

Macro Roundup Article

Headline: [Inflation's Return Changes the World](#)

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Tweet: [.@martinwolf](#) disagrees with [@BIS_org](#) that persistently low rates could have been avoided citing the Bank of Japan's and ECB's failed inflationary experiments in the 1990s and 2010s.

Summary: Where I disagree with the BIS is over whether “low for long” could have been avoided. The Bank of Japan tried in the early 1990s and the European Central Bank in 2011. Both failed. Will what we are now experiencing prove an enduring shift in the monetary environment or just a temporary one? We just do not know. It depends on how far high inflation has been just the product of supply shocks. It depends, too, on whether societies, long unused to inflation, decide that bringing it back down is too painful, as happened in so many countries in the 1970s. It depends, as well, on how far the fragmentation of the world economy has permanently lowered elasticities of supply. It depends not least on whether the era of ultra-low real interest rates is over. If it is not, this could indeed be a blip. If it is, then significant stresses lie ahead, as higher real interest rates make current levels of indebtedness hard to sustain. Related: Annual Economic Report and The Future of Interest Rates Is a Riddle

Primary Topic: Business Cycle

Topics: Business Cycle, GDP, Inflation, Op-Ed/Blog Post

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