Comments and Discussion

COMMENT BY

WILLIAM A. DARITY JR. Bartscher, Kuhn, Schularick, and Wachtel partition the distributional effects of monetary policy into an income effect driven by employment and earnings effects and a wealth effect driven by portfolio and capital account effects. Focusing primarily on accommodative (or expansionary) monetary policy, they conclude that racial inequality in income will decrease while racial inequality in wealth will increase. Because Black households have considerably fewer financial assets than white households, the wealth gain is greater for white households—and their portfolio gain outweighs the relative income gain for Black households.

To conduct their analysis, the authors utilize the Romer-Romer shock series to assess the consequences of a comparatively incremental 1 percentage point (100 basis point) decrease in the rate of interest on Black-white economic disparities. The result of central bank policy in their simulation exercise, while not inconsequential, is not large. For example, they find that the net difference in consumption from capital gains for white households over Black households will total $470 over five years, or less than $8 a month.

I assume their motivation for using the shock series is due to their embrace of the new classical macroeconomics proposition that only unanticipated policy moves can have real effects on the economy's performance. Personally, I am skeptical about the proposition in a world where speculation rules financial markets. Announced changes in interest rates by the Federal Reserve immediately have non-sterilizing ripple effects across asset markets.

Moreover, the authors do not run their simulation exercise for restrictive (or contractionary) monetary policy; instead, they refer primarily to studies conducted on data from Scandinavian countries where the racial

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comparisons are not feasible. Therefore, it is not clear what their model implies for the distributional effects of Federal Reserve–engineered increases in interest rates. Is there simply a reversal of the effects of accommodative policy to a similar degree? We simply do not know based upon this study, although, as I will suggest below, the effects of accommodative and contractionary policies probably are not symmetrical.

Three measurement issues point toward limitations in this study. First, the authors rely upon the difference at the median households to calculate the magnitude and assess the policy effect on the Black-white wealth gap. This choice is conventional and generally seen as uncontroversial because the medians are immune to outlying values and, presumably, are more representative of the typical experience of most households in each group.

However, the wealth gap should be evaluated at the mean, rather than the median, leading to a Black-white net worth difference more than five times larger—and implying smaller repercussions for racial wealth inequality from *any* policy. The mean difference is preferable for estimation of the racial wealth gap because of the high degree of concentration of wealth in the United States.

Ninety-seven percent of white wealth is held by white households with a net worth above the median. Use of the median gap instead of the mean ignores an overwhelming share of wealth held by white households. Furthermore, the immense concentration of wealth among white households with a net worth above the white median is not due merely to the presence of a small number of white billionaires. One-quarter of white households have a net worth above $1 million; the same is true for only 4 percent of Black households (Darity, Addo, and Smith 2021). Plus, median net worth of members of the white working class consistently is two to three times as high as median net worth of members of the Black professional-managerial class (Addo and Darity 2021).

A focus on inequality in income or wealth does not necessarily provide a sufficient gauge of disparities in well-being. An important source of racial income inequality is racially uneven unemployment rates. The Black-white unemployment rate ratio is an index of the degree of discrimination in the economy (Wilson and Darity 2022), but it is not adequate as an index of relative deprivation.

Historically the ratio of Black to white unemployment rates consistently has been 2:1. The proportion is virtually a stylized fact. A rare exception occurred in April 2020, the first month after the onset of the pandemic in the United States. The Black to white unemployment rate ratio nearly reached parity at 1.1:1 (16.7 percent for Black workers and 14.2 percent

for white workers). Subsequently it reverted to the historical norm. Indeed, as of April 2022 the Black rate was 5.9 percent and white rate was 3.2 percent. Still, conditions were considerably worse for Black Americans in April 2020 due to the much higher unemployment rates, independent of the ratio.

There are issues with using the wealth ratio as a guide to relative well-being, but not for precisely the same reason. Black wealth is so low in comparison with white wealth that marginal increases in the Black-white ratio may have no substantive impact in the lived experiences of Black Americans.

Although the authors' conclusion about the impact of accommodative monetary policy on the degree of racial inequality is plausible, there are reasons to doubt that the effect of restrictive policy is symmetrical. After all, it is always possible for a central bank to conduct the latter policy, but it is not always possible to conduct the former. Monetary authorities always can press the brakes by raising interest rates higher, but they cannot always step on the accelerator by lowering interest rates.

Consider the case of Japan under conditions of very slow growth and extremely low interest rates (effectively negative real rates). It would not be possible for the central bank to reduce the nominal rate of interest by 100 basis points in that circumstance since the nominal rate already is less than one. The impact of monetary policy on overall distribution or intergroup distribution of resources is unlikely to be of any significance because conventional expansionary central bank interest management is empty. Certainly, while it would be feasible, it would not be desirable to *raise* interest rates in this situation.

The key to the absence of real effects from accommodative monetary policy is not whether the policy is anticipated or unanticipated. The key is the initial conditions under which the policy is introduced, and the authors do not consider the impact of interest rate management under various initial conditions.

Nor do they consider non-incremental changes in monetary policy, and distributional effects are of greater concern with non-incremental changes. In the early 1980s the Federal Reserve under Paul Volcker's leadership pursued unprecedentedly tight monetary policy. The federal funds rate soared from 9 percent to 19 percent as the Federal Reserve induced a major recession while suppressing inflation. In 1982–1983, the Black unemployment rate exceeded 20 percent while the white rate hit a ceiling just above 10 percent. Patently there were huge adverse effects on Black employment and income, far larger than the positive effects displayed in the authors' simulation (Sablik 2013).

Indeed, I contend that the impact on racial inequality is more unsettling when the Federal Reserve pursues tight monetary policy when inflation is present or imminent than when the Federal Reserve pursues loose interest rate policy to stimulate the economy. It is clear that a Volcker-style aggressive use of the Federal Reserve's traditional instruments for fighting inflation can produce a savage downturn, with harmful effects for most Americans, but disproportionately so for Black Americans.

Hence, I advocate a federal job guarantee—an assurance of access to public sector employment for all Americans at non-poverty wages with a benefits package similar to the one received by federal civil servants. De facto, it would make the Phillips curve vertical at a zero unemployment rate; no one would be looking for work who could not find it. The Federal Reserve could tackle inflation knowing the public at large is insulated from the effects of a recession.

In the absence of the job guarantee as a form of social insurance plan, we best beware the effects of non-accommodative monetary policy.

Moreover, from the standpoint of the Black community, inflation can have disproportionate adverse effects (Lalljee 2021). However, a recession induced by the Federal Reserve's anti-inflation measures also is likely to have disproportionate adverse effects on Black Americans, for example, the racial wage gap widens as Black compensation falls more than white compensation (Chattopadhyay and Bianchi 2020). If we want to unbridle the Federal Reserve's inflation-fighting capabilities, we must minimize the repercussions of an economic downturn. A federal job guarantee is essential toward that end.

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COMMENT BY

BENJAMIN MOLL Bartscher, Kuhn, Schularick, and Wachtel approach a controversial question with high-quality empirical evidence. The result is a very valuable contribution to the literature on both monetary policy and racial inequality. To make this contribution, the authors combine household balance sheet data for Black and white households since the 1950s from an impressive data compilation effort by Kuhn, Schularick, and Steins (2020) with time series estimates of the response of asset prices and unemployment rates to monetary policy shocks.

The authors' main finding is that interest rate cuts have opposite effects on racial income and wealth inequality. On the one hand, they decrease the racial unemployment gap and therefore the percentage gap between Black and white earnings. On the other hand, they increase asset prices and therefore the racial wealth gap. The key to the latter result is large and very persistent estimated asset price increases in response to interest rate cuts (the instrumental variable local projections results in their figure 8) and that white households hold portfolios that are more concentrated in assets with rising prices such as equities. The authors conclude that "monetary policymakers face a trade-off: monetary accommodation widens racial wealth inequality as it reduces income inequality."

In parts of the paper, the authors compare the size of these earnings and wealth effects (see, e.g., their figure 1) and advance a more provocative version of this conclusion, namely, that "the reduction in the earnings gap pales in comparison to the effects on the wealth gap" and that "our analysis therefore does not bode well for the suggestion . . . that a more accommodative monetary policy helps alleviate racial inequalities."

Much of my comment will focus on the question whether and to what extent unrealized capital gains generated by falling interest rates are comparable to earnings changes. I will first draw on discussions of this and related issues in the last one hundred years of economic thought. I will then comment on a strategy the authors use for making this comparison, namely, to translate capital gains into consumption effects. Finally, I will draw on some of my own work that is relevant to the question at hand (Fagereng and others 2022).