

Non-Keynesian stabilizers and inflation spirals

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What they do

- Study fiscal policy as stabilization tool in HA model with price and wage rigidities.
- What they find:
 - ▶ right combination of taxes works quite well for both HA and RA;
 - ▶ τ^S important for supply shocks, τ^L for demand shocks;
 - ▶ aggregates move differently if achieving allocation depends a lot on public debt.

The paper in a nutshell

- Let w_t post-tax real wage, \hat{w}_t wage bargained by union, \tilde{w}_t marginal product of labor (MPL):

$$w_t = (1 - \tau_t^L)(1 - \tau_t^E)\hat{w}_t$$

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- Planner can use taxes to offset frictions:
 - ▶ demand shocks do not directly affect MPL $\rightarrow \tau^L$;
 - ▶ supply shocks directly affect MPL $\rightarrow \tau^S$;
 - ▶ τ^E not much crucial (counterfactual τ^E optimal but τ^L not?).

Comment I: No role for central bank?

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- Does a similar concept of revenue neutrality hold in your setting?
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- Does a similar concept of revenue neutrality hold in your setting?
 - ▶ Fiscal+monetary policy delivering similar outcome at lower costs (e.g. for public debt).
- If not, argument to use fiscal tools for stabilization mainly when monetary policy constrained.

Comment II: Wage inflation in the Ramsey problem

- The objective function of the planner is:

$$\mathbb{E}_0 \left[\sum_{t=0}^{\infty} \beta^t \int_i \omega(y_t^i) (u(c_t^i) - v(l_t^i)) l(di) - \frac{\psi_W}{2} (\pi_t^W)^2 \right]$$

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- Last term from assuming quadratic utility costs to wage inflation in union's objective function.
- How would your results change with a different cost function?
 - ▶ Tilt towards making wage inflation smaller than price inflation.

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 - ▶ interest is on fiscal policies affecting the labor market;
 - ▶ there is no capital in the model.
- With capital: distortionary effects on savings potentially impact MPL.
 - ▶ Interesting to look at the implications for optimal policy in this setting.

Concluding thoughts

- Very nice paper on the role of fiscal policy as stabilizer in HA economy with price & wage rigidities.
- Some food for thought, but overall promising paper with important policy implications.
- Looking forward to the next version!

Appendix

References

Isabel Correia, Emmanuel Farhi, Juan Pablo Nicolini, and Pedro Teles. Unconventional fiscal policy at the zero bound. *American Economic Review*, 103(4):1172–1211, June 2013. doi: 10.1257/aer.103.4.1172. URL <https://www.aeaweb.org/articles?id=10.1257/aer.103.4.1172>.