Volume Title: The Costs and Benefits of Price Stability

Volume Author/Editor: Martin Feldstein, editor

Volume Publisher: University of Chicago Press

Volume ISBN: 0-226-24099-1

Volume URL: http://www.nber.org/books/feld99-1

Publication Date: January 1999

Chapter Title: Front matter,"The Costs and Benefits of Price Stability"

Chapter Author: Martin S. Feldstein

Chapter URL: http://www.nber.org/chapters/c7768

Chapter pages in book: (p. -12 - 0)

NATIONAL BUREAU OF ECONOMIC RESEARCH

The Costs and Benefits of Price Stability

Edited by
Martin Feldstein

This Page Intentionally Left Blank

The Costs and Benefits of Price Stability

A National Bureau
of Economic Research
Conference Report

The Costs and Benefits of Price Stability

Edited by Martin Feldstein

The University of Chicago Press

Chicago and London

Martin Feldstein is the George F. Baker Professor of Economics at Harvard University and president of the National Bureau of Economic Research.

The University of Chicago Press, Chicago 60637
The University of Chicago Press, Ltd., London

08 07 06 05 04 03 02 01 00 99 1 2 3 4 5
ISBN: 0-226-24099-1 (cloth)

Library of Congress Cataloging-in-Publication Data

The costs and benefits of price stability / edited by Martin Feldstein.
p. cm.—(A National Bureau of Economic Research conference report)
Papers presented at an NBER conference held at the Federal Reserve Bank of New York on Feb. 20–21, 1997.
Includes bibliographical references and index.
ISBN 0-226-24099-1 (cloth : alk. paper)
1. Prices—Government policy—Congresses. 2. Price regulation—Congresses. 3. Monetary policy—Congresses. 4. Inflation (Finance)—Congresses. I. Feldstein, Martin S. II. Series: Conference report (National Bureau of Economic Research)
HB236.A3 C63 1999
338.5'26—dc21 98-43630
CIP

Since this volume is a record of conference proceedings, it has been exempted from the rules governing critical review of manuscripts by the Board of Directors of the National Bureau (resolution adopted 8 June 1948, as revised 21 November 1949 and 20 April 1968).

This Page Intentionally Left Blank

Contents

Preface

The success of the Federal Reserve and other countries' central banks during the past decade in lowering inflation to less than 3 percent in virtually every major industrial country now focuses attention on the appropriate monetary policy in a low-inflation environment. While there is widespread agreement within the economics profession and among policy officials that monetary policy should not permit the kinds of high inflation that characterized the 1970s in the United States and in many other industrial countries, there is much less agreement about the right long-run goal for monetary policy, about the price that a nation should be willing to pay to achieve that goal, and about the short-run actions to be taken in pursuit of that goal.

This volume is a research contribution to that ongoing discussion. It contains the papers prepared for an NBER project on the costs and benefits of going from the existing low rate of inflation to full price stability. The starting point for this project was a paper that I wrote for an earlier NBER project on inflation organized by Christina Romer and David Romer (chap. 3 in *Reducing Inflation: Motivation and Strategy,* ed. C. Romer and D. Romer [Chicago: University of Chicago Press, 1997]). That paper developed a framework for calculating the gains in economic welfare associated with going from 2 percent inflation to price stability and comparing those gains with the cost of disinflation.

An unusual feature of the current project was the decision to replicate the same analysis of the costs and benefits of reducing inflation in three other countries: Germany, Spain, and the United Kingdom. The central banks of each of those countries collaborated in the study with members of their staffs preparing the three country studies. I am grateful to those researchers and to the directors of economics at the central banks (Ottmar Issing of the Deutsche Bundesbank, José Viñals of the Bank of Spain, and Mervyn King of the Bank of England) for their interest and participation in this project. The researchers met at the NBER during the project to review the details of the analysis and the specific assumptions that are needed to implement the comparative analysis in the separate countries. We were joined by Mihir Desai (Harvard University), Liam Ebrill (World Bank), James Hines (University of Michigan and NBER), Glenn Hubbard (Columbia University and NBER), Erzo Luttmer (Harvard University), and Torsten Persson (Stockholm). The discussions in this group also modified the framework developed in my earlier paper and helped to shape the research presented in the chapters in this volume by Desai and Hines and by Cohen, Hassett, and Hubbard.

The research papers were presented and discussed at an NBER conference held at the New York Federal Reserve Bank on 20–21 February 1997. The conference brought together a mixture of macroeconomists and public finance specialists with the expertise needed to discuss these complex issues on the border between macroeconomics, taxation, and welfare economics. The volume contains the discussants' prepared remarks and a brief summary of the general discussion of each paper prepared by Erzo Luttmer, a graduate student at Harvard.

I am grateful to Frederic Mishkin, then chief economist of the New York Federal Reserve Bank, and to William McDonough, president of the New York Federal Reserve Bank, for agreeing to host the conference at the New York Federal Reserve and for their participation in the conference itself.

Kirsten Foss Davis and the members of her conference department at the NBER provided their usual expert services in advance of the New York meeting. The staff of the New York Federal Reserve Bank provided excellent facilities and services. Norma MacKenzie in my office and Deborah Kiernan of the NBER publications department have guided the manuscript of this book. I am grateful to all of them.

Martin Feldstein