Source: *The Business Times,* p6
Date: 12 June 2015

Harness interests of the rich to help fight inflation: Berkeley don

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THE interests of the wealthy can be harnessed to help countries fight inflation, said a visiting economist from the Haas School of Business in University of California, Berkeley.

"If the government creates a certain type of financial market, for example a local currency long term bond market, it will then create a political constituency that gains from low and stable inflation," said Professor Andrew Rose, Berkeley's Rocca Professor of International Business.

Prof Rose, who is currently the Monetary Authority of Singapore (MAS) Term Professor in Economics and Finance for two months from May 25, was giving a public lecture at the National University of Singapore Business School on Thursday.

He has conducted empirical research that demonstrated that for countries that announce a target inflation rate, issuing 10-year nominal bonds or those of longer maturities in their local currencies can reduce inflation by three to four percentage points.

He focused on 32 inflation-targeting countries out of a dataset from 1970 to 2012 comprising more than 200 countries. The 32 countries include Australia, Brazil, Indonesia, Poland, Thailand, Turkey, and the UK.

He found that countries with a domestic currency bond market experienced consumer price index inflation 2.9 percentage points lower than those without bond markets, and gross domestic product inflation of 4.4 percentage points lower. The results are statistically significant.

Bondholders tend to be the wealthy and institutions such as insurance companies. They lose out if inflation erodes their coupons, Prof Rose said. Faced with high inflation, they lobby central bankers and use the media to influence monetary policy to become tighter, in order to rein in rising prices, he suggested.

The interests of the poor, which hold mostly cash, are thus aligned with that of the rich, he said.

In his time in Singapore, Prof Rose will be meeting faculty members, advising students on their research, and sharing his latest findings at seminars and workshops.

He is also meeting senior policymakers, economists and analysts at the MAS to discuss recent developments in international macroeconomics and finance.

Prof Rose has a well-known colleague at Haas: current Fed chair Janet Yellen, who is emeritus professor there and who had hired him for his Berkeley job many years ago.

While there is market angst over when the Fed will hike rates, Prof Rose told *The Business Times* that the Fed examines longer-term data trends before deciding when to hike. He said there are few signs of inflation in the US.

"My personal guess is December," he said.

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