

Discussion of “The Long-term Effects of Inflation on Inflation Expectations” by Braggion, von Meyerinck, Schaub, Weber

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Leonardo Melosi

University of Warwick, European University Institute, and CEPR

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Overview of the Paper

- An interesting study expanding on previous work showing that inflation surges experienced in one's lifetime can shape individual inflation expectations today
- **Key finding:** Extreme inflation events, even those beyond one's lifetime, continue to shape individual inflation expectations today

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- An interesting study expanding on previous work showing that inflation surges **experienced in one's lifetime** can shape individual inflation expectations today
- **Key finding:** Extreme inflation events, **even those beyond one's lifetime**, continue to shape individual inflation expectations today
- People living in German regions where inflation was higher during the hyperinflation years
 - ⇒ expect higher inflation today
 - ⇒ adjust short-term inflation expectations more (less) strongly in response to contemporary inflationary (deflationary) events
- **Intergenerational inflation scares**
 - Scarring effects of extreme inflation events transferred from parents to children

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1. **Parental transmission to children**, supporting theories of intergenerational cultural transmission:
 - Households with **migrant backgrounds** show a weaker link between past inflation and current expectations.
2. **Collective memory** of hyperinflation, transmitted through political speeches and local newspapers:
 - **Politicians** from constituencies with higher historical inflation are more likely to **address inflation in speeches**
 - These politicians discuss inflation more when current inflation is high
 - **Newspapers** in areas with higher historical inflation publish more **inflation-related articles today**

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Discussion on the inter-generational transmission channels

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- Consequently, causality may be reversed
- Higher historical inflation \Leftrightarrow Increased political discourse and media coverage
- Reversed causality does not rule out that politicians and media may have helped to embed inflation concerns in collective memory across generations.
- However, we cannot dismiss the hypothesis that political speeches and media coverage had no influence on the collective-memory transmission channel.

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2. The potential impact of internal migration should be discussed

- Between 1950 and 1961, 2.6 million people migrated from the GDR to the FRG
- A robustness check focusing on rural populations could provide more precise insights

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3. Do you find similar long-run effects on second moments (disagreement) – relevant to assess the effects on the anchoring?

Implications for monetary policy

It is argued that **these long-term effects** of inflation **present challenges for central banks** in **managing inflation expectations** and suggest **higher benefits from disinflationary policies**

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It is argued that **these long-term effects** of inflation **present challenges for central banks** in **managing inflation expectations** and suggest **higher benefits from disinflationary policies**

- Further elaboration on these points would be valuable
- The **effect on the level** of expectations does **not present a challenge** for central banks
- The **heightened sensitivity of expectations to current inflation** is a concern
- Hard to tell how strong the effects on the sensitivity are

Implications for monetary policy (cont'd)

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Implications for monetary policy (cont'd)

- If these effects are really transmitted across generations, how can the central bank counteract this transmission? **it appears these effects are a given for policymakers**
- Perhaps these long-run effects are not a given and can be **dampened by strengthening the reputation of a central bank**
 - **Argentina** repeatedly failed to keep inflation expectations anchored and went through many episodes of hyperinflation
 - **Germany** was successful in managing the inflation expectations
- The effects of the BuBa's strong reputation should be reflected in your estimates
 - Have these intergenerational inflation scares strengthened after the ECB took over the Bundesbank?

Conclusion

- This is a thought-provoking and insightful paper
- Extreme inflation events, even those beyond an individual's lifespan, continue to shape individual inflation expectations today through parental transmission and collective memory
- What are the implications of this study for monetary policy?
 - Do extreme inflationary events lead to a permanent loss of reputation?
 - Are these losses permanent or (partially) reversible and how?
 - Do past inflation episodes have similar long-lasting effects on disagreement