Inequality and monetary policy

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Compared with fiscal policy, monetary policy is less frequently discussed in the context of inequality.

- Monetary policy: neutral to economic inequality in the long run. (Bernanke, 2015)
- Inequality: results of long term structural changes in economy

After the global financial crisis, central banks are not neutral to inequality problems any more.
- Quantitative easing: beneficial for the rich (Schnabel, 2021)

⇒ Many researches on inequality and monetary policy with many different results
Areas covered in the Survey

- Monetary policy conduct
- Price stability
- Income and wealth distribution
- Official reserve management
- Safety and liquidity
- Investment with positive social impact
- Currency issuance
- Adequate cash in circulation
- Digital currency for financial inclusion
- Financial regulation
- Robust financial sector
- Socially oriented financial instruments

Today: focused on the first area, monetary policy conduct
Monetary Policy (MP) and distributional effects

MP has effects on income and wealth inequality through transmission channels:

- Income composition: labour or transfer vs capital
- Earning distribution: low skilled vs high skilled
- Portfolio composition: pension vs financial or real asset
- Saving redistribution: net borrowers vs net savers
Researches on inequatliy and MP

Distributional impacts of MP is mixed, especially, on wealth in equality

However, ...
Researches on inequity and MP

(MP and income inequality)

- More researches say accommodative MP reduces income inequality by boosting economy and preventing unemployment (Coibion et al.(2017), Mumtaz and Theophilopoulou(2017))
  - This also holds in Asia-Pacific economies (Punzi, 2020)

- Higher interest rates aggravate the income inequality in Asia countries including India, Indonesia, Malaysia and the Philippines. (Yousaf et al. (2018))
Inequality and MP in Korea

(Empirical results in Korea)

- Lower interest rate reduces *income* inequality
  - Especially in 1990s
  - Unclearer relation after 2000 partly due to:
    1. crises which result in larger income inequality as well as inevitable drops of policy rates
    2. weaker relation between monetary policy easing and better employment

- Higher interest rate decreases *wealth* inequality
  - Higher policy rates results in lower price of stocks and houses
Towards inequality-mindful conduct of monetary policy

- Traditionally, Promote equality by low inflation and economic stability
  - Volatile inflation lowers purchasing power of the poor in general

- More inequality-mindful MP conducts should be considered
  - Develop a deeper understanding of the distributional impacts of MP
  - Impact assessment can include income and wealth distribution

- Balanced stances between other goals and inequality
  - price and financial stability, maximum employment are also important