

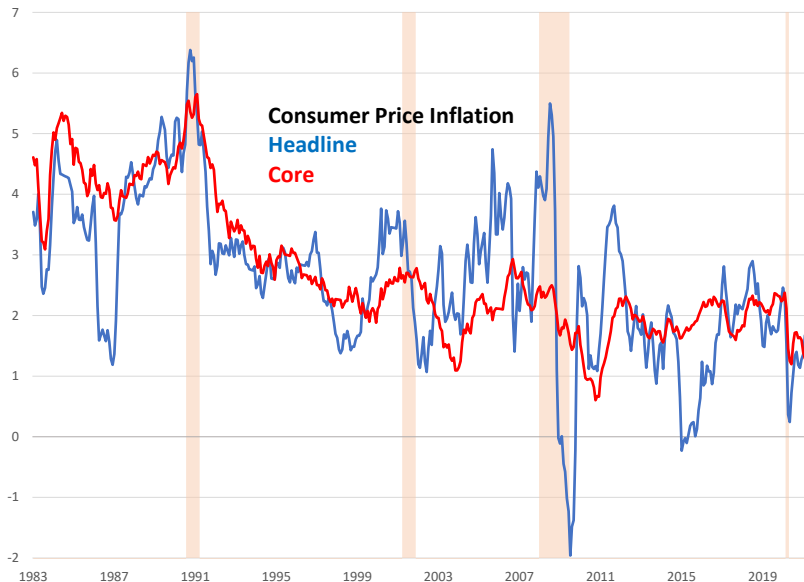
Inflation: Causes, Effects, and Cures

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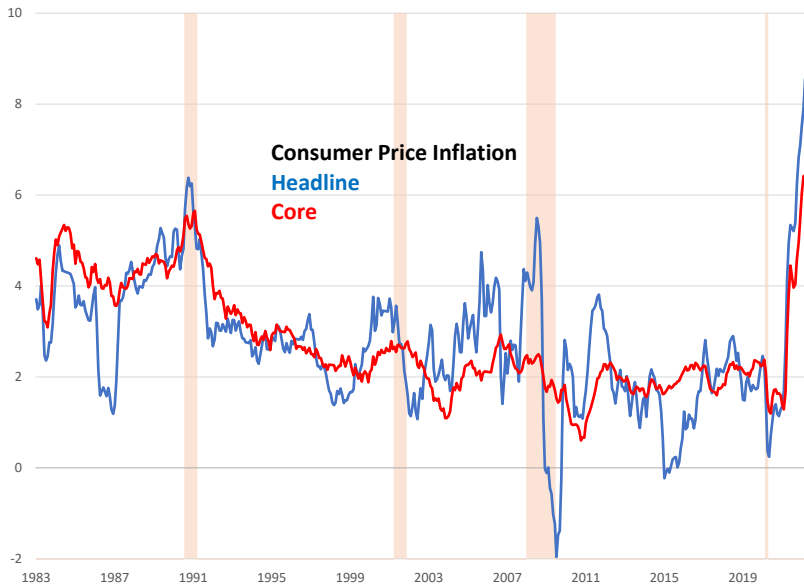
29 April 2022

Inflation Experience of Young Americans



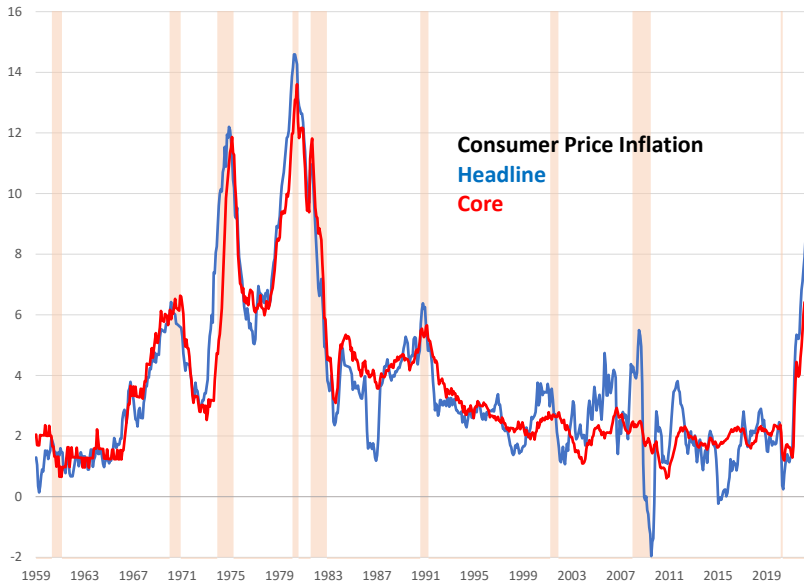
Source: Bureau of Labor Statistics

Inflation Experience Update



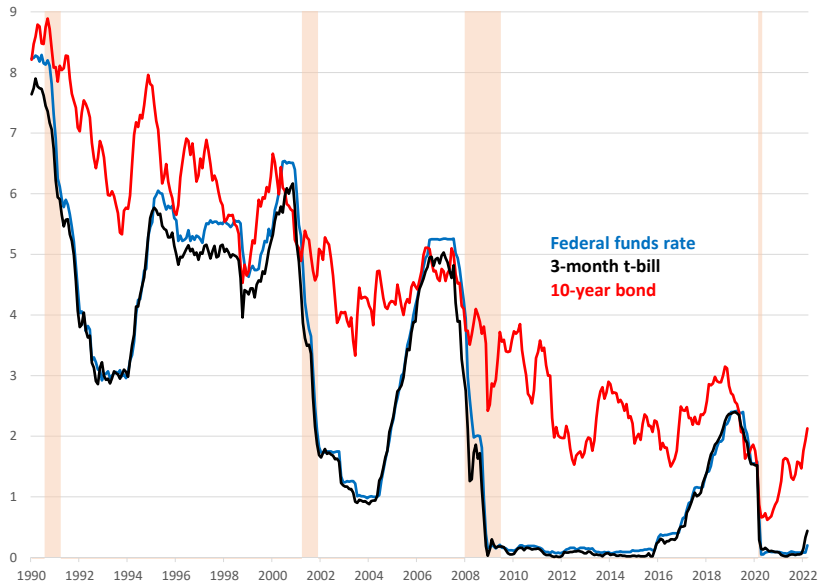
Source: Bureau of Labor Statistics

Historical Inflation Experience



Source: Bureau of Labor Statistics

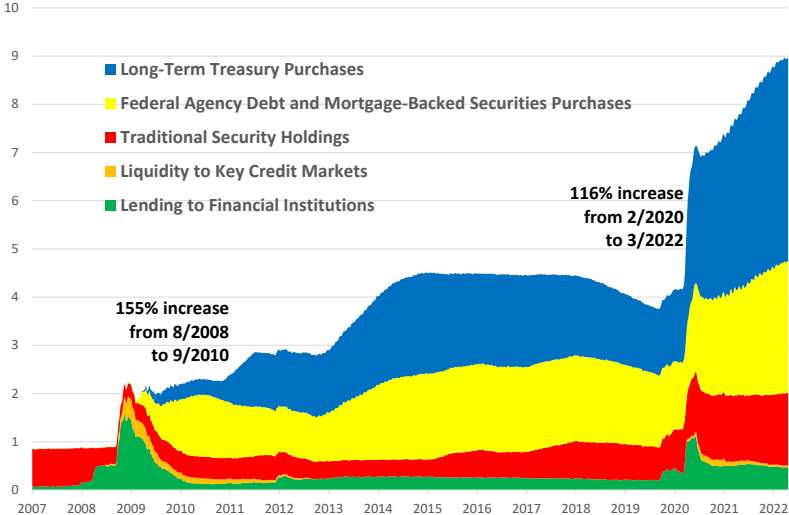
Federal Reserve Interest-Rate Policy



Source: Federal Reserve Board

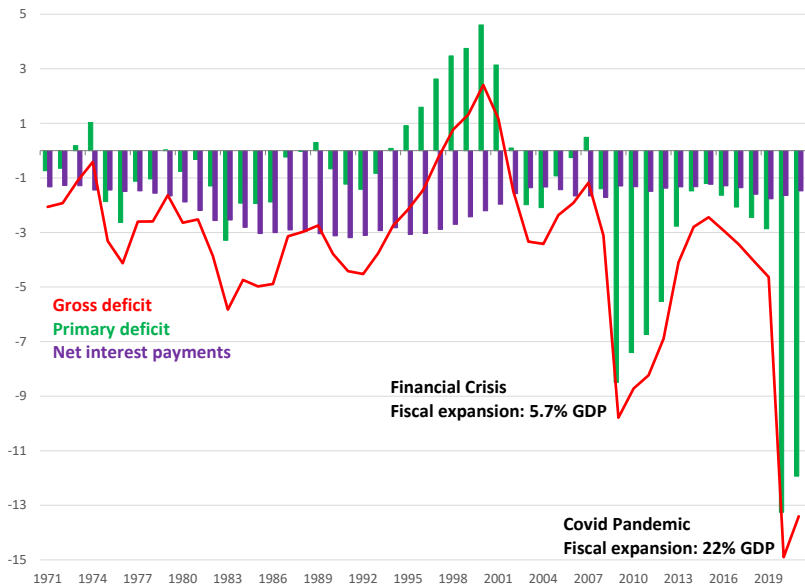
Federal Reserve Balance-Sheet Policy

Federal Reserve Assets
(trillions)



Source: Federal Reserve Board

Federal Deficits (-) as Percentage of GDP



Source: Bureau of Economic Analysis & CBO

Expectations of Policy Behavior

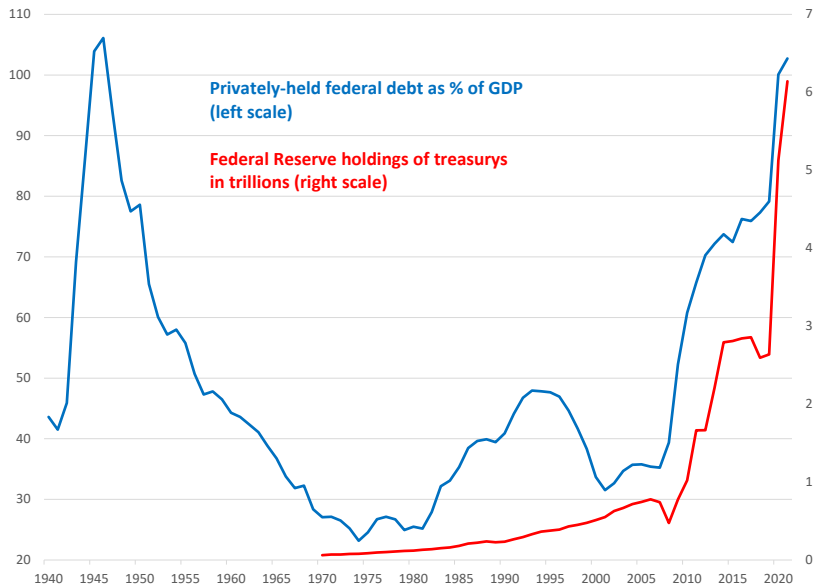
“... today I’m pledging to cut the deficit we inherited in half by the end of my first term in office.”

President Obama, 23 February 2009 at Fiscal Responsibility Summit, six days after \$831 billion for American Recovery and Reinvestment Act signed into law

“It’s important to note that we believe this should be provided on an emergency basis, not something where it would require offsets.”

Jen Psaki, White House Press Secretary, 15 March 2022, referring to \$22.5 billion request for Covid funding after \$4.6 trillion allocated in earlier relief

Growth in Federal Debt



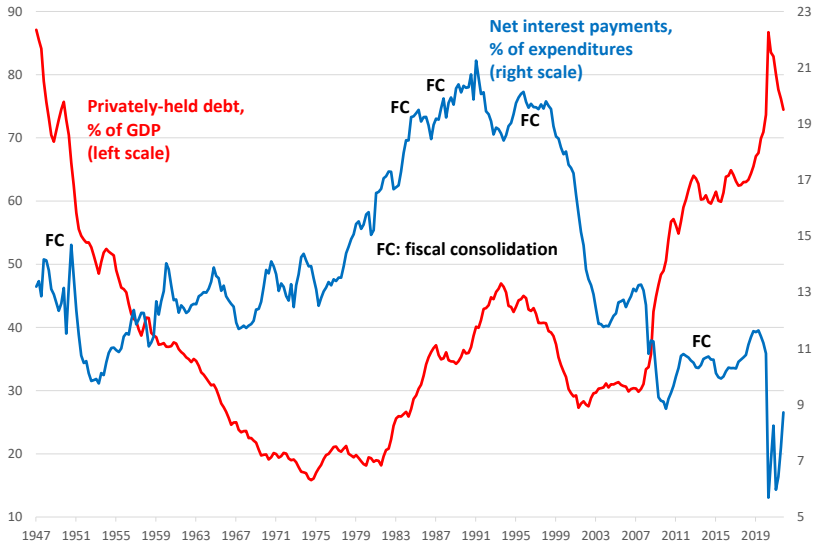
Source: Bureau of Economic Analysis & CBO

Inflation Cures

- ▶ Federal Reserve tightening
 - ▶ started to raise interest rates
 - ▶ signaled willingness to move aggressively
- ▶ A dirty little secret
 - ▶ Fed tightening must be supported by fiscal tightening
 - ▶ suppose rates rise to 5%
 - ▶ federal debt now \$20 trillion
 - ▶ higher rates increase deficit \$1 trillion
 - ▶ if paid for with . . .
 - ▶ more debt issuance, inflation will not return to target
 - ▶ if paid for with higher taxes, Fed can reduce inflation
- ▶ Last successful disinflation in early 1980 (Volcker)
 - ▶ Reagan's big tax cut in 1981
 - ▶ from 1982 to 1990, 5 tax increases
 - ▶ fiscal support made Volcker disinflation successful

Prospects for Fiscal Support

Debt & Interest Payments



Source: Bureau of Economic Analysis & Dallas Fed