

## **Discussion of:**

The role of the Federal Reserve policy in creating wealth inequality  
Monetary policy across the wealth distribution

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*This presentation reflects the views of its authors, not necessarily those of the Bank for International Settlements*

## In a nutshell

- Two similar papers on monetary policy and wealth inequality
  - Different empirical methodology and sample size
  - Not aware of each other?
- Why is wealth inequality so topical?
  - A key ingredient in HANK models
  - It social and political implications

## Wealth inequality roots in the past

- Wealth inequality has deep historical roots, especially in Europe
- It declined strongly after WW2, but then resumed increasing

Wealth, share of top 10%





# Summary of the papers

## Medlin and Epstein

- Baseline ingredients:
  - Gini coefficient of net wealth
  - Romer and Romer shocks
  - LP-IV
  - Sample 1976/2012
- Easy monetary policy boosts the Gini
  - Transitory effects in the 70s
  - More impact during expansions

## Franconi and Rella

- Baseline ingredients:
  - Quantiles of net wealth (DFA)
  - Jarocinski and Karadi (ST) plus Swanson (LT) shocks
  - Bayesian VAR with instruments
  - Sample 1989/91-2019
- Interest rates shocks have a positive effect on wealth in the short run
  - But the long-run effect is to depress wealth of the poorest
- Asset purchase shock seem to affect more the poorest
  - And the rich have a negative response on impact!

## Systematic vs discretionary monetary policy

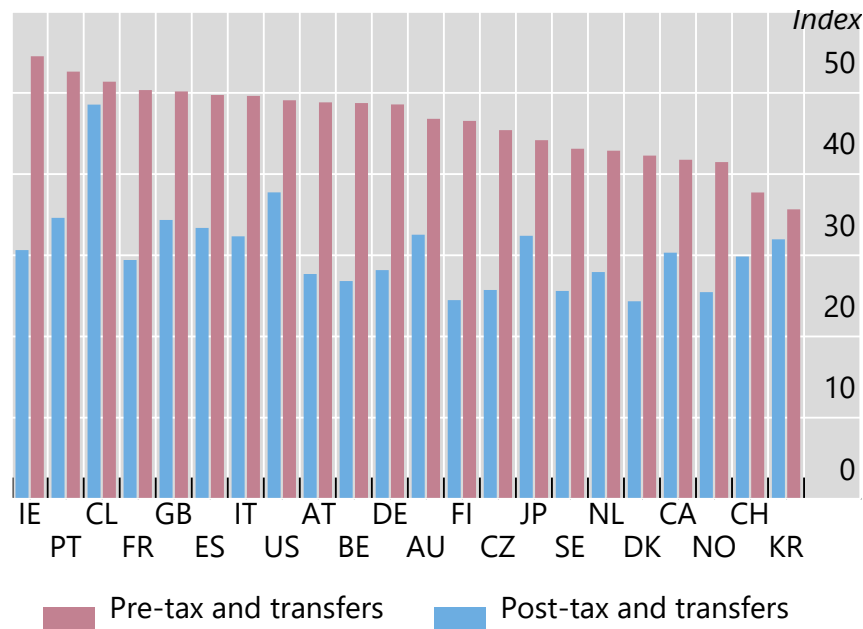
- Both papers focus (rightly so) on monetary policy shocks
  - Deviations from a certain “policy rule”
  - HF surprises to financial market participants
- Medlin and Epstein result on business cycles lends itself to a benevolent framing:
  - Central banks fuel wealth inequality by keeping unnecessarily loose monetary policy in a boom
  - During a bust, instead, extra accommodation is not that harmful
- Franconi and Rella rely on HF shocks
  - LSAP shocks have a counterintuitive effect on the wealth of the richest
  - But could this be an artifact of how they are constructed and labelled?
    - Shocks to 10y yields, also contain information
  - Why not using FFR, FG and LSAP shocks by Swanson?

## What about inflation?

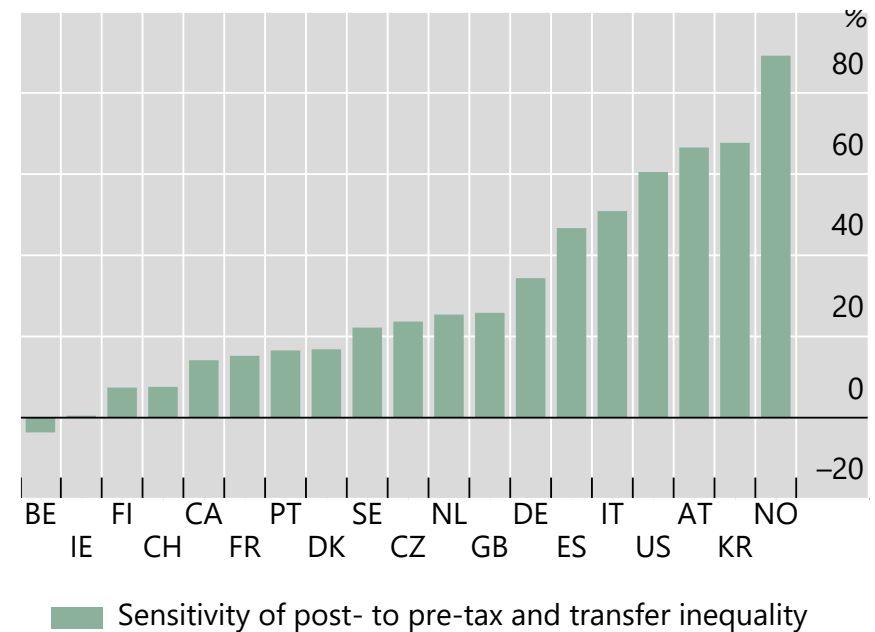
- Keeping inflation in check is central banks' primary mandate
  - *Pseudo-divine-coincidence* argument: inflation hits more the poorest, so fulfilling the mandate delivers the best distributional outcome
  - In fact, this depends on a number of circumstances related to the extent of labour income and pensions indexation, and the distribution of assets
    - Fischer and Modigliani (1978): "Towards an understanding of the real effects and costs of inflation"
- In terms of Epstein and Medlin's result on the 1970s, one wonders whether the effects were in fact muted by runaway inflation
- That said, nobody would advise letting inflation spin out of control
  - The distributional costs of bringing inflation back under control are typically large

# Fiscal policy is an effective medicine against inequality

Taxes and transfers reduce Gini inequality levels



In many countries, taxes and transfers significantly dampen fluctuations in Gini inequality



- Fiscal policy has a large impact on inequality. This can be observed by comparing before and after-tax & transfers income inequality





Thank you!