COMMUNICATION AND THE BELIEFS OF ECONOMIC AGENTS

DISCUSSION BY

GEORGE-MARIOS ANGELETOS (MIT)

A PHILLIPS CURVE?

- does higher $E_i\pi$ correlate with higher c_i or E_iy ?
- forecasters: YES vs consumers and firms: NO
  - this paper and other important work cited therein
- macro data: NO
  - positive innovations in π predict higher U and lower Y
  - resembling the effects of "cost-push shocks"

A PHILLIPS CURVE?

- Inflation is not a serious concern in people's minds
    - thanks to modern CB policies
- Inflation is not a reliable indicator of "output gaps" and "aggregate demand"
    - Phillips curve is very flat or perhaps even wrong
- This doesn't negate either the power of MP or the role of AD
    - Angeletos, Collard & Dellas (2020): data reject supply-side view but also support theories where AD shocks operate outside the realm of Philips curves
- It only questions the usefulness of the concept of the Phillips curve
    - for the structural interpretation of the data
    - as a gauge for policy communication

WHAT/HOW TO COMMUNICATE ?

- New Keynesian model: commitment to raise π stimulates AD via
  - PE: lower $Er = R - E\pi$
  - GE: higher EY = E[spending of others], or Keynesian cross plus PC
- But: real-world people
  - may not translate higher π to lower r (see evidence in this paper)
  - may not understand GE consequences of lower r
  - care much more about Y ("jobs") than about r

WHAT/HOW TO COMMUNICATE ?

- This helps explain “forward guidance puzzle”
  - Angeletos & Lian (2018), Gabaix (2020), Farhi & Werning (2019), Garcıa-Schmidt & Woodford (2019)
- It also implies that, when addressing the general public, CB should talk about Y (“jobs”) not about π
  - Angeletos & Sastry (2020)

WHAT/HOW TO COMMUNICATE ?

- And it should be simple, crisp, and constructively imprecise
  - “whatever it takes”
- As opposed to detailed, cautious, and… holistic
  - “The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6-1/2 percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee’s 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored.”