

# Lifting the Political Constraint Restoring the Financial Sector

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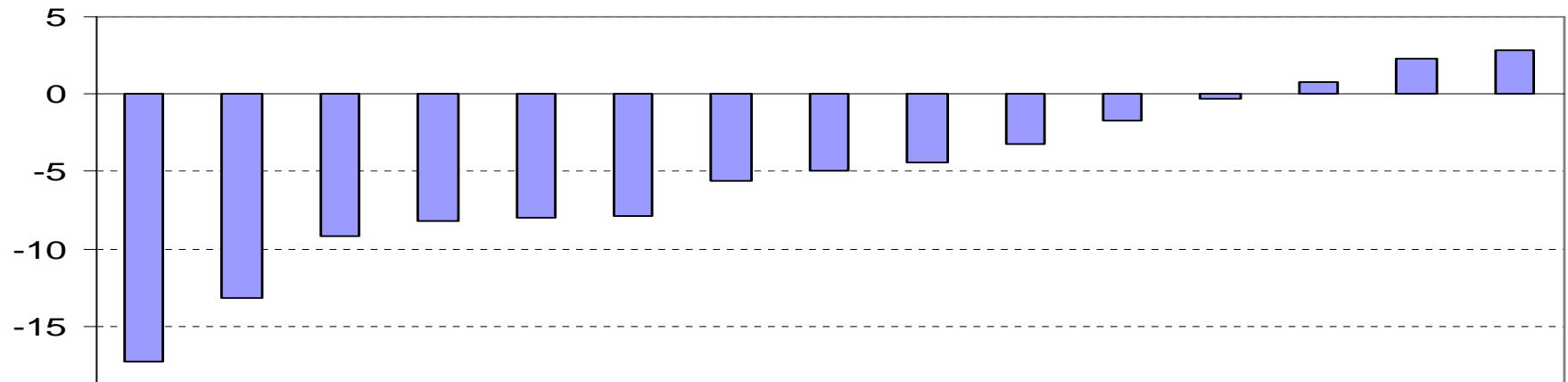
April 20, 2008

# The Problem is Political

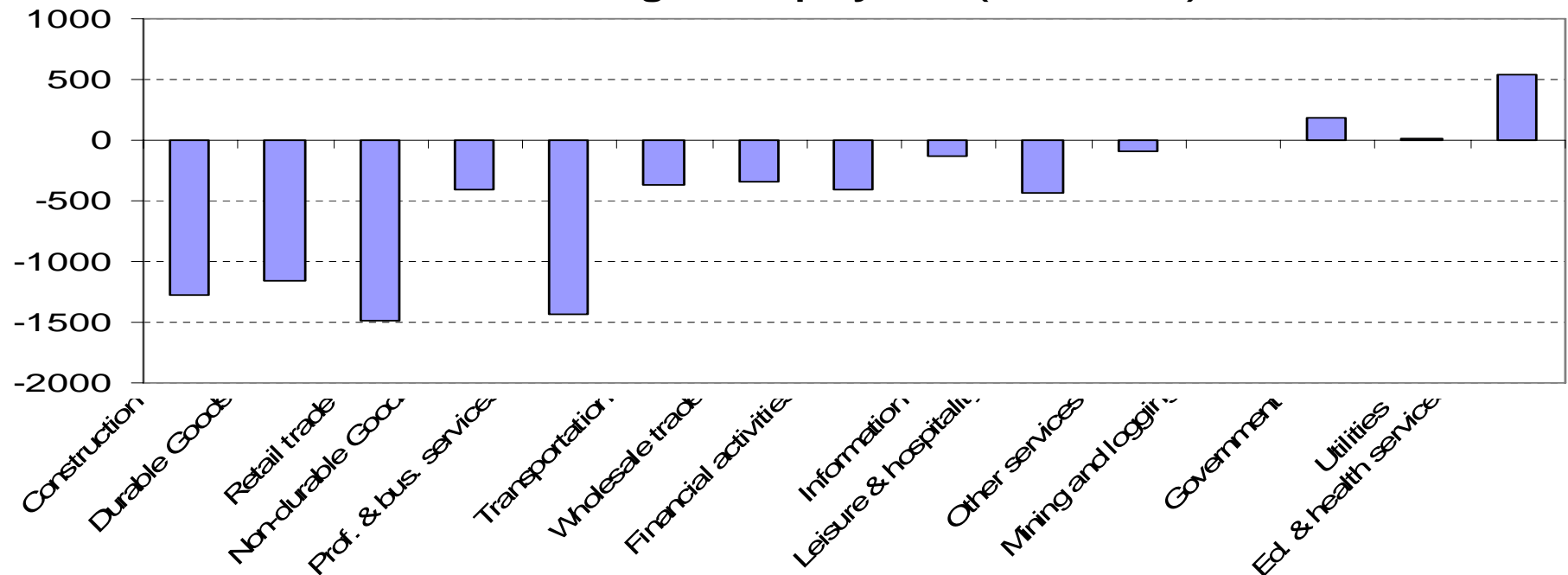
- Who caused this mess? Lots of people did. The rich folks in the financial sector bear a large responsibility.
- Restoring the financial sector should be the number one economic policy priority, and is an essential step towards recovery (Reinhart and Rogoff, IMF).
- Regardless of the approach actually used, fixing the banks will be very costly, given estimates of the magnitude of asset losses.
- Political constraints are making it difficult to find the necessary resources because of anger at the banks and the rich bankers.
- This presentation looks at who is being hurt and who will pay for the “bailout”.

# WORKERS IN CONSTRUCTION, MANUFACTURING, RETAIL AND TRANSPORTATION HAVE BEEN HARD HIT IN THIS DOWNTURN.

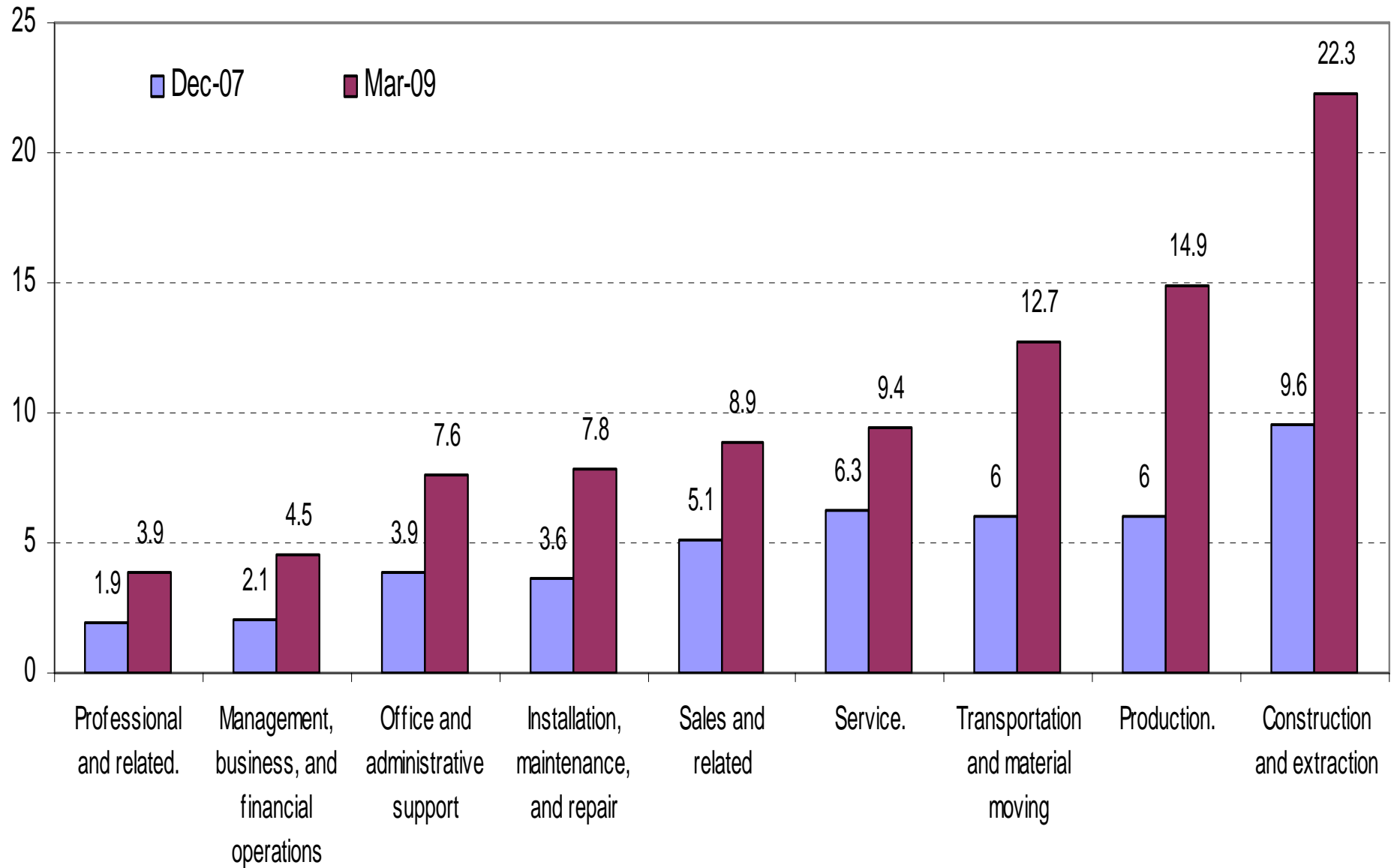
**Percent change in Employment by Industry**



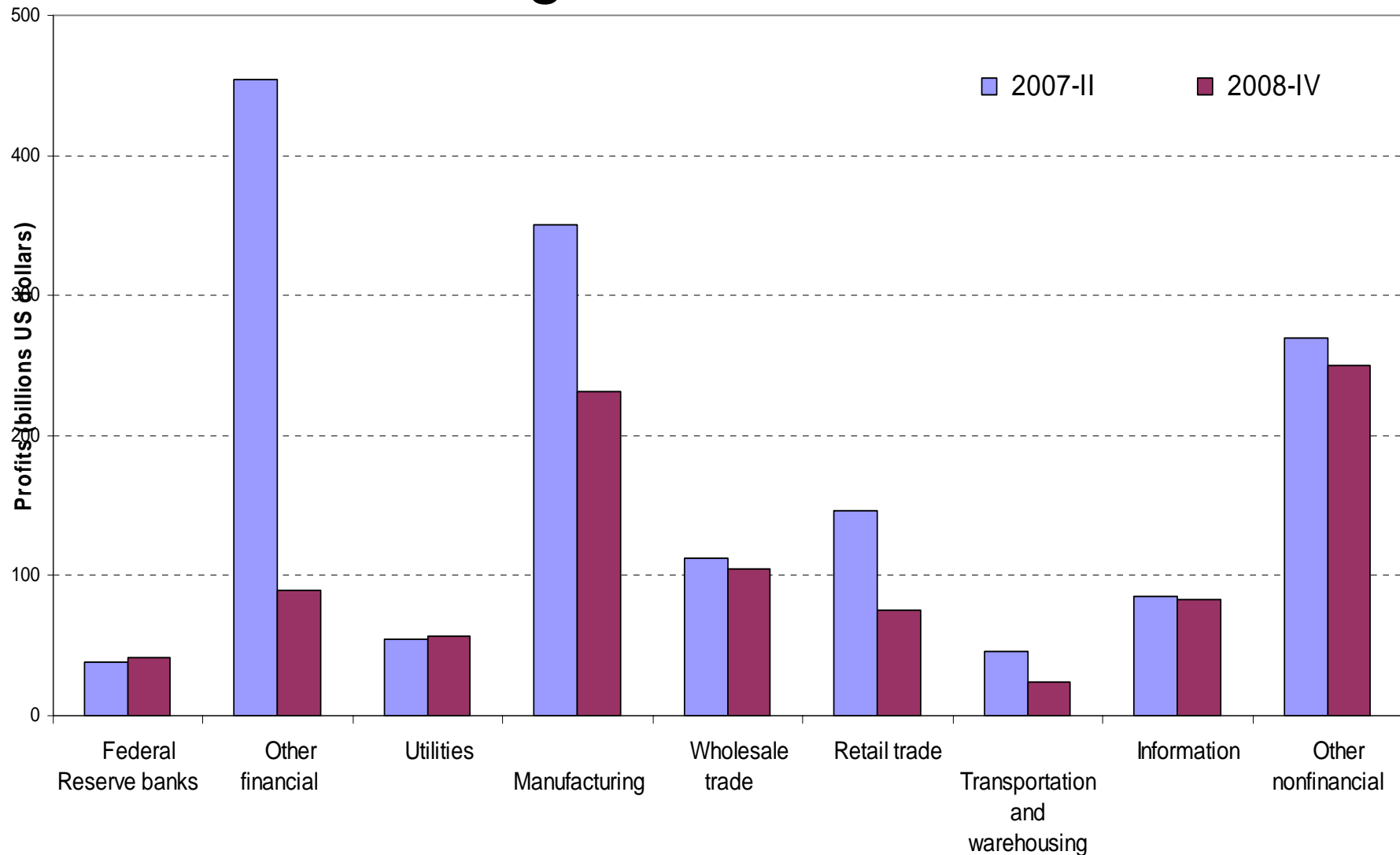
**Absolute change in employment (thousands)**



# Job Losses have meant High Unemployment Rates



# Profits have Plunged in the Financial Sector. Manufacturing and Retail also Hit Hard



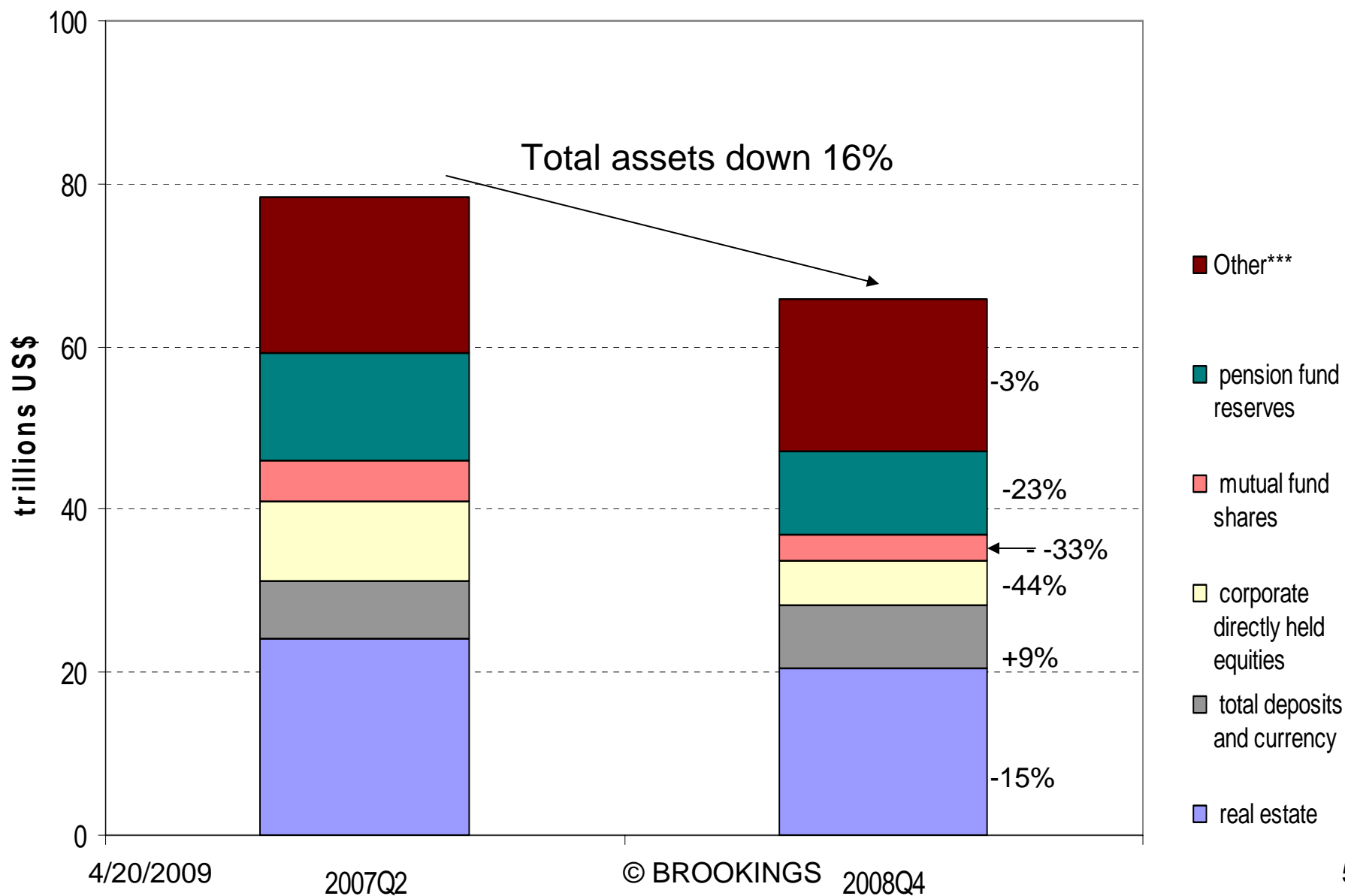
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Source: BEA

## Households have Lost Nearly \$13 trillion in Wealth much of it in Equities and Real Estate



Source: Flow of Funds

**Equity Wealth is Concentrated in the Top Income Groups. Real Estate Wealth is Held Primarily by the Upper Income Cohorts (74% by those Above the 60<sup>th</sup> percentile)**

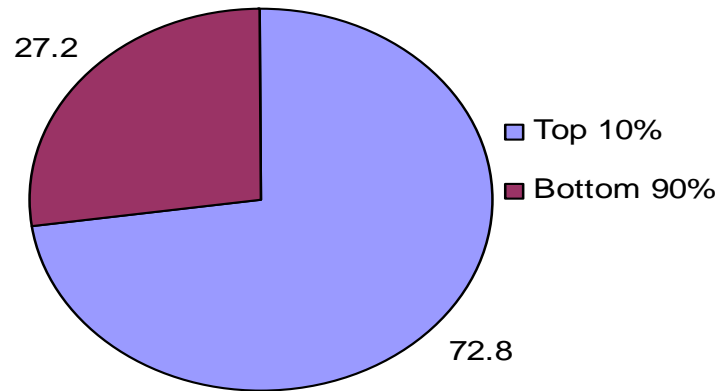
*Share of total asset holdings, quintiles and deciles*

	<b>Stocks</b>	<b>Pooled investment funds</b>	<b>Retirement accounts</b>	<b>Real Estate (Primary residence)</b>
<i>Percentile of income</i>				
<b>Less than 20</b>	<b>2.4%</b>	<b>2.0%</b>	<b>0.5%</b>	<b>5.6%</b>
<b>20–39.9</b>	<b>2.0%</b>	<b>1.6%</b>	<b>3.2%</b>	<b>7.9%</b>
<b>40–59.9</b>	<b>3.5%</b>	<b>4.3%</b>	<b>7.8%</b>	<b>12.7%</b>
<b>60–79.9</b>	<b>10.8%</b>	<b>11.0%</b>	<b>19.5%</b>	<b>21.6%</b>
<b>80–89.9</b>	<b>5.8%</b>	<b>6.6%</b>	<b>15.7%</b>	<b>16.9%</b>
<b>90–100</b>	<b>75.5%</b>	<b>74.5%</b>	<b>53.2%</b>	<b>35.3%</b>

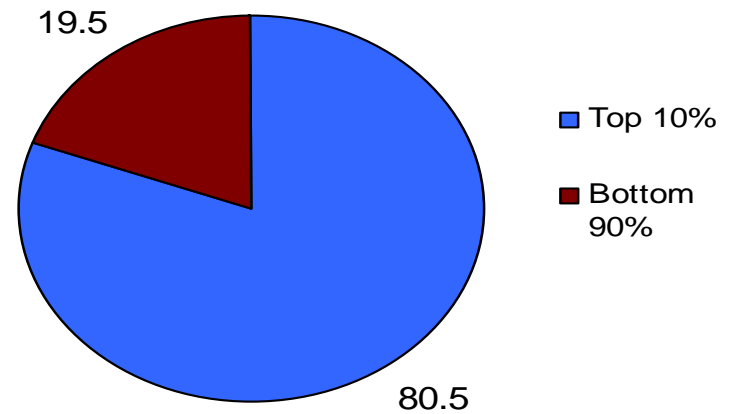
# The Top Ten Percent Pay Most of the Income Tax

*Share of Total Federal Tax Liabilities, by percentile*

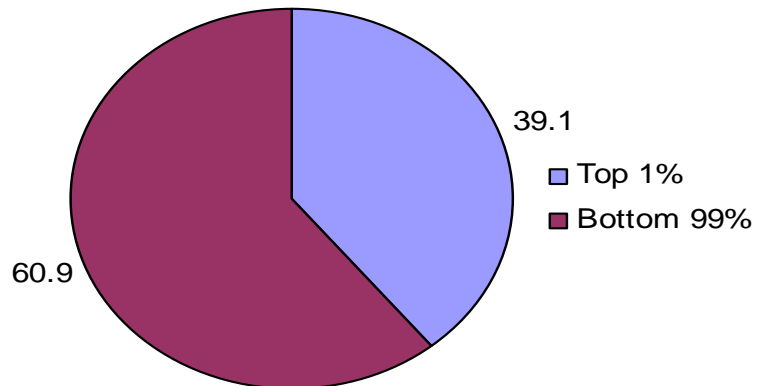
Individual Income Taxes (percent)



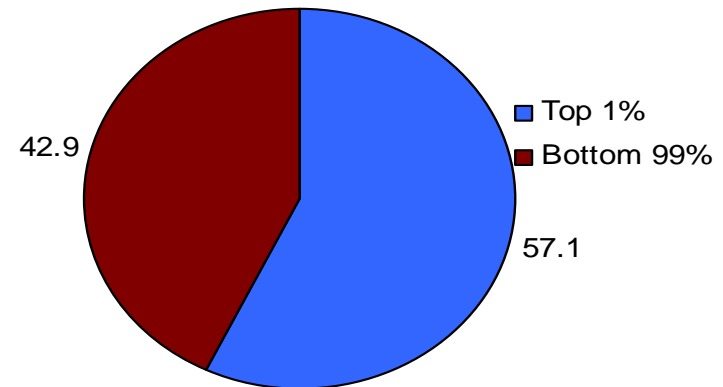
Corporate Income Taxes (percent)



Individual Income Taxes (percent)



Corporate Income Taxes (percent)





# Conclusions

- The wealthy have taken a huge hit as a result of this crisis, including many in the financial sector.
- The upper middle class has lost retirement and real estate wealth, which may never come back. But economic recovery will help this group.
- The working class has lost jobs and desperately needs a recovery. They do not pay much federal income tax.
- Policymakers must focus and come up with the trillion dollars plus needed to fix the financial sector. *Sine qua non* of economic recovery.
- Upper income taxpayers will pay for the bailout.

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# Thank You

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