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Finance and Economics Discussion Series: The Automatic Stabilizers: Quietly Doing Their Thing

By Darrel S Cohen, Glenn R Follette

Bibliogov, United States, 2013. Paperback. Book Condition: New. 246 x 189 mm. Language: English . Brand New Book ***** Print on Demand *****.This paper presents theoretical and empirical analysis of automatic fiscal stabilizers, such as the income tax and unemployment insurance benefits. Using the modern theory of consumption behavior, we identify several channels--insurance effects, wealth effects and liquidity constraints- -through which the optimal reaction of household consumption plans to aggregate income shocks is tempered by the automatic fiscal stabilizers. In addition we identify a cash flow channel for investment. The empirical importance of automatic stabilizers is addressed in several ways. We estimate elasticities of the various federal taxes with respect to their tax bases and responses of certain components of federal spending to changes in the unemployment rate. Such estimates are useful for analysts who forecast federal revenues and spending; the estimates also allow high- employment or cyclically-adjusted federal tax receipts and expenditures to be estimated. Using frequency domain techniques, we confirm that the relationships found in the time domain are strong at the business cycle frequencies. Using the FRB/US macro-econometric model of the United States economy, the automatic fiscal stabilizers are found to play a modest role at damping...


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