Classic Policy Benchmarks for Economies with Substantial Inequality, James Bullard and Riccardo DiCecio
Conference on Heterogeneous Agents or Heterogeneous information, Paris, 6-12-19
Benoit Mojon (Bank for International Settlements)
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Outline

1. Review the model
2. Puzzling inequality trends
3. Inequality and monetary policy
The model of Bullard and DiCecio’s

- MP sets $P$
- Fiscal sets taxes and supply public goods
- Labor mkt autorithy set Unem. Insurance
- **Education policy limits** the ex ante Cross-section variance of individuals’ productivity
The model of Bullard and DiCecio’s

- You work more between 30 and 50

The consumption of all individuals grow at the same stochastic trend
And inequality is stable over time
Puzzling inequality trends (World Inequality Report, 2018)

Top 1% vs. Bottom 50% national income shares in the US and Western Europe, 1980-2016: Diverging income inequality trajectories
Puzzling inequality trends (World Inequality Report, 2018)

Puzzling inequality trends: role of education?

Percentage of the Population 25 Years and Over Who Completed High School or College by Age Group: Selected Years 1940–2015

Top 1% vs. Bottom 50% national income shares in the US and Western Europe, 1980–2016: Diverging income inequality trajectories

Puzzling inequality trends: role of Ageing

Participation rates: 55-64
In per cent of the population

United States

Japan

Germany

France

United Kingdom

Italy

Figure 3
Inequality and monetary policy: the case of the euro area

• A major critic of APP and QE:

“It benefits the “rich” as only they have a portfolio of financial assets”
Inequality and monetary policy: effects of the ECB APP (Lenza and Slacalek, 2018)

- The dominant effect of the ECB APP has been on employment (+ 11 million jobs created in the EA since 2013)
- Unemployment has dropped from 13 to 8% with large cross-country differences
- This has benefited most the bottom quantile

- In the US, 20 million jobs were created since 2008...
Inequality and monetary policy: effects of the ECB APP (Lenza and Slacalek, 2018)
Conclusion

- Bullard and DiCecio have build an impressive model
  - Can it be used to look into trends?
    - what is “wrong” with education?
    - Why has the proportion of US workers over 55 grown from 12 to 25 % of the work force since 2005?

- Inequality is assumed to feed populism
  - so far somewhat less (of an increase in inequality) and less “populism” in Europe

- Monetary policies since the GFC have reduced inequality by reducing unemployment