Panel 1 - The Reality of Contemporary Inflation

What's my Dollar Worth? kicked off its second day, Thursday, March 30th, with a 9am panel featuring three experts. The event had three panelists' presentations about the causes and consequences of inflation, followed by a Q and A with all on stage together, where the speakers entered into a thoughtful debate on students' and experts' questions.

Steven B. Kamin started the program with a discussion of common misconceptions about global inflation. Kamin is a resident scholar at the American Enterprise Institute. He began by pointing out that viewing inflation specifically as a US problem creates misconceptions about its roots. The first main cause of the surge in prices, in his view, was economic crises. The pandemic and Russia's invasion of Ukraine altered global markets. COVID put large amounts of money in people's pockets as families spent less when they stayed at home. It also disrupted just-in-time supply chains, which are delivery-heavy supply strategies to receive what manufacturers need right when they need it, rather than stocking up and spending on storage. The war in Ukraine reduced the availability of goods such as oil and grain, and led to sanctions and restrictions on other products, reducing supplies. Either one of these events alone could have changed the balance between supply and demand, but both together led to consumers with much more spending money looking for a declining number of goods. Wage growth, however, is often misattributed as a cause of inflation. Kamin argued that wages actually lag behind inflation rates. Rather, tight labor markets, defined as low unemployment with high job vacancies, are much more tightly correlated with inflation around the world. Wage growth is a side-effect, but not a driving force.

Kamin finished by describing the differences in how inflation affects different nations. In the US, core (non-food and energy) costs rose the most, while inflation affected the food and

energy less. In other advanced economies, energy tended to be the most affected. But despite the differences between governments in which prices rose, most employed the same strategies to combat inflation. Compared to similar global economies, the Federal Reserve has taken fairly standard steps in terms of interest rate hikes. On the other side, in developing economies, food often made up most of the rise in costs. Still, developing countries were hit much less hard by inflation, whereas advanced economies had much higher rates of price increases. There was a strong trend between inflation before and after COVID— economies which were affected by it beforehand were worse off after, while countries doing fine before 2020 took lesser hits.

Rakeen Mabud, the Chief Economist for the Groundwork Collaborative with a Ph.D. from Harvard, took the podium next. She focused on debunking many of the myths about workers as a cause of inflation, as well as the role of corporate profiteering in the rise in prices. Large companies practically monopolize key markets, with two or three corporations making up almost all of the various brands on a shelf. These companies were able to use COVID and Ukraine as excuses to pass prices onto consumers. Hence, even as people worried about recession, the biggest corporations made record profits through record profit margins.

Many corporate CEOs admitted on the record to using the new smokescreen of inflation and supply chain issues as a cover to artificially inflate their prices, bragging about it to investors in shareholder meetings. These hikes happened excessively in crucial markets such as automobile repair, where companies determined that there was no risk of higher prices turning away desperate customers. The few organizations who tried not to engage in profiteering, such as Target and Walmart, saw massive selloffs by investors, forcing them into the inflation game to keep their stock from tanking. Therefore, even as people struggled, the stock market stayed very hot throughout.

Matthew Winkler, a Kenyon alumnusand the co-founder and former editor-in-chief of Bloomberg News, challenged the prevailing narrative that the Federal Reserve (Fed) is “behind the curve” in its approach to inflation. The Fed’s dual mandate, pursuing the two goals of maximum employment and price stability, determined measures taken by the Fed to address this round of inflation. The Fed makes informed decisions on monetary policy based on the data received, so the Fed did not raise interest rates until *after* the unemployment rate had fallen to pre-pandemic levels.

Winkler (like other conference speakers) argued that there is a huge difference between the inflation of the 1970s and the situation today. Generally, Winkler said, the US economy is in a good spot. Not only is corporate America making the most profit it ever has, but even when looking specifically at inflation there has been a marked decline in gas prices as well essential goods such as food and rent. Winkler ended his presentation by reminding the audience that “if past is prologue” the US economy will see a recession in the near future. Every time interest rates have gone up, there has been a recession. However, Winkler’s key point Winkler was that because of the record low in unemployment, the US is in a good spot to deal with a recession.

The Q and A led to an interesting debate between Steven Kamin and Rakeen Mabud over the role of demand. Kamin argued that while corporate price gouging might cause price increases in certain markets, the role of increased demand cannot be forgotten. Mabud pushed back, maintaining that the demand increase from additional savings over the pandemic was insignificant compared to the corporate manipulation of prices. Winkler joined Mabud’s side, pointing to the record-. breaking profits combined with record profit margins, implying that demand was not squeezing supplies.

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