

# **Automatic Stabilizers and Economic Crisis: US vs. Europe. A comment**

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## Main Positive Claim

Stabilization depends not only on the size, but also on the **structure** of the tax benefit system.

- ▶ Different shocks activate different automatic stabilizers;

If the claim was not true,

- ▶ any shock may have the same response, independently of the structure;
  - ▶ **but** intensive and extensive margin shocks yield different responses.
- ▶ any structure may yield the same response, independently of the shock;
  - ▶ **but** there is a counterexample: US vs. EU.

	Structure			
	US		EU	
	intensive	extensive	intensive	extensive
Income Stab	0.32	0.34	0.38	0.47
Demand Stab	0.17	0.20	0.22	0.30

## Methodology: Microsimulation approach for EMTR

- ▶ Pro: bypasses endogeneity problems in estimation (behavioral and general equilibrium effects).
- ▶ Pro: separates discretionary actions from automatic stabilizers (active policy responses).
- ▶ Con: does not yield the actual stabilization:

$$G_i = \tau_i Y_i^M, \text{ i.e., } \sum_i \Delta G_i = \sum_i \tau_i \Delta Y_i^M.$$

$$\tau^J = \frac{\sum_i \Delta G_i}{\sum_i \Delta Y_i^M}$$

i.e., it answers to the question: what would the stabilization look like if it affected symmetrically all individuals?

- ▶ Con: loses cyclicity component.

## Discussion of the Results

- ▶ **Macro indicators:** government size is not a good proxy for demand stabilization given that only liquidity constrained individuals react to shocks.
- ▶ **Openness:** if a trade partner has high income stabilizers, less insurance from its shocks is needed.
- ▶ **Discretionary policy:** the stabilization coefficients are the result of a 5% income shock, while discretionary measures depend on the severity of the recession in each country (from  $-2.6\%$  in the US to  $-14\%$  in Estonia).