Innocent Bystanders?
Monetary Policy and Income Inequality in the U.S.

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Discussion by Romain Ranciere
Redistributive Effects of Macro Policies

- Macro Policies $\rightarrow$ Macro Outcomes $\rightarrow$ Welfare of Representative Agent.
- Real word: macro policies have redistributive effects.
- Fiscal Policy: effects on post-tax income distribution is straightforward (at least in partial equilibrium)
- Monetary Policy: much less clear, many channels: ambiguous overall effects.
  - Does it matter? How does it matter?
Monetary Policy and Income Inequality

• Directly: e.g. inflation surprise
  – Redistribute from savers to borrowers.
  – Inflation tax on cash holdings (but Ragot (2012))

• Indirectly
  – Income inequality and business cycle fluctuations.
  – Earning heterogeneity channel.
  – Difference in wage rigidity.
  – Difference in risk of unemployment.
Main Results

• Contractionary Monetary Policy raises:
  – income inequality
  – labor earnings inequality
  – Expenditures and consumption inequality

• Effects are very sizeable and very persistent.

• Discussion of channels through different sources of income.
Data

• **CEX**: consumption expenditure / survey.
  – vs. IRS data (Piketty-Saez)

• **Bias 1**: Badly informed on top income shares; key drivers of changes in income inequality.

• **Bias 2**: Limited information on non-wage income; no information on wealth.

• **Gains**: Quarterly Data and Data on Consumption.

• **Suggestion**: effects are very persistent so why not trying to use annual data as well and use then all the post 69 data (and use top income share)
Identification: Monetary Policy Shocks

• As in Romer and Romer (2004)
• Big Advantage: as in literature and same shock series to study aggregate outcome and income distribution.
• Issue: the question here is really different.
• R&R make full sense for the effect of monetary policy on output and inflation: exogeneity of shocks / purging from systematic response.
Identification: Issues

• But is R&R the most adapted identification strategy to study the effect of monetary policy on income inequality?
  – Income inequality is not in the objective function of the Fed (so less problem of endogeneity a priori)
  – Systematic response can have important effects on income inequality.
  – But other drivers of inequality can contaminate the shock series.
  – Shouldn’t we have an identification strategy that is targeted to the question at stake.
Presentation of Results

• Directly in terms of inequality measures.
  – Standard Deviation of logs
  – Gini
  – 90\textsuperscript{th} percentile / 10\textsuperscript{th} Percentile.

• Indirectly in terms of percentiles.
  – P10,P25,P50,P75,P90: much more transparent (and less dependant of specific inequality measures)
  – Inequality under different dimension (choice of this paper)
  – vs. Inequality in one dimension ((income or earning) and the distribution of other variables across same groups (consumption, expenditures)
  – Consumption / Expenditure response to change in income/earning inequality (more economics).
Figure 5: Distributional Effects of Contractionary Monetary Policy Shock by Percentiles

Notes: The figure plots the responses of each percentile of the income, salary, expenditure and consumption distributions of households in the CEX to a 1 percentage point (100 b.p.) contractionary monetary policy shock using data from 1980Q1-2008Q4. P10 corresponds to the 10th (lowest) percentile of each distribution and equivalently for P25, P50, P75 and P90. See section 3.3 for details.
Contribution of Monetary Policy to Historical Variations

• Why only looking at variation in income inequality from 1969? Data availability?

• Post 1980: Small Monetary Shocks but Strong Power in Explaining Income Inequality.

• Monetary Policy seem to have a much higher explanatory power than any other explanation for the rise in income inequality!

• MP does not only explaining fluctuation but also the rising trend in income inequality since the 1990s.

• Super Impressive but Puzzlingly so.
Note: The figure plots the quarterly sum of monetary policy shocks as identified in Romer and Romer (2004). See section 3.1 for details.
Historical Variation and MP Contribution
Summing up

• I have some issues with identification strategy but their approach is defendable.

• **On the effect of MP on income inequality:** Results are very impressive, specially the historical contribution of monetary shocks (almost too good!)
  – Strong case for distributional effects of monetary policies

• **On How monetary policy affect Income Inequality:** Not really convinced on the channels/explanations but this can be left for further research (there is already significant contribution without)