On Tuesday, the Brookings Institution held a special symposium on inflation, which I unfortunately couldn't attend. But I read the two papers presented and some of the subsequent commentary, and it seems to me that something weird is happening: growing agreement among many (although not all) economists about both the causes of and, more important, the future prospects for inflation.

And the seemingly emergent consensus is cautiously optimistic.

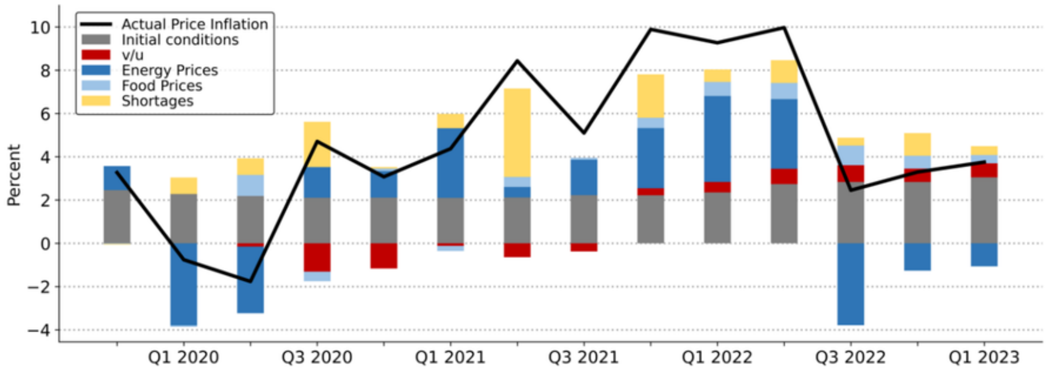
I won't talk here about the paper by Don Kohn and Gauti Eggertsson, although I think it may point the way toward a deeper understanding of some key issues. Instead, let's talk about the paper by two major (and deeply respected) heavyweights: Olivier Blanchard, the former chief economist of the International Monetary Fund, and Ben Bernanke, the former master of the world — I mean, the former chair of the Federal Reserve.

B. & B. focus a lot on the big debate in early 2021 over whether the big Biden spending package would be highly inflationary. Obviously, the pessimists — Blanchard among them — who predicted large inflation were right, while the optimists who minimized the risks — myself unfortunately included — were wrong. But the paper argues that the pessimists were largely right for the wrong reasons. They expected that inflation would arrive via a hugely overheated labor market, but that's mostly not what happened:

> We find that, contrary to early concerns that inflation would be spurred by overheated labor markets, most of the inflation surge that began in 2021 was the result of shocks to prices given wages, including sharp increases in commodity prices and sectoral shortages.

Here's the money graph:

FIGURE 12. THE SOURCES OF PRICE INFLATION, 2020Q1 to 2023Q1



Bernanke and Blanchard (2023)

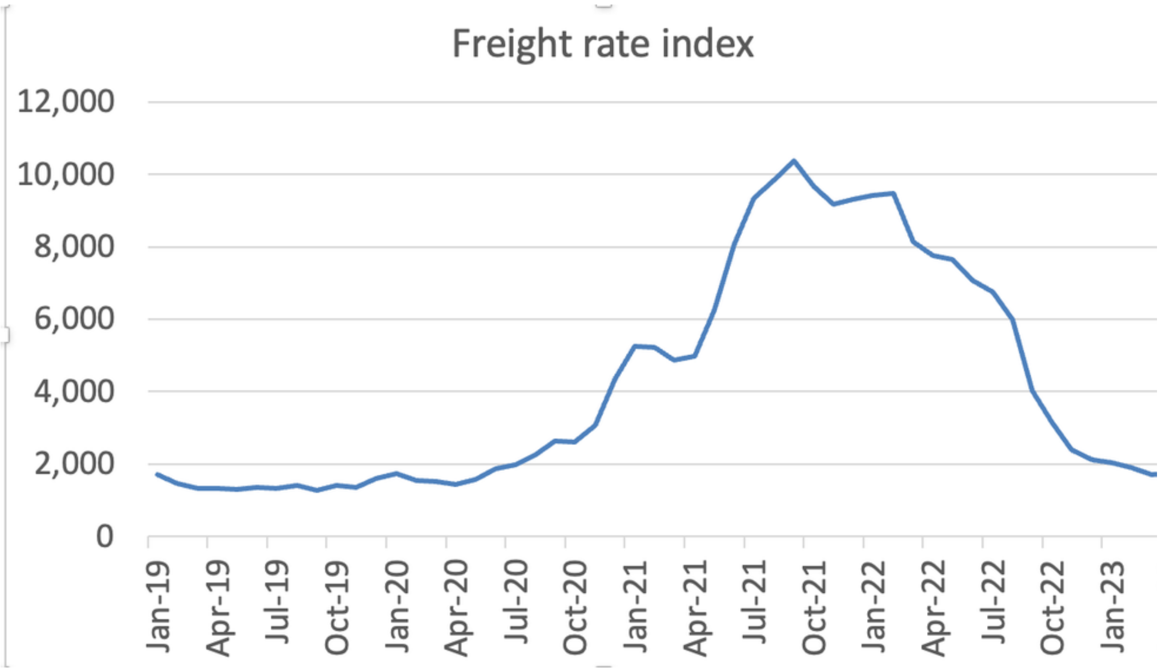
In this graph, "v/u" indicates their estimate of the effect of overheated labor markets on inflation; it refers to the ratio of job vacancies to unemployed workers seeking jobs, their preferred measure of labor market tightness. Their estimates say that overheated labor markets have played some role in recent inflation, but not a central one.

In subsequent remarks, Blanchard has [tried to clarify] that he and Bernanke didn't mean to minimize the effects of the Biden stimulus:

> At least until the invasion of Ukraine, U.S. inflation came primarily from too strong aggregate demand, largely due in turn to the large fiscal packages, reinforced by a relative demand shift from services to goods, and by shortages in a number of markets.

I think he may be conceding too much here, but in any case, the important point is that much of the price shock coming from high spending can be fairly easily reversed, and is in fact reversing as we speak.

Let me illustrate what I mean, and what I think Blanchard means, with one of the inflationary shocks nobody saw coming: the extraordinary surge in shipping costs.



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What caused that surge? Consumers suddenly increased the demand for durable goods, many of them made in Asia, and as it turned out we didn't have the capacity — port facilities, available shipping containers, etc. — to meet this demand.

But why did durables demand rise? Some of it was the pandemic, which caused a shift in spending away from in-person services to physical objects. For example, people afraid to eat at restaurants may have bought air fryers instead. But some of it presumably also reflected people spending the checks they got from the American Rescue Plan.

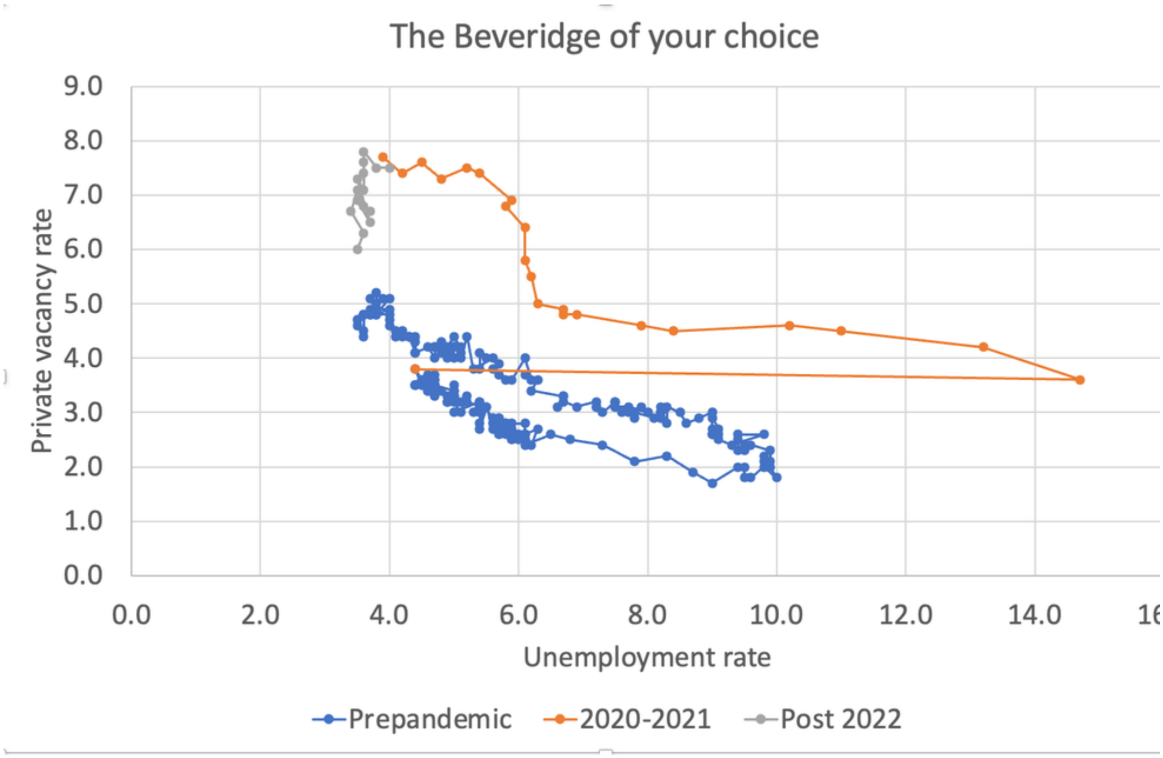
Whatever the sources of the shipping-cost surge, however, it didn't last. So even if you believe that excessive government spending played a big role in the initial rise in inflation, future inflation will reflect more persistent factors — which, in B. & B.'s analysis, means focusing on the labor market, which they say is still overheated and needs to cool.

So here's what's weird: While I might quibble with details, basically, I don't disagree with any of that. Neither, as far as I can tell, does Jason Furman, a generally pessimistic commentator on inflation who discussed their paper. So there's actually a sort of consensus: While much recent inflation reflected temporary factors, the economy is still running too hot and needs to cool off.

The six-million-job question is whether this cooling off needs to involve a large rise in unemployment.

The paper is actually fairly optimistic on that question, suggesting that "immaculate disinflation," inflation coming down without any significant rise in unemployment, may be possible, and that even if it isn't, those grim projections we were hearing a year ago about the need for many years of high unemployment no longer seem plausible.

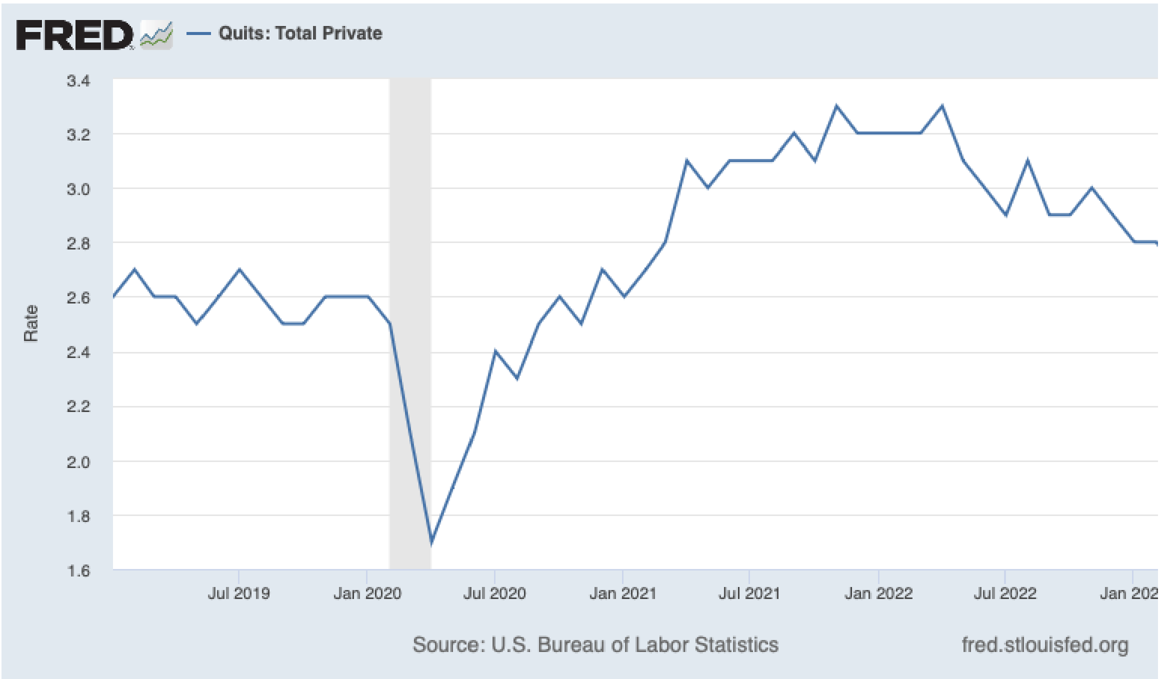
Why the optimism? B. & B., as I've already noted, use the ratio of vacancies to the unemployed as their measure of labor market tightness. And what has been really striking since late 2022 is that vacancies have come way down without any rise in unemployment. Here's the evolution of the Beveridge curve — the relationship between unemployment and vacancies — over time:



Bureau of Labor Statistics

A lot of last year's pessimism came from the apparent worsening of the Beveridge curve; but that worsening now appears to have been largely if not entirely a temporary phenomenon, related to pandemic disruptions. If the recent improvement continues, a fairly soft landing will look increasingly likely.

True, there are some questions about how much we should rely on vacancy data — I was a bit surprised to see B. & B. make it so central to their analysis. But other measures are, if anything, even more encouraging. Notably, some economists have been arguing that we should focus on the rate at which workers quit their jobs as an indicator of labor market tightness. This measure is almost back down to prepandemic levels:



Bureau of Labor Statistics

Now, does all of this mean that the Fed's job is done, and that there should be no more rate hikes? Not necessarily. Among other challenges, things like consumer spending have remained stubbornly resilient in the face of higher rates, so that even if cooling needn't involve a big rise in unemployment, getting to where we need to be might still require even higher interest rates. (Or it might not — are there still lagged effects of the Fed's rate changes in the pipeline?)

But while inflation may or may not be cooling off sufficiently, the inflation *debate* seems to have gotten substantially cooler. And I, for one, welcome the change in tone.