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Is Paul Ryan an Inflation Nutter?

By Betsey Stevenson & Justin Wolfers - Mar 12, 2013

Paul Ryan believes the U.S. has a looming inflation problem. The reality is that Ryan has an economic credibility problem.

The latest iteration of the Wisconsin representative's budget for the U.S. government spells out what he sees as a major threat to the economy: "Pressed for cash, the government will take the easy way out: It will crank up the printing presses. The final stage of this intergenerational theft will be the debasement of our currency. Government will cheat us of our just rewards. Our finances will collapse. The economy will stall."

It's a stark forecast, in which the driving force is "debasement of the currency," which is simply a rhetorically loaded term for inflation. Ryan's views on the economy are premised on his forecast that the country is headed for a central-bank induced monetary disaster.

This sort of fear-mongering sells well among gold bugs, doomsday preppers and other Tea Party types. But it rests on very shaky ground. So shaky, in fact, that either Ryan is being dishonest or he's placed himself on the Spam-hoarding radical fringe, far outside any standard approach to monetary economics.

For instance, the latest projections from the Federal Reserve's policy-setting Open Market Committee suggest that long-run inflation will average 2 percent, consistent with its stated long-run target. Of course, in Ryan's view, the Fed would say that, just to hide its intentions ahead of an inflationary surprise.

Nefarious Agenda

What do professional economists say? The Survey of Professional Forecasters summarizes the projections of private- sector economists, academics and econometric models, lacking any nefarious agenda that one may ascribe to the Fed. In the latest survey, the median projection among these economists is for inflation to average 2 percent over the next decade. Even the most alarmist forecast sees inflation averaging no more than 3 percent. These 46 economists draw on a wide variety of views about the economy, yet Ryan is more extreme than all them -- by a substantial margin.

In other guises, Ryan is a believer in markets, another place where smart people try to forecast inflation. Consider the market for government bonds. The difference between the interest rates on two kinds of bonds -- 10-year government notes and otherwise-similar obligations whose payoff is indexed to inflation -- can be interpreted as a market-based inflation forecast. The current prices of these bonds suggest inflation is expected to average only 2.5 percent over the next decade. And this probably overstates things, because traders are often willing to pay more for inflation-linked bonds to insure against bad outcomes.

Why is everyone so much less worried about inflation than Ryan? Let's reflect on the underlying forces that drive prices. Textbook economics relies on the Phillips curve, which suggests that inflation accelerates when the economy starts to overheat, or when inflation expectations get ignited. But expectations remain muted. With unemployment at a stubbornly high 7.7 percent (and in Ryan's view, unlikely to fall soon), it's hard to see inflationary pressures anywhere.

None of this is to say that inflation doesn't remain a concern. Unwinding the Fed's bond-buying program will require some care. And there are specific sectors that could heat up. It seems plausible that inflation could tick above 2 percent at some point. But this is still consistent with a working definition of price stability, and not "debasement of our currency."

The point is that Ryan's inflation forecast simply isn't credible. It's not just another slightly different view on the economy. It's a radical departure from the views of those on both the left and the right. It's so far from the realm of the likely that I have yet to see a serious Republican economist who would defend it.

Radical Departure

So what's really going on? Perhaps Ryan doesn't actually believe his own inflated claims, and this is just cynical politics as usual. Fear is easy to sell, and he's a willing purveyor. But to what end?

Inflation does have distributional effects, and perhaps he's simply looking to protect those who gain most from price stability. That said, the winners and losers from inflation aren't as obvious as one might think. It's not clear why this should be a Republican cause.

Perhaps there's a short-run political gain to playing Chicken Little during a moment in which the extreme elements of his party remain engaged even as most of the public is tuning out politics. But Ryan is an ambitious character, and surely such extremist views will prove to be a liability when the broader public tunes in to the 2016 election campaign.

The remaining possibility is more frightening. Perhaps Ryan really does believe this stuff. Perhaps the chairman of the House Budget Committee is actually an inflation nutter. Even more scary, perhaps he’s willing to act on his fears.

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