Monetary Policy in Times of Structural Reallocation

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Uneven shocks and reallocation

- Inflation in some sectors, unemployment in others
- Q: How much inflation to allow?

- Reallocation of productive capacity (labor mobility) can help
- Q: Is the level of reallocation (constrained) efficient?
- Q: Should monetary policy help reallocation? How?
Inflation and Relative Prices

Cumulated inflation in different sectors

- Medical
- Durables
- All
- School
- Apparel
An Uneven Shock – 2 Sectors
Optimal Policy
2 Sectors – Reallocation

Price

Output

Less unemployment

Price

Output

Less inflation

Sector A

Sector B
Optimal Policy

With endogenous mobility
Phillips Curve

![Diagram of Phillips Curve](image-url)
Summary

• Inflation can help to get *relative prices* right
• Changing weights in inflation measure (getting “core inflation” right) not enough
• Reallocation is inefficiently low
• Expansionary policy can help reallocation
  o Expansionary policy discourages mobility by lowering unemployment in contracting sectors
  o But it encourages mobility by getting *relative wages* right