Conference on Diversity, Equity and Inclusion in Economics, Finance, and Central Banking

Inclusive Monetary Policy: How Tight
Labor Market Facilitate
Broad-Based Employment Growth

Bergman-Matsa-Weber

Discussion by Felipe Alves

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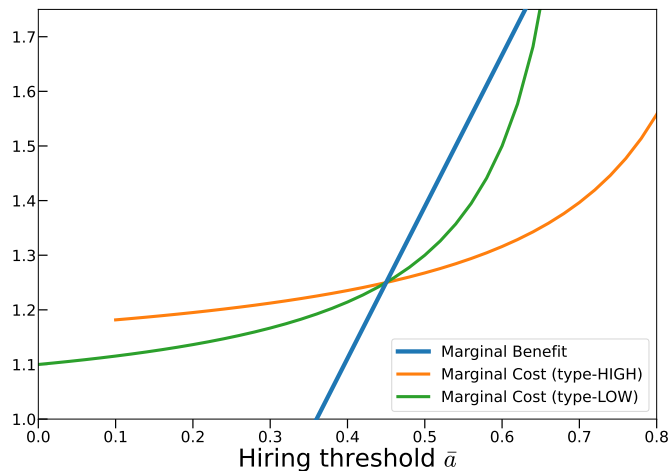
This paper

- Fed's revision of maximum employment as broad-based and inclusive goal. This paper studies the heterogeneous effects of monetary policy on labor market outcomes of different demographic groups

- Evidence: employment of disadvantaged groups (Blacks, women and less educated) is more responsive to expansionary monetary policy shocks in tighter labor markets

- Model: Develops simple New Keynesian model with two types of workers and a hiring friction. Two main experiments:
  1. Model can generate heterogeneous (and state-dependent) effects of monetary policy
  2. Counterfactual analysis of the effect of a monetary policy shock under AIT vs IT

- Very interesting paper and strong empirical evidence. I will focus the discussion on the model and experiments

Model mechanism: Static Version
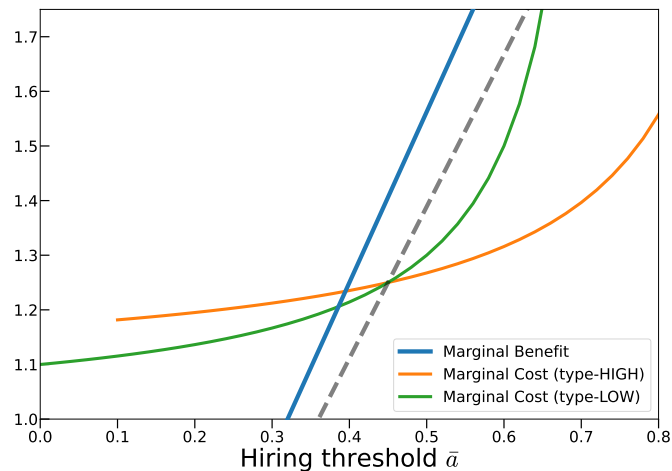
TYPE-LOW

$$a_{it}^l \sim U[0, \bar{s}]$$

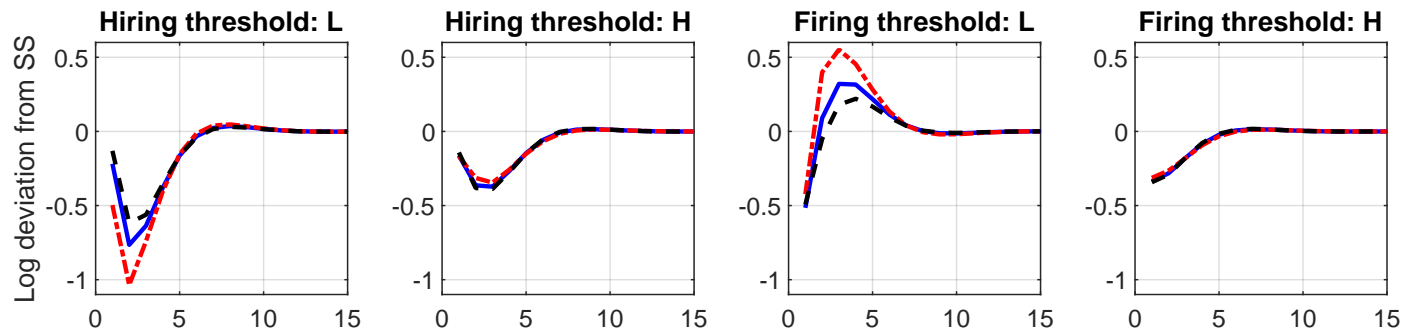$$\frac{G_{l,t}}{1 - \frac{\bar{a}_{l,t}}{\bar{s}}} + w_{l,t} = A\bar{a}_{l,t}$$

TYPE-HIGH

$$a_{it}^h \sim U[\underline{s}, 1]$$

$$\frac{G_{h,t}}{1 - \frac{\bar{a}_{h,t} - \underline{s}}{1 - \underline{s}}} + w_{h,t} = A\bar{a}_{h,t}$$
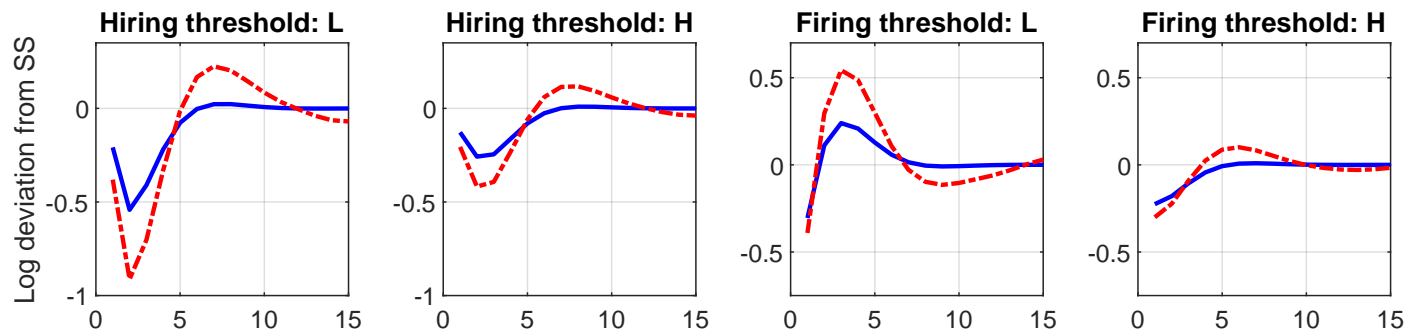
Model exercises: Tight vs Slack Labor Market

IRF for different steady-state employment distribution.

- Tight x slack exercise is obtained by changing the support of productivity distribution
  - How would things look like under a "standard boom" (positive Z, G or i shock)?
  - Is the mechanism operating through labor market tightness alone, independently of its source?

Model exercises: IT vs AIT

IRF for Inflation Targeting vs Average Inflation Targeting.

- IT vs AIT comparison in the context of monetary policy shock only
  - Monetary policy plays only small role in total cyclical fluctuations of the labor market
  - Potentially, would want to evaluate rules to set of "demand and supply" business cycle shocks

Okun's Hypothesis: Other Potential Channels

- Powell (2020): *Maximum employment as* broad-based and inclusive goal. *This change reflects our appreciation for the* benefits of a strong labor market, *particularly for many in* low- and moderate-income communities.

- Idea dates back **Okun (BPEA, 1973)**. Okun's hypothesis can operate through
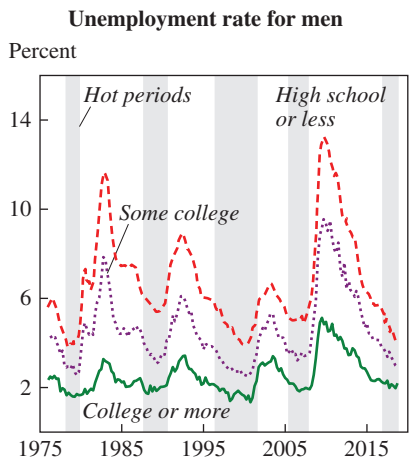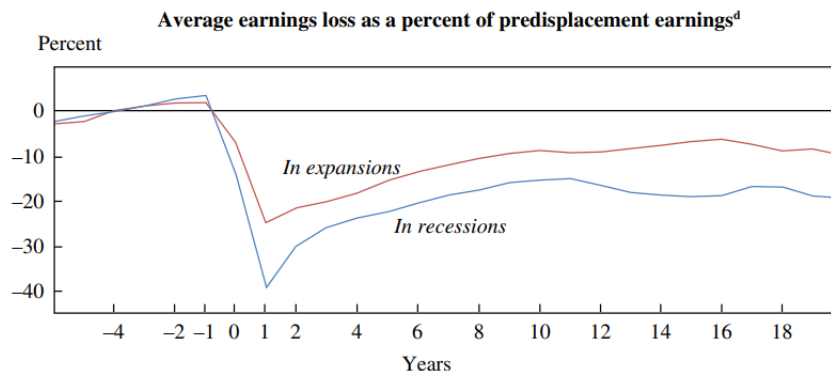
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  1. Uneven exposure to cyclical fluctuations (Aaronson et al., 2019)

Figure 3. Labor Force Statistics by Education

Unemployment rate for men

Percent

Hot periods

High school or less

Some college

College or more

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  2. Human capital: on-the-job learning, earnings losses from displacement (Davis-von Wachter)

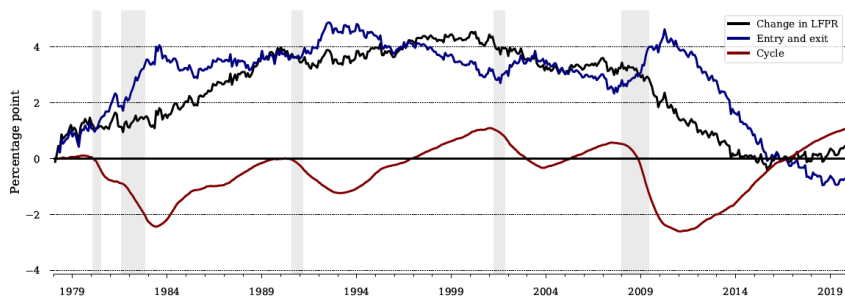Average earnings loss as a percent of predisplacement earnings[d]

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$\hookrightarrow$ By keeping labor markets tight, monetary policy can preserve employment, sustain earnings and labor force attachment.
    - The model in this paper can generate **(1)** through simple hiring friction, but misses on **(2)** and **(3)**
    - Alves-Violante (2022) evaluate gains of **(1)-(3)** along the skill distribution through the lens of a quantitative HANK

Thank you