Discussion of "Income inequality and the German export surplus"

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Household Heterogeneity and Policy Relevance

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The paper

The paper starts from some stylized facts:

1. Increase in income inequality in Germany (top 10% income share) vs. rest of the euro area
2. Decline in the natural rate of interest
3. German export surplus has increased over the same period

Reconciled in a model (baseline) with:

- two countries: Germany (DE) vs. rest of the euro area (REA)
- heterogeneous agents: capitalists (with and w\o CSP) vs. workers

The paper

- Two different sources of inequality tested: mark-ups & relative human capital productivity

- "Exogenous" income inequality increase $\implies$ consumption $\downarrow$, savings $\uparrow$ (because of CSP) $\implies r^* \downarrow$, net exports $\uparrow$

- Result is robust to different specifications of the model

- In the one with three countries it explains around 50-60% of net exports observed increase
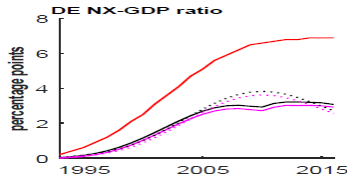
My comments

My comments\suggestions:

1. Complement factor (observationally equivalent?): demographics

2. A narrative for the 2011 "sovereign" crisis build-up?

3. An alternative story to be tested: TFP divergence

Demographics

- Discussion on the drivers of the decline in the real interest rate:

  - financial cycle (Lo and Rogoff, 2015; Juselius et al., 2016)

  - demographics (Summers, 2014; Eggertson and Mehrotra, 2014; Carvalho et al., 2016); Gerali and Neri, 2019)

- Main idea behind "demographics":
  - MPC varies across the life-cycle (endogenously)
  - baby boomers getting closer to retirement: $\uparrow$ savings
  - capital market clearing: $\downarrow r^*$

Aging in open economy

- What if you have an open economy? e.g. Lisack et al. (2021) and Papetti (2021)

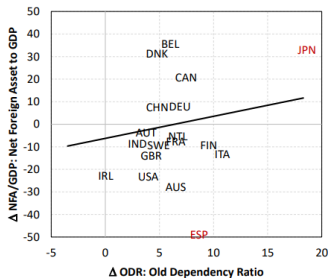- Increase in savings determines current account surplus and improvement in net foreign assets position
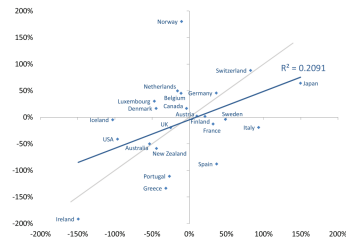

Figure 1: Source: Papetti (2021)

Figure 2: Source: Lisack et al. (2021)

"Sovereign debt crisis" but...

	Public Sector Debt Ratio (% of GDP)			Private Sector Debt Ratio (Variation in %)
	1999	2007	Δ 99-07 In %	Δ 99-07 In %
Euro Area	71.7	66.4	-7.4	26.8%
Greece	94.9	107.2	13.0	217.5%
Italy	113.0	103.3	-8.6	71.2%
Spain	62.4	36.3	-41.8	75.2%
Portugal	51.4	68.4	33.0	48.9%
Ireland	47.0	25.0	-46.8	101.0%

Figure 3: Source: Constâncio (2013), *The European Crisis and the role of the financial system*

... maybe the trigger was not "sovereign" after all

Credit was flowing from banks in core countries...

Cumulative growth of total exposure of banks from non-stressed to stressed countries (1999=100)
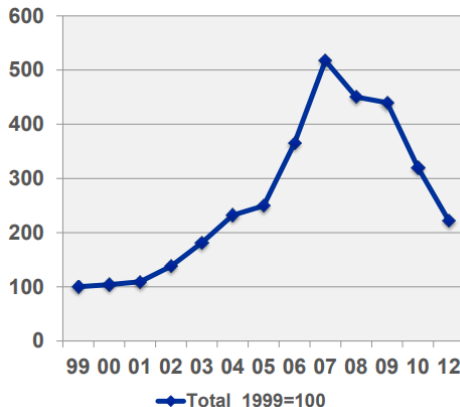
Figure 4: Source: Constâncio (2013)

... to households in the periphery

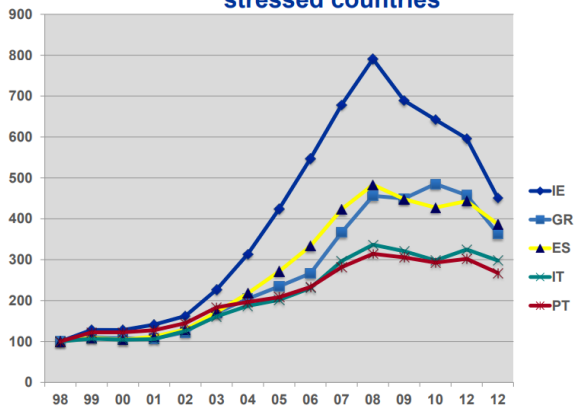**Cumulative growth of bank credit to the private sector in stressed countries**

Figure 5: Source: Constância (2013)

And the current accounts...

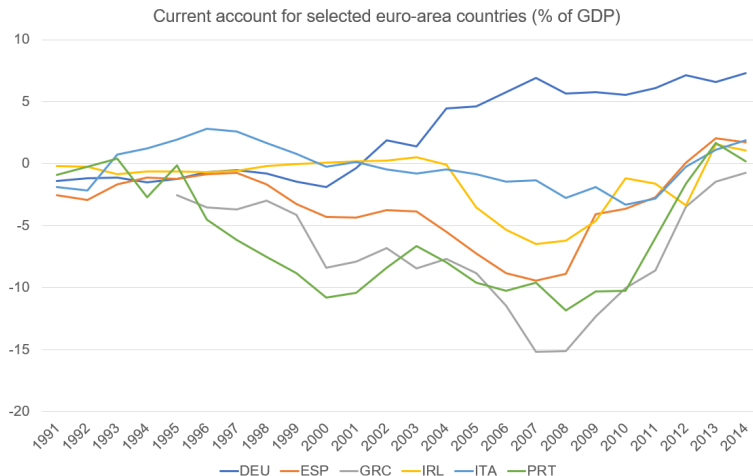Current account for selected euro-area countries (% of GDP)

Figure 6: Source: OECD

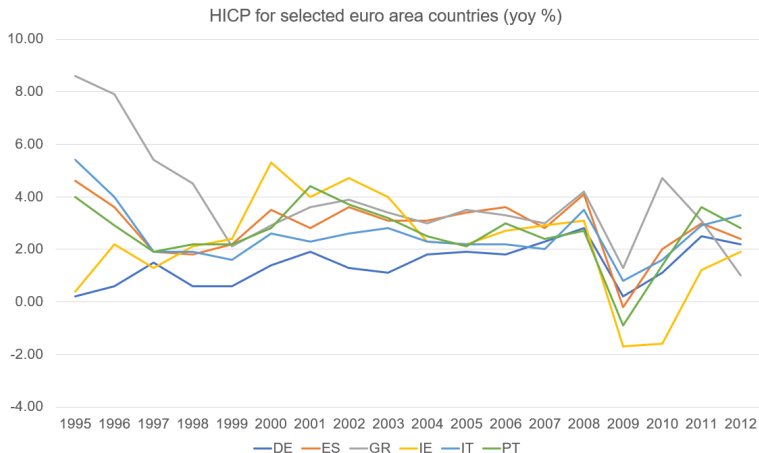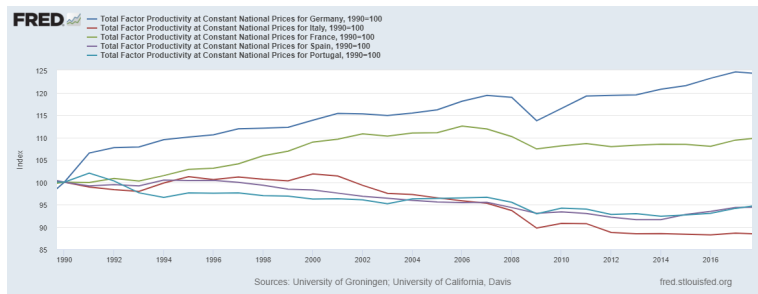# Inflation went as predicted from the model!

Figure 7: Source: Eurostat

This paper

- Could the increase in income inequality in Germany (other core countries?) have been amongst the triggers of euro area imbalances that we have seen before 2011?

- Yes, according to this paper!

TFP divergence in the euro area

- In the same period TFP growth diverged among euro area countries (political reforms, German reunification, etc. etc.)
- The implications are very similar: deflation of high TFP growing countries, CA imbalances (inequality?)
- Why not testing the role played by TFP as complement or alternative explanation?

Conclusions

- Very nice paper!

- Demographics alternative\complementary story

- The model can explain the build up of the pre-2011 euro area imbalances: use it!

- TFP divergence can also be part of the story: it can be tested!