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Chapter 1 : Introducing the Gardner Farm Income and Policy Simulator â€¢ farmdoc daily

Incomes policies in economics are economy-wide wage and price controls, most commonly instituted as a response to inflation, and usually seeking to establish wages and prices below free market level.

Please update this article to reflect recent events or newly available information. June Main article: This reform, which was proposed under John F. It was the first tax legislation to reduce the top end of the marginal income tax rate distribution since The number of income tax brackets declined during this time period as well but several years, particularly after , saw an increase in the number of income tax brackets. In , there were 26 income tax brackets. The number of brackets was reduced to 16 by and then collapsed into 13 brackets after passage of the Economic Recovery Tax Act of Five years later, the 13 income tax brackets were collapsed into five under the Reagan Administration. By the end of the Bush 41 Administration in , the number of income tax brackets had reached an all-time low of three but President Bill Clinton oversaw a reconfiguration of the brackets that increased the number to five in The current number of income tax brackets, as of , is six which is the number of brackets configured under President George W. The NYT reported in July that: Historical federal marginal tax rates for income for the lowest and highest income earners in the US. Noah writes in his ten part series entitled "The Great Divergence," that "in , the effective tax rate on the top 0. However, it fell back down to the low 30s by his second term in the White House. This effective rate further dropped under the George W. Under Bush, the rate decreased from 6. Reductions in the effective income tax burden on the poor coinciding with modest reductions in the effective income tax rate on the wealthiest 0. The effective individual income tax rate dropped from However, by , the top 1 percent of all households an average federal tax rate of June Top tax rates on long-term capital gains and real economic growth measured as the percentage change in real GDP from to Capital gains tax in the United States Capital gains are profits from investments in capital assets such as bonds, stocks, and real estate. These gains are taxed, for individuals, as ordinary income when held for less than one year which means that they have the same marginal tax rate as the marginal income tax rate of their recipient. This is known as the capital gains tax rate on a short-term capital gains. Accordingly, the capital gains tax rate for short-term capital gains paid by an individual is equal to the marginal income tax rate of that individual. The tax rate then decreases once the capital gain becomes a long-term capital gain, or is held for 1 year or more. This means that the actual tax percentage of all capital gains realized in the U. The Tax Reform Act of shifted capital gains to income for the first time thus establishing equal short-term capital gains taxes and marginal income tax rates. Starting in May , however, long-term capital gains were divided into multiple subgroups based on the duration of time investors held them. Each new subgroup had a different tax rate. These multiple subgroups were reorganized into less than one year, one to five years, and five years or more and were in place from to In , the divisions reverted to the less than one year and more than one year categories until when then reverted to the three divisions first implemented in These rates remained until As of the tax year, all investment income for high earning households will be subject to a 3. These two exemptions are directly tied to each other as the amount exempted from one reduces the amount that can be exempted from the other at a 1: In , the Federal Reserve Bank of Cleveland published a report that found that 1. Accordingly, data shows that inheritance taxes are a tax almost exclusively on the wealthy. In , Congress enacted legislation to prevent trust funds of wealthy individuals from skipping a generation before taxes had to be paid on the inheritance. Estate tax in the United States Estate taxes, while affecting more taxpayers than inheritance taxes, do not affect many Americans and are also considered to be a tax aimed at the wealthy. The table below gives a general impression of the spread of estate taxes by income. A certain dollar amount of every estate can be exempted from tax, however. This reduces the effective estate tax rate. The "step-up basis" of estate tax law allows a recipient of an estate or portion of an estate to have a tax basis in the property equal to the market value of the property. This enables recipients of an estate to sell it at market value without having paid any tax on it. Sales tax in the United States Sales taxes are taxes placed on the sale or lease of goods and services in the United States. While no national general sales tax exists, the federal government levies several national selective sales taxes. States also may levy selective sales taxes on the sale or lease of particular goods or services. States may also delegate to local governments the authority to impose additional general or selective sales taxes. Tax expenditures[edit] CBO charts describing amount and distribution of top 10 tax expenditures i. Like conventional spending, they contribute to the federal budget deficit. They also influence choices about working, saving, and investing, and affect the distribution of income. Since eliminating a tax expenditure changes economic behavior, the amount of additional revenue that would be generated is somewhat less than the estimated size of the tax expenditure. Credits and exemptions[edit].

Chapter 2 : 8 Measures of Macroeconomic Incomes Policy of a Country

Incomes policy: Incomes policy, collective governmental effort to control the incomes of labour and capital, usually by limiting increases in wages and prices. The term often refers to policies directed at the control of inflation, but it may also indicate efforts to alter the distribution of income among workers.

Each family or unrelated individual in the population is assigned a money income threshold based on the size of his or her family and age of its members. The poverty thresholds are adjusted each year to reflect changes in the consumer price index. The poverty rate is the percentage of people living in poverty. The official poverty statistics show a sharp decline in the poverty rate between and but little real change since then, apart from fluctuations due to the business cycle. For a number of reasons, however, the official measure is an unreliable guide to trends in poverty since and significantly understates progress in reducing poverty since then. The official poverty measure is based on Census money income, which includes cash assistance but does not count non-cash assistance like SNAP formerly known as food stamps and rental vouchers. Alternatives to the Official Poverty Measure Over the years, researchers have raised a number of serious conceptual and measurement concerns about how the official poverty rate is calculated. NAS-based measures use a more complete definition of income that includes the value of non-cash benefits and tax credits while subtracting taxes and certain expenses. The NAS also recommended using a modernized poverty line that varies with local housing costs. This measure reflects recommendations from a federal interagency technical working group that drew on the NAS report and subsequent research. The Census SPM is available from to Unlike in the official poverty measure and most previous implementations of the NAS measure , unmarried partners are counted in the same SPM family. Without government assistance, poverty would have been about the same in as in under this measure, which indicates the strong and growing role of antipoverty policies. Also, the child poverty rate fell to a record low in based on the SPM, largely due to increasingly effective government assistance policies. Poverty also rose much less in the Great Recession when measured by the SPM rather than the official rate. Between the year before the recession and the year after the recession , the anchored SPM rose from The smaller increase under the SPM largely reflects the wider range of economic security programs included in the SPM and their success in keeping more Americans from falling into poverty during the recession. Such underreporting is common in household surveys and can affect estimates of poverty and, in particular, deep poverty because people who underreport their benefits naturally make up a larger share of those with the lowest reported incomes. While respondents may also underreport earned income, the net rate of underreporting in the CPS is thought to be much lower for earnings than for benefits. By the official measure, the share of children below half the poverty line fell from to , from 8. When counting non-cash benefits and taxes but not correcting for underreporting, the figures are essentially flat, at 4. Only the corrected figures show the increase. Over the period, TANF cash assistance programs served a shrinking share of very poor families with children. Family Finances from to For its more limited set of categories, the ACS provides better data at the state and local level than the CPS, but Census advises that the CPS data provide the best annual estimates of income, poverty, and health insurance coverage for the nation as a whole. Census money income does not include non-cash benefits such as those from the Supplemental Nutrition Assistance Program food stamps , Medicare, Medicaid, or employer-provided health insurance. In addition, earnings well below this limit are suppressed and replaced with group average values in the public-use data files of the ASEC made available to researchers. For low-income households, the fungible value of government-provided health insurance can be substantially less than the average cost to the government of providing it. For example, advances in medical technology could enhance the value to households of health care spending in ways that the income data would not fully capture. As CBO explains in its July 10, report p. The households who moved out of the bottom quintile generally had much lower cash income than did those who moved into it. Their most recent estimates are available at http: For example, estimates of the share of income going to the top 1 percent in range from Thresholds are determined according to age and filing status. Many people who are not required to file tax returns nonetheless pay considerable federal taxes, such as payroll and excise taxes, as well as state and local taxes. The number of non-filing tax units in their analysis is the difference between their estimated total and the number of returns actually reported in the IRS data. This methodology assumes the number of married women filing separately is negligible, and it has been quite small since Before that, however, married couples with two earners had an incentive to file separately, and Piketty and Saez adjust their data to account for that. For earlier years, when the percentage of non-filers and their share of income were much higher, Piketty and Saez assume, based on the ratio in subsequent years, that total market income of filers plus non-filers is equal to 80 percent of total personal income less transfers reported in the National Income and Product Accounts for and as estimated by the economist Simon Kuznets for For those years, the total income of non-filers is the difference between estimated total income and income reported on tax returns. In , 84 percent of compensation came through wages and 16 percent through benefits; in , 93 percent came through wages and 7 percent through benefits. Since there is no consensus on the ideal approach to valuing government-provided health insurance, researchers are likely to continue exploring how alternative approaches affect the interpretation of historical trends and year-to-year changes in household income and its distribution. When it increases by percent, it quadruples. However, CBO provided data showing that if the old method had been used, the growth in the bottom quintile would have been 26 percent, lower than the 38 percent growth for the middle 60 percent. The average income for the top 0. Liabilities include such things as credit card debt, mortgages, and past-due bills. Recent Trends in Income and Wealth. These thresholds reflect an equivalence adjustment, but not the same three-parameter scale Census uses when it equivalence-adjusts household income. CBO uses another equivalence adjustment, based on the square root of the number of household members. Estimates of these alternative poverty rates are available for each year from through The latest tables are available here: NAS measures also use a three-parameter equivalence scale to adjust for family size and composition. For the purpose of measuring poverty, the NAS report recommended against treating the value of medical benefits as income, noting ways in which medical benefits do not serve the same role as cash. Instead, the report recommended subtracting out-of-pocket medical expenditures from income, since money spent on medical needs is not available to meet the basic needs of food, clothing, shelter, and utilities upon which the NAS poverty threshold is based. Census Bureau, September , https: Census Bureau for , the SPM poverty rate rose from TRIM starts with person-by-person Census data from the CPS and adjusts it to better match true numbers of recipients of assistance from program records. SNAP lifted 10 million people above the SPM poverty line in with corrections, compared with 5 million people without these corrections.

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Chapter 3 : Wages, Incomes and Wealth | Economic Policy Institute

Measures through which a government attempts to control escalation in incomes (wages, salaries, dividends, rents) to restrain escalation in prices (inflation) without increasing unemployment.

Some economists agree that a credible incomes policy would help prevent inflation. However, by arbitrarily interfering with price signals , it provides an additional bar to achieving economic efficiency , potentially leading to shortages and declines in the quality of goods on the market and requiring large government bureaucracies for enforcement. That happened in the United States during the early s. Others argue that controls and mild recessions can be complementary solutions for relatively mild inflation. The policy has the best chance of being credible and effective[citation needed] for the sectors of the economy dominated by monopolies or oligopolies , particularly nationalised industry , with a significant sector of workers organized in labor unions. Such institutions enable collective negotiation and monitoring of the wage and price agreements. Other economists argue that inflation is essentially a monetary phenomenon, and the only way to deal with it is by controlling the money supply , directly or by changing interest rates. They argue that price inflation is only a symptom of previous monetary inflation caused by central bank money creation. They believe that without a totally planned economy the incomes policy can never work, the excess money in the economy greatly distorting other areas, exempt from the policy. France[edit] During the French Revolution in the s, "The Law of the Maximum" was imposed in an attempt to decrease inflation. It consisted of limits on wages and food prices. With respect to its overt intention, that of ensuring the people were able to purchase food at a reasonable rate, the Maximum was mostly a failure. Some merchants having found themselves forced into a position to sell their goods for a price lower than what it cost to create it i. The text of the General Maximum was written towards businessmen who were profiting on a large scale from the demise of the French economy. However, in practice, the law ultimately targeted local shopkeepers, butchers, bakers, and farmers-the merchants who were profiting the least from the economic crisis. Furthermore, considering its association with the Law of Suspects , when a citizen informed the government about a merchant who was in violation of the law, they were considered to have done their civic duty. That agency was rather unpopular with business interests and was phased out as quickly as possible after peace had been restored. However, the Korean War brought a return to the same inflationary pressures, and price controls were again established, this time under the OPS Office of Price Stabilization. President Richard Nixon imposed price controls on August 15, Also motivating the controls, on the same date that the controls were imposed, 15 August , Nixon also suspended the convertibility of the dollar into gold, which was the beginning of the end of the Bretton Woods system of international currency management established after World War II. The controls aimed to stop that impulse. In these phases, the controls were applied almost entirely to the biggest corporations and labor unions, which were seen as having price-setting power. Because controls of this sort can calm inflationary expectations, this was seen as a serious blow against stagflation. The first wave of controls were successful at curbing inflation temporarily while the administration used expansionary fiscal and monetary policies. Left unsuppressed after the initial price controls were relaxed, the overly expansionary policies proceeded to exacerbate inflationary pressures. The Liberal government under Pierre Trudeau was originally opposed to this idea, but after winning the election, introduced the Anti-Inflation Act in This act contained wage and price controls on parts of the economy and remained in force until In the anti-inflation board was dissolved and the Anti-Inflation Act repealed. National Board for Prices and Incomes The National Board for Prices and Incomes was created by the government of Harold Wilson in in an attempt to solve the problem of inflation in the British economy by managing wages and prices. Australia[edit] Australia implemented an incomes policy, called the Prices and Incomes Accord during the s. The Accord was an agreement between trade unions and the Hawke Labor government. Employers were not party to the Accord. Unions agreed to restrict wage demands, and the government pledged action to minimise inflation and price rises. The government was also to act on the social wage. At its broadest this concept included increased spending on education as well as welfare. Inflation declined during the period of the Accord, which was renegotiated several times. However, many of the key elements of the Accord were weakened over time, as unions sought a shift from centralised wage fixation to enterprise bargaining. The Accord ceased to play a major role after the recession of â€”92, and was abandoned after the Labor government was defeated in These talks are embodied in the Social Economic Council Dutch: The SER serves as the central forum to discuss labour issues and has a long tradition of consensus, often defusing labour conflicts and avoiding strikes. Similar models are in use in Finland , namely Comprehensive Income Policy Agreement and universal validity of collective labour agreements. The current polder model is said to have begun with the Wassenaar Accords of when unions, employers and government decided on a comprehensive plan to revitalize the economy involving shorter working times and less pay on the one hand, and more employment on the other. The polder model is widely, but not universally, regarded as successful incomes management policy. New Zealand[edit] In , then Prime Minister and Finance Minister Rob Muldoon imposed a simultaneous freeze on wages, prices and interest rates in an effort to curb inflation, despite public resistance.

Chapter 4 : What is incomes policy? definition and meaning - calendrierdelascience.com

Incomes exclude government transfers (such as unemployment insurance and social security) and non-taxable fringe benefits. Incomes are deflated using the Consumer Price Index. Column (4) reports the fraction of total real family income growth (or loss) captured by the top 1%.

Historically, income inequality has not been a primary concern for the Federal Reserve , who determines monetary policy, however, rising inequality is raising questions about the collateral effects of monetary policy. Historical Trends The Federal Reserve was founded in In the book, "Central Banking Systems Compared: As inflation continued to rise into the s and early s, the policy makers turned their focus more towards price stability. The inflation rate remained relatively stable through the mids and s. The Fed aims to sustain economic growth and price stability. In short, its role is to help ensure the financial system runs efficiently. Since , monetary policy in the United States has been widely unconventional. It has had some effects that we will explore further. Does Quantitative Easing Work? Unconventional Monetary Policy Since , unconventional monetary policies have taken the strides to help bolster the economy and improve the labor market. Despite this progress, income inequality has continued to increase at sharper levels since the economic crash in With the majority of Americans earning their income from earnings and wages, more pronounced growth in income from profits of ownership of firms or business would raise this gap disproportionately. Also, owners of firms tend to be in a higher income bracket. This in turn, leads to a consumption inequality that favors those more connected to the markets. Why is this important? With the flood of capital into the market pushing yields on safer securities down, such as bonds, it has influenced the price of riskier securities to rise significantly. He claims there is little difference in wealth distribution before the crisis. He claims it is, "only as good or as bad as it was before the crisis. Unequal Credit In a speech on income inequality, Federal Reserve Chair Janet Yellen stated that ownership of a private business is one of four primary components of economic growth. Post, the amount of capital available for small businesses, core components to revitalizing the economy, has been sharply reduced. If this continues, it could cause further strain on business and stymie growth. The Survey of Consumer Finances shows that owning a private business is an important economic opportunity. Economic mobility is linked to private business ownership, and over the past 30 years, the business creation rate has slowed considerably. Why Entrepreneurs Are Important for the Economy. Perhaps the lending practices that have followed the onset of the recession have compounded this effect. Providing the means for small businesses to flourish matters. Sustainable growth comes from the private sector, not from the International Monetary Fund , the Bank of Canada or anyone else. Carney suggests re-framing the regulations to promote financial soundness in political policy decision making. As banks continue to grow larger and the existence of smaller community banks diminishing, there may be a greater need for regulation. Here are two examples of the effects of a laxity in regulation: Secondly, despite the irrefutable evidence, the Fed failed to acknowledge the widespread risk inherent in the mortgage markets in the s leading up to the financial crises. With the introduction of the Dodd-Frank Act , the Federal Reserve has tightened capital requirements for banks and have systematically been pointing out riskier participants in the market. The supervisory role of the Fed has been reassessed and is currently working to prevent any oversight in its regulation of banks and the industry. The Bottom Line The fine balance that the Federal Reserve has operated with its monetary policy has been beneficial overall to Americans over its history. More recently, the Federal Reserve has addressed factors relating to income inequality and creating reforms to prevent economic turbulence. There may be more room in both monetary and fiscal policy to address income disparity at length to attain sustainable growth.

Chapter 5 : Center for State Tax Policy | Tax Foundation

Incomes policy is the suitable complement for expansionary monetary and fiscal policies, in particular under conditions that reduce the space for further macroeconomic expansion.

Read this article to learn about the eight measures of macroeconomic incomes policy of a country. While Keynesian model rejected the importance of money supply and treated money as a veil, the monetarists under Friedman insisted that not only does money matter but money alone matters. Both approaches fall into the same theoretical trap that an economy has a natural tendency to gain stable equilibrium at full employment level. The post-Keynesians question the validity of both approaches because when a financial or economic disaster takes place, the Keynesians watch the employment rate and the monetarists watch money supply. But the real world economy is a high leverage, one built on a mountain of debt. As such, the new Keynesians or post-Keynesians solution to inflation would be an incomes policy rather than monetary or fiscal policies. The central objective of this policy is to reconcile economic growth and price stability. The price stability is to be ensured by restraining increase in wages and other incomes from outstripping the growth of real national product. This concentration on restraining the private consumer expenditure is justified on the ground that out of the important constituents of aggregate effective demand private consumption expenditure; government consumption expenditure; investment expenditure in private and public sectors; and the excess of exports of goods and services over their imports in the market this item is the largestâ€"accounting for about two-thirds to three-fourths in most countries. In fact, variations from country to country are wide and this is only a rough approximation. In other words, incomes policy implies deliberate intervention by the authorities in the process of price formation for labour and products aimed at preventing gross money incomes from rising excessively in relation to the growth of national output in real terms. Need and Working of Incomes Policy: The necessity for an appropriate incomes policy is being increasingly felt on account of the intensification of the tendencies towards cost inflation, because the proportion of incomes and prices determined in non-competitive markets is likely to increase with increasing industrial employment, growing unionization, collective bargaining and increasing scale of enterprises. Further, longer experience of consistently high level of aggregate demand as enunciated above may lead to encouragement of a more aggressive attitude on the part of labour and more permissive attitude on the part of the employers towards wage increases, leading to a strengthening of the bargaining position of unions. The inducement is more where relative price stability is needed to facilitate expansion of employment either before or when the employment objective is met or to improve a critical balance of payments position. Disciplinarians in the field of international economics prefer incomes policy to set right chronic balance of payments to a policy of devaluation or deflation. However, when it comes to guidelines for other types of incomes like profit, rent and interest, its policy prescription is less clear. While the general objective has been laid down in many developed countries like Netherlands, Sweden, France, Norway, UK and USA, no operational incomes policy has been adopted in any country except Netherlands. In UK first attempt at incomes policy was made during the Second World War and met with a little success due to accompanying circumstances exceptional in nature like subsidies, price controls, rationing, compulsory savings, etc. There was a good deal of suppressed inflation in the economy but towards the end of wage restraint began to break down and incomes policy was held in abeyance in UK during the s. The labour government which took office in presented a policy on productivity, prices and incomes as an integral part of its plan for promoting economic growth but later on due to bad economic conditions, balance of payments difficulties and rising prices and on account of various other reasons the policy of a freeze of all prices and incomes ran into difficulty. The US abandoned wage price controls in European incomes policy, however did not fare badly, though it proved to be a costly experiment and in the long run not only inflation continued but it also led to distortions in the economy giving rise to more severe inflations in UK, USA and Japan from onwards. In UK, where a beginning was made, many practical implications came to light during the course of its working. One of these is that in a period of excessive overall demand an incomes policy though useful can play a role only subordinate to fiscal, monetary and other economic policies to fight cost inflation. Some important limitations, implications and lessons have emerged from attempts to operate incomes policy especially in advanced industrial countries. These are as follows: In the long-run these controls tend to undermine the function of free price market mechanism in allocating resources. These controls create huge problems of enforcement and supervision. It too often tends to become a negotiating minimum. It is very difficult that all these sectors will co-operate in the desired manner. Income policies have tended to breakdown in times of rapidly rising prices. The main opposition to this type of policy has come from labour organisations on the ground that it is another name for wage-freeze policy; it amounts to freezing the share of workers in the national income when prices continue to rise. A policy which aims at wage-freeze without profit and price- freeze is unacceptable to them. Such a policy is bound to provoke their violent reaction, unless it simultaneously restricts profits, wages, interest and dividendsâ€”a field in which the policy fails to lay down correct guidelines. However, salary and wage income do not constitute the only element in the inflationary pressure. The pressure on prices originates elsewhere also, for example, in faulty budgeting, persistent failure to mobilize savings, mis-investments, misdirection of expenditures, short-sighted pricing policies and so on. Lipsey tested the effectiveness of the incomes policy and concluded that an incomes policy will not work if the level of unemployment in an economy is greater than 2 per cent. When an incomes policy operates at a high level of unemployment, the wage changes become insensitive to the level of unemployment. The experience in UK has been that an incomes policy checks, no doubt, immediate inflation in the short period and then the policy wears off and operates in the reverse gear due to price-wage price spiral and a complex system of collective bargaining. Monetary discipline is needed along with incomes policy, to counteract inflation and to reduce the velocity of circulation of money. Therefore, direct freeze of prices and wages and income policies are not a substitute for strong monetary and fiscal policies. The general concept for an incomes policy for India is different from that in the developed countries. In developing countries like India, self-employment of the working force is the rule in contrast to the predominance of wage-employment in the developed countries. When dealing with incomes policy the emphasis may be on three aspectsâ€”income produced, income received and income consumed. With an income distribution pattern as skewed as in India, the finer points of an incomes policy cease to operate. In the context of economic inequality, income can only mean real command over goods and services to maintain the minimum standard of living. The factor of dissaving by low income households is so high that it renders a wage or incomes policy totally ineffective in curbing inflation in a country like India. The rate of growth of wage and non-wage money incomes in India should be regulated and held, as a general rule, below the rate of growth of national productivity in order to ensure steady economic development with comparative price stability. According to the report of the Steering Group on Wages, Prices and Incomes Policies of the Reserve Bank of India published in January , it has ruled out the prescription of a target of national minimum income as well as of a ceiling of incomes. Thus, the policy instruments in India for an incomes policy have to be different and more complex than in developed countries. Income policy, therefore, has to be coordinated more effectively with monetary, fiscal and other economic policies. Despite its limitations, if a suitable incomes policy is followed along with the fiscal monetary and other economic measures to control inflation, the result would be easier as well as favourable. Therein lies the importance of incomes policy as a measure of full employment and stability. Wage adjustment is an important tool of economic stabilization but to follow a suitable wage policy in different phases of the cycle is an uphill task. Maintaining full or near full employment without inflation in the case of strong trade unions and widespread monopoly elements is a tough job. For in a period of rising prices, trade unions can easily secure wage increases, which are further reflected in higher prices accentuating inflationary pressures in the form of wage-price spirals. On the other hand, wages are rigid in the downward direction and trade unions vehemently oppose wage cuts in an inflationary situation. Whereas more rapid wage increases, as labour productivity increases, may be desirable; drastic wage reduction in depression may be ruled out, as also rigid wage maintenance. A rational wage policy for full employment must take into consideration the basic fact of dual nature of wages, being costs to entrepreneurs and income to workers, who have a high propensity to consume and whose demand constitutes a major portion of the effective demand in the economy. Truly speaking, wages have to be linked with productivity and an increase in wage-rates should be allowed only with increases in productivity. Measures of wage-increases are permissible only after a state of full employment has been reached. Hence, it would not be prudent to initiate in this respect the economic policies in vogue in developed countries. Therefore, steps to raise employment must emanate from sources other than wage adjustment policy? Those, who regard price variations in booms and slumps as major causes of instability, advocate a policy of price flexibility as one of the important weapons of stabilization and promoting full employment. They argue that it would curb profit inflation, reduce the magnitude and duration of depressions by reducing the disparities between controlled and uncontrolled prices, and that it is an indispensable adjunct to any monetary policy directed to maintain a managed price level. But to lay down and to follow a suitable price policy is by no means an easy task. It has its own limitations both in advanced and underdeveloped economies. Thus, a policy of price flexibility i. A downward price adjustment may increase output and employment in particular industries with elastic demands without having any favourable effects on the economy as a whole. Again, if prices of commodities and factors fall simultaneously, leaving the price-cost relation unaffected, the inducement to invest will get a setback and saving would be encouraged owing to the rise in the value of money, without affecting in any way the volume of output and employment. Moreover, rise in the marginal efficiency of capital takes place on account of a fall in factor prices without a corresponding fall in the prices of goods and is offset by a fall in the aggregate demand, without affecting employment in any way. Even if price flexibility could affect income, output and employment, it would be temporary, unless proper monetary and fiscal measures are adopted. Price-cost flexibility may be important in certain sectors of the economy where price movements are of strategic importance. Irving Fisher suggested price control to fight inflation and promote stabilization. Many countries adopted price control and rationing during war and post-war periods to cope with the unusual situation of inflation and price support to arrest a downward trend of prices. Price control aims at fixing the upper limit beyond which prices may not rise. This measure becomes popular during periods of runway inflation and profiteering. It has a few limitations. It may lead to shortages, ques and inequality in the distribution of goods. Keynes favoured the reduction of purchasing power through taxes and forced savings. This, price control must be accompanied by restriction on the purchasing power. Rationing is disliked on the ground that it leads to wastage of resources and impairs freedom of consumption. Price support, on the other hand, aims at not allowing prices to fall below a certain minimum during depression. Whenever prices tend to fall below a certain minimum, the government comes to the rescue of the producers by entering the market as a single bulk purchaser statutorily fixed prices. This policy has been followed in underdeveloped economies to support the prices of agricultural commodities. The success of such a policy depends on the possession of vast resources, up-to-date and efficient administration. It is possible to bring about automatically, to some extent, some stabilizing effects through government expenditure or revenues, as the economy expands or contracts. Adoption of a system of automatic compensatory measures to come in operation under clearly defined circumstances constitutes an important element of successful macroeconomic employment policy. Such a policy consists in causing government expenditure to increase in contraction and fall in expansion and government revenues to rise in expansion and fall in contraction. Automatic stabilizers aim at a surplus budget in boom and a deficit budget in slump, unless balanced budget is insisted on by the government. But these automatic stabilizers should not be regarded as more than a first line of defence, as without other measures these alone are not likely to be very effective especially in backward economies, where neither the personal income-tax nor is the social security system widely developed. Advanced countries do not depend upon investment only to raise effective demand. Stimulating consumption, therefore, forms an integral part of a macroeconomic employment policy. Organisation of Labour Market: Some unemployment is caused by the lack of correspondence between supply and demand for different kinds of workers in different occupations; such unemployment can be reduced by spreading information and effecting recruitment through employment agencies and providing training and retaining facilities for developing skill and promoting the occupational mobility of labour. It has a vital part to play in eliminating unemployment caused by friction in the working of the economy or by structural changes in the industry. He expressed the opinion that unemployment in advanced countries could not be removed by macroeconomic monetary, fiscal and income policies alone unless accompanied by information on jobs and organization of labour markets. Further, seasonal unemployment can be eliminated by adopting suitable techniques for integration of different industries and dovetailing agriculture and industry.

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Chapter 6 : Incomes policy - Wikipedia

The Income and Benefits Policy Center analyzes trends in income support, social insurance, tax, child support, and employee-benefit programs.

Incomes policy Incomes policy The instruments available to policymakers for supporting economic recovery seem to have been limited after the crisis, especially in developed economies. On the one hand, there is little scope for monetary policy to provide additional stimulus, as interest rates has remained at historic lows, and quantitative easing has become more difficult to defend politically. Further, the ongoing deleveraging process associated to falling asset prices, made it extremely hard to revive credit to boost domestic demand. On the other hand, higher public-debt-to- GDP gross domestic product ratios have convinced many governments that they should shift to fiscal tightening. These could play a strategic role in dealing with the present challenges. In the period of intensified globalization from the early s until the global crisis, the share of national income accruing to labour declined in most developed and developing countries. If real wage Wages and salaries are defined as "the total remuneration, in cash or in kind, payable to all persons counted on the payroll including home workers , in return for work done during the accounting period" regardless of whether it is paid on the basis of working time, output or piecework and whether it is paid regularly or not. To offset insufficient domestic demand, one kind of national response has been an overreliance on external demand. Another kind of response has taken the form of compensatory stimulation of domestic demand through credit easing and increasing asset prices. However, neither of these responses offers sustainable outcomes. These are important lessons to be learned from the global crisis. Share of wages in national income in selected developed economies, Percentage Source: In particular, wage shares have declined slowly, but steadily over the past 30 years, with short reversals during periods of recession â€" particularly in â€" â€" when profits tend to fall more than wages. After such episodes, however, the declining trend has resumed. This trend is creating hazardous headwinds in the current recovery. As wages have decoupled from productivity growth, wage earners can no longer afford to purchase the growing output, and the resultant stagnating domestic demand is causing further downward pressure on prices and wages, thus threatening to bring about a deflationary spiral. In most developing and transition economies, the share of wages has behaved differently for the period as a whole. That share is generally between 35 and 50 per cent of GDP â€" compared with approximately 60 per cent of GDP in developed economies â€" and it tends to oscillate significantly, owing mainly to sudden changes in real wages. In many of these economies, the share of wages in national income tended to fall between the s and early s, but has started to recover since the mids, though it has not yet reached the levels of the s Chart Share of wages in national income in selected developing and transition economies, Source: In developed countries, real wages grew on average at less than 1 per cent per annum before the crisis, which is below the rate of productivity gains; they then declined during the crisis, and tended to recover very slowly in Arguably, the early move to a more contractionary fiscal policy and the relatively high levels of idle capacity and unemployment imply that the pressures for higher wages could remain subdued, thereby reducing the chances of a wages-led recovery. In contrast, since the mids, in all developing regions and in CISCommonwealth of Independent States ,real wages have been growing, in some instances quite rapidly Table. In some countries, this may represent a recovery from the steep reductions in the s or early s, and in others it is more than a mere recovery, as wages follow the same path as productivity gains. Even during the difficult years of and , real wages did not fall in most developing countries, as had generally been the case in previous economic crises. This suggests that to some extent, recovery in developing countries was driven by an increase in domestic demand and that real wage growth has been an integral part of the economic revival. Further, incomes policy could also be used to complement more expansionary fiscal policy in order to control prices, allowing for a more robust recovery with relatively stable prices. Subsidies to reduce the costs of basic consumption baskets for the lower income groups, which have a higher propensity to spend, and direct transfers to the less privileged in society might provide an alternative source of demand growth, helping create jobs and leading to a self-sustaining recovery.

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Chapter 7 : How Monetary Policy Impacts Income Inequality | Investopedia

High-income households pay a larger share of their income in total federal taxes than low-income households (figure 5). State and local taxes, which are not included in this analysis, are much less progressive, and some, such as sales taxes, are regressive (low-income households pay a higher share of their income in sales taxes than high-income.

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Median household income for white, non-Hispanic households rose percent, to $68,, in Median household income is up percent since , and is percent higher than it was in Median household income for African American households fell percent, to $40,, in

Chapter 9 : Tax policy and economic inequality in the United States - Wikipedia

Tax policy is the mechanism through which market results are redistributed, affecting after-tax inequality. The provisions of the United States Internal Revenue Code regarding income taxes and estate taxes have undergone significant changes under both Republican and Democratic administrations and Congresses since