

## Call for research projects for the NBB Conference 2022

### Household heterogeneity and policy relevance

Traditional macroeconomic policy analysis is facing criticism because it disregards distribution aspects. Both the run-up to the financial crisis and the slow recovery post-crisis have been related to financial amplification mechanisms and to credit constraints that affect specific household types differently. And once again, the Covid-19 crisis has affected the economy and households in very different ways. While some households were not impacted by the decline in activity or income but mainly by a reduction in spending opportunities that meant they raised their savings, other households saw their income decline substantially or household members losing their jobs or businesses, and face very uncertain future employment opportunities. Clearly, households' spending capacity and financial vulnerability will also differ during the recovery period. Understanding these mechanisms and developing efficient policy responses require models that factor in household heterogeneity and that describe the specific exposure of different household types to income, wealth and labour market shocks.

This heterogeneity matters for the transmission of monetary policy actions, because interest rate changes affect households with extensive financial assets differently from households with outstanding debts and no liquid assets. Excessive debt and repayment obligations experienced by vulnerable households are a concern for macroprudential policy, especially if financial institutions are insufficiently capitalised or are mispricing inherent risks. Moreover, rising inequality might also impact on the balance of savings and investment in the economy, thus affecting the natural rate of interest or possibly the current account. Hence, inequality might also play a role in the evolution of internal imbalances within the euro area. In addition, the impact of various taxes and transfers on aggregate consumption and saving behaviour will depend on which household types are most affected. Household heterogeneity is even more important when it comes to decisions about labour market participation and is thus crucial for devising various employment activation policies. And it is not just financial heterogeneity that has a bearing on all these issues: other characteristics of households, such as education level, family composition and social and cultural background might be equally important for determining the impact of policy measures on household decisions. Lastly, the impact of various measures on inequality and inclusiveness is in itself important when evaluating the desirability of the policy measures.

Further documentation of the crucial impact of household heterogeneity on the impact of various policy measures is important for macroeconomic policy design, as is the development of new tools for modelling and aggregating these insights. We particularly encourage projects that exploit and link various sets of household data, within or outside NBB. The following non-exhaustive list of issues may be discussed at the conference:

#### 1. Relevant questions from a microeconomic perspective:

- New evidence on the characteristics of and changes in the distribution of wealth, income, debt, etc. across households;
- The impact of economic policies and shocks on borrowing and saving behaviour, debt defaults and consumer insolvency, mortgage credit and homeownership across various segments of the household distribution;
- The impact of shocks and policies on labour supply decisions of various household types;
- The impact of debt growth and homeownership on inequality.

## 2. Relevant questions from a macroeconomic perspective:

- Is there a role for monetary and fiscal policies to affect aggregate consumption via the distribution of income? What is the role of household heterogeneity in generating positive marginal propensities to consume out of transitory income changes?
- Is the marginal propensity to consume out of increases in permanent income smaller than one? Is it lower for richer households?
- What is the role of fluctuations in precautionary saving for business cycle fluctuations in terms of aggregate consumption, investment and the current account?
- What are the general equilibrium effects of various types of labour market reforms on aggregate employment and consumption, in particular via the distribution of income?
- How can we evaluate heterogeneous agent models of consumption and labour supply using moments of micro datasets?
- How may alternative modelling strategies to capture the effects of agent heterogeneity be compared?

**Proposals for research projects will be accepted up to 30 April 2021.** Acceptance or rejection of the proposed projects will be notified **by 31 May 2021**. The projects will start in June 2021 and culminate with the October 2022 conference at which the research findings will be presented. The selected projects will receive a financial support of € 30 000. Proposals and requests for further information should be sent to **[nbbconference2022@nbb.be](mailto:nbbconference2022@nbb.be)**.