Discussion of
"Tax Cuts, Redistribution, and Borrowing Constraints"
Monacelli and Perotti (2011)

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Question in the paper

What are the macroeconomic effects, if any, of a given redistribution of income?

Results

- **Perfect credit markets**

  $\Longrightarrow$ Lump-sum tax redistribution is **neutral**.

- **Heterogenous agents and borrowing constraint**

  - Flexible prices

    $\Longrightarrow$ Redistribution is (at best) **neutral**.

  - Sticky prices

    $\Longrightarrow$ Redistribution is **expansionary**.

Intuition

- Flexible prices: **static**
- Sticky prices: **dynamic**

Aggregate Labor Market Equilibrium

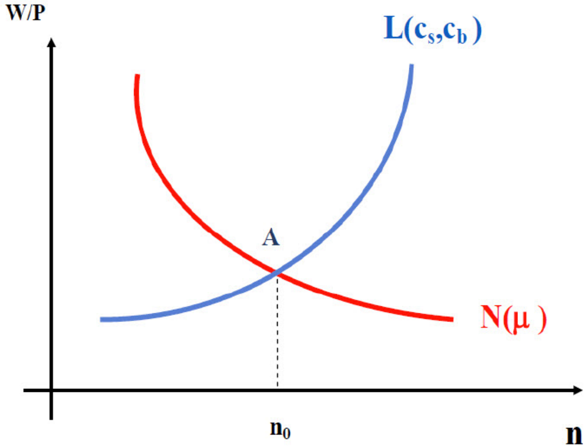

Figure 1: Aggregate labor market equilibrium

Aggregate Labor Market Equilibrium and Rigid Prices

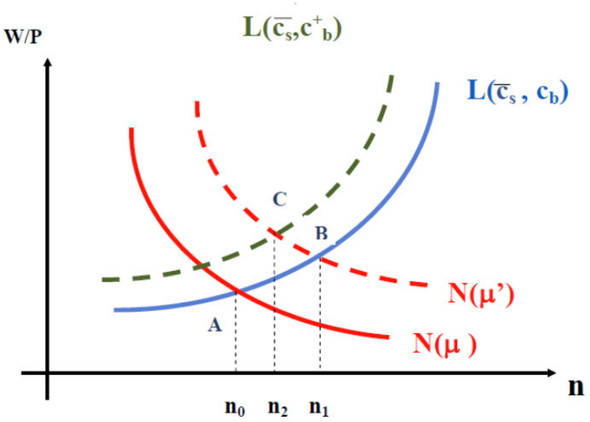

Figure 2: Aggregate labor market effects of a pro-borrower tax redistribution under rigid prices.

Extensions

- Endogenous borrowing constraint
- Redistribution via government debt

A Related Paper

- Christiano et al. (2009): "When is the Government Spending Multiplier Large?", NBER Working Papers 15394

Comments I

- Other features:
  - Capital
  - Distortionary taxes
  - Zero lower bound

Comments II

- What financial frictions?

Conclusion

- Nice piece of work (relevant question, clearly articulated model, full of intuition).
- Modelling frictions is the only way we can find out empirically which ones are relevant.