# Who takes the cake? The heterogeneous effect of ECB accomodative monetary policy across income classes

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# This paper - short summary

- **Research questions**:
  - What are the effects of monetary policy on unemployment rates and real labor income across income classes (lower, lower-middle, middle-upper, and upper)?
- **Methodology and research design**:
  - Focus on euro area and ECB expansionary monetary policy.
  - Distributional variable based on EU-SILC (unemployment rates and labor income)
  - VAR models and local projections.
- **Results and contribution**:
  - Effect of monetary policy on unemployment rates is heterogeneous across income classes $\rightarrow$ lower inequality.
  - Effect of monetary policy on labor incomes is heterogeneous across income classes $\rightarrow$ higher inequality.

# Comments I

- **Framing and contribution**: intensive *vs.* extensive margin for analyzing the effects of monetary policy on income inequality is a nice framing.
- **Novelty**: not many papers use EU-SILC data in the context of monetary policy analysis (another is Corrado et al. (2022), in this conference too).
- **Income concepts**:
  - Why focusing only on labor income?
  - EU-SILC provides other income concepts (e.g., financial income).
  - Theory suggests that the distributional effects of monetary policy works through the response of different types incomes (see Figure 1 in Violante, 2021).
  - See Andersen et al. (2023) on the effects of monetary policy on income (labor, financial, business income, etc.) across the income distribution (for Denmark).

# Comments II

- **Income classes:**
  - Classification of households in income classes is motivated extensively in the paper.
  - Is this classification *relevant* for monetary policy?
  - Andersen et al. (2023) (for Denmark) document substantial heterogeneity in the response of labor income within the bottom 50%.

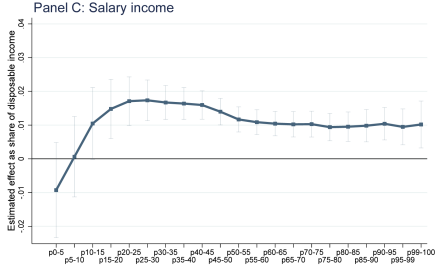


Figure: Response of salary income to monetary policy shock from Andersen et al. (2023)

# Comments III

- **Type of monetary policy shocks**
  - Shadow rates are used to capture both conventional and unconventional monetary policy,
  - but the type of monetary policy matters for the effect of monetary policy shocks on income components (see Figure 1 in Violante, 2021).
- **Identification**
  - Different strategies are used in the paper (Cholesky and sign restrictions in VARs, *observed* shocks in the local projections).
  - Important to discuss the assumption behind the sign restrictions.
  - Why not using the **Euro Area Monetary Policy Event-Study Database** of Altavilla et al. (2019)? It contains conv. and unconv. policy shocks that can be used as internal instruments (Plagborg-Møller and Wolf, 2021).
- **Coherence across models**
  - VAR models are estimated country-by-country $\implies$ country-specific coefficients.
  - Local projections IRFs are estimated using a panel $\implies$ common coefficients.

Altavilla, C., Brugnolini, L., Gürkaynak, R. S., Motto, R., and Ragusa, G. (2019). Measuring euro area monetary policy. *Journal of Monetary Economics*, 108:162–179.

Andersen, A. L., Johannesen, N., Jørgensen, M., and Peydro, J.-L. (2023). Monetary policy and inequality. *Journal of Finance (Forthcoming)*.

Corrado, L., Fantozzi, D., Giglioli, S., et al. (2022). Real-time inequalities and policies during the pandemic in the us. Technical report, Bank of Italy, Economic Research and International Relations Area.

Plagborg-Møller, M. and Wolf, C. K. (2021). Local projections and VARs estimate the same impulse responses. *Econometrica*, 89(2):955–980. Publisher: Wiley Online Library.

Violante, G. (2021). What have we learned from hank models, thus far? *Proceedings of the ECB Forum on Central Banking*.