Discussion of
“Optimal Macroeconomic Policies in a Heterogeneous World”

by J. Bullard, R. Di Cecio, A. Singh and J. Suda

Davide Debortoli

ICREA - Univ. Pompeu Fabra, CREi and BSE

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This Paper

- **Question:** Should central banks behave differently due to household heterogeneity?

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- **Answer:** NOT MUCH
  1. derive optimal policy in a tractable framework with “massive” heterogeneity
  2. existing macroeconomic policies **already** close to optimal (but improvement is possible)

A Simple Framework with "Massive" Heterogeneity

- OLG business cycle model

Source of Heterogeneity	Cyclical Inequality?	Macro Policies
Permanent characteristics	NO	Taxes / Subsidies
Age-Income Profile	NO	**Nominal** Treasury Bonds
Idiosyncratic Shocks	NO	Social Security
Aggregate Shocks	**YES** (borrowers vs. savers)	**Monetary Policy**

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- **Optimal monetary policy:** use inflation to protect borrowers & savers against aggregate shocks

(ex-post) real return = output growth

$$R^n_{t,t-1}\frac{P_{t-1}}{P_t} = \frac{Y_t}{Y_{t-1}}$$

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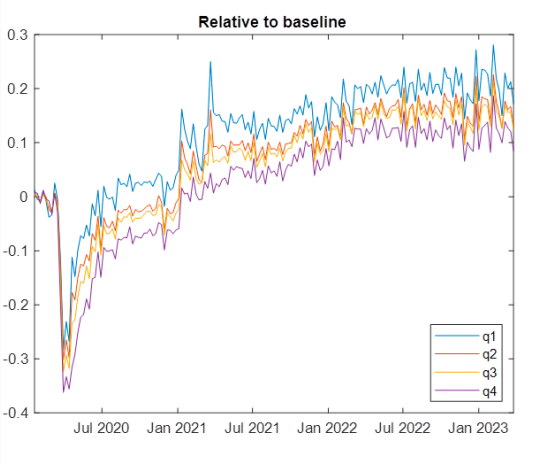
- **Empirical Implication:** under optimal policy $\Rightarrow$ constant consumption inequality over the cycle

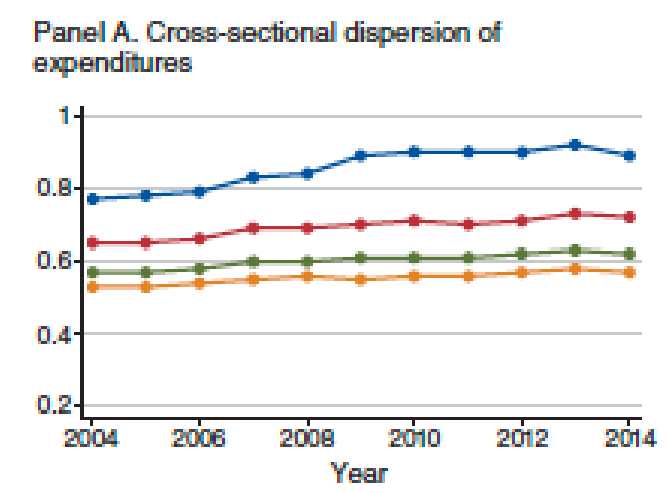
Credit Card Spending by Income Group



- consumption inequality nearly constant $\Rightarrow$ no much need to change macro policies from status quo!

Cross-Sectional Dispersion of Expenditures

from Coibion et. al. (2021, AEJMacro)



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  - no cost of inflation $\Rightarrow$ no policy trade-off
  - single source of cyclical inequality $\Rightarrow$ monetary policy can eliminate cyclical inequality
    other channels: earnings heterogeneity, employment risk, borrowing constraints, etc.

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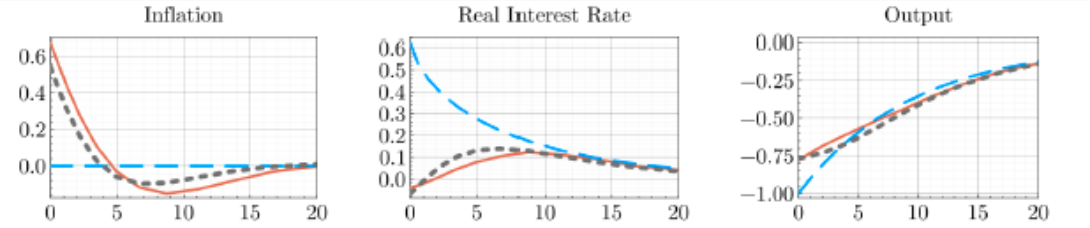
- **What happens in richer frameworks?**

Optimal Monetary Policy in HANK

Impulse Responses to a Negative Supply Shock [from Smirnov (2023)]



RANK, TANK, HANK

Bottom line: substantial departure from RANK optimal policy (price stability), but similar to TANK

Optimal Monetary Policy in TANK

[from Debortoli and Galí (2018)]

- The planner problem:

$$\min \frac{1}{2}\mathbb{E}_0 \sum_{t=0}^{\infty} \beta^t \left\{ \pi_t^2 + \alpha_y \tilde{y}_t^2 + \alpha_h \hat{h}_t^2 \right\}$$

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- **Policy Trade-off:** Stabilizing inflation/output-gap vs. consumption inequality ($\hat{h}_t$)
  - emerges as long as shocks to "natural" output affect inequality ($\chi_n \neq 0$, as in current paper)
- **Dual mandate** likely to be a good approximation (with appropriately defined output) [see also Challe, Acharya and Dogra (2023)]

Comment #2: What is Behind (A)Cyclical Consumption Inequality?

- Is it due to the Fed following a Nominal GDP Targeting Rule?

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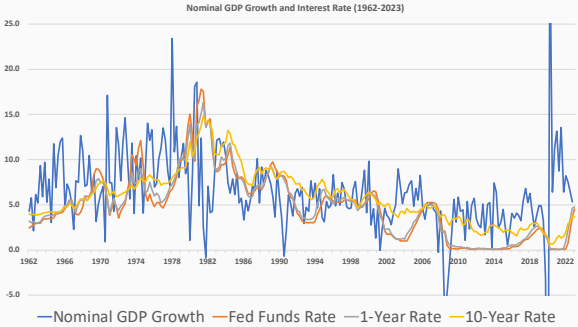
- Or is it due to other factors?
    - e.g. self-insurance mechanisms, multiple offsetting channels, other policies,...

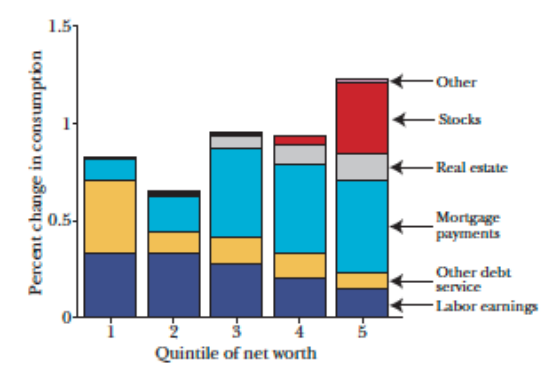
A Nominal GDP Targeting Rule?

Correlation with Nominal GDP Growth

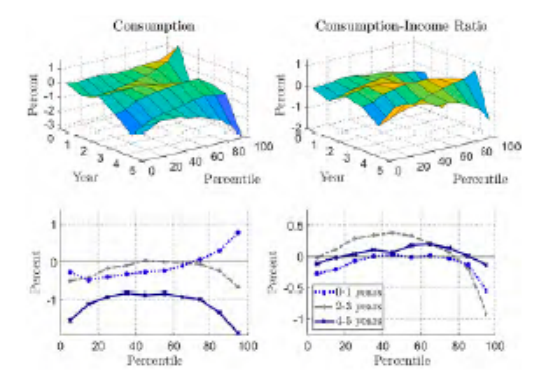
	FFR	1yr	10yr
1962:Q1-2023:Q1	0.21	0.24	0.23
1984:Q1-2008:Q3	0.19	0.25	0.32
2008:Q4-2019:Q4	0.04	0.04	0.15
2020:Q1-2023:Q1	**-0.30**	**-0.19**	**-0.15**



Does Monetary Policy affect Consumption Inequality?



US (McKay and Wolf, 2023)



Norway (Holm et. al., 2023)

Conclusions

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  - consistent with evidence that consumption inequality nearly constant over the cycle

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  - (massive) heterogeneity does not necessarily change standard monetary policy practicies
  - consistent with evidence that consumption inequality nearly constant over the cycle
- **Open questions:**
  - Is there a big trade-off between stabilizing output and consumption inequality?
  - Can monetary policy do much to influence fluctuations in consumption inequality?