



By: Daniel Lacalle

# No one can be proud that inflation is not under control



According to the **latest figures**, market participants anticipate four rate cuts until December and a strong economy. However, US real gross domestic income (GDI) increased only 1.3% in the second quarter.

In the second quarter, the average of real GDP and real GDI increased 2.1%. This is the largest gap between GDP and GDI in years, almost \$620 billion, showing how distorted GDP figures have become. This GDP, with a +6% deficit, represents the worst growth adjusted for debt accumulation since the thirties.

Inflation is not under control. The United States core personal consumption expenditures price index (PCE) advanced 0.2% in July to +2.6%. Headline PCE increased by 2.5%. The headline consumer price index (CPI) rose 2.9% over the last 12 months to July, according to the Bureau of Labor Statistics. Inflation is still rising.

Kamala Harris **said** on CNN that she is "proud of bringing inflation down." Annual inflation was 1.4% when she started as vice president. The last figure is 2.9%. Inflation, the hidden tax, has risen more than 20% since January 2021, when the Biden-Harris administration took office. What an interesting way of bringing inflation "down."

This is concerning because the main factor behind the slower pace of price increases is energy, whereas services and shelter inflation remain above +4%. According to Apollo Academy estimates, the Fed normalizing rates to 3% could boost inflation by one percent.

## Inflation in the eurozone

Inflation in the eurozone rose by 2.2% in August, according to Eurostat's estimate, with the core rate at +2.8%. This is 21% of accumulated inflation since 2019.

Six European countries published an inflation rate of more than 2.4% in August, many of which exceeded +3%. The ECB will cut rates again despite breaching its mandate of price stability for more than four years.

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It is highly risky to ease monetary policy into persistent inflation when high debt and elevated government spending are bloating and masking the economic figures.

Don't you find it fascinating? When inflation rises, governments blame the supermarkets; when it falls, they take credit for the reduction. However, reality is stubborn. Governments create inflation, benefit from it, and later present themselves as the solution.

## The oldest trick

No, war or pandemic does not cause inflation. Inflation is not an increase in prices. It is the currency's loss of purchasing power.

Neither war nor the pandemic can cause aggregate prices, as measured by the CPI, to rise, consolidate that increase, and continue to climb, even if at a slower pace.

In fact, considering the prices of commodities, if it were true that war or the pandemic causes inflation, we would be experiencing deflation today, not price increases.

Interventionists try to make you focus on unit prices to explain inflation, but it's the oldest trick since an emperor thought of deceiving people by mixing iron with silver coins.

**The constant rise in prices is solely due to the erosion of the currency's purchasing power**

Unit prices do not lead to skyrocketing aggregate prices, and these constantly rise unless the amount of money is increased well above what is demanded by the private sector.

When "inflation decreases," prices do not go

down; the rate of increase slows down. The constant rise in prices is solely due to the erosion of the currency's purchasing power.

And who erodes the purchasing power of the currency? You will say that the central bank prints it, but the central bank does not increase the amount of money issued out of spite or malice but to disguise the fiscal excesses of governments.

## Inflation is not under control

The only entities that create money by spending what they cannot have are governments. Thus, they dilute their commitments in a currency that is worth less and confiscate the wealth of the private economy by paying in a depreciated currency.

A commercial bank does not create money out of thin air. If that were the case, none would go bankrupt.

A commercial bank only creates money that is backed by savings, investments, and tangible projects. The only asset on a commercial bank's balance sheet that does not require any amount of capital to hold is... government debt.



*The fiscally irresponsible government uses this political and regulatory construct to conceal the monetary destruction it perpetrates - Daniel Lacalle*

In other words, the fiscally irresponsible government uses this political and regulatory construct to conceal the monetary destruction it perpetrates.

That's why inflation is called the hidden tax. Your real salary is decreasing, your savings in deposits are diminishing, and the irresponsible government mocks you, claiming it will increase taxes on the wealthy, and impoverishing you.

All the while, it presents itself as a solution, offering you a subsidy, if it even provides one, through the constant issuance of devalued currency.

Inflation is not under control by any means; most of the moderation in the rise of inflation comes from energy due to the drop in gas prices in international markets.

The issue lies in the governments' unaffordable expenses, and they understand that their mirage can only be maintained by making you poorer diluting the value of the currency they issue. Later, they'll blame the supermarkets.