Discussion of “Monetary Policy and Inequality” by Andersen, Johannesen, Jorgensen and Peydro

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This paper

- Provides estimates of the effects of monetary policy on components of disposable income (DI) across the DI distribution in Denmark.
- Finds that all households benefit from accommodative monetary policy shocks, but the top of the distribution disproportionately so.
How this fits in the literature

- Until early 2010s: redistribution absent from discussions of mo.po.
- Past decade: increasing recognition in central banks that mo.po does not affect everyone equally, willingness to openly discuss it

- Lots of progress on both fronts already!
- The current version of this paper makes a nice but incremental contribution to the crowded literature in 1.
- Where potential really is: engage with the issues of the theoretical literature in 2. to help develop the next generation of models.
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How this paper fares wrt first literature

- Big improvement over the first literature:
  1. Administrative data on both income and wealth
  2. Detailed income breakdown into components (incl. taxes and transfers, interest income and expenses)
  3. Household, not just individual level

- Not so appealing:
  4. Danish setting is special: mortgage market, and especially magnitude of taxes and transfers. Not clear how to extrapolate.
  5. Not currently following gold standard of carefully identifying monetary shocks: regress $\Delta i_t$ on $y_t$ rather than actual shocks, very crude check that aggregates line up with what is known from vast literature

Features 1–4 shared by closely related paper by Holm, Paul, Tischbirek (JPE forthcoming). They do better on 5.
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On aggregates: three data points...
Gold standard: look at least 5 years out!

(Source: Coenen, Erceg, Freedman, Furceri, Kumhof et al, 2012)
Choice of main outcomes

- The paper focuses a lot on disposable income. Nice because it can be split into additive components from the tax return, but:
  - Not what’s measured by Piketty (pretax income)
  - Not consumption or welfare
  - Not a state variable in a heterogeneous agent model
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  - Obviously in U.S. (cf papers informing 2020 change in Fed mandate)
Contradictory finding even in Europe?

- IRF of the Gini of earnings in administrative data from Germany
- Broer-Kramer-Mitman 2021, +25 basis point shock (so flip to get -)

![Graph showing the change in Gini over time with 68% confidence interval]

Do ∆ come from country context? or choice of outcome variable?

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Why this matters

- Models have subtle implications for inequality effects of mp!
- Auclert-Rognlie-Straub 2020, -25 basis point shock

Figure 10: The distributional effects of monetary policy

- Consumption inequality (var log)
- Wealth inequality (var log)
- Inequality in liquid wealth (var log)
- Top 5% wealth share (basis points)
Is consumption inequality going up?

- Cars clearly an imperfect proxy, but...

Panel B: Car purchases

~Baseline level from Table 1
Where the money is for the literature

- Modern “HANK” models have at least 3 state variables (pre-tax income, liquid asset, illiquid asset), possibly also age, etc.
- Key inputs that these models need:
  1. “Incidence of income”, ie how gains from m.p. are distributed across the post-tax labor income distribution
  2. “Cyclicality of income risk”, how it affects e.g. unemployment risk
  3. Distribution of asset returns in liquid vs. illiquid accounts

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Conclusion

- Nice paper on an important topic!
- Controversial conclusion, should explain difference with prior findings
- Could have a big influence by engaging with ongoing development of models with heterogeneous agents