JJ Speech 2/28/94 C.B.E.C.

Topic "Fundamental Disagreements about Policy."

Topic
~~not~~ not monetary policy
not ecory
but language we use

- much misunderstanding - newspaper headlines

Money is a stock
Credit is a flow
} increases in demand go in opposite direction

Fiscal policy discussion is getting better

fiscal policy multiplier has been reversed in minds of public

Tobin: restrictive fiscal policy is stimulative

Visualize Price Stability

Hawks vs Doves is false dichotomy

WSJ articles opposite of editorials

1919 Keynes quote "debauch the currency"

2 frameworks:

① AD - AS

adjust AD to match AS
jiggle demand to match supply

② supply and demand for money balances
jiggle supply to match demand

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demand mgt is a mistake - it is a stagnation thesis -- it leads to pump priming → leads to false cause of inflation → leads to false dictatorship

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growth doesn't lead to inflation
(comes from demand mgt framework

Japan
- problems are its institutions
  - mercantilism
  need to restructure away from export emphasis.
  need political reform
  need reform of distribution system

How close does Bd & Governor work with Admin?
- better than under Bush

Pressure from Congress
choose between unemployment & inflation
- reject that premise, so reject the criticism
what would be different if we changed the institutions -

If people expect purchasing power stability of currency -- this maximizes real growth

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Ken Maylard - Feb 4 FFT
- won't answer

Mexico
Nafta - importing the rule of law

Russia
- study Argentina and don't repeat their mistakes