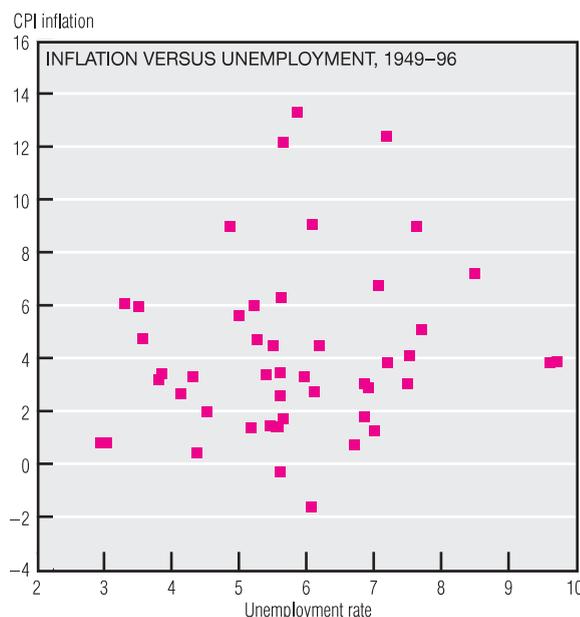
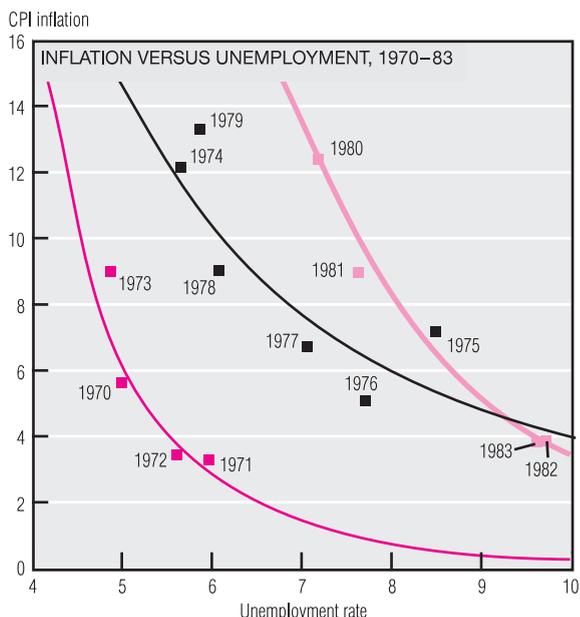
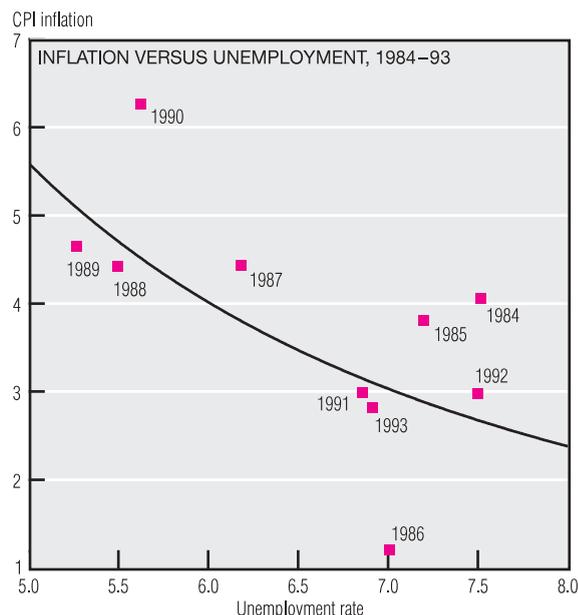
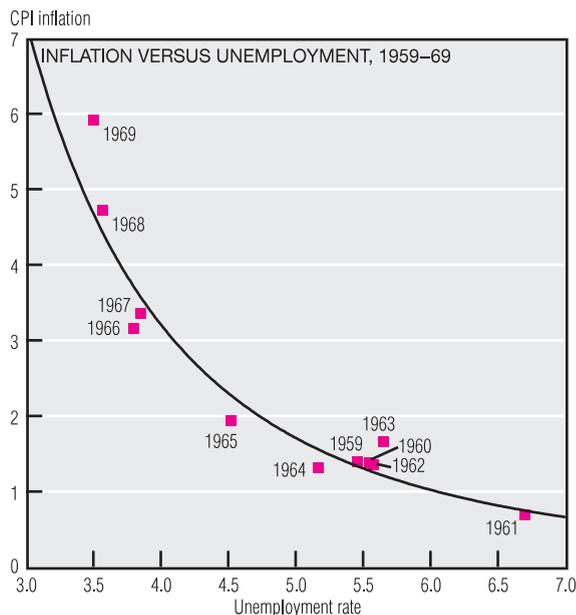


# Inflation, Unemployment, and the Phillips Curve



NOTE: All data are average annual percents.  
SOURCE: U.S. Department of Labor, Bureau of Labor Statistics.

The Phillips curve—a statistical relationship between inflation and unemployment—is central to much of macroeconomic thought. Over the 1959–69 period, inflation and unemployment exhibit a negative relationship, tracing a nearly perfect curve. More recently (1984–93), the fit between them is somewhat looser, but still negative. To many economists, the Phillips curve suggests a trade-off between inflation and unemployment: A

lower unemployment rate can be “bought” at the cost of somewhat higher inflation, and vice versa. This has aroused concern that the recent low jobless rates will raise inflation.

If the Phillips curve is to be interpreted as a trade-off, the relationship between inflation and unemployment must surely be stable over time. It is not. For example, the 1970–83 period includes at least three distinct curves: 1970–73, 1976–79, and 1980–83. At best,

there is a stable short-run curve that shifts over time. One explanation of these movements is that the location of the short-run Phillips curve depends on the *expected* inflation rate. This view is consistent with the rightward shifts of the 1970s and 1980s (as inflation rose, so did expected inflation).

In the long run (see the bottom right chart), there is no apparent relationship between inflation and unemployment.