60 Second Adventures in Economics

3. The Phillips Curve

60 Second Adventures in Economics – Number Three: The Phillips Curve.

Bill Phillips was a crocodile hunter and economist from New Zealand, who spotted that, when employment levels are high, wages rise faster - people have more money to spend, so prices go up and so does inflation.

And likewise, when unemployment is high, the lack of money to spend means that inflation goes down. This became known as the Phillips Curve.

Governments even set policy by the curve, tolerating the inflation when they spent extra money creating jobs. But they forgot that the workers could also see the effects of the curve. So, when unemployment went down, they expected inflation and demanded higher wages, causing unemployment to go back up, while inflation remained high.

Which is what happened in the 1970s when both inflation and unemployment rose. Then in the 90s unemployment dropped while inflation stayed low, which all rather took the bend out of Phillips' curve.

But at least part of Phillips' troublesome trade-off lives on: when faster growth and full employment return, you can bet inflation will be along to spoil the party.