In the Long Run, US Unemployment Follows Inflation Like a Faithful Dog

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Abstract

We examine the relationship between inflation and unemployment in the long run, using quarterly US data from 1952 to 2010. Using a band-pass filter approach, we find strong evidence that a positive relationship exists, where inflation leads unemployment by some 3 to $3\frac{1}{2}$ years, in cycles that last from 8 to 25 or 50 years. Our statistical approach is atheoretical in nature, but provides evidence in accordance with the predictions of Friedman (1977) and the recent New Monetarist model of Berentsen, Menzio, and Wright (2011): the relationship between inflation and unemployment is positive in the long run.

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Key words: Inflation, Unemployment, the Long-Run