Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

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Governments never curb inflation because they benefit from it

Interventionists always blame inflation on everything and anything except the only thing that makes aggregate prices rise: Issuing more units of currency than the real demand.

Seller inflation is the same excuse and fallacy as cost-push inflation. A way to confuse citizens and assign causation to something that cannot make aggregate prices rise.

Let us debunk some myths. No corporation or conglomerate can make aggregate prices rise.

Some neo-Keynesians blame corporations for price increases, but that makes no sense. If corporations were able to make aggregate prices rise, the United States would have had elevated inflation for the past three decades.

Corporations are the ones that lower prices faster because they can generate economies of scale, gain market share, and produce better goods and services at a lower cost using innovation and technology.

There is no single corporation that has a market share large enough to make aggregate prices rise, and even less for a prolonged period.

> There is no such thing as an oligopoly just because there are four or five large corporations

The reader may say that corporations work as an oligopoly, but if that were the case and they were stupid enough to increase prices for no reason, they would be able to affect one or two prices for a while until competition and technology wipe them out.

Remember that aggregate prices are not the same as unit prices. If Exxon, for example, decided to increase the price of gasoline for no reason it may hurt consumers for a while, but this does not make the price of everything else go up.

In the oil market, OPEC, which is a cartel of state-owned and controlled oil giants, is unable to keep oil prices above $80 a barrel in nominal terms -even less adjusted by inflation-, and yet neo-Keynesians want you to believe that a company with less than 20% market share in the U.S. economy is going to make all prices rise in unison and, even more laughable, make all their competitors do the same.

Why did small, independent oil companies make natural gas and oil collapse in the fracking revolution? Competition and technology. Why did the oil giants not prevent that decline? There is no such thing as an oligopoly just because there are four or five large corporations.

> A small group of large corporations in an open economy cannot make aggregate prices rise, even if they wanted

Furthermore, a small group of large corporations in an open economy cannot make aggregate prices rise either, even if they wanted. Imports of cheaper goods and services would soar, be they from China or elsewhere.

If giant corporations decided prices at will, they would never run into financial difficulties, reduce their earnings, or face a declining return on invested capital, and those three events are constantly happening in the market.

Consensus estimates are too high? Hey, just increase prices, beat estimates, and make profits soar. It does not happen.

Large corporations are built on delivering more and better goods at the best possible prices. You cannot have a market leader with consistently bad price structures.

Large corporations are, by definition, price takers not price setters, because they would fall into enormous financial problems if they ran a massive working capital build to sell millions of units of a good that is incorrectly priced, only to find their warehouses full of unsold items, which leads to losses and even bankruptcy.

Demand elasticity works everywhere, and if the amount of money in the system is the same, the seller does not have the luxury of raising prices without limit even when costs rise.

> Aggregate prices are set in an open economy by millions of agents and the marginal price setter is never a corporation with giant working capital requirements

Even if there was one seller able to raise prices at will without any demand impact for a long period, something that I have never seen, that seller does not dictate aggregate prices. At all.

One giant or group of multinationals, like Apple or Exxon, does not make the CPI rise nine percent. They do not even scratch the surface of aggregate prices.

Because aggregate prices are set in an open economy by millions of agents and the marginal price setter is never a corporation with giant working capital requirements.

Extractive monopolies or oligopolies do not exist in open economies like the United States. Extractive oligopolies only exist in the minds of neo-Keynesians because that is exactly what they create when governments close borders to trade and direct the economy.

The only way in which you can create an extractive monopoly is if the government enforces and defends it. In any other circumstance, that business would disappear in a few months.

If aggregate prices rose due to the evil works of corporations, why do those corporations not raise their prices in other currencies in other countries?

Why is the same European mega-cap seeing 20% price increases in Germany and seven percent in Switzerland? It is not the same measure.

One is issuing more units of currency than what the real economy demands, the eurozone, and the other, Switzerland, is not. That is why there is a Big Mac Index that tracks real inflation. McDonald's does not raise prices; it sells affordable food. The only difference is the purchasing power of the currency.

> The only thing that makes all prices rise in unison is the constant destruction of the purchasing power of the currency issued by a monopolistic player: The state

So why do these "experts" blame large corporations for something -inflation- they do not cause?

Because the objective is to increase government control of the economy and destroy private business that are large enough to be economically independent.

They do not care about small businesses because those are already asphyxiated by taxes and small and medium enterprises are easily forced to depend on the government.

Neo-Keynesians want you to believe that unit price movements are the same as aggregate prices. And it is not. The only thing that makes all prices rise in unison is the constant destruction of the purchasing power of the currency issued by a monopolistic player: The state.

Neo-Keynesians need you to believe that the quantitative theory of money does not exist so they can achieve their goal: full government control of the economy and the currency.

And what happens when that goal is achieved? Scarcity and high inflation. Always. But the people close to the politicians become very wealthy. That is socialism. State enforced cronyism.

Governments never curb inflation because they benefit from it. Money creation is never neutral and disproportionately benefits the only monopolistic player in the economy: The state that issues the currency.

If you think your salary is losing purchasing power due to the evil workings of a monopoly, you are right, because the only monopoly you suffer every day is the monopolistic currency issuer that grows larger and makes you dependent by destroying your real salary and your deposit savings' purchasing power.

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