

Fireside Chats: Communication and Consumers' Expectations in the Great Depression

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Communication and consumers' expectations

What is the effect of communication about policy on consumers' saving-consumption behavior?

Methodology:

- ▶ Identification: variations in radio access in 1930 as a measure of exposure to the policy announcement (Fireside Chat of 1935, the Social Security Act)
- ▶ Diff in diff regression on share of radio ownership in a state on durable consumption (cars), savings (deposits)

Main findings:

- ▶ Going from 0 to 100% radio exposure leads to a significant increase in number of cars per capita (2 s.d)
- ▶ Radio exposure decreases deposits (15% of s.d)

Measuring the effect of communication

Intuition:

- ▶ Announcement should affect income expectations (retirement, unemployment and health benefits) as well as that of future taxes, prices \Rightarrow overall impact depends on which effect dominates

Mechanism:

- ▶ Higher effect when higher fraction of the population is older
- ▶ Higher effect when higher fraction of the population is concerned by the policy: lower % black population
- ▶ Higher effect in more information constrained counties (rural vs urban)

Communicating to the general public

Previous works on communication:

- ▶ Financial markets: high frequency identification of effect of monetary and non-monetary news
- ▶ Firms and consumers: effect on consumers' expectations through survey experiments

This paper:

- ▶ How it affects consumers' *actions* by changing their expectations
- ▶ Robust effect of information exposure about policy (IV, city level, high frequency)
- ▶ Highly relevant for policy making (monetary policy at the ZLB, fiscal policy)

Cost of information

Effect of radio exposure related to cost of outside information

- ▶ Does no radio exposure mean access to no information or to *costlier* sources of information?
- ▶ Control for regional media coverage (volume) that same week
- ▶ More homogeneity of news coverage for “big” event (Nimark 2019)
- ▶ Compare speech complexity and news coverage complexity (Flesch Kincaid index)

Appeal to rational inattention:

- ▶ Less costly signal → more information acquisition → more reaction

A model of regional inattention

Mechanism through the lens of a sticky info model

- ▶ Consumers consume tradable and non-tradable goods, which can be durable or non durable
- ▶ Region A has stickier information B (share of radio ownership)
- ▶ Consumption of durables depends on expectation of future prices

Connecting the model to the data

- ▶ Expansionary effect of social security on durable consumption, income growth, and inflation
- ▶ Policy represented as a money taken away without increase in income security: potential extension? OLG?

Summing up

- ▶ Insightful new evidence on the effect of communicating clearly about a policy on consumers' expectations and choices
- ▶ Complementary to the work looking at how expectations using survey data (Detmeister et al 2015, Coibion, Gorodnichenko and Weber 2019)
- ▶ Particular design of this communication experiment should make us think harder about how to generate attention
 - ▶ timing the news cycle
 - ▶ announcing upcoming news
 - ▶ state-dependent inattention