”Targeted Fiscal Transfers under Heterogeneous Unemployment Risk”

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Stimulus checks and fiscal multipliers

Motivation:

- Stimulus checks are narrated to be - ideally - income-dependent, as *low income* $\Rightarrow$ *high MPC* (Parker et al., 2013)
- But low earners face **higher job-loss risk** (Mueller, 2017) $\Rightarrow$ more self-insurance!

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- If income and job-loss risk are negatively correlated, what MPC gradient do we obtain?
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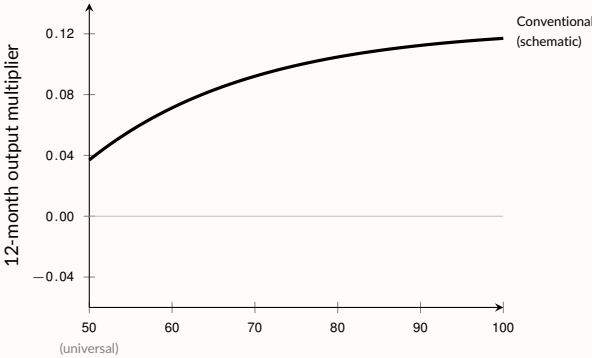
Results:

- Low-income, high-risk households hold **larger *relative* buffers** and have **lower MPCs**
- Tax-financed transfers to them are **less expansionary**, but **can maximize welfare**
- Deficit financing raises multipliers, but does not overturn the equity-output trade-off

Big picture: what happens when you target fiscal transfers?



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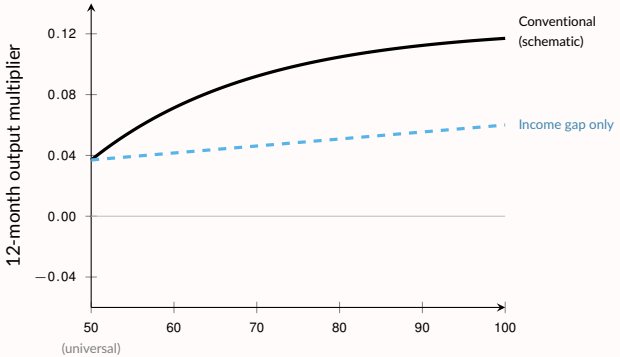

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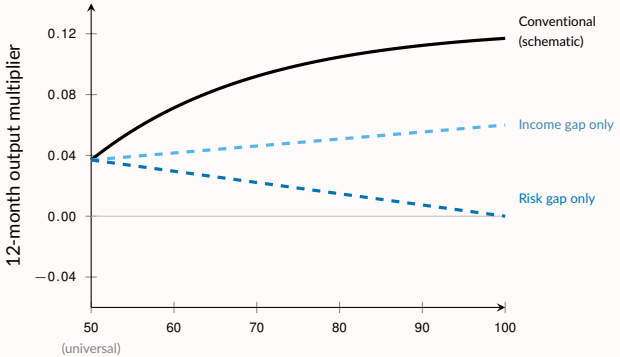

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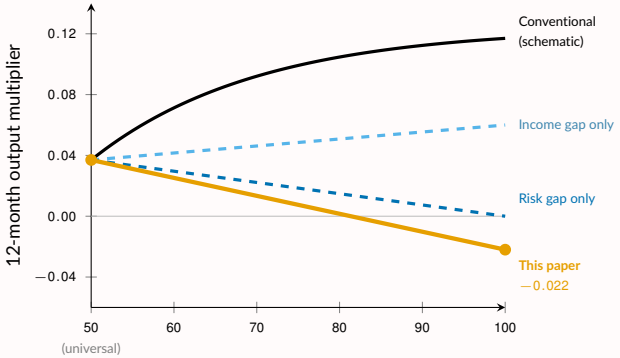

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  MPC 0.254 vs 0.246
- **Het. unemployment risk**
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- **Both (correlated)**
  MPC 0.239 vs 0.261, and possibly even a *negative* multiplier

Summary: correlated risk reverses the income-MPC gradient

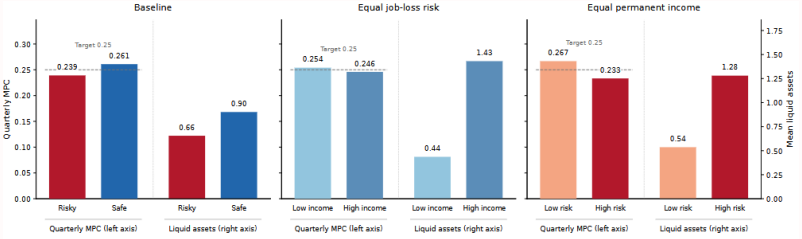

Figure 3: Income, job-loss risk, and stationary self-insurance.

Figure: Stationary MPCs and liquid assets across the three economies (Challe and Savoia (2026), Fig.3).

Bottom lines:

1. **Self-insurance:** job-loss risk drives in particular a possibly negative MPC gradient

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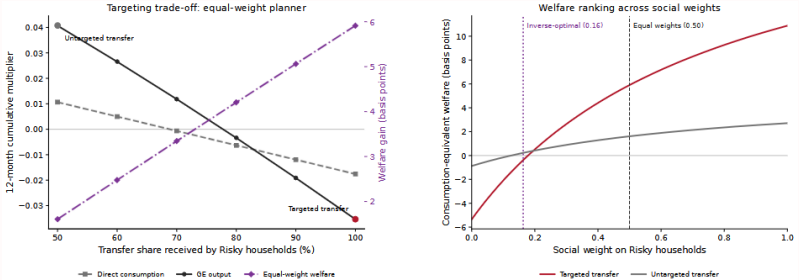

Figure 7: Targeting, aggregate demand, and welfare across recipient and social weights.

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2. **Equity-output trade-off** as targeting Risky HHs lowers the multiplier but raises welfare

Summary: correlated risk reverses the income-MPC gradient

12-month multipliers and welfare depending on transfer target:	Risky	Universal	Safe
Direct consumption (PE), transfer component	0.62	0.65	0.68
Direct consumption (PE), net of tax component (-0.64)	-0.018	0.011	0.039
GE output, baseline	$-\mathbf{0.022}$	0.037	**0.077**
GE output, 48 months	-0.08	0.03	0.10
Welfare, equal weights (bp)	$\approx$ **6**	≈ 1.6	–
Welfare, inverse-optimal weights (bp)	-0.244	0.213	**0.520**

Bottom lines:

1. **Self-insurance:** job-loss risk drives in particular a possibly negative MPC gradient
2. **Equity-output trade-off** as targeting Risky HHs lowers the multiplier but raises welfare
3. **Equal-weight welfare increases** when moving to risky-targeted transfers, but the output multiplier falls from 0.037 to -0.022

Remark #1: on heterogeneity *within* the Risky and Safe groups

Model: MPC gaps come from precautionary saving under a common β.

An additional exercise: add heterogeneity within groups, at fixed aggregate MPC:

Heterogeneity within groups	Can targeting Risky HHs still likely lower initial spending?
Dispersion in job loss risk	✓ yes, no change in average between-group risk gap
Weaker link between income and risk	✓ yes, esp. when still negatively correlated
Impatience unrelated to income	✓ generally yes, as impatient HHs spend in both groups alike
Impatience, by which poorer households are *more* impatient	✗ **possibly not**,the spending ordering can invert once impatience is sufficiently more frequent among the Risky

Evidence: preferences, incl. impatience, can explain higher MPCs of low asset households (Aguiar et al., 2025), and poor HtM are mostly young and low income (Kaplan et al., 2014)

Takeaway: the main mechanism is likely robust to within-group risk heterogeneity, strengthening the result. But making impatience heterogeneous - possibly different results!

Remark #1: on heterogeneity *within* the Risky and Safe groups

SCF 2025: within net worth quintiles, Risky households mostly spend *more*. They are also more often impatient (44% vs 32%), so β perhaps not equal within and across groups.

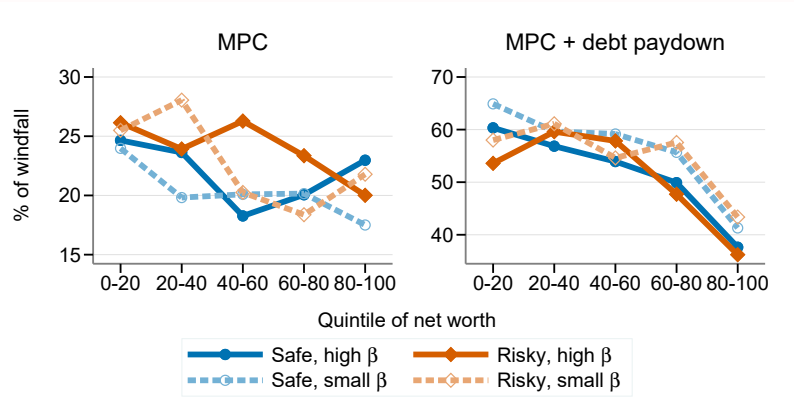

Figure: (Hypothetical) MPCs (including debt payments) across wealth quintiles depending on perceived wage risk (safe/risky) and patience (high/low β). Source: own calculations based on SCF 2025.

Remark #2: on the permanence of income types and insurance

Recall: MPCs differ more by employment state than by type

How is risk insured in the model? Idiosyncratic risk = job loss, types are fixed:

Income source	Scales with perm.inc.	Paid in unemployment	Cyclicality
Wage $\psi_j w_t$	✓	✗	procyclical
Home production $\psi_j \delta$	✓	only then	constant
Dividends (uniform)	✗	✓	endogenous
Dividends ($\propto$ perm.inc.)	✓	✓	endogenous

$\Rightarrow$ If transfers $\rightarrow$ income $\uparrow$ in bad states, then precautionary saving $\downarrow$ (Ravn and Sterk, 2021)

- Uniform dividends do exactly this
- Dividends $\propto$ permanent income or concentrated at the top remove this aspect $\rightarrow$ Risky-targeted transfers give: multiplier $\downarrow$, welfare $\uparrow$
- Dividends tied to *current* earnings would stop in unemployment for both types

Bottom line: insurance of the Risky HHs shapes the equity-output trade-off, so profit incidence and UI design matter

Remark #3: on real wages, nominal bonds, and monetary policy

Real wages are affine in *real* marginal cost, $w_t = \omega\phi_t + (1-\omega)\chi$, while bonds pay $r_t = i_{t-1} - \pi_t$, so surprise inflation and the real-rate path move *real bond income* (Doepke and Schneider, 2006; Auclert, 2019).

With taxes adjusting, a change in the real return redistributes *in proportion to each type's bond share net of its tax share*!

$$\Delta = \underbrace{(\theta_j^T - \theta_j^\tau)\, PV(T)}_{\substack{\text{transfer share net} \\ \text{of tax share}}} + \underbrace{(\theta_j^b - \theta_j^\tau)\, \bar{B}\mathscr{R}}_{\substack{\text{bond share net} \\ \text{of tax share}}}.$$

$\mathscr{R} = \sum_{t\geq 0} q^t dr_t$. Labor income and dividend responses omitted.

	Bond share θ_j^b	Tax share θ_j^τ	Net exposure
Risky	0.42	0.28	$+$**0.14**
Safe	0.58	0.72	$-$0.14

- Risky: fewer bonds, but a *larger* share of bonds than of taxes $\rightarrow$ **net bond creditors** once taxes are netted out (tax burden drives FMs, see Ferrière and Navarro (2025))
- Under the paper's MP rule, the real return *falls* after the Risky-targeted transfer, as output and inflation turn negative and the rule responds to both

Remark #3: on real wages, nominal bonds, and monetary policy

Does this bond/tax incidence matter? Use the same transfer and outlay path, taxes adjust, but with a lower real return on bonds ($\mathscr{R} < 0$), e.g., under a more accommodative rule:

	Risky (low MPC)	**Safe** (high MPC)	**Aggregate**
Bond income, $\theta_j^b \bar{B}\mathscr{R}$	$\downarrow$	$\downarrow$	$\downarrow$
Tax rebate, $-\theta_j^\tau \bar{B}\mathscr{R}$	$\uparrow$	$\uparrow\uparrow$	$\uparrow$
Net resources, $(\theta_j^b - \theta_j^\tau)\bar{B}\mathscr{R}$	$\downarrow$	$\uparrow$	0
Consumption on impact, per $\bar{B}\lvert dr\rvert$	$\downarrow$	$\uparrow$	?
Consumption, substitution (anticipated dr_t)	$\uparrow$	$\uparrow$	$\uparrow$

- Under main calibration, lower returns take wealth from the low-MPC Risky and rebate it to the high-MPC Safe, so demand can possibly rise slightly
- But: **if the rich were net creditors on government debt** (taking taxes into account), the wealth effect would *cut* consumption of the high-MPC Safe, pushing multipliers $\downarrow$

Bottom line: real wages and nominal bonds make monetary policy a transfer between net creditors and net taxpayers, which hurts the Risky after a Risky-targeted transfer.

Final Remarks

- Neat and transparent HANK&SaM model showing that *correlated* ex ante heterogeneity in permanent income and job-loss risk can reverse the usually-presumed income-MPC gradient, changing the case for targeted fiscal transfers
  - Implies an equity-output trade-off, by which larger welfare gains are traded against lower fiscal multipliers
- Three remarks:
  1. The result survives risk heterogeneity within groups, but not all instances of more frequent impatience among the Risky, and the SCF points to such a link
  2. MPCs differ more by employment state than by type, and the equity-output trade-off of targeted fiscal transfers is likely steeper when the Risky are less insured
  3. Real wages and nominal bonds make monetary policy a transfer between net bond creditors and net taxpayers - relevance of MP specification and degree of deficit-finance!

Thank you!

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backup: on the first remark

Looking at the two channels from the paper (see figure 3, quarterly MPC of Risky minus Safe): income gap only $+0.008$ (dividends insure low earners), risk gap only -0.034 (self-insurance), joint -0.022

- Keeping a share κ of the risk gap, the qMPC gap is $\approx 0.008 - 0.030\,\kappa$, zero at $\kappa \approx 0.27$, i.e., Risky job loss risk only $\approx 20\%$ above Safe's ($\approx 27\%$ if Safe risk stays at 0.7%), against 100% in the paper. This is obviously an illustrative linear interpolation that preserves mean separation risk

Impatience (my calculations in partial equilibrium). Assume impatient HHs (monthly $\beta = 0.95$) choose to hold no buffer and spend the whole transfer within a year ($c_I = 1.00$ in both groups). For each HH with patient β, the average impatient share $\bar{\theta}$ is set to keep the agregate qMPC at 0.25, which then determines liquidity. With group spending $c_j = \theta_j c_I + (1-\theta_j)c_{j,P}$,

$$\bar{\theta} = (\theta_R + \theta_S)/2,\ c_P = (c_{R,P} + c_{S,P})/2 \text{ and a spending gap of } \text{gap}_P = c_{S,P} - c_{R,P},$$

$$c_R - c_S = (\theta_R - \theta_S)\,(c_I - c_P) - (1-\bar{\theta})\,\text{gap}_P \quad \Rightarrow \quad \Delta\theta^* = (1-\bar{\theta})\,\text{gap}_P/(c_I - c_P)$$

Liquidity (% of annual GDP)	3.8 (paper)	4.3	5.4	6.1	7.2	8.6	10.5
Patient β (monthly)	0.9896	0.9905	0.9920	0.9930	0.9940	0.9950	0.9960
Average impatient share, $\bar{\theta}$	0	0.032	0.058	0.085	0.104	0.126	0.149
Patient gap, gap_P	0.052	0.020	0.032	0.009	0.020	0.004	0.001
HtM premium, $c_I - c_P$	0.36	0.40	0.44	0.48	0.52	0.57	0.62
Threshold $\Delta\theta^*$ (pp)	14.7	5.0	7.0	1.6	3.5	0.7	0.1

- The patient gap tends to shrink as larger buffers move both types away from the borrowing limit.