HBO may have captivated millions with its series “Game of Thrones,” but economists have lately captivated, well, not millions — maybe a few hundred nerds — with their Games of Teams: noisy and sometimes testy public disputes between opposing factions over economic prospects.

True, economists’ games have been rather lacking in sex and, at least so far, violence. The teams playing these games are also, I’m sorry to say, almost entirely devoid of beautiful people. But while I’m tempted to use the old line about how academic disputes are so vicious because the stakes are so small, these debates matter. As John Maynard Keynes argued at the end of his magnum opus, “The General Theory of Employment, Interest and Money,” economic ideas can eventually have large real-world impacts:

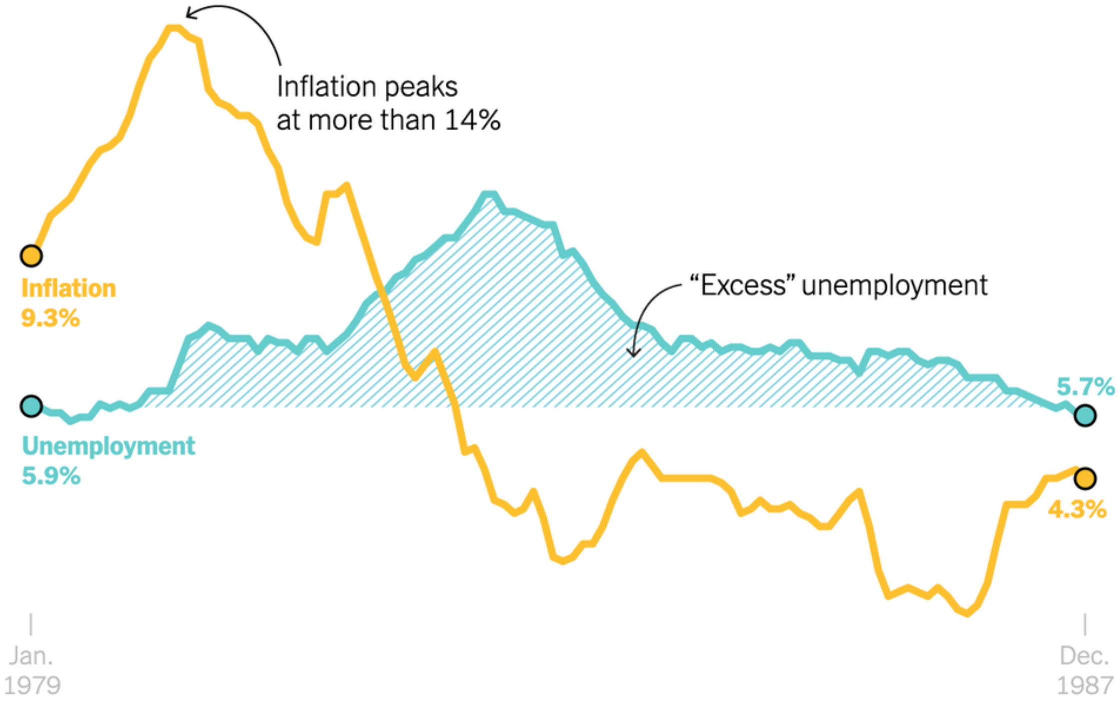
> Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back.

A current case in point is the determination of central banks across the world to get inflation down to 2 percent. Why 2 percent? That target emerged in large part from academic research suggesting (probably wrongly) that inflation at that rate would be more or less optimal. But that fixation has since taken on iconic status, with monetary officials insisting that failing to achieve it would fatally undermine their credibility.

Which brings me to the disputes of the past few years.

In 2021, as inflation took off, the big debate was between Team Transitory — which argued that we were mostly seeing temporary disruptions from the Covid-19 pandemic, which would fade away over time — and Team Permanent, which placed the main blame for inflation on the combination of large government spending and low interest rates. I was on Team Transitory, but as inflation went far higher for far longer than I had imagined possible, I admitted that I got it wrong.

By the summer of 2022, however, a new dispute had erupted. This pitted what we might call Team Soft Landing against Team Stagflation. Team Stagflation argued that getting inflation down would require years of high unemployment, just as it had in the 1980s. Here's a chart from my [May article](#) on the subject:



New York Times

Larry Summers, with admirable explicitness, suggested that we would need two years of 7.5 percent unemployment to get inflation under control.

Team Soft Landing, on the other hand, argued that the 1980s were a bad model for our current situation and that we might well be able to get inflation down without severe unemployment.

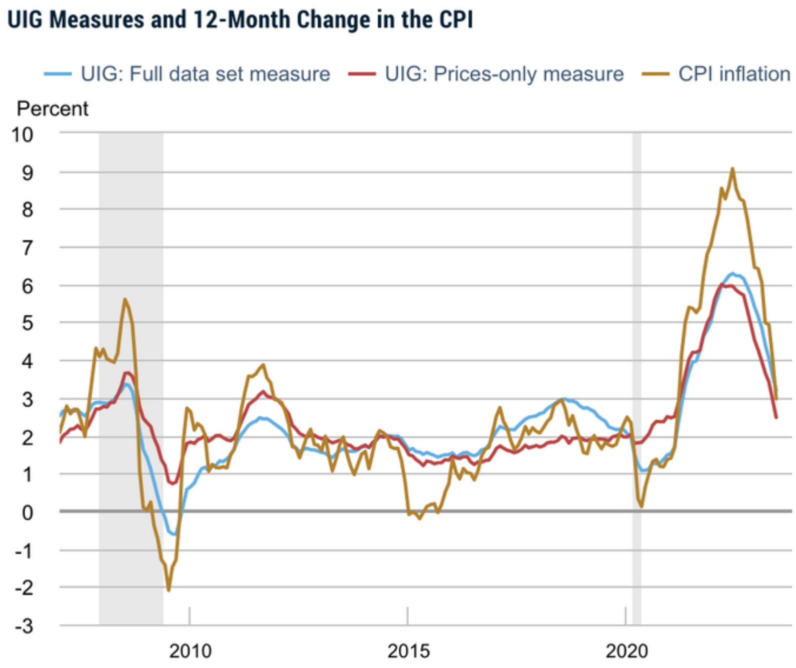
Are we just talking about the same teams under different names? No and yes. The intellectual basis for the dispute about rising inflation was very different from that of the dispute about the possibilities of getting inflation down. But the membership of each team was pretty much the same people.

This says something uncomfortable about the economics profession: We're supposed to be doing dispassionate analysis, but the fact that most economists are consistently either inflation optimists or inflation pessimists whatever the circumstances suggests that somebody is suffering from motivated reasoning. (But not me. I, of course, am totally objective. OK, I do sometimes catch myself engaging in motivated reasoning. But I try to fight it.)

In any case, despite the almost completely identical lists of players, the debate between Team Soft Landing and Team Stagflation differs from the previous debate in at least two important ways.

First, this time the optimists were right. I've been seeing some attempts to sugarcoat the wrongness of Team Stagflation's predictions, but seriously, if you were saying that we'd need years of high unemployment to tame inflation, the fact that inflation has come way down without any rise in unemployment means that you got it really, really wrong.

Somewhat ironically, some members of Team Stagflation have been arguing that the decline in inflation isn't fundamental, that it reflects, well, transitory factors. And some of it does. But there are several measures out there that try to extract underlying inflation from the transitory noise, and while they differ in detail, they all tell the same story. For example, here's the New York Fed's Underlying Inflation Gauge:



Federal Reserve Bank of New York

And here's the Atlanta Fed's measure of sticky prices excluding shelter (we know that [shelter is a lagging indicator]):

FRED

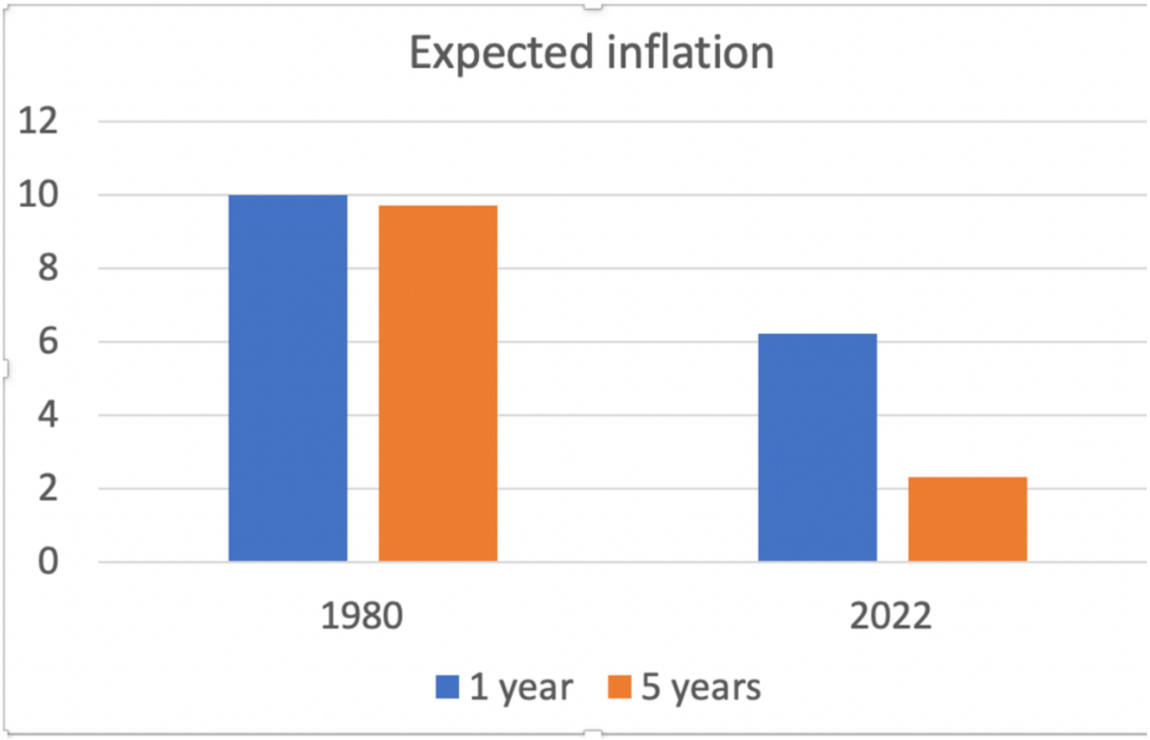
By and large, indicators of underlying inflation suggest that it's still running above the Fed's target, but it has come down a lot, with no cost at all in higher unemployment. Team Stagflation was wrong.

Second, and this is a bit subtler, in the second phase of the Game of Teams the two sides reversed roles in their relationship to standard economic models.

In 2021, textbook economics suggested that big fiscal stimulus like the American Rescue Plan, applied to an economy where unemployment was already falling, would lead to overheating and inflation. I and others managed to convince ourselves that this time would be different — that the overheating would be mild and the inflationary impact modest. Team Permanent went by the book, and was right.

In 2022, by contrast, Team Stagflation was the side that threw out the book.

After all, we have a standard economic theory of why stagflation happens: High inflation can persist despite high unemployment if continuing inflation has become embedded in expectations. This was the case in 1980, but it very much wasn't the case in 2022. Here's a chart from a newsletter I published last August:



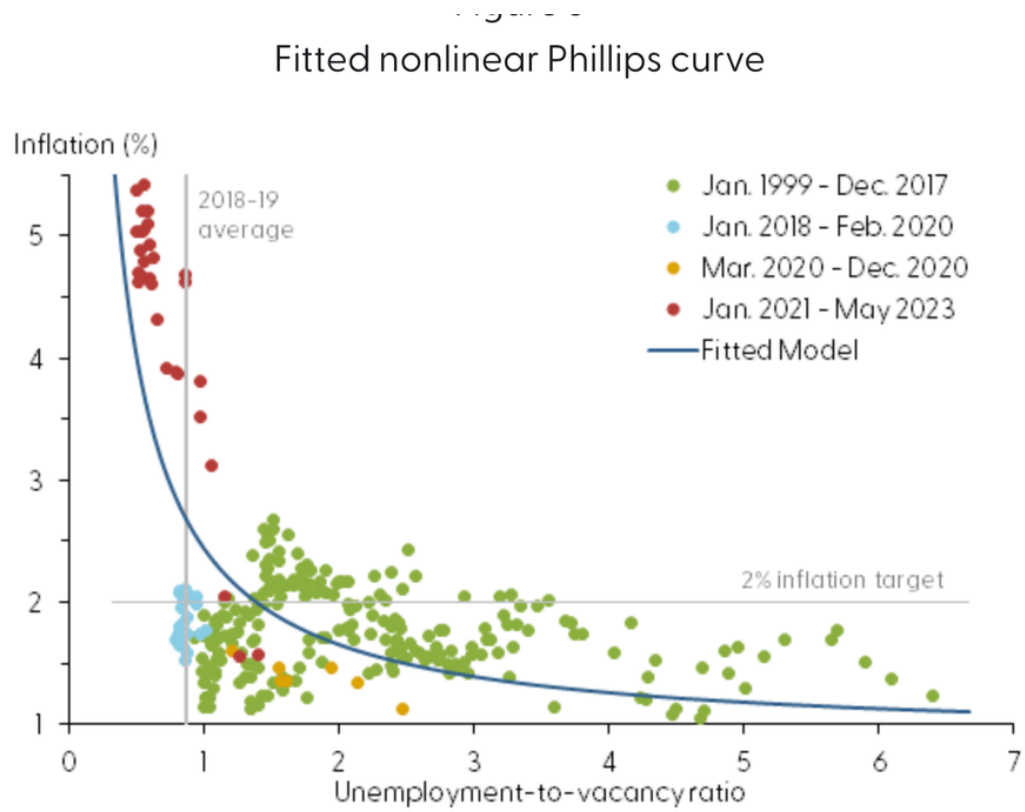
University of Michigan, Federal Reserve Bank of New York

I was actually shocked when Summers and others began invoking ’80s-type sacrifice ratios to justify their grim predictions. It seemed obvious, from textbook economics, that their logic didn’t apply to the situation we found ourselves in. And sure enough, it didn’t.

That said, even I have been surprised at how much disinflation we've achieved at no visible cost. How did that happen?

One possible answer is that Team Transitory was actually mostly right, except that "transitory" meant years, not months. Here's what Matt Klein, who has been more of a pessimist than an optimist on inflation, just wrote: "Most of the excessive price increases of 2020-2022H1 were attributable to disruptions associated with the pandemic … From this perspective, there was never any need to *squeeze* inflation out of the economy at all. It simply faded away, just as many of us said it would."

An alternative answer is that the Phillips curve is nonlinear — or, to put it in something more closely approximating English, when the economy is running hot, you don't need a large rise in unemployment to produce a large fall in inflation. Here's a chart from a recent San Francisco Fed paper:



Federal Reserve Bank of San Francisco

These stories don't have to be mutually exclusive. There's probably some truth to both of them. And neither of them tells us that we're guaranteed to keep seeing "immaculate" disinflation — falling inflation at no cost in higher unemployment.

So this tale isn't over. What's clear from the Game of Teams is that so far we've seen two big misjudgments: Team Transitory greatly underestimated the dangers of inflation in 2021, even if it may be getting some belated vindication now. Team Stagflation hugely overestimated the costs of getting inflation down, although we don't yet know whether we'll be able to get all the way back to 2 percent without some cost.

These big errors have led to some attacks on mainstream macroeconomics. But what I find striking is that both errors came from *not* following the textbook. Team Transitory found reasons not to believe the standard proposition that big fiscal stimulus can cause inflation. Team Stagflation, for some reason, chose to disregard the standard view that inflation persists despite high unemployment only because expectations of high future inflation have become embedded in the economy.

Or to put it another way, if you want to understand how many economists got things really wrong in recent years, the problem may lie less with economics as a discipline than with economists as people.