

Monetary Policy, Inequality, and Redistribution

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- Uninsurable idiosyncratic risk
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- **Systematic** exposure to aggregate risk
- Monetary policy redistributes
- Redistribution may justify distortions

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Worker-beta evidence (Guvenen et al., 2017)

- Exposure differs systematically across workers
- Persistent and predictable differences
- Business cycles affect the earnings distribution

- **Traditional NK:** Representative household, sticky prices, stabilization improves efficiency
- **HANK:** Incomplete markets, liquidity constraints, stabilization improves insurance
- **This Paper:** Complete markets, worker-beta heterogeneity, redistribution becomes central

→ **Monetary policy: a tool for stabilisation and redistribution**

$$\text{Markup} \uparrow \Rightarrow \frac{W}{P} \downarrow \Rightarrow \text{Implicit Labor Tax} \uparrow$$

Optimal-tax logic (Werning, 2007)

1. Recessions increase earnings inequality
2. Redistribution becomes more valuable
3. Higher implicit taxes become desirable
4. The implicit tax is the markup

→ **Countercyclical markups can improve welfare despite reducing output.**

Comment 1: Insurance vs Redistribution

Insurance Motive	Redistribution Motive
Incomplete markets Stabilise output	Worker-beta heterogeneity Redistribute via distortions

→ **Overturms HANK or complements HANK?**

- Real economies feature both incomplete markets and systematic heterogeneity
- Combining the two channels: when is each motive quantitatively most important?
- Varies with the nature of the shock and the business cycle regime?

Comment 2: Quantitative Importance

How much cyclical inequality is explained by worker-beta heterogeneity?

Empirical benchmark (Guisen et al., 2017)

- Bottom quintile has negative betas, top quintile has strongly positive betas
- How much of cyclical earnings dispersion is *systematic* vs. idiosyncratic?
- Idiosyncratic risk also rises in recessions
- The two channels are hard to separate empirically

Welfare

- Welfare gain scales with beta dispersion $\times$ social preference for equality
- How large of a markup distortion is needed to achieve meaningful redistribution?
- Stabilisation gains are second-order in baseline HANK (Kaplan et al., 2018). Is the redistribution gain here also small?

→ How large are the welfare stakes of the redistribution motive?

Comment 3: Heterogeneous Capital Ownership

The model focuses on heterogeneity in labour incomes.

Profits?

- Higher markups $\Rightarrow$ higher profits $\Rightarrow$ higher dividends
- Capital income is more concentrated than labor income
- Countercyclical markups redistribute through both labor and capital income

Does heterogeneous firm ownership reinforce or offset the labor-income channel?

- If high-beta workers also own more equity, channels reinforce
- Otherwise, channels may partially offset
- Ignoring capital income may overstate the progressivity of markup policy

- HANK models highlight the **insurance motive**: heterogeneity matters because households face uninsurable risks.
- This paper highlights a distinct **redistribution motive**: heterogeneity matters because workers have systematically different exposure to aggregate fluctuations.
- Distributional considerations can partially offset the traditional stabilization motive.