

Macro Roundup Article

Headline: [Fortunately, This Isn't the Volcker Disinflation](#)

Article Link: <https://www.econlib.org/fortunately-this-isnt-the-volcker-disinflation/>

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Tweet: [. @ScottSumnerTMI argues the employment cost index \(ECI\) running at 4% annualized is consistent with roughly 3% trend inflation. Scott thinks getting the ECI down another 1% will require “something closer to 4% or 5% unemployment.”](#)

Summary: Once the public adjusts its expectations to the high trend inflation, the economy returns to the natural rate. This explains why the economy today is more overheated than before the Volcker disinflation. By the early 1980s, the public had adjusted to a long period of high inflation and unemployment had returned close to its natural rate. Each year, both wages and prices rose rapidly—but the economy was not in “disequilibrium”. In contrast, today’s economy has still not adjusted to the very fast NGDP growth of 2022. Thus, the labor market is more overheated than in early 1981, despite much less inflation. I still believe that some pain will be imposed on the labor market in bringing inflation down, but perhaps something closer to 4% or 5% unemployment, not the double-digit unemployment of late 1982.

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Primary Topic: Inflation

Topics: GDP, Inflation, Op-Ed/Blog Post, Theory

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