

Inflation & other aggregates

Principles of Macroeconomics // Spring 2025

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Readings

Readings

Required readings:

- There Are Three Types of Inflation; We Have Two (*NYT*, 1974);
- The Great Inflation: 1965–1982 (*U.S. Federal Reserve History*);
- Policy choices did not cause recent years' inflation—but did deliver strong wage growth (*Economic Policy Institute*).

Words of the day

- Demand-pull;
- Cost-push;
- Phillips;
- Class conflict.

Types of inflation

Types of inflation

There Are Three Types of Inflation; We Have Two

By James Tobin

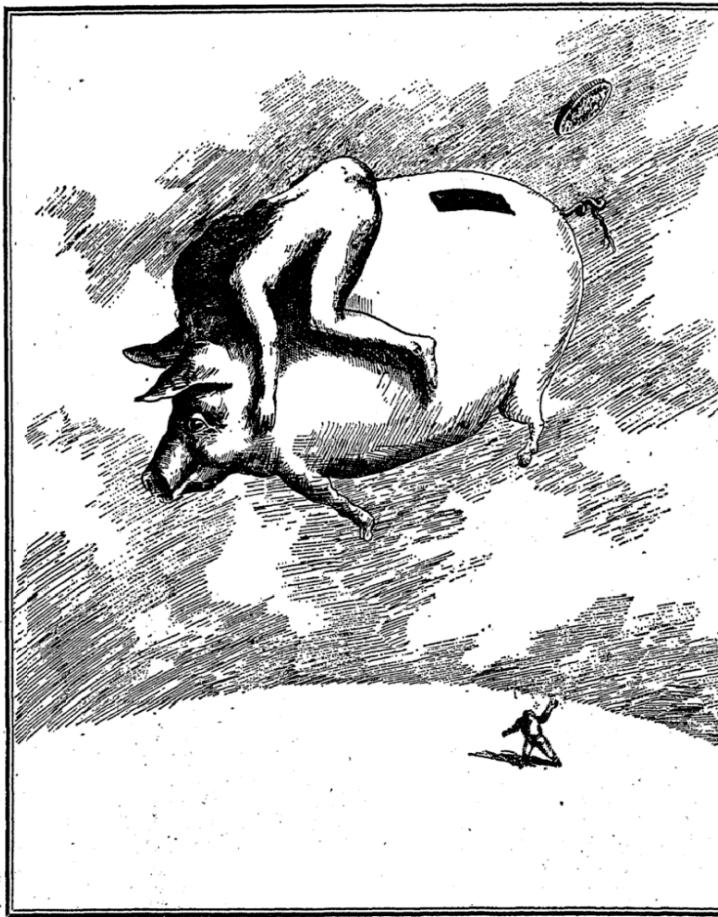
NEW HAVEN, Conn.—Three decades of experience tell us that inflation is endemic to modern democratic industrial societies. Fortunately the same record indicates that these economies are nonetheless capable of yielding their citizens substantial gains in well-being decade after decade. But hysteria about inflation may lead to policies that keep economic progress well below its potential.

The United States inflation of 1973-74 is a complex and difficult case, unique in our history. In general we may distinguish three types of inflation: (a) excess demand inflation, popularly summarized as "too much money chasing too few goods," (b) the wage-price-wage spiral, and (c) shortages and price increases in important commodities. Our current inflation is a combination of (b) and (c). But public discussion generally ignores these distinctions and identifies every inflation, including the present case, as the classical type (a). From this diagnosis, mistaken in my opinion, follows the classical remedy, the "old-time religion" of restricting aggregate demand by tight monetary policy and by fiscal austerity.

With some oversimplification, we can say that the U.S. suffered a severe case of excess-demand inflation (a) in 1966, when President Johnson and Secretary of Defense Robert McNamara piled war demands onto an economy already operating close to its capacity, and ignored their economists' pleas to raise taxes. Re-enforced by a lesser dose of excess demand in 1968, the 1969 outburst left in its wake a surprisingly stubborn case of inflation type (b), the wage-price-wage spiral. Attaining a momentum of its own, this inflation first accelerated and then abated somewhat under the deliberately recessionary policy of 1969-71, assisted by Phases I and II of the controls introduced in August 1971.

At the end of 1972 the ongoing wage-price dynamic was producing over-all inflation of 3½ per cent per year, down from 5 per cent in 1969 and 1970. However, it was obvious, as events confirmed, that some of the improvement was transient window dressing which would not survive relaxation of controls and completion of the recovery from recession.

Some observers view the 1973 ex-



© Roland Topor

Source: The New York Times (1974).

Types of inflation

Main agreed upon *causes* of **inflation**:

1. Demand-pull;
2. Cost-push;
3. Class conflict (aka wage-price spiral).

Types of inflation

[1] Demand-pull inflation:

“Too much money chasing too few goods.”

- Irresponsible **government**?
- **Full**-employment?

Types of inflation

[1] *Demand-pull inflation:*

Recall aggregate demand:

$$C + I + G + (X - M)$$

Types of inflation

[1] *Demand-pull inflation:*

 American Rescue Plan (2021)

Types of inflation

[1] *Demand-pull inflation:*

 Inflation vs. unemployment over time

Types of inflation

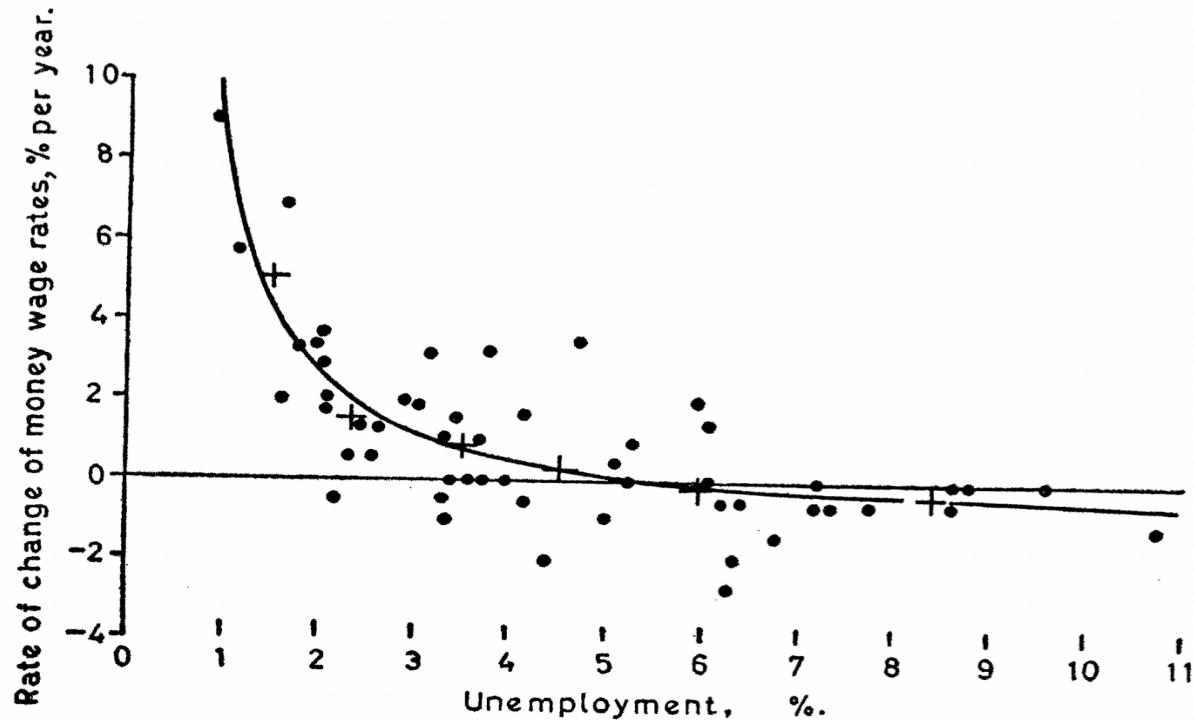
[1] Demand-pull inflation:

In 1958, **A. W. Phillips** (1914–1975) *empirically* found that **low** rates of unemployment were associated with **high** rates of inflation, and *high* unemployment with *low* inflation.



Types of inflation

This relationship has since been referred to as the *Phillips curve*.



[Link to original paper](#)

Types of inflation

Q: **How** can lower **unemployment** lead to a general increase in the price level (i.e., **inflation**)?

Larry Summers blasted for hailing US job losses from 'tropical paradise'

By Ariel Zilber

Published Jan. 9, 2023 | Updated Jan. 9, 2023, 12:57 p.m. ET



Summers appeared on Bloomberg TV's "Wall Street Week" on Friday to discuss the government's latest jobs report.
Bloomberg

Source: *New York Post* (2023).

Types of inflation

[2] Cost-push inflation:

Increases in the *cost of producing* goods and services:

- Wages;
- Raw materials;
- Energy;
- etc.

Types of inflation

[2] Cost-push inflation:

 The lagged effects of COVID-19 supply chain disruptions on inflation
(*Brookings Institute*)

Types of inflation

[2] Cost-push inflation:

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Culture

LATEST NEWS

MUSIC >

How Adele's '30' upended the vinyl industry and caused prices to spike

In 2021, the Londoner's latest release soaked up all the raw materials and made record albums more expensive



A London clerk in a Soho record shop with Adele's album '30'.
TOLGA AKMEN (AFP / GETTY IMAGES)

Raw material scarcity meant that the consumers paid higher prices. "We had delays of three to four months because we not only had supply problems, we were in the middle of a pandemic," said López. He says the supply has now stabilized, but prices remain high. "Plastic is still expensive because of the price of the oil used in manufacturing. And cardboard costs almost 40% more now."

Source: *El País* (2023).

Types of inflation

[2] Cost-push inflation:

 Europe's energy crisis is over (Reuters)

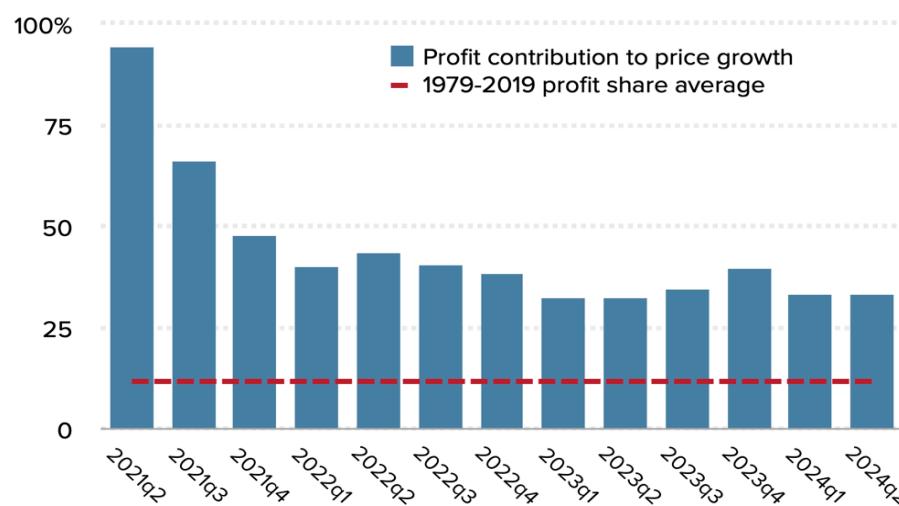
Types of inflation

[2] Cost-push inflation:

- Greedy corporations?

Corporate profits have contributed disproportionately to price growth since 2019

Share of price growth in the nonfinancial corporate sector accounted for by rising profits since 2019q4



Source: Economic Policy Institute (2024).

Types of inflation

[3] Conflict inflation:

- Conflicting *claims* over **income distribution**;
- Who's to *blame*?

Types of inflation

[3] Conflict inflation:

Starbucks union campaign pushes on, with at least 16 stores now organized.

Workers at six more stores in upstate New York have voted to unionize.

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Amazon Workers on Staten Island Vote to Unionize in Landmark Win for Labor

Despite heavy lobbying by the company, workers at the facility voted by a wide margin for a union. It was seen as a rebuke of the company's treatment of its employees.

NYT (2022)

Source: NYT (2022).

Types of inflation

[3] Conflict inflation:

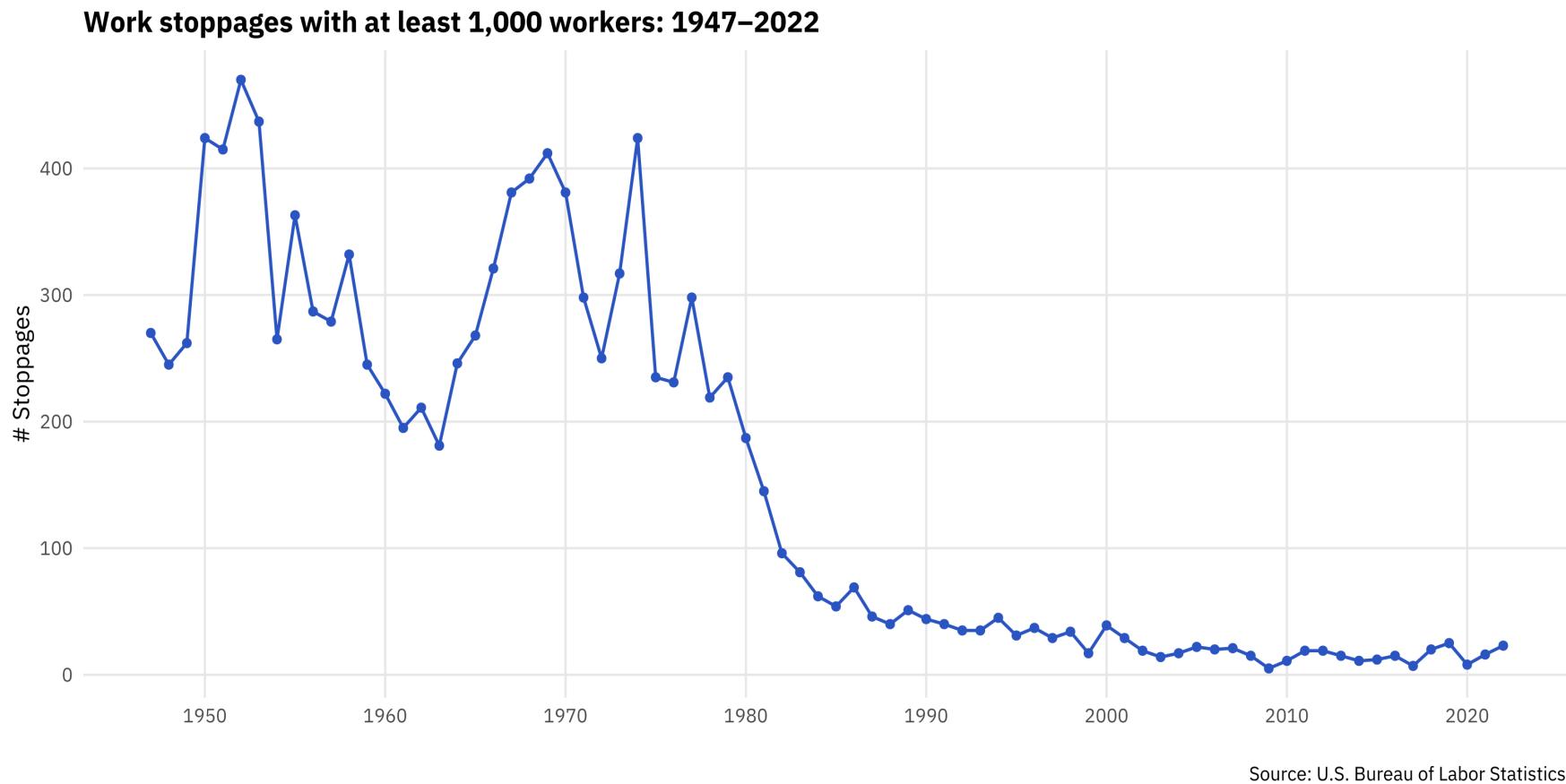
Ports Rush to Reopen After First Major Strike in Decades Is Suspended

Days after tens of thousands of longshoremen along the East and Gulf Coasts walked out, their union and their bosses reached a tentative agreement on wages.

Source: NYT (2024).

Types of inflation

[3] Conflict inflation:



Next time: Inflation & the Central
Bank