

What can monetary policy do about inequality?

Benoît Cœuré

Member of the Executive Board of the European Central Bank

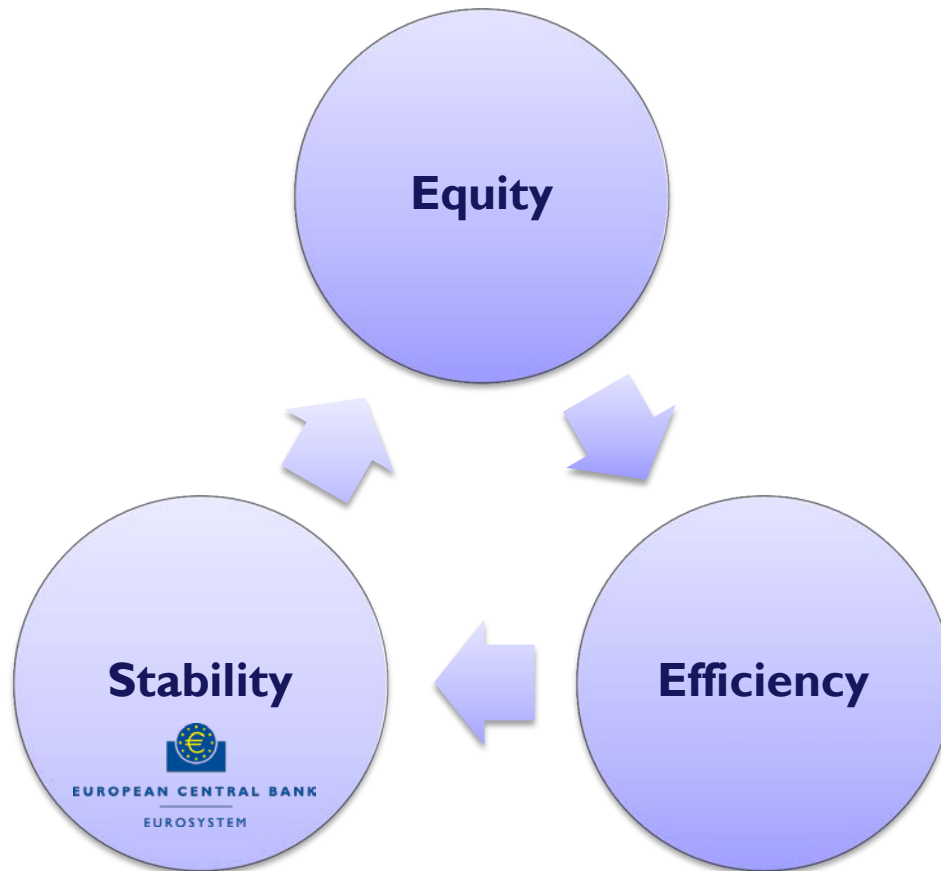
**International Day for the Eradication of Poverty
European Parliament**

17 October 2012

- 1. ECB mandate**
- 2. Inequality and poverty in the euro area**
- 3. Impact of monetary policy**
- 4. Price stability and economic stability**

I. ECB mandate

- ECB Treaty mandate: medium-term price stability



2. Inequality and poverty in the euro area

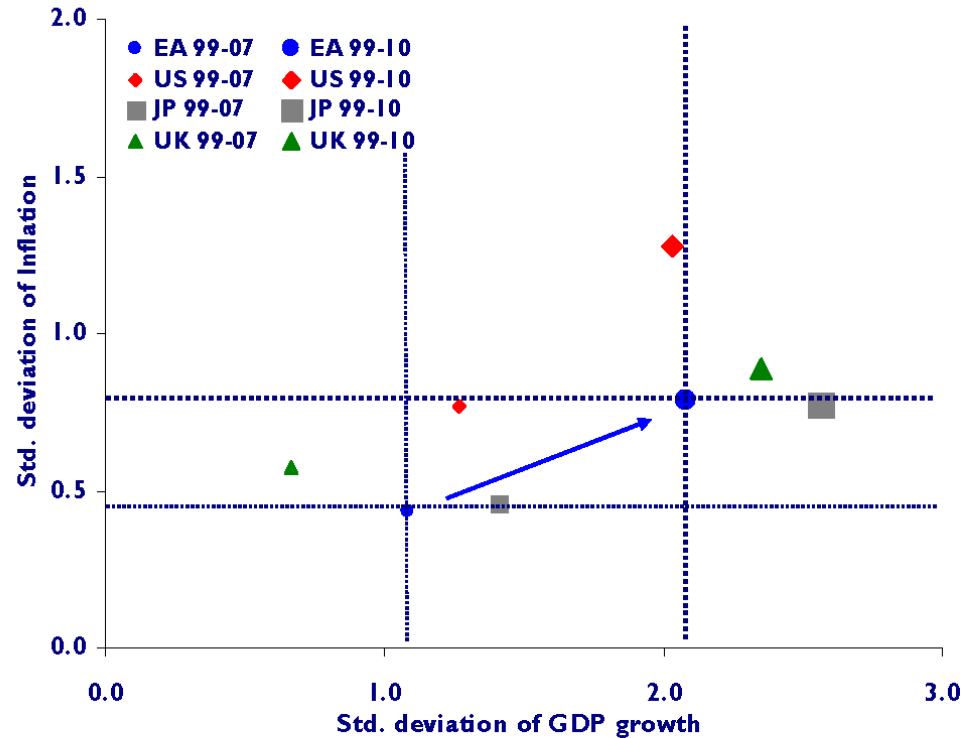
- **Inequality on the rise in the euro area**
 - **Gini coefficient of income distribution rose from 0.29 in mid-1980s to 0.32 end 2000s in OECD countries**
 - **Of the 8 euro area countries for which data is available, inequality increased in 5, changed little in 2 and declined in 1**
 - **Trend in labor income inequality less clear in the euro area than in Anglo-Saxon countries**
- **Sources of economic shocks (e.g. housing market bubble) and labour market functioning do matter**
- **Need for policies focused on human capital and skills; quality of fiscal adjustment will be key**

3. Impact of monetary policy

- **Complex transmission channels**
 - **Asset return dependent on level of interest rates (Keynes' "euthanasia of the rentier")**
 - **Poorer people less well protected from inflation (cash holdings, labour income only)**
- **Mixed empirical results**
 - **On average, a higher inflation rate is accompanied by greater income inequality; but in the US, contractionary monetary policy has increased inequality in earnings and total income**
- **Euro area heterogeneity**
 - **Monetary policy can cushion rise in inequality in countries under financial stress**

4. Price stability supports economic stability

Figure 2.7. Macro-economic volatility 1999-2010

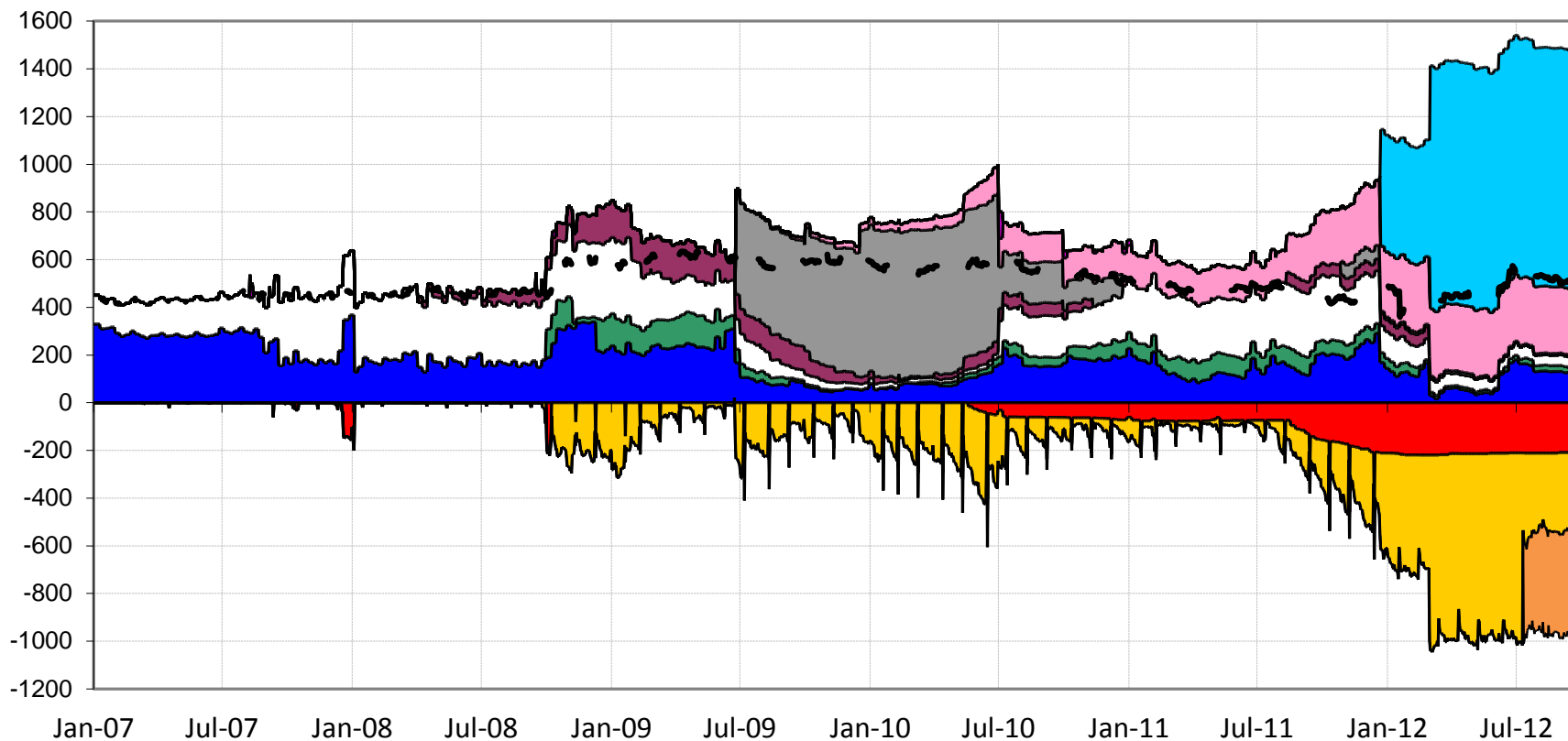


Sources: OECD. Adapted from Benati and Goodhart (2010).

Notes Inflation is annual CPI inflation, GDP growth is annual real GDP growth.

ECB crisis measures

Liquidity operations in EUR billions



- main refinancing operations
- 3-month longer-term refinancing operations
- 12-month longer-term refinancing operations
- fine tuning providing operations
- fine tuning absorbing operations
- daily reserve surplus under zero deposit rate

- 1-maintenance period refinancing operations
- 6-month longer-term refinancing operations
- CBPPs and SMP
- 3-year longer-term refinancing operations
- net recourse to deposit facility
- liquidity needs (autonomous factors + reserve requirements)

Conclusion

- **Non-standard monetary policy measures have helped to avoid a collapse in money and credit**
- **They have prevented a surge in unemployment and poverty, particularly in stressed countries**
- **Stability, efficiency and equity are mutually supportive, implying that the ECB can contribute to containing inequalities within its Treaty mandate**