

# Income across the great Recessions: lessons for policy

Fabrizio Perri  
University of Minnesota and Minneapolis Fed

*Fondazione Rodolfo De Benedetti  
Palermo, September 2011*

# Introduction

- Focus of conference:
- Macro Conditions -> Distrib. of Resources

# Introduction

- Focus of conference:
- Macro Conditions -> Distrib. of Resources
- An important consequence:
- Macro Conditions -> Distrib. of Resources -> **Macro Conditions**

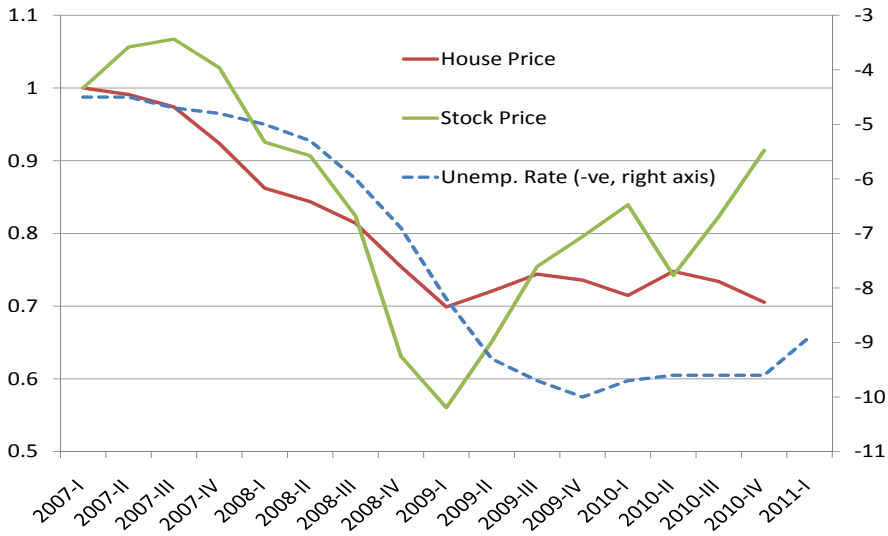
## An old Keynesian story

- We all get worried about losing our jobs
- We don't buy new cars
- Firms do not sell cars and fire people
- We lose our job.. **Self fulfilling recession!**

## Add wealth to the story

- We all get worried about losing our jobs
- We're wealthy so we still buy new cars
- Firms sell cars
- **No recession!**
- Wealth makes the economy more stable

# Great Recession and Wealth in US



# A simple statistic on US wealth distribution during the Great Recession

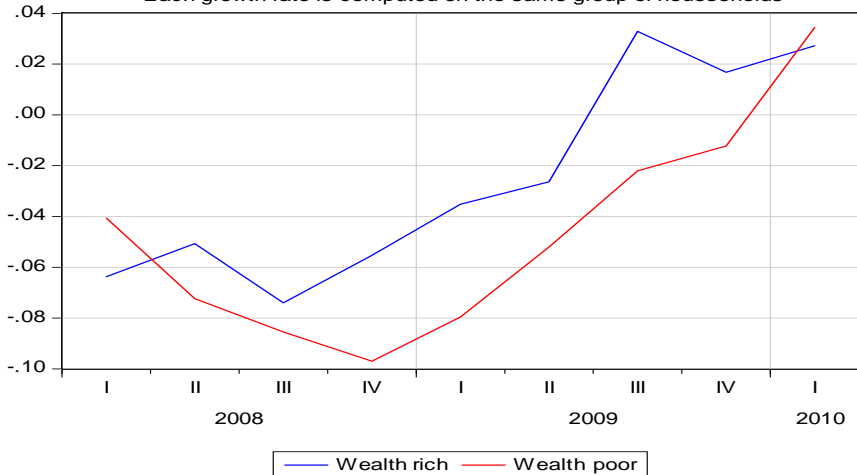
Fraction of households with wealth  $\leq 0$

2007	33%
2008	34%
2009	36%
2010	37%

# The impact of wealth distribution on expenditures

## Consumption growth from CE, High and low w/y ratios

Each growth rate is computed on the same group of households





# Fall in expenditures of wealth poor is not driven by income

Total disposable income growth from CE, High and low w/y ratios  
Each growth rate is computed on the same group of households



# Lessons

- The lack of demand and consequent macro instability that plagues advanced economies nowadays is also caused by:
  - Fall in average wealth
  - Skewness of the wealth distribution
- Providing support for low wealth households might have, beside direct redistributive effects, stabilizing macro effects