

Restoring Equitable and Sustainable Economic Growth

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Underperformance of US Economy

- GDP some 15% below what it would have been had the growth rates that prevailed between 1980 and 1998 continued
- Percentage of the working-age population employed lower than it was in the early 1980s, when women were entering the workforce en masse
- Median real (household) income is less than 1% higher than it was in 1989
- Real wages at the bottom are lower than 35 years ago
- African-American youth unemployment rate is still 23.7%

Underlying problem: lack of aggregate demand

But there are some related and fundamental supply-side problems

In 2007, but for the housing bubble and consumption boom which it supported the economy would have been weak

- Bottom 80% were spending 110% of their income
- Inevitable that savings rate would increase
- Even now, still low relative to historical levels

Weak Aggregate Demand

Other components of aggregate demand are weak

- Austerity—even if milder than in Europe
- Global economy weakest in 2015 outside of last two recessions
- With C, X, and G weak, so is investment
 - Globally, the flood of money from monetary easing, including QE, has not led to the hoped for increase in investment

Misdiagnosis of the Great Recession

More than a financial crisis

- Banks' balance sheets are largely restored
- Some regulatory reform (Dodd Frank)
- Yet economy is not back to health
 - Insufficient attention paid to improving credit channel
 - Helps explain why monetary easing didn't help as much as hoped

Misdiagnosis of the Great Recession

More than a balance sheet recession

- Balance sheet of large corporations largely restored
- It is not corporate balance sheets or their access to finance that are holding them back from investing
 - It is lack of demand.

Underlying problems

1. Inequality

2. Structural transformation

- Global manufacturing employment is in the decline
- With globalization, the US will be seizing a declining share of that employment
- Needs to be shift to service sector
- Markets on their own do a poor job at managing the kind of large structural transformation that is needed
 - Evidenced in earlier transition from agricultural to manufacturing
- Among the service sectors that should be taking up the slack are education and health
 - Government rightly plays an important role in these sectors
 - Austerity has constrained the ability of the government to play that role

Challenges posed by this structural transformation

- New economy may be less capital-intensive
 - So that the investment needed to support a given growth in GDP may be smaller
- Older workers especially may be ill-prepared for the new economy
 - With the aging of the baby-boomers, a larger fraction of workers are older
 - The societal costs of not retooling—of simply accepting their obsolescence—are higher

Underlying problems

3. Reforming the financial sector

- More than preventing the sector from imposing harm
- Ensuring that it plays societal role
 - providing SME and housing finance
 - managing retirement accounts and running the payments system at low transactions cost

Underlying problems

4. Under-investment in technology and infrastructure which is complementary to private investment
 - with government support of basic research (as a percentage of GDP) lower than it was a half century ago
 - wellspring of ideas driving new innovations to increase productivity may be drying up

Underlying problems

5. Political:

- continuing austerity, in the presence of inadequate private demand, and in the face of the other problems delineated, effectively ensures an underperforming economy

Restoring Shared Prosperity

What will *not* work

1. Monetary Policy

- Underlying problem is *not* Zero Lower Bound
- Low interest rates induce capital intensive technology, may lead to “jobless” recovery

2. Trade agreements

- Tariffs already very low
- With US exporting capital intensive goods, importing labor intensive goods, a “balanced” increase in trade leads to lower employment

An Agenda for Restoring Shared Prosperity

1. *Climate change*

- Imposing a carbon price, reflecting the social cost of emissions, would significantly stimulate investment

2. *Investment infrastructure and technology*

- since much of this public investment is complementary with private investment, private investment will be stimulated
- investment could be financed through an infrastructure bank

An Agenda for Restoring Shared Prosperity

3. *Ending austerity*

- notions of expansionary contractions and that there is a critical threshold, above which debt lowers growth have been discredited
- even if that were the case, the balanced budget multiplier means that increasing taxes in tandem with investment spending increases GDP now and in the future

An Agenda for Restoring Shared Prosperity

4. *Fighting Inequality*

- More than redistribution
- *Pre-distribution*: Rewriting the Rules to ensure more equitable distribution of market income
- Markets don't exist in a vacuum: the way they are structured affects how they function, efficiency, and distribution
- Increases in rents explains the anomaly of an increase wealth/income ratio accompanied by a decrease in the ratio of productive capital to income
- Addresses the marked disparity between the growth in labor productivity and real wages
- Reduced inequality would improve economic performance, in the short term, and in the long term

See Stiglitz, J. E., N. Abernathy, A. Hersh, S. Holmberg, and M. Konczal (2015). *Rewriting the Rules of the American Economy*, New York: W.W. Norton, 2015.

An Agenda for Restoring Shared Prosperity

5. *Reforming the financial sector*

6. *Structural Transformation*

- government action, through spending during and after World War II (including through the GI bill), was central in transition from agriculture to manufacturing
- The government needs to again take an active role, including through more active labor market policies.
- Such policies only work, however, if there are jobs for the retrained workers.
- There needs to be a comprehensive framework for restoring full employment

An Agenda for Restoring Shared Prosperity

7. Reforming global financial architecture

- Current system an anachronism
- Leads to stronger US dollar, weaker exports
- What is needed is a global reserve system, as suggested by Keynes and recent UN Commission
 - Would lead to greater global stability
 - And a stronger American economy

Concluding Remarks

- The malaise in which the country has been now for eight years is likely to continue unless something changes.
- This talk has outlined an agenda that would enable us to restore robust equitable and sustainable growth.