Hawks crying wolf

By Paul Krugman
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According to a recent report in The Times, there is dissent at the Fed: "An increasingly vocal minority of Federal Reserve officials want the central bank to retreat more quickly" from its easy-money policies, which they warn run the risk of causing inflation. And this debate, we are told, is likely to dominate the big economic symposium currently underway in Jackson Hole, Wyo.

That may well be the case. But there's something you should know: That "vocal minority" has been warning about soaring inflation more or less nonstop for six years. And the persistence of that obsession seems, to me, to be a more interesting and important story than the fact that the usual suspects are saying the usual things.

Before I try to explain the inflation obsession, let's talk about how striking that obsession really is.

The Times article singles out for special mention Charles Plosser of the Philadelphia Fed, who is, indeed, warning about inflation risks. But you should know that he warned about the danger of rising inflation in 2008. He warned about it in 2009. He did the same in 2010, 2011, 2012 and 2013. He was wrong each time, but, undaunted, he's now doing it again.

And this record isn't unusual. With very few exceptions, officials and economists who issued dire warnings about inflation years ago are still issuing more or less identical warnings today. Narayana Kocherlakota, president of the Minneapolis Fed, is the only prominent counterexample I can think of.

Now, everyone who has been in the economics business any length of time, myself very much included, has made some incorrect predictions. If you haven't, you're playing it too safe. The inflation hawks, however, show no sign of learning from their mistakes. Where is the soul-searching, the attempt to understand how they could have been so wrong?

The point is that when you see people clinging to a view of the world in the teeth of the evidence, failing to reconsider their beliefs despite repeated prediction failures, you have to suspect that there are ulterior motives involved. So the interesting question is: What is it about crying "Inflation!" that makes it so appealing that people keep doing it despite having been wrong again and again?

Well, when economic myths persist, the explanation usually lies in politics — and, in particular, in class interests. There is not a shred of evidence that cutting tax rates on the wealthy boosts the economy, but there's no mystery about why leading Republicans like Representative Paul Ryan keep claiming that lower taxes on the rich are the secret to growth. Claims that we face an imminent fiscal crisis, that America will turn into Greece any day now, similarly serve a useful purpose for those seeking to dismantle social programs.

At first sight, claims that easy money will cause disaster even in a depressed economy seem different, because the class interests are far less clear. Yes, low interest rates mean low long-term returns for bondholders (who are generally wealthy), but they also mean short-term capital gains for those same bondholders.

But while easy money may in principle have mixed effects on the fortunes (literally) of the wealthy, in practice demands for tighter money despite high unemployment always come from the right. Eight decades ago, Friedrich Hayek warned against any attempt to mitigate the Great Depression via "the creation of artificial demand"; three years ago, Mr. Ryan all but accused Ben Bernanke, the Fed chairman at the time, of seeking to "debase" the dollar. Inflation obsession is as closely associated with conservative politics as demands for lower taxes on capital gains.

It's less clear why. But faith in the inability of government to do anything positive is a central tenet of the conservative creed. Carving out an exception for monetary policy — "Government is always the problem, not the solution, unless we're talking about the Fed cutting interest rates to fight unemployment" — may just be too subtle a distinction to draw in an era when Republican politicians draw their economic ideas from Ayn Rand novels.

Which brings me back to the Fed, and the question of when to end easy-money policies. Even monetary doves like Janet Yellen, the Fed chairwoman, generally acknowledge that there will come a time to take the pedal off the metal. And maybe that time isn't far off — official unemployment has fallen sharply, although wages are still going nowhere and inflation is still subdued.

But the last people you want to ask about appropriate policy are people who have been warning about inflation year after year. Not only have they been consistently wrong, they've staked out a position that, whether they know it or not, is essentially political rather than based on analysis. They should be listened to politely — good manners are always a virtue — then ignored.