Drivers of inequality— technology, skills, and institutions
Discussion of Acemoglu and Violante

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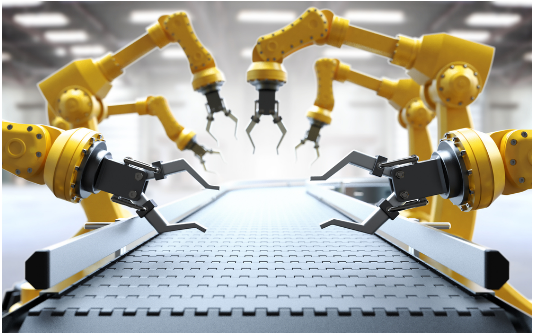
Discussion Roadmap

1. Very brief overview of the two presentations
2. Inequality *within groups*
3. Inequality in more dimensions
4. Aggregate implications of inequality

Since I only have $\sim$ 14 minutes left: Focus on high level comments

Two theories on what drives inequality:

Acemoglu (and Restrepo): Automation



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("K"rusell, "O"hanian, "R"ios-Rull, and) "V"iolante: Capital-skill complementarity

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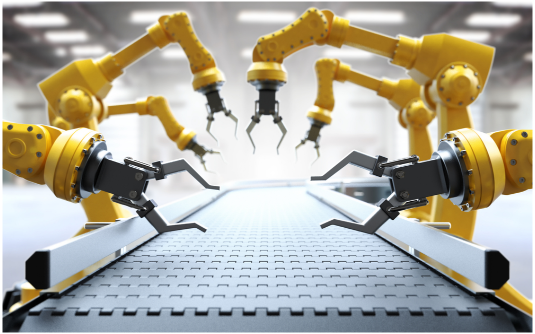
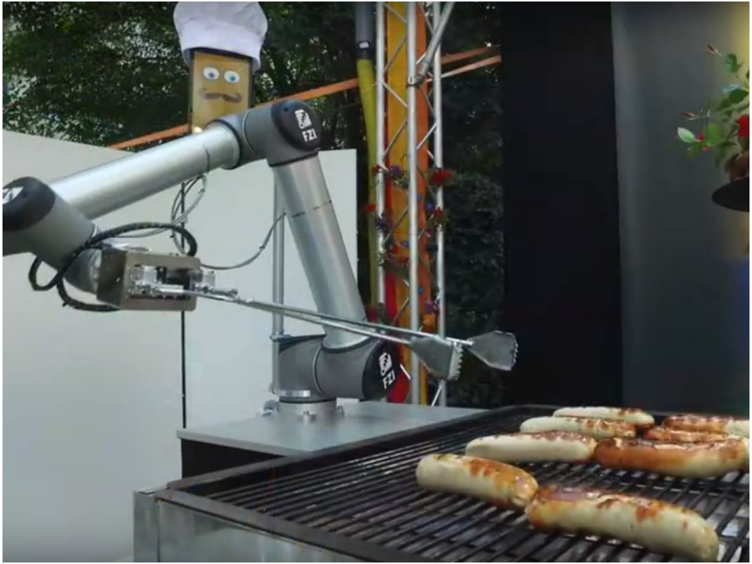


Both theories have merit



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- Some explanations: changes in worker sorting, firm heterogeneity, occupational mobility, returns to experience, demographics

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  - Differential returns across the wealth distribution as shown in Swedish and Norwegian registry data (e.g. Fagereng et al 2020, Bach et al 2020)

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- Tax and transfer systems (and changes over time), also important for inequality in consumption, income, and wealth (more on this tomorrow)

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- Why inequality matter for aggregates:
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  - Different propensities to save/consume
- Inequality can lead to *amplification* of shocks (and inequality itself)
- Virtually every shock and policy change or action involves redistribution across households

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- In stark constrast to evidence that households fail to perfectly smooth consumption (e.g. Hall 1978, Cochrane 1991, Attanasio and Davis 1996)

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- Historically, heterogeneity and inequality was absent in macroeconomics (or was assumed to have no effect because of complete markets)
- In stark constrast to evidence that households fail to perfectly smooth consumption (e.g. Hall 1978, Cochrane 1991, Attanasio and Davis 1996)
- Bewley-Imrohorogu-Huggett-Aiyagari laid the ground work for quantitative macro based on household heterogeneity and incomplete markets
- Input to those models: income risk, typically equated to residual income inequality
- Aggregates have to be consistent with market interactions of agents subject to idiosyncratic risk
- Focus was typically on longer-run questions, tax reforms, etc

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  - Cyclicality of income risk and its unequal incidence (e.g. Guvenen et al)
  - Unequal incidence of policy across the distribution (e.g. Holm et al, Broer et al)

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  - Unequal incidence of policy across the distribution (e.g. Holm et al, Broer et al)
- Not just micro-foundations, but micro-consistent models that take seriously the two-way feedback between inequality and the macroeconomy