Monetary policy and middle class

Bárcena-Martín, Elena
Martín-Fuentes, Natalia
Pérez-Moreno, Salvador

University of Malaga

The global financial crisis of 2007-2008 and the subsequent period of financial and economic instability have forced central banks to implement ultra-loose monetary policies for combating the downturn and the stagnation of inflation, which has led the question about how monetary policy might affect inequality to the foreground of economic and political debates.

This paper attepts to evaluate how monetary policy implemented in the Euro area (EURO-11) has affected two aspects of income distribution, namely, the size of middle class dimension and its mobility. To this end, an econometric model is estimated based on data from 2003 to 2015 for the set of countries belonging to the Economic and Monetary Union that originated the Union (EMU1999).

We apply the vector autoregressive (VAR) methodology to country-level panel data as a first approach of the short-term dynamics among the considered variables, where the impulse-response functions have been orthogonalized due to the existing serial correlation between the unobserved terms. Subsequently, this analysis is complimented with a more robust one. Since our variables are non-stationary but indeed co-integrated, the vector error correction model (VECM) allows us to consider the medium-term relationship between monetary policy and income inequality via the stimulus of the economic activity.