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FROM THE EDITOR

FOR MUCH of the post–World War II period, policymakers worldwide have been preoccupied with fighting inflation—especially in the 1970s and early 1980s, when annual inflation rates hit double digits in several industrial countries. But, in recent years, the word deflation (falling prices) has increasingly cropped up in economic circles, and not just in references to Japan's struggle with sluggish growth since the mid-1990s. In May 2003, the European Central Bank said that it wanted a "sufficient safety margin to guard" against risks of deflation in the euro zone. The chief worry is Germany. And the U.S. Federal Reserve Board warned of the danger of an "unwelcome substantial fall in inflation"—a remark that the press seized on as highlighting a fear of deflation, not just disinflation (a slowing down of price rises). To help demystify the topic, the June issue of *F&D* takes an in-depth look at deflation and inflation—including hyperinflation (defined as inflation of over 50 percent a month), which we are warned could return to fiscally profligate developing countries with heavy debt loads and weak institutions. In a new feature, *Country Focus*, we provide a snapshot of Japan's stagnant economy. In *Back to Basics*, we take a look at the increasingly popular practice of inflation targeting.

Historically, deflation has tended to go hand in hand with recession—the last thing the global economy needs after a year and a half of unspectacular and only partial recovery from what came close to being a global recession in 2001. Nothing would contribute more to the fight against poverty than a full global recovery and sustained growth. But achieving this involves more than avoiding deflation and ensuring adequate overall demand. It also involves putting in place good structural policies—and that includes sound institutions. How big a role institutions play in determining longer-term growth continues to be a source of debate. In "Institutions in Development," *F&D* delves into this by inviting Daron Acemoglu, Dani Rodrik, and Jeffrey Sachs, along with IMF and World Bank staff, to lock horns on this topic.

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In *People in Economics*, we ask Allan Meltzer what he thinks of changes in the international financial institutions, especially the IMF, three years after the release of the controversial U.S. congressional report that bore his name. In *Straight Talk*, Kenneth Rogoff, the IMF's Economic Counsellor and Research Department Director, argues that the UN Millennium Development Goals are valuable but not as an all-encompassing framework for long-term growth, because they don't embody the notion of trade-offs or priorities and are extremely hard to measure. Recall the heated debate over poverty figures in *F&D*'s June 2002 issue. The IMF's Jeromin Zettelmeyer examines this statistical debate in a review of Surjit Bhalla's recent book *Imagine There's No Country*. In "Bhalla versus the World Bank: An Outsider's Perspective," Zettelmeyer attempts to reconcile Bhalla's and the Bank's divergent claims about the speed at which poverty is falling and whether global income distribution is widening or narrowing.

Laura Wallace
Editor-in-Chief

Finance & Development welcomes readers' comments. Letters should not exceed 250 words and may be edited for length and clarity. Please address letters to the Editor-in-Chief, *Finance & Development*, International Monetary Fund, Washington, DC, 20431, USA or e-mail to *fanddletters@imf.org*.