COMMUNICATION AND THE BELIEFS OF ECONOMIC AGENTS

DISCUSSION BY
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A PHILLIPS CURVE?

- does higher $E_i \pi$ correlate with higher $c_i$ or $E_i y$?
- forecasters: YES vs consumers and firms: NO
  - this paper and other important work cited therein
- macro data: NO
  - positive innovations in $\pi$ 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 & Della (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 $\pi$ stimulates AD via
  - PE: lower $E_r = R - E\pi$
  - GE: higher $E_Y = E[$spending of others$]$, or Keynesian cross plus PC

- **But: real-world people**
  - may not translate higher $\pi$ to lower $r$ (see evidence in this paper)
  - may not understand GE consequences of lower $r$
  - care much more about $Y$ (“jobs”) than about $r$
This helps explain “forward guidance puzzle”


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.”