



Discussion of Bosworth and Baily
“The U.S. Economy: Why Such a
Slow Recovery”

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Overview of Comments

- The authors spend too little time thinking about the possible negative impact of recent policy changes.
- I will present an incomplete list of candidate policies that have contributed to this disappointing recovery.

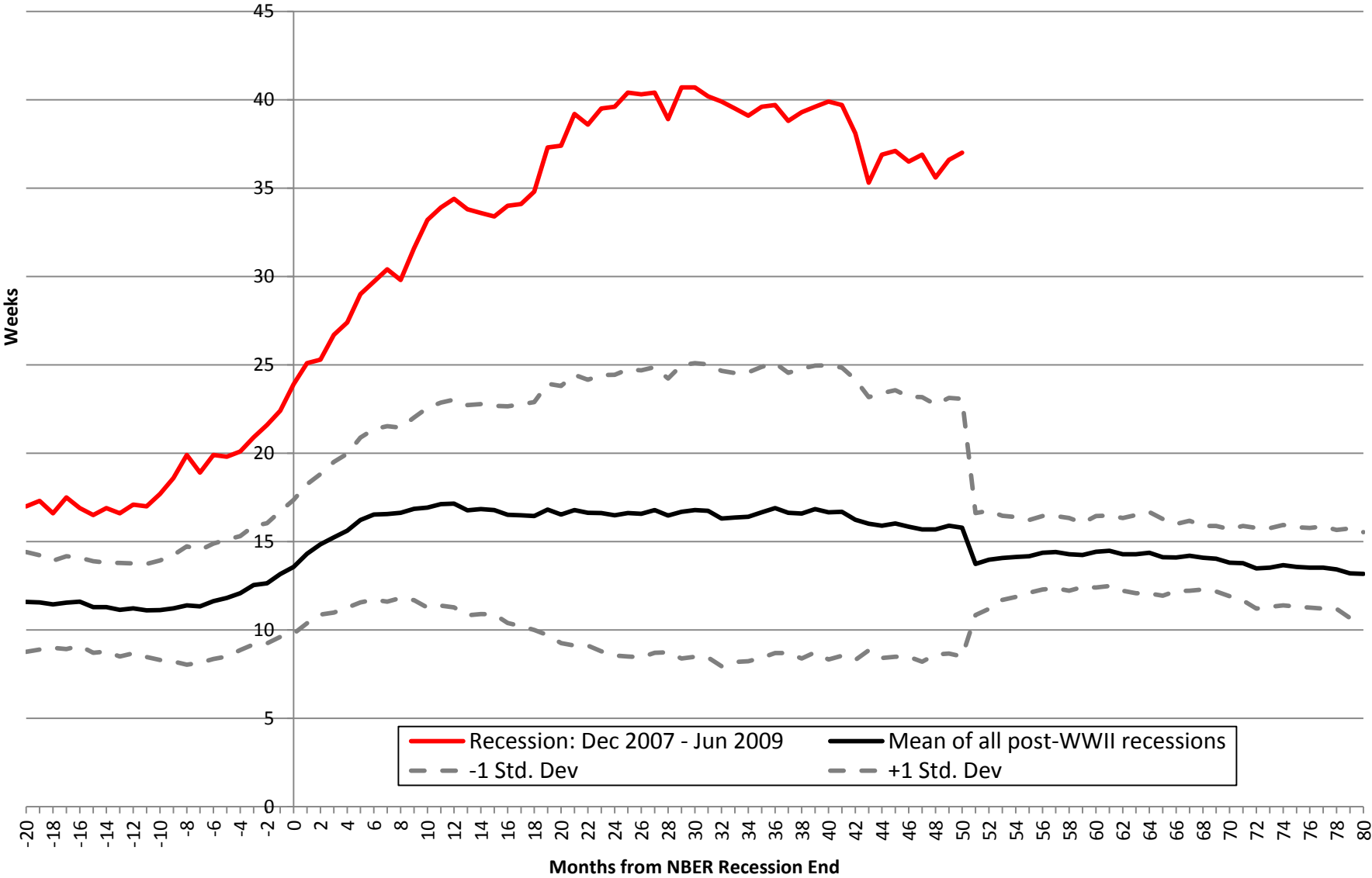
The Unemployment Picture:

Part 1: 99 Weeks

- This recovery is different from past recoveries in many ways, but the duration of unemployment spells is clearly related to the very long UI benefit duration.
- This has contributed to a long term unemployment crisis that may be with us for a long time.

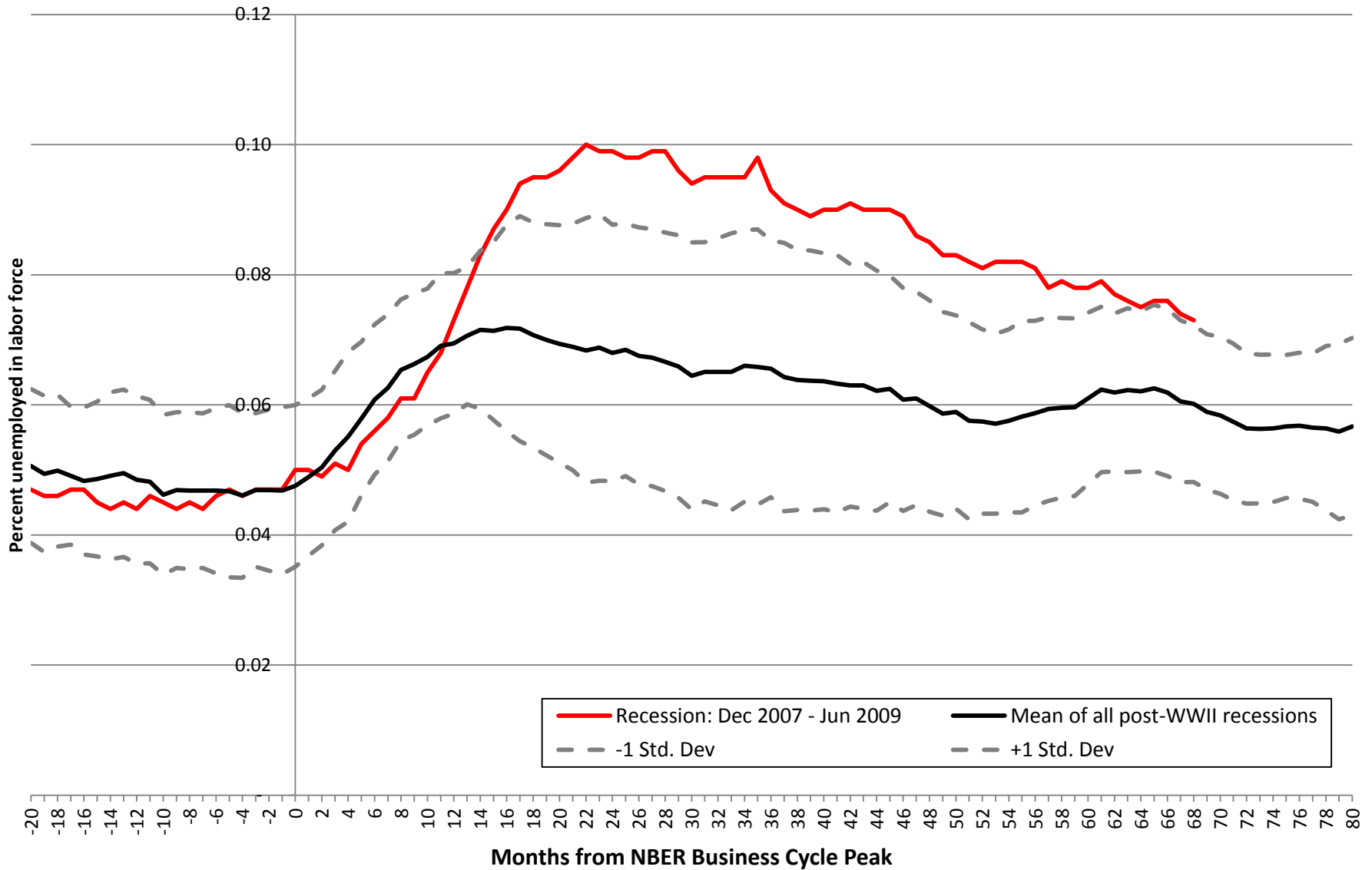
Average (Mean) Duration of Unemployment

Source: U.S. Department of Labor: Bureau of Labor Statistics



Civilian Unemployment Rate

Source: U.S. Department of Labor: Bureau of Labor Statistics



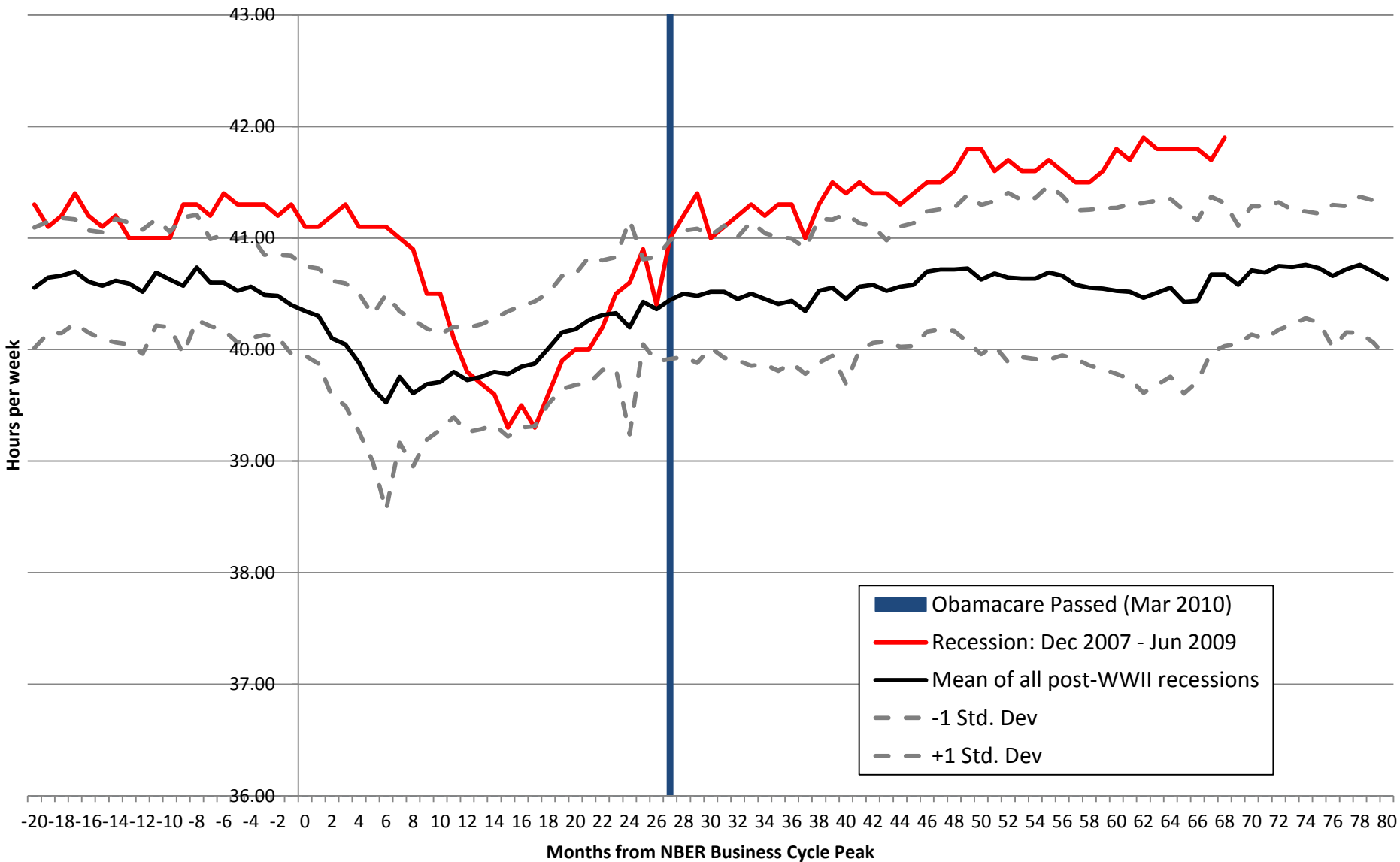
The Unemployment Picture

Part 2: Obamacare

- According to Goodman, the minimum health benefit package will cost employers about \$5000 for individuals and \$12,500 for families.
- In addition, American businesses will face up to \$500 billion in new taxes and fees.
- A larger fixed cost per worker should increase hours before employment.

Average Weekly Hours of Production and Nonsupervisory Employees: Manufacturing

Source: U.S. Department of Labor: Bureau of Labor Statistics

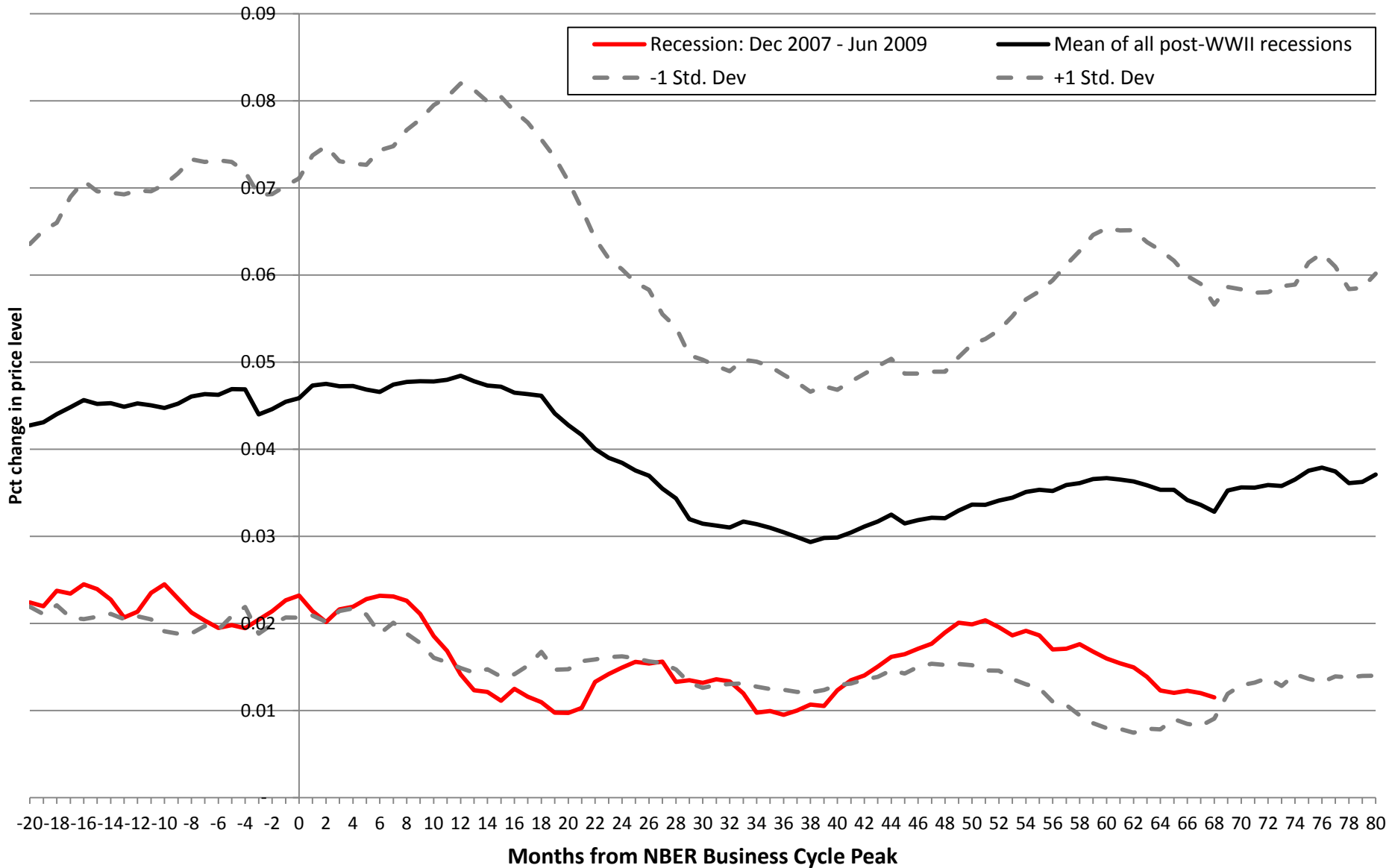


Factors Affecting Consumption

- Wealth has yet to recover.
- Taxes have increased significantly.
- Dodd Frank has increased Tier 1 capital requirement by nearly 30 percent. My colleague Abby McCloskey estimates that this has reduced consumer and business loans by about \$2 trillion over the past 5 years.

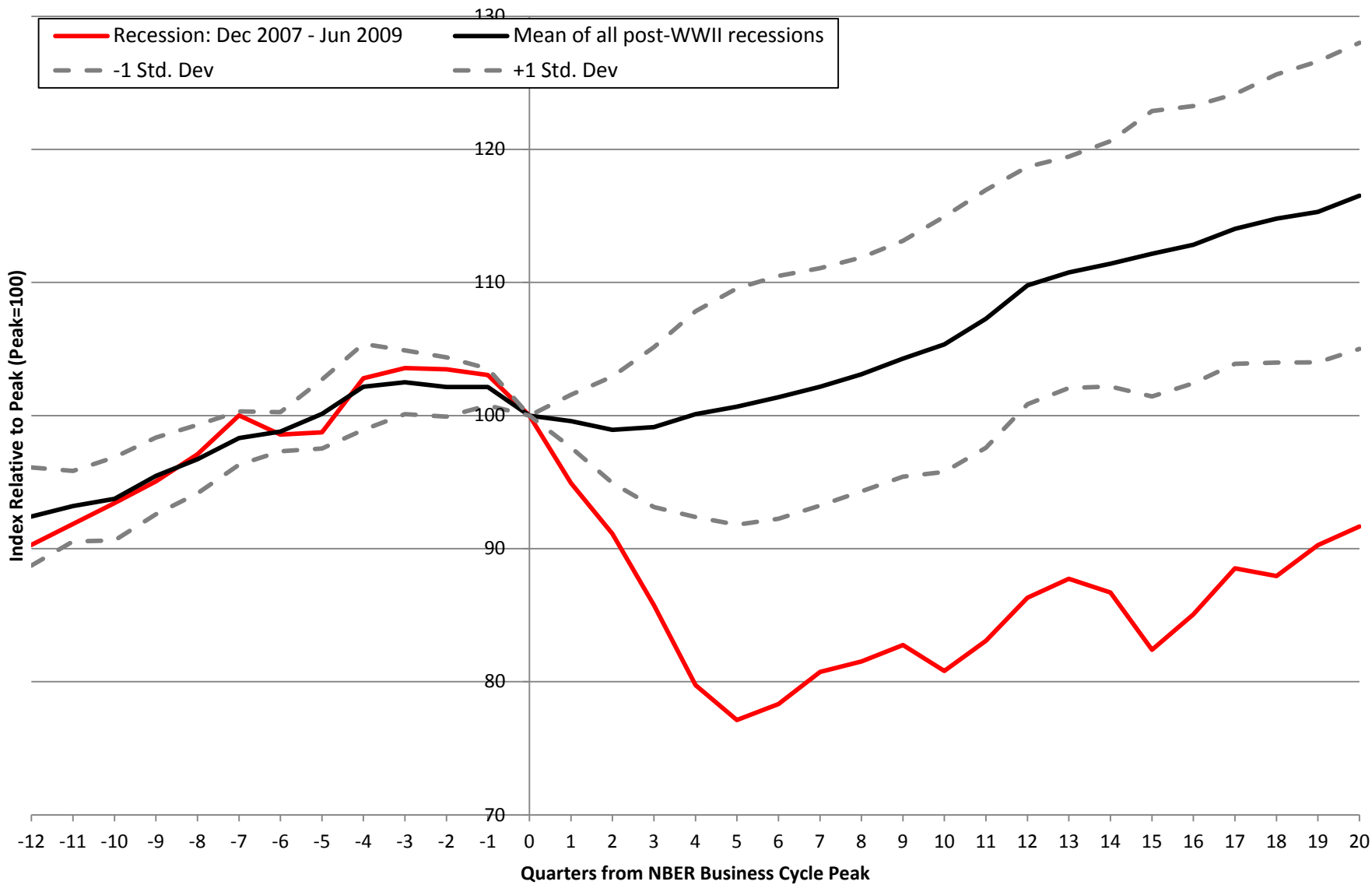
Year-over-year change in Core Personal Consumption Expenditure (PCE) Price Index

Source: U.S. Department of Commerce: Bureau of Economic Analysis



Households and nonprofit organizations; level of net worth (SAAR)

Source: Federal Reserve: Flow of Funds Accounts (Z.1)

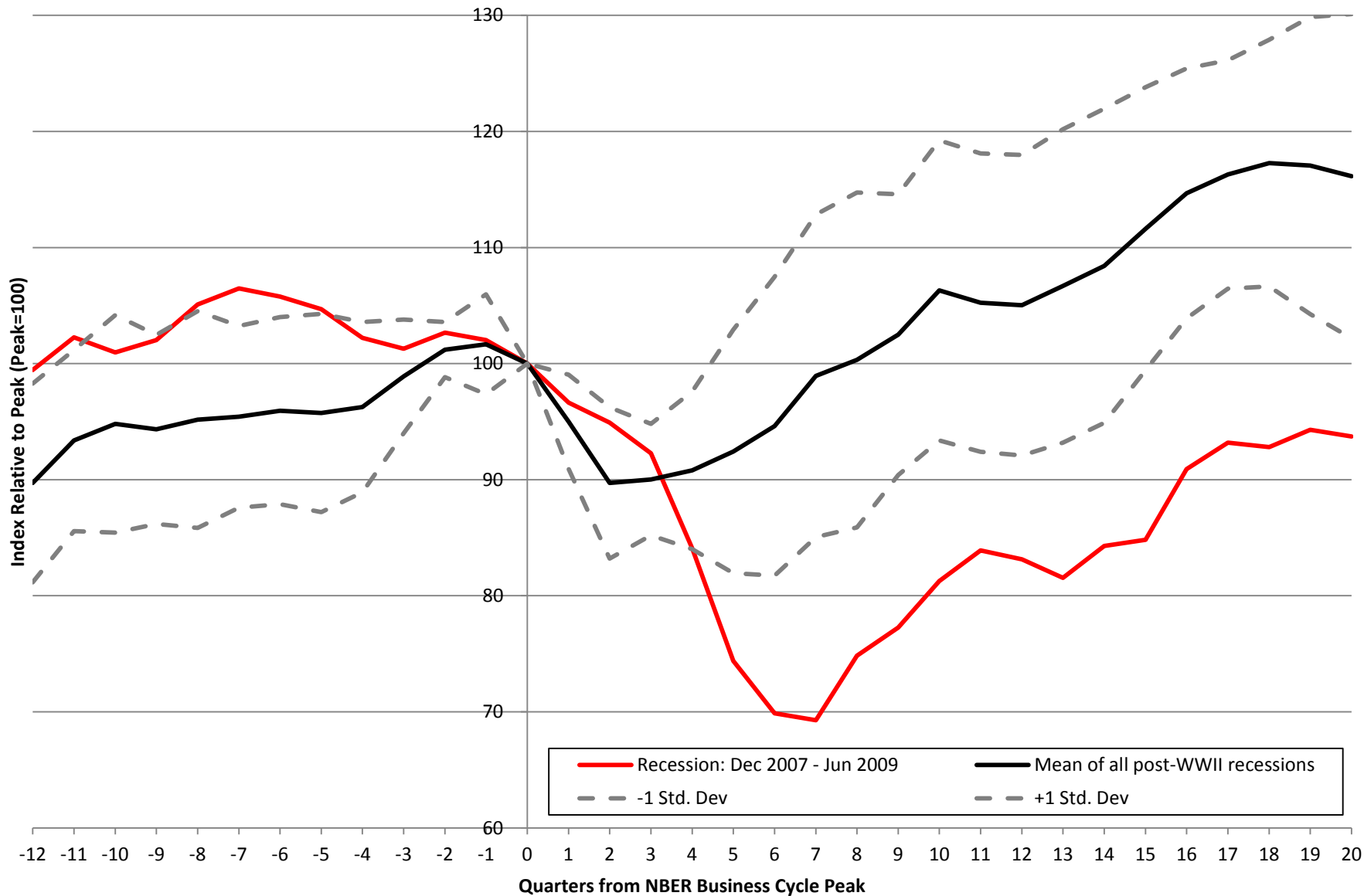


Capital Spending is Still Weak

- Dodd Frank lending story.
- High corporate rate chasing capital overseas.
- High marginal tax rates significantly increased cost of capital for pass through entities.

Real Gross Private Domestic Investment

Source: U.S. Department of Commerce: Bureau of Economic Analysis



A Counterfactual Stimulus History

- Prudent policy choices could have made a big difference.
- There is much work to be done to establish the links between the policies we adopted and the business cycle anomalies we observe, but the evidence suggests that the literature will at least conclude that policy played a bigger role than the authors currently suggest.