

Many shades of inflation

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Prologue

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Do you think of **inflation** as a *problem*?

A bit of theory

The Phillips Curve

A relationship between the rates of **inflation** and **unemployment**.

In terms of **macroeconomic policy**...

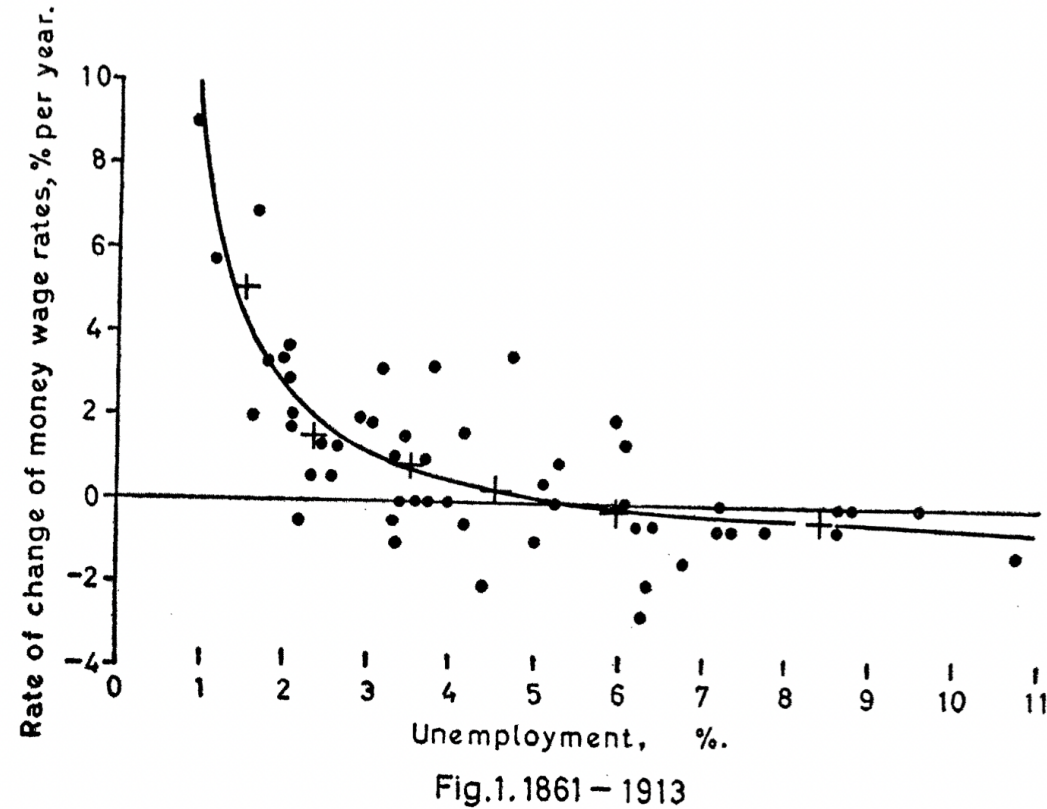
- **Low** unemployment levels \implies **higher** inflation;
- **High** unemployment levels \implies **lower** inflation;

...But what is the *mechanism*?

- Prices change **in proportion** to money wages (*mark-up* pricing).

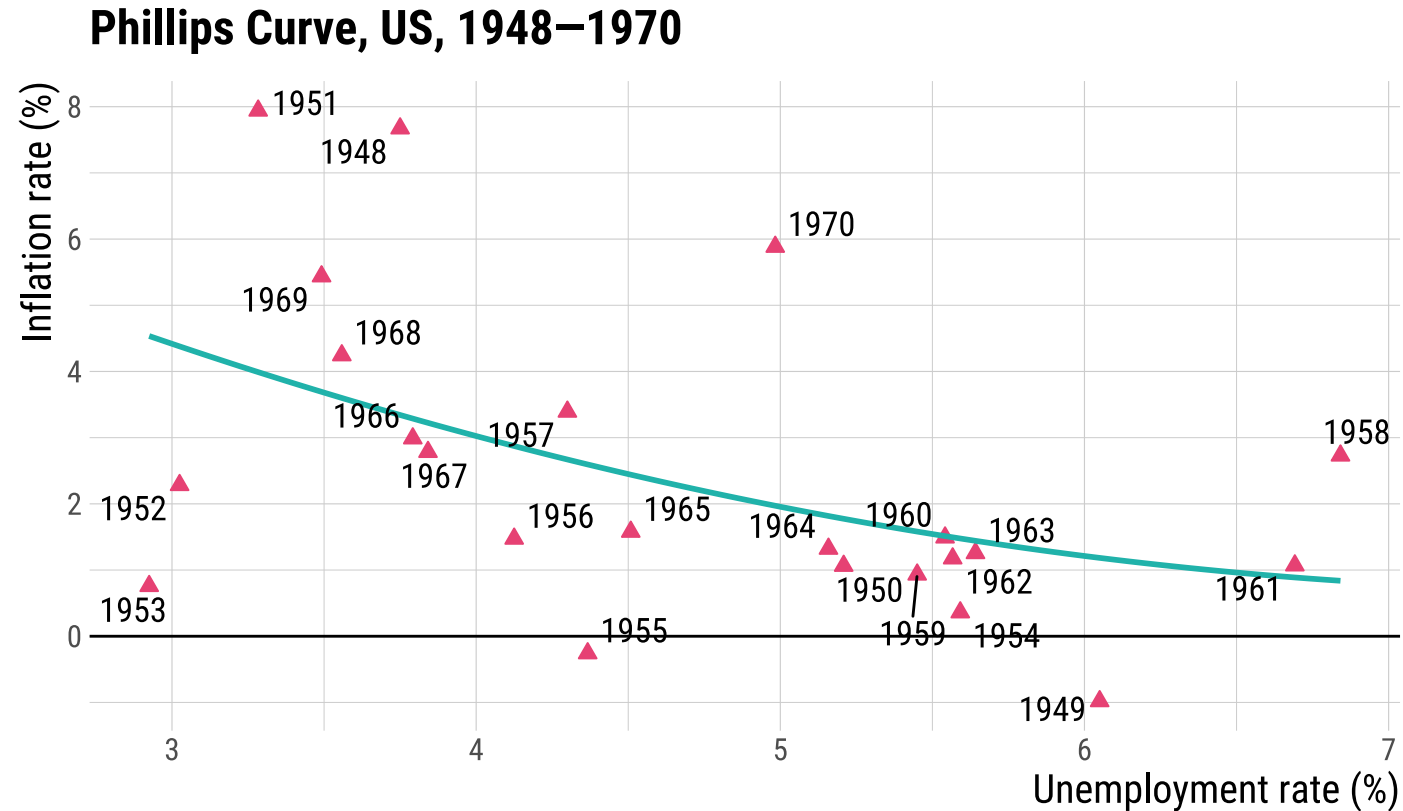
The Phillips curve(s)

A.W. Phillips's original paper (1958)



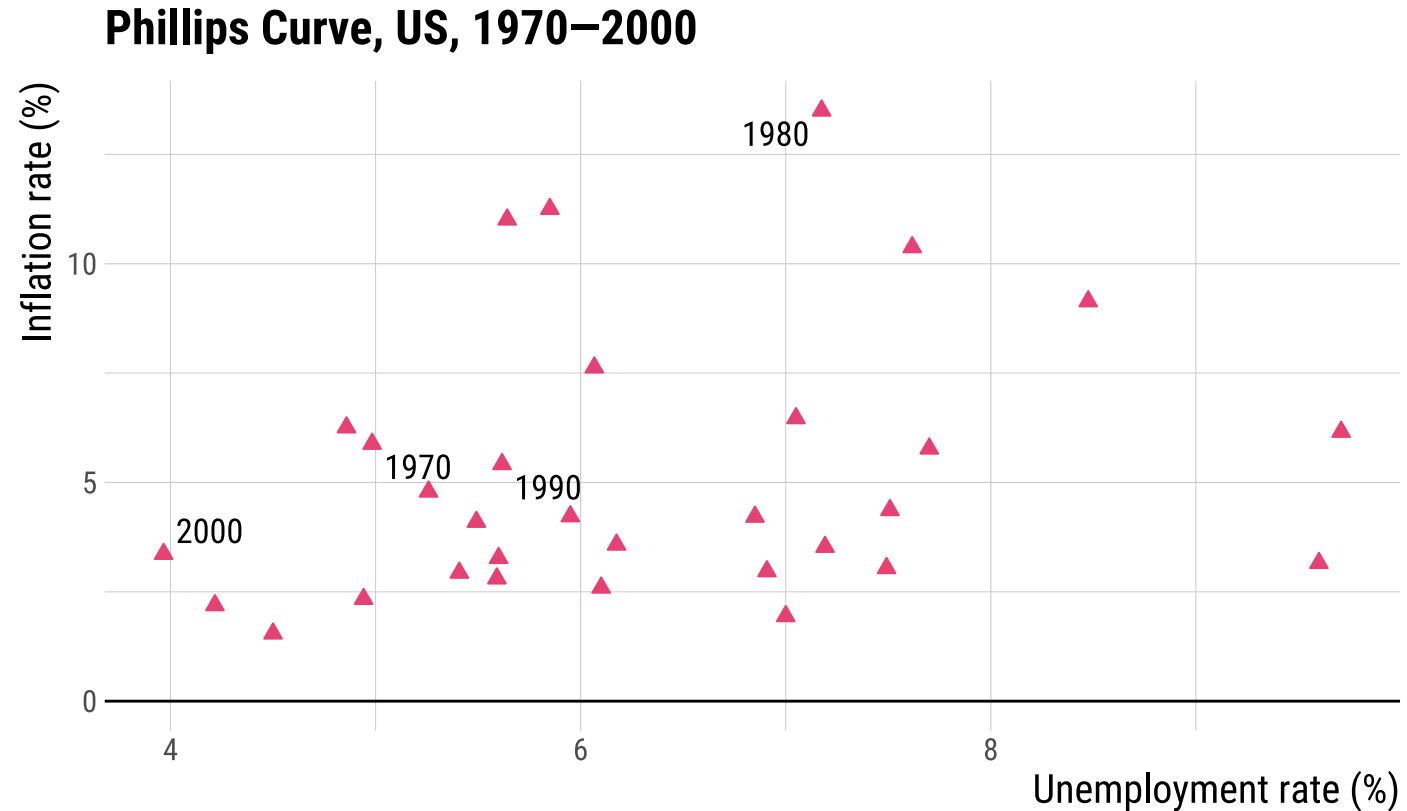
The Phillips curve(s)

The rise and fall of the US Phillips Curve...



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The Phillips curve(s)

How come that this theory **fails** to explain the 1970s?

Due to a **consistent** increase in the rate of inflation, **expectations** come in.

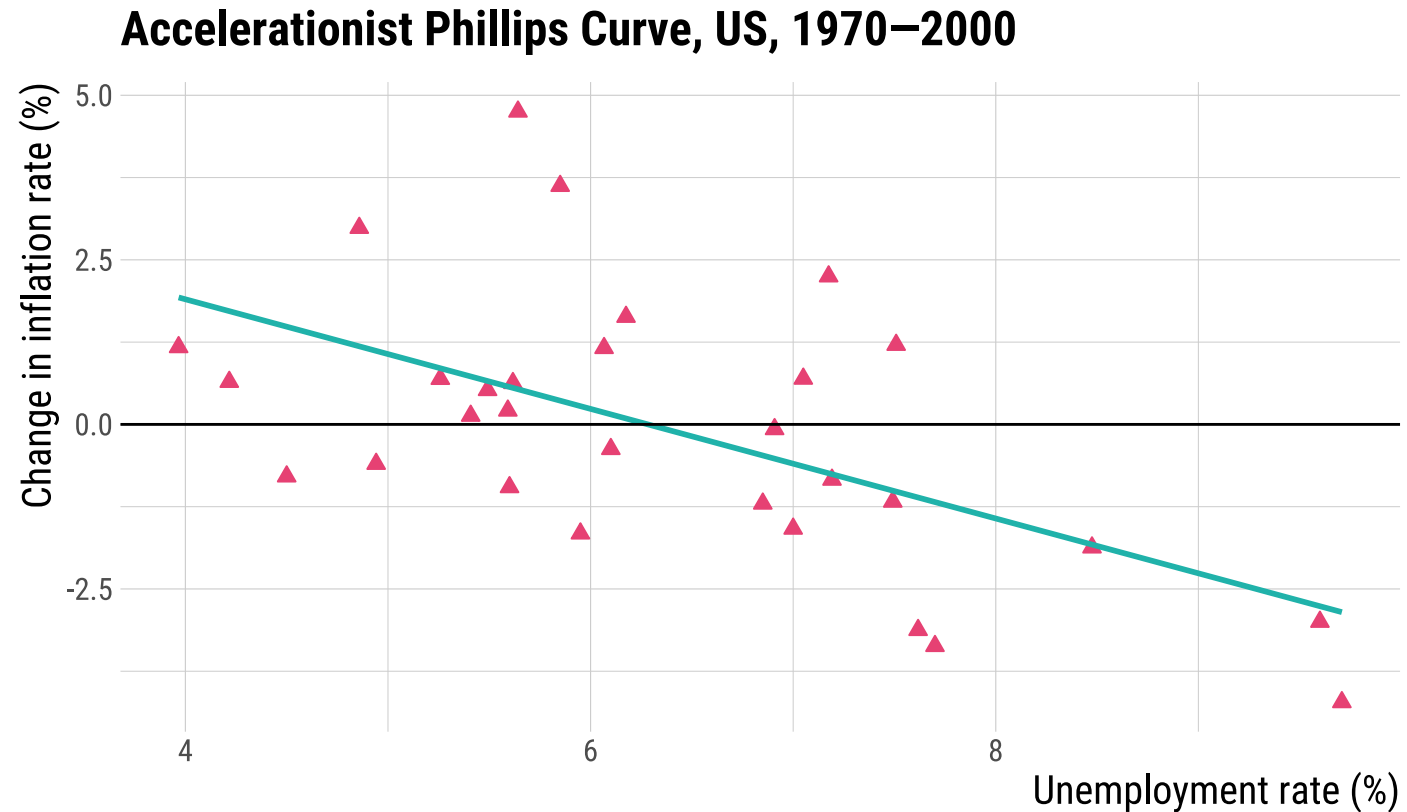
When bargaining for wages, workers mediate their expected gains assuming that **past** inflation will be (to some degree) similar to the present's.

A "new" relationship: unemployment vs. the **change** in the inflation rate.

- And the **Natural Rate of Unemployment** (*aka* NAIRU) comes in...

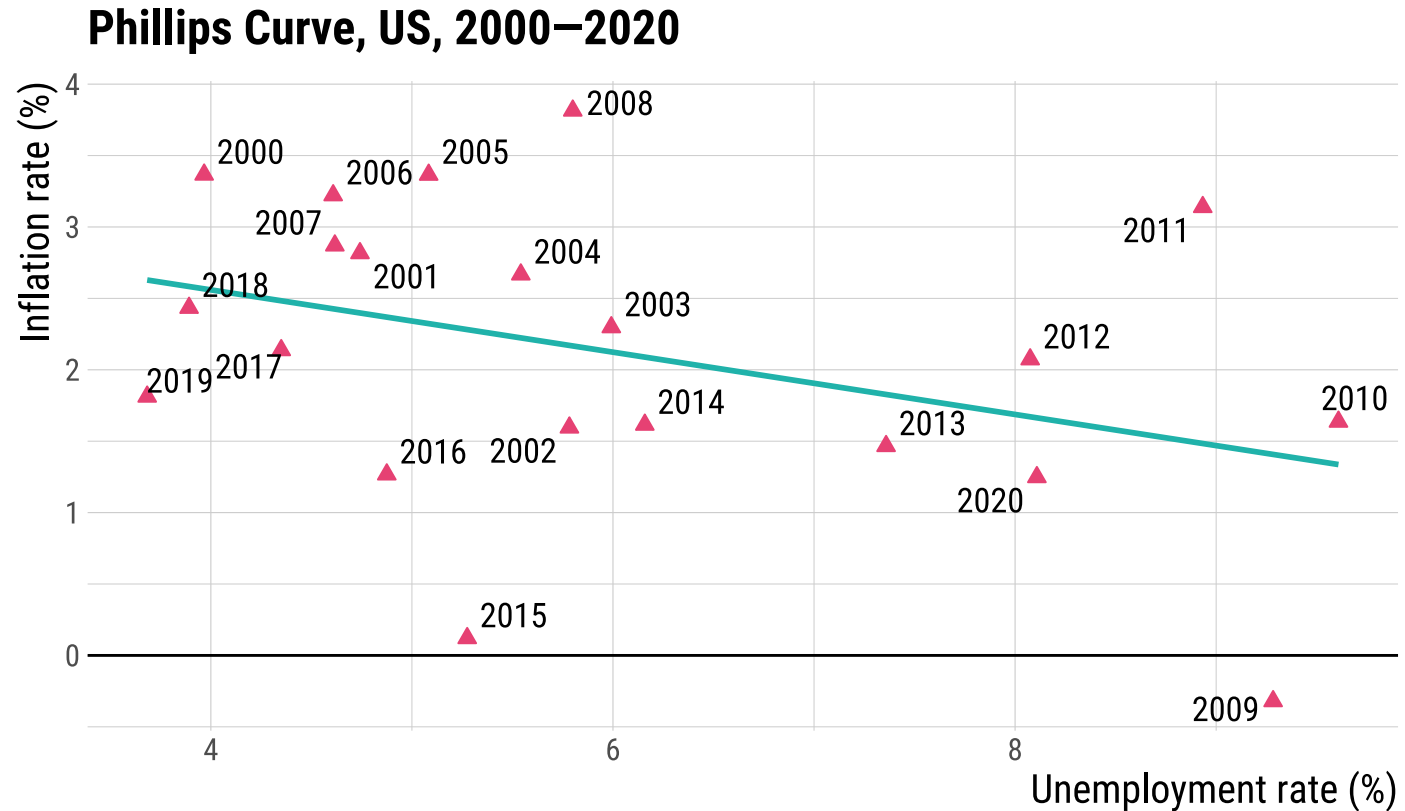
The Phillips curve(s)

The rise and fall (and rise) of the US Phillips Curve...



The Phillips curve(s)

Back to a non-accelerationist world?



The current scenario

Too much fiscal policy?

More recently, many argue that the Phillips curve is essentially **flat**.

- Blanchard (2016);
- Forbes et al. (2020)

But with **adverse/unexpected supply shocks**, inflation expectations may become *de-anchored*.

And what has been going on recently?

- American Rescue Plan and the Build Back Better Act;
- Supply-side bottlenecks:
 - Truckers shortage;
 - Shortage of shipping containers.

Too much fiscal policy?

- *Too much stimulus* team:

Larry Summers

Olivier Blanchard

- *Don't panic* team:

Paul Krugman

Joseph Stiglitz

Thank you!