Discussion "Money and Capital in a persistent Liquidity Trap"

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The Question

Interesting main question : What is the effect of money creation (QE) at the ZLB?

- Wrong view " Agents save either in money or in capital, they could save in capital what they save in money" :

$$C_t + I_t = Y_t$$

  What is saved is always invested, whatever the instrument money or shares or bonds.

- Money creation affects saving because
  - affects the saving decision (ITMRS) real interest rates (NK-models) : Intensive margin
  - or transfers wealth across agents with different marginal saving rates: Extensive margin

"What are the distributive effect across MPCs of money creation at the ZLB?"

What they do

Study the effect of money creation in a “flexible-price” economy (no Philipps curve), where money is mostly a store of value (Bewley, 1983; Woodford 1990; Atkeson et al. 2009; Ragot 2016).

Stylized heterogeneous-agents economy, with many ingredients

- Firms must save before investing, credit constraint, cash-in-advance, downward nominal-wage rigidities, fiscal system...

Main Mechanism

1. At the ZLB firms save in money (and bonds) because facing credit constraint when they invest
2. The government issues money : new resources. Tax money holders (mostly the firm) : low MPC
3. Transfer to workers (only one taxes): high MPC

4. Outside ZLB: only households hold money (cash-inadvance constraint)
5. Money cration is no more a tranfer from firms to workers
6. Little effect on investment

Transfers from workers to firms increases investment (good) : very supply side, because tight credit constraint on investing firms.

Discussion (1/2)

1. Different from the standard view (neo-) Keynesian
    1. Lack of aggregate demand
    2. Transfering resources to high MPCs agents is good : increases inflation helps get out of the ZLB
    3. Increases inflation decreases the real interest rate = stimulate consumption
2. Identify a new mechanism : must intereact with othe ones before drawing policy conclusion
3. Indentification may be base on strong assumptions (credit constraints : “deleveraging”)

Discussion (2/2)

1. Evidence that firms hold lots of cash (Bates and al. 2009; Adao Silva, 2017), and tomorrow (US).
2. Trends before the crisis, order of magnitude compared to households.
3. Banks (QE)? : but receive the new cash...
4. Discipline the model with the distribution of cash between Households, banks and firms.