Fed Chair Jerome Powell says money printing doesn’t lead to inflation

David Lin   Wednesday February 24, 2021 18:18

In his testimony with Congress on Wednesday, Federal Reserve Chairman Jerome Powell said that historically, changes in the money supply level have not affected levels in inflation.

In response to a questions posed by Congressman Warren Davidson about whether “M2 [money supply] going up by 25% in one year” is going to “diminish the value of the U.S. dollar,” Powell responded, “there was a time when monetary policy aggregates were important determinants of inflation and that has not been the case for a long time.”

Powell added that “the correlation between different aggregates [like] M2 and inflation is just very, very low, and you see that now where inflation is at 1.4% for this year. Inflation dynamics evolve over time, but they don’t tend to change overnight.”

When asked about his views on inflation as a whole, Powell commented that “we do expect inflation to move up both because of base effects…and also because we could have a surge in spending as the economy re-opens, we don’t expect that to be a persistent, longer-term force, so while you could see prices move up, that’s a different thing from persistent, high inflation, which we do not expect. If we do get it, we have the tools to deal with it.”