This volume presents the latest thoughts of a brilliant group of young economists on one of the most persistent economic problems facing the United States and the world, inflation. Rather than attempting an encyclopedic effort or offering specific policy recommendations, the contributors have emphasized the diagnosis of problems and the description of events that economists most thoroughly understand. Reflecting a dozen diverse views—many of which challenge established orthodoxy—they illuminate the economic and political processes involved in this important issue.

The papers form four general categories. Two papers explore the central question of what would happen to output and employment if inflation were brought to an end. These papers reach dramatically different conclusions. Two others investigate the types of changes in economic institutions that might contribute to limiting inflation. Eight of the papers examine how inflation has changed the economy, reporting on such areas as the private pension system, the character of certain types of markets, the joint effects of inflation and the tax system on incentives for capital accumulation, and the relation between monetary instability, inflation, and the international value of the dollar. Finally, one paper examines the volatility of inflation in the 1970s and its relation to shocks in the energy and food markets.

Among the challenging conclusions reached in Inflation are Thomas J. Sargent’s contention that the fight against inflation need not involve an extended depression; Robert E. Hall’s conclusions that the purposes of the gold standard could be better met if a set of commodities other than gold lay behind the (Continued on back flap)
Inflation
A National Bureau of Economic Research Project Report
ROBERT E. HALL is professor in the Department of Economics and Senior Fellow of the Hoover Institution, Stanford University. He also serves as director of the Research Program on Economic Fluctuations and the Project on Inflation of the National Bureau of Economic Research and as chairman of the NBER's Business Cycle Dating Group.
National Bureau of Economic Research

Officers
Eli Shapiro, chairman
Franklin A. Lindsay, vice-chairman
Martin Feldstein, president
David G. Hartman, executive director
Charles A. Walworth, treasurer
Sam Parker, director of finance and administration

Directors at Large
Moses Abramovitz
George E. Conklin, Jr.
Morton Ehrlich
Martin Feldstein
Edward L. Ginzton
David L. Grove
Walter W. Heller
Franklin A. Lindsay
Roy E. Moor
Geoffrey H. Moore
Michael H. Moskow
James J. O'Leary
Peter G. Peterson
Robert V. Roosa

Directors by University Appointment
Charles H. Berry, Princeton
Otto Eckstein, Harvard
Walter D. Fisher, Northwestern
J. C. LaForce, California, Los Angeles
Paul McCracken, Michigan
Daniel McFadden, Massachusetts Institute of Technology
Almarin Phillips, Pennsylvania

Directors by Appointment of Other Organizations
Carl F. Christ, American Economic Association
Robert C. Holland, Committee for Economic Development
Stephan F. Kaliski, Canadian Economics Association
Albert G. Matamoros, National Association of Business Economists
Douglas C. North, Economic History Association

Rudolph A. Oswald, American Federation of Labor and Congress of Industrial Organizations
Joel Popkin, American Statistical Association
G. Edward Schuh, American Agricultural Economics Association
Albert Sommers, The Conference Board
James C. Van Horne, American Finance Association

Directors Emeriti
Arthur Burns
Emilio G. Collado
Solomon Fabricant
Frank Fetter

Thomas D. Flynn
Gottfried Haberler
Albert J. Hettinger, Jr.
George B. Roberts

Murray Shields
Boris Shishkin
Willard L. Thorp
Theodore O. Yntema
Relation of the Directors to the Work and Publications of the National Bureau of Economic Research

1. The object of the National Bureau of Economic Research is to ascertain and to present to the public important economic facts and their interpretation in a scientific and impartial manner. The Board of Directors is charged with the responsibility of ensuring that the work of the National Bureau is carried on in strict conformity with this object.

2. The President of the National Bureau shall submit to the Board of Directors, or to its Executive Committee, for their formal adoption all specific proposals for research to be instituted.

3. No research report shall be published by the National Bureau until the President has notified each member of the Board of Directors that a manuscript is recommended for publication and that in the President's opinion it is suitable for publication in accordance with the principles of the National Bureau. Such notification will include an abstract or summary of the manuscript's content and a response form for use by those Directors who desire a copy of the manuscript for review. Each manuscript shall contain a summary drawing attention to the nature and treatment of the problem studied, the character of the data and their utilization in the report, and the main conclusions reached.

4. For each manuscript so submitted, a special committee of the Directors (including Directors Emeriti) shall be appointed by majority agreement of the President and Vice Presidents (or by the Executive Committee in case of inability to decide on the part of the President and Vice Presidents), consisting of three Directors selected as nearly as may be one from each general division of the Board. The names of the special manuscript committee shall be stated to each Director when notice of the proposed publication is submitted to him. It shall be the duty of each member of the special manuscript committee to read the manuscript. If each member of the manuscript committee signifies his approval within thirty days of the transmittal of the manuscript, the report may be published. If at the end of that period any member of the manuscript committee withholds his approval, the President shall then notify each member of the Board, requesting approval or disapproval of publication, and thirty days additional shall be granted for this purpose. The manuscript shall then not be published unless at least a majority of the entire Board who shall have voted on the proposal within the time fixed for the receipt of votes shall have approved.

5. No manuscript may be published, though approved by each member of the special manuscript committee, until forty-five days have elapsed from the transmittal of the report in manuscript form. The interval is allowed for the receipt of any memorandum of dissent or reservation, together with a brief statement of his reasons, that any member may wish to express; and such memorandum of dissent or reservation shall be published with the manuscript if he so desires. Publication does not, however, imply that each member of the Board has read the manuscript, or that either members of the Board in general or the special committee have passed on its validity in every detail.

6. Publications of the National Bureau issued for informational purposes concerning the work of the Bureau and its staff, or issued to inform the public of activities of Bureau staff, and volumes issued as a result of various conferences involving the National Bureau shall contain a specific disclaimer noting that such publication has not passed through the normal review procedures required in this resolution. The Executive Committee of the Board is charged with review of all such publications from time to time to ensure that they do not take on the character of formal research reports of the National Bureau, requiring formal Board approval.

7. Unless otherwise determined by the Board or exempted by the terms of paragraph 6, a copy of this resolution shall be printed in each National Bureau publication.

(Resolution adopted October 25, 1926, as revised through September 30, 1974)
## Contents

<table>
<thead>
<tr>
<th>Acknowledgments</th>
<th>ix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction <em>Robert E. Hall</em></td>
<td>1</td>
</tr>
<tr>
<td><strong>1.</strong> Why Stopping Inflation May Be Costly: Evidence from Fourteen Historical Episodes</td>
<td>11</td>
</tr>
<tr>
<td>Robert J. Gordon</td>
<td></td>
</tr>
<tr>
<td><strong>2.</strong> The Ends of Four Big Inflations</td>
<td>41</td>
</tr>
<tr>
<td>Thomas J. Sargent</td>
<td></td>
</tr>
<tr>
<td><strong>3.</strong> United States Inflation and the Choice of Monetary Standard</td>
<td>99</td>
</tr>
<tr>
<td>Robert J. Barro</td>
<td></td>
</tr>
<tr>
<td><strong>4.</strong> Explorations in the Gold Standard and Related Policies for Stabilizing the Dollar</td>
<td>111</td>
</tr>
<tr>
<td>Robert E. Hall</td>
<td></td>
</tr>
<tr>
<td><strong>5.</strong> The Effect of Inflation on the Private Pension System</td>
<td>123</td>
</tr>
<tr>
<td>Jeremy I. Bulow</td>
<td></td>
</tr>
<tr>
<td><strong>6.</strong> The Disruptive Effect of Inflation on the Organization of Markets</td>
<td>139</td>
</tr>
<tr>
<td>Dennis W. Carlton</td>
<td></td>
</tr>
<tr>
<td><strong>7.</strong> Inflation, Capital Taxation, and Monetary Policy</td>
<td>153</td>
</tr>
<tr>
<td>Martin Feldstein</td>
<td></td>
</tr>
</tbody>
</table>
8. Adapting to Inflation in the United States Economy  
   Stanley Fischer

9. United States Inflation and the Dollar  
   Jacob A. Frenkel

10. Public Concern about Inflation and Unemployment in the United States: Trends, Correlates, and Political Implications  
    Douglas A. Hibbs, Jr.

11. Inflation, Corporate Profits, and the Rate of Return to Capital  
    Jeremy I. Bulow and John B. Shoven

12. The Anatomy of Double-Digit Inflation in the 1970s  
    Alan S. Blinder

   List of Contributors

   Author Index

   Subject Index
The National Bureau of Economic Research's Project on Inflation was supported by the National Science Foundation. We are grateful to Louise Sherman for administrative help in all aspects of the project and in the preparation of this volume.

Robert E. Hall