

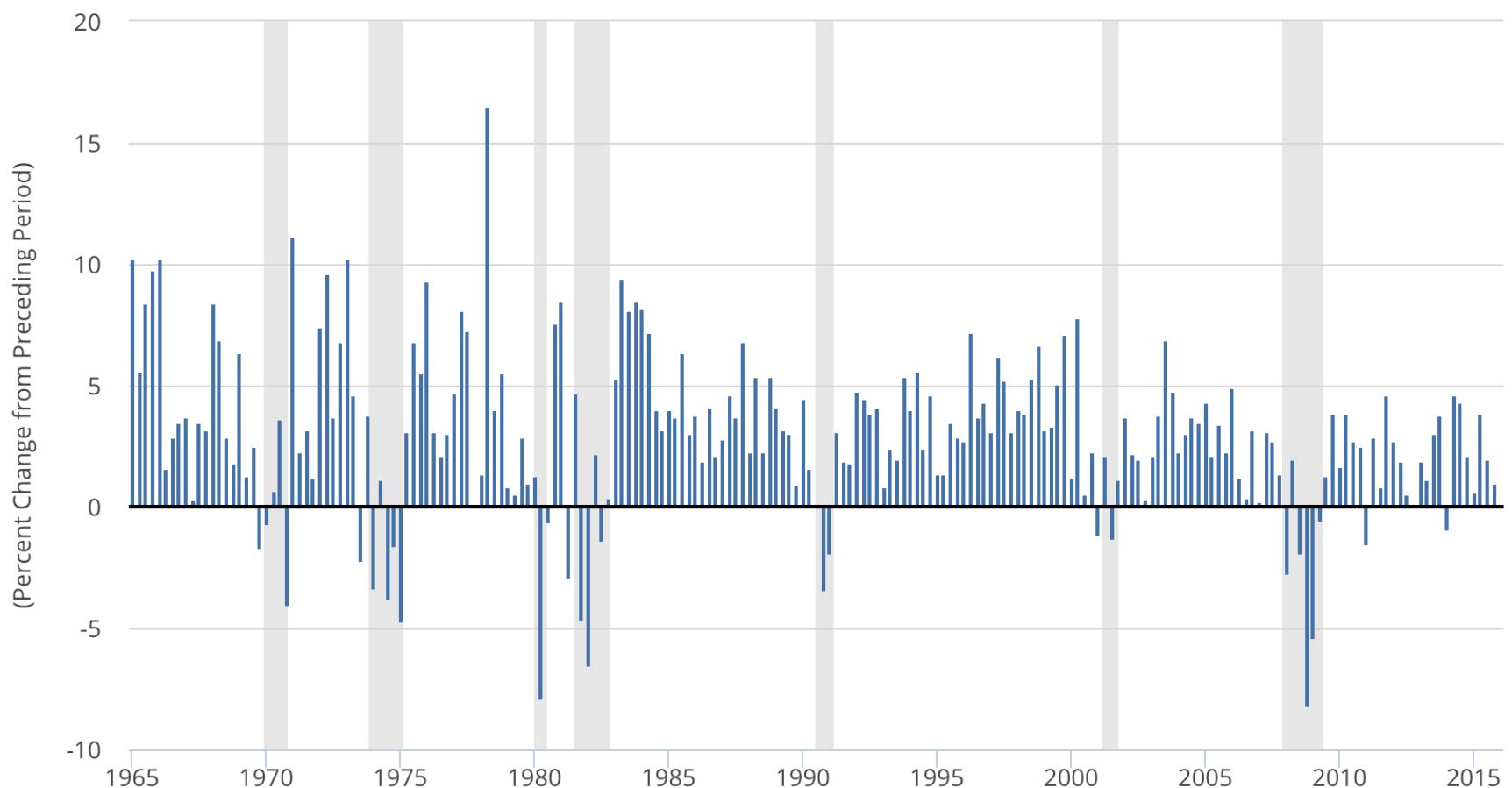


Are we ready for the next recession?

Introductory remarks by David Wessel
March 21, 2016

Change in real GDP

1965-2015



Source: U.S. Bureau of Economic Analysis, Federal Reserve Economic Data (FRED)



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Our question today:

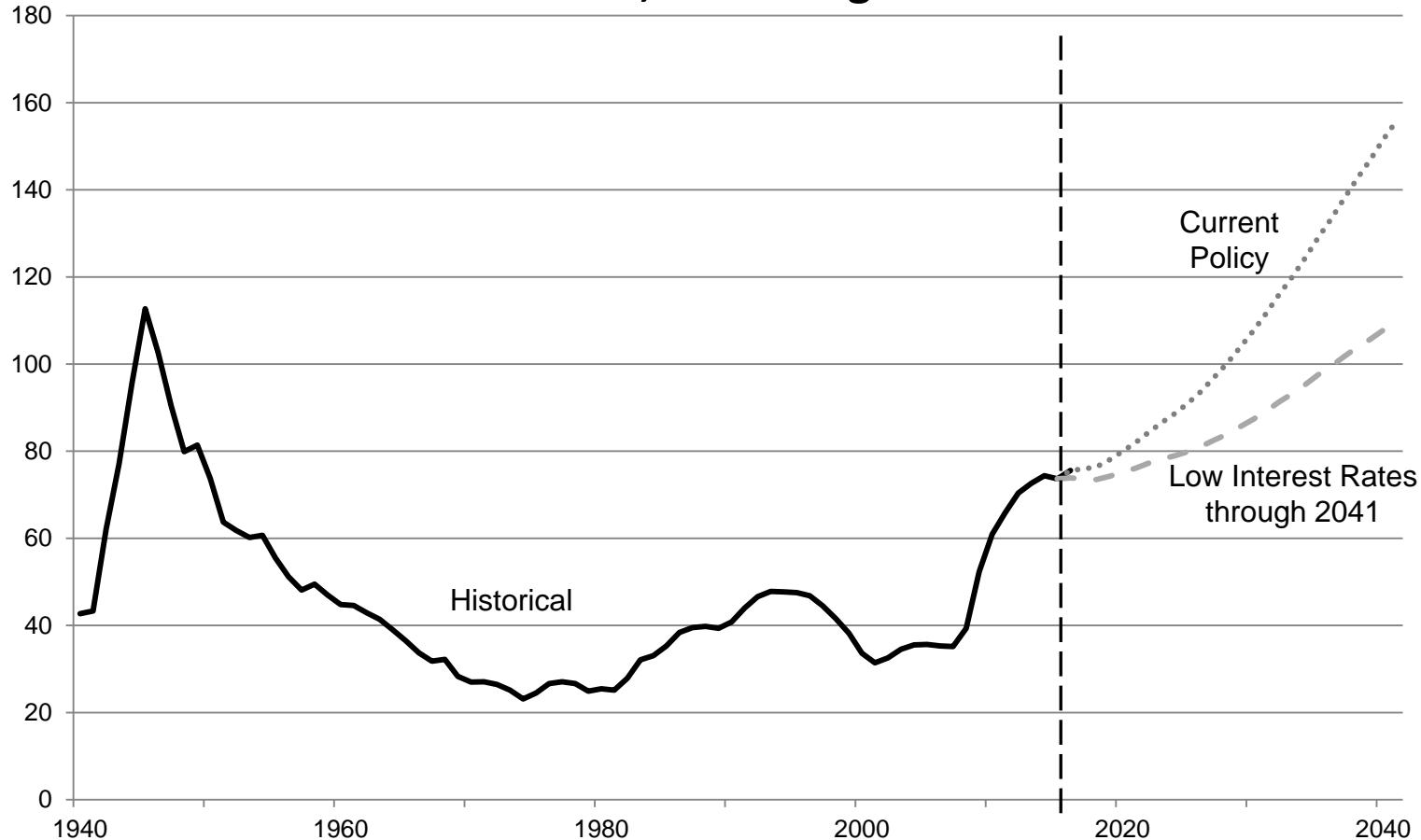
What could fiscal and monetary policy do if the next recession hits in the next 1-3 years?



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A few fiscal facts...

Debt 1940-2041, Percentage of GDP



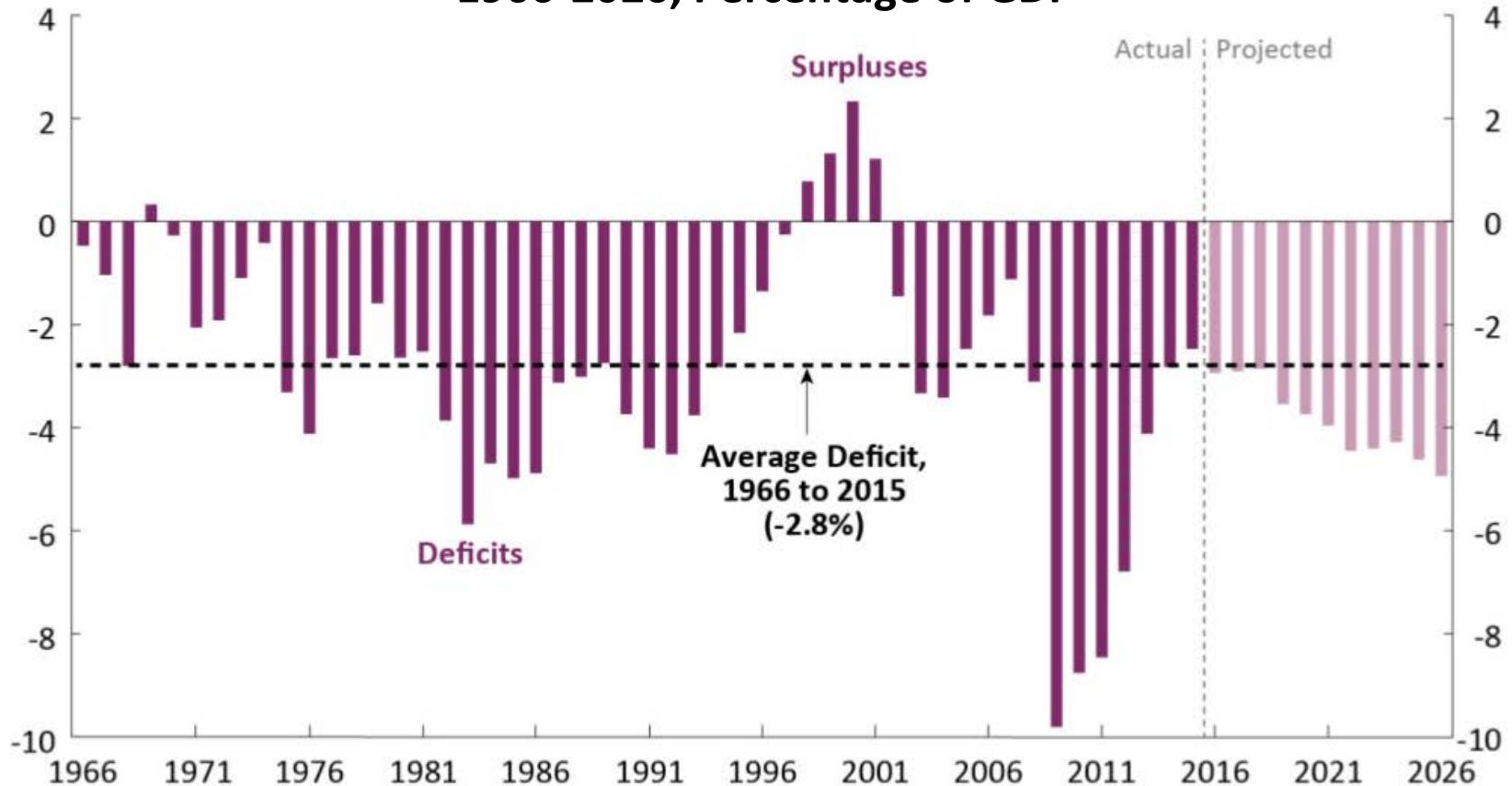
Source: CBO (2010), CBO (2016), Auerbach and Gale (2016)



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A few fiscal facts...

Total Deficits or Surpluses 1966-2026, Percentage of GDP



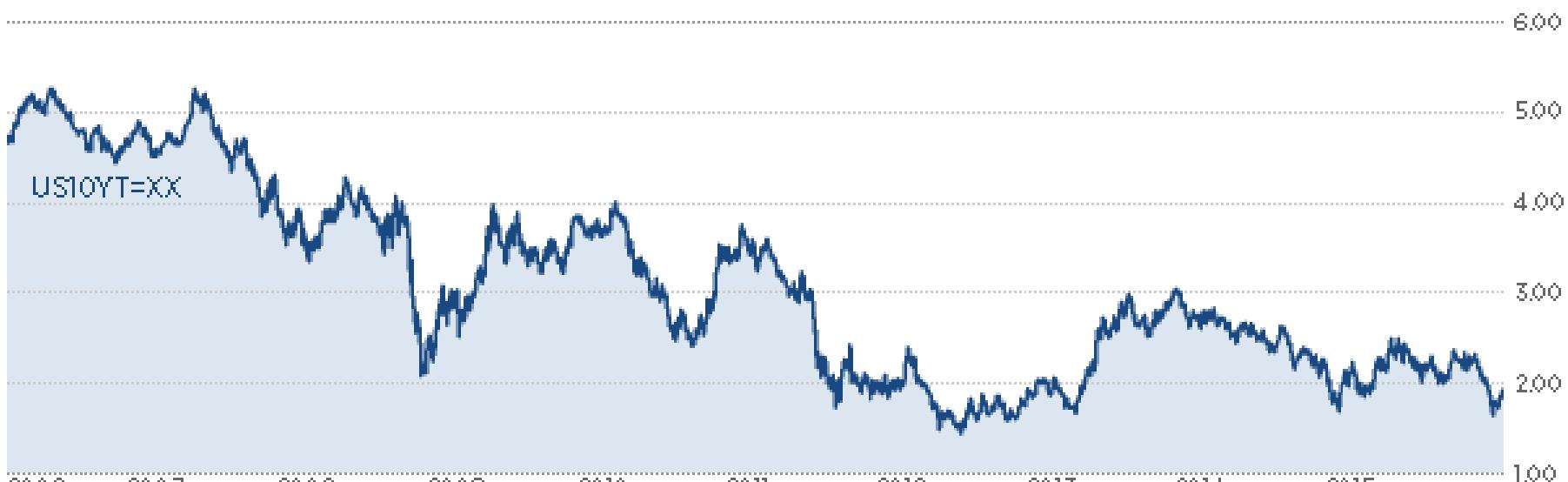
Source: CBO, [2016 Budget and Economic Outlook](#)



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A few fiscal facts...

U.S. 10 Year Treasury Yields 2006-2016



Source: Exchange

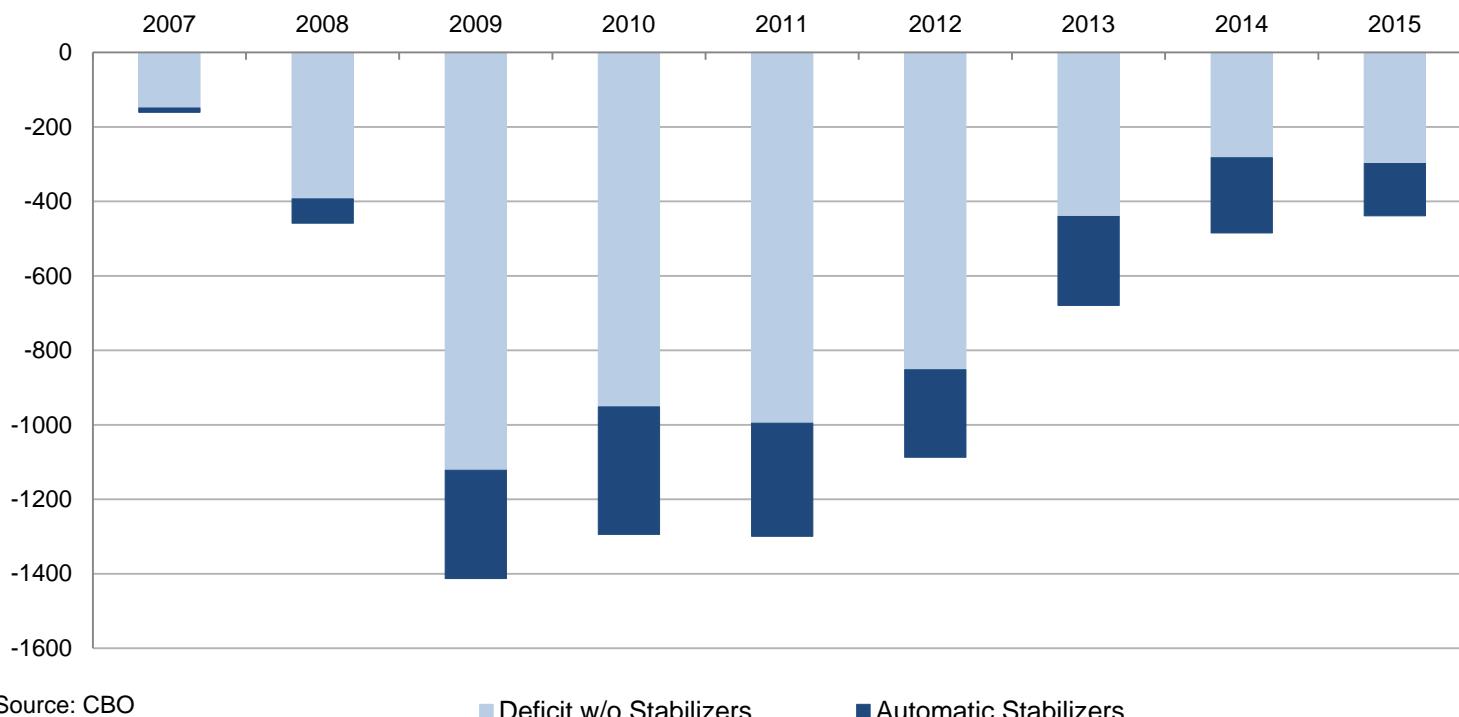


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Automatic stabilizers during and after the Great Recession

Automatic Stabilizers During and After the Great Recession

Billions of US\$



Source: CBO

Deficit w/o Stabilizers

Automatic Stabilizers



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Discretionary Fiscal Policy During and After the Great Recession

Programs	Originally Committed	Ultimate Cost
TARP	600	40
Economic Stimulus Act of 2008	170	170
American Recovery and Reinvestment Act (ARRA) of 2009	808	832
Cash for clunkers	3	3
Additional emergency UI benefits	90	90
Education Jobs and Medicaid Assistance Act	26	26
Other stimulus	20	20
Tax Relief Unemployment Insurance Reauthorization and Job Creation Act of 2010	189	189
Temporary Payroll Tax Cut Continuation Act of 2011	29	29
Middle Class Tax Relief and Job Creation Act of 2012	125	125
Total	2060	1524

Note: ARRA excludes AMT Patch

Source: Center on Budget and Policy Priorities (CBPP)



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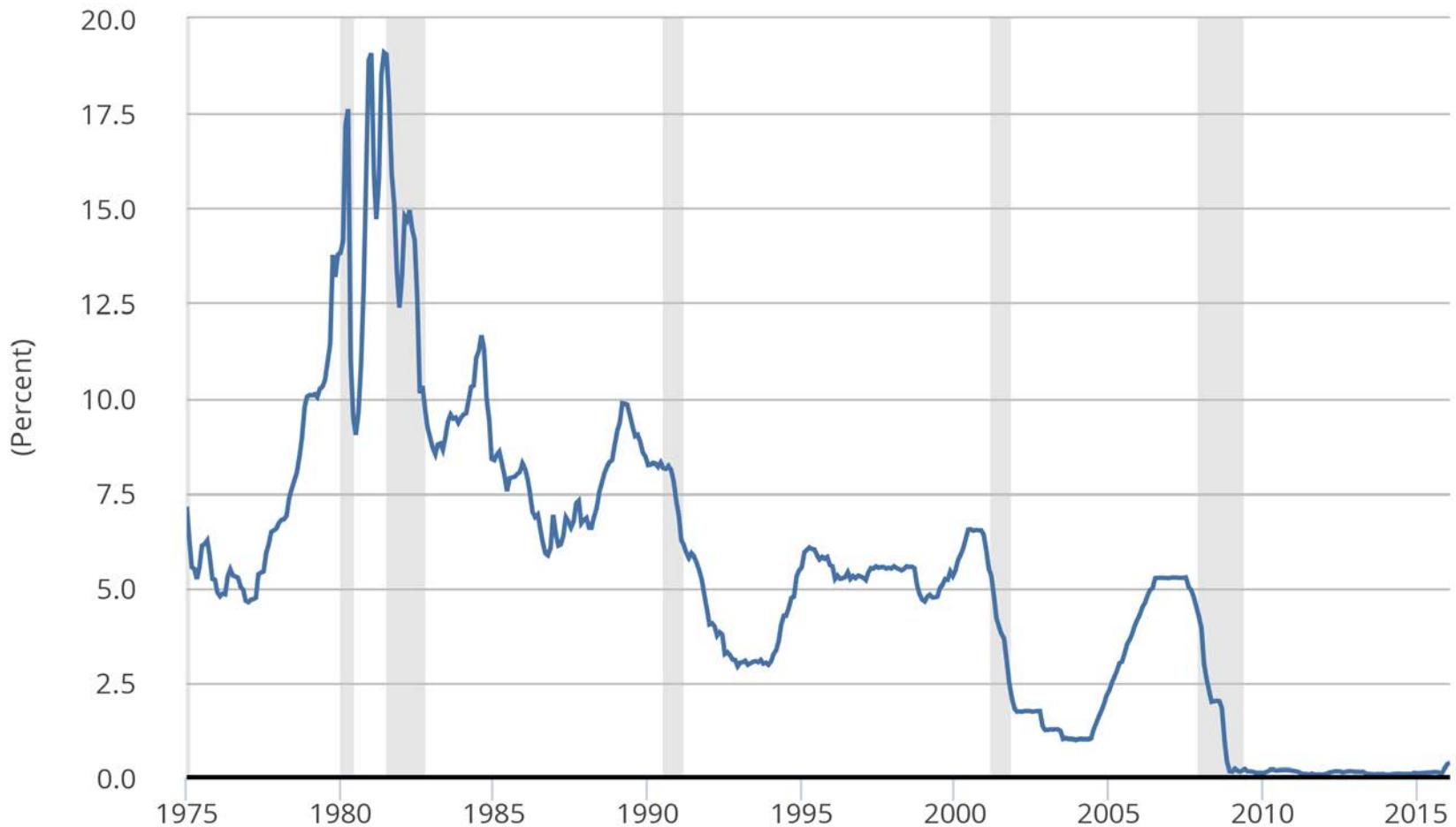
Could we do it again if we needed a fiscal stimulus?



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Monetary Policy

Effective federal funds rate



Monthly, Not Seasonally Adjusted

Source: Board of Governors of the Federal Reserve System (FRS)

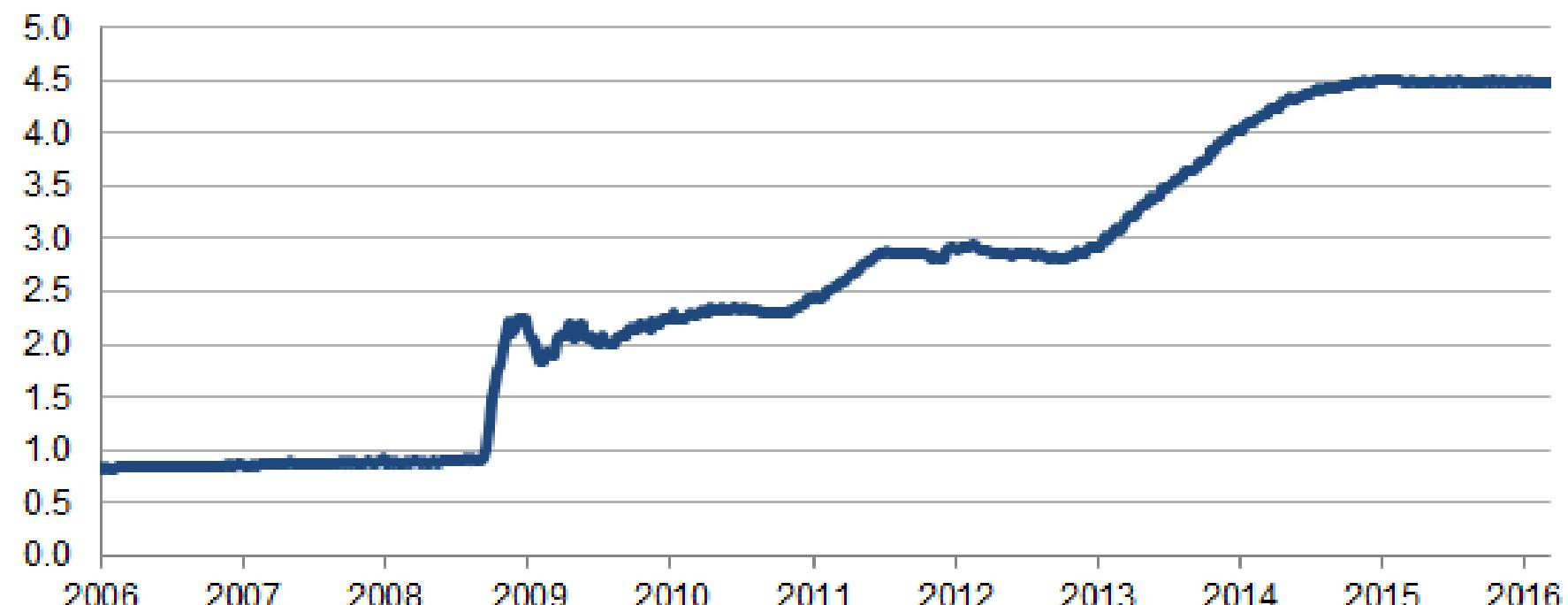


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Fed Balance Sheet

Federal Reserve Assets

Trillions of US\$



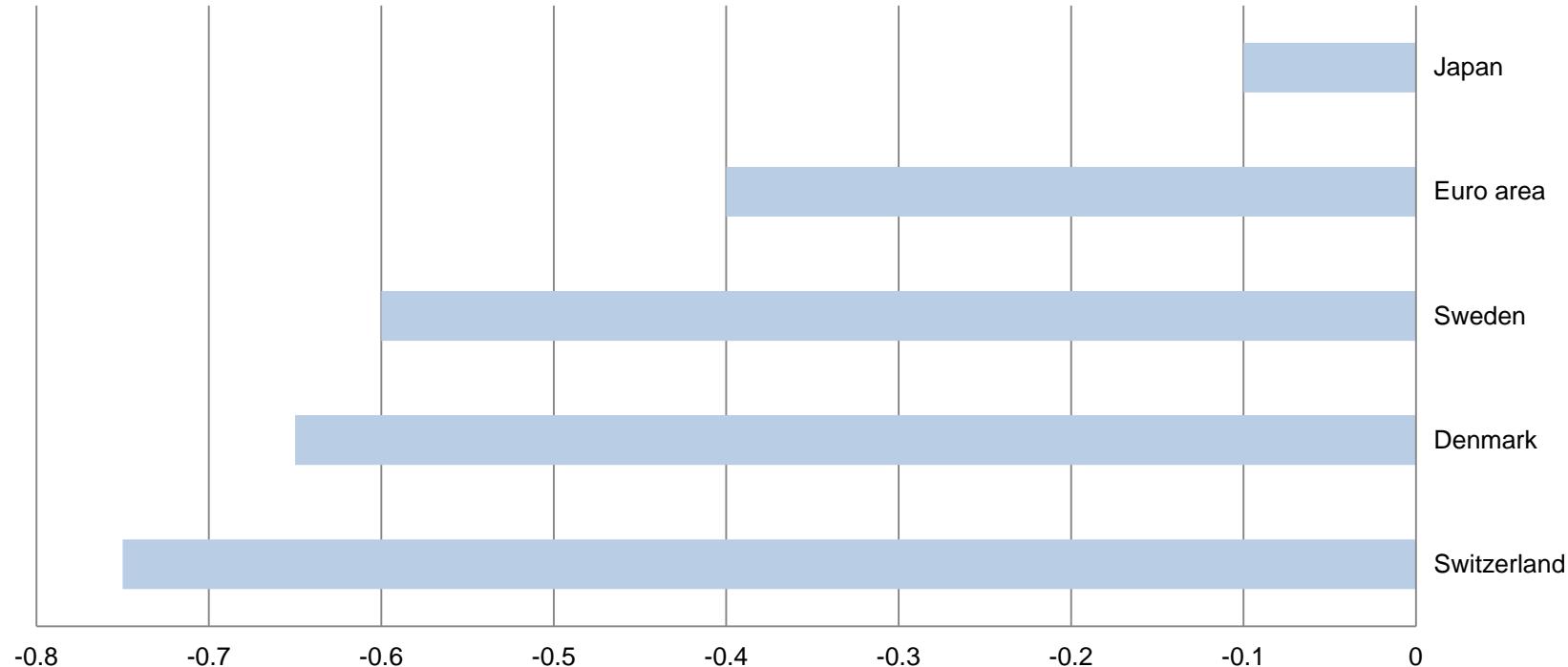
Source: Board of Governors via FRED



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Negative Rates

(policy rate, as of March 2016)

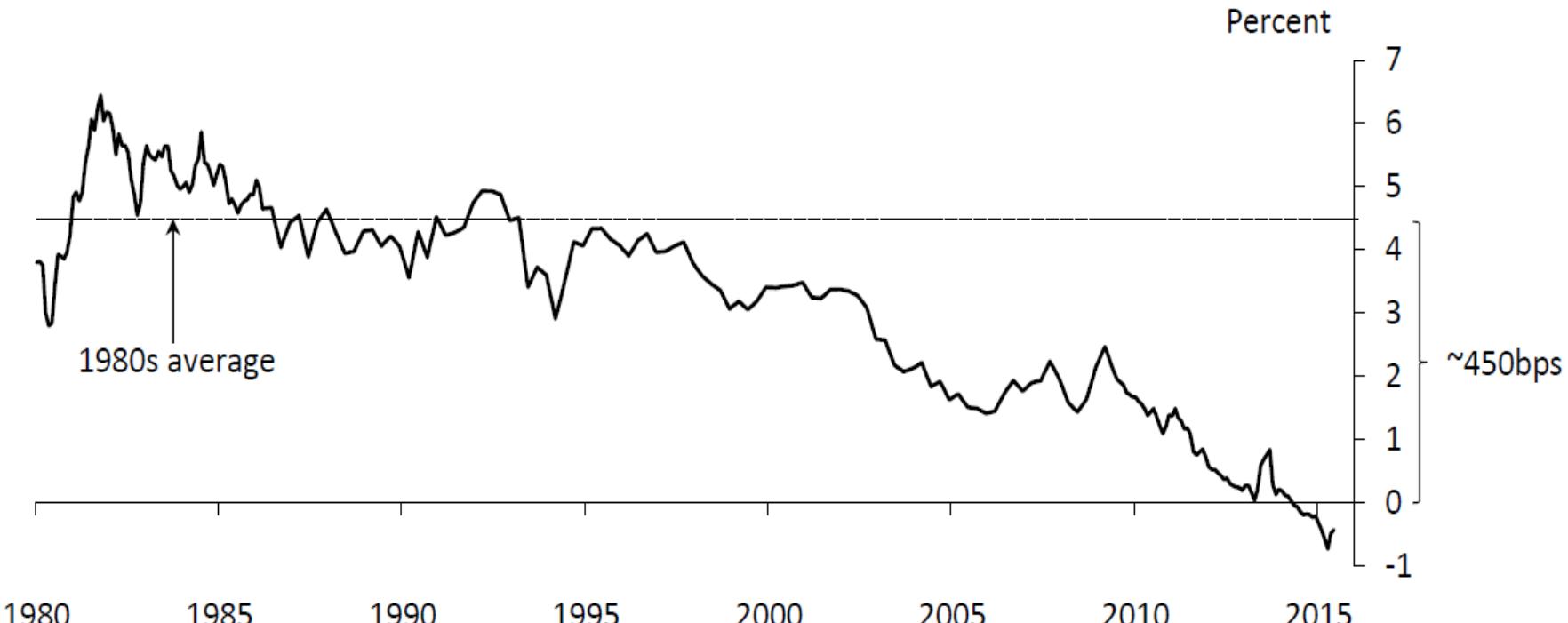


Source: Respective central banks, [Goldman Sachs Research](#)



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Global real interest rates



Source: Bank of England. Black line is taken from [King and Low](#) (2014), based on the average 10-year spot yield on inflation-linked bonds in the G7 (ex. Italy).



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Could the Fed do more?



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