# "Once the Frankenstein monster is breathing, it is alive." Taming the Inflation Beast

It's been an age since Americans last suffered inflation. But the beast came back with a vengeance last year. The Federal Reserve thought it was transitory at first, but it wasn't. Inflation in the US rose to a whopping 8.9 percent in July 2022, up from around zero at the beginning of 2015. The near-9 percent peak was the highest since 1981.

The rate, as we know, has fallen quite a bit since—hovering around 3 percent by early fall. But the government hasn't accomplished the goal of pushing it to 2 percent, and many don't think it will succeed. Others worry the rate will creep back up.

It begs the question: Why is inflation so difficult to beat?

The answers are elusive, but history tells us a lot. Inflation peaked three times during the 1970s: in 1970, 1974, and 1980. Each time, the Fed quickly lost credibility due to its repeated failures to tame the beast.

"The Fed engaged in a stop-and-go monetary policy," says Robert Wright, a senior research fellow at the American Institute for Economic Research. After raising interest rates to halt inflation, it took its foot off the brake too soon and the rate jumped back up again, leading people to expect inflation to continue or even accelerate.

Such expectations are dangerous because they become embedded into the economy. "When people expect inflation to continue, then they expect they will get a higher wage and will dip into their savings more," Wright says. A "buy now" psyche tends to emerge, as people seek to lock in prices before they increase. As things sell faster, vendors have no incentive to cut prices, leading consumers to keep dipping into savings, which in turn sustains inflation. In this way, inflation becomes the foregone conclusion of a vicious cycle.

It took the huge credibility and determination of Fed chairman Paul Volcker, combined with the efforts of the Reagan Administration, to push inflation down to 3.2 percent by 1983. However, inflation didn't get below the 2 percent target until 1986, making the inflationary surge more than a decade and a half long.



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One of the current problems in taming inflation is the lack of government credibility, says David Ranson, president and director of research at financial-analytics firm HCWE & Company. He points to the combination of massive relief payments and excessive money printing that we saw during the pandemic. He likens this to a helicopter dropping dollar bills onto the street—an all-but-certain recipe for raising inflation.

Such actions tend to do no good for the economy. “It degraded the credibility of the US monetary system, and there is every expectation the government will do it again,” Ranson says. The worry is that a repeat performance of money printing will push inflation back up. In turn, that will give greater momentum to the vicious cycle of higher inflationary expectations.

Another part of what has happened lately is a misunderstanding of how inflation works, says Pippa Malmgren, an entrepreneur and former economic advisor to President George W. Bush. “There’s an accepted idea that you can have a little bit of inflation,” she says. But the reality is quite different: “Once the Frankenstein inflation monster is breathing, it is very alive, and it’s very hard to kill.”

It’s also true that the inflation of today isn’t the same as that of the 1970s. Malmgren says the current situation has been caused, at least partially, by two factors: disruption in the supply chains for energy and food due to the war in Ukraine; and the unusually prolonged shutdown of the Chinese economy. “We need new little companies to start making food and energy and manufacturing goods,” she says. “You can’t get those companies to come to life if you raise interest rates.”

Constable, a former Wall Street Journal TV anchor, is a fellow at the John Hopkins Institute for Applied Economics, Global Health, and the Study of Business Enterprise.

# "This is putting the AI cart before the digital horse."

# Getting Digital Transformation Down—First

We don't usually think of HR executives as excitable, but some at a big healthcare firm I know have been positively giddy lately about how artificial-intelligence programs will transform their work. AI, they believe, will identify the strengths and weaknesses of every employee, eliminate unconscious bias in hiring practices, even forecast which top employees might quit (and suggest offers that could get them to stay!).

AI *could* do all of that for these HR execs, and maybe even more. But this particular HR department is using a 40-year-old spreadsheet program that can't handle all the information AI needs to do a good job. To be fair, the execs know that. Going back as far as 2016, they've been wanting to implement a new, HR-specific software system and to train their direct reports to better capture and use data on employee engagement, hiring, pay, and other key metrics. Seven years later, they're still relying on that ordinary spreadsheet.

AI's been around, in one form or another, for decades, but in 2023 it captured the attention of nearly everyone, including the world's corporate leaders. They marveled at how the technology can write code, create interesting images, suggest strategic tweaks, and automate dozens of essential tasks that typically take up precious company resources. They're throwing a lot of money at AI, too. Global spending on the technology was projected to reach $154 billion in 2023, increasing to more than $300



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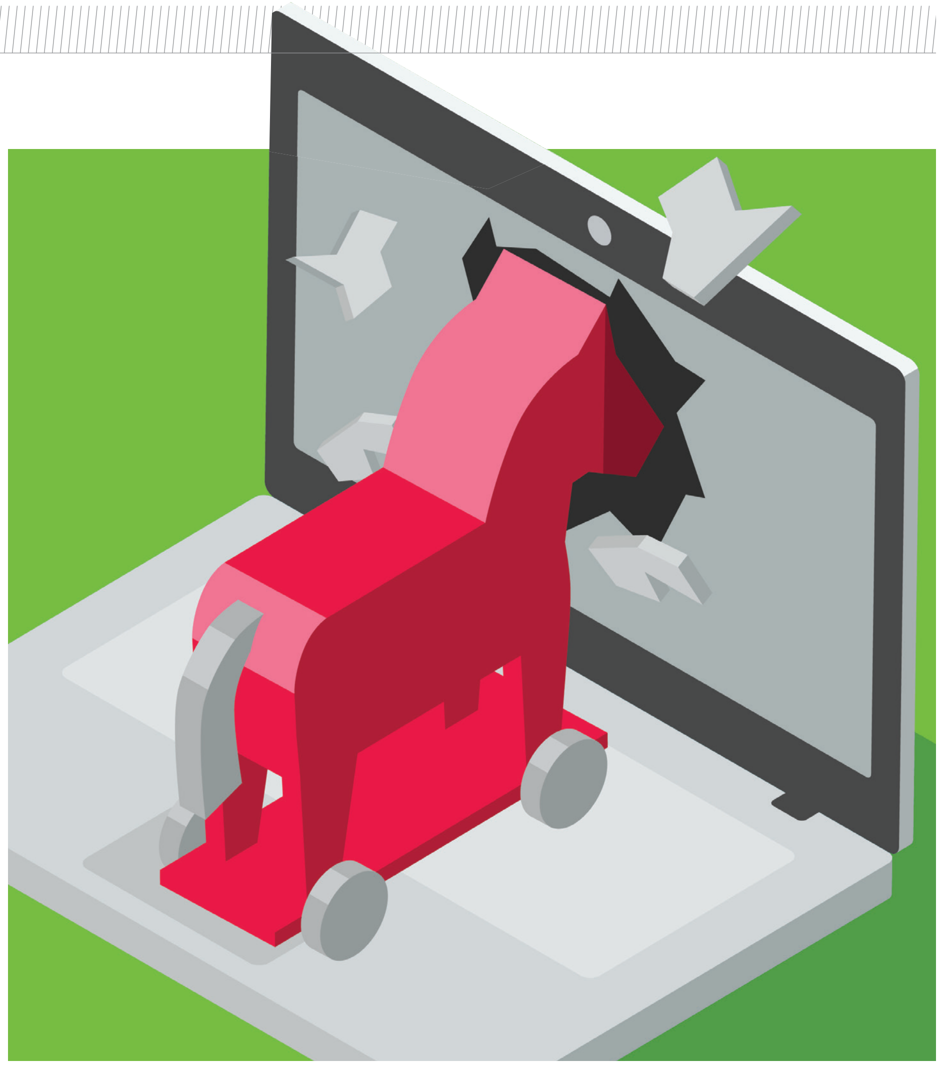

billion in 2026, according to forecasts by the market-research firm IDC. Another survey reports that 47 percent of tech executives at big companies cite artificial intelligence as their No. 1 budget item for 2024—ahead of cloud computing, security, and every other tech spend.

But in many cases, this may be putting the AI cart before the digital horse. Digital transformation, at its essence, involves creating a corporate culture and processes to improve a business using digital technologies and as much data as workers can capture. AI should only be an incremental, albeit powerful addition to all of this—just a new digital tool. But data shows that a whopping 70 percent of digital transformations to date haven't succeeded, typically because they've been undone by human error. Until companies get digital transformation down, I suspect AI won't come close to meeting its corporate proponents' lofty expectations.

I get it: digital transformations can be hard. They can require not only huge investments in technology, but also—more critically—a change in employees' mindsets up and down the corporate ladder. Transformations aren't a one-and-done process, either; they must evolve as companies acquire other firms, expand their businesses, adopt new technologies, or make strategic adjustments. Throughout, there can be many chances to falter, a lack of defined goals, bad technology purchases and configurations, conflicting priorities, employee resistance, and an overall lack of leadership.

But the workforce of a digitally transformed organization has the skills and drive to embrace the new technological tools. It has leaders who can define clear goals, make smart technology decisions to help accomplish them, then equip their employees with the tools and guidance to drive desired business outcomes. Going forward, firms must develop a process to identify and find those talented, agile workers and leaders.

Digitally savvy organizations are already leading the way when it comes to AI. According to data compiled by the research group Bendable Labs, organizations that are highly effective at innovation and digital transformation are much more aggressive than their peers when it comes to investing in AI roles.

The good news is that it's early days for AI. Despite all the hype, the technology still has plenty of hiccups, including accuracy issues and privacy foul-ups. To sort out those issues alone might take years. So companies have some time. Create an organization that can thrive digitally. With a digital foundation, you'll have greater success with AI, quantum computing, cold fusion, or whatever technological innovation comes next.

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Seidel is a senior client partner in Korn Ferry's Global Technology practice.

# "If we feel threatened, it captures our full attention." Creating Work Climates That Work

I vividly—and not happily—recall a boss I had some years ago. The vivid part: he threatened to fire me if I didn't improve my performance. The problem: that threat made it harder for me to do my best work. I would fixate on the threat instead of on my efforts. His blunt-force motivation in effect de-motivated me.

Yet that kind of threat is all too common these days. When companies everywhere—and their leaders—feel heat to continually improve their results, that often gets translated in leader-to-follower terms as increased pressure, heightened stress, and even threats.

But scientists who study attention and performance find that stress level is inversely proportional to performance quality. Cognitive science has known this to be true for decades, as I explain in my new book *Optimal: The Emotionally Intelligent Organization*.

The brain's "salience network" determines what matters to us most in each moment, and moves our attention there. Being threatened captures our attention to the exclusion of anything else. In leadership terms, this means that pressuring people to make them perform better simply backfires.

Research from Korn Ferry that looked at what workers saw as top leadership styles underlines this. So-called "pacesetter" leaders created one of the worst climates—and some of the poorest results. Such leaders had often been outstanding individual contributors, which was typically why they had been promoted to a leadership position.

They themselves were driven by extremely high internal standards for performance—staying at work hours later than others, for instance, to do a perfect job.

But as leaders, they turned that same perfectionistic lens outward, seeing only the ways in which workers were falling short, and ignoring the ways they were performing well. These leaders gave



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failing grades, but never acknowledged success. Small wonder they created a negative climate.

The research showed that the very best climate was created by leaders who could articulate a shared vision or purpose, expressing it genuinely.

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That approach to leadership gave people clarity on expectations and inspired them to give their best efforts.

That message—internal motivation yields better results than externally imposed stress—has been around the corporate world for a while now, but it bears repeating. After all, too many bosses who are under pressure proceed to pressure their team members—who then send that high-pressure message down the line.

In one Harvard Business School study, people kept diaries of their workday. The findings: threats, overly tight deadlines, and harsh evaluations didn't help performance, particularly in the long run. In the worst-case scenario, people got exhausted and burned out—and quit. Brain research at Case Western Reserve University tells us why. When people are subjected to criticism of their performance, their brain's networks for threat activate. This tightly focuses their attention on that threat—at the expense of their perception, range of thought, and flexibility. (Forget creativity.)

In the Harvard study, people found the most satisfaction—and were most productive—when they felt guided by a sense of purpose, not by external pressure. The Case Western brain study came to the same conclusion: when people were guided by their own hopes and sense of purpose, their attention was liberated and agile responses flowed more readily.

In short, to get the best results from people, it pays to invoke a larger purpose rather than to simply exert pressure on them. That strategy may go against the instinctive grain of leadership for many, but it's what the data tells us.

Goleman, author of the international best-seller *Emotional Intelligence*, has a new book coming out, *Optimal: The Emotionally Intelligent Organization.*