MONETARY POLICY AND INEQUALITY FROM AN INCLUSIVE AND SOCIAL BANKING PERSPECTIVE

Executive summary of the doctoral thesis

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This doctoral thesis empirically evaluates the effects of monetary policy on income and wealth inequality in two of the main monetary areas of the world: the Eurozone and the United States. Moreover, in the case of the Eurozone, the interaction between the dynamics of income inequality and banking activity is evaluated, distinguishing between banking structures. Specifically, I empirically assess whether cooperative banks have a differential impact on the evolution of inequality with respect to other banking structures such as commercial banks or savings banks. Several macro-econometric (SVAR, Proxy SVAR) and micro-econometric (simulations and estimations with panel data) methodologies have been used to conduct the empirical part of this study. All these econometric techniques are well documented and extensively explained in the corresponding articles.

This doctoral thesis is a set of publications. Specifically, the dissertation is composed by the following four articles that have already been published or accepted for publication at the date of submission of the dissertation:

I. Albert, J. F., Gómez-Fernández, N., & Ochando, C. (2019). Effects of unconventional monetary policy on income and wealth distribution: Evidence from United States and Eurozone. *Panoeconomicus*, 66(5), 535-558. Journal indexed in Economics (JCR, Q4 and SJR, Q2).

II. Albert, J. F., Peñalver, A., & Perez-Bernabeu, A. (2020). The effects of monetary policy on income and wealth inequality in the US Exploring different channels. *Structural Change and Economic Dynamics*, 55, 88-106. Journal indexed in Economics (JCR, Q1 and SJR, Q2).

III. Albert, J. F. & Gómez-Fernández, N. (online-first). Monetary Policy and the redistribution of net worth in the U.S. *Journal of Economic Policy Reform*. DOI: 10.1080/17487870.2021.1895778. Journal indexed in Economics (JCR, Q2 and SJR, Q1).

IV. Albert, J. F. & Chaves, R. (2021). Estructura bancaria y desigualdad de renta. La banca cooperativa marca la diferencia. *CIRIEC-España, Revista de Economía Pública, Social y*

Cooperativa. Journal indexed in Economics (SJR, Q2) and Sociology and Political Science (SJR, Q1).

The main results obtained from the thesis can be summarized as follows:

I. There are different transmission channels of monetary policy on inequality, both income and wealth, of opposite sign and leading to an ambiguous final effect.

II. The results of this doctoral thesis suggest that an expansionary monetary policy shock does not have a significant impact on income inequality in the US.

III. The results obtained also suggest that an expansionary monetary policy shock significantly increases wealth inequality in the US if we consider the whole distribution. For the Eurozone, the results regarding the impact on wealth inequality are not statistically significant.

IV. The differences between the results for the two currency areas may be due to the different wealth composition of households.

V. According to the results obtained, an expansionary monetary policy shock benefits more both tails of the distribution - households with higher and lower relative wealth. Conversely, the middle class tends to benefit less. The different accumulation of assets and liabilities between groups of households explains this fact.

VI. The extraordinarily loose monetary policies that central banks are implementing to cope with the Great Recession and the economic crisis resulting from the COVID-19 pandemic may be exacerbating wealth inequality, especially in the US.

VII. In the current context with high levels of inequality, low inflation expectations and interest rates at their effective lower bound (ELB), new monetary policy designs in coordination with fiscal authorities can be of great help to improve the transmission of monetary policy to the real economy, while avoiding undesirable distributional effects.

VIII. The relationship between monetary policy and inequality is not only important for understanding the undesired and secondary effects of these policies. It has also been shown to be fundamental for understanding the effectiveness of monetary policy itself.

IX. The results suggest that cooperative banks reduce income inequality more than traditional banks and savings banks in the Eurozone as a whole.

X. The negative relationship between cooperative banking and inequality is only significant in the more economically developed Northern European countries.

XI. The promotion of financial inclusion by cooperative banks is a determining factor that could play a decisive role in reducing income inequality.

XII. A better design of the monetary and financial system could be key to achieving more inclusive growth in developed areas.