Discussion of “Minority Unemployment, Inflation, and Monetary Policy” by Lee, Macaluso, and Schwartzman

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System Macro Meeting, November 2021
This paper

• Active policy debate on the role of monetary policy in addressing racial inequality.
  • one idea: “Fed should target the Black unemployment rate”

• Macro framework to think about what such policy could achieve.
  • does it even make a difference which unemployment rate is targeted?
  • are there indirect costs to Black and white households?

• **Takeaway 1**: targeting Black unemployment rate boils down to shifting the policy stance in aggregate unemployment-inflation space.

• **Takeaway 2**: Black households are more exposed to both, but stand to benefit from more dovish policy as long as inflation expectations remain anchored.
• Black unemployment rate is about 2× higher on average.
Black & white unemployment

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- But monetary policy deals with business cycle fluctuations.
• Black unemployment rate is about 2× higher on average.

• But monetary policy deals with business cycle fluctuations.

• Very close comovement over the business cycle.

⇒ There is no trade-off between stabilizing Black and white unemployment rate.
• The only trade-off is the usual between **unemployment & inflation**.
  • relevant question: differential exposure by race?

• Paper proceeds by proposing **two models**.
  - **model 1**: unemployment-inflation trade-off
  - **model 2**: household earnings

• Previously, the two models were tied together in a GE framework. **Not anymore.**

• **Next**: overview of two models, suggestion to exploit the flexibility.
Overview of 2 models

• Model 1: unemployment-inflation trade-off
  • Phillips curve:
  • inflation expectations:
  • monetary rule:

\[ \pi_t = \varphi \frac{du_t}{u} + \beta \mathbb{E}_t \pi_{t+1} + \eta_t \]

\[ \mathbb{E}_t \pi_{t+1} = b \pi_t \]

\[ \pi_t = \psi \cdot du_t \]

\[ \pi_t = \Psi \eta_t \]

\[ \frac{du_t}{u} = \frac{1 - (1 - \beta b)\Psi}{\varphi} \eta_t \]
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- **Model 2**: household earnings for \( k \in \{\text{Black, white}\} \)
  - labor income & flow value of owned housing
  - perfect income pooling within race

\[
Y^k_t = w^k_t (1 - u^k_t) + r^k_t H^k_t
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Overview of 2 models

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- **Report** (up to scaling): how perturbing inflation tolerance affects the sensitivity of real income to the cost push shock

\[
\frac{d}{d\psi} \left( \frac{dY^k_0}{d\eta_t} \right) = \frac{d}{d\psi} \left( \frac{dY^k_0}{d\pi_t} d\pi_t / d\eta_t + \frac{dY^k_0}{du_t} du_t / d\eta_t \right)
\]
• **Object of interest**: why focus on small variation in $\psi$? You could plot $\frac{dY_k(\psi)}{d\eta_0}$ on an interval and compare optimal monetary policy from Black and white perspectives.
My suggestions

- **Object of interest**: why focus on small variation in $\psi$? You could plot $\frac{dY^k_0(\psi)}{d\eta_0}$ on an interval and compare **optimal monetary policy** from Black and white perspectives.

- Notice the roles of model 1 and model 2 in deriving the result

\[
\frac{dY^k_0}{d\eta_0} = \frac{dY^k_0}{d\pi_0} \frac{d\pi_0}{d\eta_0} + \frac{dY^k_0}{d\mu_0} \frac{d\mu_0}{d\eta_0}
\]

- **Main point**: $\frac{dY^h_0}{d\pi_0}$ and $\frac{dY^h_0}{d\mu_0}$ admit sharp characterization at **individual household level**.
  - project $du_t, d\pi_t$ onto income and wealth via microsimulation (Lenza and Slacalek 2021)
  - plug $du_t, d\pi_t$ into formulae for income/cons/welfare (Auclert 2019)
Sketch sufficient statistics approach

- Consider a single household (Black or white)
  - holds **real long-term assets** \( \{b_t\}_{t \geq 0} \), **nominal long-term assets** \( \{B_t\}_{t \geq 0} \)
  - faces **real term structure** \( \{q_t\}_{t \geq 1} \), price level \( \{P_t\}_{t \geq 0} \)

- Basically, I just generalized the balance sheet of **model 2**.
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- First-order change in period-0 income and wealth:
  \[
  dY = \underbrace{(1-u)dw - wdu}_{\text{earnings}} - \sum_{t \geq 0} Q_t \left( \frac{B_t}{P_0} \right) \frac{dP}{P} + \underbrace{(1-u)w + \frac{B_0}{P_0} + b_0 - c}_{\text{unhedged interest rate exposure}} \frac{dR}{R} - \sum_{t \geq 0} \frac{Q_t}{P_0} \frac{dP}{P}
  \]

- Three **sufficient statistics** are **measurable** in PSID, SCF.
Towards welfare

Figure 1: MPC estimates from Patterson (2021)

- **Black consumption** is much more exposed to income shocks.
Towards welfare

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- Mapping according to the model:

\[
\begin{align*}
    dC &= MPC \cdot dY - EIS \cdot C \cdot (1 - MPC) \frac{dR}{R} \\
    dU &= U'(C) \cdot dC
\end{align*}
\]
• Nice paper that brings clarity to a highly topical question.

• Abandoning the DSGE approach created flexibility. That should be exploited.

• Room to refine quantitative results substantially.
  • use publicly-available micro data on incomes and balance sheets
  • consider model-consistent leap from income to consumption & welfare
References

