

Remarks on Monetary policy and Inequality. (Olivier Blanchard, PII-IMF December 2020)

The traditional but not quite right view.

Monetary policy is neutral, using one instrument up and down
Distribution issues best left to fiscal, with its many instruments.

Monetary policy, by its very nature, has distribution effects.

Even standard policy. i.e. policy rate: Moves the most important relative price in the eco.

When at ELB, policy decreases various spreads. May have additional distribution effects.
Especially when buying corporate bonds.

Standard answer: On net, decreasing unemployment more important than relative income or wealth effects.

So need a more open discussion. Take three issues.

Should CBs take distribution effects into account?

Does it fall within its mandate? Yes.

Mandate: Strong, sustainable, balanced growth (UK).

Tradeoffs activity/distribution effects

Suppose only distribution effects (asset values), but little effect on activity (vertical IS).

Then, should not move and let fiscal act. Checks to people, financed by debt.

What if the choice between two measures: negative rates, or decrease in spreads?

Then, distribution effects relevant. (If negative rates passed on to depositors?)

Choosing which spreads to reduce? More iffy. More political by necessity.

Should it coordinate more with fiscal (re distribution effects)?

Conceptually, can think of lump-sum offsets, leaving incentives to play

So, if increase in rate needed, protect poor borrowers through lump sum

Realistically, issues of speed, of implementation.

But if (as is the case now, secular stagnation) “cyclical effects” last long, maybe.

Should central banks further extend their set of instruments?

In particular: Buying goods rather than assets (helicopter money). Tempting.

Technical problem: Difficult to undo.

Rightly outside of the Overton window (Honohan)

Should and can be done by fiscal.

Unless intent is to finance it through the inflation tax (other distribution effects)

And even then, monetization of the debt can always be done later.