Many shades of inflation

Marcio Santetti

Trinity College
December 2021

Marcio Santetti

Ph.D. Candidate

University of Utah

✉ santetti@gmail.com
🔗 marcio.rbind.io
 github.com/marciosantetti

Prologue

Prologue

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

A bit of theory

The Phillips Curve

A relationship between the rates of **inflation** and **unemployment**.
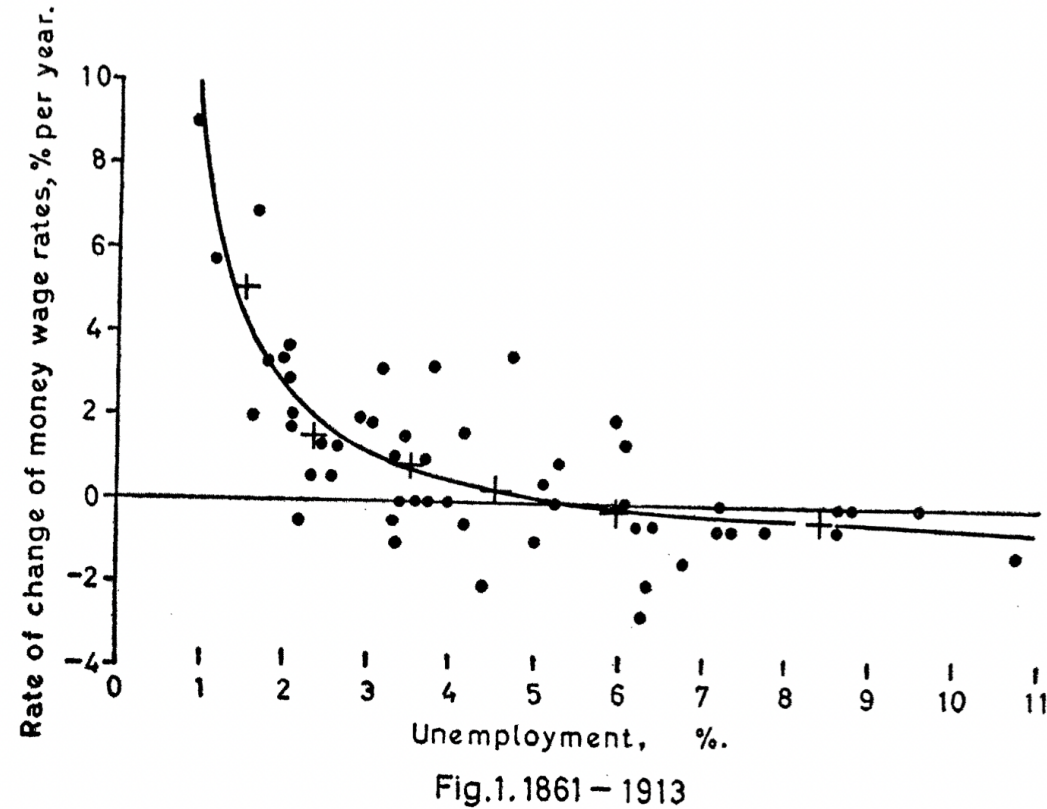
In terms of **macroeconomic policy**...

- **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).
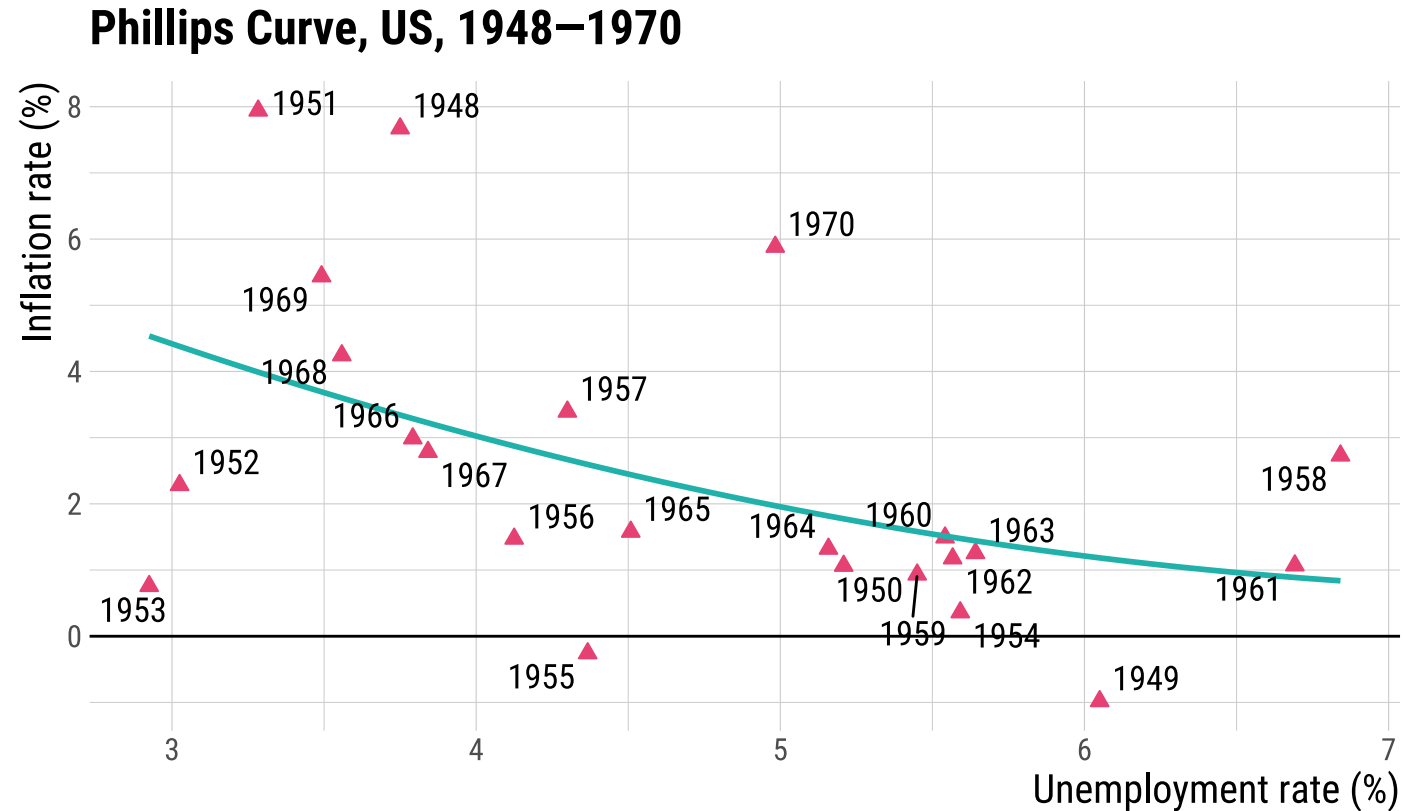
The Phillips curve(s)
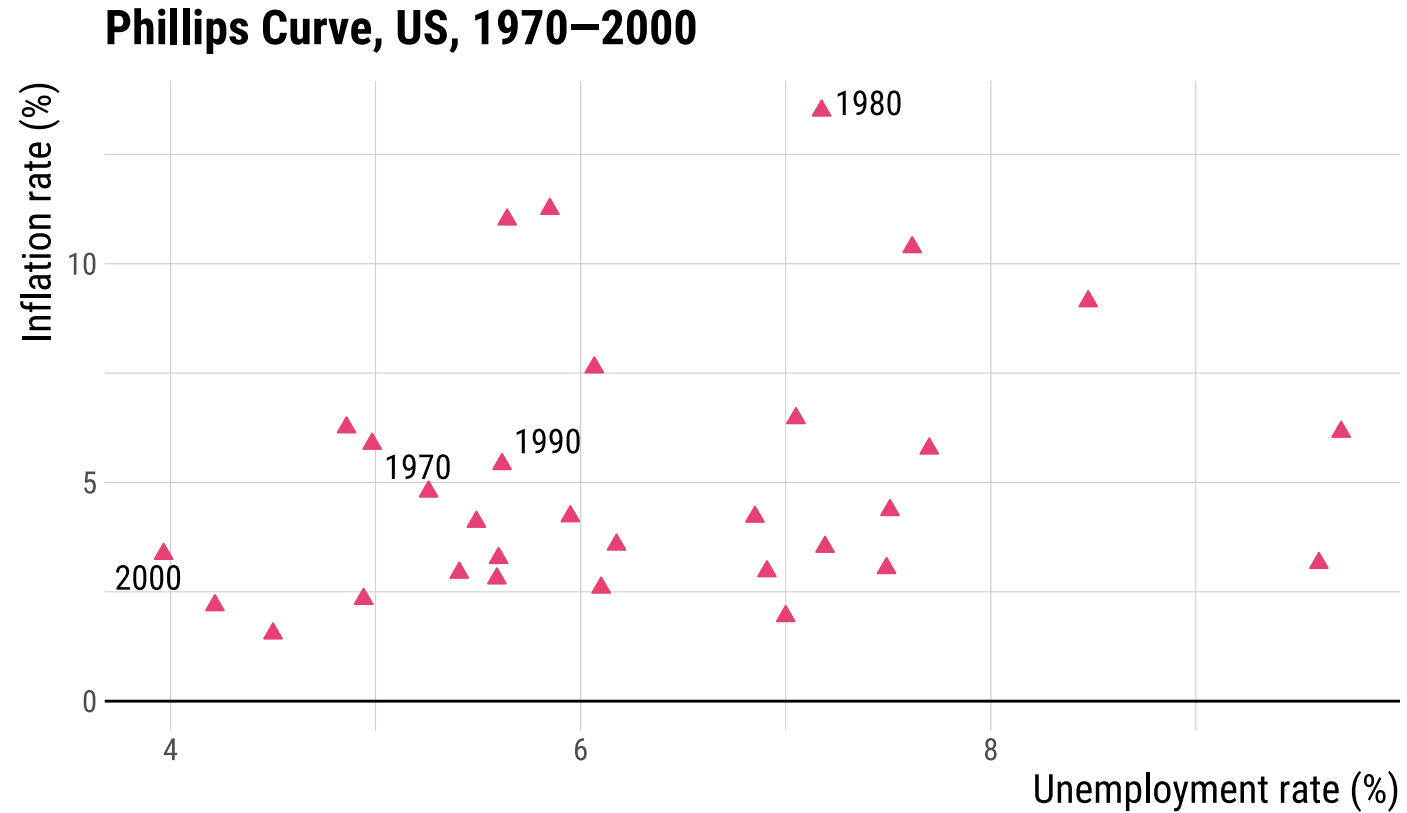
A.W. Phillips's original paper (1958)

Fig.1. 1861 – 1913

The Phillips curve(s)

The rise and fall of the US Phillips Curve…

Phillips Curve, US, 1948–1970

The Phillips curve(s)

The rise and fall of the US Phillips Curve…

Phillips Curve, US, 1970–2000

The Phillips curve(s)

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

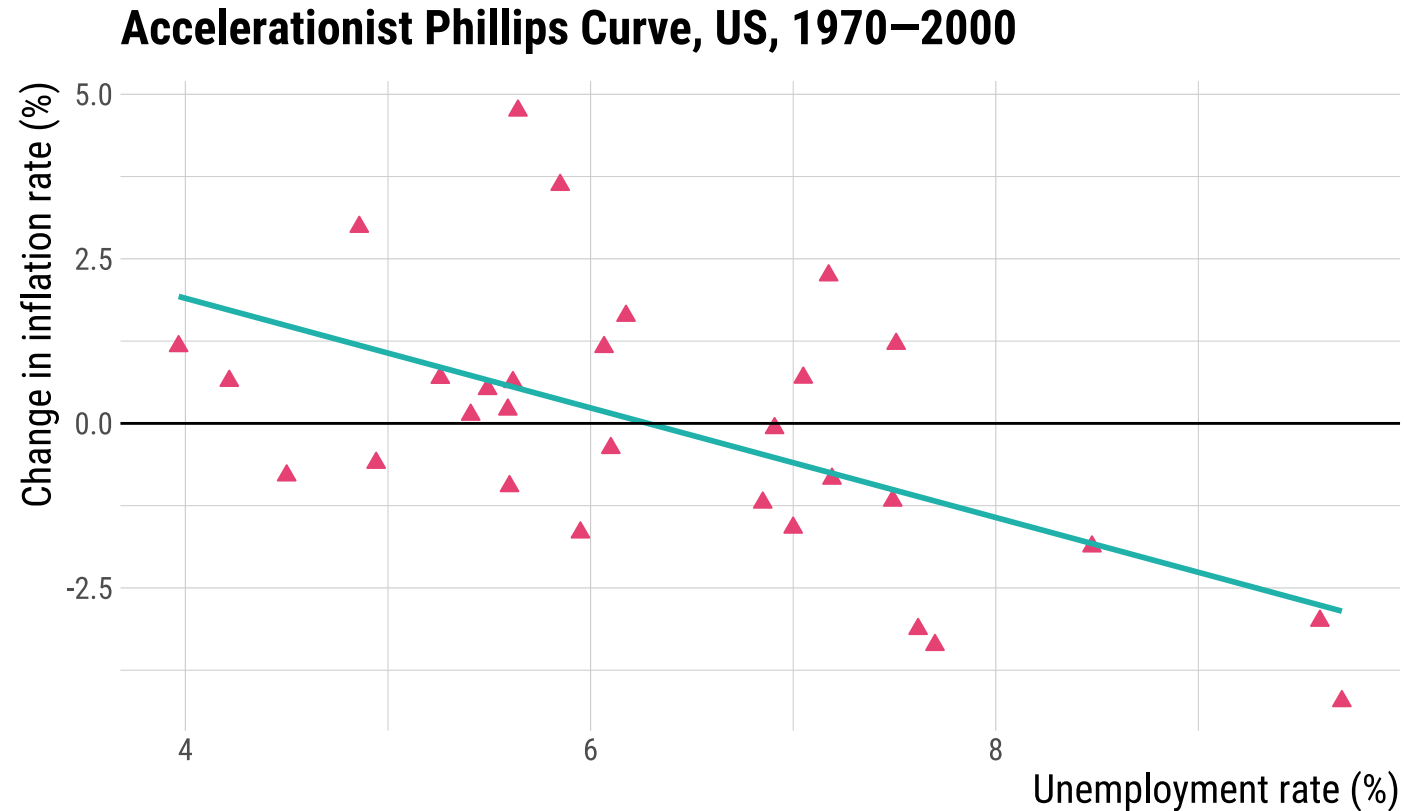Due to a **consistent** increase in the rate of inflation, **expectations** come in.

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.

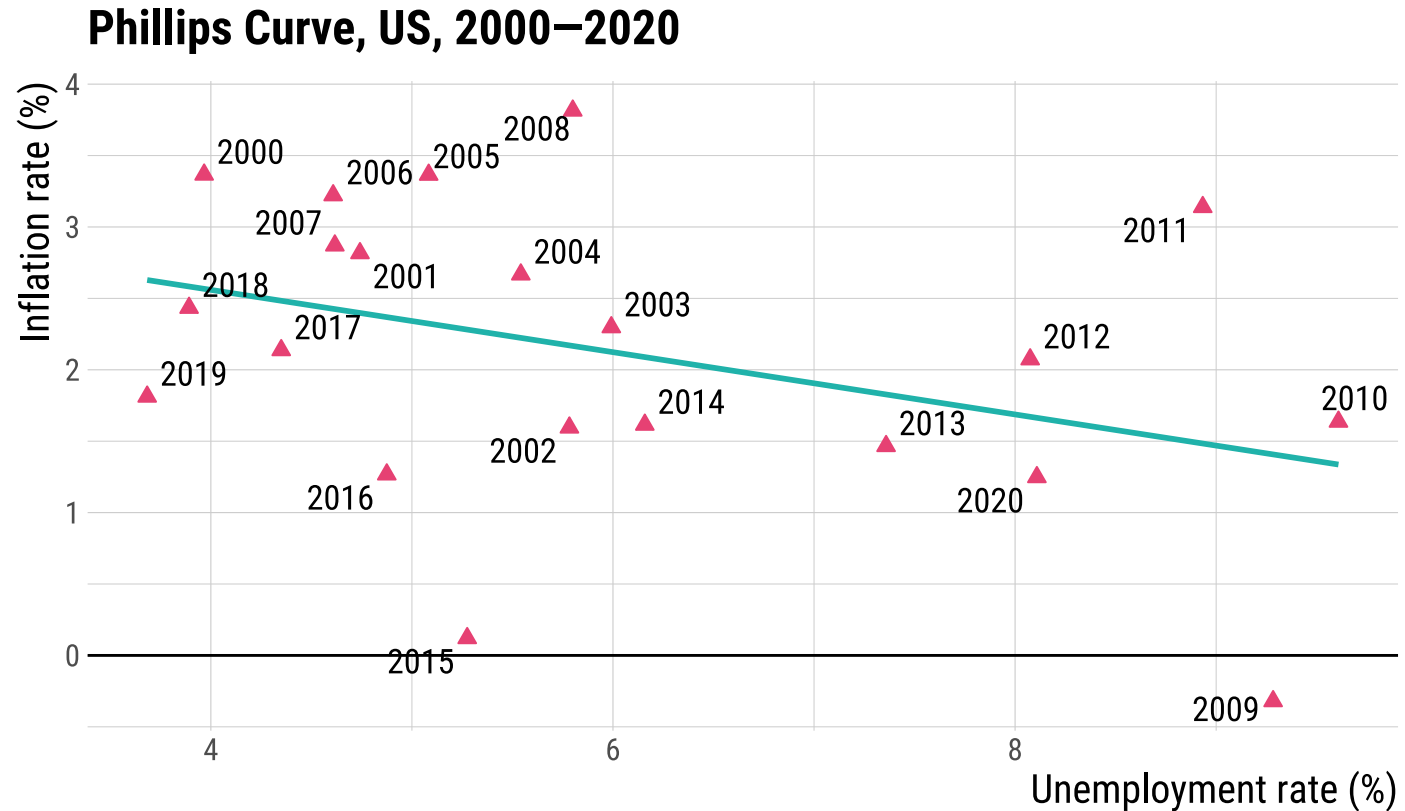- And the **Natural Rate of Unemployment** (*aka* NAIRU) comes in...

The Phillips curve(s)

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

Accelerationist Phillips Curve, US, 1970–2000

The Phillips curve(s)

Back to a non-accelerationist world?

Phillips Curve, US, 2000–2020

The current scenario

Too much fiscal policy?

More recently, many argue that the Phillips curve is essentially **flat** and **non-accelerationist**.

- `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!