

97th Kieler Konjunkturgespräche | Kiel, 23/24 April 2018
Global Economic Upswing: Priceless – or costly?

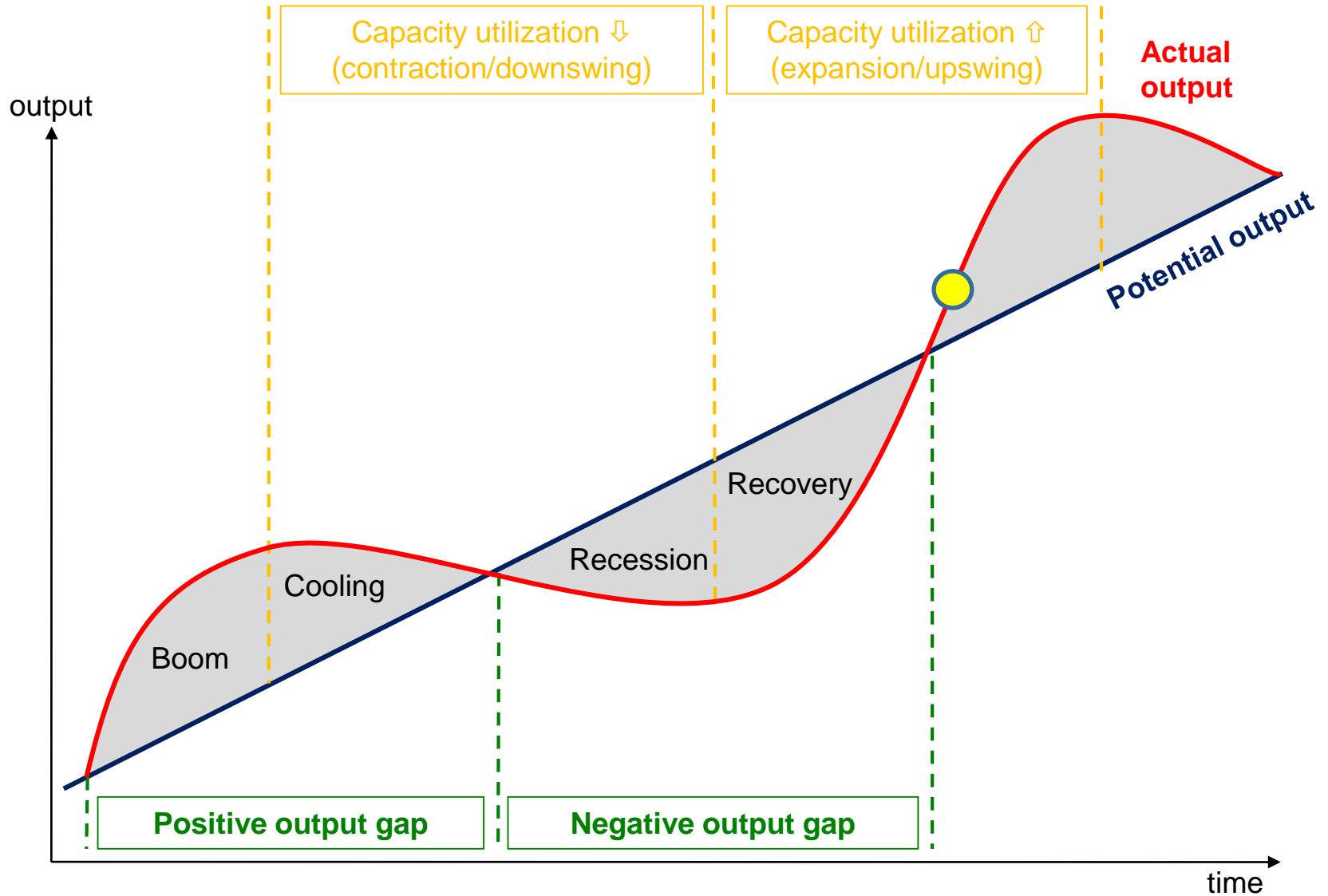
Opening remarks

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Booms come with economic costs
even in the absence of runaway inflation.

The stylized picture: Entering boom territory



Current global upswing:
Not so “priceless” after all.

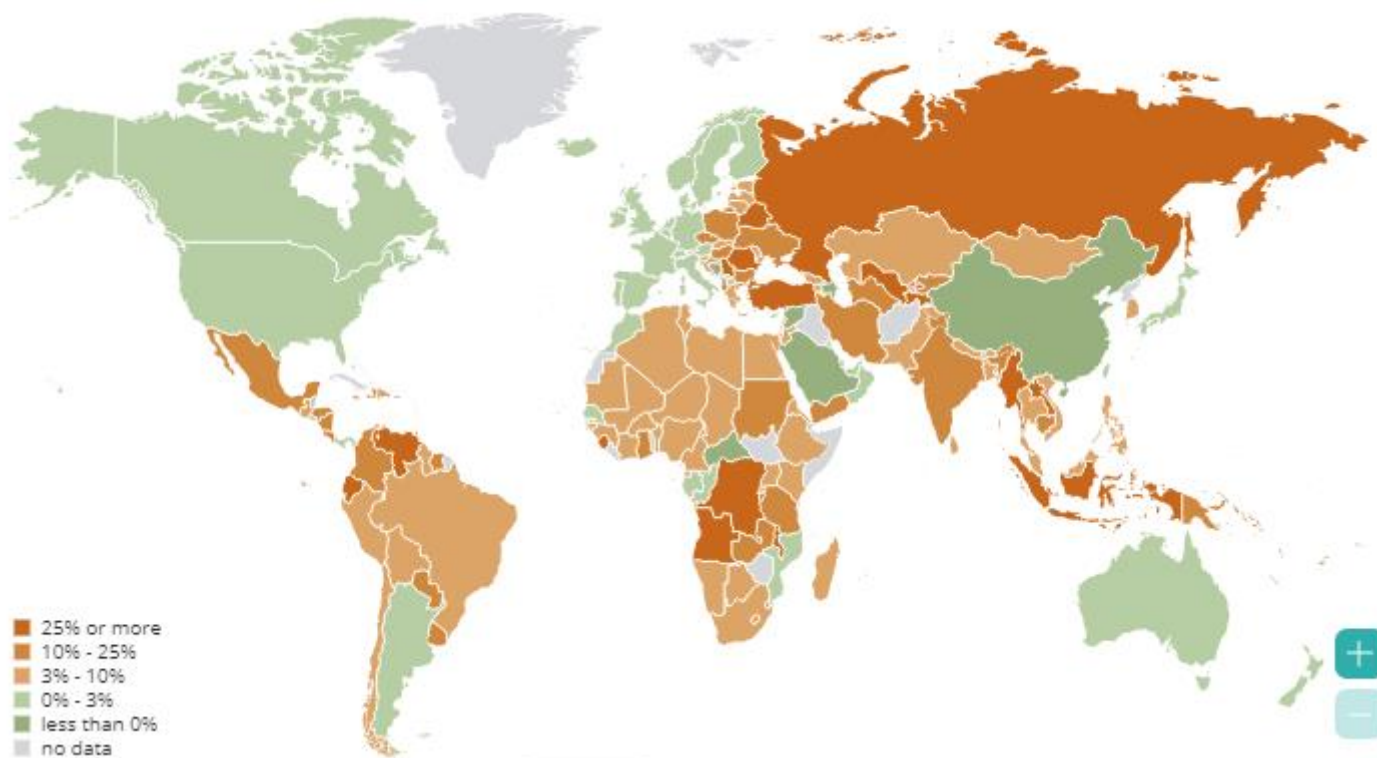
Inflation around the world (1998-2018)

Inflation (CPI) Total, Annual growth rate (%), Feb 1998 – Mar 2018



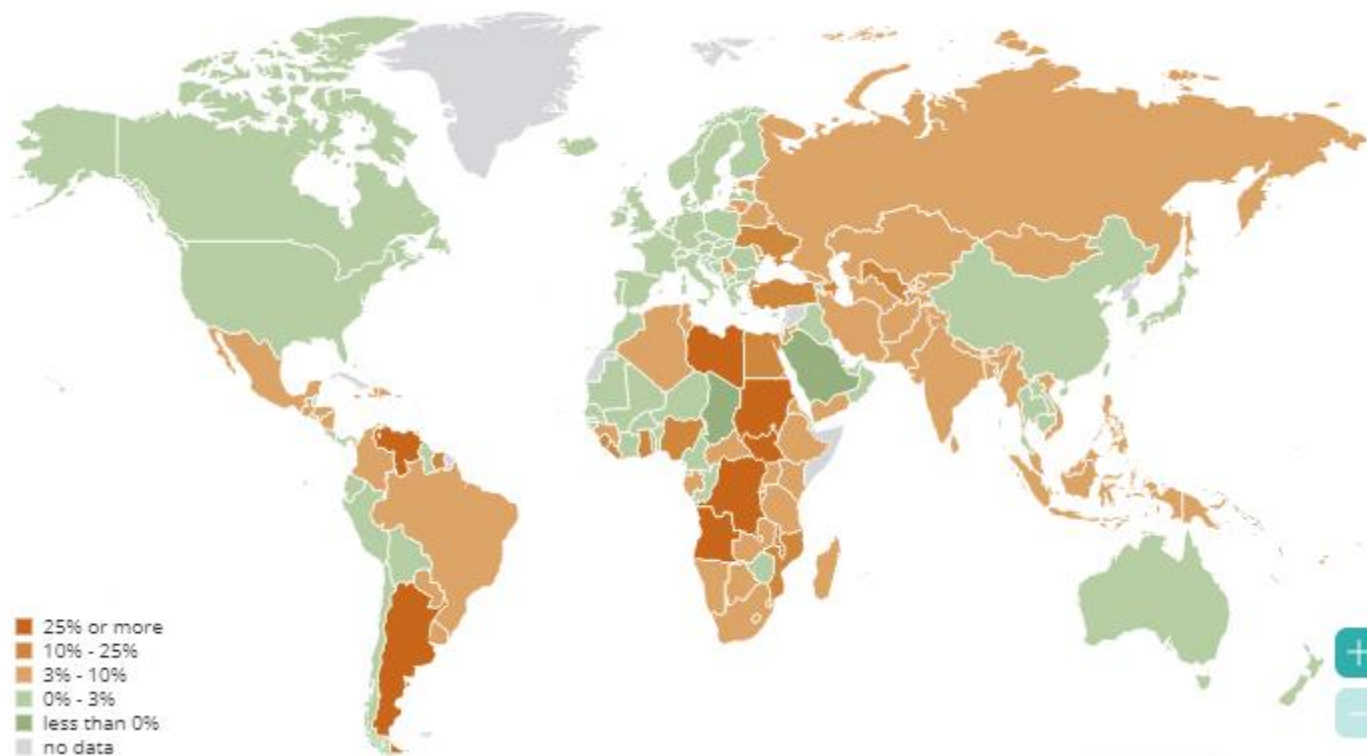
Source: OECD, Main Economic Indicators

Inflation around the world (1998)



Source: IMF, World Economic Outlook

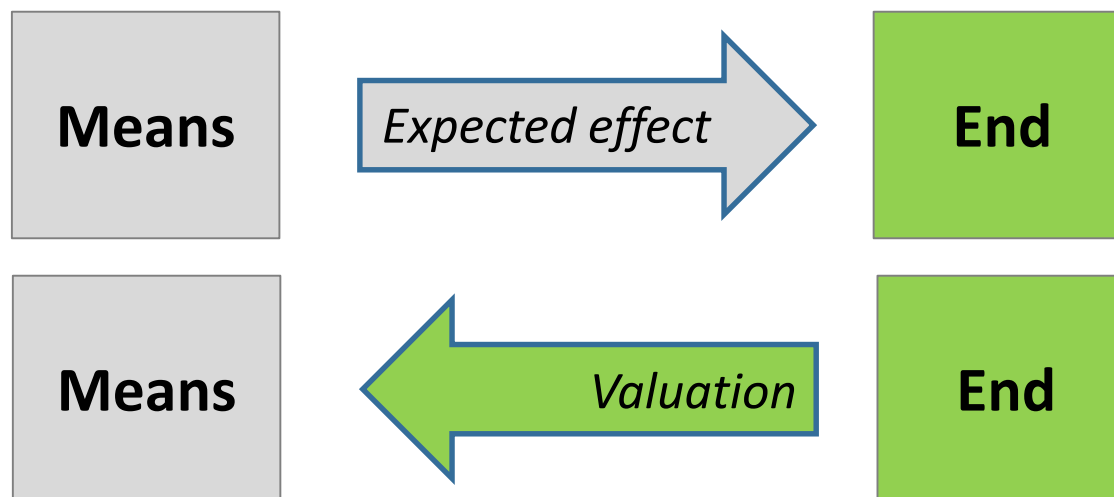
Inflation around the world (2017)



Source: IMF, World Economic Outlook

Why is there so much focus on consumer prices?

Reverse value imputation



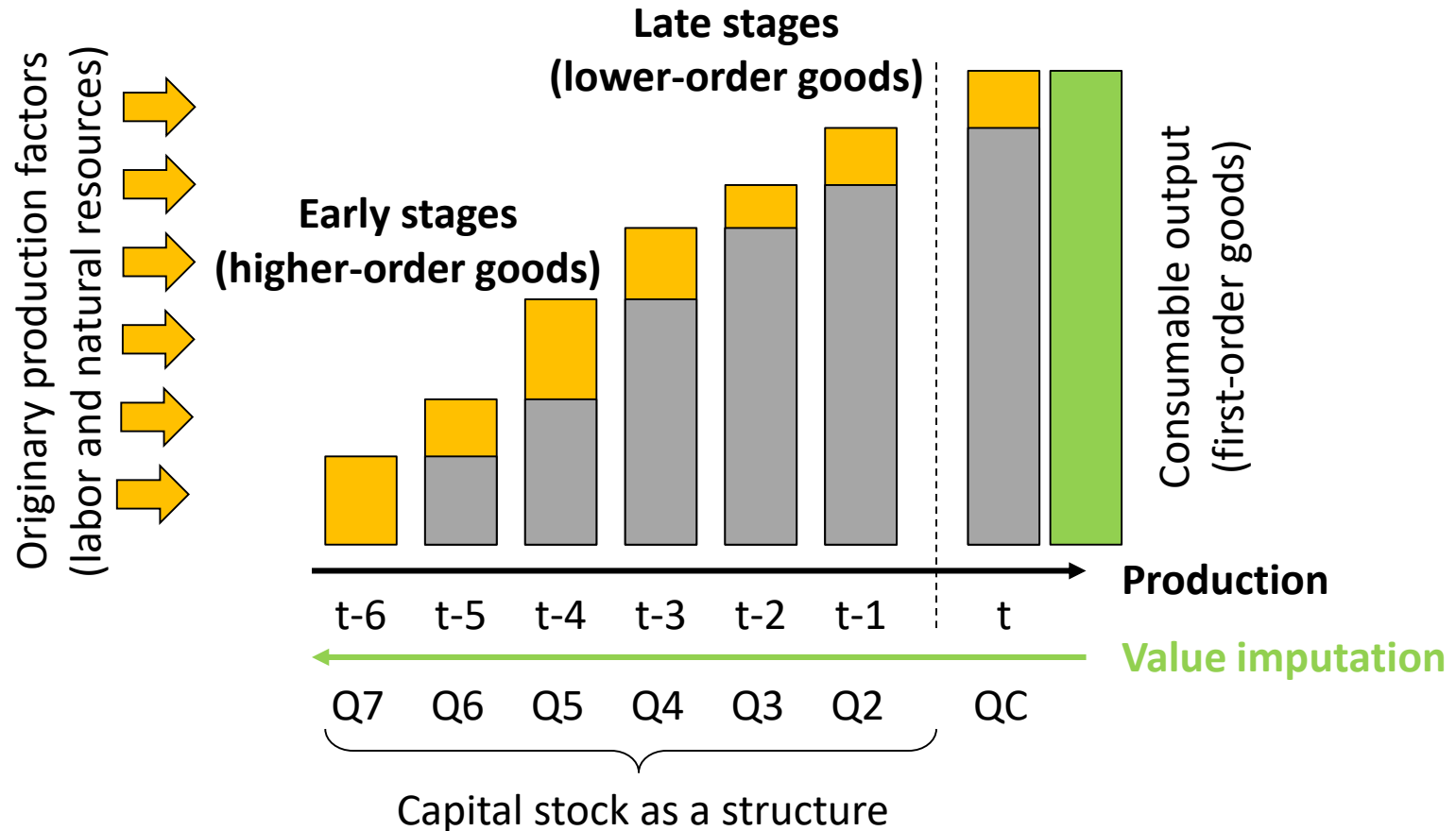
(intertemporal) preferences +
purchasing power (money)

⇒ Wage-price-spirals at full employment hard to substantiate
(without accommodating monetary policy)

Consumption: The ultimate economic end

Source	<i>Macroeconomic goods and services account</i>	Use
Intermediate consumption (production structure)		Intermediate consumption (production structure)
Gross Domestic Product (domestic value added)		Final consumption (exclusive source of value)
		Domestic capital formation
Imports		Exports

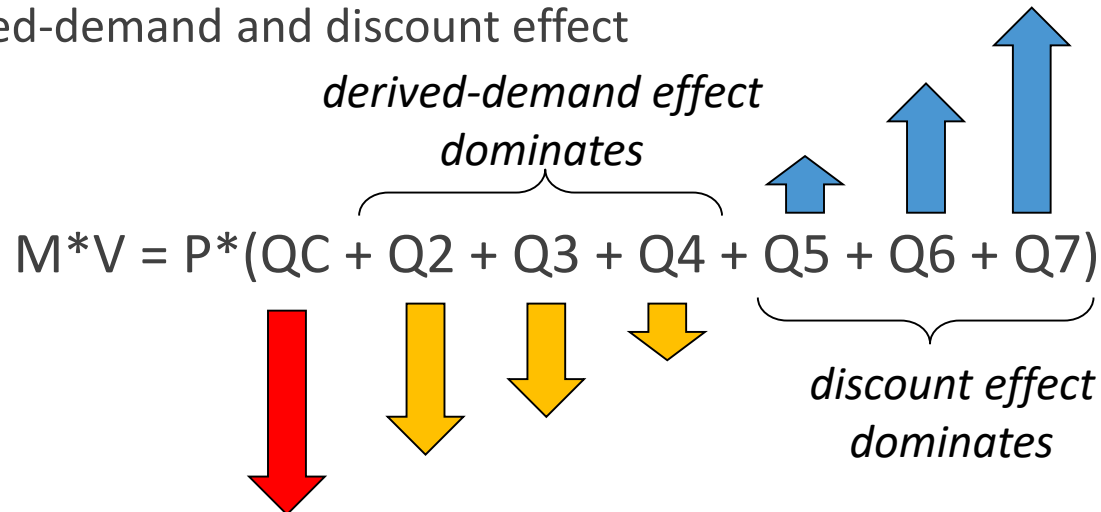
Production as a time consuming, multi-stage process



⇒ **Capital formation: intertemporal intermediate consumption**

- Saving

- » Saving up for something: Future demand, not a leakage
- » Derived-demand and discount effect



- Investment: Stage pattern matters (not volume alone)

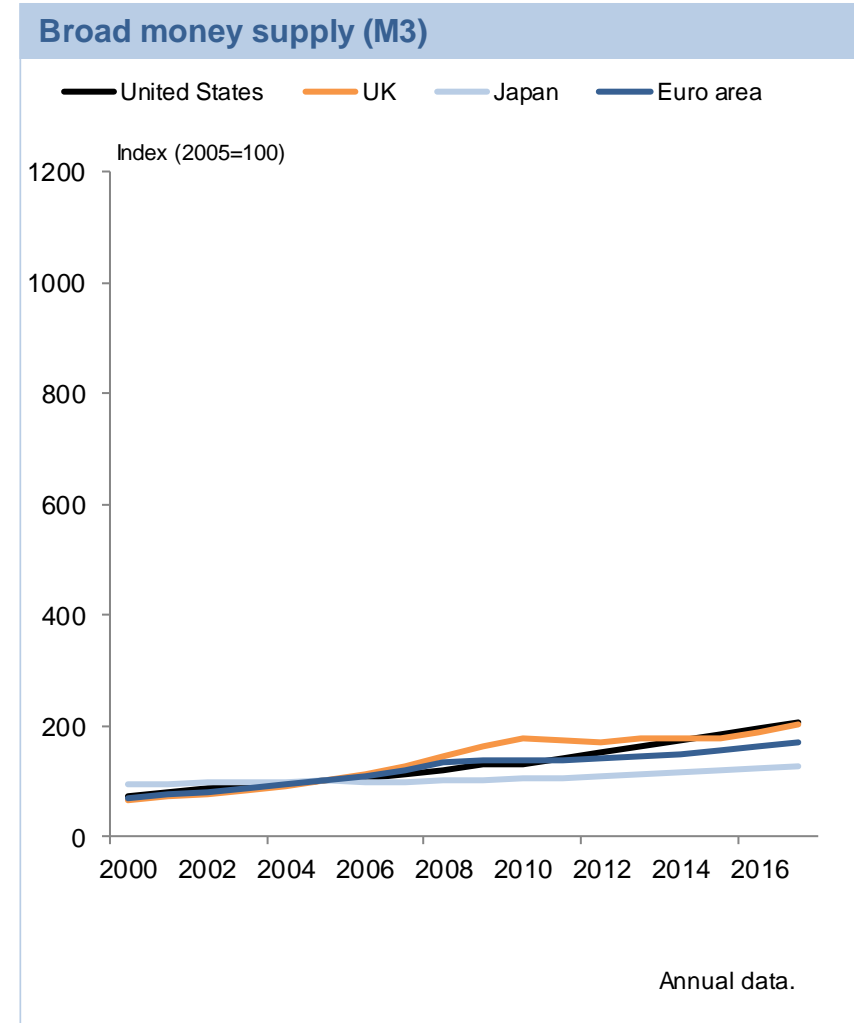
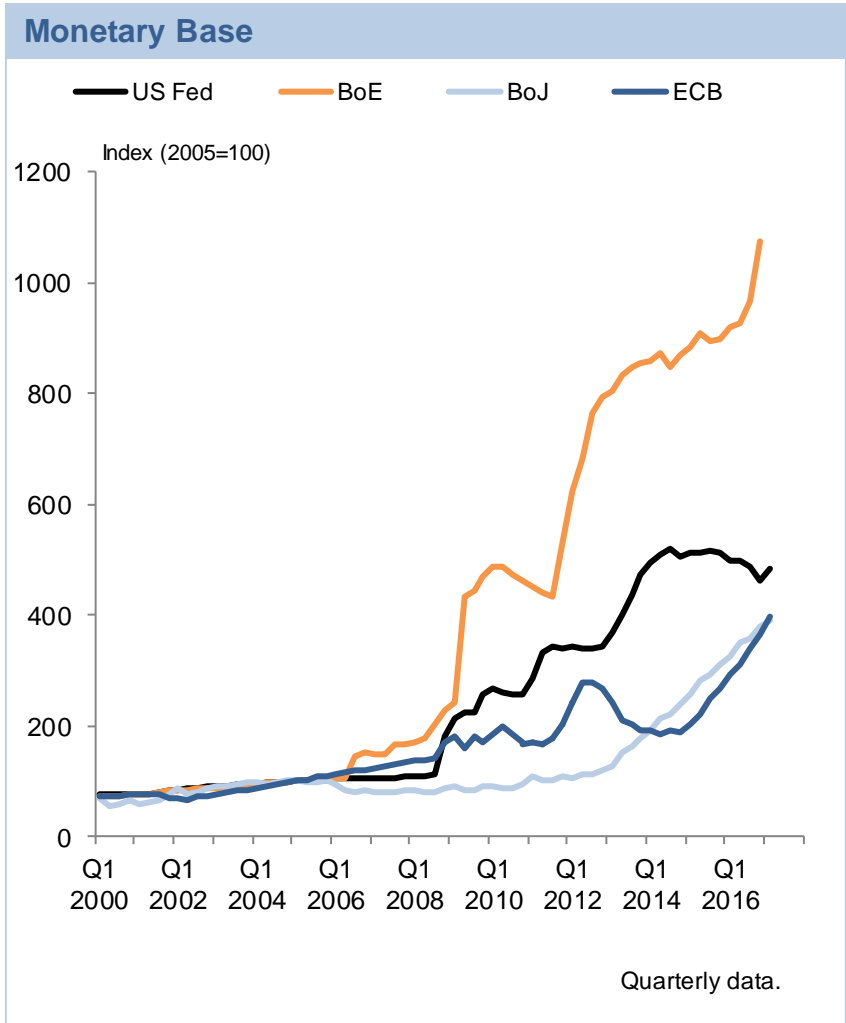
- ⇒ Entrepreneurial challenge: bringing capital structure in line with pure time preference (intertemporal arbitrage)
- ⇒ Monetary policy affects both the price level and the price structure

There are good reasons for preventing consumer prices from
roller-coasting ...

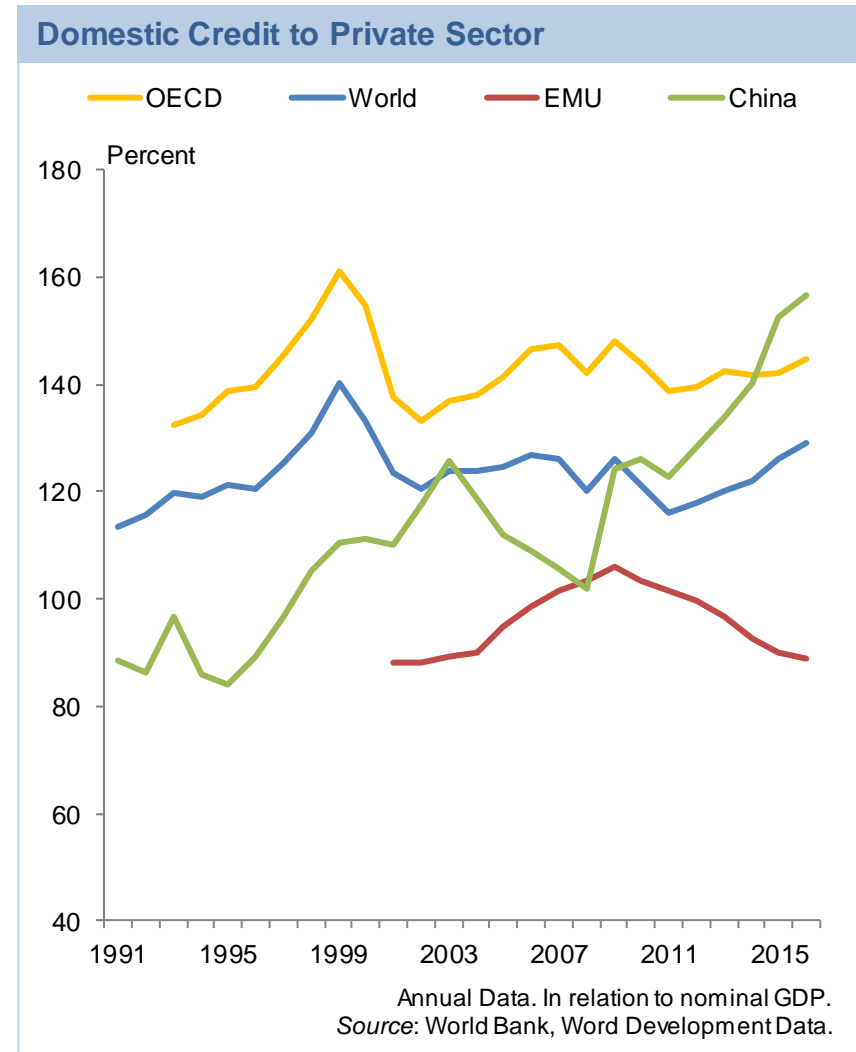
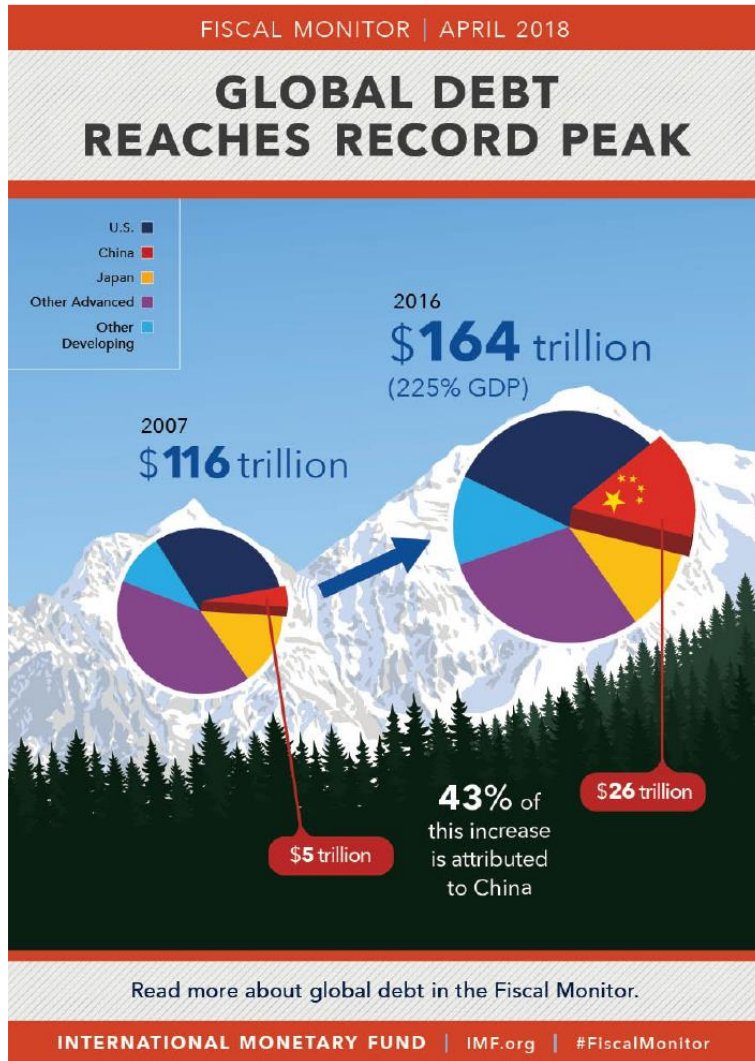
... but sharp inflation targeting might overdo the job.

Inflation is always and everywhere
a monetary phenomenon.

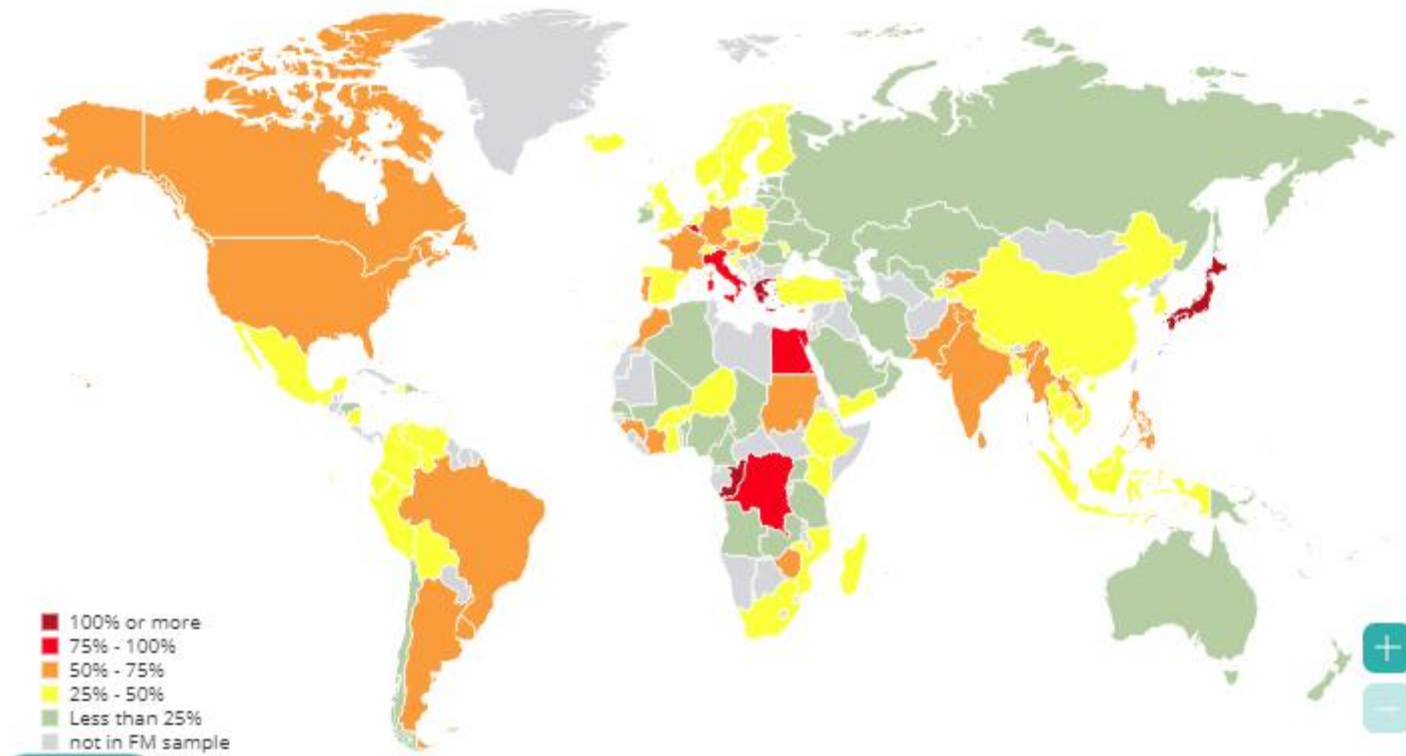
QE around the (Western) globe (so far) not reflected in M3



Elevated public and private debt positions

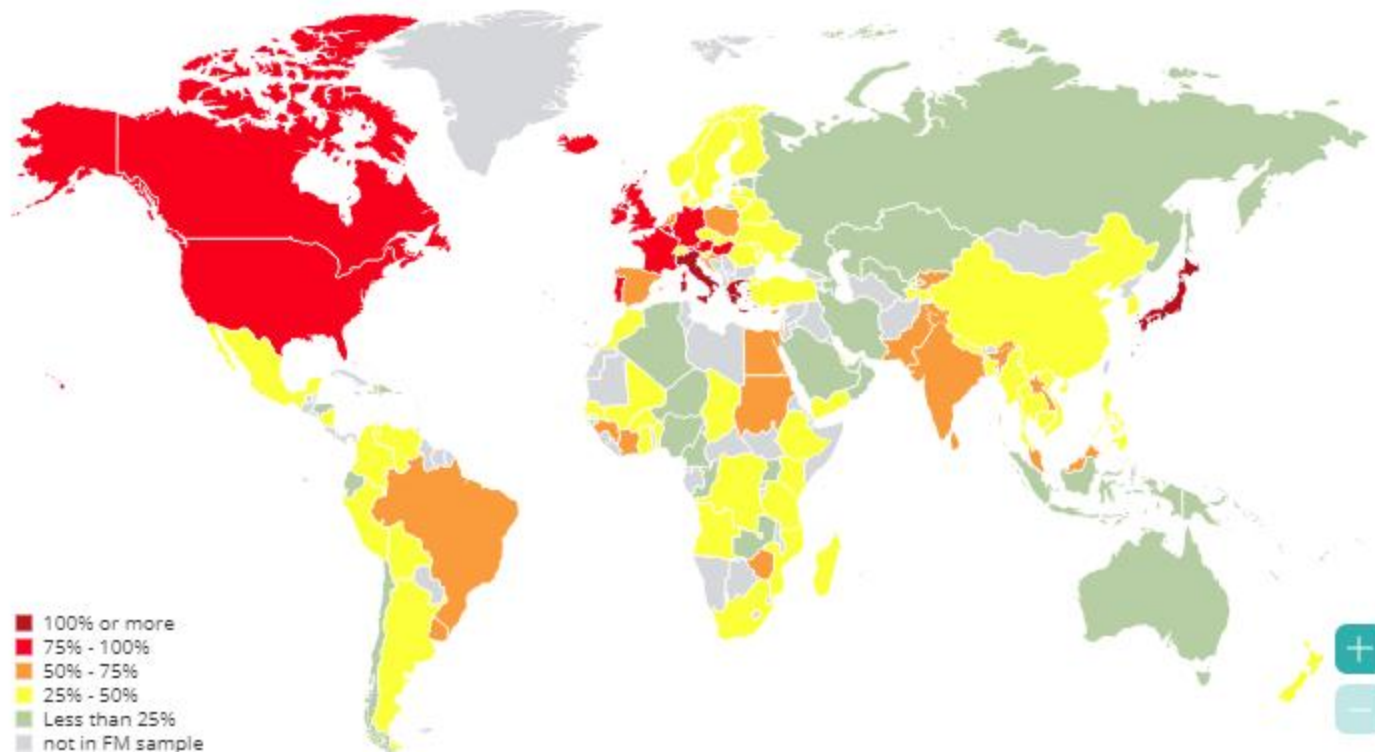


Public debt (2007): Pre-crisis



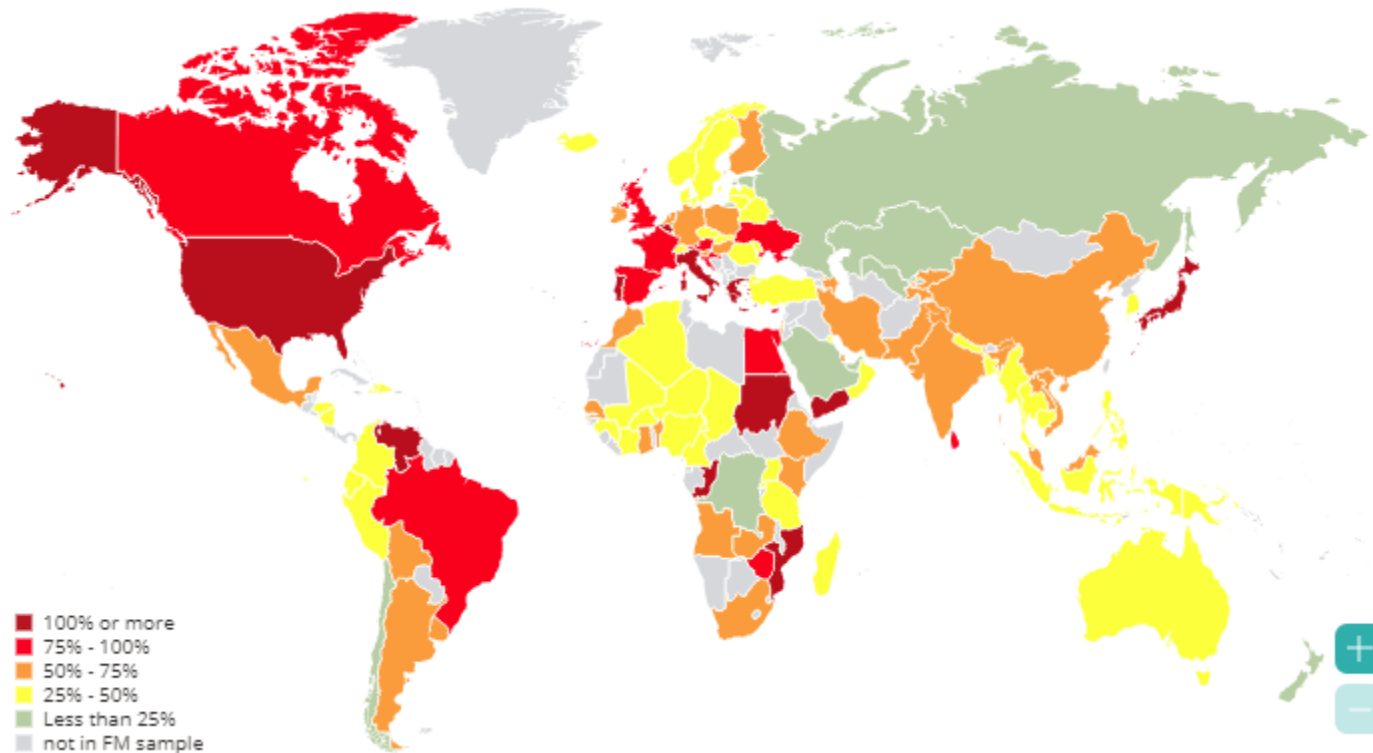
Source: IMF, Fiscal Monitor

Public debt (2010): In-crisis



Source: IMF, Fiscal Monitor

Public debt (2018, IMF projections): Post-crisis?



Source: IMF, Fiscal Monitor

Inflation is always and everywhere
a monetary phenomenon,
but deflation is not.

- Good (healthy) price deflation: Productivity gains
 - » PPM increases due to changes on the real side
 - » Society becomes wealthier
 - » No downward nominal wage pressure
 - ⇒ Originating from commodity side

- Bad (disturbing) price deflation: Shrinking money supply
 - » PPM increases due to changes on the money side
 - » Society does not become wealthier
 - » Downward nominal wage pressure
 - ⇒ Originating from money side

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