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Credible and Incredible Disinflations

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[Presentation \(PDF\)](#)

St. Louis Fed President Jim Bullard talked about “credible” versus “incredible” disinflations during a panel discussion at “The Credibility of Government Policies: Conference in Honor of Guillermo Calvo” at Columbia University.

He posed the question of whether the Fed will be able to return inflation to 2% relatively easily and quickly or whether a substantial recession will occur, as was the case under former Fed Chair Paul Volcker. Bullard noted that the Volcker disinflation was costly but “incredible”—initially, few believed that the Fed was serious about reducing inflation at that time.

The current situation for the U.S. seems to fall more closely under the rubric of a “credible disinflation,” Bullard said. “Since modern central banks have more credibility than their counterparts in the 1970s, it appears that the Fed may be able to disinflate in an orderly manner and achieve a relatively soft landing,” he said. The path to the soft landing requires a credible switch of monetary-fiscal policy to the policy regime that existed before the pandemic, he added.

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