

General Discussion of 'Progressive Taxation and Monetary Policy in Australia'

Participants began by discussing global factors affecting the domestic natural rate of interest, noting these factors were outside the focus of the presented paper.

The discussion then turned to the merits of heterogeneous agent New Keynesian (HANK) models. While HANK models can provide a richer description of the economy than representative agent models, participants emphasised that robust policy advice depends on modelling the specific economic features relevant to the question at hand. One participant noted that economic and policy insights emerge from data in conjunction with economic models, rather than from the data alone. It was noted that HANK models represent the latest step in a longer intellectual tradition. Their greatest value is not in forecasting, but in highlighting the economic mechanisms that matter most for public policy. One example raised was the importance of fiscal policy for the conduct of monetary policy.

Participants concluded with a discussion of the results from the model. Participants noted that the model implied tax progressivity had larger effects on the natural rate of interest than government debt expansion, and that this was related to the substantial effects tax progressivity had on insuring households from income changes, thereby reducing the need for precautionary savings. It was also noted by one participant that the model implied tax progressivity has a quantitatively small effect on the natural rate of interest. More generally, it was noted that the model featured a more detailed fiscal block than most stylised fiscal models and that this was a major innovation.