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Three Suggestions for Improved Macroeconomics and Monetary Policy

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This talk

- Current macroeconomics could be improved—possibly leading to dramatically better public policy—in three steps:
  - tweak the sticky prices rationale for monetary policy,
  - improve existing models of household inequality by adding life cycle features,
  - assess observed levels of net nominal assets against naturally-expected levels.
- These three improvements involve blurring the sharp Chicago-school distinction between "money" and "debt."
- Based on papers:
  - J. Bullard, A. Singh, and J. Suda. 2024. "Optimal Macroeconomic Policies in a Heterogeneous World." *IMF Economic Review*, special issue on "The Future of Macroeconomic Policy."
  - J. Bullard and Talha Cakir. 2025. "Macroeconomics for the Masses with 37% Luck Included." Manuscript, Daniels SB, Purdue.

Sticky prices as a policy rationale

- The profession realized in the 1980s and 1990s that public policy has to be motivated by a friction—otherwise one obtains RBC-type results.
- In monetary economics, this friction has been taken to be sticky prices.
- What the profession says: "We encourage elaborate monetary policy maneuvers because firms are unable to manage their pricing decisions on their own."
- Reality check: Firms change prices rapidly when the situation calls for it.
- Could the profession do better by introducing the friction that rationalizes monetary policy slightly differently?

Nominal contracting as a policy rationale

- The friction could be better studied as "nominal contracting."
  - Doepke and Schneider (2006, JPE) have documented the enormous volume of assets denominated in nominal terms.
- Models with this friction [BSS (2024) and BC (2025)] come to a conclusion similar to sticky price models: Policymakers should strive to achieve the "Wicksellian natural real rate of interest."
- The profession would be saying:
  - "Elaborate monetary policy processes exist because households and firms commit to nominal credit contracts and need to know what the future price level will be."
  - "Well run monetary policy makes the nominal contracts work as well as real state contingent contracts."

Household heterogeneity

- U.S. Gini coefficients are approximately 0.78 for financial wealth, 0.55 for income, and 0.32 for consumption ...
  - ... but postwar macroeconomics has been mostly based on models without household heterogeneity.
- This left macroeconomists with little to say when the inequality debate was reinvigorated after the GFC.
- A burgeoning HANK literature has made progress ...
  - ... but Bhandari, Evans, Golosov, and Sargent (2021) found that their HANK model breaks down conventional boundaries between monetary and fiscal policy.
- Can we develop a benchmark heterogeneous household model that preserves conventional monetary-fiscal boundaries?

Heterogeneity and the life cycle

- The macroeconomics inequality literature should place more emphasis on the life cycle.
- Huggett, Ventura, and Yaron (2011, AER) found that 63% of lifetime earnings could be explained with information available at age 23.
  - This suggests 37% to be explained by uninsurable idiosyncratic risk ("luck").
- A model with this feature [BC (2025)] achieves high levels of inequality but maintains conventional monetary-fiscal boundaries.
  - The central bank wishes to maintain a smoothly functioning credit market for all households.
  - The fiscal authority can focus on the desired degree of redistribution.
  - This can provide a benchmark which can be used to study more complicated economies.

Natural demand for nominal assets

- The outlined model features a natural demand for nominal assets.
- This demand is due to (1) the degree to which households wish to hold assets to smooth consumption over their life cycle, and (2) the degree of luck experienced over the life cycle.
- The supply of net nominal assets in the U.S. data is measured [BSS (2024)] as 4.52 GDP.
- Notions of "excessive" or "unsustainable" levels of nominal assets ...
  - ... would have to take account of the natural demand for nominal assets in the society.

Global demand for nominal assets

- In a multi-country model, all countries would have a natural demand for nominal assets.
- Assessing whether the supply of nominal assets was "excessive" would have to then also take into account foreign natural demand for domestically-issued nominal assets ...
  - ... and ultimately assessments would have to be made at the global level, not the local level.

Conclusion

- Three suggestions.
- Focus the friction motivating monetary policy on the credit market as non-state contingent nominal contracting (NSCNC) motivated by Doepke-Schneider.
- Develop a more extensive model of household inequality with life cycle features and calibrate so that more than half of lifetime earning is predictable early in the life cycle, following Huggett-Ventura-Yaron.
- Assess observed levels of outstanding net nominal assets against the natural demand for such assets, which, in the model, is substantial.