

**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

Figure 2: High unemployment in *all* occupations relative to 2007

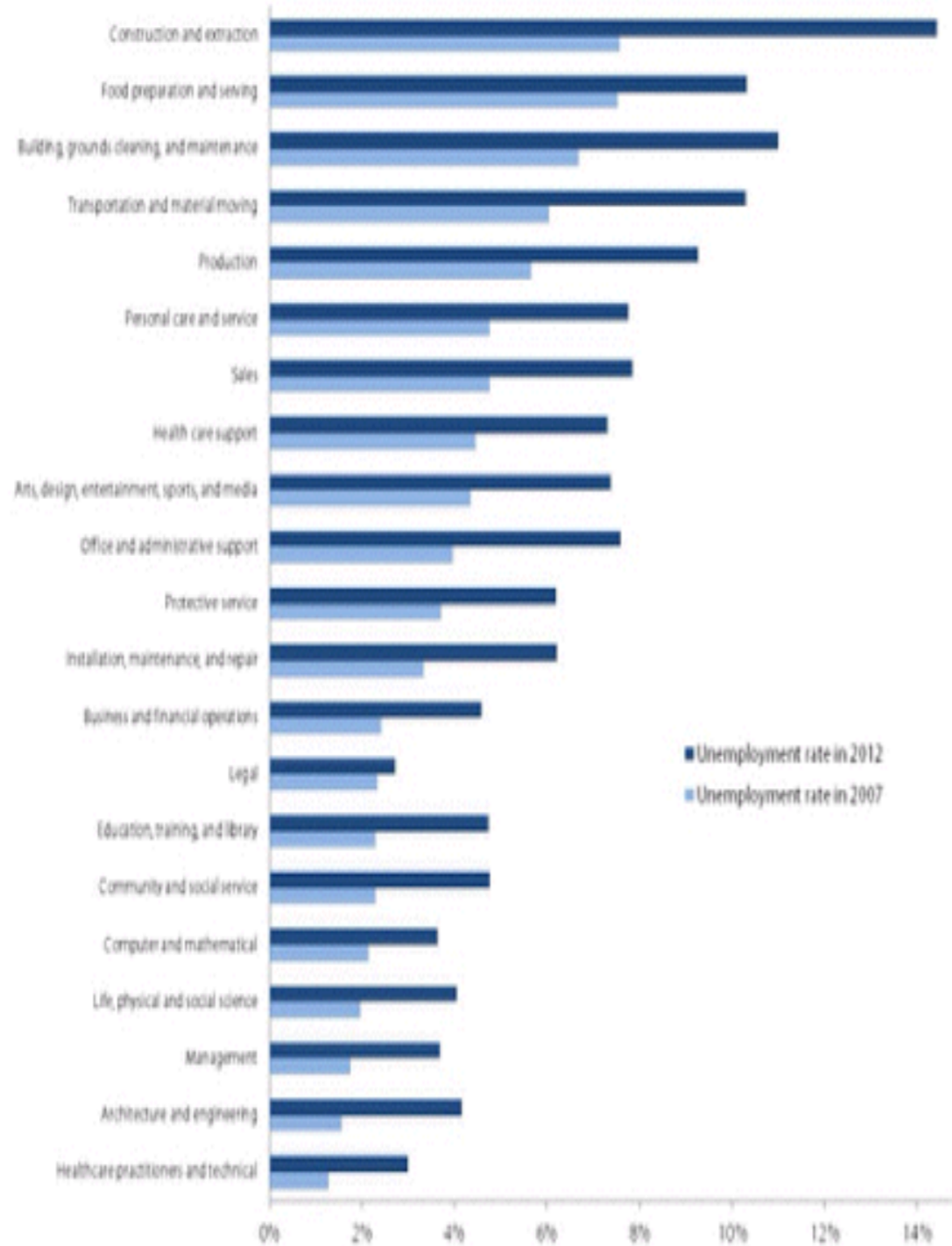
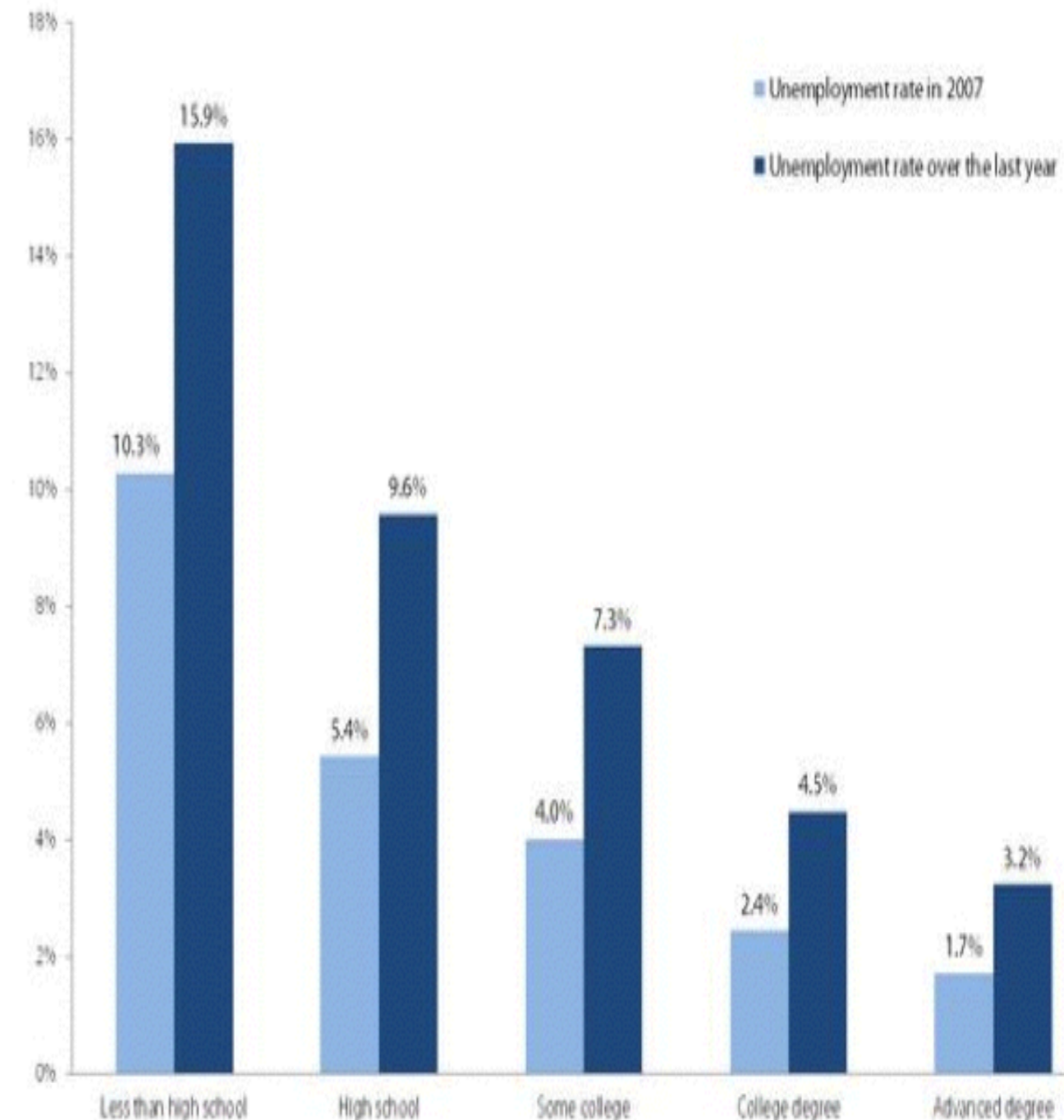
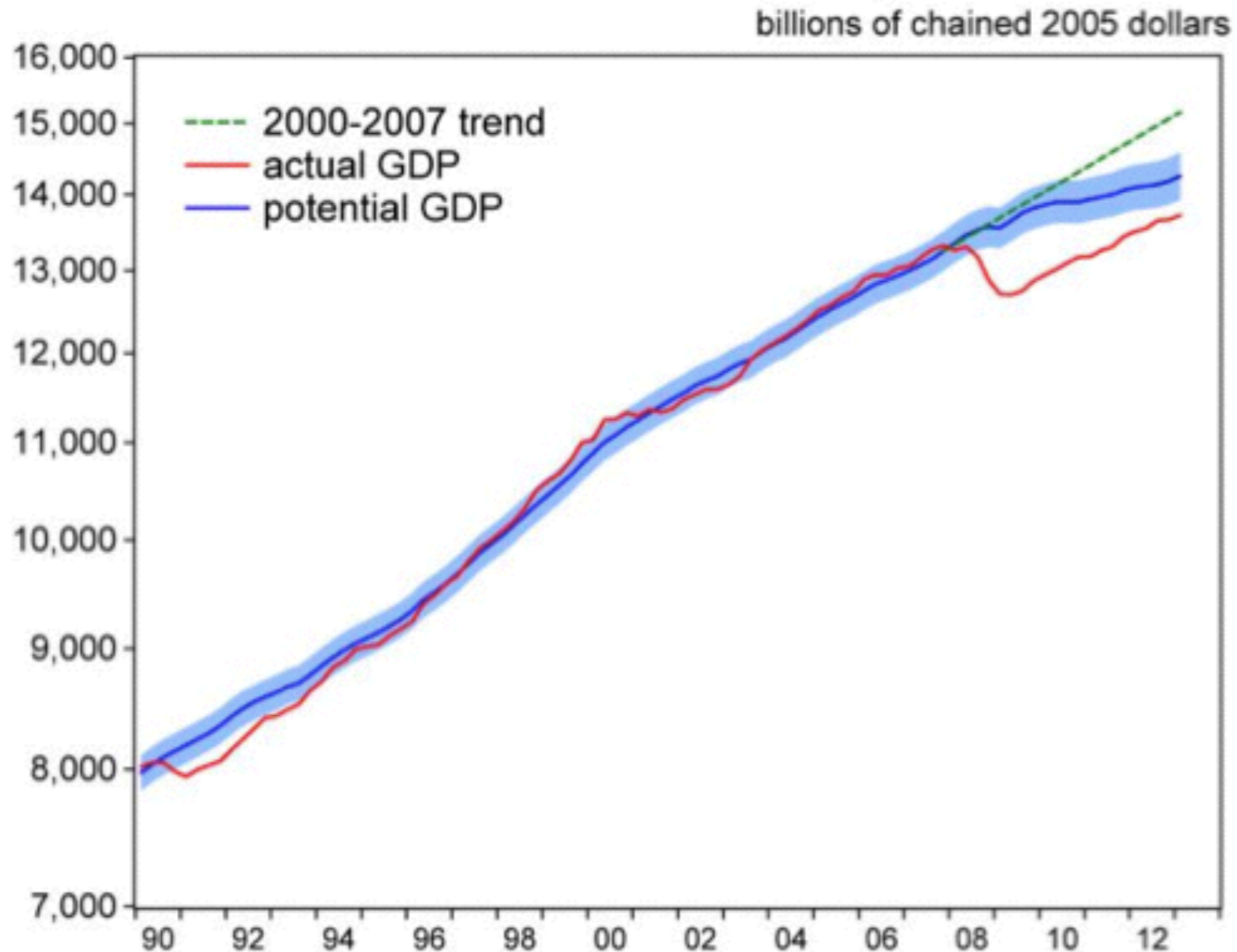


Figure 1: High unemployment at *all* levels of education relative to 2007



# 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...