

Why we need a goal of zero inflation



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Why We Need a Goal of Zero Inflation Milton Friedman once said that with the introduction of fiat currency, there was no longer any method of standardizing and stabilizing the price system, and no standard of value exists. It is incumbent upon the central bankers to provide that stability (Keleher). A rapid rise in prices, and uncertain future earnings can be a recipe for economic disaster. Though Congress has failed to specifically define inflation goals, they are responsible for the number, and they have indicated their desire for a substantially low figure. Keleher reports that, " This objective has been endorsed not only by many of the world's most esteemed monetary economists but also by many Federal Reserve officials". A zero inflation rate will not impact the unemployment rate as critics contend. It will, however, stabilize the economy, and benefit the average worker.

Though there is some debate about the definition of zero inflation, almost all economists agree that high inflation rates have a negative impact on the economy. When the inflation rate reaches double digits, economies will experience slower rates of growth. The unpredictable future of inflation rates reduces investment, spending, and creates a climate ripe for poor planning. Future prices and uncertainty about future income affects everything from automobiles to the real estate market. There is no doubt that a goal of zero inflation is desirable in today's instantaneous, global economy.

As much as it is desirable for the corporate economy, it is even more so for the individual. Retirees on fixed incomes face an uncertain future with high inflation. For the average worker, an inflationary rise in wages will lag the increase in prices, which will place them permanently behind the inflation curve. The complexities of evaluating personal financial decisions in an

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inflationary market leaves the consumer open to exploitation. As Hellerstein tells us, " This shifts the distribution of power in the financial marketplace to the more sophisticated and knowledgeable actors to the detriment of the average person". A goal of zero inflation would benefit the worker and level the playing field.

Critics point out the tradeoff between employment and inflation, and advocate sustainable growth rate as the only valid yardstick. They point to the tradeoff and assert that we would experience higher unemployment by pursuing a zero inflation strategy. And, according to Makin, too much downward pressure can result in deflation and, " [...] [C]an create transitional unemployment problems if there is widespread reluctance to reduce wages". Yet, this adds validity to the zero inflation goal. Attempting to control inflation after it is beginning to rise will lead to over-correction, while a slow steady pressure will be able to maintain a balance with employment. In fact, W. Lee Hoskins, President of the Cleveland Federal Reserve Bank argues in a letter to Congress that, " The Federal Reserve cannot achieve maximum output and employment without achieving price stability" (" Fed Presidents") High inflation disrupts the economy and is not welcomed by anyone. Those most affected by high inflation, retirees and wage earners, are in the least advantageous position to deal with it as they face a downward economic spiral into an uncertain future. The balancing act between employment and inflation all but disappears in the long run with a steady downward pressure and a stable low inflation figure. Though zero may not be definable in the real world, a figure that approaches it is highly desirable goal and a policy worth implementing.

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