Non-Keynesian stabilizers and inflation spirals by François Le Grand, Xavier Ragot, Thomas Bourany

discussion by Gualtiero Azzalini SSE

Heterogeneous Agents in Macroeconomic Models, CNB Prague May 16, 2024

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;
 - $ightharpoonup au^{\tilde{S}}$ important for supply shocks, $au^{\tilde{L}}$ for demand shocks;
 - aggregates move differently if achieving allocation depends a lot on public debt.

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 - lacksquare supply shocks directly affect MPL $ightarrow au^{ extsf{S}};$
 - $ightharpoonup au^E$ not much crucial (counterfactual au^E optimal but au^L not?).

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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).

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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:

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

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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.

Comment III: Capital tax

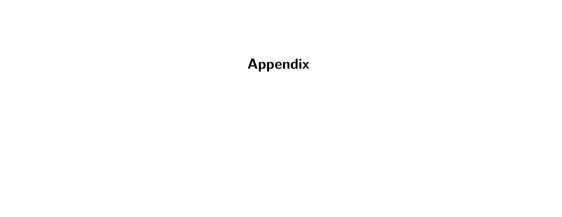
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- The model includes a time-varying tax on capital gains $\hat{\tau}^K$. Not main focus as:
 - interest is on fiscal policies affecting the labor market;
 - there is no capital in the model.
- With capital: distortionary effects on savings potentially 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!



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.