

# The impact on redistribution of the ECB's monetary policy

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A few weeks before Christine Lagarde assumes the presidency of the European Central Bank (ECB), it may be useful to examine the balance sheet of her predecessors, not only on macroeconomic and financial matters but also with respect to inequality. In recent years, the problem of the redistributive effects of monetary policy has become an important issue, both academically and at the level of economic policy discussions.

Interest in this subject has grown in a context marked by the conjunction of two factors. First there has been a [persistent level of inequality in wealth and income](#), which has been hard to reduce. Then there are the activities of the central banks in the advanced economies following the 2008 crisis to support growth, particularly through the implementation of so-called “unconventional” measures [\[1\]](#). These measures, mainly manifested in quantitative easing (QE) programmes, are suspected to have increased the prices of financial assets and, as a result, favoured wealthier households. At the same time, the low interest rate policy could have resulted in a reduction in interest income on assets with fixed yields, most of which are held by low-income households. On

the other hand, the real effects of monetary policy, particularly on changes in the unemployment rate, could help keep low-income households in employment. The ensuing debate, which initially broke out in the United States, also erupted at the level of the [euro zone](#) after the ECB launched its QE programme.

In a [recent study](#) focusing on 10 euro zone countries between 2000 and 2015, we analysed the impact of the ECB's monetary policy measures – both conventional and unconventional – on income inequality. To do this, we drew on three key indicators: the Gini coefficient, both before and after redistribution, and an interdecile ratio (the ratio between the richest 20% and the poorest 20%).

Three main results emerge from our study. On the one hand, a restrictive monetary policy has a modest impact on income inequality, regardless of the indicator of inequality used. On the other hand, this effect is mainly due to the southern European countries, especially in the period of conventional monetary policy. Finally, we found that the redistributive effects of conventional and unconventional monetary policies do not differ significantly.

These results thus suggest that the monetary policies pursued by the ECB since the crisis have probably had an insignificant

and possibly even favourable impact on income inequality. The forthcoming normalization of the euro zone's monetary policy could, on the contrary, increase inequality. Although this increase may be limited, it is important that decision-makers anticipate it.

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[1] For an analysis of the expected impact of the ECB's unconventional policies, see [Blot et al. \(2015\)](#).

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## A new Great Moderation?

by Analysis and Forecasting Department

This text summarizes the OFCE's 2017-2019 forecast for the global economy and the euro zone; the full version can be found [here](#).

Ten years after the financial crisis broke out in the summer of 2007, the world economy finally seems to be embarking on a trajectory of more solid growth in both the industrialized and most of the emerging countries. The figures for the first half of 2017 indicate that global growth is accelerating, which should result in GDP growth of 3.3% over the year as a whole, up 0.3 percentage point over the previous year. Some uncertainty remains, of course, in particular concerning the outcome of Brexit and the ability of the Chinese authorities to control their economic slowdown, but these are the types of irreducible uncertainties characteristic of an economic system that is subject to political, technological, economic and financial shocks[1]. Beyond these risks, which should not be

underestimated, lies the question of the ability of the world's economies to reduce the imbalances inherited from the crisis. While current growth is sufficient to bring down the unemployment rate and improve the employment rate, it needs to be long-lasting enough to get back to full employment, reduce inequalities, and promote debt reduction.

In this respect, not all the doubts have been lifted by the current upturn in the world's economic situation. First, growth has remained moderate in light of the past recession and previous episodes of recovery. Since 2012, the global economy has grown at an average rate of 3.2%, which is lower than in the 2000s (graphic). The growth trajectory seems to be closer to what was observed in the 1980s and 1990s. This period, the so-called Great Moderation, was characterized by lower macroeconomic volatility and a disinflationary trend, first in the advanced countries, then in the emerging countries. This second element is also an important point in the global economic situation today. Indeed, the pick-up in growth is not translating into renewed inflation. The low rate of inflation reflects the persistence of underemployment in the labor market, which is holding back wage growth. It also illustrates the difficulties the central banks are having in (re)-anchoring inflation expectations on their target.

Finally, there is the matter of the growth potential. Despite numerous uncertainties about measuring growth potential, many estimates are converging on a projection of weaker long-term growth, due mainly to a slowdown in trend productivity. It should be noted, however, that the methods used to determine this growth trajectory sometimes lead to prolonging recent trends, and can therefore become self-fulfilling if they lead private and public agents to reduce their spending in anticipation of a slowdown in growth. Conversely, boosting future growth requires private and public investment. Economic policies must therefore continue to play a leading role in supporting the recovery and creating the conditions for future

growth.

Figure. The recovery of the global economy



Sources: National accounts, OFCE calculations, October 2017.

[1] See OFCE (2017): [La routine de l'incertitude](#) [in French].