The durability of inflation derp

By Paul Krugman
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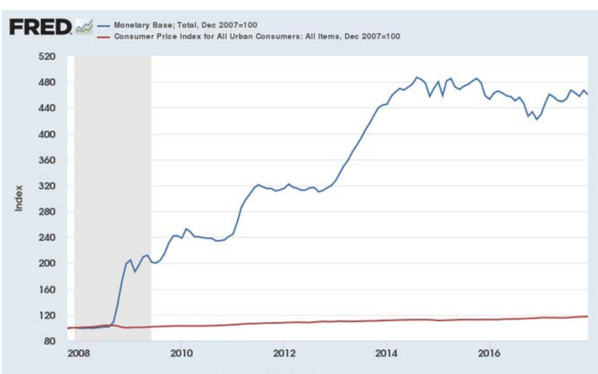
The years immediately following the 2008 financial crisis were a golden age of inflation derp, at various levels. There were the Glenn Beck/Ron Paul frothing-at-the-mouth Austrian types predicting hyperinflation just around the corner. But there were also the seemingly respectable monetary "experts," from Alan Greenspan to Allan Meltzer to John Taylor, who kept predicting high inflation from deficits and/or quantitative easing.

It's not hard to see why they were predicting inflation: there was a huge increase in the monetary base (currency plus bank reserves), which you would expect to cause a lot of inflation – unless, that is, you understood that the game changes when interest rates are near zero, and had studied the experience of Japan.

Of course, quite a few economists did understand all that: Ben Bernanke, Olivier Blanchard, and yours truly, among others. And we correctly predicted that the massive rise in the monetary base would have no discernible effect on inflation:



OK, so some economists got it wrong. That happens to everyone, unless you're too cowardly to make any testable predictions at all. But what you're supposed to do when things don't play out as you predicted is (a) acknowledge the mistake (b) try to understand what went wrong (c) revise your framework in an attempt to avoid making the same mistake again. I think I can fairly claim to have followed these rules.

What's striking about the economists who predicted runaway inflation in 2009-2011 is that as far as I can tell none of them has even gotten to step (a), acknowledging their mistake. They kept saying the same wrong thing year after year (which is what makes it derp), and even those who eventually stopped saying the same thing never admitted past mistakes.

Thus when Bloomberg tried, four years later, to track down economists who signed the infamous open letter to Ben Bernanke insisting that quantitative easing would "debase the dollar," it couldn't find a single person to admit that the original warning was wrong.

Why this durability of unrepentant, unprofessional derp? Surely at least part of it is political: predicting doom from money-printing appeals to powerful forces on the right, is indeed a sort of credential that guarantees favor, no matter how wrong the prediction. And let's face it: the economics profession is essentially craven on such matters. There are no costs to unprofessional behavior that serves right-wing ideology; you'll still get invited to all the meetings, get treated with respect, even get letters from liberal and moderate colleagues supporting your nomination to high office.

And so today we have Marvin Goodfriend, nominated to the Fed board, simply refusing to answer questions about why he thought inflation was about to explode and reducing unemployment was impossible:

After the crisis, Mr. Goodfriend repeatedly criticized the Fed's stimulus campaign as likely to generate inflation rather than economic revival. He told Bloomberg in 2012 it was "really doubtful" the Fed could reduce unemployment, which was then hovering above 8 percent, to 7 percent. Furthermore, he said, even if the Fed succeeded in doing so, “it would give rise to rising inflation in the next few years, which would be disastrous for the economy.”

Inflation derp endures. In fact, it’s good for your career.