



The Daily Dish

Disinflation and Dieting

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I've come to the conclusion that the experience of disinflation and returning to the 2 percent target is a lot like dieting. We all think we've made herculean efforts (the federal funds target range is up to 4.50–4.75 percent in just a year) but our hopes for quick and substantial reduction are disappointed. Yesterday the Bureau of Labor Statistics released the January [report](#) on the Consumer Price Index (CPI). Year-over-year CPI inflation declined in January, but only by 0.1 percentage points from 6.5–6.4 percent. Likewise for the core (non-food, non-energy) CPI, which fell from 5.7–5.6 percent. Food, energy, and shelter – one-half of the typical family budget – fell to 8.4 percent year-over-year but shelter alone – one-third of the budget – rose from 7.5–7.9 percent.

Progress? Yes. Satisfying? Not so much.

The danger at this point, of course, is to give up on the diet plan and do something unhealthy in the interest of rapid weight loss. On the inflation version, I am not worried about the Fed giving up on its plan; it has been quite clear that the biggest mistake would be to ease prematurely. It will stick to the inflation “diet” for as long as needed, with the real risk being sticking to restrictive policy too long. No, the real threat is the temptation to “fix” an inflation problem with price controls, taxpayer subsidies, or other ways to pretend to make progress that actually damage the fundamentals. One hopes the administration does not fall victim to these temptations.

The third similarity between inflation and dieting is the importance of expectations. If consumers, workers, and businesses expect continued high inflation, they are likely to take steps in wage and contract negotiations that actually raise costs and engender inflation. The Fed, Chairman Powell in particular, has emphasized this point, so it is disappointing that the most recent [survey](#) of inflation expectations showed little progress in reducing near-term inflation expectations. If you expect the diet to fail, you will be much more likely to negotiate (with yourself) another dessert, taking a step in the wrong direction.

Finally, there is the issue of the goal. Why does inflation have to be 2 percent? Why not 3 percent? Why not 6 percent? There is a temptation to change the target if the going gets tough, which is why my goal weight is approaching my actual weight much faster than the reverse is happening. There are starting to be voices calling for simply raising the target. That would be fine if the Fed had first established its credibility by getting inflation to 2 percent. To do so prematurely simply invites the conclusion that the Fed was never serious about disinflation.

The disinflation battle continues. Be prepared for the long haul.