

Echoes from the distant past show nothing has been learned

The discussion [today](#):

The unemployment rate dropped to its lowest level in nearly 18 years in April, feeding a debate that has long puzzled economists: **How low can joblessness fall before a boon for the economy turns into a burden?**

Flash back more than twenty years.

In 2001, Alan Blinder and Janet Yellen published "[The fabulous decade – Macroeconomic lessons from the 1990s](#)".

In chapter 6 "The Fed forbears and the Phillips Curve cooperates", we read:

The state of the U.S. economy looked superb at the start of **1996, and it just kept getting better over the ensuing years.**

The unemployment rate belied the popular view that NAIRU was between 5.5% and 6% by falling steadily right through 1999. By December 1999, unemployment stood at 4.1%, its lowest level in twenty-nine years.

Real GDP growth averaged 4.5% during those four years – **well in excess of contemporaneous estimates of potential output growth.**

And yet, aside from one upward adjustment of 25 basis points in March 1997, the federal funds rate was not raised again until June 1999.

The FOMC watched, scratched its collective head, worried that the good luck would soon end and inflation would again rear its ugly head.

One important question for macro-historians is why the Fed chose to forbear **even as the unemployment rate drifted down to levels that previously had been associated with accelerating inflation.** Part of the answer is simply that,

despite the inflation fears of FOMC hawks and many outside forecasters, the worst never came to pass. **Inflation did not rise; on the contrary, it fell.**

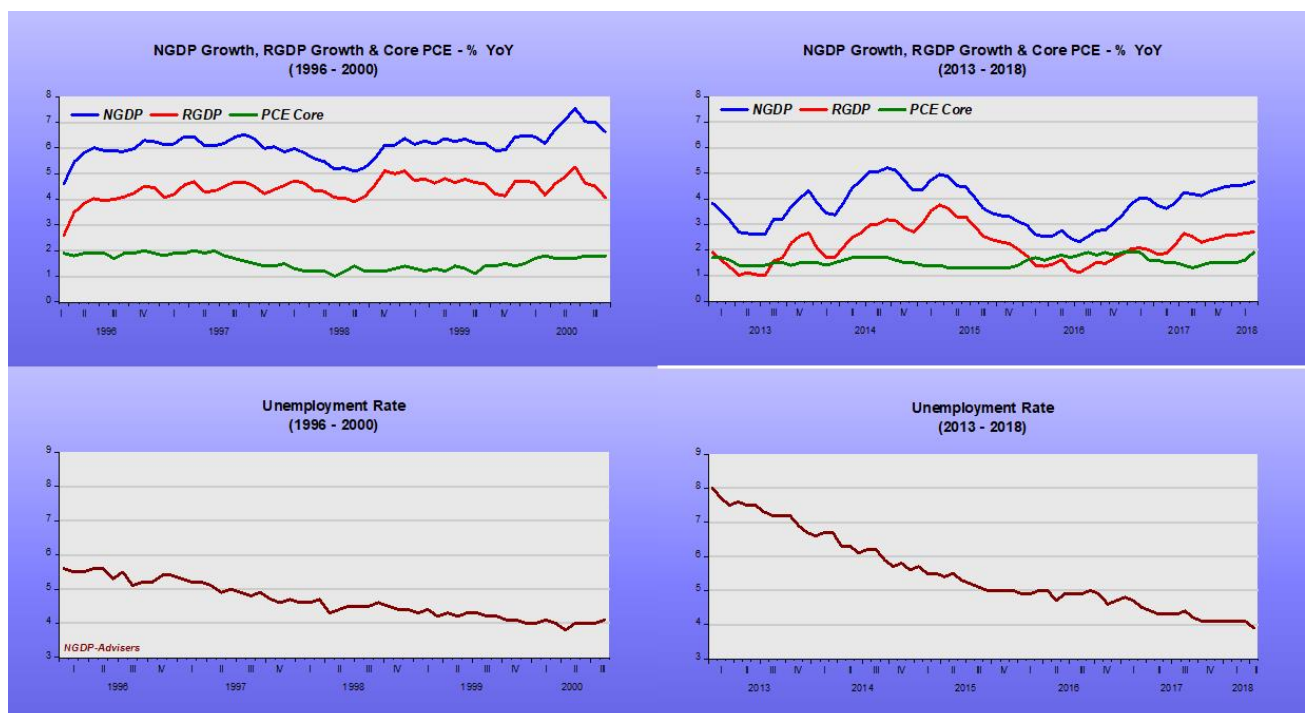
Among the reasons: Surprisingly Moderate Wage Inflation. Why?

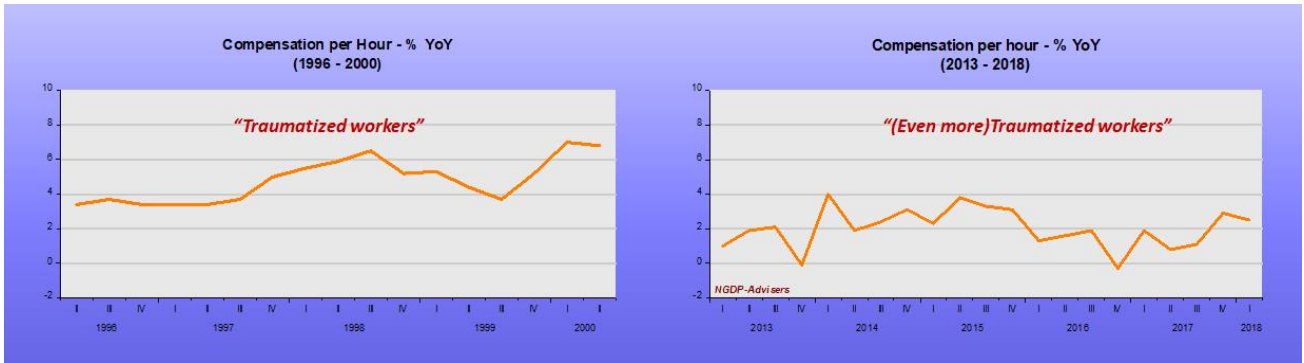
According to what might be called the “**traumatized worker hypothesis**”, after being terrorized by corporate restructuring, suffering through a recession, and then struggling through an initially “jobless” recovery, American workers became more concerned with job security than with real wage increases.

Fast forward more than twenty years and we [read](#):

Former Fed Vice Chairman Alan Blinder points to his “**traumatized worker**” theory. “Workers still remember the bad old days and they’re more interested in job security than they are in seeking out a raise,” he said.

The panel illustrates.





Why can't we become smarter? At least come up with new ideas and arguments!
