The Daily Dish

The Fed Continues To Raise

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The Federal Open Market Committee (FOMC) announced yesterday that it would raise the target federal funds rate by 25 basis points to a range of 5.00 to 5.25 percent. That was exactly as expected. The rest of the statement is more interesting.

First, the decision was unanimous. In the days leading up to the meeting there was an enormous range of opinion – raise, pause, cut – about the future of rates, including from some former members of the Federal Reserve circle. The united stance extends to continued shrinking of the Fed portfolio.

Second, the FOMC allowed some wiggle room to pause or stop, even if inflation has not yet declined significantly: "In determining the extent to which additional policy firming may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments."

Third, the FOMC allowed some wiggle room to respond to the development of a broader banking crisis, a debt-ceiling debacle, or other developments: "The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals."

Here's the key point. The Fed will continue to evaluate incoming data in deciding the next steps. The wiggle room, notwithstanding those data, starting with Friday's employment report, may very well tell the Fed to continue to hike. My suspicion is that this would produce a howl of protest from Wall Street ("easy money, easy money"), Congress ("jobs, jobs, jobs"), and elsewhere. This is one more reminder that once the inflation is embedded in the economy, the Fed has no good choices. Those complaining about the pace and scale of interest-rate increases are simply voting in favor of continuing the highest inflation in the past 40 years.