General Discussion of 'Fiscal-Monetary Interactions in the 2020's: Some Insights from HANK Models'

Participants began by reflecting on the conduct of fiscal and monetary policies during the COVID-19 pandemic period. Participants highlighted the importance of public policy 'doing what is necessary' to minimise welfare losses during crisis periods. This prompted a discussion on the role of expectations in heterogeneous agent New Keynesian (HANK) models, and the extent to which these models can capture 'confidence' effects that might arise from such fiscal expansions.

It was noted that, in the scenario presented in which there is no change in future fiscal surpluses, the maturity profile of government debt had implications for the ability of the central bank to determine inflation outcomes in the short run, with longer-dated debt providing more flexibility. It was also suggested that learning dynamics, rather than rational expectations, could further expand this policy space.

The discussion then turned to the impacts of higher government debt levels. Participants noted that macroeconomic models incorporating household heterogeneity show broader effects of government debt than models without such features. In particular, participants discussed how government debt affects the natural rate of interest and the trade-offs faced by monetary policymakers. It was also noted that models which featured more than one asset, and allowed for substitution between assets, would introduce more realistic dynamics. In general, participants agreed that heterogeneity in the marginal propensity to consume was an important feature to account for in macroeconomic models, given the implications for monetary–fiscal interactions.