

Paul Krugman - New York Times Blog

July 31, 2013, 7:01 am

For The Birds

Neil Irwin urges us to stop talking about inflation hawks and doves. Tim Duy agrees that the terminology is misleading, but admits that it's not going to change, so that we should focus on clarifying what the distinction really means. And I'd like to second that.

For the hawks/doves divide at the Fed, and more broadly, isn't really about inflation tolerance. Nor is it about toughness, about being willing to do what needs to be done. It's about economic models.

First, a word on inflation tolerance: the truth is that nobody at the Fed is advocating a significant rise in the inflation target. At most, some players want to turn 2 percent into a true target, with deviations on either side regarded as equally bad; this would actually represent a change in behavior, since the Fed has in practice treated 2 percent as a ceiling. But there's nothing like Abenomics, an effort to boost the economy by fundamentally changing inflation expectations, on anyone's agenda — at least not yet. (Give us a lost decade or two, and that may change).

So if there isn't a big divide on the inflation target, what is the difference? The answer is that the hawks believe in immaculate inflation — they believe that a large Fed balance sheet can translate into an inflation surge even with the economy depressed.

It's not clear how they think this would work; who, exactly, is going to raise prices in the face of all that economic slack? At some level, however, I think the hawks view what we're going through as a supply-side phenomenon; they don't really believe that we are suffering from a demand shortfall, and they also don't seem to think that the zero lower bound makes any difference.

And the crucial point is that they have been wrong every step of the way, but keep demanding monetary tightening anyway.

So the hawks aren't people willing to do what needs to be done; they're people with a strange compulsion to do what doesn't need to be done. And that's why we need more doves at the Fed.

Copyright 2013 The New York Times Company