

Discussion
**Redistributive Inflation and Optimal
Monetary Policy**

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 - ▶ Studies monetary policy with heterogeneity
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 1. Quantitative framework to study optimal policy rules
 2. Three (main) channels
 - ▶ Expenditure channel
 - ▶ Revaluation channel
 - ▶ Earnings channel
- ▶ Careful empirics and calibration \Rightarrow useful exercise!
- ▶ Central takeaway
 - ▶ Optimal rule is asymmetric: CB should be accommodative towards inflation, but aggressive towards deflation

Outline of Discussion

1. Revisiting the model and approach
2. Comments/Remarks/Questions

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- ▶ A lot of my thinking on this issues is based on
1. “Optimal Monetary Policy with Heterogeneous Agents: Discretion, Commitment, and Timeless Policy” (DS2022b)
 2. “Welfare Assessments with Heterogeneous Individuals” (DS2022a)
 3. “Central Bank Mandates with Distributional Considerations” (DS2023a)

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 1. Uninsurable idiosyncratic labor productivity shocks
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 - ▶ Non-homothetic preferences and heterogeneous expenditure shares over sectors
 - ▶ Heterogeneous price rigidity in different sectors
 5. Aggregate demand “shocks” (Euler equation wedge?)
Not well motivated
Policy in absence of “shocks”?
Other shocks: supply, cost-push?

Key Equation

- ▶ Taylor rule: ($\pi_t^+ = \max\{\pi_t, 0\}$ and $\pi_t^- = \min\{\pi_t, 0\}$)

$$i_{t+1} = r^* + \phi_\pi^+ \pi_t^+ + \phi_\pi^- \pi_t^- + \phi_y \hat{y}_t$$

- ▶ Optimal policy problem: choose $\Phi = \{\phi_\pi^+, \phi_\pi^-, \phi_y\}$

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- ▶ **Remark #1:** Optimal MP vs. Optimal MP *Rules*

Paper is mostly clear enough, but I have to say it!

- ▶ Title just says “Optimal Monetary Policy”
- ▶ Hard to know distance between optimal rules and true optimal policy
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- ▶ **Remark #1: Optimal MP vs. Optimal MP Rules**
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 - ▶ Title just says “Optimal Monetary Policy”
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- ▶ **Remark #2: Why is $\phi_\pi^+, \phi_\pi^- \leq 3$?**
 - ▶ No good reason for **upper bound**

Comments/Remarks/Questions

1. Central finding: asymmetry of optimal rules

- ▶ This is because of non-linear approach \Rightarrow interesting
 - ▶ What matters for utilitarian planners is marginal utility of consumption (inherently very asymmetric)
See DS2022b
- ▶ How much deflation do we see in the calibration?
 - ▶ Why always $\phi_{\pi}^- = 3$ (upper bound)

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2. We need a more detailed explanation of channels

- ▶ What matters is the simultaneous impact of stimulating the economy and the cross-sectional implications
See DS2022b
- ▶ Who gains, who losses with each channel? Interactions?
 - ▶ This should be the key contribution
- ▶ No discussion of departures from first-best, etc.

Comments/Remarks/Questions

3. Aggregate “shocks” as perfect foresight shocks

- ▶ The paper solves for perfect foresight paths to a shock to the Euler equation
 - ▶ In principle, there is an optimal set of $\Phi = \{\phi_{\pi}^+, \phi_{\pi}^-, \phi_y\}$ per “shock”
- ▶ The paper then computes “expected welfare”
 - ▶ Finds $\Phi = \{\phi_{\pi}^+, \phi_{\pi}^-, \phi_y\}$ to maximize expected welfare
- ▶ Is this solution the solution if one solved the model fully with true aggregate shocks?
 - ▶ I don't think so
 - ▶ Sometimes this argument is made in positive models (as approximation), but this is unlikely to be true for welfare

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4. Pareto weights

- ▶ Strict utilitarian (with equal weights) already has strong desire to redistribute
See DS2022a
- ▶ At the time of welfare assessment, individuals are different (different initial state variables)
- ▶ Much better than reverse engineering Pareto Weights to match some targets! (other papers do that...)

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5. Ad-hoc social cost of inflation

- ▶ Paper adds an ad-hoc cost to welfare $-\chi \sum_{t=0}^{\infty} \pi_t^2$
 - ▶ Unjustified: benchmark should be $\chi = 0$
- ▶ There is already a Rotemberg adjustment cost; no need to add ad-hoc cost

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See DS2022a

- ▶ No properties have been established

7. Back to the title: why redistributive inflation?

- ▶ For instance, earnings channel is about exposure of wages to aggregate shocks
- ▶ This channel would be there even with zero inflation

Conclusion

- ▶ Optimal monetary policy in models with heterogeneity: important (and complicated!) question
- ▶ This paper
 - ▶ Nice measurement exercise, careful calibration
 - ▶ More work needed to flesh out the economics
 - ▶ Hard technical and conceptual issues