The Distributional Consequences of Macroeconomic Stabilization Policies

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Motivation

- Concerns about the distributional consequences of macroeconomic (stabilization) policies deployed during and after the global financial crisis
- Monetary Policy (MP) usually focuses on aggregate outcomes; however, new debate recently (e.g., Bernanke, 2015; Rogoff, 2018; Wilkins, 2018), especially around low interest rates and QE (e.g., Imp弹amp; al., 2018)
- Fiscal Policy (FP) usually focuses on distributional objectives; however, sometimes other distributional objectives (e.g., economic growth, absorptive efficiency, reducing debt levels)

Data

- EU Statistics on Income and Living Conditions (EU-SILC)
  - 4-year rotating panel (unbalanced) based on annual national household surveys in EU member states and a few non-EU countries
  - Detailed data on income (e.g., labor, capital, rental, and government transfer income), financial and housing situation, standard household characteristics (balance sheets, wealth information is only qualitative)
  - 28 Euro Area (EA) countries, and 2 non-EA countries (including United Kingdom, Sweden, Norway)

- Panel data allow us to trace the same households over time
- Cross-country data increases the variation of monetary and fiscal policy (at the same time, the impact of institutional characteristics is mitigated)

Empirical Analysis

(1) Aggregate and Distributional Results:

-乾mp_{n, t} = a_0 + a_1 \text{Disinc}_{n, t} + \text{control}_{n, t} + \text{shock}_{t} + \text{error}_{n, t}

-乾mp_{n, t} = disposable income growth (y/y)
- a_0, a_1 = constant, household- and time-fixed effects
- Disinc_{n, t} = household controls
- control_{n, t} = contemporaneous and lagged value of the monetary and fiscal policy shocks

(2) Testing for Transmission Channels:

- The previous literature has identified a number of transmission channels:
  - Wage/earnings heterogeneity channel (via income level or skills)
  - Interest rate exposure channel (via different maturities)
  - Savings redistribution channel (via unexpected inflation)
  - Intertemporal substitution channel (via liquid wealth)

- We rely on a similar empirical specification as above (we replace disposable income growth with expenditure/growth vs. income)
- We use the first and the second lags of the shocks this time)
- We control for additional variables in case the shocks do not capture the international dimension very well

(3) Impact on Expenditures/"Consumption":

- We rely on a similar specification as above (reduce the household income and capital income growth, respectively)
- If your question, what is the very lowest net disposable income that your household would have to be below in order to make ends meet, that is to say its "actual necessary income"?

- Reference period of this variable is "contemporaneous" (as income)

- The response of labor income growth differs across the distribution
- Wage/earnings heterogeneity channel
- The response of labor income and capital income differ
- Income composition channel
- Evidence qualitatively consistent with HANK models

Summary of Results

- Distributional Impacts
  - A joint MP and FP tightening… increases disposable income growth across all quintiles of the disposable income distribution
  - A monetary policy tightening… reduces disposable income growth across all quintiles of the disposable income distribution
  - A fiscal policy tightening… reduces disposable income growth across all quintiles of the disposable income distribution

- Inequality
  - A MP tightening increases income inequality as it hurts households at the bottom of the income distribution
  - A FP tightening has a more balanced effect across the distribution (at least objectively)

- HANK Models
  - We find evidence for the existence of an earnings heterogeneity channel and an income composition channel, moreover, the indirect income channels appear to be important
  - We also find evidence consistent with an interest rate exposure channel and/or a savings redistribution channel

Contribution

- First, we use a cross-country household panel dataset
  - Household data allow us to examine the effects of policies on specific groups, e.g., across the income distribution or for house owners
  - Panel data allow us to trace the same households over time
  - Cross-country data increases the variation of monetary and fiscal policy (at the same time, the impact of institutional characteristics is mitigated)

- Second, we examine and compare the effects of monetary and fiscal policy

- Third, our data cover both the global financial crisis and the European debt crisis

Household Data

- MP Shocks: We use data from Georgiadis and Jariyaporn (2017)
  - Select shocks that have the longest sample coverage and that are from best published papers/the central bank
  - EF shocks plus eight non-EA countries
  - Mix of methodologies but mostly from ISIM models
  - We control for additional variables in case the shocks do not capture the international dimension very well

- FP Shocks: Based on Auerbach and Gorodnichenko (2013) and Furceri et al. (2018)
  - Results of a regression of the policy forecast errors on the forecast errors of business cycle controls

Monetary and Fiscal Policy Shocks

- MP: Kaplan and Violante (2018, WP)
  - Evidence qualitatively consistent with HANK models
- FP: Ball et al. (2013)
  - Consensus: Both policies contribute to inequality but they are not the main drivers (instead, these are long-term trends, MP: Coibion et al. (2017); Furceri et al., 2018; FP: Ball et al. (2013)

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Savings redistribution channel (via unexpected inflation)

Intertemporal substitution channel (via liquid wealth)

Interest rate exposure channel (via different maturities)

Wage/earnings heterogeneity channel (via income level or skills)