



The Daily Dish

Normalizing Policy

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Eakinomics: Normalizing Policy

Federal Reserve Board Vice-Chairman Richard Clarida made [news](#) yesterday when he indicated “the central bank is on course to pull back on the massive support it is providing to the pandemic-damaged economy, starting with an announcement later this year that it is paring bond purchases and moving on to a liftoff in interest rates in 2023.” The Fed has been steadfast in its public commitment to keep rates near zero until the labor market is fully healed and inflation is averaging around 2 percent.

Clarida made this point despite the fact that the [ADP Employment Report](#) showed a disappointing 330,000 jobs created in July, about half of what was expected. Still, at that pace employment would return to its pre-pandemic peak by February 2023 and likely reach full employment during 2023. Getting rates away from zero by the end of 2023 looks entirely reasonable. Moreover, 330,000 jobs might be a reasonable number given the variety of supply constraints that are plaguing the economy and the likelihood that the Delta-Epsilon-Zeta-Eta-Theta-Iota-Kappa-Lambda variants will be causing regular flareups that create headwinds to growth.

If monetary policy is on track to normalization, what about the other branches of policy? Perhaps it is time for public health policy to stop toggling irrationally from hermetically sealed lockdown to we are so, so, so open! Instead, there could be a sensible mix of vaccines (first and foremost), masks and social distancing where appropriate, rapid testing, and therapeutics that permit the population to live in the presence of the virus for the next couple of years.

And certainly, there is no case to be made for more stimulus. The American Rescue Plan (passed in March) did not alter the pace of growth a bit from the first to the second quarter, and all those checks produced a 3.3 percentage point increase in nominal consumer spending but only a 0.4 percentage point increase in real spending. In other words, no growth, lots of inflation, and a harder job for the Fed.

The economy is healing and will continue to heal. There is little more policy can do to speed this process, and considerable harm that could arise from more interventions. It is time to accept combatting the virus as a normal part of life and move policies to normal as well.