Discussion of

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

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Sveriges Riksbank

Konstanz seminar

The opinions expressed in this presentation are the sole responsibility of the author and should not be interpreted as reflecting the views of Sveriges Riksbank.
Broader Context

+ Growing literature on monetary policy and income/wealth inequality

- Various channels through which heterogeneity affects monetary transmission:
  - Changes in real returns
  - Fisher effect
  - Unhedged interest rate exposure
  - Households’ idiosyncratic income risk
  - Households’ unequal exposure to aggregate income variations

- Theoretical side
  → HANK literature
    - Micro-level heterogeneities important drivers of aggregate dynamics
      (Kaplan, Moll, Violante, 2018; Auclert, 2019)

- Empirical side
  → survey or administrative household-level data
    (Coibion et al., 2017; Holm et al., 2020; Amberg et al., 2021; Andersen et al., 2021)

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

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     - Incomplete markets
     - Nominal frictions
     - Aggregate shocks

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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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And:
+ What about government expenditure?
+ What about consumption taxes? Would the distortions be different?
Comment 2: Nominal Rigidities

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+ Wage rigidity could affect labor income more directly
+ Wage rigidity could generate bigger role for monetary policy in redistribution?
Comment 3: Cyclicality of Income Risk

Your paper (and Bhandari, Evans, Golosov, Sargent (2020)) finds that idiosyncratic income risk per se has little effect on optimal policy quantitatively.
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Countercyclical income risk is the empirically relevant case
Would it be possible to generate countercyclical risk in your model? 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?
Conclusion

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+ Other papers: more role for redistribution when income risk countercyclical

+ What are the empirically relevant cases?