

Discussion of "Did Quantitative Easing Increase Income Inequality?"

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CEP-Gerzensee-SNB Workshop, 9-10 November 2017

¹The views expressed are those of the author and do not necessarily reflect those of the ECB.

Research question

- ▶ Has quantitative easing (QE) increased income inequality?
- ▶ Three channels:
 - ▶ Employment channel (lower unemployment of the poor)
 - ▶ Asset *appreciation* and return channel (higher financial returns for the rich)
 - ▶ Mortgage refinancing channel (lower interest payments for the rich)
- ▶ Related literature: Coibon et al. (2012), Gornemann et al. (2012), Adam and Tzamourani (2016), Lenza and Slacalek (2017).

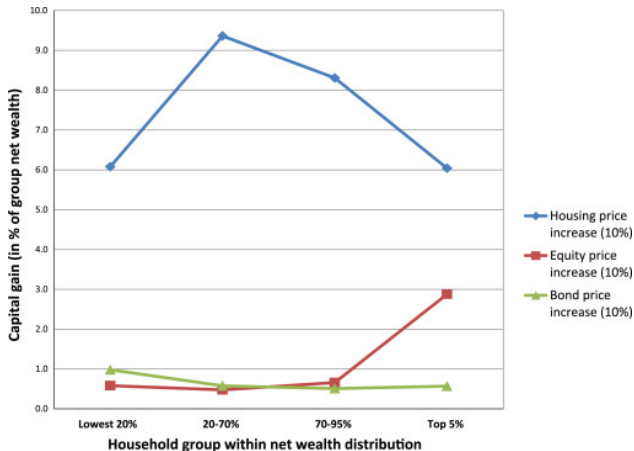
Data/method/findings

- ▶ Survey of Consumer Finances (SCF): 2010 (pre-QE) and 2013 (post-QE) vintages
- ▶ Firpo et al. (2007): Recentered Influence Function (RIF) regressions & Oaxaca-Blinder decomposition
- ▶ Decomposition of the change in income inequality from:
 1. Employment
 2. Financial returns
 3. Mortgage refinancing
- ▶ Identification of contribution of QE via 1 and 2
- ▶ Paper concludes that QE increased income inequality

Unconventional income measure

- ▶ Net income = wages + interest + **business** + transfers + **capital gains** - debt payments
- ▶ Paper states that:
 - ▶ **business** stands for income from owning a controlling share or running a business
 - ▶ **capital gains** stand for realized capital gains on *financial* assets
- ▶ What about rental income and capital gains from housing?
Included in X5712 and X5714!

Adam and Tzamourani (2016)



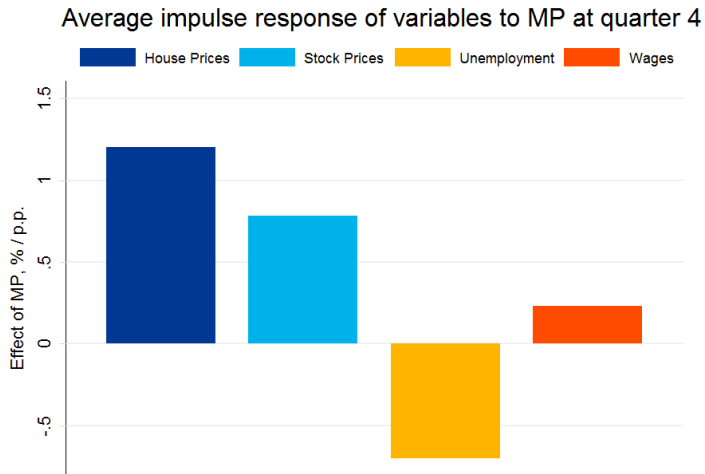
Unconventional income measure

- ▶ Alvaredo et al. (2017):
 - ▶ Distributional National Accounts: measure the extent to which different social groups benefit from growth.
 - ▶ Disposable income, which could also be labeled "personal disposable income", is equal to the **sum of all income flows** accruing to individuals, after taking into account the operation of the tax and transfer system.
 - ▶ Most [income] series were constructed by using some kind of **"fiscal income" concept**, i.e., total income that is or should be reported on income tax declarations
- ▶ **Realised** capital gains underestimate impact of QE on more illiquid assets (e.g. housing, business wealth)
- ▶ Guvenen and Kaplan (2017) use total income *excluding* capital gains

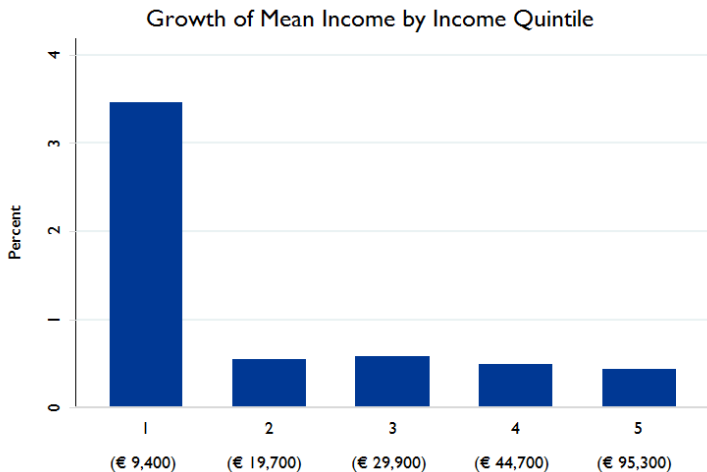
Endogeneity of QE

- ▶ RIF regressions are reduced form
- ▶ Issue: identification of impact of QE on inequality
- ▶ Isolating impact of QE via:
 - ▶ Excluding bond returns, mortgage refinancing
 - ▶ *Assumptions* about relative impact of QE on employment and equity prices
 - ▶ Not clear whether impact of QE can be identified in this way
- ▶ Comparison of impact via flow (employment) vs. stock (equity prices) variable seems unwarranted (cf. income vs. wealth distribution)

Lenza and Slacalek (2017)



Lenza and Slacalek (2017)



Conclusion

- ▶ Nice decomposition of change in income distribution using RIF method
 - ▶ Helps to understand drivers of change in income distribution
- ▶ Paper concludes that QE *increased* income inequality
- ▶ Findings seem affected by:
 - ▶ Choice of income measure
 - ▶ Identification of QE impact

Lenza and Slacalek (2017)

