

EDITORIAL

The present volume is a special issue on monetary policy, and in particular on deflation. It features two papers discussing general problems of the theory of monetary policy, one from a new Keynesian perspective, the other from an Austrian point of view; four papers delving into a more detailed analysis of deflation and of the theory of deflation; and finally a review essay dealing with the case for the gold standard.

This ensemble grew out of modest beginnings that had a more narrowly pedagogic objective. In the spring of 2002, Guido Zimmermann, a senior economist at Dekabank, Frankfurt am Main, asked me to co-author a paper in which we would confront the Austrian and new Keynesian views on monetary policy and to explore potential affinities and main areas of disagreement. Eventually we wrote separate papers that were presented and discussed in March 2003 at the Austrian Scholars Conference. Both papers, along with our comments, are published in the present volume.

The discussions at the ASC highlighted the characteristic Austrian habit of raising policy questions at a rather fundamental institutional level. Is there a rationale for a monetary authority at all? Do we need a central bank? Should government have any role in the production of money whatsoever? At this point, the issue of deflation comes into the picture. The fight against deflation—both against actual deflation and against the mere threat of deflation—is indeed the most commonly accepted rationale for government control of the money supply. The conviction that deflation is inherently evil is not a distinctive characteristic of the new Keynesian economists; it is a conviction shared by virtually all economists, apart from those who have learned their monetary economics from Mises, and especially from Rothbard. This raises the question whether we are here confronted with a mere political oddity that has no roots in the system of Austrian monetary theory, or with a natural outgrowth of this system. And, of course, it raises the question whether the system holds water in the important case of deflation. The papers authored by Joseph T. Salerno, Mark Thornton, and Philipp Bagus approach these questions from different perspectives and give an unequivocal answer.

Deflation is not only of great political importance. It also brings to light interesting theoretical problems that provide us with the opportunity to develop the theory of money and related areas such as business cycle theory. The works assembled in the present volume contribute to such development. Hopefully, they will inspire further research along the same lines.

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