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ORIGINAL ARTICLE

How to Overcome this Economic, Slowdown Caused by High Inflation

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Nobel laureate Milton Friedman's ideas frequently serve as a basis for diagnosing inflation in the U.S. Milton Friedman famously stated: *"Inflation is always and everywhere a monetary phenomenon —too much money chasing too few goods."According* to Ellen Hodgson Brown, founder of the Public Banking Institute, there are three variables in Milton Friedman's statement: too much money ("demand") chasing (the "velocity" of spending) too few goods ("supply"). In monetary policy, as the Federal Reserve raises interest rates, the institution is deciding to suppress the "demand" for too much money as it relates to borrowing and spending, and because this strategy is not having the desired effect of taming inflation, additional proposals seek to reduce "demand" by raising taxes or unemployment rates (fiscal policy) in hopes of reducing America's disposable income and the ability to spend.

The "velocity" of spending stands at historically low levels, meaning that the broadest measure of household spending (US personal consumption "expenditures") does not have the mountain of household liquidity needed to "chase too few goods." The Consumer Price Index (CPI) has reached a 41-year high and Americans are getting squeezed on two separate fronts. First, households struggle to make ends meet; thus, they are trimming discretionary spending, burning through savings, and running up credit card debt. Secondly, producers are getting squeezed because when their own costs go up, producers must pass on these costs as higher prices of their products to cover those costs, regardless of demand. As Americans have less disposable money, the fact remains that it will not bring producer costs down. Instead, this vicious cycle of less money and higher producer costs will instead, drive companies out of business, as demonstrated during the Great Depression. The authors are not predicting another Great Depression, but we explain in simple terms that as both businesses and consumers are forced to tighten their belts, a significant economic slowdown is inevitable if the Federal Reserve continues to make future major policy blunders as demonstrated as late as yesterday. The year 2022 has already exposed these two separate fronts. First, the stock market has lost a cumulative $7 trillion in value (year to date). Second, the crypto market has lost over $2 trillion during the last 12 months.

Paul Vockler was famous for taming inflation in the 1980's when he raised the Fed funds rate to 20 percent at a time when the global debt was one third of current levels. Today, Fed chairman Powell faces a completely different scenario, best described as follows. First, the Institute of International Finance stated that 2021 ended with global debt reaching a record $303 Trillion but bear in mind that Vockler successfully tamed inflation because there was $200 Trillion LESS global debt. Second, Vockler did not deal with COVID-19 lockdowns that put more than 100,000 U.S. companies out of business, plus sanctions and wars that significantly reduced global supply of fuel, goods, and other important resources.

In short, this is the clear-cut case of cost-push inflation, whereby strong consumer demand remains unchanged and far out weights the significantly less supply available. Instead of the Federal Reserve making money harder to get, President Biden should study previous American Presidents like Franklin Delano Roosevelt (FDR), who pulled the country out of the Great Depression as well as President Alexander Hamilton. Under FDR, the United States survived the Great Depression by investing heavily in infrastructure and development. Another example is China's overcoming the 2008 financial crisis by building 23,500 miles of high-speed rail by funding from its own banks instead of taxpayer money or foreign debt. During this same period starting in 2008 until 2022, American infrastructure projects have nearly stalled for lack of funding.

American President Alexander Hamilton reasoned that the First Bank of the United States (First BUS existed between 1791 and 1811, a century before the 1913 Federal Reserve Act) should issue "Public Credit" to generate active capital for agriculture and manufacturing, increasing the quantity and quality of labor and industry. Consequently, the First BUS would

create ***productive wealth instead of simply financial profit.*** President Alexander Hamilton created four goals for the First BUS. One, the Federal Government assumes the war debts of several states. Two, pay off all war debts. Three, raise money for the new government. Finally, establish a national bank to create a common currency, known as "The Continental". We recommend that President Biden emulate the decisions of Alexander Hamilton and attempt one or all the above, absent war debt needs.

Since President Nixon took the Dollar off the Gold Standard, consumers benefited from increasing dependence on globalization because relying on commodities from halfway around the world led to commodities from halfway around the world led to lower prices overall for consumers and higher profits for shareholders. The COVID pandemic caused both labor shortages and labor cost increases while the demand for goods and services remained stable. Note that this created the initial stages of what economists refer to as *cost-push inflation.*

Because of the disaster like COVID-19, wage inflation was created because workers had enough leverage to push through a wage increase which companies passed on to the American consumers, plus the war in Ukraine hyper-accelerated this type of inflation to another level because the delivery of raw materials and capital goods from around the world became unpredictable and disrupted available supply chains even further. In simple terms, businesses everywhere that typically had 40 percent of their products sold on credit were not receiving the necessary cash to remain solvent and many just shut down. Essentially, these accounts receivables were left unpaid and written off as bad debt, creating a vicious cycle of businesses not receiving the cash inflation was created because workers had enough leverage to push through a wage increase which companies passed on to the American consumers, plus the war in Ukraine hyper-accelerated this type of inflation to another level because the delivery of raw materials and capital goods from around the world became unpredictable and disrupted available supply chains even further. In simple terms, businesses everywhere that typically had 40 percent of their products sold on credit were not receiving the necessary cash to remain solvent and many just shut down. Essentially, these accounts receivables were left unpaid and written off as bad debt, creating a vicious cycle of businesses not receiving the cash they desperately needed to continue operating and, in most cases, the necessary cash to pay their creditors. *Cost push inflation demonstrated to the max.*

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