Discussion of "Ricardian Non-Equivalence" by Eichenbaum, Guerreiro and Obradovic

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This paper

- **Q: what are the macroeconomic effects of deficit-financed fiscal transfers?**
  - Ricardian Equivalence benchmark: none
  - Works in theory, not in practice !
- **But why does Ricardian Equivalence fail?**
  - Central to recent macro modeling efforts
  - HANK literature: households face liquidity constraints, high MPCs
  - This paper: yes, but **also** they do not understand that future taxes must rise

What the paper does

- **New survey with 3 hypothetical questions to households** [Colarieti-Mei-Stantcheva]
  1. What is MPC out of a transfer just to you?
  2. What is MPC out of a transfer, if everyone gets it too? MPC^{GE} (think-through)
  3. Given this, how much will your taxes increase in the next 6 years? dT
- Two key **data findings**: $MPC = MPC^{GE}$ and $dT = 0$
- Use these as new moments to calibrate a HANK model with departure from rational expectations; here, via cognitive discounting [Gabaix 2020]
- Main **model finding**: fiscal policy is **even more powerful** than in rational model

A note on this agenda

- Behavioral HANK is the future of monetary economics !
  - We needed micro moments such as MPCs to discipline HANK
  - We've made a lot of progress, but models with FIRE are reaching limits
  - This paper offers new micro moments to **discipline behavioral frictions**
- Hypothetical survey questions a very natural source of such moments:
  - Reported MPCs have been shown to line up with natural experiments

    [Parker-Souleles 2019, Kotskogiannis-Sakellaris 2025…]
  - Behavioral macro research has successfully used surveys to discipline models

    [Coibion Gorodnichenko 2012, 2015…]
- Still, shouldn't preclude us from also using **macro** moments to get GE right !

My discussion

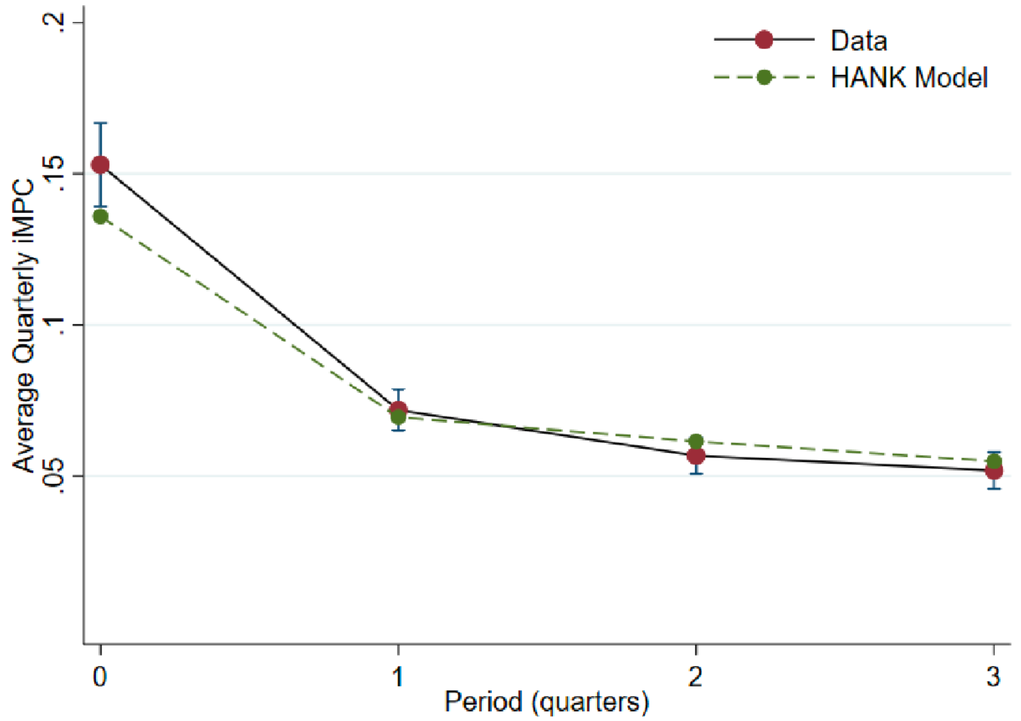
- What do we really learn from the survey data?
  - Is $dT = 0$ really indicative of departure from rational expectations?
  - What about $MPC = MPC^{GE}$?
- What else would we need to pin down the model?
- **Overall**: great paper, thought provoking, I learned a lot!

What do we learn from the survey data?

1. Confirming that iMPCs are high

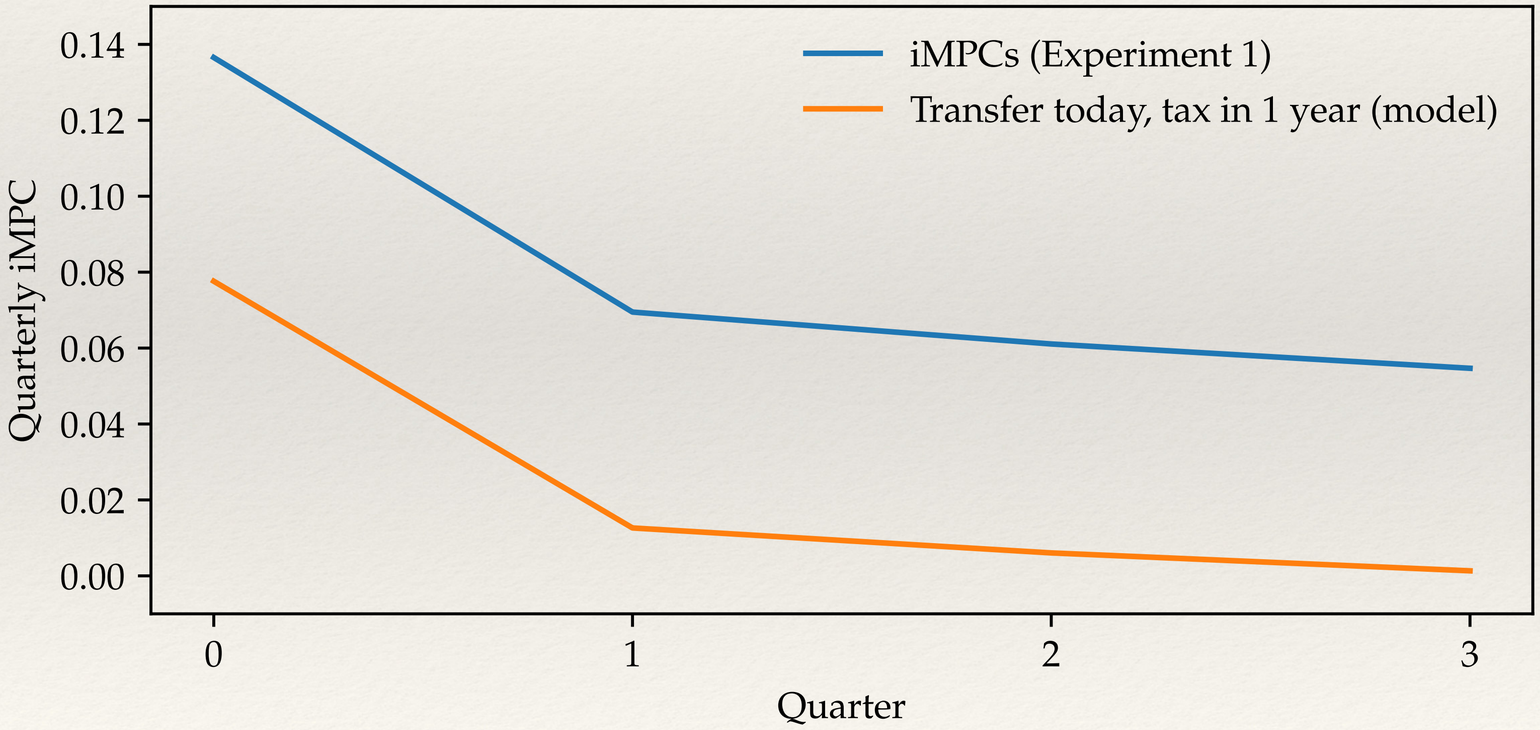
- Very important moment for HANK: intertemporal MPCs [Auclert-Rognlie-Straub 2024]
- Impact MPC consistent with a very large literature
- Some controversy in lit over how persistent the effect is [Borusyak-Jaravel-Spiess, Orchard-Ramey-Wieland, Boehm-Fize-Jaravel,…]
- This paper validates HANK vs TANK, so starts from HANK

Figure A.5: Quarterly iMPCs in Canonical HANK Model vs. Data



2. Confirming that liquidity constraints matter

- Another useful moment: give money today, take it away in one year
- Perfect empirical question in to identify liquidity constraints… in PE



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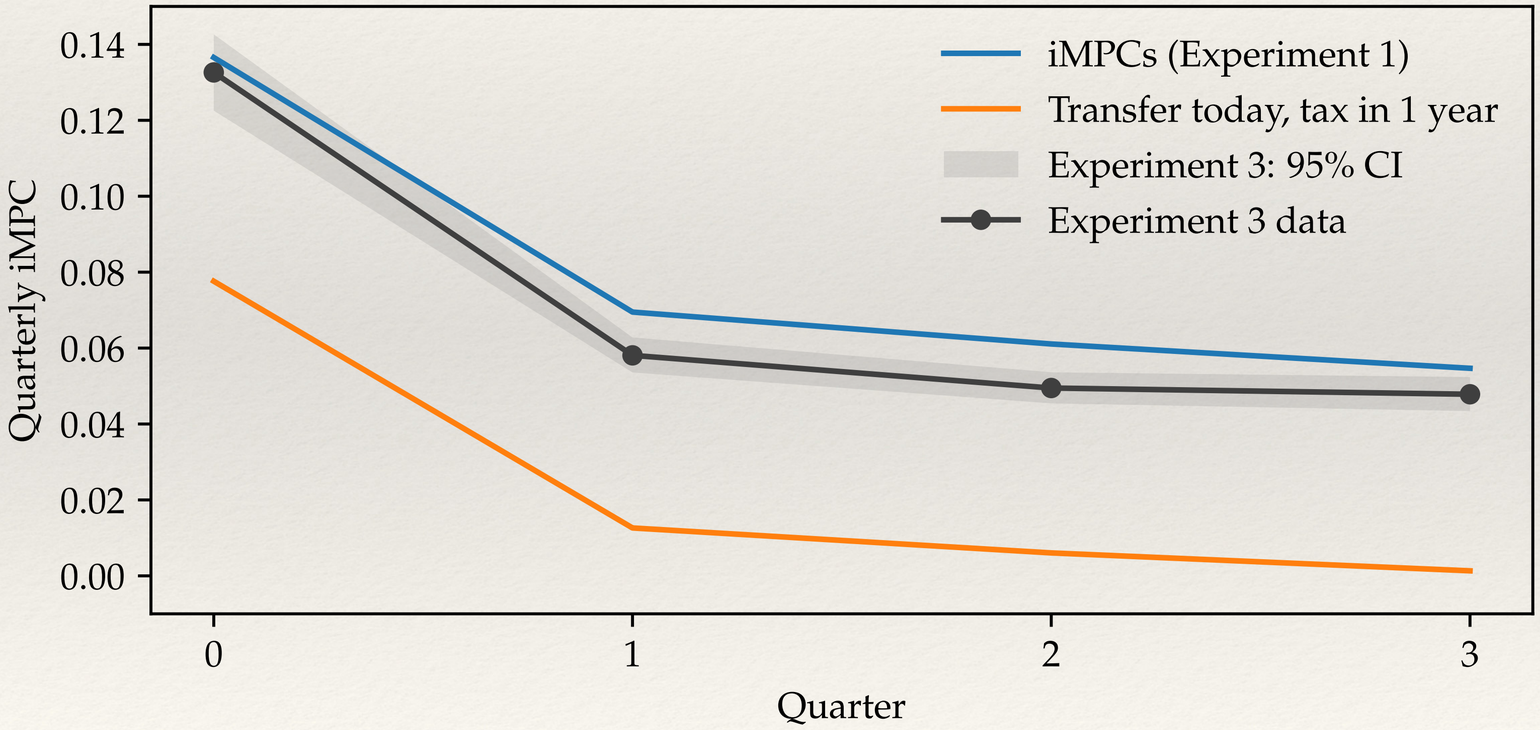

- This is experiment 3 in appendix, but the question is GE (everyone affected)

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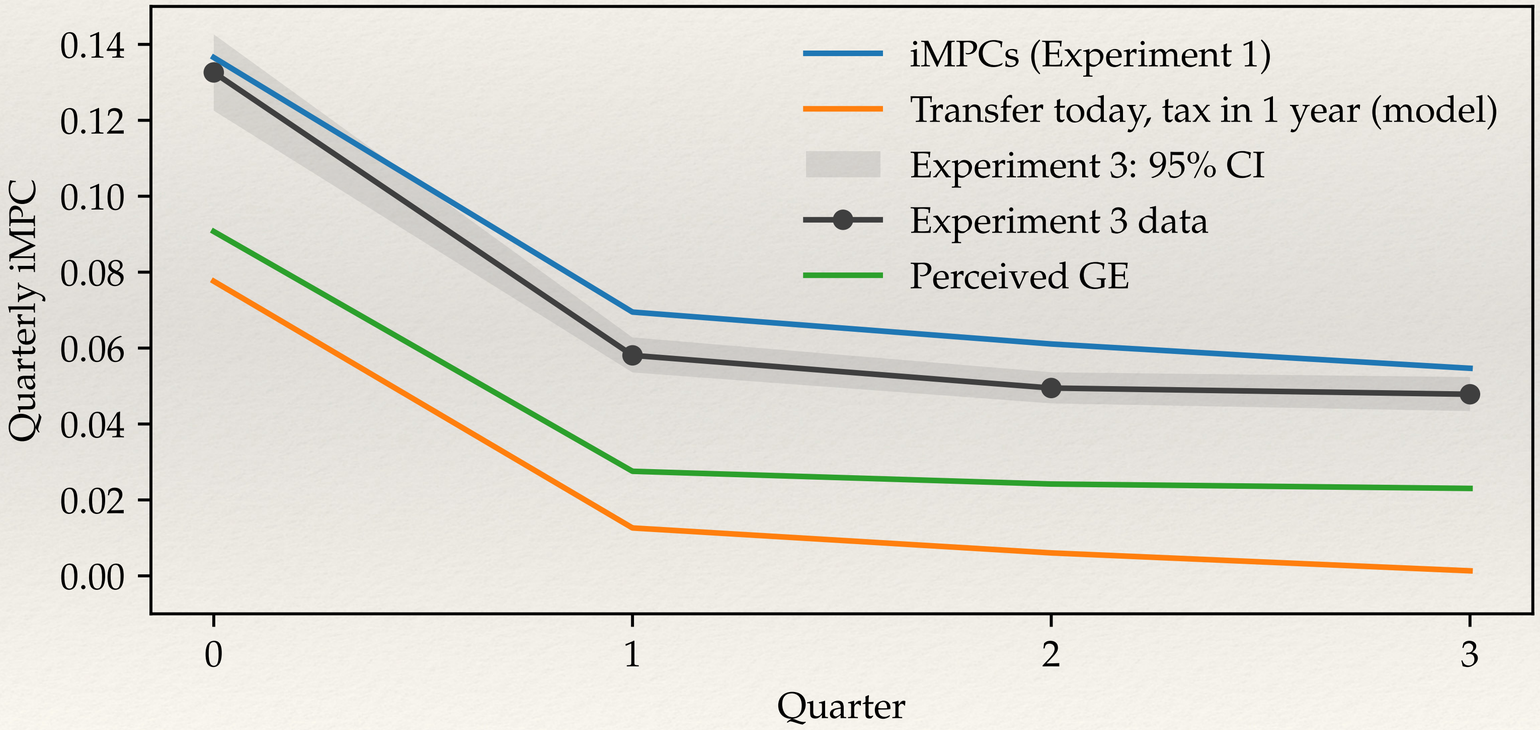


- Still, could use it to validate the model perceived GE

3. What is behind $dT = 0$ result?

- Paper measures expectations of tax changes, $E_i^{pre}[\Delta t_h]$ and $E_i^{post}[\Delta t_h]$
- Reports regression $E_i^{post}[\Delta t_h] = \alpha_h + \gamma_h \mathcal{I}_i + \rho_h E_i^{pre}[\Delta t_h] + \xi_{ih}$

Table 1: Tax Expectations

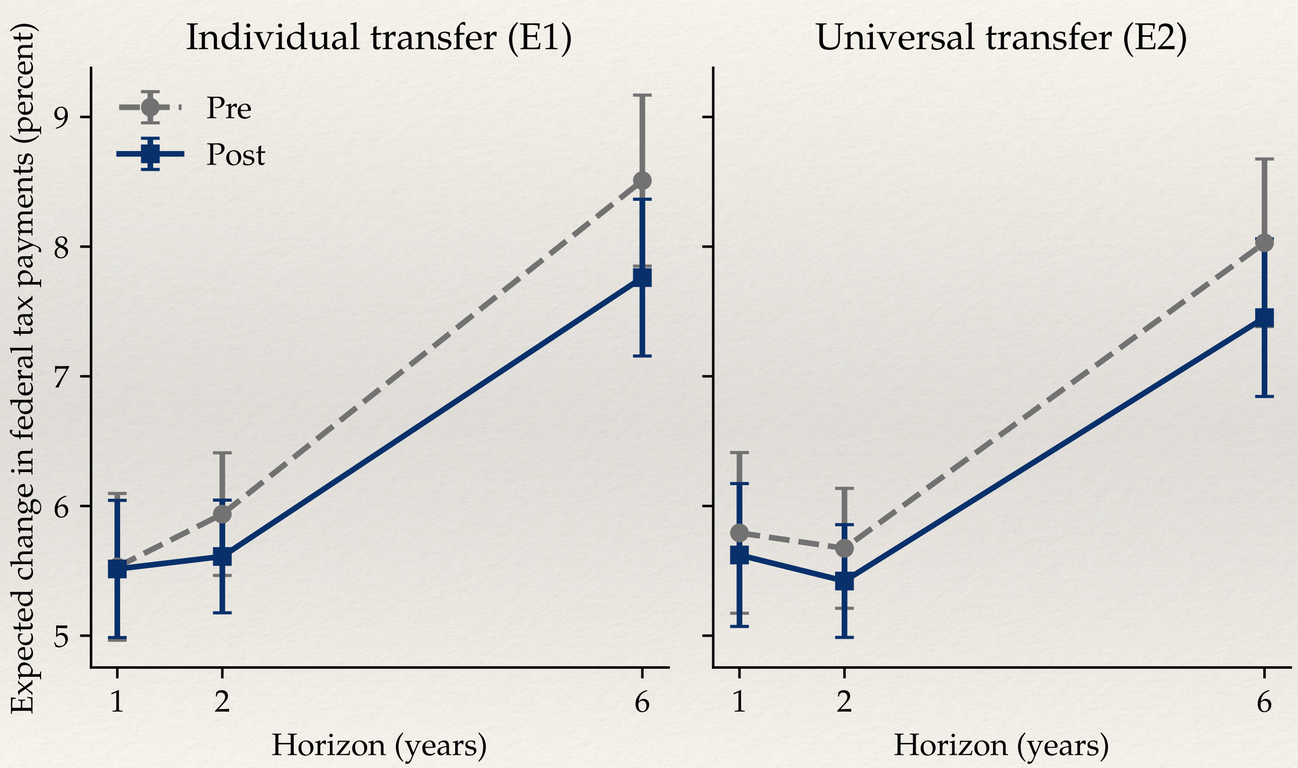
Horizon	1 year	2 years	6 years
γ_h	0.053	-0.022	-0.031
	(0.187)	(0.168)	(0.215)
Observations	5,697	5,630	5,631

Standard errors in parentheses.* $p < 0.10$,** $p < 0.05$, *** $p < 0.01$

- Does this mean people are irrational about future taxes?

3. What is behind $dT = 0$ result?

- γ_h is double difference: useful to visualize the **levels** !

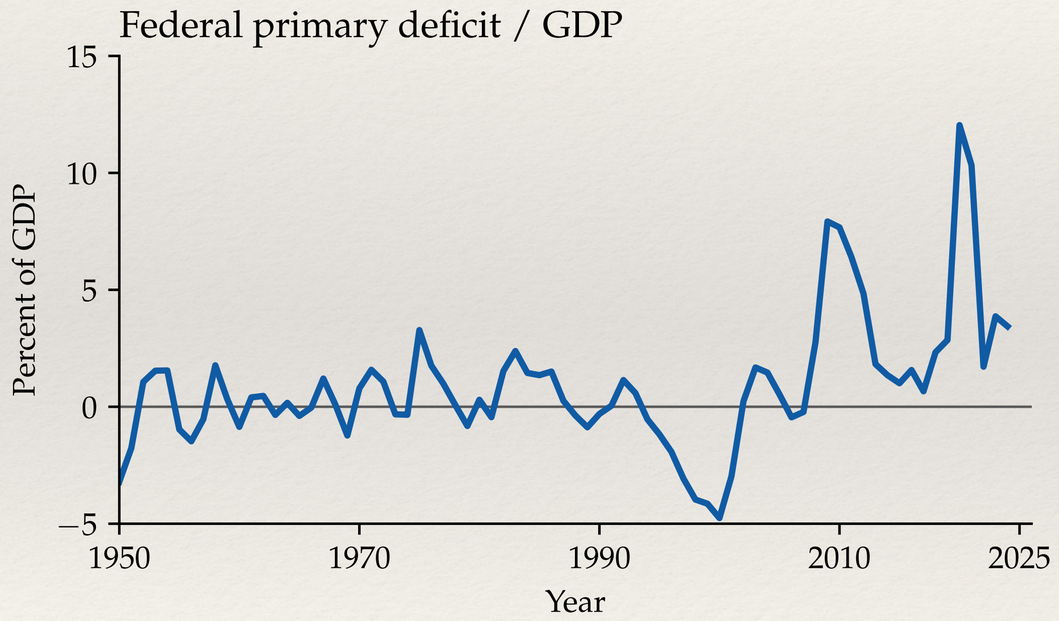


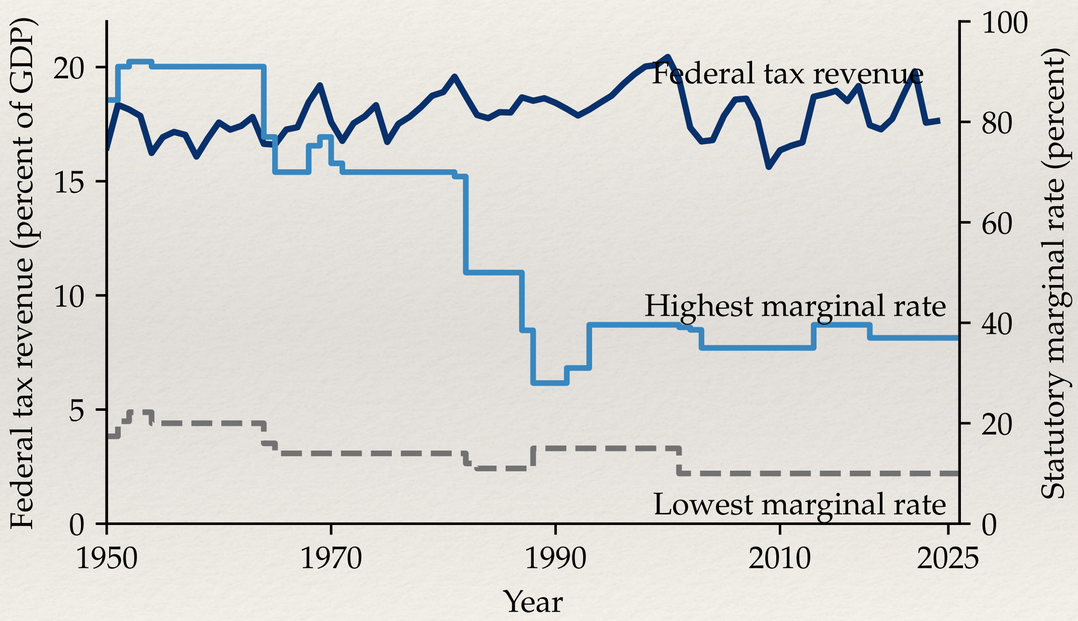
- People expect taxes to rise in baseline (inflation? real income?)
- When told that they are getting a transfer, they revise down (think they'll get more?)
- When told everyone is also getting it, they also revise down, but less ! (maybe the government can't keep doing this…)

- Can we rule out (say) rational households inferring a profligate government type?

The intertemporal government budget constraint?

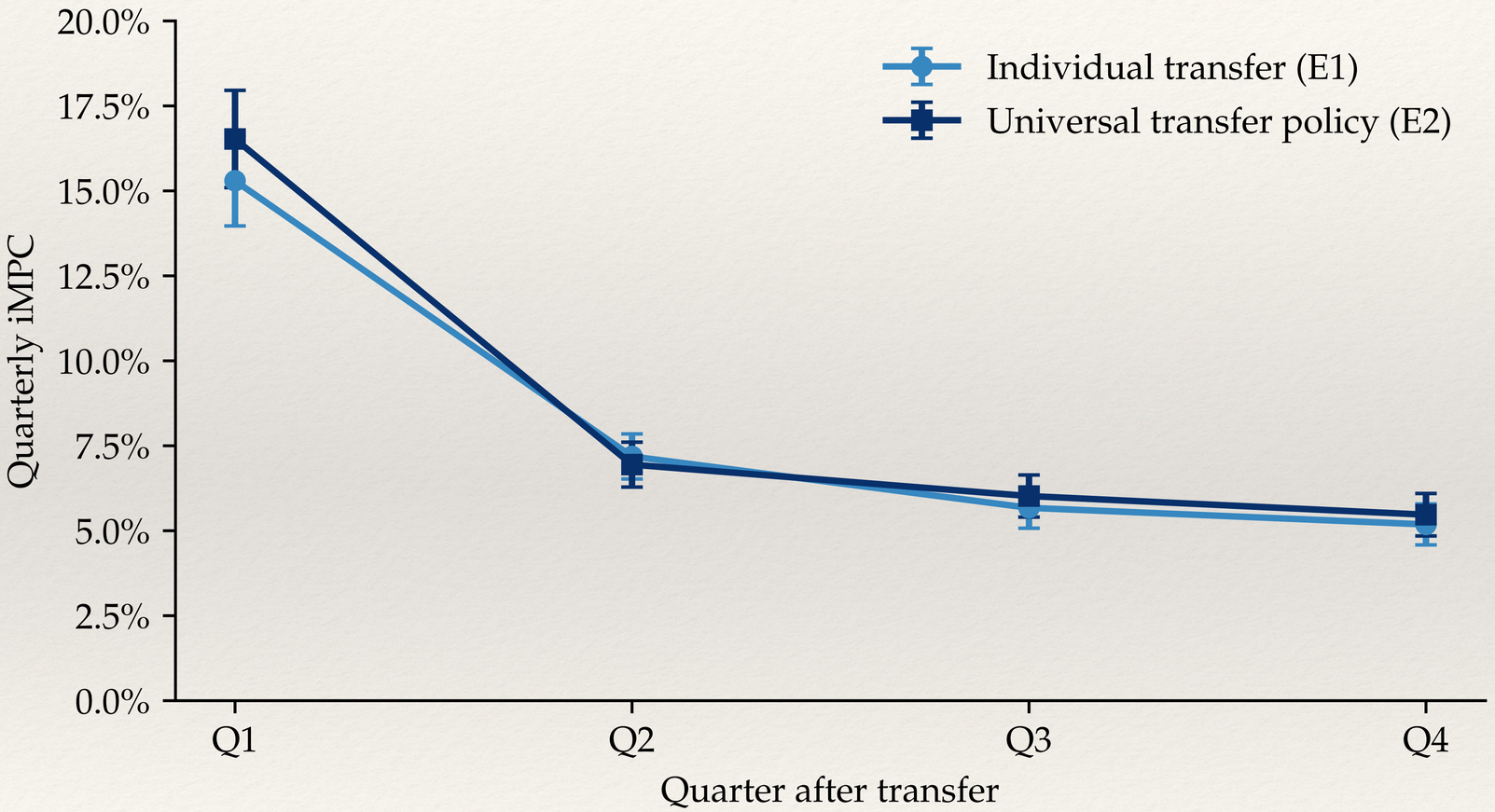
- The tax expectations are only measured out to 6 years
- But we live in a special time where taxes seem unresponsive to deficits…





- 6 years likely too short. Would be very interesting to dig further into household expectations of fiscal consolidation. And estimate fiscal rule!

A more informative result: $MPC = MPC^{GE}$



- Striking result: people respond the same way!
- To me this suggests people have a **hard time thinking through** general equilibrium
- But it could also suggest **offsetting** GE effects

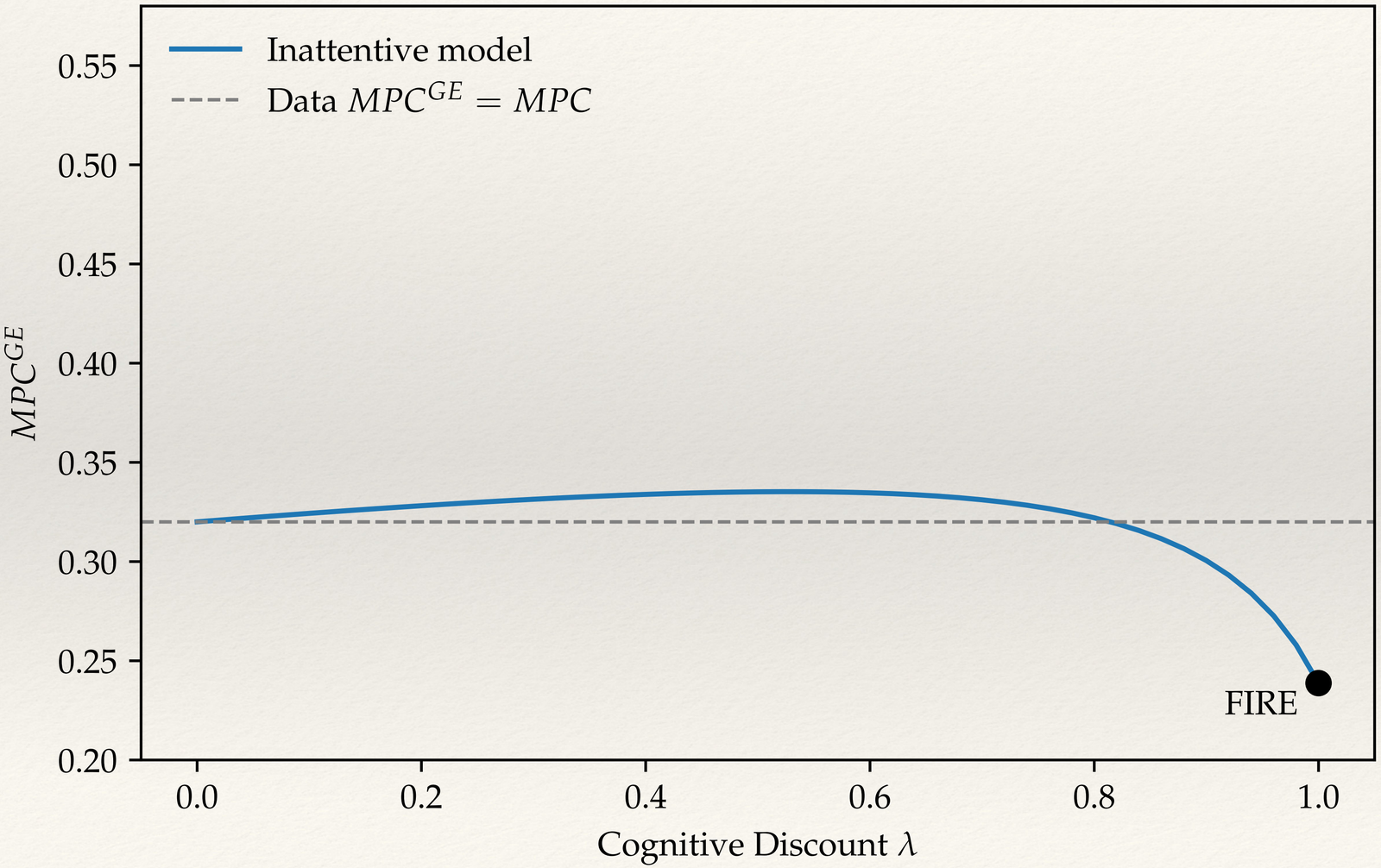
- **Example**: crowd-in from C/Y feedback but crowd-out from higher r

Identification

Model identification procedure

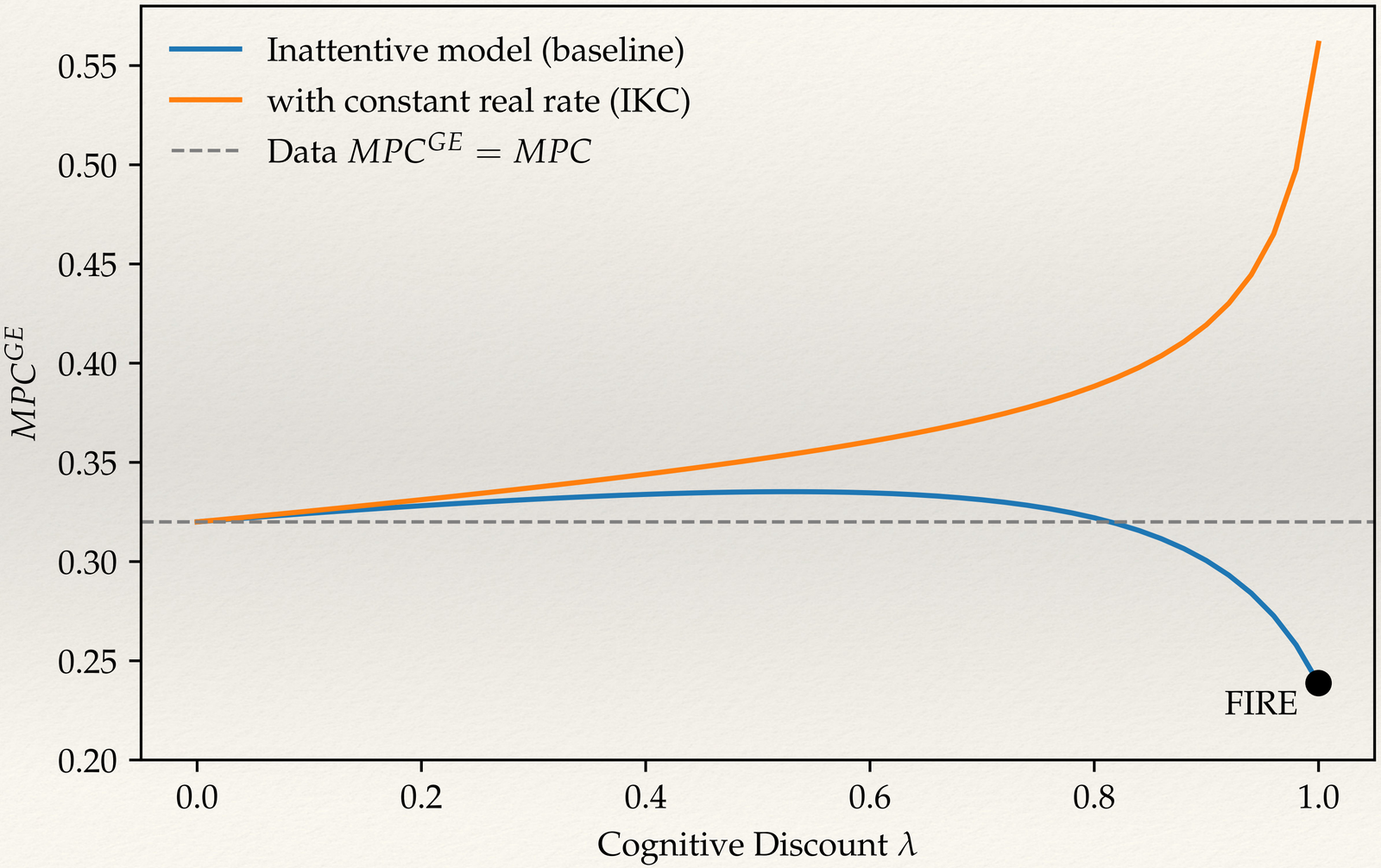
- Set up quantitative HANK model with cognitive discounting friction
  - one parameter λ: $\mathbb{E}_t[dX_{t+h}] = \lambda^h \mathbb{E}_t^{RE}[dX_{t+h}]$
  - applied to everything hh's care about: income, taxes, and interest rates
- Calibrate model to data iMPCs, typical parameter values (eg mon. pol. rule)
- Then, find λ to solve $MPC = MPC^{GE}(\lambda)$
  - Carefully define $MPC^{GE}(\lambda)$ to be household **perceptions** of GE. Nice!!
  - But, very sensitive to the GE assumptions underlying the RE model

Identification of λ?



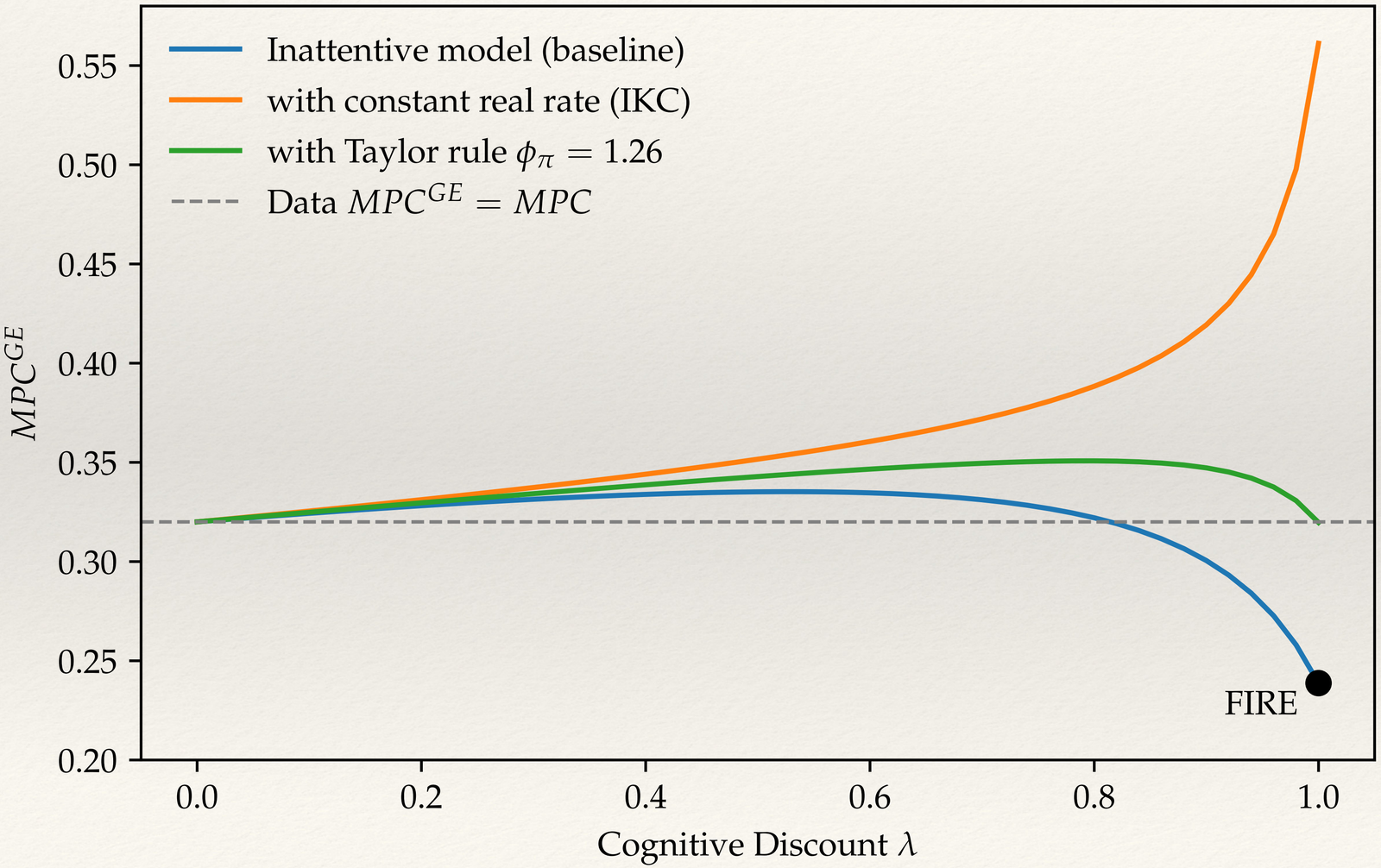
- Main ("conservative") calibration: identified from upward slope, since FIRE is below MPC

Identification of λ?



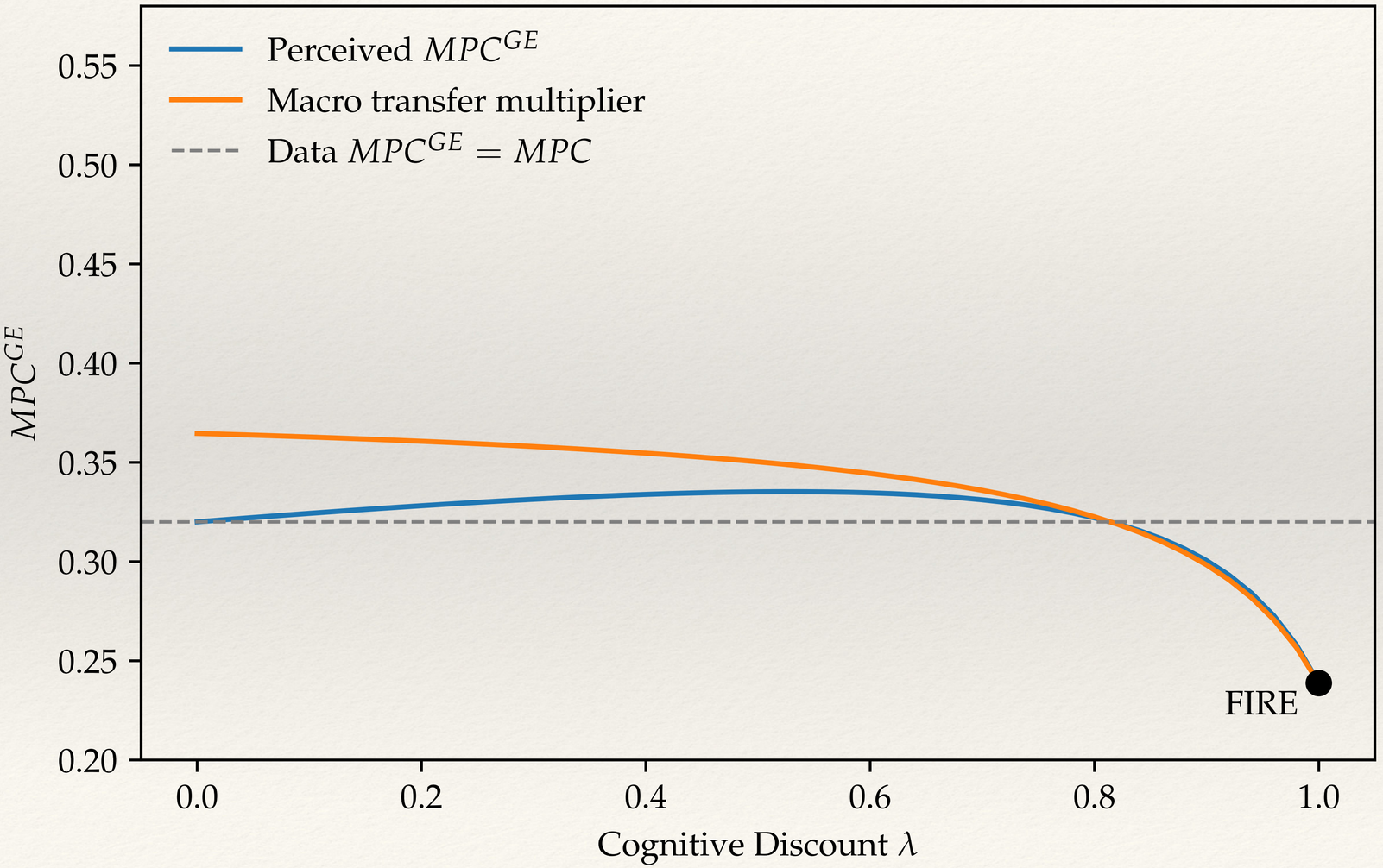
- But what if mp is less responsive? No solution
- So we jointly identify λ and monetary policy:
  - FIRE transfer multiplier must be $< MPC$

Identification of λ?



- However, far from tightly pinned down:
  - Can find a monetary policy such that FIRE works!
- Bottom line: we need to bring moments from the macro data

Adding a macro moment to identify



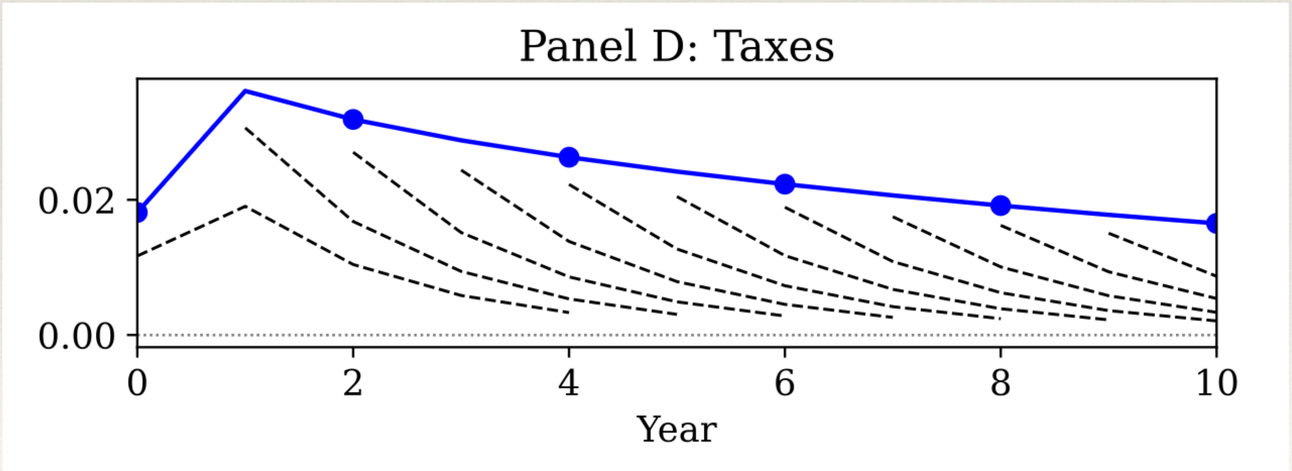
- One natural moment to bring in: the macro transfer multiplier dC/dT
- under FIRE, same as perceived MPC^{GE}
- But gaps $dC/dT - MPC^{GE}$ tell us how behavioral people are!

Macro effects of cognitive discounting

- **Main quantitative finding**:
  higher cognitive discounting (lower λ) makes fiscal policy **more powerful**
  - RNE effect: people not as concerned about future taxes, spend more
  - Offsetting GE effect: people not as optimistic about future income, spend less
- One concern about this result is that it might be highly sensitive to calibration
  - Example: in the constant-r model, offsetting GE effect dominates [see IKC]
- But, combining with argument that FIRE must be below *MPC*, can argue that locally it **has** to go this direction !

One parameter to rule them all?

- In simple one-period model, λ could come from many other models than cognitive discounting: dispersed information, sticky information, sparsity, k -level thinking, limited planning horizons… (appendix C.6)
- In the GE HANK model, these all have very different macro implications!
  - eg, sticky expectations extrapolate very differently than this!



- Bring in the term structure of expectations to help !

Conclusion

- Very nice paper !
- New moments for the behavioral HANK literature (esp. MPC^{GE})
- Can refine the identification argument, strengthen the quantitative applied message, and potentially bring in other macro + expectations moments
- Excited for the next paper(s) in this agenda