

Opening Remarks for Jerry Jordan's
Address to the Cleveland Foreign Consular Corps

2/9/93

- BACKGROUND:** Event is one of regular monthly luncheons of the Foreign Consular Corps, which is comprised of Consuls or Consuls General of 19 countries with representatives in Greater Cleveland.
- TIME:** Lunch at noon, speaker begins at 1 p.m. and speaks for about 20 minutes, followed by Q&A.
- PLACE:** Ritz-Carlton Hotel, Director's Room, 7th floor
- INTRODUCTION:** Ivan L. Miller, Honorary Consul of Belgium

Thank you, Ivan. It's a pleasure to be here today to address this distinguished group.

The subject of my remarks today is inflation in the American economy. That might seem a bit unusual, as inflation hasn't been much in the news lately. When it does get mentioned, it's only to say that it hasn't been much of a problem lately, and it's not expected to become one in the near future.

And yet, there is considerable evidence that American corporations, as well as the general public, are still wary of inflation. Consumers are refinancing home mortgages at fixed interested rates that will be high real rates unless the inflation rate rises.

Similarly, corporations are borrowing long-term money at real rates that will be high unless the rate of inflation rises.

At one time in the not-too-distant past, the expectations of

Americans regarding inflation were of little interest to the rest of the world. But not any more. The economies of the world's nations, particularly the industrialized nations, are so intertwined that developments in one can profoundly affect everyone else.

Consider what happened just last fall when the German Bundesbank, striving to keep inflation in check in the wake of unification, declined to lower interest rates. The effects were felt immediately, causing several other European nations to withdraw from the Exchange Rate Mechanism.

More ominously, many analysts fear that if hyperinflation continues in Russia and the other former nations of the U.S.S.R. for an extended period, it will lead to the return of an authoritarian form of government, with potentially grave consequences for Russian-American relations.

Clearly, no economic trend or development can occur in isolation anymore. What Americans think will happen in regard to inflation has the possibility for profound repercussions everywhere. So what I'd like to discuss today is Americans' expectations about inflation, and how those expectations hamper economic performance. (pick up Page 2, Roman Numeral II, "Skepticism about the Direction of Inflation: Causes, Costs, and Cures.")