

**Rising Expectations:
Oh United States Economy,
Whither Thou Goest ?**

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The Great Debate :

What is the best way to deal with current high inflation ?

- What are the key drivers of inflation ?
- What is the most appropriate policy tool to address these key drivers of inflation ?
- How can we interpret contradictory economic indicators ?
- Which is the most likely scenario for this year ?
- How might the current debt ceiling conflict affect this scenario ?

What are the key drivers of inflation ?

- Excess demand ?
 - Pandemic stimulus spending ?
 - Pent up demand during the pandemic ?
- Supply constraints ?
 - Supply chain disruptions ?
 - Labor shortages ?
- Both ?
 - Relative contribution of each factor ?
 - Appropriate time frame ?

What is the most appropriate policy tool to address these key drivers of inflation?

- If primarily excess demand, tight monetary policy?
 - Appropriate inflation index?
 - Magnitude and speed of interest rate increases?
 - Self resolving or self fulfilling expectations?
- If primarily supply constraints, fiscal policy?
 - End trade war and lower tariffs on imports?
 - Liberalize immigration policy and facilitate work visas?
 - Encourage competition and enforce antitrust laws?

How can we interpret contradictory economic indicators?

- Persistent and significant labor shortages but limited growth in real wages?
- Consumer price index (CPI) versus personal consumption expenditures price index (PCE)?
- Macroeconomic versus microeconomic?

Which is the most likely scenario for this year ?

- *Option 1* : No Fed action, instead focus on supply chain issues ?
- *Option 2* : Soft landing, raise interest rates enough to prevent wage-price spiral without causing a recession ?
- *Option 3* : Raise interest rates too much too quickly, causing either stagflation or a hard landing ?

How might the current debt ceiling conflict affect this scenario ?

- Why must Congress raise the debt ceiling ?
- What does raising the debt ceiling mean ?
- When will we reach the debt ceiling ?
- What are the chances Congress will not raise the debt ceiling in time ?
- What might happen if Congress fails to raise the debt ceiling in time ?