

Discussion of

'How Does Monetary Policy Affect Income and Wealth Inequality? Evidence from Quantitative Easing in the Euro Area'

by Michele Lenza and Jiri Slacalek

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The Paper in the Broader Context

Growing literature on **income** and **wealth inequality** and what are **causes**

+ Theoretical side: HANK literature

Micro-level heterogeneities important drivers of aggregate dynamics

(Kaplan, Moll, Violante, 2018; Auclert, 2019)

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+ Empirical side:

- Unconditional estimates (Güvenen et al. 2017)
- Conventional monetary policy (Coibion et al., 2017; Holm et al., 2020; Andersen et al., 2021, Amberg et al., 2022; Coglianesi et al. 2022)
- Unconventional monetary policy (Casiraghi et al., 2018)

This Paper

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1. Effects of **quantitative easing**

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Uses a two-step approach:

1. Run proxy-BVAR to estimate impact of QE shocks on macro aggregates
2. Use HFCS and micro simulations to impute the aggregate effects at household-level

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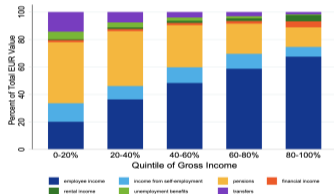
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Figure 1 Composition of Income



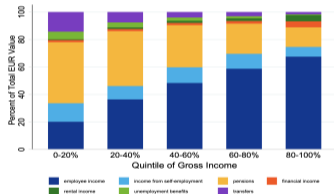
Source: Household Finance and Consumption Survey, wave 2014

Note: The figure shows how the share of income components in total gross income varies across quintiles of gross income. Unemployment benefits and transfers include regular social transfers (except pensions) and private transfers. The figure shows an aggregate of France, Germany, Italy and Spain.

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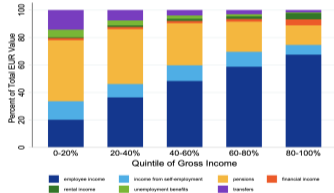
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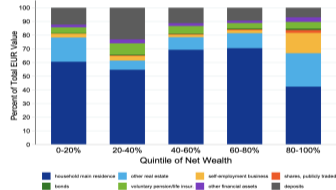
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Figure 2 Composition of Total Assets



Source: Household Finance and Consumption Survey, wave 2014

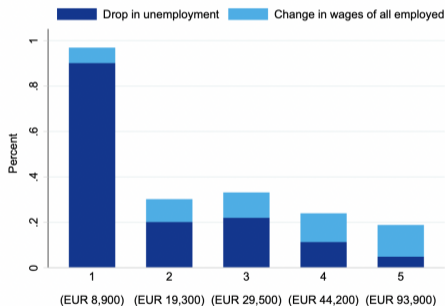
Note: The figure shows how the share of components in total assets varies across quintiles of net wealth. Other financial assets include managed accounts, mutual funds and money owed to households. The figure shows an aggregate of France, Germany, Italy and Spain.

Main Channels of Transmission

2. Heterogeneity within each income component

- *Earnings heterogeneity*: different wage sensitivity, different prob. of moving from U to E

Figure 6 Decomposition of the Total Effect on Mean Income into the Extensive and the Intensive Margin



Source: Household Finance and Consumption Survey, wave 2014

Note: The figure shows the percentage change in mean income across income quintiles in the euro area four quarters after the impact of the QE shock. It also shows the decomposition of the change into the extensive margin (transition from unemployment to employment) and the intensive margin (change in wage). The numbers in parentheses show the initial levels of mean gross household income. The figure shows an aggregate of France, Germany, Italy and Spain. We run the micro-simulation for 1000 draws of the VAR impulse responses and we report here the median of the micro-simulations.

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Now:

- + The paper focuses on QE shocks

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Assess relative efficacy of QE and how it fits in the ECB toolkit

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Could help understand how much consumption smoothing households do

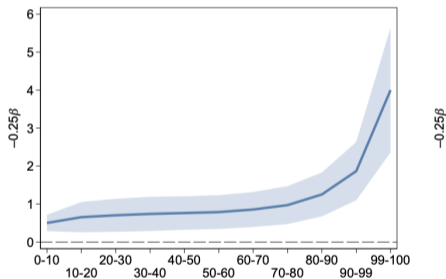
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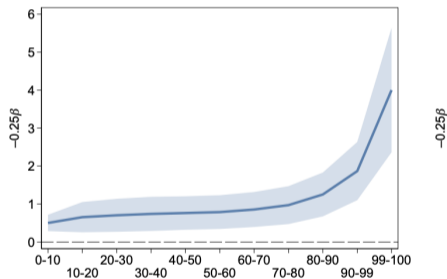
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Suggestion: Assume as baseline that also capital income is affected by the QE shock

+ This might also impact results on effects of QE on inequality

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A. Total after-tax income

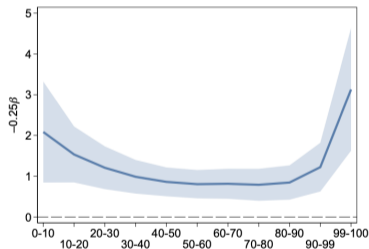


Table 1: Implications of total income results for common measures of inequality

	Initial value	Two years after -25bp shock	Percent change
Gini coefficient	0.287	0.288	0.09
Top 1% income share	5.297	5.401	1.95
Top 10% income share	20.933	21.047	0.55
Standard deviation of log income	0.449	0.447	-0.43
Ratio of 90th to 10th percentile	3.226	3.212	-0.43
Ratio of 90th to 50th percentile	1.594	1.595	0.11
Ratio of 50th to 10th percentile	2.024	2.013	-0.55

This table reports the values of several common measures of income inequality computed based on actual total after-tax incomes in 2016 for all individuals in our sample (second column), as well as on a counterfactual income distribution, obtained by simulating the two-year effects of a -25 basis points monetary shock (third column). The rightmost column shows the percent change in the inequality measures after the simulated monetary policy shock.

Suggestion: Use additional measures before drawing conclusions about impact on inequality

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 4. Compute additional measures of inequality