Public Sector Economics

CALL FOR PAPERS

INFLATION AND PUBLIC FINANCES IN THE 2020S

GUEST EDITOR: DUBRAVKO MIHALJEK, BANK FOR INTERNATIONAL SETTLEMENTS

Views on inflation and public finances differ widely in economics profession. Those who have lived through the 1970s' high inflation in advanced economies, or hyperinflations in developing and former transition economies, generally associate such periods with macroeconomic instability and deterioration in public finances. Those who are more familiar with the "great moderation" period of low inflation and relatively stable public finances – widely experienced since the adoption of inflation targeting and value-added taxes in the 1990s and 2000s – generally consider some inflation as good for public finances. The main reason is that inflation increases the VAT – which today accounts for a much larger share of tax revenue than 50 years ago – and nominal GDP, thereby flattering budget revenue and debt/GDP ratio.

The favourable effect of inflation on fiscal accounts depends, however, on stability of inflation expectations and the absence of indexation, among other factors. In the current environment of persistently high inflation, labour shortages, disruptions in global supply chains, large geopolitical tensions, and huge uncertainty about energy and food supplies, the stability of inflation expectations and "business as usual" in relations between employees and employers can no longer be taken for granted. The overall macroeconomic outlook has also become more uncertain, with prospects of stagflation for the first time since the 1970s. What does this new environment imply for public finances in the short and medium term? How will inflation and public finances interact in a world of slower growth and inflation driven by persistent supply shocks? How will this affect the macro fiscal outlook, the structure of policy revenue and expenditure, public debt sustainability? How will it affect structural fiscal issues? What are the implications for public sector governance and other economic policies?

For this thematic section of *Public Sector Economics,* we welcome historical, empirical, theoretical and policy analyses of the effects of inflation on public finances. We would like to understand how inflation interacts with government budgets, how it affects fiscal positions and fiscal policy stance, and what this implies for the policy mix and the public sector in general.

The suggested topics include but are not limited to:

- Inflation and public finances in the 1970s and the 2020s;
- Effects of inflation on tax revenue: VAT, excises, personal and corporate income taxes, capital gains, real estate and wealth taxes;
- Effects on public expenditure: public sector wages, pensions, welfare benefits, government purchases of goods and services, public investment;
- Energy, food and commodity prices and subsidies in a high inflation environment;
- High inflation and labour markets; indexation of wages, pensions, welfare benefits;
- Tanzi effect;
- Impact of inflation on interest rates on government borrowing, debt servicing burden, public debt sustainability;
- Monetary and fiscal policy interactions in high inflation environment; implications for other economic policies;
- Inflation and local public finances.

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