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Should the Dangers of Deflation be Dismissed?

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**Should the Dangers of Deflation be Dismissed?****Barry Eichengreen<sup>1</sup>, Donghyun Park<sup>2</sup>, and Kwanho Shin<sup>3</sup>****April 2017**Abstract

Deflation has emerged as a concern for Asian policy makers. The traditional view is this concern is warranted – that deflation can lead to a vicious cycle of falling demand and prices, and is therefore a dangerous condition. However, another revisionist school of thought emphasizes the role of positive supply shocks in deflation and takes a more benign view of the phenomenon. In a recent paper, Borio et al. (2015) find some evidence which casts doubt on the traditional view. In this paper, we re-visit these findings using alternative measures of deflation. While we find some grounds for concern about the harmful effect of deflation on growth, our results also raise significant questions about the revisionist view.

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Keywords

Deflation, producer prices, growth

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