

Why Do We Dislike Inflation?

ABSTRACT This paper provides new evidence on a long-standing question asked by Shiller (1997): why do we dislike inflation? I conducted two surveys on representative samples of the US population to elicit people’s perceptions about the impacts of inflation and their reactions to it. The predominant reason for people’s aversion to inflation is the widespread belief that it diminishes their buying power, as neither personal nor general wage increases seem to match the pace of rising prices. As a result, respondents report having to make costly adjustments in their budgets and behaviors, especially among lower-income groups. Inflation also provokes stress, emotional responses, and a sense of inequity, as the wages of high-income individuals are perceived to grow more rapidly amid inflation. Many respondents believe that firms have considerable discretion in setting wages, opting not to raise them in order to boost profits, rather than being compelled by market dynamics. 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. I also highlight a substantial polarization in attitudes toward inflation along partisan lines, as well as across income groups.

Over twenty-five years ago, Shiller (1997, 13) wanted to “understand, through public survey methods, why people are so concerned and dismayed by inflation.” In a nutshell, he discovered that individuals consider inflation a national concern primarily because it undermines their living standards. They observe prices rising while their wages stagnate,

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attributing this imbalance to employers' "greed." Moreover, respondents associated inflation with economic downturns and political instability, citing certain "unspecified systemic factors" (*ibid.*, 57).

Considering the significant time elapsed since this seminal study, it is important to refresh our understanding of the public's aversion to inflation. The COVID-19 pandemic has thrust inflation back into the limelight as a critical policy issue in the United States and abroad, reigniting concerns over its effects on living standards. Given the transformations our economic system has experienced since the late 1990s, including the impact of globalization, the financial crisis, the pandemic, and a growing polarization in societal perspectives (Alesina, Miano, and Stantcheva 2020), contemporary views on inflation and the economy might have shifted significantly . . . or have they?

Drawing inspiration from Shiller (1997), this paper offers an updated perspective on the enduring question of why people dislike inflation, incorporating significant advancements in survey methodology that have occurred since the 1990s. I designed and conducted two new surveys on large, representative samples of the US population. The goal was to cover the perceived impacts of and reactions to inflation with simple but comprehensive questions. Considering inflation's impact on individuals in their varied economic roles—be it as consumers, workers, or asset owners—is crucial. Survey A contains detailed, closed-ended questions formulated in line with contemporary best practices to capture a spectrum of perspectives and actions. Survey B, on the other hand, consists of open-ended questions, allowing participants to express their thoughts freely. These questions are vital as they illuminate the nuanced views and convictions that might not fit within the predefined choices an economist could propose and that might be overlooked otherwise. Analyzing the responses to these questions on a broad scale via text analysis techniques enables the exploration of significant first-order concerns (Ferrario and Stantcheva 2022). Furthermore, by gathering detailed demographic data on participants in these large and representative samples, I am able to examine heterogeneities in attitudes and responses across different demographics, including income, political orientation, age, education, gender, and race.

The key findings can be summarized as follows: contrary to perceiving inflation as a mere yardstick or a unit of measure, individuals anticipate a variety of tangible adverse effects on both their personal financial situation and the economy at large. If there is a single and simple answer to the question, "Why do we dislike inflation?" it is because many individuals feel that it systematically erodes their purchasing power. Many people do

not perceive that their wage increases sufficiently to keep up with inflation rates, and they often believe that wages tend to rise at a much slower rate compared to prices.

This perception of diminished living standards due to inflation is intensified by the observation that individuals rarely ascribe the raises they receive during inflationary periods to adjustments for inflation. Rather, they attribute these increases to job performance or career progression, particularly among those who have switched jobs during such periods.

In response to the perceived erosion of purchasing power, respondents report having to make costly and significant adjustments to their consumer behavior, such as reducing the quantity and quality of goods purchased or deferring purchases. Understandably, lower-income respondents report being most adversely affected, indicating that they have even postponed buying essential items to cope with the impact of inflation. Notably, very few respondents report accelerating their desired purchases or stockpiling in anticipation of further price rises.

Not surprisingly, given these perceived consequences, inflation triggers stress and emotional reactions. Another factor contributing to the aversion toward inflation is a sense of unfairness. All perceived impacts—whether experienced as consumers, workers, or asset owners—are felt more acutely by those with lower incomes who find themselves needing to make more significant adjustments across these dimensions as well. In line with this observation, there is a common belief that the incomes of higher-earning individuals increase more quickly than theirs during periods of inflation, suggesting a perception that inflation exacerbates inequality.

Why do individuals believe that wages do not increase as rapidly as prices? A primary reason is the conviction that employers and companies possess significant discretion in setting wages and tend to resist adjusting them upward in order to enhance their profit margins. There's a prevalent view that firms make strategic choices, with a more limited belief in market forces driving decisions.

When asked about the causes of inflation, people tend to blame the government and businesses. There is a clear partisan divide in the responses, with Republicans more likely to blame the government or Joe Biden, and Democrats more likely to blame businesses. This closely correlates with whom people feel angry at when they see prices rise, directing blame at businesses, the government, and the system in general.

Furthermore, people scarcely acknowledge any positive impacts from inflation. Consequently, only a minority of respondents believe in the trade-off between inflation and unemployment or associate inflation with

enhanced economic growth (Binetti, Nuzzi, and Stantcheva 2024). The majority link inflation to adverse wider economic and political outcomes. Considering the numerous negative and scant positive perceived effects, many participants rank inflation as a top priority, ahead of other economic and social issues.

Despite shifts in the economic landscape, the core conclusions from the seminal study conducted by Shiller (1997) in the 1990s are still relevant today. But I also add some new findings, specifically exploring the many margins along which people report making costly adjustments and a range of emotions and attitudes toward inflation using a mix of open-ended text and structured questions. Furthermore, I highlight the distinct polarization in opinions on inflation based on political affiliation, along with varying attitudes and responses according to income level.

RELATED LITERATURE This paper contributes to several strands of the literature. First, it connects with studies on attitudes toward inflation or policies to combat price increases, primarily using survey methods. Shiller (1997) provided a first seminal contribution. Subsequent work has tried to characterize inflation aversion (Scheve 2004; Easterly and Fischer 2001; Howarth and Rommerskirchen 2017; Aklin, Arias, and Gray 2022; van Lelyveld 1999; Di Tella, MacCulloch, and Oswald 2001; Hofstetter and Rosas 2021; Ruprah and Luengas 2011; Hübner and Klemm 2015; Coles and Chen 1990; Jayadev 2008; Scheve 2003) and fairness concerns for firms' pricing behavior (Rotemberg 2005, 2011).

A series of recent papers relates most closely to the question of why people dislike inflation. Like the current paper, Jain, Kostyshyna, and Zhang (2022) find that respondents in Canada tend to associate higher inflation with worse labor market conditions. They also show that respondents do not think that wages adjust fully to inflation and that higher inflation expectations are associated with lower expected real spending growth. Hajdini and others (2022) show that an experimentally induced increase in inflation expectations is positively correlated with higher growth expectations, but the pass-through is relatively small at 0.2. Higher-income respondents are more likely to perceive a positive link between inflation and growth, similar to my findings about the less negative attitudes toward inflation among the better-off. Kamdar (2019) finds that people generally believe that an increase in inflation will be associated with an increase in unemployment, echoing my results.

The paper is also related to the large body of literature on inflation expectations, reviewed in Weber and others (2022). Coibion, Gorodnichenko, and Kamdar (2018) emphasize the importance of survey-based measures of

inflation expectations, which are more accurate than traditional rational expectations approaches. Several papers study how expectations are formed, particularly focusing on personal experiences (Angelico and Giacomo 2019; Cavallo, Cruces, and Perez-Truglia 2017; D’Acunto and others 2019; D’Acunto and others 2021; Bruine de Bruin, van der Klaauw, and Topa 2011; Goldfayn-Frank and Wohlfart 2020; Malmendier and Nagel 2016). Binder, Janson, and Verbrugge (2023) study the anchoring of inflation expectations among professional forecasters.¹ Coibion, Gorodnichenko, and Weber (2022) examine how monetary policy communications shape inflation expectations.

An important contribution to survey methodology for inflation expectations is by Kim and Binder (2023), who show that repeat survey participants exhibit “learn-through-surveys” effects, whereby they adjust their forecasts and reduce their errors over time. Reassuringly, given the size of the pool of respondents and the nature of typical surveys done on the platform used in this paper, it is highly unlikely that respondents have been surveyed on inflation before.

Echoing my analysis of the perceived causes of inflation, recent work studies the narratives people have regarding inflation (Andre and others 2021; Andre and others 2022), with similar findings to mine along that dimension. I also study the behaviors adopted by households when there is inflation, which relates to the literature on behavioral changes induced by inflation expectations (Bachmann, Berg, and Sims 2015; Coibion and others 2023).

Finally, this paper is part of a broader research agenda to understand how people reason about economic phenomena and policies, following work on climate change policies (Dechezleprêtre and others 2022), trade policy (Stantcheva 2023b), inflation (Binetti, Nuzzi, and Stantcheva 2024), and tax policy (Stantcheva 2021).²

The rest of the paper is organized as follows. Section I presents the survey and sample. Section II provides results on people’s definitions of and interest in inflation, and their perceived broader causes and consequences of inflation. Section III considers the personal impacts of and reactions to inflation as consumers, workers, and asset holders, as well as the

1. See Binder, McElroy, and Sheng (2022) on forecasters’ subjective uncertainty, as well as Coibion and Gorodnichenko (2015) for a study of the same professional forecasters data that rejects the full-information rational expectations model and shows that the data are most consistent with a violation of the full-information assumption.

2. A lot of the data can be found on the website, Understanding Economics, <https://understandingeconomics.org/#/>.

emotional and psychological impacts. Section IV studies how respondents rank inflation relative to other economic and social issues and how they perceive the inflation-unemployment trade-off. Section V concludes.

I. Survey and Sample

I.A. Data Collection and Sample

I collected responses for two surveys between December 2023 and January 2024 on the survey platform Lucid. Lucid is a survey marketplace that pools together respondents from different panels, and respondents are rewarded based on the agreements with their survey panels (some in the form of points or perks on various partnering programs with hotels, stores, or airlines, others in the form of cash).

For the first survey, survey A, I collected a total of 1,500 responses; for the second survey, survey B, I collected 504 responses. For both surveys, I imposed quotas on age, income, gender, region, and race, as well as screening questions toward the start of the survey to filter out careless respondents.³

Table 1 compares the characteristics of our sample to the US population. The samples are, by construction, closely representative along the targeted margins. For nontargeted margins, the samples match quite well for family structures, the share employed, the share Republican, and the share having voted for Biden versus Trump in 2020. As with almost all online surveys, there is some oversampling of college-educated and unemployed respondents (Stantcheva 2023a). The sample share of Democrat respondents relative to the share of independents is also larger than in the US population, although the voting shares for 2020 match much more closely.

I.B. Survey Structure

Survey A contained closed-ended questions. The full questionnaire can be found in online appendix A.4. The survey covered the following topics: definition of inflation, information about past inflation and expected inflation, personal impacts and reactions to inflation, and policy views related to inflation. This survey took on average 32 minutes to complete (median 27 minutes).

Importantly, these survey questions were designed with the clear intention of *not* priming respondents to answer in a given way. For instance, even if economic theory or evidence says the direction of an effect is unambiguous,

3. Those respondents were immediately screened out of the survey and not allowed to complete it.

Table 1. Sample Representativity

	<i>Survey A</i>	<i>Survey B</i>	<i>US population</i>
<i>Targeted characteristics</i>			
Male	0.48	0.50	0.49
Female	0.51	0.50	0.51
18–29 years old	0.23	0.22	0.23
30–39 years old	0.21	0.21	0.21
40–49 years old	0.19	0.20	0.19
50–59 years old	0.19	0.18	0.19
60–69 years old	0.18	0.19	0.18
\$0–\$19,999	0.14	0.15	0.13
\$20,000–\$39,999	0.16	0.15	0.16
\$40,000–\$69,999	0.20	0.20	0.20
\$70,000–\$99,999	0.15	0.15	0.15
\$100,000–\$124,999	0.08	0.10	0.09
\$125,000+	0.26	0.25	0.26
White	0.68	0.64	0.60
African American/Black	0.12	0.13	0.13
Hispanic/Latino	0.13	0.16	0.19
Asian/Asian American	0.03	0.04	0.06
Northeast	0.19	0.19	0.18
South	0.37	0.39	0.37
Midwest	0.21	0.20	0.21
West	0.23	0.22	0.24
<i>Nontargeted characteristics</i>			
Married	0.49	0.48	0.52
Single	0.37	0.35	0.35
Separated/divorced	0.10	0.13	0.12
Widowed	0.03	0.04	0.02
Has children	0.59	0.64	0.40
Less than high school	0.03	0.04	0.09
Less than four-year college	0.51	0.53	0.55
Four-year college/master's	0.40	0.33	0.32
Professional degree	0.06	0.11	0.03
Employed	0.65	0.73	0.70
Unemployed	0.09	0.07	0.03
Republican	0.28	0.32	0.26
Democrat	0.38	0.34	0.25
Independent and others	0.34	0.34	0.47
Voted in 2020 presidential election	0.80	0.81	0.61
Voted for Biden in 2020 presidential election	0.56	0.53	0.51
Voted for Trump in 2020 presidential election	0.40	0.43	0.47
Sample size	1,500	504	

Source: Author's surveys and IPUMS-CPS-ASEC.

Note: The table displays statistics for the overall US population, as compared to the samples of respondents in surveys A and B. Summary statistics for the US population are constructed using IPUMS-CPS-ASEC data for 2022. Targeted characteristics refer to the ones on which we impose quotas in our survey to match the overall US population. Quotas are not set for the nontargeted characteristics.

the question still features a bilateral scale allowing respondents to take a stand on the direction. The questions are balanced, neutral, and clarify terms as needed, following the best practices outlined in Stantcheva (2023a).

Survey B focused on open-ended questions. It covered topics such as respondents' perceived causes and consequences of inflation, emotional reactions to inflation, and personal impacts. The full questionnaire can be found in online appendix A.5, and the survey took on average 14 minutes (median 11 minutes) to complete.

The responses to open-ended questions are valuable: they provide us with respondents' views before they are primed to think in any particular direction by the surveyor. They can convey issues that we might otherwise miss. To analyze these answers, I create topics defined by lists of keywords and categorize answers depending on whether they contain the keywords associated with the topic (Ferrario and Stantcheva 2022). A given answer may contain more than one topic, which is why some respondents may be reflected in one or more categories. Furthermore, a (typically) small share of responses are not classified because they do not fit into a clear category or do not answer the question. As a result, the categories do not systematically add to 100 percent. I also chose to report the answers as they were written by respondents when providing examples, which means they may contain typos and errors. Online appendix A.3 provides example answers for each question and category.

In both surveys, I occasionally used a question from Shiller (1997) when it is particularly interesting to make an exact comparison between the views in 1996 and those today. Nevertheless, I rephrased most of the questions to be more balanced and neutral, and I added extensive new questions to better understand people's reasoning.

1.C. Paper Organization

Throughout the paper, I will draw on responses from both surveys, specifying each time whether the question under consideration is open-ended or closed-ended. Figures A14–A18 in the online appendix depict the raw word clouds from the open-ended questions.

In some analyses, I will highlight the heterogeneity in views by income, with groups defined as those in the lower third of the income distribution of respondents (income below \$40,000) and those in the upper third (income above \$125,000). In others, the heterogeneity by political leaning is more interesting to showcase. I also systematically show the sample average. Online appendix A.2 contains the complementary figures that are not shown here.

Furthermore, tables A2–A23 contain detailed regression results, where all outcomes shown in the figures are regressed on the full set of individual characteristics. These tables show that the patterns highlighted in the main text figures also hold when controlling for detailed individual covariates, and they highlight further heterogeneities by education, age, race, or employment status. Due to space constraints, I cannot discuss these other heterogeneity patterns at length here.

II. Understanding, Expectations, and Interest in Inflation

II.A. Inflation Definition

The first set of results relates to people's basic understanding of inflation.

First, it is instructive to ask people about their definition of inflation, in their own words. Table 2 shows example responses to this open-ended question. Around half of all respondents give a relatively correct response. In their own words, "Inflation is the price of things going up," "I describe inflation as an increase in prices across the country," "A rise in the general price of goods." Very few respondents provide the exactly correct definition of inflation, and there are clearly some difficulties with the formal definition, whereby people tend to add extra clauses or conditions to it.

On the contrary, 44 percent of respondents give relatively incorrect answers, with examples such as "The hiking of prices of consumer goods to offset the country's debt due to elites over spending and throwing money away," "Price gouging, especially for the greedy, by raising prices so high, that almost everything is too expensive," "Inflation is when everything gets so expensive. You can't afford it no matter how hard you work," "Inflation to me is where the cost of living rises above affordable means for the majority of the people," and "Over priced everything."

However, in simple, concrete examples, many more people are able to correctly estimate the inflation rate. I asked respondents two short knowledge questions: the first told them the price of a good today, gave them an annual inflation rate, and asked them to compute the price of the good one year from now. Table 3 shows that 85 percent of respondents did this correctly. Conversely, the second question gave them the current price and the price one year from now and asked them to compute the inflation rate; 82 percent of people got this right. Therefore, simple exercises may, understandably, not reflect people's true grasp of the underlying concept.

I included in the survey an interesting question from Shiller (1997), asking people whether they agreed with a characterization of inflation as a "sort of measurement thing/yardstick and little more." Both in 1996 and

Table 2. A Closer Look at Definitions of Inflation

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

Source: Author's surveys.

Note: This table offers ten examples of correct and incorrect answers to the question, "How would you define inflation in your own words?" Note that 4 percent of respondents answered without giving any definition. Answers are reported as they were written by respondents when providing examples, which means they may contain typos and errors.

today, a minority of people (40 percent) agree with this description. This disagreement will not be surprising in light of the range of (real) consequences people expect from inflation, which I present below. I provided respondents with a definition of inflation before moving to the actual questions about it.

II.B. Past Inflation and Inflation Expectations

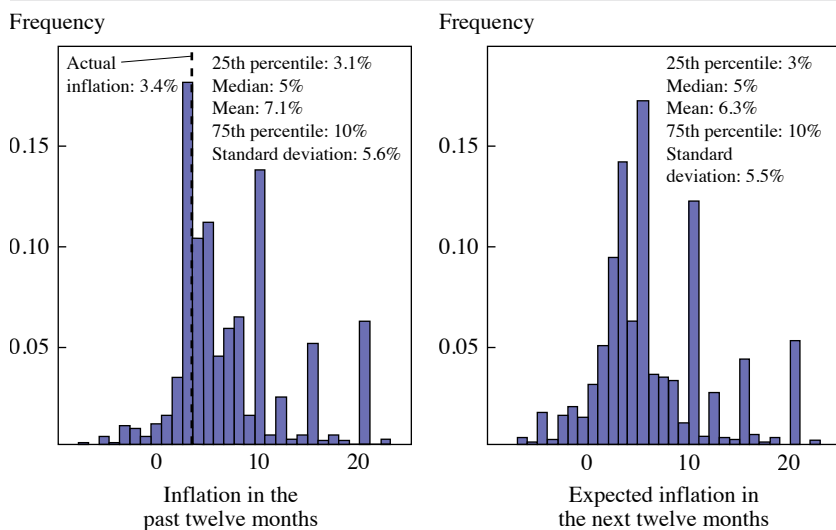
Turning to knowledge of the past inflation rate and inflation expectations, 92 percent of people think that there has been inflation (as opposed to deflation or no change in prices) over the last twelve months. Nearly three-quarters of respondents expect inflation to continue over the next year,

Table 3. Understanding and Importance of Inflation

	<i>Share of respondents giving each answer</i>
<i>Understanding of inflation</i>	
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
<i>Over the last twelve months</i>	
Inflation	0.92
Deflation	0.04
No change in prices	0.04
<i>Over the next twelve months</i>	
Inflation	0.72
Deflation	0.09
No change in prices	0.19
<i>Items which experienced the most substantial inflation in past twelve months</i>	
Food	0.59
Gas	0.19
Rent	0.15
Utilities	0.06
<i>Main source of news about inflation</i>	
Social media	0.47
Newspapers	0.62
Television	0.76
Radio	0.37
<i>Most influential source when thinking about future inflation</i>	
News reports	0.13
Official statistics	0.20
Recent price changes of my purchases	0.65
Advice from friends and family	0.02
<i>Attention for inflation updates</i>	
Find important staying up to date on current and future inflation	0.71
Increased attention toward inflation in last two years	0.82
Sample size	1,500

Source: Author’s surveys.

Note: The third variable is an indicator equal to one if the respondent somewhat to strongly agrees with the statement. Respondents could select several main sources of news about inflation. The indicator “Find important staying up to date on current and future inflation” is equal to one if the respondent finds being updated very to extremely important. The indicator “Increased attention toward inflation in last two years” is equal to one if the respondent increased attention somewhat to a lot. For more details on the questionnaire, see online appendix A.4.

Figure 1. Distribution of Estimates of Past and Expected Future Inflation (Censored)

Source: Author's surveys and Bureau of Labor Statistics.

Note: Data for actual inflation from December 2022 to December 2023 retrieved from the Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers, all items in US city average, not seasonally adjusted, accessed at https://www.bls.gov/regions/mid-atlantic/data/consumerpriceindex/historical_us_table.htm. Samples of perceived inflation rates and expected future inflation rates are censored at -10 percent (excluding, respectively, 0.6 percent and 0.7 percent of the sample) and 25 percent (excluding, respectively, 7.7 percent and 5 percent of the sample).

while almost 20 percent expect a stabilization of prices. Figure 1 plots the distribution of past and expected inflation rates across respondents. While actual inflation over that period was 3.4 percent, the median expectation is a bit higher at 5 percent, and the mean is much higher at 7.1 percent. Median expected inflation over the next twelve months is identical to the median past expectation at 5 percent and the mean is 6.3 percent.

Online appendix table A2 correlates the perceived past and expected inflation with various socioeconomic characteristics. There are some striking differences in perceptions and expectations across respondents. High-income respondents perceive around 3 percentage points lower past and expected inflation. Republican, female, and Black respondents think inflation has been higher in the past and have higher inflation expectations for the coming year.⁴

4. Bruine de Bruin and others (2010) find that inflation expectations are higher for non-white, less-educated, and lower-income respondents. Unlike us, they find a significantly positive effect of age but no effect of gender on inflation expectations.

Table 3 also reflects the items that people believe have experienced the most substantial inflation over the past year: food leads the ranking, followed by gas, rent, and utilities.

I want to emphasize that there are many issues with how inflation is measured—due to unavoidable assumptions that have to be made—so that official measures might not reflect the experience of specific groups. Two important measurement issues are, first, inflation inequality and, second, the way housing and financing costs are taken into account. These will introduce a discrepancy between people’s experienced inflation and official inflation statistics. As a result, perceived and expected inflation—and by extension, perceived living costs and real wage growth—might deviate from official numbers.

Inflation inequality means that inflation might affect households differently because of the basket of goods they consume (Jaravel 2021; Atkin and others 2024; Argente and Lee 2021; Cavallo, 2024; Wimer, Collyer, and Jaravel 2019; Jaravel and Olivi 2021; Kaplan and Schulhofer-Wohl 2017). In general, lower-income households, which spend a larger share of their budget on food, gas, rents, and necessities are likely to be more affected. Furthermore, experienced inflation will differ across space in the United States. This inflation inequality means that real wage growth might also not be accurately computed for households at different points in the income distribution or living in different places in the United States. Related to housing and financing costs, a recent paper by Bolhuis and others (2024) notes that consumers consider financing costs—for mortgages, auto loans, and other personal loans—and leasing costs to be part of the cost of living. Yet, these costs are not part of the current Consumer Price Index (CPI). Therefore, the current measure of inflation does not capture the effective costs that are facing potential home buyers and those relying on financing instead of cash purchases. Bolhuis and others (2024) show that a modified CPI taking these costs into account exhibits much higher inflation in the recent period.

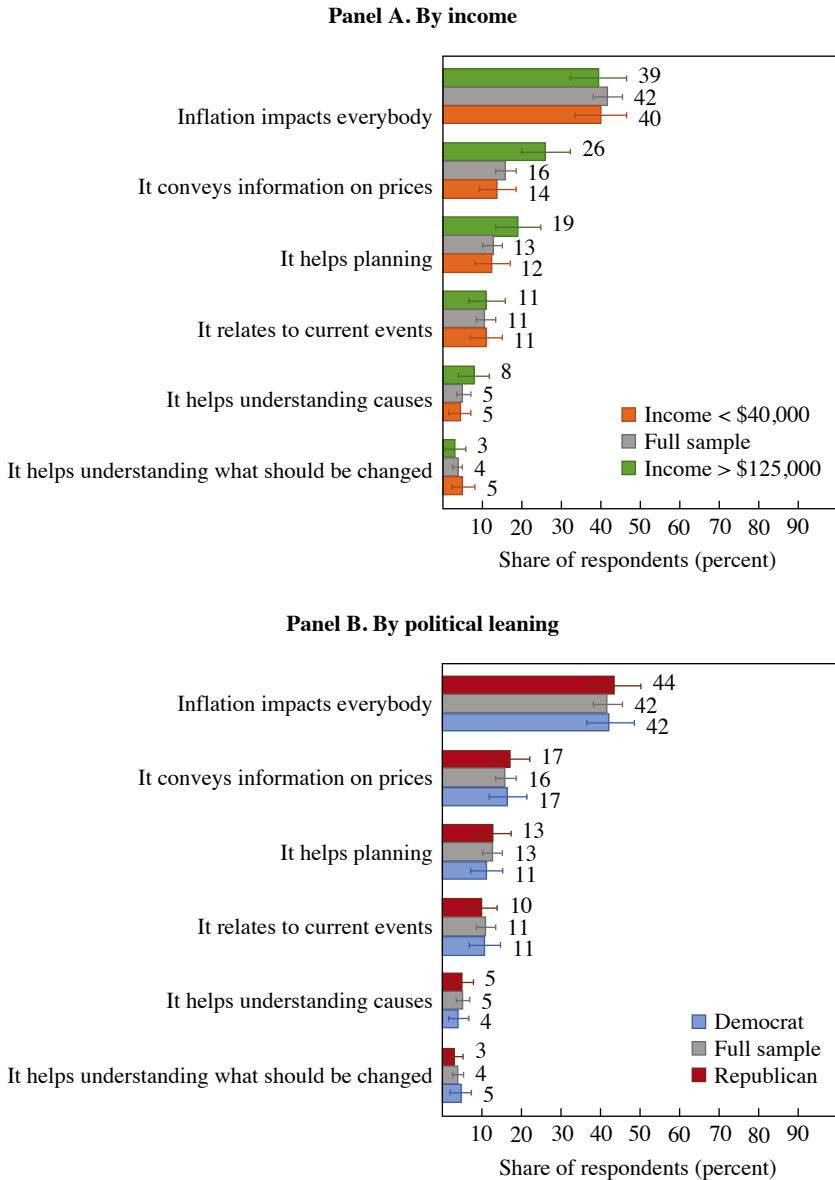
These measurement issues imply that people’s perceptions may accurately reflect their true experience even if they are not in line with official statistics.

II.C. Interest in Inflation and Sources of Information

Table 3 shows that 71 percent of respondents find it “extremely important” to stay up to date on inflation, and 82 percent report that their attention to inflation news has increased over the last two years.

Why are people interested in inflation? Figure 2 shows the answers to the open-ended question from survey B, which reads, “Some people

Figure 2. News on Inflation Is Interesting Because . . . [Open-Ended Text]



Source: Author’s surveys.

Note: The figure reports the share of respondents whose answers belong to each category with 90 percent confidence intervals. The question is, “Some people think that news about inflation is boring and technical stuff that they can’t relate to. Can you explain to them why they should find it interesting?” For each category, I report two example answers in online appendix A.3.1. Seven percent of respondents answered they were not interested in news about inflation.

think that news about inflation is boring and technical stuff that they can't relate to. Can you explain to them why they should find it interesting?" The most common answer, across income and political groups, is that inflation affects everyone (example answers include "Because it affects everyone's lives" or "It affects everyone's cost of living"), followed closely by the fact that news conveys information about prices (with example answers such as "Could be an indication of future price increases").

The main sources of formal news about inflation reported are television, followed by newspapers, social media, and, finally, radio. Yet, news does not appear to be the main driver of expectations. When I ask people what source is most influential for them when they form their views about future inflation, it appears that people by far infer the most information from their recent purchases and the price changes they witness when shopping (see table 3). Around one-fifth rely on official statistics, and only 13 percent rely on news reports.

II.D. Perceived Causes of Inflation

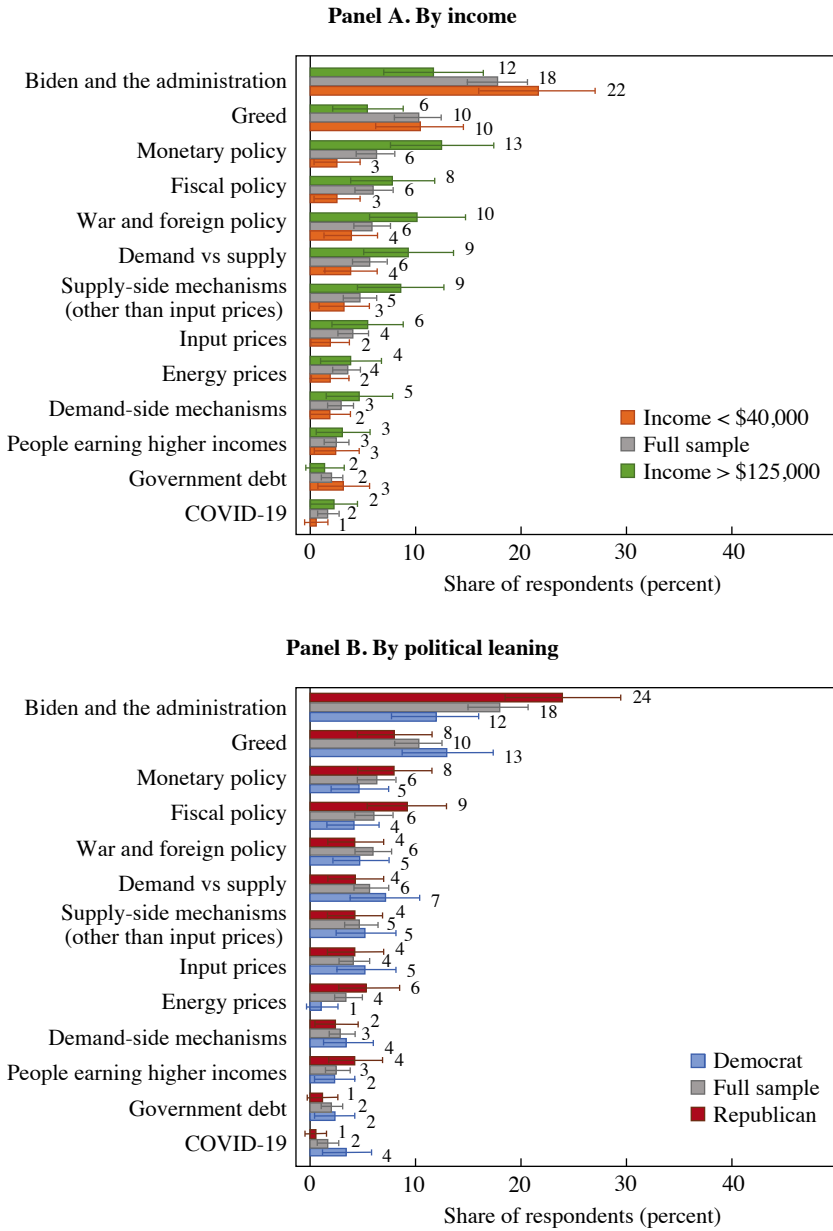
To continue gauging respondents' core understanding of inflation, I also ask them open-ended questions about the consequences and causes of inflation.⁵

Starting with the causes of inflation, figure 3 shows that, when respondents are asked in an open-ended way without priming them about specific causes, there is a large variety of causes mentioned. The most common one is Biden and the administration ("I think it has to do with Joe Biden," "Joe Biden's policies for this round of inflation"), followed by greed ("I believe the sole reason is greedy corporations who care more about their bottom line than actually helping people," "I think in some cases it is price gouging. When you know people depend on a product you want to see at what price are they still willing to pay for it"). There is a clear partisan divide in the perceived importance of these two main causes. Democrats are much more likely to talk about greed, while Republicans more frequently point to Biden and the administration.

Monetary policy ("Too much money injected into the market by the Fed," "Low interest rates") is especially mentioned among higher-income respondents (13 percent of them), but only among 3 percent of lower-income ones. Online appendix table A4 shows it is also more commonly mentioned among college-educated respondents.

5. A more in-depth analysis is in Binetti, Nuzzi, and Stantcheva (2024).

Figure 3. High Inflation Is Caused by . . . [Open-Ended Text]



Source: Author’s surveys.

Note: The figure reports the share of respondents whose answers belong to each category with 90 percent confidence intervals. The question is, “When inflation gets very high, what do you think is the reason?” For each category, I report two example answers in online appendix A.3.4.

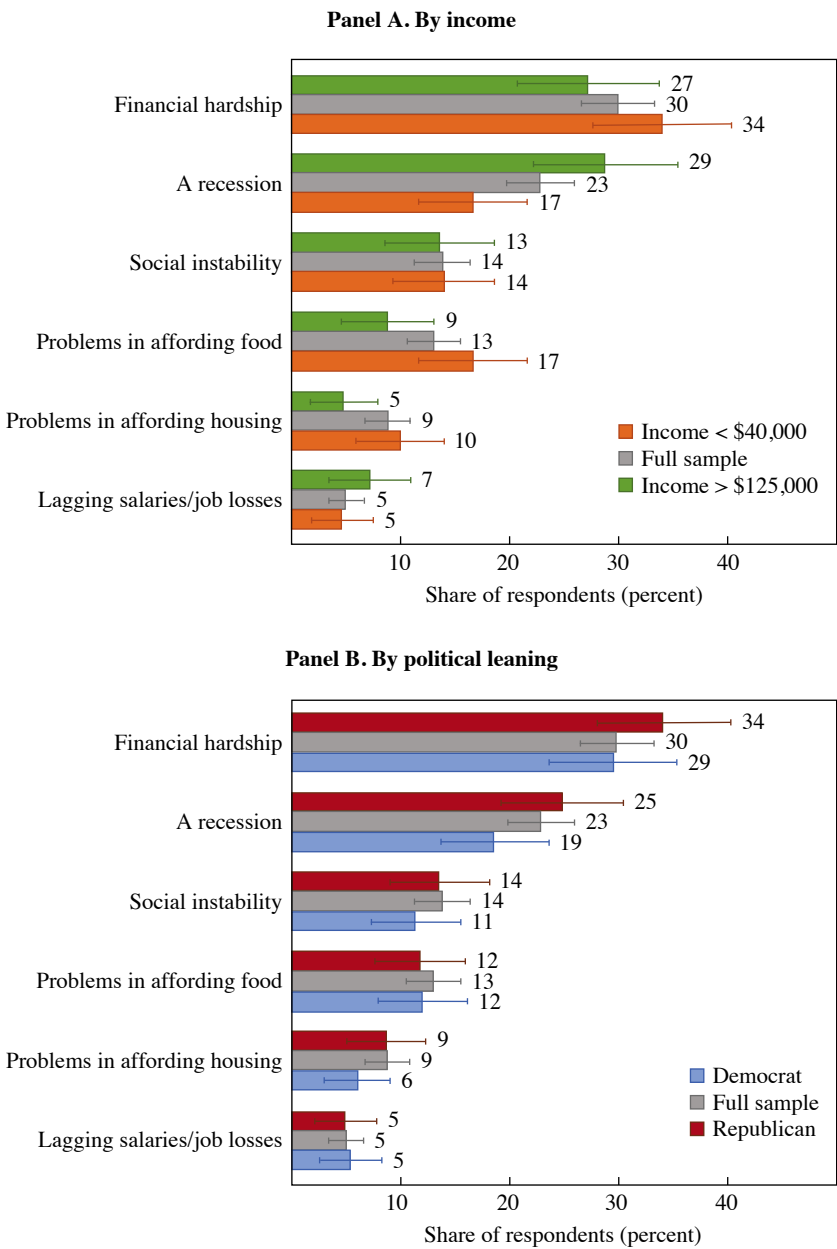
Some respondents (10 percent or fewer in all cases) also mention fiscal policy (“Government overspending is one principal reason,” “Tax breaks for the rich and poor budgeting”), war and foreign policy (“I think it’s because of war,” “It can be many factor, but the main factor is related to trade with other countries. When sanctions are in place, imports are reduced therefore limiting our supply of certain products”), demand versus supply (“I think the reason is supply and demand—the demand is high and goods are scarce,” “Because there is a problem with supply and demand”), supply-side mechanisms, other than input prices (“Because we have a shortage on supply,” “Supply chain issues”), input prices (“Companies raising their manufacturing costs,” “Costa of things and materials to make them”) specifically, energy prices (“Because gas prices, rises, losses rises”), and to a lesser extent, demand-side mechanisms (“Devaluation of dollar and excessive demand of products,” “I think it’s because the high demand of a product”). Perhaps surprisingly, very few people mention COVID-19 as a main cause.

II.E. Perceived Consequences of Inflation

ANTICIPATED POSITIVE AND NEGATIVE CONSEQUENCES OF INFLATION Figure 4 shows the responses to the question, “If inflation increases too much, what do you worry might happen?” The most common answer is related to financial hardship, with examples such as “I won’t be able to afford essential items” or “That we can no longer afford our basic human rights to live.” The share of respondents mentioning this issue is larger among lower-income respondents and Republicans. Other consequences mentioned in order of importance relate to the risk of a recession (“We might go into another great Depression,” “Financial crash”), social instability (“Theft and crime are rising because of it”), problems in affording food (“That food prices will be so high that I could barely feed my family,” “That it might go too high that people can’t afford food”), problems in affording housing (“That I will be homeless,” “I can’t afford anything and lose my home”), and lagging salaries/job losses (“I am worried it might affect wages. If wages are not keeping up with inflation, we would be able to buy less with our paycheck,” “People will start losing their jobs”). All these concerns are more widespread among low-income respondents with the exception of the general recession risk, which is more common among high-income respondents.

Do respondents perceive any positive impacts from inflation at all? Figure 5 shows that the answer is generally mixed: 60 percent of low-income respondents (as compared to 31 percent of high-income ones) believe there are no positive impacts of inflation at all. The share is also

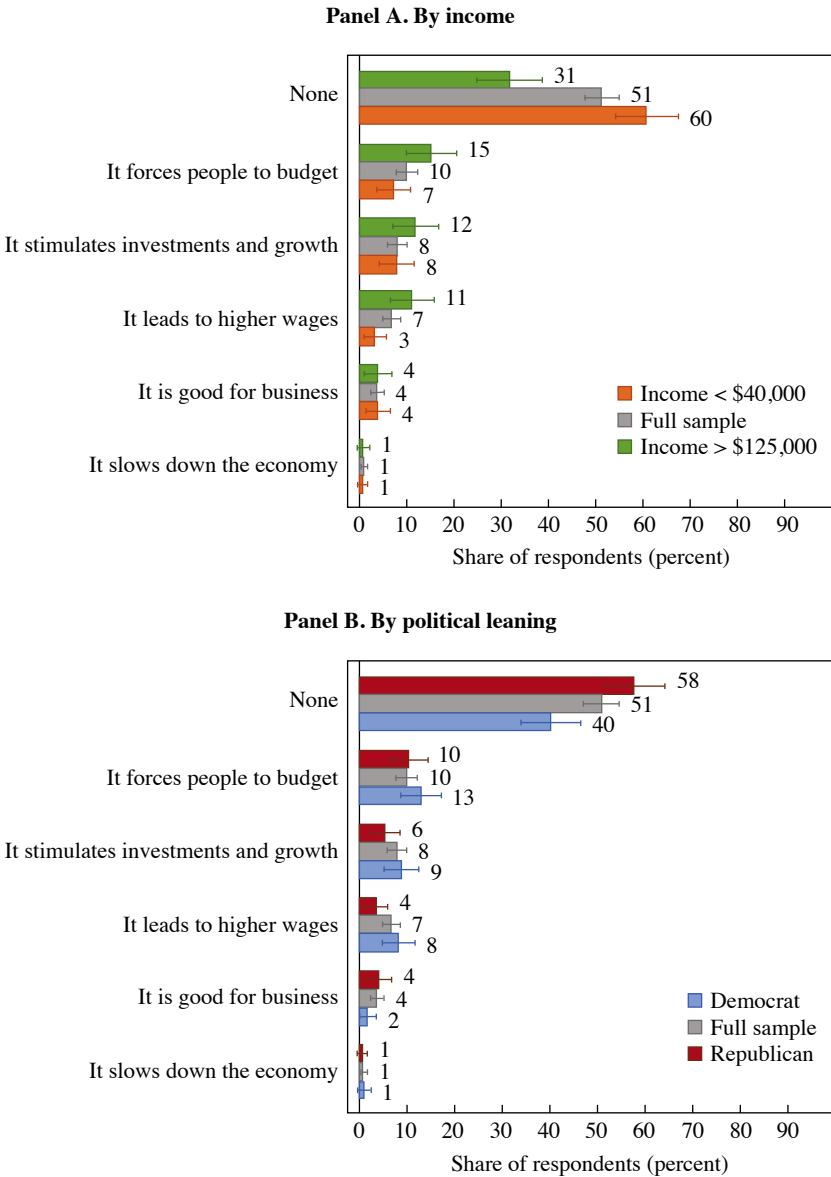
Figure 4. If Inflation Increases Too Much, I Worry about . . . [Open-Ended Text]



Source: Author’s surveys.

Note: The figure reports the share of respondents whose answers belong to each category with 90 percent confidence intervals. All the shares reported here are unconditional. The question is, “What are you worried might happen?” For each category, I report two example answers in online appendix A.3.2.

Figure 5. A Positive Impact of Inflation Is . . . [Open-Ended Text]



Source: Author’s surveys.

Note: The figure reports the share of respondents whose answers belong to each category with 90 percent confidence intervals. The question is, “What do you think could be the positive effects of inflation, if any, on people’s economic and financial situation?” For each category, I report two example answers in online appendix A.3.3. Twenty-one percent of the answers are not reported in the figure since they either mention a benefit that appears only once or twice or do not answer the question.

higher among Republicans than Democrats (58 percent compared to 40 percent). The main potential positive effect perceived is that it will force people to budget (“It will show people how to manage their money,” “It forces people to budget”) or will lead to higher wages. Consistent with what we will see below on the perceived unemployment-inflation trade-off, only very few respondents (8 percent on average) believe higher inflation can lead to higher growth. Higher-income respondents are more likely to report any of the potential positive impacts listed in the figure. The absence of a trade-off between inflation and economic activity and the fact that inflation is considered a “bad” that need not happen are explored in-depth in Binetti, Nuzzi, and Stantcheva (2024).

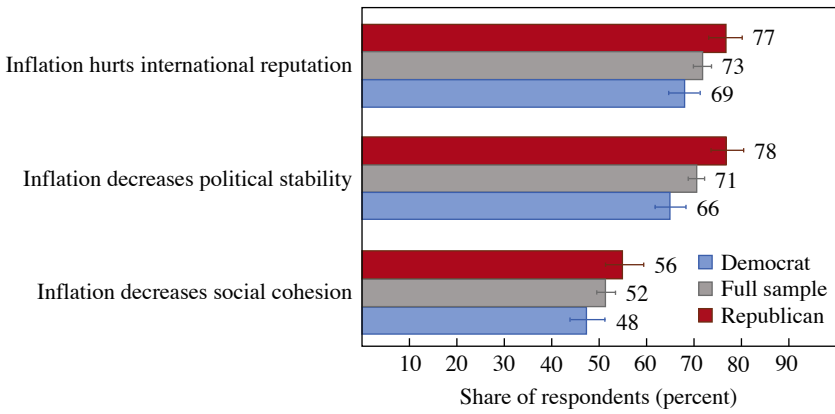
SOCIAL AND POLITICAL CONSEQUENCES OF INFLATION People’s heightened interest in inflation becomes even more understandable when considering the far-reaching consequences people anticipate, above and beyond the personal impacts. Figure 6 shows that close to three-quarters of all respondents believe that “inflation hurts international reputation” and “decreases political stability.” Views are more evenly split when it comes to decreasing social cohesion.⁶ Negative perceived consequences are somewhat more salient among Republicans than Democrats, but as online appendix figure A3 shows, there is no systematic pattern by income.

Shiller (1997) asks a much starker question about whether there can be political and economic chaos if inflation gets out of control, which three-quarters of respondents agree with. But it seems that today, that same share agree also with less stark statements such as the ones above. The share who believe that inflation can hurt international prestige is similar in our sample and in Shiller (1997). Perhaps the recent episode of inflation has brought back inflation concerns that might previously have been assuaged by a long period of low inflation.

THE PERCEIVED LINKS BETWEEN INFLATION AND WAGES I also ask respondents about their theory of how inflation affects wages, keeping the question very similar to that in Shiller (1997). Three alternative theories are offered (figure 7). “Inflation will increase my employer’s profits, but she will not feel the need to increase my pay” by far reflects the most held view with, on average, 51 percent of respondents selecting it. The share is higher at 54 percent among lower-income respondents than among higher-income ones. The share of all respondents who hold this belief is strikingly

6. Here again, I do not prime respondents about the direction of the effect and provide bilateral answer options.

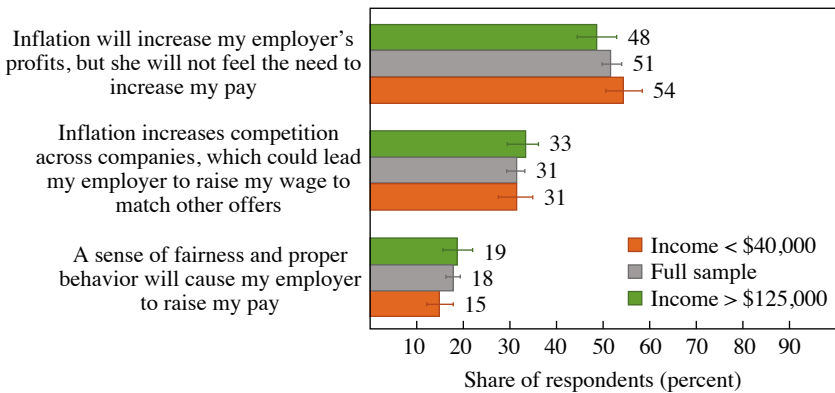
Figure 6. Perceived Social and Political Consequences of Inflation



Source: Author’s surveys.

Note: The figure reports the share of respondents whose answers are reflected by the statements listed alongside 90 percent confidence intervals. For more details on the questionnaire, see online appendix A.4.

Figure 7. Theories about Inflation and Wages



Source: Author’s surveys.

Note: The figure reports the share of respondents selecting each theory alongside 90 percent confidence intervals. For more details on the questionnaire, see online appendix A.4.

similar to that in Shiller (1997), conditional on respondents answering the question, reflecting the widely held perception that employers' preferences determine wages to a large extent, rather than market forces. Around one-third of respondents across all income groups hold the view that "inflation increases competition across companies, which could lead my employer to raise my wage to match other offers." Finally, a smaller share, between 15 percent for lower-income respondents and 19 percent for higher-income ones, believe most in the theory that "a sense of fairness and proper behavior will cause my employer to raise my pay."

People's views about the link between inflation and wages may depend on the type of firm considered. To test this, I designed a series of questions about small and large firms. The results, reported in figure 8, show that, on balance, people believe that only a few or almost no firms will actually adjust wages to inflation, especially among small firms.

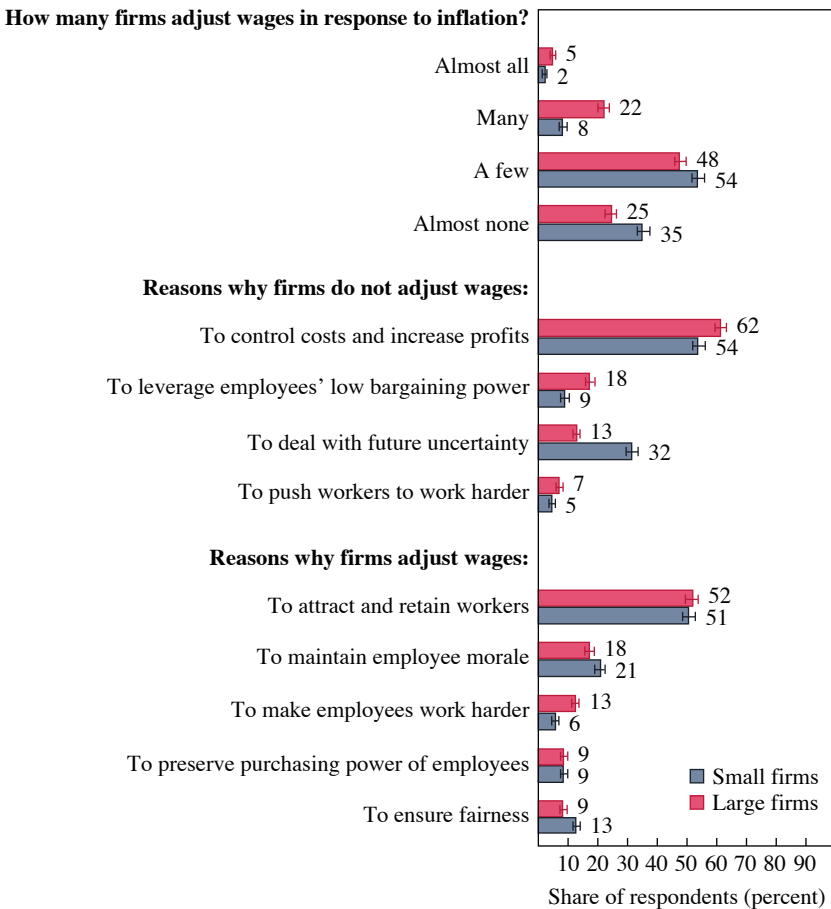
Most firms—large and small—are perceived to avoid adjusting wages to control costs and increase their profits (already echoing the notion of greed often heard in the news). Conditional on not adjusting wages, respondents are more likely to say that large firms are trying to leverage employees' low bargaining power, while small firms are dealing with future uncertainty. The main reason for adjusting wages, in people's views, is to attract and retain workers, followed by maintaining employee morale.

III. Personal Impacts of and Reactions to Inflation

Inflation can impact people in several roles: as consumers, as workers, and as asset holders. Before diving into people's experienced impacts along these specific dimensions, it is worth considering their answers to the open-ended question, "What were the most important impacts of inflation on your life?" shown in figure 9 (see also the word cloud in figure A16 in the online appendix). It is clear that the first-order concerns of most people are around the cost of living and affordability. Nearly one-third of respondents mention the cost of living in general, and over one-third mention either food affordability or gas affordability. Fewer people worry about the reduction in the value of their savings. Concerns about job losses are less of a first-order.

In this section, I consider people's various roles (consumers, workers, asset holders) in turn and study the perceived impacts of inflation and their responses to it. On this issue, the major heterogeneities are by income, which is why many of the figures focus on this dimension. For the figures by political leaning, see online appendix A.2.

Figure 8. Wage Adjustment in Small versus Large Companies



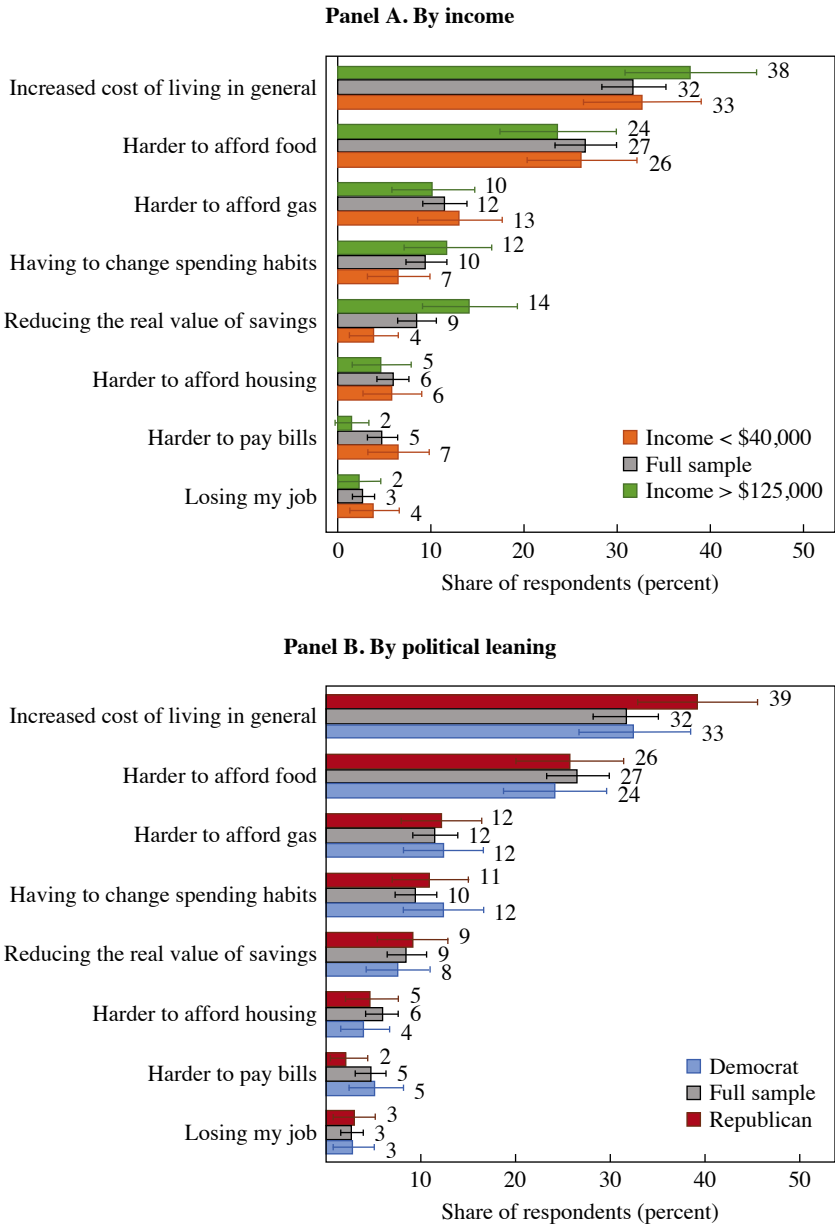
Source: Author's surveys.

Note: The figure reports the share of respondents whose answers are reflected by the statements listed alongside 90 percent confidence intervals. For more details on the questionnaire, see online appendix A.4.

III.A. As a Consumer

IMPACTS To better understand how people believe they experience impacts as consumers, figure 10 plots the distribution of answers to various questions. Consistent with the open-ended questions above, nearly three-quarters of the sample believe their purchasing power has decreased, which is remarkably similar to the 77 percent found by Shiller (1997) in response to this same question. This share is significantly higher among lower-income respondents in my sample.

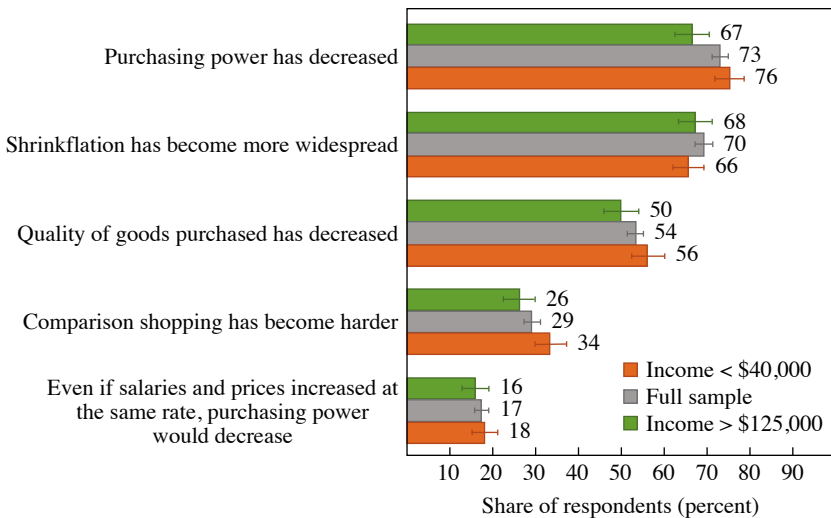
Figure 9. The Most Important Impact of Inflation on My Life Has Been . . .
 [Open-Ended Text]



Source: Author’s surveys.

Note: The figure reports the share of respondents whose answers belong to each category with 90 percent confidence intervals. The precise question is, “What were the most important impacts of inflation on your life?” For each category, I report two example answers in online appendix A.3.5.

Figure 10. Inflation Impacts as a Consumer



Source: Author’s surveys.

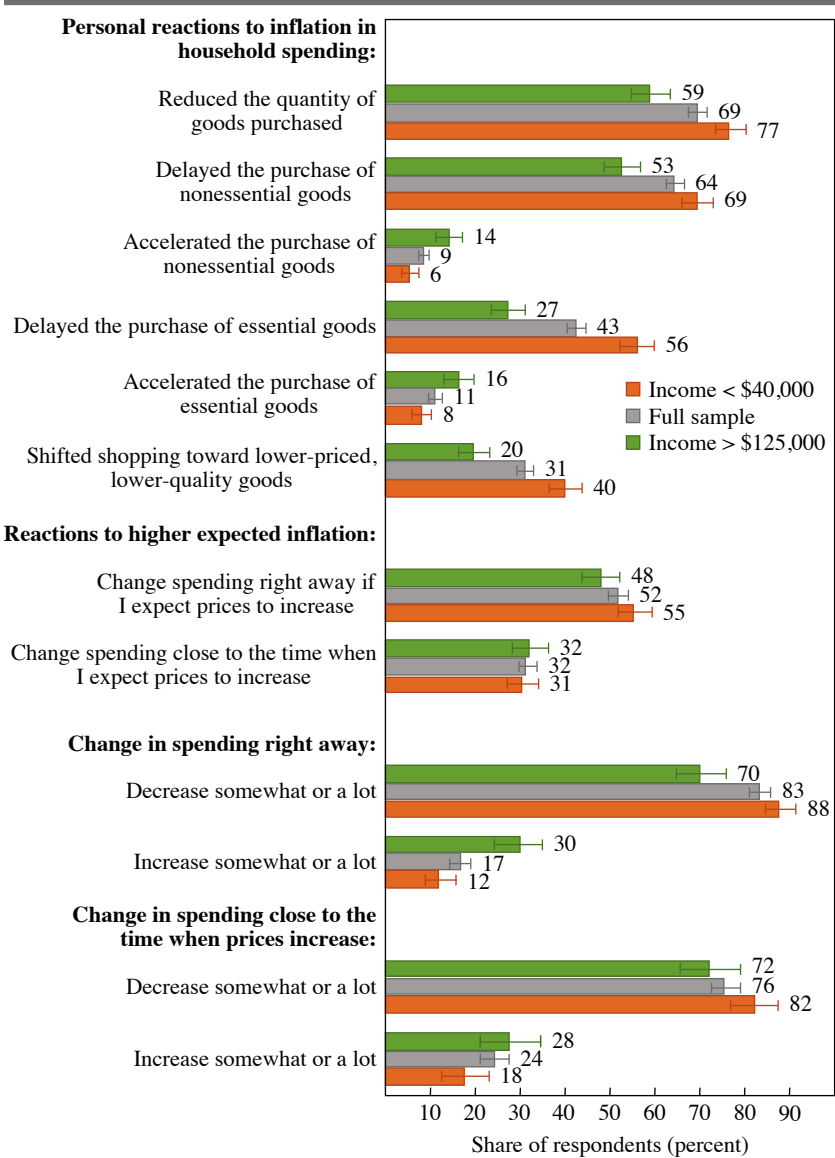
Note: The figure reports the share of respondents whose answers are aligned with the statement listed alongside 90 percent confidence intervals. For more details on the questionnaire, see online appendix A.4.

Around 70 percent of respondents also believe that “shrinkflation,” defined as a good having the same price but with reduced quality or quantity, has become more widespread. Less common (for around half of respondents) is the perception that the quality of goods purchased overall has decreased. Around one-third of respondents think that comparison shopping has become harder, which is higher than the 7 percent reported for a similar, but not identical, question in Shiller (1997), which suggests that price comparisons have become harder despite today’s technologies.

REACTIONS How do people react when faced with these consequences of inflation? Figure 11 depicts a range of potential consumer reactions. Among lower-income respondents, a large share reduce the quantities of goods they purchase (77 percent) and delay the purchase of nonessential goods (69 percent). Around 56 percent report delaying the purchase of even essential goods.⁷ A substantial share also report shifting toward

7. Note that these questions do not prime respondents about the direction: the questions let the respondents select between accelerating and delaying purchases.

Figure 11. Personal Reactions to Inflation as a Consumer



Source: Author’s surveys.

Note: The figure reports the share of respondents whose answers are reflected by the statement listed alongside 90 percent confidence intervals. In the second set of bars, I show respondents’ answers to the question of how they would change their spending if they expected prices to increase in the next year. Answers in the third and fourth set of bars are conditional on having chosen either “change in spending right away” or “when prices increase,” respectively. For more details on the questionnaire, see online appendix A.4.

lower-priced and, accordingly, lower-quality goods. The numbers are much lower among high-income respondents, but nevertheless, a small majority says they will reduce purchases and delay nonessential ones.

Very few respondents report that they would accelerate the purchases of either essential or nonessential goods. The share is somewhat higher among high-income respondents (15 percent on average for these two categories) than for low-income respondents (7 percent on average), suggesting that high-income respondents might be more able to buy ahead of time.

I also ask respondents what they would do if they expected prices to increase in a year. More than half of all respondents report that they would start adjusting their spending right away, and conditional on doing so, they mostly report starting to decrease their spending at least somewhat. Nearly one-third of respondents instead say they will start adjusting closer to the time of the price change, but similarly, mostly again to decrease their spending. Thus, interestingly, respondents do not report trying to accelerate their purchases or create a stockpile either during an episode of inflation or in the (hypothetical) scenario of higher future inflation.

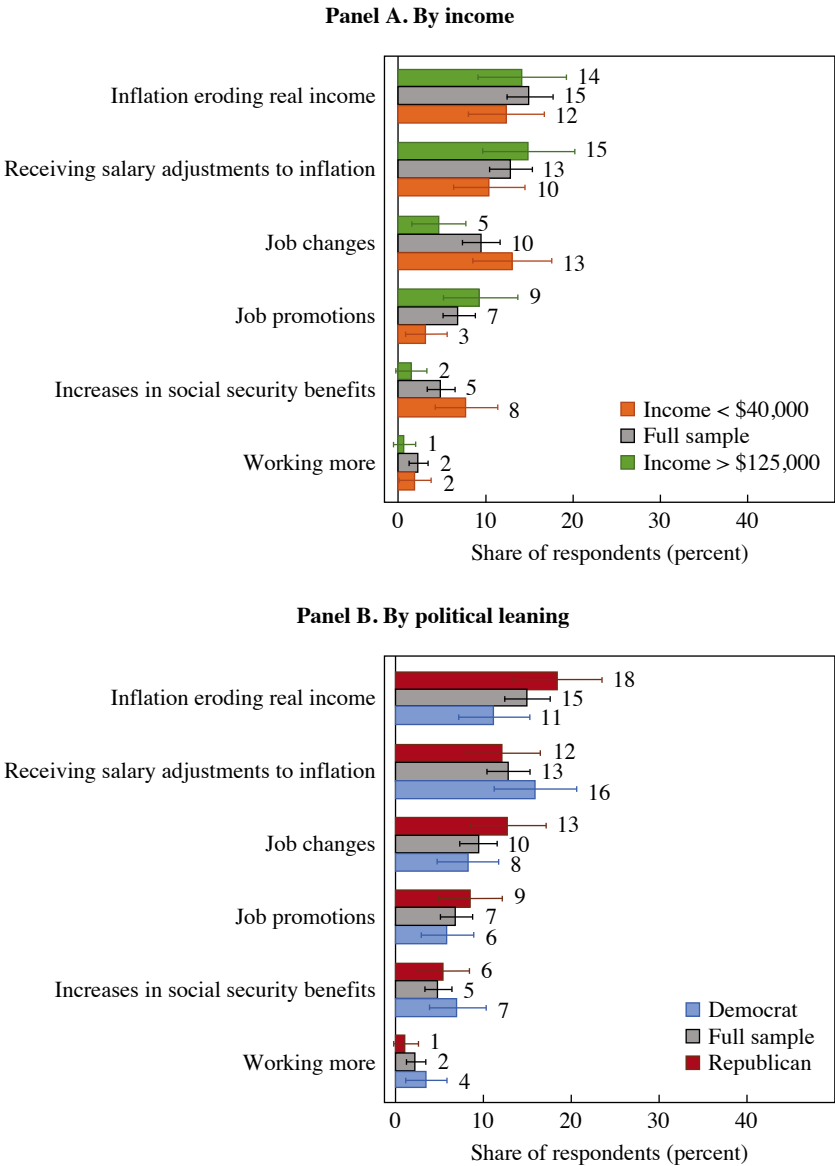
III.B. As a Worker

I also elicited people's views about how inflation affects them as workers and how they have responded to it.

IMPACTS First, to avoid priming respondents, I ask an open-ended question in survey B: "Think about how much your income (measured in dollars per month) went up (or down) in the past five years. What do you think are the most important factors that account for the change in your income?" The results, shown in figure 12, indicate that nearly one-third of respondents believe inflation is a primary cause of their income changes, and this group is split into equal shares between those who think inflation has eroded their real income ("Our income went up but we have far less money because of inflation," "The cost of living has gone up and wages have remained the same") and those who believe they have received income increases as adjustments for inflation ("My income has risen due to negotiated cost of living adjustments that are applied across the board to employees where I work" or "When I get a cost of living increase, it is because of inflation makes it necessary"). Only 10 percent or fewer of respondents believe wage changes were mainly due to job changes or promotions at work.

Figure 13 summarizes the key findings from closed-ended questions related to wage impacts. First, respondents are asked how long it would take for their wage to catch up if inflation doubled. About half of the sample believe it will take more than one year. Although only about one-quarter

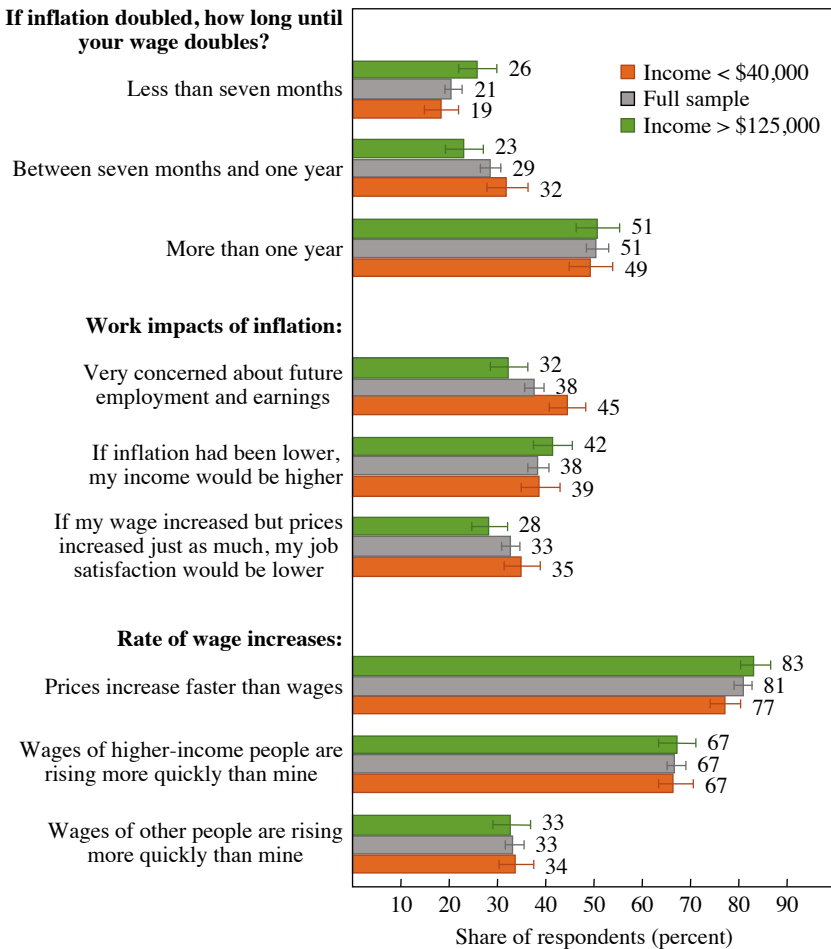
Figure 12. The Most Important Factor for Income Changes in the Past Five Years Has Been . . . [Open-Ended Text]



Source: Author’s surveys.

Note: The figure reports the share of respondents whose answers belong to each category with 90 percent confidence intervals. The question is, “Think about how much your income (measured in dollars per month) went up (or down) in the past five years. What do you think are the most important factors that account for the change in your income? (Please try to list all the relevant factors that apply to you).” For each category, I report two example answers in online appendix A.3.6.

Figure 13. Inflation Impacts as a Worker



Source: Author’s surveys.

Note: The figure reports the share of respondents whose answers are reflected by the statements listed alongside 90 percent confidence intervals. For more details on the questionnaire, see online appendix A.4.

of high-income respondents believe it will take less than seven months, they are nevertheless significantly more likely to do so than low-income respondents. Strikingly, these numbers are much lower than those in Shiller (1997) for the 1990s, when more than 80 percent of respondents thought it would take “several years” for their wage to adjust or that it would “never” adjust. Clearly, people have different perceptions of the labor market conditions today relative to that earlier time.

Furthermore, the share concerned about their future employment and earnings ranges from 32 percent among high-income respondents to 45 percent among low-income ones. Around 40 percent of respondents think that if inflation had been lower, their (nominal) income would be higher. In addition, one-third of respondents say that their job satisfaction would be *lower* if their wage increased just as much as prices. This share is quite similar to the one in Shiller (1997).

People systematically think that prices rise faster than wages (81 percent of all respondents).⁸ Interestingly, two-thirds of respondents, including higher-income respondents, believe that the wages of higher-income people rise more quickly than theirs while only one-third believe that in general the wages of other people rise more quickly in response to inflation. There is therefore a clear sense of inequity in light of the wage adjustments to inflation.⁹

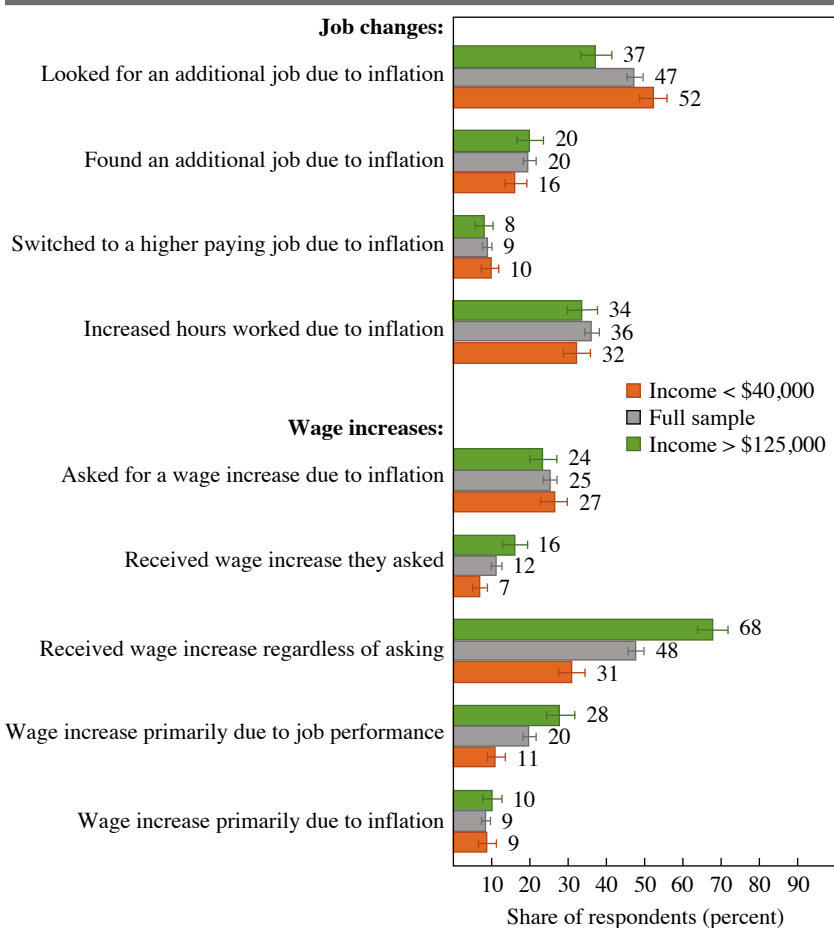
REACTIONS Faced with inflation, respondents appear to take various actions in the labor market (figure 14). But overall, they react more in their roles as consumers than as workers. Just around half of low-income respondents and a bit more than one-third of high-income respondents tried to look for an additional job (including part-time or gig work) because of inflation, but less than one-fifth report finding such a job. Less than 10 percent managed to switch to a higher paying job altogether because of inflation. Around one-third of people report trying to increase their on-the-job hours for extra income.¹⁰ Respondents seem relatively reluctant to ask for wage increases because of inflation, with only one-quarter reporting having done so and about half of these reporting having received it. These results are in line with those in Pilossoph and Ryngaert (2023) and Hajdini and others (2022), who find that workers are relatively unlikely to search for a new job because of inflation, but the likelihood is higher among those with higher inflation expectations.

8. Data from the Bureau of Labor Statistics (available at <https://www.bls.gov/charts/usual-weekly-earnings/usual-weekly-earnings-over-time-total-men-women.htm>) and from FRED at <https://fred.stlouisfed.org/series/LES1252881600Q>) indicate that the median usual weekly earnings of full-time wage and salary workers, quarterly averages, seasonally adjusted, evolved as follows since the start of the pandemic: 2019:Q4 +1.97% (relative to the previous year's Q4); 2020:Q4 +3.87%; 2021:Q4 -3.72%; 2022:Q4 +0.28%; 2023:Q4 +2.20%. As already discussed, these averages do not capture the inflation inequality across sectors, income groups, and places in the United States.

9. Sintos (2023) performs a comprehensive meta-analysis that shows that studies find, on average, small positive effects of inflation on inequality.

10. The data do not suggest that hours of work on average have increased over the last year; see Bureau of Labor Statistics, Average Weekly Hours of All Employees, Total Private [AWHAETP], accessed at <https://fred.stlouisfed.org/series/AWHAETP>.

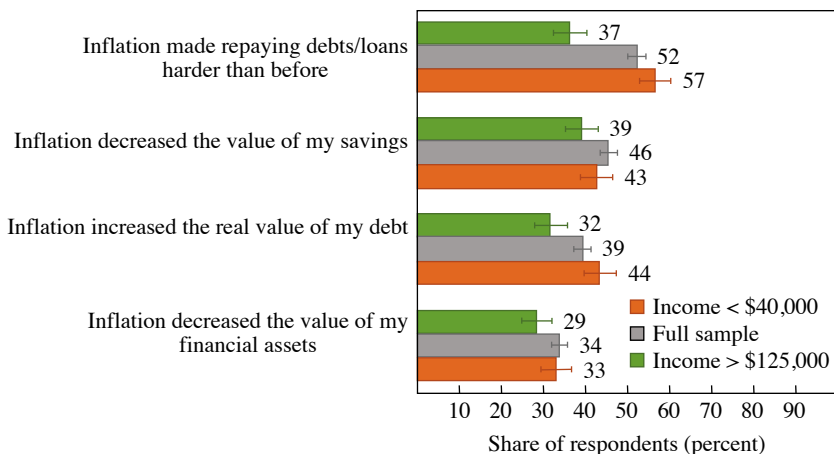
Figure 14. Personal Reactions to Inflation as a Worker



Source: Author’s surveys.

Note: The figure reports the share of respondents whose answers are reflected by the statements listed alongside 90 percent confidence intervals. Note that all shares reported here are unconditional (e.g., 12 percent of the whole sample received the wage increase they asked for, not conditional on having asked for one). For more details on the questionnaire, see online appendix A.4.

Interestingly, people do not easily attribute wage increases to inflation. When it comes to *any* wage increase received (asked for or not), which happens to 48 percent of respondents, more respondents (20 percent) will attribute the raise primarily to their on-the-job performance than primarily to inflation (9 percent), with the remaining share attributing it to a mix of the two. That discrepancy is particularly pronounced among high-income

Figure 15. Inflation Impacts as an Asset Holder

Source: Author's surveys.

Note: The figure reports the share of respondents whose answers are reflected by the statements listed alongside 90 percent confidence intervals. For more details on the questionnaire, see online appendix A.4.

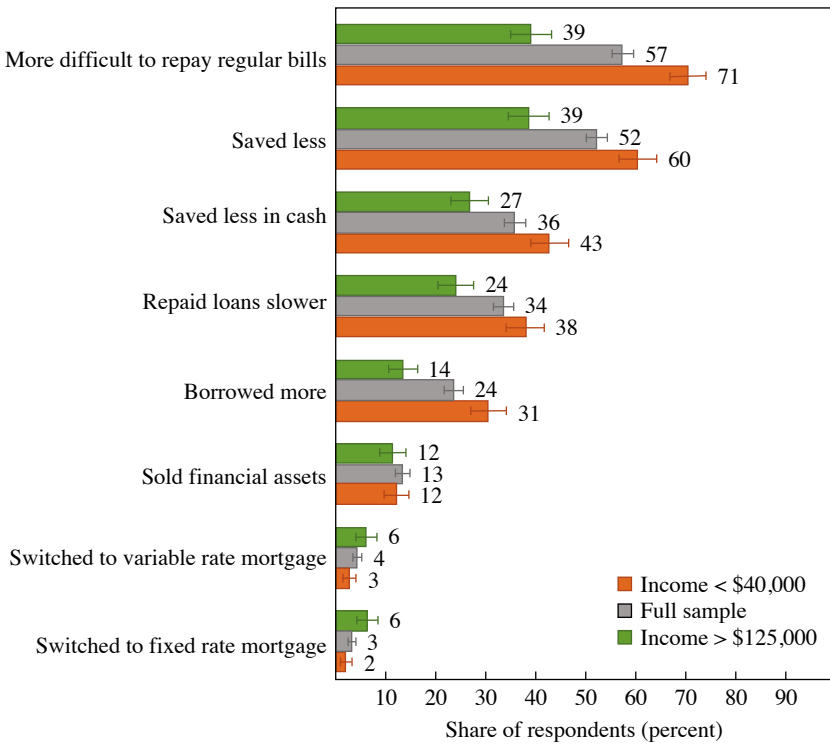
respondents, where 28 percent attribute it to performance primarily, and 10 percent to inflation only. In the online appendix, table A1 shows that when the wage increase occurs during a job change, respondents are more likely to attribute it to on-the-job performance and career progression than if it happens in the same job. Therefore, it seems that people are reluctant to perceive wage increases as the result of inflation adjustments rather than performance.

III.C. As an Asset Holder

IMPACTS Inflation can also have an impact on people who have assets or liabilities. Figure 15 shows that, among low-income respondents, 57 percent believe that inflation has made repaying their debt or loans harder, 44 percent think it has increased the *real* value of their debt (which we explicitly define as “the amount you owe in relation to the general cost of living and prices”), and 43 percent believe it has decreased the value of their savings. These shares are consistently lower among high-income respondents.

REACTIONS Respondents, especially low-income ones, also react along the savings and borrowing margins in response to inflation (figure 16). Seventy-one percent among low-income respondents have more difficulty paying their regular bills and, as a result, save less (60 percent), repay their

Figure 16. Personal Reactions to Inflation as an Asset Holder



Source: Author’s surveys.

Note: The figure reports the share of respondents whose answers are reflected by the statement listed alongside 90 percent confidence intervals. For more details on the questionnaire, see online appendix A.4.

loans more slowly (38 percent), and borrow more (31 percent). Higher-income respondents also report these behaviors, but to a much lesser degree.

Interestingly, only around 36 percent of all respondents shift the composition of their savings away from cash in response to inflation (the question explicitly asked about the composition, rather than the total amount of savings, which, as just discussed, also declines). A very small share of respondents (between 3 and 4 percent) switch their type of mortgage from variable rate to fixed rate or vice versa.

III.D. Psychological and Emotional Impacts of Inflation

Given all these perceived impacts of inflation on people, as consumers, workers, and asset holders, one can reasonably expect that there would be psychological and emotional impacts too.

EMOTIONS Figure 17 plots an emotion analysis, performed using the RoBERTa model to classify answers to the open-ended question, “What feelings do you typically experience when you hear news reports about ‘rising inflation?’”¹¹ A first interesting finding is that around 40 percent of respondents do not report specific emotions in response to that sentence. However, that share is only 31 percent among low-income respondents compared to 50 percent among high-income ones. Low-income respondents are much more likely to report despair, stress, or fear. Reported emotions are relatively balanced by political leaning.

WHO ARE YOU ANGRY AT? I also asked a question that mimics one in Shiller (1997) and is specifically about anger in a concrete context (rather than just abstractly thinking about inflation news). The question reads, “When you went to the store and saw that prices were higher, did you feel a little angry?”¹² In this more specific context, 43 percent of respondents answer “Yes, often,” 44 percent answer “Yes, sometimes,” and 13 percent answer “No, never.” These numbers are very close to the ones in Shiller (1997) (38 percent, 48 percent, and 15 percent, respectively).

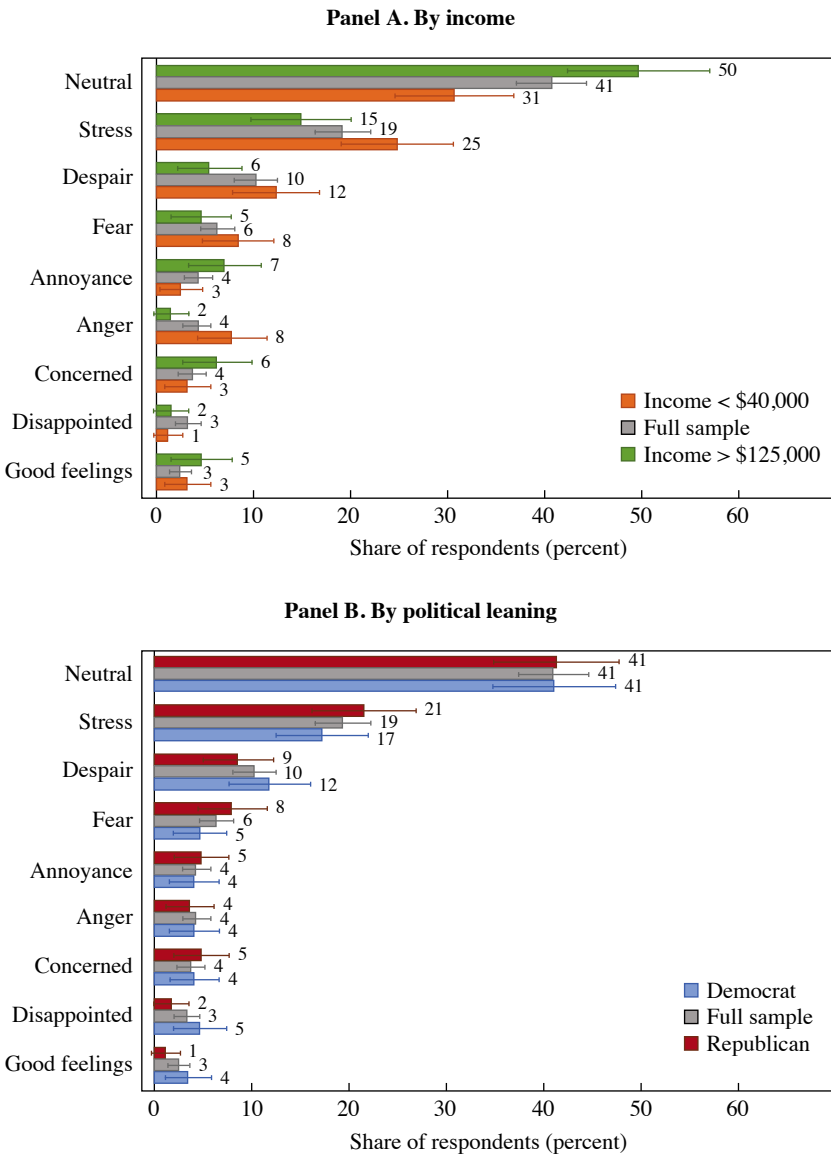
As a follow-up open-ended question, respondents who answered that they are at least somewhat angry were asked, “Who do you tend to feel angry at?” Figure 18 plots the distribution of answers, which can be classified into four major categories: the government overall, mentioned by 37 percent of all respondents (“I’m angry because the price rise could have been prevented. Instead, it was allowed to happen by the government. I do not blame the business owners though because it was forced upon them,” “The government claiming that it is working for the middle-class Americans, while simultaneously destroying it”), although there is a smaller but sizable group of people who explicitly focus on Biden (“Joe Biden, for trying to use helicopter money to buy votes”). As might be expected given the current political leaning of the government, it is especially Republican respondents who blame the government or Biden.

The second most mentioned category is businesses (“The big corporations that won’t let their profits fall by even one percent and give the

11. The model is publicly available at https://huggingface.co/SamLowe/roberta-base-go_emotions. It is a 125,000-parameter RoBERTa-base model trained on the GoEmotions data set for multilabel classification. It has twenty-eight possible emotions, and for each input the model assigns a probability distribution over these labels. As is standard in the literature, I tag each answer with the emotion classified with the highest probability, as long as the probability is greater than 0.5. Otherwise, I leave it nonlabeled.

12. The question in Shiller adds “at someone” at the end of the question, namely, “When you go to the store and see that prices are higher, do you sometimes feel a little angry at someone?” I thought it is not necessary to prime people about being angry at someone.

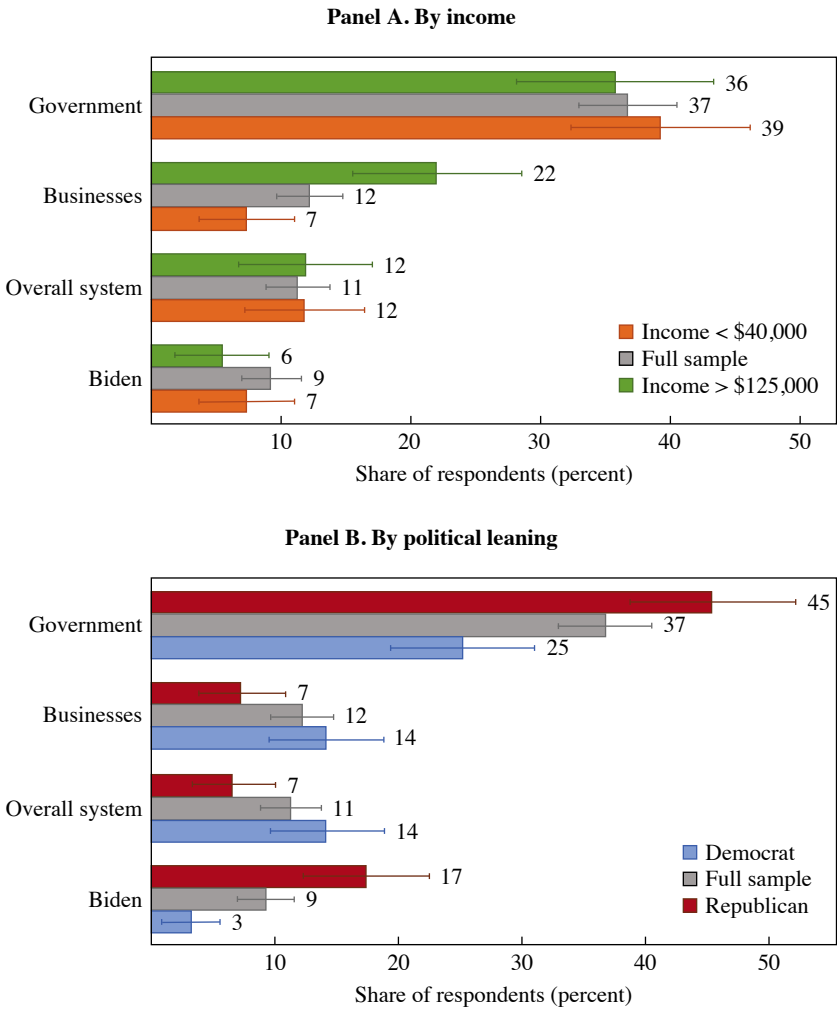
Figure 17. When Hearing Rising Inflation I Feel . . . [Open-Ended Text]



Source: Author’s surveys.

Note: The figure reports the share of respondents whose answers belong to each category with 90 percent confidence intervals. The precise question is, “What feelings do you typically experience when you hear news reports about ‘rising inflation?’” The categorization was carried out by the RoBERTa emotion model. I only report emotions mentioned by at least ten respondents. I assign to each respondent their most likely emotion and do not assign any emotion if all probabilities are lower than 0.5. For each category, I report some keywords in online appendix A.3.7.

Figure 18. When I Went to the Store and Saw That Prices Were Higher, I Felt Angry at . . . [Open-Ended Text]



Source: Author’s surveys.

Note: The figure reports the share of respondents whose answers are reflected by the statement listed alongside 90 percent confidence intervals. All the shares reported here are unconditional. For the categories “Government,” “Businesses,” “Biden,” and “Overall system,” I report three example answers in online appendix A.3.8. For more details on the questionnaire, see online appendix A.5.

customer the tax at the end when they should be paying the tax,” “The people causing inflation and the corporations who aren’t willing to lose any profit growth,” and “The corporations who have to keep up their huge bonuses to their top people”). This is especially the case among Democrats and, interestingly, high-income respondents. Finally, people also mention the system overall (“Not so much angry at a specific person just the overall situation because people like me who are on a budget now have to learn to make that budget stretch thinner than we were already” and “The entire system”).

STRESS CAUSED BY INFLATION To probe further into the psychological impacts of inflation, I present respondents with a series of closed-ended, more specific questions. Figure 19 shows that 70 percent of respondents would be less stressed if inflation had been lower and three-quarters believe that inflation has worsened their outlook on their future economic well-being. Stress seems to have affected all income groups, but for different reasons. The lower bars of the figure show that among lower-income respondents, stress is mainly due to the inability to afford essentials (for 44 percent of respondents who report feeling more stressed) and the inability to pay rent (among 24 percent of them). For higher-income respondents, stress is caused by investment losses (37 percent of respondents) and, to a lesser extent, cutting down on going out and holidays and paying their mortgage or college tuition for their children.¹³

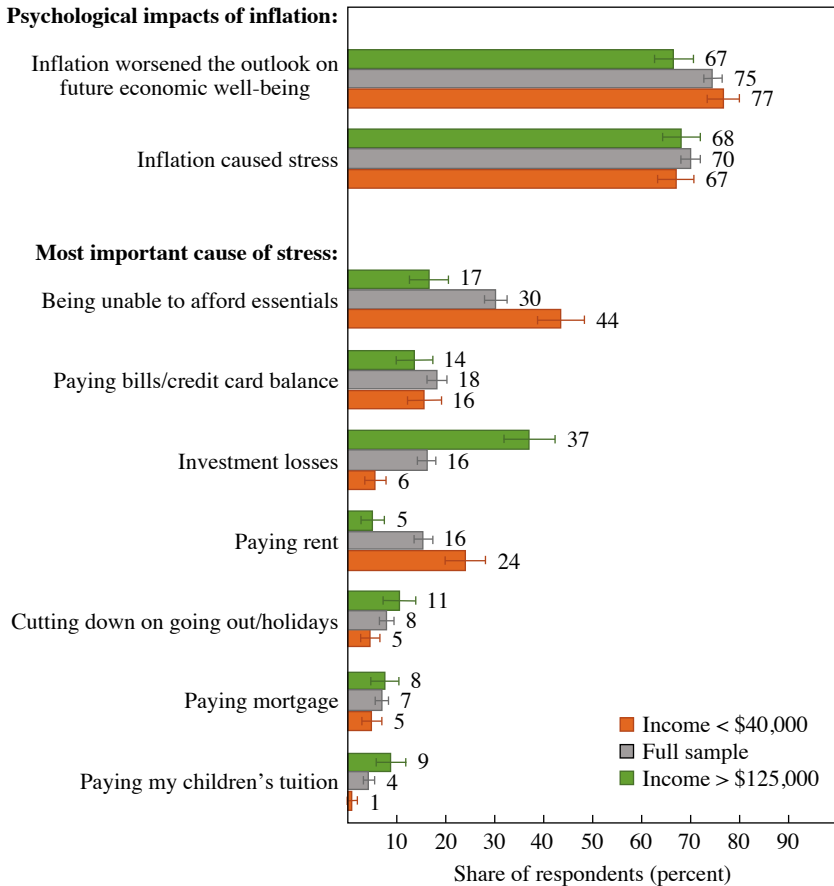
IV. Policy Views

IV.A. Priority of Inflation

Given the personal impacts and costs of inflation, one might expect inflation to rank high in respondents’ political priorities. Therefore, I ask respondents to rank various economic and social issues, including inflation. The top bars in figure 20 report the share of respondents who rank a given economic issue first. The bottom set of bars shows the ranking among social issues. Among both sets of issues, inflation most often ranks first, much more so among social than economic issues. About one-third of respondents rank it first among economic issues, ahead of financial stability, economic growth, low unemployment, and national defense; 41 percent rank it first among social issues, ahead of health care, civil rights, education, gun rights, and abortion. There are interesting political gaps along the

13. All these shares are conditional on reporting that inflation caused stress.

Figure 19. Inflation’s Psychological Impacts



Source: Author’s surveys.

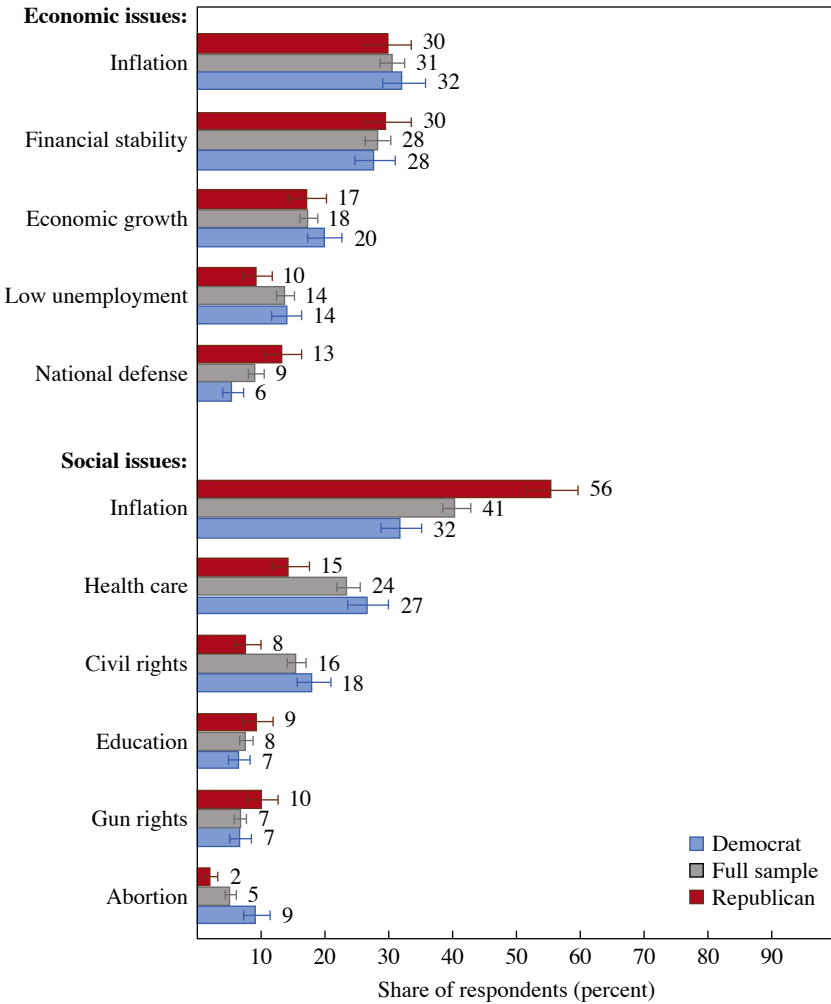
Note: The figure reports the share of respondents whose answers are reflected by the statement listed alongside 90 percent confidence intervals. The shares shown for the second set of bars (“Most important cause of stress”) are conditional on reporting that inflation caused stress. For more details on the questionnaire, see online appendix A.4.

social issue dimension, with Republicans much more likely to rank inflation higher up, while Democrats are almost tied between inflation and health care. But there is bipartisan agreement on the ranking of economic issues.

IV.B. The Inflation-Unemployment Trade-Off

A salient trade-off for economists under some circumstances is that between inflation and unemployment. How do respondents perceive this

Figure 20. Ranking of Social and Economic Issues



Source: Author's surveys.

Note: The figure reports the share of respondents choosing the listed statement as the most important one alongside 90 percent confidence intervals. For more details on the questionnaire, see online appendix A.4.

trade-off? An overwhelming majority of respondents believe that inflation and unemployment are related. However, only one-quarter believe that they are negatively related. Clearly, people associate high inflation with economic downturns and higher unemployment, a view consistent with stagflation. Indeed, figure 21 also shows that 70 percent of all respondents believe that “inflation indicates a poor state of the economy.” Relatedly, a majority of respondents, especially among Republicans, also believe that inflation decreases exports.

These results echo those in Shiller (1997), where few respondents thought that low unemployment was a potential benefit of inflation. It also resonates with the open-ended question studied above, where almost no respondents were able to think of potential upsides to inflation.

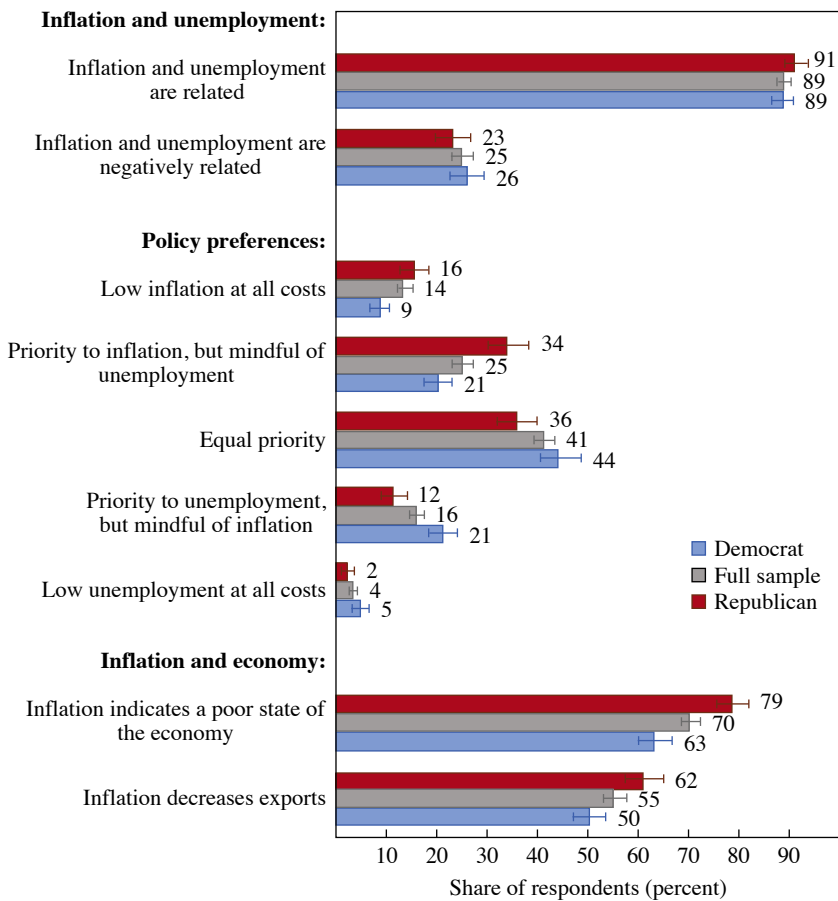
If I ask respondents to express their preferences between low inflation and low unemployment in a very simple way, 41 percent select “equal priority” and one-quarter select “priority to inflation, but mindful of unemployment,” consistent with the rankings observed above. Republican respondents put significantly higher weight on low inflation relative to low unemployment, while Democrats are more evenly divided (see figure 21). Online appendix figure A13 shows that lower-income respondents are more likely to put equal priority on inflation and unemployment, while higher-income ones slightly emphasize low inflation.¹⁴

V. Conclusion

Insights from two new surveys on inflation discussed in this paper reveal people’s aversion to inflation, which is deeply rooted in its perceived impact on their financial well-being and the broader economy. The main concern highlighted is the erosion of purchasing power, with many feeling that wage growth does not keep up with the pace of rising prices. This situation leads to significant reported adjustments in spending habits, particularly among lower-income individuals, who often find themselves postponing or reducing the quality and quantity of their purchases. The study also points to a widespread perception of inequality exacerbated by inflation, as respondents believe that high-income earners’ wages increase more rapidly in inflationary periods, further deepening the divide between different income groups.

14. The perceived and desired trade-offs between inflation and unemployment are studied in Binetti, Nuzzi, and Stantcheva (2024).

Figure 21. The Perceived Inflation versus Unemployment Trade-Off



Source: Author’s surveys.

Note: The figure reports the share of respondents whose answers are reflected by the statement listed alongside 90 percent confidence intervals. The share reporting those who say that inflation and unemployment are negatively related is conditional on saying they are related. For more details on the questionnaire, see online appendix A.4.

Responses to inflation also include stress and emotional reactions, reflecting another potential personal and societal toll of rising prices. There is a clear division in opinions on the causes of inflation, with political affiliations influencing whether individuals blame the government, businesses, or broader systemic factors. There is a consensus on the lack of positive outcomes from inflation, with few recognizing any positive associations or

trade-offs, such as with lower unemployment or economic growth. Instead, inflation is predominantly associated with negative economic and social effects, making it a high priority for policy action. This aligns with the earlier findings from the 1990s by Shiller (1997).

The perceived unequal consequences of inflation by income groups are in line with recent empirical evidence on the heterogeneous impacts of inflation. It would be valuable to dig deeper into people's understanding of inflation, in terms of its causes and consequences and how it relates to other economic outcomes, as well as to understand what drives their views on how policy should address this.

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Comments and Discussion

COMMENT BY

CAROLA BINDER When Robert Shiller (1997) conducted his famous study of public attitudes toward inflation, countries around the world had only recently endured painful episodes of high unemployment and low output in order to reduce inflation from very high levels (Romer and Romer 1997). There was a consensus that this trade-off was necessary, but this consensus was difficult to reconcile with standard economic theory (Wen 2010). Economists modeled the welfare cost of inflation as coming from the tax it imposed on real money balances, measured as the area under the money demand function corresponding to the deadweight loss of moving from a lower to a higher inflation rate (Bailey 1956). By this measure, inflation had surprisingly small costs.

Thus, in their widely used textbook, Blanchard and Fischer noted that “standard characterizations of the policymaker’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” (1989, 567–68).

Shiller took what was, at the time, an unusual approach for an economist. He *asked people* about their beliefs and preferences. In doing so, he rejected Samuelson’s (1938) revealed preference theory—“one of the most influential ideas in economics” (Varian 2006, 99)—as the only or best method of understanding consumer behavior. To suggest that consumers could simply tell economists their preferences was as unorthodox as more recent “neuroeconomics” research (of which Shiller is also a fan), which uses brain scans to study consumer behavior (Shiller 2011).

Shiller found that people in the United States, Germany, and Brazil widely believed that inflation eroded their standard of living; they did not believe that their income kept up with rising prices. They believed that controlling inflation was one of the most important goals of economic policy. And while Shiller did not speak directly to the policymaker's objective function, he did find that people said they would prefer ten years of 2 percent annual inflation and 9 percent unemployment over ten years of 10 percent monthly inflation and 3 percent unemployment. This hypothetical trade-off was maybe too extreme to be useful; Christina Romer and David Romer, who edited the National Bureau of Economic Research (NBER) volume in which Shiller's work appeared, noted that "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%" (1997, 1). It is not really clear what, if anything, Shiller's results imply about those costs or benefits, and in Mankiw's discussion of Shiller's results, he said that "I am not at all sure in what direction they should push either economic theory or economic policy" (1997, 65).

A few decades and one high inflation episode later, Stantcheva finds similar results for US consumers. People still dislike inflation, believe that it erodes their purchasing power, and rank it as one of our country's biggest problems. Like Shiller, she avoids making explicit policy recommendations based on these results, but surely, questions about the implications for policymakers' objective functions will be at the front of mind for any reader. Does consumers' reported distaste for inflation justify putting more weight on inflation in the objective function or perhaps lowering the inflation target? In the next recession, should policymakers be more cautious in their fiscal and monetary response?

DO PEOPLE DISLIKE INFLATION? To start, let us consider what happened in between Shiller's and Stantcheva's surveys. In particular, I want to reflect on attitudes toward inflation in the years following the Great Recession. When the Federal Open Market Committee (FOMC) announced its 2 percent inflation target in January 2012, with the unemployment rate at 8.3 percent, they promised to follow "a balanced approach" in promoting price stability and maximum employment (Federal Reserve Board of Governors 2012). Unemployment fell very gradually, reaching 5 percent in December 2015.¹ Although the Personal Consumption Expenditures (PCE) inflation was still well below target, at around 1.1 percent, the FOMC raised rates

1. Bureau of Labor Statistics, series UNRATE, retrieved from FRED, <https://fred.stlouisfed.org/series/UNRATE>.

for the first time since the recession, in anticipation that inflation would soon begin to rise (Federal Reserve Board of Governors 2015).² The Fed's focus on price stability was widely criticized, especially by progressive groups representing labor and consumer interests (Binder 2024). The Fed Up coalition, made up of left-leaning and populist advocacy groups, community organizations, and labor unions, urged against additional rate hikes on the grounds that the benefits of full employment far outweighed the costs of a little inflation.³

This sentiment became quite influential and was repeated at the *Fed Listens* events conducted in 2019 as part of the Fed's framework review. The *Fed Listens* report notes that "there was less discussion at the *Fed Listens* events of inflation than there was of labor market conditions" and that "during the roundtable discussion, one participant argued that some inflation is good and echoed a sentiment from the advisory group discussions—that today inflation may be too low" (Federal Reserve Board of Governors 2020a, 7, 46). It also notes that "younger participants noted that their generation is more concerned with another recession than with high inflation" (*ibid.*, 46).

Following this listening campaign, the Fed amended its framework by adopting average inflation targeting in 2020. The revised Statement on Longer-Run Goals and Monetary Policy Strategy explains that "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" (Federal Reserve Board of Governors 2020b, par. 4). The new framework is deliberately asymmetric, promising to make up for inflation undershoots but not overshoots. With the new framework, the Fed indicated that it would not do what it did in 2015: it would not raise rates preemptively in anticipation of inflation but instead would wait for inflation to actually appear. As a result, the Fed delayed tightening policy in 2021 (Eggertsson and Kohn 2023).

In other words, the Fed listened when people said that they didn't mind inflation so much. And this wasn't the first time. Our monetary institutions owe a lot to people's dislike of *deflation*. Falling prices, which increased farmers' real debt burdens, were extremely unpopular in our country's early years. The gold standard, which limited the possibility of major inflation,

2. Bureau of Economic Analysis, series PCEPILFE, retrieved from FRED, <https://fred.stlouisfed.org/series/PCEPILFE>.

3. Center for Popular Democracy, "Building a National Campaign for a Strong Economy: Fed Up," <https://www.populardemocracy.org/campaign/building-national-campaign-strong-economy-fed>.

also sometimes brought about episodes of deflation. By the time of William Jennings Bryan, populist politicians were the biggest advocates of leaving the gold standard and enabling a more expansionary monetary policy that they thought the people would prefer (Binder 2024). We eventually learned that without an independent central bank, politicians are tempted to create an excessive amount of inflation in the hopes of pleasing the people.

Our monetary institutions are deliberately designed to give policymakers the power and discretion to create inflation if they choose, with some safeguards against the longer-run consequences that would come from succumbing to our short-run taste for monetary expansion. The idea of constraining policymakers even more tightly in the interest of preventing inflation altogether is very unpopular. Why, then, do people report that they dislike inflation, and what should we make of these survey results?

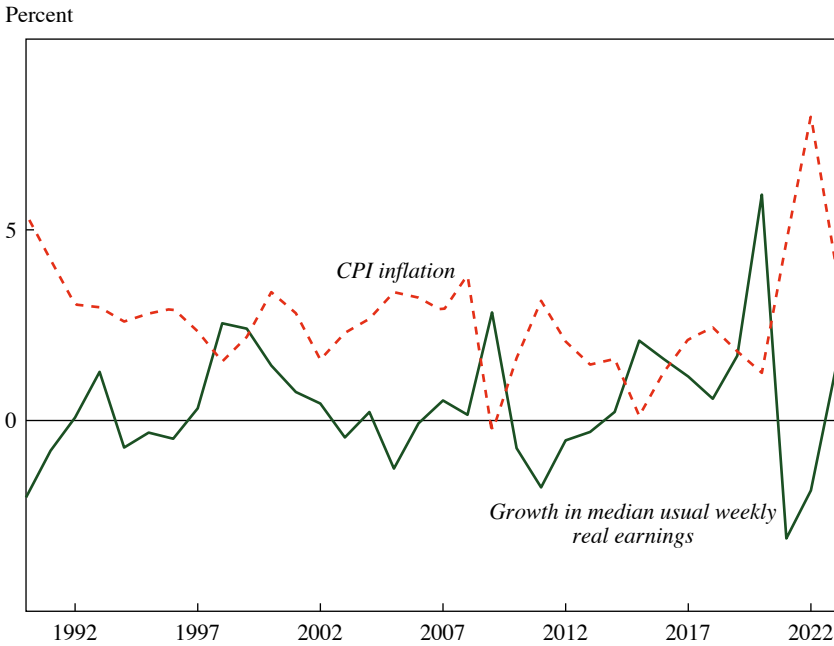
INTERPRETING THE SURVEYS Shiller (1997) surveyed not only consumers but also economists about inflation, and he found that economists and noneconomists viewed inflation very differently. In Mankiw's discussion of Shiller's paper, he noted that the principal finding was an "inflation fallacy." Laymen, 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" (1997, 66).

Unfortunately, Stantcheva did not send her survey to economists, so we cannot compare economists' and laymen's interpretations of recent inflation. But we should still resist the temptation to snicker at their answers.

First, inflation can be associated with lower real wages and living standards, particularly if it is supply-driven. Mankiw suggested that you could get at this idea by phrasing a question such as: "A shock hits the economy. One result of the shock is a higher cost of living, as measured by the consumer price index. What is the likely effect of this shock on your standard of living?" (1997, 66). Mankiw regressed annual nominal GDP growth on annual GDP deflator inflation from 1959 to 1994 and found a coefficient around 0.6 (standard error 0.14). He concluded that "when inflation is high, growth in nominal income is also high, but not by enough to compensate fully for the change in prices. Shocks to aggregate supply seem a natural explanation for this result" (1997, 66).

In more recent years, the coefficient is above one, though one is in the 95 percent confidence interval. From 2004 through 2023, for example, the coefficient is 1.5, with a standard error of 0.41. In Mankiw's interpretation, then, monetary shocks have caused real output and inflation to move in the same direction, and supply shocks are less dominant. But supply shocks

Figure 1. Inflation and Real Wage Growth Are Negatively Correlated



Source: Bureau of Labor Statistics, series CPIAUCSL and LES1252881600Q, retrieved from FRED, Federal Reserve Bank of St. Louis.

Note: Figure shows Consumer Price Index (CPI) inflation and growth in median usual weekly real earnings of wage and salary workers 16 years and older. Both series are annual, and the percent change from the previous year is shown. Correlation between the two series is -0.61 .

are still a possible driver of inflation, and it is not crazy for consumers to recognize that some types of inflation are associated with lower real wages. In fact, inflation and real wage growth are strongly negatively correlated even in recent years, and real wage growth was negative for much of the recent high-inflation episode (figure 1). Average real wage growth was below 1 percent in the year prior to the survey (Van Nostrand, Feiveson, and Sinclair 2023), suggesting that for some sizable share of consumers, purchasing power did decline.

Relatedly, Stantcheva’s survey asks the question, “How would you describe the relation between inflation and unemployment?” The answer choices are: when inflation is higher, unemployment is also higher; or, when inflation is higher, unemployment is lower. This question needs an “it depends” option. In theory, it depends on the types of shocks hitting the economy. Empirically, the correlation between inflation and unemployment is weak (figure 2).

the costs of inflation, how it affects them, and why they dislike it. By the time they are asked to rank inflation among economic and social priorities, inflation is at the top of their mind and it is obvious that the experimenter wants them to dislike inflation, so it is almost inevitable that many rank inflation as a top priority. If the entire survey had been about health care, or unemployment, or abortion, those might have ranked higher.

CONCLUSIONS Stantcheva notes that “people scarcely acknowledge any positive impacts from inflation.” The way I think of it, inflation itself does not inherently have positive impacts. But 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. It is perfectly reasonable for people to report that they dislike the side effect, even if they would dislike the counterfactual (no stimulus and low inflation) even more. It is also reasonable for people to strongly dislike, and for the media to fixate on, inflation that results from actual or perceived policy errors or political incompetence.

Understanding preferences and beliefs about inflation is certainly an important part of understanding the costs of inflation, and Stantcheva’s new data set will be a valuable tool for researchers in this area. Stantcheva’s paper complements related work; for example, using data from the World Values Survey from forty-two countries, Magud and Pienknagura (2024) show that consumers around the world express more concern for price stability if they have lived through high-inflation episodes. Other complementary work is by Afrouzi and others (2024), who survey US consumers about their longer-run inflation preferences.

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COMMENT BY

YURIY GORODNICHENKO In a seminal contribution, Shiller (1997) used a series of surveys to understand why people strongly dislike inflation

while economists have relatively benign views on inflation. That paper presented a puzzle, but as Mankiw (1997) observed, it was not clear what one should do about this puzzle. Would people be more relaxed about inflation if inflation stayed low and stable for a long time? Would the results in Shiller (1997) carry to other environments? What do people think about inflation now, after a recent short-lived but significant spike in inflation? Stantcheva presents a highly timely study that sheds more light on these important questions.

She finds that, consistent with Shiller (1997), people intensely dislike inflation and rank inflation as one of the most pressing issues in the country. Several key features stand out. First, people interpret inflation as a bad state of the world. For example, they think that inflation is positively correlated with unemployment (i.e., inflation is stagflationary). In contrast, economists (professional forecasters) generally see a negative correlation between inflation and unemployment, which is consistent with a Phillips curve and business cycles driven by demand-side shocks. Second, people take a partial equilibrium approach to inflation: they believe that inflation reduces their purchasing power. Furthermore, few households name monetary or fiscal policy as the source of inflation. Instead, the common answers include energy and food costs, which are often only proximate causes of price increases. On the other hand, economists generally believe that moderate levels of inflation do not affect real wages and that expansionary monetary policy and fiscal imbalances are the key sources of inflation (e.g., Milton Friedman observed, “Inflation is always and everywhere a monetary phenomenon” [1994, 49]). Third, people see no benefits of positive inflation and, if anything, think about inflation as a zero-sum game where inflation redistributes resources from one group of economic agents to another. Again, this contrasts with economists’ conviction that inflation can be beneficial (e.g., reduce unemployment and avoid deflationary spirals). Furthermore, none of the costs of inflation (e.g., price dispersion, menu costs) that are emphasized by economists are systematically mentioned by people. Fourth, people often “personalize” blame for inflation (i.e., a specific person is responsible for inflation) while economists take a more nuanced view. Finally, people’s take on inflation is strongly colored by their political leanings. Republicans blame incumbent Democrats for inflation in recent years, and one may expect the Democrats would blame Republicans if Republicans were in power. Political polarization thus translates to extreme views about economic issues as well.

One can conclude that—to paraphrase Mankiw (1997)—economists are not people and people are not economists. The differences are so stark that one may be tempted to assert that: (1) people do not know what they are talking about; (2) their views on inflation do not affect their choices; and

(3) rational agents such as financial markets and managers of firms are the relevant group. The economics profession adopted various combinations of these reactions and thus largely ignored what people think about inflation. This strikes me as a wrong response. First, Stantcheva's paper and other surveys document that although inflation is a confusing subject for many households, many people in a low-inflation environment (where incentives to understand inflation are weak) provide imperfect but *close enough* definitions of inflation. For example, Stantcheva finds that about 50 percent of respondents in her survey of US households give a reasonable definition of inflation. Other studies document that this fraction is higher for more financially literate households and for households who have experienced significant inflation in the past.¹ These results suggest that people have at least some idea about what inflation means.

Second, the mapping from what people think about inflation and how they act on their views can be indeed complex and establishing causal links is difficult. However, recent studies combining randomized controlled trials (RCTs), surveys, and administrative data document that exogenous variation in inflation expectations of households and firms affects their choices. For example, Coibion, Gorodnichenko, and Weber (2022) provide randomly chosen households with publicly available information about inflation (e.g., the Federal Reserve's inflation target) to create exogenous variation in their expectations and then use this exogenous variation to show that raising inflation expectations *lowers* spending on durable goods (which is consistent with households' stagflationary view on inflation). In a similar spirit, Coibion, Gorodnichenko, and Ropele (2020) document that exogenously higher inflation expectations cause firms to raise their prices. Hence, it is true that survey measures of inflation expectations of households and firms have responses looking strange to economists, but these survey responses do contain useful information and economic agents act on their beliefs.

Third, financial markets are clearly much more informed than households, but the distance between firm managers and households is not as large as one may think. Casual observations of what captains of the industry opine on inflation suggest that inflation can be a confusing subject for them too.² More systematic analysis of firms' inflation expectations (e.g., Candia, Coibion, and Gorodnichenko 2024) suggests that firms' expectations fall somewhere between households' and professional forecasters'. For example,

1. See D'Acunto, Malmendier, and Weber (2023) for a survey.

2. For example, on October 22, 2022, Elon Musk declared in an interview, "There's more deflation than inflation" (Henney 2022, par. 3). According to the US Bureau of Labor Statistics, the Consumer Price Index inflation rate in October 2022 was 7.8 percent.

figure 1 shows that although managers have less disagreement than households and more than professional forecasters, firms' expectations appear to be as unanchored as households' during the 2021–2023 inflation spike. Similar to households, managers appear to rely on gas prices and personal shopping experience when they form their inflation expectations (e.g., Kumar and others 2015). Thus, one may expect that Stantcheva's findings for households should largely apply to firms too.

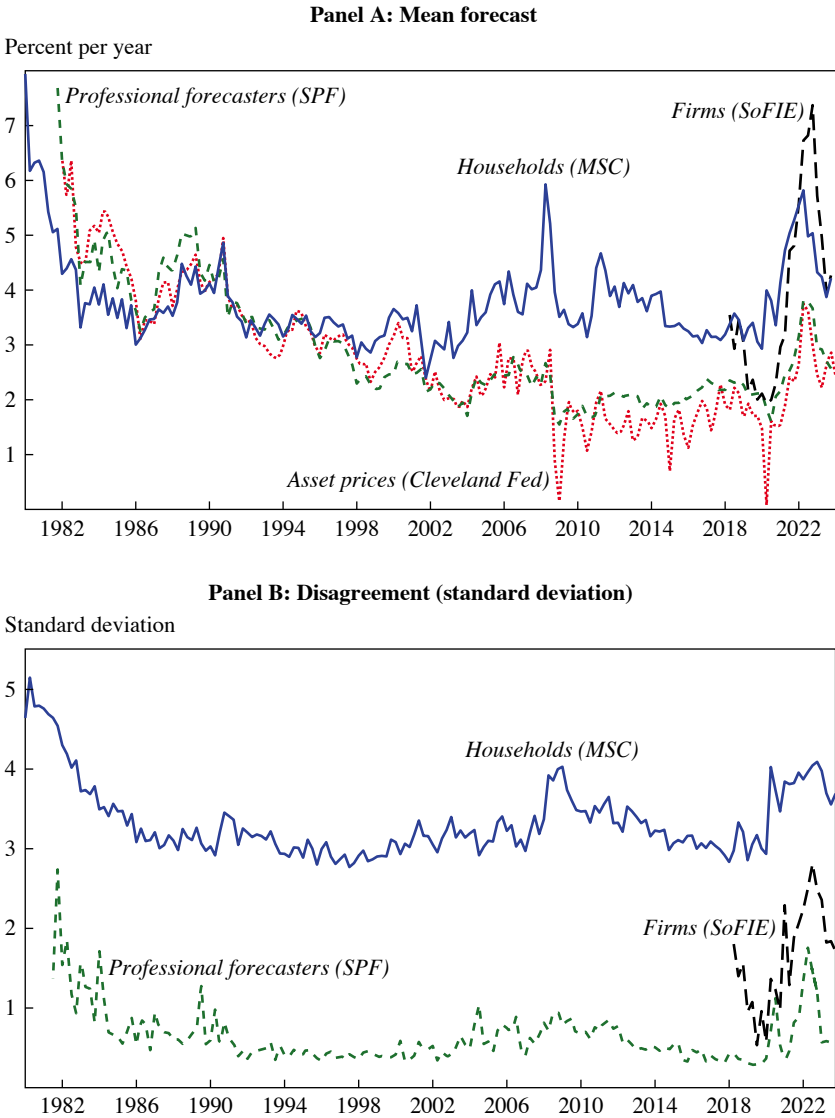
Mankiw (1997, 68) asked a key question, "If ignorance [about inflation] is in fact pervasive, how should that fact alter economic theory and policy-making?" He suggested that the response may range from "do nothing" (Sherlock Holmes did not know that the earth revolved around the sun because it was not important for his daily life) to "take it seriously" ("inflation is undesirable precisely because it is misunderstood" [ibid.]). Stantcheva's survey results and other evidence make me think that one should take it seriously. To support this view, let me provide three reasons.

First, New Keynesian macroeconomics shows that the central bank should minimize variance of output gap X_t and inflation π_t , with some weight ω on the latter, that is, $\text{var}(X_t) + \omega \times \text{var}(\pi_t)$. Theory often implies that the weight on inflation should be very high (100 or above). This very high weight makes many economists uncomfortable, and it is not unusual to see that much lower ad hoc weights such as $\omega = 1$ are used in applied work. In other words, economists have a hard time making inflation a priority. People, on the other hand, appear to want low inflation as a high priority for central banks (that is, $\omega \gg 1$). Consistent with Stantcheva's evidence, Afrouzi and others (2024) find that households' preferred inflation target is zero. Although one can make a strong theoretical argument for why zero inflation may be a poor choice, it could be politically imprudent to ignore public opinion on this matter and raise the inflation target from 2 to say 4 percent or more.

Second, central banks employed a variety of strategies to raise inflation (and inflation expectations) after the global financial crisis in 2007–2009 to stimulate aggregate demand. For example, Mario Draghi (2015) explained, "When inflation expectations go up with zero nominal rates, real rates go down. When real rates go down, investments and the economic activity improves. That's the reasoning [of QE]." However, if households view inflation as stagflationary, raising inflation can make households reduce consumer spending rather than increase. In other words, strategies focused on raising inflation expectations can backfire.

Third, to be effective, certain policy tools require economic agents to understand general equilibrium effects and to have the ability to iteratively eliminate dominated strategies. For example, price-level targeting requires

Figure 1. One-Year-Ahead Inflation Expectations for Different Agents



Source: Reproduced from Candia, Coibion, and Gorodnichenko (2024) with permission, copyright Elsevier.

Notes: Financial markets’ expectations are from the Federal Reserve Bank of Cleveland, households’ expectations are from the Michigan Survey of Consumers (MSC), and professional forecasters’ expectations are from the Survey of Professional Forecasters (SPF) run by the Federal Reserve Bank of Philadelphia. Responses of households that are greater than 15 percent or less than -2 percent are excluded. Firms’ expectations are from the new survey of CEOs in Candia, Coibion, and Gorodnichenko (2024)—Survey of Firms’ Inflation Expectations (SoFIE). Responses that are greater than 15 percentage points or less than -2 percentage points are excluded. All moments are computed using survey weights.

economic agents to understand that above-average inflation today is followed by below-average inflation tomorrow and thus economic agents should not raise prices today (if their prices are sticky). But if economic agents do not have a strong incentive to raise prices today, then the initial inflationary shock has a smaller effect on inflation and thus incentives to raise prices today are even weaker. As a result, price-level targeting can be a highly powerful tool for macroeconomic stabilization. On the other hand, Stantcheva's results suggest that people have a rather partial equilibrium thinking, and we know from other work (e.g., Camerer 1997) that people tend to have relatively low level- k thinking. Thus, one may anticipate that price-level targeting can be less effective (and potentially even destabilizing) in practice.

What are the next steps? Is this the beginning of the end for conventional macroeconomics? In my view, Stantcheva's paper marks the end of the beginning for the literature documenting what people think about inflation. Clearly, people do not like inflation, and this can be important for policy and theory. Future work should focus more on understanding what makes inflation so undesirable for people (e.g., general confusion about inflation, inability to hedge against inflation, level versus uncertainty about inflation) and quantifying forces behind this dislike (e.g., one can use hypothetical questions to get quantitative responses). Stantcheva also cuts out work for macroeconomic theorists. For example, what should macroeconomic stabilization policy look like when people have views that are rather different from those of economists? What policy regime (gold standard, inflation targeting, price-level targeting, flexible average inflation targeting, etc.) is better when economic agents have beliefs that we observe in the data? In short, Stantcheva's important study should keep us busy for quite some time, and I look forward to seeing more work in this arena.

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GENERAL DISCUSSION Commenting on the finding that low-income individuals have changed their behavior more in response to inflation, Katharine Abraham noted that this does not necessarily imply that when facing the same price increase, low-income individuals are more responsive than high-income individuals. She referred to research by Xavier Jaravel, which suggests that prices for low-income individuals tend to rise more rapidly than prices for high-income individuals.¹

John Haltiwanger brought up how substitution bias, product turnover, and quality change contribute to the difficulty of accurately measuring inflation—even average inflation. To Abraham’s point, this makes the attempt to measure inflation even more cumbersome as the perception of inflation differs across different groups in the population. He pointed out that we don’t

1. Xavier Jaravel, “The Unequal Gains from Product Innovations: Evidence from the U.S. Retail Sector,” *Quarterly Journal of Economics* 134, no. 2 (2019): 715–83.

have any real-time measurement of inflation and one reason there is heterogeneity in the responses is that just as economists are struggling to measure inflation, so is everyone else.

Elaine Buckberg built upon Abraham's comment and added that higher-income households are more likely to own their own homes and therefore more likely to experience a positive wealth effect in the recent inflation episode due to rent inflation. Buckberg also responded to Yuriy Gorodnichenko's discussion on how the average respondent does not understand that real wages will catch up over time, contending that what consumers are really saying is that it is too painful to wait while wages catch up.

Stan Veuger commented that with enough heterogeneity in inflation across people and goods, we might get to the point where people get more information out of a trip to the store or a conversation with a friend than from federal statistical agencies.

Steven Davis, using Federal Reserve Bank of Atlanta's Wage Growth Tracker and deflating by the Consumer Price Index for All Urban Consumers (CPI-U), stated that the median value of real wages fell 3.3 percent from 2020:Q3 to 2022:Q4 and were still down by 1.2 percent in 2023:Q3.² Davis added that if there is inflation inequality, as Abraham pointed out, these calculations understate the extent of real wage declines for some households. Davis commented that because households had recently experienced sizable decline in real wages at the time of the survey, the negative view on inflation expressed by survey respondents is unsurprising. He remarked that although there may be economic benefits to inflation, experiencing the effect on one's purchasing power is still unpleasant. Davis postulated that this recent episode of inflation would influence policy for some time, because the average person will be more averse to inflation for many years ahead.

Greg Mankiw remarked that the inflation referred to in textbooks is purely monetary and a tool for measurement, but the recent episode of inflation could be the result of adverse supply shocks, which do lower real wages. Mankiw agreed with Davis that people tend to refer to their own recent experience with inflation rather than the textbook definition.

Robert Gordon elaborated on Davis's comment and added that, based on his own calculations, productivity growth for the total economy was about 1.0 percent between early 2020 and mid-2023, which means that the difference between real outcomes and what people would expect in the long run was closer to 3 percent. Gordon also pointed out that the inflation episode

2. Federal Reserve Bank of Atlanta, "Wage Growth Tracker," <https://www.atlantafed.org/chcs/wage-growth-tracker>.

in the past three years and the one in the 1970s and 1980s were both generated primarily by supply shocks.

Christina Romer explained that people can't see the trade-offs between inflation and unemployment because once people are experiencing inflation, those benefits are in the past. Romer also noted that the survey responses pointing to the Biden administration and policies as primary issues acknowledge the link between policy and inflation, but people might not recognize those same policies also reduced unemployment.

Laura Alfaro pointed out that the findings in the paper are supported by evidence from Latin American countries, which were among the first to raise interest rates to fight the recent inflation episode. She added that Latin American countries know from experience that lower-income individuals are disproportionately hurt by high inflation and often blame their government. She noted the discrepancy between the economic theory of the inflation-unemployment trade-off and the experience of people—for most people, there is no sense of a trade-off, rather, they are just able to afford less than they could before.

Veuger warned about the support that he sensed for a zero-inflation policy. He jokingly highlighted that one of the reasons we have independent central banks is to keep inflation well above zero and that inflation would be sub-optimally low if elected officials were in charge of setting inflation.

Andrew Atkeson shared that he teaches inflation using a 1933 Pete Smith newsreel to explain President Roosevelt's policy of going off the gold standard, the subsequent inflation, and the benefits from inflation. Atkeson brought up two related questions on whether there is historical evidence that the public reaction to inflation after going off the gold standard was favorable or unfavorable, and whether economists should consider using storytellers to effectively explain the benefits of inflationary policy.

Gordon explained that during the Roosevelt administration, people were enthusiastic about raising inflation because from 1929 to 1942 the correlation between the price level and real GDP was very high. Since this correlation no longer exists, it is not surprising that people today have very different attitudes toward inflation.

Barry Eichengreen commented that the first Gallup poll was conducted in 1935.³ In response to the question, "What do you think the biggest problem facing the country is?" the top responses were unemployment, the federal

3. Frank Newport, "75 Years Ago, the First Gallup Poll," blog, Gallup, October 20, 2010, <https://news.gallup.com/opinion/polling-matters/169682/years-ago-first-gallup-poll.aspx>.

budget, and taxes. Inflation did not appear in the top twenty responses to that question.⁴ Eichengreen hypothesized that either people had been traumatized by very high unemployment and low inflation during the previous years, or the propaganda used by Roosevelt worked.

Peter Henry elaborated on Atkeson's point and added that Jamaica was able to reduce its inflation rate with a sustained high interest rate policy by implementing a communication policy to educate the population. He also remarked that because only about a third of the US adult population has gone to college, and a much smaller proportion have studied economics, it should come as no surprise that the public in general are not aware of the connection between inflation and unemployment.

Stefanie Stantcheva responded to the comments about providing information and narratives to the public. She argued that even though there are trade-offs, self-interested people will still care about inflation during high-inflation episodes and unemployment when unemployment is high, because the experienced loss is so acute, suggesting a limited role for pedagogical explanations to educate the public.

Buckberg echoed this concern but suggested survey respondents may think that they would prefer low inflation and high unemployment to high inflation and low unemployment if they believe they would not be the ones experiencing unemployment in a high unemployment situation. Buckberg added that the recent experience of inflation taught her that unemployment affects the unemployed and their immediate families, but inflation affects everyone.

Stantcheva agreed with Buckberg and elaborated that inflation is similar to trade in that there are diffused gains but very concentrated losses. When inflation is high, it becomes very salient; and when unemployment is high, unemployment becomes more salient as the high costs of unemployment start to diffuse across the economy. She added that this saliency changes over time, referring to some of her own new work on this topic.

Bruce Fallick said that one reason people might dislike inflation is due to the cognitive load it causes. He noted that high inflation makes it hard for people to judge prices when they are shopping, and he asked if the idea of cognitive load showed up in the survey responses.

4. Gregor Aisch and Alicia Parlapiano, "What Do You Think Is the Most Important Problem Facing This Country Today?" *New York Times*, February 27, 2017, <https://www.nytimes.com/interactive/2017/02/27/us/politics/most-important-problem-gallup-polling-question.html>.

Henry Aaron brought up Daniel Kahneman’s findings on loss aversion, noting that if the variance of price changes goes up with the rate of inflation, economists could expect that the population would be less happy than they were beforehand. He added that this, along with the lag in wage increases, causes people to be hit with multiple losses early on. These may be offset as wages catch up but perhaps only partially.

Alan Blinder responded to Gorodnichenko’s presentation and his point about the stagflationary view. In people’s mind, when it rains, it pours. He mentioned some of his own recent work on the central bank’s communication with the public.⁵ He stated that one finding in his paper is that the public mostly misunderstand the sign on interest rates, thinking that higher interest rates are inflationary.

Tara Sinclair mentioned a blog post with Eric Van Nostrand and Laura Feiveson, which received some pushback from people on the view that there have been gains in purchasing power.⁶ She brought up the idea that people might be imagining a *ceteris paribus* situation where inflation is lower, but their wages stay the same. Sinclair raised the question of how survey respondents are thinking about the wage process, wage gains, and how much of those gains come from performance rather than a cost-of-living increase. In response, Gordon commented that people look at inflation as taking something away, but they see wage increases as a reward for their own effort, noting that most people do not consider *real* wages.

Robert Hall remarked that the data from this survey could contribute to the current research on the dynamics of the individual households such as consumption patterns.

Maurice Obstfeld conjectured that one’s nominal liabilities plausibly affect attitudes toward inflation—a high liability would make inflation seem more desirable. He also brought up an important historical example of high demand for inflation—during the silver agitation in the United States in the nineteenth century, farmers saw inflation as a way to raise agricultural prices and reduce their real debts.

5. Alan S. Blinder, Michael Ehrmann, Jakob de Haan, and David-Jan Jansen, “Central Bank Communication with the General Public: Promise or False Hope?” *Journal of Economic Literature* 62, no. 2 (2024): 425–57.

6. Eric Van Nostrand, Laura Feiveson, and Tara Sinclair, “The Purchasing Power of American Households,” US Department of Treasury, December 14, 2023, <https://home.treasury.gov/news/featured-stories/the-purchasing-power-of-american-households>; and “An Update to ‘The Purchasing Power of American Households,’” US Department of Treasury, January 25, 2024, <https://home.treasury.gov/news/featured-stories/an-update-to-the-purchasing-power-of-american-households>.

Stantcheva responded that the survey suggests people do not associate higher inflation with easier debt repayments; rather, respondents indicated that they believed they were going to be poorer and, as a result, meeting debt obligations would be harder—despite the fact that inflation would induce a decrease in the real value of their debts.

Blinder asked if the survey results could help shed light on the public's failure to differentiate between the price level and the rate of change in the price level. He pointed out that a lot of the public's complaints boil down to items costing more now than they did four years ago, and little attention is paid to the fact that the CPI inflation has fallen from 9 percent to about 3 percent.⁷

Jonathan Pingle referred to work done by Steinsson and Nakamura, which distinguishes between periods of inflation characterized by many small increases in prices versus those characterized by larger increases in prices.⁸ He postulated that this distinction could help explain the experiences that Robert Shiller encountered relative to Stantcheva's findings.

Wendy Edelberg posited that while people may not be able to tell the difference between 2 percent and 3 percent inflation, the survey does indicate what people's response is when inflation is notably higher. Further, she questioned if there would be different policy outcomes for dealing with inflation if the population was more educated on the topic. She pointed out that she would like to know to what extent the issue at hand relates to the political economy and to what extent it would simply yield different outcomes in economic modeling if people had a more nuanced view on inflation.

Stantcheva responded that economists have a lot to learn from the public's understanding of these issues, and beyond misperceptions among the public, people may be facing constraints that economists are unaware of. She suggested economists keep this in mind.

7. Bureau of Labor Statistics, "12-Month Percentage Change, Consumer Price Index, Selected Categories," <https://www.bls.gov/charts/consumer-price-index/consumer-price-index-by-category-line-chart.htm>.

8. Emi Nakamura and Jón Steinsson, "Five Facts about Prices: A Reevaluation of Menu Cost Models," *Quarterly Journal of Economics* 123, no. 4 (2008): 1415–64 (and the supplement, which is available at <https://eml.berkeley.edu/~enakamura/papers/fivefactssupplement.pdf>); "Monetary Non-neutrality in a Multisector Menu Cost Model," *Quarterly Journal of Economics* 125, no. 3 (2010): 961–1013; and "Price Rigidity: Microeconomic Evidence and Macroeconomic Implications," *Annual Review of Economics* 5 (2013): 133–63.