

4/1999 Inflation Targeting A Critique

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When central banks adopt inflation as the sole target of economic policy, they have assigned effectively a zero weight to other important objectives such as full employment. It makes sense if the economic model can be solved recursively and in such a way that when price stability is achieved, full employment can be tackled later. The economy is unlikely to be so structured. The macro economy must be examined in its entirety. Policy coordination and choice of instruments which affect the real variables quickly will produce superior results to inflation targeting as is practised. Indicative planning will be even more effective in attaining all the goals of economic policy.