"The effects of monetary policy shocks on inequality in Japan" – Discussion of Inui, Sudo, Yamada (2017)

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This paper

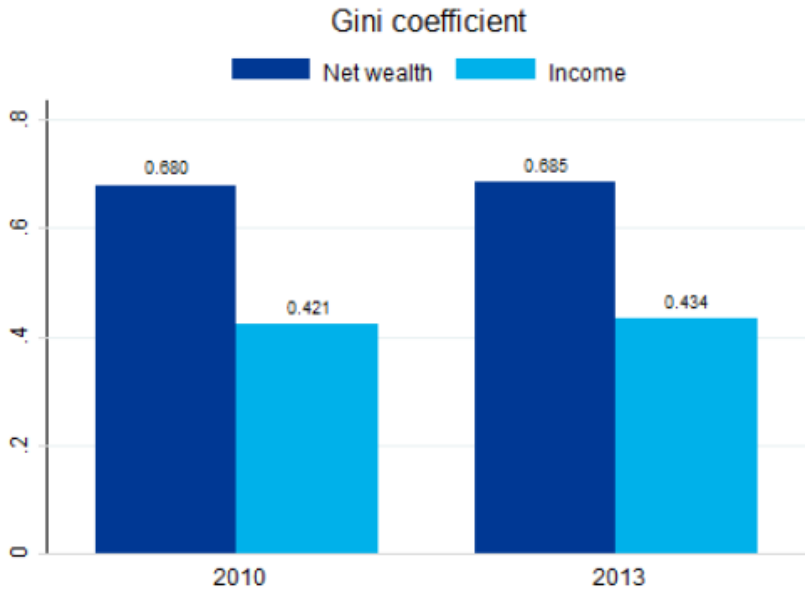
- Empirical assessment of impact of MP shocks on income/consumption inequality in Japan, 1981-2008
  - Genuine aggregate inequality measures from income survey, LLP-FAVAR approach with Cholesky, Shadow rate when ZLB
  - Exp. MP increases income (earnings), but not consumption, inequality. Holds over '81-'99, not after 2000. Role of heterogenous MPC in low transmission from Y to C.
- Stylized GE model with sector-specific + mobile labour:
  - illustrates potential role of structural change in labour market (↑ flexibility/turnover)
- Additional exercise using SHF data: no evidence of active asset price/inflation channels affecting wealth inequality.

Monetary policy and inequality: what do we expect?

- Expansionary MP generally implies:
  - Lower short (and long = TSH) interest rates
  - Higher asset prices
  - Higher inflation
  - and, on the way, stronger activity/employment (+hysteresis)
- UMP vs MP?
  - More emphasis on lowering long term rates (FG): TSH + premia
  - Direct asset purchases: more distorsions

***Expansionary* MP and inequality: what do we expect?**

- Which inequality look at: wealth / income / consumption?
- Job creation channel:
  - (Strong) ↓ income inequality (e.g., Ampudia, Pavlickova, Slacalek, Vogel, JPM 2016)
- Inflation [“saving redistribution”] channel:
  - ↓ wealth inequality if poor net borrowers (e.g., Adam & Zhu, JEEA 2015)



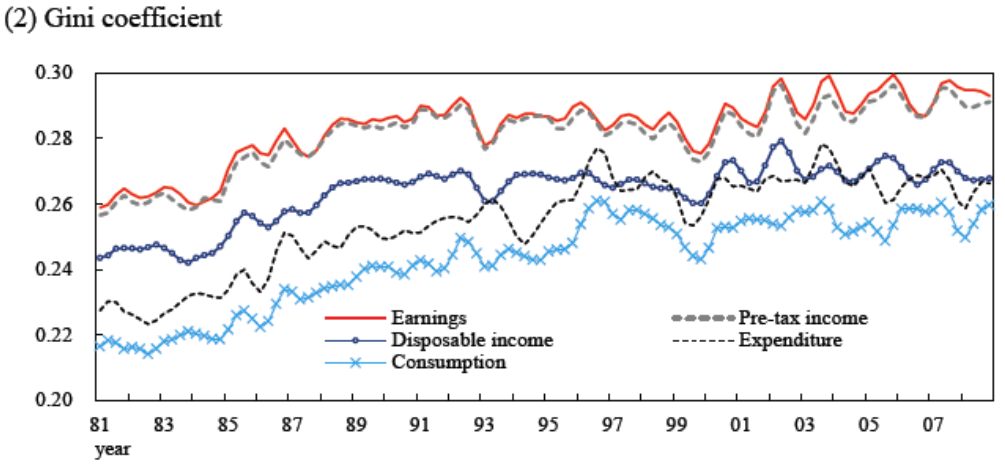
Euro area inequality indicators. Source: HFCS

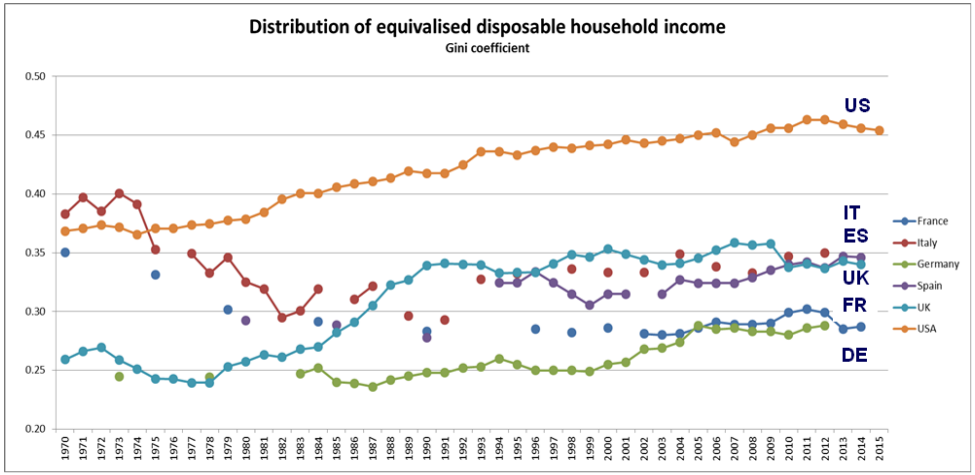
Expansionary MP and inequality: what do we expect?

- Asset prices [“portfolio”] channel:
  - ↑ wealth inequality (due to skewed stock holdings). See Adam & Tzamourani (EER, 2016) for EA, Saiki & Frost (2014) for Japan post 2008
  - From wealth to consumption inequality? Different MPC across wealth distribution (Arrondel, Lamarche, Savignac, 2016)
- Income composition (K vs L) channel:
  - ↑ income inequality if boosts K income more than L income (see Coibion et al., 2012)
- Wage heterogeneity channel: main focus of this paper
  - ↓ earnings inequality (Mumtaz & Theophilopoulou, 2016, for UK).

Comment 1: data

- Very volatile measures of (disposable) income inequality
  - Figures: Gini, Japan from ISY vs Gini, developed economies (Chartbook of economic inequality)
- Why? Should we care?

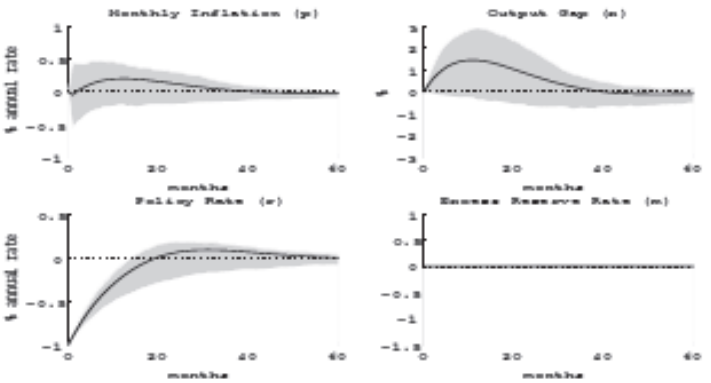




Comment 2: focus of paper

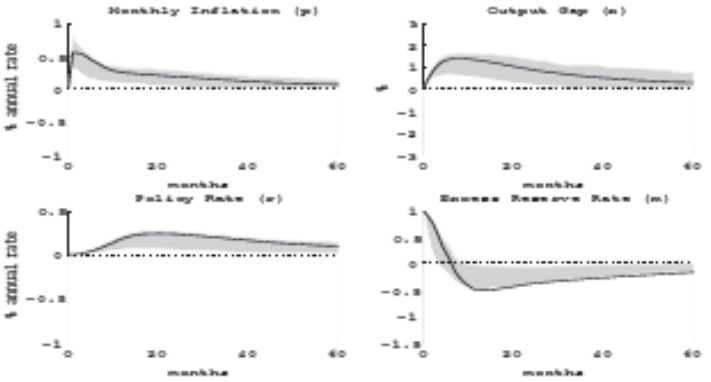
- Use of shadow rate in this linear setup over 3 decades => UMP assumed to have similar channels/effects as CMP
  - Vindicated?
  - MS-VAR suggests: no
- Other major issue: impact on inequality of switching on/off UMP (or not, or untimely…)
  - Japan: great “lab” for this!

Figure 4a: The Policy-Rate Effect, the base period is March 1995



Note: The policy-rate effect is defined in (6.1). The 68% probability bands in shades.

Figure 4b: The QE Effect, the base period is February 2004



Note: The QE effect is defined in (6.2). The 68% probability bands in shades.

IRFs from MS-VAR, Hayashi & Koeda (2017)

Comment 3: empirical approach and identification

- Two-step methodology:
  - FAVAR (~ BBE, 2005): Macro factors' (includ. MP rate) dynamics and MP shock identification
  - LLP: Macro factors (including MP) → Inequality forecasts
- Why not simply a dynamic factor model (FAVAR) ?
  - Motivation in Aikman et al. (2016) is different (factors supplement forecasts aimed at solving endogeneity pb)
  - Measurement equation: $X=L*F+B*R+u$ with inequality indicators in X ; Transition equation: FAVAR.
  - Alternatively: Bayesian VAR including inequality measures

Comment 3: empirical approach and identification (2)

- Factor extraction and shock identification within FAVAR using Cholesky (MPR ordered last, after PC factors extracted from X)
  - X includes financial asset prices: difficult to assume delayed reaction to MP rate shock…
  - Besides, this may be inconsistent with use of shadow rate (inferred, outside of model, from shape of contemporaneous YC using an affine TS model)
  - Force Rt to be a factor (Boivin, Gianonni, 2009) or extract Ft from slow-moving macro variables as in BBE (2005)
- Factors are “generated” regressors: use bootstrap for inference and confidence intervals

Other comments

- Right combination of theory and empirics still to be found:
  - Model meant to stress role of market flexibility. Rather illustrative so far, some ad-hocities (adjustment costs eg)
  - Either put it upfront and enrich it (core focus), or drop it?
- Figure 7 suggests job creation channel kills main result on earnings inequality. What impact on consumption inequality? Does it drop?
- Assessment of impact on wealth inequality: why look at wealth changes by income quintiles instead of wealth quintiles?

Impressive amount of work. Very stimulating paper. Maybe needs some streamlining. Good luck!