Is Inflation In Your Best Interest Or The Feds? *?We want to see American citizens pay higher prices for milk, butter, eggs, bread, and toilet paper. To reach our goal, we will adjust monetary policy to make these goods and other goods and services more expensive in the future.?* How long before mobs storm the Mariner Eccles building (Fed headquarters) if Jerome Powell were to make such a statement? Is our mock proclamation that different from Powell?s comment on 12/16/2020:

> ?W*ith inflation running persistently below 2%, we will aim to achieve inflation moderately above 2% for some time so that inflation average is 2% over time and longer-term inflation expectations remain well-anchored at 2%.*?

During Powell?s most recent press conference, not one reporter asked how the public benefits from paying more for goods and services. Not one reporter has ever asked if inflation benefits all citizens or just a few. On rare occasions do reporters assess the efficacy of the Fed?s inflation target or its monetary operations? Today we share with you what the Fed, media, and Wall Street will not. By doing so, we help you decide if inflation is for the greater good.

What is Price Stability?

Congress delegates responsibility for monetary policy to the Fed but maintains oversight. They are supposed to ensure the Fed adheres to its statutory mandate of ?maximum employment, stable prices, and moderate long-term interest rates.? What are stable prices? Merriam Webster defines the word *stable* when used as an adjective, as follows:

- *firmly established**:** fixed, steadfast stable opinions*
- *not changing or fluctuating**:** unvarying in stable condition*

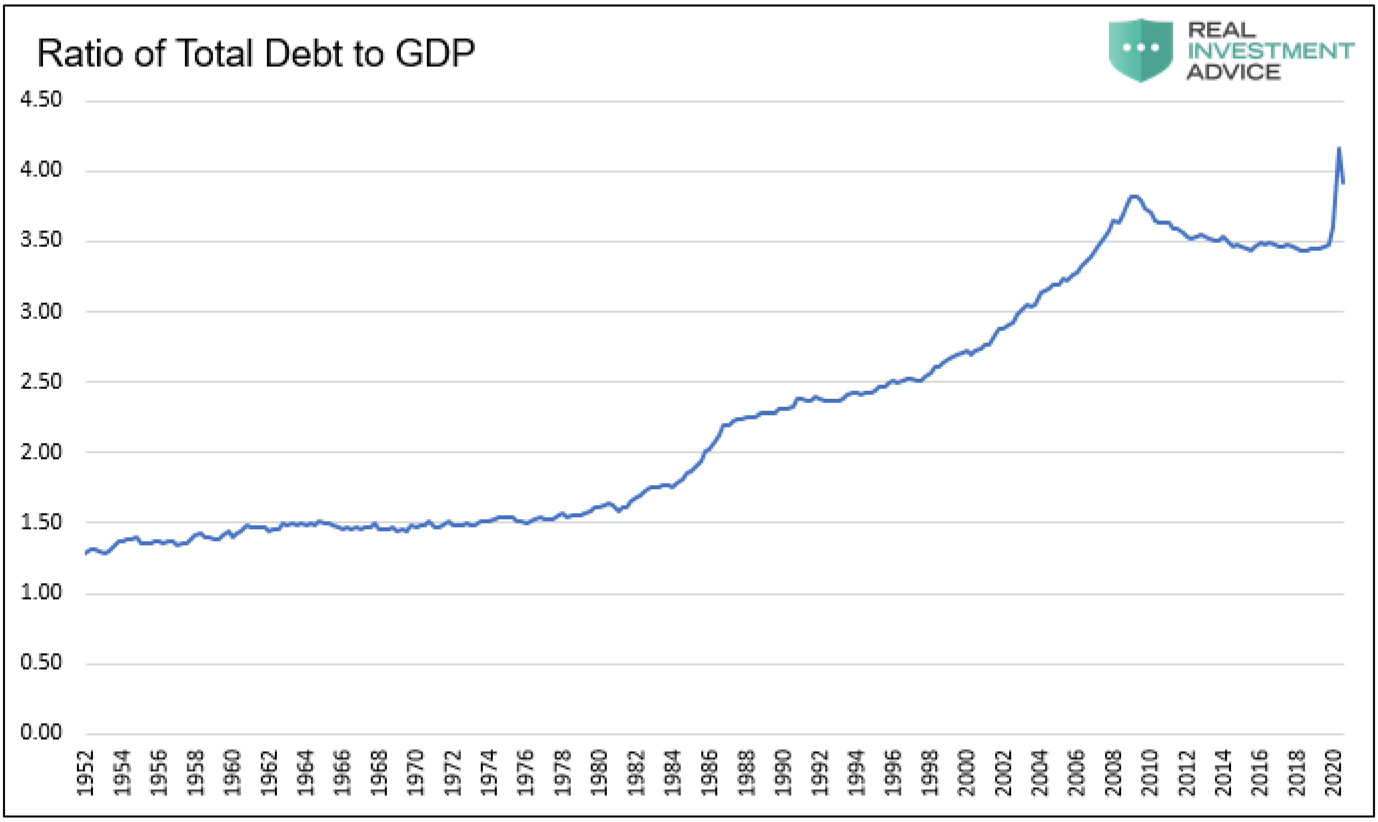
If the price of a dozen eggs rises from $4.00 today to $5.12 in a decade, would you say the price did *not change or fluctuate*? Does *firmly established* characterize a 28% increase in the price of eggs over ten years (2.5% inflation rate). In July 1996, Fed Chairman Greenspan opined on the definition of price stability. He stated- "*I would say the number is zero if inflation is properly measured.*" In a paper from 2006, Fed economists Robert Rasche and Daniel Thornton lend credence to his opinion: ?*In so doing, he (Greenspan) confirmed that the rate of inflation that results in the maximum sustainable growth rate of output is zero.?* So if stable prices mean no inflation, why does the Fed crave more inflation?

Why Inflation?

- *?In a move that Chairman Jerome Powell called a ?robust updating? of Fed policy, the central bank formally agreed to a policy of ?average inflation targeting.? That means it will allow inflation to run ?moderately? above the Fed?s 2% goal ?for some time? following periods when it has run below that objective.?-CNBC 8/27/2020*

- ?*If we generated some modest inflation, I think we would consider that a success*,? ?Neel Kashkari 12/2020
- "*If we got 3 percent inflation that would not be so bad*." Charles Evans 1/2021
- ?*By committing to achieve inflation outcomes that average 2 percent over time, the Committee would make clear in advance that it would accommodate rather than offset modest upward pressures to inflation in what could be described as a process of opportunistic reflation. This approach will help move inflation expectations back to our 2 percent objective, which is critical to preserve conventional policy space.?* - Lael Brainard 2/2020

Debt is the principal reason Fed members are increasingly troubled with low inflation. Debt has increasingly become an economic engine. Some of it went toward productive purposes. Most of this debt results in growth and pays for itself. Slowing productivity, GDP, corporate earnings, and wage growth argue a large percentage was put to non-productive use. Non-productive debt boosts economic activity for a short period. That is what makes it attractive to the Fed in times of sub-optimal economic growth. The flaw of this logic is that it does not produce enough income to pay off future debt. Accordingly, it weighs on future economic growth and requires ever more debt to keep the economy rolling.



Currently, there is $83 trillion of total debt outstanding, powering a $21 trillion economy. Include future liabilities such as social security, and the amount of debt nearly doubles.

Solving a Debt Problem

With the debt growing substantially faster than the ability to pay for it, there are three options to deal with the problem.

- *Austerity*
- *Default*
- *Inflation*

The Fed shuns options one and two above. Austerity would squash economic growth, which the Fed and lawmakers will not tolerate. Defaulting on a moderate share of debt will devastate the financial markets and hurt the economy. While both options require severe short-term pain, they promote more robust growth in the future. That leaves inflation. Inflation deflates the real value of debt. Higher wages, profits, and taxes resulting from inflation make debt payments less onerous. The Fed is trapped. They want robust economic activity and soaring asset prices. In the current environment, this can only occur with more debt and leverage. To make existing and additional debt manageable and appealing, they must reduce interest rates. **With interest rates near zero, inflation becomes a more critical tool**. QE and recent programs with the Treasury are how they hope to generate inflation. The graph below comparing QE to GDP shows the effect of the Fed's herculean efforts to keep the debt scheme going.

Inflation Benefits Few At the Expense of Many

Not only is the Fed perpetuating and making the debt problem larger, but importantly the benefits and costs of such policy are not equally distributed. In ***Two Percent For The One Percent,*** we explain how inflation benefits the wealthy and crushes the low and middle class. To wit:

Summary- Is Inflation in the Greater Good?

Now you know why the Fed desperately wants you to pay more for milk, butter, eggs, bread, and toilet paper. They are deep in a trap of their own making. They can keep digging deeper into the trap, or they can change their ways. Despite rhetoric to the contrary, change is not politically palatable to the political ruling class on both sides of the aisle. **As such, years of fiscal and monetary negligence leave the Fed with one option- inflation**. If the Fed does not make us pay more for goods and services, the scheme comes to an end. The growing economic and societal rifts of the last few years are only just beginning. **Each dollar of QE and basis point reduction in interest rates enforce the inequalities of monetary policy.** When QE fails to serve its purpose, the Fed will find a new trick. We fear it will be literal money printing.