

Getting Back On Track

John B. Taylor
Stanford University

Remarks at the Philadelphia Fed Policy Forum
Policy Lessons from the Economic and Financial Crisis

December 4, 2009

From Great Moderation to Great Deviation to Great Recession

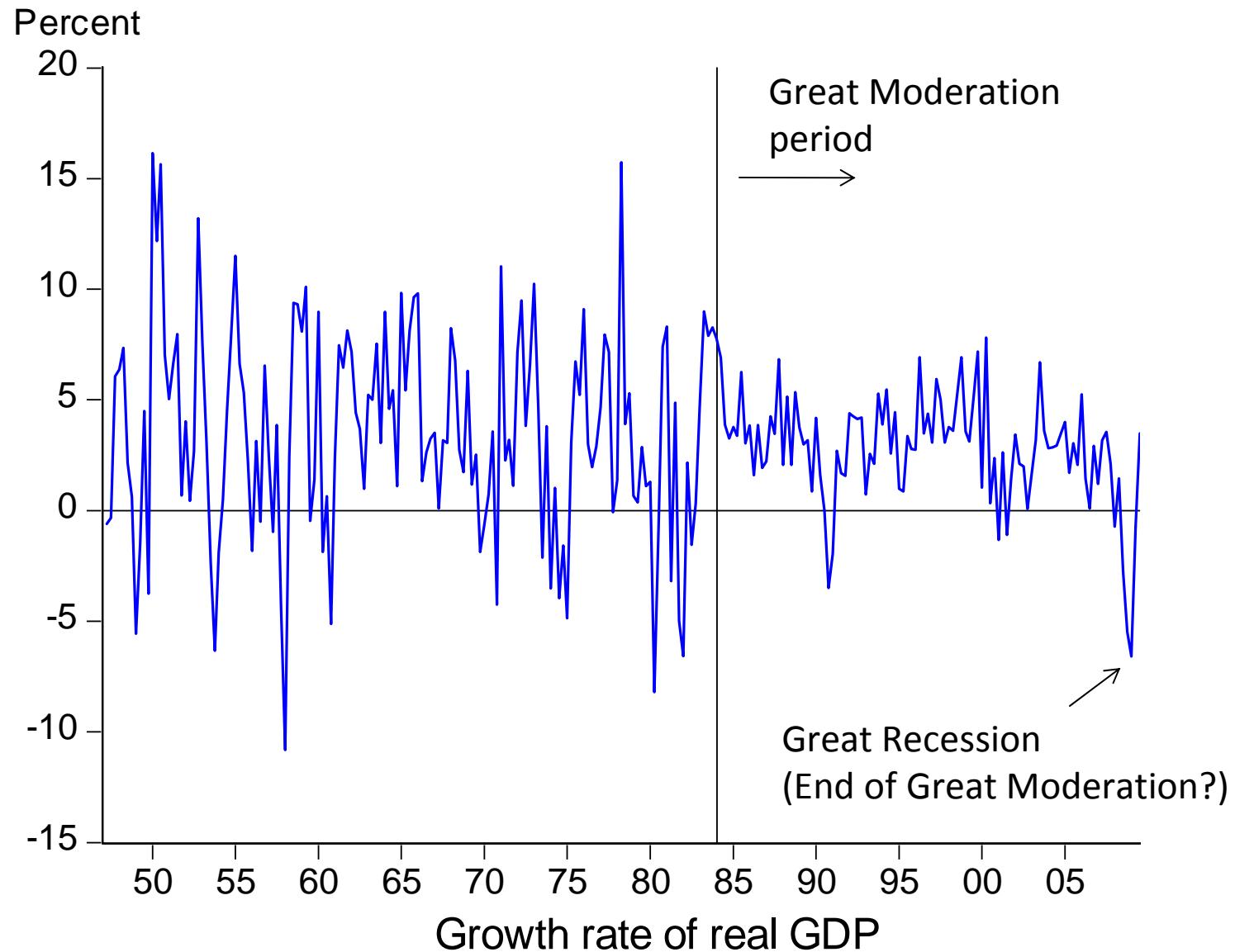
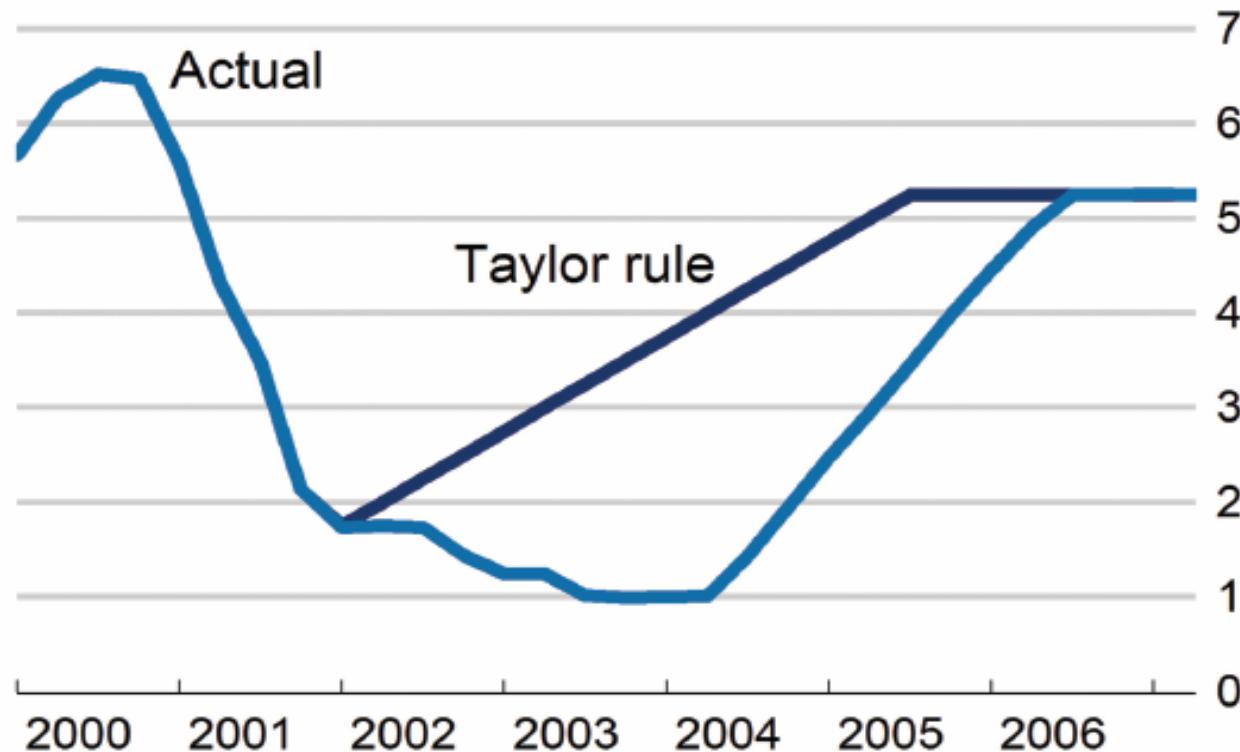


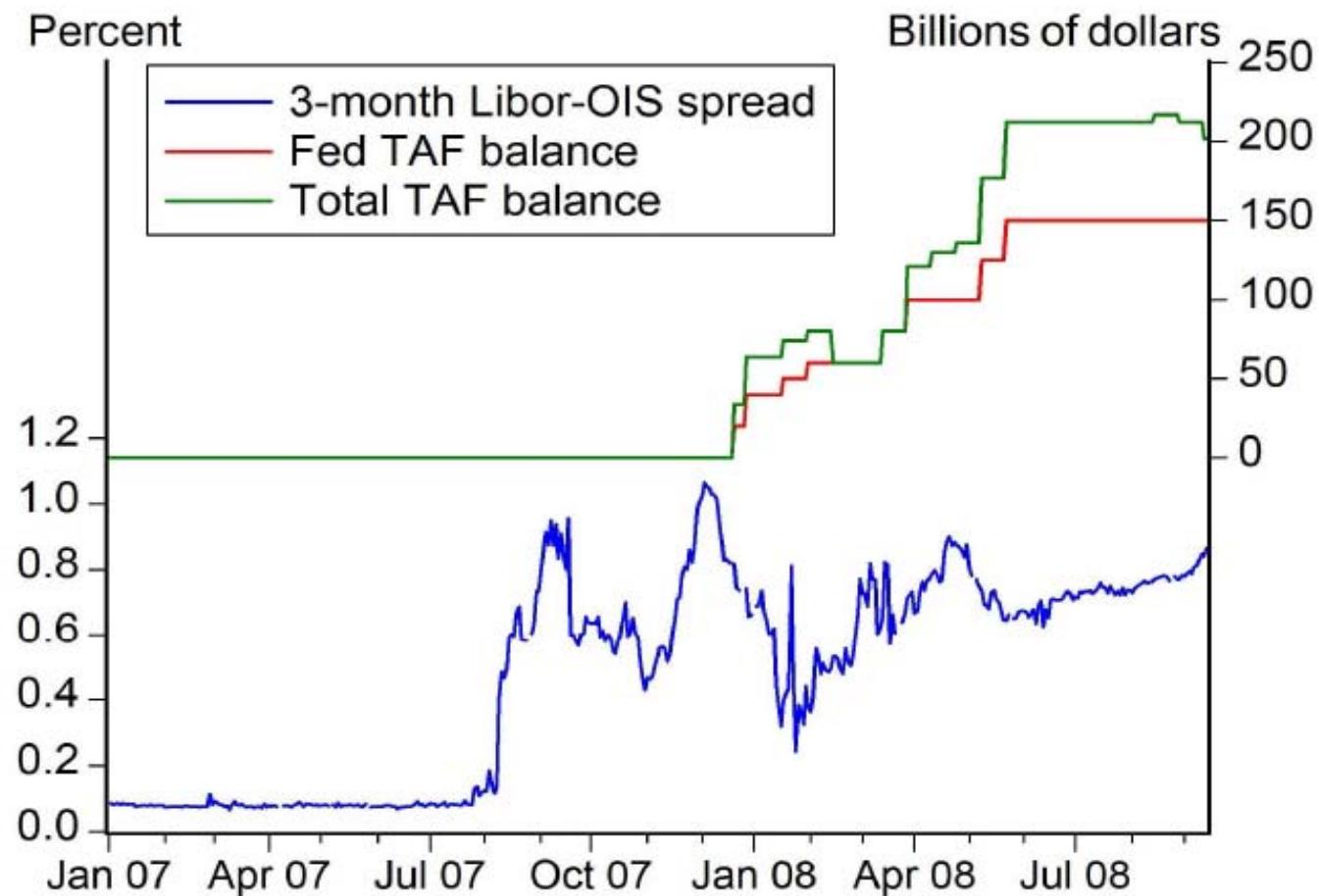
Chart from *The Economist*, October 18, 2007

Loose fitting

Federal funds rate, actual and counterfactual, (in percent)

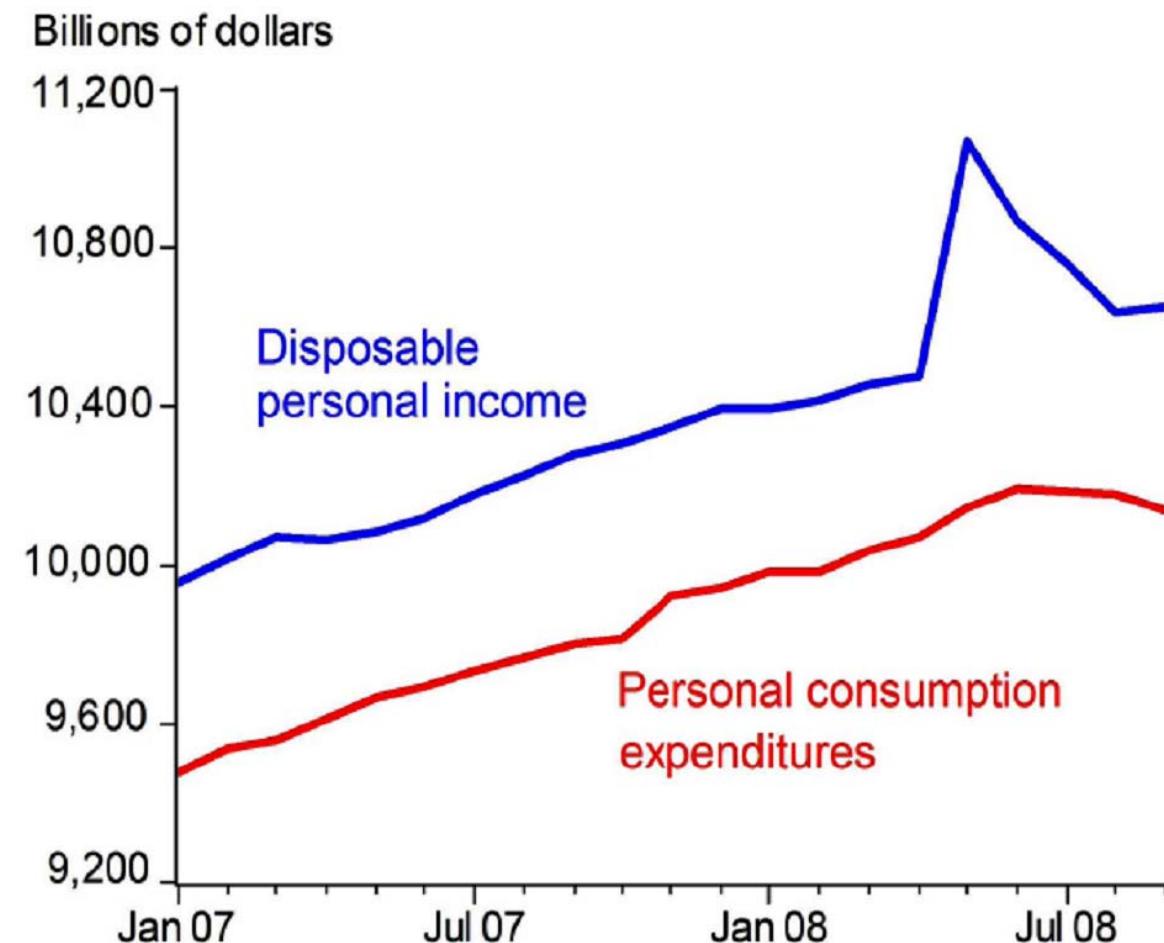


The Term Auction Facility and the Libor-OIS Spread



Consumption and the Jump in Personal Disposable Income Due to the Rebates.

(Monthly data, seasonally adjusted, annual rates.)



GRAB

Corp HS

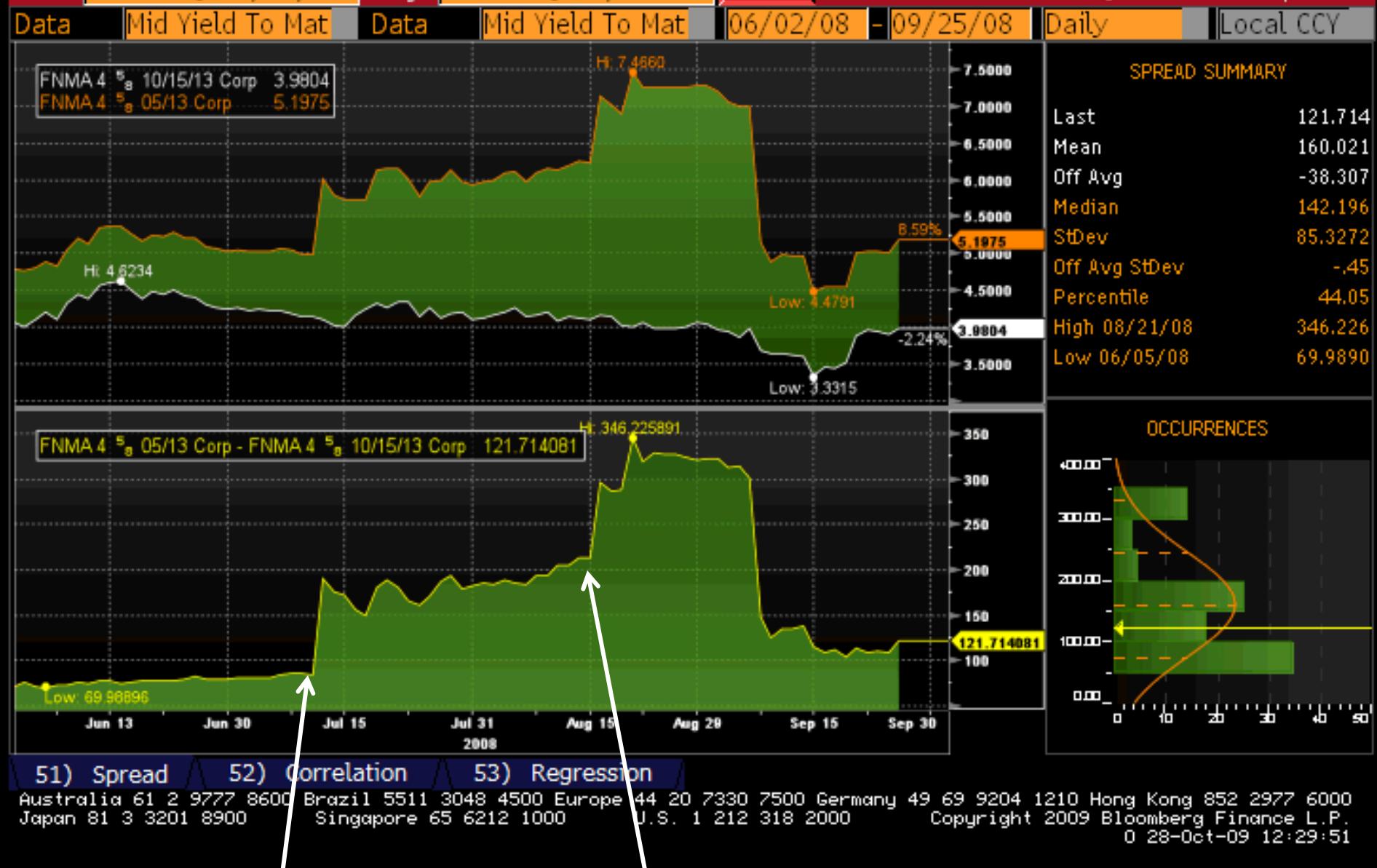
1<GO> to view spread graph, 11<GO> to save as Index, 99<GO> to edit properties

Sell FNMA 4 5s 10/15/13

Buy FNMA 4 5s 05/13 Corp

Edit

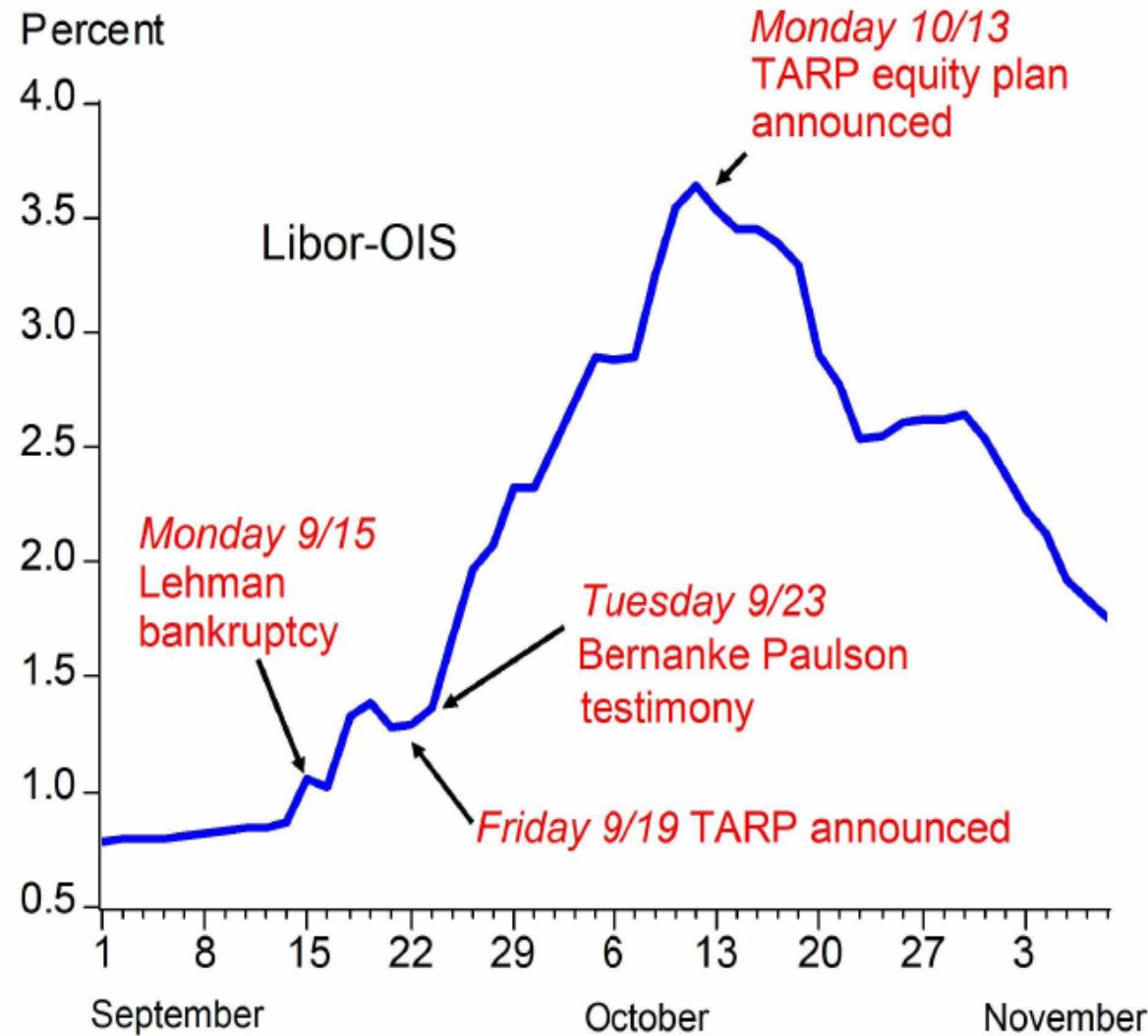
Page 1/7 Yield Spread



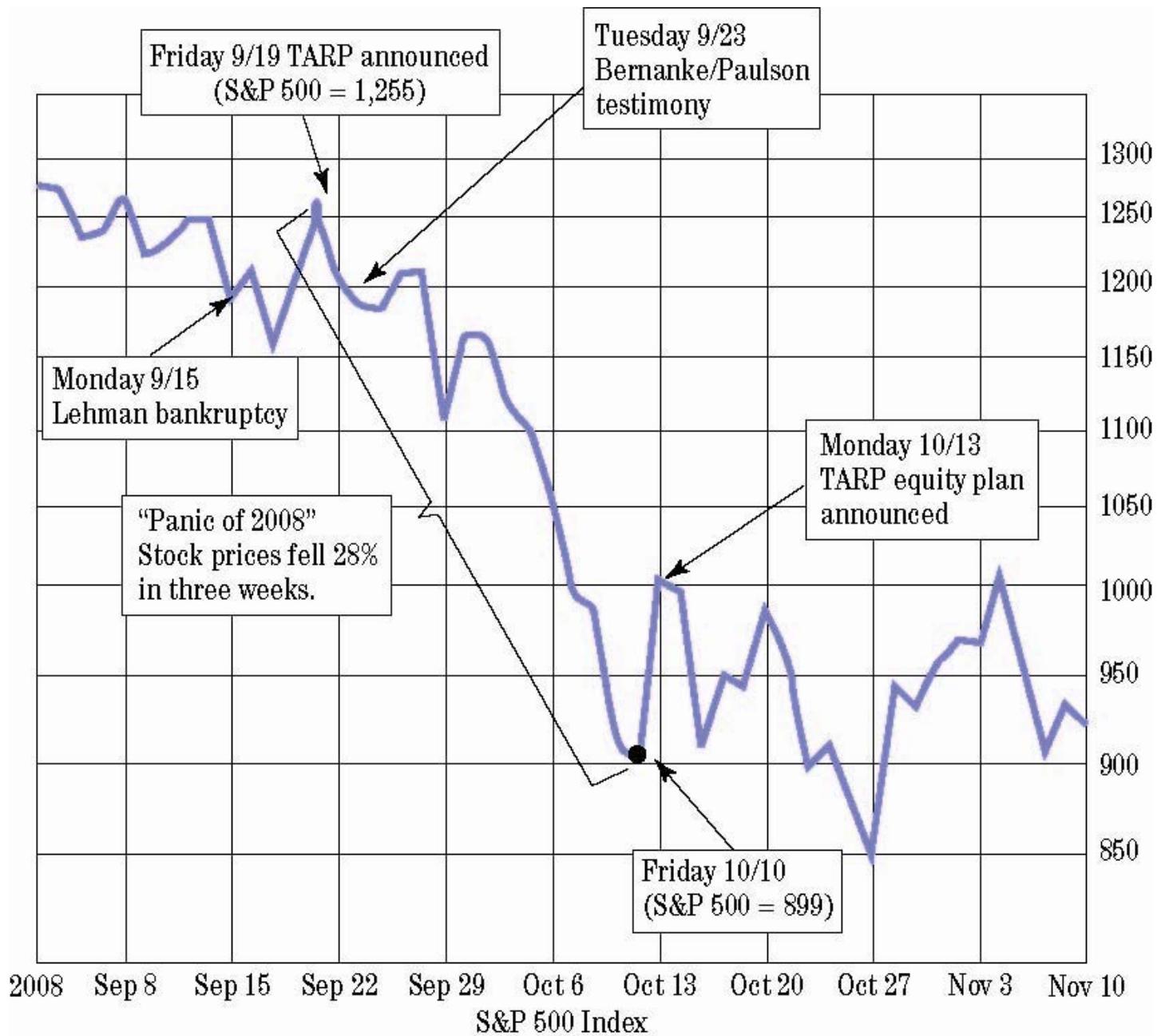
July 11

August 18

Event Study of the Worsening Crisis (2008)



The Panic of Fall '08



Panic of Fall 2008 Around the World

	S&P	FTSE	DAX	CAC	IBOVESPA	NIKKEI
Sept 12	1252	5417	6235	4332	52393	12215
Sept 15	1192	5204	6064	4169	48419	11609
Sept 19	1255	5311	6134	4324	53055	11921
Oct 10	899	3821	4544	3176	40829	8276

Millions of dollars

68,000

64,000

60,000

56,000

52,000

48,000

Jan 07

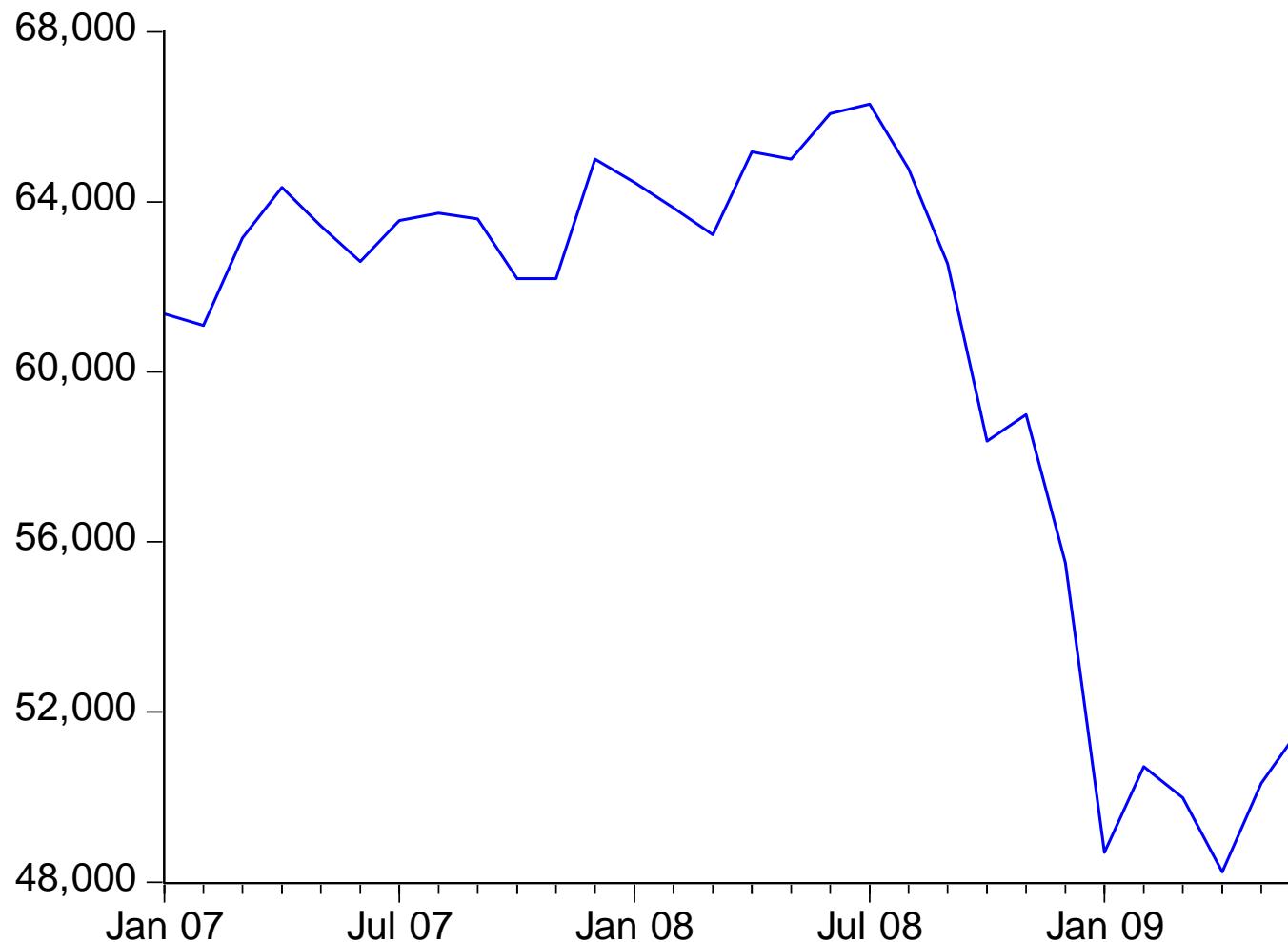
Jul 07

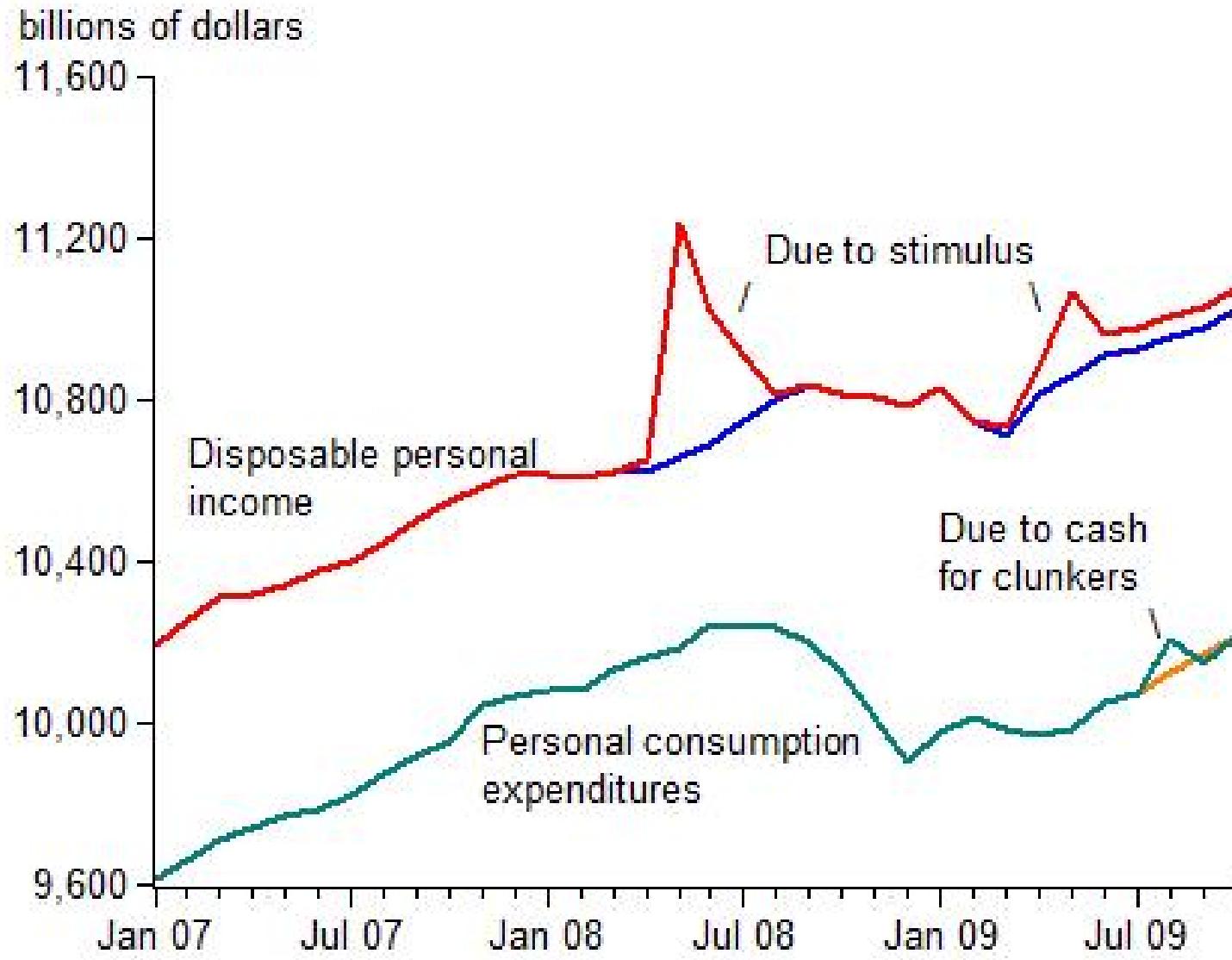
Jan 08

Jul 08

Jan 09

New orders of non-defense capital goods
(excluding aircraft)





Change in growth and contributions - 1st to 2nd quarter

Percentage points

Real GDP	5.7
Consumption	-1.1
Investment	5.9
Net Exports	-1.0
Government	1.9
Defense	1.0
Non Defense	0.2
State and Local	0.7

Change in growth and contributions - 2nd to 3rd quarter

Percentage points

GDP	4.2
Consumption	2.98
Motor vehicles & parts	1.15
Investment	4.32
Fixed Investment	1.96
Inventory change	2.36
Net Exports	-2.19
Government purchases	-0.85
Defense spending	-0.25
Non Defense	0.02
State & Local	-0.62

percent

120

Federal debt as a percent of GDP

100

80

60

40

20

0

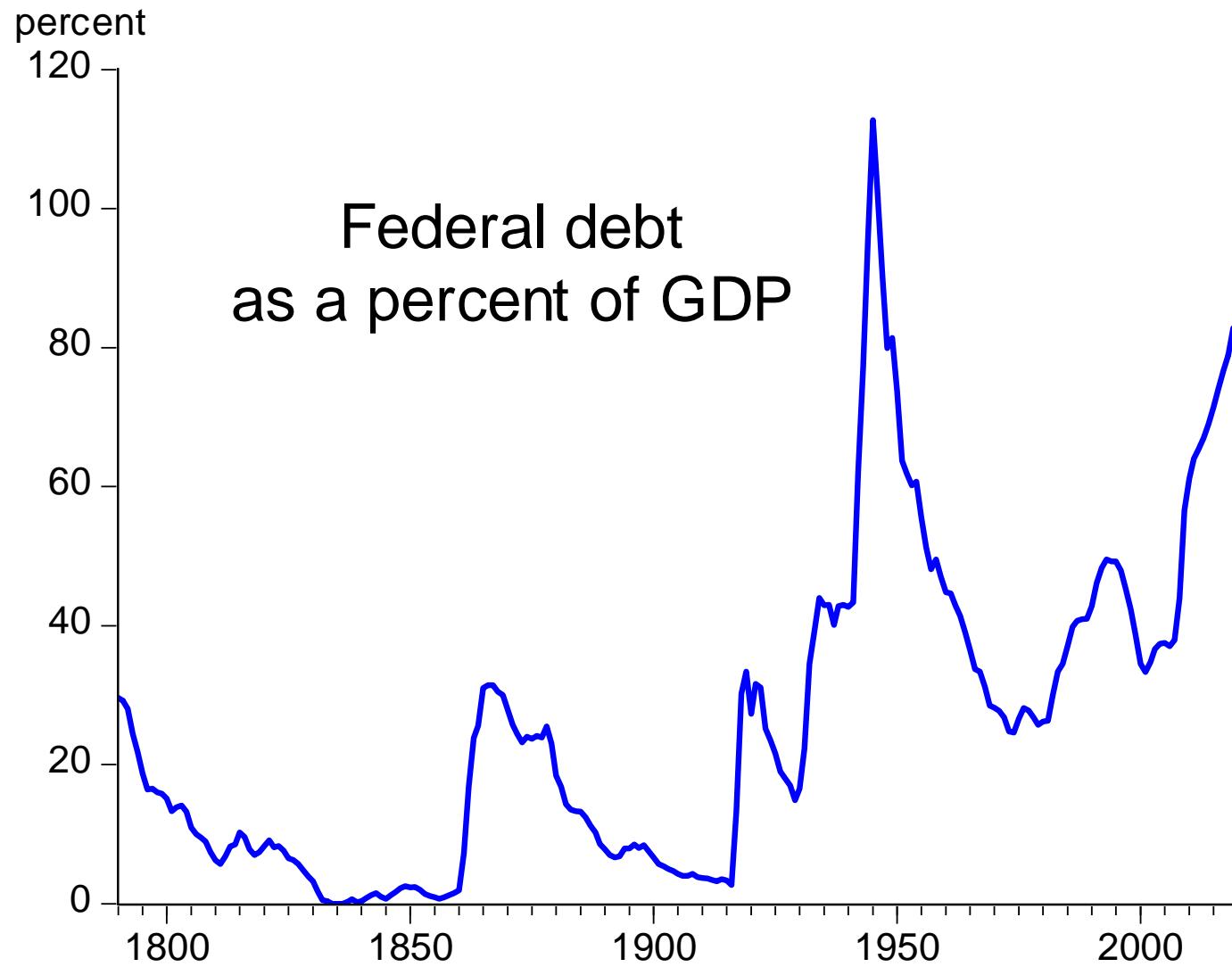
1800

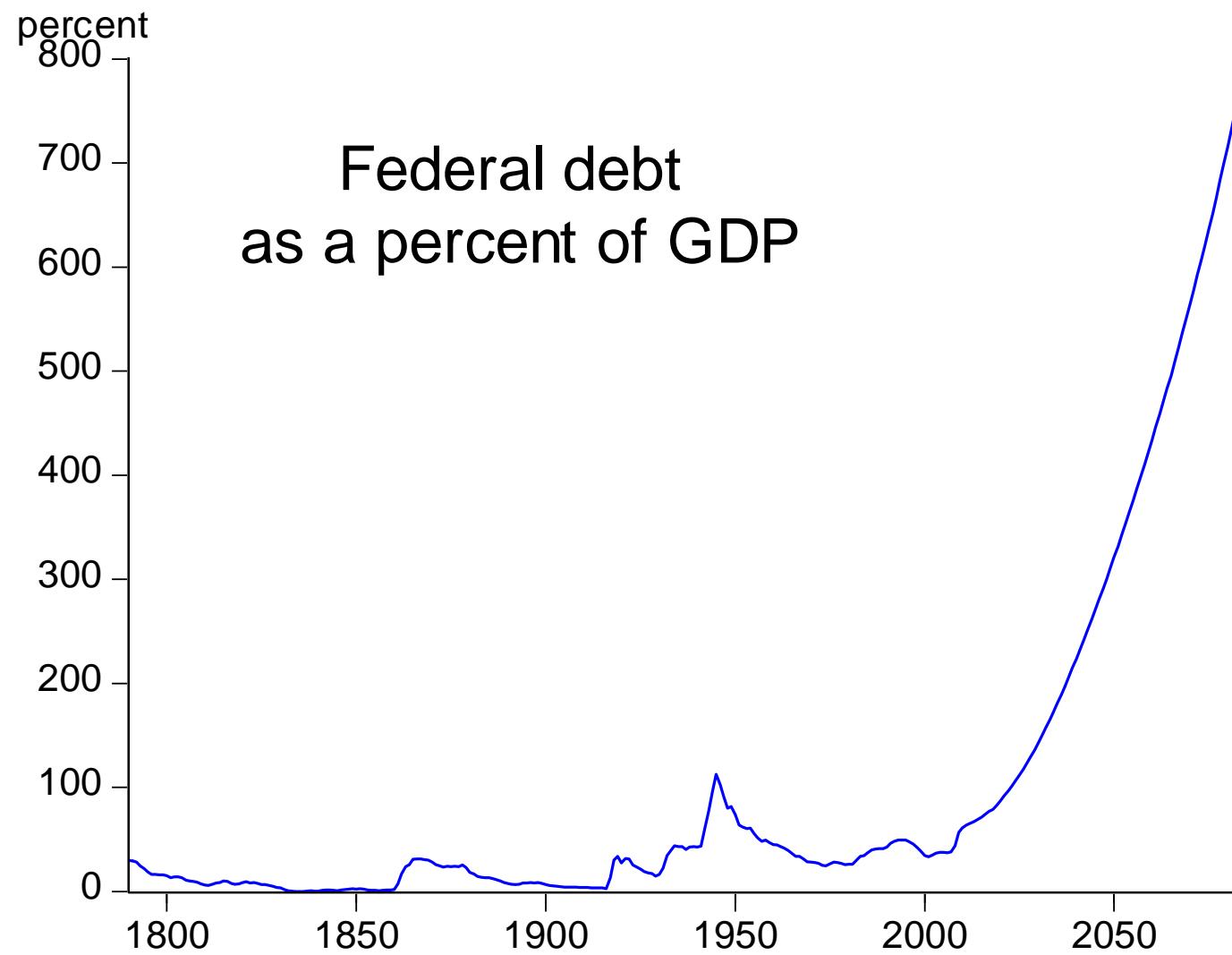
1850

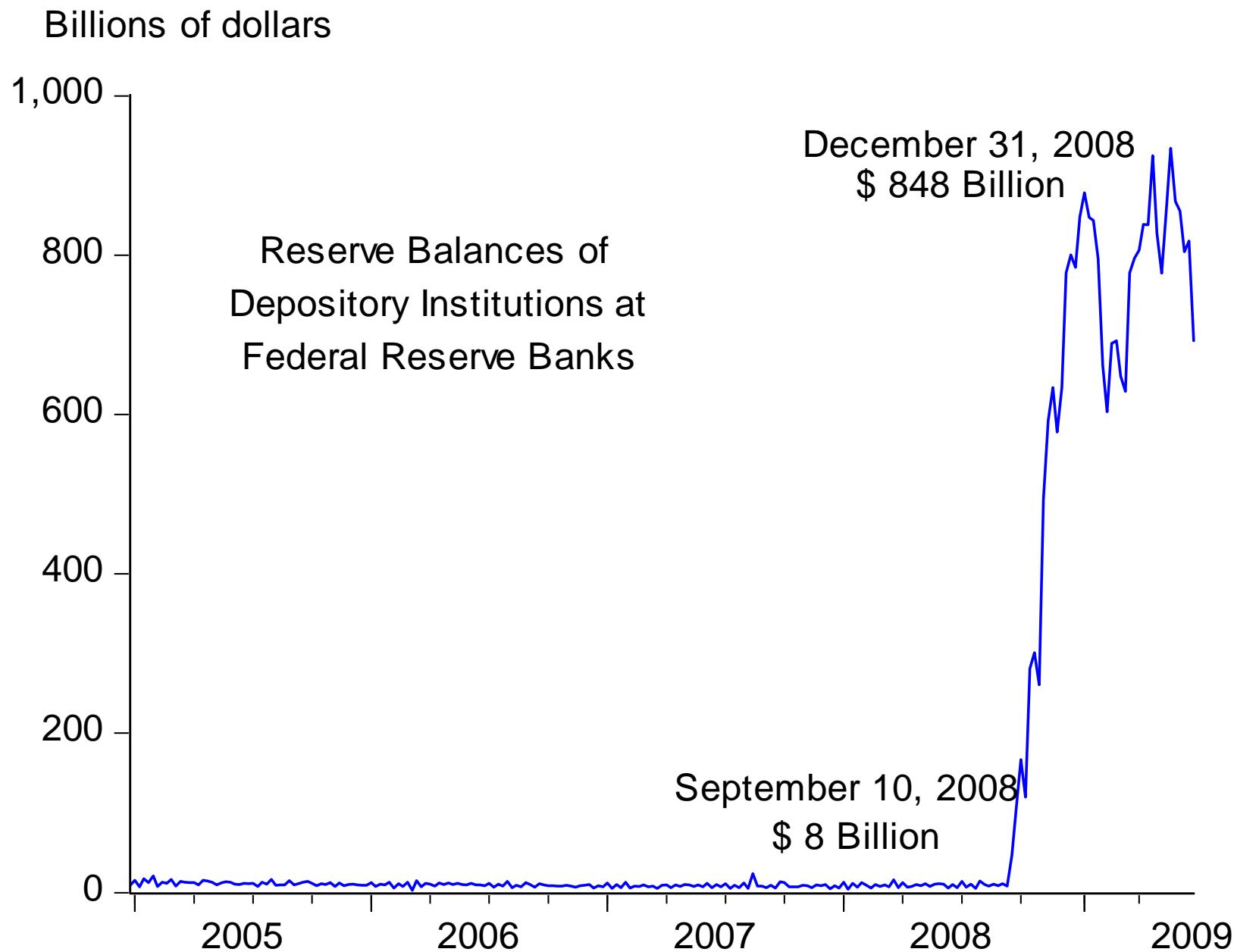
1900

1950

2000







Billions of dollars

