. Interconnectedness sends adversity globally, although in varying degrees.

The Fed thinks that the inflation is the result of the trillions of dollars of Covid payments that were dumped into the economy. To the extent that this money was simply replacing the lost wages, salaries, and business earnings from the lockdowns, there would be no net addition of money, just a replacement. I don't have the data on the lost earnings from the lockdowns, but it is obvious that there was a large supply disruption.

Monetarists think that the inflation was caused by 12 years of Quantitative Easing during which the Fed's balance sheet expanded five-fold. But it is not supposed to take 12 years for monetary expansion to result in inflation. All the while the Fed, still believing in the Phillips Curve that President Reagan's supply-side policy had eliminated, said it was trying to get inflation up to 2% annually, which neoliberal economists, junk economics in Michael Hudson's view with which I agree, say is the inflation needed to spur economic growth.

Demand side inflations appear gradually and rise with a booming economy. They don't suddenly appear overnight as the present inflation has. It is sudden supply shortages that produce instantly higher prices.

The Fed fights a demand-pull inflation by reducing the growth of money and credit, thereby reducing sales and employment. But this and the higher interest rates reduce supply. If sales fall off, so does production. Higher interest rates raise costs and adversely impact supply. Thus, the Fed's interest rate policy can raise, rather than lower, inflation.

The way inflation is measured today adds to the problem. Inflation is no longer measured in terms of weighted prices in a constant basket of goods. The goods in the basket change as items with smaller price rises are substituted for those with larger rises. There is a subjective element in this substitution. Also, some price rises are attributed to quality improvements, and this decision also has a subjective element. If the agenda is to have a lower inflation rate, there can be more substitution and more quality improvements. If the agenda needs a higher inflation rate, minimize the substitutions and quality improvements.

If inflation is coming down, and it is not just a product of manipulating subjective elements, how do we know it is not from increased supply from reopened businesses and repaired supply chains? If there is reliable data, this could be studied. But neoliberal economists are locked into explaining everything in terms of demand. I have spent 40 years trying to teach them supply-side economics, but they are incapable of learning.

Just as inflation was redefined by changing its measurement, now recession is being redefined. Whether or not 3 down quarters mean a recession, the view is that the second half of next year will be bad and that the Fed will stop raising interest rates and begin lowering them. At that point or earlier if sufficiently anticipated, the stock and bond markets will begin another rise. Recession means that the Fed injects liquidity and the financial markets rise with liquidity.

This is the way it has been, but the landscape has changed, and we are faced with a new development. Gradually over the years government through the many welfare programs, which in the Biden regime includes handing money to illegal immigrant-invaders, has accumulated a constituency that is paid but does not work. These people have money to spend on goods and services, but do not contribute to the supply of goods and services. This constituency introduces an inflationary bias and this constituency is rapidly growing with the millions of immigrant-invaders who are allowed to enter the country each year. If a substantial part of the population is supported with purchasing power but does not work, whether because welfare exceeds their prospective wages or it is illegal to employ them or they prefer sustainable leisure to work and higher income, consumer demand grows relative to output. This gives us demand-pull inflation with a vengeance. Military spending is similar to welfare. The associated wages and salaries pump money into consumer demand, but there are no corresponding goods and services to absorb it. Consumers do not purchase tanks, missiles, fighter aircraft, and warships. The size of the US military budget makes it inflationary.

What can the Fed do? Throwing people out of work reduces demand from the productive part of the population, not from the subsidized part. Throwing productive people out of work also reduces supply, which acts on prices in a counter direction to reduced demand. Which force prevails?

Large cities tend to accumulate subsidized populations that boost consumer demand but not supply. Even rich cities can find themselves with budget outlays that exceed their revenues. I will use New York to illustrate it, with thanks to Nicole Gelinas writing in the Autumn 2022 issue of *City Journal*.

New York City, the home of Wall Street and the largest banks, is a high income city. But only in part and less and less as the city fills up with welfare dependent people. New York

City and its host state today have to rely on vice to bring in the revenues to keep afloat. NYC has gone from a lottery, to a planned casino in Manhattan, to sports gambling, to legalizing cannabis, all of which can be taxed, and now the city is talking about legalizing prostitution in order to benefit from taxing the revenues. What is the future if New York has to turn into Sodom and Gomorrah in order to survive?

The Democrat vote is forcing the richest city in the US to go into the business of marketing vice industries that its police formerly arrested the Mafia for operating. To me this shows desperation. If NYC cannot cope without creating and marketing vice industries for revenue purposes, what can, for example, St. Louis, once one of America's great cities, do?

St. Louis was one of America's cities devastated by the offshoring of manufacturing jobs. Its population has shrunk. The city is 45% black, and its government is in black hands.

What is the black mayor doing? She has created a commission to decide on reparations paid by white St. Louis residents to black residents. In other words, white residents of St. Louis, none of whom ever owned a slave and only a minuscule number descended from plantation owners who did, are targeted to have some portion of their income or wealth confiscated and given to black beneficiaries of St. Louis' reparations scheme. See [this](#).

Here we see the inability of St. Louis' mayor to think. Why live in St. Louis if you have to pay a tax to blacks to live there?

Like every other tax, once institutionalized the tax will rise. It is the United States of America that is resurrecting the feudal order in which there are class rights and whites are the underclass paying tribute to black aristocrats like serfs paid to lords. You can pretend this is not the case. But it is.

What incentive does this give whites to be productive, or to stay in areas under black political control?

The United States is already merely a name as the states are clearly disunited. Will the country devolve into separate political entities on a racial basis and even into city states?

The Democrat Party has turned its back on white Americans, labeling them "Trump deplorables," "white supremacists," and "threats to democracy." The Rino Republican Party will not defend white Americans or stand by any politician, such as Trump, who does. What stake do Trump Americans have in a country in which they are labeled as undesirables?

The white liberals, indoctrinated into their racial guilt, will simply submit, but the "Trump deplorables" will organize into separate communities. They will be aided by US over-reach abroad and the subsequent demise of the dollar and empire as the rising power of a reinvigorated China and Russia take the lead from the culturally exhausted Western world.

Meanwhile the Fed yesterday raised interest rates another half a percentage point in the face of expectations of a bad recession in the coming year. This is the high level of incompetence that today rules Americans.

Personally, I am suspicious of this inflation. If it is, as I believe, the result of supply disruptions, the resumption of productive activity following the disastrous lockdowns would itself have brought prices down without need of Fed action. I also suspect that the inflation resulted in part from announcements of its arrival, in which announcements executives and

boards saw opportunity to boost profits and obtain their bonus rewards by raising prices. A lot goes on that passes unnoticed by economists and pundits.

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