"Inflation is always and everywhere a monetary phenomenon" - Milton Friedman

The history of American inflation is a testament to its unpredictability and gives reasoning as to why it is a heavily debated topic. The coronavirus pandemic is a primary factor in the changing landscape of the economic market. As products become more specialized, using labor and resources of a certain type of production to be more efficient, it becomes harder to measure the movement of prices.

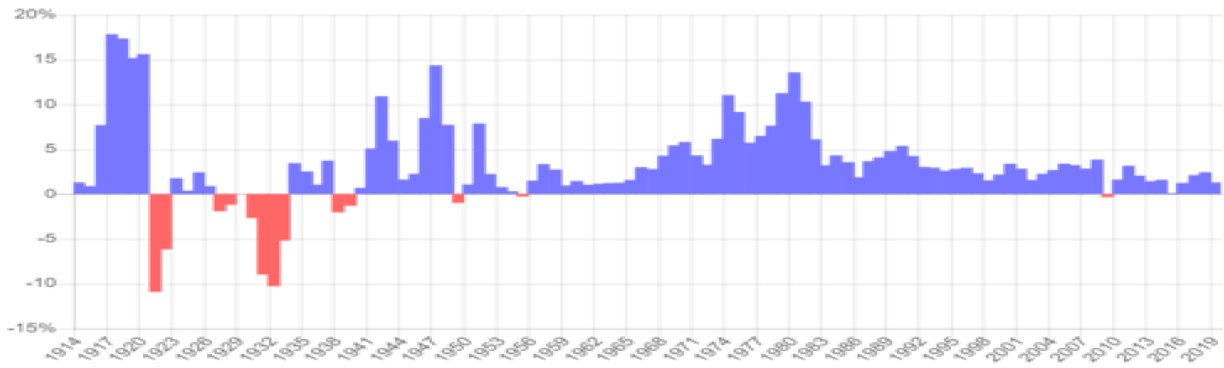
Current Economic Market

Furthermore, technology will be able to reduce barriers to entry allowing the creation of new companies. Many companies nowadays can connect to people globally and can appeal to their customers efficiently and at a low cost. Technology can help complement the workforce leading to a deflationary trend. This is because if there is higher productivity there are lower costs for production. The use of technology substitutes labor by introducing automation which improves the pre-existing system. Globalization and technology are viewed as important factors affecting the rise in prices. This is relevant to the current economic market, as before the pandemic many Americans have accustomed to their daily items and routines thanks to the modernizing technology, and with the pandemic, these same people are dying in abundance and suffering economically due to the globalization that had helped them previously.

The History of Inflation

During Presidents Woodrow Wilson and Warren Harding's presidencies, about a decade before the Great Depression, they responded to the collapse of the economy by balancing the federal budget, with the Federal Reserve increasing interest rates rather than lowering them. However, the times and structure of the economy have shifted as one major change as economies are now more globalized. The government has now responded to the pandemic when it passed policies to provide government stimuli to the economy.

One thing that can be found in common among the noteworthy recessions in American history is the rise of the CPI to an alarming point, both happening during the Great Recession and now during the COVID-19 pandemic. During the year 2008, the CPI rose above 5 percent for two months because of soaring gas prices. Regarded as one of the worst financial collapses in history, the Great Recession left the banking and real estate industry in ruins and led to home foreclosures worldwide. It led to millions losing their life savings along with their jobs. The recession started due to subprime mortgages - home loans granted to borrowers with poor credit histories. Mortgage lenders would give less restrictive loans to gain from the rising housing prices. This meant that financial institutions could get thousands of these high-risk mortgages in hope of making a profit. Eventually, this led to catastrophe as there was no market for the mortgages the institutions had as they couldn't sell and regain their initial investment.

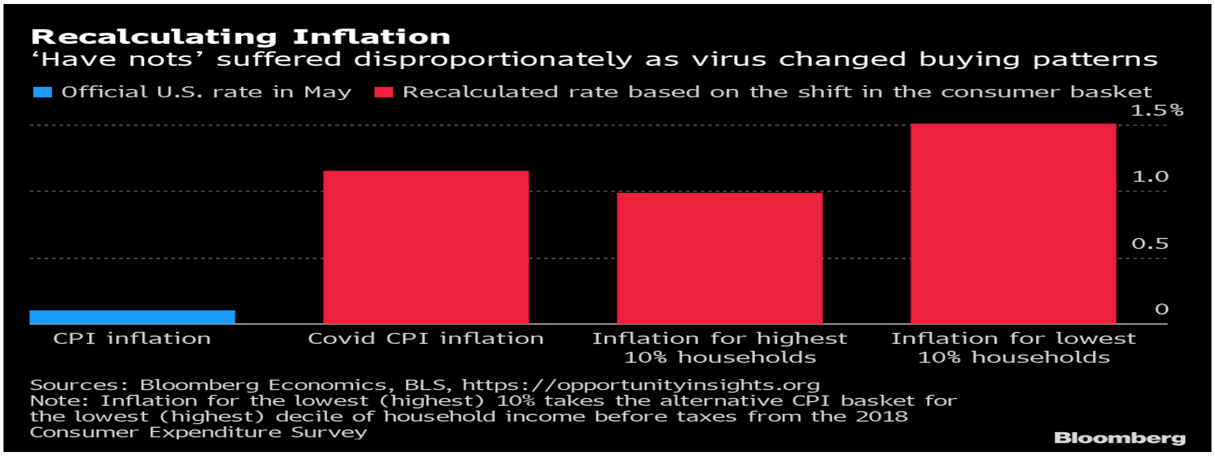


There were fluctuating trends from the years 1914 to 1953, as the US economy evolved. The first of these major changes occur when the graph reaches its peak at the start of 1914. This is around the time when the United States was most involved in World War 1, and many resources and supplies were needed to support the military for the war efforts. As a result, farmers who were accustomed to supporting the economy with crops had to give up their stock of food and crops to support the military. This, in turn, put farmers in debt and they had to take out large loans to repay what they had lost, causing inflation at an all-time high. Directly after that period, the U.S. saw some of the largest periods of recession in U.S history. From the period 1920 to 1921, a major economic depression dawned on the United States, as the economy was not ready for the returning war veterans. This caused a 32.5% decrease in postwar industrial production, a 15% decrease in prices, and a 12% unemployment rate in a single year. The darkest period in the United States economy came in 1929 a few years later, called the Great Depression. This started when the stock market crashed, leading to several events that contributed to the depression. The prices of stocks rose to unparalleled levels in the United States which caused even people not born into wealth to invest in stocks. These sub-middle class people often borrowed large loans from banks to invest, and what eventually followed was a sharp decrease in the value of these stocks, approximately 33% between September and November of 1929. The crash directly caused consumer spending to retrench, which then led to a large increase in job losses. This, combined with banking panics and reduced money supply all positioned Americans in a depression that didn't end until March of 1933. Major events that collapsed the U.S. economy in prior years are evidence that we cannot handle events like these.

Modern Change in Inflation

As the United States market changed over the last century, the global supply chain contributed to the growth of inflation in the economy. Since the pandemic began there are points of congestion all across Asia, between vehicles of supplies in large demand. Many large companies located in the United States rely on manufacturers in countries in Asia to make and ship their products, and with the pandemic the demand is high and the supply for these items is low. For example, Nike relies on Vietnam for its shoe production, and since the pandemic began, Craig Austin, a professor of logistics at Florida International University states, "it's taking an average of 80 days to get shoes from Asia to retailers in North America." Since being locked down in their home, the consumers have wanted leisure commodities such as exercise equipment. The ships transporting these items are caught up in bottlenecks which are a point of congestion in production, and in this context, since demand is high for consumer-wanted items, an excessive amount of transport vehicles are gathered up trying to reach their destination. Austin informs that there are "over 500,000 shipping containers with about twelve million metric tons of goods near Southern California alone", which is only a small percentage of the total items in the United States. This in turn causes mass shortages, increasing the demand for these items in the economy, and leading to rising prices. The bottleneck problem largely impacts the inflation rate as people are willing to pay more money for everyday items, making them more expensive.

The COVID inflation rate is greater than the official CPI of the United States. The current rise of prices from inflation has occurred largely in part by COVID-19. This differentiates from the past as the primary causes were wars and conflicts between nations. People involved in the media, educators, and bankers realized the difficulties in measuring inflation rates during a widespread pandemic. Biases arose in the form of consumption patterns, which are the way consumers react to products, due to lockdown mandates and social distancing. In "Inflation with Covid Consumption Baskets", Alberto Cavallo, a professor of economics at Harvard University talks about how there is "experiencing a divergence [of] sectoral inflation rates due to price movements". When he talks about sectoral inflation he refers to rising prices in different commercial sectors. These sectors include retail, wholesale, utility, and manufacturing. He conducted an experiment where he created his consumer price index with the official index. The two scales were nearly identical until March of 2020 the time when the pandemic started to heavily impact the United States. The disparity between the scales shows how truly difficult it is to accurately measure inflation during a widespread pandemic. His results showed that the cost of living during the pandemic increased. In doing so, the inflation during the Covid-19 pandemic expanded the disparity between low-income households and higher-income households. It also showed that low-income households were the ones who had higher rates of COVID-19 inflation as they had 1.12 percent in May of 2020 compared to higher-income households who only had 0.57 percent. This was primarily due to the lower-income households spending focused on sustenance.



Policies

Former United States President Dwight D. Eisenhower once said, "[an] optimistic analyst will realize that in a prosperous period the principal threat to the efficient functioning of a free enterprise system is inflation." This quote could not be any more accurate in the present climate of the United States as the federal government has recognized the prominence of the issue of overinflation and is actively combating it through various strategies. A popular method of controlling inflation in the United States is through a contractionary monetary policy. Contractionary policy is when you impact a country's economy by decreasing the bond prices while increasing interest rates, leading to reductions in the country's money supply. This helps there to be less spending as there is less money circulating. People who have money want to save it, rather than spend it. The reduction of spending is important during an inflationary period because economic growth and the rate at which inflation increases are halted. There are three steps to successfully having a contractionary policy. The first step would be to increase interest rates through the central bank, in the USA that would be the Federal Reserve. For banks to make money, they have to borrow from the government and lend it at higher rates. However, when these banks increase their rates higher fewer people want to borrow money due to the increased cost. Robert C. Kelly, Professor of Economics at Texas A&M University words it nicely saying "...spending drops, prices drop and inflation slows." showing how these variables have an inverse relationship. A second way that the US government regulates inflation is to increase the reserves (physical cash holdings) that banks are legally required to keep to cover withdrawals. The more money banks are required to hold back they have less to give to consumers. This inadvertently causes a chain reaction as when the banks have less to lend, the consumers will borrow less, leading to decreased spending. Another method is to directly or indirectly reduce the money supply by making policies to reduce the money amounts. An example of this is calling in debts that are owed to the government. The final way is to increase the interest paid on bonds so that more investors will buy them. These methods are used by the government to regulate inflation but though they may be relatively effective we still question if there are better methods that will be discovered.

Inflation has been a prominent topic throughout the intricate history of the United States. There hasn't been a substantially efficacious mode of regulating it and it will continue to impact future generations. It has had a tremendous impact on previous eras and changed economic ways of life during the current time under the coronavirus pandemic. The scale and prominence of the topic have led the federal government to become actively involved. It is in that manner that the ever-changing inflation continues to be significant in its influence on the national economy.

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