

# The I-Words

## There Is Still No Free Lunch in Our or Any Economy

A nation's basic macroeconomic building blocks and indicators of its strength are generally considered to be its aggregate output, labor market conditions, and price stability. In economic jargon: Gross Domestic Product (GDP), the unemployment rate, and inflation. In the immediate pre-pandemic period, the American economy experienced average to strong economic growth, historically low unemployment, and about two percent annual inflation. Then starting in early 2020 with the pandemic, we slipped into a deep but short-lived recession, saw the bottom fall out of labor markets, but, except for temporary shortages and price hikes in a few basic markets, we had no inflation to speak of. Public attention and governmental actions focused appropriately on reviving output and job creation.

And in these quests two "I-words" were front and center: invest and infrastructure.

**BY ALLEN R. SANDERSON**

Whether in a crisis or just in a normal state, you won't hear government officials in either party utter the S-word: Spend. They don't want to commit taxpayers' dollars, except for those of the rich, to paying for anything. However, for the good of the country they want to Invest wherever and whenever they can. And what better opportunity than Infrastructure, whether it be physical or social.

In spite of the popular political and media rhetoric, our bridges and roads are not crumbling. The standard metrics employed indicate consistently improving conditions in U.S. transportation networks. And infrastructure "investment" is simply not cost-effective in terms of creating short-term employment or long-term economic growth.

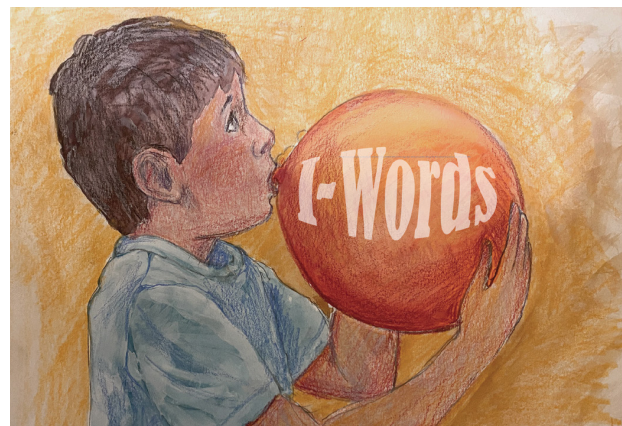
And then surfaced the reality of paying the piper for the several trillion dollars in proposed outlays, the legislative lags associated with that spending actually hitting the reasonably well-paved streets when for the most part the economy had recovered from its first few bouts with COVID as reflected in overall growth rates and strong labor-market conditions, and the staggering estimated budget deficits from these fiscal policy actions and the Fed's willingness to seemingly print money at will. In the middle of 2021, a third I-word started to grab the attention of policymakers in DC and shoppers in grocery stores and malls around the country: Inflation.

The Bureau of Labor Statistics (BLS) is the federal agency in charge of gathering data and producing analyses of both the nation's labor markets and inflation. For the latter, the most frequently cited indicator is the Consumer Price Index (CPI). Throughout 2021, this gauge showed steady increases in our price level. For 2020, the CPI grew by 1.4 percent, the smallest gain in five years. From July '20 to July '21, it increased by 5.4 percent. (For the Chicago area it was "only" 4.9%.)

By way of background, "inflation" doesn't mean that a particular good's price has risen or that it is expensive; and it doesn't mean that our standard of living has gone down and we're now poorer. In economics, inflation means a sustained rise in the overall price

level, on average. Thus, if the inflation rate is 3 percent and your firm increases your salary by 4 percent, your cost of living has risen by 3 percent but your standard of living has gone up by 1 percent. (Economists use the term "nominal" to reflect just the number of dollars and "real" to adjust those dollars for the change in the price level.)

Social Security benefits and many other federal government transfer payments, for example, are indexed to the inflation rate. Thus, the typical retiree saw a boost of 1.4 percent in the monthly Social Security check this year because the inflation rate for 2020 was 1.4 percent. But price stability is a policy goal of governments and central banks around the world; inflation produces unintended redistributions and reduces efficiencies in the economy.



Over the last 50 years, we have averaged about a 5 percent gain in annual income and faced a 3 percent annual inflation rate, for a "real" increase of 2 percent in our standard of living. (Don't pay any attention to those – I won't repeat familiar names – who claim the average American hasn't had an increase in wages since the 1970s.) Why? Not because of your lovely countenance or your employer's generosity. Productivity: our ability to produce about two percent more this year than last. (And not because we had to work two percent more hours this year, another fallacy.)

The BLS uses a base year to track changes in inflation over time. That time at the moment is setting 1982-84 = 100. On that basis, the current figure is 273. That means that if the cost of a typical shopper's market basket about 40 years ago was 100, it would now cost 273. Or that we experienced 173 percent inflation between 1982 and 2021. Not every good increased in price by 173 percent; some – think high-tech – have actually decreased. And while the price of clothing has barely changed at all over the last forty years, Americans still manage to exhibit the worst-dressed affluence the world has ever seen.

And for 2022? As long as voters love free lunches and politicians like to provide them to their constituents, this is not a story that is going to end well for our economy. Expect continued high inflation and slower economic growth, the price we will have to pay. Bon Appetit! □