



Brad DeLong & Ray Suarez: *Learning From Past Fights With Inflation* <<https://overcast.fm/+TYi3Mv01k>>: ~Economist Brad DeLong was feeling optimistic in February 2022, because inflation truly did appear transitory. Weeks later, Russian President Vladimir Putin launched the invasion of Ukraine, sending price shocks through the global economy. The latest numbers indicate inflation is slowing, but people around the world are still feeling the sting. While the US has it better than most, no one is immune from the global economic slump. So what does inflation mean for our pocketbooks, and for our mental health? Ray Suarez speaks with DeLong about why a little bit of inflation may be good for the economy, but also signals to service-sector and middle class workers that the system isnâ€™t working for themâ€™;

Highlights:

Ray Suarez: This is On Shifting Ground. I'm Ray Suarez. Inflation can be scary. When it's out of control, it burns through family wealth, creates panic buying, and can destroy trust in currencyâ€™. Brad DeLong, welcome to On Shifting Groundâ€™

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Brad DeLong: The question has always been whether the right analogyâ€™ for the [current] inflationâ€™ was the decade-long seige of the 1970s, orâ€™ much more like what happened in 1951â€™ the Korean Warâ€™ andâ€™ inflation as the economy settled into a new configurationâ€™ and things then returned to normal without the Federal Reserve having to do much more than lift a finger to raise interest ratesâ€™. The right action to deal withâ€™ inflationâ€™ depend[s] on whether the right analogy is the 1970s or the 1951â€™ episodeâ€™. This last set of numbersâ€™ say[s]â€™ this looks more likeâ€™ 1951, thanâ€™ the 1970sâ€™

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Brad DeLong: What put pressure on American business to offshore and export jobs on a large scale was Ronald Reagan'sâ€™”the polite way to call it his â€™œconfusionâ€™”saying â€™œI'm going to balance the budget, I'm going to increase military spendingâ€™ to fight the Cold Warâ€™ plusâ€™ cut taxes for the rich. By a lot.â€™ And that simply did not add upâ€™. [So] US interest rates went much higher than other countriesâ€™ interest rates back in the 1980s. As a result, the value of the dollar went

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Brad DeLong: In the 1990 when America got itsâ€¦ fiscal house in orderâ€¦ we were a very powerful exporter of high technology, goods as well as servicesâ€¦. During that time of very low unemployment and low inflation, the United States economy was firing on all possible cylindersâ€¦. The big financial crisis of 2007 and the depression of 2008-2010, after whichâ€¦ unemploymentâ€¦ stays painfully high for most of a decadeâ€¦ [with] extremelyâ€¦ low rates ofâ€¦inflationâ€¦. By 2021, people had forgotten that thereâ€¦ was such a thing as inflationâ€¦. [Inflation] is painfulâ€¦. You thought that you had a bargain with the economy, in which you had your income, andâ€¦ could go out and buy the things you expected to buy at the prices you expected to payâ€¦. This yearâ€¦ prices 9% higher thanâ€¦ a year agoâ€¦. The system has betrayed youâ€¦ offered you a bargain, and thenâ€¦ did not keepâ€¦ it. So you are going to be angryâ€¦

Brad DeLong: Coming out of that plague depression, we wanted to get everyone back to workâ€¦ in very much a new economic configurationâ€¦ with more goods productionâ€¦ fewer people working in retail storesâ€¦ more inâ€¦ logisticsâ€¦. We were trying to rejoin the highway at speed. And so we left a bunch of rubberâ€¦. [That was] the inflation of 2021â€¦. The right reaction to that was toâ€¦ shrug your shoulders and sayâ€¦ you really don’t complain about leaving rubber on the road when you rejoin the highway at speed. But then in February of 2022, Vladimir Putin’s Muscovy attacks Ukraine. Oil and grain markets are disruptedâ€¦. There was the threat of Europe freezing and of Nigeria and Egypt starvingâ€¦. To the reopening inflation weâ€¦ had [added] this Ukraine war inflationâ€¦. You really want to hunker down and try to economize where you can, because the inflation does reflectâ€¦ that â€¦ a large chunk of the world’s economy is no longer working, becauseâ€¦ people who would be shipping things out of Ukraine are instead hiding fromâ€¦ killer robots. And [we] hope that this inflationary pattern does not become a self-perpetuating spiral like it did in the 1970sâ€¦

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Brad DeLong: I will be looking closely at wages in the services sectorâ€¦. Surces of inflation so far have beenâ€¦ the Ukraine war supply-shock of grain and energyâ€¦ the bottlenecks ofâ€¦ supply chains during the Great Reopeningâ€¦ rapidly rising wages in expanding sectorsâ€¦ goods production and wholesale deliveryâ€¦. Then the general great mass of services-sector employment [and wages]â€¦. The first three sources of inflationary pressure are now ebbing awayâ€¦. The economy has managed to get workers into the sectors that needed to expandâ€¦. What’s left isâ€¦ people working in the services sector annoyedâ€¦ feeling able to demandâ€¦ big wage increases next year to make up for the fact that inflation was high this yearâ€¦

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Brad DeLong: Thank you very, very much forâ€¦ [this] wonderful show that you’re running, [and] for inviting me on.

Ray Suarez: You’ve been listening to On Shifting Ground, produced in partnership with KQED with funding from listeners like you. If you want to support the program by becoming a member or by making a donation of any size please go to <<http://worldaffairs.org/donate>>â€¦. Thanks for listening

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