# Inflation Disadvantage

#### Inflation returning to healthy rate as a result of current fiscal policy and the natural unemployment rate

Blinder 7/19/23

Alan S. Blinder Blinder, a professor of economics and public affairs at Princeton and served as vice chairman of the Federal Reserve, 1994-96. "Team Transitory Had a Point About Inflation." Published by the Wall Street Journal on July 19, 2023. Available here: (https://www.wsj.com/articles/team-transitory-had-a-point-about-inflation-fed-energy-food-cpi-inflation-2c71e184) - AP

When the Federal Reserve meets this month, someone should mention the widely derided Team Transitory from 2021. Remember them? (Full disclosure: I was a member.) The Fed was also on the team back then, although Chairman Jerome Powell dropped the adjective “transitory” in November 2021. The financial markets signed on as well: The break-even expected inflation rate in the Treasury Inflation-Protected Securities market hovered near the Fed’s target through most of 2021. Later, as inflation went higher and higher, members of Team Transitory, including me, issued many mea culpas. Inflation wasn’t nearly as transitory as we had thought. Bad choice of adjective. It turns out, however, that while the name was inapt and our implicit inflation forecasts were way off, Team Transitory’s central idea may be vindicated. The notion was that most of the rising inflation wasn’t due to an overheated economy fueled by monetary and fiscal policy, but rather to several “special factors” that would disappear on their own. Principal among them were rising prices for food and energy and supply-side bottlenecks from the pandemic. The policy implication was that bringing inflation down wouldn’t require a recession. Inflation would mostly fall of its own accord. To be sure, the Fed needed to raise interest rates; rates near zero were inappropriate in a rapidly recovering economy with rising inflation. But the Fed didn’t need to push rates so high as to cause a recession. That may be happening now. The 12-month consumer-price index inflation rate peaked at a seasonally adjusted 8.9% in June 2022 and is down to 3.1% for the year ending June 2023. That’s quite a drop in a single year. The Fed’s preferred measure, the deflator for personal consumption expenditures, hasn’t fallen quite as much. But on a 12-month basis, it’s down from 7% in June 2022 to 3.8% in May 2023. When the June 2023 number comes out, it will probably go lower. None of this was due to economic slack. The post-pandemic boom continues. The unemployment rate has been remarkably steady in the 3.5% to 3.7% range since the Fed began tightening. That’s below what most economists think of as the “full employment” or “natural” rate. (The Fed’s current estimate is 4%.) Gains in payroll employment have slowed lately but remain more than double the pace needed to accommodate normal labor-force growth. The Commerce Department’s initial estimate of real gross domestic product growth in the second quarter of 2023 isn’t in yet. But when it is, growth over the past four quarters looks likely to come in around 2.5%—again above trend. (The Fed’s estimated trend is 1.8% a year.) So, far from having a recession, we’ve barely had a slowdown. Whatever degree of slack the U.S. economy had when the Fed began tightening in March 2022, it surely has less now, not more. Yet inflation has fallen sharply.

#### =Insert Appropriate Link Card=

#### Hyperinflation devastates economies and households and creates currency collapse

Hicks 22

Coryanne Hicks is an investing reporter, finance writer and ghostwriter whose work appears in Forbes Advisor, U.S. News & World Report, Kiplinger, Business Insider publications. "Hyperinflation: When Inflation Goes Wild." Published by Forbes on July 18, 2022. Available here: (https://www.forbes.com/advisor/investing/hyperinflation/) - AP

Prices rose 8.6% between May 2021 and May 2022, the largest 12-month gain in the Consumer Price Index (CPI) since 1981. But the May 2022 CPI report was only the latest in a string of 40-year highs in the different measures of U.S. inflation rates over recent months. The growing global inflation surge after decades of price stability is putting the world on edge. In some quarters, people have even started talking about inflation’s wild first cousin, hyperinflation. What Is Hyperinflation? Hyperinflation is a rapid spike in extreme inflation, usually at a rate of at least 50% per month. This would equal an inflation rate of about 14,000% per year. Some definitions refer to hyperinflation as “out of control” price increases. In a hyperinflationary environment, you could pay $5 for your morning coffee and $6 for the same cup of joe by the afternoon. “Hyperinflation is a rare occurrence, and historically has only taken place when a confluence of factors collide, like poor monetary policy, corrupt governments and unstable economies,” says Daniel Milan, managing partner at Cornerstone Financial Services. What Causes Hyperinflation? Hyperinflation is caused by a rapid increase in a country’s money supply, typically when a government creates more and more money. As more money becomes available, the value of each individual unit of currency drops and prices rise. “Often you see hyperinflation happen in times of war, which leads to economic turmoil, combined with excessive money printing by a country’s central bank,” Milan says. “This leads to a disconnect in supply and demand economics.” Hyperinflation can also occur when a sudden increase in demand outpaces supply, called demand-pull inflation, or people lose confidence in a country’s monetary system. “In all cases, goods become scarce, causing the price of goods to increase rapidly,” says Brian Graeme, manager of alternative manager research of GuideStone Capital Management. What Are the Effects of Hyperinflation? For individuals and economies, the effects of hyperinflation can be devastating. The prices of consumer goods rise too fast for wages to keep up, leaving consumers unable to pay for basic necessities. “Hyperinflation will generally ~~cripple~~ [damage] the economy and at times cause a full collapse of the economic and monetary system,” says Brian Stivers, investment advisor and founder of Stivers Financial Services. This collapse can occur in many ways, he says. People may begin hoarding products out of fear of future price increases or reduced supply, which exacerbates hyperinflation by creating even greater shortages, Stivers says. People’s cash savings lose all value. This can cause the entire banking system to become destabilized as the loans banks hold lose value and depositors withdraw funds or stop making future deposits. The value of the nation’s currency can even collapse. Milan says that an economy faced with hyperinflation will often fall into a deep recession or even depression.

#### Hyperinflation goes global causing starvation and war

UN General Assembly 12

"International Community Must Take ‘Collective Stand’ to Create New Global Growth Model, Says Secretary-General at Outset of Two-Day Debate on World Economy." Published by the United Nations, assembly took place on May 17, 2012. Available here: (https://press.un.org/en/2012/ga11235.doc.htm) - AP

Mr. SUPACHAI remarked that, as even the world’s largest economic players struggled with imbalances and intractable issues, the world’s smallest economies had their own share of problems. In the last 10 years, on average, developing countries had been successful in reducing their rates of inflation from about 30 per cent per year to less than 6 per cent per year. With some exceptions, the “inflation issue” was much less urgent than in the past. However, there had been a general slowdown in global economic growth and the “squeeze” on the wage shares of total income continued unabated. Overall, today there were indications of the need to fight deflation, instead of inflation. The world had learned several lessons from the recent case of Iceland, which had entered into, and then come out of, a situation of excessive debt, he said. The first lesson was that it was difficult, if not impossible, to let a pan-European financial market function freely without a regulatory system. Secondly, policies on financial stability had focused too much on individual institutions and too little on the financial sector as a whole. Individual issues could mislead the system; there was a need for more comprehensive measures. Finally, the regulatory system was “old-fashioned” compared to the fast, “IT-driven nature” of modern banking. There was no regulatory system in place that could keep track of all the transactions currently being made, he said. With regard to public debt, he said the average level of external debt compared to GDP had fallen in recent years. However, performance was uneven around the globe, and some regions were not able to enter the loan market. The causes of debt vulnerability were still a problem, and today, 94 out of 128 developing countries still suffered from account deficits. Those challenges were especially prominent in the least developed countries. The high debt levels of developing and least-developed countries were closely related to the rising costs of commodity prices caused by speculative activities. “We should not become too restrictive” for countries that had incurred debts, but instead allow those countries to channel their funding into areas that boosted their competitiveness, such as productivity and infrastructure development. UNCTAD was currently drafting a set of “principles of responsible lending and borrowing”, which would focus, among other things, on transparency and accountability. Early warning systems must be implemented or improved, and the “exchange rate issue” must be dealt with. Addressing the causes of debt vulnerability, Ms. KAMARUDDIN first underscored the high growth of global monetary supply in the form of loans, in which the growth of money exceeded the growth of the real economy. In that scenario, defaults began to occur, throwing countries into recessions. Today, major world economies, such as the United States, Japan and some European countries, were already in such “liquidity traps”. The effects of the failing dollar and euro included rising prices, global recession, global hyperinflation, chaos, conflicts and even the possibility of war. Turning next to possible solutions to those problems, she said that the entire financial system needed “debt relief” — a scenario in which portions of loans were pardoned and only principal amounts were paid. “This requires a tremendous political give-and-take”.

## Links

### Federal Jobs Guarantee

#### Programs like federal jobs guarantees rest on the assumption that deficit spending can resolve itself – empirics prove this is false and creates hyperinflation

Summers 19

Lawrence Henry Summers is an American economist who served as the 71st United States Secretary of the Treasury from 1999 to 2001 and as director of the National Economic Council from 2009 to 2010. " The Left's Embrace of Modern Monetary Theory is a Recipe for Disaster." Published by the Washington Post on March 4, 2019. Available here: (https://www.washingtonpost.com/opinions/the-lefts-embrace-of-modern-monetary-theory-is-a-recipe-for-disaster/2019/03/04/6ad88eec-3ea4-11e9-9361-301ffb5bd5e6\_story.html) - AP

We’ve seen this movie before. There is widespread frustration with the performance of the economy. Traditional policy approaches are not delivering hoped-for results. A relatively unpopular president is loathed to an unusual extent by a frustrated opposition party that lost the previous presidential election while running a pillar of its establishment. And altered economic conditions have led to the development of new economic ideas that reflect a significant break with previous orthodoxy. And now, these new ideas are being oversimplified and exaggerated by fringe economists who hold them out as offering the proverbial free lunch: the ability of the government to spend more without imposing any burden on anyone. During the late 1970s, this was the story of supply-side, Laffer-curve economics. It began with the valid idea that taxes had important incentive effects and that, in conceivable circumstances, tax cuts could raise revenue. It grew into the ludicrous idea that tax cuts would always pay for themselves, and this view was then adopted by a frustrated extreme wing of a major political party. George H.W. Bush was right during the 1980 presidential primary campaign to call such thinking “voodoo economics.” In the decades following, that doctrine did substantial damage to the U.S. economy. Modern monetary theory, sometimes shortened to MMT, is the supply-side economics of our time. A valid idea — that traditional fiscal-policy taboos need to be rethought in an era of low real interest rates — has been stretched by fringe economists into ludicrous claims that massive spending on job guarantees can be financed by central banks without any burden on the economy. At a moment of economic and political frustration, some in the more extreme wing of the out-of-power political party are seizing on the possibility of a free lunch to offer politically attractive ways out of economic difficulty. Modern monetary theory is fallacious at multiple levels. First, it holds out the prospect that somehow by printing money, the government can finance its deficits at zero cost. In fact, in today’s economy, the government pays interest on any new money it creates, which takes the form of its reserves held by banks at the Federal Reserve. Yes, there is outstanding currency in circulation, but because that can always be deposited in a bank, its quantity is not controlled by the government. Even money-financed deficits cause the government to incur debt. Second, contrary to the claims of modern monetary theorists, it is not true that governments can simply create new money to pay all liabilities coming due and avoid default. As the experience of any number of emerging markets demonstrates, past a certain point, this approach leads to hyperinflation. Indeed, in emerging markets that have practiced modern monetary theory, situations could arise where people could buy two drinks at bars at once to avoid the hourly price increases. As with any tax, there is a limit to the amount of revenue that can be raised via such an inflation tax. If this limit is exceeded, hyperinflation will result. Third, modern monetary theorists typically reason in terms of a closed economy. But a policy of relying on central bank finance of government deficits, as suggested by modern monetary theorists, would likely result in a collapsing exchange rate. This would in turn lead to increased inflation, increased long-term interest rates (because of inflation), risk premiums, capital fleeing the country, and lower real wages as the exchange rate collapsed and the price of imports soared. Again, this is not just theory. Numerous emerging markets have found, contrary to modern monetary theory, that they could not print money to cover even their domestic currency liabilities. The same is true of industrial economies. The Mitterrand government in France in 1981 and the Schröder government in Germany in 1998 began with MMT-type approaches to policy and were forced to reverse course. The British and Italians both had to call in the International Monetary Fund during the mid-1970s because of excessive reliance on inflationary finance. Supply-side economics was an unreasonable extension of valid ideas; few today advocate the top corporate tax rate of 46 percent and rates above 50 percent for a substantial swath of taxpayers that prevailed in the late 1970s. So, too, in a new era when the Fed chairman thinks that neutral real interest rates are well below 1 percent, we can approach federal borrowing with much less trepidation than we have traditionally. But for neither the right nor the left is there any such thing as a free lunch. It’s the responsibility of serious economists, whatever their political party, to make this clear.

### Basic Income

#### Any method for funding a UBI creates inflation – political pressures to increase it lead to hyperinflation levels of spending

Rasoolinejad 21

Mohammad Rasoolinejad is the Senior Data Technology Analyst at Bank of America, and previously worked as a data quality consultant. He received a reserach fellowship for data science from Northwestern University - Kellog School of Management. "Universal Basic Income: The Last Bullet in the Darkness." Published by Arxiv on November 24, 2021. Available here: (https://arxiv.org/pdf/1910.05658.pdf) - AP

UBI and Inflation UBI can be funded through money printing, deficit spending or by revenue from taxes. In the first case, the base money supply will increase. The risk with this case is raising inflation. As long as inflation is under control, money printing can help in many other issues (such as alleviating national debt or increasing comparative advantage of country in the trade) in a manner that is fair to everyone. The following sections will elaborate more on the benefits that money printing can provide. The government will issue the notes to fund the UBI program in deficit spending. This case resembles transferring money from the wealthy (local or foreign) to the middle class and poor. However, the lower and middle class become endebted to the wealthy and their debt must be paid at a later time. Deficit spending may also cause inflation, as lower-income households tend to spend a higher percentage of household income. This method is not preferable, as raising money through debt issuing is not sustainable in the long run. Funding UBI with tax income is also transferring money from the wealthy to the middle class and poor, except this time the money will not be paid back. UBI can be funded through land/location value tax (LVT), value-added tax (VAT) or income tax. Some have also suggested the use of Robot-tax, which penalizes industries for the use of automation instead of human labor [10]. To punish industries for technological advancements, however, is irrational. This will reduce the comparative advantage of local industries. The disadvantage with income tax is that raising taxes on the wealthy usually hinders economic growth. Between the suggested taxation methods, the VAT seems the best option, as the program is funded by the individuals who spend the most, and it encourages people to save. Here and through the rest of the paper, we assume UBI is funded by money printing. The author believes other methods will decrease or eradicate the purpose of implementing UBI in the first place. In theory, printing money and increasing the money supply causes inflation. Many leading world economies such as Japan and the Europe Union currently suffer from a deflationary environment. Japan has struggled to introduce inflation into the economy for a couple of years. Even massive monetary easing and asset purchasing do not seem to work efficiently. Such an environment also more or less exists through the Europe Union. Many reasons cause these advanced economies to face a deflationary environment. From them one can mention demographics and reduction of births, wealth disparity, lack of spending, lagging in wage growth, increase in national and domestic debt, low manufacturing costs due to automation, the rise of 2 the Internet and e-commerce, increase in competition, electronic banking, close loop inflation control by the Federal Reserve in the US and other central banks around the world, long-lasting low inflation environment and low inflation expectations, the 2008 financial crisis, etc. Many of these forces do not seem to go away in the foreseeable future. Money in the hands of the wealthy tends to increase the price of financial assets, whereas money in the hands of the middle class will drive spending on common goods and will cause inflation. The traditional monetary easing and asset purchasing are not the most effective ways to produce inflation. The radical measures implemented by central banks around the world to increase economic productivity and inflation seems not to work anymore. Inflation in security prices was already caused by decreasing the interest rate to their lower bound. The inflation in the bond market keeps the interest rates low, which makes the window of potential further cut the interest rates narrow. These methods increase the monetary supply; at the same time, however, wealth disparity also increases. Corporations and the wealthy benefit the most from such methods. UBI, on the other hand, increases the money supply and at the same time decreases wealth disparity. The spending driven by the middle class will cause rise in prices. UBI has failed in many cases solely due to an uncontrolled money supply to the middle class, which produced hyperinflation. The catch here is that UBI should not be controlled by the executive branch of government. In the case of democracy, it is quite logical to assume each candidate will promise higher UBI rates to gain more votes. This will produce a vicious cycle ending with hyperinflation. UBI should be under the control of an independent entity, such as the Federal Reserve in the United States. That entity will control the money supply and amount of UBI based on projections of inflation. UBI will be an extra tool of the Federal Reserve which can directly target inflation and wealth disparity

#### Basic income creates hyperinflation – deficit spending and reliance on MMT ensures this

Hartley 20

Jonathan Hartley is an economics researcher with interests in international macroeconomics, finance, and labor economics and is currently an economics PhD student at Stanford University. He is also currently a Research Fellow at the Foundation for Research on Equal Opportunity, a Senior Fellow at the Macdonald-Laurier Institute, and a research associate at the Hoover Institution.. "The Weakness of Modern Monetary Theory." Published by National Affairs in Fall 2020. Available here: (https://www.nationalaffairs.com/publications/detail/the-weakness-of-modern-monetary-theory) - AP

Less than a year before the novel coronavirus spread across the globe, Ray Dalio, Bridgewater Associates founder and billionaire intellectual, published an article on what he saw as the inevitable path for monetary, economic, and fiscal policy. In it, he partially endorsed a view that has emerged since the Great Recession: When monetary policy cannot provide further accommodation after nominal short-term interest rates hit the zero bound, additional fiscal spending is needed as stimulus. This is not a particularly unusual position. Indeed, over the years, many mainstream Keynesian economists have expressed support for this approach — Harvard economist Lawrence Summers refers to it as "black hole" or "secular stagnation" economics. A year following Dalio's article, with Covid-19 cases and death tolls mounting, governments in major developed countries around the globe appeared to endorse this view, authorizing deficit-financed spending amounting to between 5% and 10% of gross domestic product (GDP). Given that government-induced shutdowns designed to combat the spread of the virus contributed to unprecedented levels of unemployment, there was certainly a case for such measures. Dalio's article, however, put a radical twist on the traditional zero-lower-bound calls for more government spending by endorsing a novel, heterodox economic theory known as "modern monetary theory," or MMT. The defining feature of MMT — and what distinguishes it from more established, mainstream economic theories — is its insistence that, so long as a government's debt is denominated in its own currency, there is no upper limit on the state's monetary borrowing. In other words, public debt is irrelevant; a country's central bank can always avoid default by printing more money. Such printing, MMT proponents further argue, can go on without any inflationary consequences. They thus call for economists to shed their superstitious fear of debt and for policymakers to unleash the full power of unlimited, risk-free government spending. It should come as no surprise that some of the loudest support for MMT in the United States comes from the progressive wing of the Democratic Party. After all, if measures of public debt signify nothing beyond future currency-production goals for the U.S. Treasury, then there is no real limit to the amount government can spend on massive programs like universal free college, a Green New Deal, a universal basic income, or a universal jobs guarantee. Moreover, in this moment of profound economic uncertainty, when policymakers are turning to deficit spending in hopes of averting complete financial meltdown, the apparent blank check that MMT advocates offer holds a certain appeal to panicked economists and legislators on both sides of the aisle. Yet the sudden need for deficit spending in the wake of a global pandemic should not be used as an excuse to embrace MMT. While they may be convenient, MMT's central claims regarding the harmlessness of deficits, debt, and mass currency production are not only flatly false, they are deeply dangerous. Theoretical considerations and historical examples not only strongly undermine the central tenets of MMT, they also serve as a critical reminder to policymakers — particularly in a moment when deficit spending may truly be necessary — of what happens when governments fail, over long periods, to take responsible measures to balance their checkbooks throughout the business cycle. GROWING OUT OF DEBT MMT derives from a heterodox theory known as "chartalism," which emerged during the early 20th century as a rebuttal to the mainstream prevailing theory of money. According to the latter, money developed spontaneously as a medium of exchange because engaging in transactions through currency is more efficient than bartering. German economist Georg Friedrich Knapp challenged this theory in his 1905 book The State Theory of Money, arguing that money originated with states' attempts to direct economic activity. A given currency thus derives value not based on its status as a commodity — an object with either intrinsic or exchange value — but because taxes levied by a state are payable in the currency that the state issues. Knapp's chartalist theory of money as "a creature of law" was echoed in John Maynard Keynes's Treatise on Money, in which Keynes asserted that money is "peculiarly a creation of the State." It appeared again in Russian-born British economist Abba Lerner's 1947 article bearing the title, "Money as a Creature of the State." Lerner also drew on chartalist theory to develop the concept of "functional finance," which suggests that because states can pay their debts by printing money, states with fiat currencies do not face any debt constraints when borrowing in their own currency. The only constraint they face, then, is that of inflation, which he argued is a result not of monetary policy, but of too much government spending. He also believed that inflation could be controlled by higher taxes, which would reduce the amount of money circulating in the economy. In recent years, a few economic theorists who had previously described themselves as "post-Keynesian" in the vein of Lerner have revived chartalism as an explanation of money creation. William Mitchell, a professor of economics at the University of Newcastle, was the first to coin the phrase "modern monetary theory" in reference to this emerging school of thought. MMT builds on functional finance's removal of debt constraints on government borrowing. However, it diverges from Lerner's theory in at least one significant way: MMT theorists reject monetary policy's relevance to inflation. According to MMT, then, governments can borrow and print as much of their own domestic currency as necessary without causing inflation. Consequently, MMT proponents like Dalio understand modern governments to be laboring under false and harmful assumptions regarding the threat of public debt. To understand MMT's appeal — along with its theoretical flaws — it helps to understand macroeconomic theories of government debt. According to these theories, aside from default, there are only three ways to reduce such debt: first, by reducing fiscal deficits; second, through higher economic growth; and third, by using central banks to print money and monetize debt. The first option often gets the most attention from mainstream economists, while MMT proponents insist that governments pursue the third. Olivier Blanchard, a well-known macroeconomist and the 2018 president of the American Economic Association (AEA), recently drew the public's attention to the oft-neglected second option: a state's capacity to grow out of public debt. In his AEA presidential address, Blanchard made a case for why debt "might not be so bad" as economists had previously assumed by arguing that the potential for economies to grow their way out of debt is less appreciated than it should be. He pointed to new evidence presented in his AEA presidential lecture, "Public Debt and Low Interest Rates," to back up his claims. Left-leaning economists like Harvard's Summers and Jason Furman have seized on such statements to argue that we need to worry less about government debt at present, as there is still ample fiscal space before we hit any meaningful limits on its sustainability. And yet despite these new findings — which may truly legitimize higher deficit spending — Blanchard acknowledges that there is still some limit to borrowing. In arguing for greater debt toleration, Blanchard observes that for most of the post-war period, real GDP growth (g) has been higher than real interest rates (r). He further observes that when real growth is higher than real interest rates (i.e., r-g < 0), economies can grow their way out of an existing debt stock with relative ease as the higher tax revenues from higher g offset the growth of r. To be sure, America has grown its way out of its debt stock in the past. In a 2018 New York Times column, Paul Krugman correctly observed that the United States did not pay back the debt accumulated from WWII through taxes or spending cuts. Instead, the nation grew its way out, something that it was able to do in part because real growth was higher than real interest rates for most of the 20th century and the country's debt-to-GDP ratio remained below 100%. Productivity growth was also much higher during that century, bringing more tax revenue to the government's coffers, as macroeconomists like Northwestern University's Robert Gordon have demonstrated. But what if debt persistently grows at rates higher than g? In other words, is Blanchard's model scalable to even higher levels of debt-to-GDP? In short, the answer is no — at least not beyond a certain point. Annual values of r for the G-7 countries across higher levels of government debt-to-GDP show that, at higher levels of debt as a fraction of GDP, this beneficial r-g actually declines. It thus appears the "Blanchard effect" — where r-g < 0 and nations can therefore grow out of debt — ends as debt-to-GDP reaches between 50% and 100%, depending on the country. The United States, which holds the world's reserve currency, appears to be at the higher end of that range, giving it more fiscal space. What is causing the Blanchard effect to diminish as debt-to-GDP approaches 100%? More or less, it's the same story that Carmen Reinhart and Kenneth Rogoff presented in their 2010 paper, "Growth in a Time of Debt," in which they observed that growth declines non-linearly with debt-to-GDP, hitting a flashpoint somewhere around the 100% mark. In other words, lower growth at higher levels of government debt-to-GDP percentages makes it more difficult for an economy to grow its way out of a debt burden, thus diminishing the Blanchard effect. While there was some controversy surrounding data errors underlying Reinhart-Rogoff, and there remains debate over where the exact tipping point for government debt is, the empirical finding of an inverse relationship between real GDP growth and a government's debt-to-GDP ratio is very much a real one. THE CONSTRAINTS ON DEBT MMT proponents often point to the debt-to-GDP ratio in Japan at nearly 250% of GDP as a validation of their claim that deficits don't matter. However, as economists Mark Greenan and David Weinstein show, Japan has avoided a fiscal crisis by keeping its expenditures growth on social pensions and health care low while raising its value-added tax. Japan's central bank has also held short-term interest rates close to zero for decades while keeping long-term interest rates low by engaging in record rounds of long-term asset purchases of government bonds (an approach it calls "yield curve control"). If the path of interest rates in Japan were to change, interest costs would rise rapidly. There are certainly special qualities that give the United States an added ability to borrow. For instance, financial economists Arvind Krishnamurthy and Annette Vissing-Jørgensen have demonstrated that the U.S. Treasury has a unique ability to borrow at lower rates, which arises in part because of the safety and liquidity benefits that come from its debt being issued in the world's reserve currency. Yet this special quality does not eliminate the fact that, sooner or later, one does run out of other people's money. Eventually, interest costs on government debt become as large as the state's revenue, at which point investors, no longer believing the government to be solvent, will refuse to buy bonds or lend to the government at manageable interest rates. So while the United States almost certainly could stomach more debt at present, interest costs will eventually subsume all other government revenues. Interest rates being close to zero certainly slows down this process (and negative interest rates reverse it slightly), but once inflation eventually rises, so too will interest rates and the interest costs of public debt. What the Blanchard example demonstrates is that, while there is plenty of room for economists to disagree about what levels of public debt are tolerable (even at levels higher than those at present), there still is an upper bound to the sustainability of government borrowing. Indeed, there is no doubt among mainstream economists that such an upper bound exists. Blanchard himself acknowledged its presence in a recent public rejection of MMT, saying "the deficit, unless very small, cannot be fully financed through non-interest bearing money creation, without leading to high or hyperinflation." MMT advocates, however, deny the existence of this limit on debt printed in a government's own currency. They therefore embrace the third option for public-debt reduction — using central banks to print money and monetize debt.

### Expanding Social Security

#### The structure of social security creates several harmful effects on the economy

Papadimitriou & Wray 99

Dimitri B. Papadimitriou is a Greek and American economist, author, and college professor. He is President of the Levy Economics Institute of Bard College since its inception in 1986. Larry Randall Wray is a professor of Economics at Bard College and Senior Scholar at the Levy Economics Institute. "Does Social Security Need Saving?" Published by The Jerome Levy Economics Institute of Bard College, No. 55 in 1999. Available here: (https://www.levyinstitute.org/pubs/ppb/ppb55.pdf) - AP

Let us ignore for a moment the possibility that the Treasury would increase taxes in an attempt to balance its budget, so that it issues new debt equal to its deficit. It is possible that Treasury bond sales might simply depress asset prices (not only of the government bonds being sold but also of other public as well as private assets) either directly or because the Fed decided to increase interest rates in the belief that budget deficits would cause inflation. If the sales were made to individuals or institutions that do not reduce consumption commensurately, the increased income going to the elderly recipients of OASDI would simply compete with consumer demand that had not been affected by the asset sales. The primary result in this case could be inflation of prices of consumer goods and services rather than deflation of asset prices. There could be complex secondary and tertiary effects set off by the asset sales that are hard to estimate in advance. For this reason, we believe there is no way to guarantee that accumulation of the Trust Funds will actually have the desired result of shifting distribution toward the beneficiaries, and it is not clear that larger Trus t Funds will result in a more desirable distribution. Is there a better and more direct way to ensure that the distribution will be shifted toward retirees? Yes — through use of the tax system. In the year 2020, if it is decided that the elderly should get a larger share of the distribution, then payroll taxes can be increased (reducing workers’ disposable income) and benefit payments to the elderly can be increased. According to interm e d iate projections, it would be necessary to achieve a shift of just under 2.4 p e rcent of GDP by 2075 relative to the share devoted in 1998 to meet all OASDI obligations, including obligations to the nonelderly. Note that if the goal is to affect distribution in the year 2020, it is far more direct to raise payroll taxes in the year 2020 than to raise them today in an attempt to accumulate financial assets to be sold in the year 2020 in the hope that this might indirectly affect distribution. Note also that even if nonmarketable Treasury debt is held by the Trust Funds, to convert that debt to cash would require the Treasury to issue new debt or to generate tax revenue in excess of what will be required for other government spending to make the cash payment to the fund without increasing general budget deficits. But this is exactly what would be required even if the Trust Funds had no financial holdings. This analysis casts doubt on the trustees’ calculation of actuarial balance, which presumes that a tax today can affect the distribution going to OASDI beneficiaries 75 years into the future. We see no reason to suppose that an increase of the tax rate by 2.07 percentage points tod a y would in any direct way shift the distribution of resources toward retirees in 2075. We believe it is inherently counterproductive to attempt to maintain long-range actuarial balance as the trustees are attempting to do. It would be far preferable to re t u rn to the Social Security Act’s re q u i rement that the trustees simply re p o rt the actuarial status for the ensuing five years. As Langer (1999) correctly argues, a public program does not need to be run like a private program. Planning far into the future and accumulating a fund to deal with contingencies may be necessary for a private program, but it is not necessary for a public program, which uses involuntary taxes (such that workers and employers cannot choose to leave the program) as its revenue source. Running an OASDI surplus today generates several kinds of undesirable market distortion. Payroll taxes are higher than what is required to meet OASDI expenditures, which distorts labor markets. This makes American labor more expensive than necessary, putting domestic production at a competitive disadvantage, and it also encourages substitution of capital for labor, displacing workers and possibly raising unemployment. Asset prices may be higher today than they would be in the absence of an OASDI surplus. Similarly, asset sales that would take place as the baby boom re t i res could distort asset markets; asset prices would be depressed by the flood of retirements as private and public pension funds sell assets to meet expenditures and Trust Fund or Tre a s u ry sales would only make matters worse. F u rt h e r, the Social Security surplus obfuscates government accounting, leading to constant debates about whether the surpluses should be P roviding for Retirees throughout the Twenty-first Century The Jerome Levy Economics Institute of Bard College a31 c a rried “on” or “off” budget, whether they should be “set aside” fro m general budget revenues, and whether the federal government is re a l l y running a balanced budget. We do not wish to enter the debate about the wisdom of balanced budgets, but it is difficult to argue that the OASDI programs ought to run surpluses to offset deficits in the rest of the budget. As we have pointed out, the tax base for OASDI falls on just over 40 percent of GDP, making it a particularly inequitable re v e n u e source for the purpose of offsetting general budget deficits.

# Aff Answers

## Uniqueness

#### Non-Unique: Continued fluctuations in interest rates and market volatility is preventing inflation reduction

Rugaber 07/26/23

Chris Rugaber is an economics reporter for the Associated Press and was the previous International trade reporter for the Bureau of National Affairs. "Federal Reserve raises rates for 11th time to fight inflation but gives no clear sign of next move." Published by the Associate Press on July 25, 2023. Available here: (https://apnews.com/article/federal-reserve-inflation-interest-rates-economy-jobs-47a78ceb285ac50217ef39e2441112ee) - AP

WASHINGTON (AP) — The Federal Reserve raised its key interest rate Wednesday for the 11th time in 17 months as part of its ongoing drive to curb inflation. But it provided little guidance about when — or whether — it might hike rates again. Wednesday's move raised the Fed’s benchmark short-term rate from roughly 5.1% to 5.3% — its highest level since 2001. Coming on top of its previous hikes, the Fed’s latest action could lead to further increases in the costs of mortgages, auto loans, credit cards and business borrowing. Speaking at a news conference, Fed Chair Jerome Powell was noncommittal about any expectations for future rate hikes. Since it began raising rates in March 2022, the Fed has often telegraphed its upcoming action. This time, though, Powell said the Fed's policymakers may or may not raise rates again at their next meeting in September. “It is certainly possible that we will raise rates again at the September meeting,” he said. “And I would also say it’s possible that we would choose to hold steady at that meeting.” Powell sent a mixed message about whether he thinks the Fed will eventually need to further raise rates or instead just keep the current level of rates in place for a prolonged period. “It was about as clear as mud, and I think that was the point," said Diane Swonk, chief economist at accounting giant KPMG. “They don’t want to declare victory too soon. They know inflation moves in fits and starts.” Powell acknowledged that the economy has proved surprisingly resilient despite the Fed's rapid rate hikes, with growth continuing and companies still adding jobs. He also revealed that the Fed’s staff economists no longer foresee a recession. In April, the minutes of the central bank’s March meeting had said that staff economists envisioned a “mild” recession later this year. And he said he still thinks that a “soft landing” — in which inflation would fall back to the Fed's 2% target, without causing a deep recession — is still possible. “My base case is that we will be able to achieve inflation moving back down to our target without the kind of really significant downturn that results in high levels of job losses,” the Fed chair said. “We do have a shot at a soft landing.” Though inflation has reached its slowest pace in two years, Wednesday’s hike reflects the concern of Fed officials that the economy is still growing too fast for inflation to fall back to their 2% target. With consumer confidence hitting its highest level in two years, Americans keep spending — crowding airplanes, traveling overseas and flocking to concerts and movie theaters. Most crucially, businesses keep hiring. Year-over-year inflation in June was 3%, according to the government, down sharply from a peak of 9.1% in June 2022. Yet a “core” inflation measure that is preferred by the Fed, which excludes volatile food and energy costs, was still up 4.6% in May from a year earlier. Powell said he welcomed, in particular, a milder-than-expected report on inflation for June. But he said additional such data would be needed to show that inflation is declining in a sustained way. “We’re going to be careful about taking too much signal from a single reading,” he said. The key question swirling around the Fed is whether Wednesday’s increase will or won’t be its last. Powell made clear that the fight against inflation isn’t over. The Fed’s rate hikes, he said, have “not been restrictive enough for long enough” to exert their full effect. “We want core inflation to be coming down,” Powell said. "Core inflation is still pretty elevated. And so we think we need to stay on task.” He stressed that the Fed's policymakers will assess a range of incoming economic data in determining what action, if any, to take at their next meeting. When the officials last met in June, they signaled that they expected to raise rates twice more. By the time they meet again Sept. 19-20, Powell noted, they will have much more data in hand: Two more inflation reports, two reports on hiring and unemployment and updated figures on consumer spending and wages.

## Links

### Federal Jobs Guarantee

#### Turn: Federal job programs have historically stabilized inflation in the United States

Nunn et al., 18

Ryan Nunn is an assistant vice president for applied research in Community Development at the Federal Reserve Bank of Minneapolis. Jimmy O’Donnell is a senior research assistant for The Hamilton Project his research focuses on labor market institutions, immigration, and the social safety net. Jay Shambaugh is a professor of Economics and International Affairs at the Elliot School of International Affairs, his area of research is macroeconomics and international economics. His work includes analysis of the interaction of exchange rate regimes with monetary policy, capital flows, and trade flows as well as studies of international reserves holdings, country balance sheet exchange rate exposure, the cross-country impact of fiscal policy, the crisis in the euro area, and regional growth disparities. "Labor Market Considerations for a National Job Guarantee." Published by the Brookings Institute in December 2018. Available here: (https://www.hamiltonproject.org/assets/files/JobGuarantee\_FP\_web\_120318.pdf) - AP

Policies to support employment have a long history in the United States. Responding to an unemployment rate that peaked at one quarter of the labor force in 1933 (National Bureau of Economic Research 2018), President Roosevelt’s New Deal included large-scale employment support programs like the Civilian Conservation Corps (CCC) and the Works Progress Administration (WPA; renamed in 1939 as the Work Projects Administration). Running from 1933 to 1942, the CCC targeted young men with dependents. In its inaugural year it enrolled 250,000 people, growing to 500,000 people per year at its peak and employing more than 3 million people throughout its existence (Bass 2013, 74– 75). These laborers were primarily enlisted in public works efforts surrounding environmental conservation. The much larger federal employment effort of the New Deal was the WPA, which began in 1935 and ended in 1943. During that eight-year period the WPA employed more than 8.5 million people; in its peak year it employed more than 3 million individuals out of a labor force of roughly 55 million. Much like the CCC, WPA workers focused on public works, with a strong emphasis on traditional infrastructure projects. The WPA built more than 5,900 new schools, 220 new hospitals, 77,000 new bridges and viaducts, and 24,000 miles of storm drains and sewerage lines; in addition, it repaired or paved more than 650,000 miles of roads (U.S. Federal Works Agency 1946, 131). The CCC and WPA both ended in the early 1940s after the United States entered World War II. During the postwar boom the need for federal employment support diminished. However, the experience of the Great Depression and perceived success of New Deal programs prompted the passage of the Employment Act of 1946. This Act aimed to build upon the New Deal programs by placing the responsibility for promoting maximum employment—and stabilizing inflation—on the federal government (Steelman 2011). Frustrated by high inflation and unemployment during the 1970s, the Full Employment and Balanced Growth Act of 1978 (also known as the Humphrey-Hawkins Act) tasked the federal government with reducing the national unemployment rate to 4 percent by 1983 and working toward full employment (DeLong 1996). The HumphreyHawkins Act established the Federal Reserve’s dual mandate of promoting price stability and maximum employment. More-ambitious commitments—such as an explicit legal right to a job—were dropped due to concerns about potential inflationary effects (Cowie 2010, 281–83). In contrast to direct employment, the federal government has also implemented a variety of wage subsidies that aim to boost employment. The largest of these is the EITC, which raises the return to work for many low-income families. This program and other wage subsidies were discussed in box 1.

### Basic Income

#### UBI has a positive effect on inflation by improving competition

360info 23

360Info is an open access global information agency of journalists working with academics to address the world's biggest challenges and offer practical solutions. "Universal Basic Income does not cause inflation." Published by Newsroom on April 10, 2023. Available here: (https://www.newsroom.co.nz/universal-basic-income-does-not-cause-inflation) - AP

There is, however, widespread belief that any monetary intervention stimulates hyper-inflation of the form found in 1920s Germany, 1990s Argentina and 2000s Zimbabwe. This is because people believe giving consumers more money to spend leads to businesses charging higher prices to take advantage of increased purchasing power, creating a cycle in which employees demand higher wages to buy commodities, increasing the cost of production, cancelling out any benefit from the monetary intervention and actually reducing the standard of living overall. UBI is a redistributive economic policy that can be funded by taxing those resources that contribute little to society: wealth and passive income from shares as well as income at the very top end of society There is little evidence to support this view. UBI is no more or less inflationary than anything else that raises incomes – its impact would depend on whether the economy is at full employment, whether taxes are raised to pay for the scheme and various other factors. Where hyperinflation has occurred, it has been because essential goods are scarce, raising their value overall, and debt has been held in foreign currencies and paid in currencies declining in value by virtue of countries’ domestic production being disrupted or declining. Our current levels of inflation are caused by similar pressures as those in the 1970s: war leading to an increase in the cost of fossil fuels. If the logic behind objecting to a UBI on the basis of inflation were correct, then there ought to be absolutely no attempt to introduce new jobs or increase wages, as both increase purchasing power. If inflation is our sole concern, governments ought to slash wages and massively increase taxes. The point is that nobody wants either of those options because, even if they did reduce inflation, people would not want to have their wages reduced. UBI is a redistributive economic policy that can be funded by taxing those resources that contribute little to society: wealth and passive income from shares as well as income at the very top end of society. The resources of the rich are generally off-shored and contribute little to a country’s financial wellbeing. Analysis of the distributive impacts of UBI in the UK suggest its introduction would shift resources to those people and areas that need the investment most. That may increase the cost of housing and other goods in parts of countries that have been left behind, but this is a central means of enhancing community wealth and ‘Levelling Up’. It is also a means of developing entrepreneurship and production within areas that have been deindustrialised. This support for production is, again, an essential means of supporting a bulwark against hyperinflation. Given that we live in market societies, the fear this will lead to unchecked inflation is counterintuitive, as competition is supported by rising purchasing power and serves to check price increases. The alternative is simply to leave all but the metropolitan centres to wither away and to be dependent on the whims of finance.

### Expanding Social Security

#### Turn: Expanding social security is necessary to *respond* to inflation, boosts the economy

Morrissey 19

Monique Morrissey joined the Economic Policy Institute in 2006. Her areas of interest include Social Security, pensions and other employee benefits, household savings, tax expenditures, older workers, public employees, unions, and collective bargaining, Medicare, institutional investors, corporate governance, executive compensation, financial markets, and the Federal Reserve. "Social Security expansion would likely bolster, not hurt, economic growth." Published by the Economic Policy Instittue on July 25, 2019. Available here: (https://www.epi.org/blog/social-security-expansion-would-likely-bolster-not-hurt-economic-growth/) - AP

A recent analysis from the Penn Wharton Budget Model (PWBM) claims that expanding Social Security benefits along the lines of Rep. John Larson’s (D-Conn.) Social Security Act of 2100 (“the Act”) would slow economic growth. The model warrants a closer look, not just because it casts doubt on Social Security expansion, but because some of its dubious assumptions can be used against almost any policy that raises progressive taxes to pay for programs tilted in favor of low- and moderate-income Americans. The Act, which has over 200 cosponsors, would increase payroll tax revenues to pay for expanded benefits while eliminating or greatly reducing Social Security’s long-term deficit. Among other things, the act would subject earnings above $400,000 to the Social Security payroll tax (earnings above $132,900 are not currently taxed); gradually raise the payroll tax rate; increase benefits in a progressive fashion;1 and change the consumer price index used for the cost-of-living adjustment to better match the higher inflation faced by seniors. The PWBM projects that the Act would reduce GDP by 2 percent in 2049. According to the analysis: “The reason for the poorer economic performance [relative to alternative reforms suggested by the PWBM that combine revenue increases with benefit cuts] is that the Act does not reduce benefits and, in fact, increases benefits by 0.61 percent of future taxable payroll by 2049. Taxes that distort economic activity are then used to reduce the actuarial balance over time, including these new benefits. The Act, therefore, actually decreases the need for higher-income households to save more for their own retirement, whereas combined reforms generally increase the need.” In other words, increasing payroll taxes and expanding benefits reduces after-tax pay and the need for private saving, shrinking the labor supply and the funds available for investment. Since the model ignores the positive effect of progressive redistribution on aggregate demand, these negative supply-side effects slow economic growth. A positive impact Other economists, however, notably former Council of Economic Advisors Chair Jason Furman and former Treasury Secretary Lawrence H. Summers, view the Act as having a positive impact on economic growth, despite the need to raise taxes: “Social Security benefits should in fact be raised for the majority of recipients. Despite the fact that Social Security is an efficient, defined benefit program, its benefits are not generous by global standards and leave too many seniors in or close to poverty. Expanding benefits only works, however, if people are willing to pay more during their working years—meaning that revenue, and not just from high-income households, has to be an important part of the solution, as in the plan advanced by Congressman John Larson. The advantage of this approach is that it would expand aggregate demand, as the additional spending by the elderly would outweigh any reductions in spending associated with higher payroll taxes, in part because the plan could lead households to save less.”

#### Turn: Senior citizens are more likely to spend social security benefits which reduces inflation, rather than increasing it

Grabenstein 22

Hannah Grabenstein is a General assignment reporter for PBS NewsHour and was previously a general assignment reporter General assignment reporter for local nonprofit journalism outlet producing feature, investigative work and spot stories. "What you need to konw about the new Social Security benefit increase." Published by PBS on October 14, 2022. Available here: (https://www.pbs.org/newshour/economy/why-your-social-security-check-will-get-a-big-boost-next-year) - AP

Why the adjustment isn’t a perfect solution to seniors’ rising costs It’s not clear right now whether higher Social Security payments will contribute to spiraling inflation. But Arnone said that older people are much more likely to spend money than save it, giving his organization a “clear sense that it will help mitigate a recession.” Every month this year, the cost of inflation has far exceeded the 5.9 percent cost-of-living increase that was set at the end of 2021, Johnson said. That means last year’s COLA is not meeting the current economic strains. WATCH: Inflation remains stubbornly high despite Federal Reserve’s efforts to stabilize costs Social Security benefits are a one-size-fits-all solution, but people’s real needs vary across geography, race, age and other population differences, Arnone said. Older people tend to be more heavily impacted by inflation than younger people. “They have a tendency to need to pay for things that are in higher inflation categories, health care being the No. 1 example,” Arnone said. The cost of eye care, for example, spiked 3.2 percent from August to September, the largest increase on record, according to the Associated Press.