The Daily Dish

April 1st Edition

DOUGLAS HOLTZ-EAKIN | APRIL 1, 2015

Yesterday, President Obama issued his second veto since January. This most recent veto rejected a Republican sponsored bill that negates a NLRB ruling to expedite union votes in the workplace. According to Speaker Boehner, "With his veto, the president has once again put the interests of his political allies ahead of the small business owners and hardworking Americans who create jobs and build a stronger economy."

Senator John Thune is gaining more support within his party for his bill to abolish the federal estate tax, otherwise known as the "death tax." Discussing his bill, the Senator said, "Death should not be a taxable event…this tax punishes farmers and entrepreneurs for a lifetime of hard work."

Eakinomics: The Inflation Outlook

The Federal Reserve has a dual mandate to pursue price stability — interpreted as low, steady inflation — and full employment. As the unemployment rate has fallen, there have been increasing calls for the Fed to begin to raise interest rates so as to ward off undesirable increases in inflation. Martin Feldstein in particular, argues "Overall unemployment now is 5.5%. This has historically been regarded as about the lowest rate that can be sustained without starting an inflation spiral. The Fed is nevertheless projecting that its policies will cause unemployment to decline to 5% by the end of 2015 and even lower in the next two years. Historical experience suggests that means inflation would eventually increase year after year."

The chart (below) reviews the recent evidence on this front. Specifically, it shows the core (excluding volatile food and energy prices) inflation rate (a 12-month moving average to smooth out monthly noise), the unemployment rate, and a measure of "short-term" unemployment measuring those unemployed 26 weeks and less. As the chart indicates there is a broad negative relationship between the measures of unemployment and the rate of inflation. One wouldn't want to oversell this result; there are lots of subtleties that might cause the month-to-month linkages to diverge.

Image not found or type unknown

Still, the chart hardly make the case for a passive Fed. Inflation is close to their target of 2 percent and the measures of unemployment are approaching levels that have in the past been associated with a run-up of inflation.

From the Forum

MedPAC's RAC Proposals: The Good and the Bad by Brittany La Couture, AAF Health Policy Counsel