LETTERS

In praise of inflation

Sir—Your Economics focus (July 25th) correctly represents my view about Japan’s need for inflation. However, several of the objections you raise are either dealt with in the papers you mention or fail to stand up to close examination.

You say that “in most modern economies governments no longer literally print money. Instead, they buy financial assets.” Indeed, my analysis was conducted entirely in terms of conventional open-market operations (though other economists, such as Charles Goodhart, have suggested that the Bank of Japan buy assets other than short-term government debt).

You then suggest that banks might simply hold on to any increase in monetary base, rather than lending it out. True—but this is no different from the problem facing a liquidity-trap economy in which increases in the money supply do not make people willing to spend more. That is why I argue that current monetary expansion is ineffective by itself, but must be supplemented by a credible promise of ongoing inflation over the long term.

Where I really start to get confused, however, is when you assert that the money supply might fail to rise because “savers...are likely to plonk their cash overseas.” Who exactly would be buying those yen, and how would they be making them disappear?

I am quite baffled by your concern that increased inflationary expectations would raise interest rates so much that real rates would increase. Every analysis I know of says that even under conditions of full employment expected inflation raises the interest rate by the same amount—no more. As Japan is now very far from full employment—with the real interest rate constrained above its market-clearing level by the inability of the nominal rate to go below zero—one would surely expect expected inflation to lower, not raise, real rates.

Having a carefully worked-out, internally consistent analysis is no guarantee of being precisely right; it is entirely possible that I am precisely wrong instead. I know that the whole line of thought sounds bizarre to people accustomed to thinking of price stability as an absolute good. However, my argument is no more bizarre than Japan’s plight and if there are holes in it, they are not quite as obvious as the ones you suggest.

Cambridge, \(\text{Paul Krugman} \text{ MPP}^{\text{MIT}}\)

Dioxin deaths

Sir—I, if you state (“The burning issue”, July 25th) “dioxin is so toxic that a dose no bigger than a grain of salt can kill a man”, how come nobody ever died of it? Dioxins are detoxified in guinea pigs but not to human beings.

St Gengoliphi, \(\text{H. Verity Smith} \text{ MEP}^{\text{Switzerland}}\)

Editor’s note: Dioxins kill slowly, through cancer, not rapidly, like a conventional poison.

Wood preserver

Sir—In 1997 forests covered 40.4% of Costa Rica (“Your pollution, our forests”, June 27th); in 1987 only around 32% was left. I understand your surprise at the recent improvement on this figure, given the high rates of deforestation. But the reason is not, as you report, environmentalists to claim, the counting of perennial crops as trees.

Two major actions are responsible for the recovery of the forest cover. First, many economic distortions that promoted cattle ranching and unsustainable agriculture were eliminated in the late 1980s. Second, in the past ten years state policy has provided economic incentives for forest-friendly activities, and sanctions against encroachment, illegal logging and forest fires.

To make this policy sustainable we need to solve an equity problem: landlords bear all the costs of keeping a forest but receive only the earnings of forestry activities. All the forests’ other services such as preserving biodiversity, generating water and fixing carbon represent a free ride for the rest of society.

In 1996 the Costa Rican Congress approved a new forestry law and a fuel tax that gives forest owners about $20m a year to pay for the environmental services the country receives. We think that the world should pay its fair share for benefits that are global: biodiversity and carbon fixation.

Cambridge, Massachusetts \(\text{Rene Castro} \text{ MEP}^{\text{Brussels}}\)

Reforming Russia

Sir—You imply that there are only two choices for policy towards Russia (July 11th): either support Boris Yeltsin or face a fascist regime. The West is repeating an old error. In 1990-91, when Mikhail Gorbachev’s government was about to fall, the West supported it, fearing and distrusting Mr Yeltsin. Now the West is putting all its eggs in Mr Yeltsin’s basket, fearing a change of government in Moscow. This is sterile thinking. Reform will not happen without trust and a bit of honesty. The current financial crisis is due to a lack of trust which has prompted a capital flight.

Washington, \(\text{Yuri Gorbanev} \text{ Colombia}^{\text{Bogota}}\)

Changing sides

Sir—To quote Jean-Claude Barreau (“How racist is France?” July 18th): “When someone migrates to France he does not simply change his country but his history too.” This can work in both ways. When an artist, Alphonse Legros, was asked why he had taken British nationality, he said, “well, in the first place, I win the battle of Waterloo.”

Dun Laoghair, Ireland \(\text{G.F. Dalton} \text{ MEP}^{\text{Dublin}}\)

Madame PESC

Sir—I was surprised by Charlemagne’s article (July 18th) on the future Politique Extérieure et de Sécurité Commune (PESC) of the European Union. Monsieur PESC is characterised throughout the article as male with persistent use of the words him, his and he. Did it ever occur to you that the best “man” for the job might be a woman? As horrifying as it may sound, there are many women qualified for this position and I am alarmed that you presume only a man could do the job.

How about a Madame PESC? As foreign-policy adviser to the EU one must be capable of negotiating and mediating, and be sensitive and aware of human-rights issues—all typically female characteristics. Perhaps a woman would be able to change things for the better.

Women have achieved a great deal in European politics this century. It is a shame that you remain stuck in the last one.

Brussels, \(\text{Carole Tongue} \text{ MEP}^{\text{Switzerland}}\)