

U.S. Response to Crisis – the International Perspective

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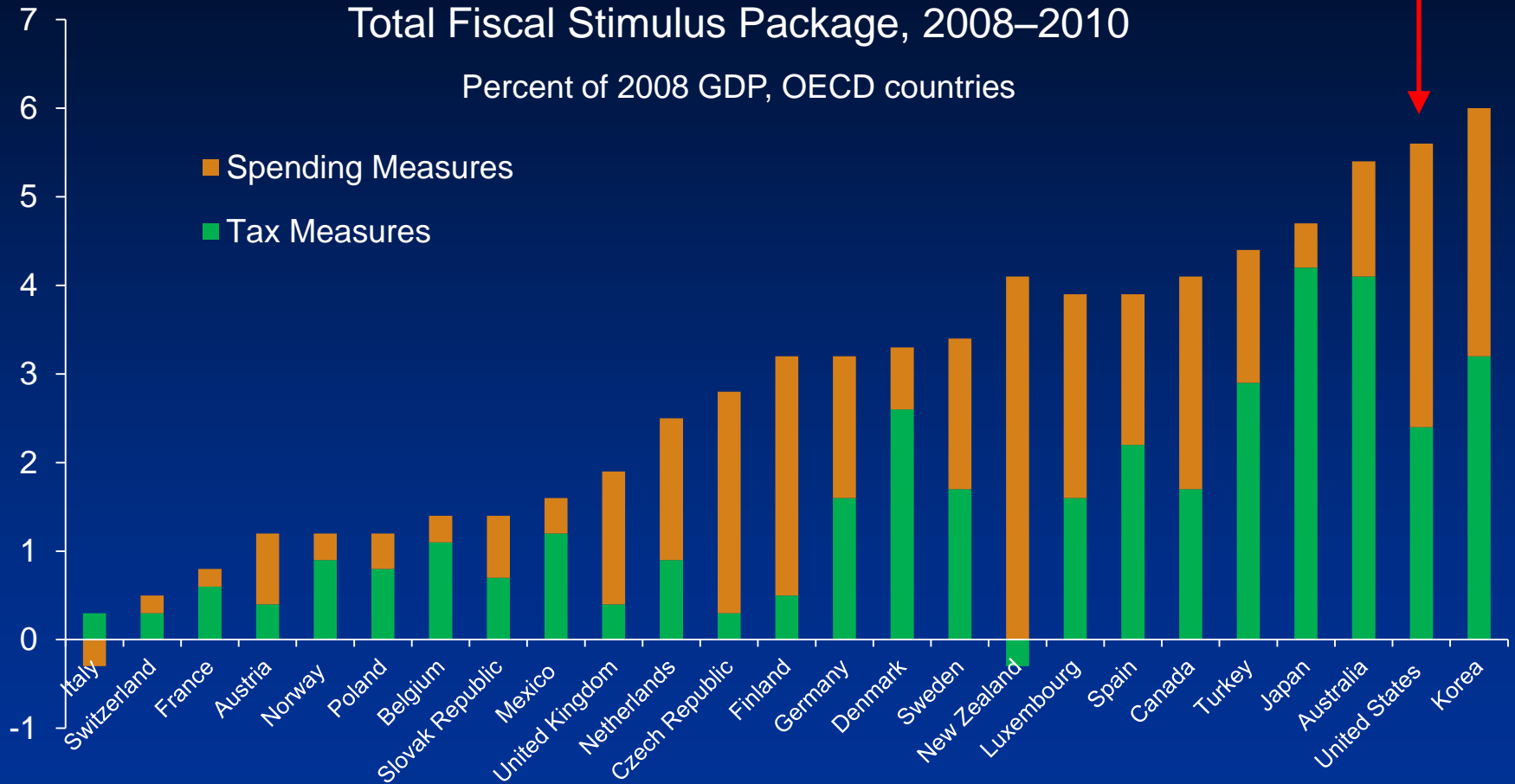
Carnegie Endowment for International
Peace

June 2, 2011

Main Points

1. US policy response biggest and output decline relatively shallow (despite US at crisis epicenter)
2. But...
 - A. surge in unemployment huge
 - B. fiscal crisis looming
 - C. emerging markets overheating
3. Less wallet, more wits?

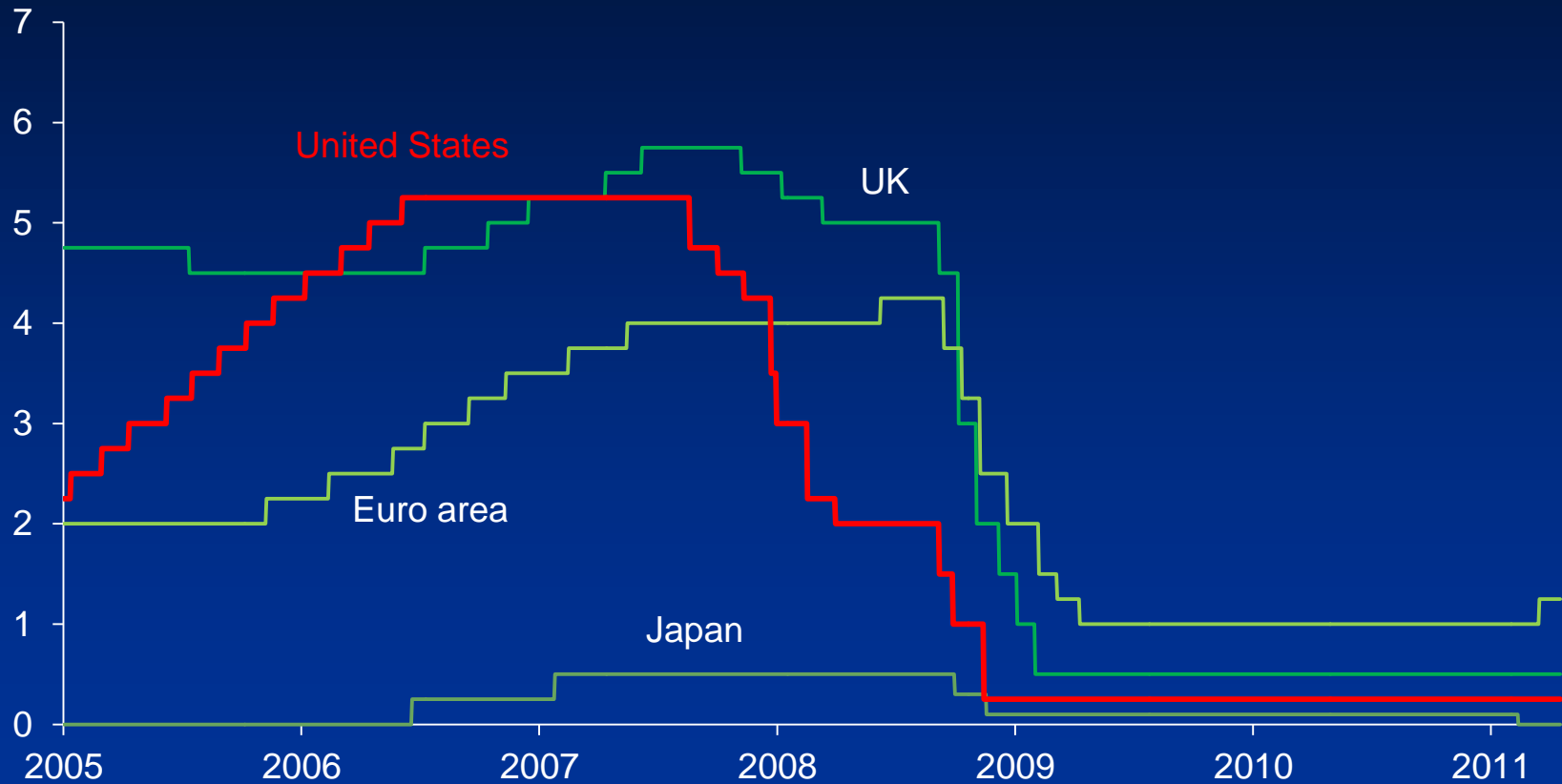
U.S. Fiscal Stimulus Largest



Source: OECD.

U.S. Interest Rate Cuts Biggest...

Central Bank Main Policy Interest Rate



Source: OECD.

Biggest Central Bank Balance Sheet Expansion

Central Bank Balance Sheets

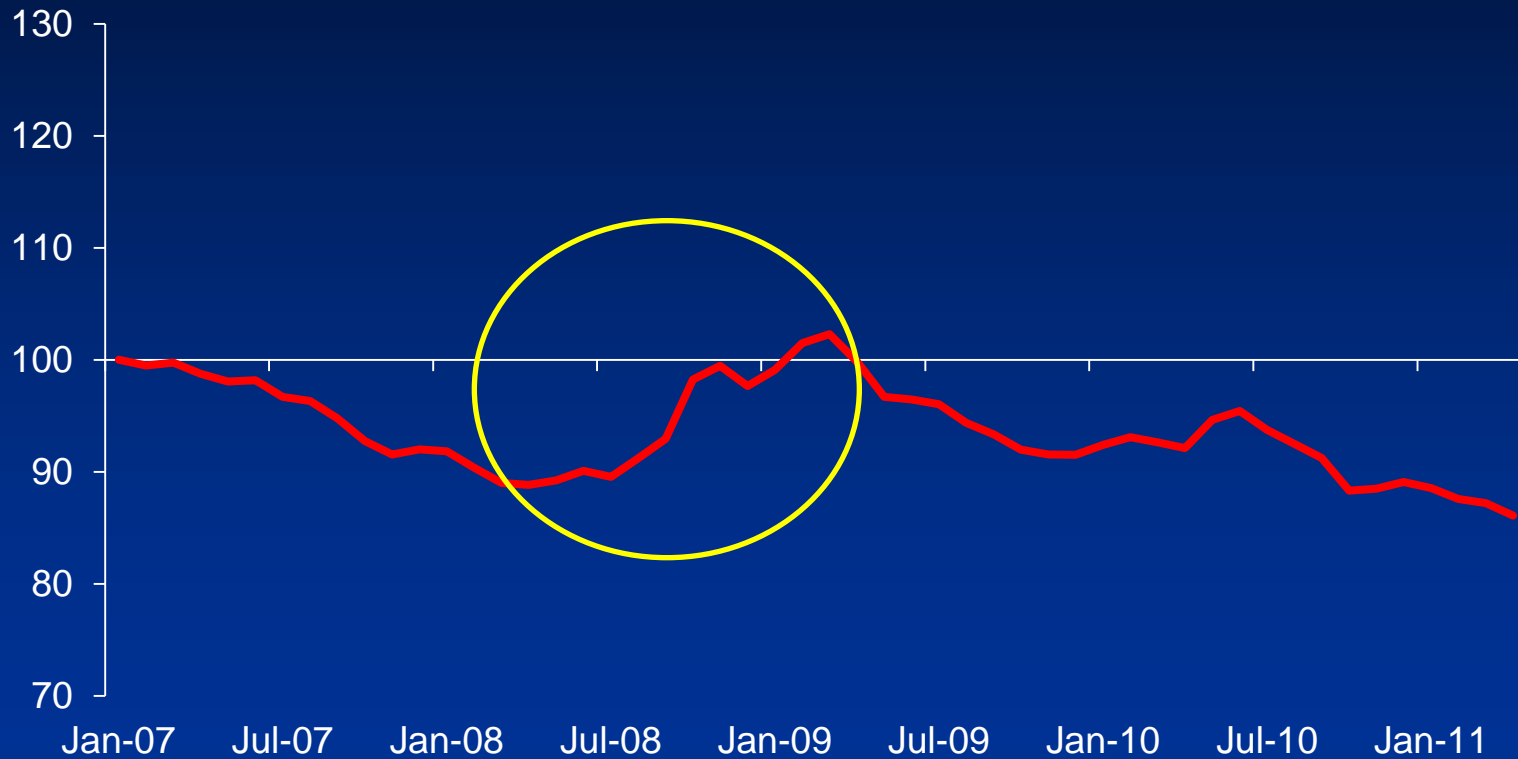


Source: OECD.

The U.S. as a Safe Haven

Real Effective Exchange Rate

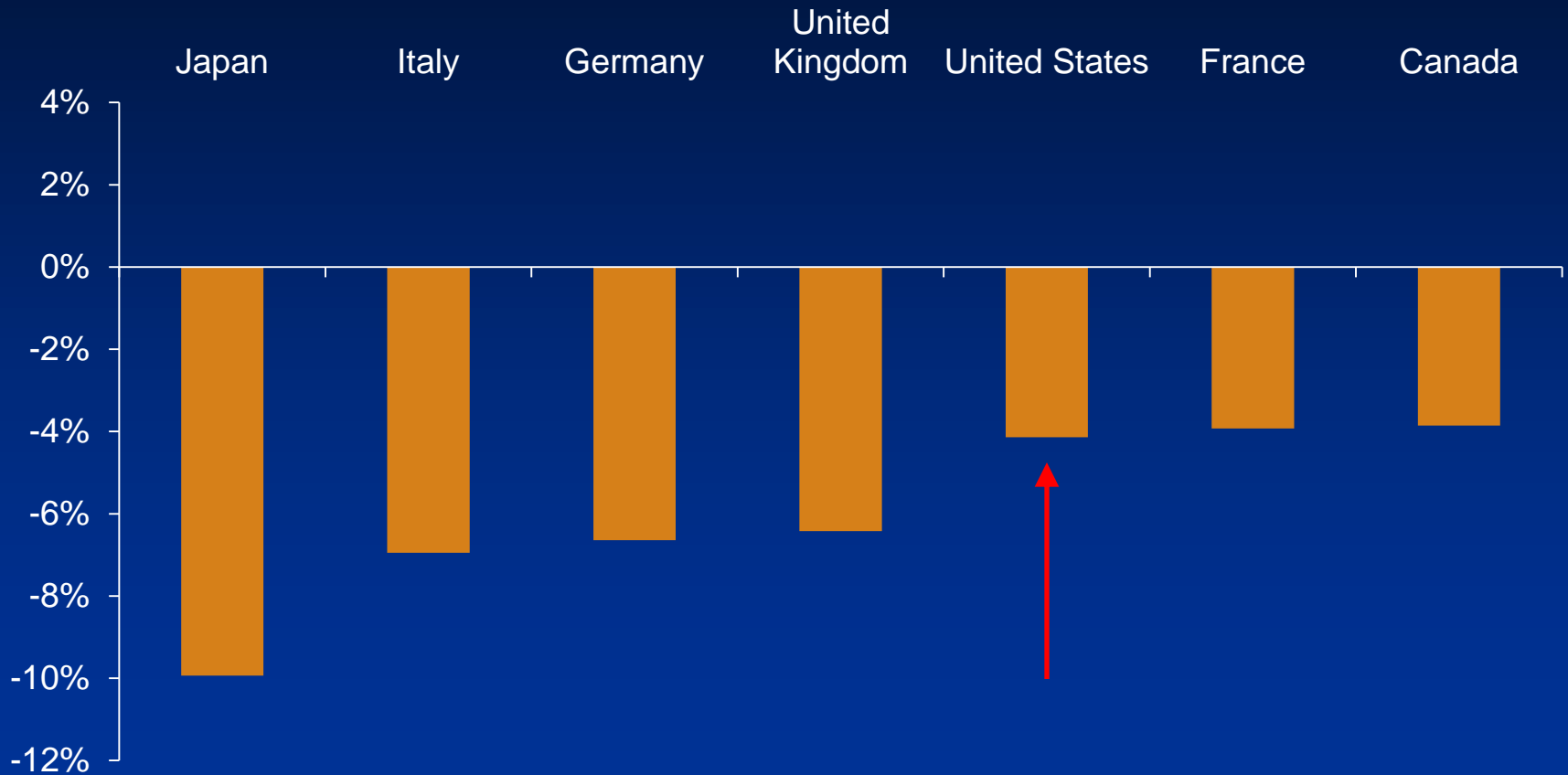
Jan. 2007 = 100



Source: BIS.

Despite U.S. at Crisis Epicenter, Output Decline Moderate

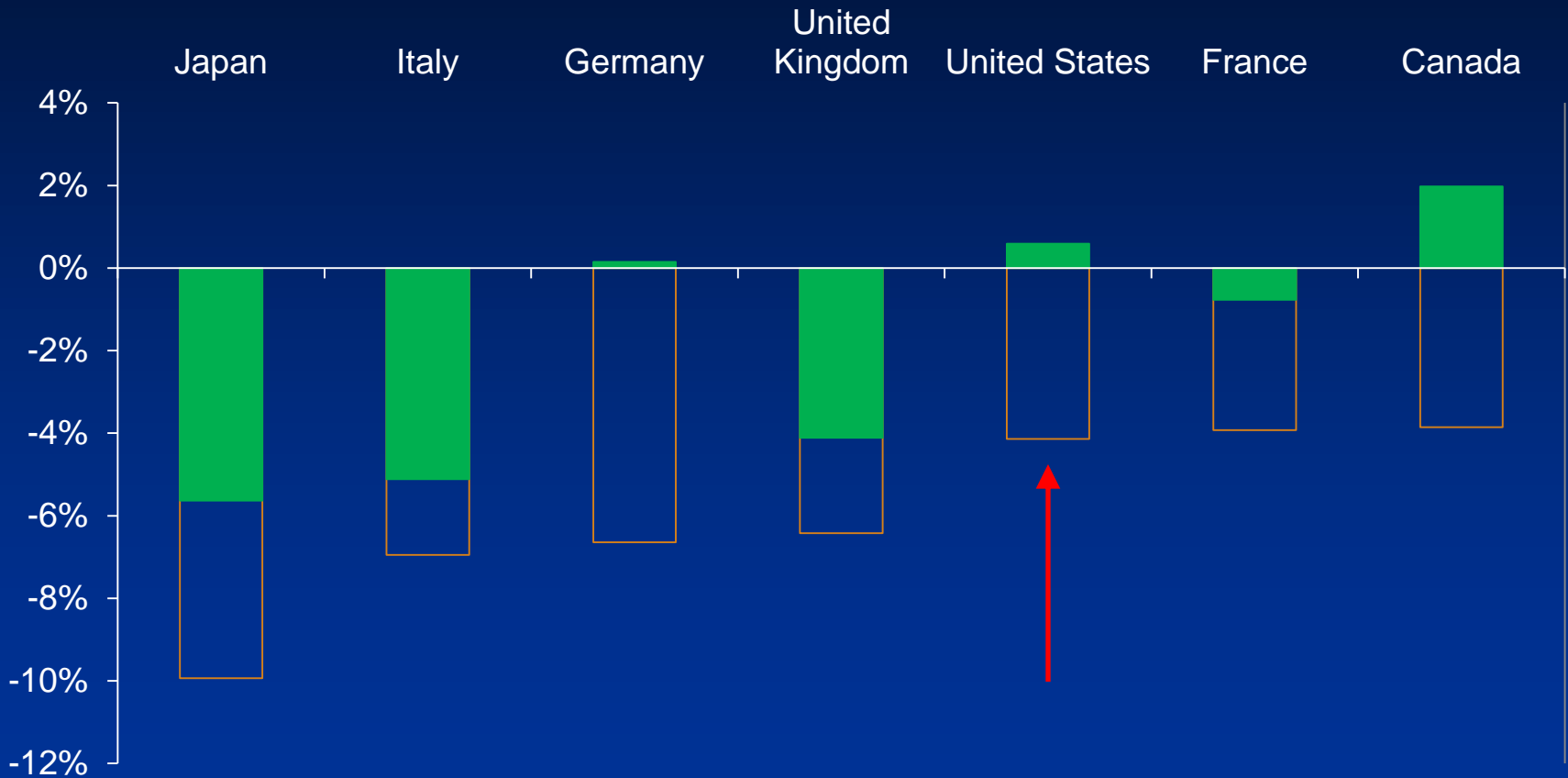
Fall in Real GDP from Peak to Trough



Source: OECD.

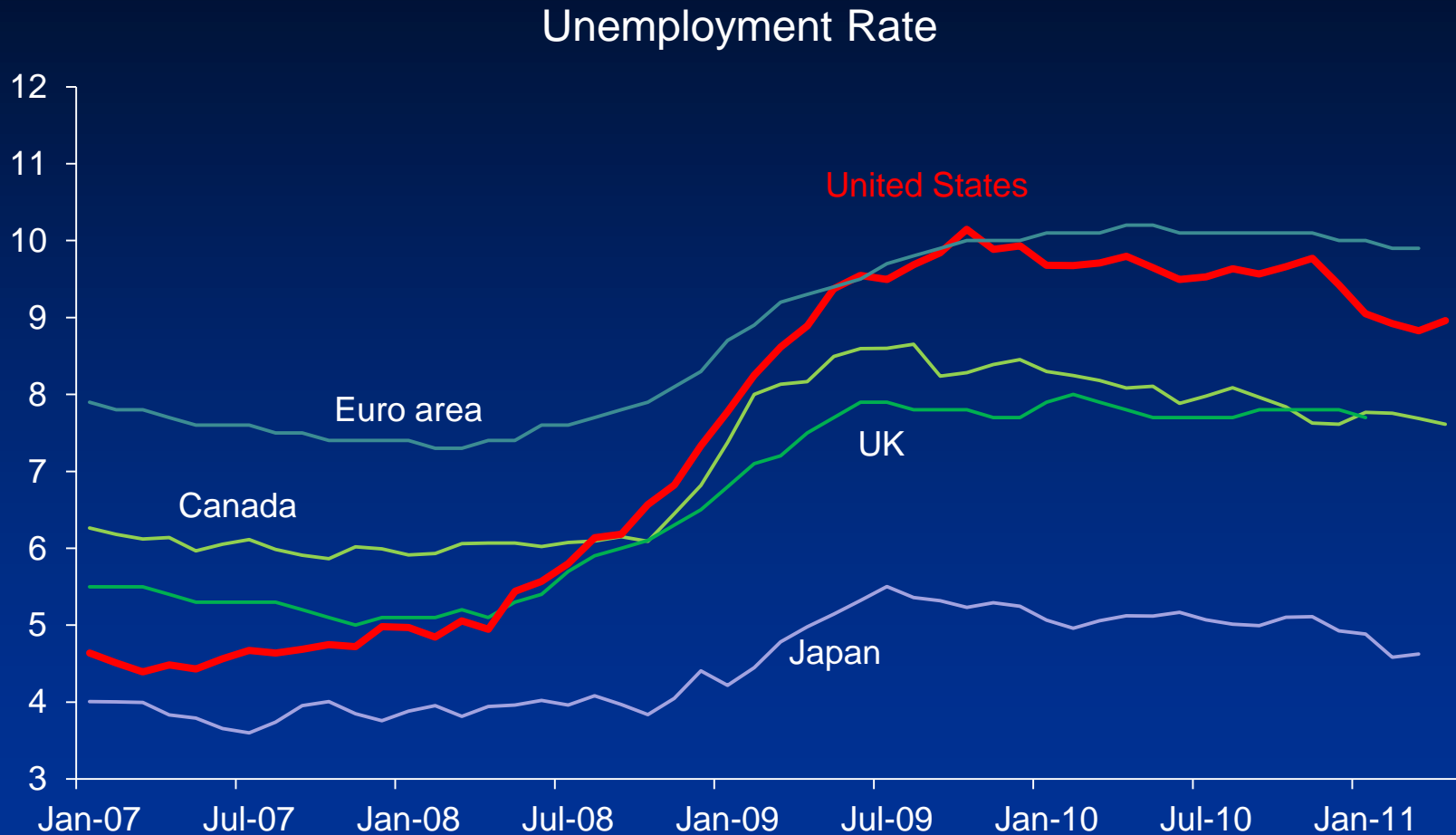
...And Recovery Relatively Rapid

Current GDP Relative to Previous Peak



Source: OECD.

But Unemployment Surge Is Huge

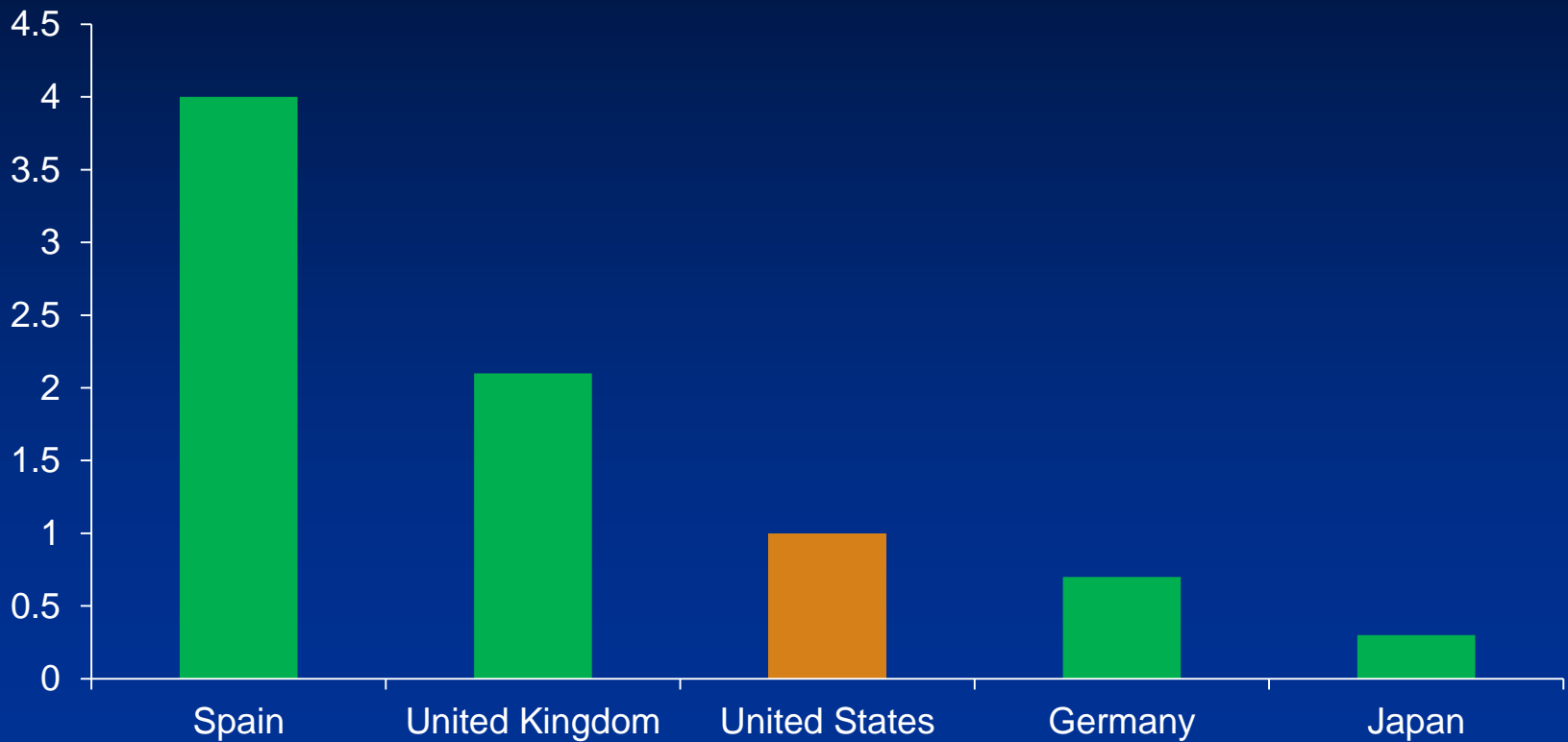


Source: OECD.

U.S. Incomes Growing Slowly

Average Annual Growth of Median Household Income

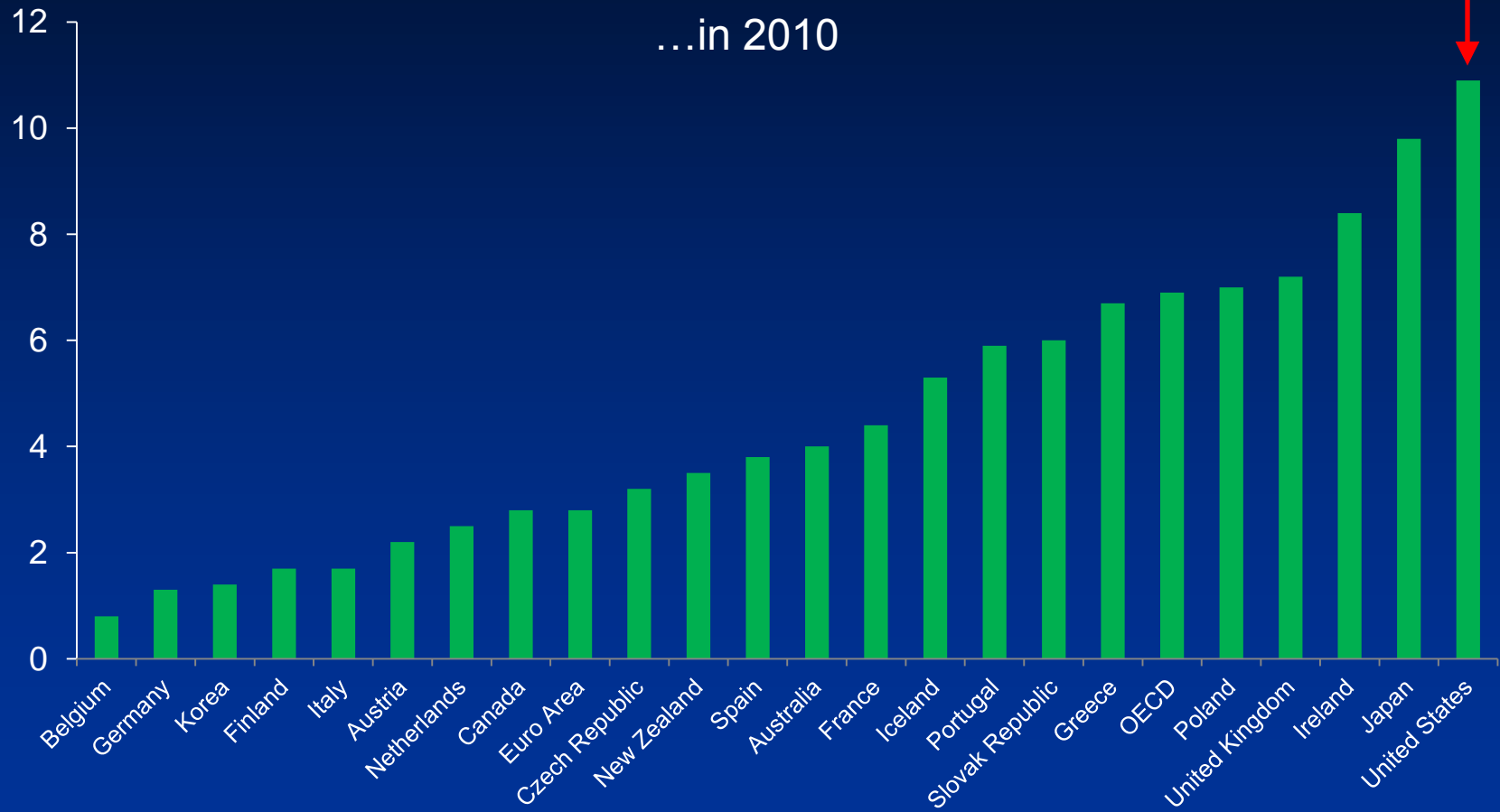
From mid-1980s to mid- to late-2000s



Source: OECD.

Enormous Fiscal Challenge Remains

Fiscal Adjustment Needed to Stabilize Long-Term Debt

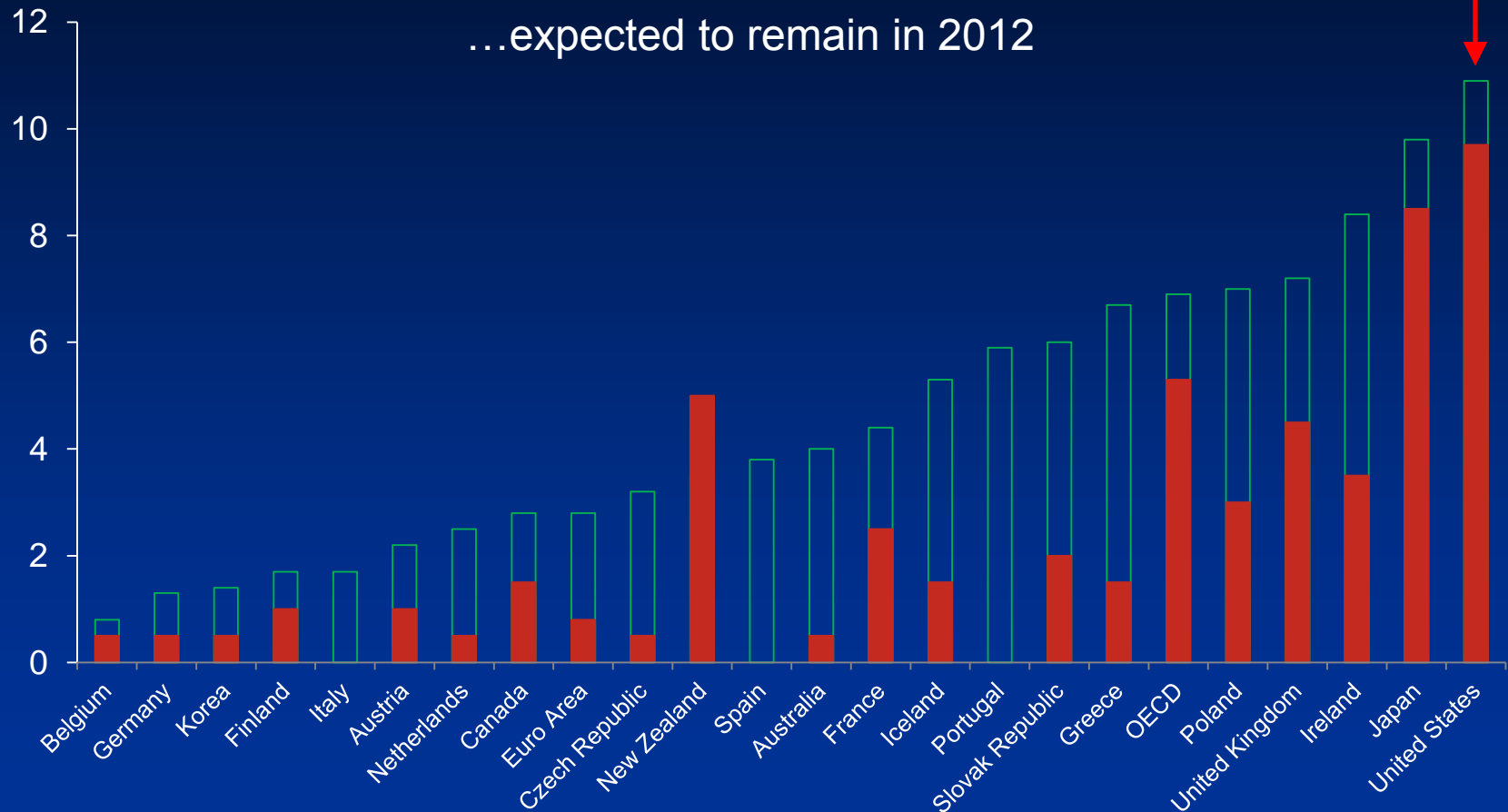


Source: OECD.

And Little Action Has Been Taken

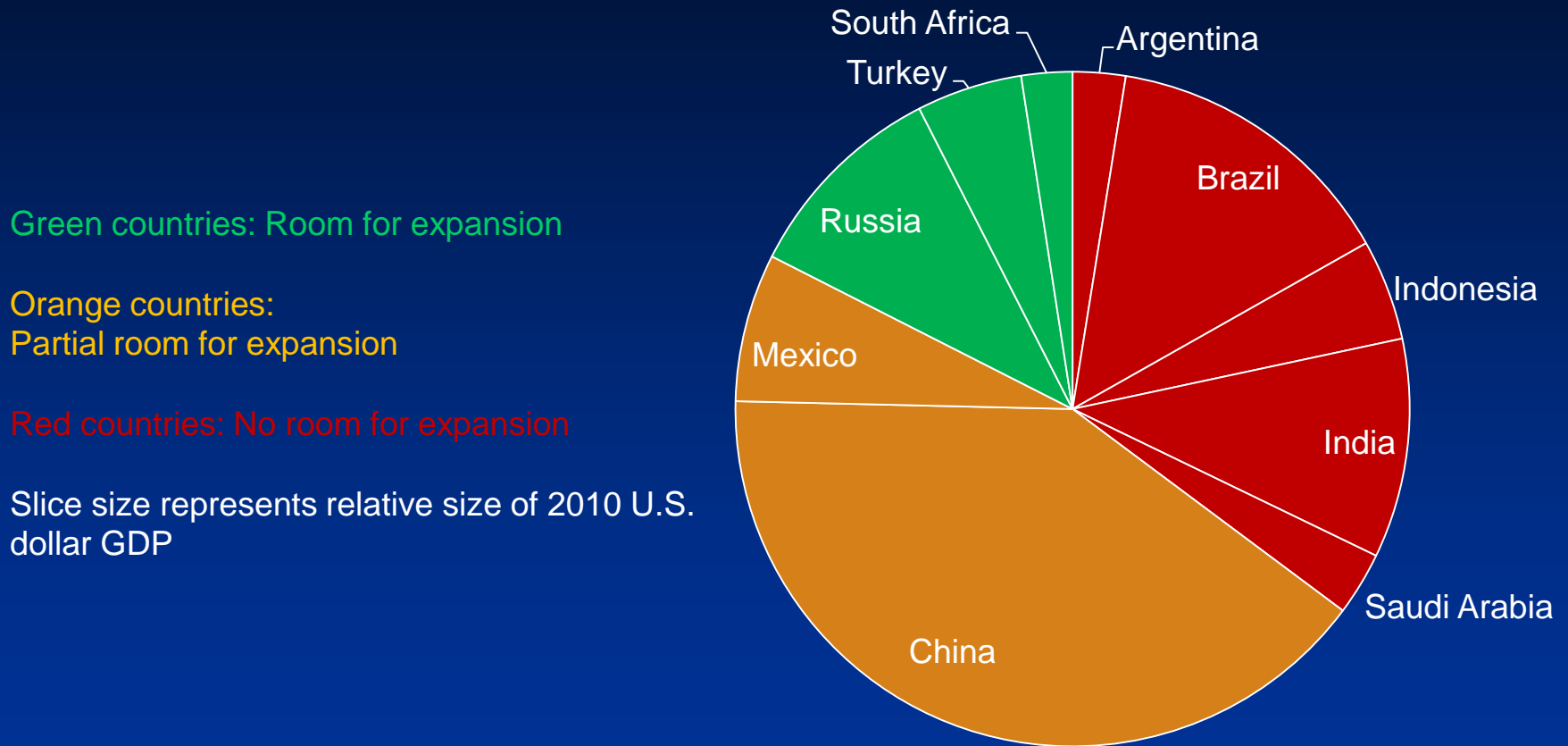
Fiscal Adjustment Needed to Stabilize Long-Term Debt

...expected to remain in 2012



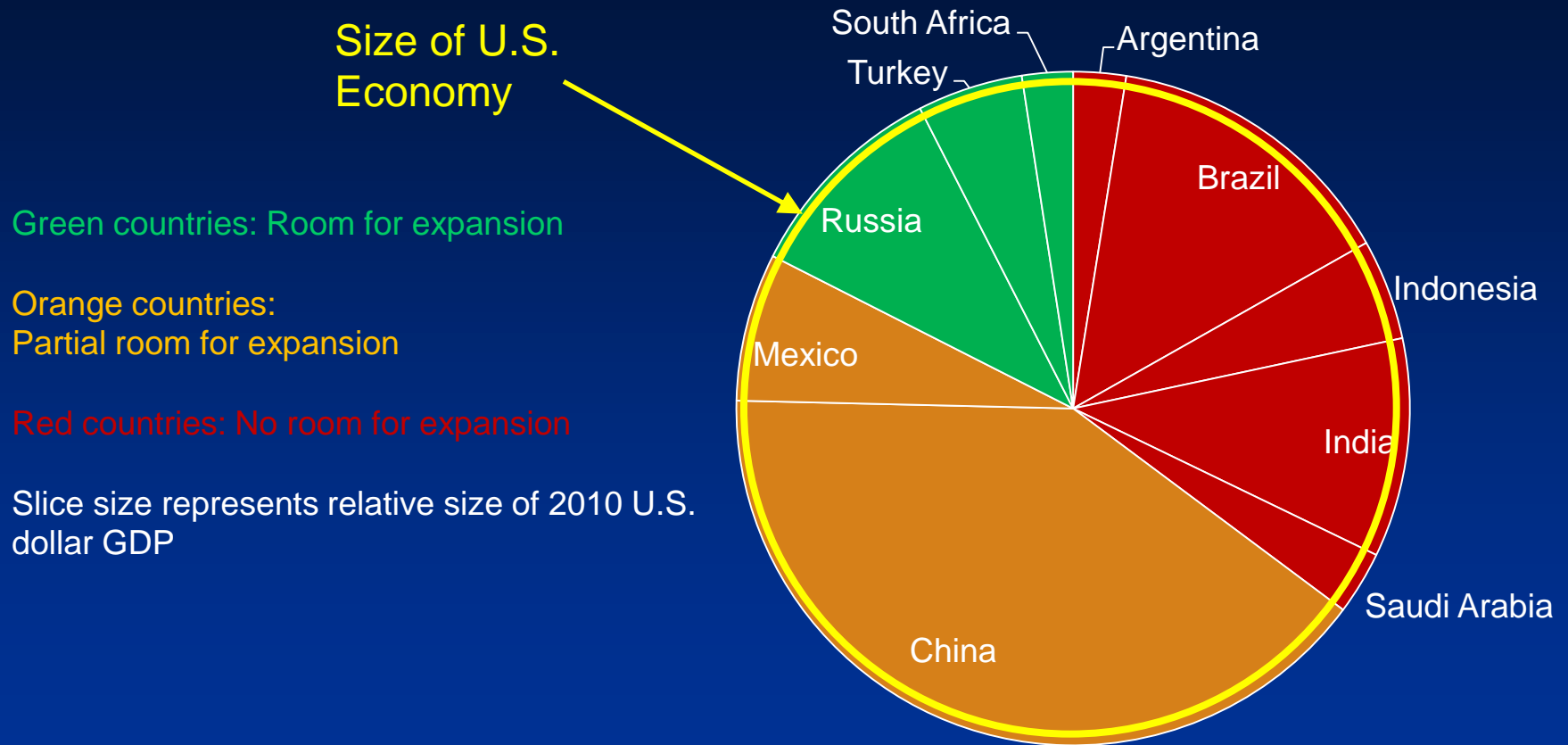
Source: OECD.

Emerging Markets Overheating



Source: IMF.

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Source: IMF.

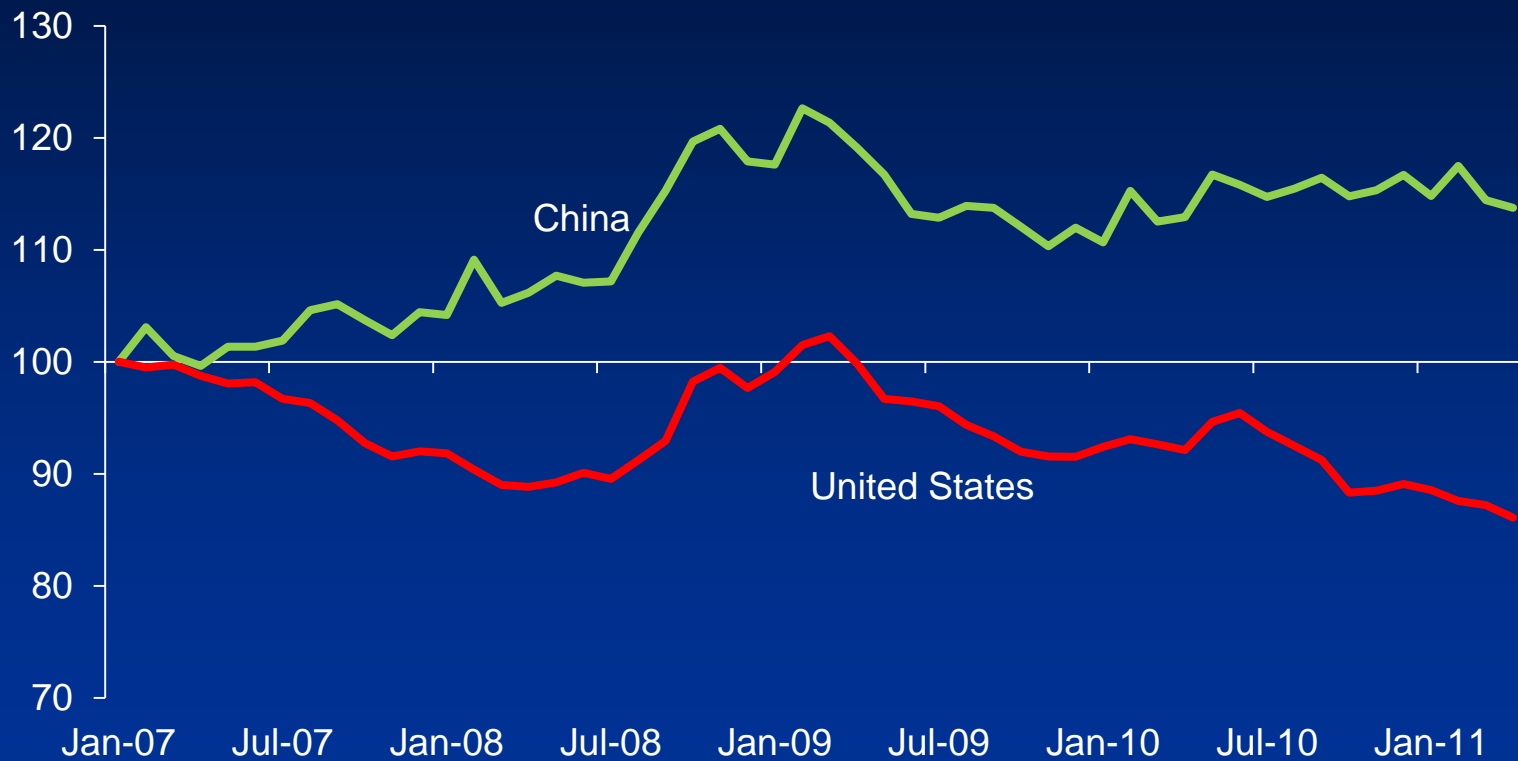
Less Wallet, More Wits?

- More targeted fiscal response
 - Social safety nets
 - Assistance to states
 - More automaticity, less discretion
- Medium term fiscal framework
- Structural labor market/housing reforms?
- Less reliance on monetary policy

U.S.–China Exchange Rate Trends

Real Effective Exchange Rate

Jan. 2007 = 100



Source: BIS.