Discussion of "HANKSSON" by Bilbiie, Galaasen, Gürkaynak, Mæhlum and Molnar

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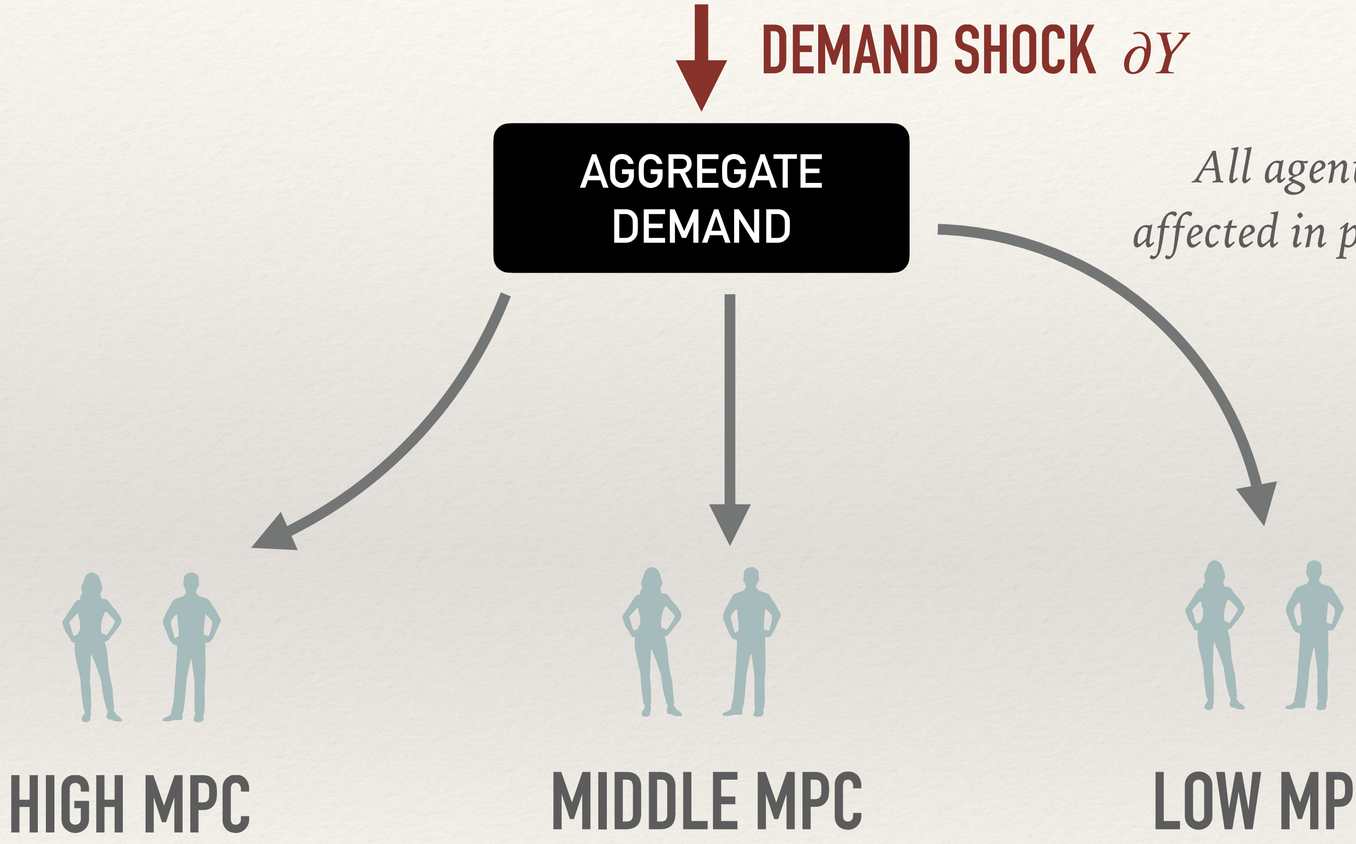
This paper

- **Q: does household heterogeneity matter for macroeconomics?**
- HANK literature: **yes**! — new transmission channels with heterogeneous agents
  - One **particular** channel: earnings incidence-MPC correlation
    [Bilbiie 2008, 2020, Auclert 2019, Auclert-Rognlie 2018, Acharya-Dogra 2020, Patterson 2023,…]
  - Leads to (puzzlingly) strong amplification of demand shocks in some papers
- **This paper**: channel is **not there** in Norwegian data (and likely elsewhere as well)
  - My discussion: explain the importance of this result & what it says about the Q:

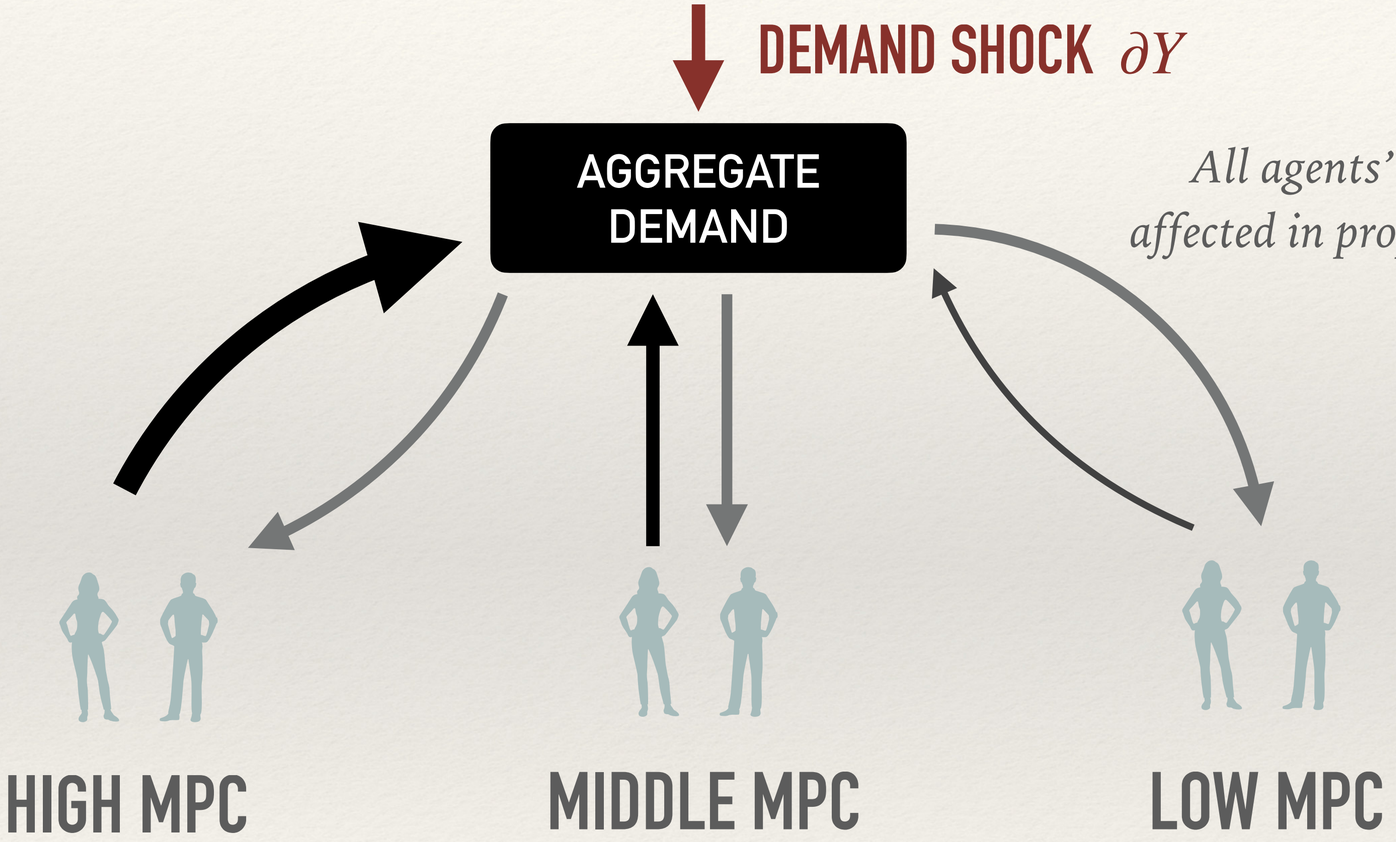
Standard Keynesian cross model with equal incidence



All agents' income affected in proportion

$$\beta_i = \frac{d \ln Y_i}{d \ln Y} = 1$$

Standard Keynesian cross model with equal incidence



All agents' income affected in proportion

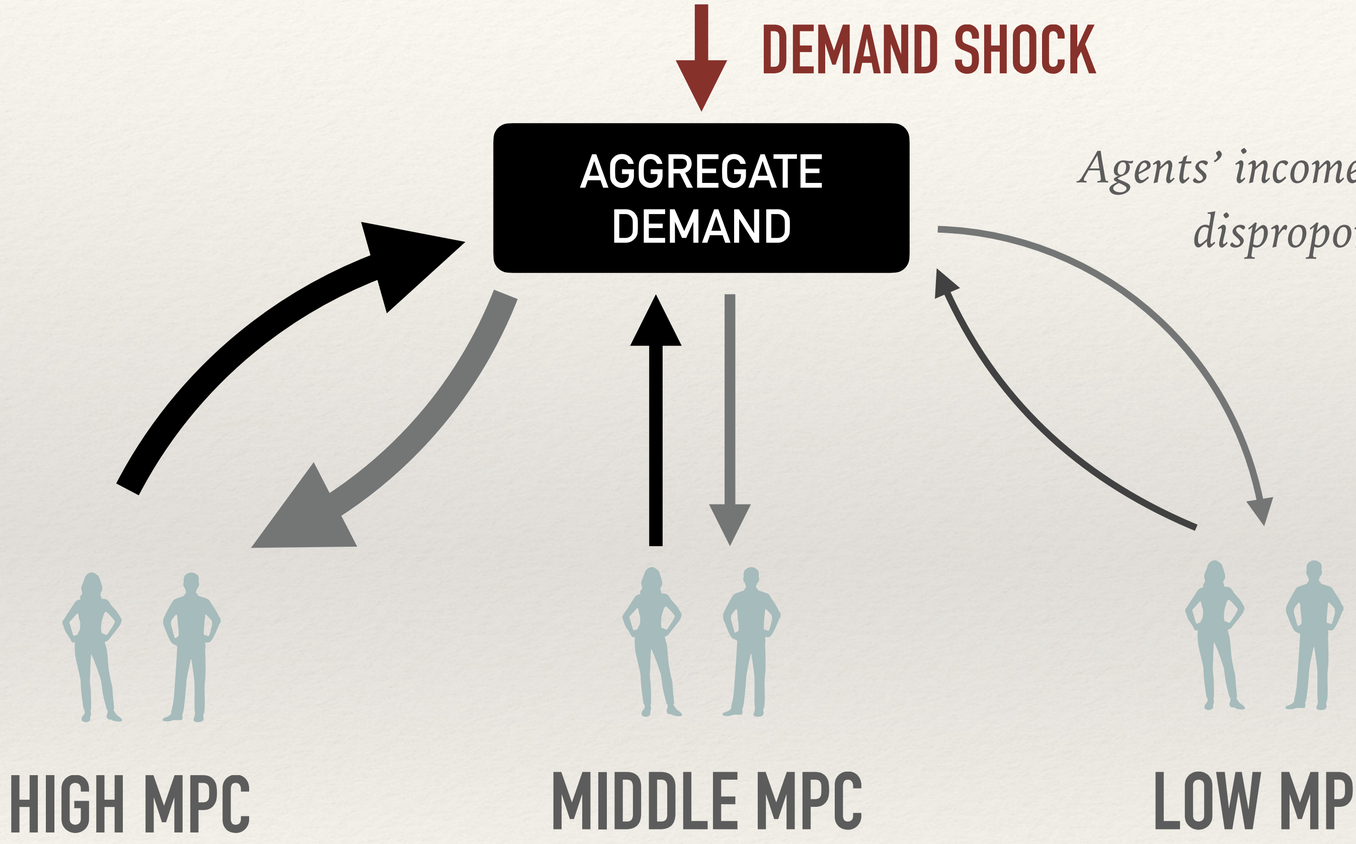
$$\beta_i = \frac{d \ln Y_i}{d \ln Y} = 1$$

Benchmark equilibrium multiplier:

$$m = \frac{dY}{\partial Y} = \frac{1}{1 - E\left[\frac{Y_i}{Y} MPC_i\right]}$$

Income-weighted MPC matters

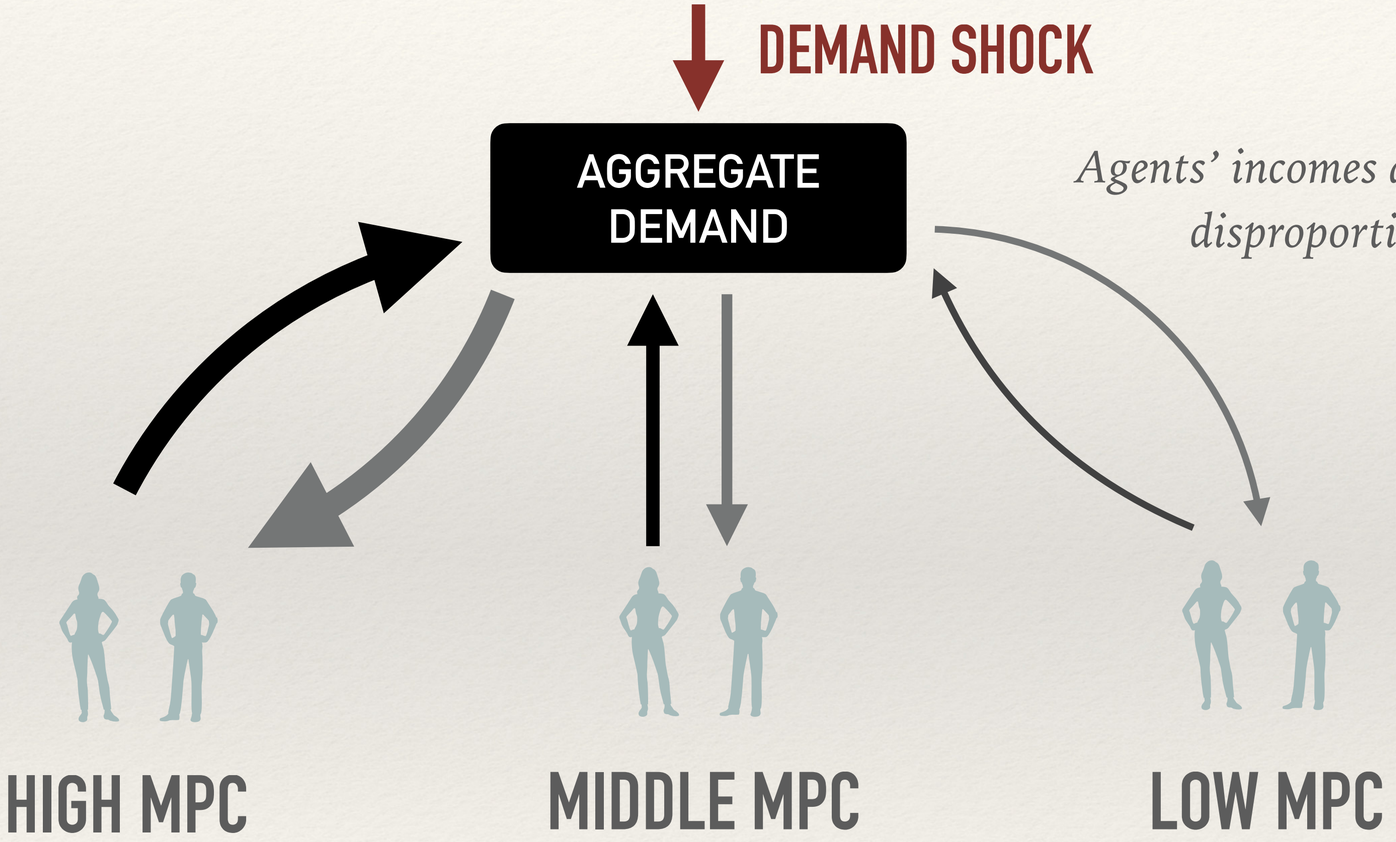
Unequal incidence and amplification



Agents' incomes affected disproportionately

$$\beta_i = \frac{d \ln Y_i}{d \ln Y} \neq 1$$

Unequal incidence and amplification



Agents' incomes affected disproportionately

$$\beta_i = \frac{d \ln Y_i}{d \ln Y} \neq 1$$

Equilibrium multiplier:

$$M = \frac{1}{1 - E\left[\frac{Y_i}{Y} MPC_i\right] - \text{Cov}(MPC_i, \beta_i)}$$

Covariance with β's matter. Amplification:

$$M > m \leftrightarrow \text{Cov}(MPC_i, \beta_i) > 0$$

The paper's main finding

- **Administrative panel data from Norway on consumption, income, wealth!**
  - Best available data in the world to do this!
- **Find:** $\text{Cov}(MPC_i, \beta_i) \approx 0$, so $M \approx m$. Role of capital income+tax system.

	AMPC	avg. MPC	cov(MPC,β)	M	m	M/m
Labor earnings	0.424	0.397	0.027	1.736	1.659	1.046
+ capital income	0.410	0.397	0.013	1.696	1.659	1.022
+ transfers	0.376	0.397	-0.021	1.603	1.659	0.966
− taxes	0.364	0.397	-0.034	1.571	1.659	0.947

Covariance basically zero. If anything, dampening!

Comment 1: relation to Patterson

- **Important empirical result!** Most direct precedent is Patterson (AER, 2023)

TABLE 3—BENCHMARKING AMPLIFICATION FROM THE MATCHING MULTIPLIER

		Total consumption (1)	Nondurable consumption (2)	PSID consumption (3)	Food consumption (4)
4. $\widehat{\text{cov}}(MPC_i, \gamma_i)$		0.099	0.97	0.063	0.063
		[0.040, 0.164]	[0.038, 0.156]	[0.024, 0.102]	[0.018, 0.109]
9. *Benchmark multiplier*	m	1.539	1.419	1.373	1.253
10. *Actual multiplier*	M	1.713	1.521	1.457	1.323
		[1.604, 1.851]	[1.457, 1.591]	[1.404, 1.514]	[1.272, 1.377]
11. *Percent increase in multiplier*	$M/m - 1$	11.4%	7.3%	6.1%	5.6%
		[4.2%, 20.3%]	[2.7%, 12.2%]	[2.2%, 10.2%]	[1.5%, 9.9%]

- Here: more comprehensive income + consumption measure. But different country
- Should highlight the differences and similarities more. Also add standard errors!

Comment 2: MPC measure

- One flaw shared with Patterson: **baseline "MPC" is not the right object**
  - Comes from regression of ΔC on ΔY instrumenting ΔY with unemployment
  - This picks up an income shock that is very likely persistent
  - Persistence possibly heterogeneous across characteristics used to group hh
  - By contrast, theory wants MPC out of one-time transitory shock!
- This paper's revision has access to the **lottery data** and gets MPCs from those [as in eg, Fagereng, Holm, Natvik 2021]
  - This seems far superior, delivers similar results. Why not use it as the baseline?

Comment 3: interpretation

- The paper gives us a very useful moment for HANK models
- $\text{Cov}(MPC_i, \beta_i) \approx 0$ **solves a bunch of puzzles in the literature!**
  - no amplification of forward guidance, fewer determinacy issues, etc
  - should point this out in relation to Ravn-Sterk, Acharya-Dogra, Bilbiie, … !
- This result **does not imply that heterogeneity is irrelevant** at all! For instance:
  1. Average MPC is high in this data too: we need to depart from rep. agent for that!
  2. Other redistribution channels are governed by other covariances [Auclert 2019]
  3. Even with $\text{Cov}(MPC_i, \beta_i) = 0$, HANK has dynamic amplification from iMPCs [e.g. Auclert-Rognlie-Straub, 2023]

Comment 4: consumption betas

- The paper also has a set of "consumption beta" results, $\beta_i^C = \dfrac{d \ln C_i}{d \ln C}$
- Finds $\beta_i^C \approx 30\%$ higher for low-liquid wealth than high-liquid wealth hh's
  - Another very useful moment for model calibration!
  - Would ideally be able to do this by different dimensions i and macro shock
- If paper found $\beta_i^C = 1$ for every relevant dimension i and every macro shock, this would be a much stronger "heterogeneity is irrelevant" finding
  - Seems unlikely given current results; in addition, measurement issues such as common seasonality in consumption biases β_i^C towards 1

Conclusion

- Important paper !
- Two new moments for HANK: $\text{Cov}(MPC_i, \beta_i)$ and distribution of β_i^C
- Will move research effort away from cyclical income risk towards other areas where heterogeneity matters
- Looking forward to the next paper in the agenda!