

Macro Roundup Article

Headline: [Lessons from History for Successful Disinflation](#)

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Tweet: Over 9 post-WWII episodes in which the Fed embarked on disinflation, tightening with high initial commitment and willingness to endure output losses yielded a 5-year reduction of 3pp, while very weak commitment resulted in ½ pp after 5 years.

Summary: We categorize this variation in commitment using what policymakers said about several issues both in the policy records and in public speeches and testimony, [including] how much output loss policymakers were willing to accept. We conclude that monetary policymakers were very committed to disinflation in the 1958, 1979, and 1981 episodes and only weakly committed in the 1968, 1974, and 1978 episodes. In 1981, e.g. policymakers felt they had erred in backing away from disinflationary policy in the spring of 1980, and were willing to accept large output losses to finally get inflation down. In 1978, they wanted no more than a mild slowing of output growth, and believed that monetary policy could not reduce inflation on its own. There is no evidence that stronger commitment to disinflation directly affected expected inflation. The main channel through which weak commitment led to [failure] was premature abandonment of the disinflationary policy.

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Primary Topic: Inflation

Topics: Academic paper, Business Cycle, GDP, Inflation, Monetary Policy

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