

# Good whatever happened to inflation essay example

[Countries](#), [United States](#)



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## **American Public University**

### **Abstract**

The global financial crisis started in 2008 opened a new era for the economy managers in the developing countries and the United States. Using the conventional tools and strategies to cope with the financial crisis will not create the desired results anymore. This new experience indicates us that the economy managers and the governments need to develop more complex and detailed strategies to overcome the issues in the economies. The Federal Reserve is one of the responsible institutions for the economy management. The FED has always been blamed for not developing a proper response against the economic and financial crises in time and aiming only at the conventional goal of keeping the inflation low. In the article I discuss through this paper, some economists express their ideas and support their ideas with some happenings in the economies. Even if the different

economists suggest developing strategies for the FED, they all agree on that the FED has to be able develop more detailed and complex strategies instead of keep implementing the conventional strategies.

## **Introduction**

The inflation level in the developed economies was less than 5% percent before the global financial crisis. The inflation rate is an essential macroeconomic indicator that enables us to realize what is going on in the economy. We can explain the changes in the national economy by using the similarities between body health and economy. When the body gets sick, then we feel the fever on the body. Similarly, the inflation is like the fever of the economy.

Unfortunately, realizing the fever on the body does not inform us about the sickness type, we just know that the body is sick. The inflation is also the same. The existence of increasing prices indicates that something is changing in the economy (Karst and Rosenn, 1975).

## **Where is the Inflation?**

Peter Schiff is using some analysis related to the American Financial Markets. According to him, the inflation in the United States is transferred to the other countries trading with the United States. He expresses that the American economy might go into a stagflation because of the low productivity level and the high inflation in the future.

The American economy has faced the second Great Depression after 1920s in the term after 2008. The global financial crisis has caused some structural brakes in the American economy. The American government has been forced

to bail out many large companies in the economy to avoid a large failure in the economy at the beginning. After stabilizing the large companies and the industries, the government aimed at stimulating the economy. The Federal Reserve stayed silent for a while after the crisis started in 2008, and the Federal Reserve has helped the American government to stimulate the economy by implementing the expansionary monetary policies.

The inflation rate, compared to the other developed countries, seems to be lower; however, the inflation rate calculations are veiled because the basket used for the inflation calculation is causing an illusion. One of the important indicators for the American economy is the aggregate demand, and the aggregate demand inside the United States is lower than the desired ideal level. That means the individuals are suspicious about the recovery in the American economy. These hesitant consumers and investors are avoiding new investments and consumption in the American economy.

The high level of fiscal deficit is an essential problem in the American economy nowadays. For compensating the budget deficit, the Federal Reserve has been printing money and collected the American government papers from the market. The high demand for the government bonds might increase the interest rate and the inflation at the same time (Guender and Gillmore, 2010).

Also, the international trade balance indicates us that the American economy is suffering from the international balance deficit. The American economy is buying more than it sells to the other economies. Because the Federal Reserve has been printing and supplying more American Dollars every other day, the Dollar has lost value against the other national currencies. If the

American economy was producing enough for exportation, it would be an important advantage in the international trade.

Consequently, Schiff is right about his claims expressing that the low productivity level of the American economy and the high inflation might create a stagflation. The American government needs to stimulate the new investments and control the inflation.

### **The Calm before the Storm**

Robert Murphy expresses his ideas and negative expectations. His past expectations were positive; however, he changed his ideas to negative because of the developing conditions in the American economy.

According to him, the Federal Reserve is considered as unsuccessful responding to the economic crises in the country. The global financial crisis started in 2008 has a different characteristic. Therefore, the Federal Reserve has been expected to define the crisis and create the appropriate response to it. This time, the Federal Reserve has aimed keeping the inflation at an acceptable level at the beginning of the crisis, and then, after the government has stated that the stimulating strategies had to be implemented, the Federal Reserve has started printing money and increasing the money supply.

The Federal Reserve has created its response to the crisis late again as always it has happened. The individuals were losing their trust in the American economy, and the Federal Reserve could not take the actions to lead the expectations in the economy. Following that, the Federal Reserve has decided to support the stimulating strategies of the American

government by increasing the money supply.

The American economy could not rebuild its production capacity at a desired level and supplying more money into the economy has caused some inflation in the economy. The individuals and the private financial institutions have preferred keeping the money reserves passive instead of making new investments.

Consequently, Murphy sounds right about his negative expectations because the Federal Reserve does not take much responsibility to develop a response to crises. The FED needs to be relatively more alert to the changes in the American economy and take responsibility.

### **High Inflation Still Unlikely**

David R. Henderson explains how the Federal Reserve develops its monetary policy. According to him, the FED uses relatively more conventional strategies to cope with the financial crisis; however, the FED's response to the financial crisis does not help the government to stimulate the economy. The Federal Reserve has preferred increasing the money supply in the markets by printing money and by purchasing the government bonds in the market. The increase in the money supply has been expected to stimulate the aggregate demand and this way the economy would recover from the economic crisis and start producing again. However, that has not occurred yet, and there is not guarantee it will start soon. Thus, the Federal Reserve has to follow the same strategy in the long term (Hilsenrath, 2014).

Is it possible for the Federal Reserve to follow an expansionary monetary policy in the long term? The answer is "no" to this question. The American

government has a high debt, and the Federal Reserve is increasing the money supply at the same time. This situation might transform the current crisis into a stagflation in the economy. The stagflation means that the economy suffers from the high inflation and the high-interest rate at the same time. Because the government has used most of the resources to bail out the large companies and support the expansionary fiscal policies, the private investments cannot find enough financial resources in the economy. Considering the limited financial resources, in the long term that might cause high-interest rates. The Federal Reserve is sort of funding the American government's spending by purchasing the government bonds in the markets and increasing the money supply. That situation might cause an increase in the inflation (Hilsenrath, 2014).

The true solution for the American economy is to stimulate the real sector; however, it sounds like that the expansionary fiscal and monetary policies have failed to do so. Consequently, Henderson expresses that the FED needs to develop new strategies to cope with the crises. Especially, the FED needs to be able to lead the individuals to increase their savings.

## **Neither Hyperinflation nor a Liquidity Trap**

Scott Sumner expresses his ideas related to the money supply strategy implemented by the FED. According to him, using monetary policies to deal with the global financial crisis might be efficient under certain conditions. The global financial crisis started in 2008 has taught us a new lesson about the monetary policies. While the interest rate is very close to " 0", then increasing the money supply might not cause high inflation in the following

years. Hilsenrath (2014) explains the reason as follows: the " 0" interest makes keeping the money free; therefore, the increasing the money supply might lead the people to keep their money away from the financial system. Therefore, the money disappears in the economy, and printing more money does not create any effect (Hilsenrath, 2014).

This story is simply telling us that we are in a new era in that we can try new things with the monetary policies. The Keynesian economic approach was wrong about the monetary policies' inefficiency and inflation-creating effects. In this new era, the monetary policies might open a new door to the solution for us. Considering that the " 0" interest rates have not caused a high inflation, keeping the interest rate at a low level and motivating the agents in the economy and leading them to use the money they keep away from the financial system to use to make new investments might be a new solution. It sounds like riskless; however, we should not forget that if the agents use the money they keep away from the financial system in another way, then it might cause a hyperinflation in the economy.

Sumner's claim that the financial markets have developed a response, even if it is vague, and this response might create a stimulation in the American economy. However, this is claim is not so strong considering that the American financial markets have other issues like student loans.

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