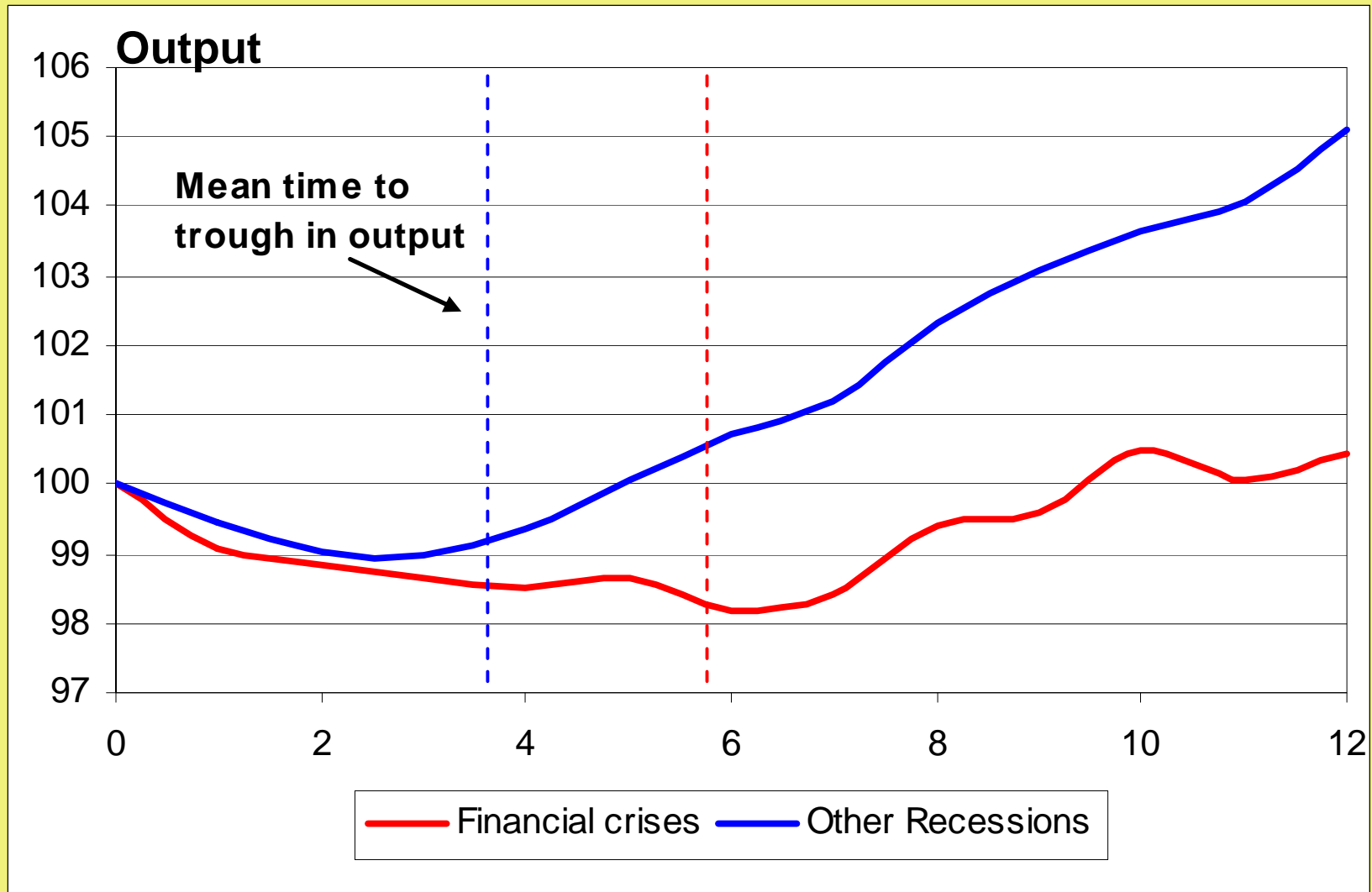


United States Economic Outlook

Barry Bosworth

Recoveries from Financial Crises and Other Types of Shocks

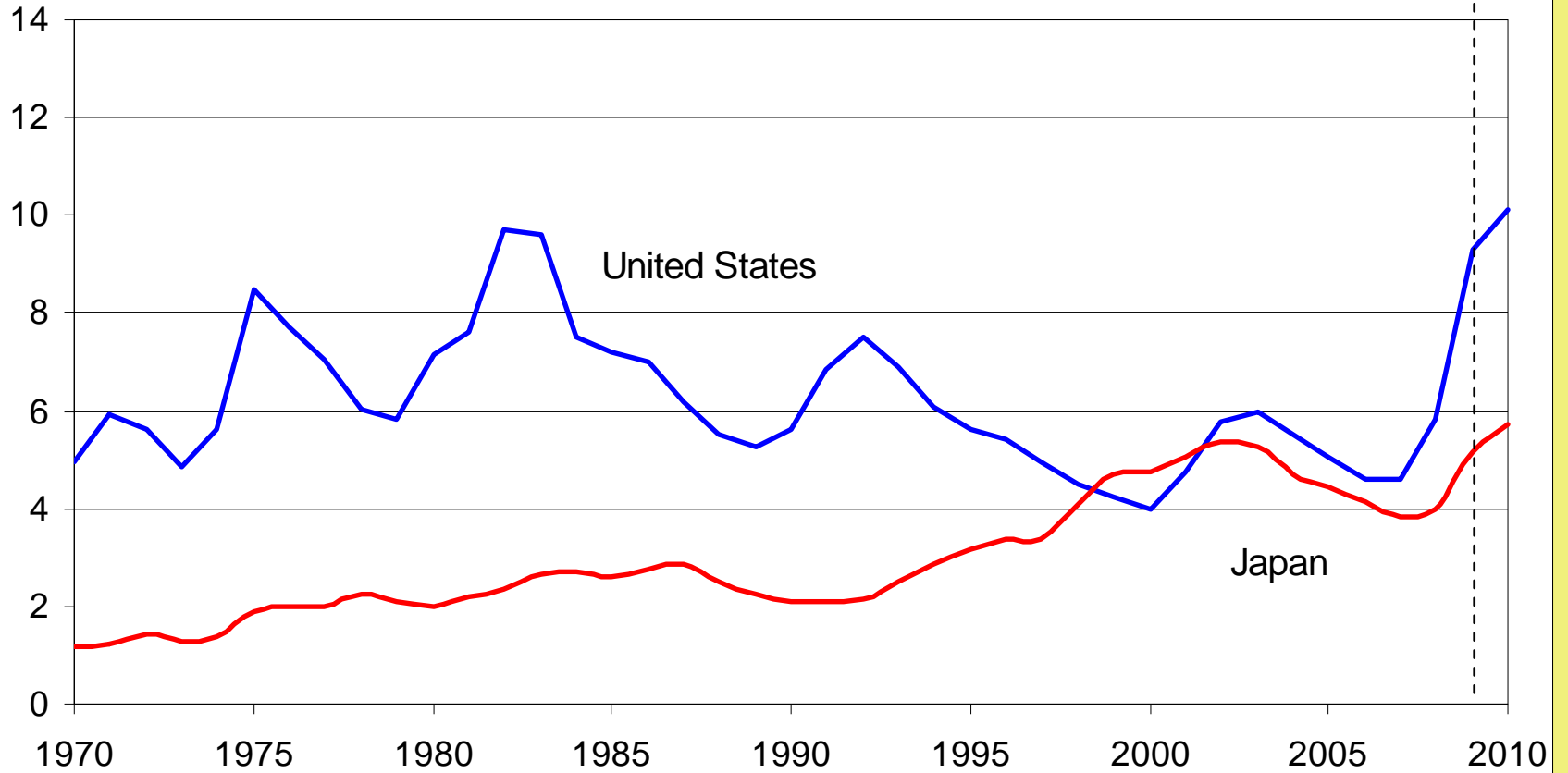


Long-term Effects Output

	%
Production-function potential output	1.5
Hodrick-Prescott measure of potential output	2.1
Correction for endogeneity	1.3
Correction for omitted variables	2.2
Severe crises	3.8
End sample 2006	2.4

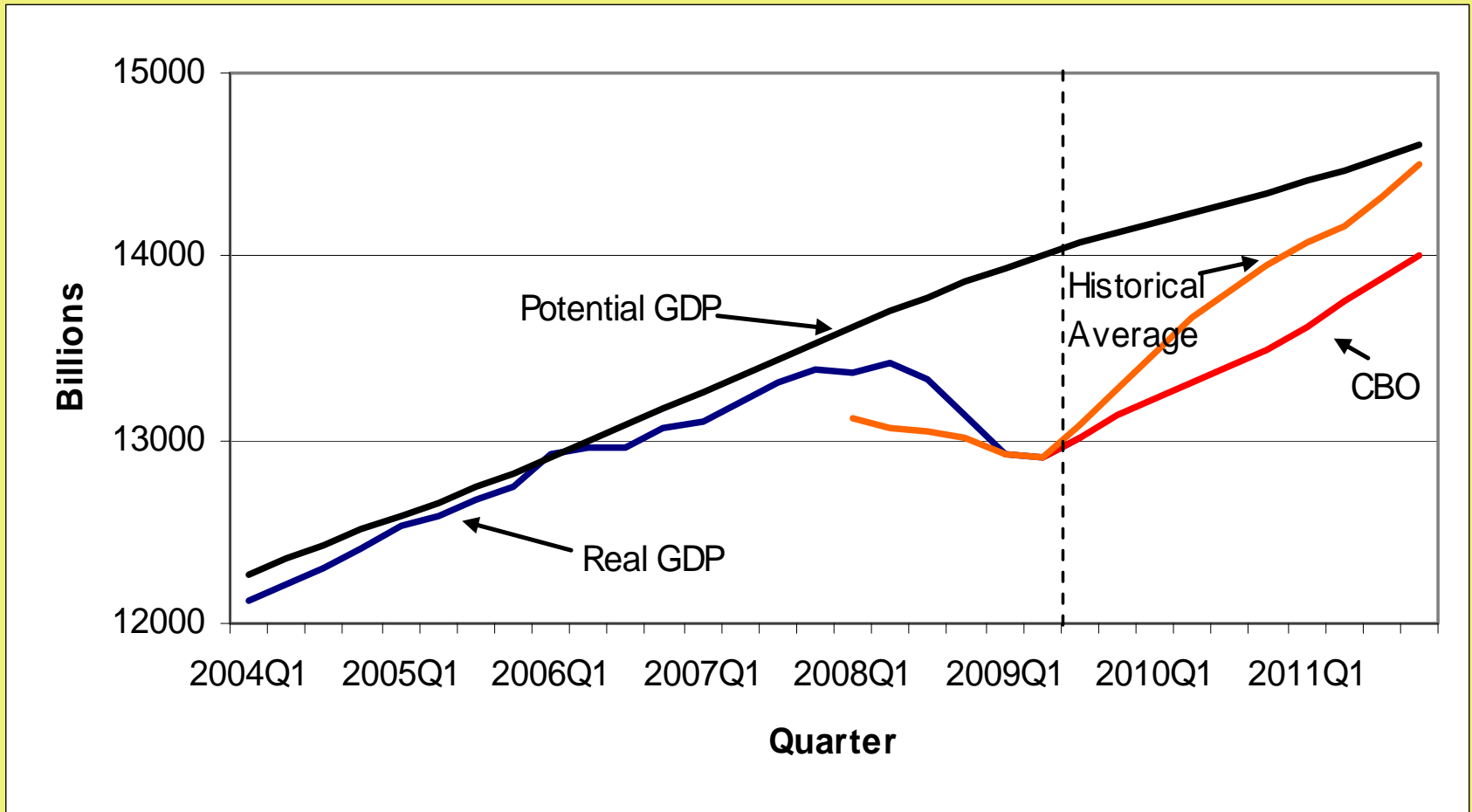
Furceri and Mourougane, 2009

Unemployment Rate



Projected Levels of U.S. GDP, 2004-2011

Billions of Dollars



Policy Response

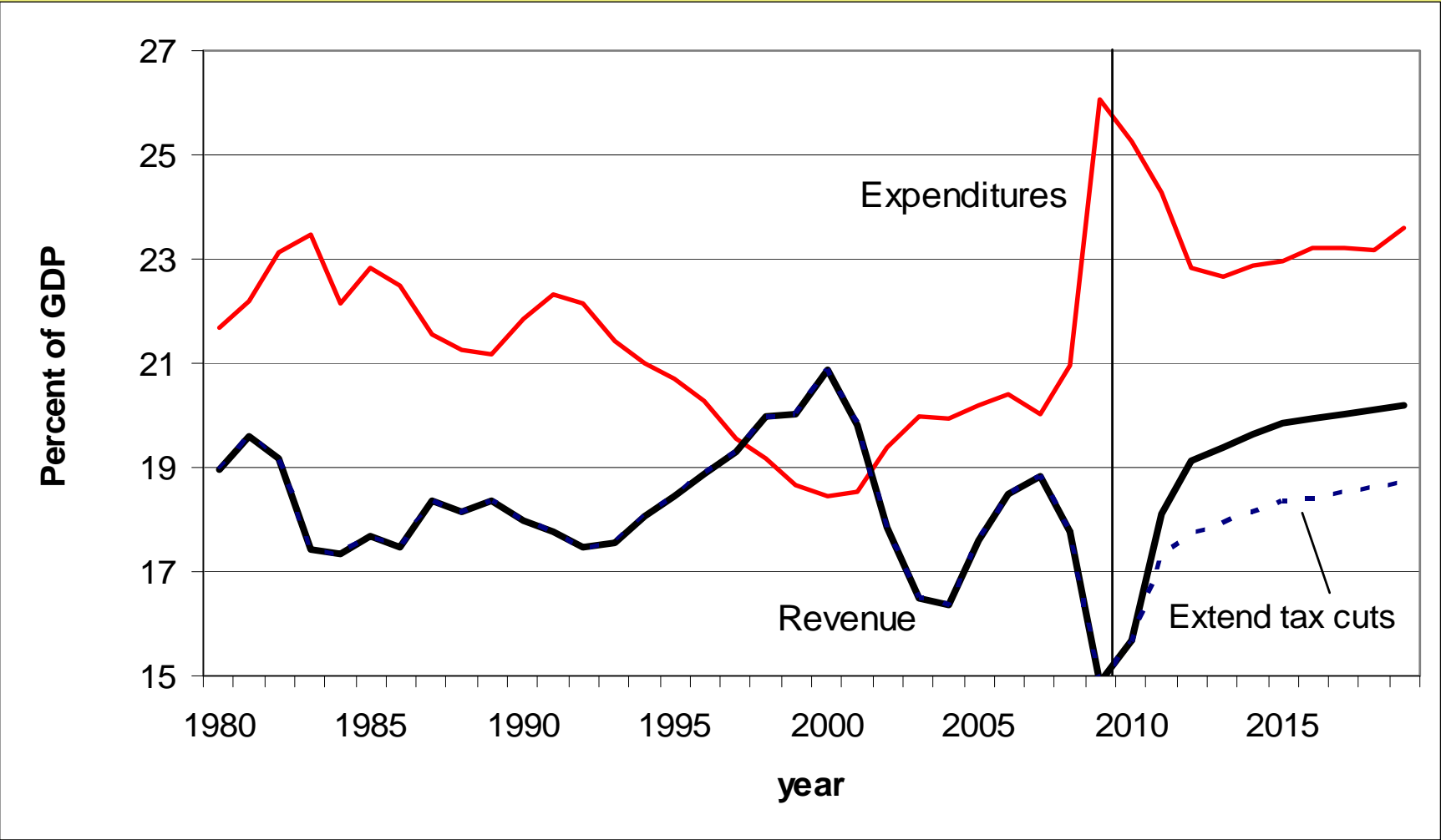
- Monetary Policy
 - Short term interest rate cut to zero.
 - Large rise in risk premiums on private and State/Local governments
 - FRB intervenes to purchase higher-risk private securities.
 - MP needed to provide liquidity, but it has weak stimulative effect.
 - Financial problems reflect solvency, not liquidity concerns.

Fiscal Stimulus

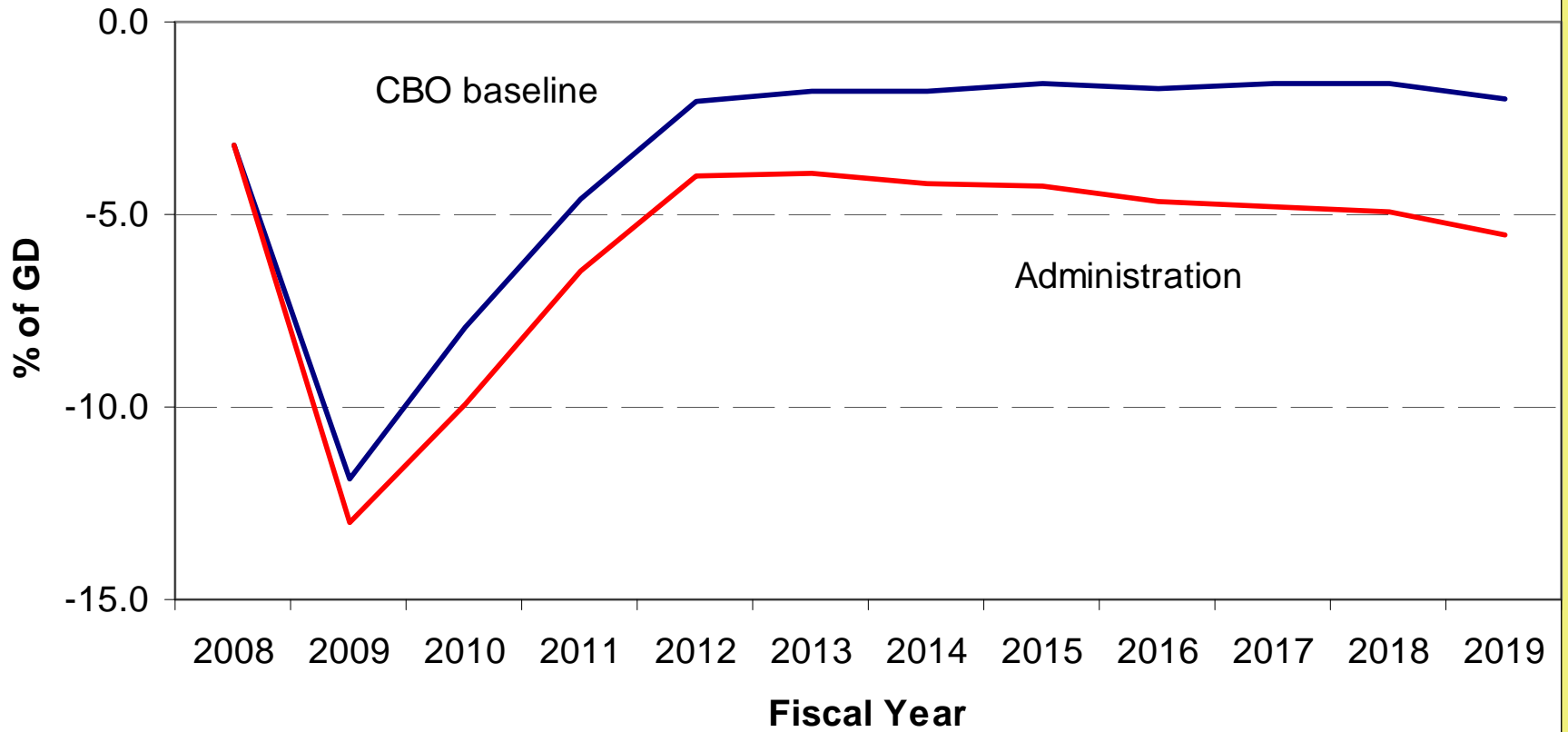
- Program enacted in mid February, 2009
- Roughly Two-Thirds Expenditure and One-Third Tax Cuts
 - Expenditures (particularly infrastructure) have somewhat larger multipliers, but long lags
 - 40% of total infrastructure spending to occur in 2012 and later, whereas tax cuts and transfers occur in first two years.
 - Transfers and some tax proposals can quickly get income to people with high spending propensities.
 - Assistance to State and Local governments
 - S&Ls revenues are severely effected by real estate collapse.
 - Grants provide effective fiscal assistance but weak economic stimulus
 - Rebuild financial conditions versus increase spending

Federal Revenues and Expenditures, 1980-2019

Percent of GDP



Projected Budget Balance



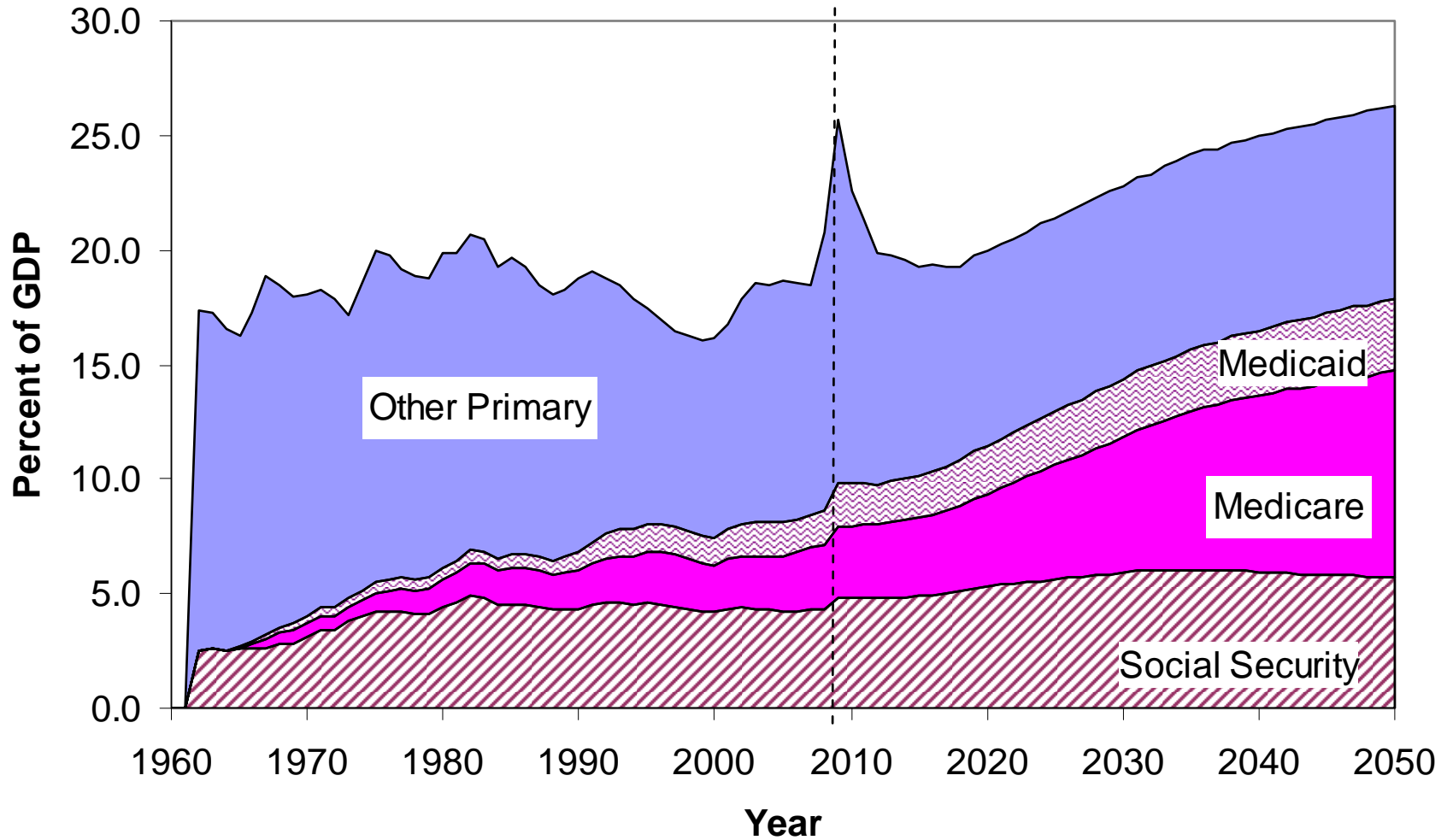
Schedule & Composition of U.S. Fiscal Stimulus

In billions USD, Calendar years

	2009	2010	2011	2012 & beyond	Total
Total	283	259	121	56	719
As % of GDP	2.0	1.8	0.8	0.4	5.0
Revenue Measures	99	116	37	-33	219
Individual Income	37	80	32		
Corporate Income	57	32	-2		
Other	5	4	7		
Expenditure Measures	184	143	84	89	500
Infrastructure & other	32	47	47	78	204
Safety nets	77	14	5	7	103
State aid & education	75	82	32	3	192

Source: IMF staff estimates, Congressional Budget Office

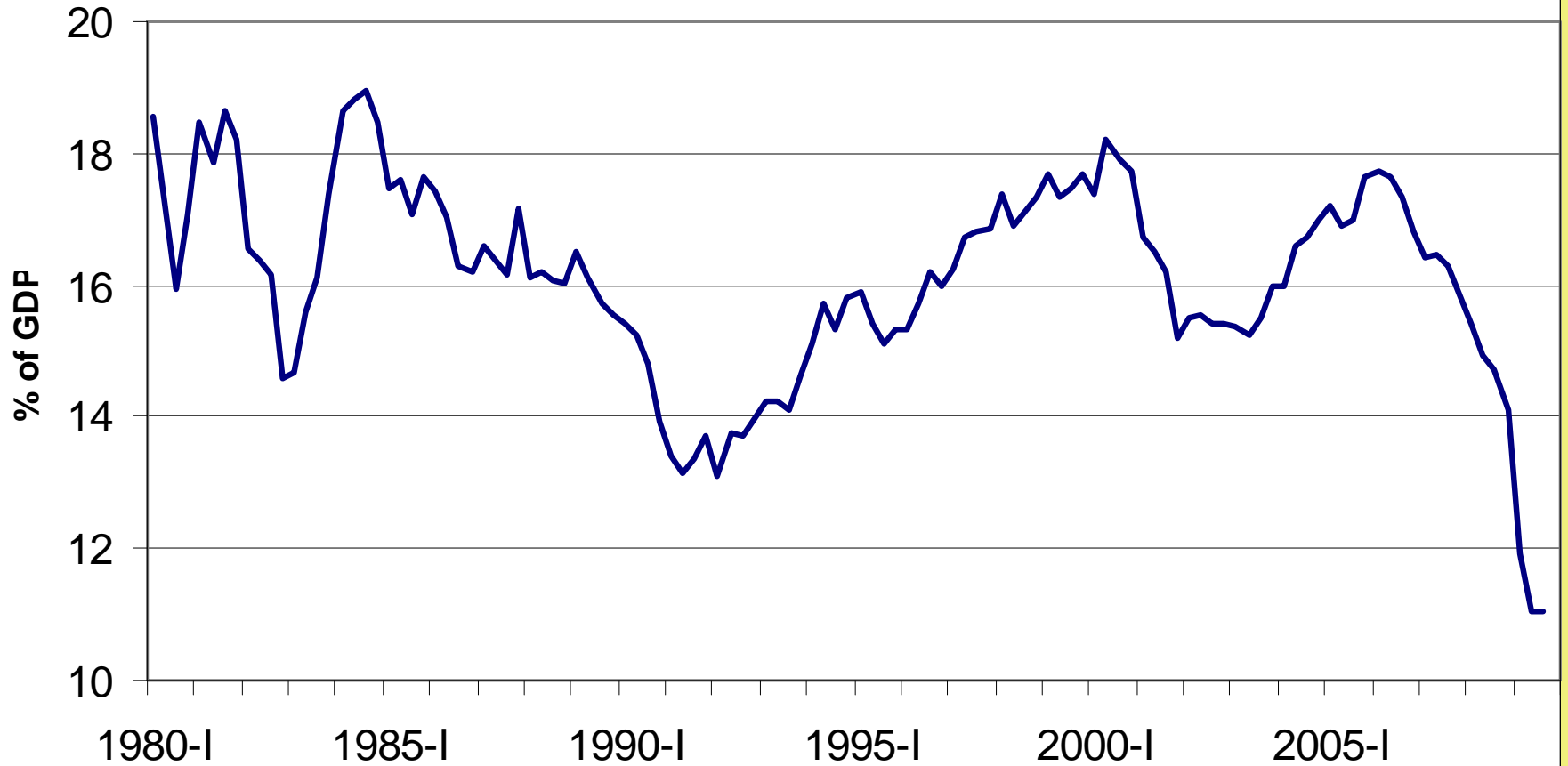
Projected Federal Expenditures, 1970-2050



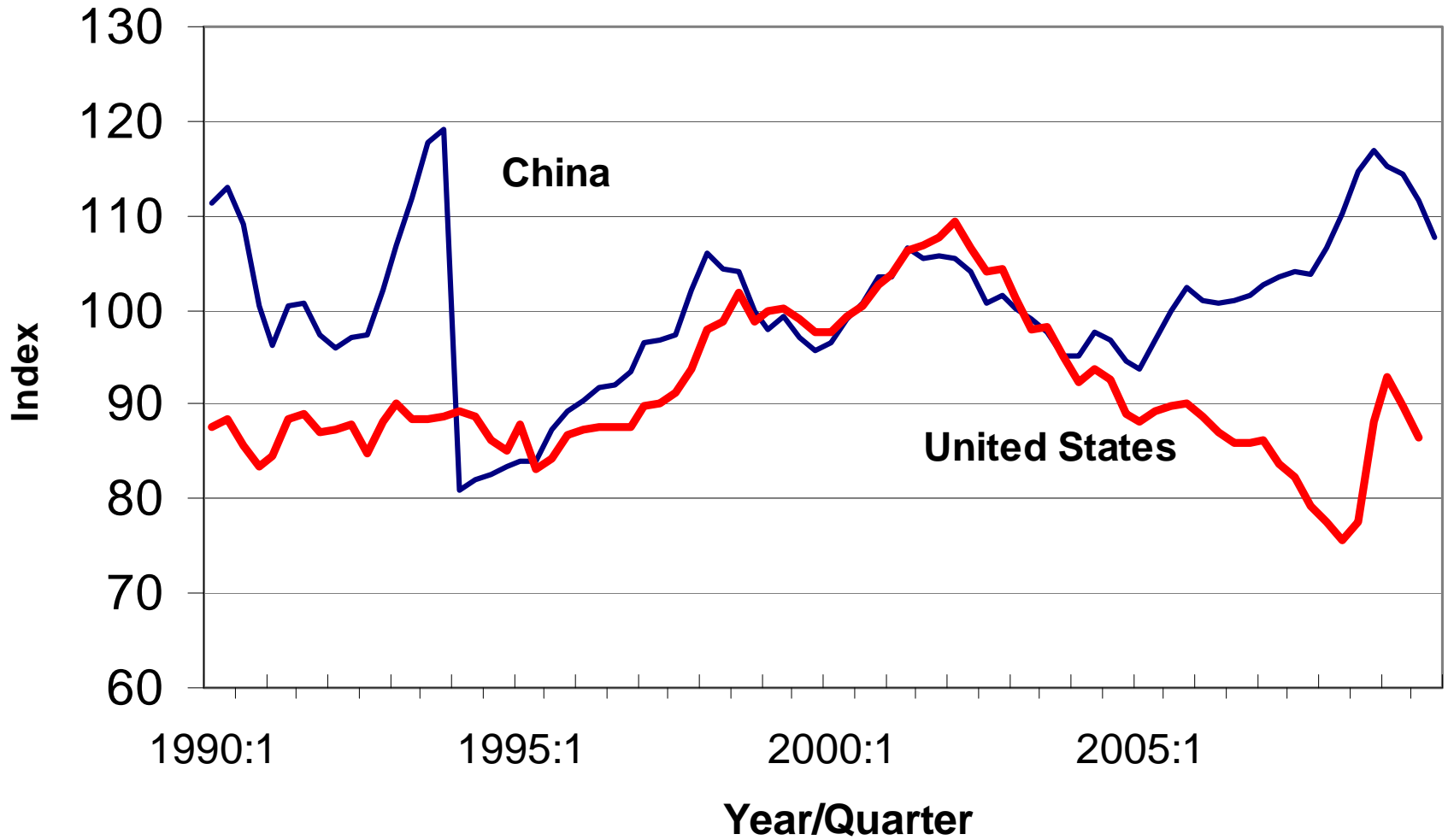
Financial Restructuring

- How to return to an arms-lengths orientation of monetary policy
 - Moral hazard from prior bailout of institutions
 - Ineffectiveness of prior regulation – regulated usually capture the regulators
 - Focus on yesterday's problems
- Problem of too-big-to-fail
 - Restrict size of institutions?
- How anticipate systemic risks?
- Did inflation targeting lead to too narrow a focus for monetary policy.
 - Asset price bubbles
 - Excess leveraging

Gross private domestic investment



Trade-weighted Exchange Rate, 1990-2009



Trade-weighted Exchange Rate, 1990-2009

