The Daily Dish

Shrinkflation

DOUGLAS HOLTZ-EAKIN | FEBRUARY 15, 2024

Eakinomics did not want to write about shrinkflation, a concept beneath the non-existent standards that govern this blog. Certainly, it was beneath the president to launch the shrinkflation initiative in a video tied to the Super Bowl. But this president has double-, triple-, and quadruple-downed on statements that merit a “bottomless Pinocchio” from the home team at *The Washington Post*. No single clunker is worth paying attention to.

But CNBC reports that:

> National Economic Council Director Lael Brainard on Tuesday blamed higher consumer prices on “ shrinkflation,” doubling down on the latest battlefront of President Joe Biden’s corporate pressure campaign. “If you look at some of the staples, like eggs or milk, they have come down. But consumer brands, instead of actually lowering prices, they’ve shrunk packaging,” Brainard said on CNBC’s “Money Movers.” “That’s the shrinkflation that the president is really calling attention to.”

That did it. The only thing shrinking noticeably is the quality of the administration’s economic analysis.

The goal, of course, is to blame somebody – ANYBODY – else for the inflation that has averaged 5.6 percent (annual rate) each month during the Biden Administration. The administration has tried blaming evil (Putin), ephemera (“supply chains”), and establishment (“mainstream media”) for its dilemma. But its favorite whipping boy is “corporations.”

Notice that shrinkflation is a very, very close – one might say incestuously close – cousin of the previous iteration of blaming corporations: greedflation. In the former, one supposedly pays the same for less, while in the latter, price supposedly rises for the same amount. Scott Lincicome has done an admirable takedown of greedflation, with which Eakinomics wholeheartedly agrees and will not waste readers’ time repeating. Instead, here are a few additional thoughts on shrinkflation.

Shrinkflation relies on the notion that corporations are the whole economy and can simply raise their prices at will. They can’t. If they could, why have they waited until now to shrink products and raise prices? It makes no logical sense. Moreover, inflation is a general rise in the price level, so corporations across the economy would have to coordinate their price increases. Actually, it is even more daunting than that. In the early days, inflation was driven by goods prices, while the recent inflation is entirely centered in services. This requires two separate conspiracies being turned on and off at the right time.

And speaking of services, shrinkflation has a real shelter problem. The latest shrinkflation freak-out was driven by the January Consumer Price Index report in which shelter services inflation jumped from 4.9 percent (annual rate) in December to 7.9 percent in January. Most rental units in the United States are not owned by Big Apartment; they are in small, mom-and-pop apartment complexes. So, it is not corporations. And how, exactly, did they shrink the shelter units in a month? Did Rick Moranis run wild on New Year’s Eve?

There is nothing about shrinkflation that fits any data other than polling results.

The administration would be well-served to own up to the fact that its policies have contributed to overstimulating aggregate demand and have raised private-sector cost structures by $450 billion (with another $250 billion on tap) via the regulatory state – and, thus, contributed to inflation. (Its unwillingness to change course is an ongoing impediment to disinflation.) Ignoring the obvious and insulting people's intelligence is not a winning alternative.