Welfare and Spending Effects of Consumption Stimulus Policies, QE MS 2442-1 First Revision

Referee report

Summary of the Revision

In this revision, the authors have made the following main changes relative to the previous draft

1. They have included a general-equilibrium analysis, with HA-NK-SAM frictions (Section 5 and Appendix B), where wages (using an ad-hoc rule), interest rates, and unemployment transitions are endogenous, and therefore respond to policies. Most of the model elements are standard (an NK block with Rotemberg pricing, a labor market with exogenous separations and endogenous matching through vacancy-posting, a Central bank that sets interest rates, a government fiscal authority that smoothes labor taxes by issuing long-term debt), and so is the calibration. The exercise is somewhat simplified, in that the authors, for example, abstract from labor-market differences across types.

2. The authors now also consider a model without splurge consumption (Appendix A). The results rely on a recalibration of discount factors to match the iMPCs, which results in a somewhat worse fit (the MPCs of the wealthy, in particular, are too low). The results, however, in terms of cumulative fiscal multipliers, are very similar.

3. They have included a new welfare measure, which weighs consumers by their inverse marginal utility in the absence of shocks or policies. So the effect of redistribution on weighted utility is zero for small policies. But the recession increases average utility, and introduces gains from redistribution.

Overall assessment of the revision

I am still not convinced by the main modeling assumptions: the partial equilibrium character of the main analysis, the splurge consumption to raise current MPCs, the absence of a government budget constraint, the mixture of calibration targets from Norway and the U.S., and the quarterly frequency. But the authors do now show that a GE model with HA-NK-SAM frictions, and a model without the splurge consumption but re-calibrated discount factors, yield very similar results as the baseline model. I would have preferred these robustness exercises to constitute the main analysis, as I believe the non-standard elements distract the reader and do not add much. In fact, I could imagine a separate paper on splurge consumption alone. But the main point of the paper as it is is still interesting: different kinds of household transfers have different dynamic effects on aggregate consumption demand through different distributions of disbursed resources across agents and over time (such as from the increasing effect of duration extensions on demand in times of rising unemployment).

Main comments

(a) *Long-run multipliers in partial equilibrium* This is a new comment, so may be discarded: I wonder how interesting the long-run multipliers in Table 5 are. Without any supply effects, as $t \longrightarrow \infty$, these just converge to 1 as all income is eventually consumed, unless I am mistaken. This is perhaps worth stating in the discussion of Figure 7 to help the interpretation.

(b) *The new general-equilibrium analysis* What is not standard in the GE analysis is perhaps the labor agency - does this give rise to the non-zero profits from vacancy posting? More importantluy, the authors consider in this analysis the policies in steady state, not conditional on a recession with high unemployment. I don't understand the reason for this: the method the authors use for model-solution (based on the sequence-space Jacobian following Auclert et al) limit the analysis to small shocks around the stationary distribution in the absence of aggregate shocks. But the benefit of that method is limited here (since the authors essentially only compute the model once, so speed is not of the essence). So why not consider the same jump in unemployment at the beginning of a non-linear transition computed using Boppart et al (2018)'s method? They should also be able to compute the welfare effects in this case.

Additional comments

(a) "Furthermore, the HANK and SAM model incorporates many other confounding and confusing elements that do more to obscure than to illuminate our points." (Intro). This comment seems to indicate that the authors do not think their own analysis is useful.

Additional References

- Broer, Tobias, Jeppe Druedahl, Karl Harmenberg and Erik Öberg, "Stimulus effects of common fiscal policies" , mimeo.