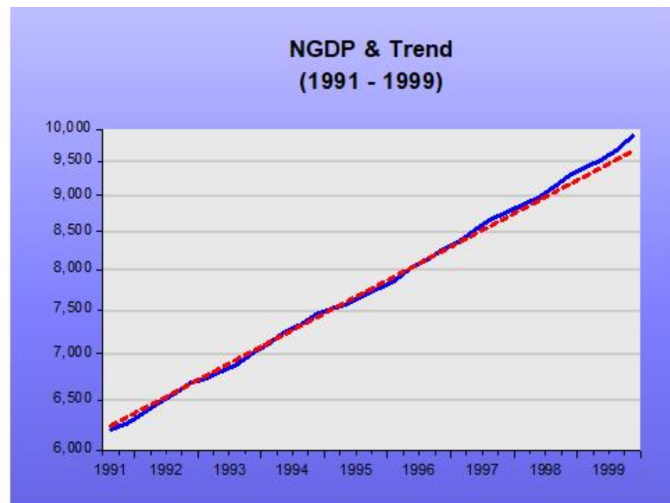
Regarding inflation and unemployment, monetary policy plays no role!

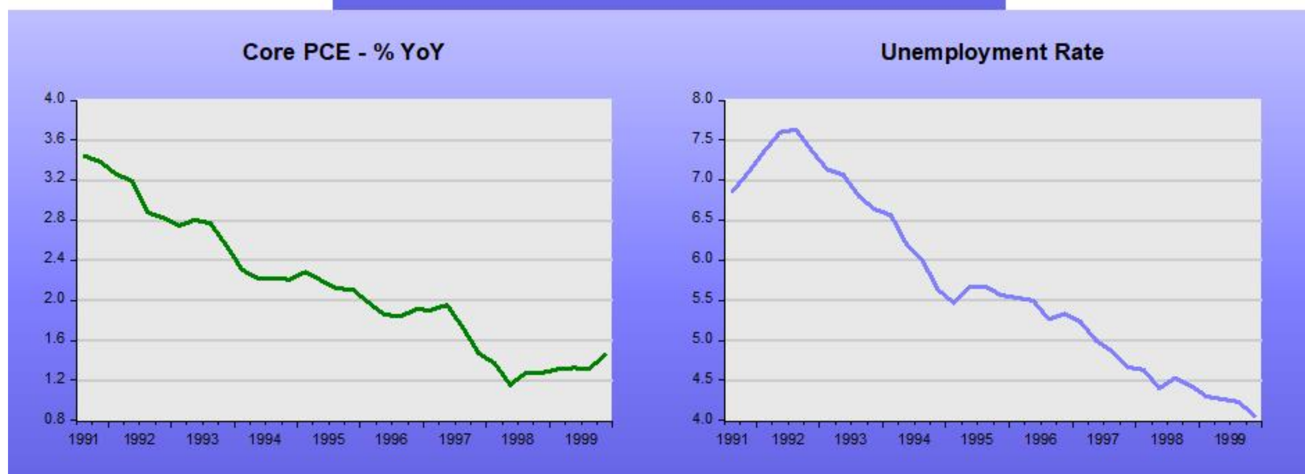
According to Robert Gordon writing in **2000** about the "**fabulous decade**":

> Sometimes we are satisfied to find a single "smoking gun" or "silver bullet" that alone is powerful enough to provide an explanation of a macroeconomic puzzle. However, on this occasion we have no fewer than **12 separate and largely unrelated explanations of why inflation has been so low given unemployment, or why unemployment has been so low without igniting inflation.** These 12 factors in the order discussed here are
>
> (1) falling real import prices through early 1999,
>
> (2) falling real oil prices through early 1999,
>
> (3) measurement improvements that reduced measured inflation relative to true inflation,
>
> (4) an autonomous deceleration in medical care inflation,
>
> (5) an autonomous acceleration in the rate of decline of computer prices,
>
> (6) favorable demographics,
>
> (7) "get-tough" anti-crime and anti-drug policies,
>
> (8) the growth of temporary help agencies,
>
> (9) the flood of legal and illegal immigrants,
>
> (10) the declining importance of unions,
>
> (11) the declining real minimum wage, and
>
> (12) the productivity growth revival, which overlaps with (5) to the extent that it was partially caused by dynamic technological acceleration in the computer industry.

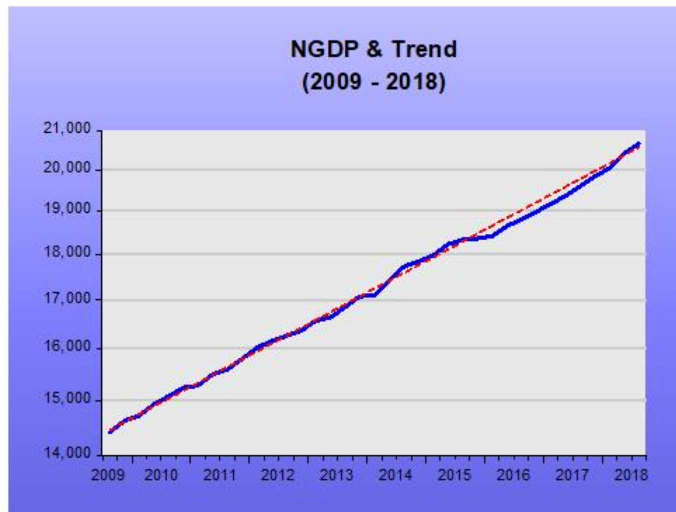
It´s much simpler. During the 1990s, for the most part, the Fed´s monetary policy sustained nominal stability or a stable trend path

of nominal aggregate demand (NGDP) growth. Inflation fell and remained low while unemployment trended down.





Fast forward skipping a decade. This time around, inflation, already low, remained so. Unemployment, which had skyrocketed during the crash, has trended down. Gordon´s 12 factors are either not relevant any longer, have switched signs (demographics), or haven´t changed (are “old hat”). **The common element is the Fed´s monetary policy sustaining nominal stability**, only this time at a “**depressed level**”.



PS **John Williams** concludes his speech today saying:

> In considering alternative monetary policy strategies, academic experts, policymakers, and others from around the world have an important part to play, sharing and discussing ideas and comparing experiences to help all of us to think through these issues. This process of careful study and discussion proved highly valuable during the development and implementation of inflation targeting in decades past, and will be equally valuable in the present debates.

One of the alternatives mentioned is NGDP Level targeting. The examples above indicate it is a robust framework. The hard part is establishing the "proper" level. Otherwise, you risk being caught, as now in a "low track trap"!