

Macro Roundup Article

Headline: [Monetary Policy in the 1970s and Today](#)

Article Link: <https://blog.rangvid.com/2024/04/07/monetary-policy-in-the-1970s-and-today/>

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Publication	Rangvid's Blog
Publication Date	April 08, 2024

Tweet: Jesper Rangvid says the Fed was slow to raise rates, but it correctly continues to keep the Fed funds rate high even after inflation has fallen, suggesting we could avoid a second 70s-style inflationary spurt.

Summary: Inflation is now close to the target, and we can begin to assess how monetary policy reacted as inflation approached the target. The conclusion is that the Fed reacted very late in the first phase of this inflation cycle. It seems that the Fed had gone dormant and forgotten what to do when inflation picks up, probably because we had become used to inflation being so low before the pandemic. On the other hand, the Fed is doing much better now, i.e. in the late phase of this inflation cycle. The Fed is keeping the federal funds rate at a fairly high level, even though inflation has declined significantly. In the early 1970s, the Fed lowered the federal funds rate as soon as inflation fell. That was not good, because monetary conditions were then too expansionary when inflation picked up again in the late 1970s. Jesper Rangvid argues by keeping the Fed funds rate well above inflation, “we could avoid a second severe inflationary spurt like in the late 1970s.” Related: The Disappearance of Inflation: Were Rate Hikes Necessary? and Global Views: Cutting Through the Noise and The Cost of Money is Part of the Cost of Living: New Evidence on the Consumer Sentiment Anomaly

Primary Topic: Business Cycle

Topics: Business Cycle, GDP, Inflation, Monetary Policy, Op-Ed/Blog Post

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