April 24, 2014 – 12:00 pm
Policy Seminar with Bob Hall
George Shultz Conference Room, Herbert Hoover Memorial Building

PARTICIPANTS

Bob Hall, Michael Boskin, John Cogan, Darrell Duffie, John Gunn, Doug Irwin, Dan Kessler, Pete Klenow, Ron McKinnon, Benjamin Moll, Nicolas Petrosky-Nadeau, Ken Scott, George Shultz, John Taylor, Ian Wright

ISSUES DISCUSSED

Bob Hall, the Robert and Carole McNeil Joint Hoover Senior Fellow and Professor of Economics at Stanford University, discussed some of the policy implications of his recent research on "Quantifying the Lasting Harm to the U.S. Economy from the Financial Crisis."

Hall began by presenting estimates from his model that indicated what comprised the shortfall in output from 2007 to 2013, isolating four key components: lost total factor productivity, lost investment resulting in a lower capital stock, unemployment lingering after job-creation incentives had returned to normal, and lower labor-force participation.

Hall explained that the productivity shortfall was not a result of low factor utilization, and that the investment shortfall was due to output demand falling and discount rates rising, despite falling interest rates. In discussing unemployment, Hall explained the most important component of unemployment is those that are permanent losers of jobs and workers on layoff, noting he found no evidence that unemployment insurance benefit extensions had more than a modest role in contributing to unemployment. He also explained that four elements are important to consider when considering the effect of labor force participation on output: (1) population composition effects, (2) the high importance of flows into and out of non-participation, (3) the role of jobseekers who are classified as out of the labor force rather than unemployed, and (4) the role of social benefits.

Hall concluded by arguing that a boost to product demand, while having smaller effects in the short term, could ultimately have a positive effect on all four components that contributed to the output shortfall during the Great Recession and slow recovery.