

The 2016 Election Policy Threesome: Inequality, Trade Shocks, and Monetary Policy

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Assistant Professor, New Economic School

Democrats Abroad Seminar
March, 2016

(Select) Major Election 2016 Policy Issues

- Inequality. Rise of the 1%.
- Trade. Free trade the enemy?
- Monetary Policy.
- Other main election economic policy issues: clean energy/Immigration/free college education/single payer/minimum wage/infrastructure investment/Social Security – are either far from my specialty, or not so interesting to discuss.

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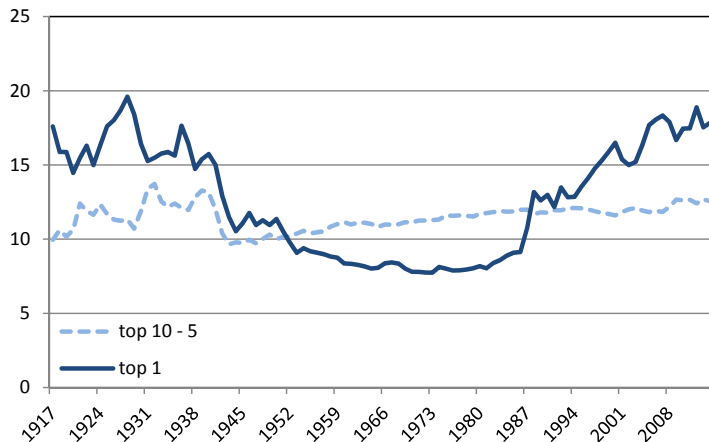
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The Rise of Inequality, the US



*Data from Piketty/Saez World Top Incomes Database

Theories on the Rise of Inequality

- Skill-Biased Technological Change. Robots.
- Trade Shocks. Rise of China. NAFTA.
- Labor Market Institutions – Especially top marginal tax rates, and the minimum wage
- Others: Education (supply of skilled workers). Increasing rent-seeking/monopolization (Robert Reich)

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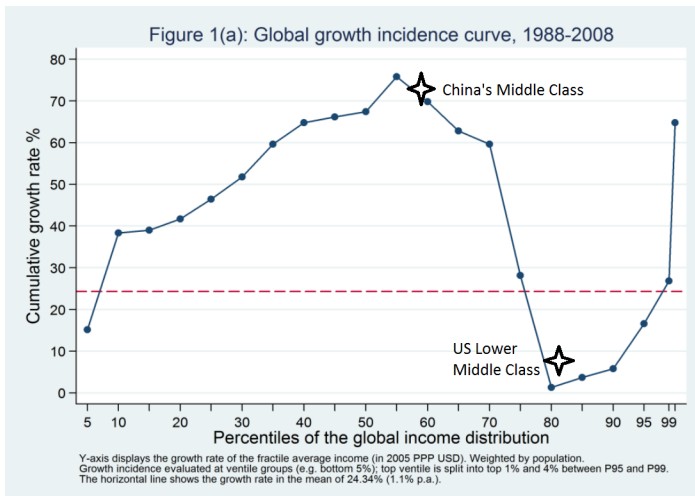
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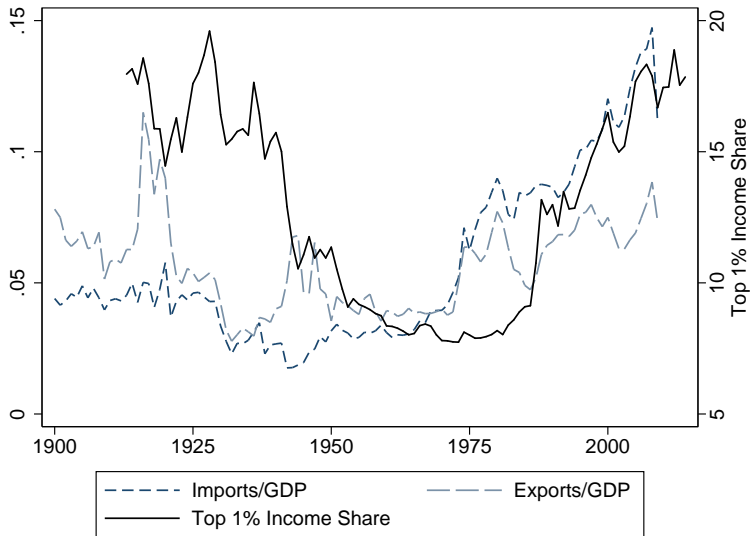
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Paul Krugman's "Chart of the Year" for 2014

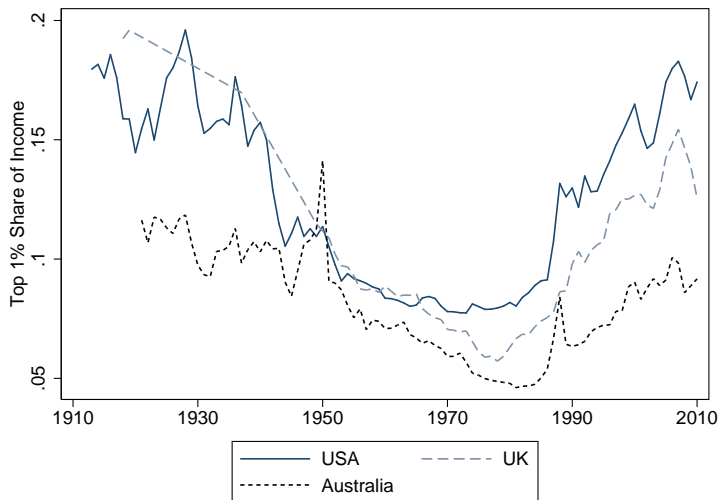


From Lakner and Milanovic (2013)

US, Trade vs. Inequality

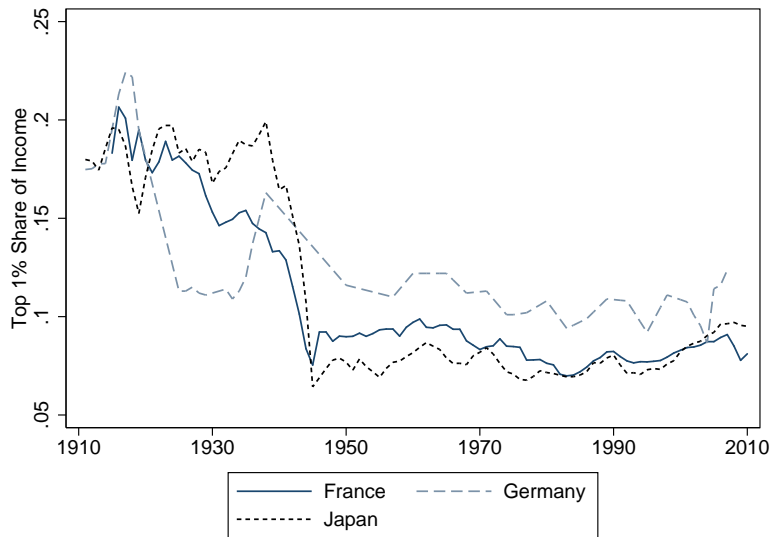


The Rise of Inequality, Anglo Countries

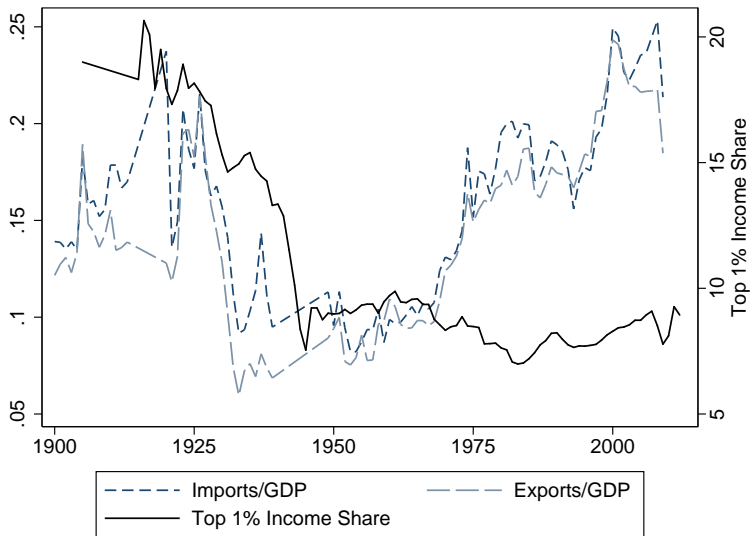


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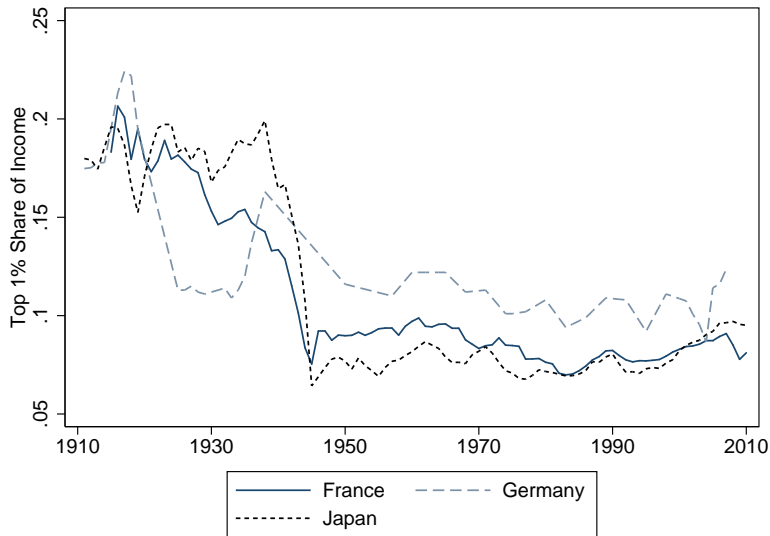
Top 1% Share of Income, Other Countries



France, Trade vs. Inequality



Skill-Biased Technological Change?



Skill-Biased Technological Change? Increasing Returns to College Education?

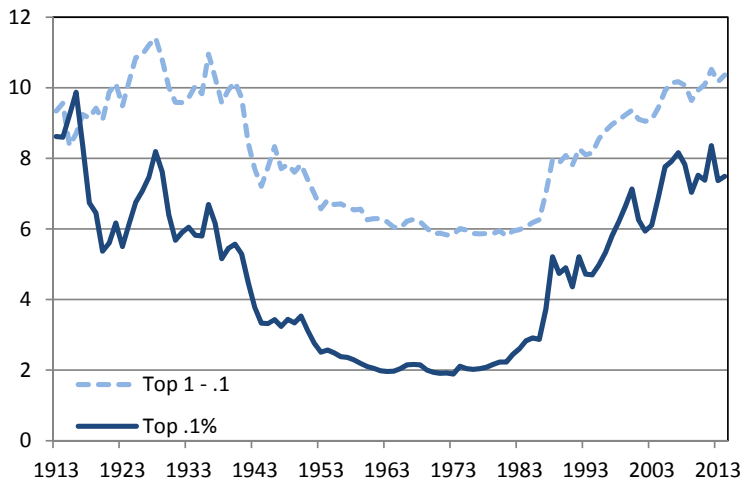
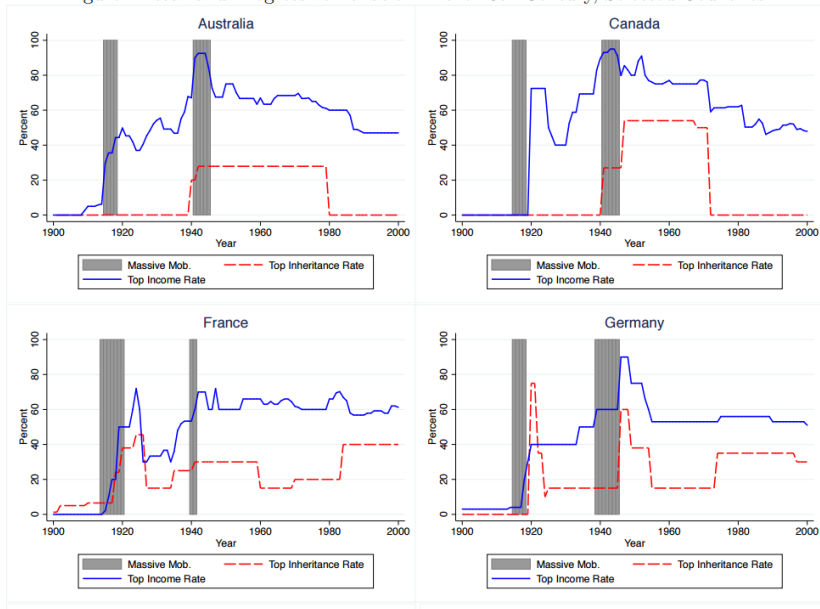
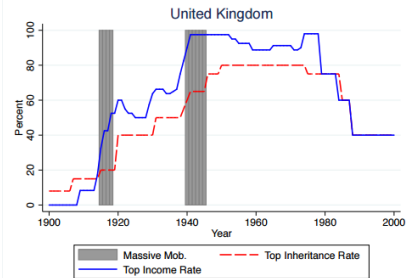
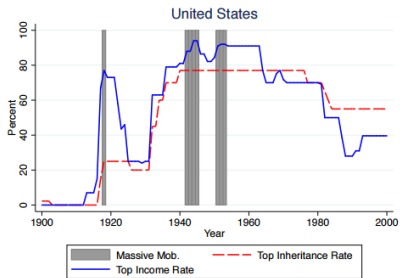
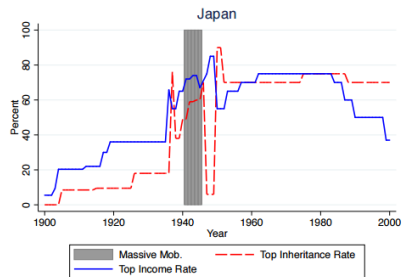
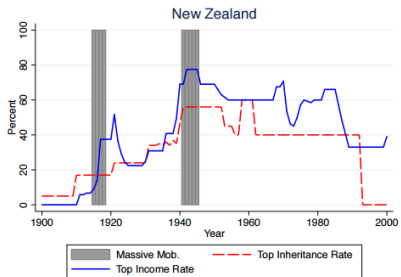
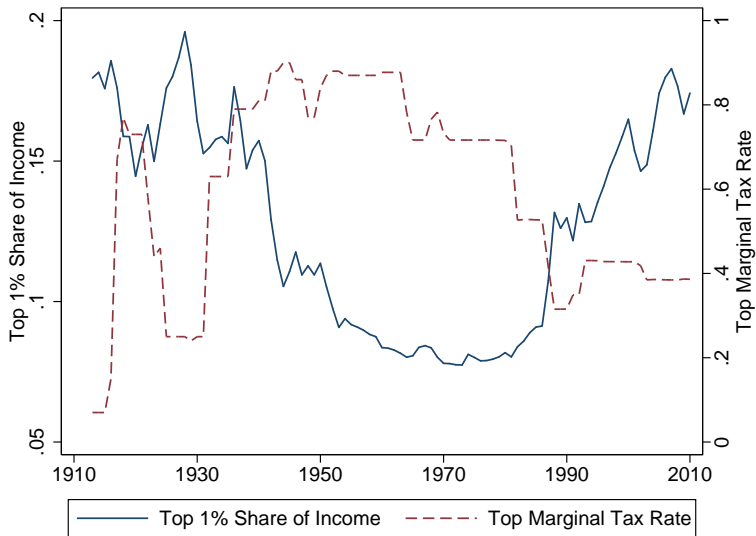
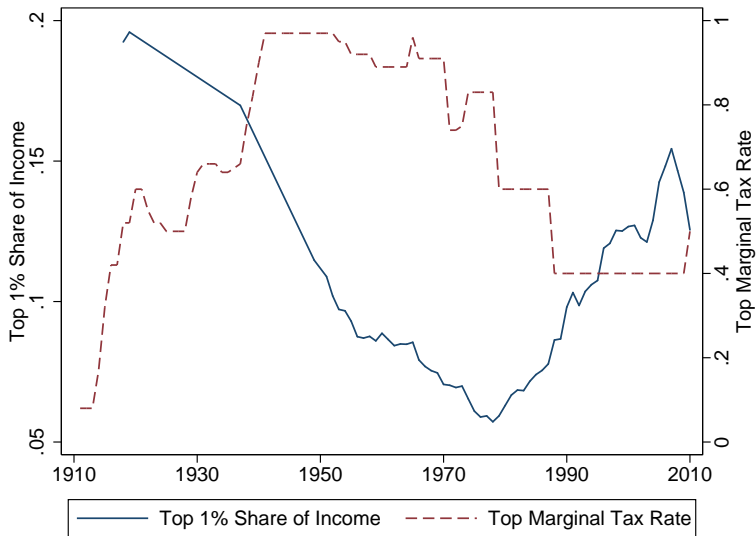


Figure 2: War and Progressive Taxation in the 20th Century, Selected Countries

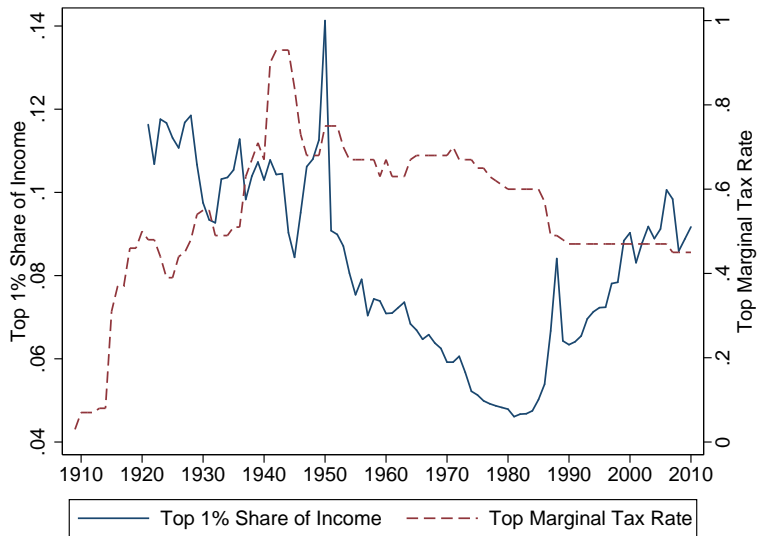




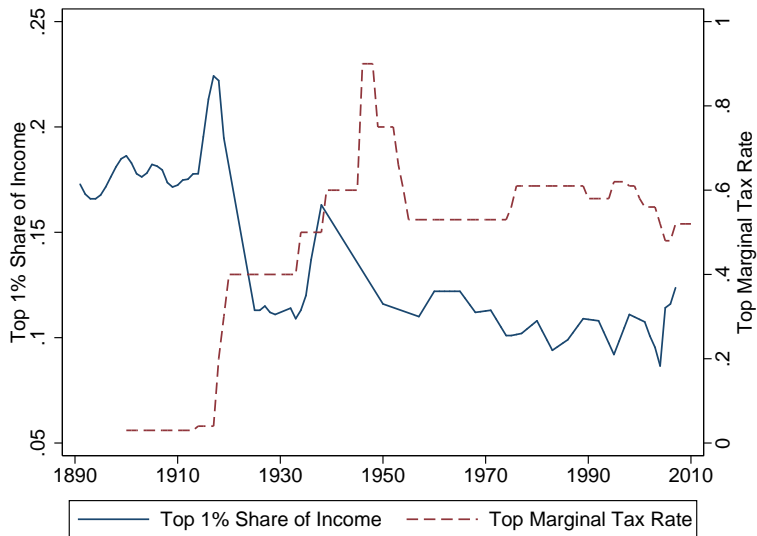




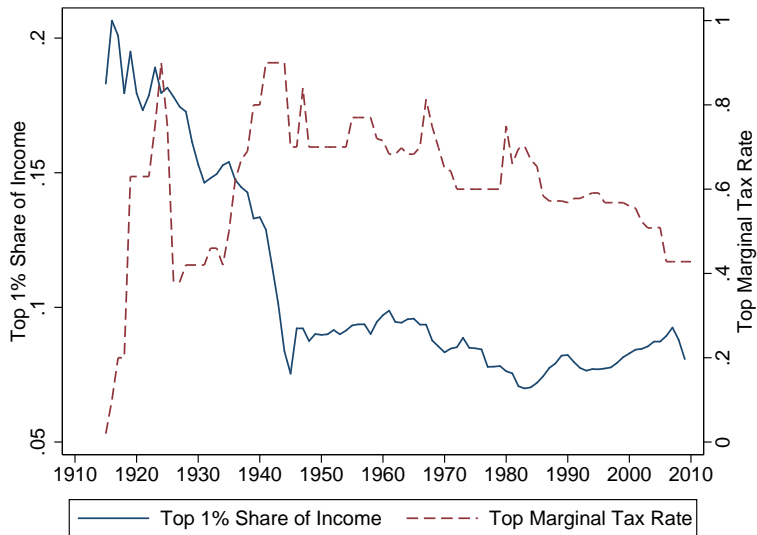
Australia



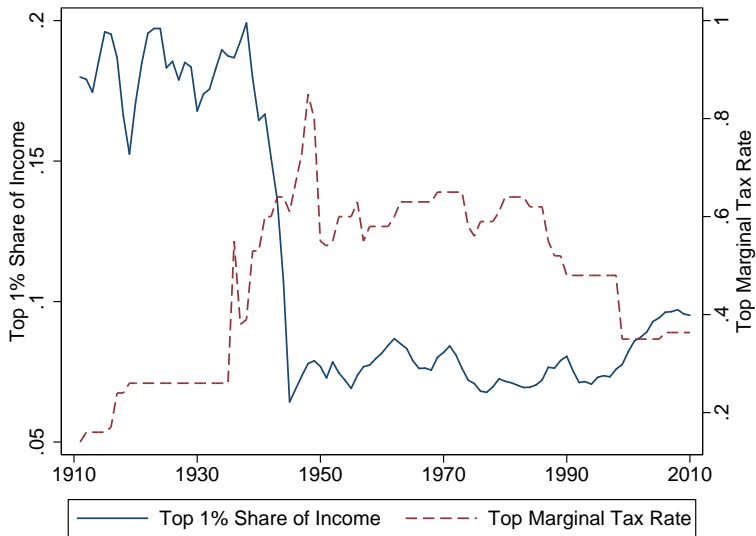
Germany



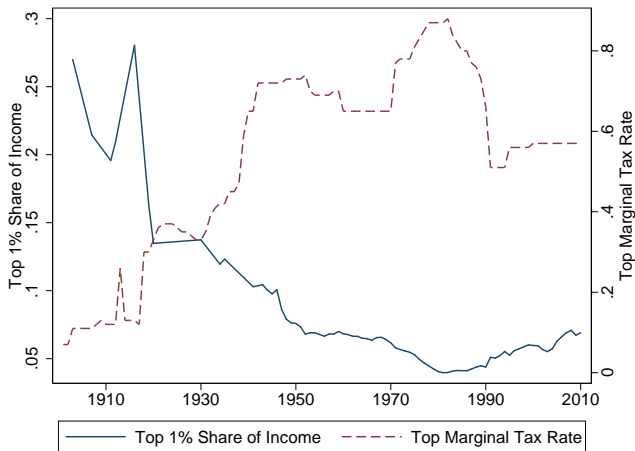
France



Japan



Top Marginal Tax Rates and the Top 1% Share of Income: Sweden



Notes: 1% Share and Top MTR data from the World Top Incomes Database, supplemented with other sources

Inequality: Summing Up

- Changes in the top marginal tax rate almost certainly drove increases in the Top 1% share of income (Piketty/Saez/Stantcheva 2013, Campbell/Lusher 2016)
 - This operates in part via bargaining, which is why changes in the top MTR affect the trajectory of the top 1% share. *Implication: Raise top rates!*
 - Caveats – likely small impact on labor supply but possibly larger impact on avoidance. *Implication: Go after loopholes (carried interest).*
 - We also know that trends in CEO pay largely explained by luck (Bertrand and Mullainathan, 2001)

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 - Trade Imbalances not correlated
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 - Trade with China/Developing Countries not correlated
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- CPS MORG data tell a slightly different story – manufacturing workers with no college but high wages suffered the most (Campbell, 2016)
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How About Trade?

- Progressives' skepticism of FTAs often portrayed as idiocy or pandering to labor unions. Don't you understand comparative advantage?
- Anti-free trade Trump: Just xenophobic?
- Bashing trade is now quite popular on the campaign trail...
 - In Michigan, only 30% of Democratic primary voters believe trade creates US jobs (Clinton won these, 54-44), while 57% believe it takes away jobs (Sanders won these 56-41).

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 - Yes. It may be even worse than Bernie/Trump says...
- And, if so, does this mean that we should try to reverse NAFTA and pNTR with China?
 - No. Though I would try to “make a better deal” with China. I would not touch NAFTA though. Let me explain...

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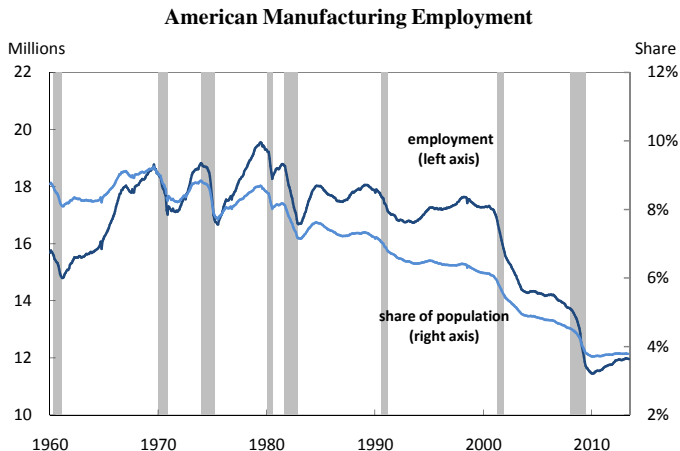
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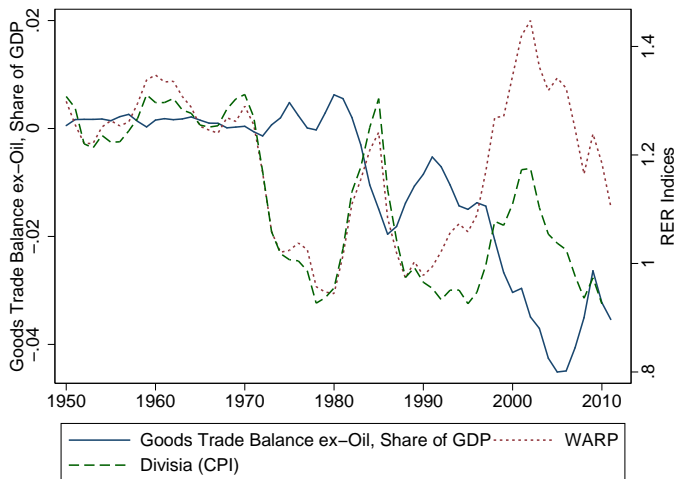
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The Collapse in Manufacturing Employment



Autor, Dorn, Hanson (2013) and Campbell (2013, 2016) suggest collapse due to trade

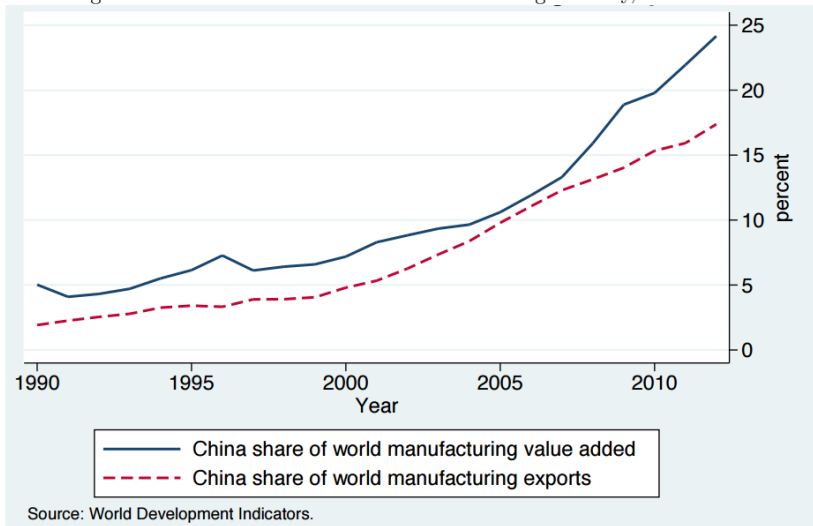
Real Exchange Rates and Trade



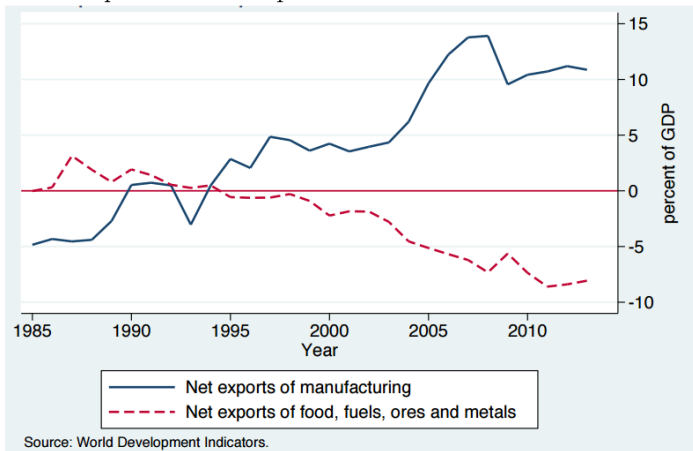
Note: WARP is a measure of the trade-weighted Real Exchange Rate for the US

The Rise of China (which has lifted millions of people out of poverty)

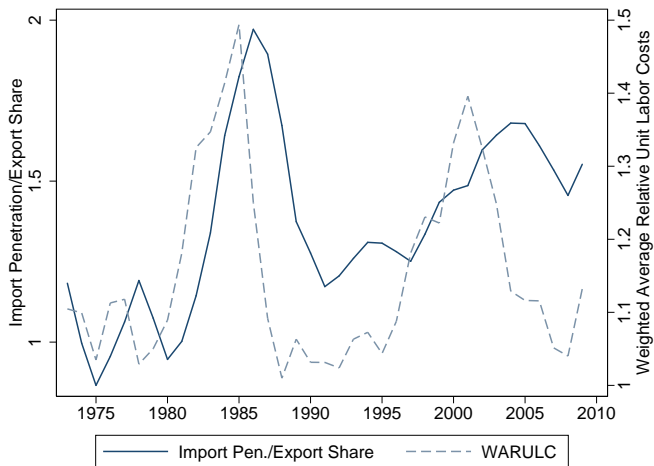
Figure 2: China's Share of World Manufacturing Activity, 1990 - 2012



A. Exports Minus Imports as a Share of GDP for China

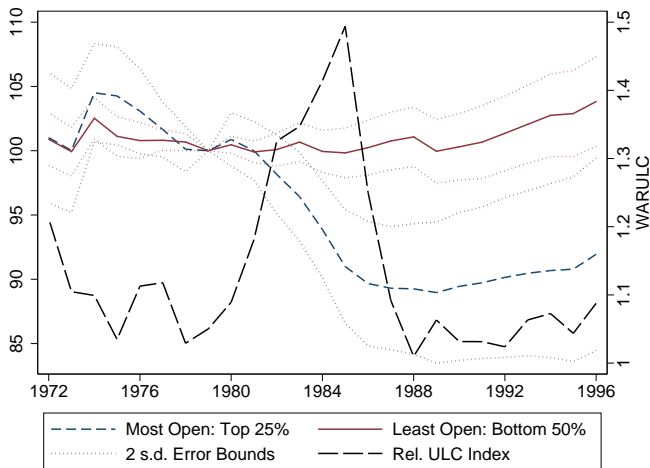


Adverse Trade Shocks: RER Movements



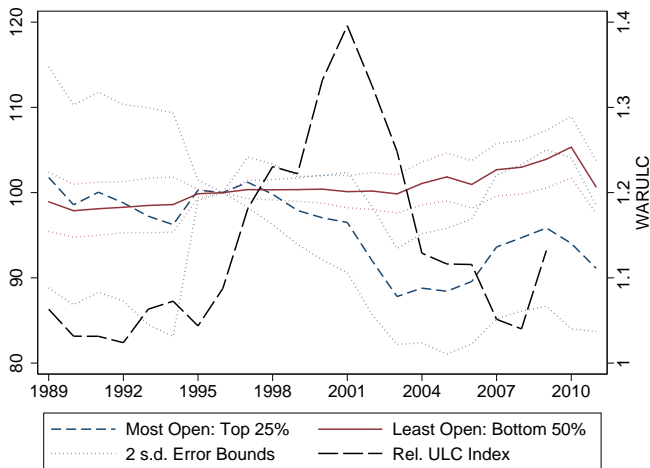
Notes: WARULC = Weighted Average Relative Unit Labor Costs (from Campbell, 2015), Import Penetration = Imports/(Shipments + Imports - Exports); Export Share = Exports/Shipments

Adverse Trade Shocks: RER Movements, Impact on Employment



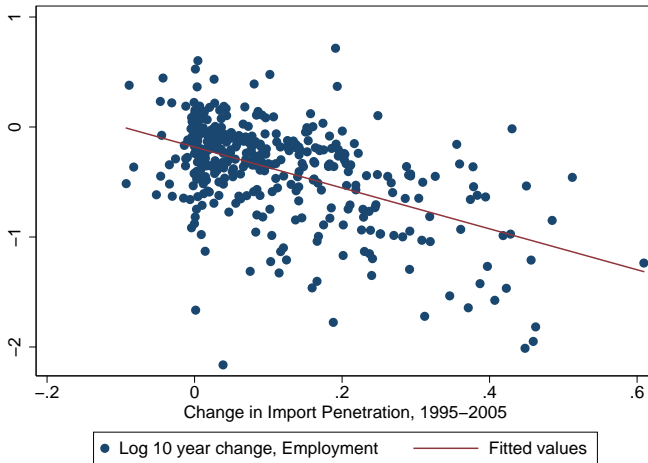
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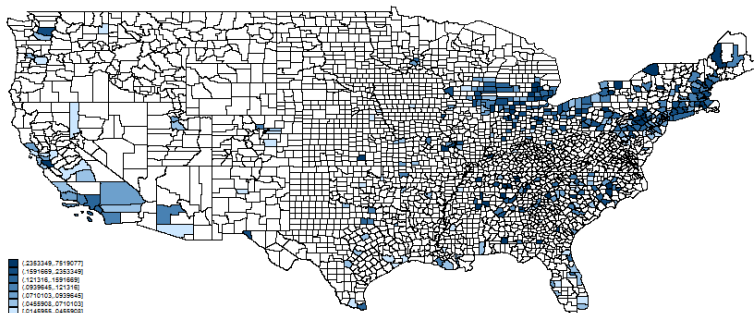
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Exposure to Import Competition and Employment Growth, by Sector



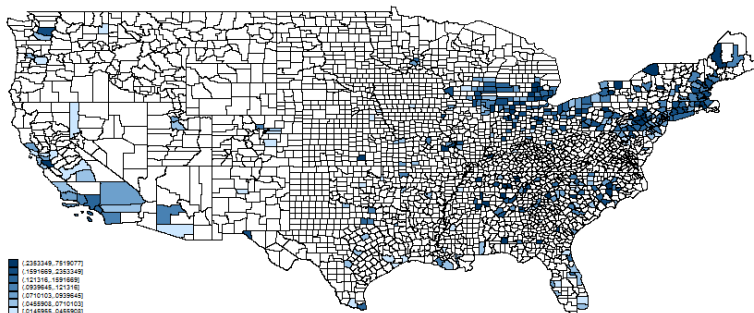
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Manufacturing Jobs Exposed to Import Competition, 1979



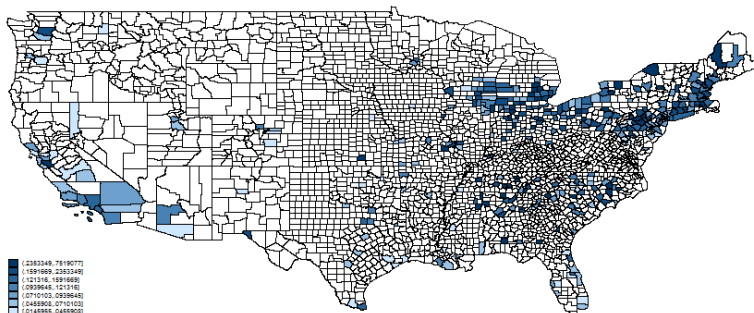
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Estimates of the Total Jobs Lost

Estimates of Total Jobs Lost Due to Trade Competition					
	Estimates (Millions) of Total Job Losses due to:				
	China, Direct	China, Add IO Linkages	All Shocks, Direct	All Shocks, Add IO Linkages	All Shocks, Add Local Impact
Acemoglu/Autor/Dorn/Hanson, 2015	0.85	1.4			3.0
Campbell, 2016	1.6	2.7*	2.9	4.8*	10.3*
Bernie Sanders, Campaign Literature					3.0

*Indicates that the Campbell direct estimates are combined with the AADH multipliers

- Notes: Acemoglu *et al.* used an extremely conservative methodology to calculate the total jobs lost.
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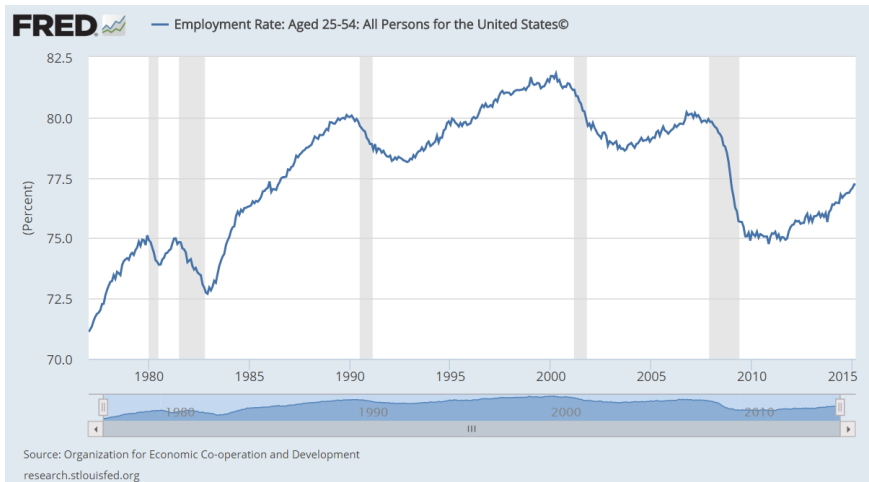
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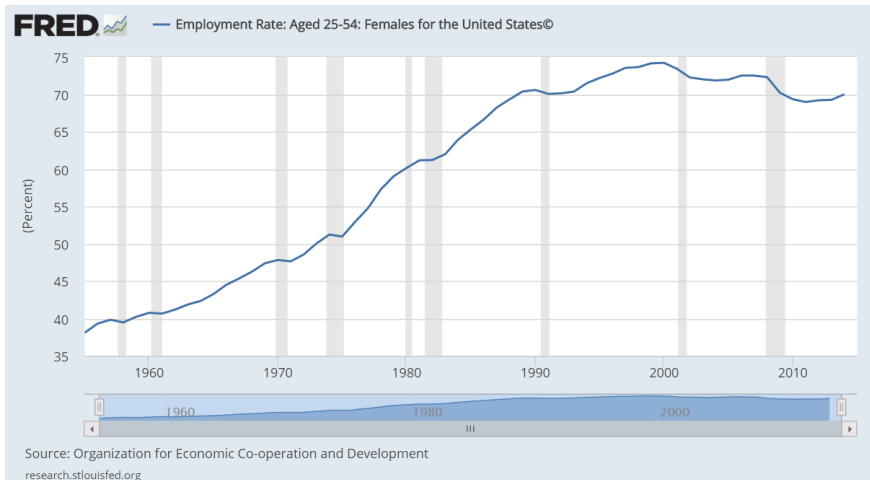
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The Great Employment Sag of the 2000s



Women Lost Ground in the Naughtyies



But, wait. It gets worse...

- 1 Small trade shocks probably have no aggregate jobs impact. The Fed decides aggregate employment.
- 2 But, rise of China, RER movements, and the Great Reserve Accumulation led to...
- 3 The Collapse in Manufacturing and low interest rates. Fueled the housing bubble.
- 4 Thanks to poor regulation, when the bubble burst, this led to the world financial crisis, the Great Recession, a liquidity trap, and a slow-growth trajectory
- 5 The Federal Reserve (and other central banks), have not been very aggressive about getting the US economy back on its long-run growth path.

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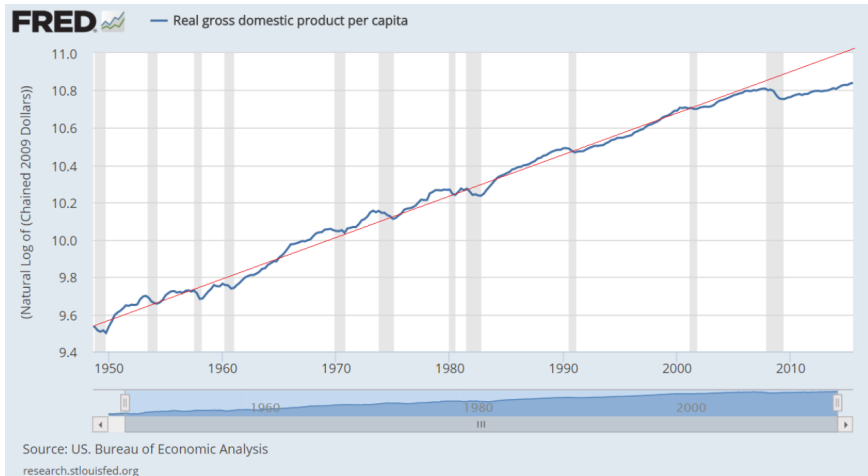
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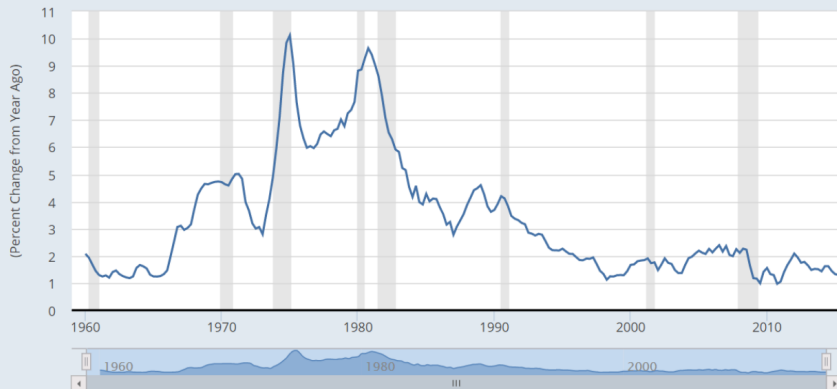
GDP Below Trend



And yet inflation below target...

FRED

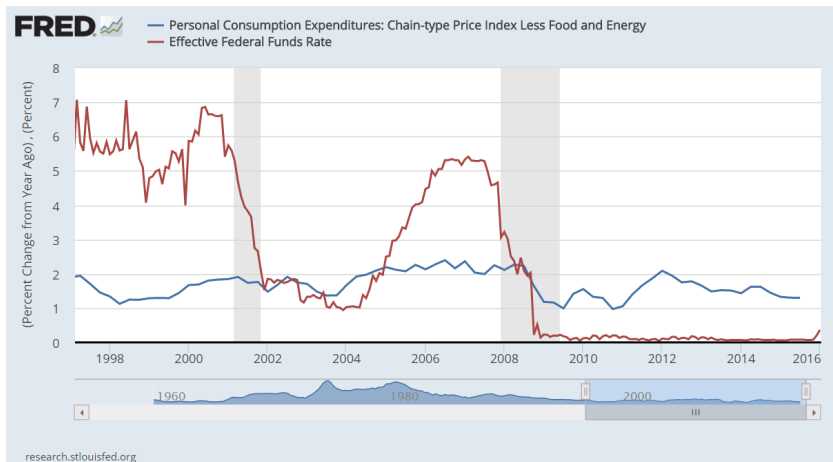
— Personal Consumption Expenditures: Chain-type Price Index Less Food and Energy



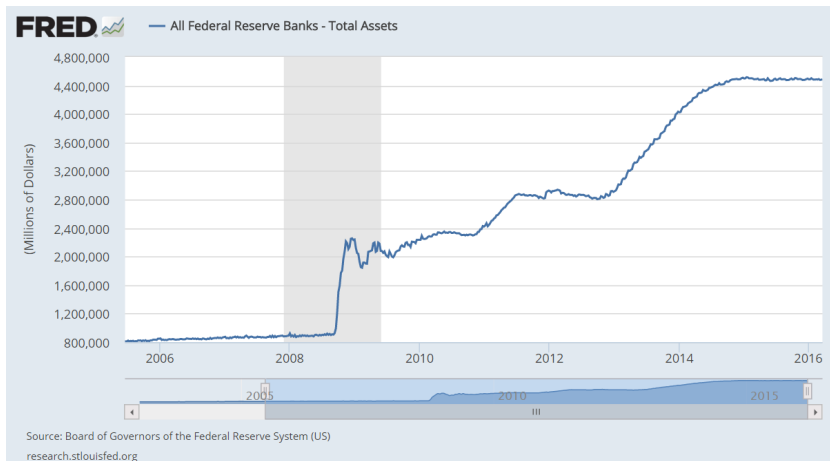
Source: US. Bureau of Economic Analysis

research.stlouisfed.org

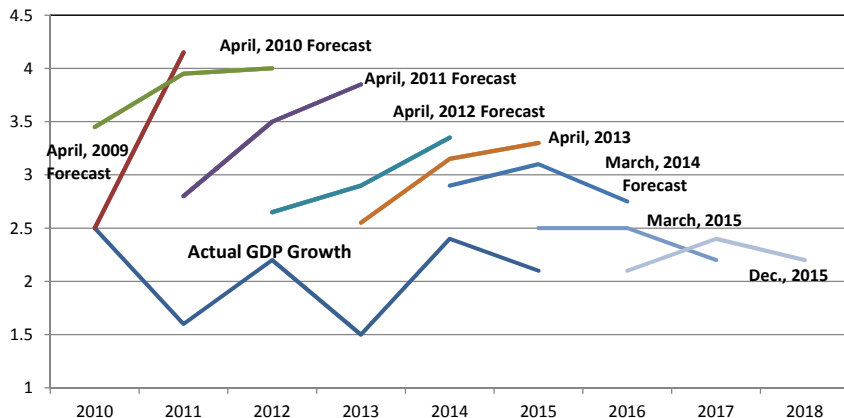
In part because of ZLB, Fed has done little. Tightening without inflation



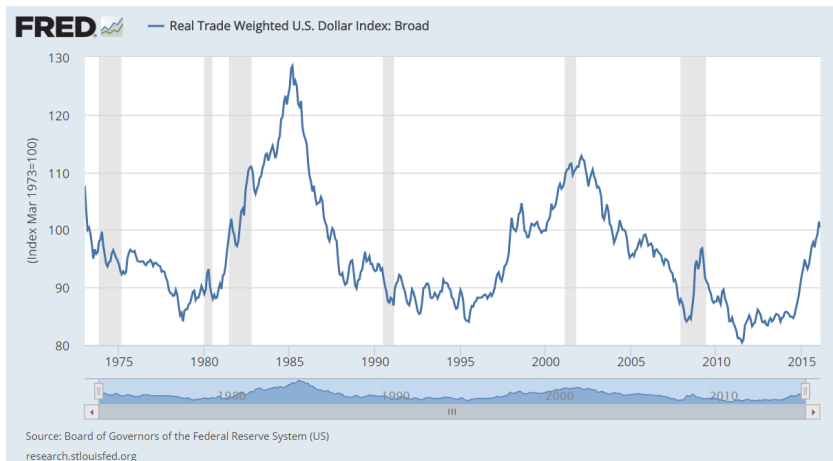
Fed Total Assets. Two years in between MP changes...



Actual RGDP Growth vs. Fed's Forecasts



The recent tightening has led to another dollar appreciation...



Conclusions for Policy

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 - There are still plenty of issues to push China on. Mostly, these are pushing the interests of US corporations in China – pirating, facebook in China, etc.
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