The NBER’s 37th Annual Conference on Macroeconomics brought together leading scholars to present, discuss, and debate five research papers on central issues in contemporary macroeconomics. In addition, it included a panel discussion on the future of work. Katharine Abraham moderated the panel, which included Steven Davis, Edward Glaeser, and Joel Mokyr.

This conference volume contains edited versions of the five papers presented at the conference, each followed by two written discussions by leading scholars and a summary of the debates that followed each paper.

The decline in the labor share of income over the past decades has attracted considerable attention. Numerous explanations have been suggested, such as superstar firms, rising price markups, and monopsony power of firms in labor markets. In their paper, “Human Capitalists,” Andrea Eisfeldt, Antonio Falato, and Mindy Xiaolan offer a new explanation: the rise of a new class of worker that receives part of its labor income as equity-based compensation. The authors begin by meticulously documenting this phenomenon and the quantitative importance of its rise over time in the U.S. For example, in manufacturing they find equity-based labor compensation grew from less than one percent of value added before 1980 to seven percent of value added in the 2010s. The authors explain the rise by identifying both the accounting and tax incentives favoring this type of compensation.

The implications of the human capitalist story are far-reaching. The most immediate implication is the mismeasurement of labor share. They show that one-third of the decline in the measured labor share can be explained by the rise of equity-based compensation, which is not included in labor income in the national accounts. The second implication concerns the returns to skilled labor and the implied capital-skill complementarity. The authors revisit the classic Krusell, Ohanian, Rios-Rull, and Violante (2000) hypothesis of capital-skill complementarity and argue
that the estimated complementarity is even greater than previously estimated once adjustments for equity-based compensation are incorporated.

Both discussants praise the work and draw out additional implications. Gianluca Violante adds estimates of capital gains and losses on the equity-based compensation and finds that the augmented measure reduces the labor share decline even more. He also reexamines the link between the current analysis of capital-skill complementarity and his original work from 2000. Eric Zwick’s discussion offers detailed links between the rise of human capitalists and the tax reforms of the 1980s, develops an alternative measurement method that supports the authors’ conclusions, and highlights other leading puzzles that can be explained by the rise in human capitalists.

The effect of monetary policy on the economy remains a central topic in both academic and policy circles. One of the most popular recent methods for identifying monetary policy shocks in order to estimate causal effects is “high frequency identification,” which uses movements in financial market data around the time of FOMC meetings. However, the estimated monetary surprises display a puzzling correlation with previously available information. The paper by Michael Bauer and Eric Swanson, “A Reassessment of Monetary Surprises and High-Frequency Identification,” builds on their earlier work by providing a new explanation for this correlation, a prescription for how to overcome it, and richer data for estimating key parameters more precisely.

A previous explanation for the puzzling correlation was that the Federal Reserve had superior information to private forecasters, so any deviations from the monetary policy rule confounded true shocks with the revelation of private Fed information. Bauer and Swanson present evidence against this “information effect” explanation. The authors argue instead that the puzzles can be explained by the private sector being uncertain about the parameters of the monetary policy rule and learning about the rule. As Bauer and Swanson document, the monetary rule parameters are time-varying, with the Fed increasing the strength of its responses to both the output gap and inflation over time. They show that one can purge these confounding effects from estimated monetary policy shocks by orthogonalizing the shocks with respect to lagged macroeconomic
and financial market variables. These new methods, together with rich new data that incorporate information from the Fed chair’s speeches between FOMC meetings, yield estimates of effects of monetary policy on macroeconomic variables that are much larger than those estimated previously.

The two discussants of the Bauer and Swanson paper were Simon Gilchrist and Mark Watson. Gilchrist discussed several ways the modeling framework could be extended and he conducted a more detailed comparison of the magnitude of various effects on asset markets and macroeconomic variables. Mark Watson demonstrated econometrically why Bauer and Swanson’s orthogonalization fix leads to weaker identification and therefore why their new data on Fed chair speeches is an important component of their overall method.

How long can initial differences in wealth between two groups persist? An individual’s wealth can affect their ability to invest in human capital, their decision to choose occupations and their decision to allocate their savings across different assets. As a result, any initial wealth differences between two groups can persist for long periods of time through wealth’s influence on future labor market and portfolio choice decisions. In their paper “Reparations and Persistent Racial Wealth Gaps”, Job Boerma and Loukas Karabarbounis provide a framework to quantitatively explore the gap in wealth between white and Black Americans over the past 150 years. Using the framework, Boerma and Karabarbounis examine the effectiveness of reparations as a tool to close the racial wealth gap.

Boerma and Karabarbounis’s model has three key features. First, during certain periods of history, Black households were restricted from investing in certain types of assets. Second, Black households – both in the past and in current generations – face discrimination and other barriers such that their labor income is lower than white households. Finally, the model has an overlapping generation structure where parents can pass on expectations about asset returns of the various assets to their children. It is this latter assumption that Boerma and Karabarbounis highlight as being quantitatively important in explaining current racial wealth gaps. In particular, because Black households have been historically excluded from investing in certain assets, they have not learned sufficiently that certain asset classes -- like entrepreneurship -- can
generate larger returns. As a result, even as differences in labor market outcomes narrow, the racial wealth gap persists because Black households are investing, on average, in lower return asset classes. Boerma and Karabarbounis then highlight that while reparations will transfer large amounts of wealth to Black households, they will not generate a permanent convergence in the racial wealth gap unless it also causes a narrowing in racial differences in return beliefs. Instead, Boerma and Karabarbounis argue that large subsidies to asset returns – which subsidize saving broadly and accelerate the learning process – are a more effective tool to permanently close the racial wealth gap.

Both discussants – Ellora Derenoncourt and Jonathan Parker -- praise the paper for trying to tackle the important question of what explains the persistent racial wealth gaps in a rigorous way. However, both discussants commented on the importance of belief differences about asset returns as the primary explanation. Ellora Derenoncourt raised the issue of whether differences in asset returns between racial groups arose instead from more systematic racial barriers. For example, Derenoncourt noted that businesses started by Black households were more likely to fail suggesting that there is not only a barrier to entry into a high return asset like entrepreneurship but also barriers preventing success conditional on entry. Jonathan Parker provided complementary comments suggesting that forces such as liquidity constraints could explain both low entry into business formation by Black households and increased failures conditional on entry. Distinguishing between beliefs and liquidity constraints, he argues, is important for discussing policy responses. For example, if liquidity constraints are responsible for the low entry of Black households into business ownership, policies such as reparations may have a more long lasting effect with respect to narrowing the racial wealth gap.

A classic question in macroeconomics is why unemployment is so volatile and countercyclical. In many models, rigid or inertial real wages play a central role in answering this question. For example, inertia in real wages is a standard feature of empirically plausible New Keynesian models. Sluggish real wages play a similar role, albeit for different reasons, in classic search and matching models of the type pioneered by Diamond-Mortensen and Pissarides (DMP).
In his paper, “Stubborn Beliefs in Search Equilibrium,” Guido Menzio tackles the issue of why real wages are rigid. He does so by modifying one key aspect of an otherwise standard DMP model. The key change is that some workers do not have rational expectations. Instead, some workers believe that aggregate productivity is constant and equal to the unconditional mean of the productivity distribution. Given his assumption about the bargaining game by which wages are determined, the presence of workers with stubborn beliefs changes the response of wages to technology shocks. Under certain assumptions, wages are too high compared to what a recession would call for, i.e., they are downward sticky/rigid. In addition, after a positive technology shock, wages do not rise as much as they would under rational expectations.

Menzio shows that the model with ‘stubborn beliefs’ generates much more volatility in job posting and unemployment than the rational expectations version of his DMP model. The larger the fraction of workers with stubborn beliefs, the more volatile unemployment is. In this sense, the implied model accounts for a key failure of classic DMP models, namely their inability to account for the observed volatility of unemployment. The paper argues that countercyclical employment subsidies can correct the cyclical inefficiencies associated with stubborn beliefs.

Both discussants, Ilse Lindenlaub and Richard Rogerson praise Menzio for the clarity and elegance of his analysis and the way that he conveys strong intuition for his results. The key issue for both discussants is the absence of strong empirical evidence in favor of the specific departure from rational expectations that Menzio entertains. Both Lindenlaub and Rogerson review the empirical evidence cited by Menzio and argue, in different ways, that the evidence admits other ways of departing from rational expectations that could generate qualitatively different results. Both authors also stressed that alternative versions of the model, which allowed for on-the-job search and different wage-setting mechanisms, could weaken the role of workers’ beliefs about their outside options in determining labor outcomes.

In their paper, “Excess Savings and Twin Deficits: The Transmission of Fiscal Stimulus in Open Economies,” Rishabh Aggarwal, Adrien Auclert, Matthew Rognlie, and Ludwig Straub investigate the evolution of private savings, current account deficits, and fiscal deficits around the world in the period after 2020. They document three key facts. First, there was a large
increase in private savings in many countries, especially in the United States. Second, there was an increase in the current account deficit and the trade deficit in the United States, with a corresponding surplus in the rest of the world. Third, there was a large increase in the fiscal deficit worldwide, especially in the United States.

Aggarwal et al. argue that the third fact is the sole cause of the first two facts. They use a multi-country heterogeneous-agent model in which deficit-financed fiscal transfers simultaneously lead to a large and persistent increase in private savings and current account deficits.

Their basic story is as follows. Countries around the world used fiscal deficits to finance transfers to households. Households partly spent these transfers according to their marginal propensities to consume (MPC) and initially saved the rest. Current account deficits emerged because part of the spending was on imported goods. But in relatively closed countries like the United States, the share of imported goods is small. So the initial impact of this spending on the current account deficit was also small.

A quantitative version of the model rationalizes both the timing and the magnitude of the excess saving and the current account patterns observed since 2020 as effects of the worldwide fiscal policy response to the pandemic rather than the effect of the pandemic per se.

The first discussant, Oleg Itskhoki, was skeptical about the importance of heterogeneity in peoples’ marginal propensity to consume for explaining the key macro facts. He argued that the baseline neoclassical model with Ricardian equivalence does a surprisingly good job of accounting for the main international macroeconomic features of adjustment to the pandemic shocks. Itskhoki agrees that household heterogeneity and non-Ricardian features central to heterogeneous-agent New Keynesian models are essential to make sense of micro-level consumption and savings dynamics. But he isn’t convinced that these features have first-order implications for aggregate savings and current account dynamics at the country levels during the COVID pandemic.
The second panelist, Linda Tesar, reviewed the international evidence on private savings, government savings, and the current account. She argued that Covid period didn’t lead to a dramatic change in the time series behavior of the current account. Like the first discussant, she thought that the standard neoclassic model captured the first-order effects of the Covid shock on the current account.

Tesar noted that the Covid shock affected countries at different points in time, and governments responded with different types of economic policies, generating asymmetries in income, consumption, and the demand for home and foreign goods. These asymmetries could be as important as asymmetries stemming from differences in the nature of the fiscal response in different countries.

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