Contact: Mark Primoff
845-758-7749
primoff@bard.edu

FOR IMMEDIATE RELEASE

NEW LEVY INSTITUTE STUDY CRITICAL OF INTEREST RATE HIKES

Author Questions Federal Reserve Decision to Hike Interest Rates in Light of Recent Economic Data and Tightening Fiscal Policy

ANNANDALE-ON-HUDSON, N.Y.—With the U.S. economy showing little signs of inflation outside of energy costs and continued tightening expected in fiscal policy, and with both parties putting forth plans to reign in the federal budget deficit, a new study from The Levy Economics Institute of Bard College questions the rationale behind the Federal Reserve's recent decisions to raise interest rates. In his public policy brief, *The Case for Rate Hikes: Did the Fed Prematurely Raise Rates?*, Levy Senior Scholar L. Randall Wray analyzes recent economic reports and argues that there is little to suggest that the economy is in danger or overheating in the near or long term.

In his policy brief, Wray discusses recent economic trends regarding jobs and wages and finds little justification for a preemptive strike against inflation by the Federal Reserve. Wray contends that the employment-population ratio is well below the level it was during the Clinton administration and that monthly job growth has generally been well below the 188,000 jobs needed to absorb new workers entering the labor force. Wray also notes that the percentage increase in the average hourly wage has been trailing the inflation rate over the past year. "Such a weak jobs-and-wages picture certainly does not lend much credence to the view that labor markets are overheating and driving inflation upward," writes Wray. "By most measures, the situation looks more like the 'double-dip' and 'jobless' recovery of Bush senior."

Comparing the economic climate that triggered the current interest rate hikes, Wray stresses that the economy is some four to six million jobs short of achieving the sort of

-continued-

labor market tightness that led the Fed to hike rates at the peak of the Clinton expansion. Furthermore, Wray contends that government spending, which has buoyed the economy, is swinging downward, further removing inflationary pressures from the U.S. economy. He points out that ramped-up government spending, especially on defense and tax cuts, peaked in 2003 and the government is now operating with a much tighter fiscal stance.

Wray concludes by suggesting that there is little rational for raising rates; moreover, given the record debt burden faced by the personal sector, rate hikes could seriously undermine a struggling economy, especially with oil-price uncertainty, security concerns, and both political parties committed to lowering the deficit. “There is little doubt that the recovery has been weak by historical standards, and there is some possibility that the economy is now ‘double-dipping’ or at least hitting a ‘soft patch,’ in (Federal Reserve Chairman Alan Greenspan’s) own words,” writes Wray. “The most favorable view of the Fed’s recent move to tighten is that it comes several years—or more—before there is any danger of widespread labor market tightening that would threaten wage stability. A less sanguine view is that the Fed’s move to tighten is wrongheaded, especially given that the fiscal stimulus appears to have peaked.”

# # #

Public Policy Brief 79, *The Case for Rate Hikes: Did the Fed Prematurely Raise Rates?*

(10.21.04)