END INFLATION BY ENDING WARS!

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Many people on the right claim that social spending programs drive inflationary pressures. Most of those who make these claims are misinformed on what inflation measures, the history of inflation rates, and the mechanisms employed by mainstream liberal economists to control inflation. Of course, the discussion is not complete without touching on the current inflationary woes of today.

When we think of inflation the metric that is most often cited is the CPI (Consumer Price Index). CPI measures a "basket of goods and services," consisting of some of the primary needs to sustain oneself such as food, housing, transportation, and medical care. If there were to be any underlying changes in these components, we can see a corresponding inflation increase. The last major inflationary period in the United States happened in the 1970s.

Another interesting facet of inflation is the expectation of future inflation. Expecting prices to rise can create something of a self-fulfilling prophecy. For example, if during one month the inflation rate is 8%, and folks believe that the rate will rise to 10% in the future, then capitalists will increase their prices to compensate, thereby creating actual inflation. Sentiment can be a component of inflationary pressures, but I shall keep the analysis to that of the consumer price index to avoid the behavioral economics subfield of the discipline.

CPI numbers were at their highest in two key periods in the past 80 years – the 1970s and the 1940s. The condition that these periods had in common was US participation in war. In the 1970s, war broke out in a place where we still have warzones today, the Middle East. At this time the Yom Kippur War took place and a subsequent reduction in oil exported to the U.S. by OPEC was in force. This inflationary period can be concluded to have been caused by what economists refer to as a supply shock. Energy price increases impact all components of CPI. All goods must be transported overland.

Capitalism has given us two options to control inflation: monetary policy and fiscal policy. Some people on the right may espouse that government spending can only do harm. To counter this belief, I will include a discussion on fiscal policy measures momentarily. Monetary policy consists of the actions taken by central banks to pursue their stated mission as an entity. Here in the U.S., our central bank, the Federal Reserve ("the Fed") has a dual mandate to control inflation and have "full" employment (aside: full employment actually means around a 5% rate of unemployment, so a healthy capitalist economy will always have some level of unemployment).

Monetary policy can be carried out by the Federal Reserve by influencing the supply of money in the market. One possible pathway that the Fed can take is to conduct open market operations, an elaborate way of saying that the central bank will buy or sell bonds. In the case of an inflationary period, the Fed will sell treasury bonds with greater gusto, thereby decreasing the circulating supply of money and increasing the federal funds' interest rates, which underpins all interest rates charged on everything from home mortgages to credit card rates. In short, given the action taken by the Federal Reserve, the working class would see a rise in financing costs which could stretch an already difficult budget, while those who hold claim to the debts – banks, lending institutions, and capitalists in general – would see a rise in the income generated by their debt holdings like issued mortgages and credit cards.

Fiscal policy is what could be thought of as "government spending" and has frequently been a topic of debate by capitalists and their political allies on the right. It includes government action to control inflation, among other things. These policies can be more varied than the actions undertaken by the Fed. In the past inflationary periods, most recently in the 1970s, we have seen actions such as rationing of fuel and geopolitical posturing. There are three key approaches for fiscal policies. Firstly, the government can introduce price fixing measures. Secondly, they can introduce quantity fixing measures, like the fuel rationing seen in the 1970s. Lastly, they can influence the tax rates. In the 1970s, none of these government policies were effective save for geopolitical posturing during the Yom Kippur War.

Unfortunately, not much has changed in the last 50 years when it comes to the cause of inflation. Looking at the CPI of today, we see price increases in both housing and energy. Let's examine these in depth.

Housing price increases have been centered on those who rent rather than those who buy or own a home. Both have become more expensive in recent years but rental rates have had a higher increase. Using the bourgeois economic laws of supply and demand, this should not have happened. To this day, we still have more than enough housing for everyone, which – according to supply and demand – should have led to a reduction in housing costs. But instead the opposite is true. Why has this happened? I can only point towards the greed of the dying landlord class as a means to explain the increase. This can be thought of as a reprisal for the rent pause during the COVID-19 pandemic to make up for the loss of income for landlords.

Energy costs are another major contributor to the inflation rate today. Similarly, due to military conflict, the fossil fuels we use to power our lives have exhibited a supply shock. Russia, a key provider of petroleum exports, has cut the flow to western European nations in light of the war in the Donbass region of Ukraine. The impact of this is not felt as strongly here in the U.S. due to the already high domestic oil and gas production, but nonetheless it has had an impact given that the shortfall of Russian oil affects U.S. and NATO allies.

Some may throw around the word inflation loosely, but what truly constitutes inflation is often a mystery. CPI is the measure used to represent inflation and an increase or decrease in each category determines the overall inflation measure. Energy or fuel costs have been the primary driver of inflation today, similarly to the 1970s oil crisis period. Suffice to say, if you want to stand against increasing prices you have to stand against war. Stand against war in 2022 like our predecessors did in the 1970s. Your bank account will thank you.

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