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LONGSTANDING STRUCTURAL PROBLEMS, INCLUDING INCREASING INCOME INEQUALITY, PUT U.S. ECONOMY AT RISK FOR RECESSION, NEW LEVY ECONOMICS INSTITUTE STUDY SUGGESTS

Study Finds that Proposals to Increase Tax Rates of the Very Rich Will Provide a Macroeconomic Boost if Matched by Increases in Public Spending

ANNANDALE-ON-HUDSON, N.Y.— The U.S. economy has been expanding continuously for almost nine years, making the current recovery the second longest in postwar history. However, the current recovery is also the slowest recovery of the postwar period. A new study from the Levy Economics Institute of Bard College contends that the same longstanding structural problems that led to the Great Recession—weak net export demand, fiscal conservatism, increasing income inequality, and financial fragility—have undermined the current recovery and put the U.S. economy at increasing risk for recession. In their Strategic Analysis, "Can Redistribution Help Build a More Stable Economy?" Levy President Dimitri B. Papadimitriou and Research Scholars Michalis Nikiforos and Gennaro Zezza argue that the U.S. economy requires deep structural reforms to achieve a robust and sustainable future.

"The economies of U.S. trading partners are slowing down; income inequality keeps increasing (the latest step in this process was last year's tax reforms); the balance sheets of the private sector, especially nonfinancial firms, are more fragile than ever; and the stock market is clearly overvalued," write Papadimitriou, Nikiforos, and Zezza. "These factors—and the feedback among them—will be the causes of the next recession."

The Levy scholars highlight the degree to which rising income inequality impacts the other structural imbalances and has become a significant drag on the U.S. economy. "Increasing income inequality makes the situation worse because households at the bottom and middle of the income distribution have higher propensities to consume than households at the top of the distribution," they write. "Therefore, a redistribution of income toward the top, as has happened in the United States over the last four decades, has a negative effect on consumption, demand, and growth."

Stressing that no single policy or "silver bullet" can address all of the interrelated structural problems, the Levy scholars analyze the five-year macroeconomic impact of two scenarios—based on proposals by Senator Elizabeth Warren, Senator Bernie Sanders and Representative Alexandria Ocasio-Cortez—to increase taxes on the very rich as a means to address rising income inequality.

"Even if the primary justification for such policies is not economic, we show that if this increase in taxes is accompanied by an equivalent increase in government outlays, the redistributive impact will have a positive macroeconomic effect: a 1 percent of GDP increase in tax revenues from the richest households would lead to a 1.7 percent increase in GDP, while a 1.3 percent increase in such revenues would result in a 2.2 percent boost to GDP (again, if matched by a rise in public spending in each case)," they write "Although a more wide-ranging policy effort is required to significantly reduce income and wealth inequality—particularly by addressing pre-tax inequality—the tax policies considered in this report would represent a step toward building a more stable U.S. economy."

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Strategic Analysis: *"*Can Redistribution Help Build a More Stable Economy?

To read the full text of this policy paper or to learn more about the Levy Economics Institute of Bard College, please visit levyinstitute.org.

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