

DEFLATION

Until recently, fears of deflation seemed nothing more than a relic of the Great Depression. However, beginning in the 1990s, persistently falling consumer prices emerged in Japan, China, and elsewhere. Deflation is also a distinct possibility in some of the major euro area economies, especially Germany, and became a concern of the U.S. Federal Reserve in 2003. Deflation may be worse than inflation, not only because the real burden of debt rises but also because firms would confront rising real wages in a world where nominal wage rigidity prevails. This volume explores some key themes regarding deflation including: (i) how economic agents and policy makers have responded to deflation; (ii) the links between monetary policy, goods price movements, and asset price movements; (iii) the impact of deflation under different monetary policy and exchange rate regimes; and (iv) stock market reactions to deflation.

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Current and Historical Perspectives

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From RCKB to Yanjie, Eileen, Emma, and my mother

From PLS to H.B., and here's hoping for the best for the boys

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Preface

Both of us, independently and jointly, have devoted many years to studying inflation and hyperinflation and analyzing central banking institutions. Indeed, it was our shared interests in these areas that led us to engage in joint research. In 1998, we began to think seriously about whether the incipient deflations in Asia, most notably in China and Japan, amounted to something other than simply the flip side of inflation. It quickly became apparent to us there was, potentially at least, something substantially different about studying an economy in the throes of a deflation. We also decided, early on, that the best way to proceed would be to call upon several interested academics to engage in research that would parallel our own interests, enabling us to provide a much broader perspective on historical and modern experiences with deflation. The end result is the present edited volume. The contributed papers were presented at two major conferences on the topic. One was held in April 2000 at Claremont McKenna College. We also organized a session at the XIIIth International Economic History Congress in Buenos Aires in 2002 that was devoted to deflation.

The rather long gestation period for this project partly reflects the fact that the study of deflation is, in many ways, in its infancy, especially regarding the conduct of monetary policy in such an environment. We were also determined to take the time to hone our ideas through seminar and conference participation, and in other ways to seek out respected colleagues' opinions. We trust that the end product will serve as a useful starting point for academics and policy makers wishing to learn more about the economics of deflation.

Richard Burdekin is very grateful to President Pamela Gann and Dean Bill Ascher of Claremont McKenna for supporting this project and funding the 2000 Claremont Conference on Deflation. He also extends a special

thanks to the many contributors and discussants, who made sometimes very long trips to come to the conference – with Charles Goodhart not only cheerfully enduring the long trip from England but also serving with such aplomb as our dinner keynote speaker. Pierre Siklos thanks Wilfrid Laurier University, the Social Sciences and Humanities Research Council of Canada, and the German-American Academic Council for financial support. He is also grateful for the many invitations received to discuss the issues and to his family for their constant support, even when he was far away or, as he much preferred, when they were able to tag along. Deflation need not be all that bad. However, we hope no one has to go through situations similar to some of the worst deflations studied here.

Both editors are also grateful to Elsie Grogan for her invaluable help in the preparation of the manuscript.