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Monetary Policy's Distributional Impacts on Wealth and Employment in the US: Evaluating Outcomes by Race and Gender

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The Black Lives Matter movement and an economic crisis that disproportionately impacted women's labor force participation in the US brought renewed attention to persistent disparities in economic outcomes. Researchers focused on racial and gender inequality have long argued that purportedly "identity neutral" policies and institutions contribute to these gaps. In this vein, at least one US Federal Reserve Bank president has argued that the central bank should address racial inequality as part of its mandate (Bostic 2020). The proposed study contributes to this conversation by examining whether monetary policy has distributional impacts by gender and race in the United States.

Much of the existing empirical research focuses on the employment impacts of monetary policy. Women of color are more likely to hold precarious jobs that are sensitive to the impacts of contractionary monetary policy (Albelda, Bell-Pasht, and Konstantinidis, 2020). Discrimination by race and gender may also heighten as the pool of "good jobs" shrinks in a recession. Evidence from developing economics and the United States suggests that women and racial minorities experience greater employment losses during periods of rising interest rates than white men (Braunstein and Heintz, 2008; Seguino and Heintz, 2012). Yet other research finds no evidence of heterogeneous employment and earning impacts or only identifies minor differentials (Bartscher, Kuhn, Schularick, and Wachtel, 2022; Takhtamanova and Sierminska, 2009; Zavodny and Zha, 2000).

Fewer studies have investigated how monetary policy impacts wealth inequality by race and gender. As a result of labor market inequalities and histories of institutional discrimination such as redlining in mortgage markets, women and minoritized groups in the United States tend to have less wealth and hold more debt relative to income than other groups (Long, 2018; Schmidt and Sevak, 2006; Szymborska, 2022). The median Black household owns only 10% of the wealth of the median white household (Darity et al., 2018). Interest rate increases benefit savers and harm debtors, pointing to a potential source of racial and gender bias in monetary policy.

Policy-induced changes in asset values may also impact wealth inequality. During the COVID-19 pandemic, the Federal Reserve purchased corporate bonds directly. Such policies are likely to benefit white men, who hold more wealth and hold more of that wealth in the form of equities rather than housing wealth. On the other hand, expansionary policy often increases the value of stock holdings as well, which could widen wealth gaps. The empirical evidence on wealth inequality has been mixed. One paper provides evidence that unconventional monetary policy worsens wealth inequality by gender in Euro-area economies (Young, 2019), while another suggests that expansionary monetary policy has the same impact by race in the US context (Bartscher et al., 2022).

There are multiple gaps in the current literature on monetary policy and social stratification in the United States. The most recent work draws on the Survey of Consumer Finances, which oversamples high wealth households. Other studies examine data from prior to the 2008 Financial Crisis, which marked important shifts in monetary policy. This project examines how monetary policy impacted wealth and employment inequality by race and gender in the US from the 1980s to 2019 by combining household-level data from the Panel Study of Income Dynamics with other economic indicators.

The study will draw on at least two methods established in previous work on this topic to develop robust estimates of the impacts of monetary policy. First, following Seguino and Heintz (2012), a two-stage regression analysis will be used to estimate state-level impacts of monetary policy, allowing for a panel approach to assess the relationship between interest rate changes and state employment and wealth ratios by race and gender. Second, following Bartscher et al. (2022), instrumental variable local projections will be applied to the time series data. Monetary policy changes will be measured using multiple metrics, including the Romer-Romer policy shock series (Coibion et al. 2017).

References:

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