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Editors’ Introduction

THE BROOKINGS PANEL ON ECONOMIC ACTIVITY held its ninety-third conference in Washington, D.C., on March 22 and 23, 2012. The conference was held against a backdrop of a U.S. economy continuing to struggle to recover from the Great Recession, European economies facing renewed crisis and recession, and an unprecedented period of ferment and possibilities for democratic change in the Middle East.

The six papers in this issue address various aspects of these extraordinary developments. The first paper, by Jeffrey Campbell, Charles Evans, Jonas Fisher, and Alejandro Justiniano, examines how the Federal Reserve, having brought its policy interest rate down to its lower bound, can use forward guidance—public statements about its future interest rate actions—to influence the economy. In the second paper, James Stock and Mark Watson compare the dynamics of a wide range of macroeconomic variables in the Great Recession with their behavior in previous recessions and attempt to identify the sources of the recession and the slow recovery. The third paper, by Jay Shambaugh, turns to Europe, arguing that policymakers cannot resolve the continent’s troubles unless they recognize that the euro is facing three interrelated crises: a fiscal crisis, a banking crisis, and a growth crisis. In the fourth paper, Bradford DeLong and Lawrence Summers analyze the role of fiscal policy when the economy faces a long period of high unemployment and monetary policy is constrained; they conclude that fiscal expansion in those circumstances easily passes a cost-benefit test, and indeed, that it likely more than pays for itself in budgetary terms. The fifth paper, by Karen Dynan, presents new evidence from micro data about the role of the overhang of household debt in restraining consumption and slowing the recovery, and assesses households’ progress over the past few years in reducing their high leverage. In the last paper, Eric Chaney addresses the remarkable events of the “Arab Spring,” examining the historical roots of the low levels of democracy in the Arab world and the sources of the recent uprisings.