

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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- Other great Oil papers: Kānzig, Stock, Hamilton, Bachmann et al.

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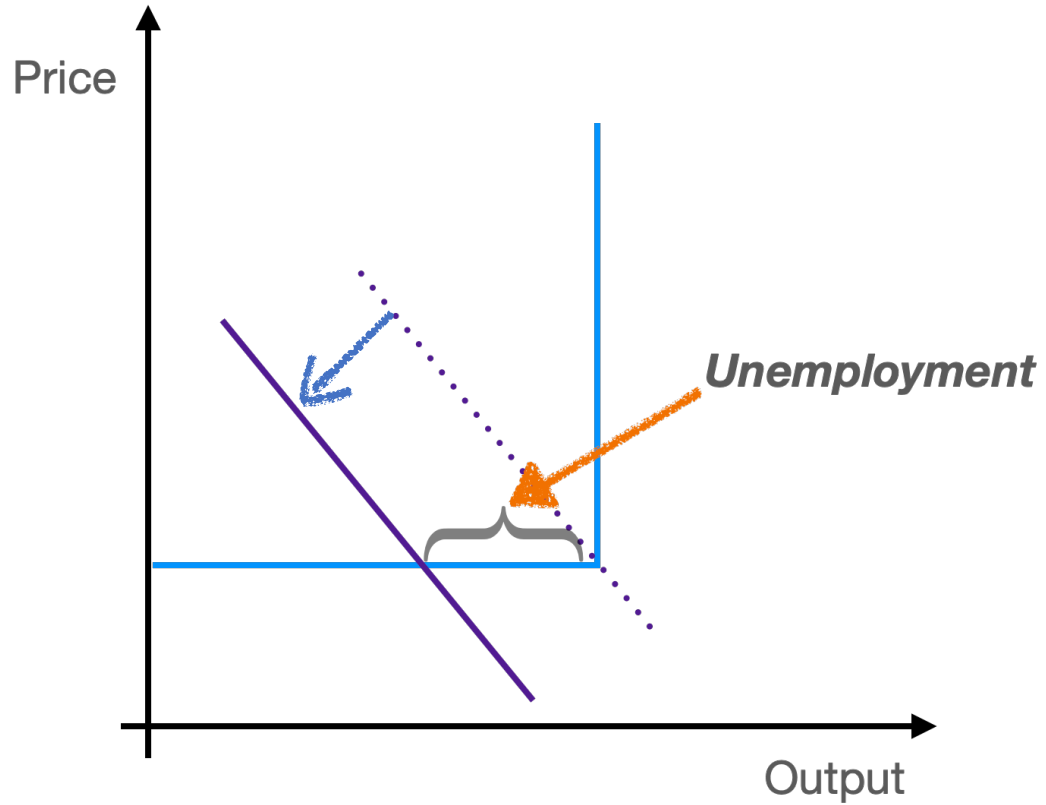
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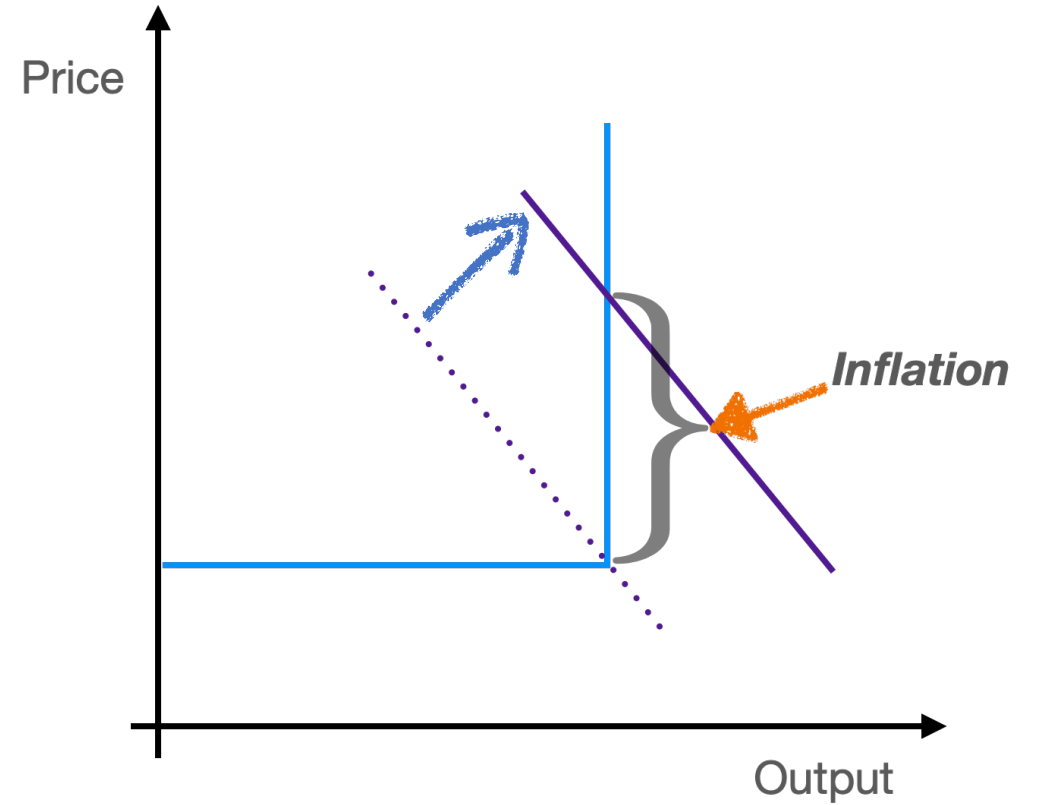
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- Q: Should monetary policy help reallocation? How?

An Uneven Shock – 2 Sectors

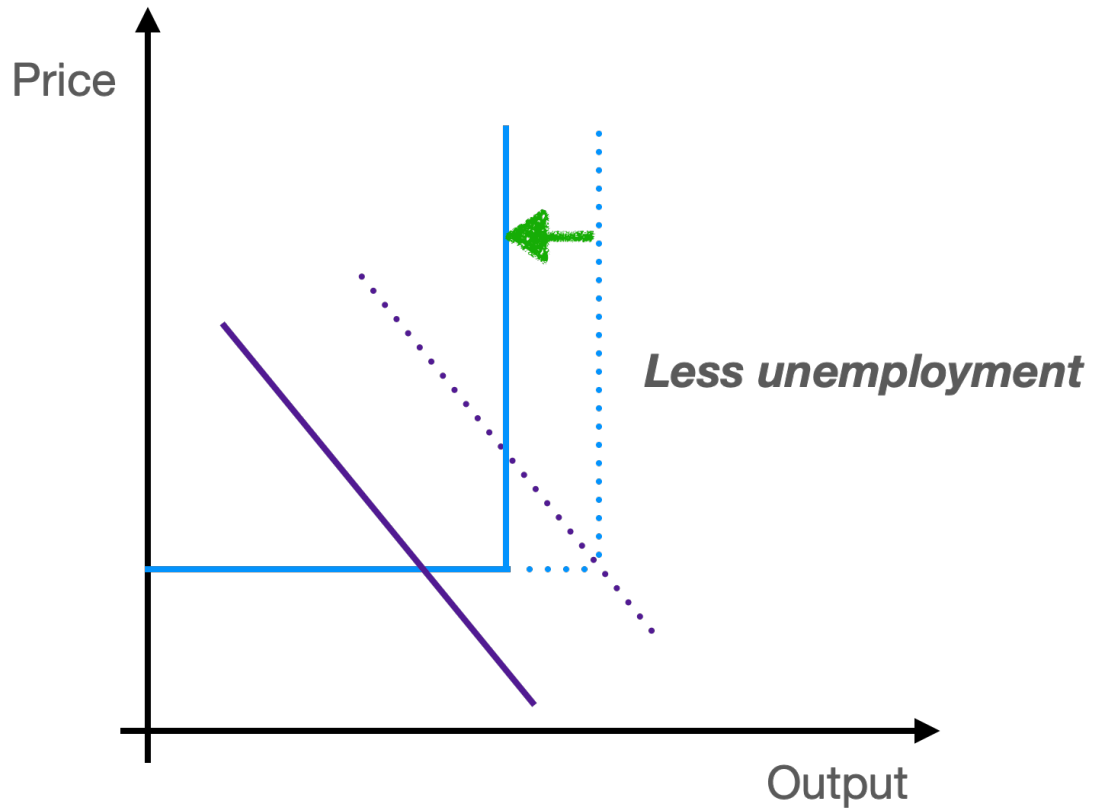


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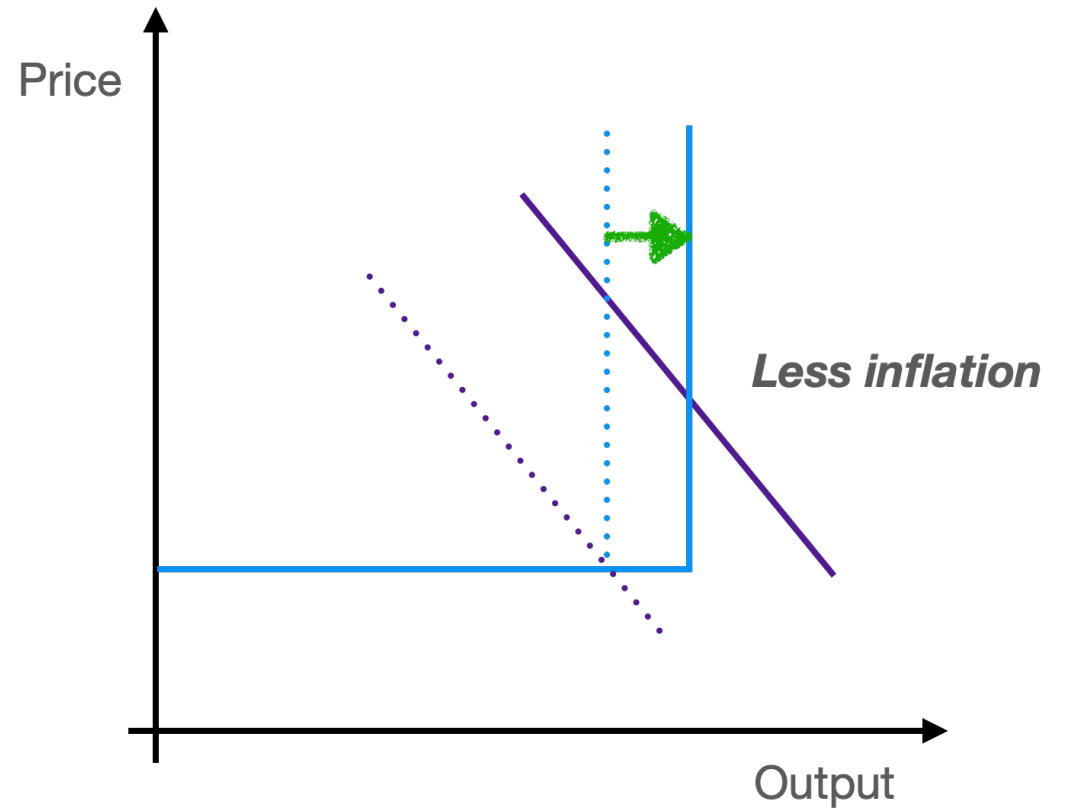


Sector B

2 Sectors – Reallocation



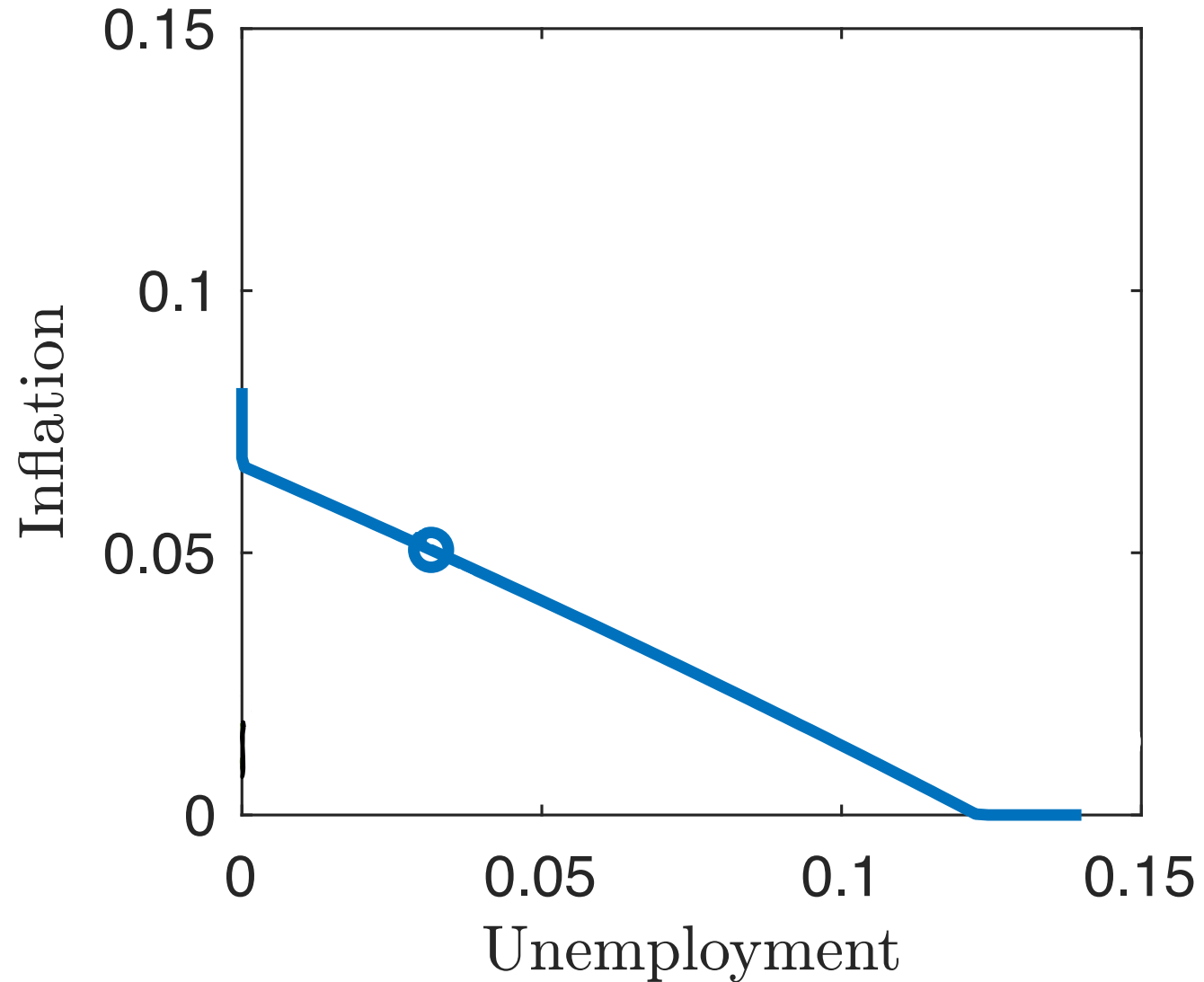
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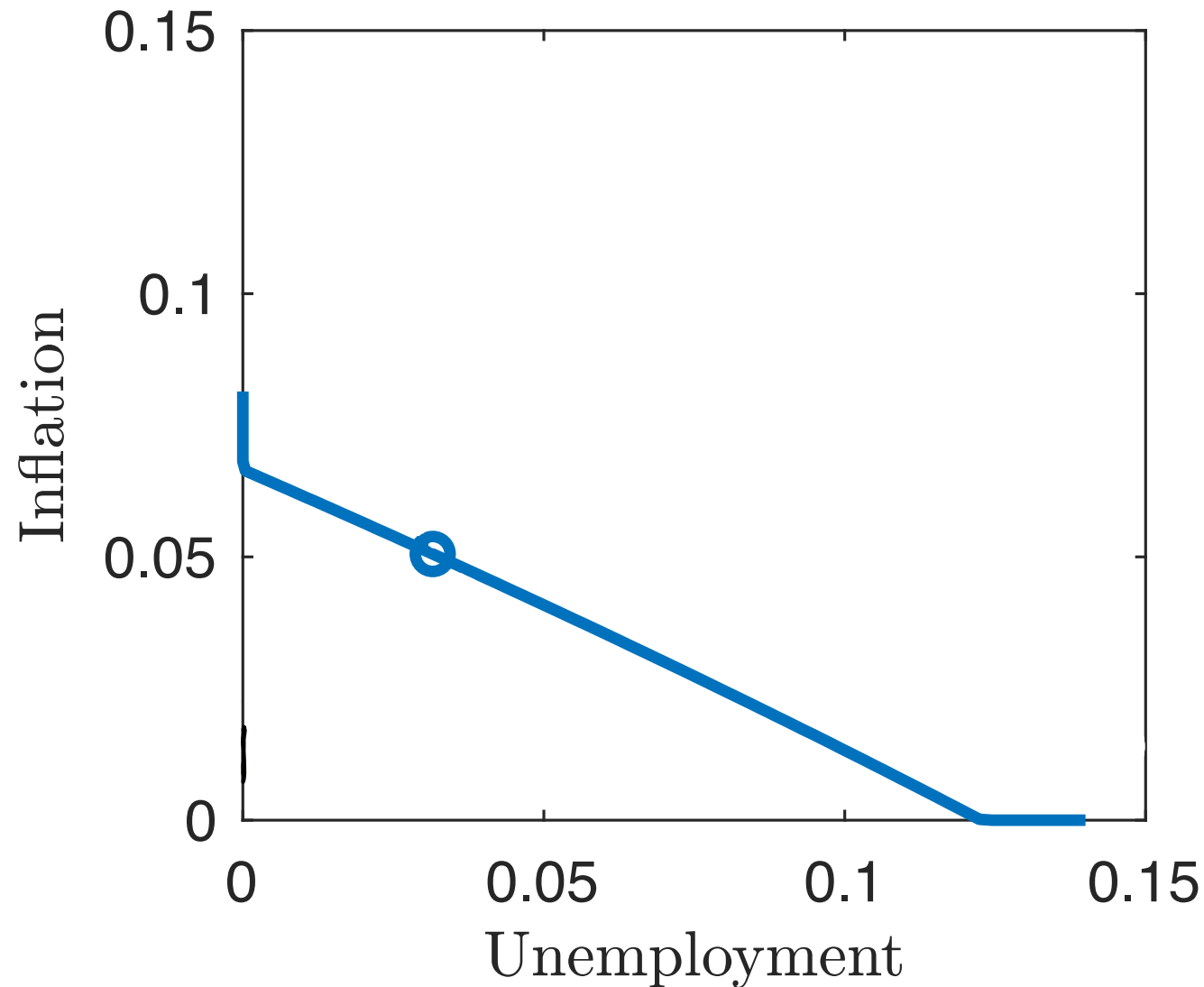
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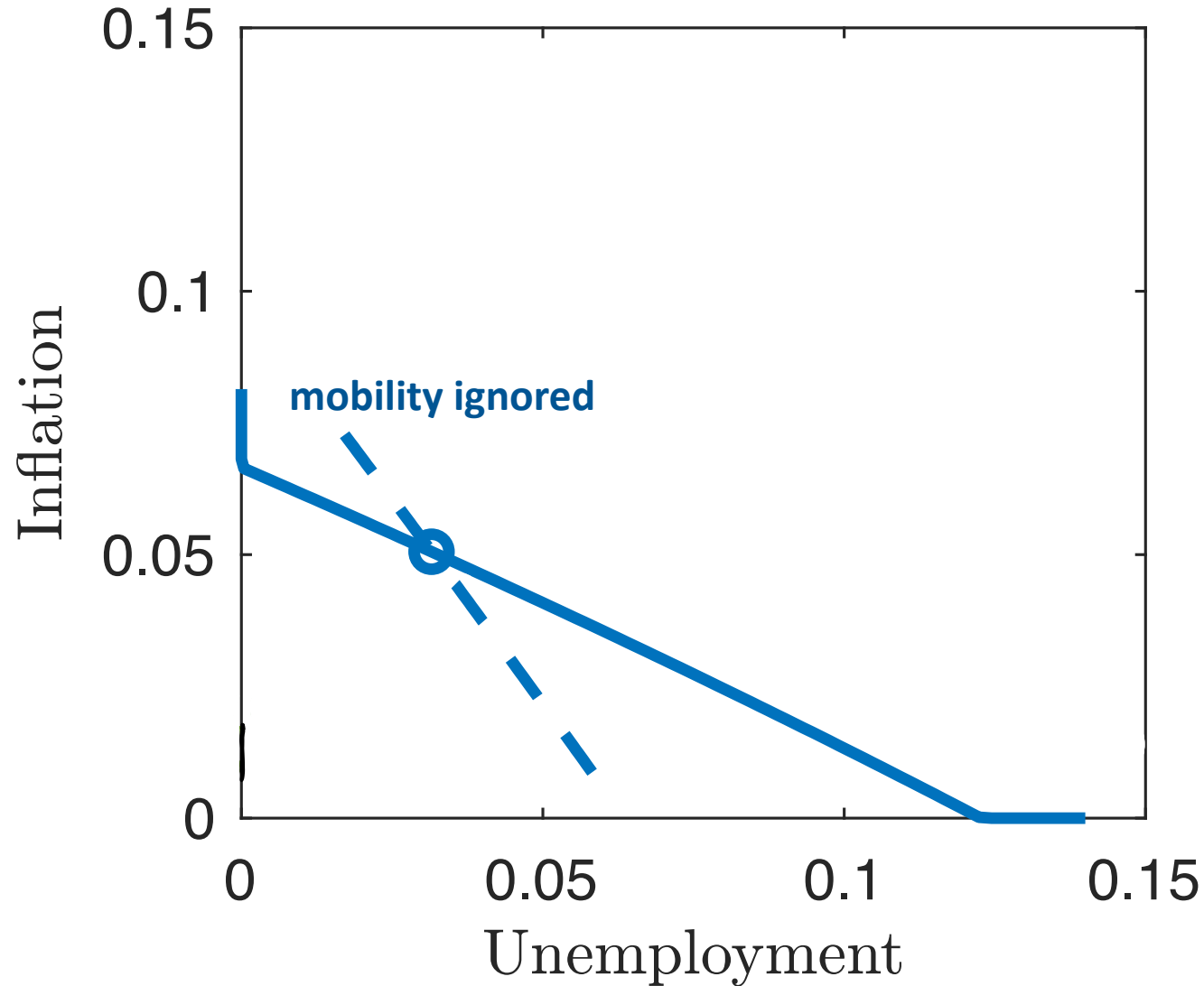


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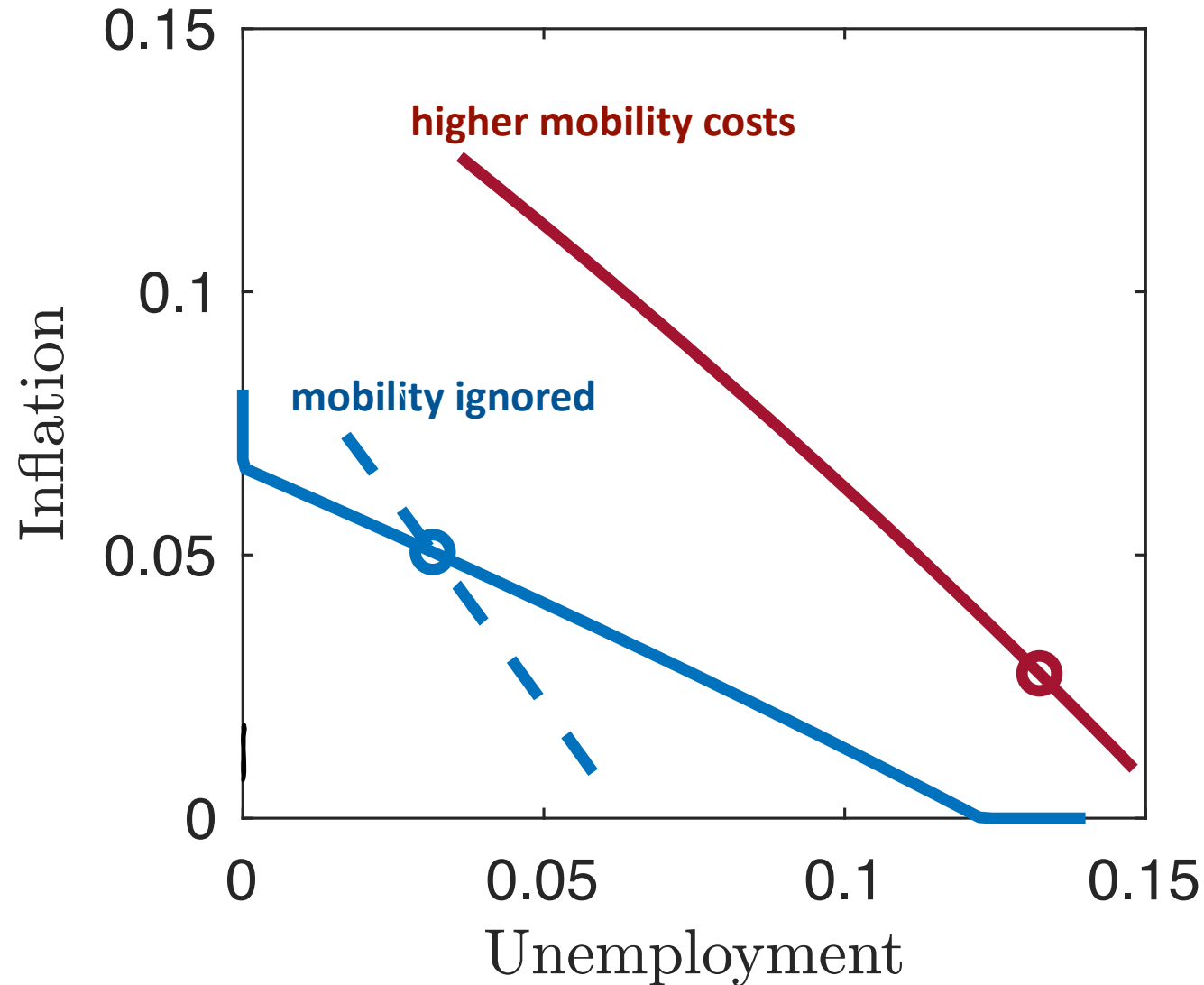
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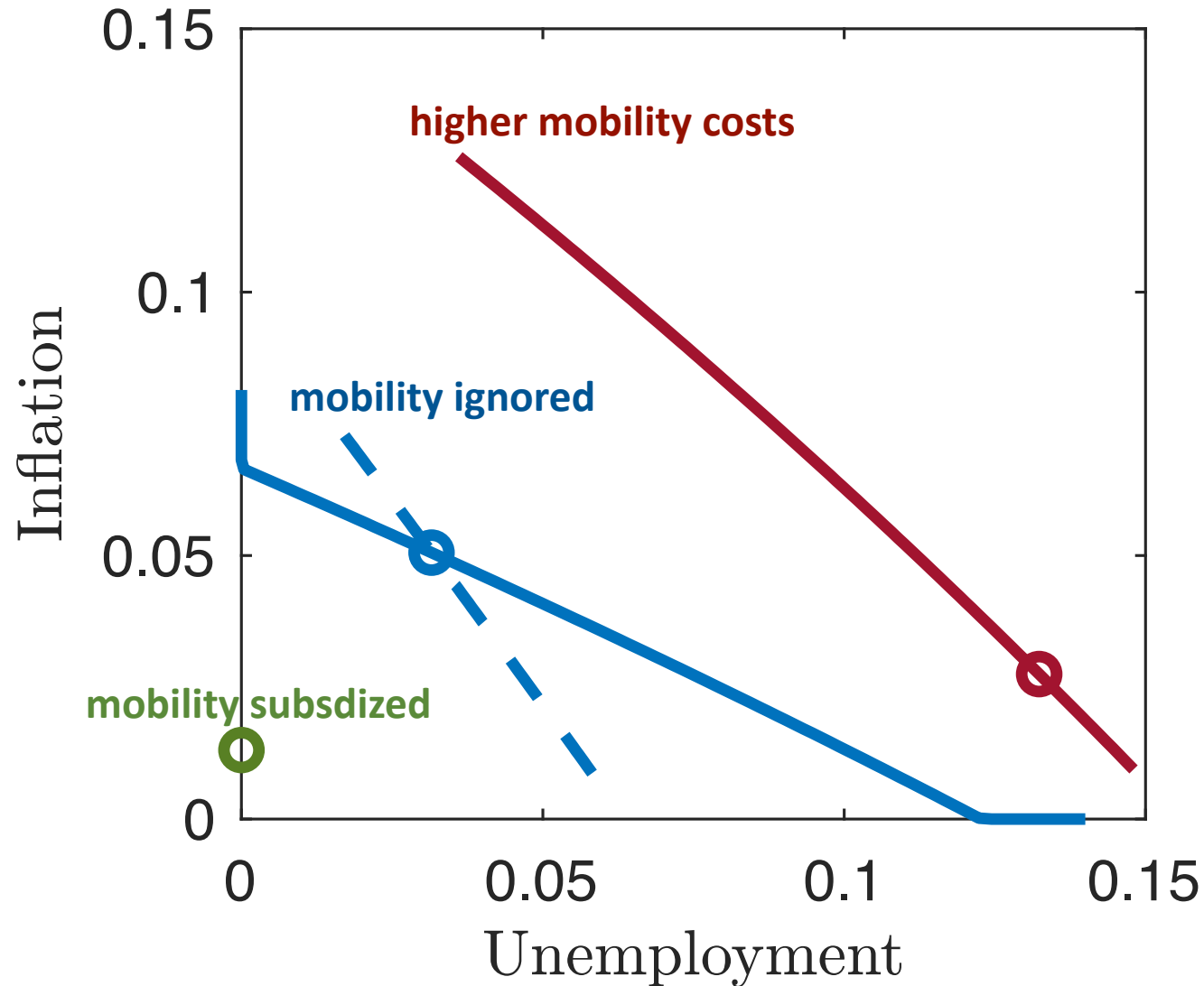
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Bottom Line: Multiple Sectors

- 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, Baqaee-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?