Discussion of

'Should monetary policy care about redistribution? Optimal fiscal and monetary policy with heterogeneous agents'

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Konstanz seminar

Broader Context

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  Micro-level heterogeneities important drivers of aggregate dynamics

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So far, mainly positive. What about normative implications for policy?

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2. Substantive contribution
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        - Incomplete markets
        - Nominal frictions
        - Aggregate shocks

Main Results

+ Analytical: When both capital and labor taxes available,
  - Government exactly reproduces flexible-price allocation
  - Inflation is zero at all time
  - No role for monetary policy to manage inequality
  - Holds both in a time-0 and timeless perspective

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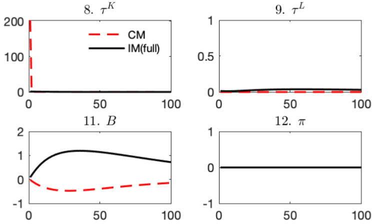

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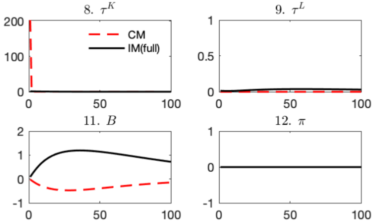

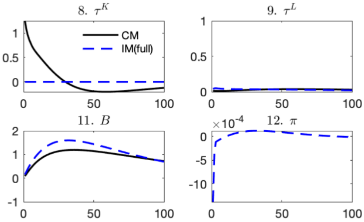

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And:

- What about government expenditure?
- What about consumption taxes? Would the distortions be different?

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- Wage rigidity could generate bigger role for monetary policy in redistribution?

Comment 3: Cyclicality of Income Risk

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- If so what would be the consequences for optimal policy?

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- E.g. How sensitive is optimal inflation response to Pareto weights?

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- Central bankers wonder whether monetary policy should address distributional concerns
- This paper: optimal monetary policy has little role in redistribution in a timeless perspective, some role in a time-zero perspective
- Other papers: more role for redistribution when income risk countercyclical
- What are the empirically relevant cases?