

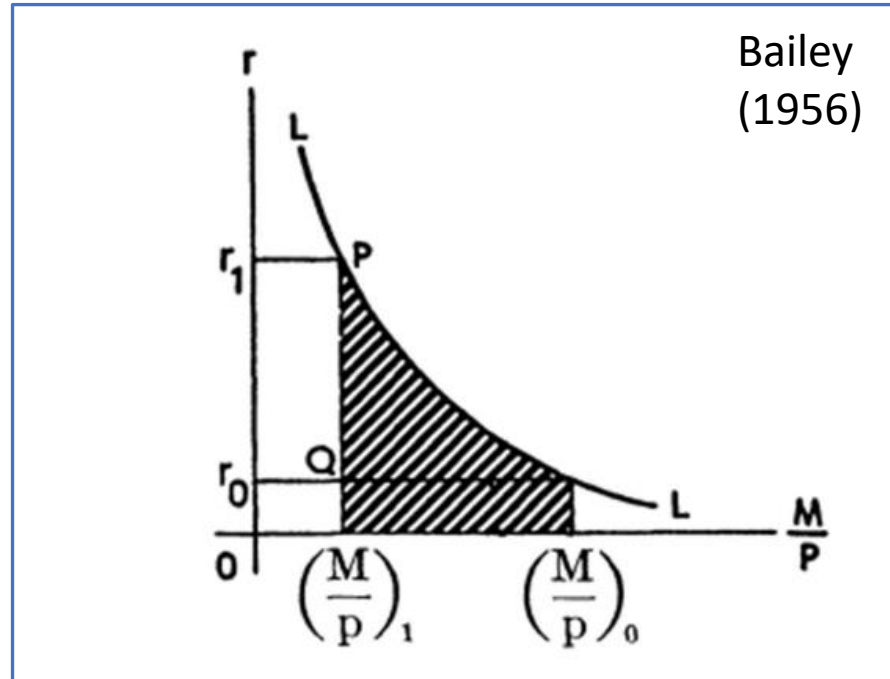


Why do we dislike inflation?

Stefanie Stantcheva
Discussion by Carola Binder

A puzzle: Why do we dislike inflation?

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“Standard characterizations of the policy maker’s objective function put more weight on the costs of inflation than is suggested by our understanding of the effects of inflation; in doing so, they probably reflect political realities and the heavy political costs of high inflation” (Blanchard and Fischer 1989).

Shiller (1997): *Ask people* why they dislike inflation

- Consumers in the United States, Germany, and Brazil believed that inflation eroded their standard of living.
- They believed that controlling inflation was one of the most important goals of economic policy.
- They said they would prefer ten years of 2% annual inflation and 9% unemployment over ten years of 10% monthly inflation and 3% unemployment.

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- They said they would prefer ten years of 2% annual inflation and 9% unemployment over ten years of 10% monthly inflation and 3% unemployment.
- Romer and Romer (1997): “While there is ample evidence that high inflation harms economic growth and stability, there is remarkably little research on the costs and benefits of reducing inflation from, say, 3% to 1%.”
- Mankiw (1997): “I am not at all sure in what direction [Shiller’s results] should push either economic theory or economic policy.”

Stancheva (2024): Why do we still dislike inflation?

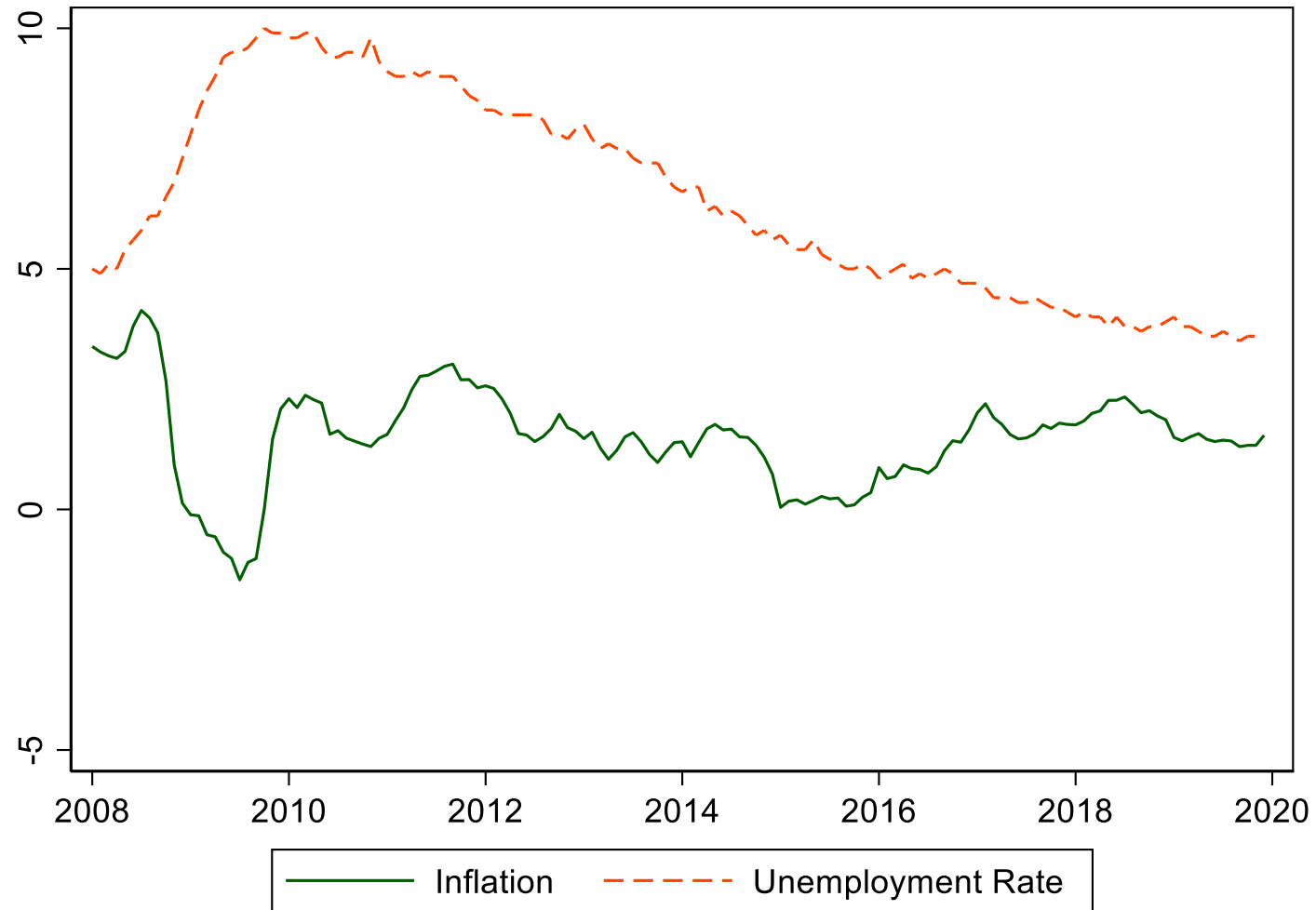
- “The predominant reason for people’s aversion to inflation is the widespread belief that it diminishes their buying power.”
- “The potential positive associations of inflation, such as with reduced unemployment or enhanced economic activity, are typically not recognized by respondents.”
- “Inflation ranks high in priority among various economic and social issues, with respondents blaming the government and businesses for it.”

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- Does consumers’ reported distaste for inflation justify putting more weight on inflation in the objective function?
- Lowering the inflation target?
- In the next recession, should policymakers be more cautious in their fiscal and monetary response?

Do we dislike inflation?



Do we dislike inflation?



**Economic
Policy
Institute**

Is 2 percent too low?

Rethinking the Fed's arbitrary inflation target to avoid another Great Recession

Report • By Josh Bivens • June 9, 2017



FedListens

Perspectives from the Public

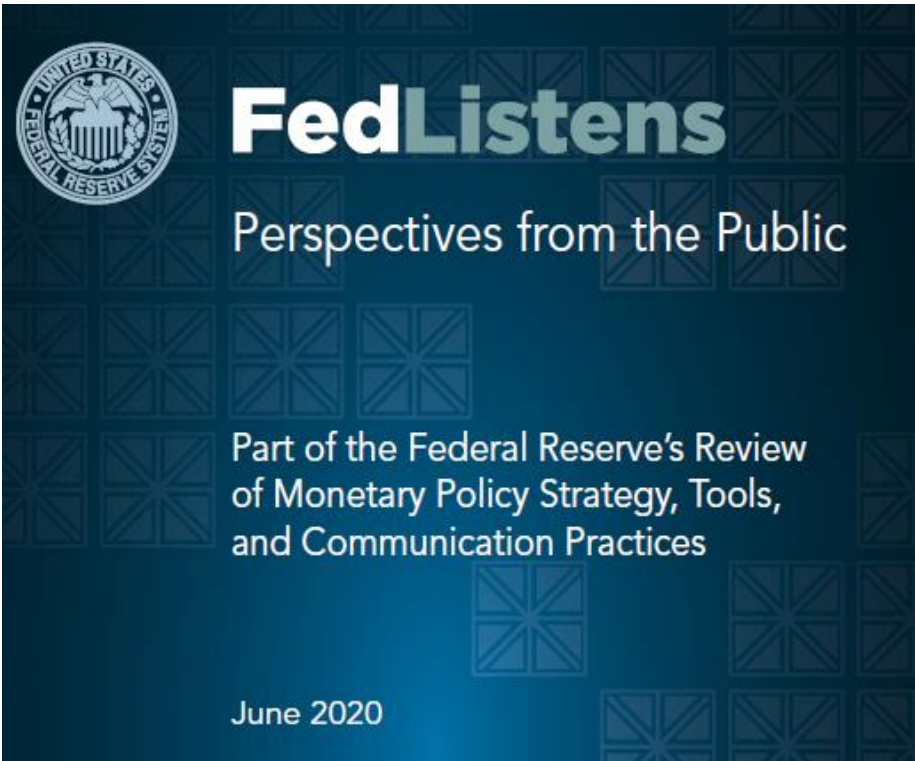
Part of the Federal Reserve's Review
of Monetary Policy Strategy, Tools,
and Communication Practices

June 2020

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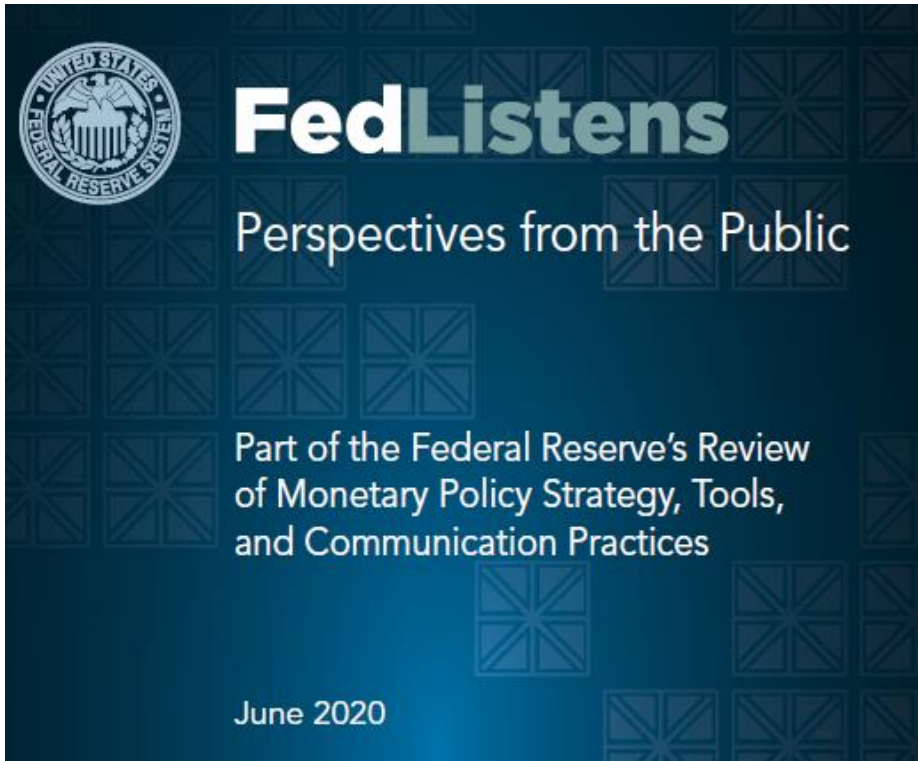


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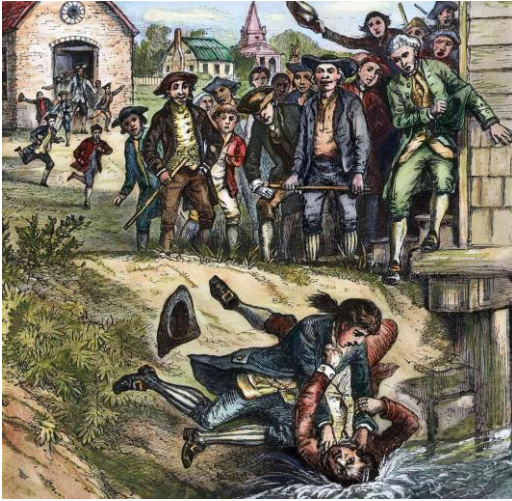
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Asymmetric average inflation targeting: “following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time.”

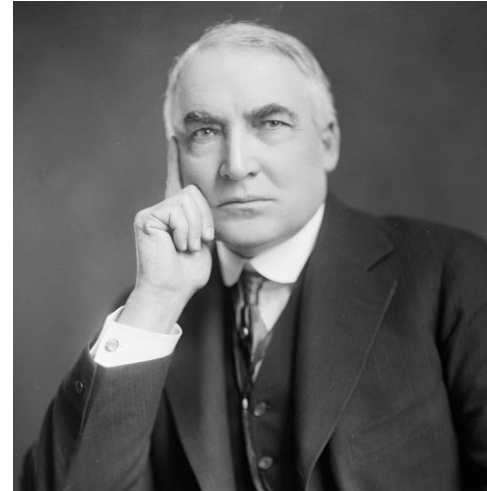
Deflation hasn't been so popular either.



Shay's Rebellion
(1786)



Cross of Gold
(1896)

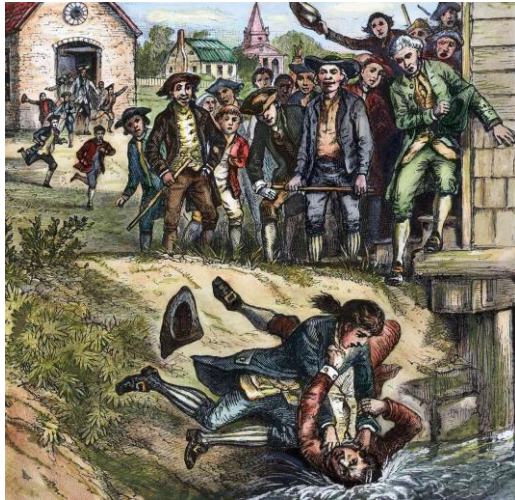


"The Federal Reserve Board
has to lower rates generally
and help the farmers."
(Harding 1921)



Roosevelt and the Great Depression
(1933)

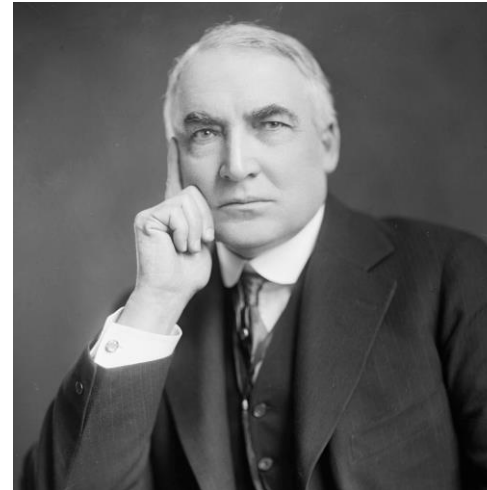
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Now: Our monetary institutions are deliberately designed to give policymakers the power and discretion to create inflation if they choose. Idea of constraining policymakers more tightly in the interest of preventing inflation is very unpopular.

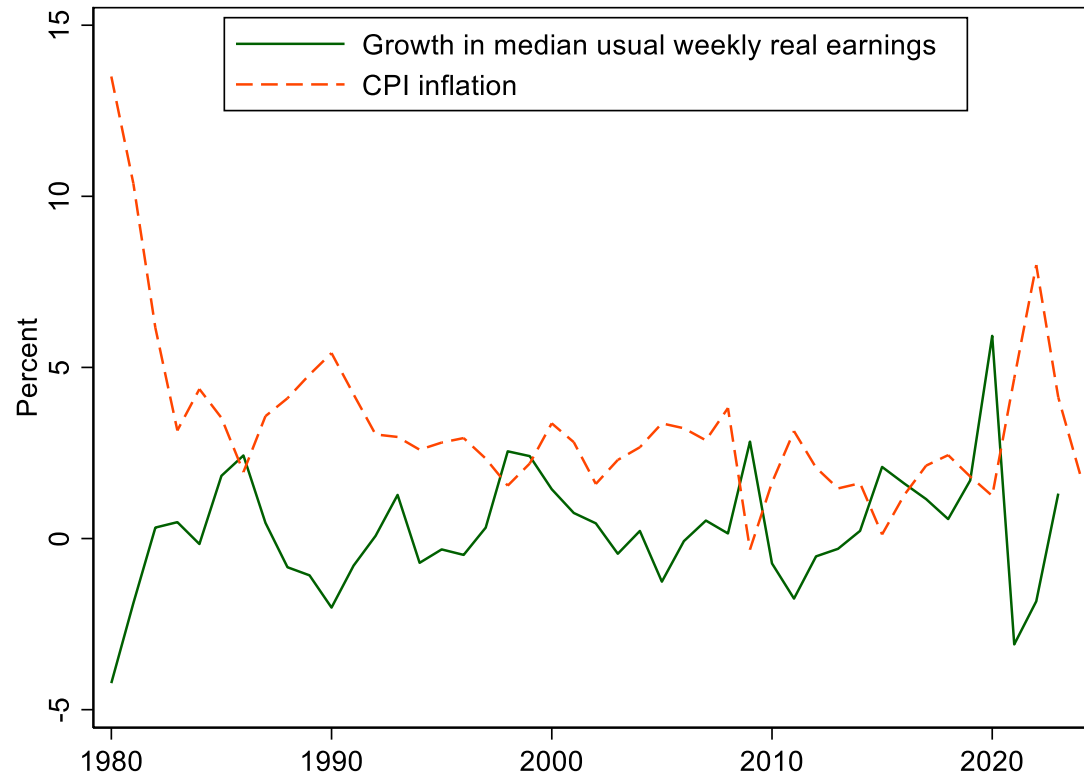
Why do people report that they dislike inflation, and what should we make of these survey results?

Resist the temptation

- Mankiw: laymen, unlike economists, “say that inflation makes them poorer...It is tempting for economists to snicker at this answer. Such a reaction gives us a sense of superiority, and it offers an opportunity to reciprocate the low regard in which much of the public holds the economics profession.”

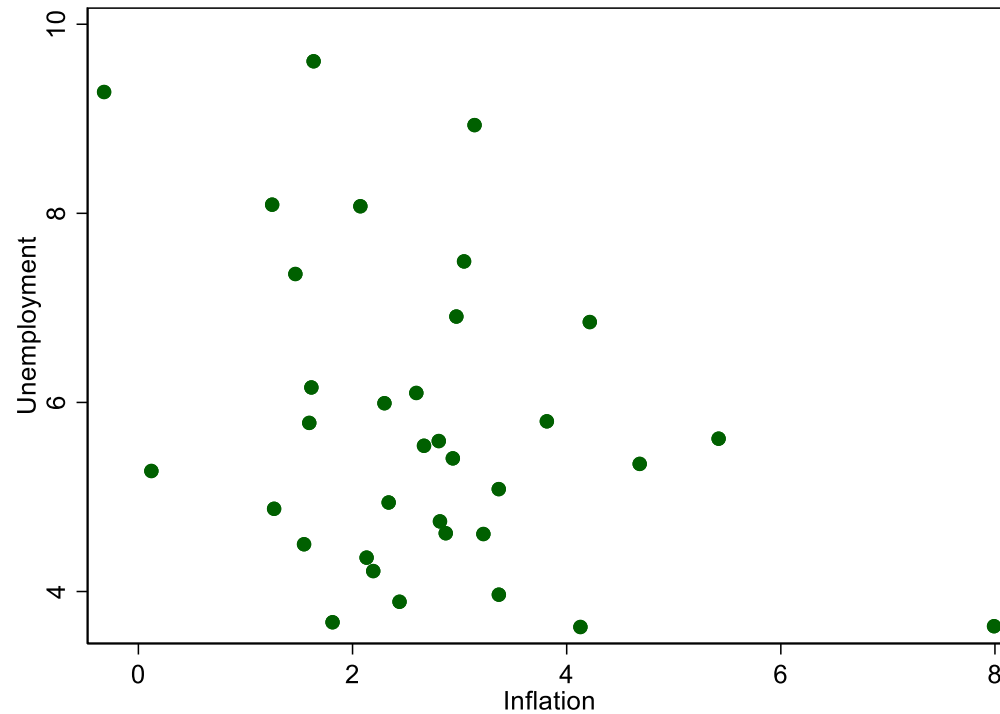
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- How would you describe the relation between inflation and unemployment? [When inflation is higher, unemployment is also higher; When inflation is higher, unemployment is lower]



Question Interpretation

- “If inflation was lower than it is now, would you say that you would be less stressed, equally stressed, or more stressed than you are now?”

Ceteris parabus?

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- “If inflation doubled, how long until your wage doubles?”

Doubling a rate of change vs. doubling a level.

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- “Now, we are going to list some widely debated economic policy issues in the US. Could you please rank them depending on how much you think they should be a national priority?”

Priming and experimenter demand effects.

“People scarcely acknowledge any positive impacts from inflation.”

- Inflation does not inherently have positive impacts.
- Stabilizing aggregate demand, which sometimes requires allowing temporarily higher inflation, does have positive impacts.
- Inflation is often a side effect of policies that people do like, such as fiscal stimulus in a pandemic.
- Reasonable for people to report that they dislike the side effect, even if they would dislike the counterfactual even more.
- Reasonable to strongly dislike (and for media to fixate on) inflation that results from actual or perceived policy errors or political incompetence.
- Exciting paper with great new data that should be a valuable resource for other researchers and should prompt replication in other countries and macroeconomic environments!