

The political economy of inflation

The fourth anniversary of COVID offers an economics columnist a rich set of policy lessons. Among the most pressing is the political economy of inflation. I begin by reminding readers that inflation is largely a policy choice, involving a trade-off between either increasing unemployment or reducing the purchasing power of our dollar.

This trade-off isn't a constant like gravity or the speed of sound. It varies with the type of economic shock and the structure of the economy. Predicting the magnitude of this trade-off is like forecasting the number of hurricanes in 2024 by using just one previous year of data.

The collapse in economic activity that accompanied COVID preceded government action. For example, here in Indiana consumer spending hit its low point a week before Gov. Eric Holcomb issued his "stay at home" orders.

The size of the COVID economic shock suggested a very deep and potentially lasting recession, with unemployment rates much higher than the Great Recession of 2007-09. One implication of this is that the trade-off of employment for inflation was reasonably small. In other words, we could avert very deep job losses with modest inflation.

In April 2020 the unemployment hit 14.8%, its highest point since the Great Depression. The folks who do the estimates that advise economic policy were nearly uniform in their calls for significant stimulus. They included economists in the Council of Economic Advisors, the Office of Management and Budget, the Congressional Budget Office, the Federal Reserve, think tanks, universities and private forecasting firms. Myself included.

It turns out we were largely correct. The unemployment rate came down rapidly after the first stimulus and Payroll Protection Plan checks were mailed. Within a year it was down to 6.1% and within two years it was below 4%. That brought us to the longest stretch of below 4% unemployment in 54 years. That is where we remain today.

There was a trade-off, though. Inflation spiked, and on a month-to-month basis got near its 2005 levels. We had about six quarters of inflation where price level changes were worse than they've been since the late 1980s. Still, we never got anywhere close to the inflation of the 1970s or early 1980s.

The effects of inflation were more modest than in past rounds. By 2023, wages had grown faster than goods and services inflation. So, households are on average better off in purchasing power today than they were before COVID. Moreover, household savings are higher and inflation-adjusted wealth is now at an all-time high. Mortgage rates didn't return to 1970s levels as some feared, but only to 1999 levels before dropping late last year.

For the economic profession and those who structure policy, this was a very valuable lesson. We dodged what was likely a significant and lasting downturn for an uncomfortable, but historically modest bout of inflation. Sadly, that is unlikely to be the lesson political leaders take from this round of inflation.

Despite considerable evidence that the U.S. economy is performing better than it has in a half century, public opinion polls show American consumers view it as dismal. In fact, the pools have been so bad, I think it unlikely that any future administration will take the same risks we did during COVID.

It seems very plain to me that the public seems to prefer high unemployment to high inflation. You see, inflation visibly affects everyone, while unemployment is far less visible. So, many folks just don't think about the trade-off between job losses and inflation. But, they are pretty easy to quantify in retrospect.

The best study of the inflation-unemployment trade-off finds that an increase in unemployment would reduce inflation by about one-third of 1%. Most other studies are in this ballpark. Today, prices and wages are both about 14% higher than we'd have expected without the big burst of inflation we saw after COVID. That means to have prevented that unexpected inflation, we'd have needed to increase the unemployment rate by a tad bit more than 10% in each of the four years since COVID.

In other words, we could've maintained price stability, or constant 2% inflation per year over the past years. The trade-off would've been unemployment rates of 18% in 2020, 15.4% in 2021, and roughly 14% over the past two years.

Even if these estimates overstate the effect by 50%, this would have meant an additional 7.3 million unemployed Americans through each of the past four years. The study just as easily could have understated the impact by 50%, which would've given us annual unemployment rates rivaled only by the Great Depression.

I'm not suggesting anyone should love inflation or listen to what economists say about how to feel about the state of the economy. I certainly don't. I simply suggest that when you think about the ill effects of inflation, that you also consider what the likely trade-offs would have been. For most of us, that will make the inflation seem a lot more palatable.

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Letters to the Editor

Where is common sense?

To the Editor:
For much of my adult life, I believed most people possessed basic common sense. Recently, I have concluded that may not be true. While describing current state, national, and world events one could use words like ignorant or unaware, but stupid seems more fitting. The words, "How stupid can it be", (HSCIB) seem applicable to the following. HSCIB to not secure our borders like all other nations do? HSCIB to not knowing the criminal or medical history of those entering our nation? Is COVID-19 and the war on drugs less important now? HSCIB to spend billions of tax dollars for housing, medical, and schooling on unvetted millions who are here illegally? FYI illegal, noncitizens of the United States are counted in the US census which has a political value and determines the number of congressional representatives from each state. President Biden, by executive order, has allowed an estimated 10 million people to enter our nation. How did our last president vastly reduce border crossings with executive orders and President Biden cannot? Legal and vetted immigration is essential for the United States, but our border must be secure.

HSCIB that a U.S. citizen is not required to have some type of photo identification to vote? HSCIB to allow a gender-transitioned man to compete in women's sports? HSCIB to allow a hormone-mixed-up- person under the age of 18 to be castrated or physically mutilated to change their sexual identity? HSCIB to allow an 18-year-old person to buy and carry a handgun without a basic understanding of gun law and gun safety? HSCIB to defund the police, and later be surprised to find crime has increased. HSCIB to allow legal abortions in a state and then charge the murderer of a pregnant woman with a double homicide?

HSCIB that no serious effort is being made to resolve the Ukraine and Russian war? How many lives and how much money is being wasted on a war Ukraine cannot win? Did the push for Ukraine to join NATO or the fact the U.S. was funding biological labs and providing weapons to Ukraine, cross the red line for Russia? HSCIB to think Russia will give back the Russian-speaking Crimea territory? Putin may be a tyrant, but he is not stupid. It would seem who or what is on or near your border does matter! Does this remind anyone of President Kennedy's standoff during the Russian Cuban missile crisis near our shores? Would we have gone to war if Russia had not pulled back?

Do the math, HSCIB for political leaders to believe they can tax our way out of 33 trillion dollars of debt? HSCIB that elected officials do not want to fix, the soon-to-be broke, Social Security, Medicare, and Medicaid? HSCIB to not rehire all of those soldiers and medical staff who were fired for not taking the vaccine during the COVID-19 misinformation and outright lie campaign?

There are hundreds of other examples to share but I wanted to share a few that make no sense to me. Having said all of the above, the USA has been a good place to live. Don't be part of the herd,

speaking out against craziness — vote to keep our freedoms and for the return of government common sense. Keep praying for this nation.

**Mike Campbell
Avilla**

Candidate has dedication to public service over politics

To the Editor:
I have had the privilege of knowing Ken Shelton for over 40 years and in that time he has consistently exceeded my expectations and demonstrated unwavering dedication in every endeavor. Ken's commitment to our Middle District as commissioner is unparalleled, and I wholeheartedly endorse him for this role.

Ken is not just a trusted Christian friend, but a remarkable beacon of integrity and professionalism in all aspects of his life. His love for this community is evident in his longstanding volunteer work alongside his wife, Karen, who is always ready to support local events and address community needs.

From his honorable service as an Indiana State Trooper, to his successful business ventures in our downtown area, Ken has always prioritized the well-being of Steuben County residents. His tenure on the County Council and current role as commissioner further exemplify his dedication to public service over politics.

I urge you to mark your calendars for May 7, 2024, and reelect Ken Shelton as commissioner. Let's continue the positive trajectory he has set for our community and county together.

**Todd Saylor
Angola**

Predictions if Democrats prevail in 2024 election

To the Editor:
Dire predictions of a Trumpian totalitarian government by leftist news agencies are used to instill fear in the American public.

Christian nationalism is a label that has become the new boogey man of the left. It is used by woke media to vilify and shame biblical Christians who vote Republican, similar to the use of Nazi, fascist, racist and white supremacist in the last election cycle.

The Democrat party and mainstream media have allied themselves with Cultural Marxists (the woke).

Cultural Marxists vilify white, heterosexual, cisgender (non-transgender) Christian males as oppressors and colonizers. Cultural Marxists hate western civilization, including Christianity, oblivious to its eastern origin.

Biblical Christianity opposes the woke worldview. Christians believe marriage is an exclusive covenant between a man and woman, producing godly offspring reflecting the image of God within the context of the family. Sex is reserved for this covenantal relationship.

Atheist Rob Reiner joined forces with so-called progressive Christians like David French, Russell Moore and Phil Vischer to produce a propagandistic documentary called "God and Country" to vilify "Christian nationalists" who believe biblical principles should be considered in governance.

I encourage Christians to vote

Republican. Here are my predictions if Democrats prevail in 2024.

- Democrat politicians will continue to stir up division and violence between ethnicities for political advantage.
- The border will remain open.
- Increased crime rates, lower American wages, terrorist threats, and erosion of societal safety nets are some consequences. Auto accidents involving uninsured and unlicensed immigrants will continue. I advise increasing your uninsured motorist coverage.
- Non-citizen immigrant populations will skew political representation in the House of Representatives to Democrat states upon the 2030 census, ensuring perpetual political dominance of Democrats.
- Federal agencies will continue to collude with leftist media to enforce the Democrat party narrative.
- Christians will continue to be persecuted by federal agencies for activism against abortion, LGBTQ+ public indecency, and indoctrination of children. Recent federal persecution includes Mark Houck and the six peaceful protesters convicted of violations of the FACE act at an abortion clinic in Mount Juliet, Tennessee.
- Christians will be prohibited from foster care and adoption due to conscientious objections to gender ideology.
- Consumer prices will continue to rise due to excessive federal regulations and restricted oil production.
- Food shortages will be created by federal restrictions placed upon agriculture and American land purchases by activists and China.
- Crime will continue to increase due to anti-police rhetoric of Democrat politicians and woke mayors, governors, prosecutors and judges more focused upon protecting criminals than victims.
- Christian medical professionals will be pressured to be involved in abortions and gender related treatments.
- Public schools at all levels will continue to indoctrinate students into weakness and gender ideology, producing a generation of academically deficient, confused young people prepared for activism and not productive careers.
- Hysterical, radical environmentalists flailing their arms like Chicken Little will continue to disrupt society by insisting upon impractical, ineffective environmental initiatives that erode national wealth, cannot provide our energy needs and enrich China.
- Valuable US farmland will continue to be diverted from productive use to wind and solar farms. Critical infrastructure will be neglected.
- Crucial rights like free speech and gun ownership will be eroded under the guise of public safety.

Republicans want to reduce federal government control. Democrats want to expand federal government control.

Republican politicians respect Christian participation in society. Democrat politicians do not.

Which party poses a greater risk of totalitarianism? It is not hard to figure out.

A more comprehensive version of this letter is available on my blog, christian-newsjunkie.com (no hyphens).

**Robert Sparkman
Rome City**