

Bernoth, Kerstin; Wittenberg, Erich

**Article**

## "Wealth inequality set to increase in the short term": Eight questions to Kerstin Bernoth

DIW Economic Bulletin

**Provided in Cooperation with:**

German Institute for Economic Research (DIW Berlin)

*Suggested Citation:* Bernoth, Kerstin; Wittenberg, Erich (2016) : "Wealth inequality set to increase in the short term": Eight questions to Kerstin Bernoth, DIW Economic Bulletin, ISSN 2192-7219, Deutsches Institut für Wirtschaftsforschung (DIW), Berlin, Vol. 6, Iss. 7, pp. 82-

This Version is available at:

<https://hdl.handle.net/10419/128507>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*



Prof. Dr. Kerstin Bernoth, Deputy Head of the Department of Macroeconomics at DIW Berlin

## EIGHT QUESTIONS TO KERSTIN BERNOTH

# »Wealth inequality set to increase in the short term«

1. Prof. Bernoth, the European Central Bank (ECB) decided to implement a large-scale bond purchasing program in January 2015 to avert the risk of deflation in the euro area. To what extent might these bond purchases also affect wealth distribution? Considerable wealth distribution effects may occur through the impact channels of monetary policy because interest rate changes introduced by the central bank and their bond purchases will affect the general level of interest rates and asset prices in the relevant country.
2. What is the link here? On the one hand, the bond purchases and also the prolonged low interest rates in the euro area have the effect of increasing the prices of stocks and real estate, and asset prices in general. Demand for alternative investment products such as stocks and real estate increases because the interest rate is extremely low. These products then experience a rise in prices.
3. Who are the winners and losers? More research is definitely needed on this issue. However, investment products such as stocks, bonds, and real estate are mainly held by wealthier households rather than poorer ones. So it is likely that the distribution of wealth inequality will increase in the short term because wealthy households will benefit more from the asset price increases.
4. What long-term effects do you expect? In the long term, this widening of wealth inequality may decrease again slightly. This could happen if the ECB's bond purchases successfully revive the real economy and have a positive impact on the labor market. These are effects that are then more likely to benefit households with fewer assets. In other words, it now crucially depends on what the long-term effects on wealth distribution are and how successfully the bond purchase program can stimulate the economy.
5. However, to date, the bond purchase program has had practically no positive impact. Yes, but, yet again, we have to wait even longer. The ECB has only been purchasing bonds for ten months now and we've not yet seen any major impact in this short period of time.
6. How much longer do we have to wait? Well, the effects of bond purchases in other countries like the US and UK were quite successful and swift. However, the picture was quite different in Japan. The economic environment there was similar to the current one in the euro area and bonds were also purchased in a low interest rate environment. It took a long time before the real economic effects become evident—up to 20 months.
7. Does that mean the pay-off for these beneficial effects is increasing wealth inequality? In the short term, there is definitely a risk because the longer the interest rate remains at such a low level and the more the ECB intervenes in the bond markets, the more we will have to deal with the issue of distribution and the greater the distributional effects are likely to be.
8. Would a higher rate of inflation reduce inequality? Again, we can only speculate. If inflation rises, this will generally benefit households in debt because their debt burden in real terms decreases, the higher the debt becomes. Conversely, households with greater cash reserves will be more vulnerable, the higher the level of inflation. Wealth inequality should actually decrease again solely from this inflation effect. But we cannot be completely sure because it really comes down to which households hold the most cash assets relative to their total assets and which hold more asset securities such as stocks and real estate. The question is who will benefit from the ECB's bond purchases in the long term? We will have to research these very issues a lot more in the coming months and quarters.

Interview by Erich Wittenberg



DIW Berlin – Deutsches Institut  
für Wirtschaftsforschung e.V.  
Mohrenstraße 58, 10117 Berlin  
T +49 30 897 89 -0  
F +49 30 897 89 -200

#### Publishers

Prof. Dr. Pio Baake  
Prof. Dr. Tomaso Duso  
Dr. Ferdinand Fichtner  
Prof. Marcel Fratzscher, Ph.D.  
Prof. Dr. Peter Haan  
Prof. Dr. Claudia Kemfert  
Dr. Kati Krähnert  
Prof. Dr. Lukas Menkhoff  
Prof. Karsten Neuhoff, Ph.D.  
Prof. Dr. Jürgen Schupp  
Prof. Dr. C. Katharina Spieß  
Prof. Dr. Gert G. Wagner

#### Reviewer

Dr. Markus M. Grabka  
Dr. Philipp König

#### Editors in chief

Sabine Fiedler  
Dr. Kurt Geppert

#### Editorial staff

Sylvie Ahrens-Urbaneck  
Renate Bogdanovic  
Dr. Franziska Bremus  
Sebastian Kollmann  
Dr. Peter Krause  
Marie Kristin Marten  
Ilka Müller  
Dr. WolfPeter Schill

#### Translation

HLTW Übersetzungen GbR  
Miranda Siegel

#### Layout and Composition

eScriptum GmbH & Co KG, Berlin

#### Press office

Renate Bogdanovic  
Tel. +49-30-89789-249  
presse@diw.de

#### Sale and distribution

DIW Berlin

Reprint and further distribution – including extracts – with complete reference and consignment of a specimen copy to DIW Berlin's Communication Department (kundenservice@diw.berlin) only.  
Printed on 100 % recycled paper.