Discussion of *Monetary Policy and Earnings Inequality: Inflation Dependencies*

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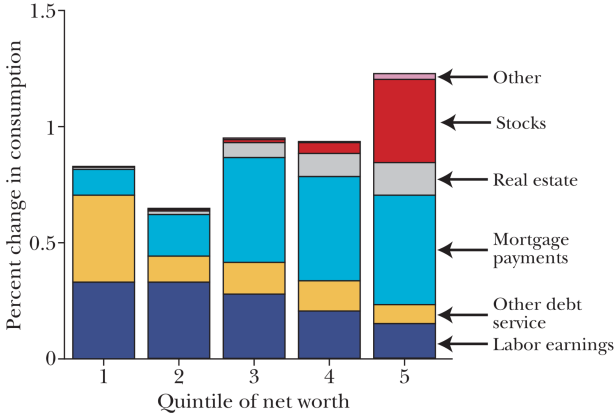
*The views in this presentation do not necessarily reflect those of the Oesterreichische Nationalbank or the Eurosystem.

Summary of the paper

- Studies the **response of consumption to monetary policy** (MP)
- Focus is on a very specific channel: **earnings heterogeneity** channel
  - A MP shock affects the earnings of low and high income individuals differently
  - AND low and high income households respond differently to changes in their income
- Two steps to obtain the effect on aggregate consumption:
  1) Measure the individual response of labor earnings to MP shocks (using admin data)
  2) Merge this with estimates of household-level MPCs (from survey data)
- Innovation in this paper:
  - distinguish between **low and high inflation** episodes
  - use **high-frequency** administrative **data on earnings** from Estonia

Broader context: The role of labor earnings

Response of consumption to a MP easing shock



Source: Figure 3 in McKay and Wolf (2023): Monetary Policy and Inequality, *Journal of Economic Perspectives*.

- Several channels how monetary policy can influence consumption
- The literature has also explored other channels:
  - Nice summary can be found in McKay and Wolf (2023)
- Labor earnings are important, but so are other channels
- This paper:
  earnings heterogeneity accounts for **5%** of the aggregate consumption response trough labor earnings
- Innovation: dependence on the level of inflation

The focus of this paper: state-dependence on inflation

- RQ: What if the earnings heterogeneity channel is different during high inflation periods?
- Why are the authors interested in particularly this question?
  - Is it because you think that **wages are less flexible** even during **high inflation** periods?
  - Paper could benefit from a clearer motivation!
- Or is the focus maybe more on inequality?
- There are other channels how inflation can have a substantial impact on inequality:
  - Differential exposure to inflation through the composition of the household consumption basket (Hochmuth et al., 2025)
  - E.g.: Low-income households experienced higher inflation during 2022
  - Hence, their real wage was lower
- The paper also contains a THANK model that replicates the empirical findings.
  - What additional insights does the model give us?
  - It still lets us wonder about the main driving force behind this channel.

Paper is carefully executed and uses well-established methods

- High-frequency MP shock identification
  - Follows the approach by Jarociński and Karadi (2020)
  - Combine MP shocks with *monthly* labor income data
  - **Do not need to aggregate MP shocks on e.g. quarterly level!**
- Empirical analysis of labor earnings
  - Broadly follow method in Guvenen et al. (2017)
  - Convincing estimates for labor earnings for the low and high-inflation regime
  - Plenty robustness analyses:
    - But labor earnings only react differently across the distribution for **contr. MP shocks**
  - **Decomposition into intensive and extensive margin is a great contribution!**
  - I expected a discussion about **unemployment insurance** (UI)
    - How prevalent is UI among individuals with zero earnings in your sample?
    - How much would this dampen the response of labor income?
- Merging these estimates on labor earnings with household-level MPCs
  - Neat way to translate labor income changes to changes in consumption.
  - Plausible to use the **same MPC** for income changes from the **int./ext. margin**?
  - **Bootstrap SEs** on resulting aggregate MPC? Are they significantly different from one another?

Interpretation of the results

- The paper finds that monetary policy shocks have **weaker effects** on earnings inequality during **low-inflation periods**.
- This rests solely on the average **effect of the shock** on labor earnings during low-inflation periods.
- For the **same effect** on labor earnings: consumption response is **6% stronger** in the **low-inflation period**.
- I think this interesting result should be made more prominent!

Conclusions

- Overall this is a well executed paper
- The focus is on a very specific mechanism: earnings heterogeneity channel of MP
  - This (narrow) focus could possibly be motivated a bit better.
- Given the importance of the extensive margin in the results, **unemployment insurance** might quantitatively weaken the effects
- Key message of **stronger effects** during high-inflation periods **rests on the effect of MP shocks on labor earnings**.

Thank You

References

Hochmuth, P., Pettersson, M. and Weissert, C. J. (2025): A Distributional Cost-of-Living Index From Aggregate Data. *Review of Income and Wealth*, Vol. 74, Issue 4.

McKay, A., and Wolf, C. K. (2023): Monetary Policy and Inequality. *Journal of Economic Perspectives*, Vol. 37, Number 1.