

Lessons from the Crisis: Using fiscal and monetary policy to address intergroup inequality and conflict

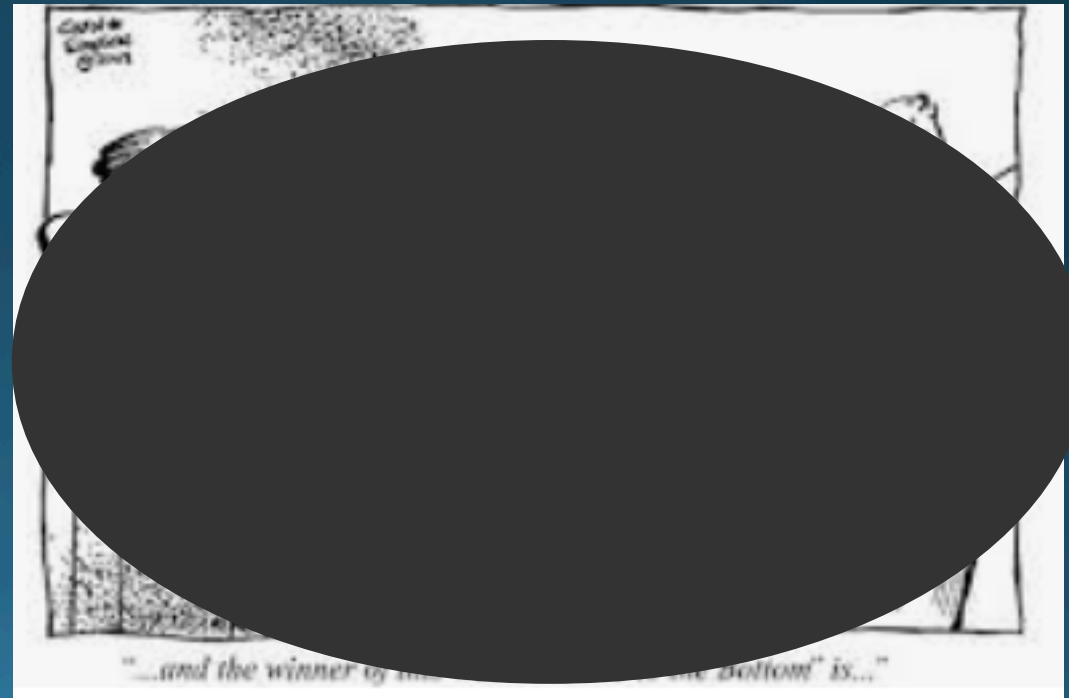
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Forum for Macroeconomics and Macroeconomic Policies

Leading up to the crisis

- The growth of class inequality
- Increasing economic insecurity
 - Labor market changes to precarious work
 - Weakened social safety net
 - Increased macro volatility



But we have missed changing **intra**class dynamics

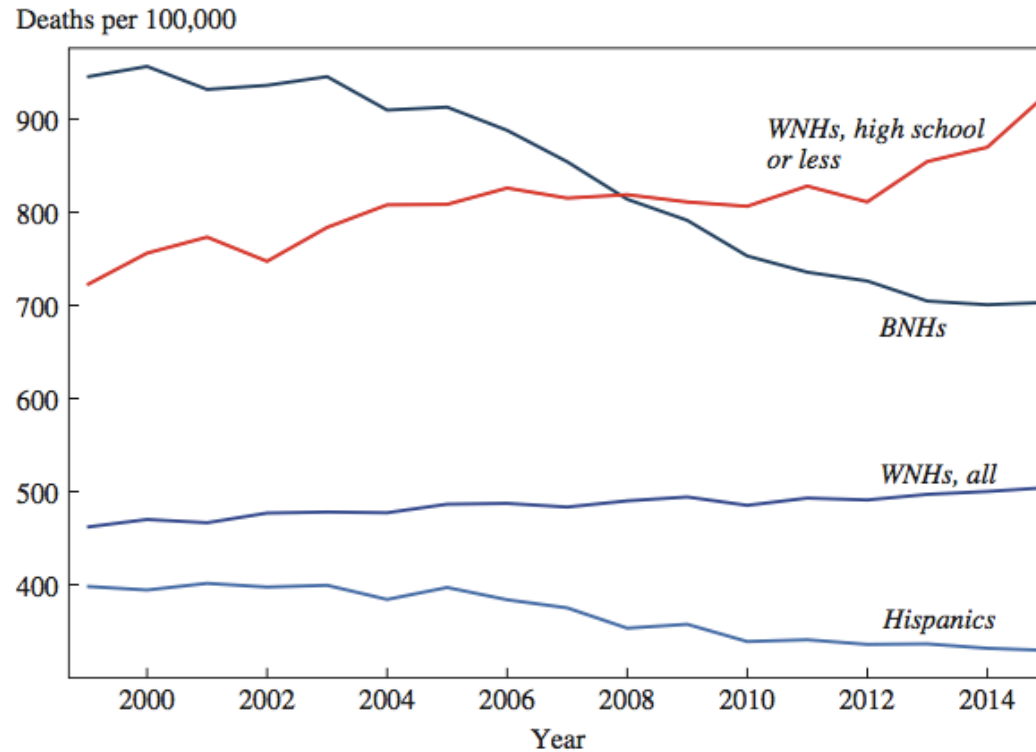
Downward harmonization of Whites (native born) to the economic insecurity of racial/ethnic minorities and women

- Case and Deaton (2017)
 - Decreased life expectancy among low-income Whites due to
 - Suicide
 - Drug overdoses
 - Alcohol related liver mortality

“Death by despair”

Case and Deaton (2017)

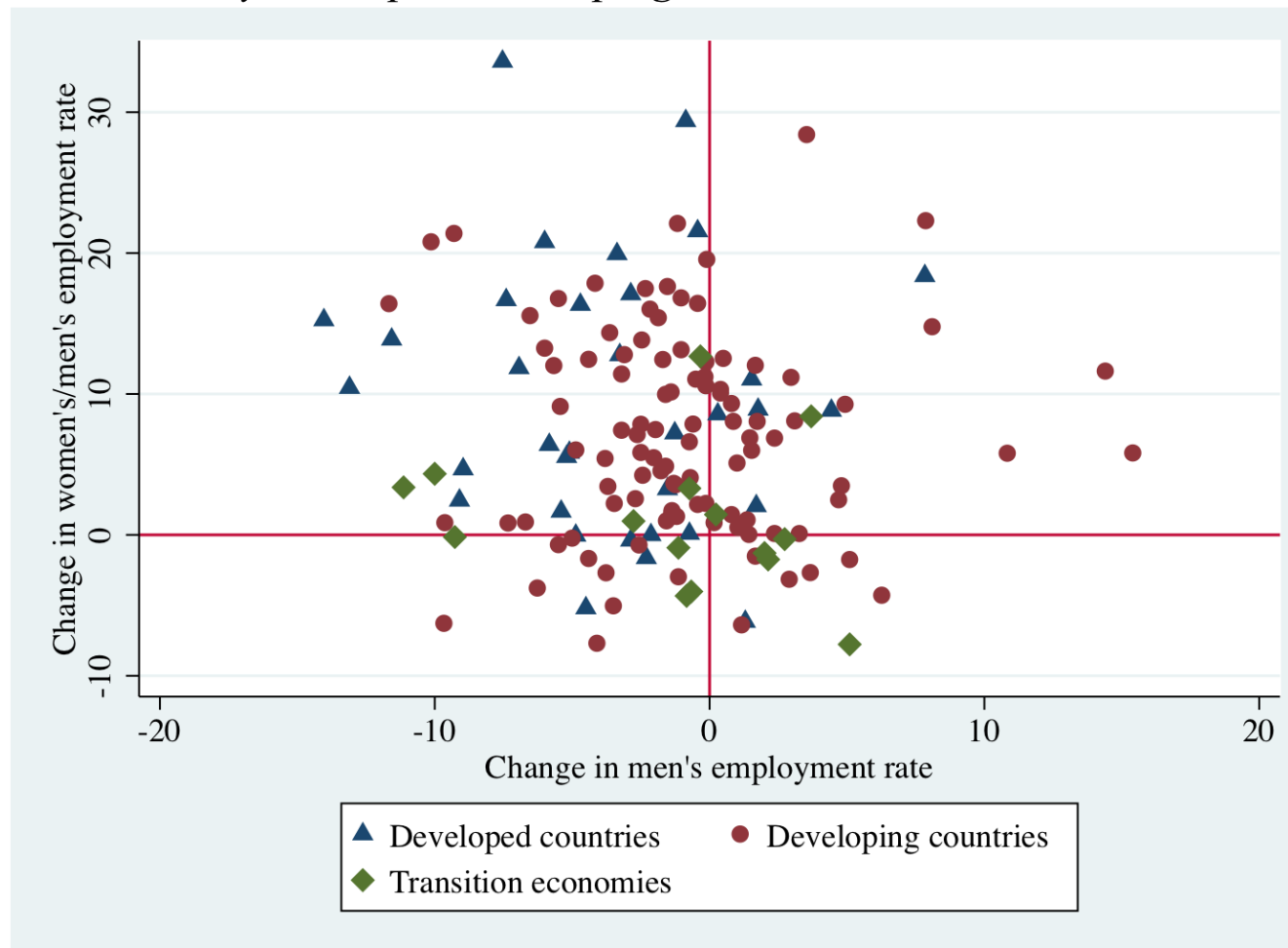
Figure 1. All-Cause Mortality by Race and Ethnicity for Age 50–54, 1999–2015



Sources: CDC WONDER; National Vital Statistics System; authors' calculations.

Figure 2. Changes in Women's/Men's Employment Rates versus Men's Employment Rates, 1991–2014 (percentage points)

A. By developed, developing, and transition economies



Changing **structure of economy** and **downward harmonization** of men's labor market experience to women's has led to crisis of masculinity and gender conflict



How do we understand the political fallout—the rightward shift in politics—from these trends?

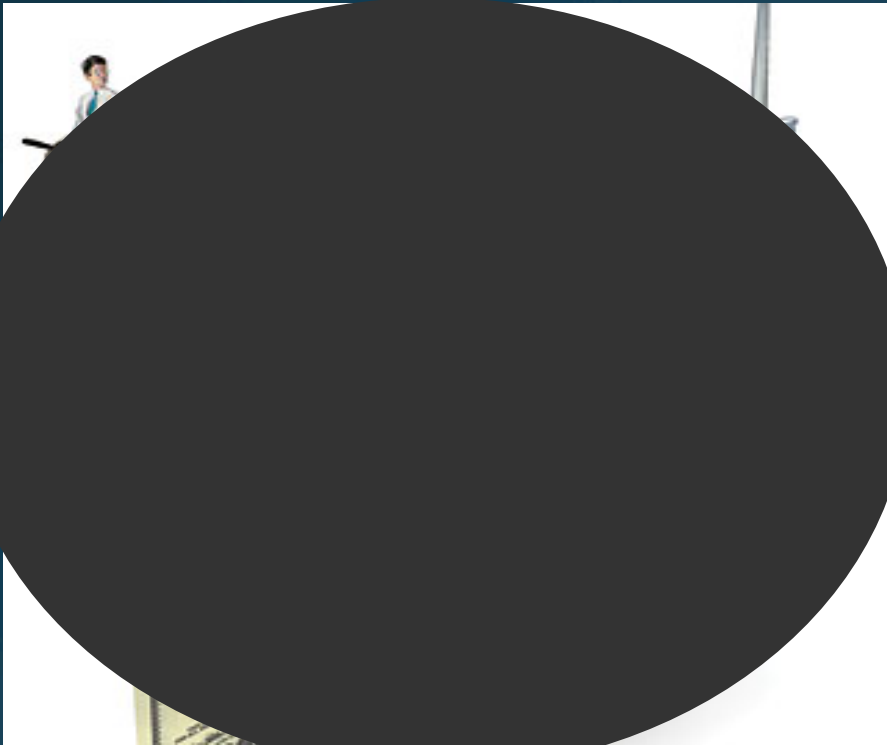
Recent insights of **stratification** and **feminist** economics can help us.

Stratification economics

- Analyzes the structural and institutional processes influencing the **reproduction of hierarchy** and thus intergroup inequality
- Main focus is on **race** and **gender** inequality
- Two key mechanisms by inequality is perpetuated:
 - **Exploitation**
 - **Exclusion (hoarding)**

Often missed: Stratification by race and gender are pronounced, and may override class concerns.

Stratification economics: The macroeconomy and intergroup inequality



Capitalism *produces* **good jobs, bad jobs, and no jobs**. Racial and gender hierarchies slot subaltern groups for the bad jobs and lack of jobs.

Macro conditions influence the degree of race and gender animus and inequality.

During hard economic times, racial and gender hostility worsen.

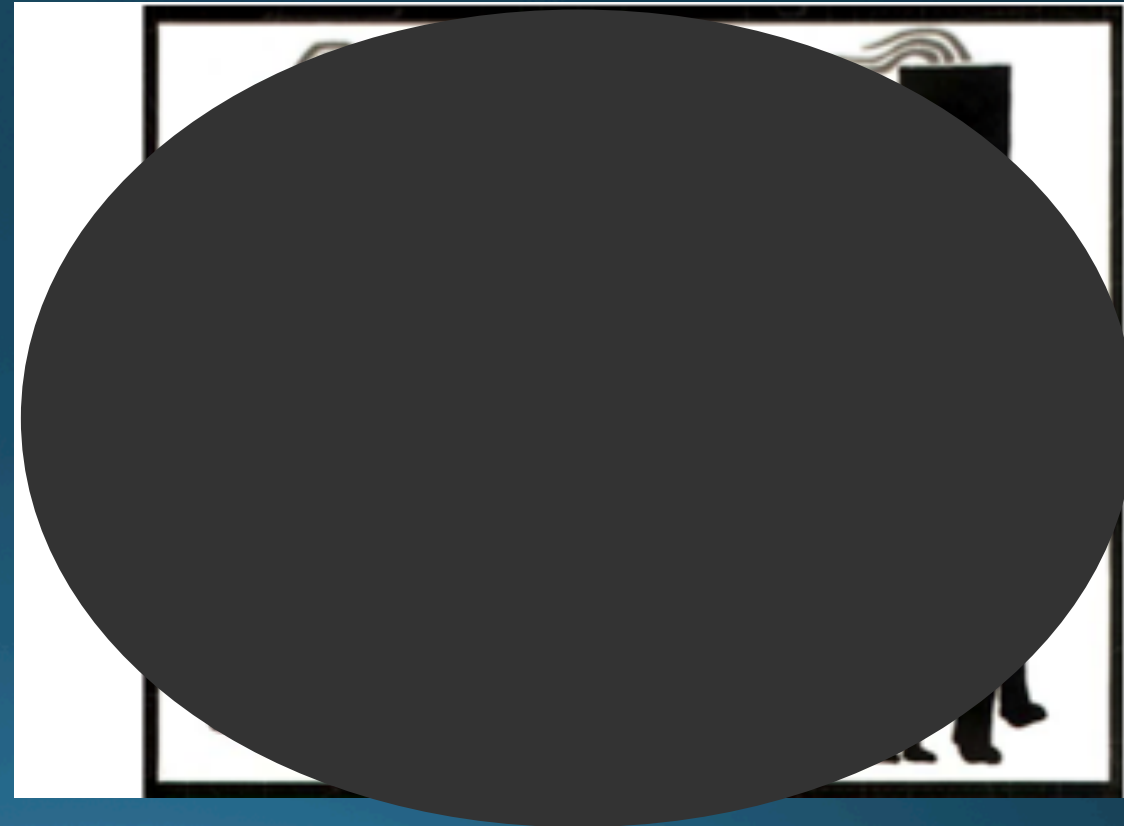
What might we learn from feminist economics?

Labor market dynamics

- *Seguino and Braunstein (2018). Gender job segregation has grown over last 20 years with women increasingly excluded from “good” jobs”*
- Higher rates of gender job segregation **depresses the wage share of income.**

25 years of feminist research highlight another feedback loop – **the care economy**

- Care work is **economically necessary** work
 - Daily aspects of social reproduction **raise current productivity**
 - Long-term investments raise **future productive capacity**
 - Women bear disproportionate burden of costs and risks of care work

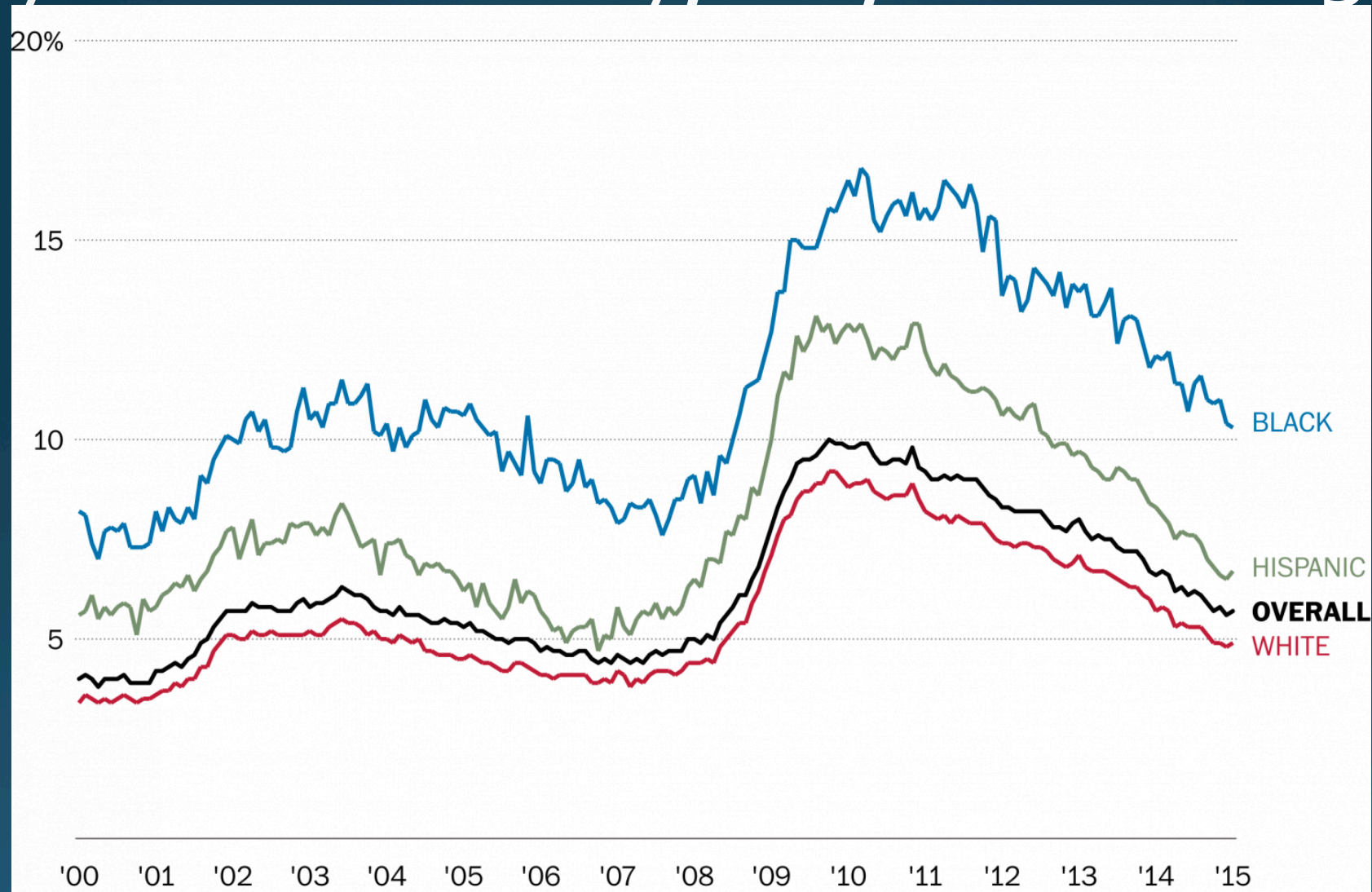


Nancy Folbre, *Who Pays for the Kids?*

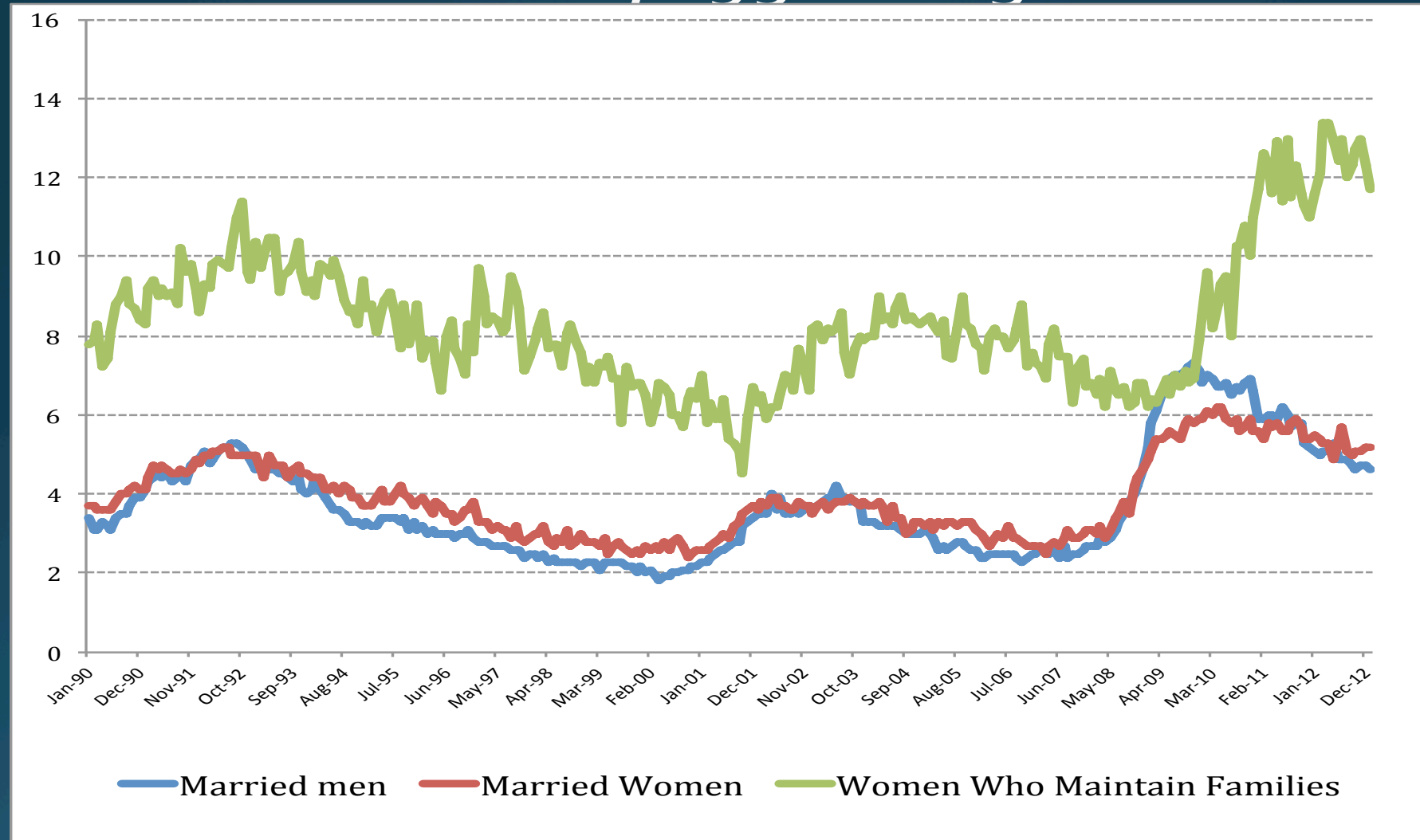
Using a Feminist/ Stratification Lens to Analyze the Impact of the Great Recession

- “**Mancession**”? Not the whole story
- Men lost jobs in mfg and construction early on in the crisis
 - Disproportionately **men of color/immigrant men** relative to white men
 - But also **single mothers** compared to married men and women

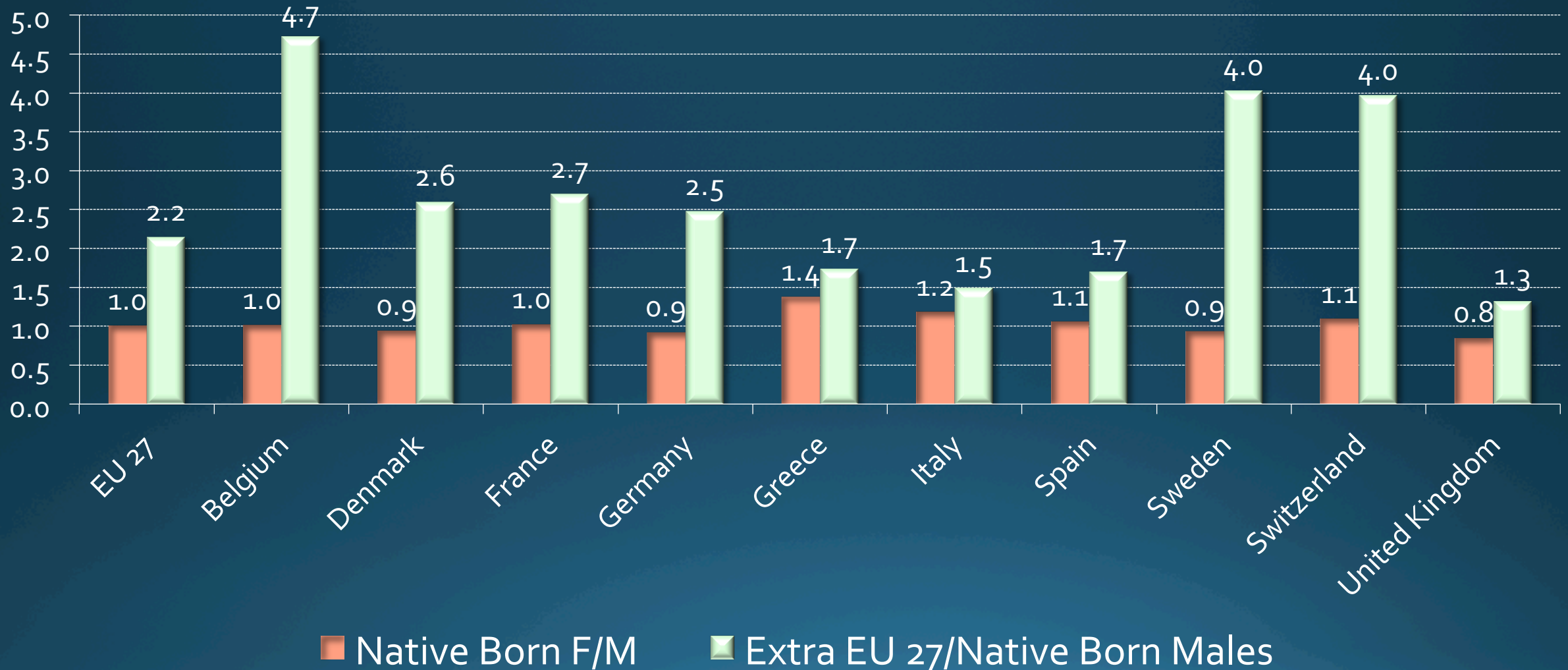
The bad news: US unemployment rates by race/ethnicity, US, 2000-2015



Single mothers get bad news, too: US monthly unemployment rates by marital status, 1990-2013



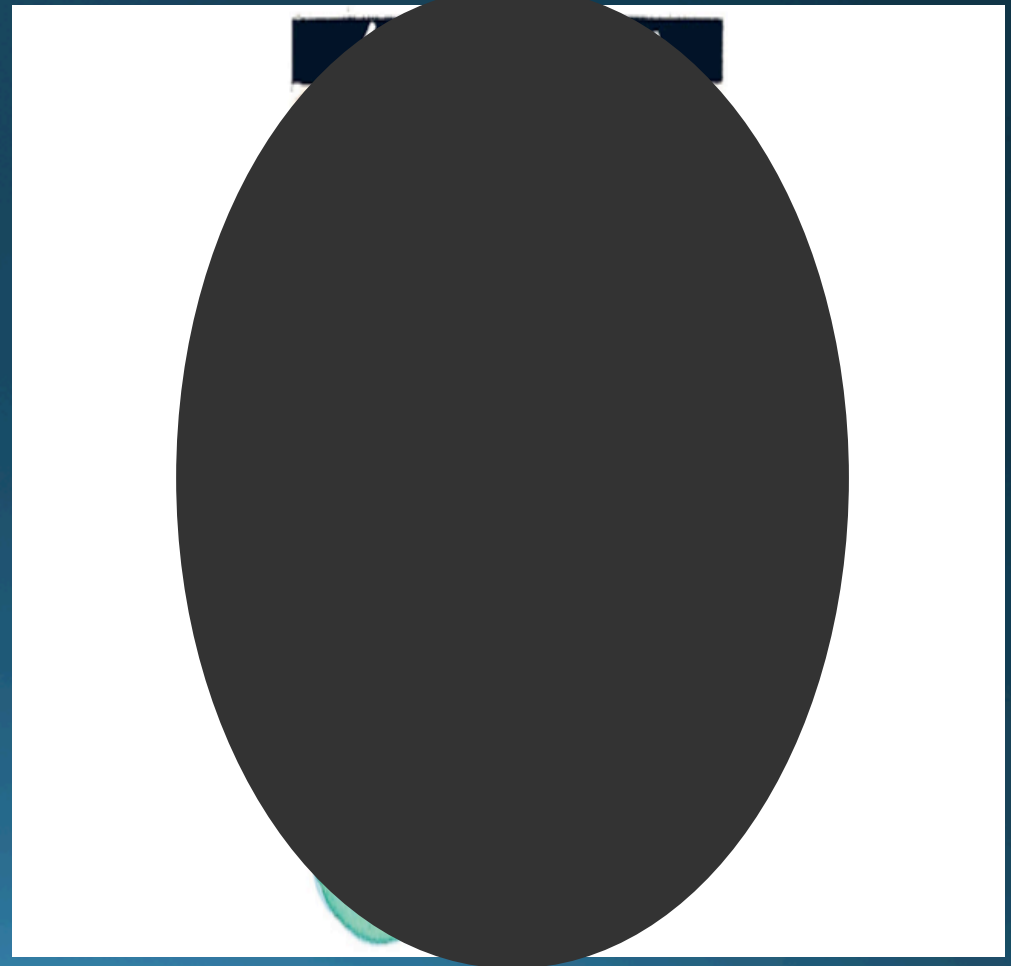
And in Europe?: Unemployment rate ratios relative to native born men, 2012



As crisis wore on, the burdens of **austerity** shifted to women and racial/ethnic subordinate groups

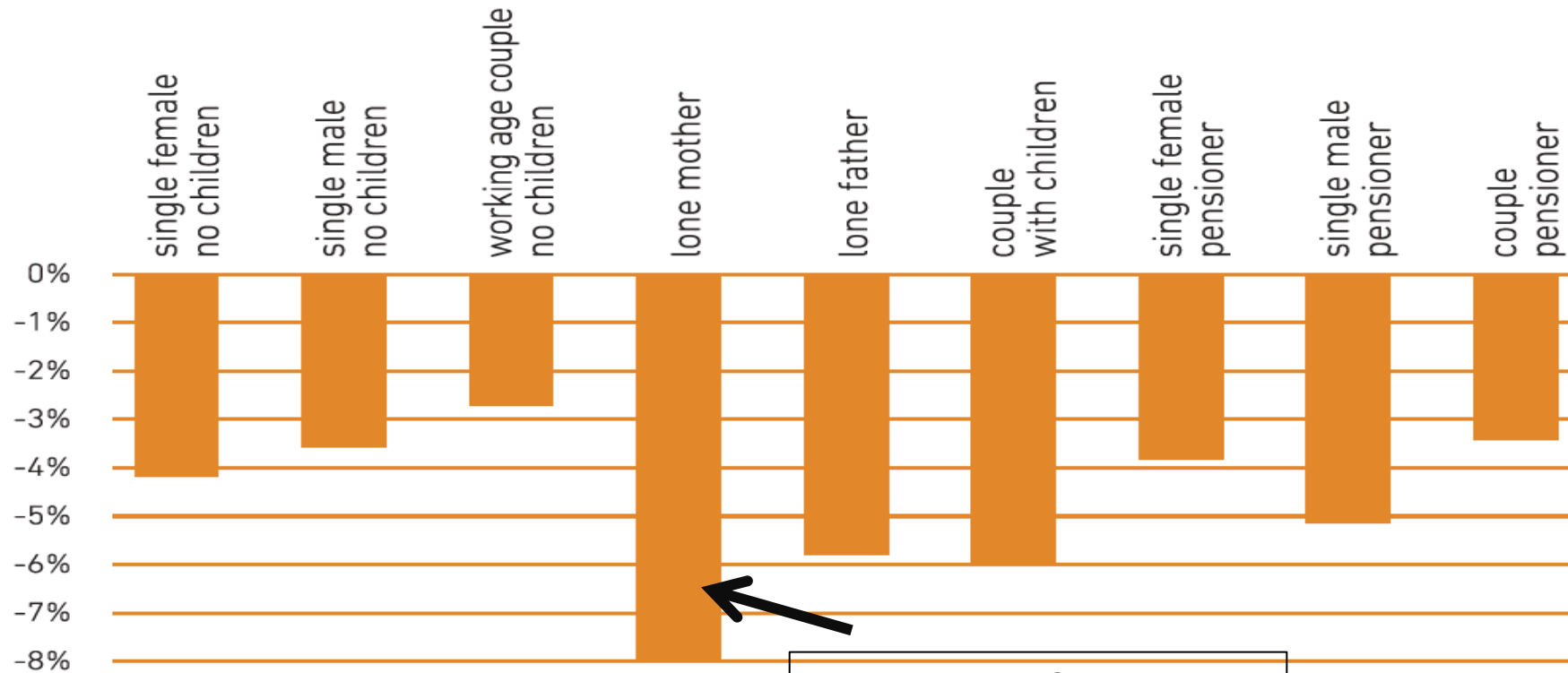
- **These groups:**

- Are more concentrated in public sector employment, esp. social services
- Disproportionately lose support from social spending



Distributional costs of UK Austerity by Family Structure

Figure 2.2: 2010-20 cumulative impact of changes in taxes and benefits (percentage of net household income per annum by 2020) by household type

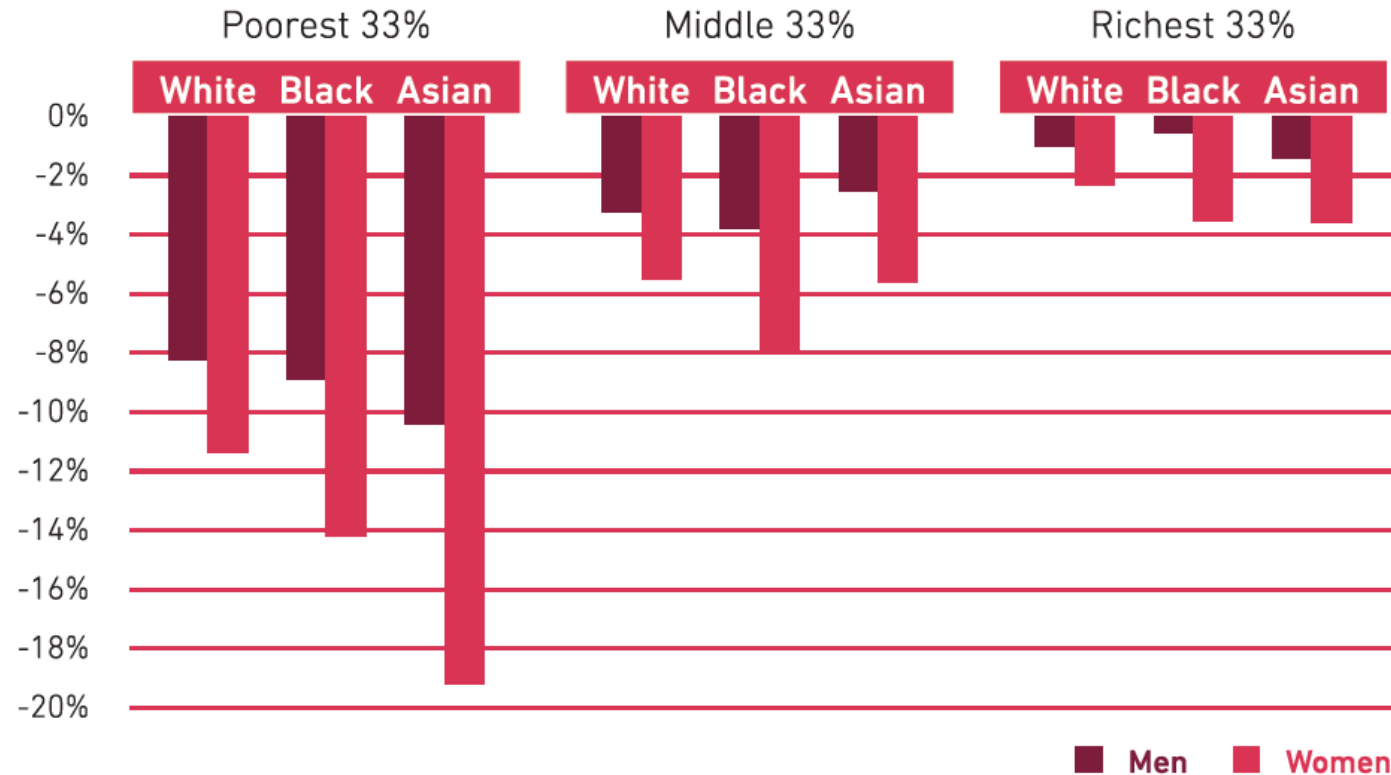


Source: Women's Budget Group 2017

Lone mother families lose the most income.

Distributional costs of UK Austerity by Race/Ethnicity

2010-20 cumulative individual impact of changes in taxes and benefits (percentage of net individual income per annum by 2020) by household income groups, gender and ethnicity (selected)



Source: Women's Budget Group 2017

Maybe you already knew all of that?

- And if so, what is the **value-added** of a stratification/feminist approach add?
- A couple of things:
 - First, intraclass conflict is important to understand and address
 - White male **economic insecurity** and **downward harmonization** fuel:
 - Racial/ethnic/immigrant animosity.
 - Gender backlash
 - With political ramifications: La Lega, Trump, Brexit and UTIP, for example.

But even beyond those
considerations, 4 contributions of
feminist and **stratification**
economics post crisis are worth
integrating

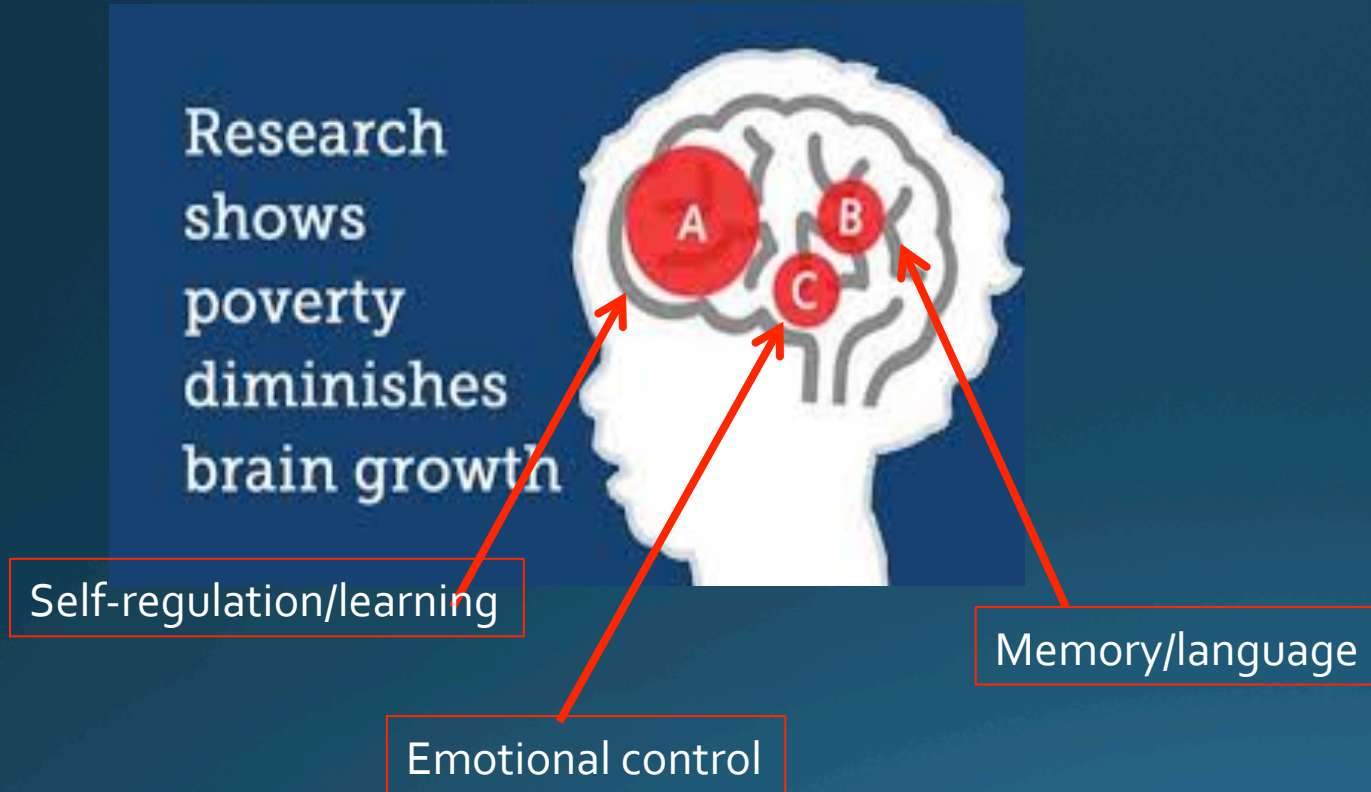
1. Cuts to social spending and economic instability have long-term negative effects on human development and productivity



What economics & policymakers can learn from new research in brain neuroscience



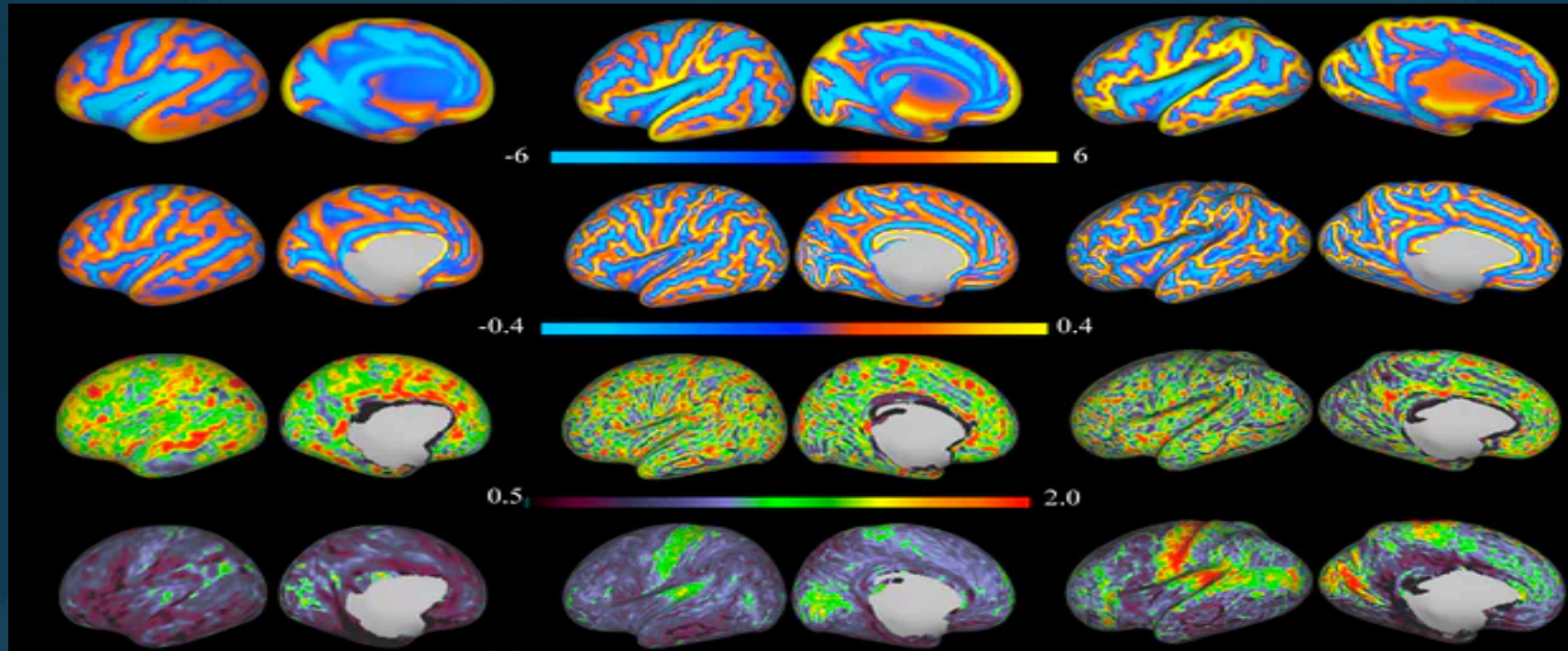
More than hysteresis: The neuroscience of poverty and the long-term effects of deprivation



How does poverty affect the brain, especially in children?

- Everyday hardships have a substantially bigger effect on the poor than the wealthy - which causes neurobiological changes.
- Children's brains are especially susceptible.

Brain scans



The brains of those with higher family income and more parental education have larger surface areas than their poorer, less-educated peers. The strongest correlation is in brain regions associated with **language and executive functioning**.

Small increases in family income have a much larger impact on the brains of the poorest children than similar increases among wealthier children.

Negative effects of **austerity** on children

- Transmitted via social spending cuts, impacts of crisis on employment and income of women/people of color



2. Public investment can reduce intergroup inequalities

- **Physical infrastructure** investment
 - reduces women's care burden
 - promotes access to paid work
 - Increases bargaining power in HH and investments in children
- Fontana and Natali (2008): In Tanzania, increase in **phys. infrastructure spending** would raise women's income by 17.7% and men's by 1.6% annually.

And what about using physical infrastructure investment to address racial inequalities?

- Residential segregation & infrastructure inequality
 - Poor water quality, lead, asbestos, chemical toxins
 - Eg., Flint, Michigan
 - Contribute to health & economic inequalities that harm productivity

The wall, a concrete barrier in 8 Mile, Detroit, built to divide Black and White neighborhoods



3. Social **infrastructure** spending

- Investments in people's capabilities have a **public goods** quality with positive spillover effects on economy-wide productivity
- Dehenau & Himmelweit (2016) assess the impact of a public investment of **2% of GDP** to either **the care** or **construction sector**
 - Short term: Women's unpaid work falls, more paid jobs created
 - Medium term: Wages in care sector rise, wage gap narrows
 - Long term: Stimulus to productivity growth

Other studies on public investment

- Antonopoulos, Kim, Masterson, & Zacharias (2010) :
 - Similar simulation but for US
 - Social service jobs have stronger positive effect on disadvantaged workers & poor (women and people of color)
 - In terms of efficiency per \$ spent, social infrastructure spending has larger job multiplier
- İkkaracan, Kim, & Kaya (2015): Similar study for Turkey
- Onaran & Fotopoulou (2018): Develop formal macro model of fiscal policy effects

Fiscal space for public investment?

- A better term for social spending is ***social infrastructure spending***
- Targeted G spending on social & physical infrastructure produce a stream of financial returns into the future due to impact on productivity and incomes
- As such, using fiscal policy to promote gender and racial equality **creates fiscal space**

James Heckman

QUALITY EARLY CHILDHOOD DEVELOPMENT:
7-10% ROI

"The rate of return for investment in quality early education for disadvantaged children is 7-10% per annum through better outcomes in education, health, sociability, economic productivity and reduced crime."

James Heckman
Nobel Laureate in Economics

LEARN MORE AT HECKMANEQUATION.ORG

4. Mainstream monetary policy & inflation theory are deeply flawed

(Some of) the flaws:

- MP has a narrow set of goals – primarily inflation
- Attempts to address inflation by **curtailing demand and thus wages**
- Ignores **supply-side causes of inflation**, esp. in developing countries caused by:
 - Low productivity due to **ill health & lack of education**
 - Poor infrastructure
 - Agricultural shocks
- Uses policy rate as primary tool to conduct MP
- Assumes that MP is distributionally neutral – it is not.

Two propositions for the future of heterodox fiscal and monetary policy research

1. Expand the monetary policy tool kit (**Epstein 2015**)

- Asset-based reserve requirements (ARR) to reach priority groups
 - To encourage credit to be extended to improve housing, stimulate job-creating investments

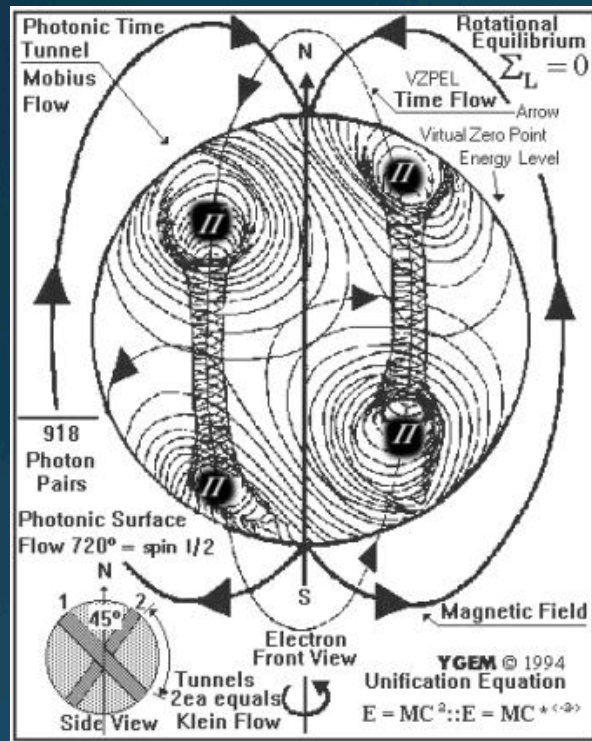
2. (At least partially) reverse roles of fiscal and monetary policy

- MP, through ARR, can promote employment creation, reducing job competition between dominant & subordinate groups
- Fiscal policy can target supply-side sources of inflation

Is there anything to gain from a greater focus on intergroup inequalities by race and gender? Yes.

- Understanding the pathways by which inequality is produced matters for policy which may differ by race, gender & class
- Address intraclass tensions.
 - Policies that may appear to be gender & race neutral will nevertheless close gaps
 - Fiscal policies
 - Guaranteed Employment Programs
 - Capital controls that reduce volatility
 - Labor market regulations to address insecure work

Toward a Unified Field Theory of Stratification that Accounts for Racial/Class/Gender/Inequality



Unified Field Theory: Einstein's effort to prove that electromagnetism and gravity were different manifestations of a single fundamental field.

A *field* refers to an area under the influence of some force, such as gravity or electricity.