RECORD OF SOCIETY OF ACTUARIES
1975 VOL. 1 NO. 1

Vol. 1, No. 1 March, 1975

RECORD

PERSISTENT INFLATION—A NEW WAY OF LIFE?

An Address By
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Currently, we are all preoccupied with the immediate problems of inflation and recession, and with the related questions of the monetary and fiscal policies to cope with them. It would be tempting to talk in terms of the immediate situation and what I think should be done. However, I have been asked to give my views on inflation and the long-term outlook for the United States and world economies, which I will do, though also recognizing the immediate problems. I want to stress that in the real world we often have to cope with our immediate problems in a way that we fully realize will not cure, and may even exacerbate, our long-term problems. Our past failures and inadequacies have left us with no other alternatives. I hope that what I say today may in some way influence future policy, since our long-run problems will still be with us when this recession is a memory, albeit a painful one.

A new, more comprehensive approach to the problem of inflation is essential. The immediate task is to end world-wide recession and accelerate world growth. The next task, the long-term task, is to end persistent inflation.

The approach must be global and societal. My conclusion is based on three decades of helping with problem-solving in many countries. During that time, I was immersed in what we economists call monetary and developmental economics, that is, money, central banking, fiscal policy, interest rates, monetary reserves, balance of payments, external debt, and so on through the traditional areas of economic practice. I want to emphasize that my conclusions are based on my work with countries which are members of the International Monetary Fund and the World Bank and do not include the Socialist countries of Eastern Europe or the People's Republic of China.

My experience eventually led me to the firm conclusion that these traditional approaches are valid and reveal significant truths, yet fail to provide diagnostic depth of economic and social ills needed to provide viable solutions, even within the area narrowly defined as monetary. I believe my conclusion is now solidly confirmed by our confrontation with those twin demons of global economic instability--inflation and recession.

Simultaneous strong inflation and strong recession confound analysts and policymakers alike. Solutions require much deeper insight into the functioning of our world economy than is currently available. Our problems, which many think insoluble, call for extraordinarily wise and determined leadership to devise and implement new, effective policies and to secure a degree of international cooperation now seemingly unachievable.

Simultaneous inflation and recession could not occur, our leaders had been told by the experts. Many blamed such recent occurrences as the four-fold increases in oil prices for the paradox. Yet the world was predictably headed for strong inflation and strong recession before such events, although perhaps not so virulently nor with such disruptive national and international conse-

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quences.

The present difficulties must be seen as a combination of continuing long-term trends in the world economy and unpredictable factors. These long-term trends predictably create persistent inflation and weaken efforts to avoid unemployment and sustain satisfactory growth rates. Strong recession and inflation result from years of neglect and wrong policies. Our unwillingness to recognize that the world economy has been heading many years toward current conditions is a primary cause of the situation. We cannot confront our problems unless we diagnose them correctly.

Huge balance of payments surpluses of some oil exporting countries generating huge current account deficits among many oil importing countries are, primarily, the consequence of the four-fold increase in oil prices. In some cases, high food prices have substantially increased the deficits of food importers while offsetting the oil price increases of the few food exporters. These huge surpluses and deficits have compounded the difficulties of simultaneous inflation and recession. The problems intermingle and interact. Solutions must unravel this complexity and interaction. However, effective solutions must also recognize the distinctions within the complexity. Otherwise, the dangers of strong inflation combined with strong recession will continue to plague nations and the world's economy even after the relatively temporary problem of oil-generated surpluses and deficits no longer bedevil world policy-makers.

I have discussed my views on modern inflation in detail in my book, Inflation - A Worldwide Disaster (published by Houghton Miflin Company, 1973), and elsewhere and will here give only a brief summary. Contrasted with others in this field, I have taken what I have called a global and societal view of the problem, which I find thus far to provide the basis for correctly forecasting the accelerating inflation of recent years, the phenomenon of simultaneous strong inflation and strong recession, the widespread and deepening social ills and political disorders being experienced in all parts of the world, and the threat which continuing inflation constitutes for the objectives and aspirations of modern societies everywhere.

Of primary importance is recognizing that the nature of current inflation is quite different from that of the temporary, local inflations of past eras. Inflation today is a long-run persistent problem whose cure requires a combination of reordered priorities on the demand side and, on the supply side, national and international cooperation to increase the quantity of goods and services on a global scale.

Because inflation today is persistent and world-wide, its underlying causes operate everywhere. There are no longer areas of cheap food, fuels, raw materials and labor. All become relatively expensive. Savings for investment are available, but at relatively high interest rates.

Our world of today contains highly sophisticated, sensitive and innovative market mechanisms that provide, among other things, the quick international transmission of inflation via exports, imports, exchange of services, and movements of capital. These market mechanisms, however, are not causes of inflation but are transmission belts. In any program to end inflation, these same market mechanisms can transmit forces to end the inflation.

For example, drought or increased demand for food anywhere impacts on world food prices. This has immediate impact on wage demands since food prices are a major component of the cost of living. Drought in a major supply country such as Canada, combined with large increases in demand from a country like India, increases food prices in the United States. High prices for capital goods, reflecting inflation in the industrial nations, mean higher prices in countries that import such goods. High food prices, or higher prices of capital goods, mean higher prices, in turn, for exports from the developing countries as the prices they pay for imported foods and capital goods become part of their domestic price structure.

All of this is fairly benign or obscure when rates of price increase are small but, now that rates of increase are large, it has become more obvious and destructive. The much discussed impact of oil prices is only one, though the most dramatic, illustration of the integrated character of the world economy and the nearly instantaneous international transmission of price changes.

The global and persistent nature of twentieth century inflation has created an expectation of persistent inflation on the part of peoples and governments everywhere. That fact by itself compounds the inflationary situation. Over decades inflation accelerated, as governments not only failed to end it, but repeatedly raised the rates of inflation that they deemed acceptable. Acceptable levels have risen from two or three percent in the 1950's to six or seven percent in the early 1970's, and now to anything below a "double digit" figure.

Inflation today is rooted in attitudes and experiences of the Great Depression and World War II and in a number of mutually reinforcing trends that emerged in the aftermath of that war. These trends generated a huge expansion of demand throughout the world. Tremendous disparities have arisen between world demand and world capacity to produce. Principal among these are huge increases in demand for food, natural fuels, and industrial raw materials such as copper, tin, and rubber. The widespread trend toward urbanization created its concomitant demand for resources to restructure cities and their related educational, police, transportation, water supply, sanitation, lighting, medical service and recreational systems.

The twentieth century has been characterized by an historic novel combination of multipliers that increase world demand independent of world output and income--a tremendous explosion of population, a new definition of acceptable material well-being, and an expectation that all will participate in the improved well-being and social mobility--combined with a belief that governments can create the conditions needed to fulfill these expectations. Cyclical behavior brings temporary gluts in some areas, but the basic longer-run underlying conditions of world scarcity in relation to demand remain and explain why inflation and inflationary expectations persist even during recession as they have done repeatedly in the post-war period.

The world population explosion has resulted in an increase in the population of the world from two billion inhabitants in 1940 to over three and one-half billion in 1973. At the same time, the expectations of the three and one-half billion are on a much higher level than those of preceding generations. The economic population growth rate is much higher than the demographic growth rate. Out of the disastrous Great Depression and World War II came the universal conviction that all people were entitled to a much improved way of life, irrespective of social or even economic position in society.

Money income, including gifts and loans, no longer limits effective demand. Demand is generated by society's definition of the reasonable and promised expectations of people. Moreover, governments are seen as capable of implementing economic policies that fulfill these expectations. New areas of societal-induced demand have been added through the years such as higher education, medical care, retirement income, modernized housing, and so forth.

Vast numbers of people are lifted from subhuman to human conditions as economies respond to these societal demands. In today's world, nowhere is the responsibility of government to fulfill these expectations seriously contested.

Thus, when economies go into the downward phase of the business cycle of growth and decline, and money incomes are affected in a similar way, total demand fails to parallel these declines; it simply shifts from the private to the public sector. If families cannot afford housing and education, the adequacy of which is defined by society, then demands are made on government to provide these services or products. Recessions are accompanied by huge budgetary deficits, designed not to overcome the recession , though they may help incidentally, but more directly, to ensure that people continue to have consumption levels no longer possible on the basis of earned or borrowed income.

In terms of the disparity between total demand and total supply, the shifting of demand from the private to the public sector does little, if anything, to reduce this disparity. It takes time and some things cannot be transferred. But very much can be transferred and the pressures continue inexorably to do so. In real or physical terms, total consumption for all purposes cannot exceed total supply. In money terms, the disparity between world demand and world supply is made to disappear temporarily by the rise in prices, only to reappear quickly because in real terms the demand remains unsatisfied.

After World War II and the Korean War, wartime technological innovations were applied to civilian production and expectations were vastly altered by a wide range of goods. Television, transistor radios, jet airplanes and global communications educated consumers and producers alike on a world-wide scale. New financing arrangements made everyone a potential buyer of products well beyond his current income.

These forces in themselves might explain why the world-wide demand for goods and services after World War II chronically exceeded production capacity despite the unprecedented five percent sustained annual real growth of the world economy. But other major factors were also operative--the nation/state explosion and the cold/hot war. Irrespective of their economic viability and burdened in many cases by an overwhelming assortment of social and political problems, new low-income nations undertook the same scope of responsibilities to improve the well-being of their peoples as had high-income countries. At the same time, the cold war meant continued military expenditures at wartime levels. The burden of wars and armament was piled on top of already excessive demand pressures. Thus, persistent inflation is based on a condition of world-wide chronic demand exceeding supply. Cyclical behavior brings temporary unused capacity or oversupply in some areas but does not change the underlying long-run secular trend of scarcity on a global scale. The simultaneous occurrence during recessions of dampening inflationary pressures (usually declining rates of price increases, or weakened demand for wage increases, or even important declines in commodity prices) together with underlying expectations of continuing, or even accelerating, price rises easily create confusion and uncertainty as to what is happening and what to do.

People today are restive and frustrated in their failure to achieve expectations. Inequities are increased as inflation is uneven and unpredictable, and people find themselves unable to defend themselves effectively against its inroads. Devices like cost-of-living indexation are tried, but, in practice, often prove impractical when inflation is accelerating at a high rate. For example, governments find it hard to raise salaries to keep up with cost-of-living increases despite their favored access to Central Bank financing. Even contractual obligations become uncertain safeguards as neither supplier nor buyer can know the final costs or the market selling price in the future. Discouragement of savings, distortions in investment, and unsatisfactory consumption patterns and output (lower cost goods tend to disappear) prevail. These conditions result in social and political disorders ranging from increased personal dishonesty, frequent strikes, disruptions in family relations, loss of confidence in governments, and widespread repudiation of current leaderships, to violent political upheavals. The adoption and implementation of programs to end inflation are made more difficult by these conditions.

Since you are most interested in the United States, let me say a few words about our case.

While persistent world-wide inflation is evident in every country, the U.S., by virtue of its size and extraordinary international presence, is of preeminent importance. It accounts for about one-third of world output. Throughout the 1950's and most of the 1960's, Americans tended to feel that, except for the effects of the Korean War, and, later, the war in Vietnam, serious inflation was a problem of other countries, particularly those in Latin America. This attitude prevailed despite the fact that prices in the U.S. rose year after year, through both prosperity and recession. The low annual rates of inflation in the U.S. (two to three percent) lulled the public, the academic community and officialdom into complacency. The presence of higher inflation rates (three to five percent) in most European countries helped foster that complacency, since the higher prices abroad helped the U.S. to maintain a favorable international trade balance throughout the 1950's and 1960's.

By the end of the 1960's, however, the expansionary pressures of consumerism, defense needs (accelerated by the Vietnam war), and continuing government social programs combined to accelerate the pace of price increases. In 1969, President Richard Nixon moved to cool the economy through the use of classic measures--federal budget restraint and a tight Federal Reserve monetary policy. Economic activity slowed down at an unexpectedly rapid rate, unemployment rose to six percent, and the administration found itself in the midst of a mild recession. At the same time, despite the recession, prices still tended to rise. This state of affairs was, admittedly, puzzling to many, though it is readily explained in terms of persistent inflation and the accompanying inflationary psychology.

Like his predecessors, President Nixon found that his ability to change the inherited pattern of government expenditure was severely limited. It was supported not only by vested interests desiring to continue the status quo, but also by a wide public consensus on the responsibilities of government. In 1970, U.S. economic managers were not armed (or at least acted as though they were not armed) with the crucial insight as to the true nature of modern inflation. Consequently, the continued rise in prices during and beyond 1970 began to take on alarming dimensions.

By mid-1971, the rapid and continued increase in U.S. prices had taken a heavy toll on the competitiveness of U.S. goods in relation to those of Europe and Japan. In the summer of that year, the U.S. announced a shocking piece of economic news--the existence of a U.S. international trade deficit, the first in a generation. This startling revelation, however, only began to jog the perceptions of the U.S. public and of officials who remained wedded to the idea that inflation was a temporary condition that could be restrained by traditional economic policies. Even then, very few related the trade deficit to the burgeoning rate of persistent inflation.

Observers abroad, while also slow to perceive the crucial role of persistent inflation in the U.S. trade turnabout, were equally alarmed by the figures. The U.S. trade deficit bolstered the fears of foreign businessmen and government officials (whose countries held tens of billions of U.S. dollars) that the U.S. dollar, the mainstay of the international monetary system, had become a seriously weakened currency. These fears had been growing for some time, as the outflow of U.S. dollars to Europe and Japan had increased to the point where foreign dollar holdings exceeded, by tens of billions of dollars, the supply of U.S. gold that supported the value of those dollars. Not surprisingly, foreign holders of dollars rushed to trade them in for the currencies of other countries (notably of Japan and West Germany) whose national economies and international trade positions seemed more reassuring.

At the same time, persistent inflation in those countries, combined with worldwide scarcities, cast doubt on the attractiveness of financial assets as longer-term havens for money savings. Simultaneous with a flight from the dollar, there was a flight from all currencies into physical assets like gold, real estate, commodities, and favored productive enterprises. The ensuing mad scramble in international currency markets resulted in repeated runs on the U.S. dollar and chaos for the international monetary system.

Amid these conditions, the United States acted in a dramatic and totally unexpected way. Despite his strong personal antagonism to wage and price controls, President Nixon surprised the world on August 15, 1971, by announcing a devaluation of the dollar in terms of gold, a suspension of the convertibility of the dollar into gold, and a comprehensive wage-price freeze with the creation of a Cost-of-Living Council to enforce the freeze. This action dealt a crippling, if not a death, blow to the international monetary system that had been in existence since the Bretton Woods Conference of 1944. It unilaterally severed the connection between the dollar and gold, the tie around which the value of every currency in the world had been defined. Thenceforth, the international monetary system was in flux, awaiting international agreement as to the new roles of the dollar, gold and their substitutes.

The U.S. public got its first experience with peacetime regulation of the economy. Through four successive phases of controls, the administration, Congress, and the public began to sense, but failed to grasp, the dominant influence of inflationary expectation, chronic excess demand, widespread production bottlenecks and scarcities, and the resultant persistent inflation. When Phases One and Two "succeeded" in restraining inflation to an annual rate of 3.4 percent, the administration, pressured by both business and labor, felt it could relax the controls program. But no sooner had controls been relaxed (in January 1973) than prices began to soar. By mid-1973, inflation held first place among national issues of greatest concern to the public, surpassing even the Watergate scandals. All this happened before the Middle East War in October, 1973, and the ensuing oil embargo that caused the huge increase in the price of oil

Consumer prices in 1974 rose by over eleven percent as the enormous increases in wholesale prices began to work their way into the retail markets. Tight money policies, instituted to combat this inflation, pushed interest rates to an all-time high.

The Nixon Administration weaved unhappily among policy alternatives. What is characteristic and notable is that no one was or is calling for an end to inflation. The emphasis is only on reducing it to "acceptable" levels. Phase Four of Nixon's controls program sought only to reduce the annual rate of price increase.

President Ford has been forced to change his emphasis from anti-inflationary to anti-recessionary because of the severe recession which we are now facing. Policymakers are pleased to see inflation rates dampening now in the face of this recession, but no one anticipates that inflation is going to disappear in this, or any other, recession. This is not enough. Reducing the rate of inflation is desirable, of course, but it does not get at the roots of persistent inflation. It does not end expectations of continued price rises in the future. Until this is done, rates of inflation will be reduced only to rise again.

The aim of any anti-inflationary program must be a zero rate of inflation, not a "low" rate of inflation. Low rates may be acceptable targets during periods of temporary inflation, when expectations are that the low rates will be followed by a zero rate or even by declining prices. Nowhere, however, does this situation prevail today. The path from high rates to a zero rate may well pass through lower rates for some time, but the problem of modern inflation will be tackled only if it is clear throughout that the target is zero, that policies are designed to achieve this target, that the mechanism is suitable, that the economic managers are determined, and that the necessary political support exists.

An alternative is the establishment of much more comprehensive governmental controls over all aspects of economic behavior. For this to even seem successful, it must be accompanied either by widespread public support or by acquiescence achieved through drastic coercion. These preconditions are not present in the United States or in most countries. Even if they were, the persistent inflation would remain as long as the imbalance between demand and supply existed. The price and wage effects of inflation might conceivably be suppressed, but the inflation would then be manifested in black markets, shoddier goods, a much narrower range of goods, rapid deterioration as servicing became more inefficient or unavailable, disappearance of less expensive goods, increased moonlighting, industrial strife, and more crime. At best, a tightly controlled society is a huge price to pay for ending inflation. In any case, it is not an effective way.

To return to the global scene, a successful attack on inflation requires new approaches adapted to the conditions and dynamics of each country coupled with practical day-to-day international collaboration. Some very basic changes must be made.

The novel character of inflation today, especially that it arises fundamentally out of excess of demand over supply on a worldwide scale, must be understood. At the same time the aim of modern societies to improve man's way of life must be accepted. There must, however, be a redefinition of national priorities to transform unrealizable expectations of private and public consumption into realizable ones. More production and more savings must be encouraged. Areas of inefficiency and waste must be identified and effective measures taken to overcome bottlenecks interfering with the most efficient use of productive capacity.

There must be international cooperation to increase world output by increasing everywhere the efficiency of labor and other nonlabor inputs and, more particularly, by the use of the vast unemployed resources in low-income developing countries. There must be increased international cooperation to avoid the need to restrain sound growth and efficient employment because of balance of payments difficulties. We must bring together world technology, finance, raw materials, management and labor to maximize output on a global scale.

In the low-income developing countries, great increases in productivity are obtainable. Huge reservoirs of underutilized or unutilized manpower still remain. The application of fertilizer and use of machinery and technology can bring substantial gains to the global food supply. These countries have untapped mineral resources as in Venezuela and unused arable land as in Brazil. Underemployed or underproductive labor, found throughout the low-income countries, can be trained and utilized. Brazil, Korea and Pakistan provide excellent examples of the tremendous increases in productivity that such countries offer.

In the intensely mobile world today, financial or technical knowledge can be obtained from the industrial nations or the large oil exporters and applied successfully to the untapped labor resources of countries such as India or Korea. The multinational corporation of today has become an important means to this end.

International governmental institutions that help increase world supply must be strengthened. Practical new responsibilities and support must be given to existing institutions such as the World Bank group, the Food and Agriculture Organization, the new environment program, and the various new development organizations like the Kuwait Development Fund.

Existing world productive capacity must be harnessed to this end. Most of this capacity, including plant, equipment, technology, management and finance, is found in the private sector. Increasingly, the private corporate form is a multinational enterprise operating in many countries.

As noted earlier, on the demand side there must be a transformation of fantasy expectations into more realizable ones. National priorities must be compatible with realistic global expectations, otherwise competition among nations for goods will stoke new inflation. Examples of available organizations and other means to assist this assessment of global demand and to help fit national programs into the global picture are the International Monetary Fund (IMF) with its annual consultations among nations, the work of United Nations agencies, the Bank for International Settlements, and related approaches such as the consultations between OPEC (the oil producing and exporting countries) and oil consuming countries.

It may well be that existing mechanisms, such as commercial banks and direct foreign investment, combined with such public mechanisms as bilateral aid programs and such multinational institutions as the World Bank, the regional development banks and the IMF, will be able to provide the necessary financing for structural transformation. Increasing the capacity of these lending institutions would give added assurance that balance of payments deficits would not disrupt this process of structural transformation and would increase the capacity of the existing private institutions to expand their activities and still keep within the criteria of prudent management.

Prospects are that the years 1975 and 1976 will continue to be years of grave uncertainty but there is reason for optimism. On the one hand, there are the well-known objective adverse factors. On the other hand, there is increasing awareness of these problems and the need for effective international action, manifesting itself in a variety of proposals for expansion of existing financing facilities and establishment of new ones. Bilateral arrangements between consumer and producer countries, the expanded IMF oil facility, and the Kissinger-Simon safety net are all realistic efforts to deal with balance of payments problems. Success in financing 1974's deficits gives us cause for optimism that the international monetary system can make the necessary adjustments for structural transformation.

Only when inflation is seen as a chronic structural global disequilibrium between supply and demand will it be possible to end the fundamental disequilibrium by restructuring both demand and supply. This involves a strategy which, admittedly, takes time and international cooperation. The essential choices in policies are among those which are best suited to achieving increases in productivity and output and changing consumption demand so that the global impact of public and private demands combined are compatible with the available world supply.

In this process, the definition of national priorities that are compatible with national priorities of other countries is an essential ingredient. The strategy to achieve satisfactory sustained growth becomes the same strategy as the strategy to end expectations of inflation. Only the end of persistent inflation can prevent the repeated recurrence of strong inflation combined with strong recession.

On the basis of this global and societal approach to modern-day inflation, I arrive at rather different conclusions about the longer-run outlook for the world economy than those reached by others. I use the word "outlook" as reflecting needs and practical potentials. My view is optimistic, and I believe that I am being realistically optimistic because adversity leads to innovation and invention, intellectual and physical. We already have widespread adversity. As we delay in acting together, the adversities will spread and deepen and the need for change will become an irresistible imperative. It is in this sense that I give my outlook for the future.

1. I see the world economy expanding much more rapidly as the only practical response to an exploding population increase which cannot be slowed down enough to keep another two or three billion people from being added to the

world population within the next twenty-five years.

2. I see these higher growth rates partly made possible by dramatic increases in savings and investment in high-income industrial and low-income developing countries. Much of the increased savings will come from the United States and those other industrial countries whose standards of consumption are high but whose savings ratios are much below those of such industrial countries as West Germany and Japan. Much of the increased savings will come from developing countries with export earnings in excess of absorptive capacity. These savings will seek safe and profitable investment--some in high-income countries, some in low-income countries--with many new institutions and instruments intermediating between the saver and ultimate user of the savings.

3. I see this large increased output also made possible by new technological innovations responding to resource scarcities. For centuries, prizes have gone to those who invented labor-saving devices. Now the prizes will go as well to those who invent resource-saving devices and to those whose new tools can take advantage of the large pool of unemployed and inefficiently-employed people in the developing world. We do not have a world of full employment. We have only begun to tap the productive capacity of the entire human race.

4. I see these large increased growth rates made possible by the globalization of all human endeavor. Not only knowledge, the key to increased efficiency and output, but people, goods, services, and finance are mobile in global terms.

5. I see additional pressures for much more rapid and sustained growth coming from the need to replace old public capital with new public capital. A number of examples have been mentioned earlier, but the restructuring of cities and building of new urban areas with all that this implies would be enough, based on historical performance, to push growth rates to limits beyond present expectations.

6. I see the labor force not only expanded by growing population and other factors mentioned earlier, but becoming more efficient and productive as mankind reaps the benefits of past and current investments in popular education and technology. More and more people are being trained formally and on the job to do the work of modern society.

7. I see these potentials for much more rapid growth putting pressures on available resources, repeatedly causing shortages and bottlenecks in unexpected areas as well as in the more predictable areas like energy, urban land, food and transportation. Cyclical fluctuations will cause temporary gluts in some commodities and services, but only temporarily. Thus, countries emphasizing exports will find markets for products of all kinds. They will find achieving high growth much easier. Traditional biases against the use of foreign savings will give way before the tidal pressures of need, and mutually-acceptable forms of economic activity will be positively encouraged. Scarcities will reinforce the need for more investment and output.

8. I see international or multinational institutions, private and public, becoming the primary institutional form for modern organized economic activity. They will reconcile the nation/state political organization of the world with its global economic character. In turn, these institutions in their scope of activities, staff, management, sources of capital, ownership, technology, attitude towards government and their respective ideologies or policies will reflect the globalization of the world economy.

9. In brief, I see the world economy becoming the starting point for economic analysis and economic activity. Macroeconomics will start with global facts. National facts or statistics will be a subsector of the world. The nation/state will remain for the foreseeable future the political unit. Sovereignty of such will prevail and be emphasized. But, simultaneously, the world economy will become integrated to the point of becoming truly global.

10. In conclusion, I see the world cooperating to end persistent inflation because persistent inflation threatens the very fabric of modern societies and the ability of governments to govern. Cogent reasoning may not be the method of persuasion; brutal necessity may have to do the job. The real question is whether the problems of modern societies will first result in large scale social disaster and human suffering before the world acts constructively and effectively. Events thus far are not too promising, but cogent reasoning can ease the process and reduce the pain and cost. Cogent reasoning can make us realize that the explosive dynamism of the modern world requires innovative thinking and action. My emphasis on a global and societal approach to inflation is an effort to help direct attention to the dynamic realities of our day.