Discussion of "Doves for the Rich, Hawks for the Poor? Distributional Consequences of Monetary Policy" by Gornemann, Kuester, and Nakajima

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These are my views and not necessarily those of the Federal Reserve Bank of New York or the Federal Reserve System

Some archeology to start...

Monetary Policy and Productivity:
from the Great Stagflation
to the New Economy

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Outline

1. Setting the stage
2. The model and the data
3. Scattered thoughts on the (many!) mechanisms
4. Spme places to go from here

Setting the stage: Idiosyncratic risk meets sticky prices

- An impressive, early contribution to a burgeoning literature
- Methodological quantum leap promising to answer key, but so far ignored, policy questions
  - Nexus between monetary/fiscal policy and inequality
    - Making Chris Sims right once again: cannot separate monetary from fiscal
    - Both have distributional consequences that cannot be disentangled
  - Focus on AD/IS/consumption EE after much research on AS/PC/pricing EE
    - Representative agent EE broken since Hansen and Singleton (1982)
- Not quite ready for empirical prime time, but getting there fast
  - Returns still higher in positive than normative dimension

Setting the stage: the major competitors

- HANK (Kaplan, Moll, Violante)
  - Focus on positive analysis of MP transmission mechanism
  - Bring micro evidence and macro model closer together
  - Emphasizes role of portfolio choice and fiscal policy response
  - Leptokurtic income shocks to generate right tail instead of super-skilled
- Auclert (2016) and Auclert and Rognlie (2016)
  - Many channels of MP transmission when MPCs are heterogenous
  - Need Keynesian regime (e.g. binding ZLB) for strong amplification of changes in inequality
    - Otherwise interest rate adjustment kills amplification
    - Seems consistent with this paper's results
- McKay, Nakamura, and Steinsson (2016) and Werning (2015)
  - Elasticity of consumption to interest rate changes in models with heterogenous agents

The model and the data: calibration

- Calibration based on RA version of the model due to computational burden
  - "Marginal" effects of heterogeneity push model away from data
  - They better not be that big...

Table 3: Model vs. Data – Second Moments

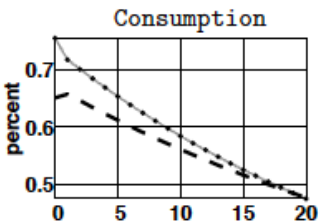
	Model						Data		
	HA: heterog. hh.			RA: represent. hh.			1984Q1-2008Q3		
	Std	Corr	AR(1)	Std	Corr	AR(1)	Std	Corr	AR(1)
Output and components									
GDP (GDP)	1.69	1.00	0.63	1.62	1.00	0.64	1.62	1.00	0.94
Consumption (c)	1.02	0.99	0.69	0.89	0.98	0.71	0.89	0.87	0.87
Investment (i)	5.28	0.98	0.73	5.86	0.99	0.71	5.09	0.96	0.89
Capacity utilization (v)	0.96	0.78	0.24	0.83	0.75	0.27	2.21	0.84	0.94
Labor market									
Employment $N(X)$	0.65	0.90	0.64	0.62	0.90	0.66	0.65	0.86	0.96
Unemployment $U(X)$	10.9	-0.90	0.65	10.2	-0.89	0.67	10.2	-0.86	0.95
Vacancies (V)	8.94	0.75	0.07	8.35	0.73	0.10	11.1	0.91	0.93
Job finding rate (f)	5.37	0.88	0.38	5.08	0.87	0.40	5.13	0.80	0.83
Productivity and Prices									
$GDP(X)/N(X)$	1.14	0.97	0.62	1.10	0.97	0.63	1.07	0.87	0.88
Wage $W(X)$	0.51	0.97	0.62	0.50	0.97	0.63	0.95	0.41	0.84
Inflation $\Pi^{[1]}$	0.67	-0.32	0.62	0.67	-0.40	0.63	0.67	0.27	0.27
Nominal rate $R^{[1]}$	0.97	-0.14	0.58	0.96	-0.25	0.60	1.24	0.61	0.92

The model and the data: sources of business cycles

- Three shocks in the model
  - TFP, financial/risk premium shock, monetary policy
  - StDev of TFP shock calibrated to match StDev of output: what is left?
  - Very "RBC" view of the sources of business cycles
- Possibly as a result
  - "Wrong" Phillips curve correlation: inflation and GDP
  - "Wrong" Taylor rule correlation: interest rate and GDP
- Empirical realism of the model might need some work

Some thoughts on the mechanisms: TFP shocks

- Consumption is more sensitive than in RH economy, investment less
- Should I worry about the reaction of the super-skilled?



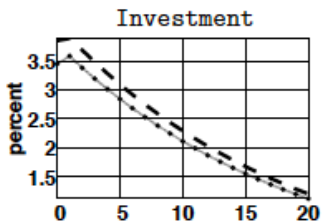
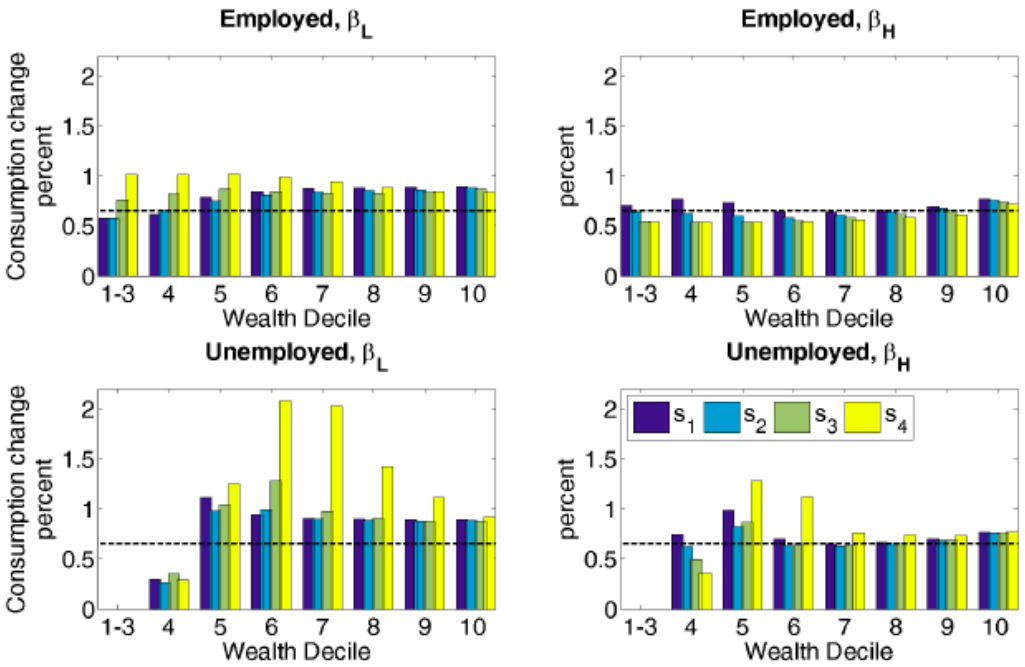
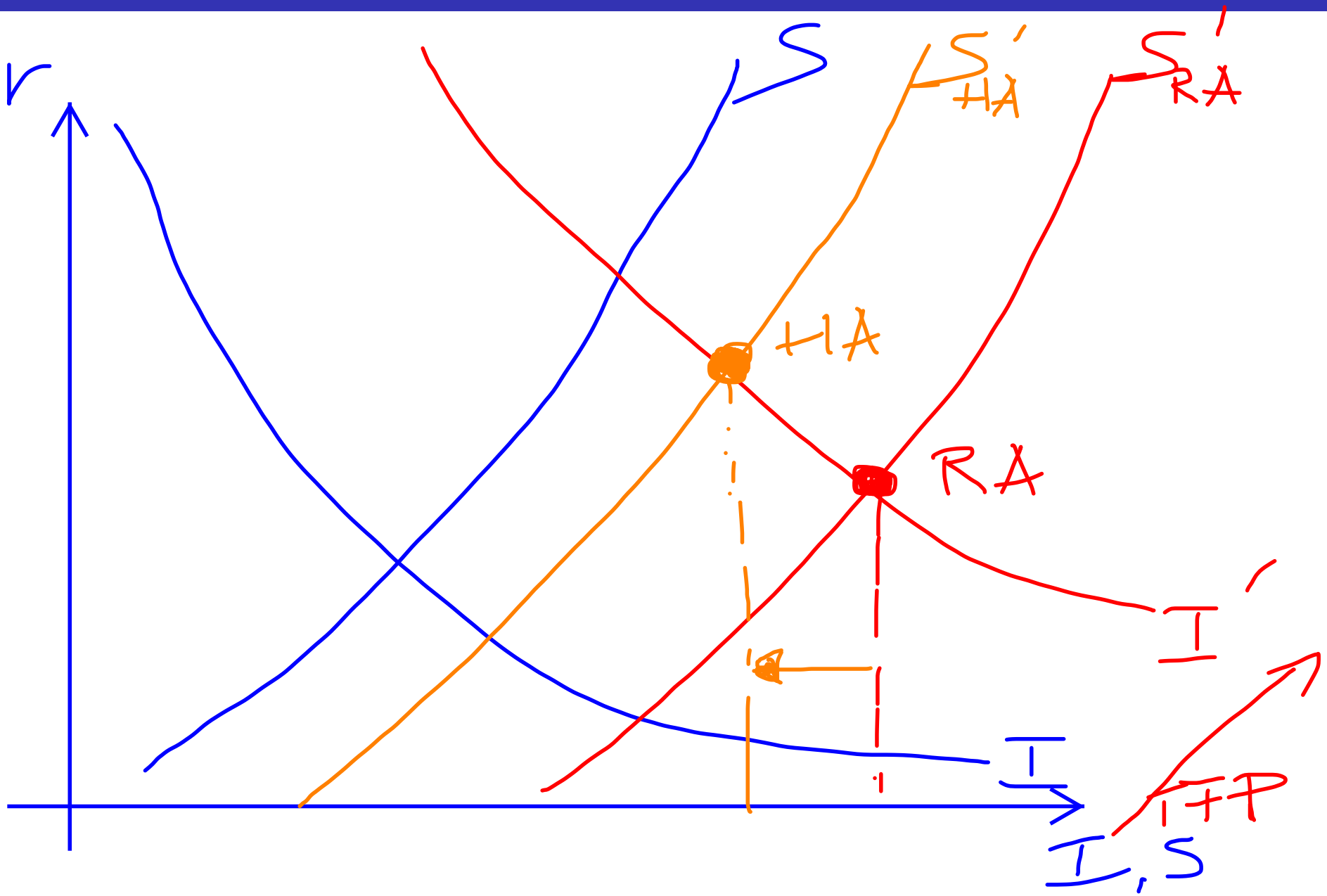


Figure 3: Consumption Response to a TFP shock



- How would a negative shock look like?

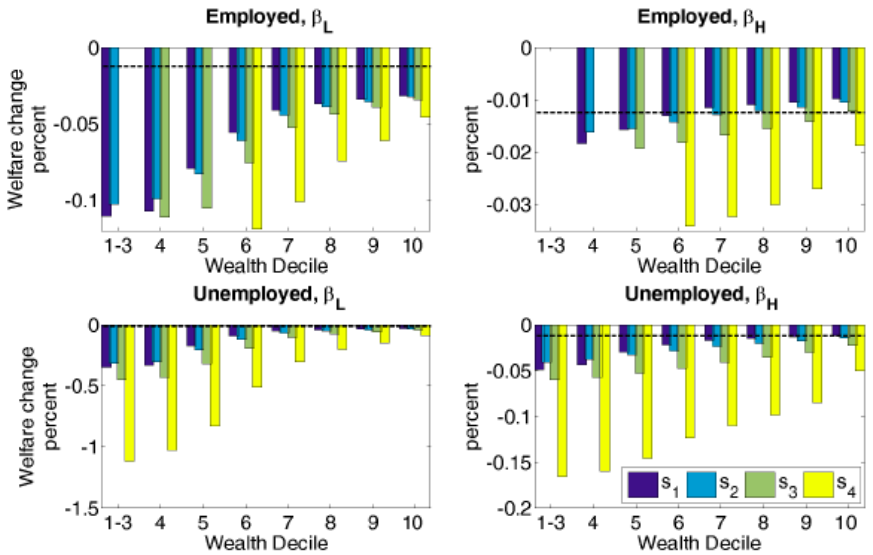
Some thoughts on the mechanism: TFP Shocks



The distributional effects of monetary policy shocks

- Since the crisis, it has often been argued that expansionary monetary policy favors the rich because it boosts asset prices
- The (general equilibrium, but mostly informal) counterargument has always been that monetary policy is even more important for the poor, because it improves their job prospects
- QED, assuming that I can roughly flip the sign on Figure 10

Figure 10: Welfare Effects of a Contractionary Monetary Shock by Type



The Key Result

- The key result of the paper, which bears emphasizing, is that a majority of agents prefer a more aggressive policy stance in stabilizing unemployment (i.e. a more dovish monetary policy)
- This support is concentrated among the poorer households

Figure 12: Welfare Gains of Switching from Baseline to $\phi_u = 1$

- One caveat is that the welfare implications of Rotemberg (as opposed to Calvo) pricing are questionable

Some places to go from here

- A really impressive effort, that opens the road to addressing many central questions of this age
- Some more work to establish the framework as empirically plausible in the macro dimension
  - Look more closely at those correlations
- Be more explicit about the role of fiscal policy as it interacts with monetary
- Effects of unconventional monetary policy (QE and FG) on inequality