

# The Problem of Disinflation

By Stanley Fischer\*

The paper examines the benefits and costs of disinflation, deals with the factors determining these costs and examines what can be done to prevent resurgence of inflation.

The successful United States disinflation from CPI inflation rates in excess of 18% a year in the first quarter of 1980 to the 5% rate in the first quarter of 1984 shows the power of a determined monetary policy, even in the face of increasingly expansive fiscal policy. Both the speed of the disinflation and the strength of the subsequent recovery appear to make the United States' strategy a desirable one to emulate. The strategy is to implement a restrictive monetary policy immediately, to keep up the monetary pressure while creating a recession deep enough to bring the inflation rate down to acceptable levels, to feed the recovery with temporary monetary acceleration, and then to maintain tight monetary control when the recovery gathers speed.

Basic questions discussed before the United States' disinflation remain. They are:

1. What are the benefits of disinflation?
2. What are the costs of disinflation?
3. What factors determine the costs of the disinflation program?
4. What can be done to prevent a resurgence of inflation?

## 1. The Benefits of Disinflation

Political rhetoric reveals no doubts about the desirability of disinflation; political action has been less resolute. Few governments have demonstrated a preference for disinflation over continued moderate and

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