Monetary Policy and Racial Inequality

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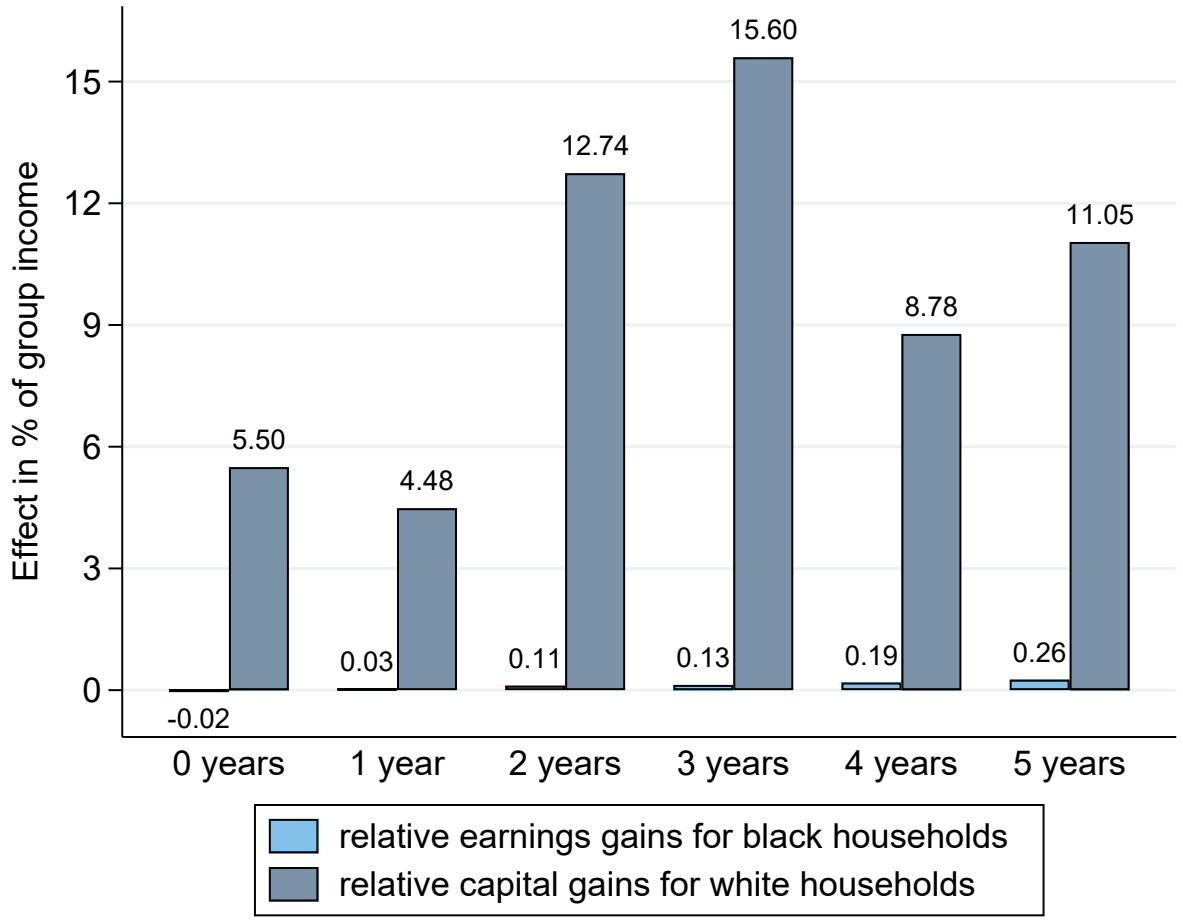
My view

- Very interesting paper on an important topic!
- $r \downarrow$ has opposite effects on racial income and wealth inequality
  1. on one hand: racial unemployment gap $\downarrow \Rightarrow \frac{\text{earnings of whites}}{\text{earnings of blacks}} \downarrow$
  2. on other hand: asset prices $\uparrow \Rightarrow \frac{\text{wealth of whites}}{\text{wealth of blacks}} \uparrow$
- "Monetary policymakers face trade-off: monetary accommodation widens racial wealth inequality as it reduces income inequality."

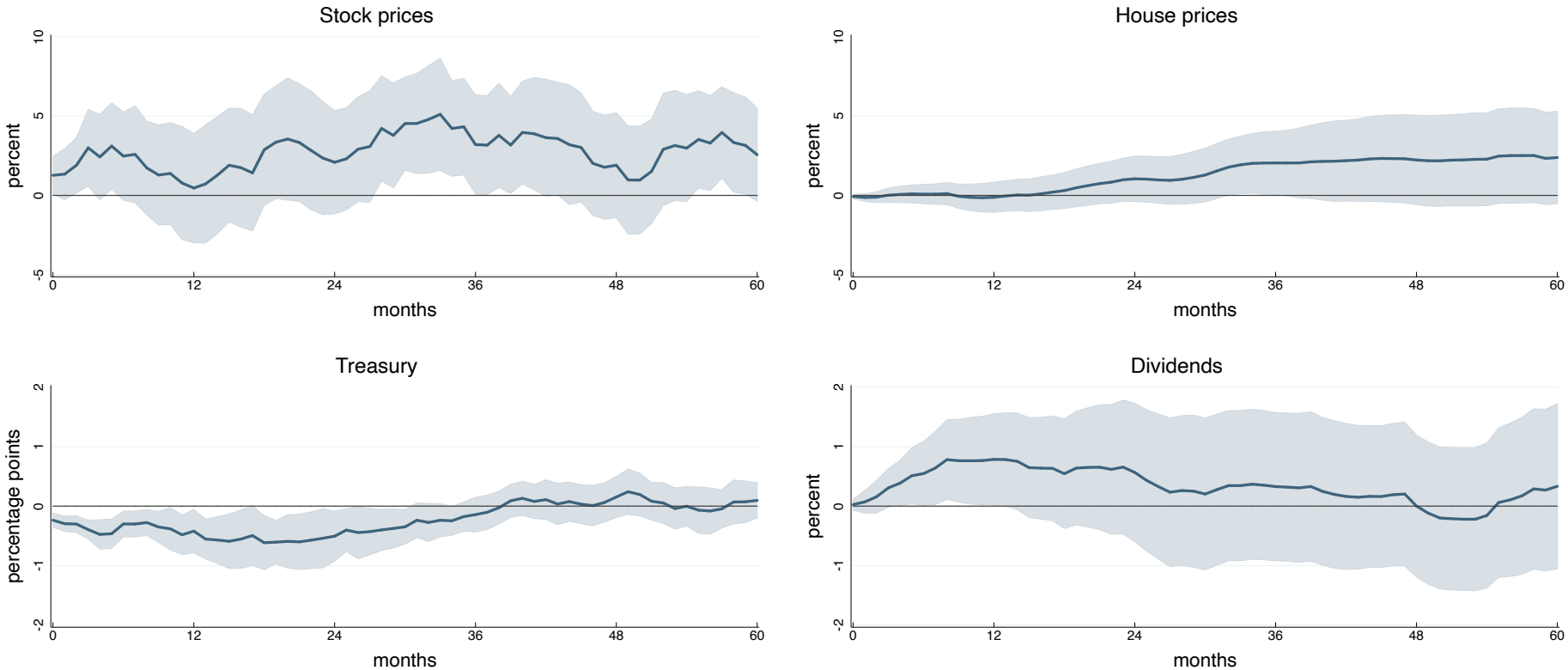
More provocative version: "Reduction in earnings gap pales in comparison to effects on wealth gap"



"Our analysis therefore does not bode well for the suggestion [...] that more accommodative monetary policy helps alleviate racial inequalities"

Key: large and very persistent asset-price effects

Figure 9: 100bp monetary policy shock (LP-IV with Romer-Romer)



- See section 5.1.1 in paper for helpful discussion
- Consistent with some other estimates ...
- ... but still puzzling to me

Plan

1. A quibble

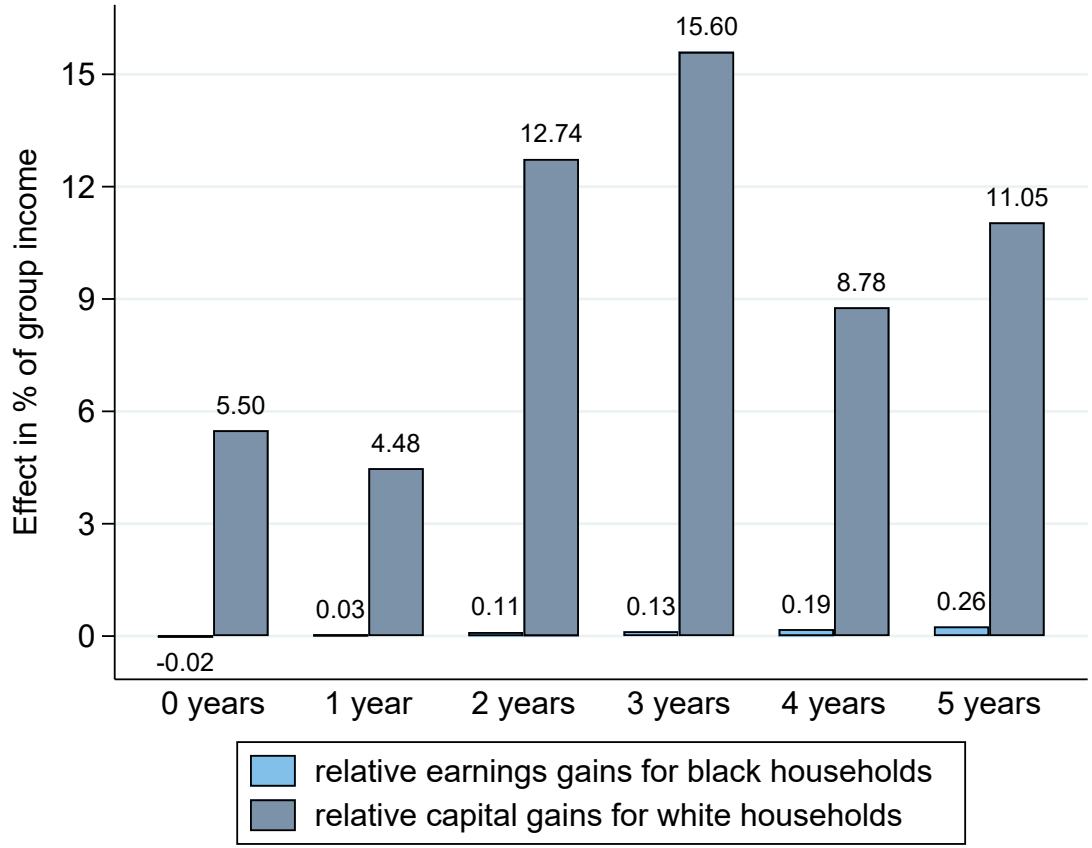
2. Comment on provocative conclusion: apples vs oranges?

Quibble: same MPC for black and white hh's

- To compare earnings and portfolio effects, BKSW convert capital gains into consumption units
- Do not observe consumption $\Rightarrow$ use existing estimate for MPC out of stock market wealth = 3.2% (ChodorowReich et al)
- But literature provides average MPC rather than MPC by race or other observables $\Rightarrow$ use same MPC for black and white hh's
- My quibble: very possible that MPC of black hh's >> MPC of white hh's (e.g. lower liquid wealth, collateral more important)
- Example (extreme): white MPC = 3%, black MPC = 20%
  - white consumption gain = 3% $\times$ \$18,900 = \$567
  - black consumption gain = 20% $\times$ \$3,300 = \$660 > \$567

$\Rightarrow$ main finding reversed: monetary policy reduces racial inequality

Comment on provocative conclusion: apples vs oranges?



Apples vs oranges?

- Paper compares earnings gains with capital gains (both in $)
- But capital gains are unrealized capital gains
- Question: are unrealized capital gains generated by $r \downarrow$ comparable to earnings? (Haig-Simons?)

Kaldor (1955) "An Expenditure Tax"

- "We may now turn to the other type of capital appreciation which reflects a fall in interest rates rather than the expectation of higher earning power"
- "This in a sense is in an intermediate category [...] since the rise in capital values in this case [comes] without a corresponding increase in the flow of real income accruing from that wealth."
- "For in so far as a capital gain is realized and spent [...] the benefit derived from the gain is equivalent to that of any other casual profit."
- "If however it is not so realized, there is clearly only a smaller benefit."

Kaldor's takeaway from this discussion: super tricky to define notion of income that would be good tax base $\Rightarrow$ prefer an expenditure tax

Literature in macro & hh finance examines effect of asset-price changes on wealth and welfare inequality

- Paish (1940)
- Whalley (1979) ”Capital Gains Taxation and Interest Rate Changes”
- Catherine, Miller and Sarin (2020)
- Cioffi (2022)
- Gomez (2020)
- Gomez and Gouin-Bonenfant (2020)
- Greenwald, Leombroni, Lustig and Van Nieuwerburgh (2021)
- Imrohoroglu and Zhao (2022)
- Moll (2020)
- Fagereng, Gomez, Gouin-Bonenfant, Holm, Moll and Natvik (2022)

Asset-Price Redistribution*

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Abstract

The past forty years have seen large increases in valuations across many asset classes. These rising valuations had important effects on the distribution of wealth. However, little is known regarding their effect on the distribution of *welfare*. To make progress on this question, we derive a sufficient statistic for the welfare effect of a rise in asset prices that depends of the present value of an individual's *net asset sales*. We then estimate this quantity using panel microdata covering the universe of Norwegian financial transactions from 1994 to 2015. We find that rising asset valuations had large redistributive consequences: they redistributed welfare from the young towards the old, and from the poor towards the wealthy.

Equivalent variation of asset price changes

Is there way to translate asset price changes due to $r \downarrow$ into money-metric welfare measure that is comparable to income gains?

Yes! Sufficient-statistics formula for equivalent variation

$$\text{Welfare Gain (EV)}_i = \sum_{t=0}^{T} R^{-t} \left(\text{Sales}_{it} \times \text{Price Deviation}_t \right) \qquad (*)$$

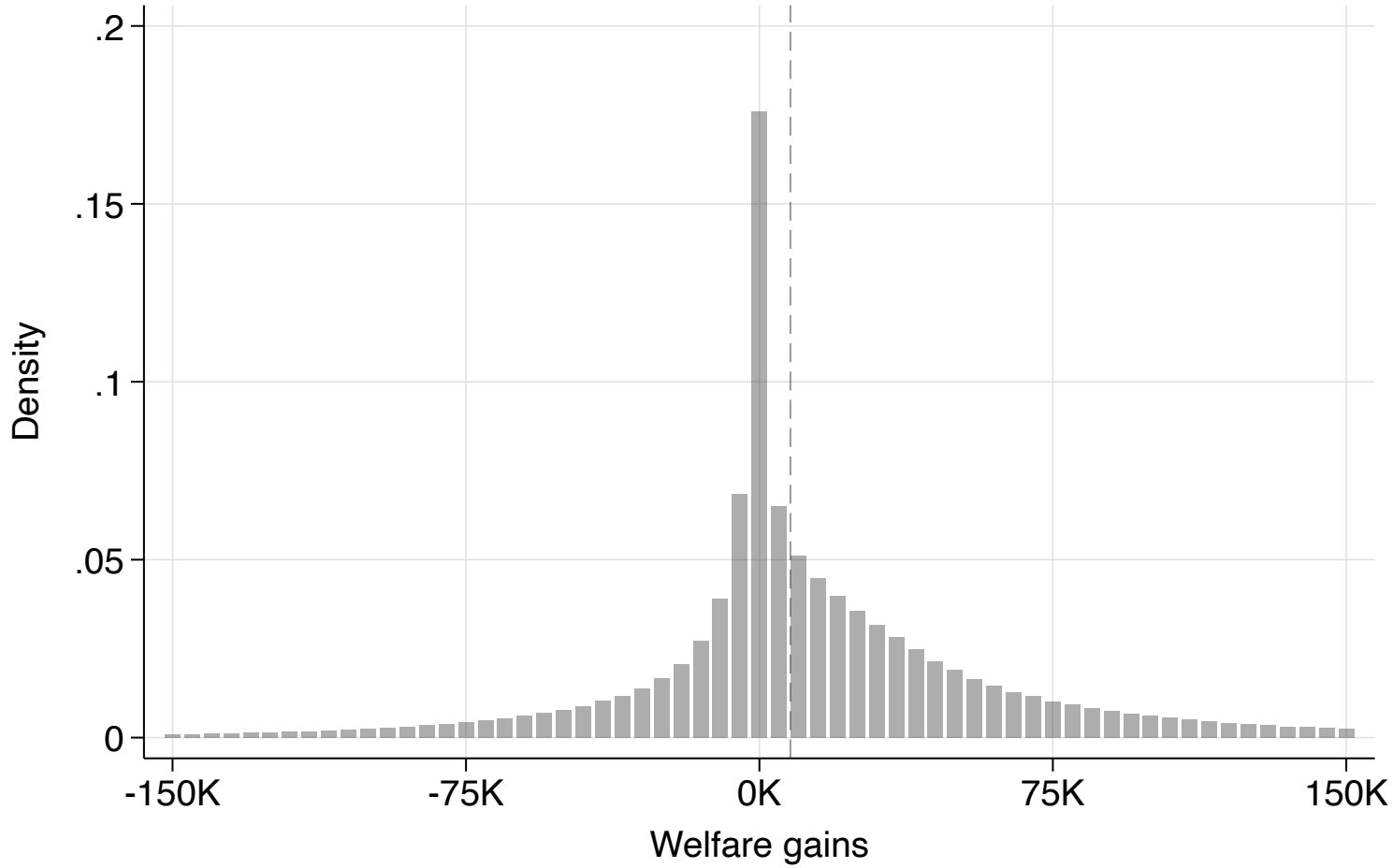
$$\text{where} \quad \text{Price Deviation}_t = \Delta\% \left(\frac{\text{Price}}{\text{Dividend}} \right)_t$$

Lesson: rising asset prices benefit sellers not holders,
e.g. for individual who never sells, Price $\uparrow$ just "paper gains"

Implement $(*)$ with Norwegian admin panel data on asset transactions

(Note: $(*)$ does not feature collateral effects but an extension does)

Equivalent variation of asset price changes in Norway



Welfare gains (EV) < wealth gains

- Welfare gains on average lower than wealth gains (or even < 0)
- They are correlated (selling requires having) but correlation = 0.3

Implication for Bartscher-Kuhn-Schularick-Wachtel

Careful when comparing earnings gains and unrealized capital gains

To do this in satisfactory fashion, really need one of

1. consumption data
2. transaction data (like in Norway)

I am nervous about provocative conclusion that accomodative monetary policy hurts overall racial inequality

But the following conclusion still stands:

- "Monetary policymakers face trade-off: monetary accommodation widens racial wealth inequality as it reduces income inequality."

and that is a very interesting and important finding!

Summary

Great paper!

Comments/questions:

1. Assumption that black and white households have same MPCs out of stock market wealth could bias results

2. Direct comparison of earnings gains and unrealized capital gains = comparison of apples and oranges
    - consumption or transaction data?
    - unclear whether most provocative conclusion “accomodative monetary policy hurts overall racial inequality” holds up
    - but point about tradeoff is interesting and important