

Re: Bush busts Social Security with massive deficits

Source: <http://sci.tech-archive.net/Archive/sci.econ/2004-10/0185.html>

From: William F Hummel (wfhummel_at_comcast.net)

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On Sun, 03 Oct 2004 06:20:26 GMT, Igor <jjweatherby@houston.rr.com> wrote:

>William F Hummel wrote:

>> Exactly so. Significant inflation is uncommon during periods of
>> rising debt.

>

>That does not mean debt does not cause inflation. If deficits increase
>inflation and a recession decreases inflation then the effect will be
>masked by recession. If the recession is pulling down inflation rates
>faster than deficits are pushing them up then inflation rates fall. This
>does not in any way mean that deficits did not cause the inflation rate
>to be higher than it otherwise would have been. Without deficits
>inflation rates would have been even lower.

Macroeconomics is all about the total system, not some isolated portion of it. For that reason cause and effect are difficult to assign in macro. However it is foolish to apply ceteris paribus conditions and ignore the dominant feedback effects.

>If you understand what a

>Calculus I class is about you can understand the argument.

I'm truly impressed that you learned calculus I. Unfortunately it hasn't helped much in your understanding of macro.

>> Look at the 50-year history of
>> rising government debt and the inflation rate which is no higher today
>> than it was for most of that period.

>

>No it is not. Over the 1990's the inflation rate dropped significantly
>to around 2%. Prior to the 1990's excluding the oil shocks the rate was
>averaging around 4%. The 1990's saw inflation decrease significantly due
>to tight monetary policy and the Clinton tax increase.

Wrong. As I said, the inflation rate today is no higher than it was for most of the last 50 years as shown here. See for yourself.

The annualized inflation rate since 1954 (50 years) based on the CPI-U was 3.98%.

<ftp://ftp.bls.gov/pub/special.requests/cpi/cpiiai.txt>

The average rate during 2003 was 2.27%.

http://inflationdata.com/inflation/Inflation_Rate/HistoricalInflation.aspx

>

>*Again this is ceteris paribus. Interest rates have been steady and have
>been lowered due to Fed policy. Over the 1980's the interest rates
>soared as the deficit rose.*

Flat wrong. The 1980s saw a general downward trend in interest rates, both long and short rates. The 10-year treasury rate got as high as 12.84% in 1980. In 1989 it was never above 9.36%.

<http://www.federalreserve.gov/releases/H15/data/m/tcm10y.txt>

The Fed funds rate got as high as 17.61% in 1980. In 1989 it was never above 9.85%.

<http://www.federalreserve.gov/releases/H15/data/m/fedfund.txt>

>*The Fed let interest rise and even*

>*influenced to rise more inflation was in check but only because the Fed
>did not monetize the debt. The sold bonds to make interest rates even
>higher and keep inflation down. The high interest rates led to a strong
>dollar and big trade deficits.*

>

More of the same, compounding your error.