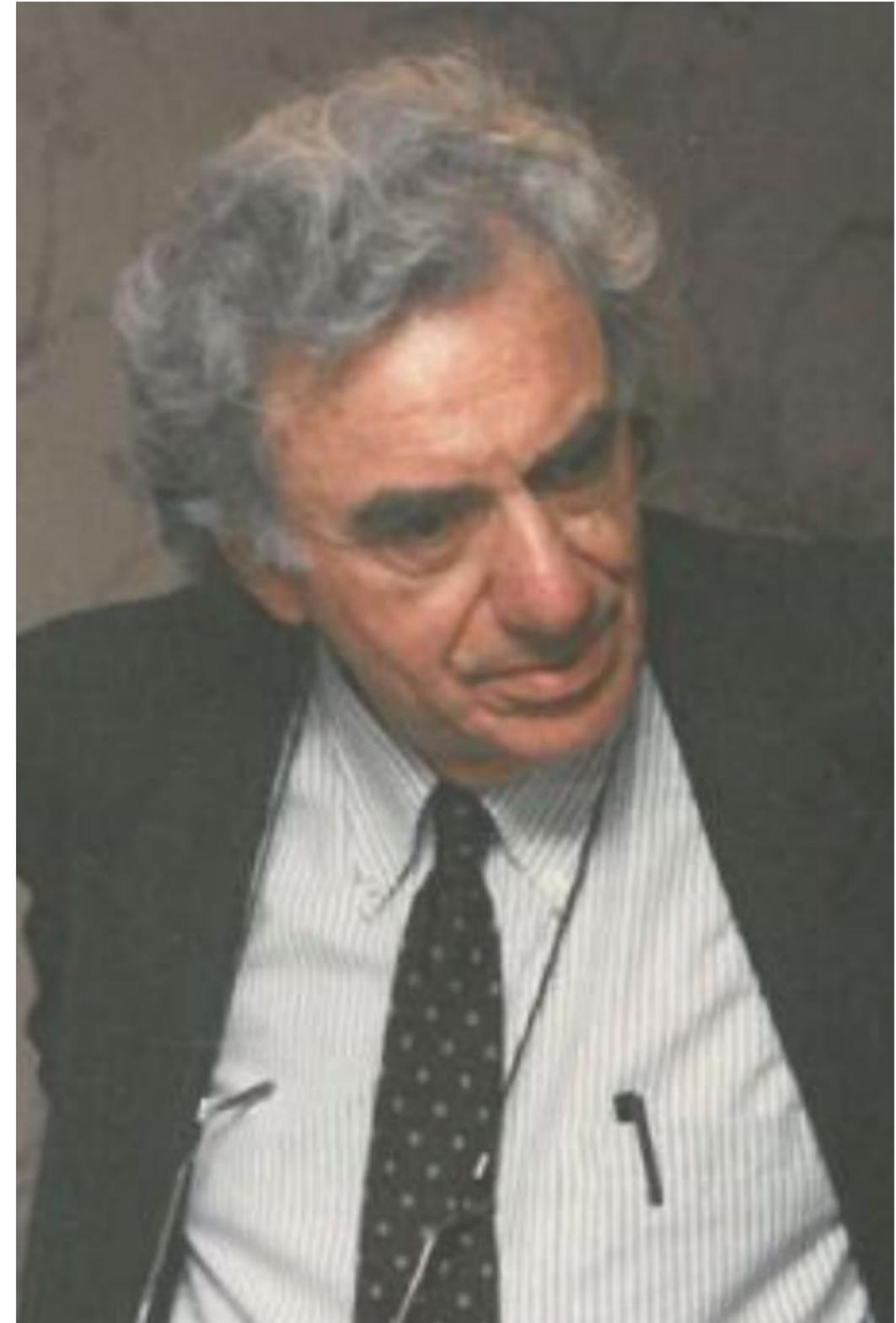


Jean-Baptiste Say, Thomas Robert Malthus, John Stuart Mill



Milton Friedman, John Maynard Keynes, Hyman Minsky



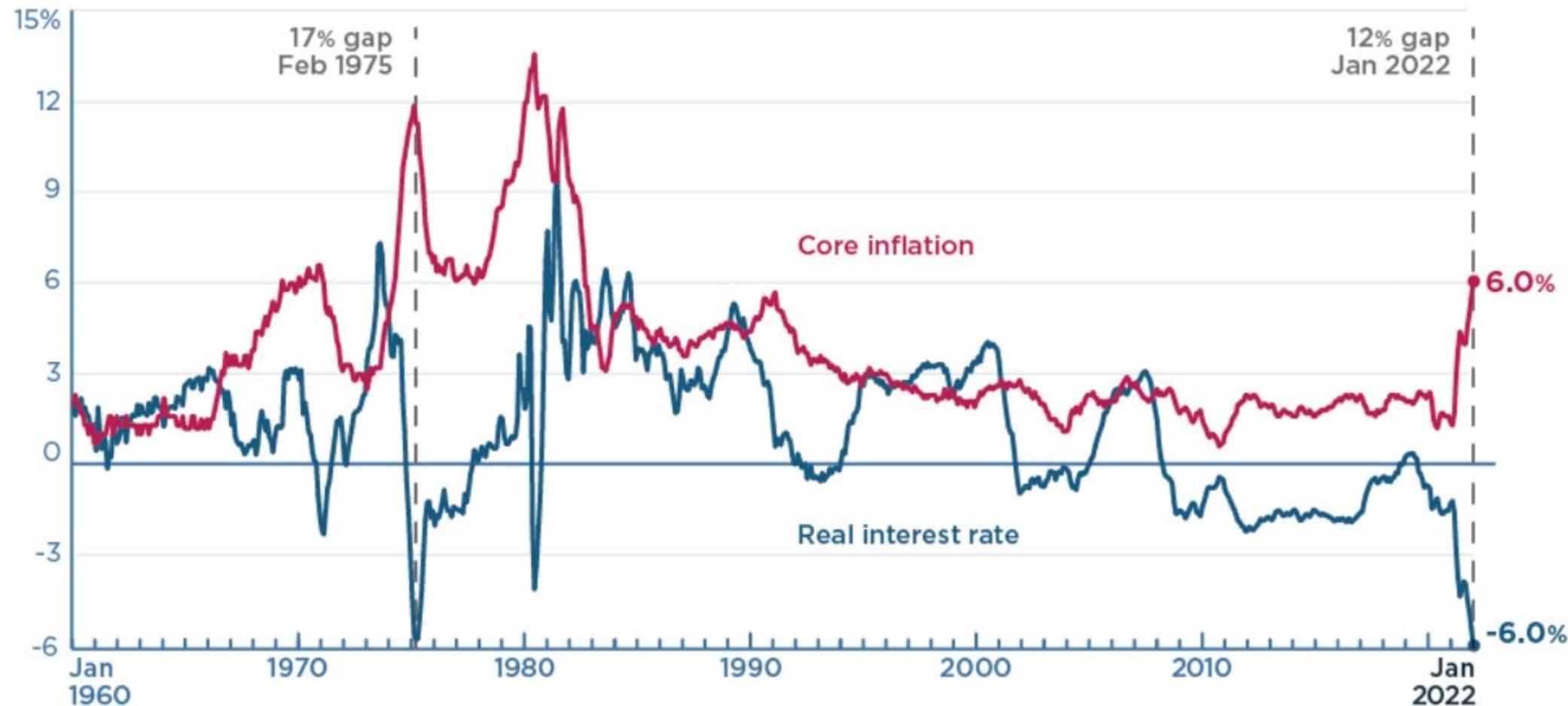
Episodes of Inflation in the United States since 1913



Olivier Blanchard (March 14, 1992): Why I worry about inflation, interest rates, and unemployment

The last time the Fed fell this far behind the curve on inflation was in 1975 and it took 8 years to bring under control

Core inflation and the real policy interest rate, percent



“Is it reasonable to think that a 200-basis-point increase in the policy rate, so only 1/6 of the rate increase from 1975 to 1981, will do the job this time when the gap between core inflation and the policy rate is 2/3 of what it was in 1975? And that unemployment will barely budge? I wish I could believe it...”

“Reifschneider and Wilcox argue that the empirical evidence, based on data going back a few decades, mostly supports no catchup, anchored expectations, and a flat Phillips curve. And they are on solid empirical ground.... The issue, however, is how much the past few decades, characterized by stable inflation and nothing like COVID-19 or war shocks, are a reliable guide to the future.... Central here is salience.... When inflation is suddenly much higher... workers and firms start paying attention and caring. I find the notion that workers will want to be compensated for the loss of real wages last year, and may be able to obtain such wage increases in a very tight labor market, highly plausible, and I read some of the movement in wages as reflecting such catchup. We know from history that inflation expectations can deanchor fast...”

Blanchard, Olivier. 2022. "Why I worry about inflation, interest rates, and unemployment." Peterson Institute for International Economics, March 14. <<https://www.piie.com/blogs/realtime-economic-issues-watch/why-i-worry-about-inflation-interest-rates-and-unemployment>>.

Reifschneider, David, and Wilcox, David. 2022. "The case for a cautiously optimistic outlook for US inflation." Peterson Institute for International Economics, Policy Briefs 22-3, March. <<https://www.piie.com/publications/policy-briefs/case-cautiously-optimistic-outlook-us-inflation>>



Note: Core inflation is consumer price index inflation excluding food and energy. The real policy interest rate is the federal funds interest rate minus core inflation over the previous 12 months.

Sources: US Bureau of Labor Statistics and Board of Governors of the Federal Reserve System, retrieved from Federal Reserve Bank of St. Louis (FRED).