



« Should central banks dispense with the Phillips
curve? »

François Geerolf
UCLA, CEPII

The World Economy 2022:
Presentation conference

FEDERAL RESERVE

The Fed chairman says the relationship between inflation and unemployment is gone

PUBLISHED THU, JUL 11 2019-10:45 AM EDT | UPDATED THU, JUL 11 2019-3:17 PM EDT

Yun Li @YUNLI626

SHARE [f](#) [t](#) [in](#) [✉](#)

FT Alphaville International Monetary Fund [+ Add to myFT](#)

Central bankers have one job and they don't know how to do it

Matthew C Klein OCTOBER 18 2017 [43](#)

Blanchard was prompted to recite his faith in the power of the Phillips Curve by former Fed governor **Jeremy Stein**, who wondered how central banks were supposed to *raise* their inflation target to 4 per cent when they are still *undershooting* the current target of 2 per cent. Blanchard seemed to think the answer was easy: keep rates low, unemployment will fall, and inflation will necessarily accelerate.

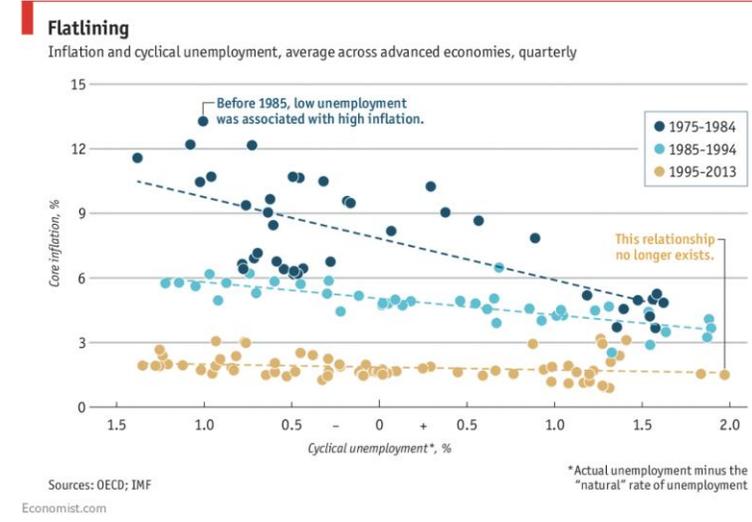
Larry Summers — Blanchard's co-host at the conference and co-author of one of the papers — found this hopelessly inadequate. He pointed to Japan's long experience with full employment, large government budget deficits, aggressive monetary expansion...and total price stability. If *they* haven't managed to get inflation, how could anyone? Blanchard had no answer but to repeat his catechism.

The Economist

Daily chart

The Phillips curve may be broken for good

Central bankers insist that the underlying theory remains valid



THE CASE OF THE DISAPPEARING PHILLIPS CURVE

James Bullard
President and CEO

U.S. MARKETS MAY 16, 2019 / 6:18 PM / UPDATED 2 YEARS AGO

Fed's Brainard: Breakdown in inflation-unemployment relationship poses challenge

By Reuters Staff 3 MIN READ [f](#) [t](#)

WASHINGTON (Reuters) - The relationship between slack in labor and other core resource markets and inflation has "broken down," posing risks for the Federal Reserve if it fails to lift the pace of price increases to its announced target, a top Fed official said on Thursday.

Sovereign bonds [+ Add to myFT](#)

Bond investors cast doubt on Fed's power to push up inflation

Prices wobbled after central bank's reset, but many still question long-term impact



Jay Powell's reminder that the Fed will tolerate higher inflation hit bond prices around the world © FT montage; Reuters
Tommy Stubbington in London and Colby Smith in New York AUGUST 31 2020 [45](#)

Good enough for government work? Macroeconomics since the crisis

Paul Krugman*

IV. The case of the missing deflation

I've just argued that the lack of a major rethinking of macroeconomics in the aftermath of crisis was reasonable, given that conventional, off-the-shelf macroeconomics performed very well. But this optimistic assessment needs to be qualified in one important respect: while the demand side of economy did just about what economists trained at MIT in the 1970s thought it would, the supply side didn't.

As I said, the experience of stagflation effectively convinced the whole profession of the validity of the natural-rate hypothesis. Almost everyone agreed that there was no long-run inflation–unemployment trade-off. The great saltwater–freshwater divide was, instead, about whether there were usable short-run trade-offs.

But if the natural-rate hypothesis was correct, sustained high unemployment should have led not just to low inflation but to continually declining inflation, and eventually deflation. You can see a bit of this in some of the most severely depressed economies, notably Greece. But deflation fears generally failed to materialize.

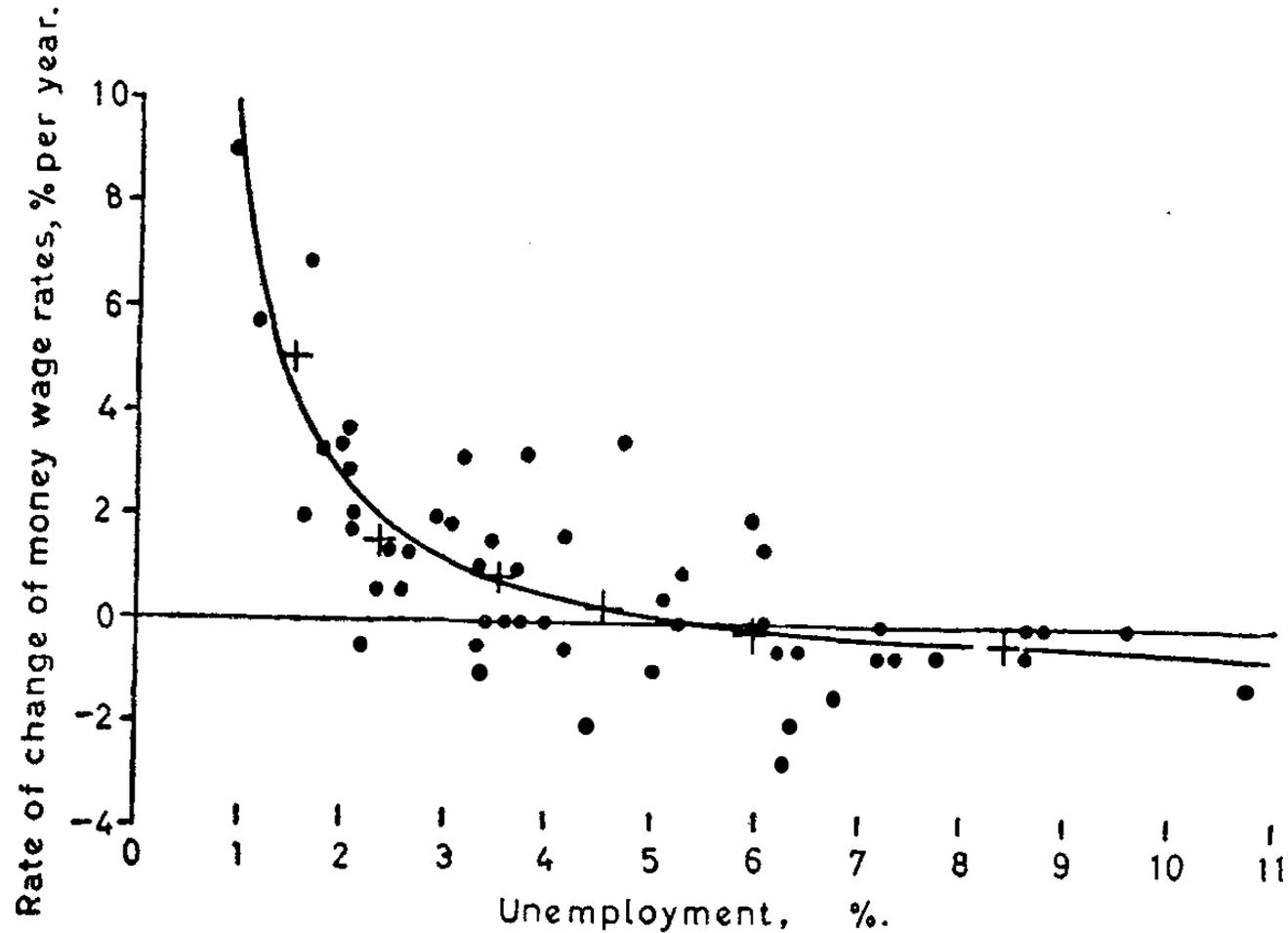
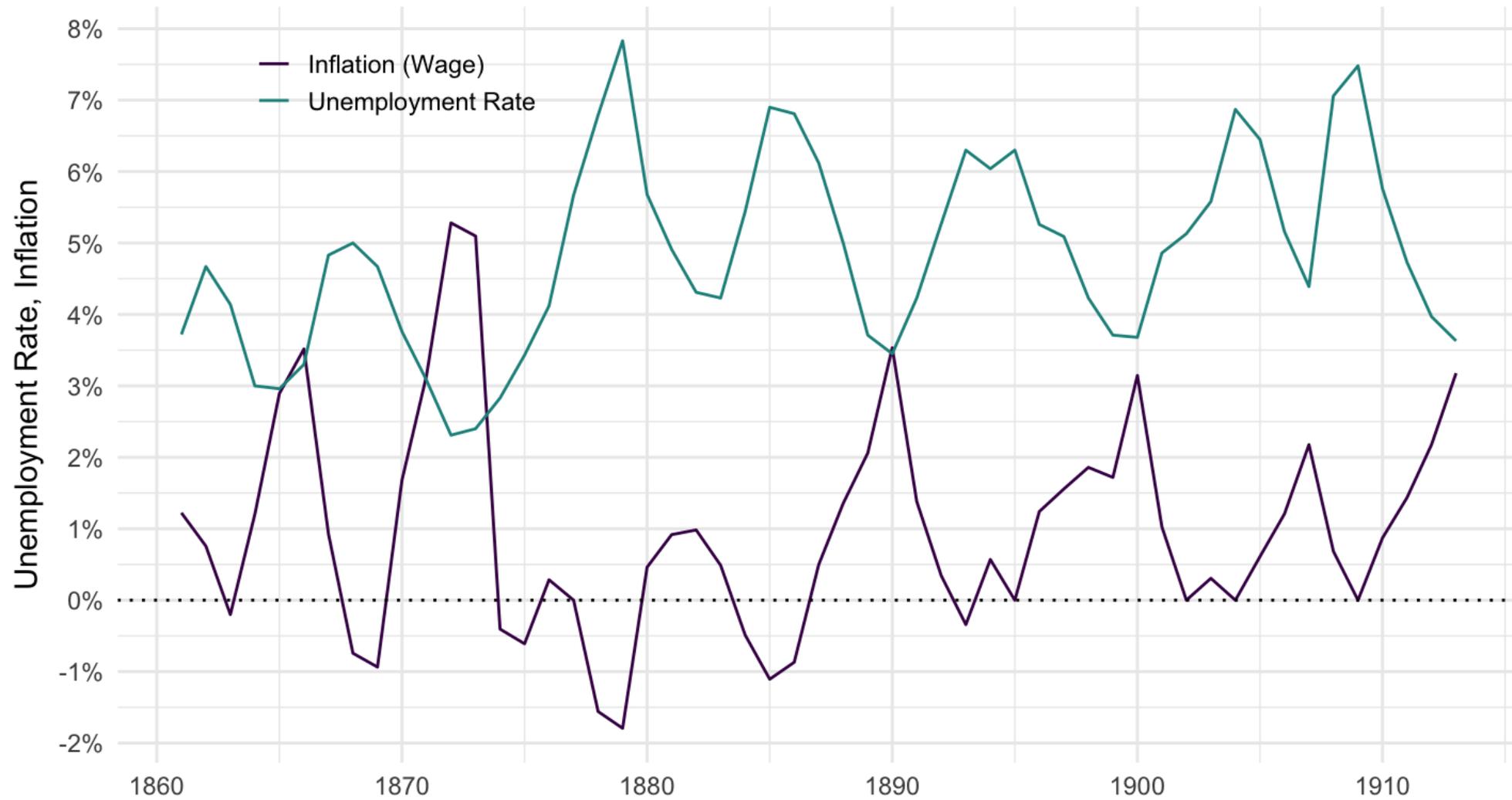
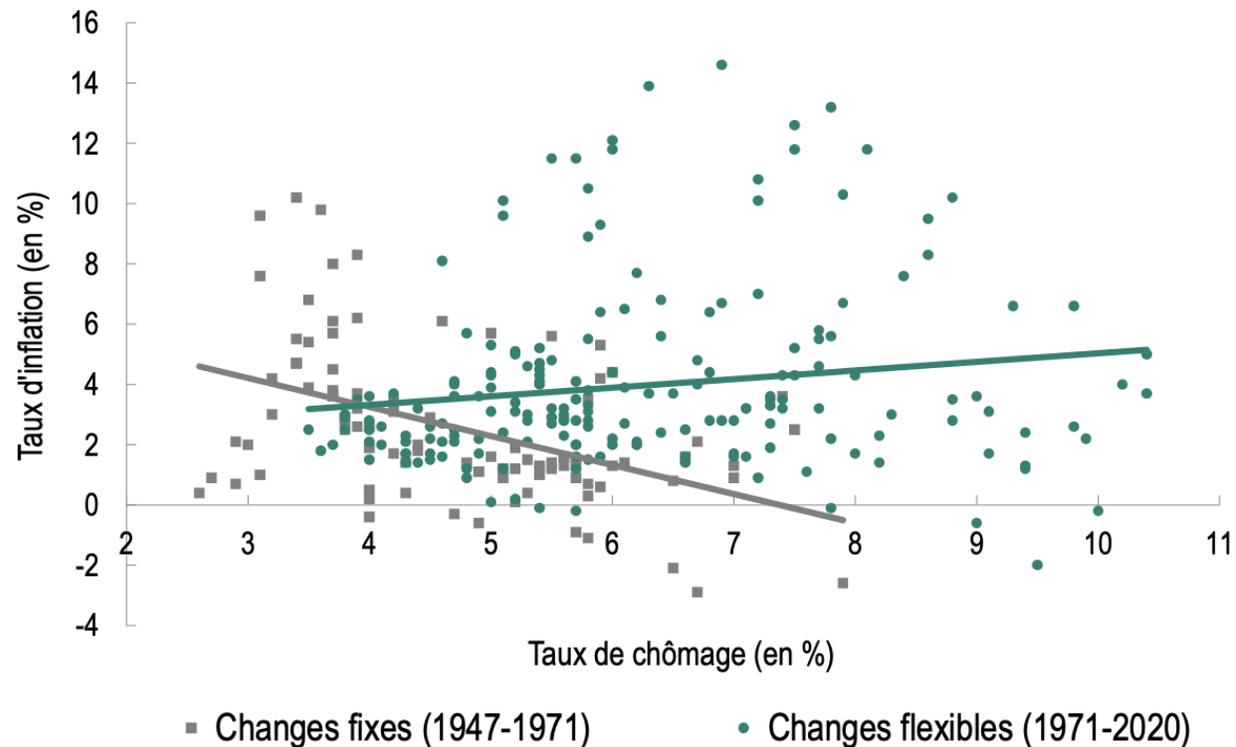


Fig.1. 1861 – 1913

Phillips' original correlation in the United Kingdom (1861-1913): Gold Standard !



Graphique 1 – La courbe de Phillips était bien visible aux États-Unis pendant Bretton Woods, après elle disparaît



Source : Calculs de l'auteur, à partir de la base de données FRED.

The Fixed / flexible Exchange Rate dichotomy applies more generally

