# Re: When should the Fed act against inflation?

***Source:*** http://sci.tech−archive.net/Archive/sci.econ/2006−06/msg00074.html

- *From*: "The Trucker" <mikcob@xxxxxxxxxxx>
- *Date*: Sat, 17 Jun 2006 14:42:02 −0700

"puntontg" <tomrules111@xxxxxxxxxxx> wrote in message
news:1150545759.586275.274350@xxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

> > The control of inflation through the use of interest rates on borrowed reserves is a very inappropriate instrument to control inflation in that the real economy must suffer greatly before the corrections can be achieved. Appropriate tax policy can be a far superior tool. Also see:
> >
> > http://GreaterVoice.org/econ/glossary/inflation.php
>
> First of all this link is the moneterist view on inflation and therefore is just one cause or theory of how inflation takes place.

It really depends on whether you think that actual definition of "inflation" is a rise in the price of goods or a decrease in the value of money. The link tries to say that an increase in the price of goods and gasoline that is brought about by an increase in the price of oil is NOT "inflation". That _means_ that "inflation" to actually be "inflation" is not simply a rise in prices. It says that "inflation" IS a monetary event and that real "inflation" is actually a decrease in the value of money. This is a point with which you may certainly disagree. Many people see it the way that you do: "inflation" is a general price rise and it makes no difference WHY the price is rising. But that also says that increasing interest rates is NOT an ipso facto proper solution to all cases of "inflation". If you leave "inflation" as being a "value of money" thing then the adjustment of interest rates is more often the appropriate solution. But, alas, even then it is not ALWAYS the right thing to do.

> And
> it is true that if interest rates are already high then bringing them
> lower with interest rates would mean the economy would suffer (however
> some people believe this is the lesser of two evils in the long run).

I can't parse this. Please rephrase.

> However for controlling interest rates so that inflation does not rise rise, can be effective as it can just slow the rate of growth, not actually making it negative.

Slowing the growth rate of the real economy is not normally a "good" thing to do unless you are very selective about it.

> This will only be the case if the
> inflation is demand pull in nature, and there are problems with using fiscal policy such as it is difficult to know how people may react to tax changes.

If we dramatically increase the tax on gasoline I can predict very well what the reactions will be. Same with an across the board increase in import duties. Same with increasing the tax on a lot of "bads". The shotgun approach of interest rates does two things and both are bad:

1. It rewards the rich at the expense of the poor while the rich do absolutely nothing to earn the additional income.

2. It strangles the really small bossiness's and the small farmers that are the real soul of a good middle class economy.

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"I know no safe depository of the ultimate powers
of society but the people themselves; and
if we think them not enlightened enough to
exercise their control with a wholesome
discretion, the remedy is not to take it from
them, but to inform their discretion by
education." − Thomas Jefferson
http://GreaterVoice.org

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