

The outlook for the U.S. economy and economic policy

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Austin, Tx.
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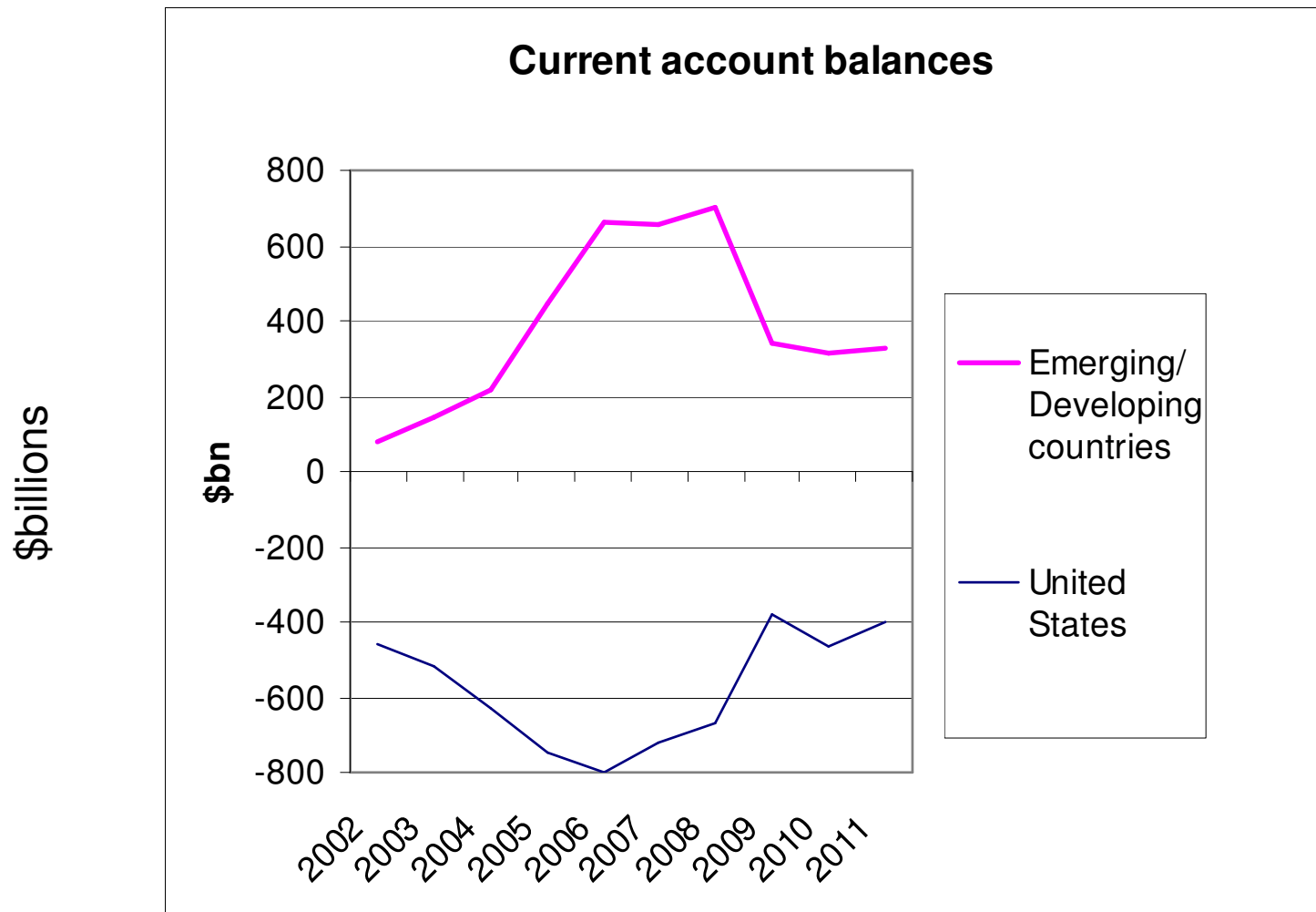
How we got here

Great moderation = more leverage



Source: Flowofunds.xls 9/2/2010

Global saving glut



Source: IMF WEO Oct 2010 Table A10

Bipartisan push for more home ownership

- “Financing strategies, fueled by the creativity and resources of the private and public sectors, should address ... financial barriers to homeownership.” – *Clinton’s National Homeownership Strategy, 1994*
- “We want everybody in America to own their own home. An ownership society is a compassionate society.” *George Bush, 2002*

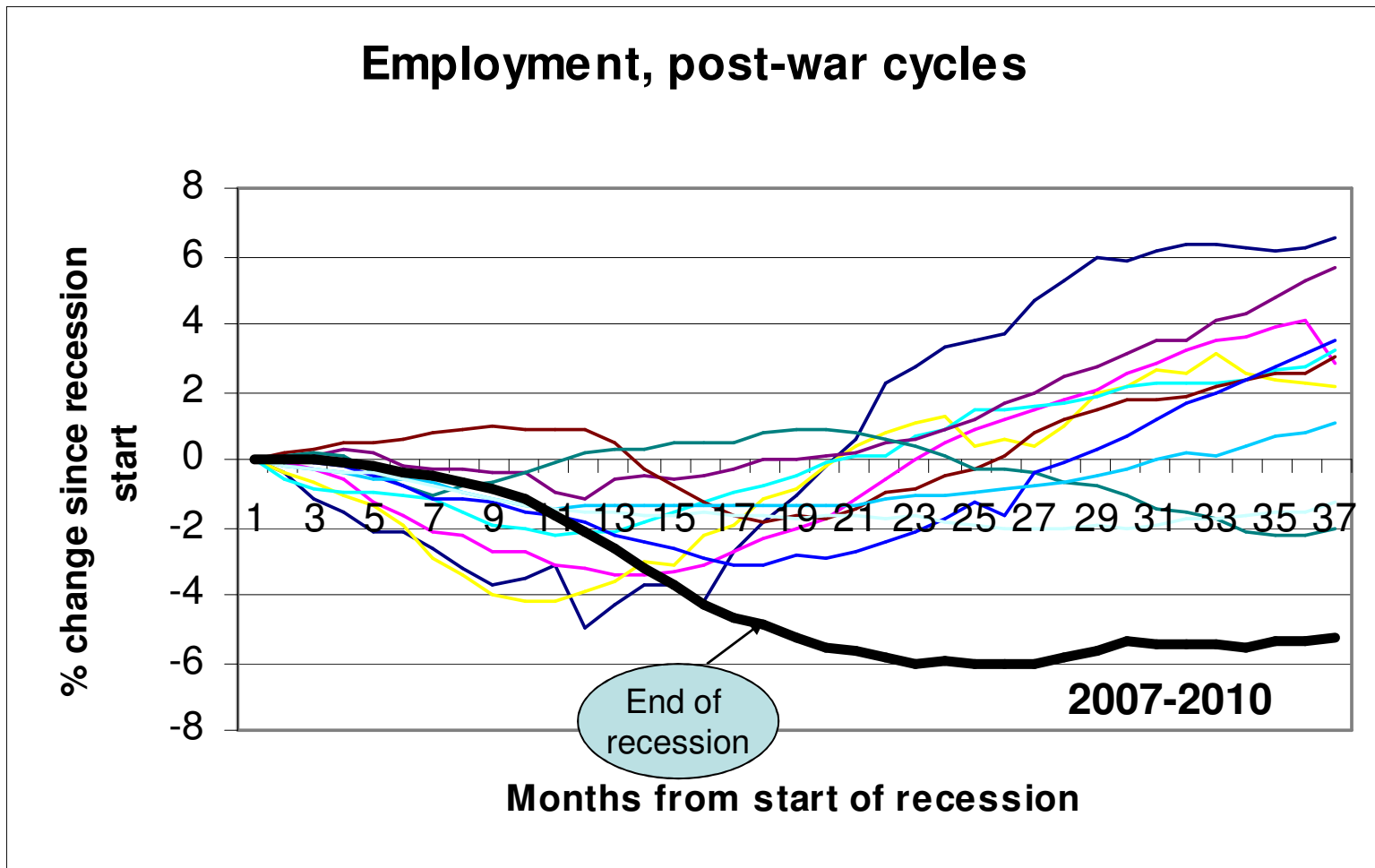
Where we are now

Two models of recovery

- Bungee model (V):
The deeper the recession, the stronger the recovery
- Post crisis model (U, L): Recoveries after financial crises are weak

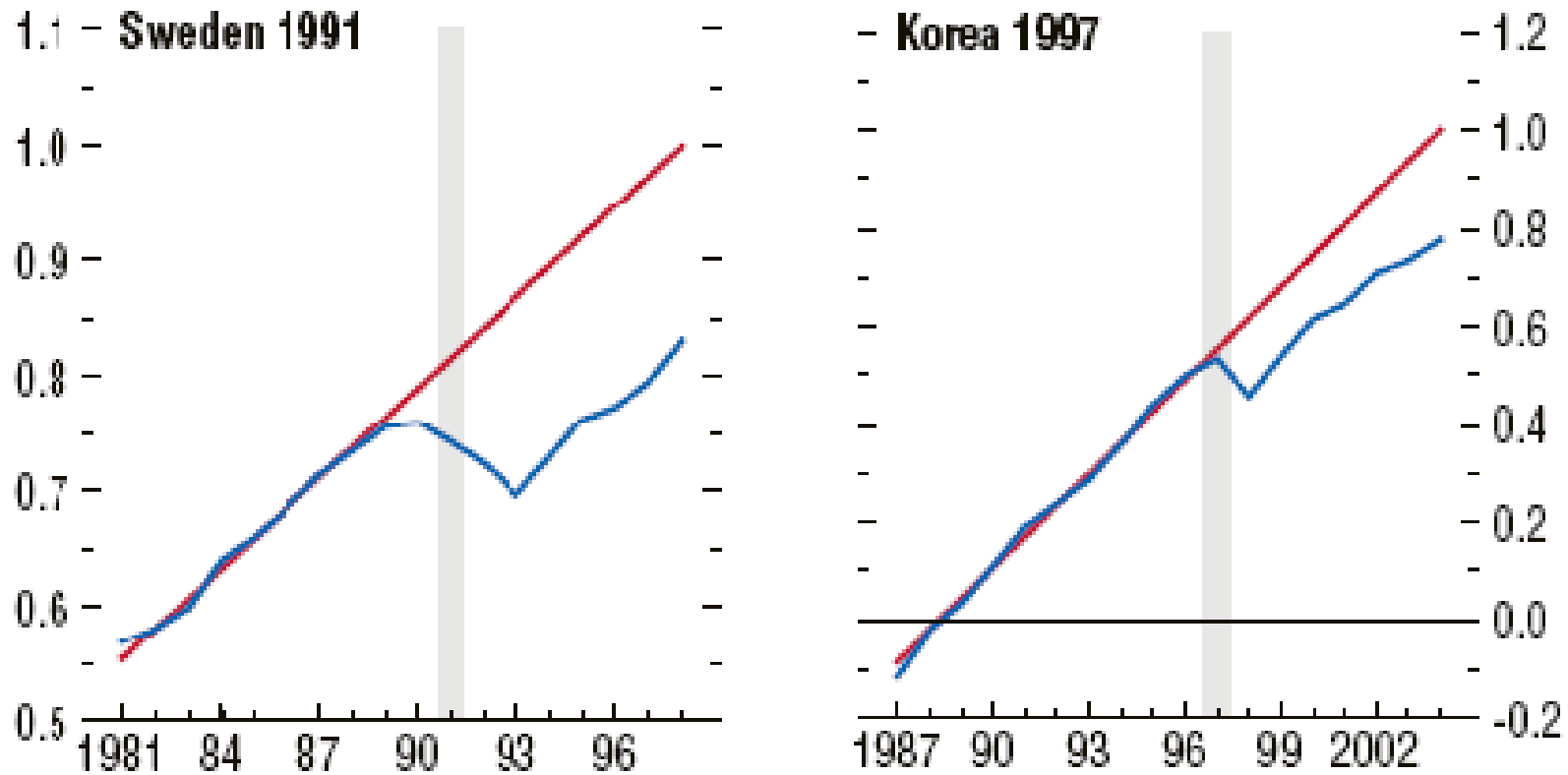


This ain't no V



Source: Minneapolis Fed, updated 1/7/2011

Crises leave lasting damage

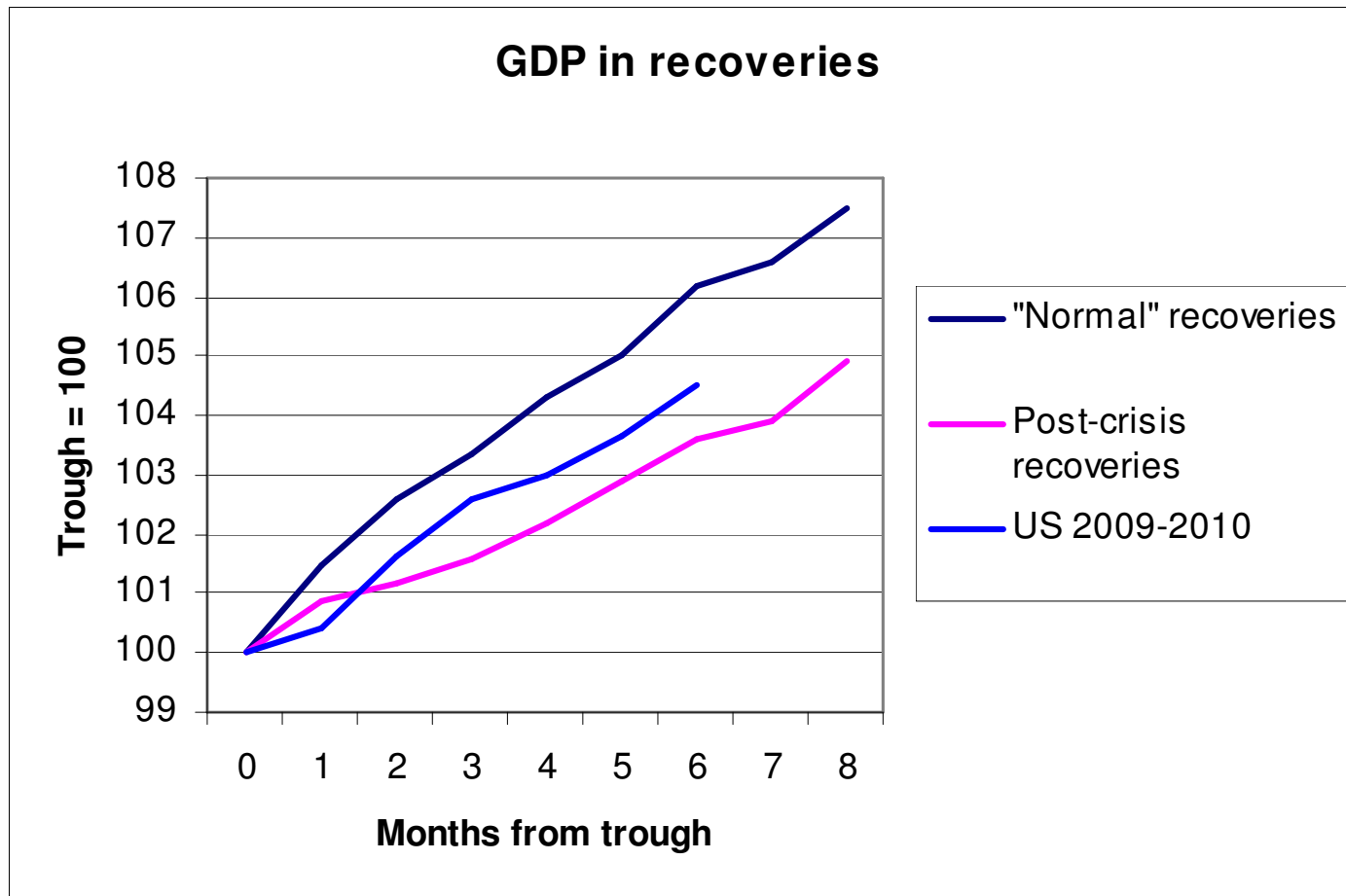


— Actual output¹ — Precrisis trend ■ Crisis year



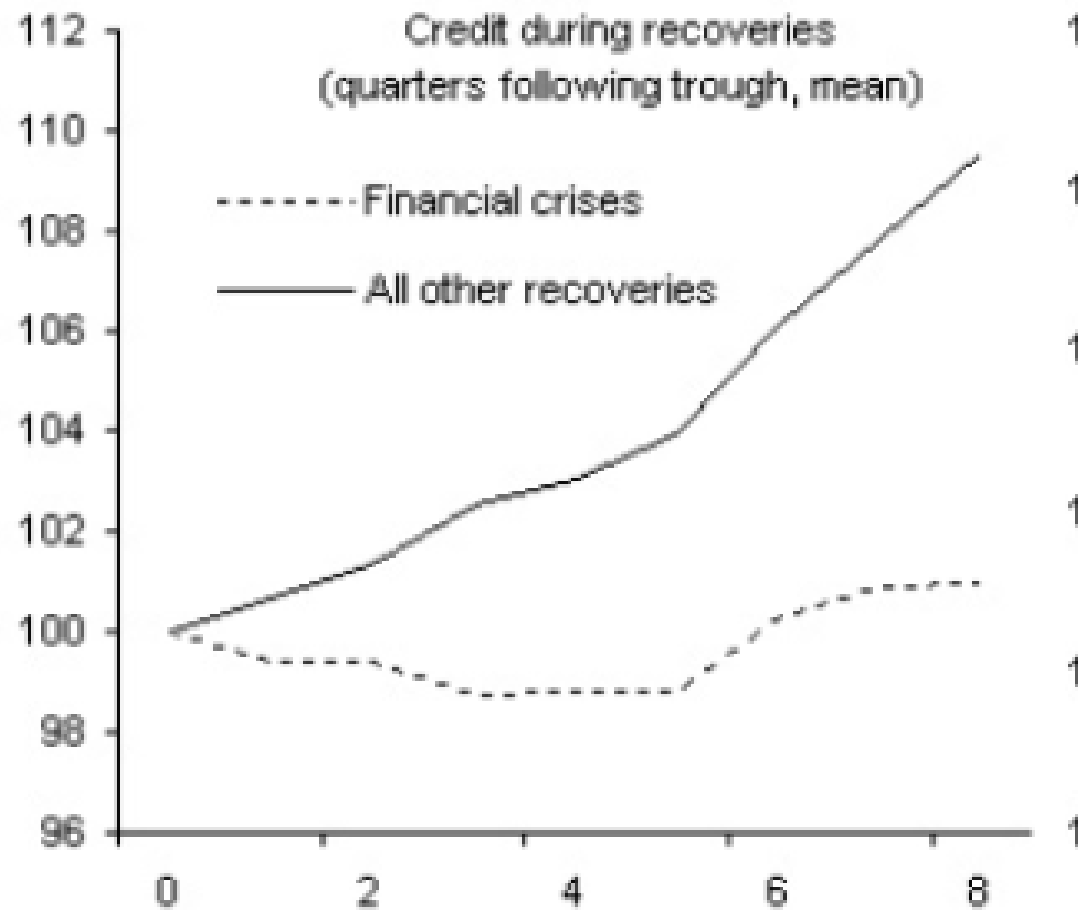
Source: IMF World Economic Outlook Sept 2009 p 122

The post-crisis template



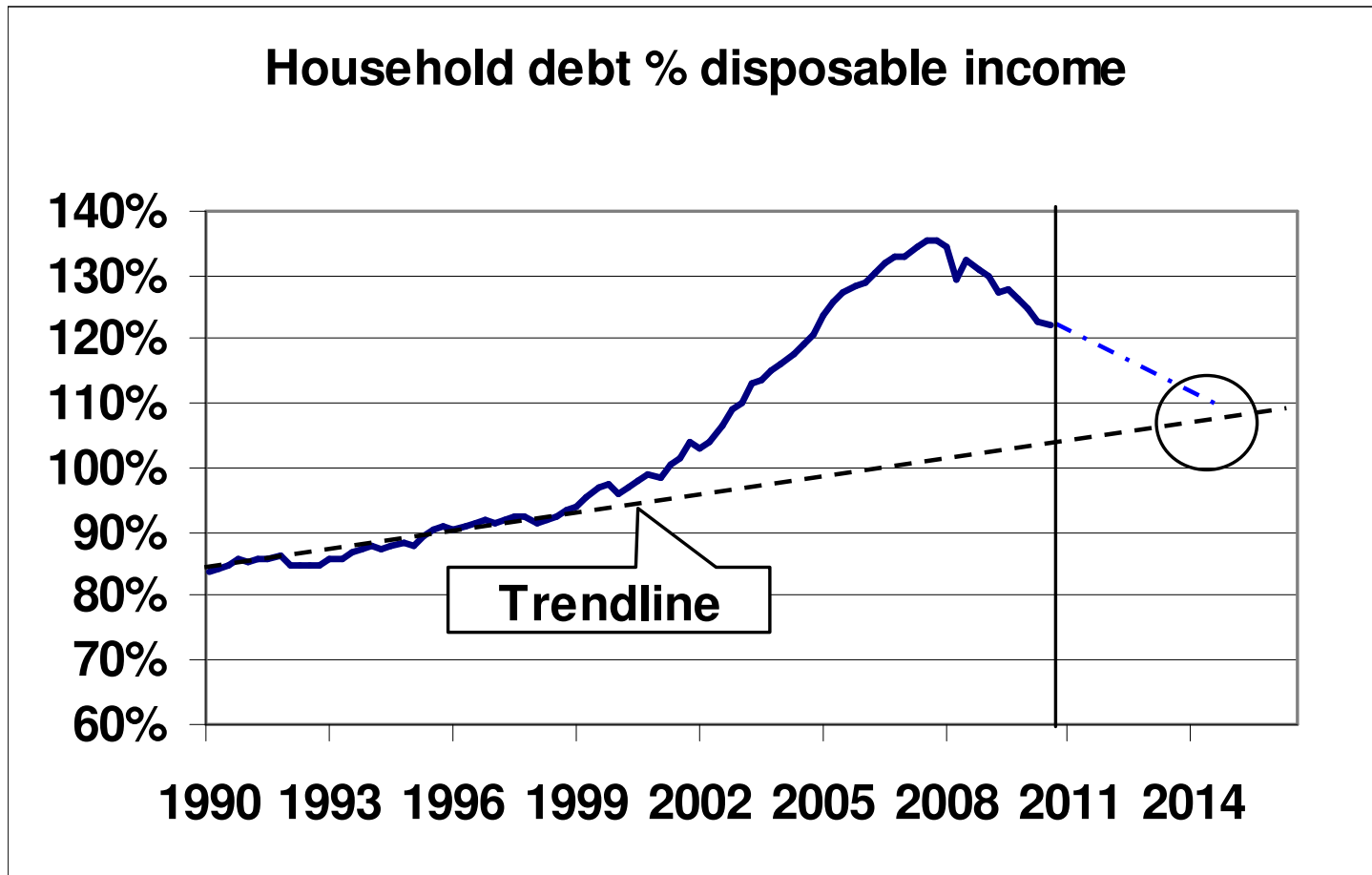
Source: Prakash Kannan IMF WP 10/83 2010

Post-crisis credit growth

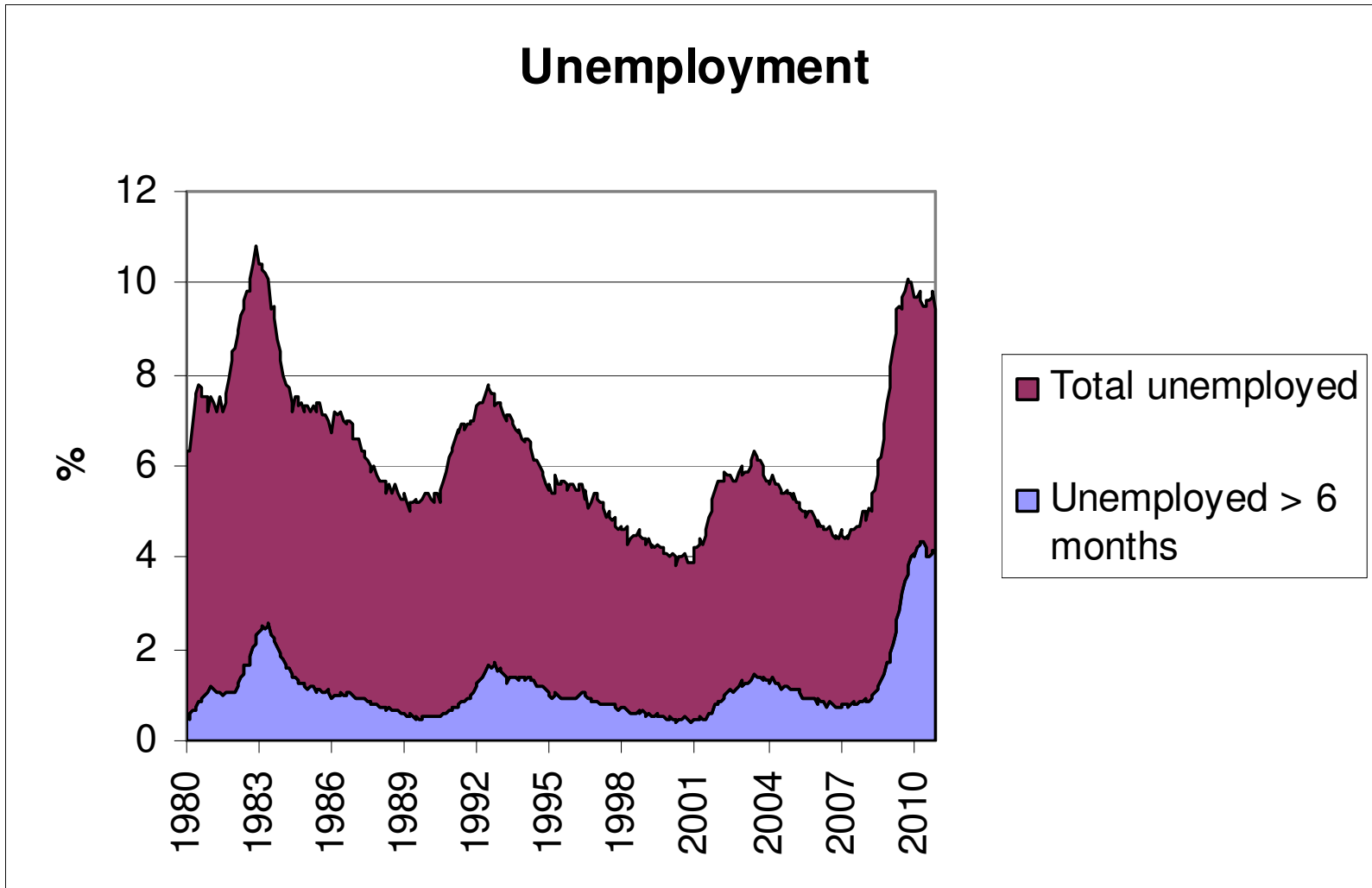


Source: Prakash Kannan IMF WP 10/83

The deleveraging cycle: See you in 2015

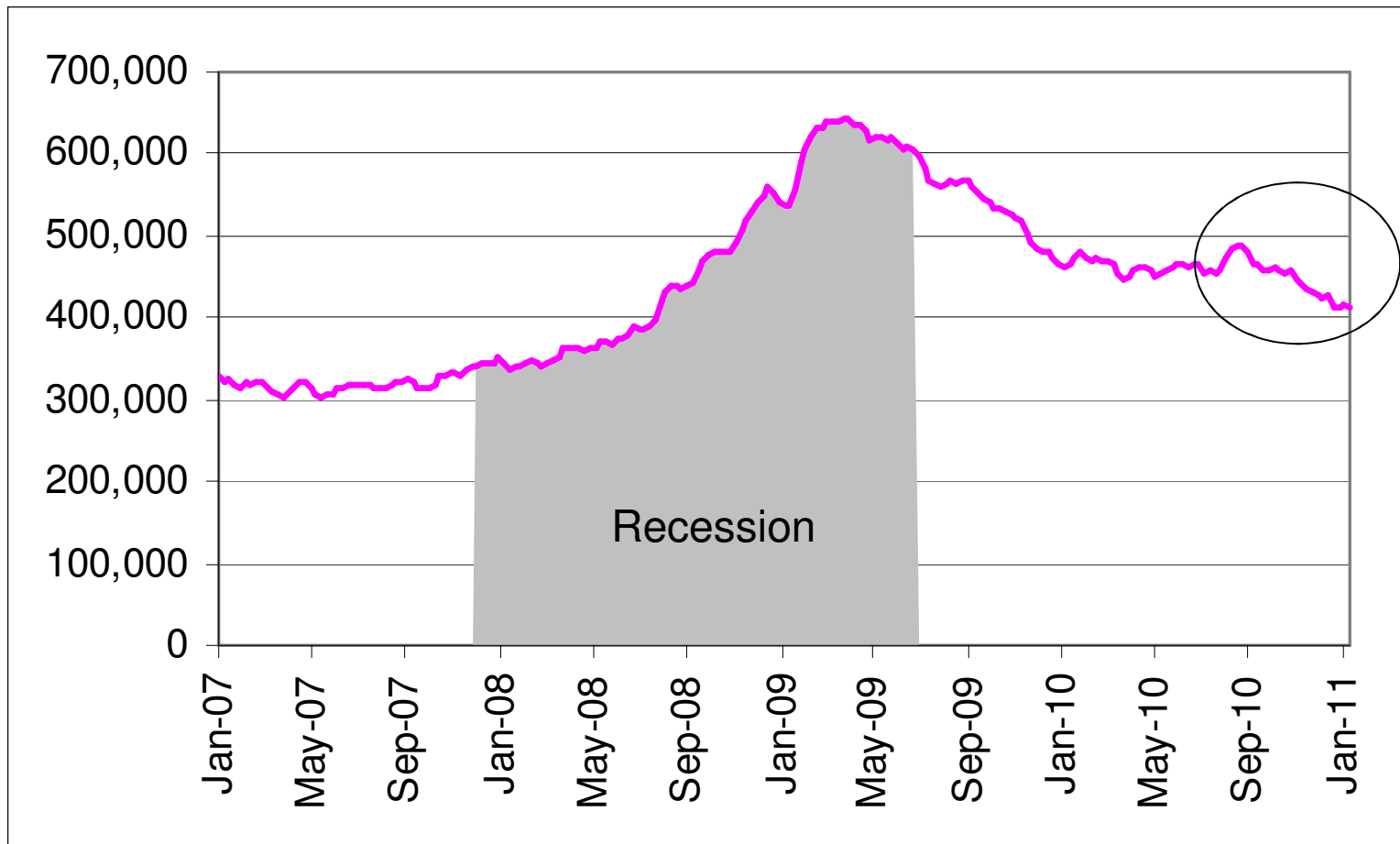


A long slog back for jobs



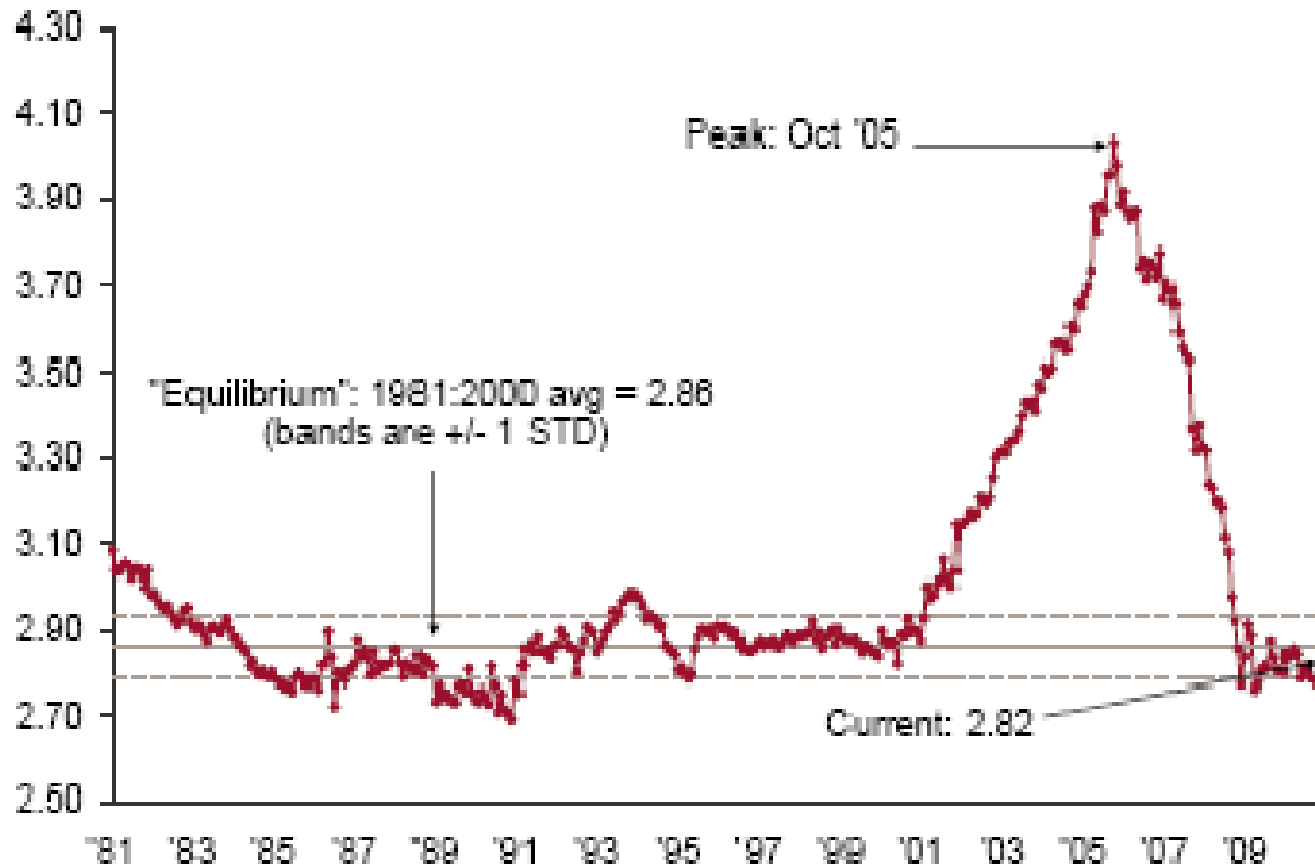
Things are looking up

Unemployment insurance claims, 4-week average



Feels so good when it stops (1)

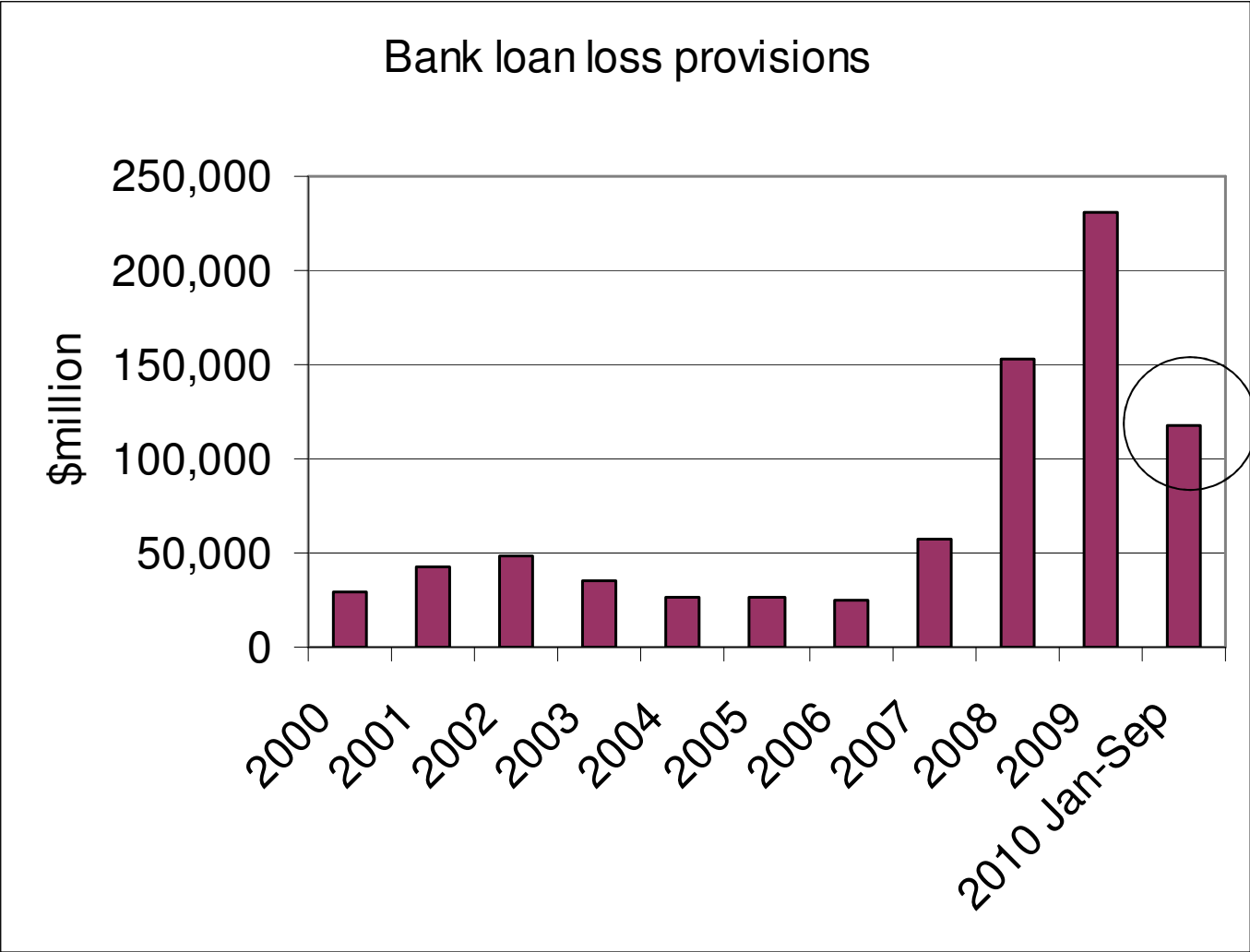
Ratio of home prices to household income



Source: Credit Suisse 1/14/2011

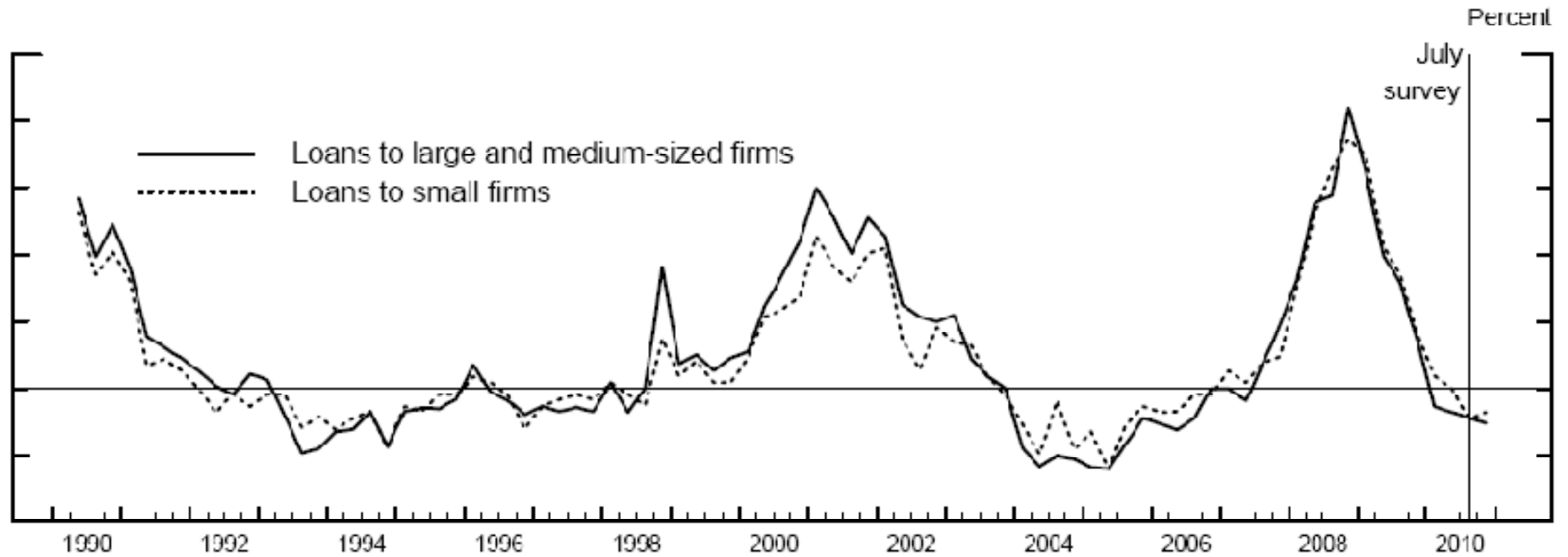
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Feels so good when it stops (2)



Banks loosening up

Net Percentage of Domestic Respondents Tightening Standards for Commercial and Industrial Loans



Everybody hurts

Unemployment rates, %

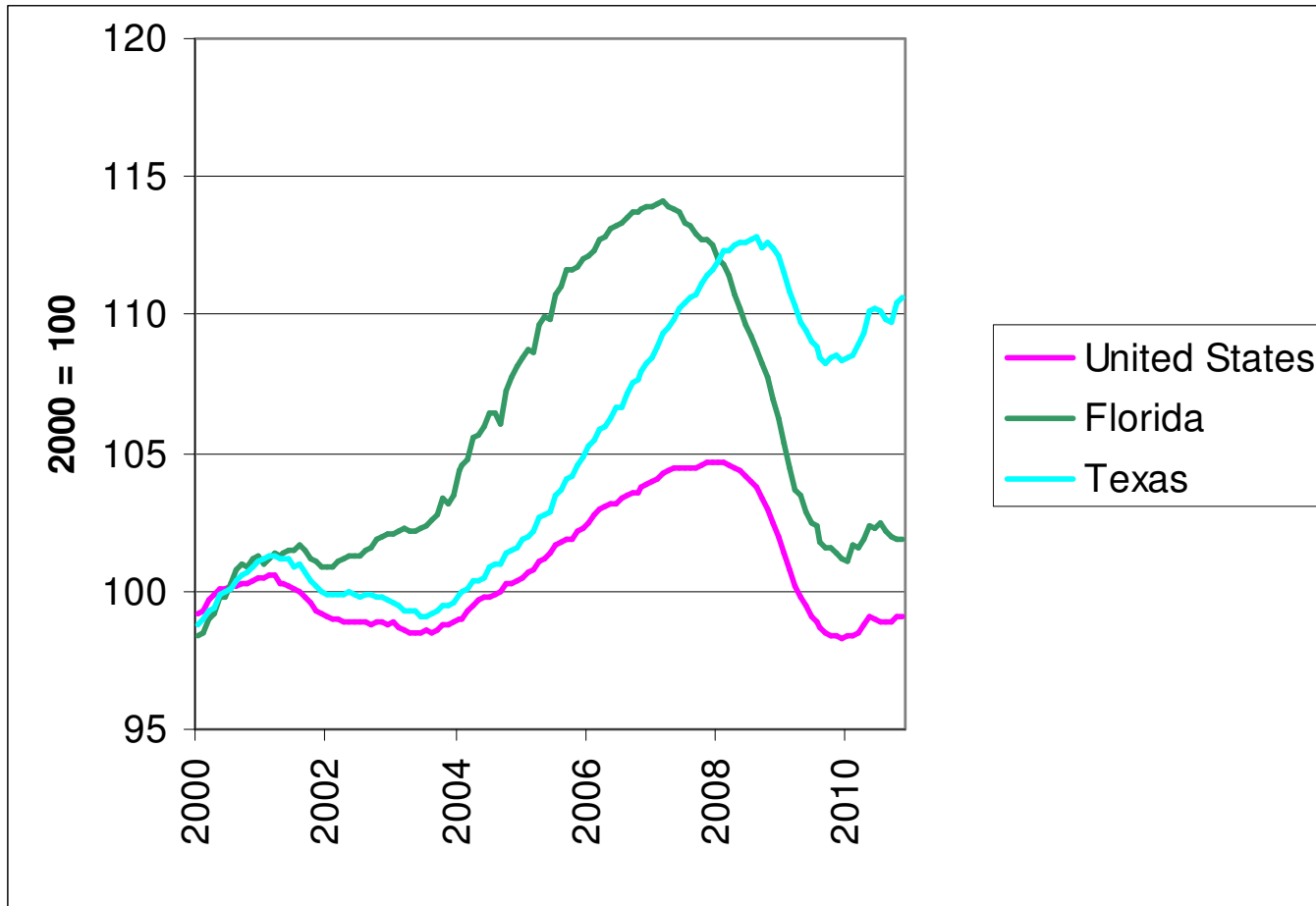


Source: Ip download 1/24/2011

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But some less than others

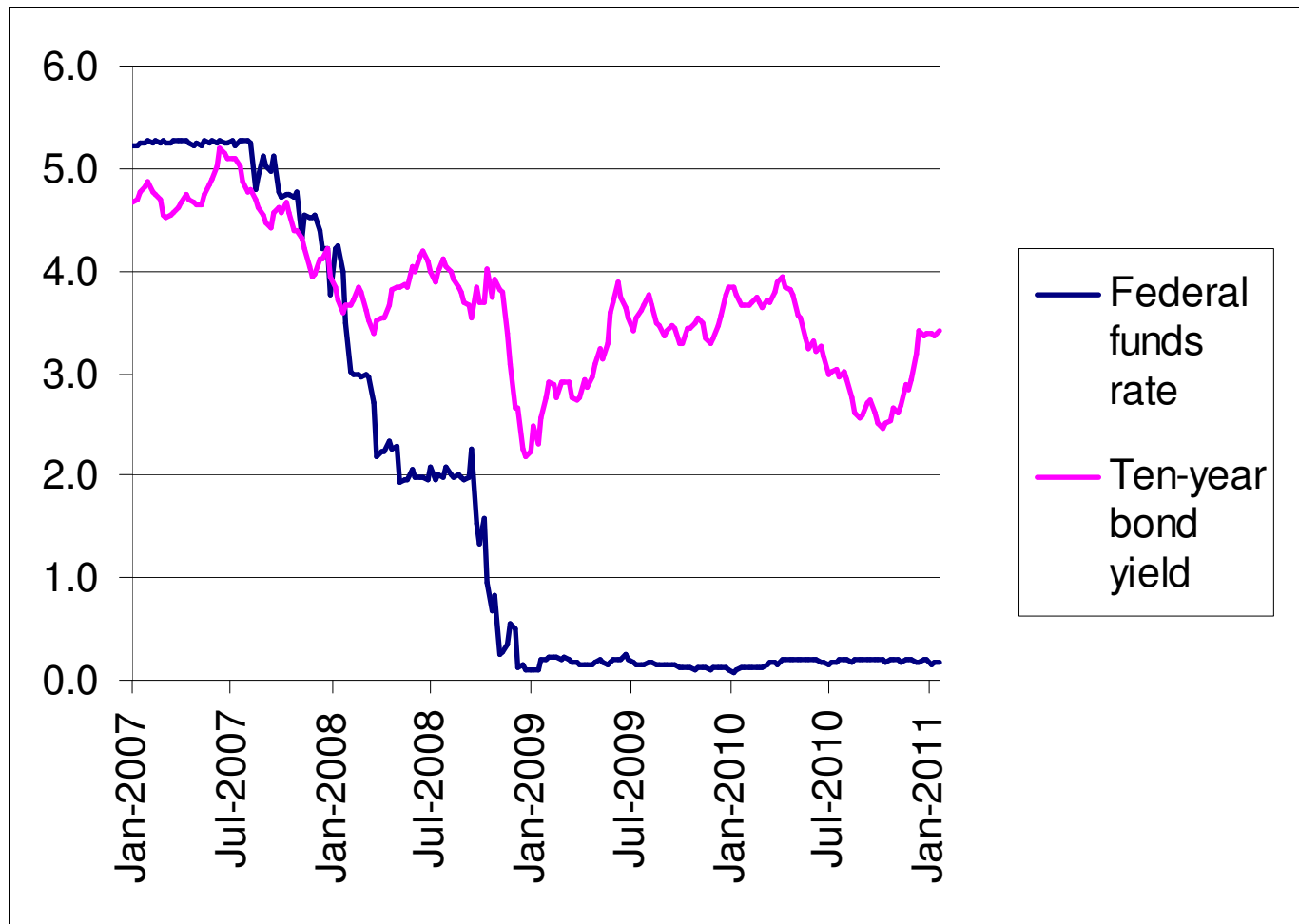
Employment, 2000=100



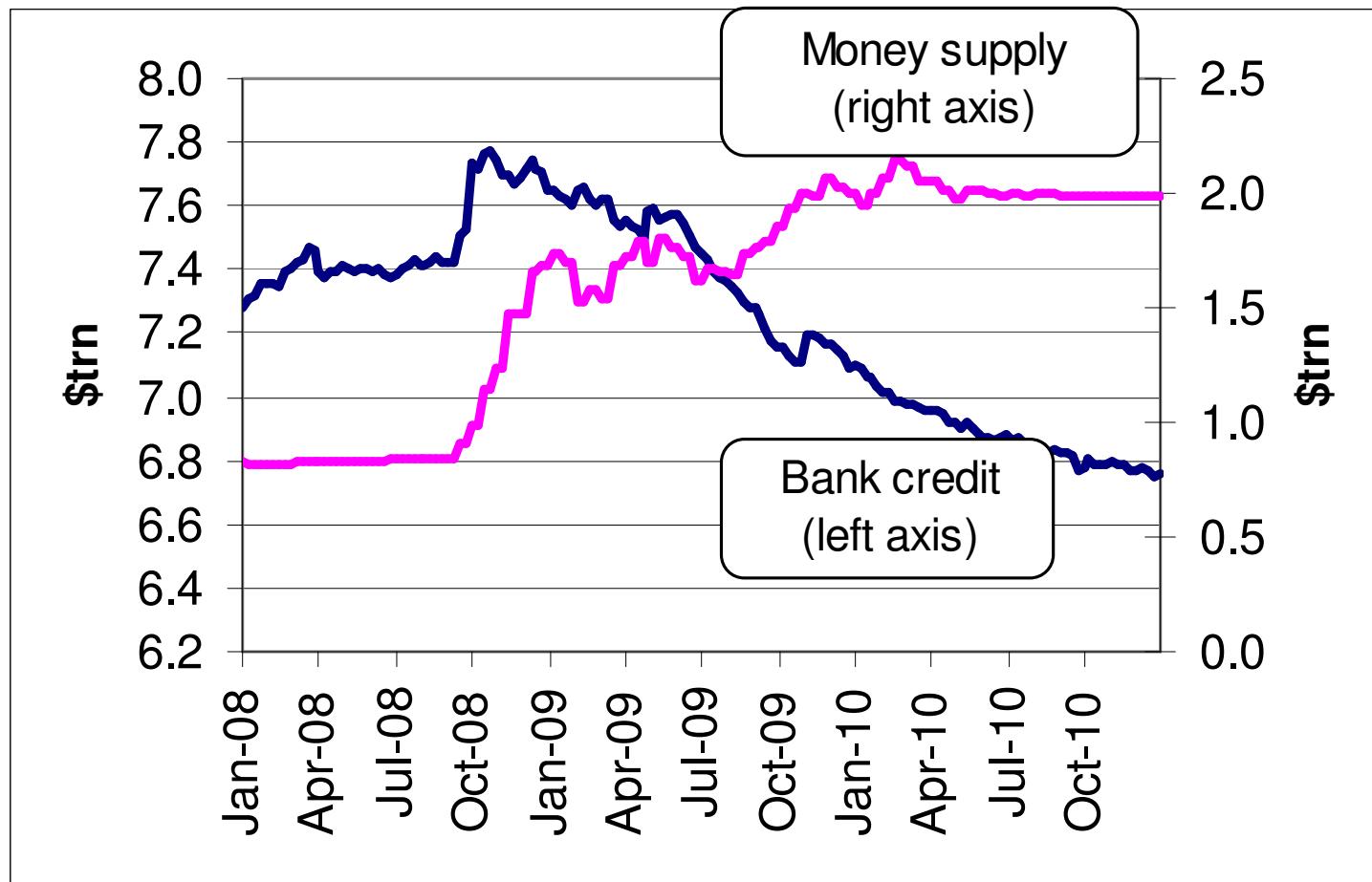
Feeling QEasy

- What is the Fed doing?
- Where is inflation headed?

First the Fed lowers short rates, then long-term rates

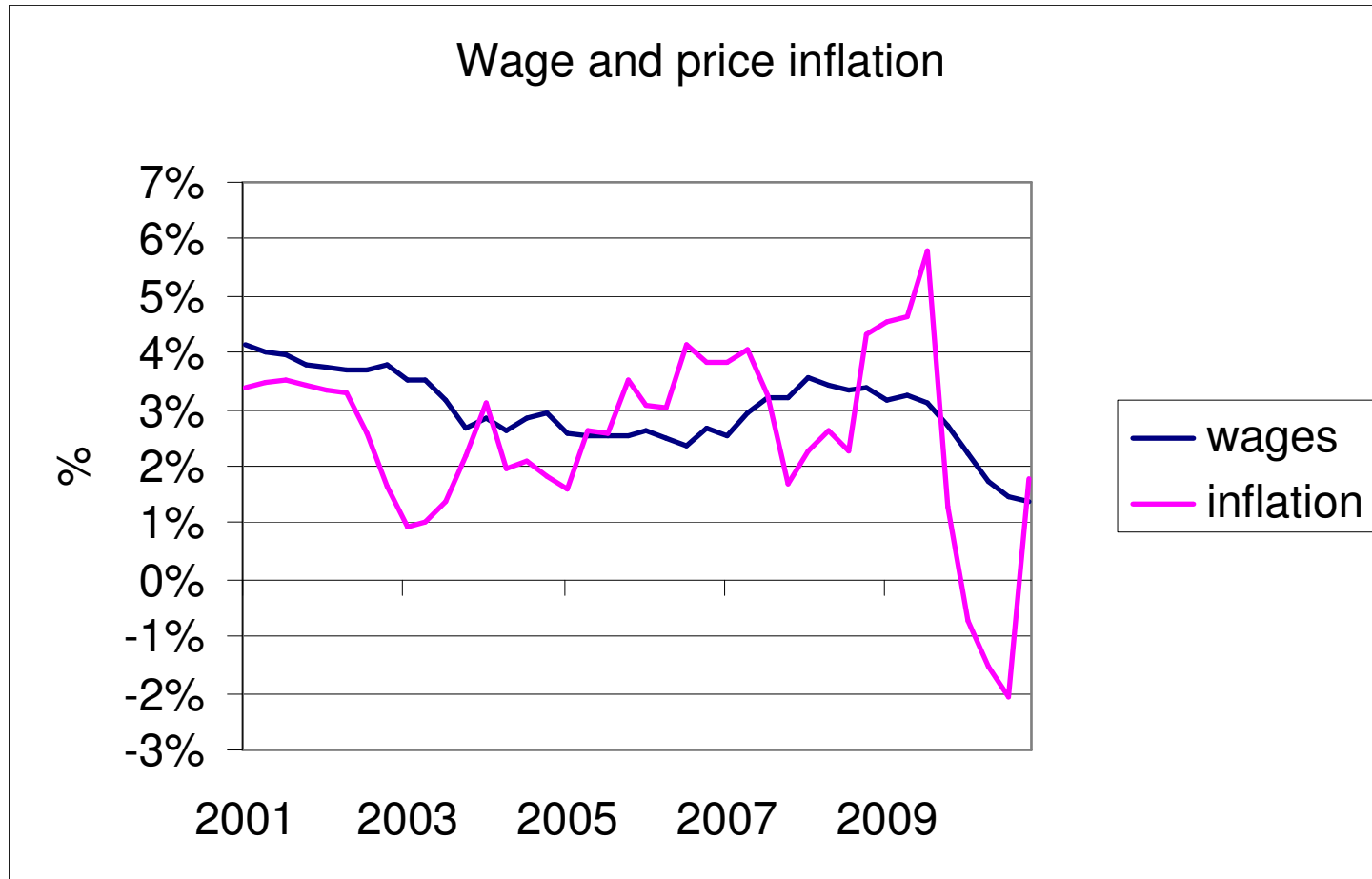


Printing money, not credit



Source: Federal Reserve; Credit data break-adjusted by author

What inflation problem?

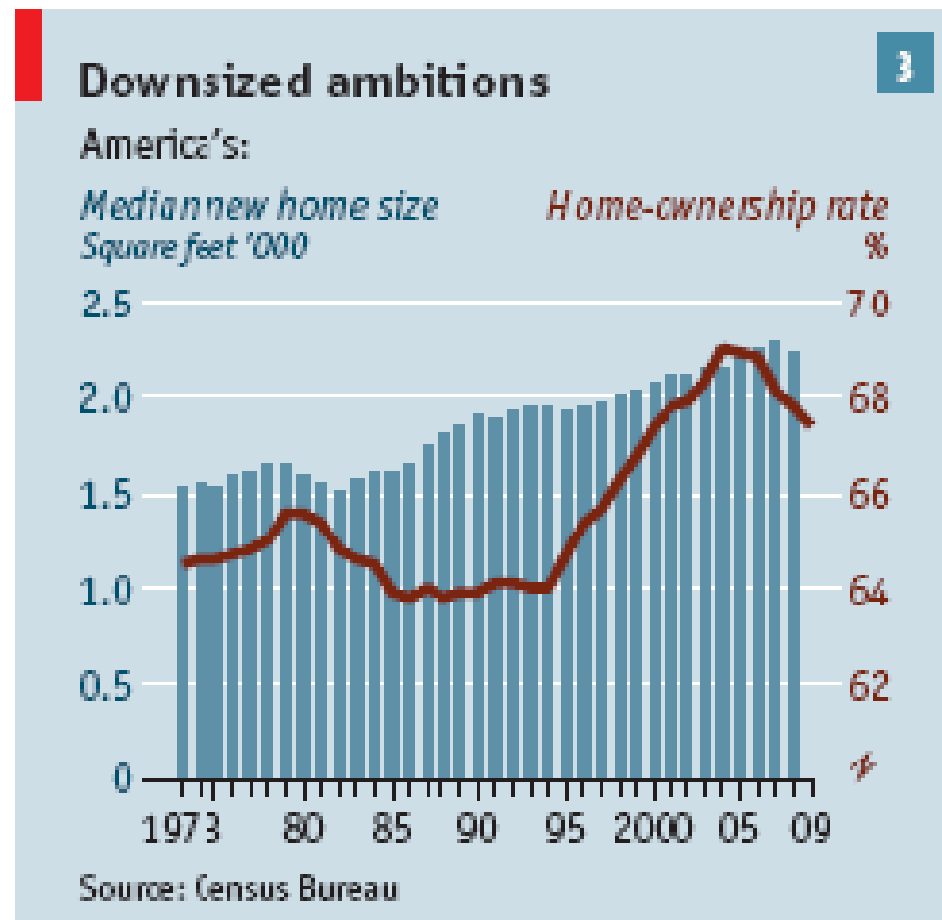


What our future economy will
look like

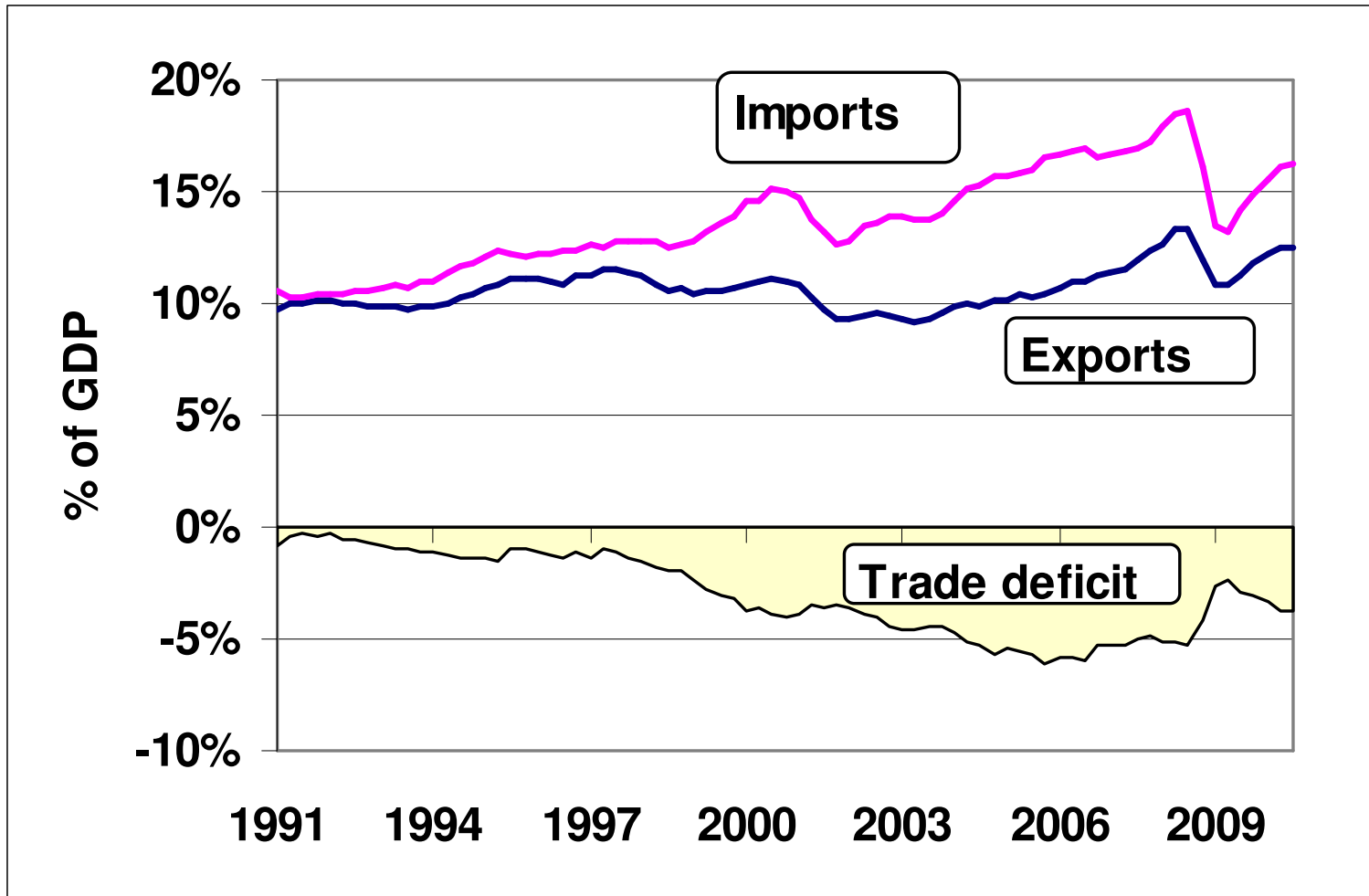
No longer a consumer-led economy



To dream the American dream

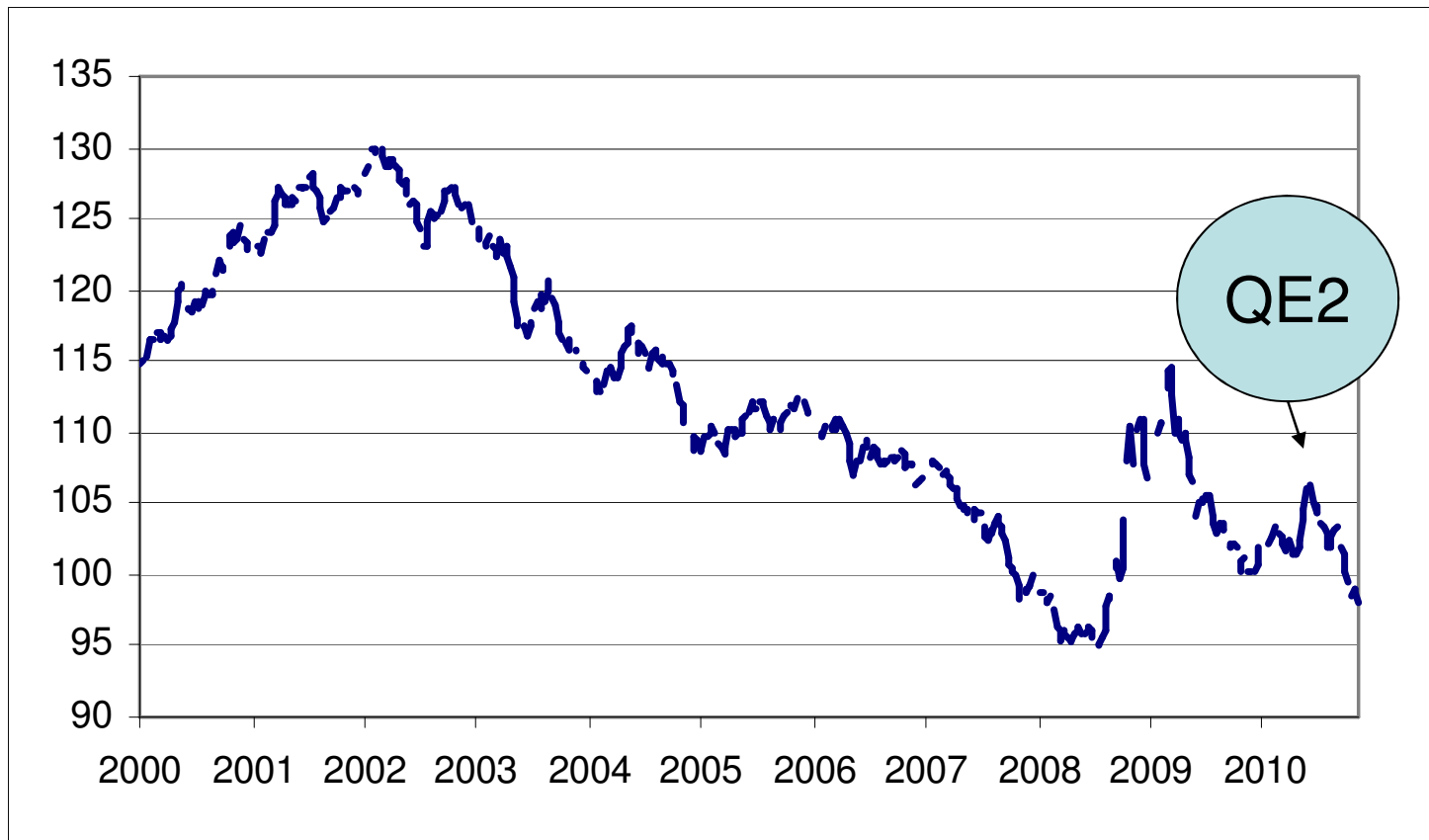


Time for trade to turn

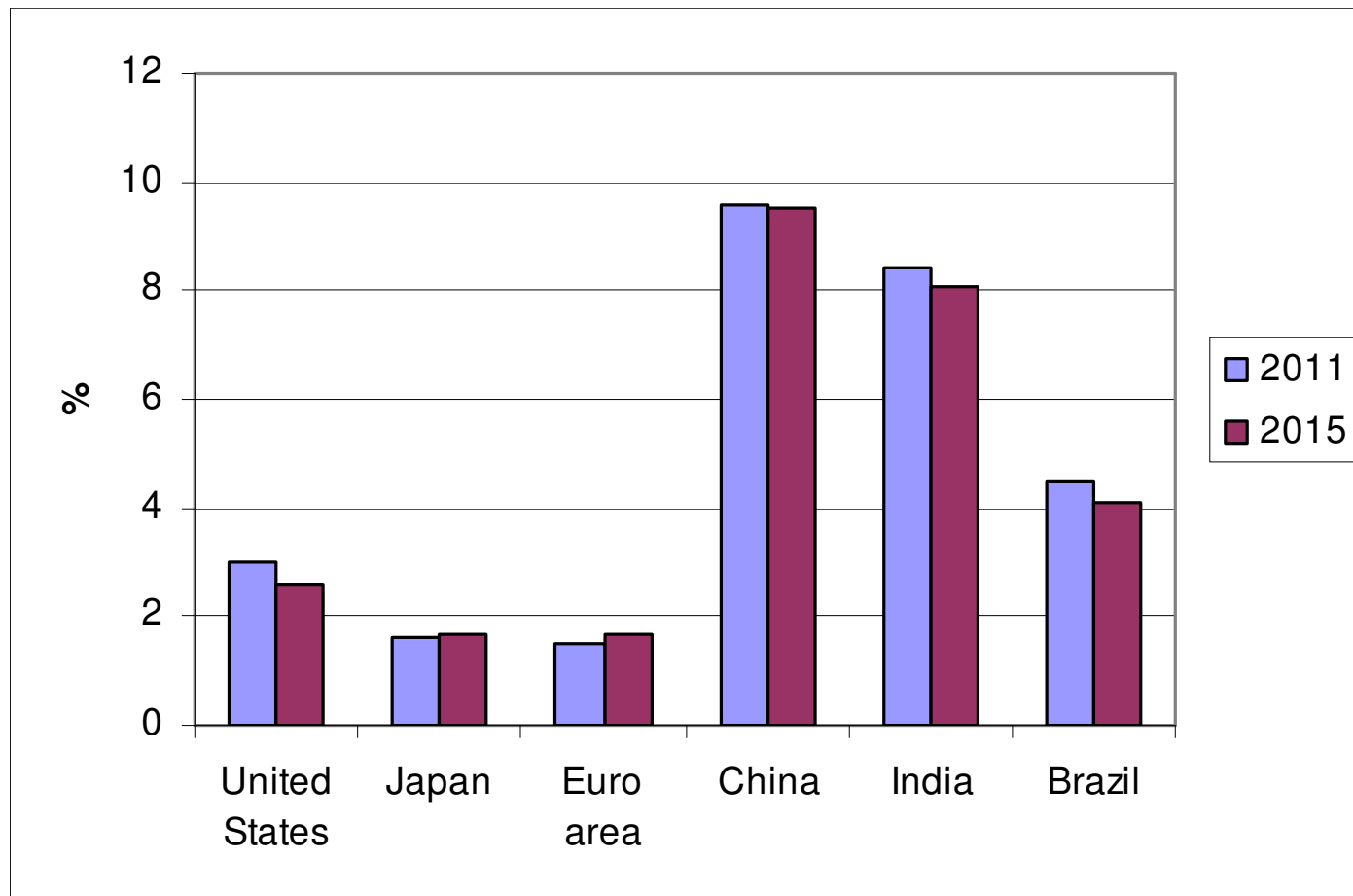


Some currency “war”

(trade weighted dollar index)



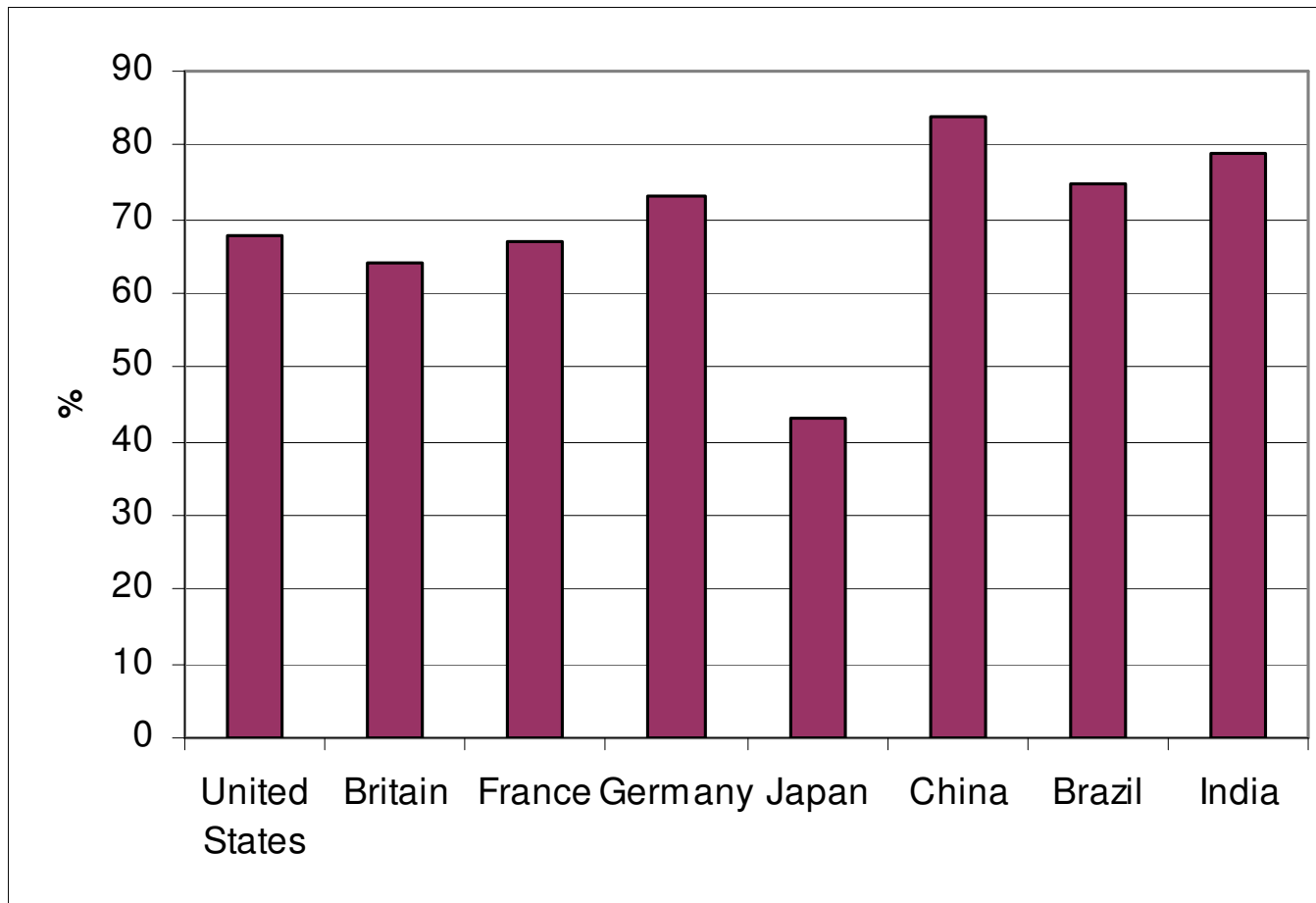
The emerging world leads



Source: IMF World Economic Outlook, Oct. 5, 2010 p. 201 (table a4), Jan. 25, 2011

The free market brand is strong

Are people better off in free markets? (% answering yes)

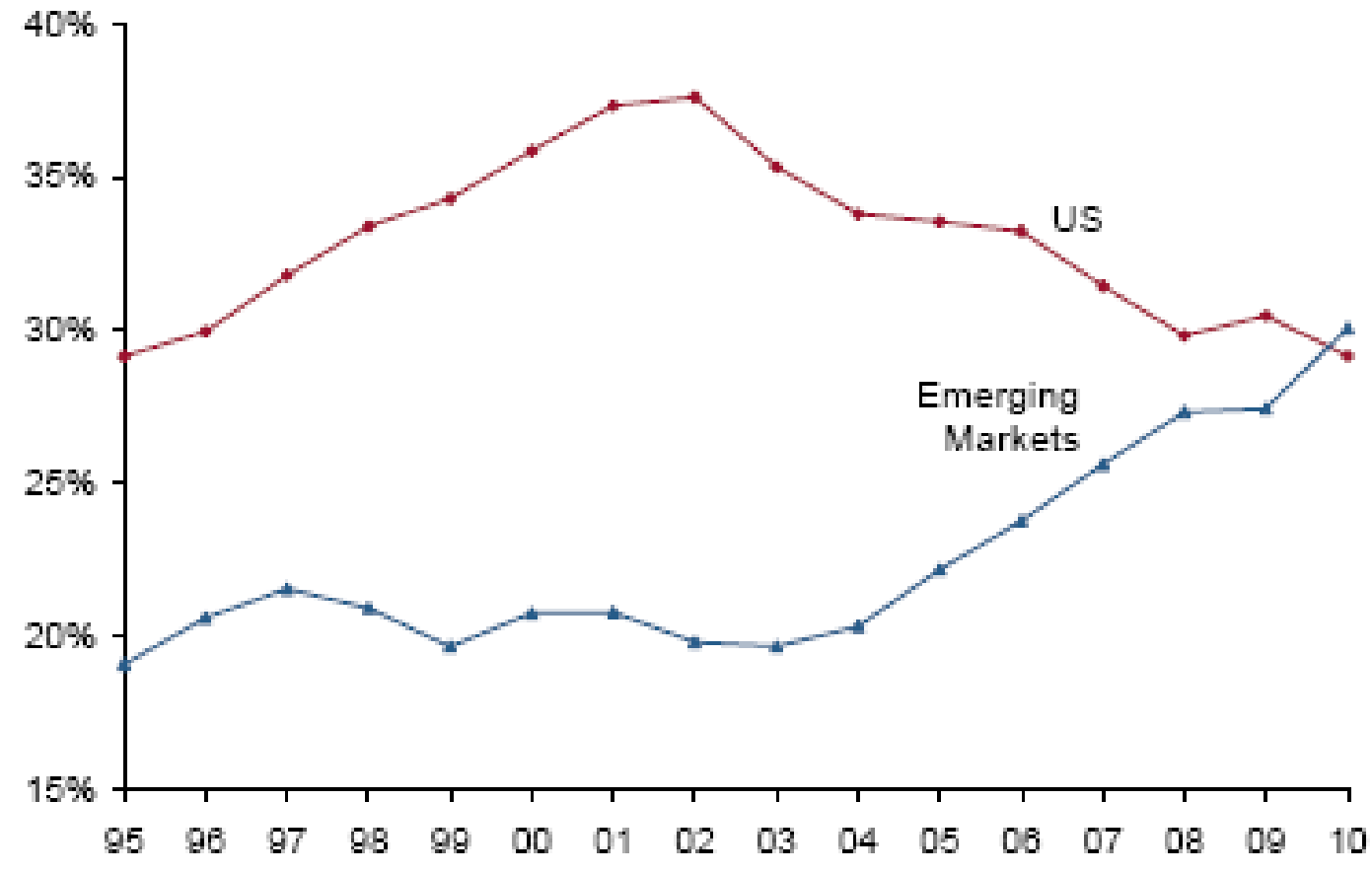


Source: Pew Global Attitudes poll June 17, 2010

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No longer consumers of last resort

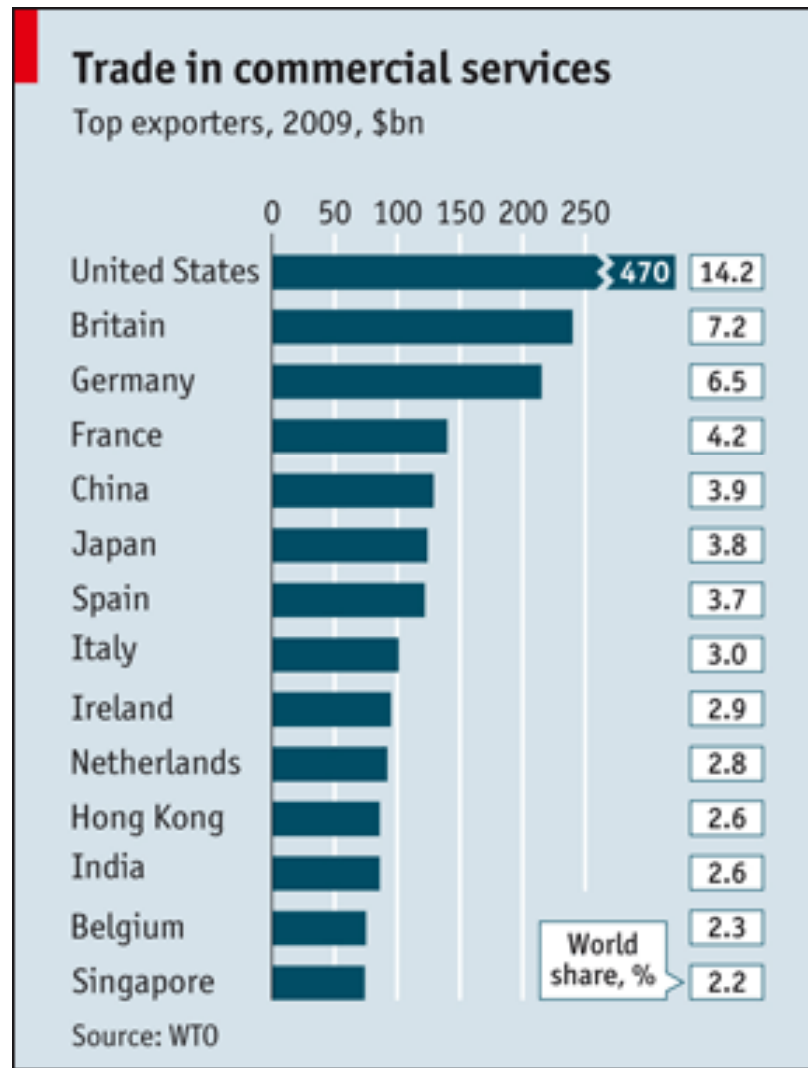
Shares of global consumption



Source: Credit Suisse Jan. 14, 2011

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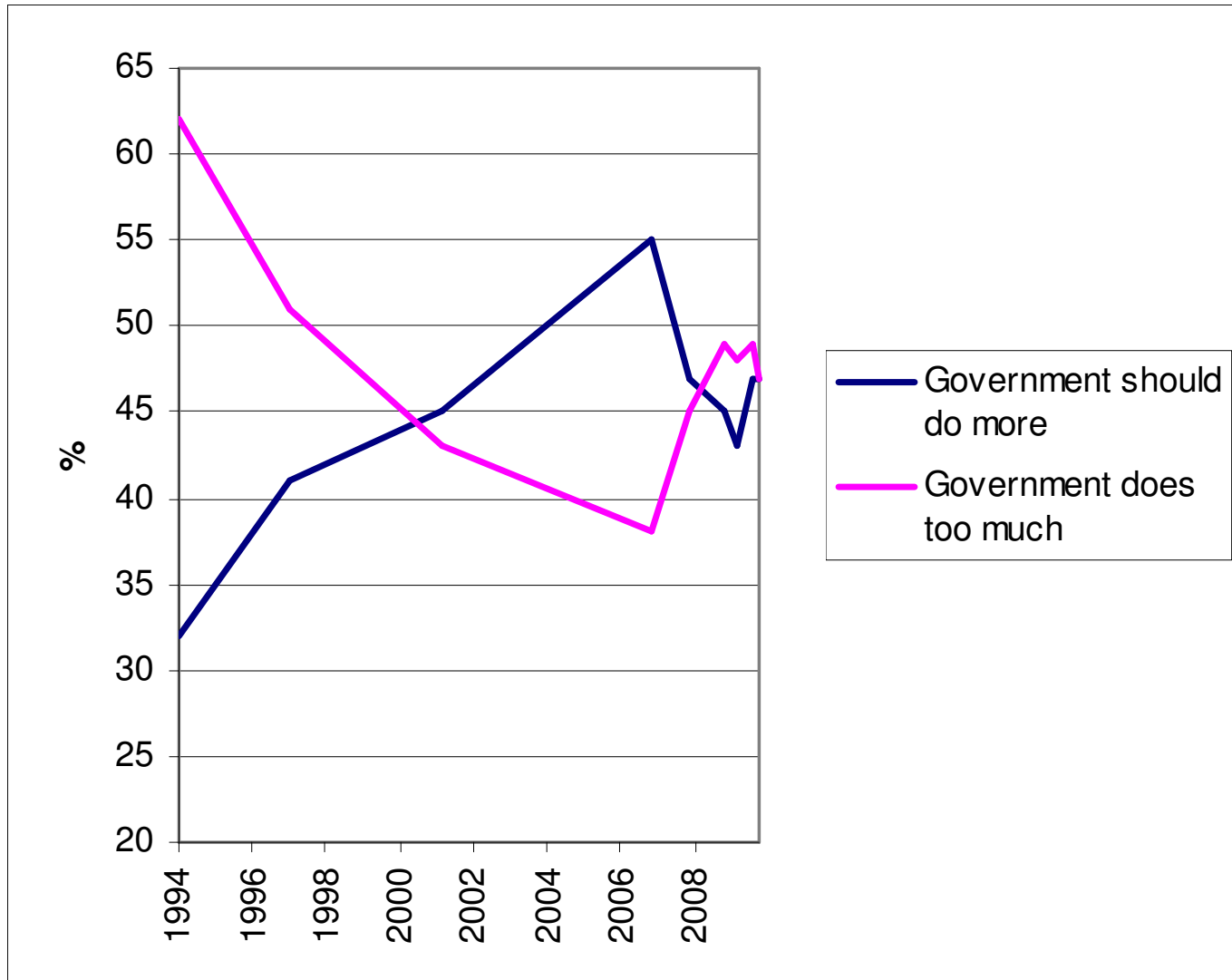
The service leader



Source: The Economist, April 15, 2010

The policy outlook

How much government is enough?



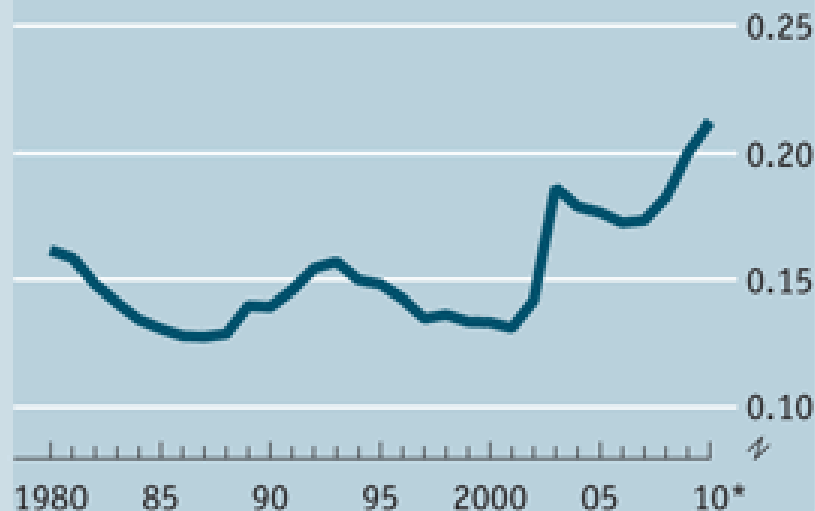
Source: WSJ NBC Poll Aug. 2010

Red tape & regrets

Doing you good, so they say

Federal regulatory employees

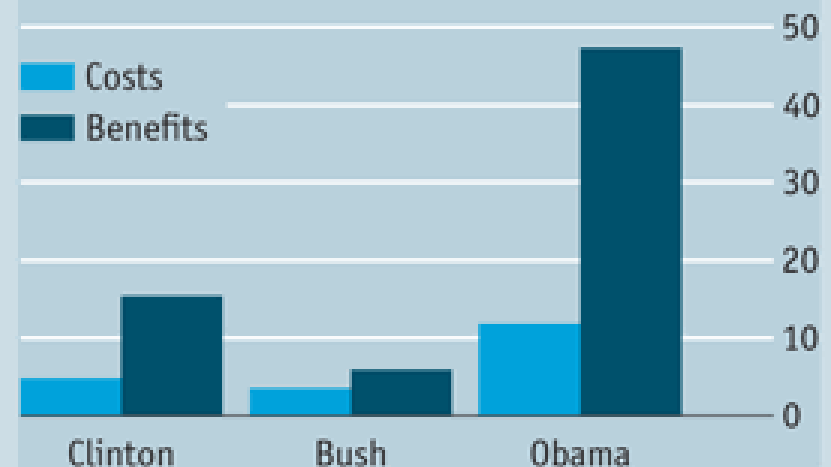
% of total employment



Sources: Susan Dudley (George Washington University) and Melinda Warren (Washington University); White House Office of Information and Regulatory Affairs

Annual costs and benefits of new rules implemented in first two years of an administration

\$bn, 2001

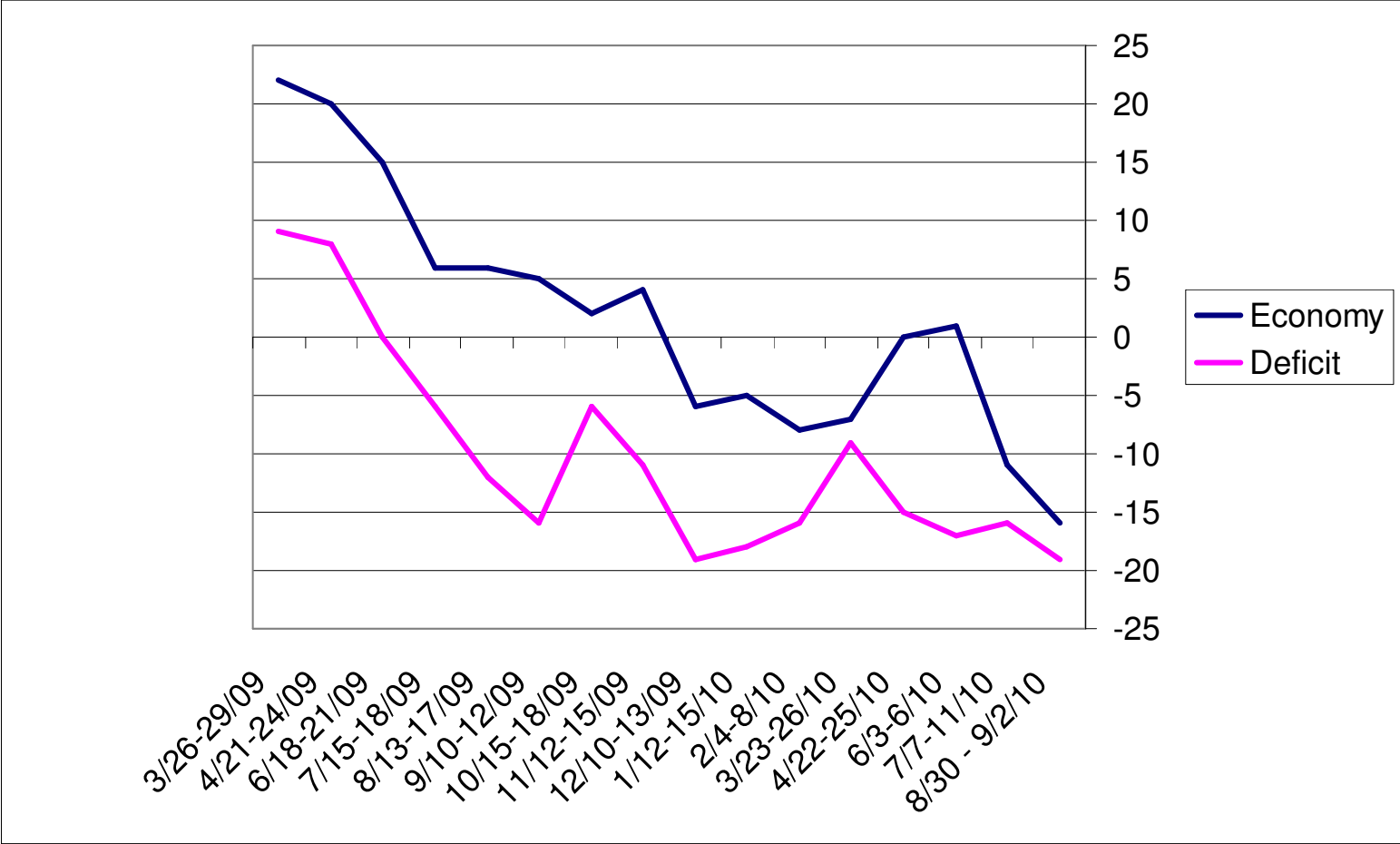


*Based on appropriated staffing levels

Source: The Economist, 1/20/2011

Obama between rock, hard place

Net approval rating for Barack Obama (Approve minus disapprove)



Source: Washington Post/ABC

The budget challenge



Only 2 obstacles to deficit action

1. Democrats

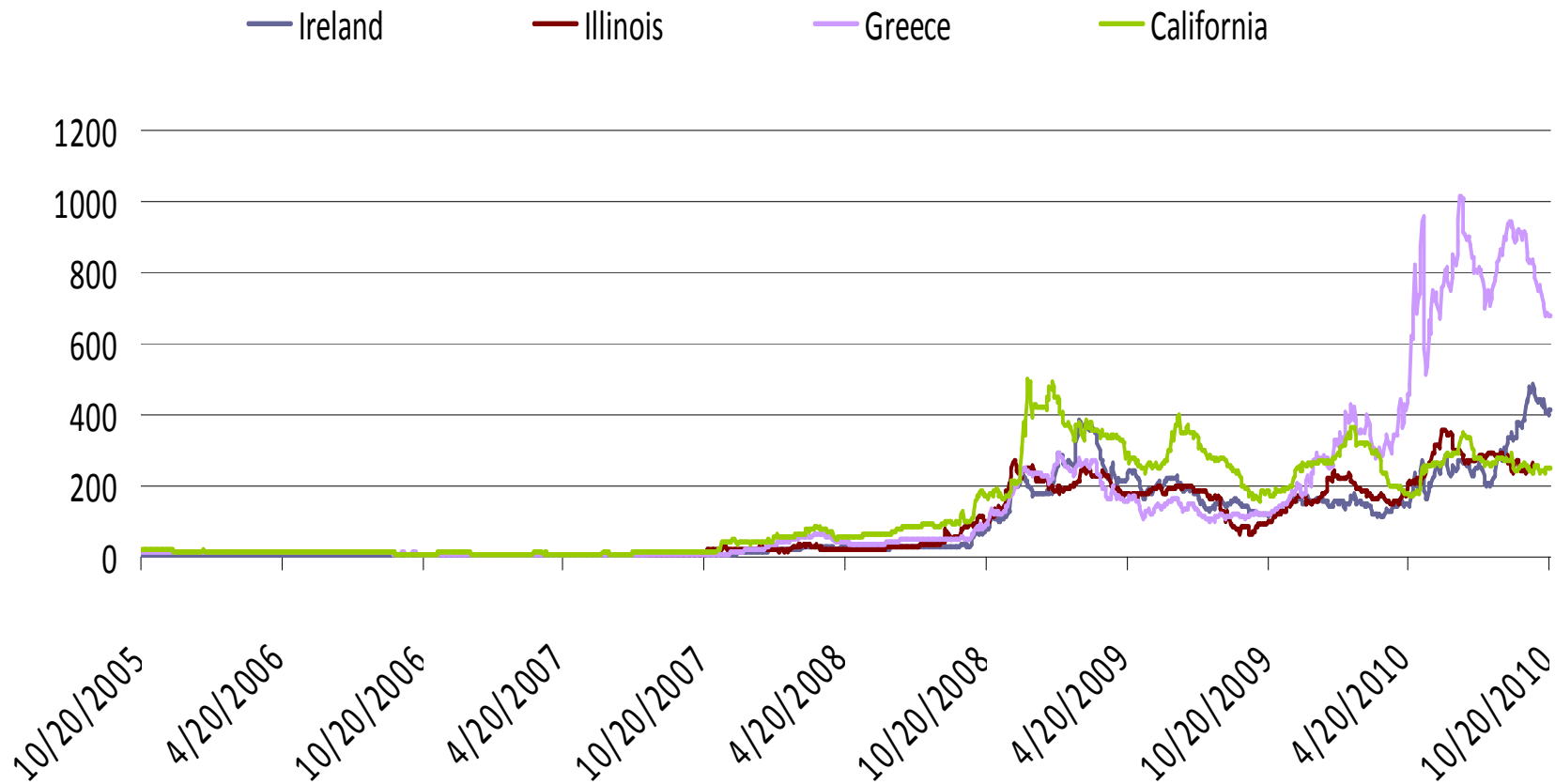
- *Won't reopen health care*
- *Tax reform only if it raises more money*
- *Social security a political loser*

2. Republicans

- *Repeal Obamacare, hands off Medicare*
- *Tax reform only if it doesn't raise more money*
- *Social security a political loser*

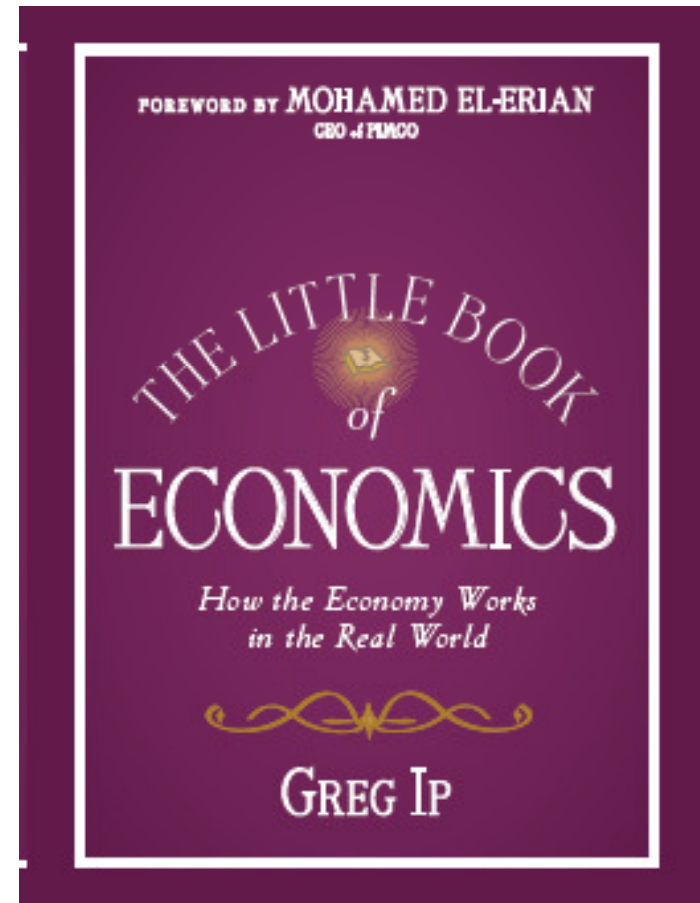
For Greek parallels, look to the states

Credit default swap spreads



Shameless self promotion

- Thinking citizen's guide to the economy
- Clearly written, examples, anecdotes
- No Greek letters or charts.
- Not a crisis book
- Does explain origins of crisis, and its consequences
- Journalism, not ideology
- Useful: explains economic indicators and economic concepts
- Little: half the size of most hard cover books. And short!



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