Why do We Dislike Inflation?

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Revisiting a long-standing question

- Shiller (1997) explored why people dislike inflation: because of impact on living standards and association with "bad" economic outcomes.
- Lots of changes since the 90s! Have these views changed?
- Goals:
 - Update our understanding of perceptions of inflation using advanced survey methods, covering impacts on consumers, workers, and asset owners.
 - Explore heterogeneity across different groups, made possible with larger samples.

Two surveys to capture a broad spectrum of perspectives

Survey A: Structured (closed-ended) questions:

- Demographics
- Definition of inflation, past inflation, and expectations
- Personal impacts of inflation
 - as a consumer
 - as a worker
 - as an asset holder
 - emotional and psychological
- Personal responses to actual and expected inflation
 - as a consumer, worker, and asset holder
- Policy views
 - Priority of inflation, inflation and politics, inflation and economic outcomes
- Financial information about the household
- Feedback and debrief

Sample representativity

	Survey A	Survey B	US population
Targeted quotas			
Male	.48	.5	0.49
Female	.51	.5	0.51
18-29 years old	.23	.22	0.23
30-39 years old	.21	.21	0.21
40-49 years old	.19	.2	0.19
50-59 years old	.19	.18	0.19
60-69 years old	.18	.19	0.18
\$0-\$19,999	.14	.15	0.13
\$20,000-\$39,999	.16	.15	0.16
\$40,000-\$69,999	.2	.2	0.20
\$70,000-\$99,999	.15	.15	0.15
\$100,000-\$124,999	.08	.1	0.09
\$125,000+	.26	.25	0.26
White	.68	.64	0.76
African-American/Black	.12	.13	0.13
Hispanic/Latino	.13	.16	0.19
Asian/Asian-American	.03	.04	0.06
Northeast	.19	.19	0.18
South	.37	.39	0.37
Midwest	.21	.2	0.21
West	.23	.22	0.24
Non-targeted characteristics			
Married	.49	.48	0.52
Single	.37	.35	0.35
Separated/Divorced	.1	.13	0.12
Widowed	.03	.04	0.02
Has children	.59	.64	0.40
Less than High School	.03	.04	0.09
Less than 4-year college	.51	.53	0.55
4-year college/Master's	.4	.33	0.32
Professional degree	.06	.11	0.03
Employed	.65	.73	0.70
Unemployed	.09	.07	0.03
Republican	.28	.32	0.26
Democrat	.38	.34	0.25
Independent & others	.34	.34	0.47
Voted in 2020 presidential election	.8	.81	0.61
Voted for Biden in 2020 presidential election	.56	.53	0.51
Voted for Trump in 2020 presidential election	.4	.43	0.47
Sample size	1500	504	

Outline

Understanding, Expectations, and Interest in Inflation

Personal Impacts of and Reactions to inflation

Policy Views

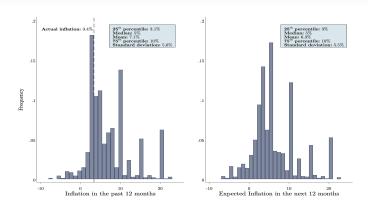
A closer look at definitions of inflation

Relatively correct answers (52%)	Relatively incorrect answers(44%)	
Inflation is the price of things going up	The hiking of prices of consumer goods	
	to offset the countrys debt due to elites	
	over spending and throwing money away.	
I describe inflation as an increase	Inflation is when everything gets so expensive.	
in prices across the country	You can't afford it no matter how hard you work.	
Inflation is when the price of goods go up	Inflation to me is where the cost	
based on the economy	of living rises above affordable means	
	for the majority of the people.	
Inflation is when the price of things go up	Price gouging, especially for the greedy,	
overtime. This can be attributed to specific	by raising prices so high, that	
events that cause the rise of pricing.	almost everything is too expensive	
A rise in the general price of goods	Over priced everything	
Inflation is a rise in prices, which can be translated as	The price of goods keeps increasing	
the decline of purchasing power over time.	but our incomes doesn't	
the rise of prices for goods and services.	Not being able to afford to live.	
Inflation is the grneral increase in the prices of	To me, inflation is when the	
goods and services in an economy	economy is more than just hurting.	
over a period of time.	It's when it's too tough just to keep positive.	
Inflation is the increase of prices of goods	Increase in demand	
Inflation is the rising cost of prices across multiple	Goods and services are priced high.	
industries including food, electronics, and automobiles	The costs are inflated	

- But 85% of respondents are able to "compute" inflation in concrete examples.
- Only 40% agree that inflation is "merely a yardstick" or "measurement thing."



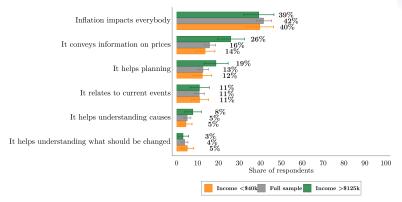
Past and expected inflation



- High-income respondents perceive lower past & exp. inflation.
- Republican, female, and Black respondents think inflation has been higher in the past and have higher inflation expectations for the coming year.
- Which items have highest inflation: food > gas > rent > utilities.
- Demographic correlates



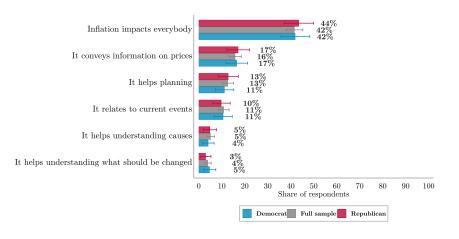
News on Inflation are Interesting Because...



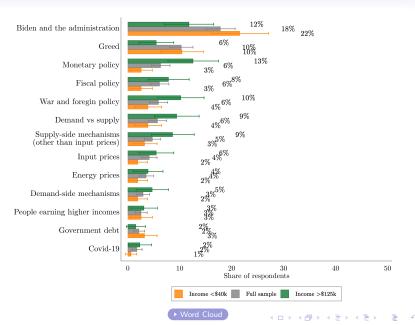
- 80% report paying more attention to inflation now than before and find it important to stay up to date
- Main source of formal news: TV > newspaper > social media > radio
- Recent purchases most informative according to people (< 15% rely on official stats or news)
- Understanding and importance of inflation



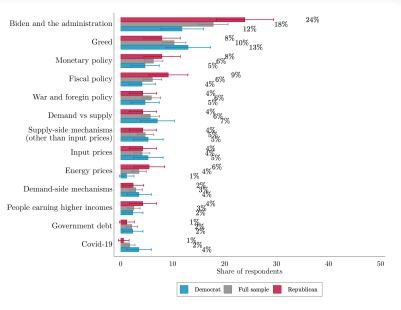
News on Inflation are Interesting Because...



High Inflation is Caused By...

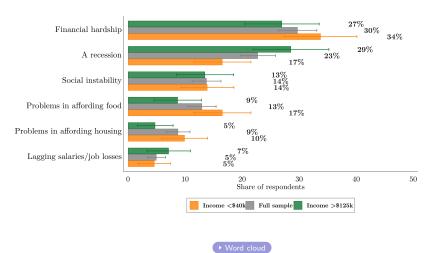


High Inflation is Caused By...



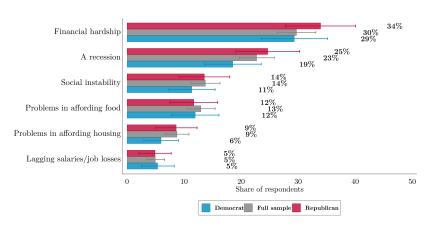
Perceived Consequences of High Inflation

If inflation increases too much, I worry about...



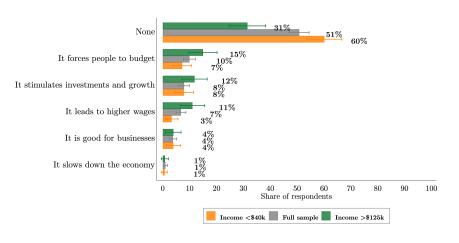
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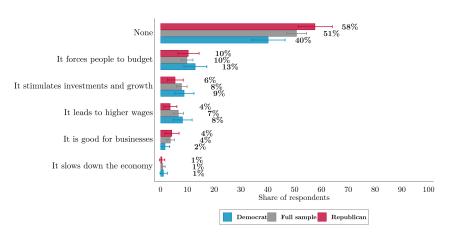
Consequences of Inflation: Few positives

A positive impact of inflation is...

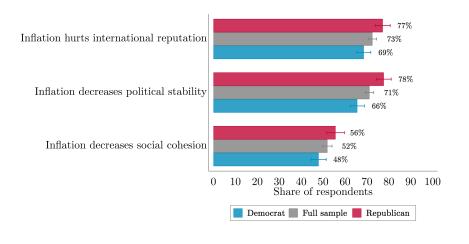


Consequences of Inflation: Few positives

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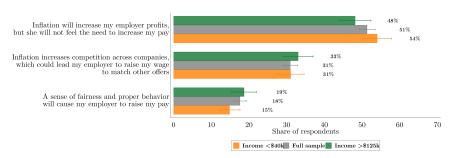


Perceived social and Political Consequences of Inflation





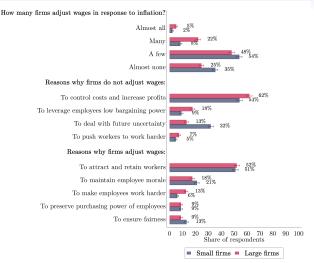
Theories about inflation and wages



 People believe firms have considerable discretion in setting wages, rather than being compelled by market dynamics.

▶ By political leaning

Wage adjustment in small vs large companies



- Few firms perceived to adjust wages.
- Respondents somewhat more sympathetic to small than large firms.



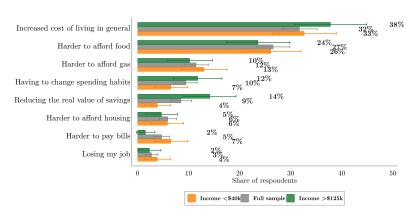
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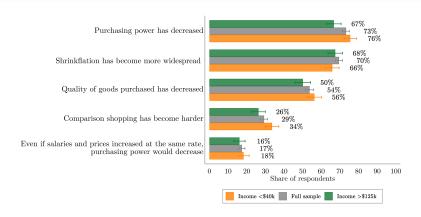
The most important impact of inflation on my life has been...



- Mainly cost-of-living concerns. Fewer job-related concerns.
- Lower-income respondents more likely to mention necessities.
- By political leaning
- Word cloud



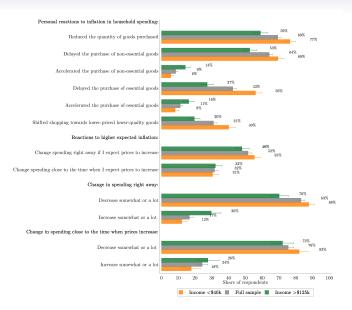
Inflation impacts as a consumer



- Comparison shopping less of a concern today than in Shiller (1997) has technology made this easier? Have hassles been reduced overall?
- Lower-income respondents more affected.
- By political leaning



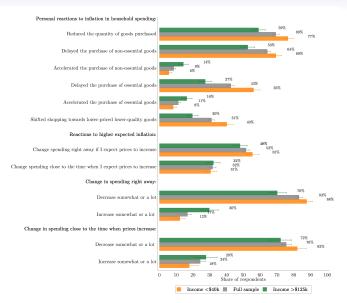
Personal reactions to inflation as a consumer



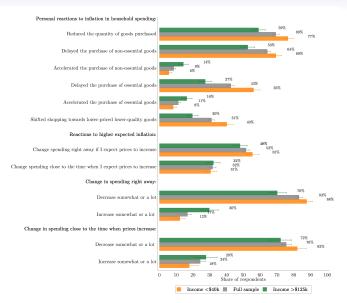




More reactions among low-income resp.

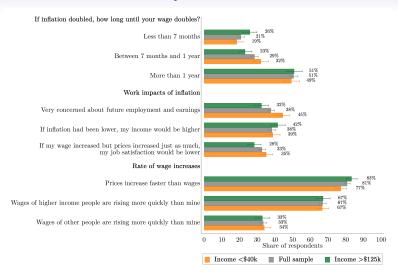


Few stockpile or accelerate purchases



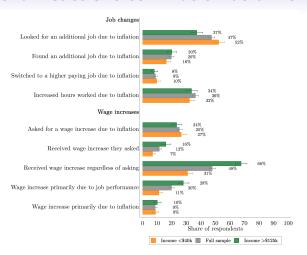


Inflation impacts as a worker



 Respondents today more likely to believe wage adjusts within one year (relative to 90s).
By political leaning
Inflation impacts as an asset holder

Personal reactions to inflation as a worker



- Fewer adjustments as workers than as consumers.
- Do not attribute wage increases primarily to inflation; perceive at least some of it is due to job performance (especially if have changed jobs).

▶ By political leaning → Personal reactions to inflation as an asset

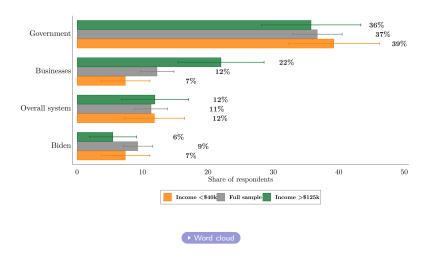


Word cloud for "When hearing rising inflation I feel..."

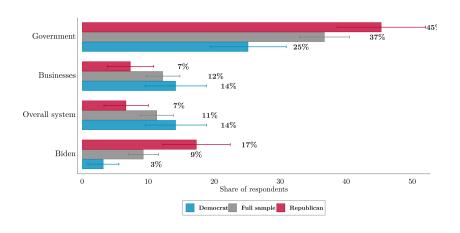


- Topic analysis by income
- Topic analysis by political leaning

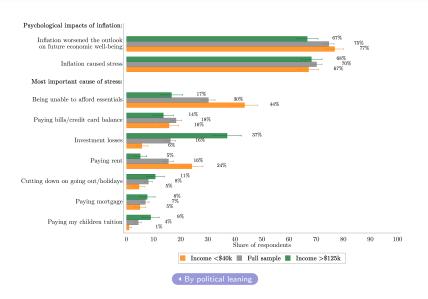
When I went to the store and saw that prices were higher, I felt angry at...



When I went to the store and saw that prices were higher, I felt angry at...



Psychological impacts of inflation: Stress



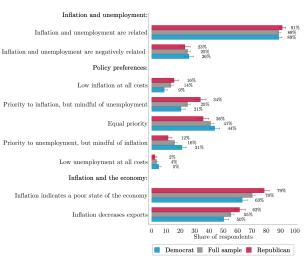
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(Lack of) perceived inflation-unemployment trade-off



- → By income
- Ranking of social and economic issues



Conclusion: Main Findings (I)

- Inflation not seen as a "yardstick." but as causing tangible adverse effects.
- Predominant reason for aversion: Wages not keeping up with inflation ⇒ perceived decline in living standards.
- Amplified by belief that wage raises are not adjustments for inflation (instead due to job performance, especially for job switchers).
- Respondents report making costly adjustments, especially along consumption margin.
- Effects most pronounced among lower-income respondents.
- Inequality effects: Perception that wages of higher-income people grow faster than others'.
- Stress and emotional responses.

Conclusion: Main Findings (II)

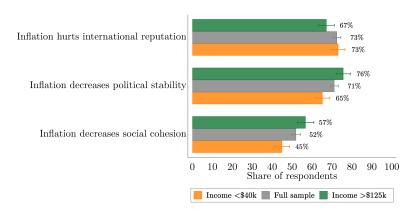
- Why do wages lag behind prices? People believe employers have substantial discretion rather than being subject to market forces.
- Government and businesses ("Greed") blamed for inflation; responses split along partisan lines.
- Few perceived positive impacts of inflation. Inflation linked to negative economic & political outcomes. The "tradeoffs" economists perceive are not salient (to be continued..)
- Despite economic changes & improved survey methodology, Shiller's core conclusions remain relevant, with new insights on adjustments, emotions, and political polarization.

THANK YOU!



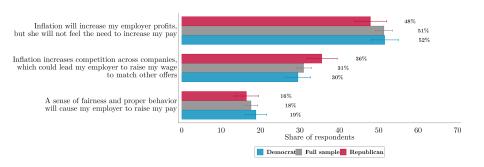
APPENDIX

Perceived social and Political Consequences of Inflation, By income



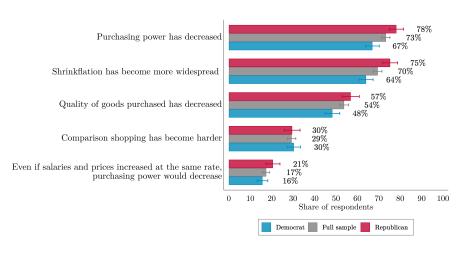


Theories about inflation and wages, By political affiliation

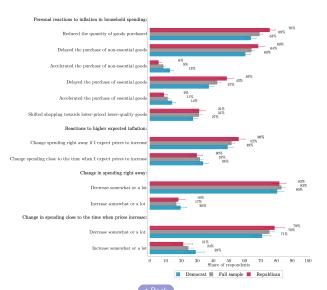


▼ Back

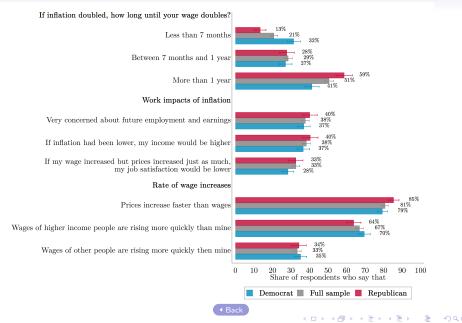
Inflation impacts as a consumer, By political affiliation



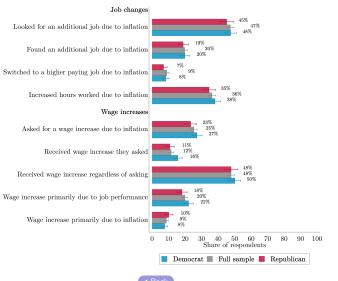
Personal reactions to inflation as a consumer, By political affiliation



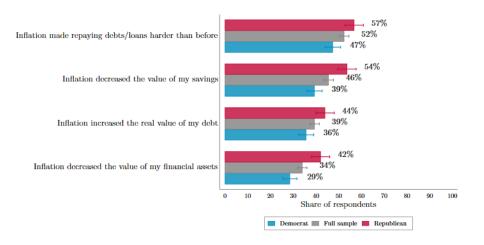
Inflation impacts as a worker, By political affiliation



Personal reactions to inflation as a worker, By political affiliation

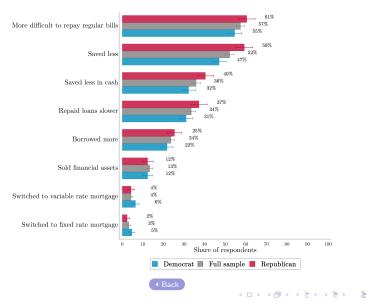


Inflation impacts as an asset holder, By political affiliation

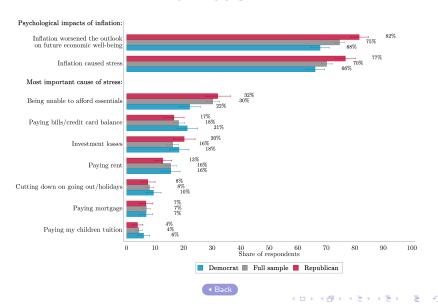




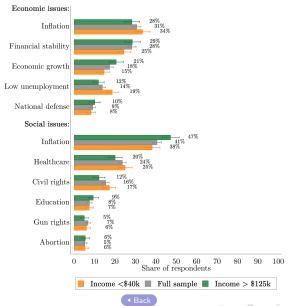
Personal reactions to inflation as an asset holder, By political affiliation



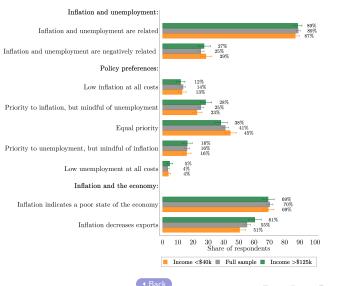
Inflation psychological impacts, By political affiliation



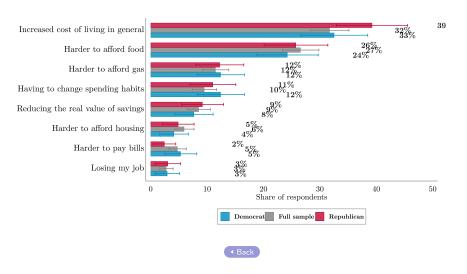
Ranking of social and economic issues, By income



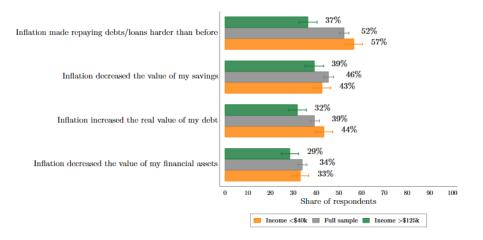
The inflation versus unemployment trade-off, By income



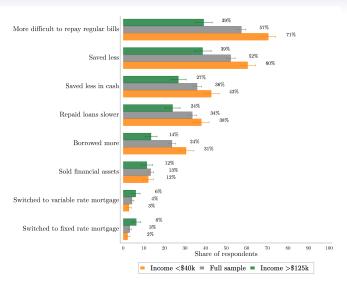
The most important impact of inflation on my life has been...



Inflation impacts as an asset holder



Personal reactions to inflation as an asset holder

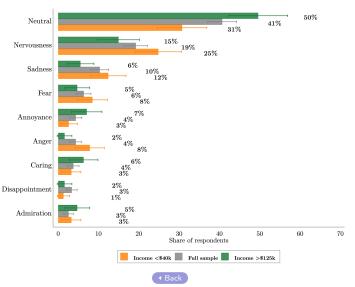


- ✓ By political leaning



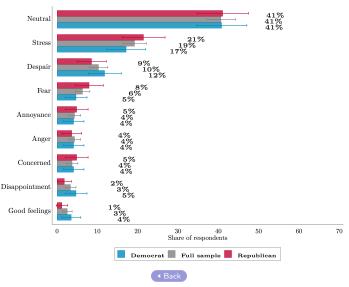
When hearing rising inflation I feel...

By income

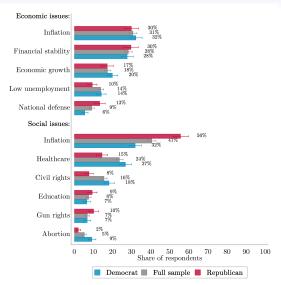


When hearing rising inflation I feel...

By political leaning



Ranking of social and economic issues



Word cloud for "High inflation is caused by... [open-ended text]"



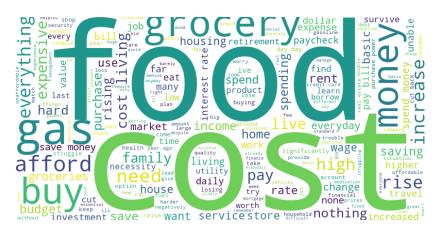


Word cloud for "If inflation increases too much, I worry about... [open-ended text]"





Word cloud for "The most important impact of inflation on my life has been... [open-ended text]"





Word cloud for "When I went to the store and saw that prices were higher, I felt angry at... [open-ended text]"

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congress
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Correlates of past and expected inflation

	Dependent variable:	
	Perceived inflation	Expected inflation
Female	1.614*	1.805**
	(0.933)	(0.914)
Age 30-49	2.205	1.350
	(1.893)	(1.855)
Age 50-69	0.836	-0.193
_	(1.449)	(1.326)
Black	3.291*	4.796***
	(1.680)	(1.499)
Hispanic	-0.148	1.872
	(1.024)	(1.284)
Other	7.453	7.927
	(4.882)	(4.898)
Middle-income	-1.882	-2.433*
	(1.330)	(1.369)
High-income	-2.859**	-3.156**
	(1.310)	(1.249)
Working	-0.778	-0.803
	(1.382)	(1.322)
Student	-3.662*	-4.555**
	(1.944)	(1.776)
Retiree	-3.378***	-2.265*
	(1.244)	(1.264)
Married	-1.777*	-1.230
	(1.057)	(1.047)
Has children	0.485	0.581
	(1.111)	(1.109)
Northeast	0.689	0.488
	(1.289)	(1.208)
South	1.601	1.703
	(1.625)	(1.605)
Midwest	0.436	0.107
	(1.177)	(1.162)
4-year college	-0.965	-1.133
	(1.225)	(1.108)
Republican	2.706***	3.098***
	(0.848)	(0.893)
Independent and Others	3.384***	3.236***
	(1.207)	(1.157)
Observations	1498	1498
Adj. R ²	0.025	0.031
Dependent variable mean	10.193	8.442
Dependent variable std. dev.	18.850	18.622

Understanding and importance of inflation

	Share of respondents giving each answer
Understanding of inflation	
Correct future price given inflation rate	0.85
Correct inflation rate given future price	0.82
Agree with the definition of inflation as a	
'sort of measurement thing and little more'	0.40
Over the last 12 months	
Inflation	0.92
Deflation	0.04
No change in prices	0.04
Over the next 12 months	
Inflation	0.72
Deflation	0.09
No change in prices	0.19
Items which experienced the most	
substantial inflation in past 12 months	
Food	0.59
Gas	0.19
Rent	0.15
Utilities	0.06
Main source of news about inflation	
Social Media	0.47
Newspapers	0.62
Television	0.76
Radio	0.37
Most influential source when thinking about future inflation	
News reports	0.13
Official statistics	0.20
Recent price changes of my purchases	0.65
Advice from friends and family	0.02
Attention for inflation updates	
Find important staying up to date on current and future inflation	0.71
Increased attention towards inflation in last two years	0.82
Sample size	1500