

# Inflation and Globalization: SUIERF Lecture 2022

Oesterreichische Nationalbank

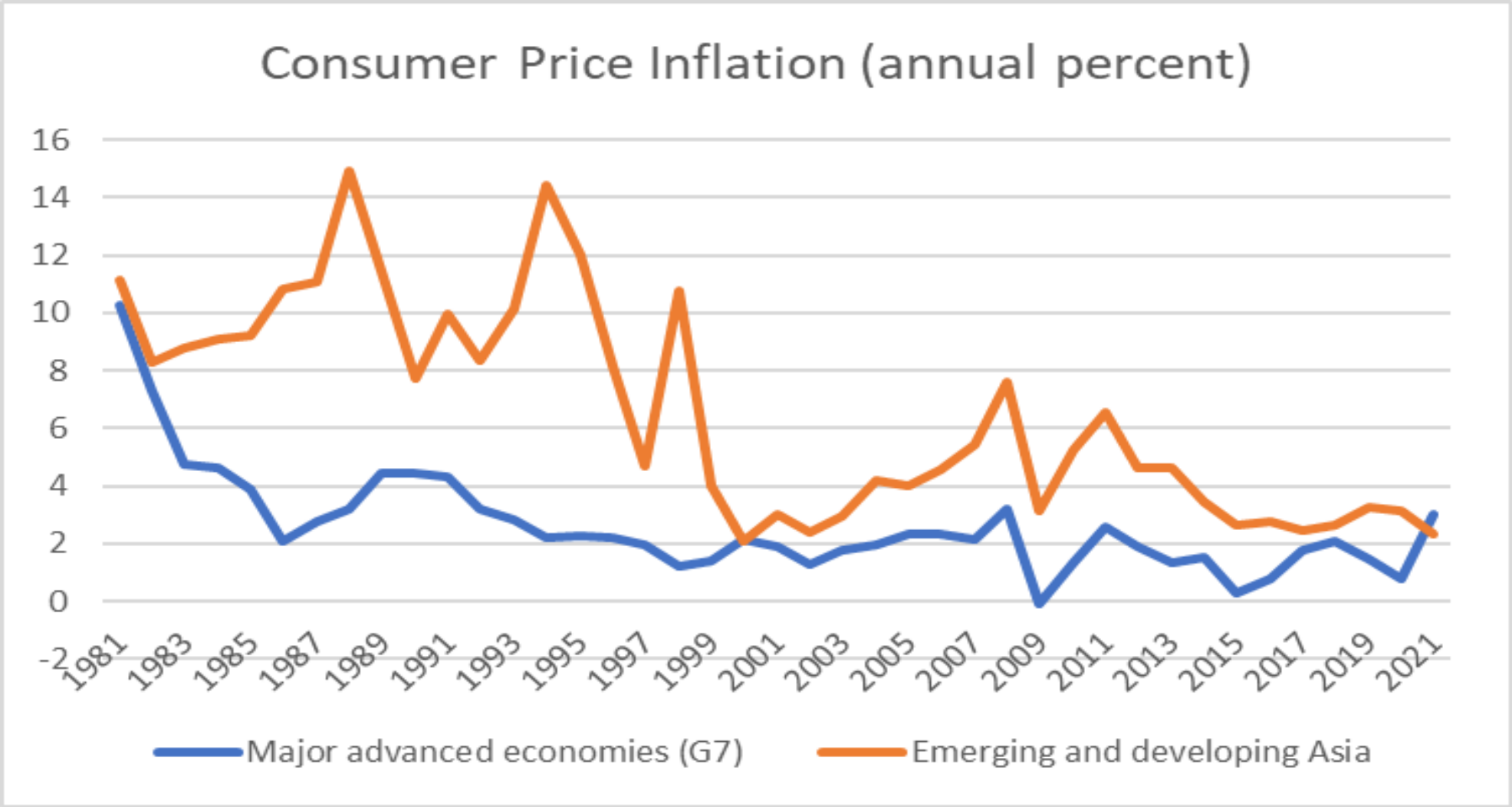
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Harold James, Princeton University

# Consensus on inflation?

- Traumatic and undesirable
  - strain on federal systems
  - distributional wars
- Central banks should deliver price stability

# Figure 1: Global Inflation Rates



# Covid and Ukraine

- Shifts in labor market (globalization of manufacturing succeeded by globalization of services), and energy markets: challenge to construction of fiscal relief packages
- Shifts in relative prices after technology and supply shocks: challenge to inflation targeting
- Challenge to idea that government debt free from inflation risk

# The Globalization Link of Inflation

Alan Greenspan (2005): “Because of deregulation, increased innovation, and lower barriers to trade and investment, cross-border trade in recent decades has been expanding at a far faster pace than GDP. As a result, many economies are increasingly exposed to the rigors of international competition and comparative advantage. In the process, lower prices for some goods and services produced by our trading partners have competitively suppressed domestic price pressures.”

Kristen Forbes (2019): “global factors should no longer play an ancillary role in models of inflation dynamics.”

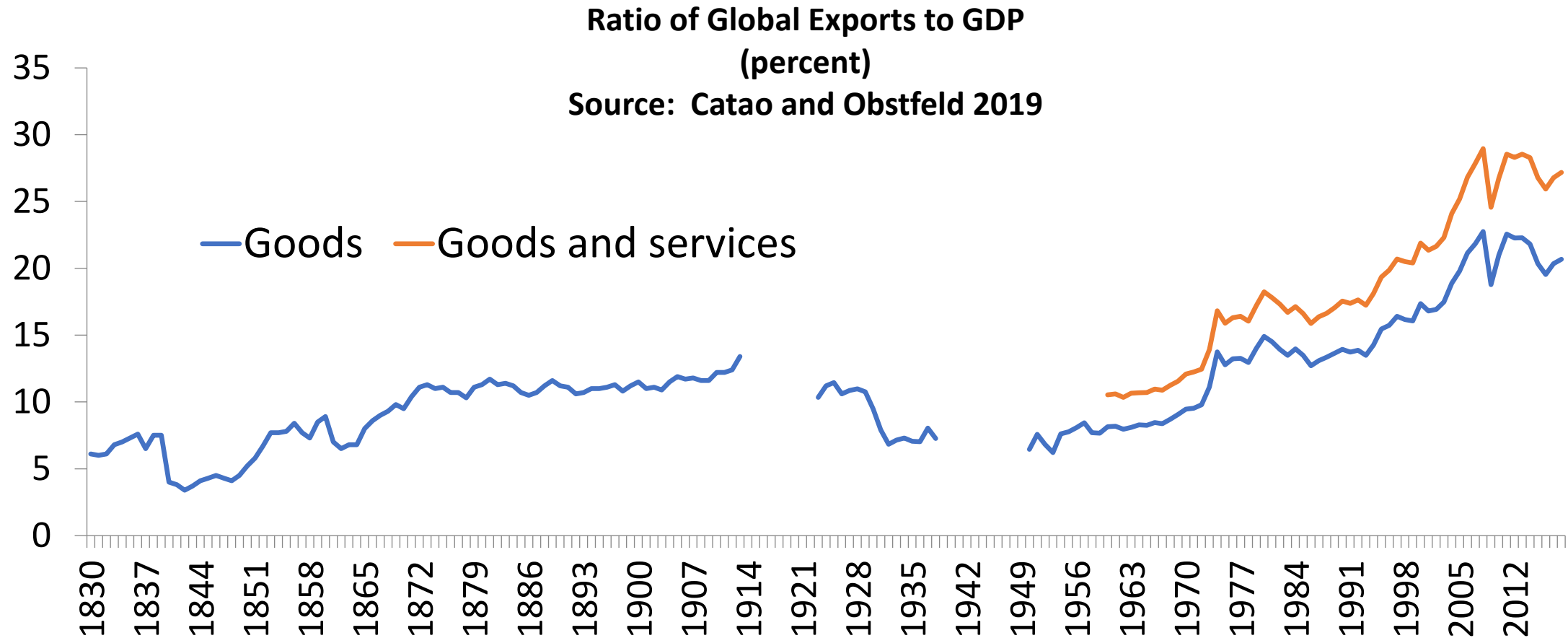
# Laurence Ball

- “Has globalization reduced the long-run level of inflation?”
- Has it affected the structure of inflation dynamics, as summarized by the Phillips curve?
- Has it contributed substantial negative shocks to the inflation process?

“A short  
summary of  
the answers is  
no, no, and  
no.”



# Figure 2: Trade and World Output 1830-2014

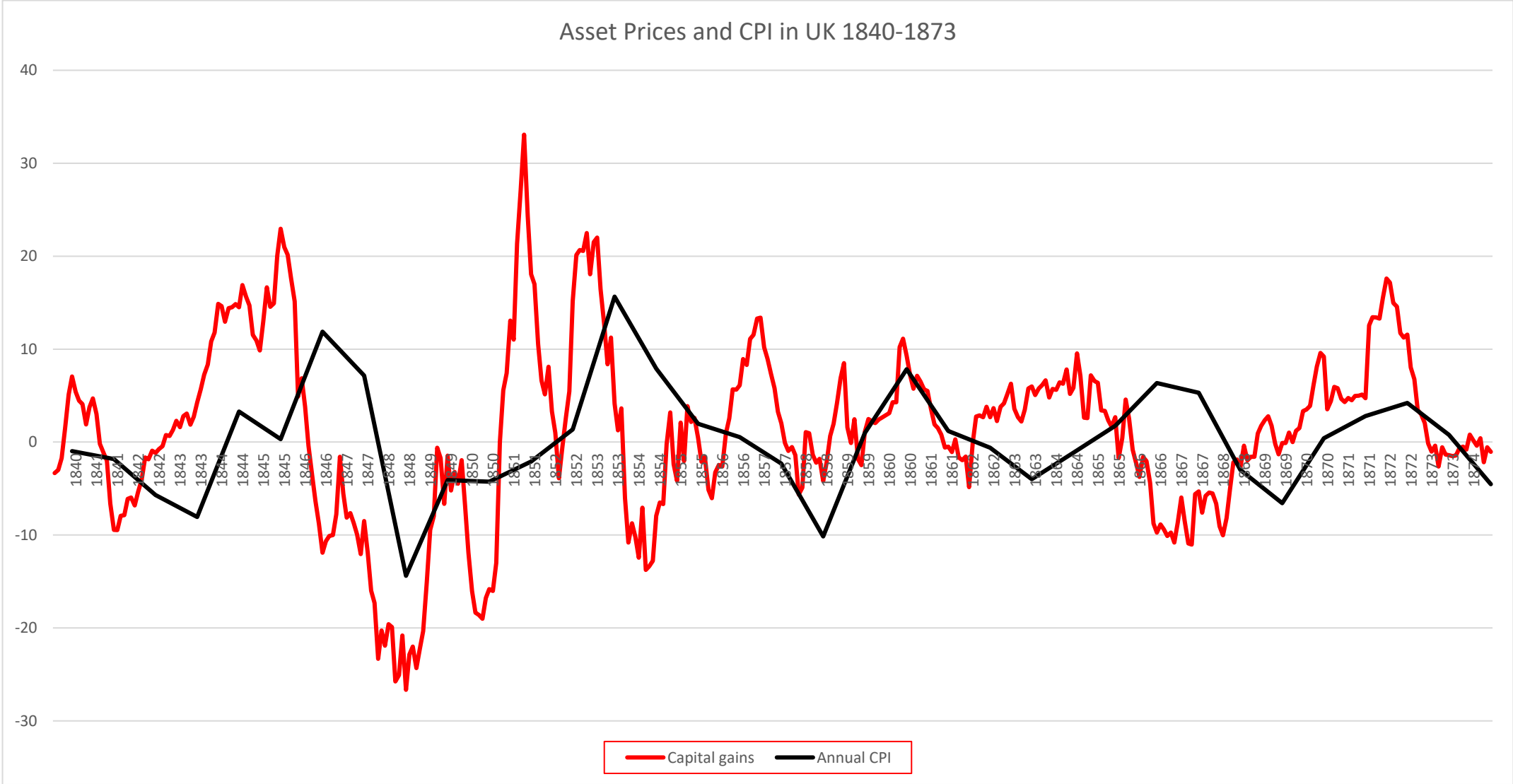




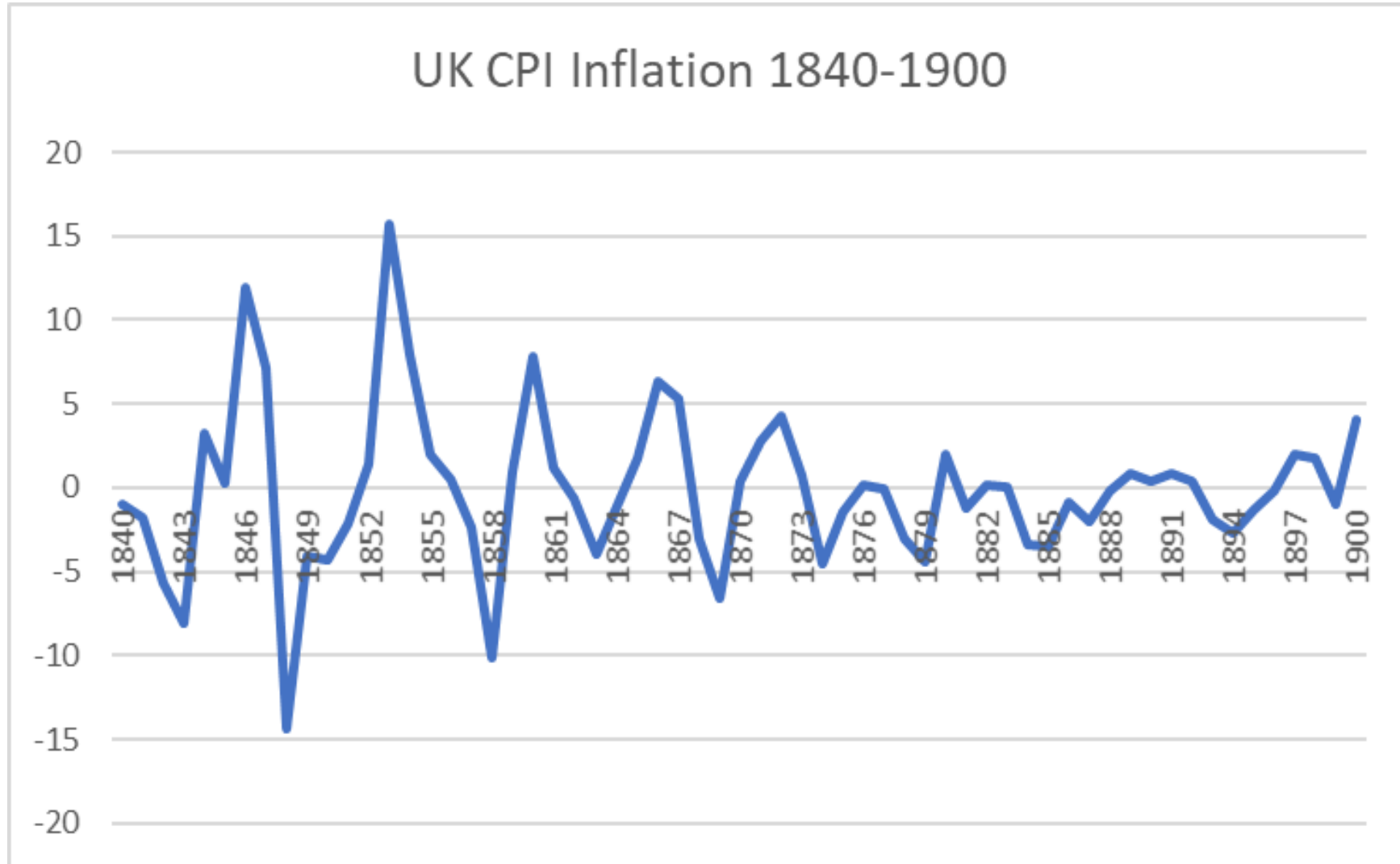
# Two and a half episodes

- Mid-nineteenth century: beginning of first wave of globalization (manufactured goods exchanged for commodities)
- 1920s: attempt to reconstruct inter-connected economy after First World War
- 1970s: beginning of “our age” of globalization (worldwide supply chains in manufacturing)

# Figure 3: Inflation and Asset Prices 1840-1870



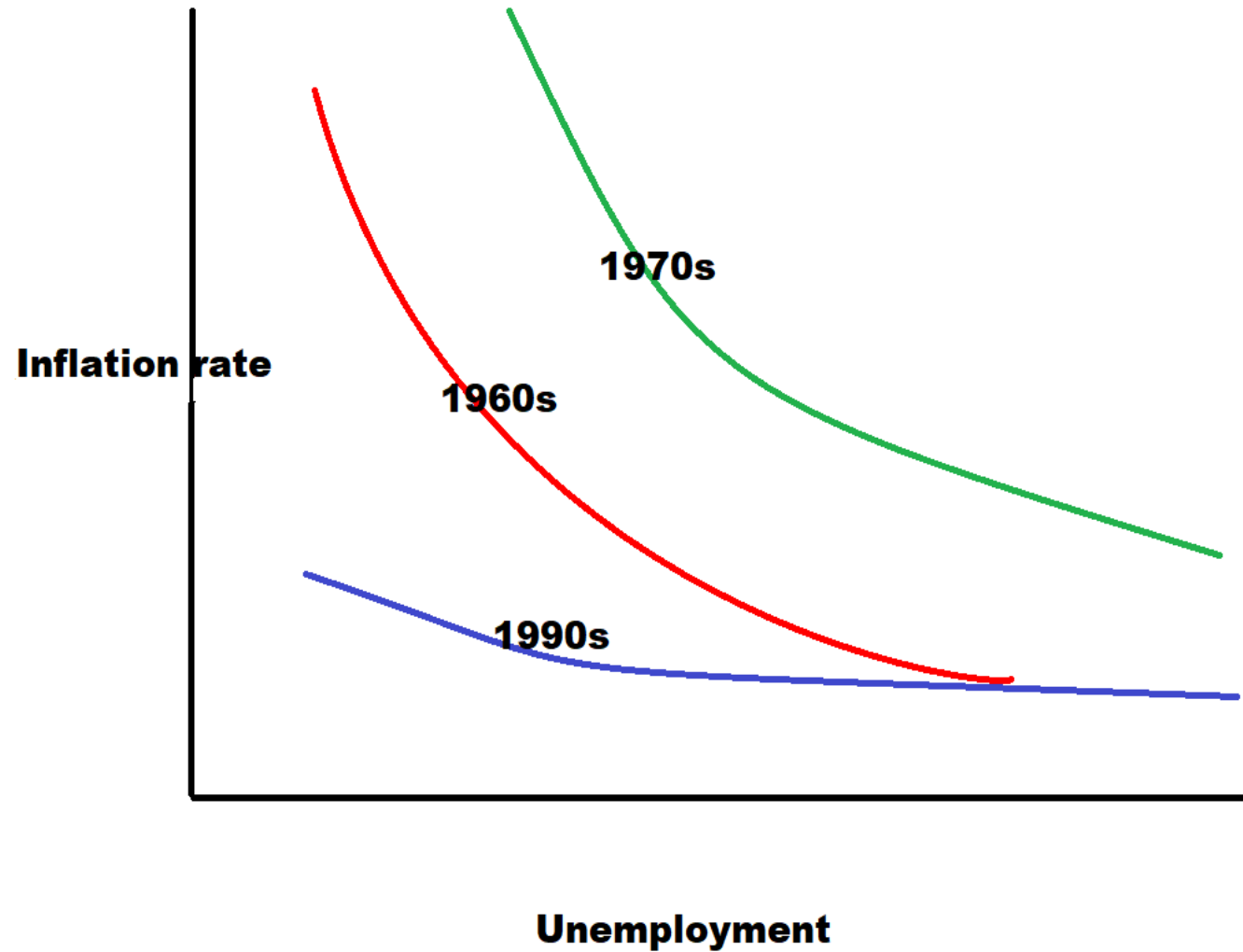
# Figure 4: Inflation 1840-1900



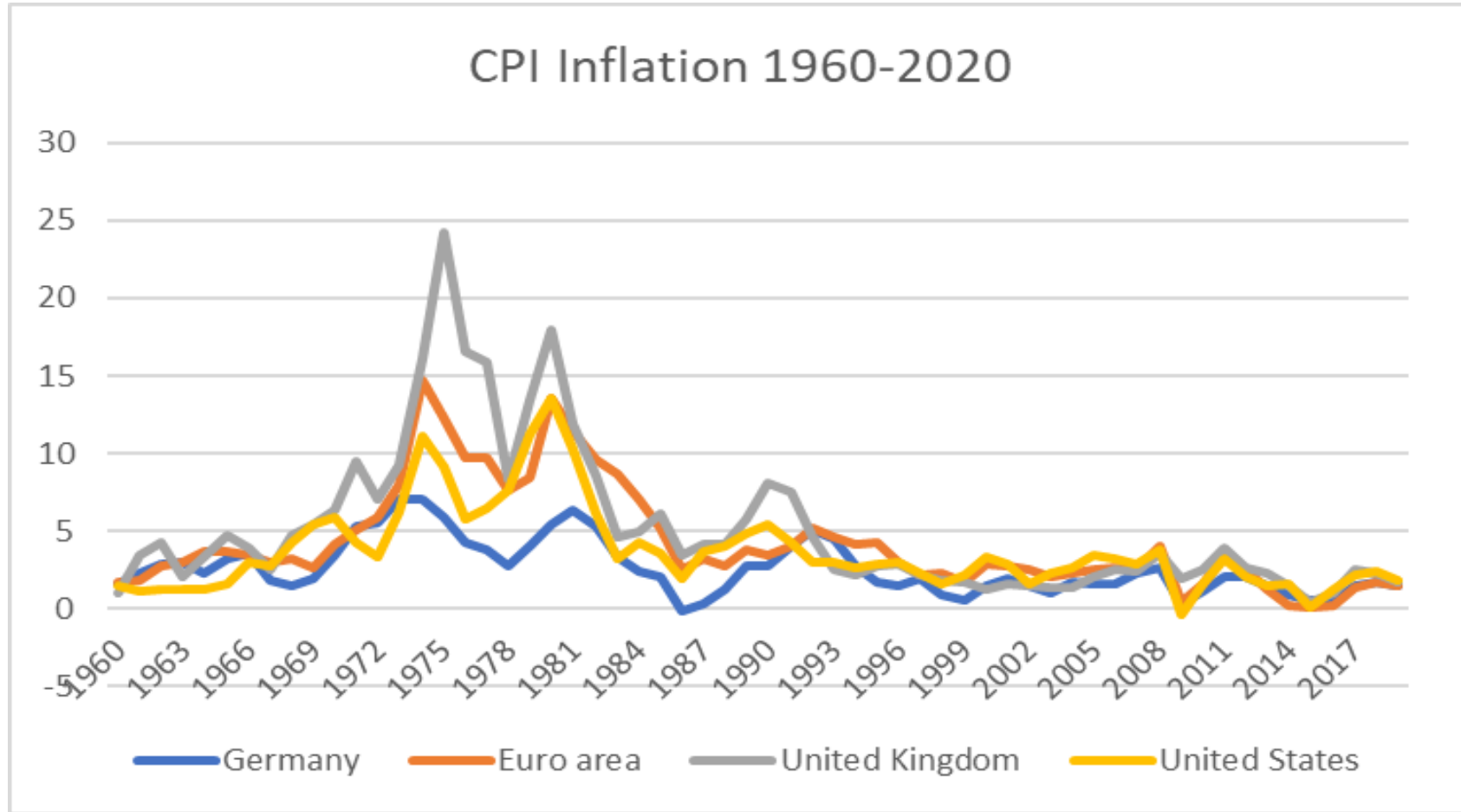
# 1960s and 1970s

- Roy Harrod: Stronger demand growth reduces inflation.
- Wynne Godley: “People were misled by the fact that in the boom periods money and jobs were easier to find by selling foreign goods than by manufacturing them for ourselves.”

# Figure 5: Phillips Curves



# Figure 6: Comparative CPI Inflation



# Great inflations

- Fiscal dominance
- Financial dominance
- Social dominance

# Deglobalization?





# Central banks' responsibility (back to 1694?)

- Debt management
- National security

# Social stability

- Challenge of alternative private moneys
- Demand for stability (discussions of DCBM)