

Good Intentions

Peter Rupert

Professor of Economics

Chairman, Department of Economics, UCSB

Director, UCSB Economic Forecast Project

Associate Director, LAEF

CPA Forum

May, 2016

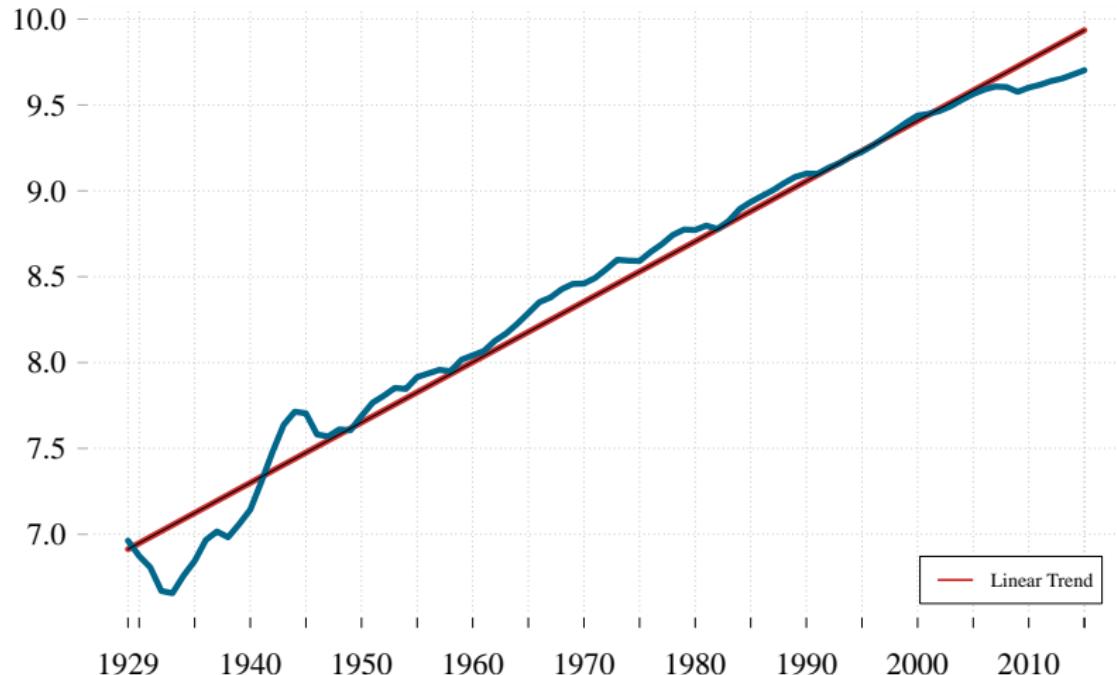
good intentions

- not so good policies
- how does this happen?

first: big picture

Real GDP

Logged Billions of 2009\$, Seasonally Adjusted



Linear Trend

what, me worry?

- that's a good question!
- what is driving the difference?
- policy or productivity?

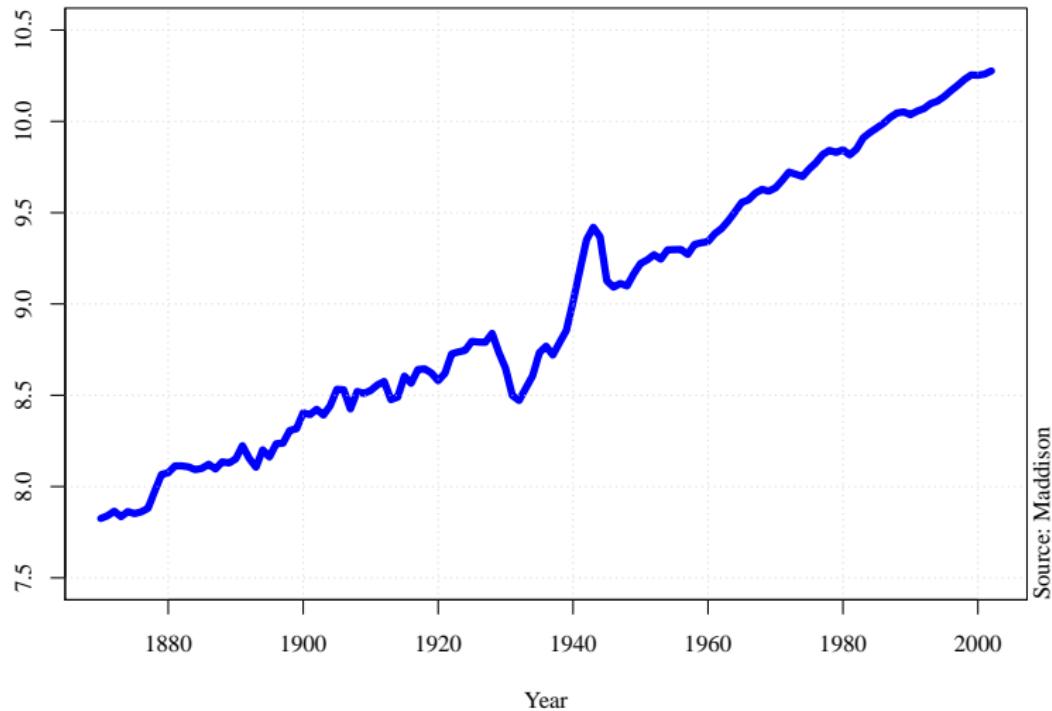
recessions and depressions

- downturns typically short, modest, recovery is fast
 - what was different about the great depression?
 - and the great recession of 2008?
 - great depression: government intervention distorted the usual tradeoffs
 - and the great recession???

the great depression

- leading economic mystery in the history of the u.s.
 - what started it?
 - why was it so severe?
 - why did it last so long?
- after 80 years still no consensus regarding the answers.

Log of GDP



Source: Maddison

trade policy

- Smoot-Hawley tariff act, 1930
 - high tariffs
 - reduced trade by as much as 50%
- Glass-Steagall legislation

the new deal

- most damaging policy at the heart of the **new deal**
 - national industrial recovery act (nira)
 - threw aside antitrust policy: higher prices, less output
 - shared with workers in terms of higher wages
 - national labor relations act: made it easier to unionize (higher wages)
 - the nira was declared unconstitutional in 1935

Federal Reserve

- Federal Reserve Act of 1913
 - Fairly smooth sailing until...
 - 1929 and the start of the Great Depression
- Banking panics 1930-1933
 - One-third of U.S. banks closed (although most small)
 - Depositors withdrew their money (decreased the money supply by a multiple)
 - Banks raised the reserve to deposit ratio

Federal Reserve

- The Fed should have been expanding the money supply
 - The Fed has more control over the Monetary Base, also known as Base Money
- Monetary Base (M0): Currency plus vault cash (reserves)
 - This is what affects the creation of money in the banking system
 - Monetary Base

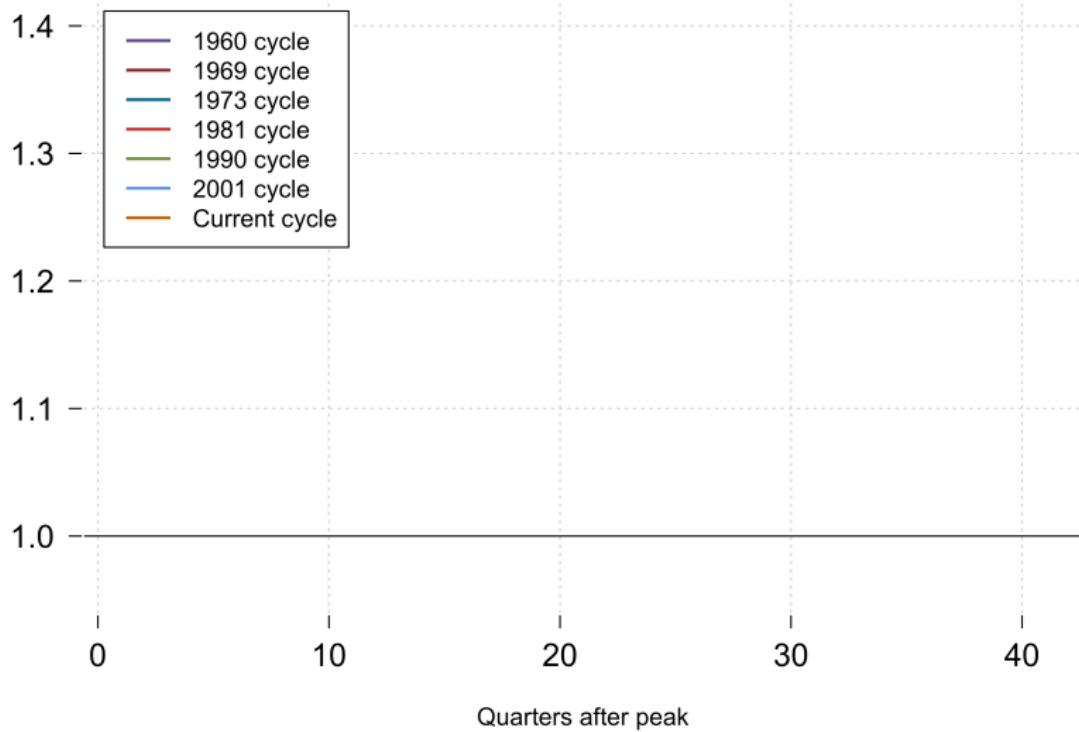
Year	Currency (billions)	Reserve-Dep. Ratio	Reserves (billions)	M1 (billions)
1929	3.85	0.075	3.15	45.9
1930	3.79	0.082	3.31	44.1
1931	4.59	0.095	3.11	37.3
1932	4.82	0.109	3.18	34.0
1933	4.85	0.133	3.45	30.8

the great recession

- the recovery is still slow

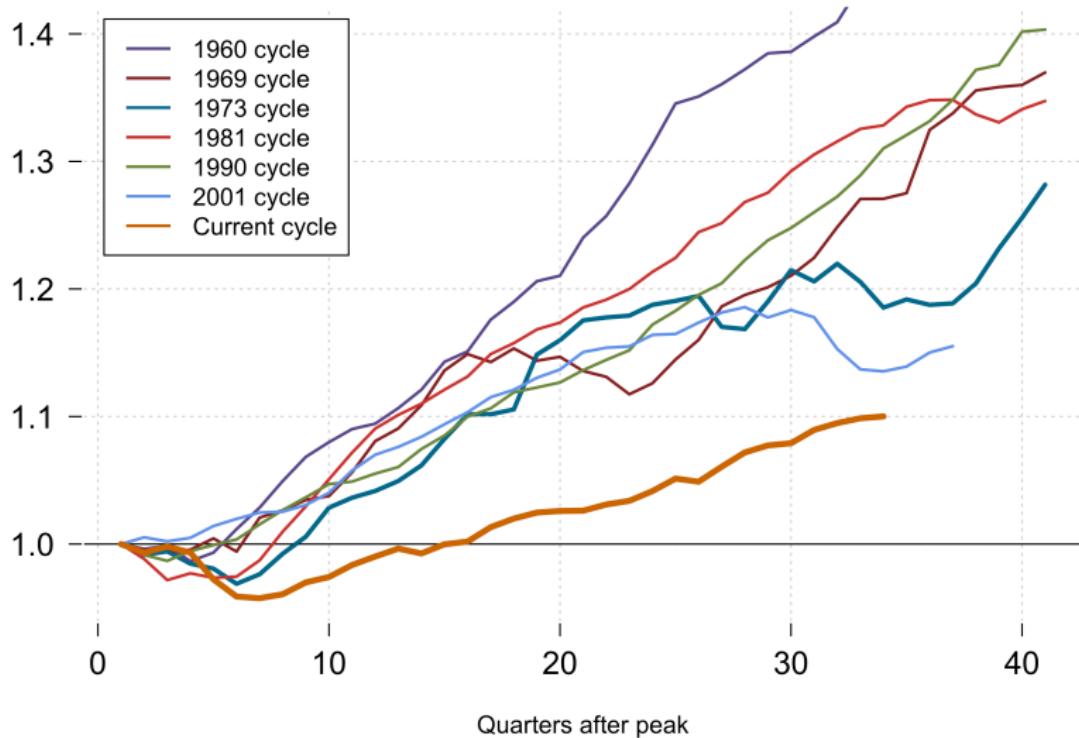
Real GDP

Peak before recession = 1



Real GDP

Peak before recession = 1

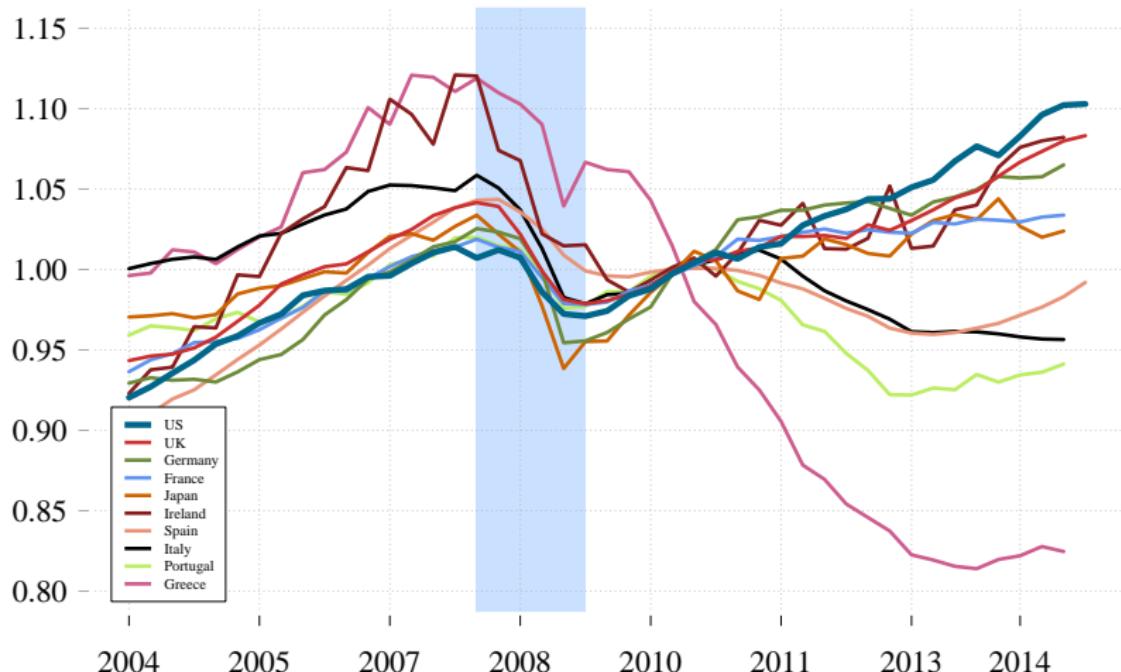


...the great recession

- headwinds?
 - the rest of the world
 - Dodd-Frank
 - Obamacare
 - QE
 - credit easing tools

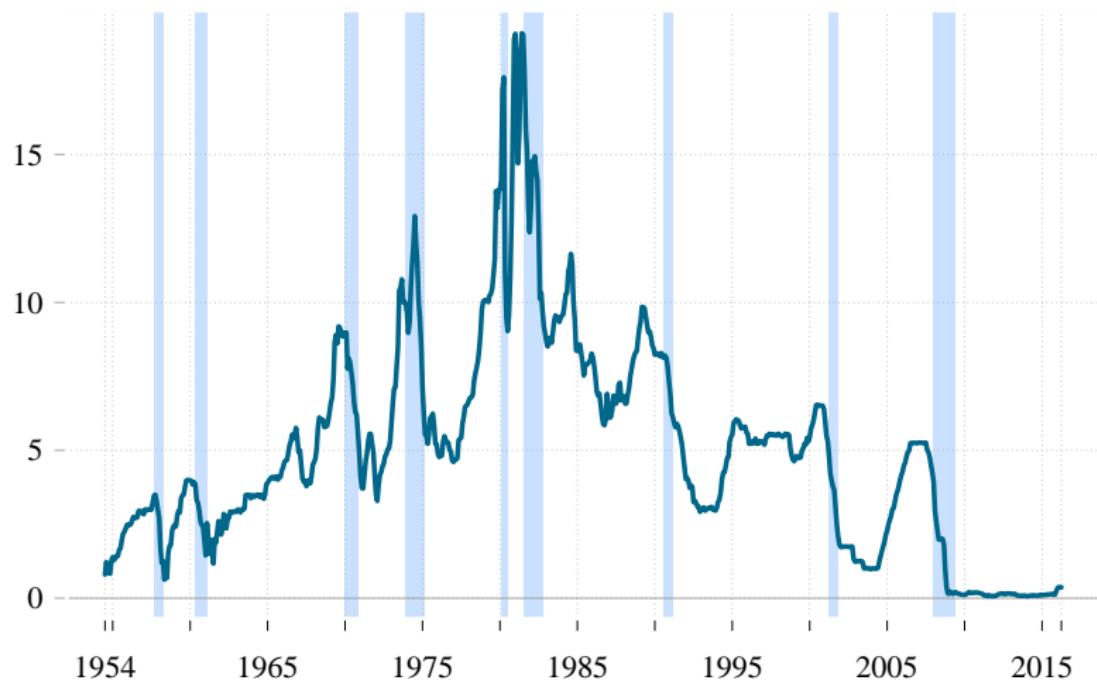
Real GDP

Index, 2010=1, Quarterly, SA



Effective Federal Funds Rate

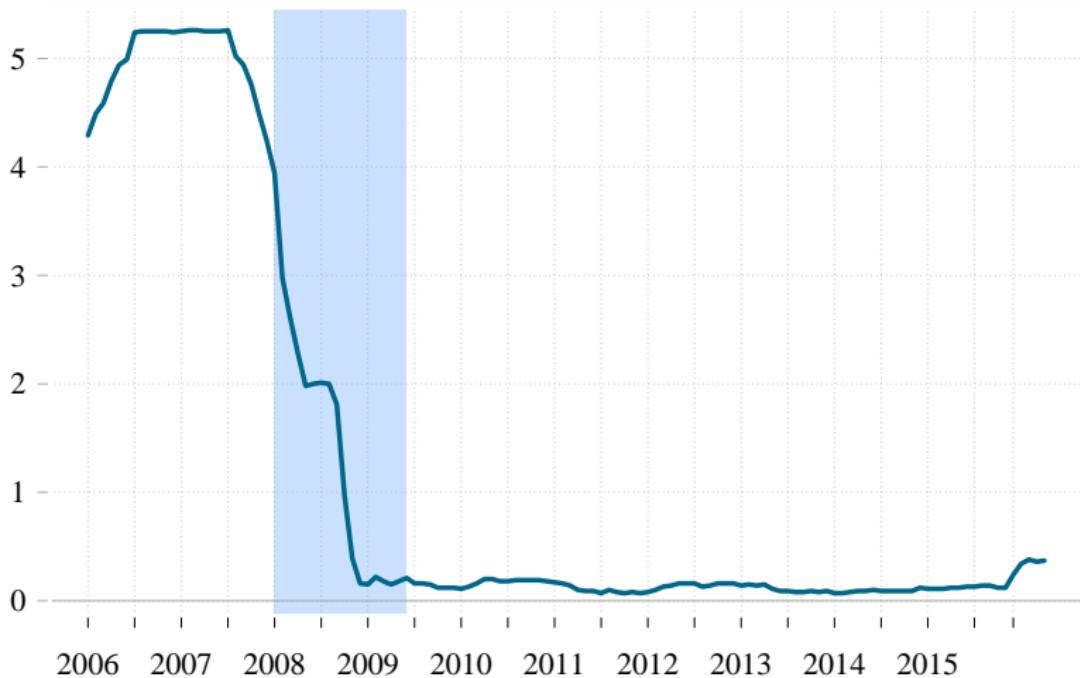
Percent



Source: FRB St. Louis

Effective Federal Funds Rate

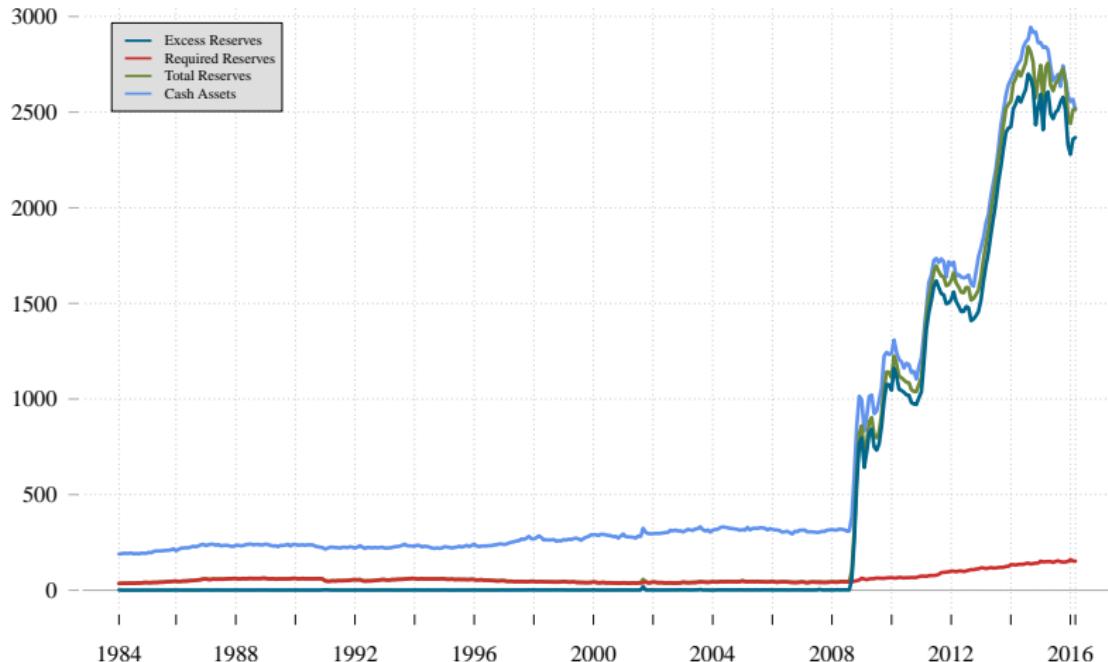
Percent



Source: FRB St. Louis

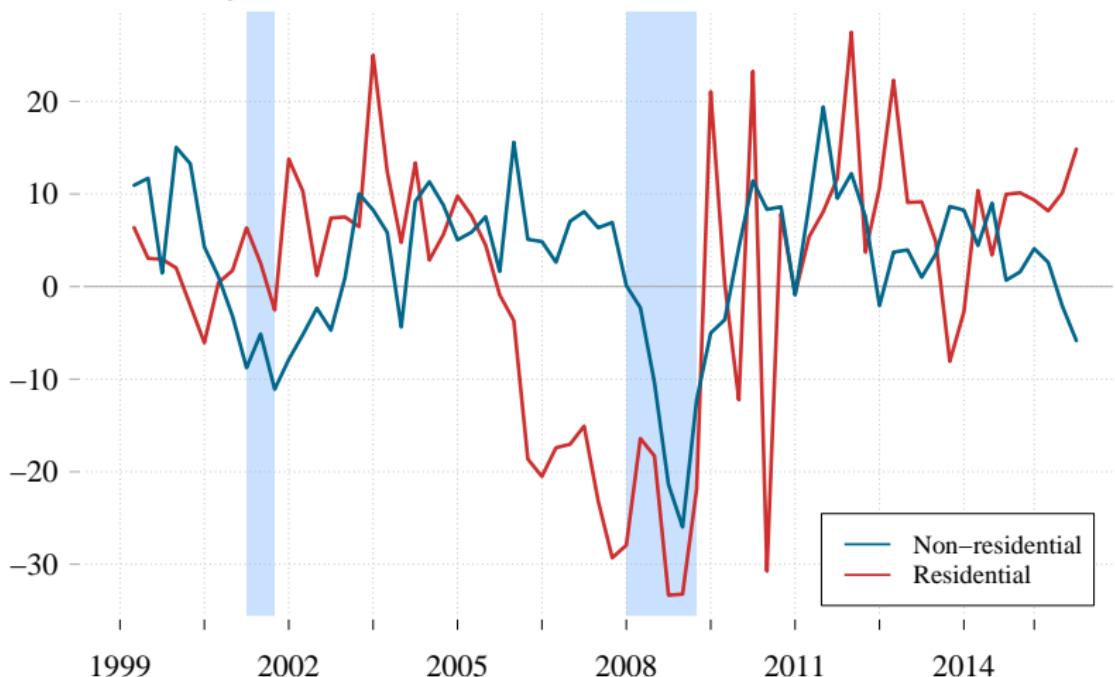
Reserves

Billions of Dollars



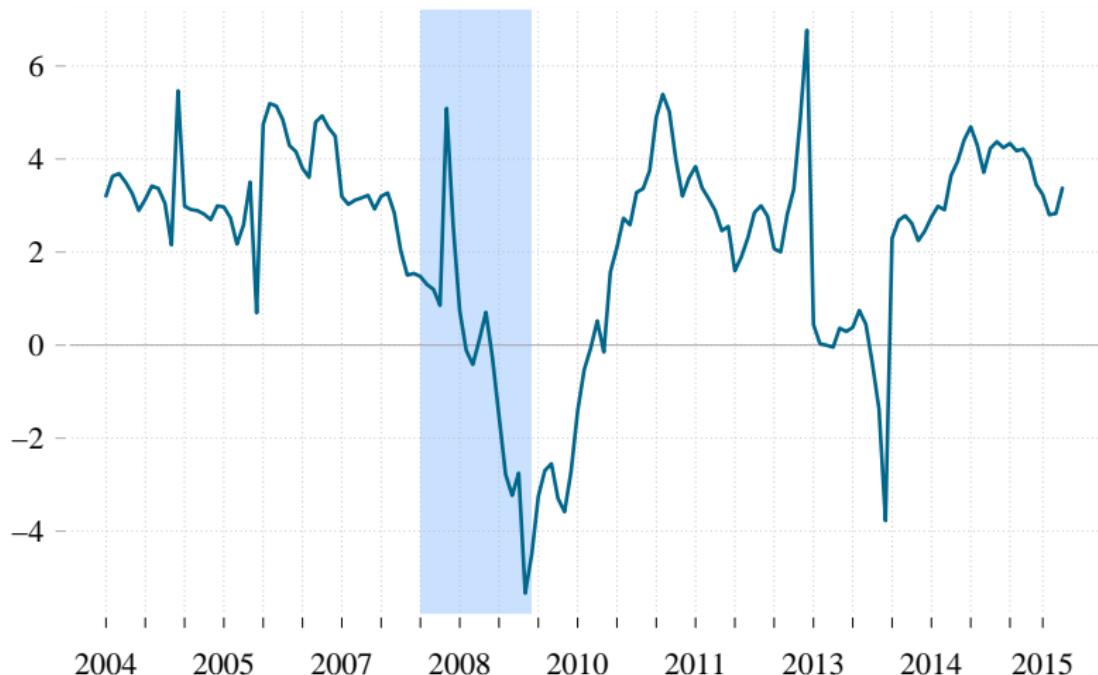
Fixed investment

Percent change at annual rate



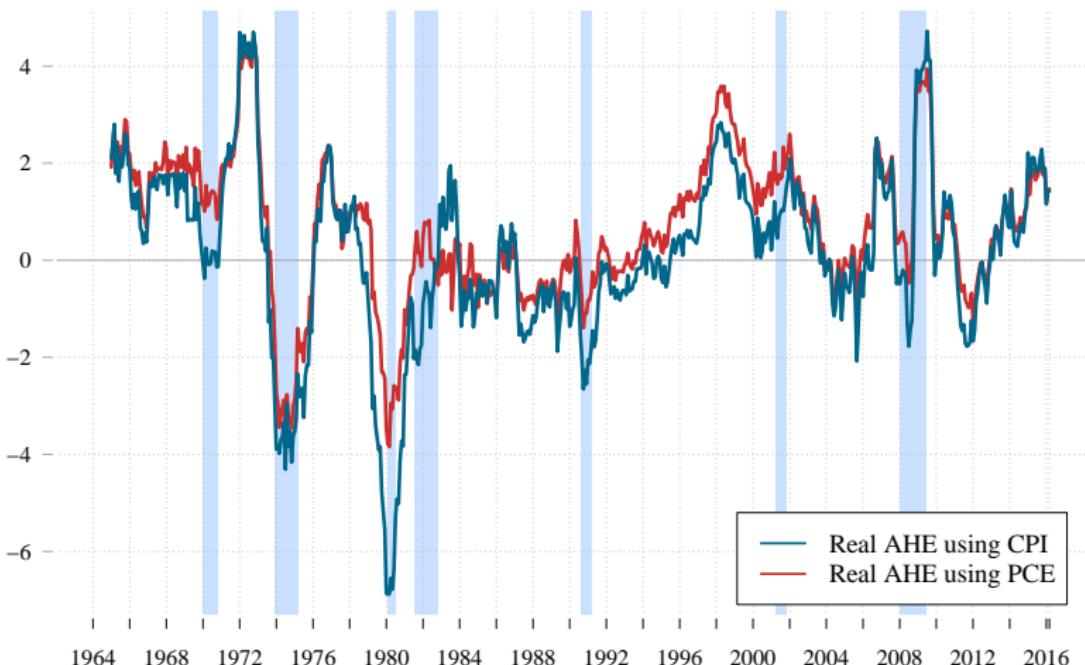
Real Personal Income

Percent change from a year ago



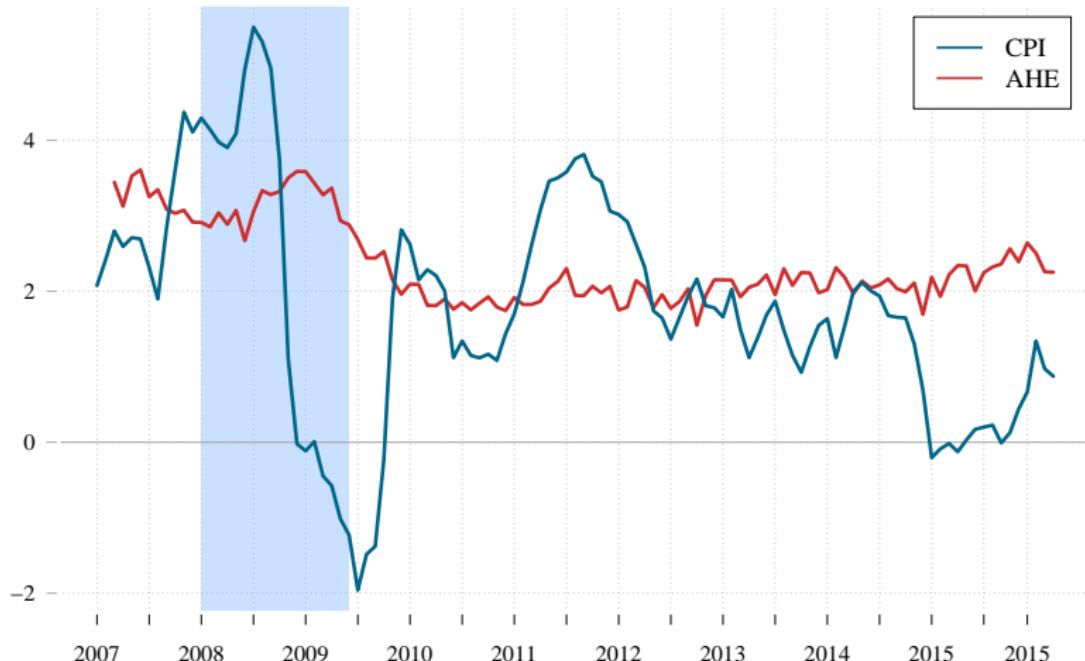
Real Average Hourly Earnings

Percent change from a year ago, production and nonsupervisory workers



Inflation and Average Hourly Earnings

Percent change from a year ago, all private workers



inequality



SINCE 1828

MENU

Dictionary



inequality



inequality

noun

un·equal·i·ty

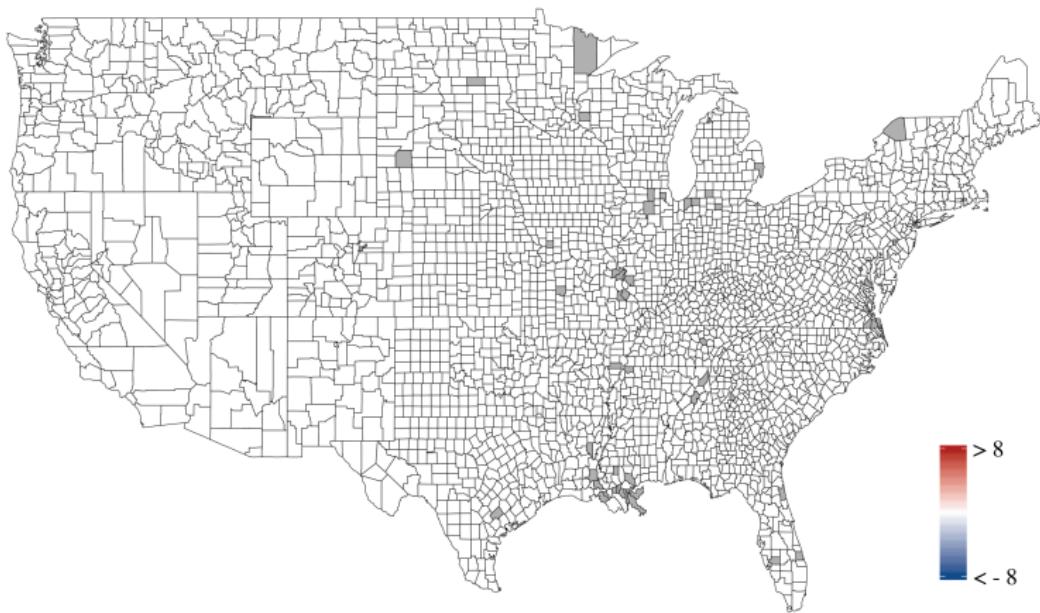
\ \ə-ni-'kwä-lə-tē\

- 1 : the quality of being unequal or uneven
- 2 : the condition of being variable
- 3 : things that get affected differently by things

breaking down national averages

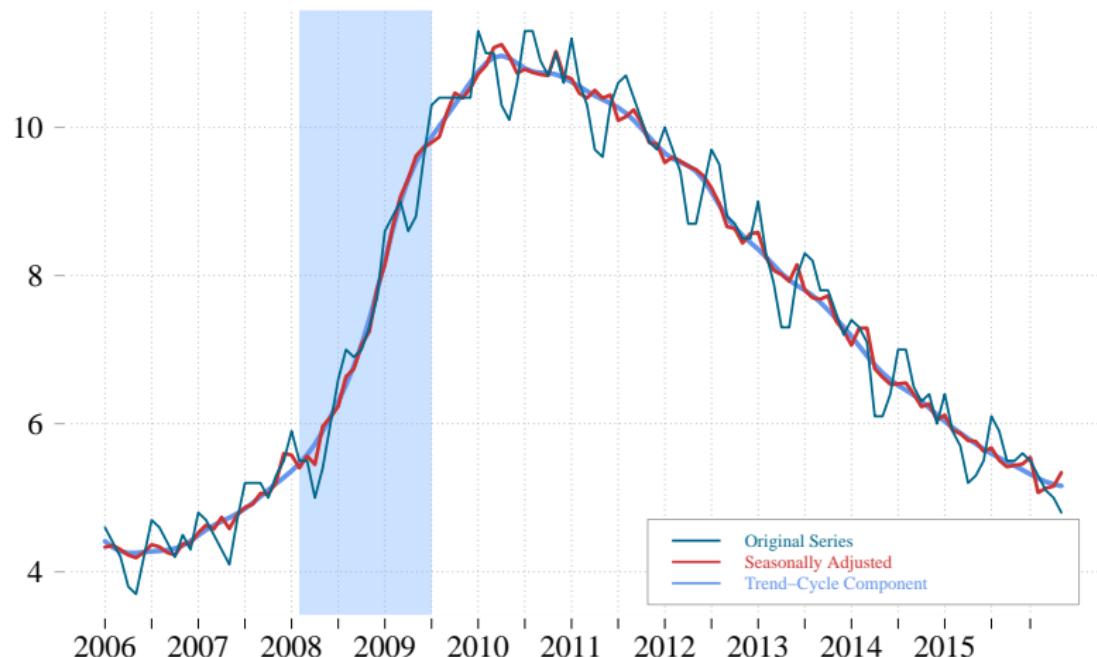
- unemployment
- earnings
- housing

Unemployment Rate Percentage Point Difference Since 2006: 2006



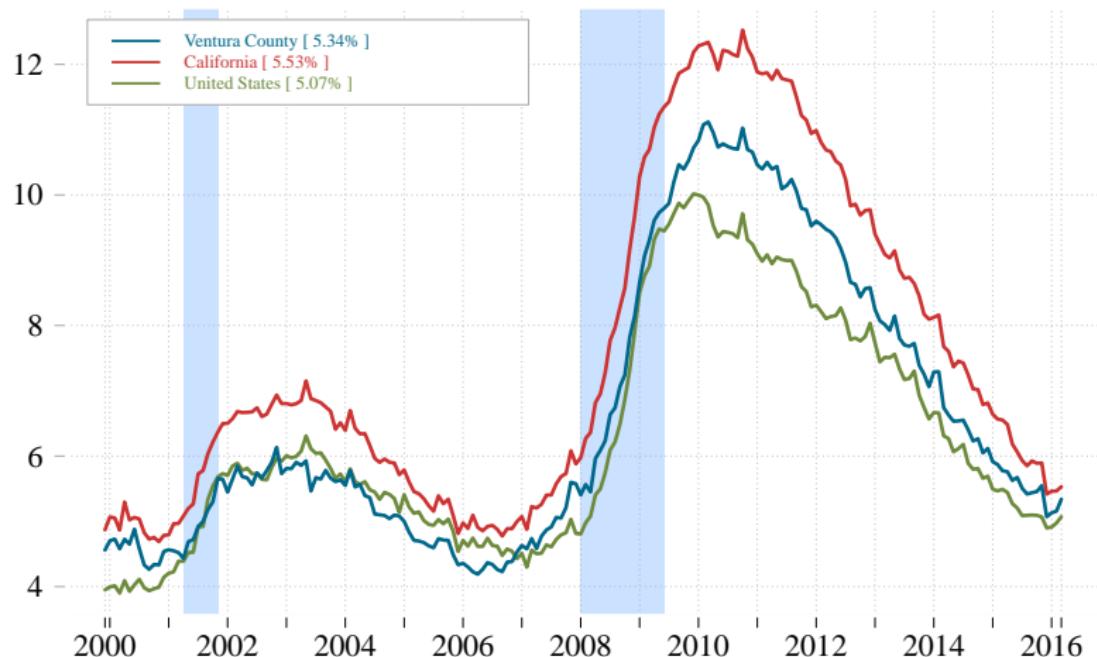
Unemployment Rate, Ventura County

Percent (%)

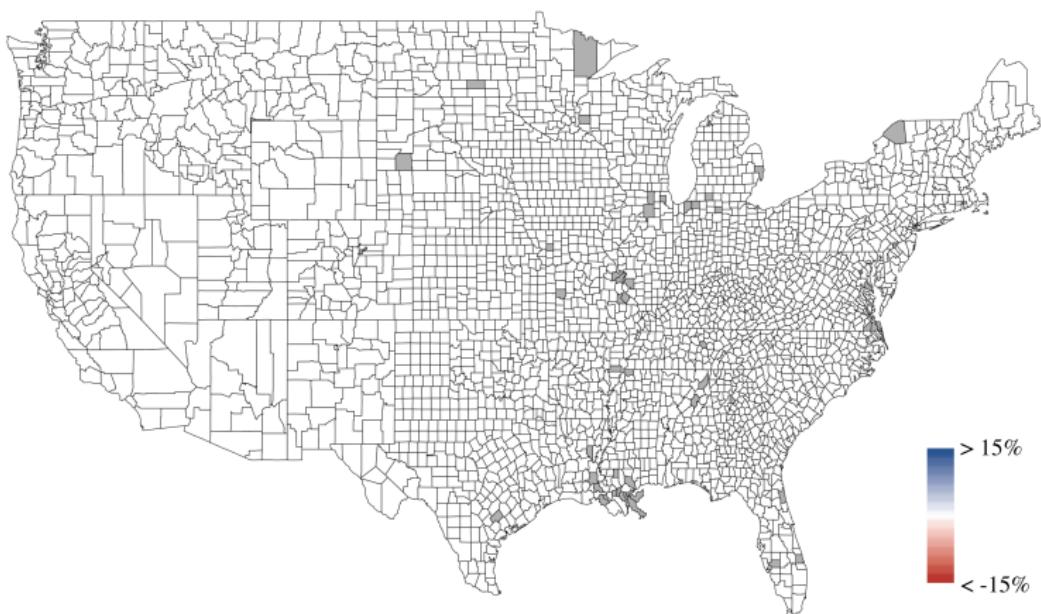


Unemployment Rate, Seasonally Adjusted

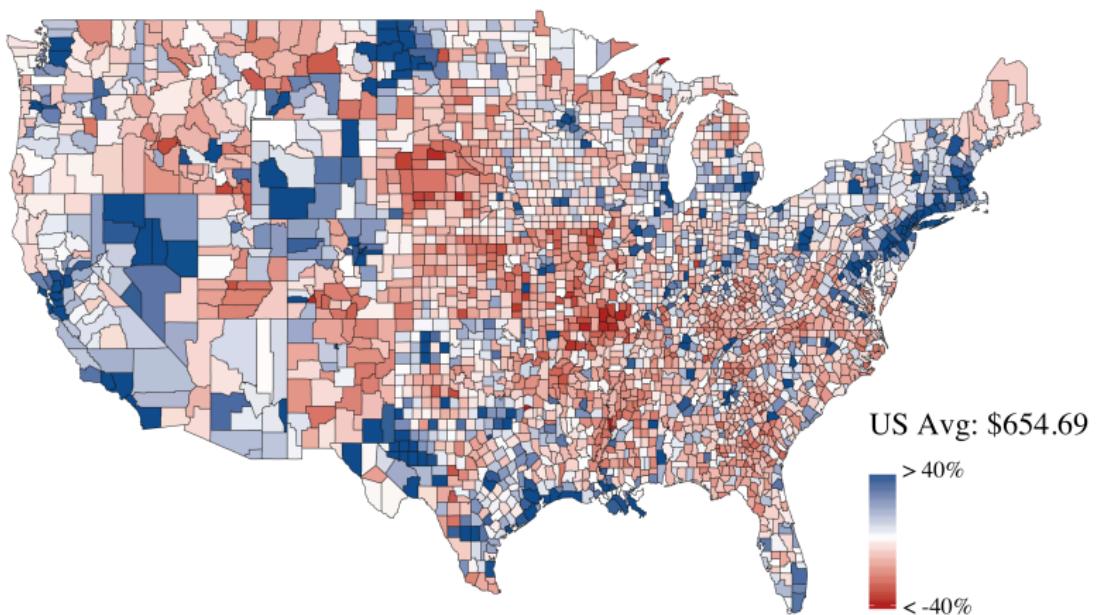
Percent (%)



Employment Change Since 2006: 2006

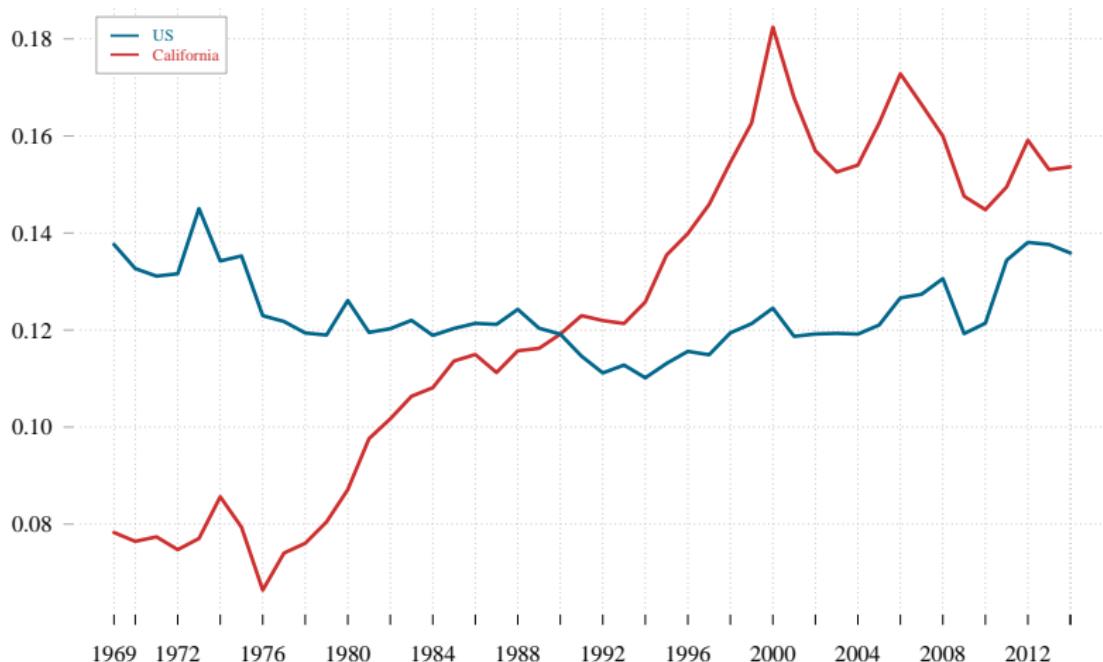


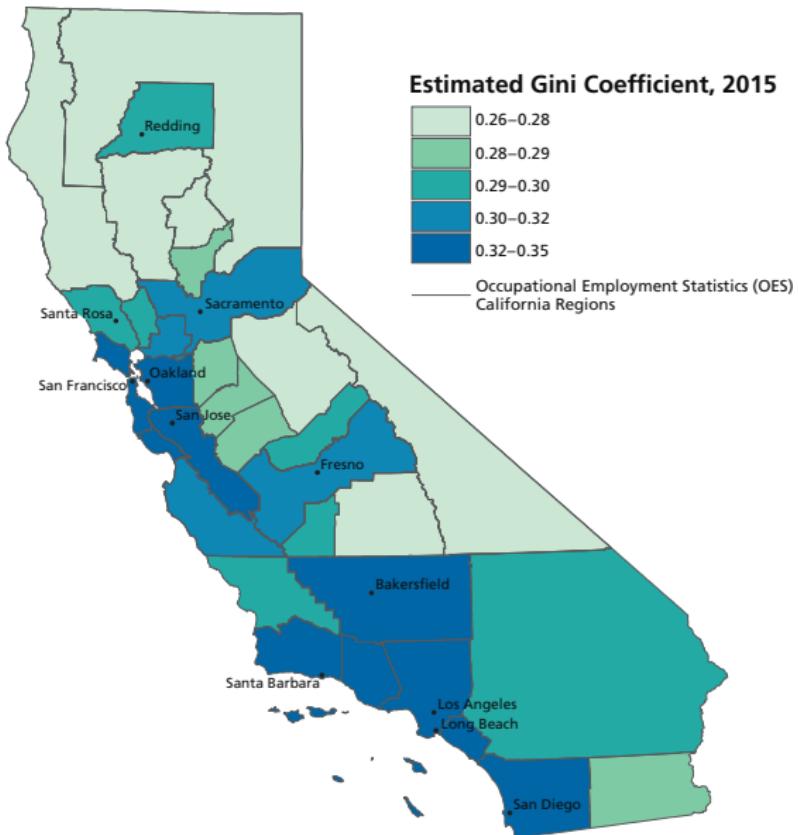
Real Weekly Wage Relative to US Average: 2015



Gini Coefficient

Real per capita personal income across counties

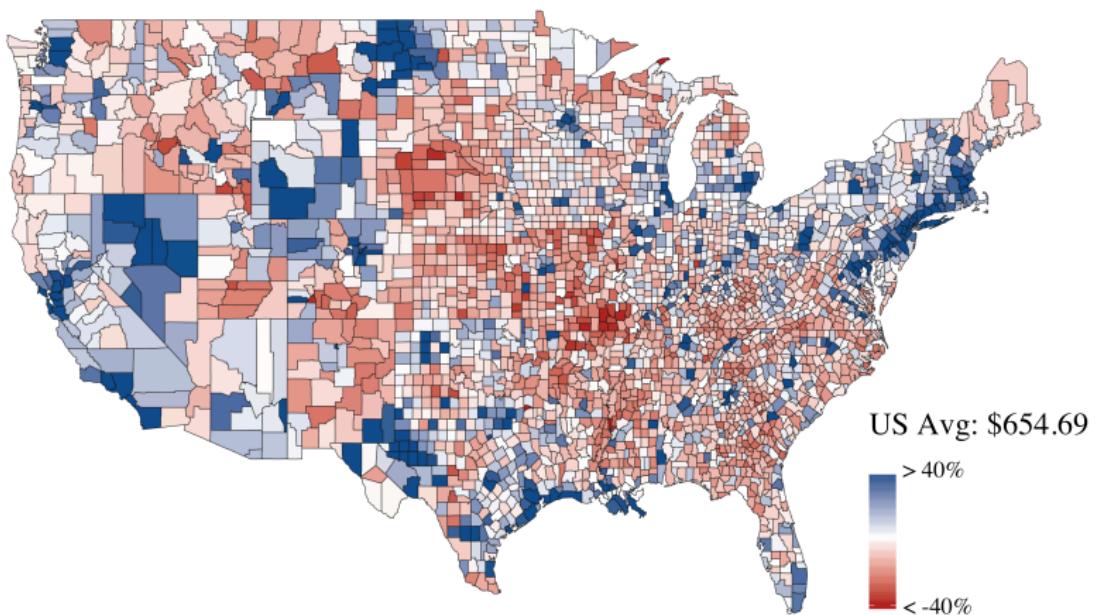




Real Wage Growth Since 2006: 2006

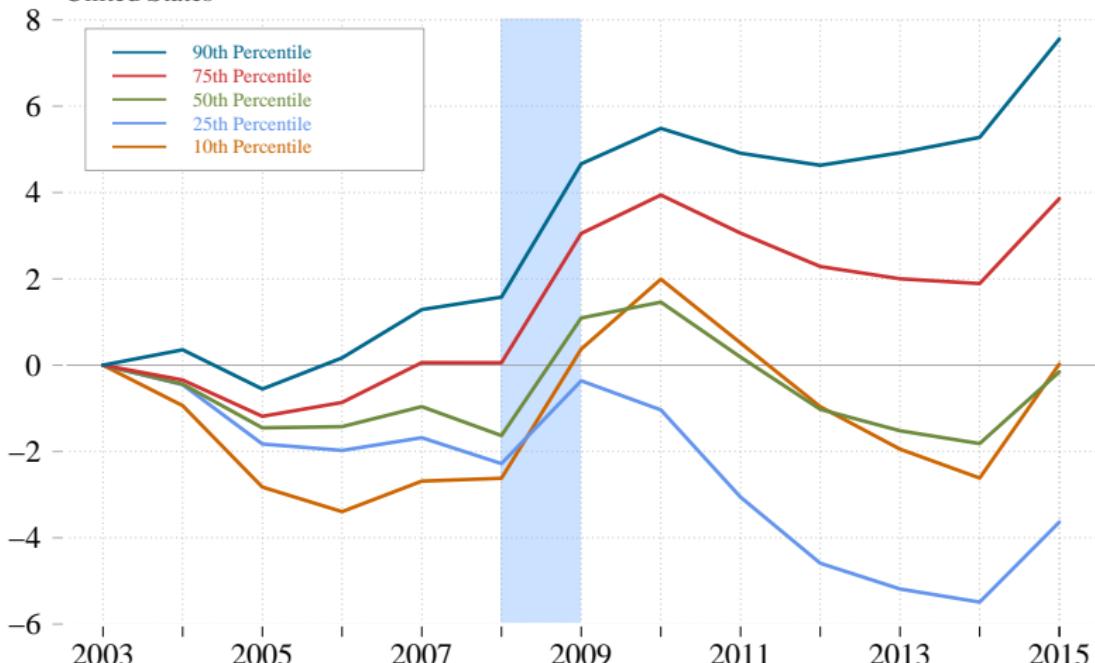


Real Weekly Wage Relative to US Average: 2015



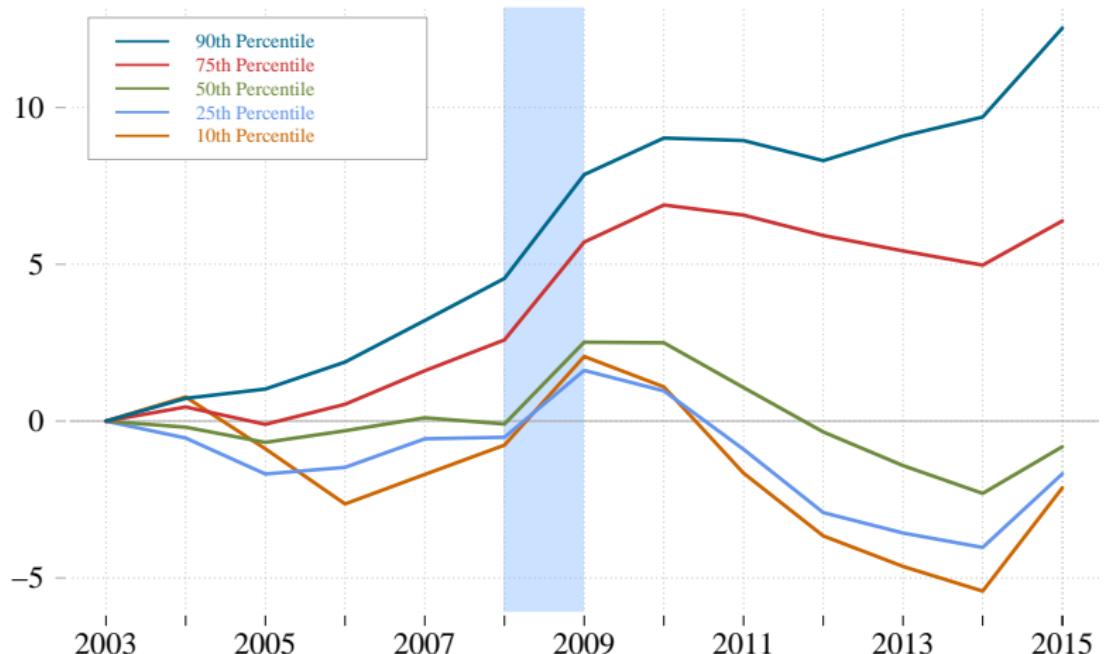
Cumulative percent change in real hourly wages

United States



Cumulative percent change in real hourly wages

California

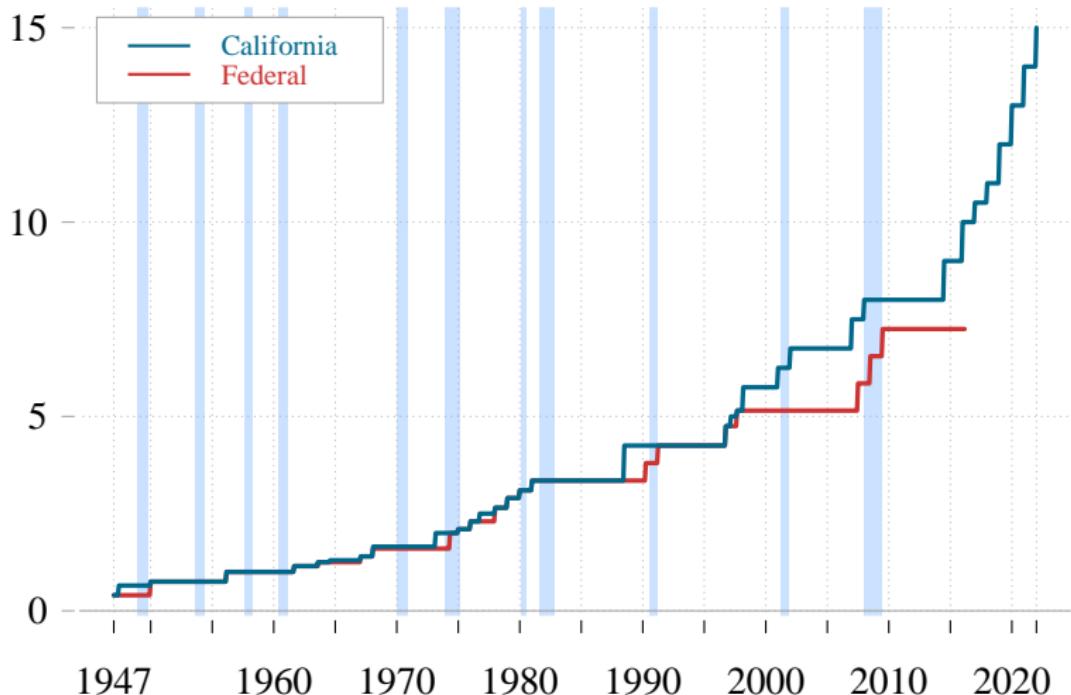


minimum wages

a looming labor market issue

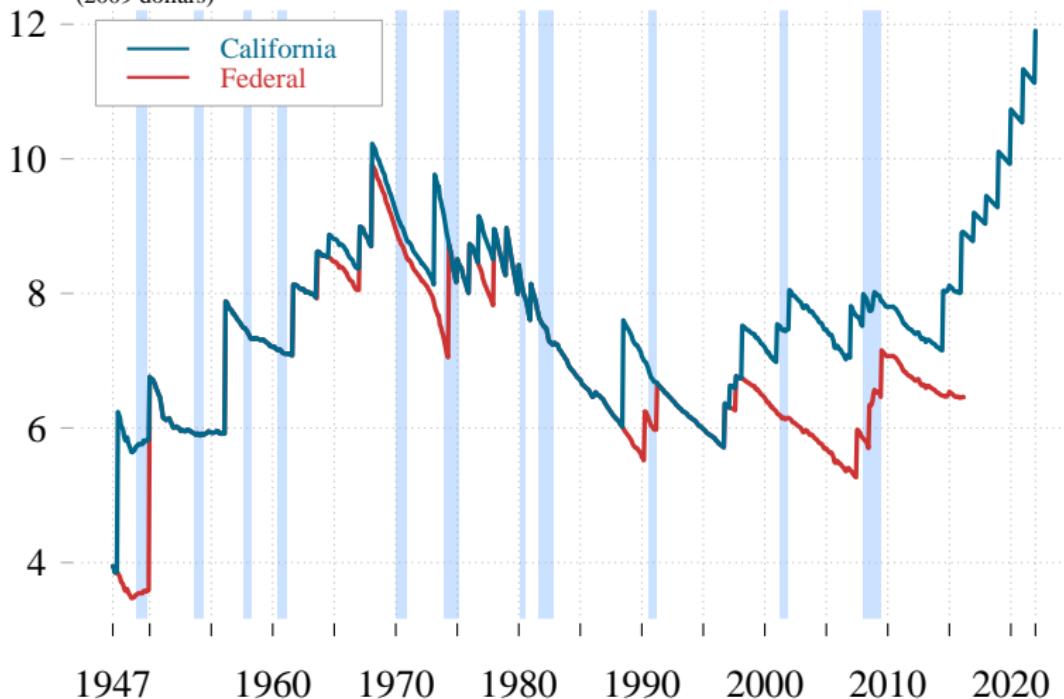
- current minimum wage \$10
- \$15 minimum wage by 2022
- let's start by examining the data

Nominal Minimum Wage

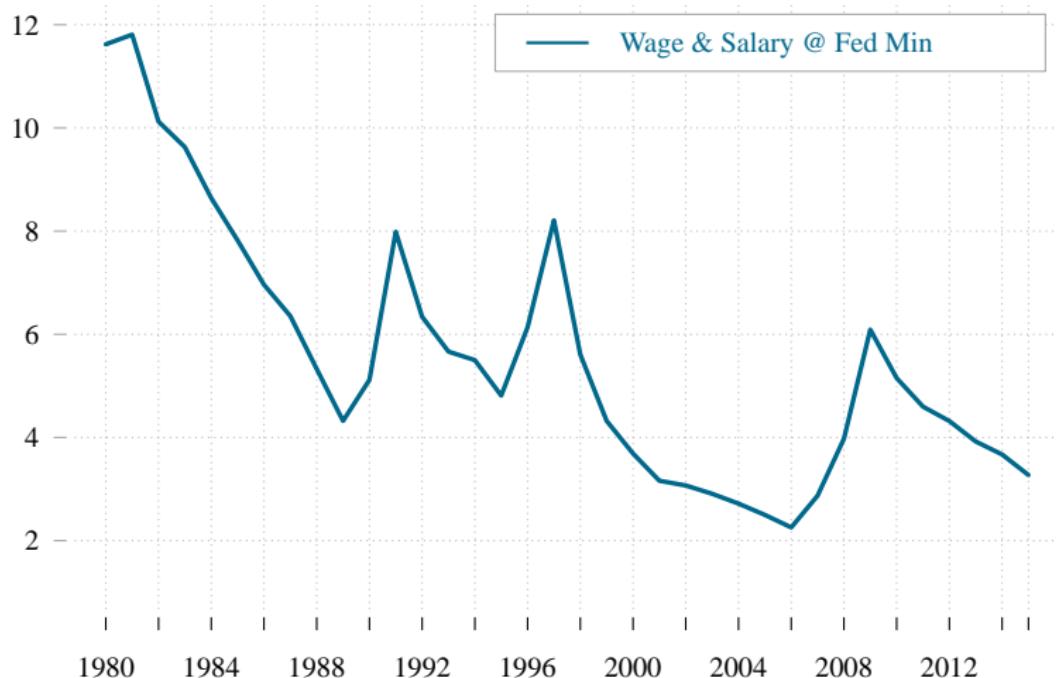


Real Minimum Wage

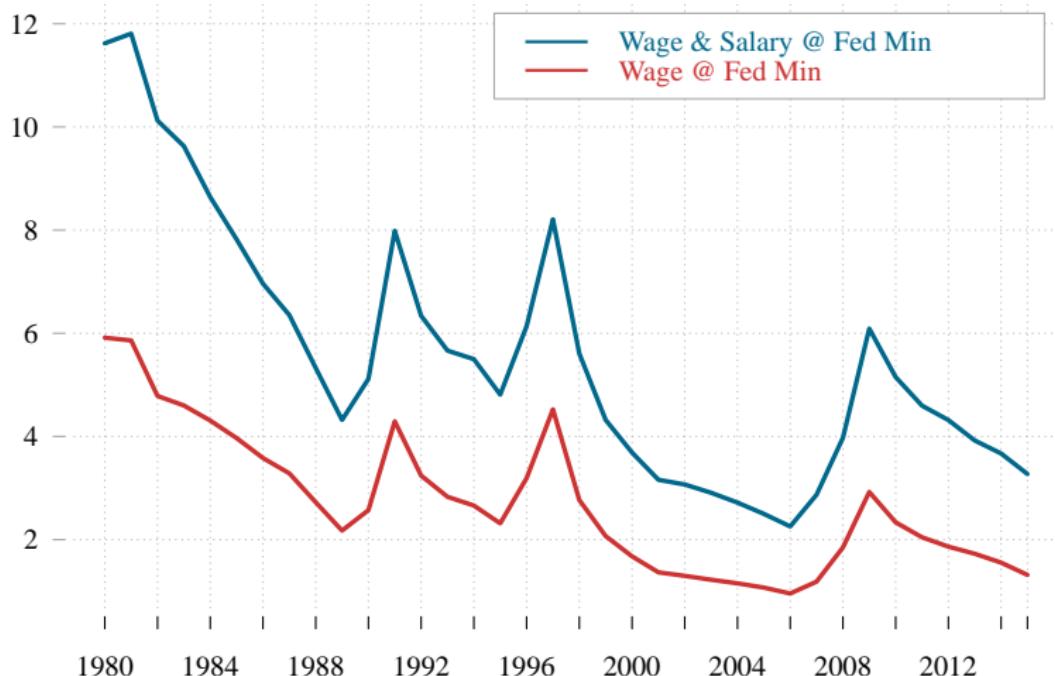
(2009 dollars)



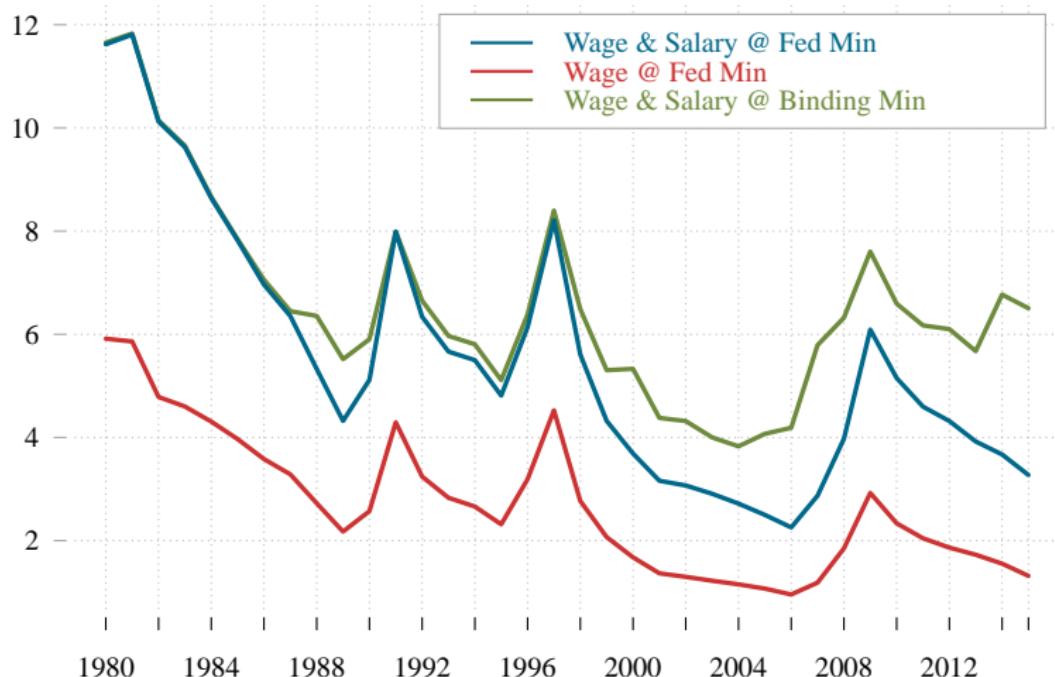
Percent of Workers at Minimum Wage



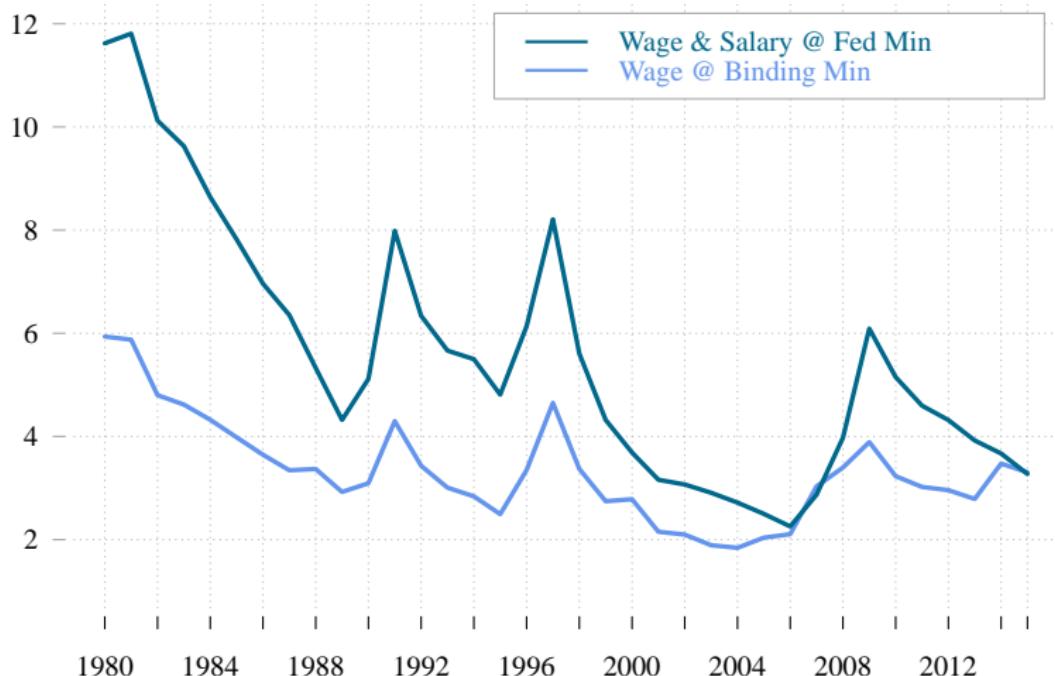
Percent of Workers at Minimum Wage



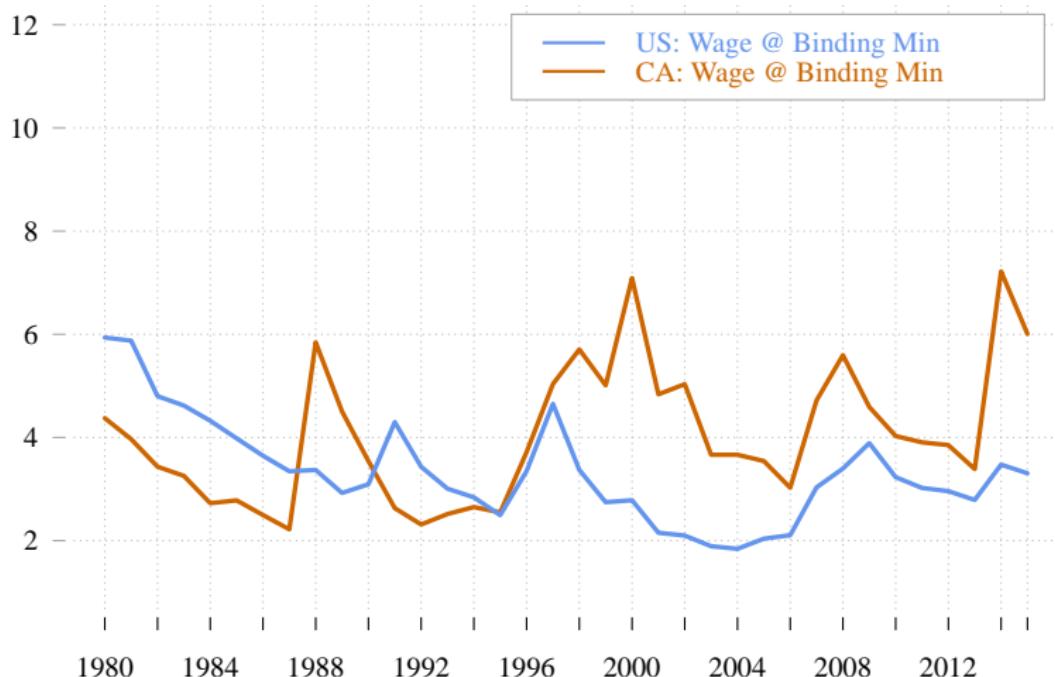
Percent of Workers at Minimum Wage

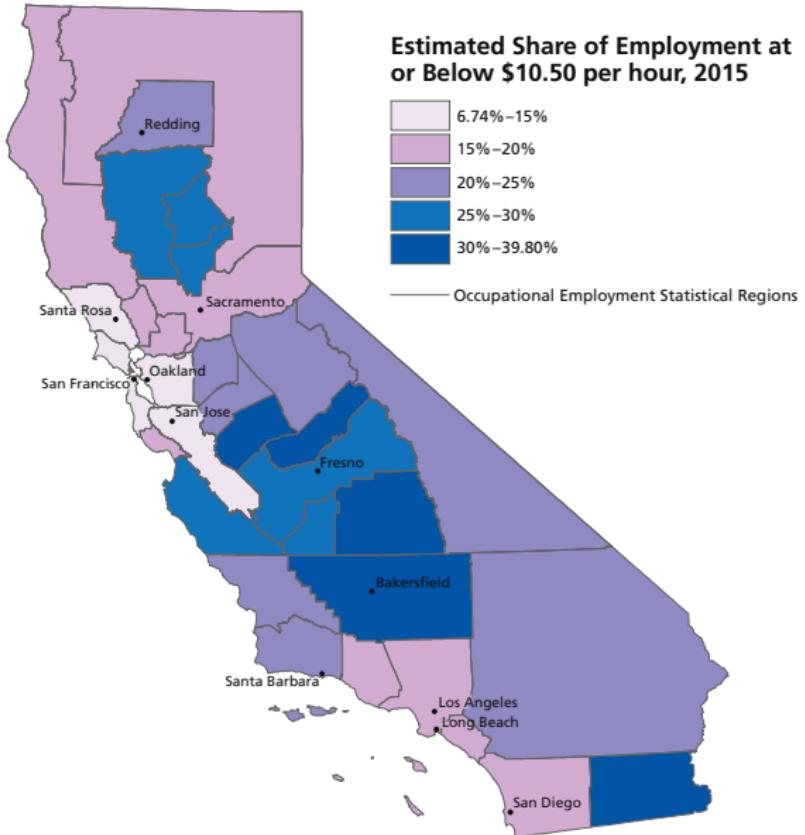


Percent of Workers at Minimum Wage



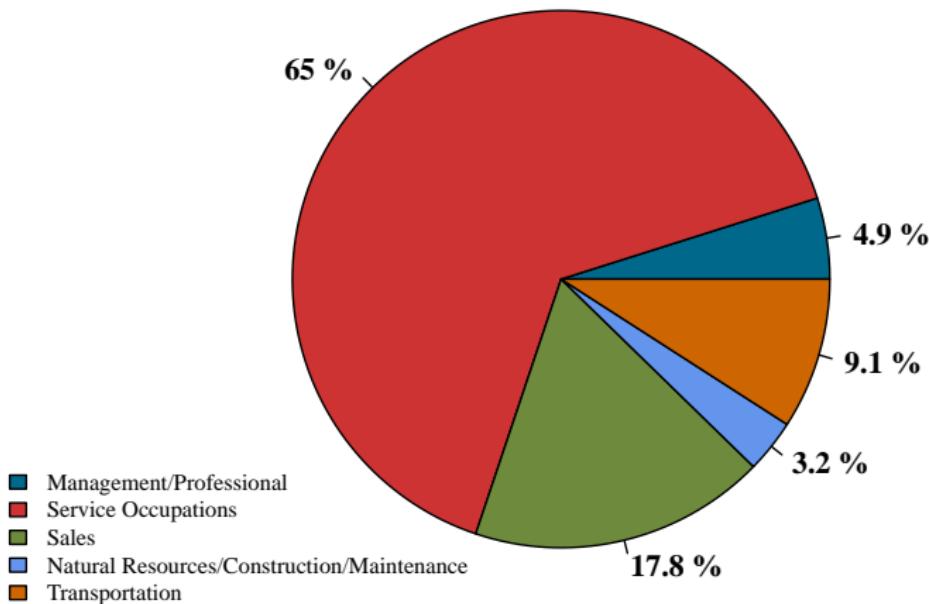
Percent of Workers at Minimum Wage





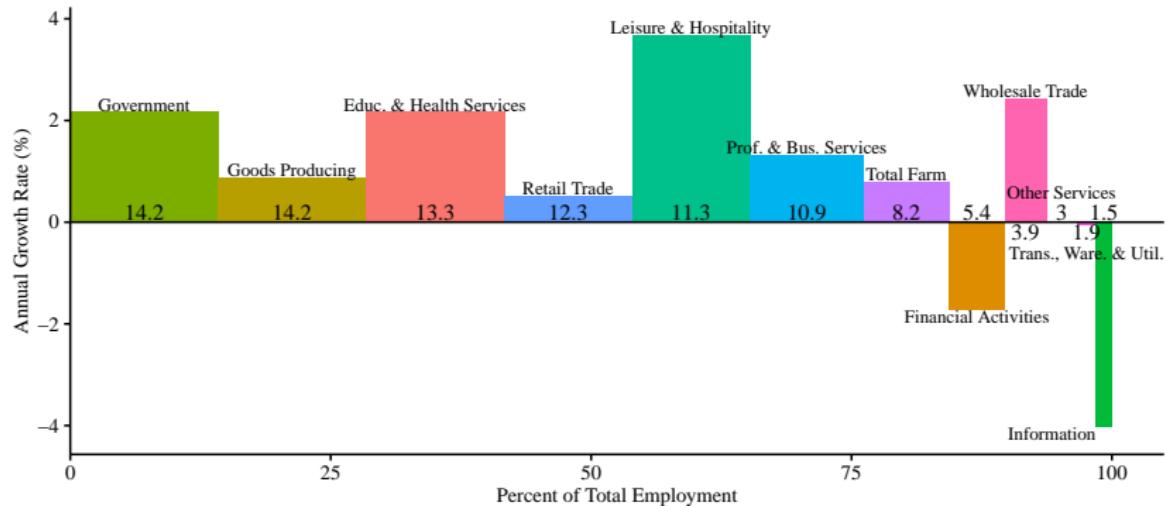
Percent Making Minimum Wage by Occupation

United States, 2015



Source: BLS

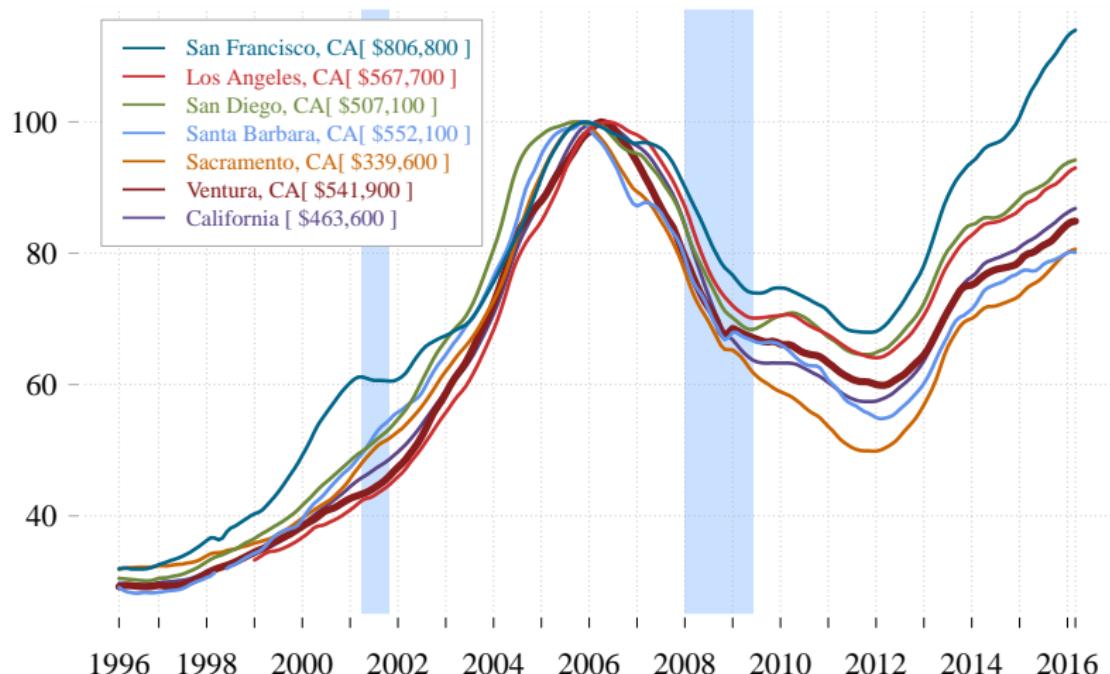
April 2016 Employment by Industry Ventura County



housing

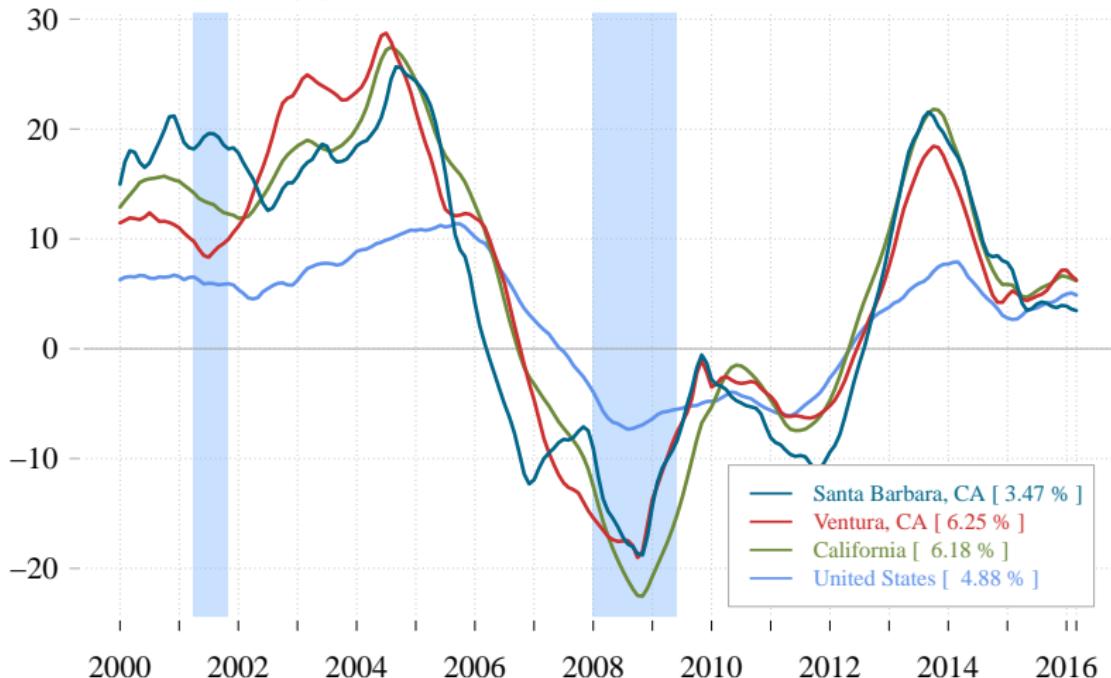
Zillow Home Value Index, by MSA

Index (100 = Pre-Recession Max Value)



Zillow Home Value Index

YoY Growth Rate (%)

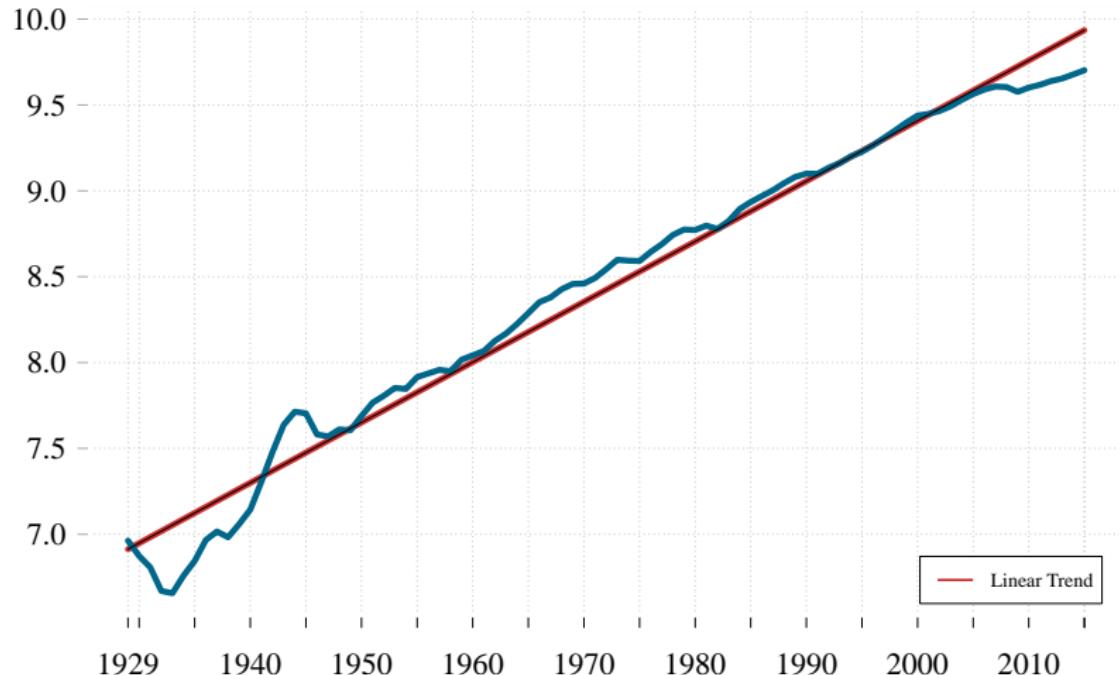


final thoughts

- growth has been slow
- is it due to productivity or policy?
- inequality is not new

Real GDP

Logged Billions of 2009\$, Seasonally Adjusted



Linear Trend



**Making The World
A Better Place.**