SPUTNIK NEWS SERVICE, SPUTNIK. EXCLUSIVES
Yesterday, 27 january 2022, 21:34

US Fed Should Have Raised Interest Rates Earlier to Curb Growing Inflation – Experts

* US * FED * INTEREST * RATES * HIKE * EXPERTS *

MOSCOW, January 27 (Sputnik), Thanasis Petras - Although the US Federal Reserve has hinted that it would start raising interest rates in March, the decision might be at least one year too late to successfully curb growing inflation in the country, experts told Sputnik.

On Wednesday, Federal Reserve Chairman Jerome Powell announced that the Fed is considering an interest rate hike in March, and not ruling out the possibility of raising interest rates every month once the first pandemic-era hike is complete. According to a poll by CBS News and YouGov, published on Sunday, 58% of respondents say the administration of Joe Biden has not paid enough attention to the economy, and 65% are critical of its efforts to combat inflation. The president has grown increasingly upset over the issue, judging from his recent confrontation with a Fox News reporter over a question about it.

"The recent inflation spike in the US was caused by the Fed keeping interest rates too low for too long. Today’s decision from the Federal Reserve to raise US interest rates is at least one year too late. So yes, raising interest rates is the right decision but at the wrong stage," Michael Parkin, professor emeritus with the University of Western Ontario, said.

The professor dismissed the argument of supply bottlenecks being to blame, citing the example of Japan and Switzerland, where inflation is below 1% despite supply chain issues.

"Low interest rates and massive bond purchases by the Fed have made the quantity of money grow too quickly and brought inflation," Parkin stated.

Amy Verdun, a political science professor, thinks it is reasonable for the Federal Reserve to signal an increase in rates, as the annual consumer price inflation reached 7%, the highest it has been since June 1982. She noted that the risk of hurting employment by raising interest rates does not play a significant role at the moment as the unemployment rate remains low.

"On the whole, in the United States, it makes sense to signal an increase in interest rates; the rates might have even been increased sooner. Seven percent inflation is really quite high and the conditions seem right for a rate change," Verdun opined.

Meanwhile, UK economist Steve Bain points out that the Fed finds itself in a tricky situation, in that it cannot raise interest rates above 7%, since this would bring down the economy and the stock market. At the same time, small increases will not do much because the whole point is to raise interest rates higher than the inflation rate. To add insult to injury, there is also the issue of national debt – which will be impossible to deal with if interest rates are raised too high.

"The economy really is in an impossible situation right now, and the root cause of it dates back to the 2008 financial crisis when quantitative easing and massive deficit spending caused huge growth in both the money supply and national debt level. The money-printing and government spending back then did serve to delay a much more serious economic collapse, but it did nothing at all to solve the underlying problem," Bain said, concluding that "the future economic outlook is extremely bleak, and there really is nothing much that the Fed or the Biden administration can do about it."