

KRAUSE, L. B., and SALANT, W. S.

Worldwide Inflation – Theory and Experience

Brookings Institution, Washington D.C. 1977, 686 pp., \$19.95

During the current decade inflation has become a major concern of the western nations while the communist economies, partially protected by their relative segregation from the non-communist economies, have also suffered some degree of inflation. This publication – prepared during the years of exceptionally high inflation (1974-75) – is concerned primarily with the problems of the major western powers, with the problems facing the smaller nations of the free world, and particularly with the problem of the transmission of inflation from one nation to another.

It is significant to observe that during the years of peak inflation, fixed exchange rates facilitated the rapid transmission of this disturbing phenomenon from one country to another, and that the introduction of floating exchange rates was followed by a world-wide decline of the rate of inflation – though a direct causal connection between fixed exchange rates and the rapid spread of inflation might still be contested by many economists. Indeed, Walter S. Salant sketches a “supra-national” policy for the control of worldwide inflation (on the assumption that fixed exchange rates would prevail into the future) in what may be regarded as a step towards the introduction of a single, universal worldwide currency. In the event, however, inflation has led many governments to abandon fixed rates of currency exchange.

Although it may be argued that many governments prefer to permit limited inflation as a means of stimulating the economy, subsidizing government spending (through concealed inflation-taxation), and reducing the interest-burden on the public debt, excessive inflation proves too disruptive – and is too unpopular with the electorate – to be tolerated by any democratic government which is interested in its own survival. As a result, many economists believe that a continuation of the present rates of inflation in the U.S.A. and other major trading countries may force more nations to adopt protectionist policies.



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