

Discussion of “Fiscal Policy in a Networked Economy”

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Question and Motivation

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

This Paper

- Very rich and ambitious
 1. General (“semi-structural”) model with nominal rigidities, heterogeneous households, IO structure
 2. Ample use of micro-data to determine overall size and distribution of multipliers
 3. Welfare analysis in case of generalized and geographically concentrated underemployment

This Paper

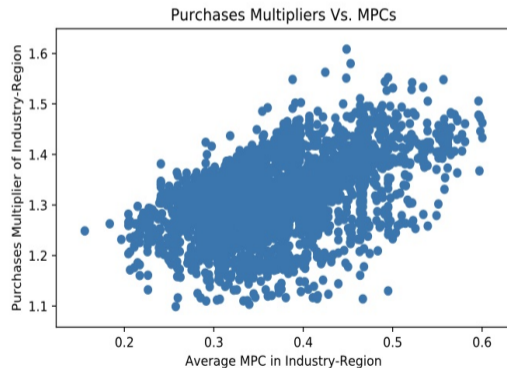
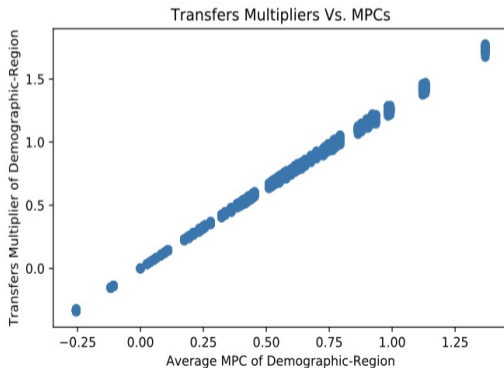
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 - ▶ IO linkages compress distribution of multipliers across industry-region
- Significant regional spillovers → For \$1 government purchases directed to a state
 - ▶ Aggregate multiplier equal to 1.31 (average across states)
 - ▶ But 44% of GDP increase occurs out of state

MPCs and Multipliers

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

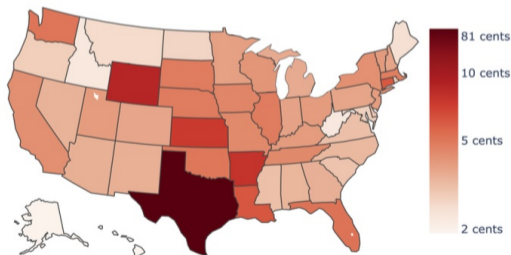


Regional Spillovers

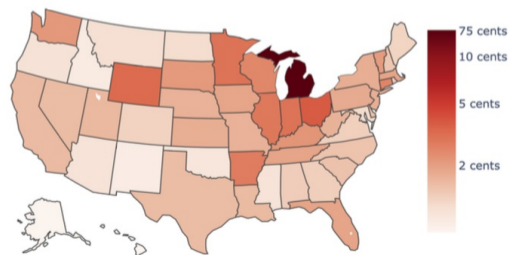
- Significant regional spillovers
 - ▶ Stronger in neighboring states (“gravity effect”)

\$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** → Prices, wages, and interest rates always fixed
 - ▶ Absence of relative price adjustments in response to targeted sectoral purchases hard to swallow
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- **What about fiscal rules?**
 - ▶ “Balanced budget over the two periods” → 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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- Implications for different government levels (Bouakez et al., WP 2023)
 - ▶ **State & local spending mostly oriented towards services** (higher price rigidity)

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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