FEDERAL RESERVE BANK of ST. LOUIS

Allan Meltzer and the Search for a Nominal Anchor

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Meltzer's Contributions to Monetary Economics and Public Policy
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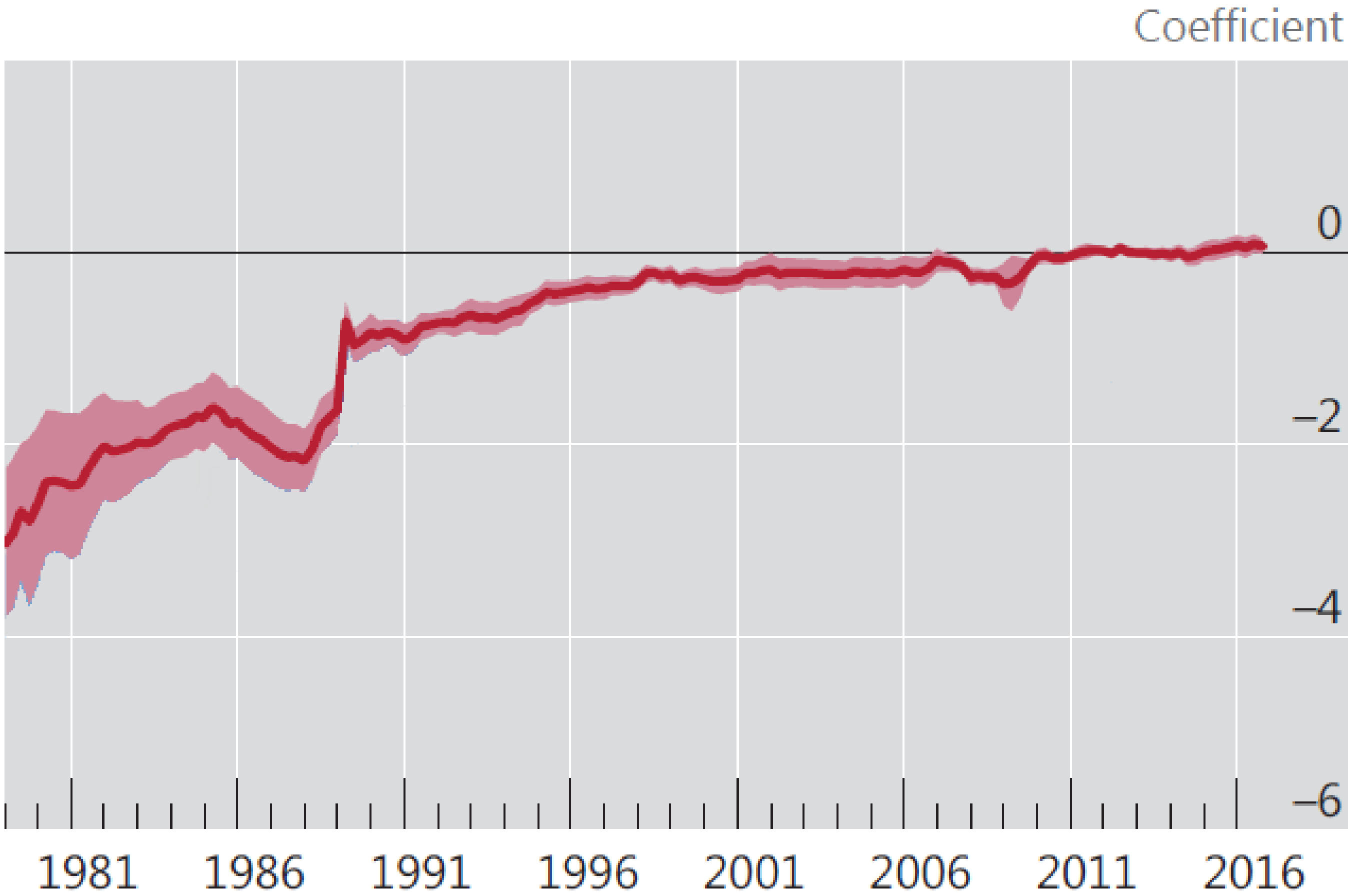
Any opinions expressed here are my own and do not necessarily reflect those of the Federal Open Market Committee.

Figure 1. Slope of the Phillips Curve



Note: Flattening of the Phillips curve in G-7 economies. Rolling 15-year window estimates and confidence bands from a panel of G-7 economies. Source: Bank for International Settlements (2017).

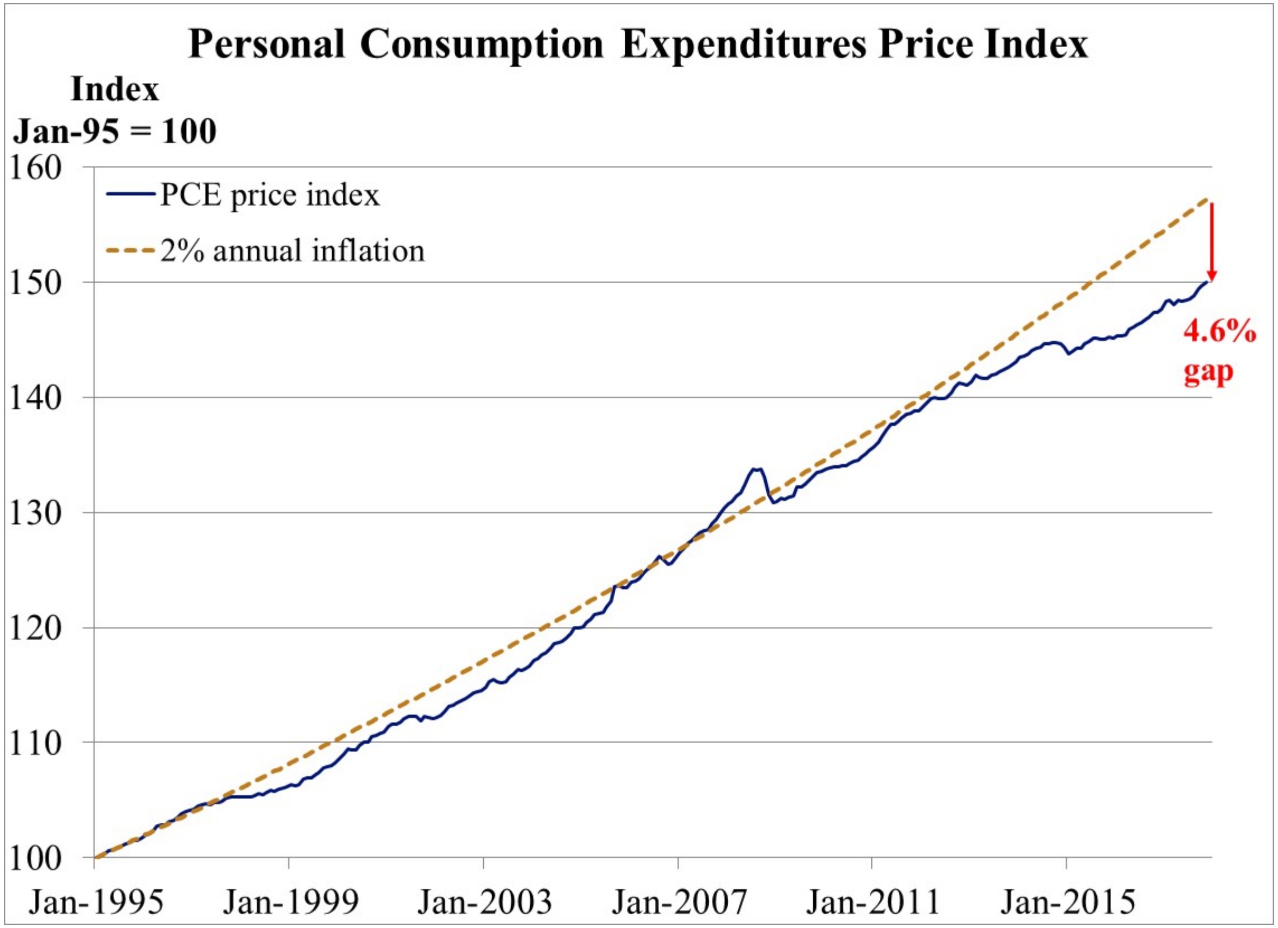
Phillips curve slope in theory

- In a standard NK model, the slope of the Phillips curve—the coefficient on the output gap in a regression of the inflation gap on the output gap—is given by

$$\gamma = \frac{Cov(\pi_t, y_t)}{Var(y_t)} = \frac{\kappa\sigma_\varepsilon^2 - \phi_\pi(\sigma + \phi_y)\sigma_u^2}{\sigma_\varepsilon^2 + \phi_\pi{}^2\sigma_u^2}.$$

  - $\sigma_\varepsilon^2, \sigma_u^2$: variance of natural rate and cost-push shocks
  - ϕ_π, ϕ_y: Taylor rule coefficients on inflation and output
  - κ: slope of the structural Phillips curve
  - $1/\sigma$: intertemporal elasticity of substitution

Figure 2. The U.S. Price Level Path



Note: De facto price level targeting occurred from the mid-1990s to 2012, but the actual price level has since fallen off the price level path. Sources: Bureau of Economic Analysis and author's calculations. Last observation: November 2017.

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