How Do We Get Out of This Mess?

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September 2011
Sources of the Downturn

Deviations from 2005:III Shares of Potential GDP

- Exports
- Business Equipment Investment
- Government Purchases
- Residential Construction
Hazards of Working for the Late-Eighteenth Century French Treasury
Irving Fisher and Milton Friedman

- PY = MV
- PY = MV(i)
  - A positive i means V won’t be too large---it gives people an incentive to spend their cash...
- At i=0, V could be anything...
- Monetary expansion could then become
Irving Fisher and Milton Friedman II

- Need to keep i away from zero for monetary policy to have traction...
  - If i gets to zero, need to find some way to move it off zero as quickly as you can...
  - Shrinking the money stock would be counterproductive...
  - Creating more risky assets would be counterproductive...
  - You need to create more safe assets...
  - Government needs to borrow (or guarantee) and spend (or invest)
The “Irish Austerity Miracle”

Unemployment in Ireland

- Year: 2006 to 2012
- Unemployment rates:
  - 2006: 4
  - 2007: 4
  - 2008: 4
  - 2009: 8
  - 2010: 12
  - 2011: 14
  - 2012: 16
The Monetary Base

St. Louis Adjusted Monetary Base (BASE)
Source: Federal Reserve Bank of St. Louis

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Nominal GDP
Unemployment Insurance Claims
The Federal Funds Wake-Up Call

Figure 8: Federal Funds Rate: Target, Effective Rate, Range, and Primary Lending Rate, June 2007 to March 2008

The Federal Funds Rate since 2007
Sources of the Downturn

Deviations from 2005:III Shares of Potential GDP

- Exports
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The Ten-Year Treasury Bond since 1990
The Investment Recovery
Waiting for the Long Run

Civilian Employment-Population Ratio (EMRATIO)

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(Percent)

When Will It Be “Long Run” for the Labor Market?
Household Incomes

Figure 1.
Real Median Household Income by Race and Hispanic Origin: 1967 to 2010

2010 dollars

Poverty Rate

Figure 4.
Number in Poverty and Poverty Rate: 1959 to 2010

Numbers in millions, rates in percent

Note: The data points are placed at the midpoints of the respective years. For information on recessions, see Appendix A. Source: U.S. Census Bureau, Current Population Survey, 1960 to 2011 Annual Social and Economic Supplements.
Payroll Employment

And with that, here's the homemade chart I run on the first Friday of every month, showing monthly job losses since the start of the Great Recession. The image makes a distinction — red columns point to monthly job totals under the Bush administration, while blue columns point to job totals under the Obama administration.
Jobless Recoveries

Civilian Employment-Population Ratio (EMRATIO)

Shaded areas indicate US recessions.
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Treasury Interest Rate

10-Year Treasury Constant Maturity Rate (DGS10)
10-Year Treasury Inflation-Indexed Security, Constant Maturity (DFII10)
State and Local Government

State and local government jobs gained & lost 26 months into recovery

Change in payroll employment (in thousands)

- Early 1980s Recovery: 291
- Early 1990s Recovery: 493
- Early 2000s Recovery: 239

Recovery after the Great Recession

-603

Real Housing Prices