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Volume Title: The International Transmission of Inflation

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Volume Publisher: University of Chicago Press

Volume ISBN: 0-226-13641-8

Volume URL: <http://www.nber.org/books/darb83-1>

Publication Date: 1983

Chapter Title: Preface

Chapter Author: Michael R. Darby, James R. Lothian

Chapter URL: <http://www.nber.org/chapters/c6120>

Chapter pages in book: (p. -3 - 0)

Preface

In the spring of 1975 the industrialized world was in the midst of its second consecutive year of double-digit inflation, for most countries the highest rates of price increase at any time during the post-World War II period. Anna Schwartz and Michael Darby, dissatisfied with many of the explanations then being advanced for this increase in inflation and with the dearth of hard empirical evidence to support them, decided to organize a project to study the international inflation process. At the time both were at the National Bureau of Economic Research, then at its old location in New York. Darby, however, was slated to return to UCLA the coming fall. Two research teams were therefore to be formed: one based at the Bureau in New York, the other at UCLA. Jim Lothian joined the first effort; Ben Klein, the second.

In autumn 1976, the project began; close to five years later it ended when the final draft of this volume was completed in spring 1981. During that interval, two important developments occurred in personnel. The composition of the researchers in the group changed: Klein completed work on central bank reaction functions and decided to direct his research to other areas of economics; Alan Stockman, then at UCLA, took his place; and Arthur Gandolfi, of Citibank, came on in New York. In addition, the graduate students who started out as research assistants on the project matured intellectually and went on to make their own independent contributions to research on the international inflation topic. Besides the papers by Daniel Laskar, Dan Lee, and Mike Melvin, all derived from doctoral dissertations at UCLA and included in this volume, the project gave rise to dissertations by four other individuals: John Price at UCLA, Anthony Cassese and Nurhan Helvacian at the Graduate Center of the City University of New York, and Robert Greenfield at Rutgers University. We consider their successes no small

part of the benefits of the project and take some pride of our own in their accomplishments.

As originally conceived, the project was to accomplish two goals: the construction of a consistent and temporally comprehensive data base for the eight major industrial countries we wished to study; and estimation of a theoretically sound simultaneous model that we could use to test and otherwise evaluate competing hypotheses about the genesis and spread of inflation internationally.

The project accomplished both goals. The four chapters that describe the work done in these areas, however, make up less than a quarter of the volume. Excluding the introductory and concluding chapters, there are eleven additional chapters that complement the core of the study, both in the range of issues covered and in the methods of investigation employed. Given this complementarity and the corroborative nature of much of the resultant evidence we feel that the study is of considerably greater value than it would have been had we and our colleagues stuck to our original plan. We trust that the readers will therefore be better able to calibrate their own internal probability calculators when evaluating our conclusions.

Before closing we wish to acknowledge those individuals and organizations that in one way or another assisted the project. Were we to list all of them here, the litany would seem virtually endless. Many individuals, however, have already been cited both in the individual chapters and in the Data Appendix.

The major source of direct funding for the project was the National Science Foundation. Scaife Family Charitable Trust, the Alex C. Walker Educational and Charitable Foundation, and the Relm Foundation also generously supported our efforts. In addition, Citibank, N.A., in an arrangement that to our knowledge is unique, donated one day per week of Lothian's time for the full period of the project's life and one day a week of Gandolfi's time during the period of his involvement. Leif H. Olsen, Harold van B. Cleveland, and Peter H. Crawford, who initiated and supported this arrangement, deserve special thanks.

We also are grateful to our advisory panel. The members of this panel at various times during the life of the project were Sven Arndt, Michael Hamburger, Robert Heller, Donald Matthieson, Paul Craig Roberts, Guy Stevens, Henry Wallich, and Robert Weintraub. The role of this group was to counsel us on the relevant questions to be investigated and to receive and comment critically on our interim results. The members of the panel have performed these functions exceedingly well. Their approval of, or concurrence in, our results or conclusions, however, ought not be supposed. Indeed some members of the board have been frank in their sharp disagreement with certain of our methods and inferences.

We owe a special debt to the secretaries and research assistants who helped both of us in the course of our compiling various papers into a coherent whole and seeing the final manuscript through publication. Donna Bettini in New York and Henrietta Reason and Carole Wilbur did excellent jobs of typing a particularly difficult manuscript. Cornelia McCarthy did and does provide excellent research assistance in New York. Linda Dunn and Laura Nowak also were of great assistance before going into business and completing the Ph.D. degree, respectively. Andrew A. Vogel was a tower of strength in completing the Mark III and Mark IV estimations and simulations and is currently pursuing his doctoral studies. M. Holly Crawford did much of the preliminary work on these models before being lured away from economics by the astonishingly greener pastures of a successful career as an artist. Marilou J. Uy prepared the index. The project could never have been finished without such congenial co-workers.

Michael R. Darby and James R. Lothian

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