

1. *Taking challenges to the limits of monetary policy seriously*

- The FOMC's Statement on Longer-Run Goals and Monetary Policy Strategy includes the following passage:

“The maximum level of employment is largely determined by *nonmonetary* factors that affect the structure and dynamics of the labor market.” (emphasis added)

These words can mean different things to different people, but I interpret them to mean that monetary policy proper cannot feasibly be used to permanently affect real outcomes in labor markets. That would include the distribution of opportunities, skills, wages, and income.

- I admit that I hold to the assumption that, to effectively deal with problems of inequality and the distribution of income, policymakers need to look somewhere other than monetary policy. But that doesn't mean we should let such assumptions go unchallenged. I think work like that presented by Bill Spriggs should be taken seriously.

Spriggs' model asserts that, when informational networks in labor markets are taken seriously, the market can exhibit equilibria with multiple regimes exhibiting distinct Phillips curve relationships between inflation and unemployment.

Bill's model yields a regime with a standard downward sloping (and nonlinear) Phillips curve. But this regime would give way to one where the Phillips curve flattens (and unemployment can decline with little pressure on the rate of inflation) if wage pressures cause firms to seek workers outside of traditional networks (and into presumably under-employed networks).

One of the key policy inferences of Bill's model, as I see it, is that monetary policymakers can affect the so-called NAIRU. However, doing so likely requires a willingness to rethink the usual calculus with respect to how preemptive and risk averse central bankers are with respect to the inflation outcomes implied by the types of Phillips curve we typically glean from the data.

- More than a few questions arise when we begin down the road of making the equilibrium rate of employment a function of monetary policy.

For example, it is a fact that black-white unemployment rate differentials systematically narrow during “high pressure” periods – which I've defined for purposes of this observation as periods when the unemployment rate falls below the CBO's estimate of the natural rate.

It is also a fact that, going back to at least 1960, high pressure periods find their end in recessions. And in recessions, those black-white unemployment differentials rise again.

How should we think about these unemployment-differential dynamics? The traditional answer is that cyclical variation in measures like the black-white unemployment differential is just that – cyclical, with no persistent real effect on the real underlying rates. But, again, should we take this for granted?

What if, for example, there is persistence in the labor market attachment of workers drawn into the labor market during high pressure periods? And what if pulling marginal workers into the labor force is associated with positive longer-term labor market experience at the individual level, even if on average there are intervening periods of disruption when high-pressure periods transition to recession?

Isn't it likely that a finding of this sort would cause us to rethink the inflation/unemployment tradeoff? Or at least, as I suggested with respect to Bill Sprigg's presentation, rethink the risks we are willing to accept in letting a high-pressure economy persist.

- In fact, as noted earlier, the conclusion of Bill's argument is that the inflationary risks are overstated, because ultimately letting a high-pressure period run will eventually cause the Phillips curve to flatten. And if so, does the implicit tradeoff adequately factor in the positive distributional consequences of allowing the economy that runs hot – and the negative consequences of the recessions that *might* follow from reigning in actual (or perceived) inflationary pressures?

Have we ever seen the type of regime transition that Bill's model implies? And if the answer is no, is that because high-pressure economies systematically end in downturns due to monetary policy – as the central bank (inappropriately in Spriggs-world) reacts to concerns about the inflationary consequences of a hot economy?

On the other hand, even if Bill's model is correct under stable inflation expectations, how far can we push up into the steep part of the traditional nonlinear Phillips curve before those expectations become unanchored? Tagging onto Wilbert van der Klaauw's plea, don't we need to know a whole heck of a lot more precisely about how inflation expectations are formed (and unformed) before we can assess the full risks of letting high-pressure periods run their full course?

- Speaking of inflation, one notable thing missing in most of the discussions at this conference was any reference whatsoever of the distributional consequences that would be associated with the FOMC failing with respect to its price stability mandate. I'd say that omission is pretty glaring. As the important discussion about the interaction between monetary policy and labor market outcomes proceeds, I hope we don't forget to shine the light on the second half of the dual mandate.

- In general, I want to heartily endorse Greg Kaplan’s call for research on and within monetary macro models that entertain distributional consequences across heterogeneous agents. I say “entertain” to emphasize that I think these modeling efforts need to be true quantitative/econometric analyses – allowing for the possibility, but not assuming upfront, material distributional effects.

2. *Promoting the project of exploiting complementarities between the Community Economic Development and Research communities*

- I was taken by Sondra Samuels’ comment in responding to a question about non-participants in the enormously successful programs of the Northside Achievement Zone. I am paraphrasing, but if I recall correctly she made reference to possible disincentives to labor force participation – or investments in skill development – as a result of potential losses in Medicaid benefits.

In this regard, I would point out the relevance of some recent research by Alan Auerbach, Larry Kotlikoff, and Darryl Koehler (AKK). In the research I am thinking about, AKK calculate all-in marginal tax rates for individuals in the Federal Reserve Board’s Survey of Consumer Finances. By “all-in” I mean net tax rates that account for both explicit taxes paid – like federal, state, and local income taxes, sales taxes, and the like – as well as transfer payments – such as Medicaid benefits.

For purposes of this discussion, the key point from the AKK research is that, as a result of transfer-payment phase-outs as income rises, individuals in the lowest wealth quintiles can face very high effective marginal tax rates. In the SCF cross-section the highest current-period individual marginal tax rate faced by an individual in the bottom wealth quintile exceeds 900%! While that is an extreme outlier, marginal tax rates for low-wealth individuals in excess of 50% are not at all unusual.

Surely observations like this are first-order in assessing the likely success of, for instance, workforce development programs (a focal area among the System’s community development initiatives). How many of the non-participants in the Northside Achievement Zone, for example, face the higher tax rates identified by AKK? I’d venture from Ms. Samuels’ observation that the answer is more than a few. And that suggests to me that the AKK research is indeed germane to understanding the reach, replicability, and scalability of even the best community development programs.

- If community development efforts can benefit from the insights of academic research, so might academic research be motivated and informed by work done in our community affairs functions. Take, for instance, the System-wide Small Business Survey administered (at least in Atlanta) through our community economic development department. Though not strictly a “scientific” survey, it has the capacity to reveal new and interesting relationships that are ripe for follow up.

An example would be the special question in a recent survey which asked successful small businesses about the main impediments to their own investment expenditures.

(“Successful” in this instance was identified in terms of survival over a period of time, profitability, and plans for expansion.) The modal explanation for firms identifying impediments to investment was (by a fair margin) the inability to attract and retain qualified labor.

As we struggle to understand the dearth of capital formation since the Great Recession, these results ought to lead us to think in terms of models in which physical and human capital investment are intimately linked; it should prompt us to go to the data and explore under the hood of joint hiring and investment decisions at the firm level.

- My broader point is that much of the research we produce and consume, particularly in the Federal Reserve, is more than academic – which, in fact, is an underlying premise of the Institute. Furthermore, our community affairs groups are evolving (rapidly I would say) in the direction of results-driven activities, informed by review and analysis. A close working relationship between research departments and our community affairs functions can advance the interests of both.

3. *Treating our regional/outreach efforts as a piece of our research efforts*

- The last panel of the conference’s first day provided an exciting picture of the data resources available to the researchers throughout the System. I would like to offer one more: The boots-on-the-ground information that we collect via our regional outreach programs.
- My premise is simple: Done properly, anecdote is data. By “done properly” I mean the following:
 - (a) Know the questions we want to ask. Specifically, we should approach conversations as an exercise in formulating an hypothesis and collecting data that will be informative about that hypothesis.and
 - (b) Ask our questions in the language of the people we are talking to. To provide a negative example, I think we know from a lot of research that respondents to too many inflation expectations surveys – like the Michigan survey – are not answering the question we think we are asking. This is not a problem with them – it is a problem with us.
- At the Atlanta Fed, we have taken the “anecdote is data” mantra to heart and devote no small amount of effort to face-to-face interviews and roundtable discussions as a way to “find the story behind the data.”

Our original efforts in this regard were geared entirely to current analysis and contributions to the FOMC process. But in our newer efforts we are channeling our boots-on-the-ground activities in ways that will hopefully inform and enrich our longer-term research activities.

Specifically, we are trying to improve our capacity to collect and use anecdotal data properly to find case studies, to construct taxonomies that might help organize our modeling efforts, and to lay the groundwork for creating data (in the form of broader and more strictly constructed survey efforts, for example).

- The diversity of scholars that are advising the Institute feels exactly suited to a better integration of research activities and the sort of anecdotal data collection made possible by our outreach efforts and the networks they bring. Sociologists, for example, are experts in the field of anecdote-as-data. As the Institute moves forward, I hope this is a resource that is exploited to its fullest.