Feds are 'behind the curve' as inflation surges 7% in December, says economist

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WASHINGTON (TND) — Federal Reserve Chairman Jerome Powell faced questions Tuesday regarding the Federal Reserve's approach to fighting inflation during his confirmation hearing before the U.S. Senate Committee on Banking, Housing and Urban Affairs. Powell said the Fed will raise interest rates faster than it now plans if needed to stem surging prices.

“If we see inflation persisting at high levels longer than expected, then if we have to raise interest more over time, we will,” Powell said. “We will use our tools to get inflation back.”

Consumer prices rose 7% in December from a year earlier, the highest inflation rate since 1982, according to a report from the Labor Department released Wednesday.

“It's nice to see to see them admit that they were pretty off on their inflation expectations," said Scott Lincicome, senior fellow at the Cato Institute, to The National Desk’s Jan Jeffcoat. “They're now behind the curve and they're in a bit of a tough spot.”

Lincicome said that as inflation risks getting out of control, Powell has two choices.

“He can raise rates, but if he raises them too fast, he risks having the economy contract too quickly and running into a recession. But if he goes too slow, then we risk inflation becoming entrenched, wages and prices and expectations really spiraling out of control,” said Lincicome. “Now they really are going to have to try to figure out this balancing act over the next year.”

The Washington Post's editorial board openly criticized the Biden administration's approach to inflation.

“Unfortunately, the White House’s latest response is to blame greedy businesses. Economists across the political spectrum are rightly calling out the White House for this foolishness. Even some within the White House are questioning this approach," said the Washington Post's editorial board.

Lincicome said the Biden administration should pivot away from "demagoguing the big corporations" and "implementing more deficit spending" and instead focus on quick fixes to supply chain issues.

"It's trying to loosen up those supply chains a little bit, and things that don't require Congress because they need to do this quickly," said Lincicome. "These are things like lifting all those tariffs that are in place on steel and aluminum from China and the rest — accelerating visas and immigration."

In December, just 199,000 new jobs were added, well below the 422,000 jobs economists had predicted. Lincicome said policies have contributed to the record low labor force participation.

"I already mentioned immigration being a big one. Another one, of course, is government payments that are letting people stay out of the labor force," said Lincicome. "It really is continuing this wage pressure and this inflation pressure."