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A Letter from the Managing Editor

Peter C. Earle

Happy New Year, and best wishes for a joyous, healthy, and productive 2022 to you, your families, friends, and associates. The arrival of a new year always brings change (and in the Berkshires, subzero temperatures). Here at AIER, a greater number than usual are underway. Our new President, Dr. William Ruger, is starting in January. Our new Public Choice and Public Policy Program will launch its first program in March. And the list of events planned for 2022 is our longest ever.

This year, Ludwig von Mises’ Socialism: An Economic and Sociological Analysis turns 100 years old. It remains a preeminent economic work: magisterial scientifically, but unfortunate in its timelessness. Written shortly after the establishment of the Soviet Union, the ensuing century saw a parade of other nations attempt to collectivize their economies. All have met with disastrous outcomes. And among the far-left intelligentsia, each was subsequently repudiated as having not been real socialism (etc.).

In Socialism, Mises convincingly shows that the abolition of private property prohibits the voluntary transfer of factors of production. The inability to voluntarily transact in those factors either results in, or is at times accompanied by, the elimination of market prices. And without prices, rational allocation is impossible. Elite Ph.D economists in charge of planning ministries, with hordes of engineers and computer scientists at their disposal, cannot acquire the necessary information needed to allocate scarce resources without prices. Mises not only demonstrates this, but does so succinctly and without a single econometric equation or formula.

What tools are left for the central planner in the absence of market prices and private property rights? I call them the Three Cs: coercion, contingencies, and corruption. In the 1920 article Economic Calculation in the Socialist Commonwealth, which grew into 1922’s Socialism, Mises aphoristically summarizes the communal economic manager’s bind: Groping in the dark.

This issue of the Harwood Economic Review focuses not upon socialism in and of itself, but with interventionism more broadly. In a sense, the government response to Covid went beyond run-of-the-mill collectivism. Rather than seizing industries, they were suppressed. Market prices were not replaced with government guesses, but commercial annulment. And for six months now market forces have struggled to regain traction. Listless ships, as far as the eye can see, waiting weeks to dock at US ports. Bare shelves in supermarkets and big box stores. Production choices driven not by profit opportunities or expertise, but by the exigencies of shortages.

This is what Mises’ groping in the dark looks like. And this is what AIER was founded to counter, through tireless research and education, 89 years ago. Thank you for your continued support, and Happy New Year.

Peter C. Earle
Managing Editor, Harwood Economic Review
In his excellent book *The Undercover Economist*, Tim Harford referred to a competitive market as a *world of truth*. The free market’s invisible hand leads us to produce the right things the right way in the right proportions and for the right people. In other words, competition, which Friedrich Hayek called a *discovery procedure*, leads people to produce the highest-value goods and services. People don’t systematically make too many or too few. Instead, they tend to discover the lowest-cost, resource-conserving production methods. Prices convey information about wealth-creating incremental substitutions. The goods go to the people who value them most highly. In a well-functioning competitive market, prices are telling the truth about the most advantageous ways to use finished goods and services, intermediate goods, raw materials, our time, and so on. It’s a marvel of cooperation, and no one is in charge.

A lot of people, though, might not like the resulting pattern. So they step in and decide to take charge. When they do so, they interfere with the prices and make them lie about what should be produced, where, when, how, and for whom.

Price controls force prices to lie. Minimum wages give suppliers (workers) incorrect information about what their labor is worth and demanders (firms) false information about scarcity. The result is an outcome that leaves us worse off in a couple of ways. First, there are unconsummated transactions that would have made both firms and workers better off. Second, lying prices make people waste resources searching for jobs that would be easier to find but aren’t there because the higher minimum wage has reduced the amount of labor firms want to hire.

Price ceilings do the same thing. Consider rent control. The Swedish economist Assar Lindbeck once said it’s the fastest way to destroy a city other than bombing it. Just as a minimum wage means unemployed surplus labor, rent control means excess demand for unsupplied rental housing. Once again, it costs us all insofar as unconsummated trades would have been made in the absence of rent control. There are three other costs, as well. First, there is the cost incurred by people waiting in line or searching for artificially scarce housing. Second, there is also the cost of *superfluous discovery* as people invest their entrepreneurial energy searching for ways to evade the law. Finally, enforcement costs tend to
spiral as regulators and the regulated play a cat-and-mouse game where the regulators invent ever-more-ingenious regulations (that have to be enforced by ever-growing bureaucracies). People could use these resources elsewhere, but instead, by social processes that say *comply or die* waste them.

Price-gouging laws do the same thing. Natural disasters like the Texas freeze, hurricanes, and earthquakes inevitably lead to howls of outrage at *price-gouging* merchants and contractors seeking to make a quick buck off another’s misfortune. The criticism ignores why prices matter. It isn’t because they reward virtue and punish vice. Prices are important because they tell people what is most urgently wanted where. They do this quickly and efficiently, and amazingly, they make it so people in another part of the world who don’t know what has happened can help care for the people most affected just by responding to changing prices. Classic examples include building supplies, bottled water, and gas after natural disasters. Taking a cue from Rolf Dobelli, I generally don’t keep up with current events and learn about disasters like Hurricane Ida secondhand. Even when I do know about what has happened, it is usually in a pretty vague, non-specific sense. If price controls didn’t stop prices from changing in real time to reflect people’s beliefs and expectations about what was most urgently wanted where, changes in prices for building supplies, bottled water, and gas would give people who may not even know a disaster has occurred an incentive to put off building that new deck, to buy fewer bottles of water for Saturday’s football party, and to drive less. When price controls for the prices lie, people don’t make those adjustments. Prices, when they are free to change, help us bear one another’s burdens.

We rinse and repeat for other ways prices lie when they are controlled. Interest rate controls create credit shortages and misallocations. Taxes create deadweight loss. So do subsidies. And tariffs. Inflation causes *price confusion* and *money illusion*: prices are harder to interpret when they aren’t stable, and changes in the price level make it easy for people to think they are richer or poorer even when they aren’t. The cruel irony? It’s easy to blame greed, selfishness, or myopia when, in fact, people are doing the best they can with bad information—in this case, unreliable prices. It’s like computer programming or anything else: Garbage In, Garbage Out.

People make bad enough choices even when they have reliable information. A few minutes of introspection and reflection should be enough to convince all of us. But, unfortunately, making prices less accurate and less reliable with well-intentioned but misguided controls compounds the problem. It leads to an even bigger pile of errors—a *misuse* of knowledge in society, in other words.
For more than a year, due mainly to illiberal policies associated with Covid-phobia and lockdowns, the U.S. has experienced various types and magnitudes of labor shortages. In short, the quantity of labor demanded by would-be employers has exceeded quantities supplied by would-be employees, especially in the service sector. The phenomenon is neither accidental nor temporary. Joblessness has been both mandated (by shutdowns of nonessential businesses) and subsidized (with lucrative and extended jobless benefits), which makes it difficult for many businesses to attract and hire labor of sufficient quantity, quality, reliability, and affordability.

People usually complain about shortages, especially if they are persistent and prove harmful to them as buyers of necessities like food, gas, or housing. Yet few people today, except for labor-begging business owners, complain about the labor shortages. Indeed, many people, being labor suppliers who disdain the greed of profit-oriented labor hirers, like the shortage. They prefer that their labor not be a necessity, so they aren’t beholden to the man (aka, capitalist exploiter). They prefer more leisure (as we all do), especially when politicians pay them to engage in it. The point of state-based unemployment insurance benefits is that they ensure unemployment.
Hundreds of thousands of American businesses that have survived the year-and-a-half of Covid-based policy assaults are having a difficult time finding and keeping good, reliable, and affordable labor. Much of the labor pool—especially in services—has become a stagnant swamp. Millions of people prefer to stay home and take a government subsidy.

Figure One illustrates the extent of the current labor shortage in the U.S. Notice how job openings (vacancies) far exceed the number of unemployed workers—and the gap has widened over the past year or so. Worse, the long-term unemployed have become a larger share of the total unemployed. Vacancies are at record levels (20.5 million) even amid high joblessness (9.5 million). The gap between vacancies and the number of people living idly in long-term joblessness (seven months or longer) is also the widest on record. Figure One also shows employment costs rising, which ultimately trenches on profitability.

The unemployed depicted in Figure One are not those who’ve dropped out of the labor force but those who claim, while applying for and renewing their jobless benefits, that they’re looking for work but somehow can’t find it. How can they not find it, when job vacancies are at record highs? In truth, they can’t find a job that pays more than they believe they’re worth to some employer and they won’t bother taking even a slightly-lesser-paying job, because they’re now paid above-normal jobless benefits from Covid bailout spending and federal largess. This supplements what the 50 states pay in jobless benefits. Yes, some states are now decreasing or terminating jobless benefits, but the data still show a large labor shortage.

Basic economics teaches that when markets are left free, they clear, which means prices help equilibrate supply and demand. Neither surpluses nor shortages become material or chronic, for surpluses entail quantities supplied exceeding quantities demanded while shortages entail the reverse. Sellers facing surpluses and preferring sales and profits to excessive inventories will gladly reduce their prices by lowering prices. Likewise, buyers who face shortages and prefer to obtain more product than not willingly pay higher prices.

Material or chronic surpluses and shortages reflect not market failure but the failure of governments to let markets clear. It is believed that fairness requires that certain prices be higher or lower than the equilibrium level. Politicians proceed to tax, regulate, price-set, and subsidize. In democracies, where majorities dominate, electorally astute, vote greedy politicians necessarily favor the larger population of employees versus employers (except to the extent they peddle their influence, via rent-selling, to extort campaign contributions from the latter). Instead of being seen for what they are—labor market manipulators—populist politicians can pose as benefactors aiding that quintessential economic contradiction, the non-working worker.

As Paul Krugman put it recently, Workers Don’t Want Their Old Jobs on the Old Terms, so they welcome politicized, non-economic policies that use taxpayer funds to pay the voluntarily jobless to hold out for higher wage rates than they’d otherwise deserve or obtain from the perspective of marginal productivity. For Krugman and his acolytes, this is better even than a minimum wage mandate (which Krugman also supports), as it doesn’t require employers to pay the above-market wage rate (i.e., they’re not—yet—compelled to hire overpriced labor; they can use more capital instead, as occurs at banks, gas stations, toll booths, airline check-in counters, fast-food restaurants, with automated tellers, toll takers, and kiosks).

Daniel Alpert, senior fellow in macroeconomics and finance at Cornell Law School, concurs with Krugman and declares that Americans Don’t Want to Return to Low Wage Jobs. Alpert blithely assumes that wage rates (all wage rates?) are too low and will be until and unless government intervenes forcibly to rectify the market failure. He fails even to relate low-wage jobs to less-skilled jobs, or to acknowledge that the problem is best rectified by introducing still more and higher-quality capital (labor-saving devices), not by boosting jobless benefits or by imposing a still-higher minimum wage rate which rational, profit-maximizing employers shouldn’t bother to pay.

Labor market experts have recently confirmed and fueled such anti-employer biases. A recent New York Times Op-ed by MIT economics professor David Autor was titled: Good News: There’s a Labor Shortage. That was the online title; the print edition was titled The Labor Shortage Has Empowered Workers. This assumes workers lack bargaining power under normal conditions, as when markets clear, supply equals demand. How can professional economists believe such nonsense? Why applaud market disequilibrium? Autor, a co-director of the MIT Task Force on the Work of the Future, has spent years reprising the undue fears of early 18th-century British economist David Ricardo (1772–1823)—a devotee of the socialist labor theory of value (LTV)—about machines displacing physicalist labor. Fear of all fears! Barack Obama, in his last major address as president in January 2017, echoed Autor’s (and Ricardo’s) themes, claiming that automation was deleterious and divisive because skilled workers who can operate technology are better paid. But of course they’re better paid; they have a skill not everyone has. Echoing the fears of many, President Obama suggested that this may justify slowing and impeding capital formation and
deployment. But that favors the cronies no one dares mention: unskilled laborers perpetually on the public dole. Autor, Obama, and countless others are more concerned with achieving equity than prosperity.

By now it should be obvious, especially to experts and Presidents, that more and better capital increases labor productivity, real wages, and living standards; it also should be clear by now that capital isn’t the alien, alienating, or impoverishing force, but a frozen form of human labor—the embodied labor of brainiacs, inventors, engineers, and entrepreneurs. Capital isn’t dead labor, but vital, perpetual-motion labor, powered by energy and kept vibrant by maintenance and upgrades. Capital, and profit, its income, isn’t blood-sucking parasitism, but the lifeblood of a dynamic and flourishing capitalist economy.

Why is so much of this unclear even to people who should know better? It’s not because they don’t know basic economics, the meaning of equilibrium, or the problem of shortages. They are clearly, unambiguously, and ideologically anti-capitalist; only derivatively are they anti-employer, because they can’t deny that most employers are capitalists at least financially (if not always ideologically). Channeling Marx, those suspicious of employers today believe capitalists profit by underpaying workers what they’re really worth and by charging customers more than what’s proper per that unicorn model in academic economics known as pure and perfect competition.
The many economists who emulate Marx today remain convinced that wage rates in a capitalist system are determined not by someone’s net contribution to the total market value of goods and services created by commercially-viable enterprise—i.e., by their marginal productivity—but arbitrarily, by employers who pay whatever they wish (including bare-bones subsistence wages)—and by policies that sustain a vast reserve army of the unemployed that’s easily exploited, because starving workers are eager to accept any job on any terms. The army metaphor reflects the Marxist premise that workers are conscripted and regimented in a hierarchy under the thumb of capitalists.

Short of revolution—an overthrow of capitalism itself—democratic socialists seek first not to prevent widespread joblessness, but to ensure that joblessness exists (especially among the less skilled) where it didn’t previously exist at all, namely, in a freer, non-emergency setting (see 2019). Next, they seek to make taxpayers—which, in their progressive tax code of graduated rates, means mostly the rich and corporations—will pay the jobless not to work. They believe capitalists will be induced or compelled to do the right thing and finally raise wage rates. A reserve army of the unemployed still exists in this model, but is kept off the market by the equivalent of a public bribe. Thus, the jobless are liberated from greedy capitalists but come to depend on politicians.

Socialists, who believe that laborers are exploited by capitalists, fight to make economies unfree. Their goal is to turn the tables and expropriate the expropriators, to ensure that capitalists (employers) are exploited by laborers (employees). Socialists accuse capitalists of paying labor next to nothing for doing something great, but their solution is to force taxpayers to pay greatly for labor that does next to nothing.

These themes illuminate the aims of the Biden administration and its allied Democratic socialists in the U.S. Congress; they seek to spend an additional $3–5 trillion over the coming decade—on top of their already reckless and wasteful spending over the past 18 months—on human infrastructure. This entails spending on labor that doesn’t work (jobless benefits, family leave, etc.), on public schooling that doesn’t work (except to corrupt and erode human capital), and on energy that doesn’t work (more costly, less reliable renewables). The goal is to have as many American citizens and non-citizens alike dependent on government handouts for as long as possible, dependent on politicians directly and taxpayers indirectly. It’s a deliberate policy of subsidized parasitism. Covid lockdowns are the ideal policy for promoting this non-labor, anti-employer agenda. Lockdowns weren’t necessary to curb the spread of Covid; they caused more harm than good. Yet millions of people today are still compelled or induced by Covid policy to stay home, shutter businesses, and take jobless subsidies.

Today’s U.S. labor shortage is both uneconomic and unnecessary, yet nonetheless what appears to be a deliberate policy aim. Sadly, the same can be said about a wide range of other anti-capitalist policies being advanced by the Biden administration.
An Armor Conspired: the Global Shipping Freeze

Peter C. Earle

Despite numerous personal shortcomings, Jim Morrison of The Doors regularly evinced considerable writing talents. In the poem-song Horse Latitudes, he describes the conditions under which stalled galleons would, drifting listlessly at certain latitudes, jettison cargo so as to make their craft more susceptible to the slightest winds. The lyrics begin as follows:

When the still sea conspires an armor
And her sullen and aborted currents
Breed tiny monsters
True sailing is dead

Cargo vessels no longer raise sails or require wind to fill them, but doldrum-like conditions are rapidly manifesting near ports all over the world. Last week,

[sixty-one vessels were anchored offshore on Thursday [September 23rd] waiting to unload cargo as the Port of Los Angeles and the Port of Long Beach... In addition to the anchored ships, 29 were adrift up to 20 miles offshore, meaning they were so far from the coast that their anchors could not reach the ocean floor.

And in the east on Sunday, September 26th,

[The] Port of New York and New Jersey appears to be facing similar issues as West coast ports... Around 24 cargo ships and oil tankers [were] stuck waiting to dock off the coast of Long Island, New York... As of 9pm local time Saturday, the ships appeared to have been stuck in place for hours.

Explanations for the increasing delays include slow loading/unloading times, rising costs of shipping, and capital shortages. All of those explanations are correct but incomplete and insufficiently descriptive. To uncover the root causes and trace their evolution, we must go back to the very beginning.

Nominal Rigidities
First, the foundations. While bottlenecks are occurring everywhere, at present US ports are disproportionately affected. Docking locations along US coasts are among the slowest in the world: not because of size or technological capacity but collective bargaining hindrances. As Dominic Pino recently wrote,

Why are our ports so far behind? Not because we don’t spend enough on infrastructure, as the Biden administration would have you believe. The federal government could spend a quadrillion dollars on ports, and it wouldn’t change the contracts with the longshoreman unions that prevent ports from operating 24/7 (as they do in Asia) and send labor costs through the roof. (Lincicome finds that union dock-workers on the West Coast make an average of $171,000 a year plus free healthcare.) The unions also fight automation at American ports today, “just as they fought containerized shipping and computers decades before that.”

Before the public hysterics, lockdowns, and stay-at-home orders, and even before the first offloading was delayed, nominal rigidities had ossified US port operations and made them particularly vulnerable to even the slightest kinks in supply chains.

Where It Began
As is well documented by now, the effects of nonpharmaceutical interventions sent measures of economic activity plummeting throughout the second quarter of 2020. Unemployment skyrocketed to levels not seen since the Great Depression. The US government countered with stimulus payments via the CARES Act (March 2020), the Consolidated Appropriations Act (December 2020), and the American Rescue Plan (March 2021). Although state governors adopted independent pandemic postures, the spectrum of stringency ran a gambit from less to more binding as exemplified by Florida and North Dakota versus Hawaii and California.

The sudden strangulation of in-person commercial activity, coupled with weeks to months of veritable isolation at home, with trillions of dollars being mailed out led to a consumption binge. This was both well documented and empirically verifiable. Where in normal circumstances modern US consumers tend to purchase services more than goods, the circumstances arising of isolation at home for prolonged periods led to a decisive shift toward purchasing goods: electronics, furniture, exercise equipment, home improvement items, and so on.
It is in the sudden, stimulus-fueled rise in demand falling upon decreasing supply where, in summer and fall of 2020, strains began to wend their way through shipping processes.

**Intermodal Transport**

Intermodal transport has its roots in the growth of trade in the 19th century, but like so much of what makes the modern world tick, it goes mostly unobserved and almost entirely unappreciated. The standardization of shipping containers in such a way that they can move from trucks to ships to aircraft, barges, and trains with a minimum of effort is a feat of technology and international coordination.

Throughout the fall of 2020 and winter of 2021, the US economy was expanding out of the artificial recession imposed in the spring and early summer of 2020. (It bears noting that even in the latter part of 2020 certain US states were still restricting movement, limiting gatherings, and fining employers.) This expansion of activity resulted in the first episodes witnessing a shortage of shipping containers in February 2021.

**The Ever Given and the Suez**

On Tuesday, March 23, 2021, the *Ever Given*—a 1,300 foot, 200,000 tonne container ship carrying over 18,000 containers—became lodged in the Suez Canal. (The canal has closed a handful of times.) The blockage is believed to have occurred when the combination of an uncommonly strong gust of wind and preoccupied guidance led to the fore of the ship running aground, wedging it across the canal at an angle.

In this one development, some 12% of global trade was held up for 6 days: just under $10B worth of goods and over one million barrels of oil. When the ship was finally freed, shipping journal *Lloyd’s List* estimated that some 450 ships were waiting to traverse the canal.

The damage associated with the accident includes the numerous and uncountable cost of delays, the estimated reduction of annual global trade growth (0.2 to 0.4 percentage points), and the leap in the cost of chartering vessels to go around the Horn of Africa (47%). But the Suez blockage also made each of the subsequent transportation snags all the more severe.
Shipping Containers Dwindle
At this point, the combination of rising demand and slowing sea traffic began revealing itself in a paucity of available shipping containers.

Intermodal transport, which contemplates the use of standardized containers that readily transfer between air, sea, rail, and highway conveyance, is perhaps the most underappreciated factor in the globalized economy. Standard dimensions permit planning and maximizing capacity in advance, giving logisticians the ability to capitalize upon changes in the course of shipment. The ability to move a container from train to aircraft to ship results in efficient lading, which has contributed to lower costs and faster delivery times.

The global shipping container inventory tends toward a rough equilibrium state which takes into account surges in demand; the containers tend to last about 12 years, and are produced at a rate generally matching their retirement of some 6 to 8% per year. The greatest and most predictable surge of use occurs between September and December as retailers stock inventories in anticipation of the Thanksgiving to New Year’s surge in consumption.

But by the early spring of 2021, with containers filling rapidly in response to Covid-related demand (both lockdowns and reopenings) and additional stimulus payments, available containers and container space became scarcer. Dwindling supply, predictably, was signaled by worldwide container prices. There are markets for newly built shipping containers as well as exchanges where used containers can be acquired. Between early and late 2020, new shipping container prices rose from roughly $1,800 to $2,500 CEU; but roughly one month after the week-long Suez blockage the first of several spikes was witnessed.

The price for a new container is now $3,500 per cost equivalent unit (CEU, a measure of the value of a container as a multiple of a 20-foot dry cargo unit). . . [while] recent price gains have been more extreme in the used container market. Container xChange reported that the price of used containers in China has nearly doubled from $1,299 per CEU in November [2020] to $2,521 in March [2021].

As to why production of new containers didn’t ramp up to meet surging demand, there are several perspectives. If the elevated demand was expected to be temporary, it’s possible that container firms didn’t see the point in increasing output. Another view holds that a rare opportunity to earn outsized profits in a normally staid business was capitalized upon by the producing firms.
Yantian Closes

In late May 2021, Yantian, a Chinese port about 50 miles north of Hong Kong shut owing to a number of Covid infections among dockworkers. Authorities halted operations for almost a week, which at a daily operating capacity of 30,000 20-foot containers per day, created a tremendous backlog. The ripple effect saw not only a pileup of unsent goods at that port, but the rerouting of Yantian-bound container ships to other ports strained capacity, creating further delays, and tying up more containers. By Thursday, June 17th, the congestion in Yantian had spilled over to other container ports in Guangdong, including Shekou, Chiwan, and Nansha. The domino effect is creating a huge problem for the world’s shipping industry. As of Thursday, more than 50 container vessels were waiting to dock in Guangdong’s Outer Pearl River Delta. But the snag in operations in Yantian alone is concerning more than the total volume of freight impacted by the six-day closure of the Suez Canal in March.

The price associated with shipping goods spiked, with the cost of sending 40-foot containers from Shanghai to Rotterdam increasing over 500% to $11,000 or more. The breach of the $10,000 rate marked a turning point; and it was at this point that, en masse, major shipping companies began alerting their clients of substantial delays, rising costs associated with routing changes, and higher prices associated with acquiring containers. Firms dependent upon ocean shipping began to do something they had been unaccustomed to: considering, and in some cases seizing upon, the newly-developed cost savings associated with air and rail transport.

Containers and Ships Vanish

As container availability dissipated and warehouses near ports overflowed, some shipping firms chose to use the scant containers in their possession as makeshift storage space on docks and truck/rail terminals. And by June 2021, Indian exporters to North America and Europe [were] complaining that the wait times to find a shipping container [could] stretch as long as three weeks. British exporters say the shortage [had] delayed shipments to east Asia for up to two months. And in the meantime, container prices...nearly doubled.

On June 14th, Home Depot supply chain managers realized that it was time to charter its own vessel. “We have a ship that’s solely going to be ours and it’s just going to go back and forth...100% dedicated to Home Depot,” Chief Operating Officer Ted Decker said. The company [had] been reduced to bringing in items by air...as domestic demand surged.

Brokerage prices for short- and long-term charters began to surge. Whether awakened to this possibility by the Atlanta-based retailer or having arrived at the same conclusion independently, over the following weeks Walmart, Ikea, and scores of other large firms entered the private charter market.
Pallets Join Containers
All this was soon accompanied with a new problem deriving from yet another pandemic policy side effect: a pallet deficiency. The price of lumber had, owing to the effect of stay-at-home orders on sawmills and home improvement projects owing to lockdowns, surged roughly five-fold between January 2020 and May 2021. (By one account, an estimated 46% of US hardwood lumber production goes toward pallets.)

In fact, the international shipment of certain types of goods requires being seated upon pallets within shipping containers. Unbeknownst to materially all the world not familiar with the nuance of international trade, pallets are, just like the shipping containers they are regularly coupled with, nothing short of an integral cog:

Companies... have literally designed products around pallets. ... There is a whole science of “pallet cube optimization,” a kind of Tetris for packaging; and an associated engineering filled with analyses of “pallet overhang” (stacking cartons so they hang over the edge of the pallet, resulting in losses of carton strength) and efforts to reduce “pallet gaps” (too much spacing between deck boards). The “pallet loading problem,” —or the question of how to fit the most boxes onto a single pallet—is a common operations research thought exercise.

And as reported on ShipLilly, a shipping and logistics blog on June 9th, 2021,

The cost of raw lumber has doubled and sometimes nearly quadrupled. Lumber price increments have exponential impacts on the cost of manufacturing wood pallets. Manufacturers are passing on these costs by way of increased asking prices... If pallets are available, a buyer can expect to pay 400% more.

Hastily-improvised workarounds swung into action, including repairing old pallets, building new pallets from discarded lumber, new loading schemes, and employing alternative means of elevating cargo, including plastic or concrete. This incidentally, put the shipping industry in direct competition with agricultural interests, as transporting produce is also dependent upon pallet availability and prices.

Ningbo Closes
It is yet too early to call what occurred in mid-August 2021 the capstone event, but for now that appellation suffices.

With the detection of a single Covid infection among workers—a worker reported to be 34-years-old, fully vaccinated, and asymptomatic—a large portion of China’s massive Ningbo-Zhoushan Port closed for nearly two weeks. The impact of the partial shutdown of the third largest port in the world not only derailed the slow recovery from the Yantian cessation, but...
stretched across the Pacific Ocean to Long Beach port in Los Angeles, where more than 30 ships were waiting to get into port to offload... elsewhere in Southeast Asia, anchored ships off Vietnam’s largest two ports rose to six above the median.

Necessity being not only mother but father, sibling, master, and servant to invention, creative solutions poured forth from the private sector. Large and small firms began chartering smaller ships to fit into smaller, less congested ports. And many corporate logistical programs, including that of Peloton, began dividing shipments into optimized shipping categories among train, truck, air, and sea routes. And on the demand side, retailers began stockpiling: withholding goods from store shelves and online listings in anticipation of the coming holiday season. (Amazon’s decision to purchase 11 Boeing 767s earlier this year looks sagacious in retrospect.)

Early in the pandemic, it was noted that the impact of lockdowns would be proportionately more devastating for smaller firms. And as such, that consolidation and concentration—the frequent target of the very same left political thought that drove nonpharmaceutical interventions—were likely outcomes. And that is indeed the case arising of these secondary and tertiary effects.

[Supply chain snags are likely to add dominance to big-box retailers while cutting out smaller companies that don’t have the extra funds to charter their own vessels or ship via cargo planes. “Whenever we have a constrained supply like this it’s always the big dogs that win,” Douglas Kent, executive vice president of strategy and alliances at the Association of Supply Chain Management [said]. “The smaller firms just don’t have the capital to keep up. They’re already in survival mode. They’re going to have to pass on these costs to customers and risk losing out to big-box retailers that can absorb these costs themselves. As a result we will likely see the shuttering of more companies due to these ongoing issues.”]

Predictably, container carriers are seeing a windfall. The same 40-foot container which cost, at most, $2,000 to ship goods from Asia to the US will now cost $25,000 if the exporting firm has guaranteed (or the importing firm paid for) on-time delivery. In 2020, the shipping industry earned an estimated $15 billion in profit; this year, the number is likely to top $100 billion.
Ongoing Port Congestion
Throughout September 2021 ports all over the United States have been experiencing record ship delays. By September 11th, the logjam at the Los Angeles ports exceeded 50 ships carrying as much cargo as was previously seen in a month. After peaking at 73 ships on Sunday, September 19th, half a week later there were still 62 ships waiting to dock and offload. That’s up from an average of zero to one (on a particularly busy day), pre-Covid. And among them were craft and crew that had been waiting for as long as three weeks.

Yet even addressing the rigidities and stickiness discussed in an earlier section—maximum daily/weekly work hours and wages set by long-standing collective bargaining agreements—is mostly unhelpful, owing to the vast number of moving parts in the international supply chain.

[Longer hours do little to address the backlog when truckers and warehouse operators have not similarly extended their hours. It’s not optimal for truckers to pick up their loads at night, especially when they’d have to find alternative places to store the goods [as] warehouses are not open at night.]

Additionally, broader labor shortages arising from the payment of Federal unemployment bonuses have been impacting every link in the international logistical chain. Many companies, Business Insider reported, “have fewer workers [now] than before the pandemic started but face significantly more work due to the boom in demand for goods.”

The Armor Yet Conspires
As of last week the spot rate for container rates was up 731% over the average of the past five years. As shipping cancellations have risen amid rapid changes in logistical plans, some ocean shipping firms are now requiring full payment up front, adding yet another level of difficulty to an increasingly intractable state of affairs. Amid this, retailers are attempting to stock up for the end-of-year holidays. Predictions regarding a return to normalcy range from 2022 to as late as 2023. Companies including Nike have already warned that certain products are likely to be unavailable before the holiday season.

The effect of blow after blow to global trade on the availability of goods is most visible in the following graph.

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Drewry Hong Kong to Los Angeles Container Rate (40-foot, 2015–present)

(Source: Bloomberg Finance, LP)
Three observations may be made: first, that for some years, the ratio of business inventories to sales in manufacturing, retail, and wholesale trade has been fairly steady. Second: when Covid initially struck, the ensuing policies resulted in the ratio of business inventories to sales rocketing to all-time highs. (Which is to say: goods piled high as consumption plummeted.) And finally, consumption soon soared as people at home began spending, fueled by boredom and stimulus payments. Businesses have reopened and many have kept up with demand, but the ongoing problems of shipping described heretofore have led the inventory-to-sales ratio dropping to all-time lows.

This week it was reported that at the fourth largest port in the US, in Savannah, GA, 20 ships are now delayed. *Dwell times*—the time elapsing between containers arriving at the port and departing by truck or train—have increased from four to as long as twelve days. Globally, a host of other quandaries potentially lie ahead. Typhoons, a shortage of truck drivers in Europe, government responses to new outbreaks of Delta and subsequent Covid variants all threaten to worsen the shipping crisis from where it currently stands.

There is an unavoidable price for the ceaseless avalanche of goods and services falling around us: it is exposure to an arrant, inherent level of complexity. Only the coordination of a superabundant array of prices, timing, capacity, and information keeps the globally-integrated supply chain functioning. A single, small misstep or error increases the likelihood of subsequent problems at every juncture in the process. The *two weeks to flatten the curve* decision along with other shortsighted, unnecessary (and, as it turns out, ineffective) policy options has generated countless knock-on effects. Those now include shortages of shipping containers, long and increasing port delays, a growing scarcity of essential supply chain components, insufficient labor, higher prices, and a mounting undersupply of final goods. While it may prove hyperbolic, for the first time this week the description of a *global transport system collapse* was employed.
Science and engineering have brought about an era in which doldrums no longer vex modern day mariners. Owing to innovation and entrepreneurship, there are no longer horse latitudes where payloads are dumped overboard by desperate crews. Yet those conditions have reemerged, borne not of nature but of power, mindlessly exercised. The idea that an economy could be indiscriminately shut down and turned back on without far-reaching consequences, as if a light switch or lawn mower, is utterly damnable. It could only come from the mind of an individual, or body of individuals, with no understanding of or consideration for the extraordinary interdependence of the productive sector.
Aluminum is a vital commodity for advanced industrial civilization as we know it. It plays a crucial role in power transmission, construction, transportation, and consumer electronics. Aluminum is extracted from bauxite ore in a two-step process. Ironically, a quarter of the world’s bauxite, a commodity so essential for the functioning of an advanced market economy, is in Guinea—one of the poorest countries on earth.

With bauxite reserves estimated at 7.4 billion metric tons, the country of 12 million-plus people, at current market prices of $40 a ton, sits upon a resource valued at around $300 billion. Besides bauxite, Guinea also has substantial iron ore reserves exceeding three billion metric tons and significant deposits of gold and diamonds. The country also has great potential in agriculture. It currently produces $12.3 billion of total GDP in a year. The future should be bright for Guinea, but it is not clear that it will be.

What many would take as a blessing—an abundance of resources—can act as a curse. Economist Richard Auty coined the phrase resource curse as a way of capturing in shorthand how the presence of mineral wealth could distort an economy and do more harm than good for economic development. In a later study, economists Jeffrey Sachs and Andrew Warner found a correlation between natural resource abundance and poor economic growth. Do its abundant resources curse Guinea, and how might that curse be unfolding?

Since declaring independence from France in 1958, Guinea has had six heads of state if we include Colonel Mamady Doumbouya, the September 5th coup leader. Sékou Touré served as the country’s first president, and he stayed in power until his death from a heart attack in 1984. During most of his reign, he ran Guinea as a Marxist party state through the Democratic Party of Guinea. He aggressively opposed the old colonial powers and supported insurgents against the Portuguese colonial government in Guinea Bissau. He cultivated relations with the Soviet Union and the People’s Republic of China. It is estimated that 50,000 people were killed during his rule as a cost of his revolutionary policies. Failing to develop the country under Marxism, Touré shifted to a policy of market liberalization in 1978 and sought to improve relations with France and the United States.

With the death of Touré on March 26th, 1984, Prime Minister Lansana Beavogui became interim President. Given his strong standing with the DPG, he stood unopposed to become the next President of Guinea. Unfortunately, after serving only four days as interim President, Beavogui was overthrown in a coup d’etat. He was imprisoned, and six months later, instead of being President of Guinea, he died of diabetes.

Colonels Lansana Conté and Diarra Traoré led a successful coup, becoming President and Prime Minister of the Republic, respectively. Around one year later, Traoré attempted to overthrow Conté and failed.

Conté led the country as President under the auspices of the Military Committee of National Restoration for six years. With a new constitution approved in 1990, Conté ran for President and won as a candidate for the Party of Unity and Progress in 1993. The political opposition alleged electoral fraud, but Conté’s victory with 51.7 percent of the vote seemed fair and contested compared to his third victory as President with 95.6 percent of the vote—all but one of the opposition parties boycotted that election.

Like the man he replaced, only death separated Lansana Conté from the Presidency. The rewards of leading a mineral-rich country are considerable. In 2006, toward the final years of his Presidency, Guinea was ranked by Transparency International as the second most corrupt country in the world, standing behind only Haiti. Many who were close to the government were able to secure business opportunities, giving them tens of millions of dollars and the potential for billions of dollars from exploiting future mining concessions—Guinea’s GDP per capita is $962.84.

Upon Conté’s death, the National Council for Democracy under the leadership of Captain Moussa Dadis Camara circumvented the constitutional procedures that would have made the President of the National Assembly also the President of the Republic. Another coup promised to undo the harms a corrupt political leader had committed against the People of Guinea. Camara became President and pledged to return the country to democracy with Presidential elections scheduled for December 2010.
Political protests and atrocity marred Camara’s Presidency. His presidential guard killed at least 157 people during protests calling for Camara to step down. The leader of the presidential guard, Abubakar Diakite, later attempted to kill Camara as the massacre blew up their relationship. Camara was wounded, fled to Morocco for medical treatment, and later found refuge in Burkina Faso. Under pressure from the international community, Camara made arrangements to have an election in June of 2010.

A cloud of corruption, real and perceived, hung over the elections that brought Alpha Condé to the office of the Presidency. Condé failed in pressuring the junta to disqualify his political opponents. Condé received 15 percent of the vote in the first round of elections, and his opponent Cellou Dalein Diallo received 40 percent of the vote. The second round of voting had Condé as the victor with 52.2 percent of the vote.

Having achieved victory, he began an ambitious campaign to reform the mining sector and nullified several of the previous junta’s deals with major multinational corporations. The need for reforms of civil-military relations was pressed upon him when some military members attacked his residence in a failed assassination attempt. Electoral violence plagued parliamentary elections in 2013, and charges of electoral irregularities were widespread. If political problems were not enough, outbreaks of Ebola threatened the health and economy of the country.

Despite the troubles of his first administration, Condé won his second term in 2015. His focus on constitutional reform and his potential to serve a third term led his opponents to the streets in protests. Their fears came to pass when the constitutional reforms advanced, and Condé interpreted the new constitution to mean that he would be eligible to serve a third term in office. Despite being a human rights lawyer and pledging to reconcile the nation’s 24 ethnic groups, he masterfully played ethnic divisions, particularly between the Peul and the Malinké, Guinea’s two largest ethnic groups, to secure a third term in office. Protests followed. A coup would come.

During his rule, Condé increased investment in the mining sector, attracting capital from Chinese investors. Despite a commitment of 15 percent of mining revenues to the National Agency for the Financing of Local Communities, the development of mining had a minimal impact on the well-being of most Guineans. Of course some people became very rich because of these deals, yet others were harmed by the loss of land and the pollutants produced by mining sector activities. Managing harms to ecological services done by mining and disruptions to the economy by rapid influxes of capital are significant issues for countries seeking to grow their economies through investments in resource extraction industries.

It is not uncommon for investments in the mining sector to push prices up for all citizens. Guineans faced rising food prices made worse by crop failures in Russia and Canada—a source of wheat the Guineans import as a staple for their diets. Food riots ensued, with the government waffling between allowing bread bakers to raise prices and caving in to the public’s outrage about high bread prices and...
reimposing price controls. Not permitting prices to rise, as might be expected, resulted in shortages of bread. Combined with rising prices across the board and the disruption of the economy created by the Covid-19 pandemic, the people of Guinea were on average less happy than their normally unhappy state.

Amidst this crisis, President Condé sought to increase the budgets of the National Legislature and the Office of Presidential Services while raising taxes and cutting the budget of the police and military. It is hard to imagine a dafter strategy for someone seeking to maintain power in a developing state in crisis.

On September 5th, forces led by Colonel Mamady Doumbouya attacked the Presidential Palace and captured President Condé. Shortly after, Doumbouya announced that the National Committee of Reconciliation and Development would oversee a transition period to a government that would represent the people rather than the interests of a corrupt clique of politicians. The familiarity of the script would warrant some scepticism about how this transition will eventually play out.

The international community promptly condemned the coup and called for the restoration of President Condé. The rule of law is an important international value and essential for developing institutions that contribute to economic development. Corrupt leaders test this commitment. Colonel Doumbouya quoted Jerry Rawlings, a former President of Ghana and past coup leader, stating, *If the people are crushed by their elites, it is up to the army to give the people their freedom.*

What exactly is freedom? Is it somehow tapping into the vast mineral wealth of the society and sharing it with the people? On the surface, this looks very tempting, but to exploit the country’s mineral wealth, the Guineans will need substantial outside capital. For example, tapping into the iron ore wealth of the Simandou Hills requires a capital investment of $20 billion to build a railroad to Conakry and expand the port to bring the iron ore to market. Given that consumption is 80 percent of Guinea’s $12 billion economy expenditures, $2.4 billion seems all the Guineans have for investment and government services. It appears developing these resources requires negotiations with multinational corporations willing to risk capital in Guinea.

Australian, Brazilian, Chinese, Israeli, Russian, and Singaporean multinationals are the major players in Guinea’s mineral market. Geopolitical concerns make Guinea’s bauxite and iron ore deposits a vital hedge for China against its...
loss of access to Australian minerals. Guinea is an important link in the supply chain of China’s Belt and Road initiative. These geopolitical overtones do not eclipse the fundamental motivation of multinational corporations’ involvement in Guinea—profit. Businesses want a great rate of return. To get it, they need to negotiate deals with the government of Guinea that put more money in their coffers than other investment opportunities would.

A successful business venture may add $3 billion to Guinea’s mineral exports in five years. If this were divided evenly among Guinea’s 12 million-plus people, it would come out to roughly $250 per capita. Investors may be expecting an 8 percent rate of return on their capital, taking $1.6 billion off the top, leaving Guineans with $1.4 billion to divide among themselves. Were costs entailed in mining and shipping the ore? Of course. Did the government provide any services that facilitated mining activities? Certainly. What if 15 percent of the revenues can be set aside for the Guinean people? That leaves them with $450 million to divide among themselves or $37.50 per capita. This amount may seem small, but it is roughly 3.75 percent of the country’s per capita income.

These numbers are estimates of costs and revenues, but they give us a sense of what development of the mining sector is likely to accomplish for the well-being of the Guinean people. Shifts in market demand or supply of iron ore can either make this scenario better or worse for the Guineans.

The complexities and risk of this situation should also reveal how tempting it might be for well-positioned politicians or friends to direct some of the above money to themselves by seeking bribes, consulting fees, and jobs with mining companies. It is so tempting that almost all mineral-rich states are plagued with corruption and accusations of corruption. Coups abound, and the virtuous soon succumb to vice.

Poor governance is a heavy drag on a developing economy. The overestimation of what a natural resource can do for an economy raises hopes easily dashed by market realities. The prospect of doing great good for the people or oneself and one’s friends tempts ambitious politicians to ignore the rule of law. These unruly ambitions degrade the institutions and norms that would contribute to successful negotiations with multinational firms and investors essential for the development of the economy.

Colonel Doumbouya and the civilian government that follows him will face the challenge of managing the mineral sector of the economy and the revenues generated by that sector in a way that does the most for the development of Guinea’s economy. Developing a sovereign wealth fund that would share dividends with the people of Guinea and building capacity in health care and education are critical conditions for bolstering the rule of law and enhancing the workforce’s productivity. They will also need to lead the people and help them to recognize that all wealth does not come out of the ground but is generated from meeting the needs of the people around them by producing valued goods and services.
Monetary Inflation’s Game of Hide-and-Seek
Richard M. Ebeling

The May 12, 2021, press release from the Bureau of Labor Statistics reporting on the Consumer Price Index (CPI) for the month of April sent the stock markets tumbling for two days and generated fodder for the news pundits with the announcement that the CPI measure of the cost-of-living had increased 4.2 percent at an annualized rate, or nearly 62 percent higher than in March when the annualized rate was 2.6 percent. The era of relatively low rate of price inflation was feared to be ending.

For almost a decade, despite significant increases in the money supply, CPI-measured price inflation remained tame. Between March 2011 and March 2021, the M2 money supply (cash, checking accounts, and small savings) went from $8.94 trillion to $19.9 trillion, or a 222.5 percent increase. Just in 2020, M2 expanded by nearly 25 percent. Yet, despite this, the CPI only went up by a little less than 20 percent, from 223 to 266.8 (100 = 1982-1984) between 2011 and 2021. The annual rates of CPI price inflation for this ten-year period were mostly less than 2 percent. What is called core price inflation—the CPI minus energy and food prices—averaged each one of these ten years a bit higher most of the time, but not by much in this period. (See my article, Dangerous Monetary Manipulations and Fiscal Follies.)

But what, exactly, does the Consumer Price Index tell us? All price indexes, including the CPI, are statistical constructions created by economists and statisticians that, in fact, have very little to do with the actions and decisions of consumers and producers in the everyday affairs of market demand and supply. And they are certainly not accurate and precise guides for central bank monetary policy.

Overall versus Core Price Inflation
The government’s CPI statisticians distinguish between two numbers: the change in the overall CPI, which as we saw, increased at an annualized rate of about 4.2 percent in April and core price inflation, which is the rate of change in the CPI minus food and energy prices, and rose 3.0 percent in April.

The government statisticians make this distinction because they argue that food and energy prices are more volatile than many others. Fluctuating more frequently and to a greater degree than most other commonly purchased goods and services, they can create a distorted view, it is said, about the magnitude of price inflation during any period. The problem is that food and energy costs may seem like irritating extraneous noise to the government number crunchers. But to most of the rest of us, what we must pay to heat our homes and put gas in our cars, as well as buying groceries to feed our families, is far from being a bothersome distraction from the statistical problem of calculating price inflation’s impact on our everyday lives.

Constructing the Consumer Price Index
How do the government statisticians construct the CPI? The Bureau of Labor Statistics (BLS) surveys the purchases of 6,000 households across the country, which is taken to be representative of the approximately 333 million people living in the United States. The statisticians then construct a representative basket of goods reflecting the relative amounts of various consumer items these 6,000 households regularly purchase based on their buying patterns. The BLS monthly records changes in the prices of these goods in 22,000 retail outlets out of the estimated 4.2 million retail establishments across the whole country.

This is, then, taken to be a fair and reasonable estimate—to the decimal point!—about the cost of living and the rate of price inflation for all the people of the United States.

Due to the costs of doing detailed consumer surveys and the desire to have an unchanging benchmark for comparison, this consumer basket of goods is only significantly revised about every ten years or so. This means that over the intervening time it is assumed that consumers continue to buy the same goods and in the same relative amounts, even though in the real world new goods come on the market, other older goods are no longer sold, the quality of many goods are improved as the years go by, and changes in relative prices often result in people modifying their relative buying patterns. In addition, people, sometimes, just change their preferences and decide to buy different things, in different relative quantities.

The CPI vs. the Diversity of Real People’s Choices
It also needs to be emphasized that there is no average American family. The individuals in each household (moms and dads, sons and daughters, and sometimes grandparents or aunts and uncles) all have their own unique tastes and preferences. This means that your household basket of goods is different in various ways from mine, and our respective baskets are different from everyone else’s.
Some of us are avid book readers, and others just relax in front of the television. There are those who spend money regularly going (at least in pre-Covid times) to live sports events, others go out every weekend to the movies and dinner, while some stay more at home and save their money for exotic vacations or for their children's college education.

A sizable minority of Americans are still cigarette smokers (about 15 percent), while others are devoted to health foods and herbal remedies. Some of us are lucky to be fit-as-a-fiddle, while others, unfortunately, may have chronic illnesses. Tastes, circumstances, and buying patterns are as diverse as the 333 million people who live in the United States.

**Looking Inside the Consumer Price Index**

This means that when there is price inflation (or deflation) those rising (or falling) prices impact on each of us in different ways. Let's look at a somewhat more detailed breakdown of some of the different price categories hidden beneath the CPI aggregate of prices.

In the twelve-month period ending in April 2021, food prices, as a whole, in the CPI rose 2.4 percent, still a moderate price environment for food shopping, some might say. In fact, some food prices rose more over the past 12-month period, according to the BLS. Fruits and vegetables increased 3.3 percent for the year. But when we break this subcategory aggregate down, we find that fresh fruit prices rose by 6.2 percent, while fresh vegetable prices only increased by 0.9 percent. However, when we further break down the fresh vegetable category, potato prices decreased over the 12 months by 2 percent, while the price of a head of lettuce increased by 5.1 percent; dried peas, beans, lentils prices went up by 6.1 percent over the year.

Fresh whole milk was up by 4.4 percent for the 12 months, while cheese products declined in price by 0.3 percent. Meats rose on average by 4 percent, but uncooked beef steaks rose 6.1 percent, while bacon increased by 10.7 percent. However, chicken prices in general were down 0.1 percent for the period, while egg prices fell by 8.9 percent.

Far more dramatically, energy commodities in general rose by 47.9 percent between April of 2020 and April of 2021. Unleaded gasoline at the pump was, actually, up by almost 52 percent, while electricity prices rose by only 3.6 percent. On the other hand, utility gas prices declined by 0.1 percent. Among household items, window coverings were down 9.4 percent, but living room, kitchen and dining room home furniture was up 9 percent, with major home appliances higher by 12.3 percent and laundry equipment 23.6 percent more expensive over the 12-month period. On the other hand, dishes and flatware decreased in price by 0.9 percent.

Men’s suits were down in price by 7.4 percent, but men’s pants and shorts rose in price by 10.4 percent. Jewelry and watches increased by 9.5 percent, while women's apparel declined in price by 0.5 percent.

The cost of a new motor vehicle only was up in expense by 2 percent for the 12 months, while prices for used cars and trucks increased by 21 percent. Car and truck rental prices dramatically rose by a whopping 82.2 percent! On the other hand, medical equipment and supplies decreased by 5.5 percent, with medicinal drugs going down in price by 1.5 percent.

**Smoke and Mirrors of Core Inflation**

These subcategories of individual price changes highlight the smoke and mirrors of the government statisticians’ distinction between overall and core inflation. We all occasionally enter the market and purchase a new stove or a new couch or a new bedroom set, or a new or used car. And if the prices for these goods happen to be going down or up, we may sense that our dollar is going or not going further than, perhaps, in the past when we made similar purchases.

But buying goods like these is an infrequent event for virtually all of us. On the other hand, every one of us, every day, week, or month are in the marketplace buying food for our family, filling our car with gas, and paying the heating and electricity bill. The prices of these goods and other regularly purchased commodities and services, in the types and combinations that we as individuals and separate households choose to buy, are what we personally experience as a change in the cost-of-living and our personal rate of price inflation (or price deflation). Even if the BLS views these food and energy prices as extraneous noise in tracking trend changes in price inflation.

**Individual Prices Influence Choices, Not the CPI**

The Consumer Price Index is an artificial statistical creation from an arithmetic adding, summing and averaging of thousands of individual prices, a statistical composite that only exists in the statistician's calculations.

It is the individual goods in the subcategories of these goods that we, the buying public, confront and pay for when we shop as individuals in the marketplace. It is the individual prices for the tens of thousands of actual goods and services we find and decide between when we
enter the retail places of business in our daily lives. And these monetary expenses determine for each of us, as individuals and particular households, the discovered change in the cost-of-living and the degree of price inflation (or deflation) that we personally may experience.

The vegetarian who is single and without children, and never buys any types of meat, has a very different type of consumer basket of goods than the married couple who have meat on the table every night and shop regularly for clothes and shoes for themselves and their growing kids.

The individual or couple who have moved into a new home for which they have had to purchase a lot of new furniture and appliances will feel that their real (or buying power) income has gone down a noticeable bit over the past twelve months compared to the person who lives in a furnished apartment and has no need to buy a new chair or a dishwasher but eats beef or veal three times a week.

If the government were to impose a significant increase in the price of gasoline, say, in the name of saving the planet from carbon emissions, it will impact people very differently depending on whether an individual is a traveling salesman or a truck driver who might have to log thousands of miles a year as part of their job, compared to a New Yorker who takes the subway to work each day, or walks or bikes to his place of business.

It is the diversity of our individual consumer preferences, choices, and decisions about which goods and services to buy now and over time under constantly changing market conditions that determines how each of us are influenced by changes in prices, and therefore how and by what degree price inflation or price deflation may affect each of us.

As American economist, Benjamin Anderson, pointed out long ago,

*The general price level is, after all, merely a statistician’s tool of thought. Businessmen and bankers often look at index numbers as indicating price trends, but no businessman makes use of index numbers in his bookkeeping. His bookkeeping runs in terms of the particular prices and costs that his business is concerned with. . . Satisfactory business conditions are dependent upon proper relations among groups of prices, not upon any average of prices.*

Indeed, as Austrian economist Gottfried Haberler long ago highlighted, *The relative position and change of different groups of prices are not revealed but are hidden and submerged in a general [price] index. Yet, it is what is happening in the complex and interconnected structure of the relative prices for finished goods and the factors of production that influence and guide the market choices of consumers and the business investment and related decisions of entrepreneurs as to how best to direct production to serve the buying public in the pursuit of alternative profit opportunities.*
Indeed, for many Americans in terms of their individual chosen baskets of goods during the previous 12 months based on the CPI price data, they might very well conclude that they had been experiencing a period of moderate price inflation, while others could view themselves as having suffered from significantly higher price inflation.

Monetary Expansion Distorts Prices in Different Ways
An additional misunderstanding created by the obsessive focus on the Consumer Price Index and similar price aggregates is the deceptive impression that increases in the money supply due to central bank monetary expansion tend to bring about a uniform and near simultaneous rise in prices throughout the economy, encapsulated in that single monthly CPI number.

In fact, prices do not all tend to rise at the same time and by the same degree during a period of monetary expansion. Governments and their central banks do not randomly drop newly created money from helicopters, more or less proportionally increasing the amount of spending power in every citizen’s pocket at the same time.

Newly created money is injected into the economy at some one or few particular points reflecting into whose hands that new money goes first. In the past, governments might simply print up more banknotes to cover their wartime expenditures, and use the money to buy armaments, purchase other military supplies, and pay the salaries of their soldiers.

The new money would pass into the hands of those selling those armaments or military supplies or offering their services as warriors. These people would spend the new money on the goods and services they found desirable or profitable to buy, raising the demands and prices for a second group of prices in the economy. The money would now pass to another group of hands, people who in turn would now spend it on the market goods they wanted to demand.

Step-by-step, first some demands and some prices, and then other demands and prices, and then still other demands and prices would be pushed up in a particular time-sequential pattern reflecting who got the money next and spent it on specific goods, until finally more or less all prices of goods in the economy would be impacted and increased, but in a very uneven way over time.

But all these real and influencing changes on the patterns of market demands and relative prices during an monetary inflationary process are hidden from clear and obvious view when the government focuses the attention of the citizenry and its own policymakers on the superficial and simplistic Consumer Price Index and other similar statistical price aggregates. (See my articles, Macro Aggregates Hide the Real Market Processes at Work and The Myth of Aggregate Demand and Supply.)

Mises and Hayek on the Non-Neutrality of Money
This insight into the non-neutral impact of monetary changes on the patterns of market demand and the relative structure of prices and wages over time has been especially emphasized by the Austrian economists, particularly by Ludwig von Mises and Friedrich A. Hayek. For instance, Mises expressed it in the following way in Monetary Stabilization and Cyclical Policy (1928):

If the quantity of money increases, the additional new quantity of money must necessarily flow, first of all, into the hands of certain definite individuals—gold producers, for example, or, in the case of paper money inflation, the coffers of the government. It changes only their incomes and fortunes at first, and consequently, only their value judgments [concerning desired cash balances to hold].

Not all goods go up in price in the beginning, but only those goods demanded by the first beneficiaries of the inflation. Only later are prices of the remaining goods raised, as the increased quantity of money progresses step-by-step throughout the land and eventually reaches every participant in the economy.

But even then, when the upheaval of prices due to the new quantity of money had ended, the prices of goods and services will not have increased to the same extent. Precisely because the price increases have not affected all commodities at the same time, shifts in the relationships in wealth and income are affected which affect the supply and demand of individual goods and services differently. Thus, these shifts must lead to a new orientation of the market and market prices.

The same reasoning was highlighted by Hayek in a 1970 talk on, Can We Still Avoid Inflation?:

The influx of the additional money into the system always takes place at some particular points. There will always be some people who have more money to spend before the others. Who these people are will depend on the particular manner in which the increase in the money stream is being brought about . . .

It may be spent in the first instance by government on public works or increased salaries, or it may be first spent by investors mobilizing cash balances for borrowing for that purpose; it may be spent in the first instance on securities, or investment goods, on wages or on consumers’ goods . . .
The process will take very different forms according to the initial source or sources of the additional money stream... But one thing all these different forms of the process will have in common: that the different prices will rise, not at the same time but in succession, and that so long as the process continues some prices will always be ahead of others and the whole structure of relative prices therefore will be very different from what the pure theorist describes as an equilibrium position.

Money Creation and the Boom-Bust Cycle
Today, of course, virtually all governments and central banks inject new money into the economy through the banking system, making more loanable funds available to financial institutions to increase their lending ability to interested borrowers.

The new money first passes into the economy in the form of investment and other loans, with the effect of distorting the demands and prices for resources and labor used in capital projects that might not have been undertaken if not for the false investment signals the monetary expansion generates in the banking and financial sectors of the economy. This process sets in motion the sequence of events that eventually leads to the bust that follows the inflationary bubbles. (See my eBook, Monetary Central Planning and the State.)

Thus, the real distortions and imbalances that are the truly destabilizing effects from central banking inflationary monetary policies are hidden from the public’s view and understanding by heralding every month the conceptually shallow and mostly superficial Consumer Price Index. Whether the CPI records a higher or a lower rate of general price inflation, the more deleterious effects resulting from monetary inflation are those relative price and wage distortions, and resource, labor and capital misallocations and misdirection, that are hidden beneath the surface of the general price level, but nonetheless set in motion the phases and consequences of the business cycle.
There is a common misconception that only the rich need to make a will. That is not true. A will eases the pain of your passing on those you leave behind, and without a will, regardless of your personal wishes, state laws will determine the transfer of your estate.

There is an even bigger misconception that only the super-rich leave money to charity when they die. That’s also not true. The fact is that most gifts by will, (bequests) are made by everyday people who want to have a lasting, positive impact on their community.

Without this type of generosity, many charitable institutions couldn’t continue their missions into the future. Non-profits need our support to do their good work.

Here are four reasons why you should include a charity in your will:

**A Gift By Will Is Easy To Make**
A bequest is one of the easiest charitable gifts to make. It is simple to implement, and easy to change should you ever need to. You can give specific property or designate a dollar amount or a percentage of your estate. You can also designate a non-profit as a beneficiary of your retirement plan or life insurance policy.

**A Gift By Will Does Not Alter Your Current Lifestyle**
Making a bequest is a way of demonstrating your commitment to the future of the institution you love that doesn’t affect your current asset balance or cash flow. There are no substantial costs, and the gift can easily be modified to address your changing needs.

**A Gift By Will Can Change Lives**
Non-profits improve our lives every day through their dedicated work, community, and stability. A bequest can help your best-loved charity further its mission and values. It can continue making a difference for generations to come.

**A Gift By Will Creates A Lasting Legacy**
Including a non-profit in your will is a great way to bring dignity, meaning, and purpose to a life well-lived. You can demonstrate your commitment to the future of the institution you love, and better yet, a bequest can allow you to give to an institution that you may have always wanted to support, but were unable to during your lifetime. Creating a legacy with your gift ensures that you, and your values, will live on.

You don’t have to be wealthy to make a difference. Whoever you are, whatever your situation, you can help make a better world by including a charity in your will.

SEE PAGE 31 TO GIVE TO AIER
Teach the Teachers: K-12 Economic Education with Ryan Yonk
February 18–20
Atlanta, GA
AIER & FTE’s Teach the Teachers Program will host a workshop on K-12 Economic Education with AIER Senior Research Faculty, Ryan Yonk. To facilitate opportunities for collaboration, this workshop will bring together a group of professionals and scholars to engage with one another in a discussion-focused workshop. We will explore how economic education content, curriculum, and teacher training is currently occurring, and what is missing.

Manuscript Conference on UBI Pro and Con with Robert Wright and Aleksandra Przegalinska
March 8–10
Nashville, TN
Robert Wright, AIER Senior Research Fellow and Aleksandra Przegalinska, Associate Professor of Management at Kozminski University, will host a conference on the UBI Pro and Con. The conference surveys the latest claims about the advantages and disadvantages of a government making periodic cash payments to each individual citizen.

Harwood Graduate Colloquium: Causes of Prosperity with Phil Magness and Robert Wright
March 31–April 2
Las Vegas, NV
AIER is hosting the March 2022 Harwood Graduate Colloquium. This colloquium explores the same question that animated Adam Smith’s seminal 1776 book *The Wealth of Nations*: What dries long-term increases in per capita economic output? In other words, why are some nations so much richer than others? This three-day event intended for graduate students will consist of a combination of interactive discussions and provocative lectures.

Income Inequality in America: Navigating the Evidence with Phil Magness
April 6
Richardson, TX
Join AIER’s Bastiat Society program in Dallas for an in-person event with Phil Magness, Senior Research Faculty and Interim Research and Education Director at AIER. This talk will take a scrutinizing look at the underlying data of the inequality debate, including how politicians and their economic advisers have manipulated statistical measures of income and wealth to create the illusion of an inequality crisis.
Each one of us already has a default estate plan—one dictated to us by the government. The government doesn’t know who we are; it cares nothing for our achievements, our principles and beliefs, our ethics, or our commitment to our families. In this plan, hard-earned assets can be unnecessarily taxed and heirs can be left with little or nothing.

The only way to make sure that your estate plan reflects your wishes is to design it yourself with competent counsel. Will your legacy be subsumed by faceless bureaucrats as a windfall profit for government programs that you may believe are antithetical to prosperity and justice? Or will it be a responsible transfer of values held dear by the one who earned the money? Make sure that you are the author of your own personal estate plan.

By making a planned gift to AIER—whether it be through your will, charitable trust, or another giving vehicle—you are making an incredible commitment to true freedom, sound money, and private governance. You not only secure your legacy as a champion of free markets, but you ensure that AIER will continue to fight for the principles you hold dear for generations to come.

We are forever grateful for AIER’s planned giving supporters who help to ensure that people around the world will always have access to sound economic research, robust education in free market concepts, and practical training from AIER.

Here are some ideas on how to include AIER in your estate plans:

Your Will
If you already have a will, you can generally amend it to create a bequest for AIER and other charities. If you have elected a living trust rather than a will, you can also include AIER and other charities as trust beneficiaries, similar to creating bequests under a will.

Your Retirement Accounts
Retirement accounts—such as an IRA, 401(k), and others—that are left to heirs are double-taxed because (often but not always) they are subject to the estate tax and heirs are also subject to ordinary income tax on what’s left. Retirement accounts left to a non-profit like AIER are not taxed at all.

Your Life Insurance
One of the easiest ways to leave AIER in your estate plans is to simply name AIER as a beneficiary of a life insurance plan. Life insurance proceeds, other than when given to a spouse or to a tax-exempt entity like AIER, are generally subject to the estate tax. Therefore, life insurance policies that are no longer needed for financial security are a good choice for enhancing your philanthropic legacy.

Other Giving Vehicles
Several less common giving vehicles are typically used in complex estates, but might be worth consideration. We recommend you speak with your attorney or financial advisor regarding: Charitable Gift Annuities, Charitable Remainder Trusts, and Charitable Lead Trusts.

To get started please contact us at 888-528-1216
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I followed Colonel Harwood for many years and one thing that came through in all of his writing was that he was a great patriot and a strong believer in an honest currency. Having been in the investment business for 48 years, I think Colonel Harwood’s teaching is needed even more now than it has ever been. He had a great impact on my thinking.

—Arnold Van Den Berg, Longtime AIER Donor

AIER donors understand the importance of AIER’s mission and want others to understand too.

For nearly a century, the American Institute for Economic Research has educated Americans on the value of personal freedom, free enterprise, property rights, and sound money. Eschewing dogmatic assertions and party politics alike, AIER seeks to scientifically understand and demonstrate the importance of these principles to advance peace, prosperity, and human progress. We support the research of numerous leading economists and share their findings with policymakers, professionals, educators, and the general public through publications, in-person programs, and online outreach that are each tailored to the needs of these audiences. By strategically articulating and promoting the principles of pure freedom, AIER helps to build the intellectual basis for, and popular consensus around, the expansion of individual rights and market freedom and against the increasing demands for government intervention, central planning, and collectivist policies.

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—Ludwig von Mises

*Economic Calculation in the Socialist Commonwealth* (1920)