

Lecture 15: A Macroeconomic History of the U.S.

Intermediate Macroeconomics, Econ 102

François Geerolf

UCLA

December 5, 2018

Outline

- 1 Pre-War
- 2 Macroeconomic Performance
- 3 Fiscal Policy
- 4 Trade Deficits and Manufacturing Decline

U.S. Real GDP



1 Pre-War

2 Macroeconomic Performance

3 Fiscal Policy

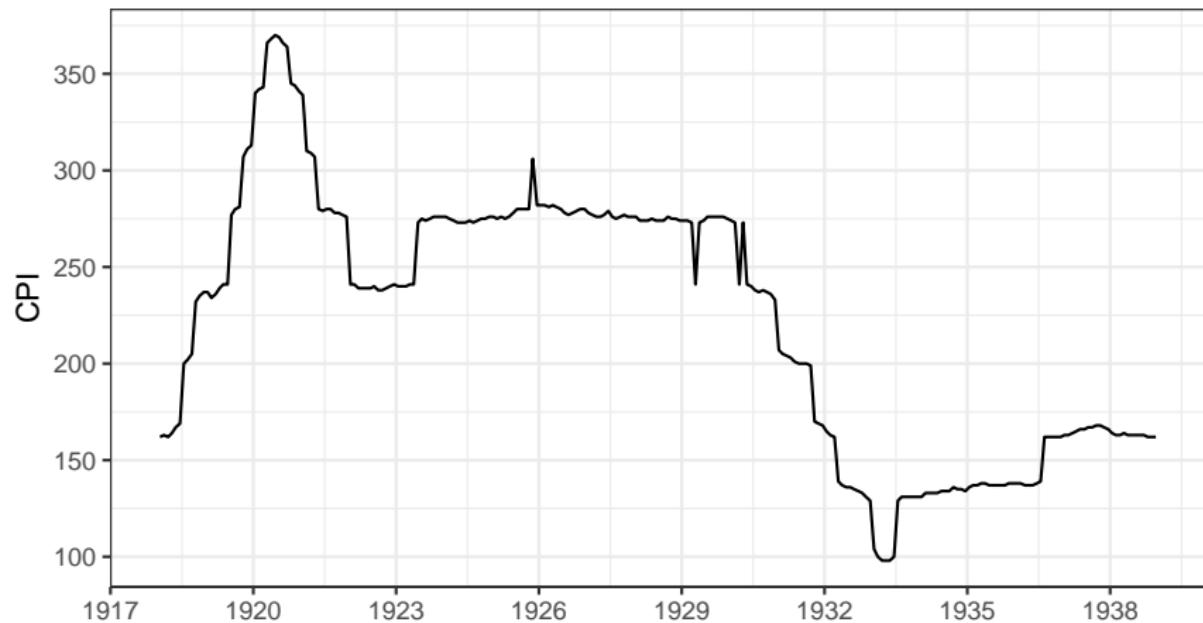
4 Trade Deficits and Manufacturing Decline

1929: The Big Crash



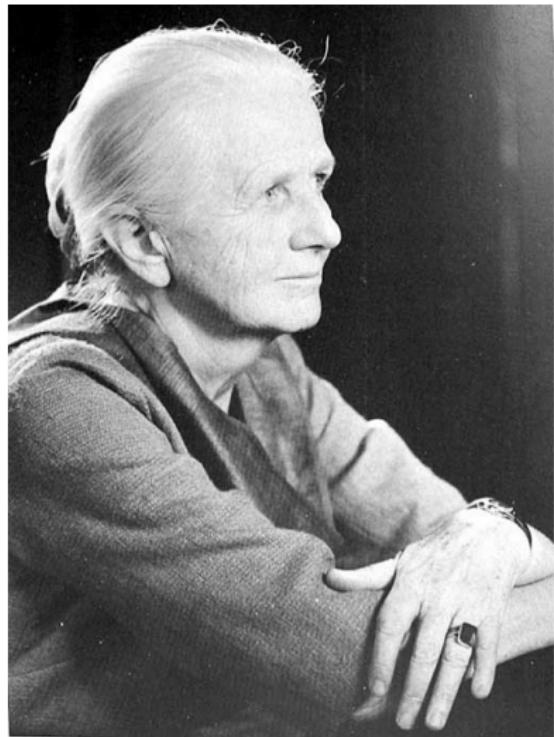
U.S. Price Level

- Hoover Policy: raising Taxes to restore the balance in the budget.
Deflation.
- 1933: Roosevelt leaves Gold Standard



On J.M. Keynes - Joan Robinson (1974)

- In 1931, when the world crisis had produced a sharp increase in the deficit on the U.K. balance of payments, the appropriate remedy (approved as much by the unlucky Labour government as by the Bank of England) was to cut expenditure so as to balance the budget. These were the orthodox views that prevailed in the realm of public policy.



On J.M. Keynes - Joan Robinson (1974)

In those years British orthodoxy was still dominated by nostalgia for the world before 1914. Then there was normality and equilibrium. To get back to that happy state, its institutions and its policies should be restored - keep to the gold standard at the old sterling parity, balance the budget, maintain free trade and observe the strictest laissez faire in the relations of government with industry. When Lloyd George proposed a campaign to reduce unemployment (which was then at the figure of one million or more) by expenditure on public works, he was answered by the famous "Treasury View" that there is a certain amount of saving at any moment, available to finance investment, and if the government borrows a part, there will be so much the less for industry.

On J.M. Keynes - Joan Robinson (1974)

Meanwhile the Nazis had been proving Lloyd George's point with a vengeance. It was a joke in Germany that Hitler was planning to give employment in straightening the Crooked Lake, painting the Black Forest white and putting down linoleum in the Polish Corridor. The Treasury view was that his unsound policies would soon bring him down. But the little group of Keynesians was despondent and frustrated. We were getting the theory clear at last, but it was going to be too late.

There is a kind of simpleminded Marxist who has a great resentment against Keynes because he is held responsible for saving capitalism from destroying itself in another great slump. This is often made an excuse for not understanding the theory of effective demand, although Michal Kalecki derived pretty well the same analytical system as Keynes from Marx's premises. Moreover it implies that capitalists are so stupid that they would fail to learn from their experiences during the war that government outlay maintains profits unless they had Keynes to point it out to them.

On J.M. Keynes - Joan Robinson (1974)

But what was the political tendency of the *General Theory*? Keynes himself described it as "moderately conservative," but this was intended as a paradox, for the whole book is a polemic against established ideas. His own mood often swung from left to right. Capitalism was in some ways repugnant to him, but Stalinism was much worse. In his last years, certainly, the right predominated. When I teased him about accepting a peerage he replied that after sixty, one had to become respectable. But his basic view of life was aesthetic rather than political. He hated unemployment because it was stupid and poverty because it was ugly. He was disgusted by the commercialism of modern life. (It is true he enjoyed making money for his College and for himself but only as long as it did not take up much time.) He indulged in an agreeable vision of a world where economics has ceased to be important and our grandchildren can begin to lead a civilized life.

① Pre-War

② Macroeconomic Performance

③ Fiscal Policy

④ Trade Deficits and Manufacturing Decline

Presidents and the US Economy: An Econometric Exploration[†]

By ALAN S. BLINDER AND MARK W. WATSON*

The US economy has performed better when the president of the United States is a Democrat rather than a Republican, almost regardless of how one measures performance. For many measures, including real GDP growth (our focus), the performance gap is large and significant. This paper asks why. The answer is not found in technical time series matters nor in systematically more expansionary monetary or fiscal policy under Democrats. Rather, it appears that the Democratic edge stems mainly from more benign oil shocks, superior total factor productivity (TFP) performance, a more favorable international environment, and perhaps more optimistic consumer expectations about the near-term future. (JEL D72, E23, E32, E65, N12, N42)

Blinder, Watson (2016)

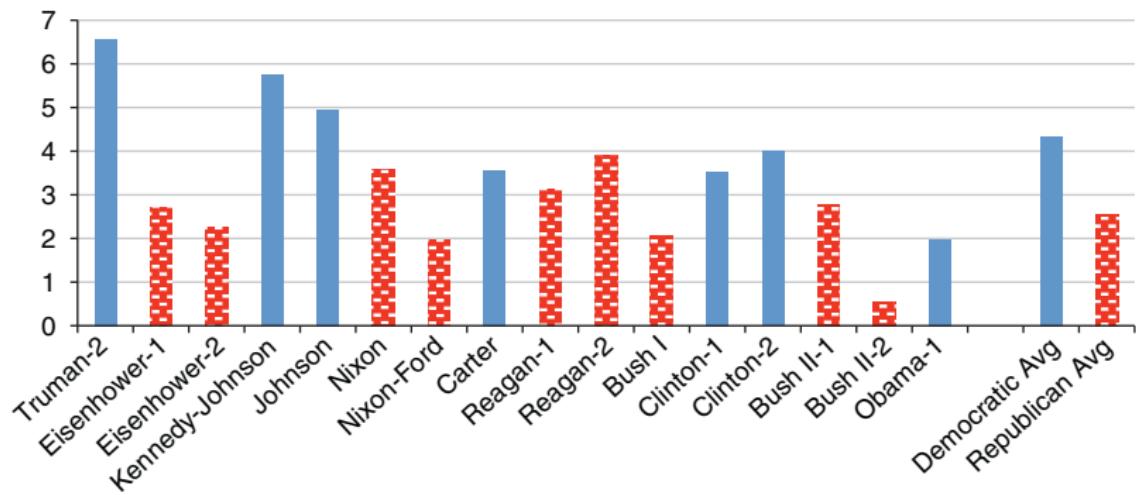


TABLE 1—AVERAGE VALUES BY PARTY OF PRESIDENT

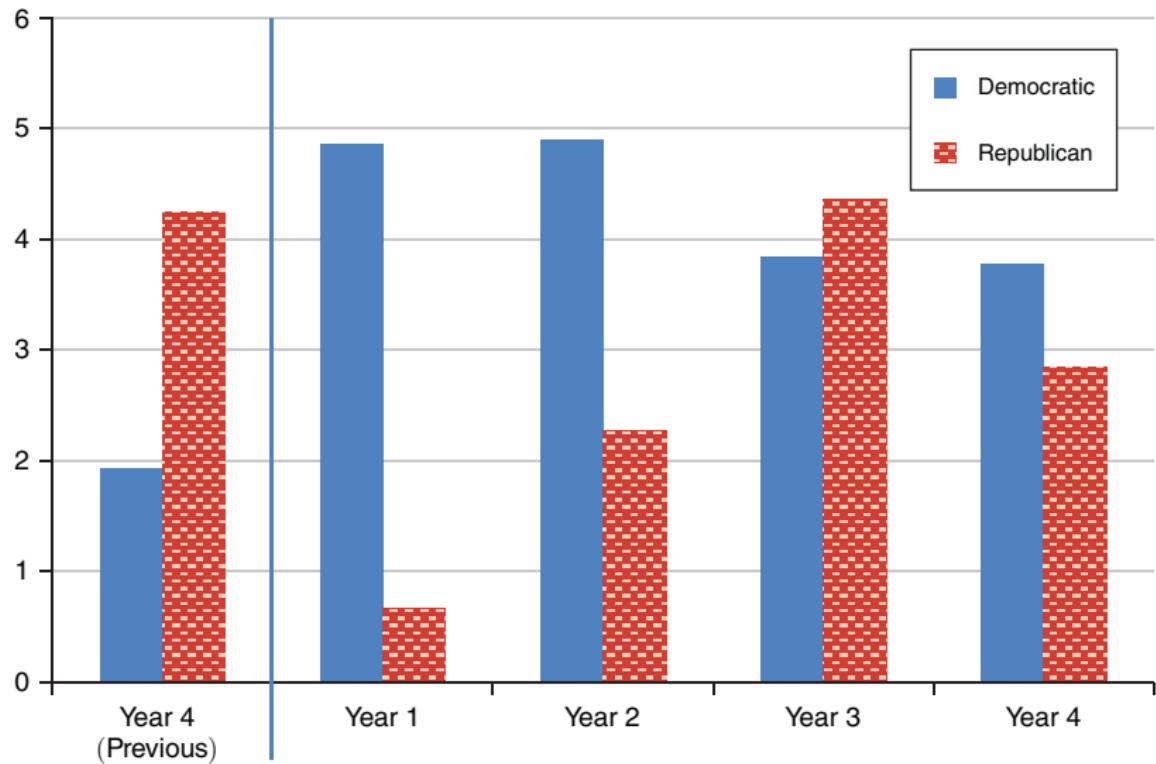
Variable	Democratic	Republican	Difference	p-value
GDP (growth rate)	4.33 (0.58) [0.46]	2.54 (0.33) [0.45]	1.79 (0.67) [0.64]	0.01
Quarters-in-recession	1.14 (0.51) [0.56]	4.56 (0.78) [1.03]	-3.41 (0.93) [1.13]	0.01

Notes: The numbers in parentheses are standard errors computed by clustering observations by term; the numbers in brackets are Newey-West standard errors computed using six lags. The p-value in the last column is for a non-parametric test of the null hypothesis of no difference between the parties.

Blinder, Watson (2016)

TABLE 2—AVERAGE VALUES BY PARTY OF PRESIDENT

Variable	Democratic	Republican	Difference	<i>p</i> -value
<i>Panel A. Other output measures</i>				
GDP per capita (GR)	3.09 (0.47) [0.42]	1.35 (0.35) [0.45]	1.73 (0.59) [0.61]	0.01
Nonfarm business output (GR)	4.81 (0.56) [0.52]	2.65 (0.43) [0.61]	2.15 (0.71) [0.80]	0.01
Industrial production (GR)	5.57 (0.95) [0.84]	1.79 (0.62) [0.93]	3.78 (1.13) [1.24]	0.00
<i>Panel B. Employment and unemployment</i>				
Employment (payroll) (GR)	2.59 (0.41) [0.36]	1.17 (0.32) [0.38]	1.42 (0.52) [0.49]	0.02
Employee hours (NFB) (GR)	2.22 (0.31) [0.39]	0.57 (0.38) [0.50]	1.65 (0.49) [0.58]	0.01
Employment (HH) (GR)	1.76 (0.28) [0.25]	1.20 (0.26) [0.31]	0.56 (0.38) [0.37]	0.17
Unemployment rate (level, PP)	5.64 (0.67) [0.41]	6.01 (0.41) [0.29]	-0.38 (0.78) [0.47]	0.62
Unemployment rate (change, PP)	-0.83 (0.42)	1.09 (0.45)	-1.92 (0.62)	0.01
<i>Panel C. Stock returns and corporate profits</i>				
Returns S&P500 Index (PP)	8.35 (2.12) [2.56]	2.70 (2.84) [3.20]	5.65 (3.55) [4.22]	0.15
Corporate profits (share of GDI)	5.61 (0.31) [0.22]	4.74 (0.20) [0.16]	0.87 (0.37) [0.27]	0.03
<i>Panel D. Real wages and productivity</i>				
Compensation/hour (GR)	1.78 (0.55) [0.36]	1.43 (0.34) [0.27]	0.35 (0.65) [0.44]	0.57
Output/hour NFB (GR)	2.53 (0.46) [0.38]	2.06 (0.29) [0.29]	0.47 (0.54) [0.49]	0.37
TFP (GR)	1.89 (0.47) [0.37]	0.84 (0.30) [0.35]	1.05 (0.55) [0.52]	0.07
<i>Panel E. Structural government surplus</i>				
Surplus/pot. GDP (PP)	-2.09 (0.87) [0.51]	-2.78 (0.22) [0.26]	0.69 (0.89) [0.54]	0.30
<i>Panel F. Inflation</i>				
Inflation PCED (level, PP)	2.97 (0.95) [0.59]	3.32 (0.63) [0.41]	-0.35 (1.14) [0.68]	0.73
Inflation GDPD (level, PP)	2.89 (0.88) [0.55]	3.44 (0.60) [0.39]	-0.55 (1.06) [0.63]	0.59
Inflation PCED (change, PP)	1.06 (0.67)	-0.83 (0.87)	1.89 (1.10)	0.12
Inflation GDPD (change, PP)	0.93 (0.69)	-0.81 (0.85)	1.74 (1.09)	0.15
<i>Panel G. Interest rates</i>				
Three month T-bill rate (level, PP)	4.01 (1.10) [0.66]	4.87 (0.92) [0.58]	-0.86 (1.44) [0.82]	0.56
Federal funds rate (level, PP)	4.75 (1.36) [0.82]	5.55 (1.10) [0.69]	-0.79 (1.75) [0.99]	0.54
Three month T-bill rate (change, PP)	1.75 (0.91)	-1.47 (0.59)	3.22 (1.09)	0.00
Federal funds rate (change, PP)	2.34 (1.37)	-2.09 (0.72)	4.42 (1.55)	0.00
Ten-year/three-month term spread (PP)	1.17 (0.37) [0.25]	1.65 (0.22) [0.20]	-0.48 (0.43) [0.30]	0.25
Baa-Aaa spread (PP)	0.80 (0.11) [0.07]	1.08 (0.11) [0.08]	-0.29 (0.15) [0.10]	0.09



Blinder, Watson (2016)

TABLE 6—EXPLAINING THE D-R GROWTH GAP

Shock	Sample period	Total D-R gap	Explained D-R gap	
			Distributed lag specification	
			Common	Party-specific
<i>Panel A. Oil</i>				
Prices (Hamilton)	1949:II–2013:I	1.79 (0.64)	0.49 (0.10)	0.51 (0.11) [0.72]
Quantities (Kilian)	1972:III–2004:III	0.81 (0.75)	0.21 (0.19)	0.40 (0.18) [0.00]
<i>Panel B. Productivity</i>				
TFP (util. adj., Fernald)	1949:II–2013:I	1.79 (0.64)	0.05 (0.02)	0.05 (0.02) [0.65]
Labor prod. (LR-VAR)	1950:III–2013:I	1.72 (0.62)	0.20 (0.08)	0.16 (0.07) [0.07]
TFP (LR-VAR)	1950:III–2013:I	1.72 (0.62)	0.29 (0.05)	0.29 (0.05) [0.99]
TFP (util. adj. by authors)	1950:III–2013:I	1.72 (0.62)	0.50 (0.07)	0.50 (0.07) [0.15]
<i>Panel C. Defense spending</i>				
Ramey	1949:II–2013:I	1.79 (0.64)	0.21 (0.04)	-0.04 (0.44) [0.70]
Fisher-Peters	1949:II–2008:IV	2.12 (0.65)	0.02 (0.06)	0.02 (0.05) [0.59]
<i>Panel D. International</i>				
GDP growth Europe	1963:IV–2013:I	1.18 (0.65)	0.03 (0.16)	0.04 (0.15) [0.27]
Exchange rates	1975:IV–2013:I	0.64 (0.69)	0.00 (0.06)	-0.04 (0.07) [0.01]
<i>Panel E. Taxes</i>				
Romer and Romer	1949:II–2007:IV	1.97 (0.64)	0.01 (0.06)	-0.01 (0.04) [0.17]
<i>Panel F. Monetary policy</i>				
Romer and Romer	1970:III–1996:IV	0.47 (0.95)	-0.09 (0.17)	-0.15 (0.13) [0.43]
SVAR (Sims and Zha)	1961:IV–2003:I	1.49 (0.70)	0.05 (0.13)	-0.10 (0.12) [0.03]
SVAR (authors)	1957:II–2008:IV	1.77 (0.64)	-0.23 (0.12)	-0.32 (0.12) [0.20]
<i>Panel G. Interest rates and loan surveys</i>				
Baa-Aaa spread	1950:I–2013:I	1.91 (0.67)	0.25 (0.18)	0.17 (0.19) [0.00]
GZ spread	1975:III–2012:IV	0.60 (0.70)	0.51 (0.21)	0.34 (0.16) [0.10]
TED spread	1973:III–2013:I	0.90 (0.69)	0.16 (0.07)	0.03 (0.07) [0.00]
FRB SLOOS	1972:III–2013:I	0.74 (0.67)	-0.11 (0.08)	-0.08 (0.07) [0.00]
<i>Panel H. Consumer sentiment, expectations, and uncertainty</i>				
Consumer sentiment	1962:III–2013:I	1.24 (0.64)	0.05 (0.05)	0.04 (0.05) [0.05]
Consumer expectations	1962:III–2013:I	1.24 (0.64)	0.23 (0.11)	0.17 (0.10) [0.08]
Uncertainty Index (BDI)	1950:I–2013:IV	1.91 (0.67)	-0.13 (0.06)	-0.14 (0.06) [0.19]
Uncertainty Index (JLN)	1963:I–2013:IV	1.26 (0.64)	0.18 (0.09)	0.17 (0.09) [0.27]

① Pre-War

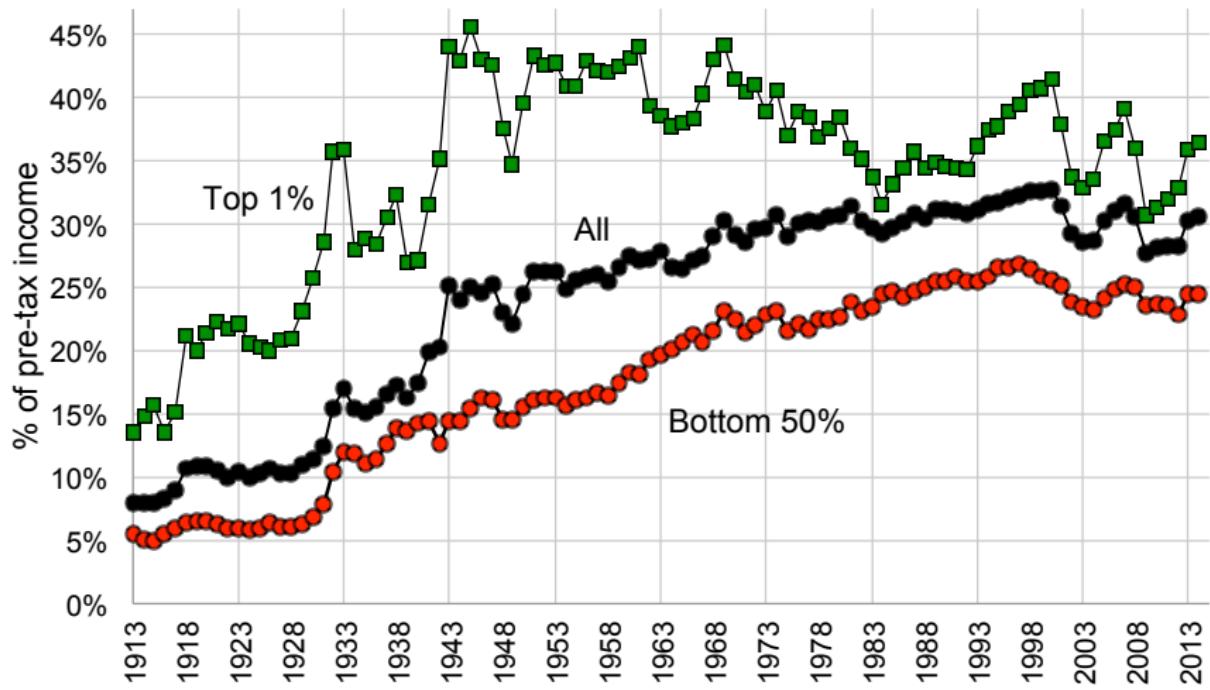
② Macroeconomic Performance

③ Fiscal Policy

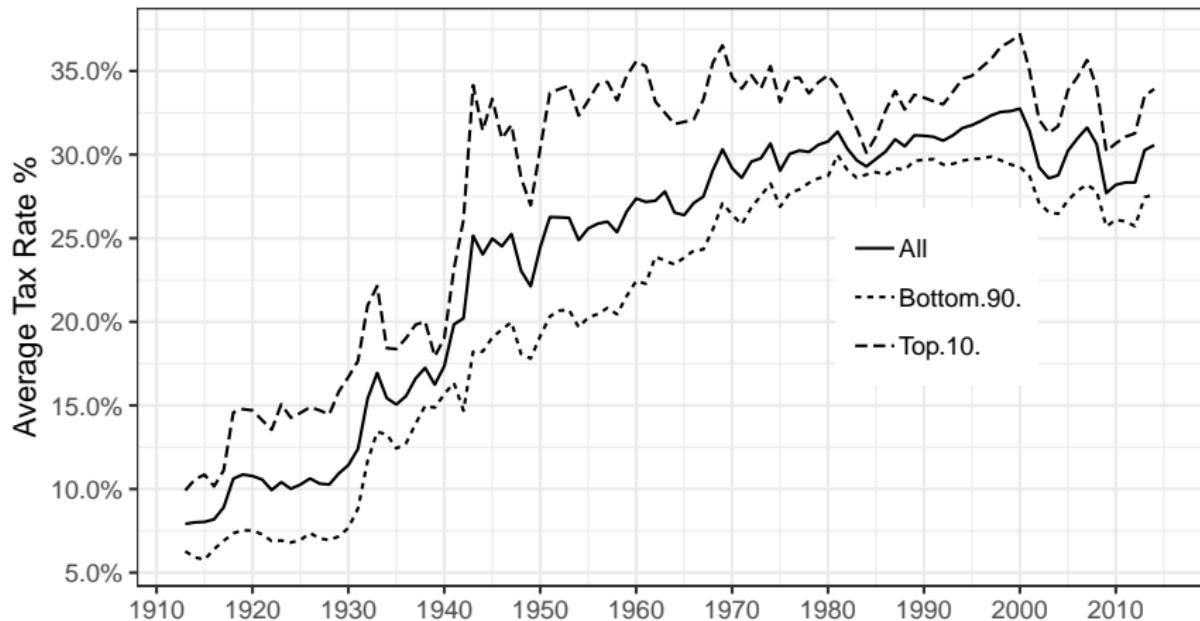
④ Trade Deficits and Manufacturing Decline

Top Marginal Tax Rates

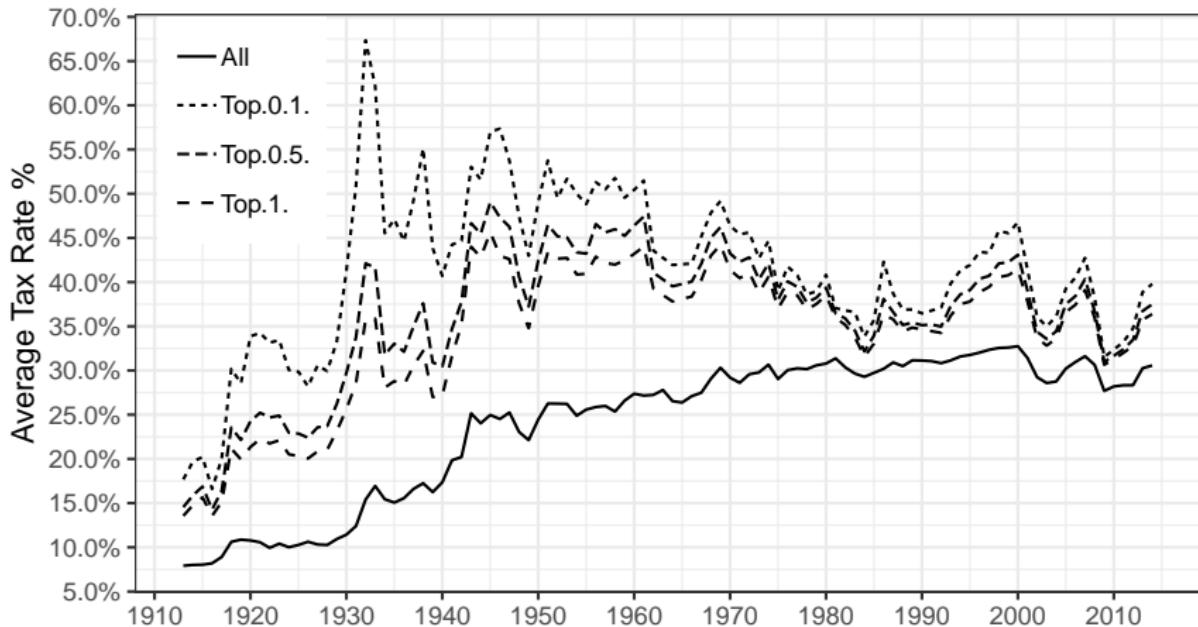
Average tax rates by pre-tax income group



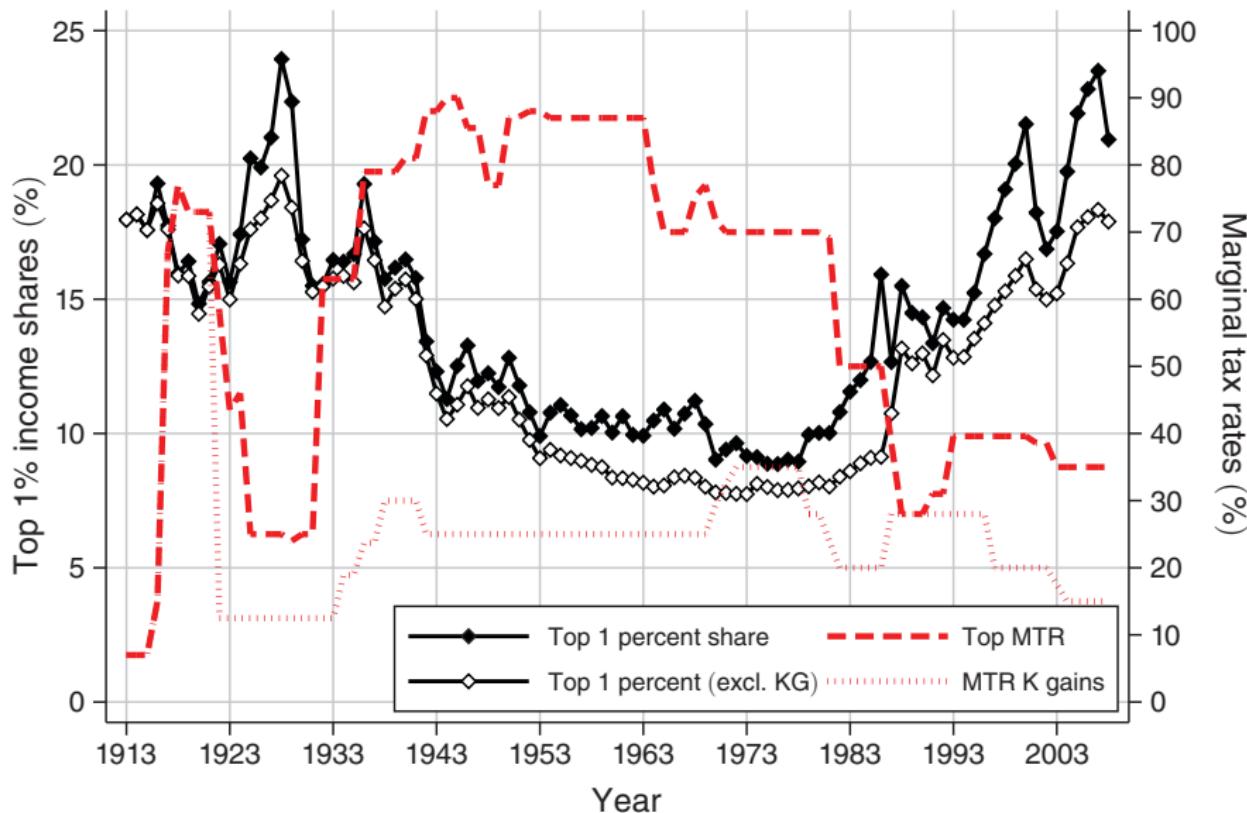
Taxes



Taxes



Top Marginal Tax Rates



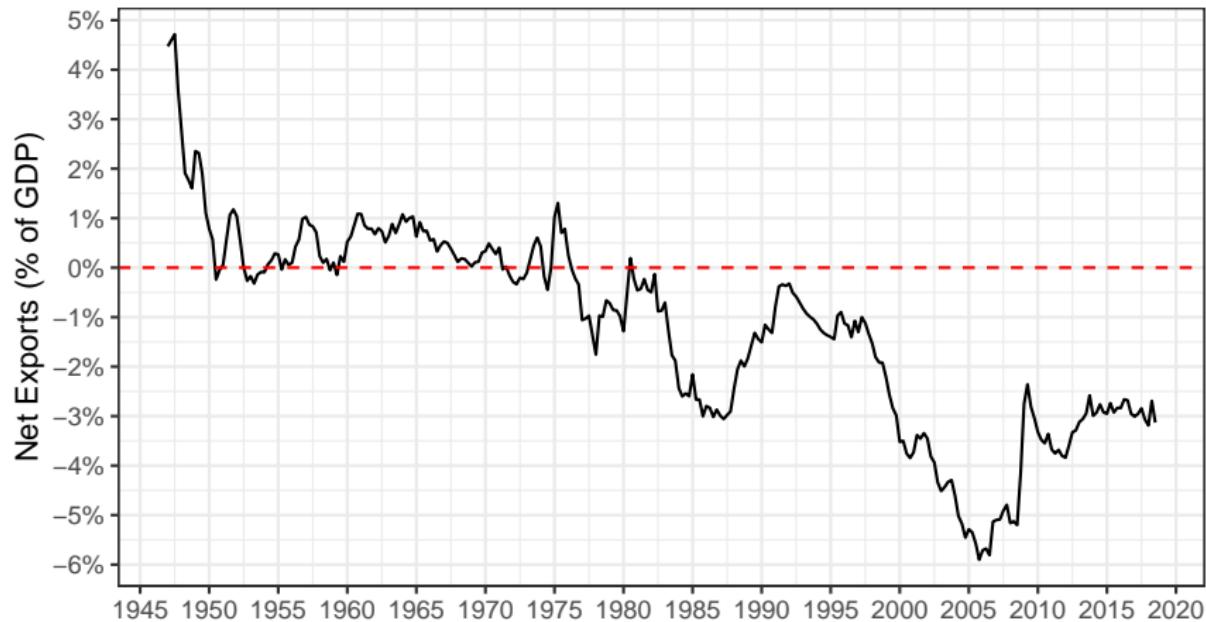
1 Pre-War

2 Macroeconomic Performance

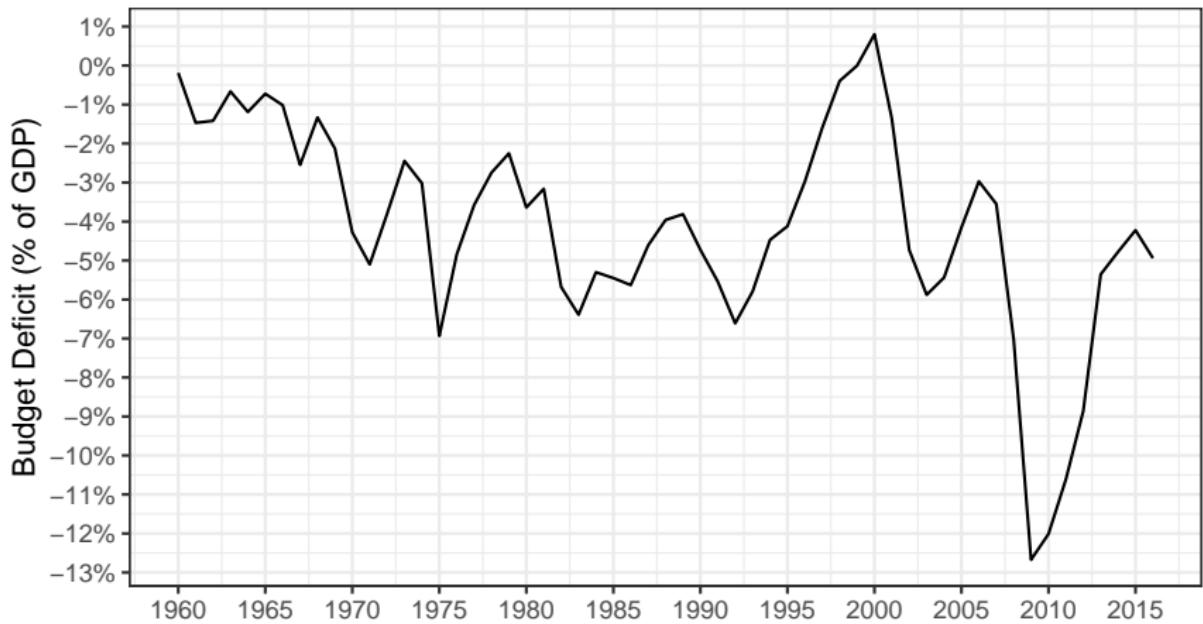
3 Fiscal Policy

4 Trade Deficits and Manufacturing Decline

Net Exports



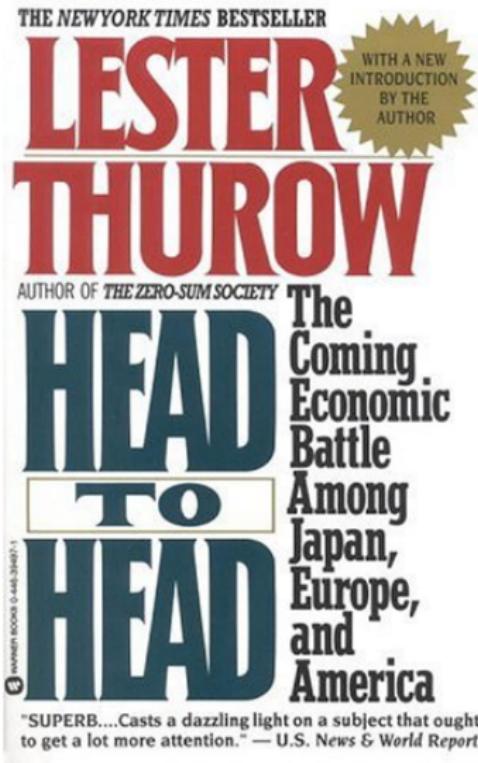
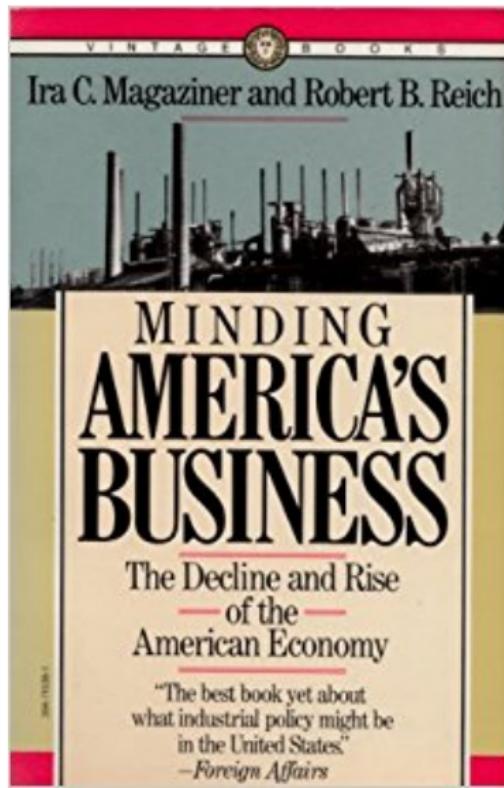
Budget Deficit



Manufacturing Employment



Popular Books in 1990s



Quotes - Krugman (1994), in *Foreign Policy*

- Trade Deficits and the Loss of Good jobs. In a recent article published in Japan, Lester Thurow explained to his audience that reducing the Japanese trade surplus with the United States. U.S. real wages, he pointed out, had fallen six percent during the Reagan and Bush years, and the reason was that trade deficits in manufactured goods had forced workers out of high-paying manufacturing jobs into much lower-paying service jobs. This is not an original view; it is very widely held.
- Academic trade economists typically work with “balanced trade” assumptions.

Current issues

- Krugman / Trade economist: Germany has a comparative advantage at producing cars.
- What if there is an issue of aggregate demand? Do conclusions change?



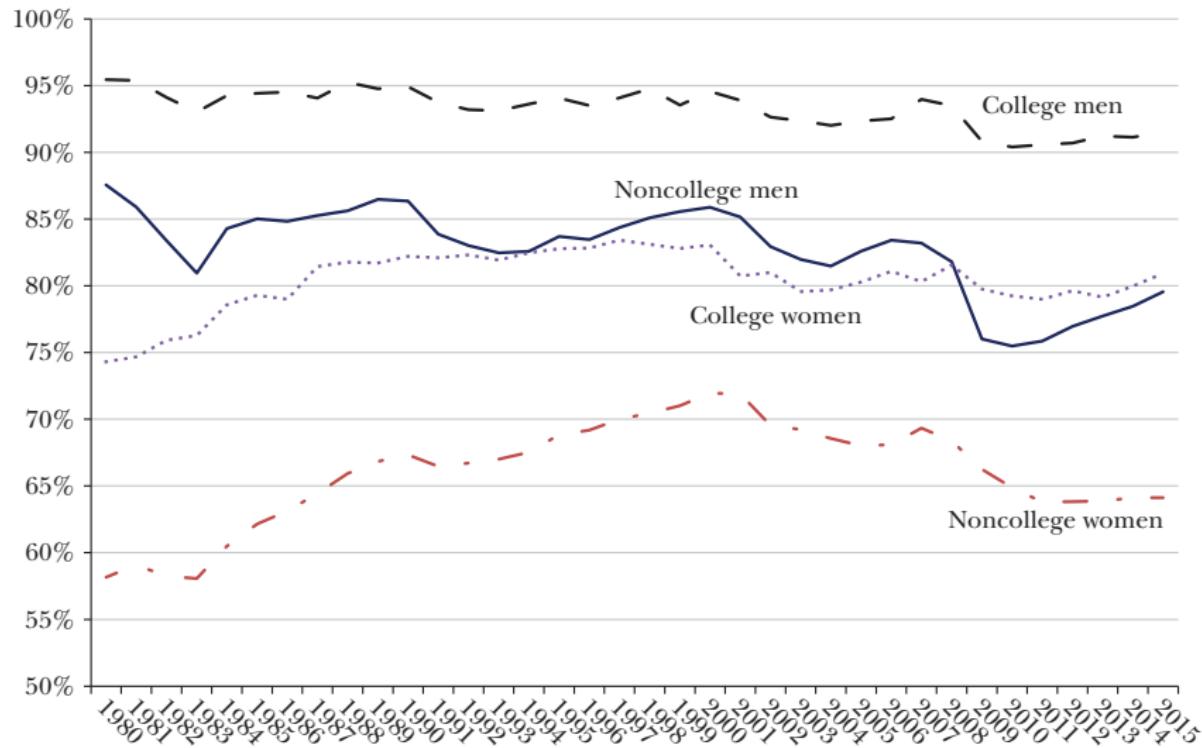
Following

We have a MASSIVE trade deficit with Germany, plus they pay FAR LESS than they should on NATO & military. Very bad for U.S. This will change

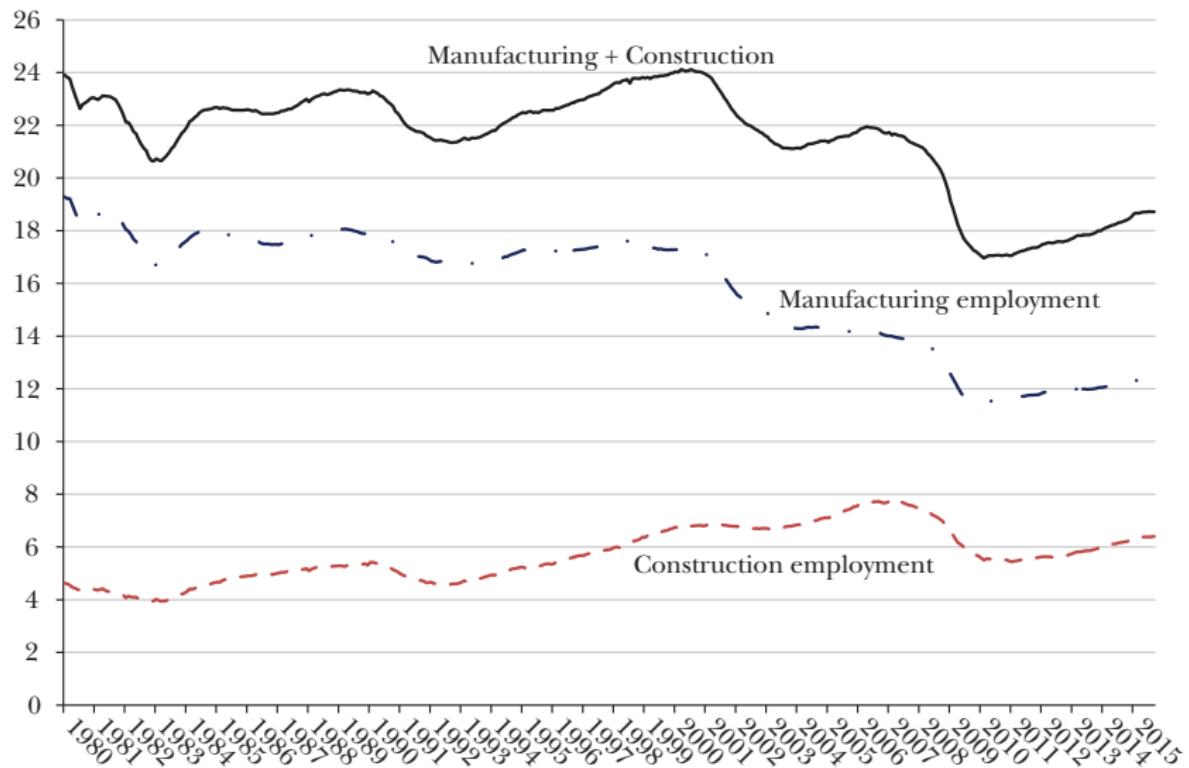
6:40 AM - 30 May 2017



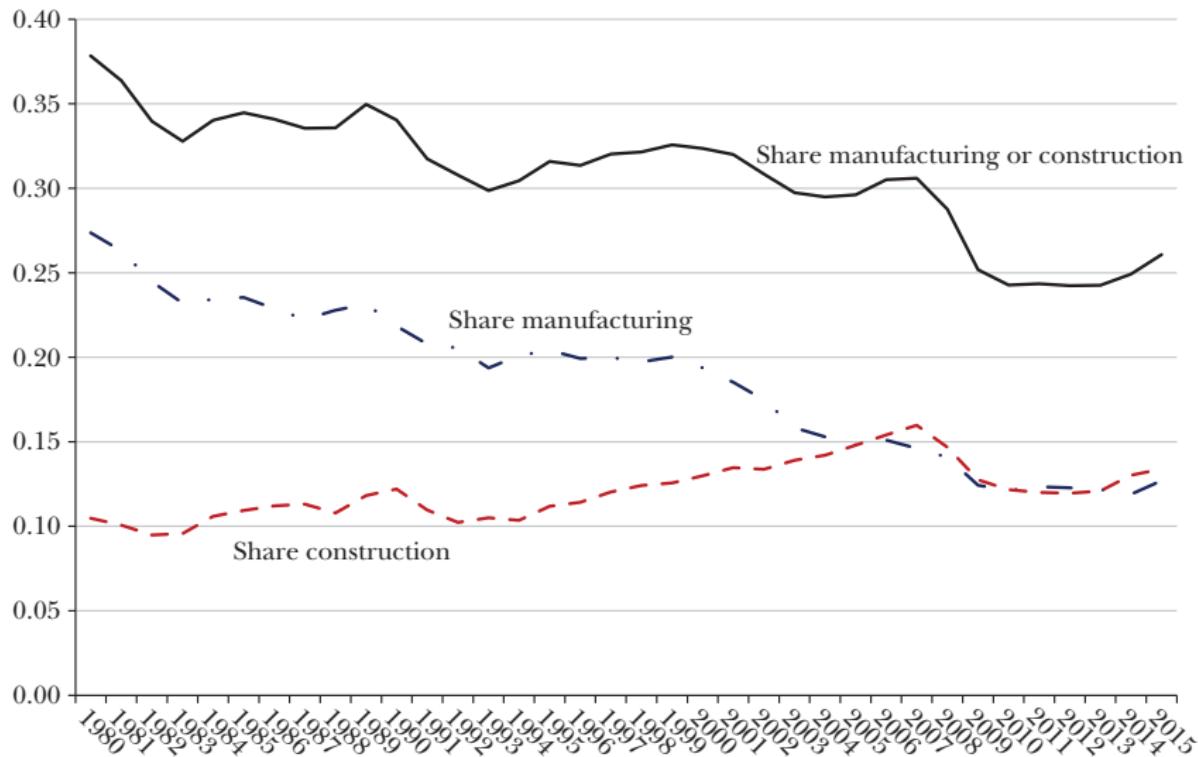
Labor Participation



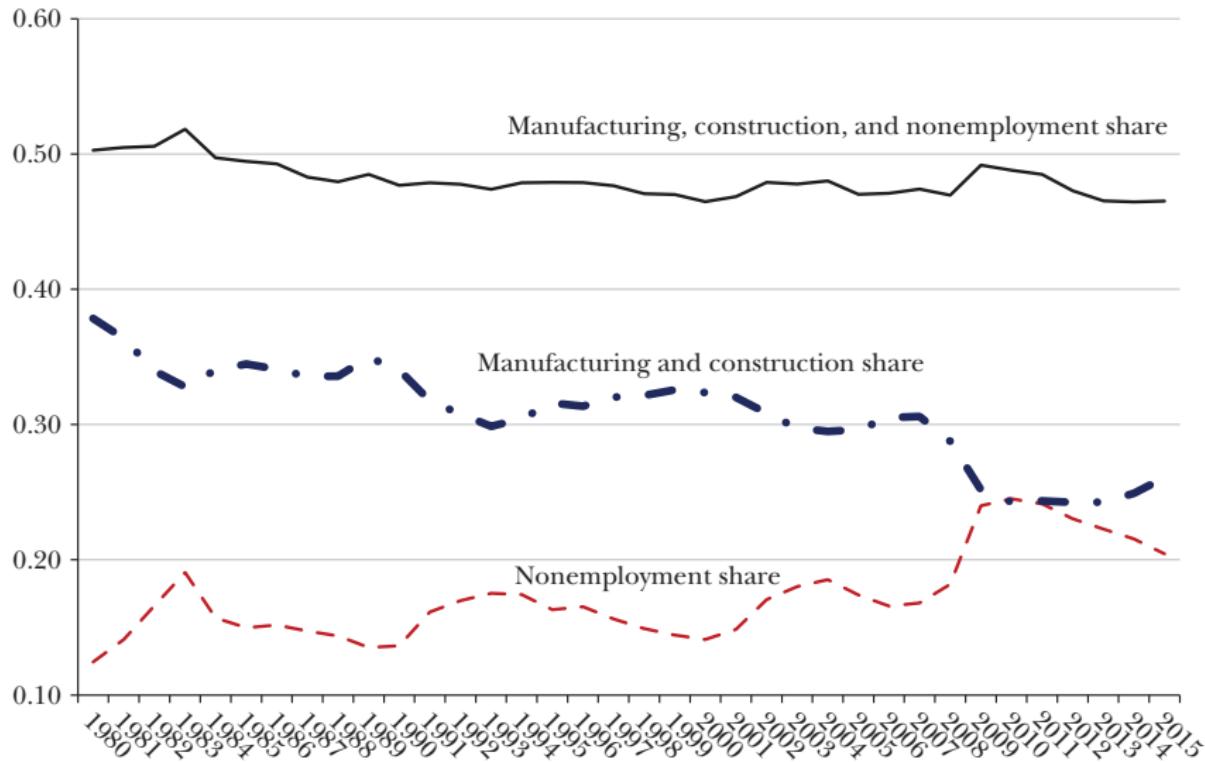
Masking of Unemployment by Housing Boom



Shares



Shares



Manufacturing Decline and Opioid Crisis

