

TO: Democrats

FROM: Civis Jones

SUBJ: Inflation is Trump's Fault

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0. This "memo" is about inflation and winning that issue in the upcoming election. If you would prefer not to read an old white guy fulminate about the need for Democrats to get their act together, advance to section #1. For now, however, there is something I must get off my chest. Inviting Americans to think carefully about inflation is not dissimilar from inviting Americans to think carefully about democracy. When we think "fast" about issues like these, we can form wrong-headed conclusions, but when we think slowly and methodically, we are more likely to get things right.

The chief task of Democratic Party operatives is to win elections. It is not an easy job. Winning elections is a tough piece of business, but it *is* puzzling that Democrats are consistently on the losing end of elections. Somehow, the Democratic Party has earned the disdain of the American people. Since Americans are smart and fair-minded, it means Democratic operatives are doing something wrong.

It is true that, just as Democrats are better at governing, Republicans are better at politics. Still, Democrats have every opportunity to rebut nonsense with reason. Republican leadership may have a better, more syncopated, noise machine, but it is an obvious gift. Anyone can see it. Notwithstanding their flattery and heated rhetoric, Republican leaders are contemptuous of their people. It is frustrating to watch Democratic operatives clutch their pearls over the long odds facing them this upcoming election. The premise of democracy is that the people can distinguish truth from falsity.

The Democratic disadvantage arises from the fact that politics today is about our civic culture, not fiscal policy. Fiscal policy is where the rubber hits the road in governing. It is where priorities are set and resources distributed. The American people are with the Democrats on pocketbook issues. The American people are fiscally liberal. The Democratic problem is not governmental but political.

Politics is that part of our civic life which involves getting elected. The triggers driving voter behavior are extra-economic—one might say, *pre-economic*. At this point in the evolution of the American civic ecology, all politics are *not* local, nor is politics about the family budget. At this point in the life of our country, politics is about obtaining and holding power. What Democrats have going for them is their commitment to democracy. In these United States, that commitment is regarded as honorable, constitutional, and conservative.

An ironclad law of American politics is that we are 40% conservative, 40% moderate, and only 20% liberal. The definitions of "conservative" and "liberal" may evolve over time, but Democrats, as the "liberal" Party, are at an inherent 2:1 disadvantage. With that in mind, Democratic contempt for our civic heritage is a head-scratcher. In a democracy, being in the majority has its prerogatives. This *includes* being the majority religion and even being the majority race. Most Americans today—whether left, right, or center-- have forgotten that our rights do not preserve democracy; democracy preserves our rights. When we respect the discipline of democratic self-government, we will respect both the plenary powers of the majority *and* the right of every human being to differ from the majority.

The abortion issue is a case in point. The wealthy families funding the GOP do not care if abortion is illegal in some states. *Their* daughters and girlfriends will always be able to terminate pregnancy in a safe and clean environment. For some Americans, though, the issue is a powerful trigger, and so Republican operatives pull that trigger. But the “make abortion illegal” crowd *is* right that the issue should be decided in elections and not by the courts. Democratic leaders and operatives need to go out and make a case to the smart and fair-minded American people that legal abortions are a lesser evil than illegal abortions. Our pastors and priests may have the luxury of pretending that abortion is “murder,” but citizens must live in the real world, not some religious utopia. The point is that citizens *can* reckon sensibly about abortion. It is bullshit to rely upon the courts to do the work which is properly reserved for democracy.

Paul Begala said that, somewhere along the line, the Democrats stopped being the Party of the Factory Floor and became the Party of the Faculty Room. It should be obvious that it is easier to build a governing majority from an alliance of truck drivers and waitresses, warehousemen and beauticians, construction workers and housekeepers, regardless of ethnicity, than from academicians and their theories of racial and sexual grievance. Every person who works for a living understands that it is ridiculous to attribute our moral failings as a nation to men or white people or Christians. Every person who works for a living understands that atrocities like genocide and slavery arise from human nature, not from our gender or our race or our religious faith. We should only hope there is sufficient civic, moral, and religious training to keep our nasty instincts at bay.

While Democrats are on the right side of the fundamental issue today, which is the preservation of our democratic republic, they have ceded our civic heritage to a Party which is openly embraces American-style Nazism. Americans do not like fascists, but they also do not want their heritage impugned. That heritage—Anglo-Christian though it may be—is what gave us democracy and freedom in the first place.

Is it a checkered heritage? Of course. The United States is made of human beings and human beings do terrible things. As Americans, we also do wonderful things, such as create unsurpassed food and music, produce entertaining literature and sports, and, most particularly, defend government of the people. We are the country which defeats tyranny, yet Democratic operatives heave great sighs at the likelihood that fascists will steamroll through the election in November.

This election, why not trust the American people? The paradox—even the beauty—of large democracies is that the majority governs in a way which is respectful of the rights of minorities. We all know what it feels like not to fit in. We all know what it feels like to be disrespected. Those are ordinary human experiences and democracy is nothing other than appreciating the poignancy of ordinary human experience. One might argue that some of the most distasteful and anti-democratic behavior on the part of American voters is derived from feelings of not being respected and not fitting in. Certainly, Republican leadership will stoke those feelings.

Perhaps more than any people in the world, we Americans do not have a problem with those unlike ourselves. There may be other countries with less imperfect rhetoric, but the practical reality of our country is dissimilar people finding a way together. Democratic leaders and operatives need to trust that fact. It is human nature, not America, which makes us “racist” and “sexist.” Democratic leaders and operatives need to trust that, over the longer haul, we become more equitable. Ever-increasing equity is the product of our civic heritage and, to win elections, Democrats must be on the right side of that heritage. Democracy is that side. Racial and sexual imprecations are not.

And now let us get to the main purpose of this memo, which is to discuss redirecting the responsibility for the current inflation to where it belongs: former President Trump.

1. For Republican operatives, inflation must seem like a gift from on high. Just as Republicans maintain an advantage on politics and culture, the Democrats have an advantage on government and the economy. Inflation reverses that advantage. Most Americans may be too politically-charged these days to vote their pocketbooks, but inflation can be a metaphor for everything that is wrong in the country: corroding value, instability, and the sense that shit is about to hit the fan. Incidentally, these are also the baseline arguments authoritarians use against democracy.

Still, in fairness to the Reeps, opposing inflation is *not* the same as opposing democracy. Inflation amounts to a pay cut. We all care—a lot—about the prices at the gas pump and the grocery store. It speaks to our standard of living, even to our quality of life. For Democrats, inflation is an opportunity to refocus the national conversation. Inflation allows Democrats to talk about the louse who got it started: former President Donald Trump. Trump is the arsonist who laid down the inflationary kindling, started the inflationary fire, and fanned the inflationary flames. He is not entitled to evade responsibility for the current inflation cycle. Americans will be open to the argument that Trump is responsible—if that argument is made.

How is Donald Trump responsible for something which is occurring two years after he left office? Because there is a lag between when policies are implemented and their full effect. Americans are not stupid. The “previous guy” sometimes *is* responsible. Reagan castigated Carter, Bush Jr. castigated Clinton, and Trump castigated Obama. To be sure, scapegoating is bad form, but “politics ain’t beanbag.” Trump managed to convince many Americans that things were a “mess” when he arrived; in fact, Trump inherited a relatively stable and prosperous country, particularly when compared to state of affairs inherited by Obama. It was *Trump* who turned things into a mess.

The corporate media will criticize Democrats for “not taking responsibility,” but who cares?! The media has a “libertarian” bias—both cultural libertarianism and economic libertarianism—and Americans are not hyper libertarian. We are more “civitarian,” a made-up word, meaning that we care more about our country and its heritage. When liberty is good for our country, then it is fine; when it is destructive to our country, then it is *not* fine.

When it comes to “messaging,” the competition between Democrats and Republicans will always be asymmetrical. Democrats have no equivalent to Fox News and talk radio. The Republican pretense is that since corporate media is *non*-conservative, it is *anti*-conservative. That thinking is false. Indeed, it reflects a kind of moral flabbiness. The good news for Democrats is that “messaging” is bullshit. In a democracy, you talk to people. You persuade them with your arguments. “Messaging” is what authoritarians do. Fox News and talk radio may provide some cadenced volume for right-wing agitators, but the truth is also powerful. Not “his truth” or “her truth:” *the* truth, as known by our (admittedly imperfect) rational capabilities. It is long past time for Democrats to reconnect with the Enlightenment roots of this republic and trust the American capacity to reason.

2. Here is the baseline logic regarding inflation: during Trump’s Administration, government spending skyrocketed. Inflation is a function of government spending. The full impact of that spending is now reaching the economy. Therefore, former President Trump is responsible for today’s inflation.

To put Trump's massive spending hikes into context, over the eight years of the Obama Administration, federal spending remained range-bound between \$3.5T and \$3.9T. When Trump came along, supported by Republican majorities in both chambers of Congress, spending popped to \$4.5T. Trump's acolytes refer to the "boom" in the economy during the pre-COVID years: it was basically just an increase in federal outlays. Trump and Republicans increased spending, mostly on military and disaster recovery, and since every dollar spent in the economy is income to some family, this pumped-up demand. Obama might have done the same, but for the fact that Republicans in Congress are only willing to increase government spending when another Republican is in the White House.

The long overdue increase in federal spending implemented by Trump and the Republicans was good for the economy. Fiscal support is a prerequisite for a strong and vibrant middle class. When the private sector is doing fine, there is less need for government spending, but when the private sector is flagging, government spending is a lifeline to working families. Keeping in mind the axiom that every dollar spent is a dollar received, government spending shifts the demand curve "to the right." During deflationary times, market economies wither on the vine. Government spending creates churn in the economy. It fortifies markets. It can even create "escape velocity" from deflation, as we saw during World War II and its aftermath.

3. You may remember, more than a decade ago, many "experts" predicted the Fed's policy of "quantitative easing" would lead to inflation. It turns out that you can print money until it is coming out of your ears, but unless people are *spending* money, inflation remains low. What *creates* inflation is not monetary policy and the central bank's printing press, but fiscal policy and spending by the government. In a slack economy, when private sector resources are not being fully utilized, the income multiplier generates growth. It only becomes inflationary when the private sector reaches full capacity.

How did the private sector so rapidly reach full capacity? Here too, the reason is former President Trump. His lack of preparation for COVID-19 wreaked havoc on supply chains. Cozying up to bad actors like Saudi Arabia and Russia emboldened those tyrants. Relatedly, he emboldened domestic oilmen, who are now squeezing the American people and attempting to turn our country into a petrostate. And economic nationalism, while not altogether bad, imposes trade and immigration restrictions which have the effect of pushing costs higher. If we want to push back against the damage inflicted upon our economy by unbridled globalism, we need to recognize that there will be some added costs.

Still, with all that, "cost push" factors tend to flame out. There may be price hikes arising from shortages in key items, such as fuel or food, but it typically results in lower demand, and lower prices, elsewhere in the economy. For inflation to be broad-based and sustained, there must be a "demand pull" element. It is former President Trump, with his massive infusion of deficit spending, who provided the "demand-pull."

4. When Trump and the Republican Congress boosted federal spending by more than \$500B, it was good for the economy, but that spending hike was not the end of the story. Unlike any other segment of the American economy, the federal government is a currency *issuer*. It is not a currency *user* like everyone else. This is the fundamental difference between public finance and private finance. The federal government *creates* money when it spends and *destroys* money when it taxes. If the federal government is spending money *and* reducing taxes, then it is engaging in inflationary behavior. Again, this is not necessarily a bad thing, especially when the country is reeling from severe deflation.

When Trump first ran for office in 2016, he promised to spend money on power grid, roads, ports, water systems, and airports. Indeed, along with curtailing immigration, strengthening social insurance, and renegotiating trade deals, Trump distinguished himself from his Republican competitors by championing federal expenditure on infrastructure. When he assumed office, it turned out that Trump was more interested in rescinding Obamacare and, when that failed, implementing large tax cuts for people like himself. While those tax cuts did little to lift our country from its deflationary torpor, they did help set the stage for today's inflation.

But the primary, even exclusive, source of inflation today is the COVID-19 pandemic. To repeat: the reason we have inflation today is because of the Trump Administration's mismanagement of COVID-19. In addition to killing more than a million Americans, pandemic spending created demand well in excess of cramped supply chains. Nor was the Trump administration an innocent victim. Ignoring the counsel of the outgoing Obama Administration, Trump discontinued prioritizing government preparations for a pandemic. We do not know whether this decision was based on the belief that they knew better or simply the principle that, if Obama was for it, they were against it. The Trump administration *chose* its pandemic policy and we paid the price: first with our lives and now with inflation.

Almost three years after assuming office, as COVID-19 brewed in China, Trump compounded the problem by his eagerness to reach a trade deal with that country. Not wanting to upset the Chinese authorities before a deal was inked, Trump allowed unrestricted travel between China and our country at the time when COVID-19 might have been nipped in the bud. And we should never forget, as the pandemic gathered steam here in America, the best thinking in the Trump administration was that, since it affected blue states rather than red states and urban areas rather than rural areas, they would simply let Americans die and blame Democratic governors and mayors.

After bungling the crucial early weeks and months of the pandemic, and eager to avoid economic collapse in an election year, Trump escalated government spending further yet. The \$4.5T became \$6.6T in FY 2020 and then \$7.3T in FY 2021. Federal spending increased by 62% (!) in the span of two years. That was on top of an already significant 15% hike in expenditure in the post-Obama, pre-COVID budget.

But this is not all. In the pre-COVID years, President Trump blew a hole in the budget. The federal deficit, which is the amount of spending that must be "financed" in any given fiscal year, reached \$1T for the first time since the Great Financial Recession. And again, that was during the *pre-COVID* period. During COVID, the deficit jacked up to \$3T. This also merits repeating: the budgetary shortfall during COVID was three trillion dollars! As a percentage of GDP, the Trump deficit was the largest our country has seen since the darkest days of World War II. And like the country after WWII, we are now dealing with inflationary consequences.

5. Again, American media may be silly, but Americans are not. People will understand that Trump is not a blameless victim, *providing* the argument is made. Obama did not ask for the financial crash, nor did Bush ask for the terrorist attack on 9/11, but like any President, they played the cards as they were dealt. Trump had time to prepare for the pandemic, both in the years prior to the outbreak and in its immediate lead-up. He had time but, for his own reasons, chose not to use it.

Nor is inflation inherently bad. It means that people are spending money, which is the opposite of what occurs during deflation. Inflation can be a good way to help debtors. Large creditors love deflation, as it

maintains, and even increases, the value of the debt they are owed, but inflation helps make *debtors* whole. It is ironic that, even as large creditors are made whole by Uncle Sam whenever the market crashes, there is little concerted effort to restore the other victims of an economic downturn: debt-laden families who counted on continuing growth to make good their commitments. Quite the opposite, these families are squeezed further yet—and, as an added bonus, given lectures about “living within your means” from the bailed-out creditors.

What about the argument that Democrats controlled the House of Representatives during COVID, greenlighting all the spending? At that point, due to Trump’s gross negligence, the horse was out of the barn. What were the Democrats in the House supposed to do? Let the country turn its lights off? One can only shudder at the prospect of reversed roles, where the Republicans were in control of the House as the Democrats controlled the Senate and the White House. It would have been an unholy quagmire because, to Republicans, a failing country means political opportunity. Democrats have a record of putting the country first, no matter who is in power, but Republicans have no such record. They will actively work, like Trump did during the transition period, to undermine our country’s prospects, if that is what it takes to garner partisan political advantage.

As for the fact that Democrats have been in control of the country since January 2021, it must be remembered that during the transition period, cases spiked to their highest level. During the election, Trump and his cadre argued that after November 2020, all the talk about COVID-19 would magically disappear, as though the pandemic were an anti-Trump election gimmick. What *actually* happened in the weeks and months following the election was escalating cases and deaths. As government and the country was paralyzed by Trump’s attempts to overturn the election, it fell on Democratic government, in the months following January 2021, to fix things: to make sure that families were kept whole, that the vaccine was properly distributed, and that the economy reopened. Notwithstanding all that, just as the federal deficit billowed to unprecedented levels under Trump, it is rapidly approaching zero under Biden. Trump and the Republicans caused inflation; Biden and the Democrats, in conjunction with the Federal Reserve, are its solution.

6. When wages are growing by 5% and inflation by 8%, inflation *is* a problem. But is inflation out of control? Here is some more good news: the Federal Reserve can, and will, put an end to it. How do we know that? Because inflation-fighting is what the Fed does. The Fed may not be able to induce inflation, as we saw in the 2010s, but it can *stop* inflation at will.

And the Fed *does* have the will to stop inflation. While it should have provided tightening guidance last August rather than waiting until November, the Fed wanted to avoid the mistake, after years of harsh deflationary pressures, of tightening prematurely yet again. This was a technical mistake by the Fed which has resulted in some extra months of high prices. It is not the fault of Democrats and, in any case, the Fed will fix it.

To stop inflation, the Federal Reserve must merely keep raising rates. Higher rates have the effect of reducing spending. People have less incentive to finance purchases, on the one hand, and more incentive to save income, on the other. Raising rates reduces demand and lowers prices. While the Fed has been overzealous about preemptively fighting inflation in the past, it has the wherewithal, and the will, to put inflation back into its box.

The public *knows* this. The public knows that inflation will come back down, even if we must endure a recession to get there. Longer-term treasury rates reflect the public's expectation that inflation will eventually stabilize at the Fed's target of 2% per year. Interestingly, real rates, which are interest payments net of inflation, are at their lowest levels since the early 1950s. The reconfiguring American economy in the aftermath of World War II was highly inflationary, much as it is today.

7. Which raises a final important point: many Americans today remember the terrible inflation of the late 1970s and early 1980s. Unlike today, that period had *high* real rates, reflecting the public's expectation that the inflation was out of control. Today's inflation is much more like the late 1940s and early 1950s, where a host of factors, including economic retooling, pent-up demand, a contemporary memory of severe deflation, and an extended period of monetary accommodation, combined to create inflation even worse than today. That inflation quickly subsided, though, when the Fed clamped down a bit.

The mid-century inflation occurred when Boomers were babies, not young adults. *We* have a contemporary memory of severe inflation of the late 1970s and early 1980s, but there is little contemporary memory of the more benign inflation of the late 1940s and early 1950s. Yet *that* mid-century inflation is much more analogous to our current experience than the 70s-style inflation. Democrats must make the distinction, pointing out that what followed the mid-century inflation was two decades of unparalleled affluence for the American middle-class.

And *that* is what Democrats are selling. Republicans speak about MAGA, or making America great again? Maybe the Democrats need to talk about AMAGA: *actually* making America great again. Unlike the Age of Franklin Roosevelt, the Age of Ronald Reagan has not brought greatness to the United States. Quite the opposite, and notwithstanding the best intentions of our Republican countrymen, it has sapped this country of its greatness. MAGA, a slogan which originated with Reagan, has led our country to oligarchic stagnation, wildly fluctuating business conditions, and the kind of amoral dystopia that nobody wants, but which seems to flow directly from economic and cultural libertarianism. AMAGA would be the Democratic attempt to restore the Great Prosperity of the mid-20th century, this time, presumably, without the same levels of prejudice and privilege.

8. Here is the inflation argument in summary:

- There is always a delay between bad policy and its full economic impact. That is why it is legitimate to question the role played by the preceding government.
- Trump's mismanagement of COVID-19 led to skyrocketing deficit spending, which is the central reason for today's inflation.
- He also mismanaged our international relationships, which yielded costly behavior by tyrannical countries like Russia, China, and Saudi Arabia.
- Despite the presence of both "demand pull" and "cost push" factors, prices will stabilize. The Federal Reserve, which exists to fight inflation, is on the job, and President Biden has already reduced deficit spending.
- Today's inflation is much more like the inflation our country experienced after World War II than the inflation Americans remember during the late 1970s.
- With the right leadership, we will have another Great Prosperity. With the wrong leadership, we will get more oligarchic stagnation.

- The very fact Republican leaders are correlating the current inflation with the inflation of the late 1970s, and not the early 1950s, reflects their baseline ignorance about the challenges and opportunities facing our country right now.
- Returning Republicans to power is bad for our democracy, but also bad for the economy. Give Democrats a little more time to clean-up the Republican mess, starting with inflation.

9. **Conclusion:** Perhaps owing to the fact that America is 40% conservative, 40% moderate, and 20% liberal, Democrats only get a chance to govern when Republicans fuck up on a massive scale. We saw it in the aftermath of Iraq and the Great Financial Recession, and we saw it in the aftermath of COVID-19. The problem is that American conservatism these days has become a form of radicalism. Since Americans are more “conservative” than “liberal” by a 2:1 margin, it means that conservatives going off the deep-end is twice as impactful as liberals going off the deep-end. In any case, the numeric disadvantage results in Democrats fixing things and then being voted out of power. Republicans garner the benefits of Democratic good government while inflicting more damage on the life of our country. It is a cycle which must be broken. Inflation will disappear over the next couple years and the clowns who created this situation should not get credit for fixing it.

Inflation presents an opportunity for Democrats to demonstrate their faith in democracy and make a rational case to the American people. Leave the fear-based reasoning and emotional manipulation to the Republicans. The truth is that if we vote for Republicans, we will get more of what we have gotten over the past forty years, but if we vote for Democrats, we can *actually* make American great again. White working people have no problem with the precept that *all* working Americans should partake in America’s bounty. If you doubt it, make the case and see what happens.

There are reasons to think that the United States is on the threshold of a new cycle of secular growth, but it can never be brought about, in any serious and sustained way, by the Party beholden to oligarchic wealth, conspiracy theorists, gun addicts, and religious zealots. The current iteration of the Republican Party is what created the mess—the civic mess and the economic mess—in the first place. This election is an opportunity to break the cycle of Republicans sweeping into power simply because they are the “conservative” party and Americans are more “conservative” than “liberal.” Americans *are* fiscally liberal, and Democrats should be more culturally conservative.

Finally, it is essential to avoid being histrionic about the threats to our democracy posed by Trump and his oligarchic paymasters. Those threats are real, but when Americans understand the nature of the current inflation, they will be far more equipped to deal with the threat posed by Republicans to American democracy. In the end, it is reason, not fear, which will protect our Jeffersonian, middle-class republic, and the current inflation provides a good opportunity for Democrats to get reasonable with the American people. But the economic argument must be made and it begins with the truth that the responsibility for inflation today sits square in the lap of Donald Trump and his Republican lackeys.