Phillips Curves, Expectations of Inflation and Optimal Unemployment Over Time

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This article is a study of the “optimal” fiscal control of demand. It presents a dynamic macroeconomic model from which the optimal time-path of aggregate employment, the actual rate of inflation, and the initially expected rate of inflation (positive or negative) are derived. If I am right about the dynamic elements, then the optimal demand is sufficiently difficult to justify some simplifications in this first analysis: a closed, non-stochastic postulated in which exogenous monetary policy immunizes against variations in capacity utilization in such a way that potential capital intensity constant over time. But despite simplifications, I believe that the analysis introduces some important ideas for national and international policy towards aggregate demand.

The principal ingredients of the model are the following: the rate of Phillips Curve in terms of the rate of price change, that shifts one-for-one inflation; secondary monetary rates; the rate of inflation; and the rate of unemployment.