Discussion of Coglianese, Olsson, Patterson (2021) "Monetary Policy and the Labor Market: A Quasi-Experiment in Sweden"

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November 2021
NBER Monetary Economics

Overview

- **Goal:** Understand heterogeneous effects of monetary policy

- **Why do we care?**
  1. Learn how people are differentially affected
  2. Investigate transmission channels & discriminate between different theories
  3. Understand aggregate responses using "bottom-up" approach

- **This paper**:
  - Uses detailed employer-employee micro data from Sweden (1997-2016)
  - Focuses on labor market (extensive margin: unemployment)

- **Contributes to young literature using admin data to investigate effects of MP**:

  Holm-Paul-Tischbirek (2021), Andersen-Johannesen-Jorgensen-Peydro (2021), Amberg-Jansson-Klein-Picco (2021), Moser-Saidi-Wirth-Wolter (2021), ...

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Monetary Policy Identification

- 2010-2011: Riksbank raises policy rate by 175 bp
- Reason: Committee members concerned about housing market
- Following Romer & Romer (2004), estimate policy rule

$$\Delta r_m = \alpha + \beta r_m + \sum_{\tau=-1}^{2} (\gamma_\tau GDP_{m,\tau} + \phi_\tau \pi_{m,\tau} + \theta_\tau u_{m,\tau}) + \epsilon_m$$

- Sample: 2002:M3-2010:M2 $\rightarrow$ typical policy reaction function
- Estimate shocks for 2010-2011 based on this historical rule
- Use these shocks in regressions (full sample) $\rightarrow$ *set all other shocks to zero*
- By design: Large contractionary shock specific to state of business cycle
- Evidence that sharp tightening fairly unanticipated by forecasters

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Results

- **Aggregate**: textbook macro responses, importantly: $u \uparrow$
  - interesting: house prices don't respond much
- **Heterogeneous effects**: stronger $u \uparrow$-responses for
  - workers: young, low-tenure, low-income
  - firms: small, more short-term debt, more churn
- broad-based response, not one group drives aggregate reaction
- **Wage rigidity**:
  - workers: More rigid wage $\rightarrow$ stronger $u \uparrow$-response
  - pass-through: larger $u \uparrow$-response for higher short-term debt firms if wages are rigid
  - labor market congestion: stronger $u \uparrow$-response within sectors with rigid wages

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Comments & Suggestions

Monetary Policy Identification

- Short sample for MP-rule: 2002:M3-2010:M2
  - Reason: historical central bank forecasts start in 2002:M3
  - Estimation: 21 observations, 14 regressors, $R^2 = 0.93$
  - Romer & Romer (2004): 263 observations, 21 regressors, $R^2 = 0.28$
- Only two annual shocks $\rightarrow$ 300 and 525 bp !
  - Actual change in rates: 175 bp $\rightarrow$ rule predicts 650 bp decline in 2010-11 !
  - Few shocks, only contractionary, could be correlated with other macro shocks
- **Suggestion #1**: Proxy missing CB forecasts with private ones (Cloyne & Huertgen, 2016)
  - Holm-Paul-Tischbirek (2021): Consensus Economics $\rightarrow$ long series for Sweden !
- **Suggestion #2**: Estimate policy rule for long sample $\rightarrow$ recover all shocks !
  - Could account for 2010-11 with time-varying rule responding to HP forecasts

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Results

- Strong focus on unemployment response (extensive margin)
- **Suggestion #3**: Consider wage responses as well (intensive margin)
  - Similar result as Guvenen et al. (2017): U-shaped income response ?
  - Extensive margin at the bottom, intensive margin at the top ?
  - Maybe even impute consumption (Kolsrud, Landais, Spinnewijn, 2019) !
- Results on wage rigidities at the sectoral level very interesting !
- **Suggestion #4**: Potentially focus on regional spillovers. Effects ambigious ?
  - More rigid wages $\rightarrow$ more adjustment through extensive margin
  - but: intensive margin absorbed by high-income HHs with low MPCs
  - If regional output $\downarrow$: fixed wages privately optimal, but not socially ?

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Some (boring) technical points

- **Suggestion #5**: Use Newey-West & Driscoll-Kraay standard errors instead
  - (i) Macro data: heteroskedasticity-robust standard errors
  - (ii) Micro data: two-way clustered standard errors by *i* & *t*
  - Issues: (i) misses autocorrelation, (ii) potentially too conservative

- **Final Suggestion**: Harmonize various local projections
  - Simplify controls: lagged changes dep. var. + shocks
  - Avoid using non-predetermined controls

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- Unique tightening shock + detailed micro data
- **Some suggestions**:
  1. Expand forecasts and MP rule estimation
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  3. Extend analysis beyond unemployment
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