Twitter Thread by Dave



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This chart is the clearest representation of the immense damage that emanated from the GFC on the US economy.

In the ~60 years following WWII, US real GDP seemed to grow at ~3% trend like clockwork.

2008 marked the end of this trend, with growth downshifting to ~2% since. 1/

The scars from such long periods of low growth and balance sheet repair ran deep, with tragic consequences.

A generation of consumers became more risk averse, business investment & productivity slumped, and a large cohort of workers witnessed real declines in nominal incomes. 2/

Most economists now seem resigned to the idea that this is the new era of slow growth is likely to continue.

The Fed's own estimate of R* now sits at 2.5%, down nearly 200 bps from its estimate in 2012. 3/

But what if, just like after WWII, a surge in productivity enhancing gov't infrastructure spending and increased risk appetite on behalf of consumers/businesses raises R*?

I don't think this is as far fetched as conventional wisdom makes it out to be. 4/

Behaviorally, exogenous crises such as what we experienced in 2020 can increase generational risk taking.

Think of the difference between someone who lived through the great depression versus someone who survived WWII. The latter was far more risk seeking than the former. 5/

What's more is, US household balance sheets are in perhaps the best shape they've ever been at the onset of a new business cycle.

When in history have we witnessed a ~10% decline in nominal GDP and a coincident 12% INCREASE in nominal income in the same quarter?! Never... 6/

Even excluding gov't transfers, US HH balance sheets were in a strong position before the pandemic.

At the beginning of 2020, household debt as a percentage of disposable income was at its lowest levels in ~20 years. 7/

If there was ever a time for US household risk appetite to increase, it would be now.

This sounds trite, but the pandemic is a reminder that life is short. There is little point in waiting to start a business. And with HH B/S's healthy, there is no time like the present. 8/

This isn't just some feel good bromide. It has been showing up in the data on business formations.

US business applications have surged this year following years of stagnant growth. 9/

And whatever your views are on the benefits gov't spending, there's no question that U.S. infrastructure is in urgent need of an upgrade.

Gov't expenditures as % of US GDP have been in structural decline for decades. There is now strong public support for this trend to shift.

To be sure. Its paid to be skeptical regarding calls for rising structural US growth rates. There are plenty of headwinds out there (population growth, participation rates, TFP growth).

But if there was ever a time for short run R* to rise, it'd be now. End