

Re: When should the Fed act against inflation?

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puntontg <[tomrules111@xxxxxxxxxxxx](mailto:tomrules111@xxxxxxxxxxxx)> wrote:

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 monetarist view on inflation and therefore is just one cause or theory of how inflation takes place. 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). However for controlling interest rates so that inflation does not rise, can be effective as it can just slow the rate of growth, not actually making it negative. 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.

The Fed has nothing to do with tax rates. It is limited to monetary policy.

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