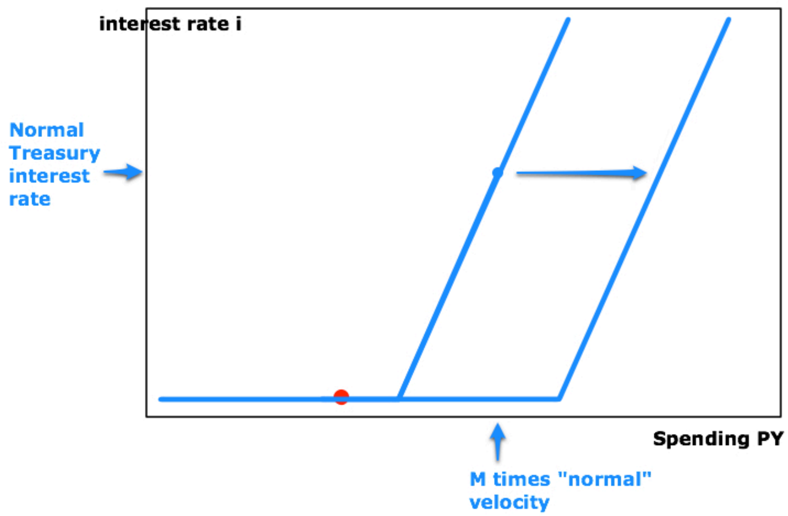
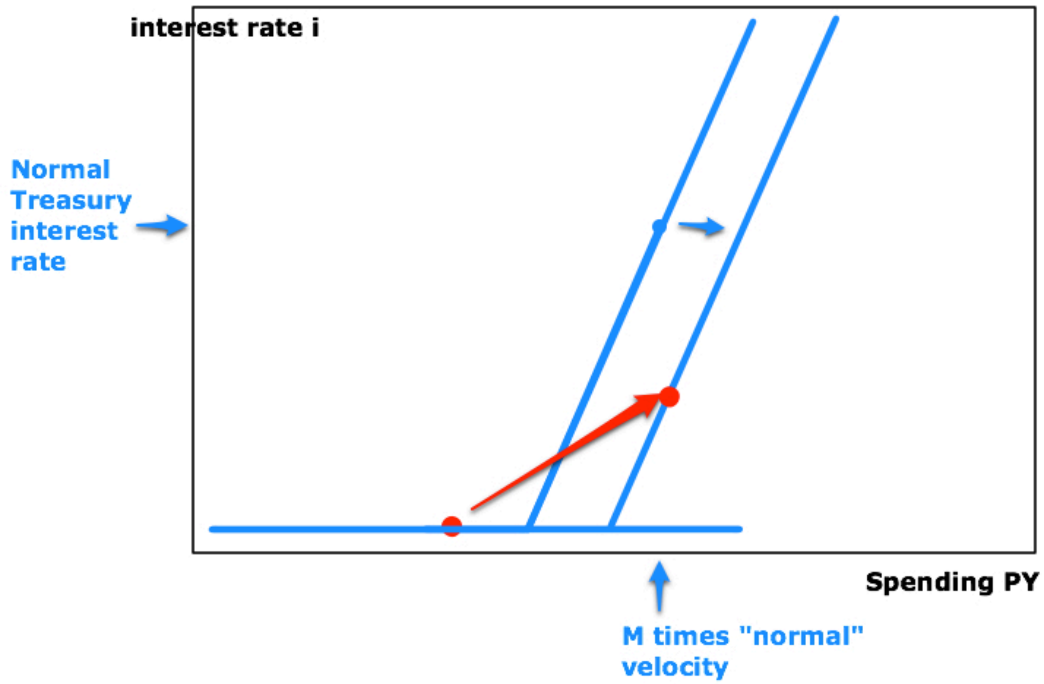
V. Old Fashioned Macro

In Normal Times: Expand the Money Supply and so Boost Spending on a Global Scale



Today: Expand Money Supply *and* Get Safe Interest Rates Up to Less Abnormal Levels



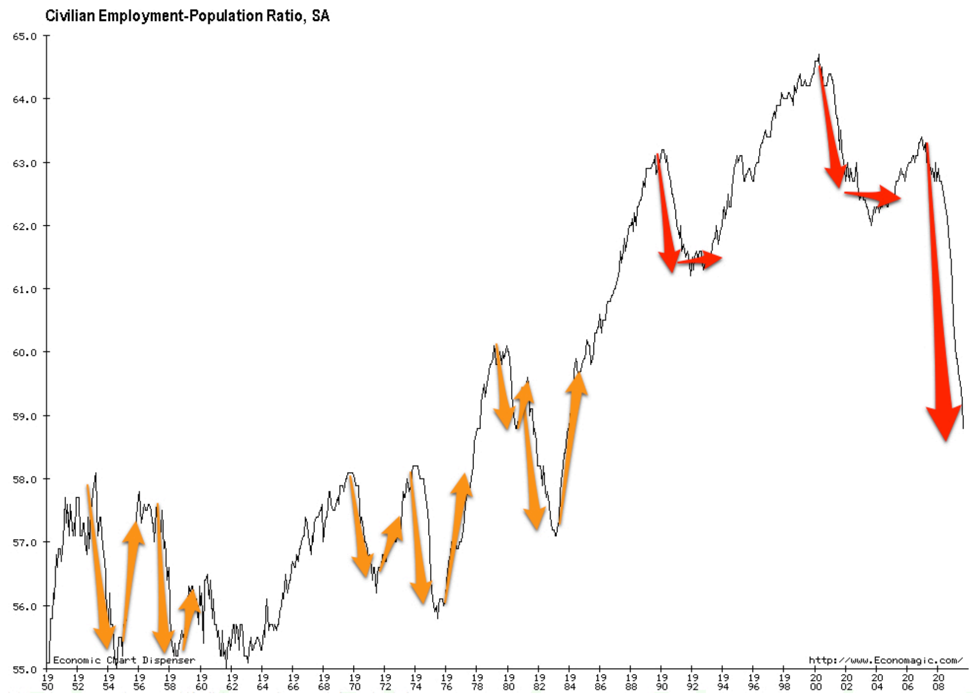
But How Do You Boost Safe Interest Rates to Get Spending Back to Normal?

- Supply and demand—make a parrot into a political economist
- Expand supply of safe securities
  - What is a "safe" security?
  - Make a lot more of them
  - Deficit spending—pull forward in time expenditures from the next ten or fifteen years.
    - Note that raising the national debt isn't a defect; it's the point of the policy
  - Financial alchemy via loan guarantees
- Reduce demand for Treasury securities
  - Treasury bond prices are so high now—and interest rates on Treasuries so low—because other assets are so unattractive.
  - Make other assets more attractive and demand for Treasuries will fall and T-bill interest rates will rise
    - Recapitalize the banking system
    - Make stocks more attractive as an inflation hedge by removing expectations of possible deflation
    - Direct purchases—PPIP, etc.

VI. Are North Atlantic Governments Doing Enough?

- Are we going to have another Great Depression? Almost surely no.
- Are we going to have a "lost decade" of economic stagnation like Japan in the 1990s? Almost surely no.
- Is the unemployment rate going to come down from its 10% now to 8.5% at the end of next year to 6% by the end of 2011? Almost surely no.
- Why not?
    - A worse shock than we thought we were getting a year ago—an 11-12% shock rather than the 9-10% shock we thought we were getting…
    - Policies that have been cautious:
        - $1.2T vs. $600B in extra deficit spending
        - Paulson desire to avoid temporary nationalization
            - This limits how much support for banking system—without nationalization the bankers gamblewith (and profit from) public money
            - Moral hazard
        - Political viability
    - A history that is not reassuring: jobless recoveries
    - A history that is not reassuring: Vs and Ls

In the United States: Vs and Ls



VII. The Start and End of Neoliberalism

- **The doctrine got its start in a time of macroeconomic turmoil—1970s**
- **Even though it did not have the best possible answers to the turmoil or to the questions of the time**
    - **Growth has been slower since 1980**
    - **Outside of China (and since 1990 India) few signs of convergence**
    - **International capital mobility has been a bust (trade, social, cultural mobility however)**
- **Now the doctrine sees its end in another time of macroeconomic turmoil—this time with slightly more logic to the situation**
- **What will succeed it?**