


 **Thomas Levenson, Ζόιarchos** @TomLevenson 20 hours ago

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I just read 's fine column on whether Larry Summers is right RE inflation. But: inflation is not a single phenomenon:



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Diff. sectors have behave v. differently. Big jumps in energy prices, cars, & food, much less in medicine & housing. My q...

 **Thomas Levenson, Ζόιarchos** @TomLevenson 20 hours ago

2/ How does Summers' story hold up when you look at inflation by sector. Energy prices don't fit his story, ISTM. Car price hikes are partly, maybe largely associated with supply-chain issues. Etc. My bias: A lot of public macro talk is done at a cartoon level of abstraction...

 **Thomas Levenson, Ζόιarchos** @TomLevenson 20 hours ago

3/ Concepts like markets, inflation & much more, are assumed to have one clear, generally understood meaning in the world-wh. ain't necessarily so. Here, when a gr8 polemicist like Summers makes a real-life-impacts policy argument, I'd like to get both the nitty and the gritty...

 **Thomas Levenson, Ζόιarchos** @TomLevenson 20 hours ago

4/ Thoughts anyone? ?

 **Brad DeLong** 🙌 @delong 4 hours ago

Inflation start says a sector-specific phenomenon, but as it goes on the process acquires a common self-sustaining logic: people who expect inflation to continue into the future generate inflation now by anticipatorily raising their prices. The creation and generation of... 1/

 **Brad DeLong** 🙌 @delong 4 hours ago

...that common and general process—which is then no longer sector-specific and which we saw in the 1970s—is what is worried about. A year ago I would have said that there was a 5% chance that he was right to be so worried. Now I think that there is a 40% chance... 2/

 **Brad DeLong** 🙌 @delong 4 hours ago

...three doublings of my subjective odds that he is right on the situation, the third of them coming from Putin's attack on Ukraine and the knock-on effects on energy and food markets as a potential cause of an inflationary spiral. Note that that increase from 5% to 40%... 3/

 **Brad DeLong** 🙌 @delong 4 hours ago

...that we are already in a world I really did not expect to see. A year ago we had an urn with 200 balls in it, of which 10 were "inflation". Now we know that 175 of those non-inflation balls are no longer in the urn, so that we are drawing from an urn containing 25 balls... 4/

 **Brad DeLong** 🙌 @delong 4 hours ago

...10 of them inflation. We are in a world that I would have given only 1/8 probability a year ago: that means that perhaps my Visualization of the Cosmic All is very wrong, for 1/8 events are unlikely to happen if my VotCA is correct. Why do I think that has... 5/

 **Brad DeLong** 🙌 @delong 4 hours ago

...only a 40% chance of being right? Because bond markets expect the Fed to get inflation down to 2% not in the short run of next year but in the medium run of three years from now and after. Workers and bosses won't raise their prices anticipatorily unless they expect... 6/

 **Brad DeLong** 🙌 @delong 4 hours ago

...inflation to continue. And I do not see how workers and bosses can expect inflation to continue while bond traders remain un-spooked. Bond traders are more sensitive to fears of inflation than workers and bosses. So they are the canaries in the coal mine here. And they... 7/

 **Brad DeLong** 🙌 @delong 4 hours ago

...have not yet keeled over. Even though I think has only a 40% chance of being right, doesn't that mean that the Fed should be moving more aggressively now to raise interest rates? I say: no. Secular stagnation—global excess demand for safe nominal assets like... 8/

 **Brad DeLong** 🙌 @delong 4 hours ago

...U.S. Treasuries—is still very much a thing. That means that, with a 2% inflation target, the U.S. Treasury market is still very likely to hit the zero lower bound. At that point the Fed can't do much to warm up the economy. Thus risks are asymmetric: until long-term... 9/

 **Brad DeLong** 🙌 @delong 4 hours ago

...inflation expectations move, it is straightforward for the Fed to catch up if it is behind the curve on raising rates; but the Fed cannot recover if it raises rates too far too fast and then wants to push them down below zero. Thus I think that the Fed should not move... 10/

 **Brad DeLong** 🙌 @delong 4 hours ago

...faster and farther than it is currently moving until the chances that is right reach something like 80%. Thus current Fed policy seems appropriate to me: it looks as though Jay and Lael have got this. There is also the question of how much inflation we... 11/

 **Brad DeLong** 🙌 @delong 4 hours ago

...should be having. We are trying to pull ourselves back to full employment rapidly, rather than repeating the disaster of the 2010s. That required leaving rubber on the road, and that task is largely accomplished. But we are also switching from an in-person service... 12/

 **Brad DeLong** 🙌 @delong 4 hours ago

...economy to an economy that is more goods- and deliverator-heavy. Since it is a grave insult to people to lower their wages, pulling people into expanding sectors requires higher wages in those sectors. It also requires that people be rewarded for shifting production... 13/

 **Brad DeLong** 🙌 @delong 4 hours ago

...to clear bottlenecks. Those relative price changes that we need to do the structural adjustment simply do not happen if the Fed hits the economy on the head with a brick to keep inflation at 2%/year all the time. What is the desirable amount of inflation to have in.... 14/

 **Brad DeLong** 🙌 @delong 4 hours ago

...order to grease these structural rebalancings? I have not seen, or been able to generate myself, credible numbers. But it is surely not 2%. As I wrote before <



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>: >Six times in the twentieth century... the annual inflation rate got above 5%... 15/

 **Brad DeLong** 🙌 @delong 4 hours ago

...World War II inflation [was] cut off by price controls. Post-WWII... and then the Korean War structural-rebalancing inflation.... During both the Fed sat by.... The inflations soon passed away. Before those came the World War I episode... cut off by an increase... 16/

 **Brad DeLong** 🙌 @delong 4 hours ago

...in the discount rate from 3.75%/year to 7%/year.... Milton Friedman and Anna J. Schwartz judged that the rise was “not only too late but also too much” <



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 **Brad DeLong** 🙌 @delong 4 hours ago

...should do now, in the spring of 2022?... [NOTHING!] Truth be told, \*\*there is no economic theory\*. There is only history, and its events, and analogies we make based on judgments concerning complicated emergent processes we do not understand very well... 18/

 **Brad DeLong** 🙌 @delong 4 hours ago

...Sometimes, it is true, we distill and crystallize the history into something we call theory where little squiggles that look like  $\gamma$ ,  $\delta$ ,  $\beta$ ,  $\sigma$ , and so on; we then mainline the crystallized product. After mainlining it we can think we know something. But after mainlining... 19/

 **Brad DeLong** 🙌 @delong 4 hours ago

...crystal meth we experience increased energy, elevated mood, extraordinary confidence, racing thoughts, muscle twitches, and rapid breathing, among other things. Move cautiously. Be data-dependent. Wait for it to become clearer which, if any, historical analogies... 20/

 **Brad DeLong** 🙌 @delong 4 hours ago

...are relevant to our situation. And always, always, always remember that in an economy that is near and that we have a good reason to fear will long remain in danger of hitting the zero lower bound on nominal interest rates, premature and excessively aggressive moves... 21/

 **Brad DeLong** 🙌 @delong 4 hours ago

... that raise interest rates cannot easily be corrected. 22/END