

# Replacing the Golden Anchor for Price Stability?

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# Need for an Anchor?

## In the 1960/70s:

“Volcker believed that money needed an anchor, some price that was a fixed point, and that an exchange rate tied to gold served that purpose...He was convinced that fixed currencies imparted a necessary discipline on national policy makers, who otherwise would too easily resort to lax fiscal and monetary policies that would lead to inflation.”

*Garten (2021), Three Days at Camp David, pg 84*

## In the 2000:

“Global factors play a significant and increasingly important role in the dynamics of CPI inflation and the cyclical component of inflation.”

*Forbes (2019), “Inflation Dynamics: Dead, Dormant of Determined Abroad?”, Brookings Papers on Economic Activity*



# Key Question

**In the post-Bretton Woods era, have countries found a new “anchor” for achieving price stability in the face of large global shocks?**

- **Compare AEs with “flexible” vs “rigid” ERs**
  1. Inflation rate
  2. Inflation sensitivity to common global factor
  3. Inflation sensitivity to specific global shocks



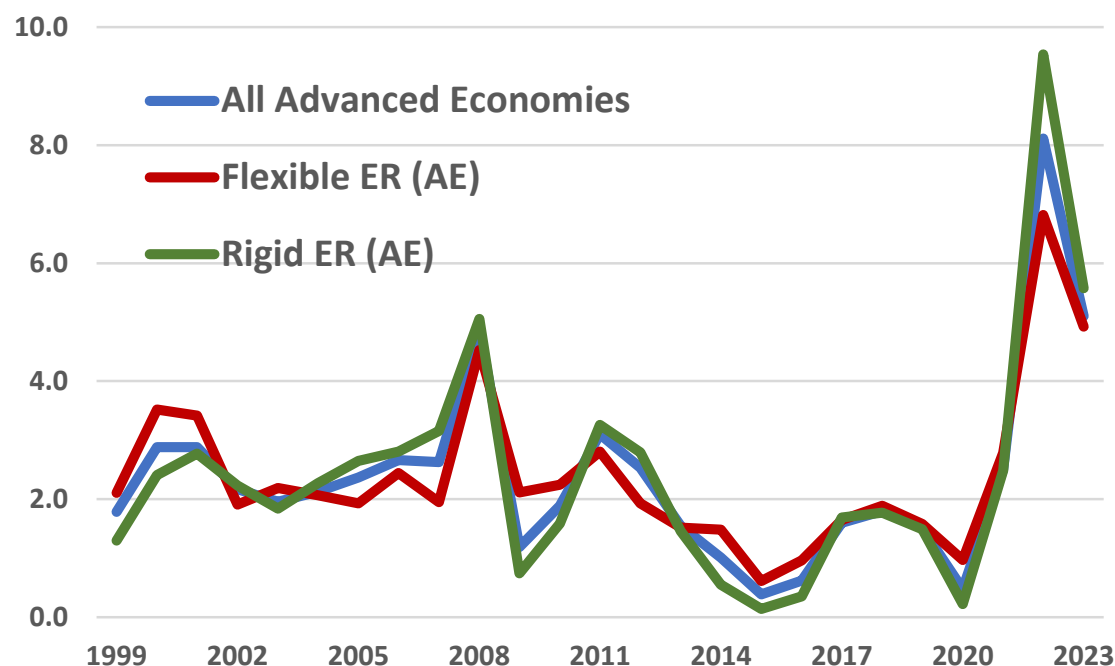
# CPI Inflation: By ER Regime

**Rigid**: conventional peg, currency board, or no separate legal tender

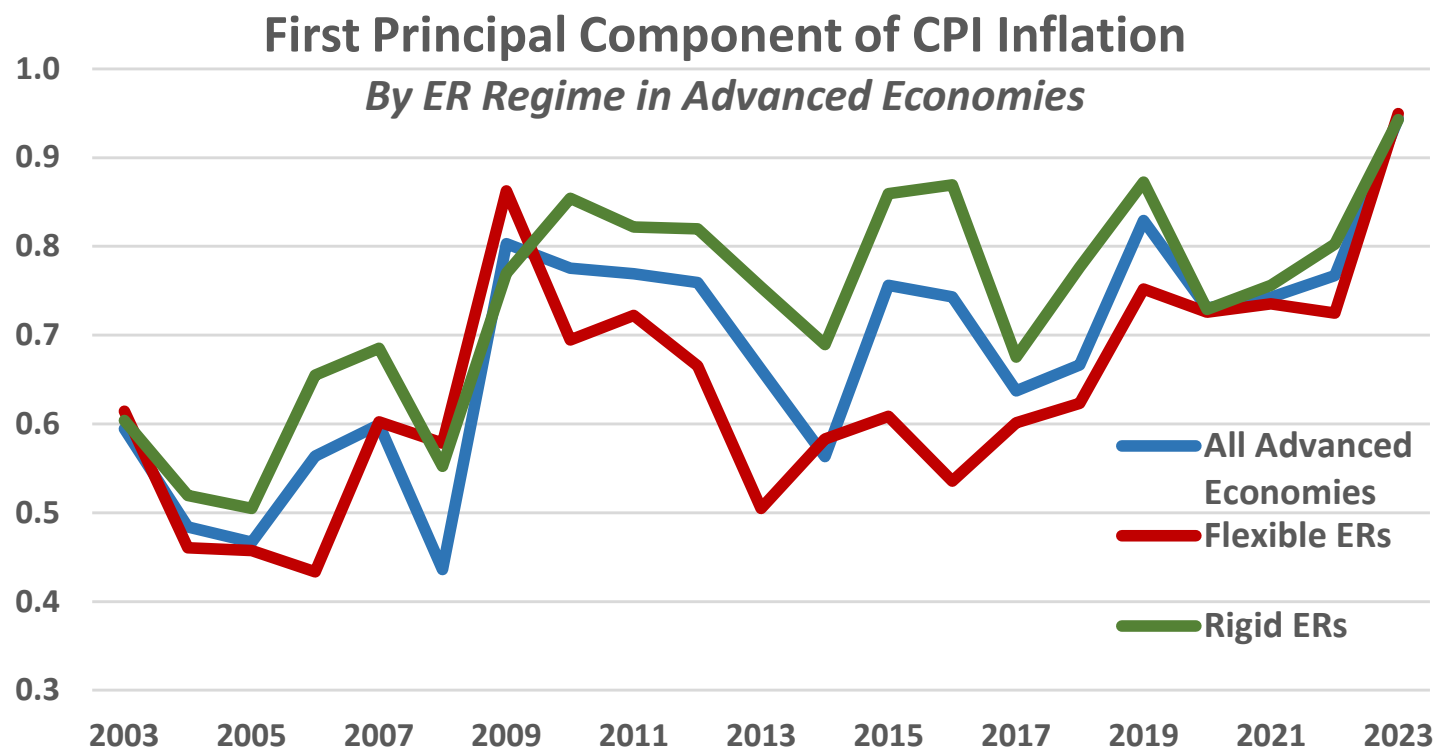
**Flexible**: independent float, free float, or managed float with no pre-determined path

**Sources:** Based on inflation data from IMF, WEO (10/22) and exchange rate regimes from IMF, AREAR (2022).

Annual CPI Inflation by ER Regime  
*Advanced Economies*



# Shared Global Component



**Notes:** First principal component of annual CPI inflation for a sample of 33 advanced economies. Principal component based on rolling 4-year averages. Underlying data on inflation data from IMF, WEO (10/22) and on exchange rate regimes from IMF, AREAR (2022). See previous slide for exchange rate definitions.



# Panel Regression Results: Quarterly CPI Inflation in AEs

	Slack	Slack >0	$\pi^e$	$\pi$ lag	Global slack	Oil	Commod. ex- oil	GVC
1) Standard	***		***	***				
2) +Global Vars + Nonlinear PC	***	***	***	***	*	***	***	***
3) +Global vars * Flexible ER	***	***	***	***	**	***	***	***
4) +Global vars * Rigid ER	***	***	***	***		***	***	

**Notes:** Green is a positive coefficient and red is negative. Darker cells indicate more significance, with \*\*\*, \*\*, and \* significant at the 1%, 5% and 10% level, respectively. Estimates based on framework developed in Forbes, Gagnon and Collins (2022) for a non-linear Philips curve with global factors. *Slack>0* is a dummy if slack is positive and inflation <3%, i.e., the nonlinear “low inflation bend” model. Slack is a principal component of a range of indicators. Inflation data is quarterly, seasonally adjusted and annualized from 1996-2017. See paper for definitions and details.



# Summary & Implications

## ➤ Have pegs been needed to anchor prices (in AEs)?

- Inflation: **no**
- Inflation sensitivity to common global factor: **no**
- Inflation sensitivity to specific global shocks: **no**

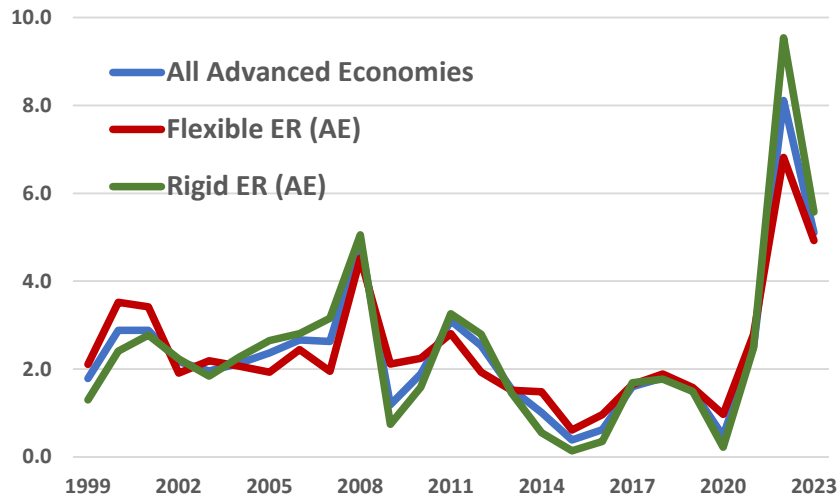
## ➤ Implications

- Loss of “Golden Anchor” from Bretton Woods has not undermined price stability in AEs (*despite the globalization of CPI inflation*)
- Replaced by the “stone columns” of independent, inflation-targeting central banks?



# Caveat: Weaker Anchor in EMs

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*Advanced Economies*



Annual CPI Inflation by ER Regime  
*Emerging Markets*

