Multiple audience members raised concerns about how much of the increase in private savings was in response to governments’ fiscal transfers as opposed to responses to shocks more directly related to Covid prevalence. Erik Hurst asked how we should think about savings responses in a world with health shocks and consumption restrictions. In particular, he noted that the micro evidence showed a strong link between Covid cases and consumption at the local level. Jonathan Parker asked if the consumption dynamics as well as the high real interest rate could be explained by a process that affects marginal utility, lowering marginal utility during times when covid was prevalent. This might be consistent with the empirical interest rate dynamics as well the evidence on covid restrictions. The authors responded by saying they look exactly at these shocks to the discount rate/marginal utility overall, and that they also look at shocks to just the marginal utility of domestic services. They said these shocks account for the fall in consumption and output worldwide, but that they are not able to explain both the increase in private savings and the fall in the current account in the U.S. With no increase in public borrowing, any increase in private savings would have to lead to an increase in either investment or the current account, but investment moved very little, and the current account fell as part of the observed twin deficits in the U.S. Oleg Itskhoki added that shocks to a household’s desire for consumption would lead to an increase in desired savings, but in a closed economy model either output would have to decline or investment have to increase, so that there may not be much of an increase in equilibrium saving. The authors noted that their quantitative model was a large open economy model, so that the global economy is closed and so Oleg Itskhoki’s reasoning from a closed economy model applied to thinking about the world economy. This was the key reason why consumption shocks alone could not explain the global increase in household savings. They further added that you would need large differential consumption shocks across countries to generate the movements in current accounts seen in the data.

Guido Menzio asked two questions, the first was about how the authors modeled the income process and how it was affected by Covid. The authors responded that different income processes would affect their calibration of the intertemporal marginal propensities to consume (MPC) of the household sector, which in their model are all that matter for the macroeconomic predictions. They said they were using a standard calibration to MPCs, but could recalibrate using evidence on MPCs from Jonathan Parker’s work on MPCs during the pandemic. The second question was about different forms of fiscal transfers with different distributional implications such as lump sum versus unemployment benefits. Guido Menzio noted that these distributional implications have been found to matter a lot for the predictions of heterogeneous agent models. The authors mentioned that they had considered various distributional rules for transfers in the paper, including rebates through the tax system vs lump sum transfers. They found that transfers targeted to lower wealth and thus higher MPC agents did cause a larger short run output response, but that the qualitative implications for dynamics where unchanged, since the long run steady state was dependent only on the amount of debt issued. They gave the intuition, because rich agents spend fiscal transfers slower than poor agents, debt-financed transfers that are targets towards the rich are absorbed by domestic savings for longer, and so aggregate dynamics are slower than if transfers are targeted towards the poor.

Eric Swanson asked about the implications for inflation given the large increases in inflation after the Covid fiscal stimulus packages. The authors said that their main simulation implies that fiscal
policy caused inflation to rise by 4-5% on average across countries, lasting for a couple of years. Moreover, countries with a larger fiscal response, such as the US and the UK, had higher inflation rates, consistent with the data.