Panel Discussion: “Implications of Climate Change for Monetary Policy”

Iván Werning

NY Fed, May 2022
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• Open questions
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- 4.0: Real wage rigidities (Blanchard-Gali): do we think labor demands will let real wage fall? What if workers stick to a certain real wage demand?
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• Will this go away once $w-p$ adjusts? Depends on the form of the Phillips curve! Potential for persistence “wage price spiral”
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- Other great Oil papers: Känzig, Stock, Hamilton, Bachmann et al.
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  - Q: Should monetary policy help reallocation? How?
An Uneven Shock – 2 Sectors

Sector A

Unemployment

Price vs. Output

Sector B

Inflation

Price vs. Output
2 Sectors – Reallocation

Price vs. Output

**Less unemployment**

**Less inflation**

Sector A

Sector B
Aggregate Phillips Curve
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Sidenote:
With multiple sectors relationship not driven by rising marginal costs due to labor supply.

Higher mobility costs ignored.

Mobility subsidized.

Minx
Aggregate Phillips Curve

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With multiple sectors relationship not driven by rising marginal costs due to labor supply and higher mobility costs ignored.
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Bottom Line: Multiple Sectors

- Inflation can help to get *relative prices* right if looser, accept higher inflation
- Reallocation is inefficiently low

- Expansionary policy can hurt or help reallocation...
  - Expansionary policy discourages mobility by lowering unemployment in contracting sectors; (especially if dirty sector more sensitive to monetary policy, e.g. cars)
  - But it encourages mobility by getting *relative wages* right

- Liquidationist vs Anti-liquidationists... Caballero-Hammour theory, Chodorow-Reich-Wieland evidence favors Anti-liquidationists: recessions hurt reallocation

- Other great work with multiple sectors: Rubbo, Baqae-Farhi, La’o-Tahbaz-Salehi
Capital

- We abstracted from Capital and investment...
- Climate Shock: destruction of dirty capital becomes obsolete

- Optimists, may lead to...
  - increase in investment in clean technology
  - higher natural rate of interest
- But new investment is more costly, risky?
Open Questions

• How fast will policy transition be?
• How mobile are workers?
• Broken divine coincidence, different tradeoffs...
  • Nominal wage vs. real wage rigidities?
  • Many ways Multiple sectors affect tradeoff?
  • How is reallocation affected by monetary policy?
  • Important: other policies to aid reallocation?
• Investment boom?