Discussion of "Nominal Devaluations, Inflation and Inequality" by Andres Blanco, Andres Drenik and Emilio Zaratiegui

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Stanford
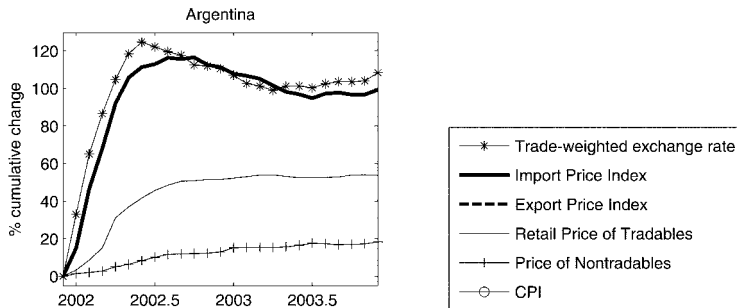
AEA Meetings
New Orleans, January 7, 2023

Macro effect of devaluations

▶ Large literature in intal macro studies effects of large devaluations
  ▶ Burstein, Eichenbaum, Rebelo (2005, 2007)

▶ Idea: devaluations are such large events that they trump other noise in the data, so comparing before/after helps get at causal effect
  ▶ eg, compute passthrough to price i after t periods with $\frac{\Delta P_{it}}{\Delta E_t}$

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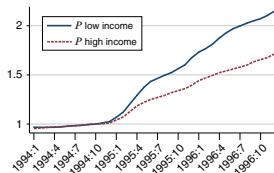 ▶ eg, compute passthrough to price i after t periods with $\frac{\Delta P_{it}}{\Delta E_t}$

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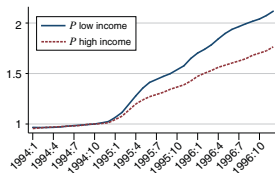
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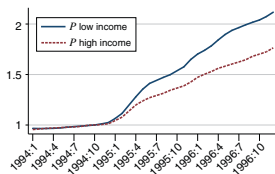
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▶ Conclusion from this lit: devaluations accentuate real C inequality
▶ Some debate: Borusyak and Jaravel (2018) for US

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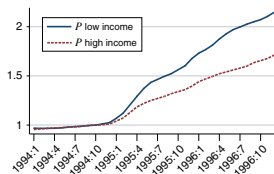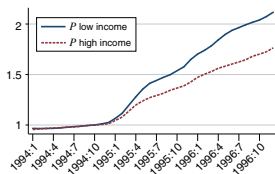
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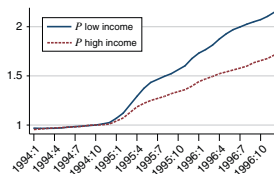
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▶ **This paper**: what about nominal incomes? real income inequality?

Findings

▶ Look at:
  ▶ Aggregate data (incl Gini) for 8 years around 19 large devaluations
  ▶ Administrative micro-data for 15 years around Argentina 2001 dev

▶ **A**: Completely overturns the conventional wisdom!

Figure 4 – Moments of the Distribution of Labor Income
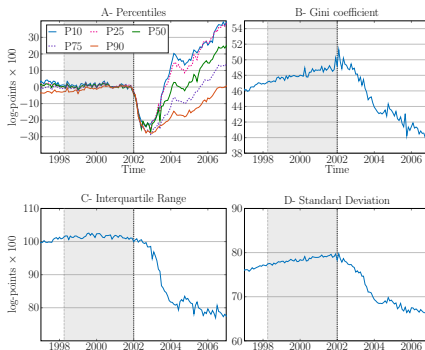
My take on the paper

▶ Important paper! First to look at this in administrative EE data.

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▶ **Rest of discussion**:

  1. What lessons for modeling?
  2. Parallels to US today?

What lessons for modeling?

▶ Broad issue for the devaluation literature: what is the shock?

▶ Devaluations are obviously not random events

    ▶ Happen for a reason: typically, unsustainable peg

    ▶ Associated with persistent movement in RERs and GDP dynamics

Figure 3 – Labor Market Facts after the 2002 Argentinean Devaluation
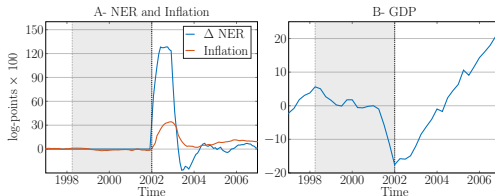
▶ *Not* the same as a closed-economy shock to money supply, or typical exogenous rise in the price level!

Lesson for modeling 1: heterogeneous incidence

▶ What I think is safe to take away: what this reveals about the functioning of the labor market

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  1. Homothetic consumer preferences: equal ΔP_i's
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▶ Extension 2: unequal incidence calibrated to this paper. Give us γ_i!

  ▶ Will amplify any effect of depreciation

Lesson for modeling 2: beyond incidence function

▶ Incidence function is very reduced form and unsatisfactory

▶ More complex model of labor market needed to capture evidence on separations, JJ transitions

    ▶ In HANK: Gornemann-Kuester-Nakajima, Bardoczy

    ▶ In search: Blanco-Drenik-Moser-Zaratiegi, Souchier

▶ Key question in connecting to these models: is there something special about movement conditional on depreciation? Or unconditional response the same?

    ▶ Can test this in data!

Parallels to US today?

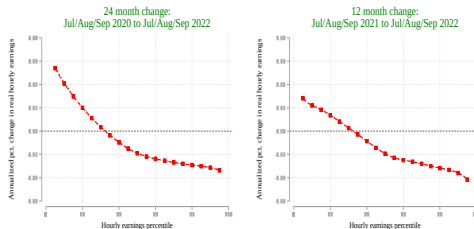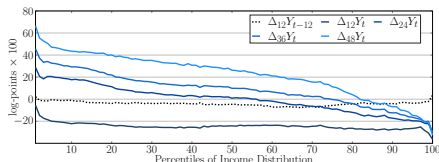▶ Striking resemblance: Autor, Dube, McGrew recent work from CPS

Figure 6 – Average Income Growth Conditional on Average Income in 2000-2001

Concluding thoughts

▶ Very nice paper!

▶ Sell the distributional angle more

▶ Provide moments that can be used as direct inputs into models

▶ See if labor market patterns are special to depreciations, or hold more broadly given aggregate movements in real labor income