

THE WORLD IN DEFLATION

LESSONS FOR EMERGING COUNTRIES

Workshop CFVG

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- FOR AROUND 3 YEARS,THE WORLD ECONOMY HAS BEEN EXPERIENCING AN AMAZING SITUATION
- THE LATTER HAS BEEN ESPECIALLY WORRISOME IN THE EUROZONE AND JAPAN
- NOMINAL INTEREST RATES (including the long terme ones) IN MANY ADVANCED COUNTRIES ARE CLOSE TO ZERO AND SOMETIMES SLIGHTLY NEGATIVE

- THE CENTRAL BANKS AND GOVERNMENTS AS WELL, COMPLAIN ABOUT TOO LOW INFLATION RATES....
- WHEREAS THEIR QUANTITATIVE EASING MONETARY POLICIES ARE UNABLE TO DURABLY RESHUFFLE AND BOOST ECONOMIC GROWTH

- CHINA HAS ALSO EXPERIENCED A RATHER SIMILAR SITUATION, WITH A SIGNIFICANT IMPACT ON THE WORLD TRADE AND....
-SPILLOVER EFFECTS (LARGELY THROUGH THE RAW MATERIAL AND COMMODITIES PRICE CHANNELS) ON SOME LARGE EMERGING COUNTRIES, NOW IN RECESSION (BRAZIL, RUSSIA)

- IN CHINA TOO, THE AUTHORITIES ARE WORRYING ABOUT TOO LOW INFLATION AND GROWTH RATES
- THIS BROAD PICTURE CAN BEEN CAPTURED IN ONE WORD: DEFLATION!!!
- IT BELONGS TO THE VOCABULARY OF ECONOMIC ANALYSIS ALTHOUGH ECONOMISTS DON'T LIKE IT AND POLITICIANS NEVER PRONOUNCE IT!

- IT WAS THE TYPICAL ECONOMIC CONTEXT OF THE 1930'S AND THE AUTHORITIES' RELUCTANCE TO ADMIT IT WAS LARGELY RESPONSIBLE FOR THEIR MISGUIDED AND IMPOTENT ECONOMIC POLICIES
- WITH THEIR ENSUING CATASTROPHIC ECONOMIC, SOCIAL AND POLITICAL CONSEQUENCES

- IT'S THEN OF UTMOST IMPORTANCE TO CORRECTLY ASSESS AND UNDERSTAND THE ORIGINS AND CAUSES OF THE CURRENT SITUATION
- WE DON'T PRETEND, HOWEVER, TO GIVE LESSONS AND PROPOSE SOLUTIONS TO GET OUT OF WHAT WE CONSIDER AS A DANGEROUS TRAP!