Principles of Economics
Macroeconomics
Employment Hysteresis

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How Far Are We from Potential Output/Full Employment?

• **Optimists** think we are far from full employment because many people who would take jobs are not actively looking for them because jobs are scarce...

• **Pessimists** think the official unemployment rate has it about right...

• **Austerians** think we are at full employment now because of zero marginal product workers who lack skills...

• I am an **optimist**...

• I see no reason why anybody reality-based would be an **austrian**...
Paul Krugman vs. The Austerians
The Congressional Budget Office’s View
Channels…

• Deficient investment…

• Less experimentation and innovation…

• Workers lose their skills and their attachment…

• All of these are extremely fuzzy…

• As is the belief that half of the output gap has now shifted itself from being a demand shortfall to a reduction in potential output…