The Phillips Curve Paradox
and the
Smallest Probability in the History of Economic Research

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With respect to the illegitimate paternity of ideas, microeconomics has the Giffen paradox, and macroeconomics has the Phillips curve paradox. Alfred Marshall (1890, p.132) named the exceptional upward sloping demand curve after Sir Robert Giffen, although no-one has been able to attribute this observation to Giffen, or, indeed, to anyone else (Stigler, 1965). Macroeconomists named after Phillips the exceptional downward sloping curve which purported to indicate that ongoing inflation would purchase sustainable reductions in rates of unemployment. I have recently pointed out that Phillips specifically objected to this proposition, arguing that ongoing and non-trivial rates of inflation would, via the influence of expectations, devaluations of the currency and other destabilising factors, shift the system onto a hyperinflation trajectory, thus increasing unemployment.

The purpose of this note is to draw attention to what may be the smallest probability in the history of economic research, viz., the probability associated with the discovery through which this Phillips curve paradox entered the mainstream literature. In Bandoeng prisoner-of-war camp, Phillips built, and for three and a half years operated, a secret radio. Had this radio been discovered, he would have been tortured to death (Leeson, 1994a). On the night on which Hiroshima was destroyed, Phillips made radio contact with Perth, Australia, from which he heard the news about the atomic explosion. Almost half-a-century later, a PhD candidate (the present writer), seeking a ‘diversion’ from his thesis on “A.W.H. Phillips and the Political Economy of the Inflation-Unemployment Trade-Off”, purchased, in Perth, Australia, a few discarded library books, including one written by Laurens van der Post, entitled The Night of the New Moon. While sitting on a beach, near Perth, Australia, I became curious about van der Post’s repeated references to an anonymous “young New Zealand Officer”. Through a bit of detective work, I realised that I had discovered the details of Phillips’ horrendous, but heroic, wartime incarceration.

This leads me to a probability which might be arbitrarily close to zero. There are \( n \) billion books in existence, of which only one (presumably) contains the details of Phillips’ wartime incarceration. I may read \( x \) thousand books during my lifetime. \( x/n \) is as small a number one would care to choose. Either this accidental discovery is one of the most unlikely events in the history of economic research, or, alternatively, it is an example of the operation of what Arthur Koestler (1973, p.161) called “The Library Angel”.

References


