Can Energy Subsidies Help Slay Inflation?
by C. Erceg, M. Kolasa, J. Lindé, and A. Pescatori

Discussion by
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The Paper

- **Question:** Are energy subsidies to households and firms effective tools to combat energy-price driven inflation?

- **Answer:** It depends. Energy subsidies to firms more effective to curb inflation than energy subsidies to households.

- **Framework:** Closed and open economy New Keynesian models.
• Very interesting, intriguing and inspiring paper.

• Lots of great food for thought.
Comments/Questions
• Baseline implies very transitory run-up in headline inflation.

• What are the implications of a persistent run-up in headline inflation?
  – Indexation to transitory vs. persistent headline inflation likely to have different effects.
Monetary Policy

- Model suggests considerable up-front tightening.
- Data suggests no tightening for 1-2 years.
Monetary Policy

• What are the effects of a one or two years constant interest rate in the wake of energy price surges?
  – How much did monetary policy contribute to the run-up in inflation?
Wage Indexation

- Wage indexation to headline or core inflation important for results:

- Page 17: “...indexation mechanisms, proxying for the extent to which households and labor unions strive to be compensated for higher prices.”
Wage Indexation

- What wage indexation scheme would unions choose in the model?

- If wages would be an outcome of negotiations – say in a search and matching labor market – what wage path would be chosen?
Energy subsidies

- Authors study ad-hoc energy subsidies:
  \[ \tau_{C,t} = 0.5p_{O,t} \quad \tau_{Y,t} = 0.5p_{O,t} \]

- What are Ramsey-optimal energy subsidies?

- What are \emph{jointly} Ramsey-optimal energy subsidies and monetary policy?
Thank you for your attention.