

Discussion of
Some like it hot: Inclusive monetary policy under Okun's hypothesis by F. Alves and G. Violante

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The paper in a nutshell

- ▶ The paper investigates if several Taylor rules can generate improvement in labor market conditions of the poorer workers though better upward mobility (Okun's hypothesis)
- ▶ It relies on three empirical facts
 - ▶ Higher exposure to aggregate fluctuations of poorer workers
 - ▶ Long-term productivity losses due to separations
 - ▶ Poorer unemployed agents are more likely to leave the labor force
- ▶ Several job transition rates are exogenous, but the model allows for endogenous participation decisions
- ▶ A recession primarily affects the marginal workers at the bottom of the distribution and may have a persistent impact through human capital depreciation
- ▶ Hence, a monetary policy easing would primarily improve the labor market conditions of these workers
- ▶ An asymmetric Taylor rule seems to be the most friendly from this perspective

Wages

- ▶ A union sets wages for all employed workers in the model
- ▶ Original search and matching models consider Nash bargaining
- ▶ Tractability: wages are taken as given by agents and do not depend on the asset position as in Nash bargaining (Krussel, Mukoyama and Sahin, REStud, 2010)
- ▶ But the BLS reports 10.3% of workers belonging to a union in 2021
- ▶ Hall and Krueger (AEJ:Macro, 2012) also document that a substantial share of workers bargain over wages
- ▶ However, the more traditional assumption might preserve some the mechanisms of the model
- ▶ Indeed...

Wages

- ▶ In textbook models with bargaining, the size of the match surplus is a factor behind the impact of aggregate shocks on job creation (Hagedorn and Manovskii, AER, 2008) and possibly job destruction
- ▶ If lower skill workers have smaller surplus, then they should also be more exposed to aggregate fluctuations with Nash bargaining
- ▶ The results in Adjemian, Karamé and Langot (2021) confirms this intuition in a linear model with heterogeneity
- ▶ (But in non-linear models (Bils et al, AEJ:Macro, 2010), poorer workers are more attached to the labor market, reducing their willingness to separate)

Introducing capital

- ▶ The model does not include capital but other works suggest this could strengthen the results
- ▶ Algan and Ragot (RED, 2010) and Bauducco (2011) analyzed the impact of trend inflation in an Aiyagari type economy:
 - ▶ Inflation gives incentives to hold real assets.
 - ▶ The economy thus accumulates more capital
 - ▶ This reduces the return on capital and increases wages (capital and labor are complements)
 - ▶ Because the income of poorer agents mainly consists of labor income, inflation may help poorer agents as compared to the richer ones

Are poor workers able to reoptimize their portfolio in high-inflation regimes?

- ▶ In the model, agents away from the borrowing constraint have the same access to financial markets
- ▶ In reality, financial literacy may not characterize all agents and poorer agents may choose to optimize their financial portfolio at a lower pace than richer agents
- ▶ Erosa and Ventura (JME, 2002) push the idea of inflation being a regressive consumption tax
- ▶ On the other hand, Doepke and Schneider (JPE, 2006) document that inflation favors borrowers and hurts lenders

Are Taylor rules actually symmetric?

- ▶ The paper compares the impact of asymmetric Taylor rule with symmetric rules such as inflation targeting and average inflation targeting
- ▶ One could wonder if monetary policy is not asymmetric already
- ▶ This cannot be identified directly because the underlying shocks are typically stronger in recession than in expansions
- ▶ There is a literature that asks if Taylor rules were already asymmetric, e.g. Maih et al (2021, ECB working paper 2587)