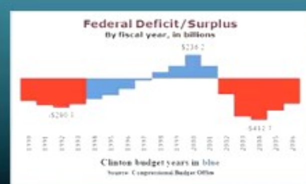
LECTURE SIX - PART THREE

The Roaring 1990s – A Macro Dream

- A technology boom shifts out the aggregate supply curve.
- Potential output increases while the natural and actual rates of unemployment fall.
- Real U.S. GDP growth averages around 4% a year!

The U.S. Balances Its Budget!

- Rapid economic growth leads to a surge in tax revenues.
- Unemployment and welfare payments falls.
- The budget generates a surplus from 1998 through 2001 for the first time in decades.



The Stagnant 2000s

- March 2001 recession ushers in a new era of slow growth.
- From 1947 to 2000, real GDP grew annually by 3.5%!
- For the decade beginning in 2001, real GDP growth fell to around 1.6%.

Question
How many jobs do you think were lost in the stagnant 2000s due to slow growth?

A Startling Answer!

- Rule of thumb: One percentage point of GDP growth lost = one million new jobs not created.
- A difference of 3.5% growth versus 1.6% growth is about two GDP points lost a year or two million jobs lost a year.

Answer

Over the decade, that's about 20 million jobs not created because of slow growth!

Wage Growth Falls to Zero!

- Wage growth fell as GDP growth slowed and labor markets became very lax.
- Average median household income plunged to zero for the 2000s!!!!!!

A Decade With No Income Gains

By DAVID LEONHARDT

The typical American household made less money last year than the typical household made a full decade ago.

To me, that's the big news from the Census Bureau's annual report on income, poverty and health insurance, which was released this morning. Median household fell to $50,303 last year, from $52,163 in 2007. In 1998, median income was $51,295. All these numbers are adjusted for inflation.

The Great Recession of 2007

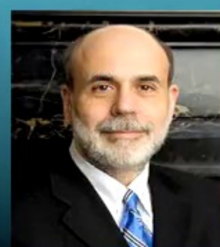
- Steepest downturn since Great Depression.
- Massive bailouts of both private and public corporations.

A Massive Fiscal Stimulus

- Outgoing President Bush and incoming President Obama team up.
- They execute the largest fiscal stimulus in world history.

A Massive Monetary Stimulus

- Central banks around the world adopt ultra "easy money" policies to lower interest rates and stimulate growth.
- The U.S. Fed adds trillions to its balance sheet.



Fed Chairman
Ben Bernanke

The Advent of Quantitative Easing

- With short term interest rates near zero, Fed Chairman Ben Bernanke launches "QE".
- QE: Fed buys long term bonds to drive up bond prices and thereby drive down yields and long term interest rates.

The Goals of QE

- By lowering long term interest rates, the Fed hoped to stimulate both investment and net U.S. exports in the GDP equation.
- Capital investment requires longer term financing so lower long term rates act as stimulus.
- Lower interest rates and a flood of newly printed also helped devalue the U.S. dollar, thereby stimulating exports.

A New Keynesian Failure?

- Despite massive fiscal and monetary stimuli, unemployment soared to double digits in both the U.S. and Europe.
- Just why was Keynesian economics unable to bring about a full global economic recovery?