Did the Federal Reserve make the right call increasing interest rates?

San Diego experts sound off on the Fed raising rates in an effort to curb inflation.

By Phillip Molnar

The Federal Reserve approved the largest interest-rate increase since 1994 this week to try and slow inflation.

Officials agreed to a 0.75-percentage-point rate increase, which raised the Fed's benchmark federal funds rate to a range of between 1.5 percent and 1.75 percent.

The European Central Bank is also considering a similar hike at its upcoming meeting in July. An outlier is Japan's central bank, which said Friday it wanted to keep rates around zero.

Japanese officials said raising rates would hurt the economy, but acknowledge it risks weakening its currency. The Federal Reserve's move is also risky: A sudden rise in interest rates, which makes it more costly to get loans, has raised concerns it could lead to a recession.

Question: Did the Federal Reserve make the right call increasing interest rates?

Gary London, London Moeder Advisors

YES: Raising the federal discount rate, coupled with tactics to constrain monetary supply, will eventually cool off consumer spending, the main culprit in the inflation spiral. It is a spiral fueled by the huge government payouts, by tax breaks, accelerated by stay-at-home consumers anxious to buy stuff, and festered by supply chain disruption. It's an economic mess that will be tempered by raising the cost of borrowing. Stay tuned to see if there is a recession ahead.

Alan Gin, University of San Diego

YES: With the unemployment rate at 3.6 percent and many more job openings than applicants, the economy can be cooled without being plunged into a recession. Raising interest rates and slowing the economy will help deal with inflation caused by increased demand, such as in the housing market and in the use of gas. It won't help control inflation caused by increased costs, such as the increase in food and energy costs caused by the Ukraine-Russia conflict.

Bob Rauch, R.A. Rauch & Associates

YES: The Federal Reserve had to slow inflation. Between multiple rounds of stimulus checks (many sent to people who did not need them), student loan forgiveness, expanded child tax credits and extended unemployment benefits, many workers have excess cash. Another concern is stagflation, where a combination of low economic growth is combined with high inflation. It will be

difficult to navigate a soft landing where growth continues, inflation is tamed and we avert a recession.

James Hamilton, UC San Diego

YES: But this should have been done much earlier. By waiting as long as it did to let the interest rate go above one percent, the Fed allowed inflation to get out of control. It will be very hard at this point to bring inflation down without causing a recession. The Fed will likely be forced to keep raising rates through the end of the year, and that could slow economic growth significantly.

Austin Neudecker, Weave Growth

NO: The 0.75 percent increase could prove too much, too soon. Three successive, large rate increases are desperately reactionary to quell inflation but could push the economy from overheated into recession. The Fed should have gradually raised interest rates earlier than March. Quarter or half percentage rate increases, starting a year ago, spaced months apart, could have been prudent. While the economy is showing signs of resilience compared to recent recessions, I fear jerking the wheel might over-correct.

Chris Van Gorder, Scripps Health

YES: In May, the inflation was 8.6 percent, the highest since 1981. By raising interest rates, the Federal Reserve can slow inflation by making spending more expensive and encouraging savings. This slows the economy and thus inflation. It will be tricky to avoid a recession, but it was the correct move at this time. It’s like trying to stop a speeding train: Brake too soon, you don’t get to your destination; brake too late, you crash the train. I don’t envy the Fed.

Norm Miller, University of San Diego

YES: The Fed should have increased rates several months ago, and the administration should have provided less across-the-board stimulus, which exploded the money supply starting in 2020. It will take a few years to bring inflation down to the 2 percent to 2.5 percent target range, as many price increases like rent and housing have a lagged impact on the CPI. We can expect further increases, possibly a recession and mortgage rates remaining relatively high.

Jamie Moraga, IntelliSolutions

YES: What started as “transitory” got out of control due to high levels of spending coupled with supply chain issues, labor shortages, the pandemic, and a war in Ukraine. The Fed must precariously balance rate increases; if they raise them too high and too fast, they can stunt economic growth and cause a recession. In the long run, high inflation is much worse than a recession. Everything would continue to cost more, causing consumers to have less buying power, which creates a lasting impact to the economy.

David Ely, San Diego State University

YES: Recent indicators of inflation, including the Consumer Price Index and the Personal Consumption Expenditures Price Index, show that prices continue to rise at a pace that far exceeds the Federal Reserve's goal of 2 percent. Recent surveys also show that consumers and economists have raised their forecasts of future inflation. To achieve price stability. it is critical that inflation expectations be anchored to the 2 percent target; thus, the larger increase in rates can be justified.

Ray Major, SANDAG

YES: Unfortunately, it had to be done. With inflation at a 40-year high, and even higher rates on the horizon due to massive increases in the producer price index, the Fed had no real choice but to increase rates and attempt to slow the economy. The economy will go into a recession, but the short-term pain of a recession should be less than erosion in our standard of living caused by runaway inflation.

Caroline Freund, UC San Diego School of Global Policy and Strategy

YES: The rate hike will restrain demand and slow inflation. Right now, too much money is chasing too few goods, fueling price increases. A long period of cheap money and COVID-induced government spending pushed demand well above supply. The economy needs cooling or inflation will become entrenched in people's expectations, making it much, much harder to control. The Fed should have moved earlier.

Haney Hong, San Diego County Taxpayers Assoc.

Not participating this week.

Kelly Cunningham, San Diego Institute for Economic Research

YES: Although too little too late, the Fed made the right move to increase the rate while still needing to further raise it. Partially shutting down the economy while distributing fabricated trillions was extremely inflationary. Then "helicoptering" even more deficit spending for purported "pandemic stimulus" additionally hyper-inflated the world's reserve currency by unprecedented proportions. The fallout of the bubble generated and needing to be expunged with recession certain to ensue is difficult to fully fathom.

Lynn Reaser, economist

YES: The Federal Reserve may already be too late in raising interest rates. Its earlier assumption that the rise in inflation was temporary was wrong. The acceleration in prices has spread from energy, food, and cars to broad areas of the economy. Inflation expectations have also climbed and prices are outpacing wages. The Fed now must play catch-up, even with the risk of pushing the economy into a significant slowdown.

Phil Blair, Manpower

YES: For a variety of reasons — Ukraine war, very tight job market — the U.S. has high inflation. It took a major interest rate increase to get everyone's attention. This is especially true in San Diego's housing market, which has become overheated, by everyone's standards. By increasing mortgage rates, we hope to see the market cool. When mortgage rates drop again, let's hope a higher percent of San Diegans can again afford to buy here.