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The Fed must avoid Volcker's mistake on inflation

Initial reversal of policy to tackle rising prices led to higher unemployment and lost economic output

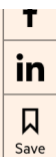
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 137 

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Paul Volcker is considered to be a GOAT (greatest of all time) central banker because he and the US Federal Reserve broke the back of inflation in the early 1980s.



However, less talked about is the serious policy mistake that the Volcker Fed made in 1980. The result was a more prolonged period of high inflation that required even tighter monetary policy, which then resulted in the most severe US recession since the second world war up to that time.

There are many parallels between the current situation of Jay Powell's Fed and what happened then. So it is imperative that we learn from history to avoid repeating the error.