

# Alberto Alesina

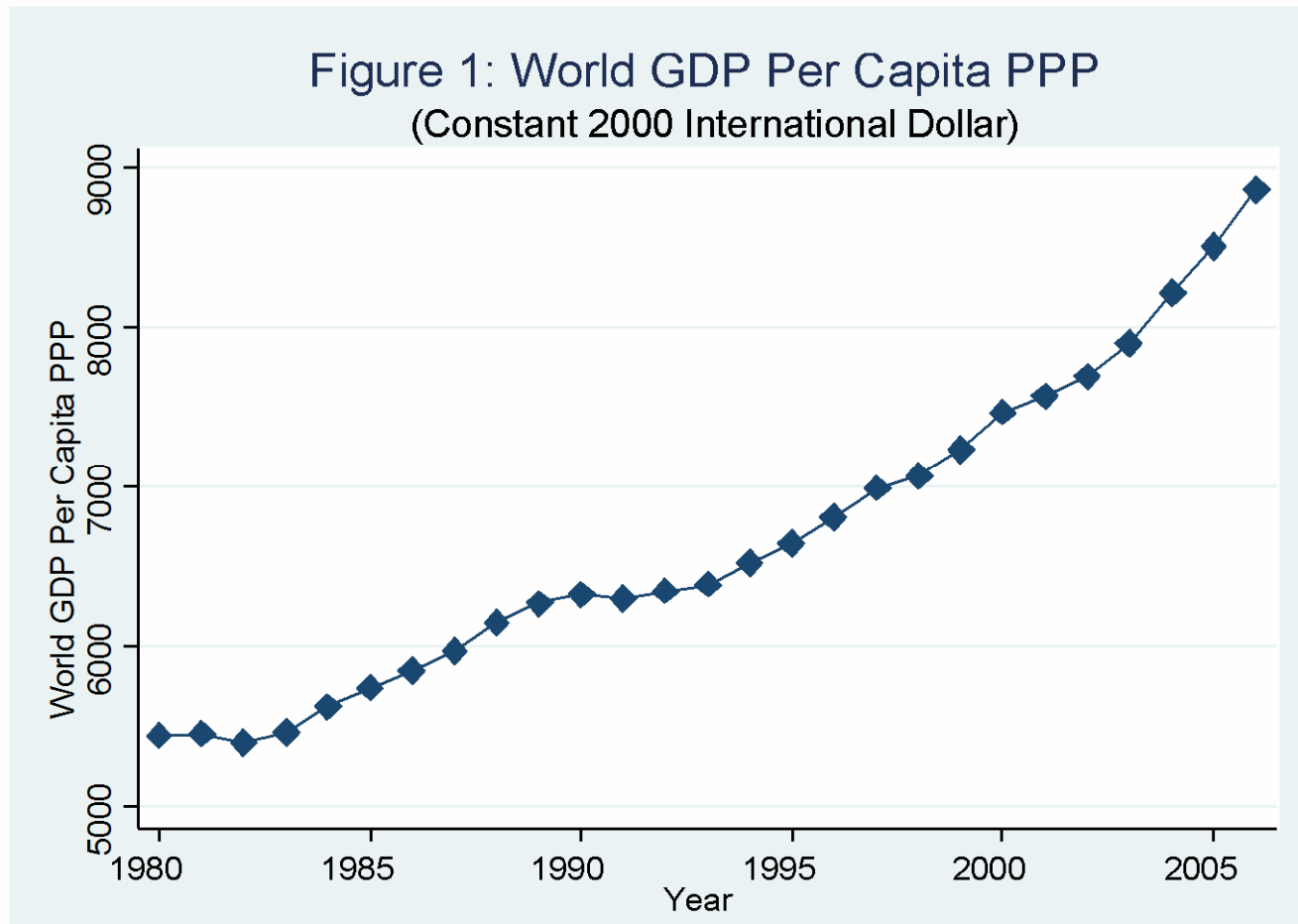
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## Turning point for the world economy

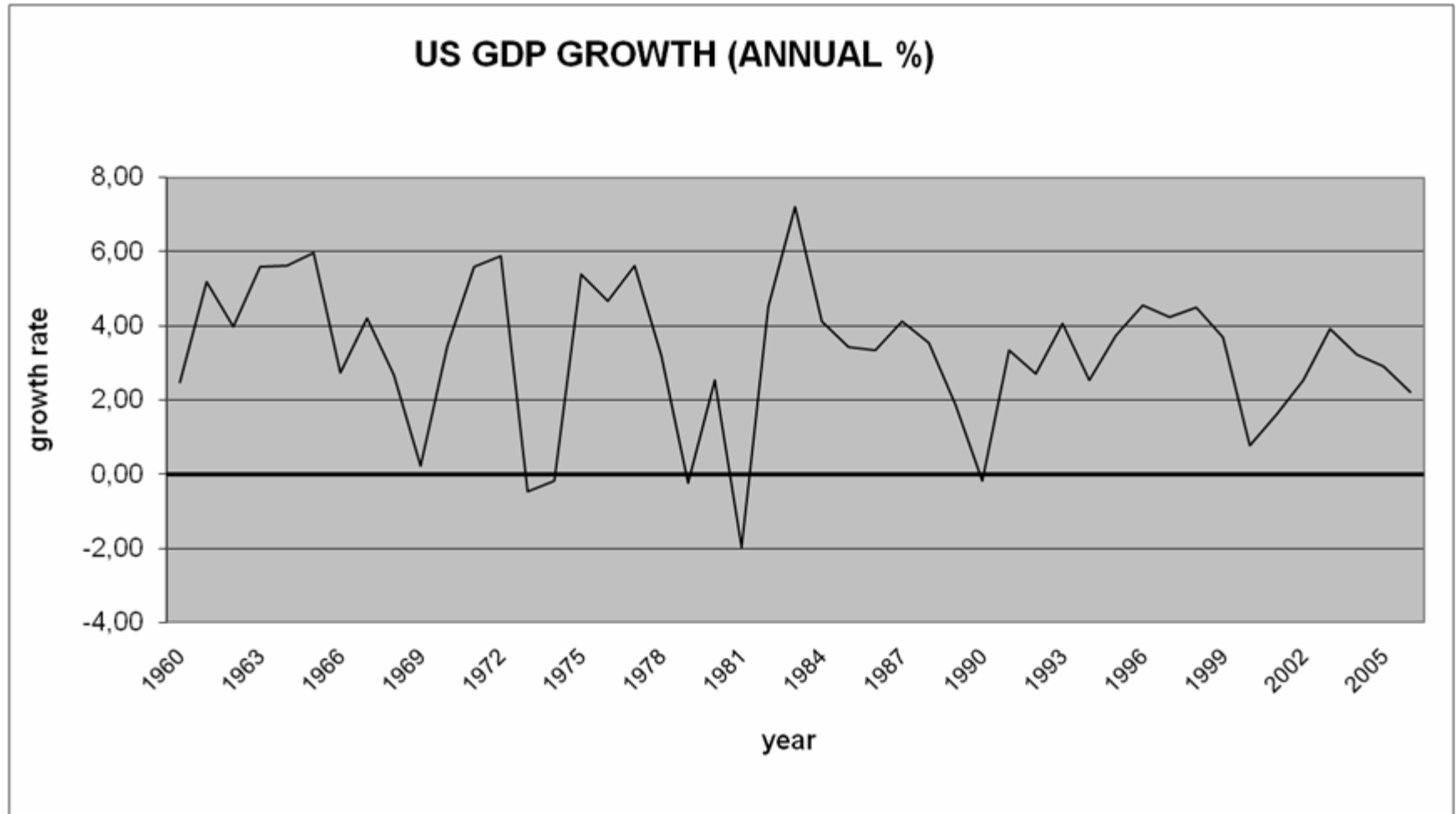


**Obama's America: back to the future**  
Bergamo, 13 dicembre 2008

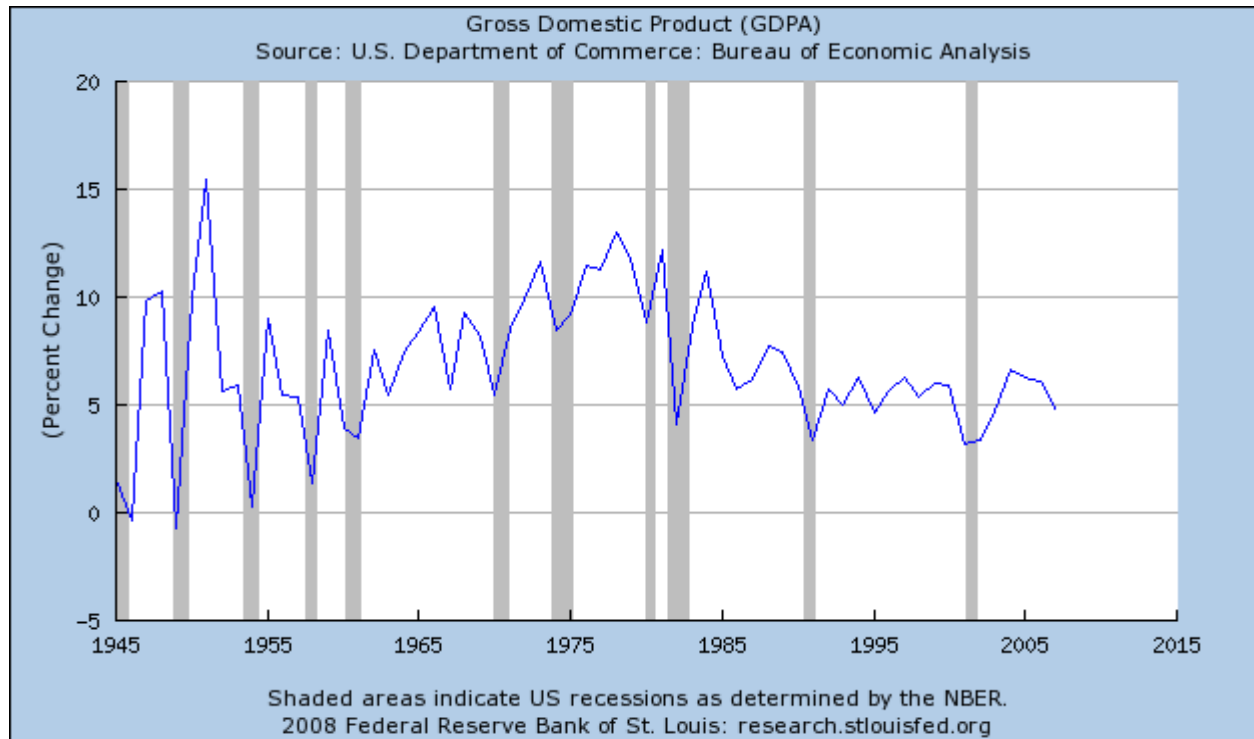
# Quarter Century of Exceptional Growth in the deregulation-globalization era



# US Real GDP growth: relative stability



# Nominal GDP Growth, recessions



# What is coming?

- A smooth landing? No: severity of financial crisis will have an impact
- A severe recession like 1982? Most likely
- Something comparable to 1929?  
**Certainly not**

# What to do?

- In a normal recession one should allow monetary policy to do its job.
- Do nothing with discretionary fiscal policy: automatic stabilizers are enough

# But: 2009 is the horrible year

- In 2009 US GDP is expected to be a very serious recession. Forecasts are highly unstable and unreliable.
- Worst case scenario recession: negative growth of 2-3 per cent.

# Do not forget that..

- No policy that does not have an immediate effect will do anything.
- There is absolutely no point in debating on complicated hard to implement slow moving policy programs!!!



# Possible policies

- More expansionary monetary policy not likely to have much of an effect. Monetary policy has already exhausted its bullets to prevent financial meltdown.
- Discretionary fiscal expansion:
  - A) Tax side
  - B) Spending Side

# Tax side

- Obama should postpone any tax increase on the very rich; this was part of his mandate but he should wait even if this means allowing the deficit to grow.
- Will he do that?

# Tax side

- Temporary tax cuts on sales. Simple to implement most likely to have an immediate effect on consumption. Do that!
- Tax cut on labor costs. Also relatively simple to implement and may sustain employment.
- Income tax cut with rebates for low middle class. May be already too late for them to have an effect ? may be saved?

# Spending side

- Public work. Too late for them to have an effect. Their size is 2-3 per cent of GDP.
- Obama may emphasize them too much.
- Worry about specific complicated slow moving spending programs for various states.
- Need to resist that!

# Saving GM?

- Very complicated issue.
- Need to distinguish various roles and parts of GM.
- GM as a welfare agency.
- Overall intervention on GM unwarranted.
- Political salience of old industrial states is a major distortion on rational policymaking.

# How much will it cost?

- Burden on tax payer of all these bail outs of financial institutions and expansionary package very large.
- But distinguish gross from net amounts!  
May be less bad than feared
- Upper middle class Americans should be ready for hefty tax increases in 2010-2011

# Which Obama?

- The protectionist high taxes slightly populist preacher of the campaign?
- Or the centrist?
- Very reassuring choice of economic team!
- Worry about indirect forms of protectionism (GM), now every European car maker will want subsidies.

# Conclusion

- 2009 a bad year but.....
- Let's stop talking about 1929.
- In the medium run what will matter more is not whether the recession of 2009 will be of 1 per cent or 4 per cent but what policies are adopted to fight it.
- Careful about state intervention!