

# Stabilization Policy and Inequality

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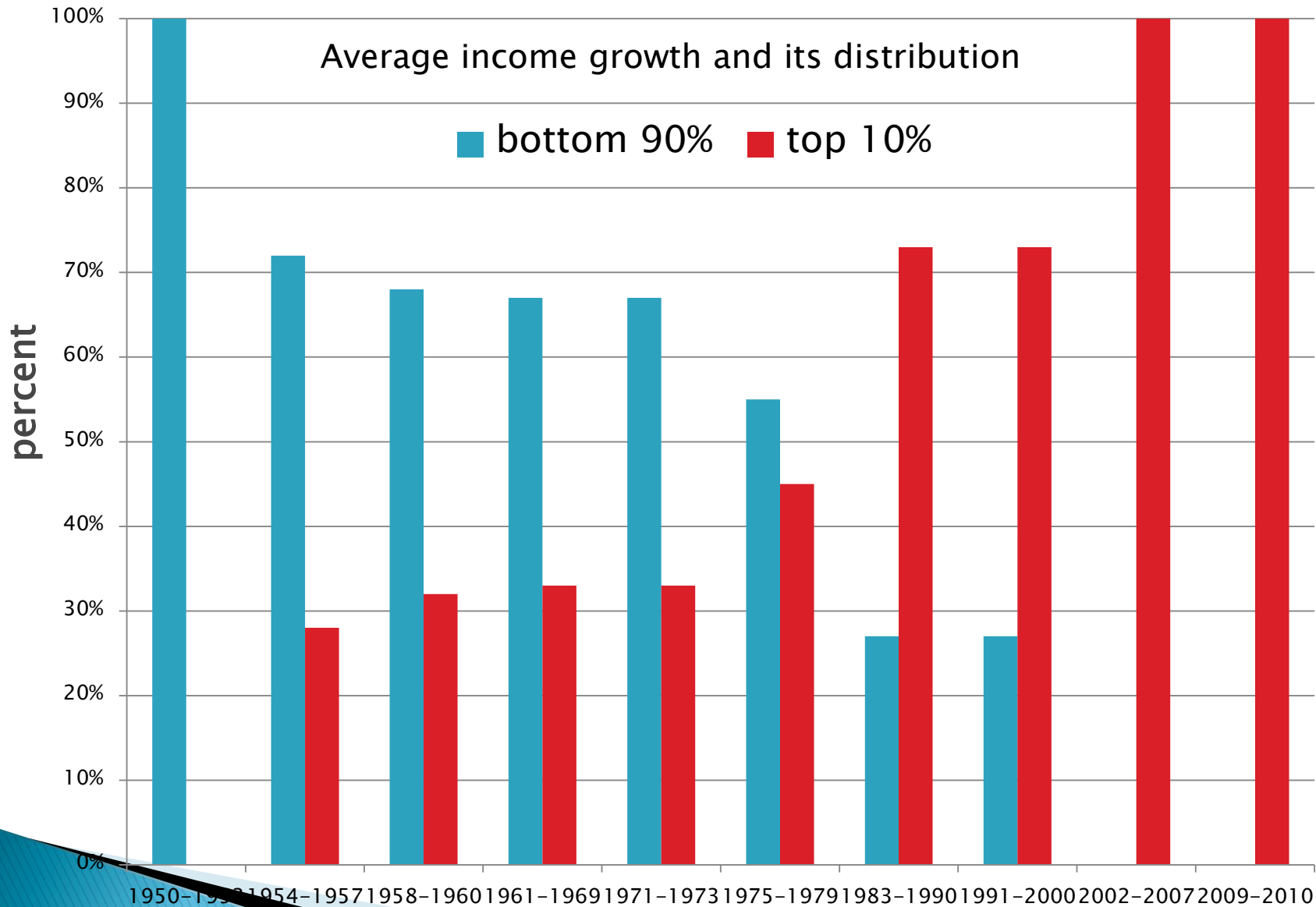
# Two outstanding faults

- ▶ of economic society
  - “...its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes.” (Keynes 1936, p. 372)
- ▶ of economic policy
  - Failure to address the first problem (full employment), aggravates the second (inequality)
  - Modern macro-stabilization efforts produce income inequality

# Inequality: the postwar period

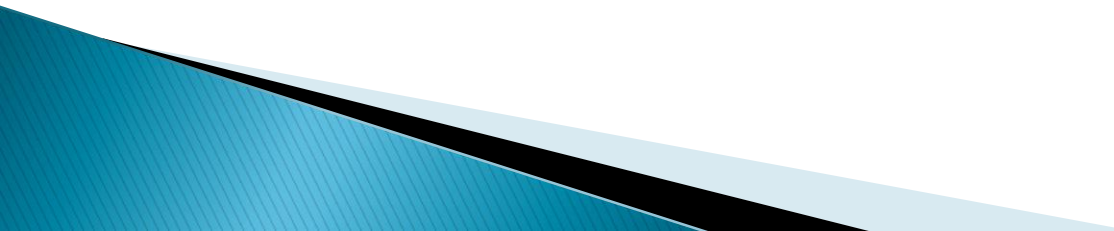
	Average income growth	Top 10%	Bottom 90%
<b>The postwar economy</b>			
first 30 years: <b>1946-1976</b>	\$18,673	captured <b>30%</b>	captured <b>70%</b>
next 30 years: <b>1977-2007</b>	\$17,669	captured <b>90%</b>	captured <b>10%</b>
<b>Bubble periods</b>			
<b>1919-1928</b>	\$1,428	captured <b>all</b>	declined
<b>1999-2007</b>	\$3,918	captured <b>all</b>	declined
<b>2 financial crashes and 2 years later</b>			
<b>1929-1931</b>	declined	declined	declined
<b>2008-2010</b>	<b>grew</b>	captured <b>all</b>	declined
<b>Two decades later</b>			
<b>1929-1949</b>	\$5,611	declined	captured <b>all</b>
<b>2008-2028</b>	?	?	?

# Inequality during expansions

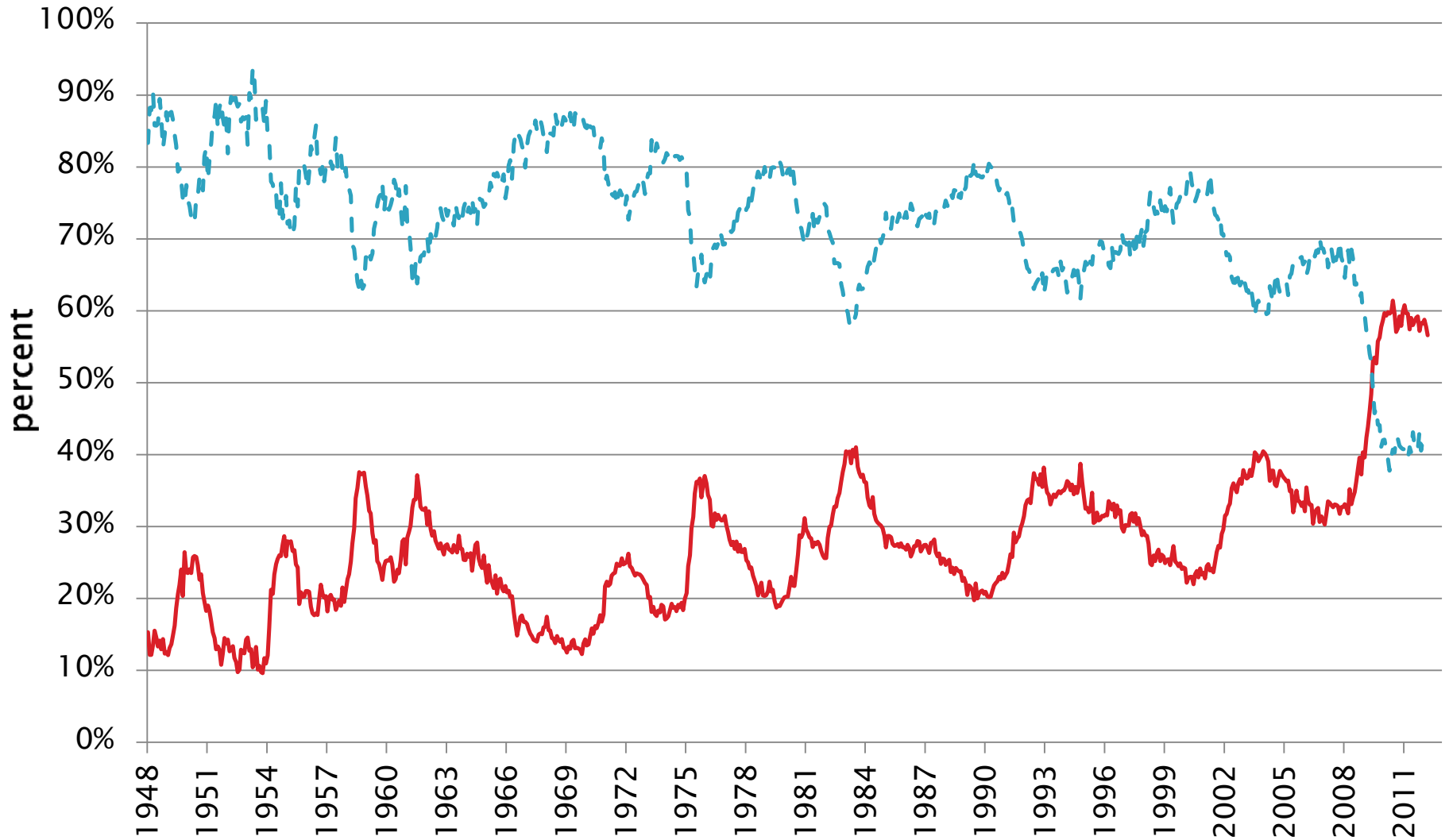


Sources: author's calculations based on Saez 2008, 2012 and EPI

# Inequality and the labor market

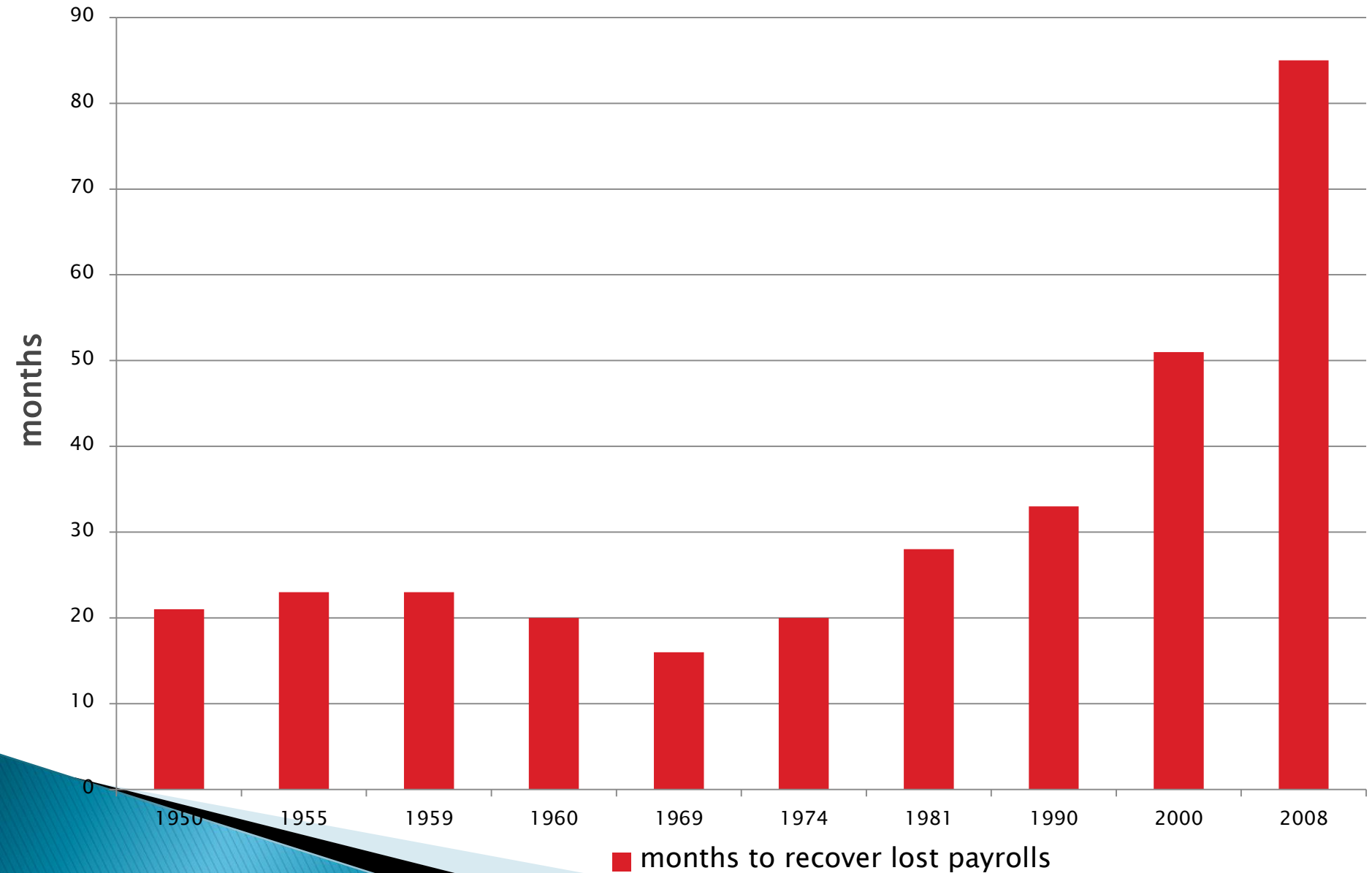
- ▶ Long term unemployment
  - ▶ Slower recovery in payrolls
  - ▶ Decline in wage share as % GDP
  - ▶ Collapse in labor force participation rate
  - ▶ Collapse in employment–population ratio
  - ▶ Spike in hidden unemployment
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# Secular rise in long term unemployment

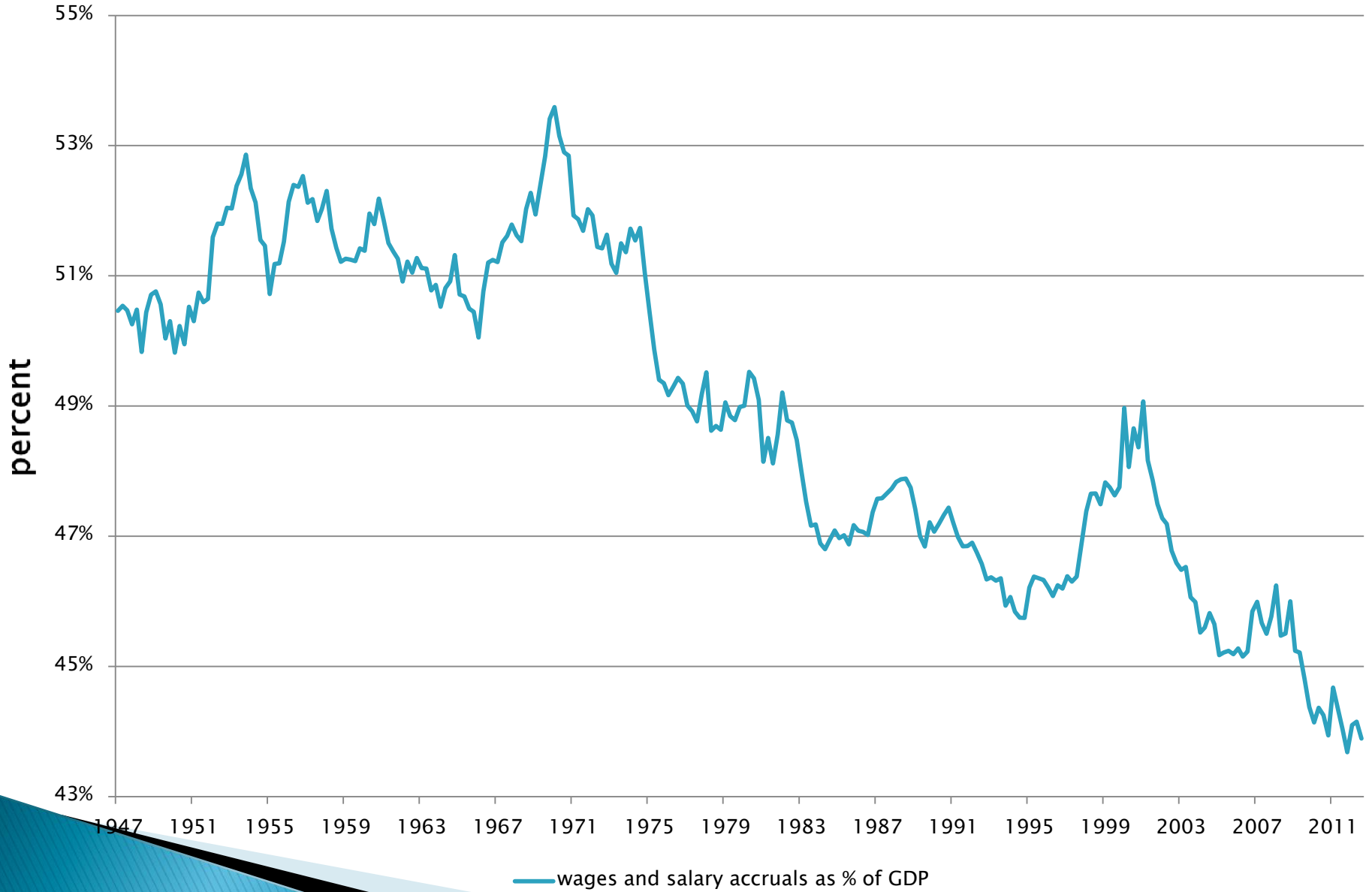


- Number unemployed for 15 weeks & over, as % of total unemployment
- - - Number unemployed for 14 weeks & less, as % of total unemployment

# Slower recovery in payrolls

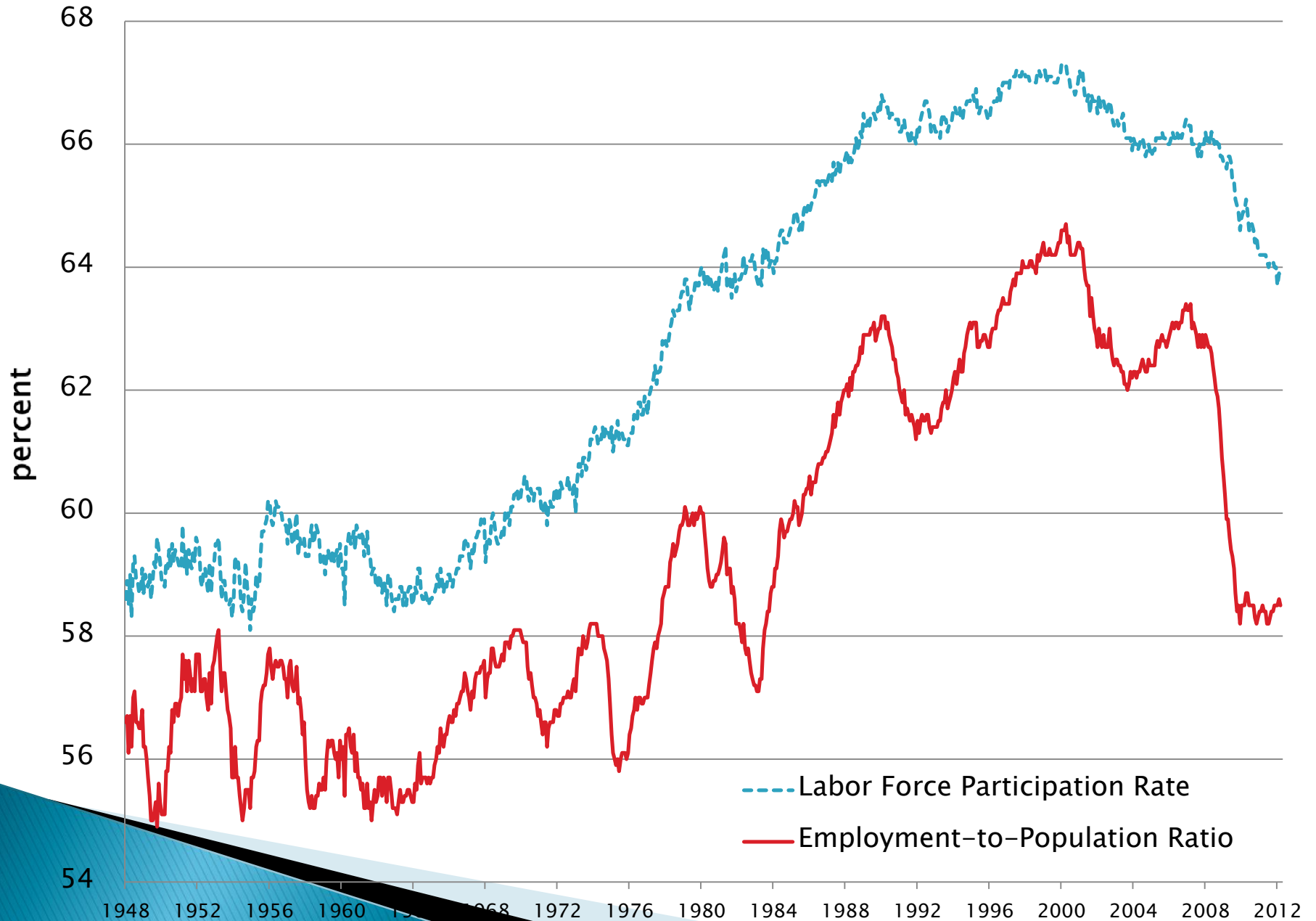


# Decline in wages as % GDP

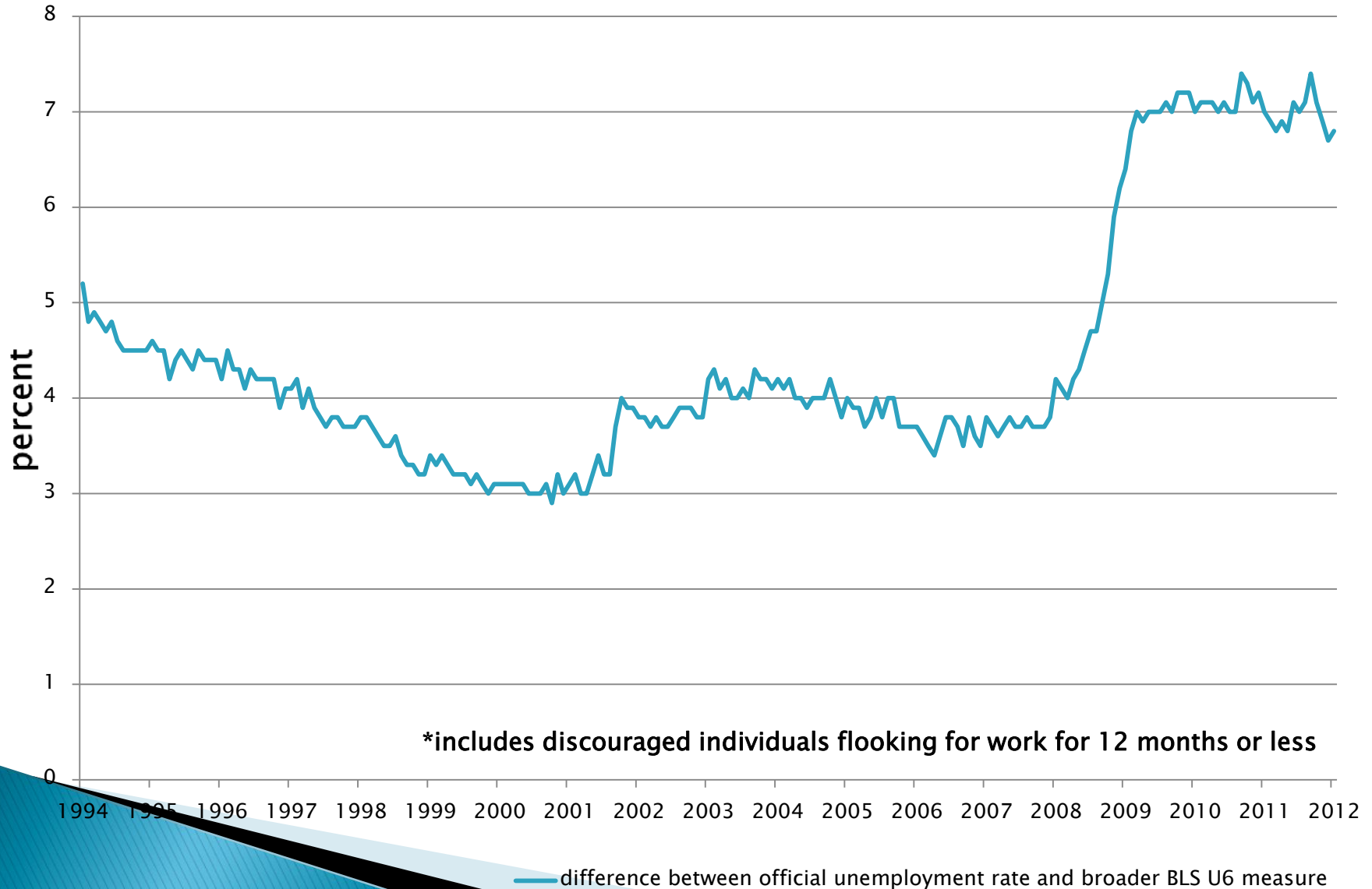




# Labor market during the Great Recession



# Spike in hidden unemployment



# Trickle-down stabilization policy



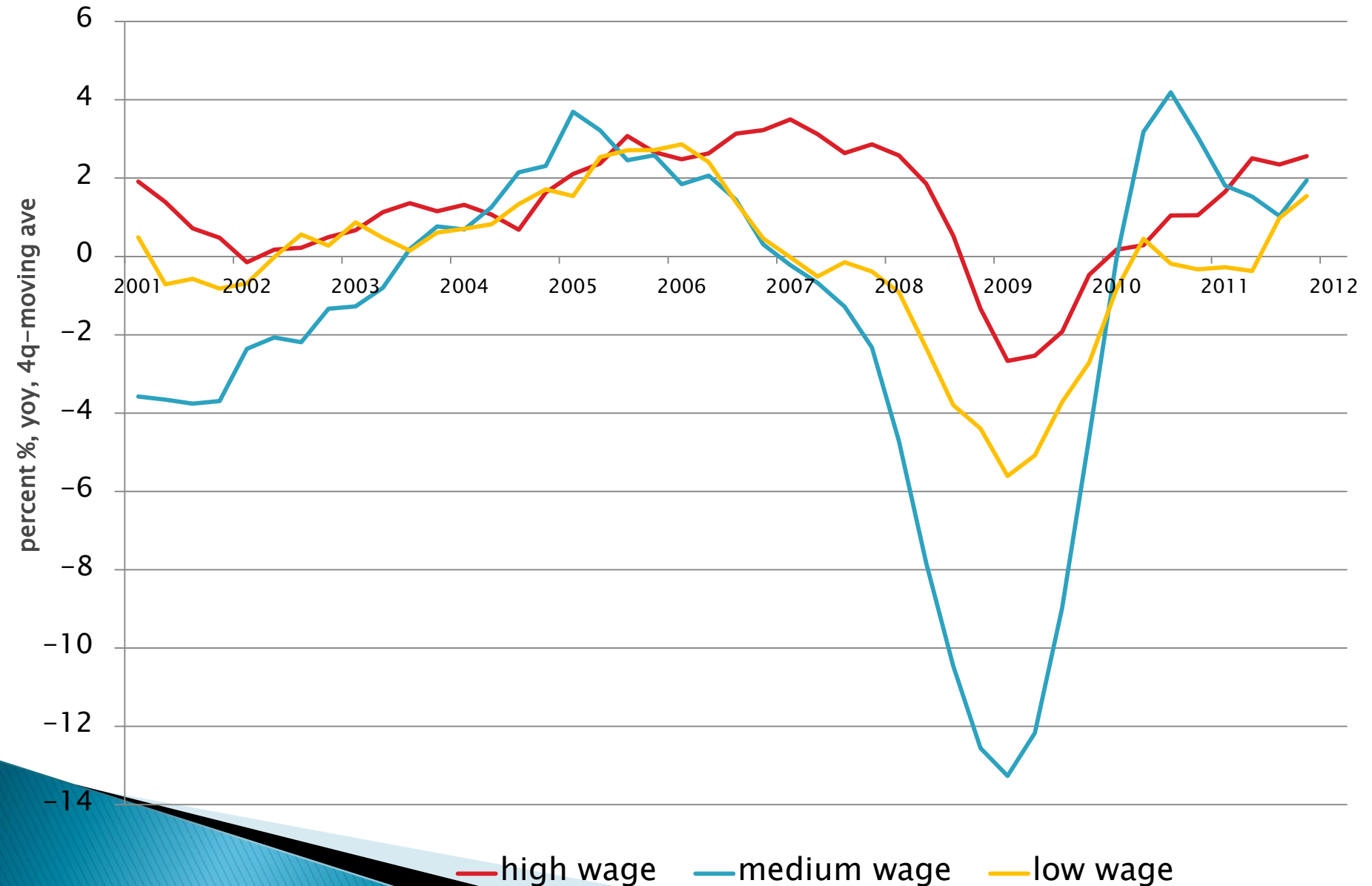
## ▶ Supply side

- Cuts in top marginal tax rates → incentives → investment → growth → employment

## ▶ Demand side

- New Consensus: fiscal components of monetary policy
  - bank balance sheets → confidence → wealth effect → lending → investment → growth → employment
- Traditional Pump-Priming
  - Pro-growth, pro-investment orientation
    - Erodes income inequality between labor and capital
    - Erodes income inequality within labor

# Employment by occupation



# Current stabilization efforts

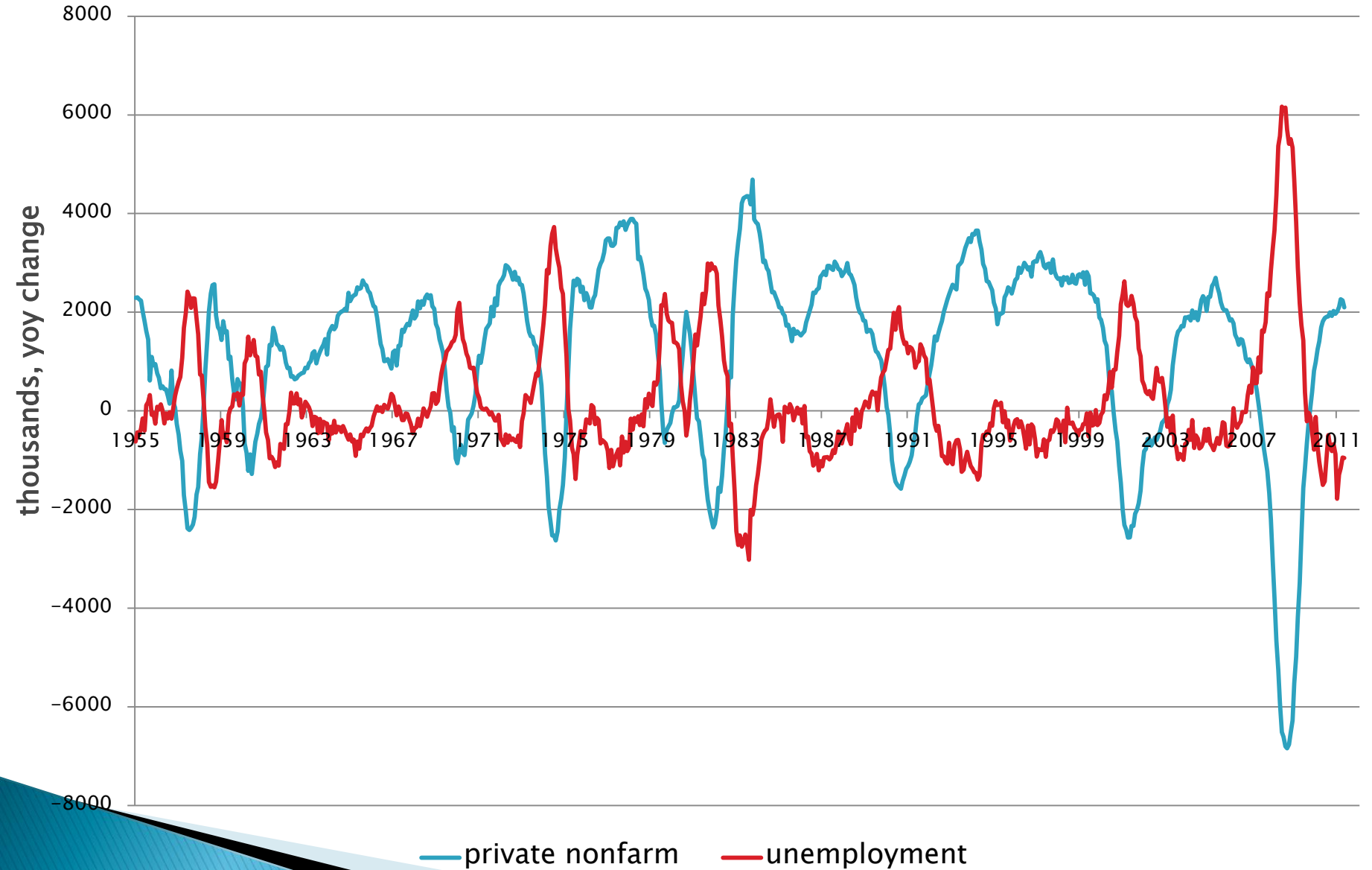
- ▶ Fiscal components of monetary policy: TARP I, TARP II ~ **\$2.7T**
- ▶ Conventional pump priming: **\$840b** ARRA
  - Direct employment and training **\$4.7b**

# Rethinking countercyclical stabilization by government

- ▶ Current stabilizer

- Unemployment pool **x** unemployment insurance
  - Income from forced idleness

# Unemployment buffer stock

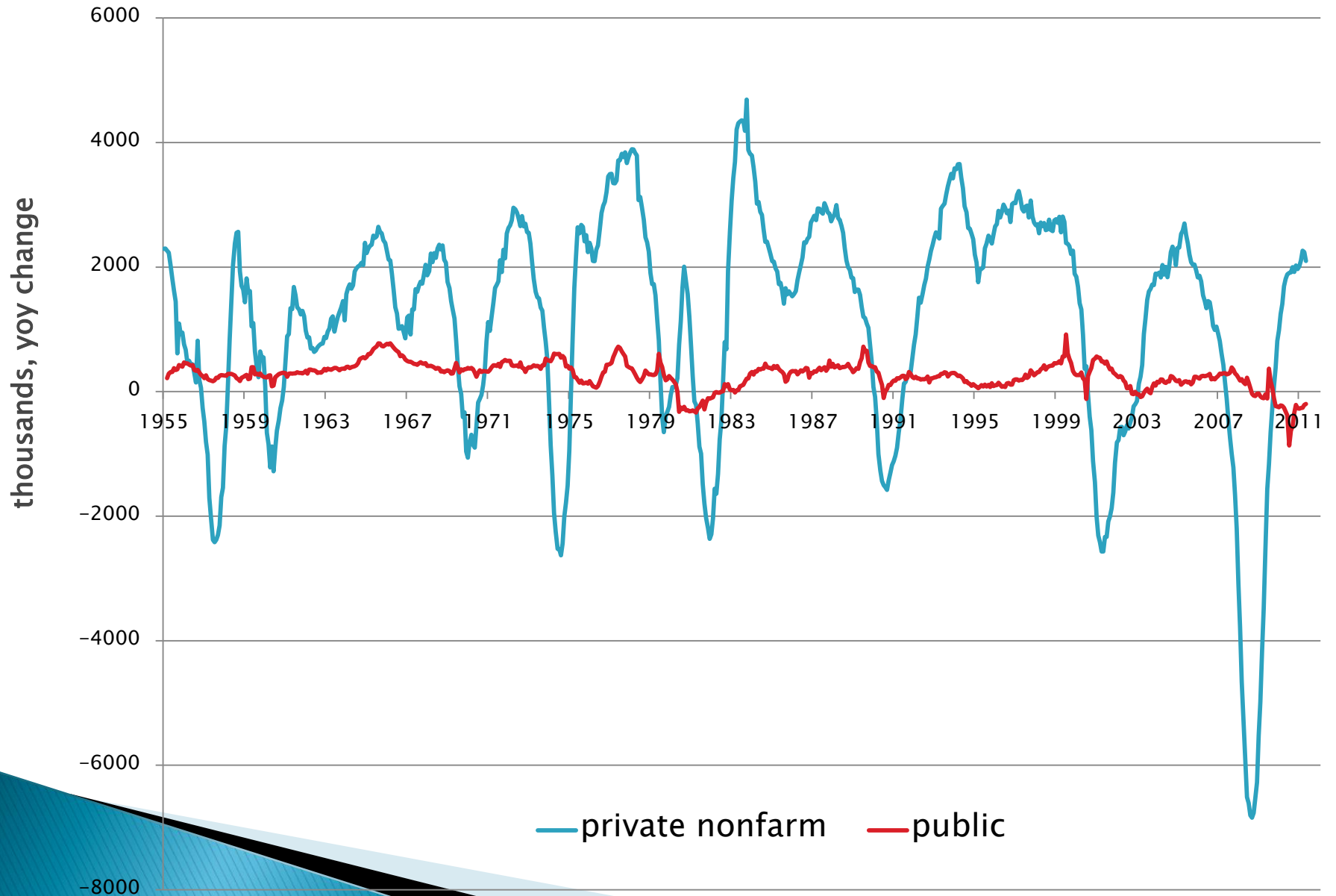


# Rethinking countercyclical stabilization by government

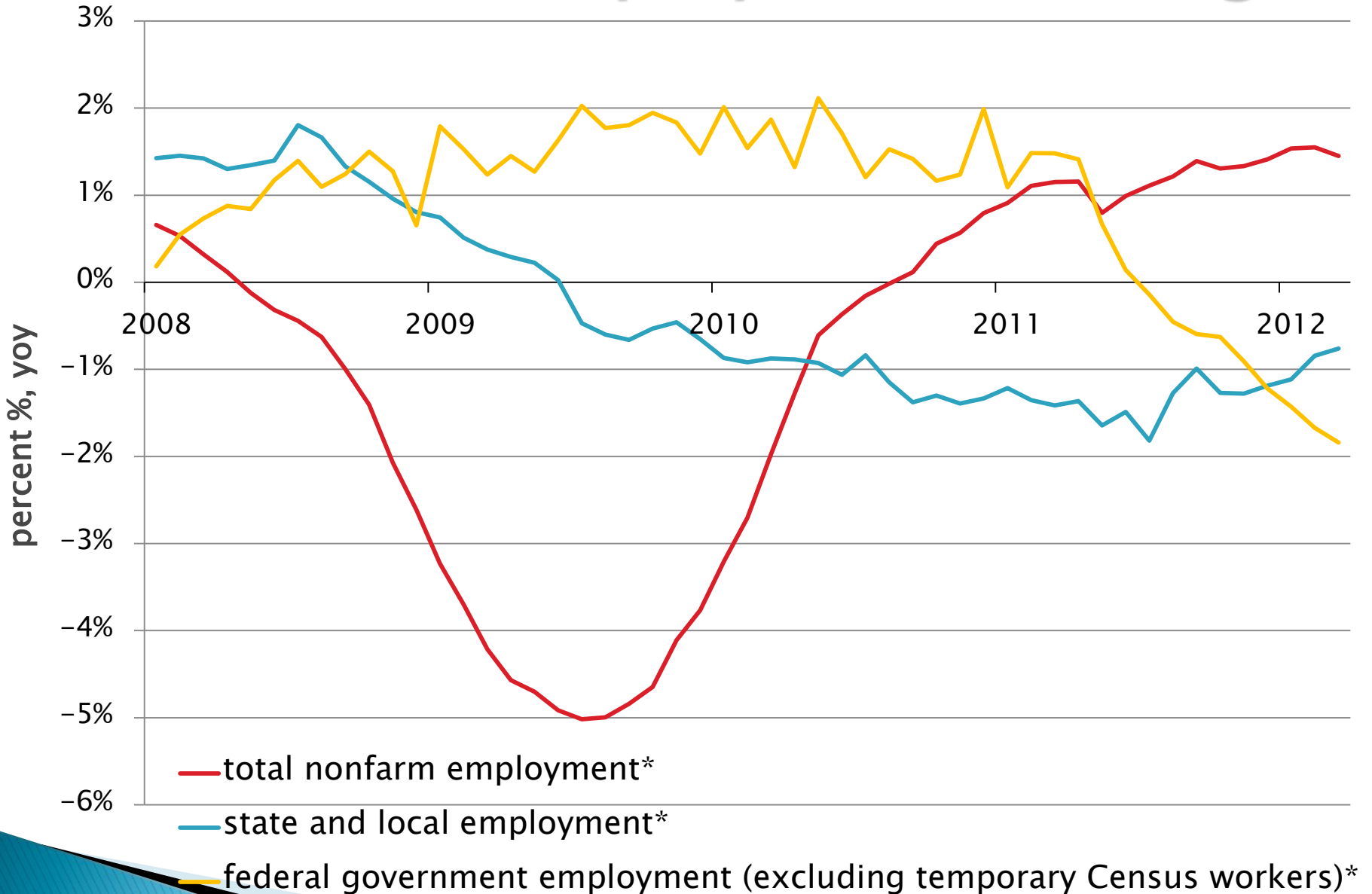
- ▶ Proposed public employment stabilizer
  - Employment pool  $\times$  base wage
    - Wage income from work



# Public employment buffer stock?



# Public sector employment – a drag



# Public employment as a % of nonfarm



# Bottom-up fiscal policy

- ▶ Put a floor on labor demand
  - ▶ Stabilize wage incomes at the bottom
  - ▶ Improve incomes at the bottom faster than those at the top
    - Employer of last resort
    - Buffer stock employment
    - Job guarantee
    - Full employment through social entrepreneurship
  - ▶ Thank you
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