Discussion of "Fiscal Policy in a Networked Economy"

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Sixth ECB biennial conference on "Fiscal Policy and EMU Governance"

19 December 2023

Question and Motivation

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  2. Targeted transfers (increase in unemployment insurance benefits)

  3. Targeted spending (industry programs)

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- **How do heterogeneity and network linkages affect conclusions?**

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- Very rich and ambitious

  1. General ("semi-structural") <u>model</u> with nominal rigidities, heterogeneous households, IO structure

  2. Ample use of <u>micro-data</u> to determine overall size and distribution of multipliers

  3. <u>Welfare</u> analysis in case of generalized and geographically concentrated underemployment

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    - ► IO linkages compress distribution of multipliers across industry-region

- Significant regional spillovers → For \$1 government purchases directed to a state
    - ► Aggregate multiplier equal to 1.31 (average across states)
    - ► But 44% of GDP increase occurs out of state

MPCs and Multipliers

- Targeting households with high MPC maximizes multipliers
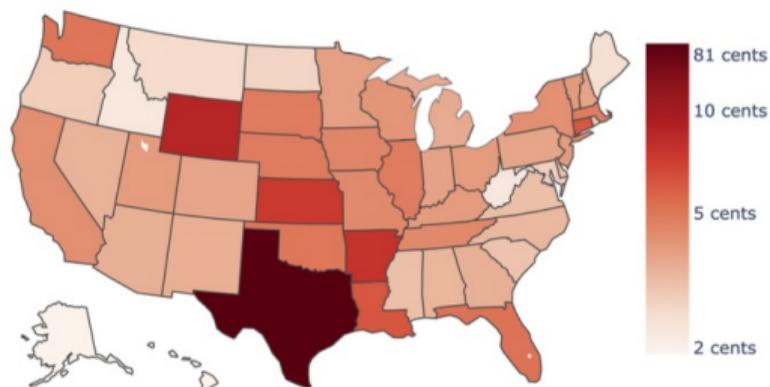 - Transfers easier to target than government purchases
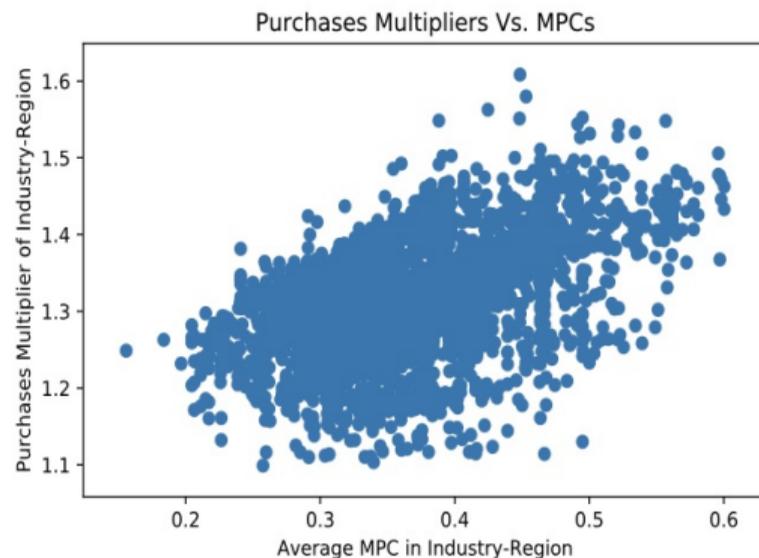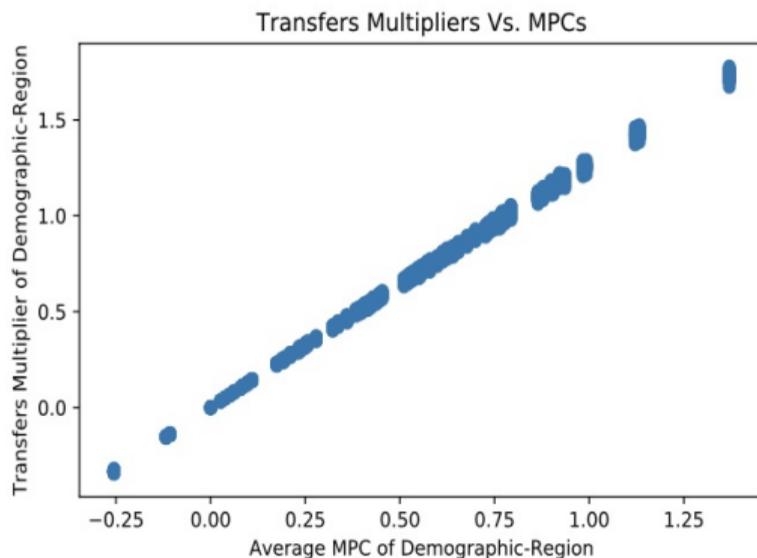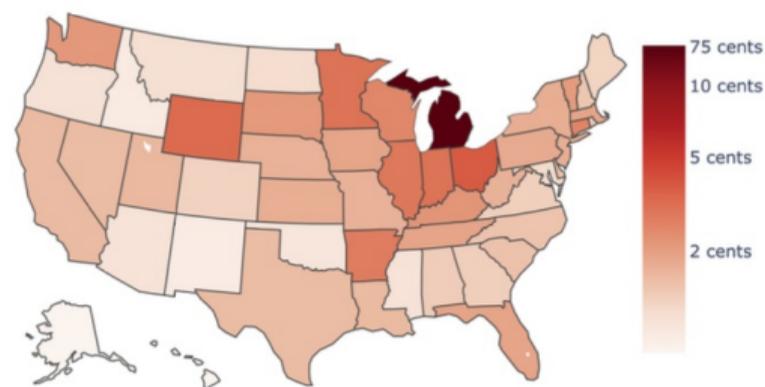
Regional Spillovers

- Significant regional spillovers
  - Stronger in neighboring states ("gravity effect")

$1 per-capita increase in government purchases

Texas   Michigan

Comments

1. Model

2. Quantitative analysis

3. Policy message

Comment #1: Model

- **Not really general equilibrium** $\rightarrow$ Prices, wages, and interest rates always fixed
  - Absence of relative price adjustments in response to targeted sectoral purchases hard to swallow
  - Perpetual liquidity trap (hard constraint or policy decision?)

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- **What about fiscal rules?**

  ▸ "Balanced budget over the two periods" $\rightarrow$ Intertemporal government budget constraint

  ▸ Are all fiscal expansions (both transfers and purchases) debt-financed?

  ▸ Alternative financing schemes would give different result (Ricardian equivalence does not hold)

Comment #2: Quantitative Analysis

- **Role of network structure** (Bouakez et al., AEJ-M 2023)

  ▸ Amplification away from ZLB, dampening at ZLB

  ▸ Intuition → Network structure source of real rigidity (inflation less responsive to shocks)

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- **Targeted sectoral government spending** (Bouakez et al., WP 2023)

    - Larger response of aggregate output when government spending originates in sectors with

        - Relatively small contribution to private final demand
        - Low markups
        - High labor intensity
        - Downstream in supply chain

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- **Decomposing government spending** (Peri et al., ReStat forthcoming)

  ▸ Multiplier of public investment much larger than that of government consumption

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  - ▸ Less pressure on inflation
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- Implications for different government levels (Bouakez et al., WP 2023)
  - ► **State & local spending mostly oriented towards services** (higher price rigidity)

Conclusions

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- **Three comments:**
  1. "Semi-structural" model combines very general and very specific assumptions
  2. Existing literature highlights complementary dimensions of production network
  3. Insights for targeting government purchases from sectoral characteristics