Macroeconomics and the Phillips curve myth.

The central element of what I called the Phillips curve myth is the story that in the 1960s and 1970s it was a commonly held view that there was, as Jones (2014, p. 323) puts it, 'a permanent trade off between inflation and unemployment'. In other words, policymakers believed they had a choice as to the combination of inflation and unemployment they achieved, with low unemployment always associated with high inflation. Very commonly this story is connected to another one saying that in 1968 Milton Friedman attacked the idea of the Phillips curve tradeoff with a new argument to the effect a policy of targeting a low rate of unemployment, and therefore accepting a high rate of inflation would fail. As expectations adjusted to the high inflation, the terms of the tradeoff would shift, and any target rate of unemployment would be achieved only at higher and higher rates of inflation. It is also often said that policymakers did in fact seek to target low unemployment, accepting inflation, and Friedman's argument amounted to a forecast of the inflation of the 1970s. Jones (p. 316) calls that 'a remarkable triumph of economic reasoning'. Other elements of the wider myth include the claim that Phillips was the discoverer of the association of high inflation and low unemployment, that he himself offered this tradeoff interpretation of the curve (Jones, p. 316); alternatively that it was Samuelson and Solow (1960) who first advanced that view. It is also sometimes said that when Friedman advanced his argument, it was hotly debated for a good part of the 1970s before finally reason and sense won the argument.

The main objective of *Macroeconomics and the Phillips curve myth* is to show that none of those claims has any worthwhile resemblance to the historical reality. They are all false, and they are not false because of matters of detail – for example, because there is some isolated example of some publication pre-dating Phillips that identified the relationship named after him. They are all *thoroughly*, *radically* false. The idea of the relationship was very old news and a commonplace before Phillips published his paper; he did not do anything like advocate high inflation. Samuelson and Solow not only did not put that tradeoff interpretation on the curve, but went out of their way to say that there was every possibility of its shifting in the longer term if there were persistent inflation – and they specifically pointed to the argument later supposed to be original to Friedman when he advanced it eight years after they wrote. That last point turns out to be nothing very special in the real history, since "Friedman's" expectations argument was also thoroughly commonplace – economists had know about that idea for decades before he wrote about it. (The earliest statement I found is more than 100 years before Friedman's, but there are many in the couple first couple of postwar decades). Nor did anyone show any surprise when he stated it; and certainly no one doubted that if inflation went on long enough, expectations would adjust. There was no debate about that at all.

The story is a fiction, but it is a deeply engrained fiction. Economists have been reciting this story to themselves since about 1978. So I set about collecting as much evidence as I could. I hunted far and wide for anything that supported any element of the myth. I turned up a few scraps here and there – indeed, as it turns out, there are one or two people who did see the Phillips curve the way the story says. But set them against the numbers who did not; or investigate the quality of the work of those who had that idea, compared to that of those who did not; or investigate the agenda those authors had; or the prominence of where they published it; or for that matter the number of times their work was cited. Contrary to the myth the consensus of economists was enormously against the idea of a "permanent tradeoff" of the kind envisaged in the myth. Yes, *enormously*. Other aspects of the story came of even worse. Samuelson and Solow did not advance a permanent tradeoff interpretation of the curve, but just as interesting is the fact that I could find no one – actually, *no one* – from the 1960s who thought they did and accepted that idea. The story that Samuelson and Solow were inflationists appears only in the 1970s, when economists looking back, start to say that they were responsible for that interpretation. But how could they have been, if no one reading their paper in the first decade after it was published who thought that was what they were saying, did anything other than specifically reject the idea of a permanent tradeoff? Similarly, Friedman's supposedly remarkable innovation was old news – that is easy to show. But there is no reason to stop there. If we look at how others reacted when Friedman put the story – or more often, did not react at all – it is clear that no one thought it was a surprise. At so it is with every component of the myth. There is no historical veracity there at all.

That obviously raised the question of how people came to believe it all. I had a go at answering that in chapter 7 of the book. There were a succession of points that came to be conventionally mis-dated – the dating of the idea of a negative relationship between inflation and unemployment to the late 1950s was one, and of the expectations argument to the late 1960s was another, but they were not the only ones. Just the habit of thinking of those ideas as being dated to those times must have made the outline of the myth seem plausible. It could never have been believed if, for example, it had been recognized how widely understood the expectations argument was all through the 1960s. Another contributor is probably that the expression 'Phillips curve' came to be used in so many different ways that it is difficult to say what is or is not true of it. We can say what is true or false of what Phillips said, but few paid much attention to Phillips' work itself. As to what became a vague and variable idea of 'the Phillips curve' – very many different things might be true or false, depending what idea one took to be labelled with that name. Even the idea of a permanent tradeoff, for example, appears in some *theoretical* discussions. So when someone says 'the Phillips curve was believed to show …' there would often be something that would at least be close to offering substantiation of that. And there were so many different ideas about it that there would nearly always be some confusion. So it stopped being clear what was true and what was not of 'the Phillips curve' since that expression was used in so many different ways. And finally the creation of the myth must have owed a lot to the presentation of key parts of it, even if subtly, or even subtextually, in Friedman (1977) – his Nobel lecture.

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