

ABSTRACT

This paper is an attempt to explain how inflation can be understood as a fiscal phenomenon independent of monetary policy. Though the introduction of Fiscal Theory of Price Level has theoretically been accepted to be the other side of the ‘Fiscal-Monetary Coordination’ story, its empirics stays a challenge. This paper puts to test the US data in late 1960s and 70s to find a fiscal story for the high inflation period of 1970s. We find that fiscal theory significantly explains the inflation of 1970s.