


sound money

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“An Austrian Rehabilitation of the Phillips Curve” – Cato Journal

[Future of Money](#), [History of Money](#), [Journal Articles](#), [State of Money](#) — By [Tom Duncan](#) on May 19, 2011 at 8:57 AM

“William Niskanen (2002) estimated a Phillips curve for the United States using annual 1960–2000 data. By adding one-year lagged terms in unemployment and inflation, he was able to show that this familiar equation is misspecified. In his improved specification, Niskanen found that the immediate impact of inflation is to reduce unemployment, confirming the traditional understanding of the Phillips-curve relationship, but also finding that after an interval as short as one year inflation has generally been followed by increased unemployment. Though Niskanen was perhaps unaware of it, his results lend strong support to the Austrian model of the business cycle. In that model, credit

expansion results in a temporary but unsustainable expansion. Unemployment is lowered in the short run, but once the policy-induced malinvestment is recognized, total output and income will be permanently reduced, and unemployment will increase.” [Read more.](#)

[“An Austrian Rehabilitation of the Phillips Curve”](#)

Robert F. Mulligan

Cato Journal, Vol. 21, No. 1, Winter 2011.

Via the Cato Institute.

Image by [Boaz Yiftach / FreeDigitalPhotos.net.](#)

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