

Long Term Rates, Capital Shares, and Income Inequality

Edmond Berisha
Montclair State University
berishae@montclair.edu

John Meszaros
U.S. Post Office

Using Piketty and Zucman (2014) recently published capital share data, this paper uses Structural VARs to understand the relationship between long term interest rates, capital shares, and the distribution of income in the U.S. The results indicate that increases in capital shares increase income inequality. Moreover, the relationship between the interest rate and capital shares is found to be negative and statistically significant. The findings suggest that bargaining power of capital increases with persistent low long term rates, further upsurging unequal distribution of income in the U.S. The results help us further understand the channels through which monetary policy can potentially effect income distribution.