



The Daily Dish

Inflation Facts

DOUGLAS HOLTZ-EAKIN | MAY 23, 2024

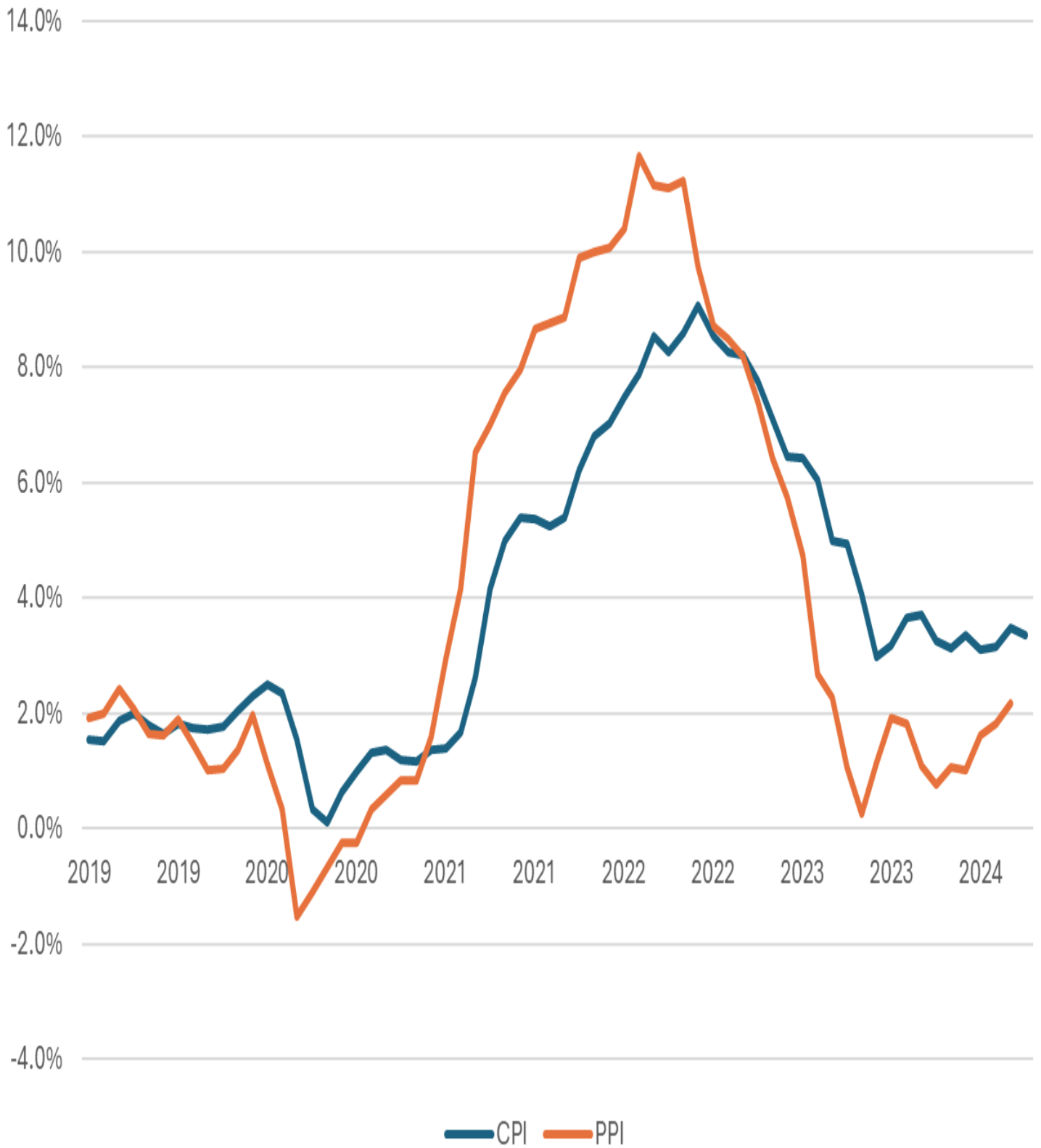
Eakinomics had sincerely hoped that political finger-pointing about inflation would be over by now, almost as much as it hoped that inflation would be back to the 2 percent target by now. Unfortunately, the latter remains unachieved, while the election ensures that the former is alive and well.

For an update on the substance of the fight against inflation, it is useful to dig through the most recent [minutes](#) of the meeting of the Federal Open Market Committee, which reveal a lot of angst at the Fed over the lack of progress in 2024.

As for the political fight, here are some of the common assertions about inflation and what the facts reveal.

1) **It was inherited from the Trump Administration:** The president himself voiced this in an interview with Yahoo Finance, [saying](#) that inflation “was at 9 percent when I came in and it’s now down around 3 percent.” As the chart (below) makes clear, this is incorrect. Year-over-year Consumer Price Index (CPI) inflation was 1.4 percent in January of 2021.

Year-over-Year CPI and PPI Inflation



There is a variant of this argument that essentially argues the inflation pressure was in the pipeline when President Biden took office. But look again at the chart: Year-over-year Producer Price Index (PPI) inflation remained under 2 percent until 2021 as well.

2) **It is because of Putin’s invasion of Ukraine:** Russia invaded Ukraine in 2022, while the key year for U.S. inflation was 2021, when CPI inflation rose by more than 6 percentage points for only the third time. Putin’s invasion did not help anyone except, perhaps, Putin – but you can’t pin U.S. inflation on him.

3) **It’s all about supply chains unraveling after the pandemic:** In the same way the left blames all budget deficits on the Bush tax cuts (uh, 23 years ago), the Biden team blames everything on the pandemic (uh, four years ago). Look again at the chart: There were supply chain issues and one would expect them to manifest themselves in high supply chain – that is, PPI – inflation. PPI inflation has been under the 2 percent target for more than a year. It is not about supply chains.

4) **It’s Greedflation:** This has been around for a while but keeps resurfacing. The basic accusation is that “greedy companies” (I have no idea what that means) take advantage of [insert some economic magic here] to raise their prices. It is never clear what, exactly, kicks off the greedflation, or why it only happens on Biden’s watch. Nevertheless, the staff at the San Francisco Federal Reserve Bank just published a straightforward statistical [debunking](#) of this notion, concluding:

We find that markups rose substantially in some sectors, such as the motor vehicles industry. However, the aggregate markup across all sectors of the economy, which is more relevant for inflation, has stayed essentially flat during the post-pandemic recovery. This is broadly in line with patterns during previous business cycle recoveries. Overall, our analysis suggests that fluctuations in markups were not a main driver of the post-pandemic surge in inflation, nor of the recent disinflation that started in mid-2022.

5) **It’s due to policy errors:** The reality is that the Federal Reserve’s errors and Biden Administration’s fiscal policy spawned the inflation in 2021. Since 2022, the Fed has attempted to defeat inflation, but exceptionally loose fiscal policy has kept it on life support.

Those are the facts.