The death of acceleration

By Paul Krugman
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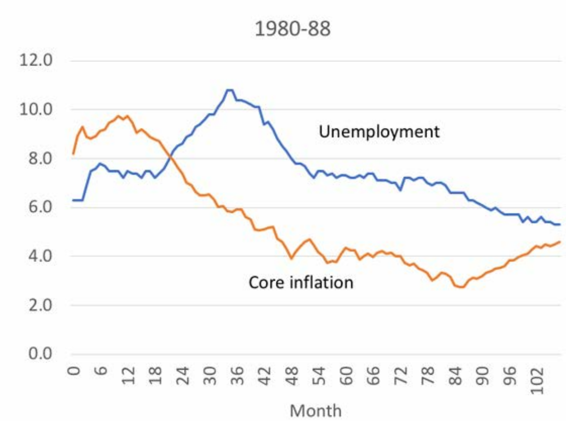
I'm currently sitting in a room full of men in grey suits, talking about monetary and fiscal policy. And I thought I'd take another stab at an issue I've raised before: the natural rate hypothesis – the claim that there is a unique rate of unemployment consistent with stable inflation.

Underlying the natural rate hypothesis is "accelerationism": the idea that low unemployment will lead not just to high inflation, but to accelerating inflation, and conversely that high unemployment will not just reduce inflation but lead to ever-falling inflation.

Accelerationism used to look like a pretty good description of inflation experience. Consider the big slump of the early 1980s. Unemployment soared for a while, then came back down to about where it started. Inflation, however, didn't go back to where it started: it came down by about 5 percentage points:



But that was a long time ago. Consider what happened after the financial crisis of 2008. As in the 1980s, unemployment soared for a while, then eventually came back down. But inflation barely moved at all; in particular, it ended the cycle just about where it started:

The thing is, the Fed and other central banks still basically operate with an accelerationist framework. When will they adapt to reality?