

Discussion: Doves for the Rich, Hawks for the Poor? Distributional
Consequences of Monetary Policy

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Overview

- Study of distributional consequences of monetary policy
- Framework: New Keynesian model with heterogeneity in
 - Savings
 - Labor productivity
 - Employment status
- Findings: strong distributional effects through employment
- Doves for the Rich, Hawks for the Poor? NO

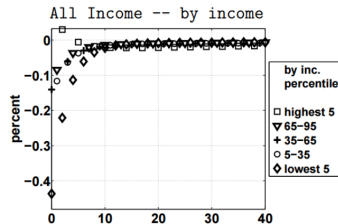
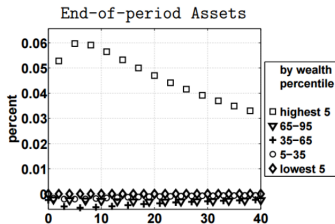
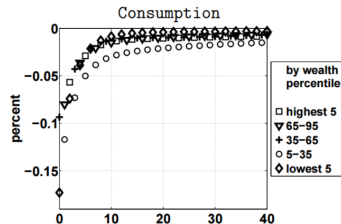
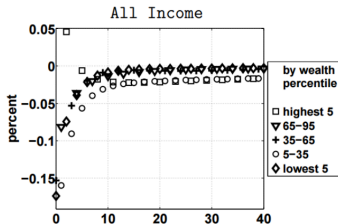
Main result

Transmission Channel of MP contractionary shock

- Different sources of income:
 - wealth poor rely on labor income
 - wealth rich rely on capital income
- Nominal $R \uparrow \implies$ Real $R \uparrow$
- HH consumption and firms investment $\downarrow \implies$ output and employment $\downarrow \implies$ income of wealth poor $\downarrow$
- Higher markups $\uparrow \implies$ Dividends $\uparrow \implies$ income of wealth rich $\uparrow$

Main result

MP contractionary shock



Data

Income Inequality

Table 1. Household incomes increased faster at the top

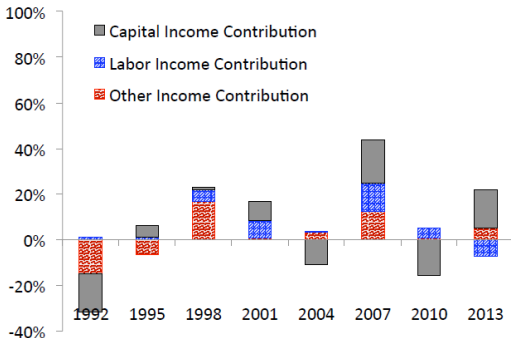
Trends in real household income by income group, mid-1980s to late 2000s

	Average annual change, in percentages		
	Total population	Bottom decile	Top decile
Australia	3.6	3.0	4.5
Austria	1.3	0.6	1.1
Belgium	1.1	1.7	1.2
Canada	1.1	0.9	1.6
Chile	1.7	2.4	1.2
Czech Republic	2.7	1.8	3.0
Denmark	1.0	0.7	1.5
Finland	1.7	1.2	2.5
France	1.2	1.6	1.3
Germany	0.9	0.1	1.6
Greece	2.1	3.4	1.8
Hungary	0.6	0.4	0.6
Ireland	3.6	3.9	2.5
Israel ¹	2.3	0.8	2.8
Italy	0.8	0.2	1.1
Japan	0.3	-0.5	0.3
Luxembourg	2.2	1.5	2.9
Mexico	1.4	0.8	1.7
Netherlands	1.4	0.5	1.6
New Zealand	1.5	1.1	2.5
Norway	2.3	1.4	2.7
Portugal	2.0	3.6	1.1
Spain	3.1	3.9	2.5
Sweden	1.8	0.4	2.4
Turkey	0.5	0.8	0.1
United Kingdom	2.1	0.9	2.5
United States	0.9	0.1	1.5
OECD27	1.7	1.3	1.9

Data

Income Inequality

- Poor and rich derive their income from different sources $\implies$ different MP transmission channels
- What drives income inequality?



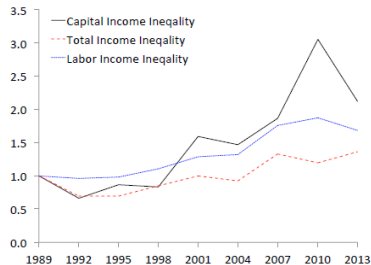
Source: SCF based from Kacperczyk, Nosal and Stevens, (2015)

Data

Capital Income Inequality



(a) Raw



(b) Normalized

Figure 1: Income inequality growth in the SCF. Inequality is measured by the ratio of the top 10% and the bottom 50% (in terms of total wealth) of participants in financial markets.

Source: SCF based from Kacperczyk, Nosal and Stevens, (2015)

Data

Income Inequality

- Income inequality is driven by the top incomes
- Income inequality is driven by capital income inequality
- Inequality within capital share of income increased drastically during the last 2 decades (different asset returns)

Mechanisms

- Heterogeneity and frictions in labor markets (skill-premium driven inequality?)
- Why not asset markets? Different asset returns? Different risk aversion?
- Returns on the portfolio linked to the skill (Kacperczyk, Nosal and Stevens, 2015)

Transmission Channel of MP contractionary shock

Relative prices matter

- Portfolio choice problem
- Nominal $R \uparrow \implies$ reallocation of asset holdings
- Sale of equities & purchase of bonds (here representative mutual fund)
- Who holds bonds/equities?
- Poorer hh hold more bonds & richer hh hold more equities
- Income inequality $\downarrow$

Additional remarks

- Why does the study stop in 2008?
- Why does the study compare MP shock to TFP shock?
- A simple model to illustrate the main intuition