A Macroeconomic Look at the XXXXs

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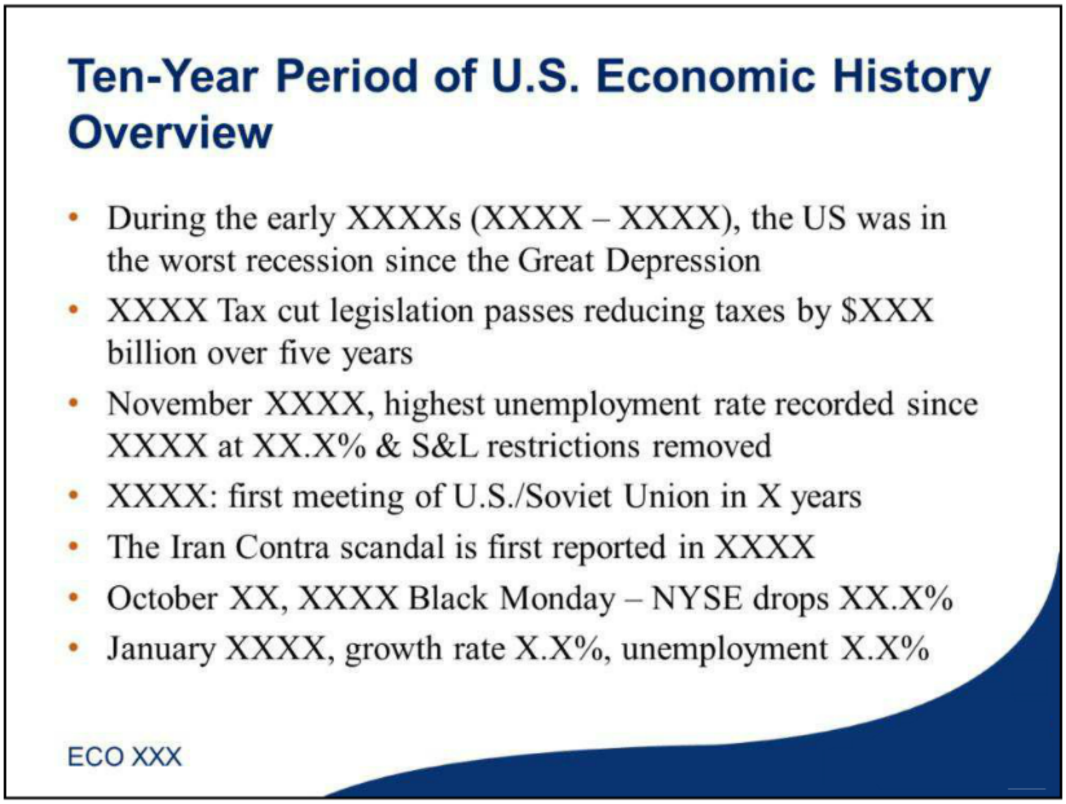
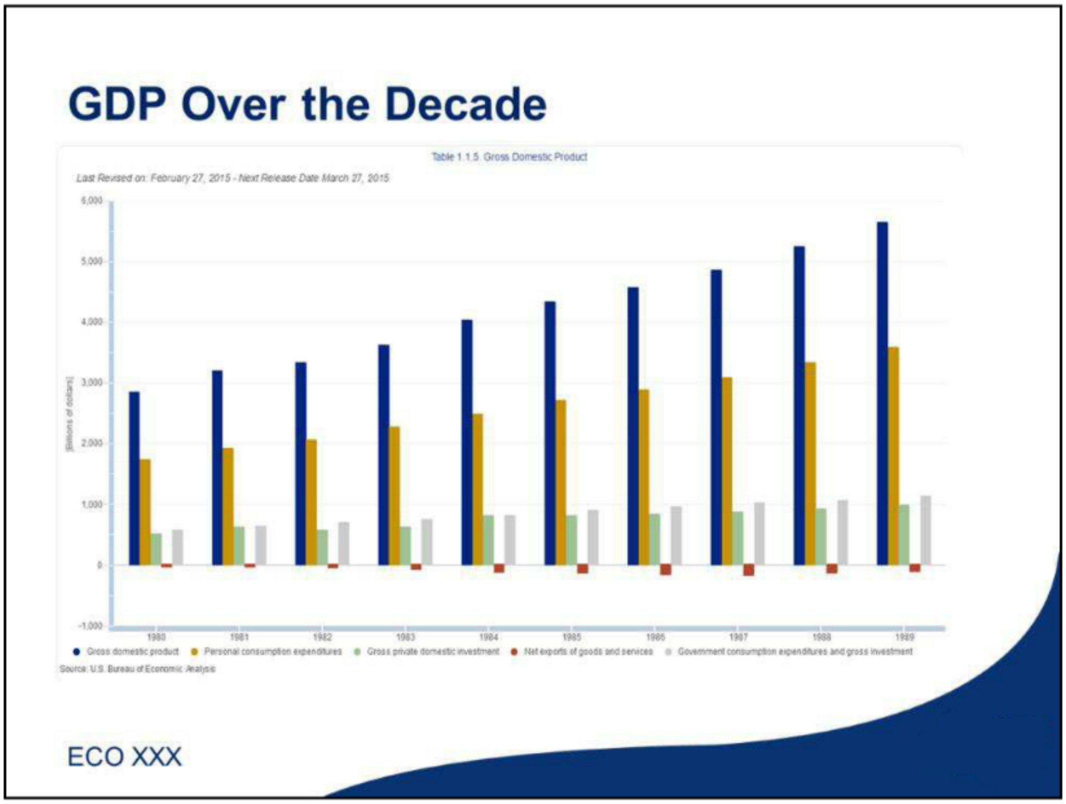


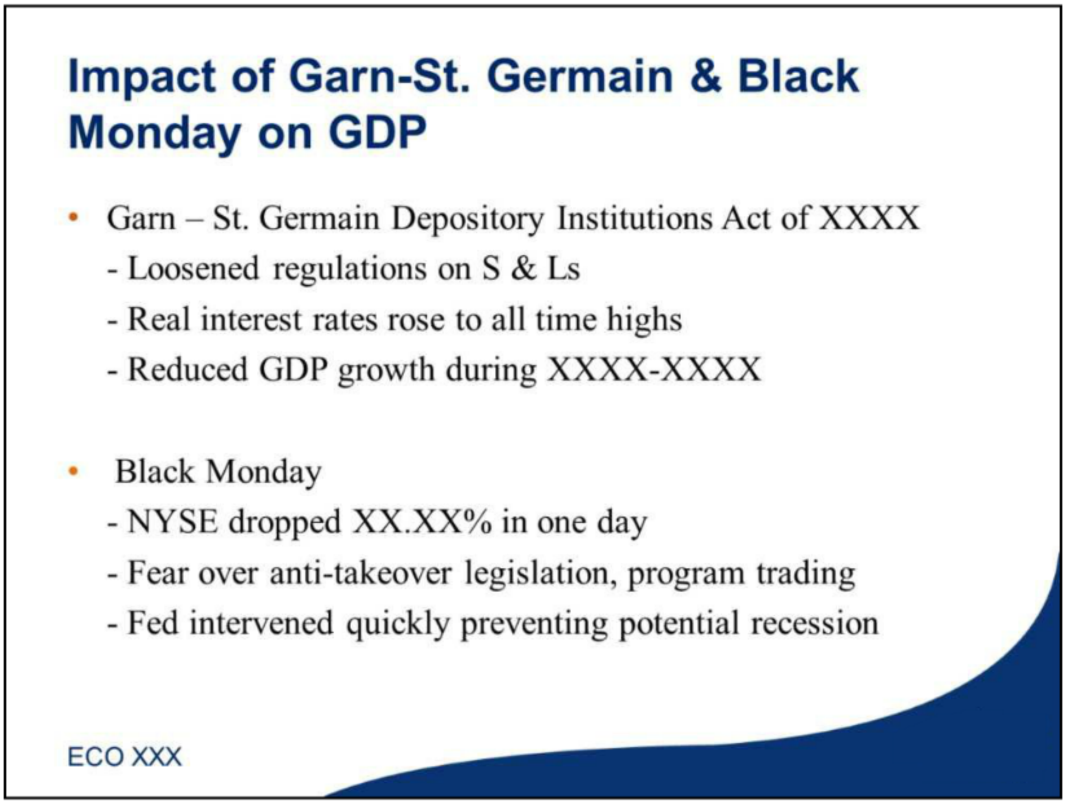
On the heels of nearly two decades of internal conflict, activism, and "free love", the XXXXs were a decade of increasing political and economic conservatism. This presentation will attempt to provide an overview of the macroeconomic factors involved and how events, trade, fiscal and monetary policies affected them.

After defeating prior president Jimmy Carter, the new Reagan administration's first priority was to rein in the recession and address unprecedented unemployment rates. This was achieved by tight monetary policy and by instituting tax cuts and deregulation. Unfortunately, some fiscal polices were poorly considered, including an initiative passed in XXXX giving federally chartered Savings & Loan institutions the ability to diversify. This eventually led to the S&L crisis of XXXX-XXXX where massive losses necessitated a $XXX billion governmental bailout. According to the America's Best History website, the XXXXs also saw tensions in the Cold War mount. The US became heavily involved in spreading the ideals of capitalism, including invading Grenada to depose a Marxist government and attempting to remove other governments whose ideology differed (Iran Contra Scandal). Success on this front was epitomized by the fall of the Berlin Wall in late XXXX. The decade ends with the highest growth rate in four years and the lowest unemployment rate in fourteen.



As previously stated, the XXXXs began a new era of monetary constraint and greater involvement by the Federal Reserve. Under the strong leadership of Paul Volcker and later, Alan Greenspan, economic policies helped soften the peaks and valleys of the free market economy. In conjunction with Ronald Reagan's reductions in government regulation and tax rates, demand was reduced and "supply side economics" dominated the decade. According to an article in the Wall Street Journal (Niskanen, XXXX), these changes "contributed to increasing the average growth of real GDP per working-age adult in the XXXXs to X.X%. The combination of demand restraint and supply stimulus reduced the inflation rate in XXXX to X%." The graphic above depicts the strong, steady growth of the Real GDP; starting at just under $XX trillion dollars in XXXX and nearly doubling by the end of XXXX. From a GDP components perspective, this growth was mostly obtained through increasing personal consumption, due in large part to a more readily available supply. Government expenditures and domestic investment remained relatively stable over the decade, however a new trend - imports surpassing exports, picked up momentum in the mid XXXXs and continues today.

The XXXXs are also frequently viewed as a period of greed and overconsumption. However, it may be more reasonable to state the decade was one of prosperity, rather than greed. At the start of the decade, disposable personal income was at $X,XXX billion dollars; by XXXX, it had more than doubled to a high of $X,XXX.X billion. All segments of the American population rose : the poorest fifth by XX.X%, the second poorest fifth by X.X%, the middle fifth by XX.X%, the second wealthiest fifth by XX.X% and the top fifth by XX.X%. In addition, corporate contributions to charities grew an average of XX% per year, more than double the average inflation rate (Ridenour, XXXX).



The Garn-St. Germain Depository Institutions Act of XXXX, de-regulated savings and loan associations and allowed banks to provide adjustable-rate mortgages. It's original intent was to revitalize a waning housing industry by ensuring an available supply of home mortgage loans. It also enabled the FDIC to make deposits, purchase assets or assume liabilities for at risk institutions, keeping them afloat. However, rather than save the S&L industry, the act actually increased insolvency. S & Ls, knowing they would be supported by the federal government, kept increasing interest rates in the hopes of encouraging a greater number of deposits to help support their mortgage rates (which had taken a severe blow due to high real interest rates). Competing S&Ls drove up deposit interest rates to a point where they could not support withdrawal. In the end, the total bailout cost taxpayers $XXX billion, which could have been used instead to grow GDP through consumption, investment etc. For example, at the height of insolvency, between XXXX and XXXX, GDP increases dropped from a high of XXX.X billion between XXXX – XXXX to XXX.X billion between XXXX – XXXX and XXX billion between XXXX-XXXX. Further, this de-regulation can be tied to the most recent financial crisis of XXXX, as it laid the foundation of lax government oversight.

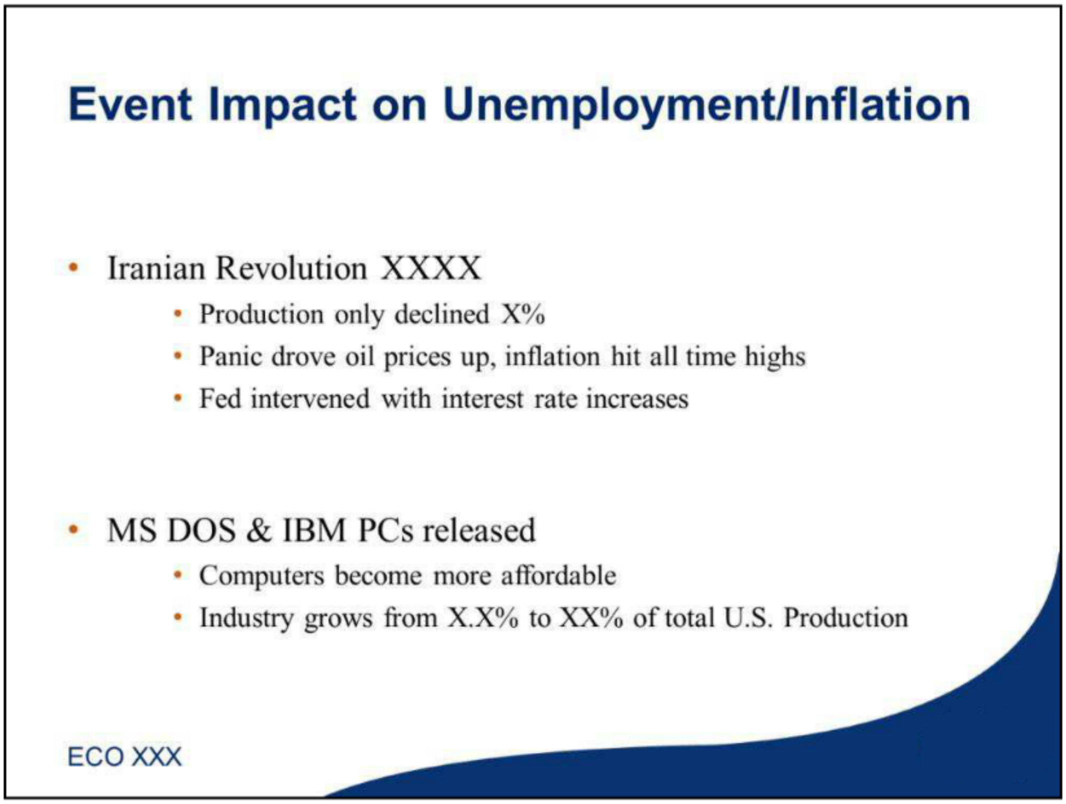
On XX/XX/XXXX, the stock market took its largest one day fall on record (surpassing the prior Black Monday in XXXX which led to the Great Depression). The current analysis is that the market dropped rapidly due to concerns over a bill in Congress that would eliminate the tax deduction for loans used to finance corporate takeovers. There was further speculation that Treasury Secretary James Baker would let the value of the dollar fall to encourage foreign investing. These apprehensions, coupled with the new use of computerized trading had a tidal wave effect. When stocks started to drop, the software programs began dumping shares automatically. The crash was astonishingly fast. However, Black Monday, which many feared would result in a return to recession, actually did nothing more than correct the overinflated stock market which had risen XX% in XXXX alone. What could have been a catastrophe, was mitigated by the quick action of the Federal Reserve, who immediately stabilized banks with a massive influx of cash.

As a side note, on May X, XXXX, the Dow Jones Industrial Average had another one day swing of nearly X,XXX points, leading to a flash crash that alarmed investors and stymied regulators. Just as Black Monday represented a perfect storm of apprehension and trading software, May Xth represented a perfect storm of spoofing (placing fake orders) and, coincidentally, algorithmic computer trading (Brush et al., XXXX).

Due to low production and potential energy crisis (Iran/Iraq), the decade started in a recession with inflation at XX.X% peaking in March/April XXXX at an incredible high of XX.X%. By XXXX, prices had nearly doubled in just nine years and unemployment reached a whopping XX.X% in December XXXX. Using the Misery Index (a combination of unemployment and inflation), the American public was indeed miserable.

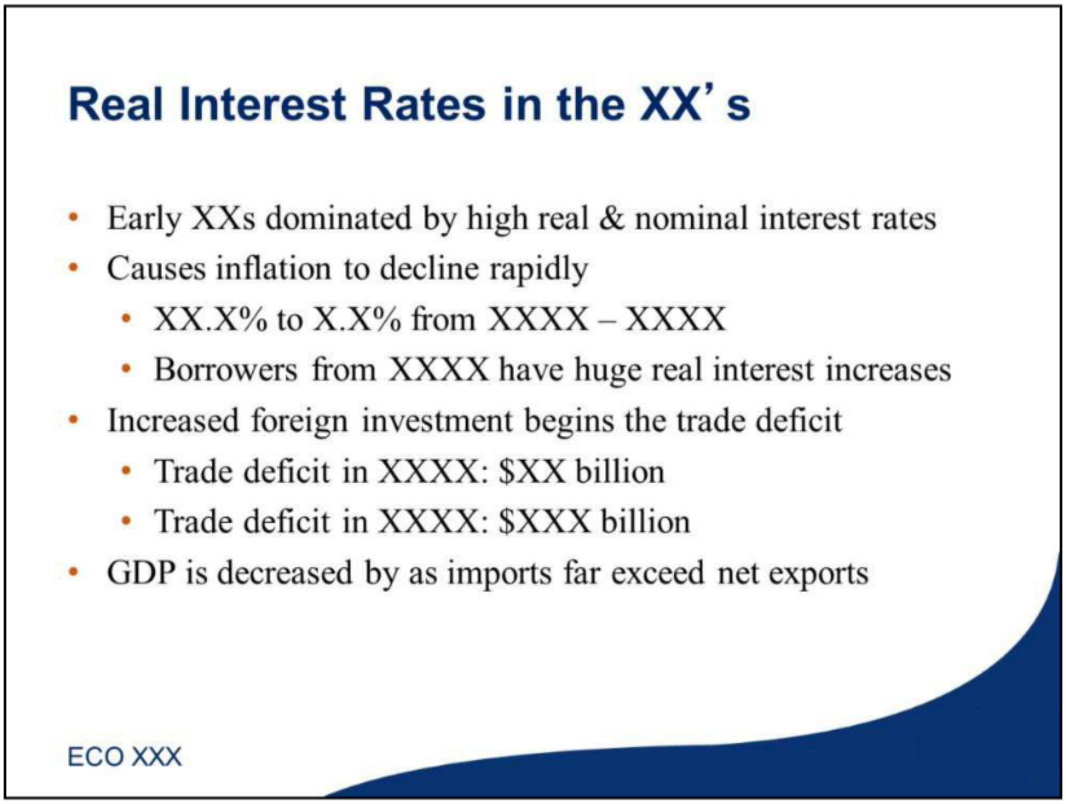
The majority of job cutbacks were in goods; particularly, cars, steel and the housing industry. In particular, the automotive industry , facing fierce competition from foreign car makers, downsized employees. The resulting unemployment was not simply cyclical, but also structural as manual processes gave way to automation. Once inflation dropped and the economy recovered, unemployment returned to its more stable level of X-X%.

According to the Bureau of Labor Statistics, in XXXX energy prices dropped sharply, falling nearly XX percent as gasoline prices declined by more than XX percent. By December XXXX, gasoline prices were down to XX cents per gallon. The large decrease in gasoline prices temporarily pushed overall inflation down near X percent, but when energy prices recovered, inflation returned to about X percent per year, edging slightly higher from XXXX to XXXX.



Some critical events impacted both unemployment and inflation in the XXXXs. First came the Iranian Revolution, which began in XXXX. While the actual loss in oil production loss was minimal, widespread panic ensued, due in large part to the prior oil embargo/energy crisis in XXXX. This panic drove oil prices up, and coupled with slow economic growth, caused extreme inflation. To address double digit inflation numbers, the Federal Reserve increased interest rates, and unemployment rates temporarily increased as businesses instituted cutbacks.

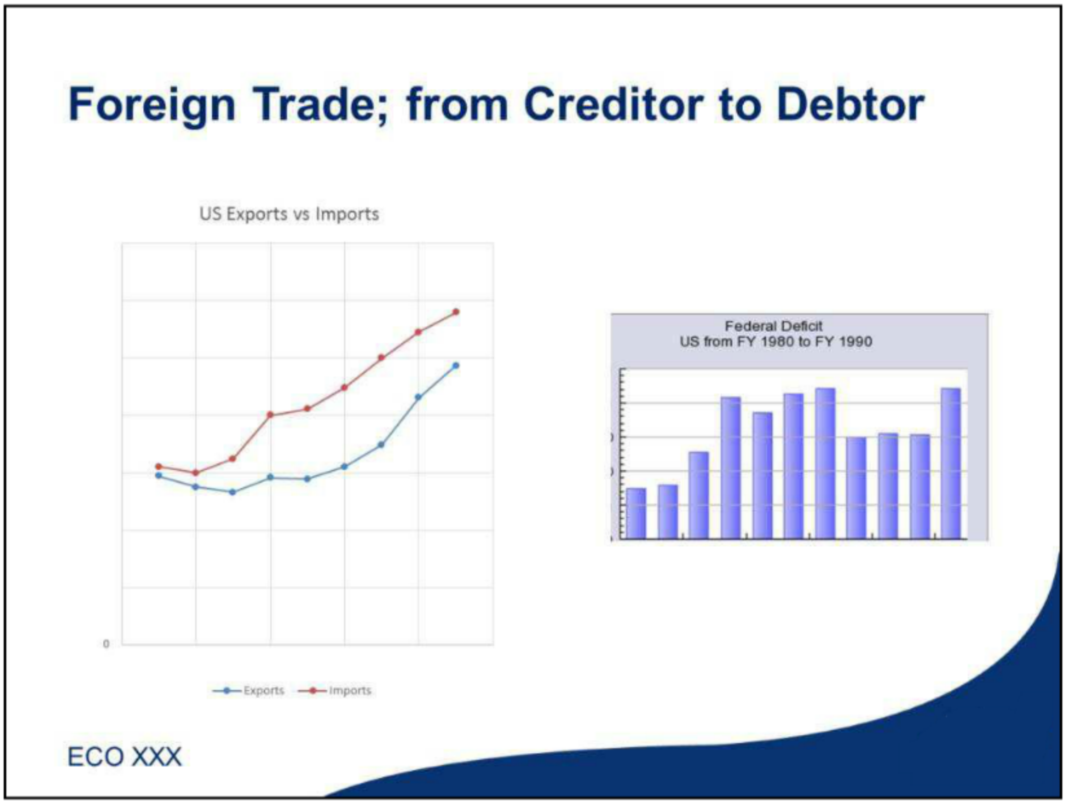
Unemployment, on the other hand, benefited from a surge in high tech industries, most notably the computer/PC market and the commencement of cellular phone communication. While growth in tech industries could not fully offset the losses sustained by the steel industry, technology began to increase American production again and slowly reduce structural unemployment.



Nominal interest rates were at an all time high in the early XXXXs, due mostly to stagflation and the energy crisis at the end of the XX's. High interest rates initially affected the housing market, curtailing purchases. They also increased the cost of doing business, resulting in layoffs and increased unemployment. To mitigate the sudden high cost of mortgages, Gran-St. Germaine Act was introduced. By allowing the S&L industry (which included the majority of mortgages) to have greater flexibility in investment and interest rates, the government hoped to encourage housing purchases. This act did, to a certain degree, assist in lowering both real and nominal interest rates, most notably a decline in real interest rates of X.X% in XXXX to X.X% by XXXX.

Real interest rates typically follow inflationary rates as they represent nominal interest less inflation. Due to the recession, and extremely high inflation, the Fed increased real interest rates from X.X% in XXXX to X.X% in XXXX and X.X% in XXXX (Bureau of Economic Analysis) . This was designed to reduce borrowing and inflation. It also had the affect of encouraging foreign investment as higher interest rates raised the demand for U.S. currency. In addition, there is the suggestion that the ever increasing deficit (the result of Reagan's significant expenditures on the military and reduced tax income), caused consumers to anticipate future tax burdens and reduce consumption, again, dropping inflation levels. With inflation dropping, in XXXX the Fed reduced real interest rates, hoping to encourage greater economic development.

Unfortunately, the damage had already been done. The appreciation of the U.S. dollar reduced U.S. exports to other countries and increased imports from these countries. As one of four key components of the GDP, a negative net export (i.e. trade deficit) reduces the overall Gross Domestic Product.



Let's take a closer look at the U.S. trade deficit and actions taken by the administration to correct it. Only a few decades before, America was the world's largest creditor, investing globally and financing industry internationally. However, a shift occurred as U.S. consumption began outpacing U.S. production. Savings built meticulously over generations were being depleted and the government turned more and more frequently to borrowing as a means of maintaining the existing standard of living. By the XXXX's the balance shifted; the financier became the debtor. According to the Organisation for Economic Co-Operation and Development (OCED) database, by XXXX the U.S. had a negative trade balance (difference between exports and imports) of $XX.XX billion dollars. Over the next six years, that number would grow dramatically to negative $XXX.XX billion before recovering slightly. The decade closed with a negative trade balance of $XXX.XX in XXXX.

Upon closer inspection of data provided by the U.S. Census Bureau, the import/export gap widened noticeably in XXXX with imports representing $XXX,XXX million and exports a mere $XXX,XXX. So, what changed? The Federal Deficit. As noted above, the Federal Deficit dramatically increased in XXXX (from $XXX billion to $XXX billion) and reached its pinnacle in XXXX at $XXX billion dollars. The rising deficit forced the government to utilize more national savings, and encouraged greater borrowing from abroad.

Imposition of Protectionism Policy

- XXXX-XXXX VER on Japanese auto exports
- Reinstitution of sugar quotas on May XXXX with six reductions over X years
- XXXX Steel VRA (XX countries)
- XXXX Semiconductor Agreement

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Concerned with ever increasing trade deficits, Reagan administration trade policies in the XXXXs were somewhat of an enigma. Reagan regularly espoused the benefits free trade: "The freer the flow of world trade, the stronger the tides of human progress and peace among nations" and yet his policies suggest protectionism at their heart (Richmond, XXXX). Focused on trying to protect domestic industries rather than encouraging open markets worsened net exports for the U.S. By assisting industries whose production was inferior, voluntary export restraints (VERs) reduced U.S. competitiveness in the open market, leading to inefficiencies that still plague these industries today. Had Reagan focused more on international adherence to the rules of trade, the outcomes may have been different.

For example, the voluntary reduction of Japanese import vehicles did not result in the retention of a strong, U.S. automotive industry. Rather, American car companies lowered production, reduced labor by XX,XXX jobs and increased the cost of their vehicles to obtain even higher profits (a plus for the auto manufacturers, of course). These higher domestic and imported car prices cost consumers an extra $X.X billion a year in XXXX (Richmond, XXXX). In addition, by artificially reducing competition, U.S. manufacturers lagged behind in innovation, leaving them vulnerable and in need of a financial infusion of $XX billion in XXXX.

This same experience extended to the U.S. Semiconductor industry. A novice and growing industry, Reagan sought to protect American producers by instituting yet another VER with the Japanese in XXXX. When the agreement was allegedly broken, he assessed a XXX% tariff on a variety of Japanese electronics, including the very memory chips the American industry needed to produce their semiconductors (Richmond, XXXX).

All in all, the Reagan administration added more trade barriers than any administration since Hoover (Niskanen,XXXX). The share of U.S. imports subject to some form of trade restraint increased from XX percent in XXXX to XX percent in XXXX. And while the significant impact to production could be measured in the growing loss of exports, it is more difficult to measure the cost of the loss in American credibility as a fair trading partner.

Introduction to Fiscal Policy

- *Fiscal Policy*: Refers to the tax and spending policies of the federal government
- *Monetary Policy*: Refers to actions taken by a central bank (the Federal Reserve) to achieve price stability, full employment and stable growth.
- *The Federal Open Market Committee* (FOMC): The policymaking body of the Federal Reserve
  - Meets X times per year
  - Review fiscal policy implications; how they affect macro variables

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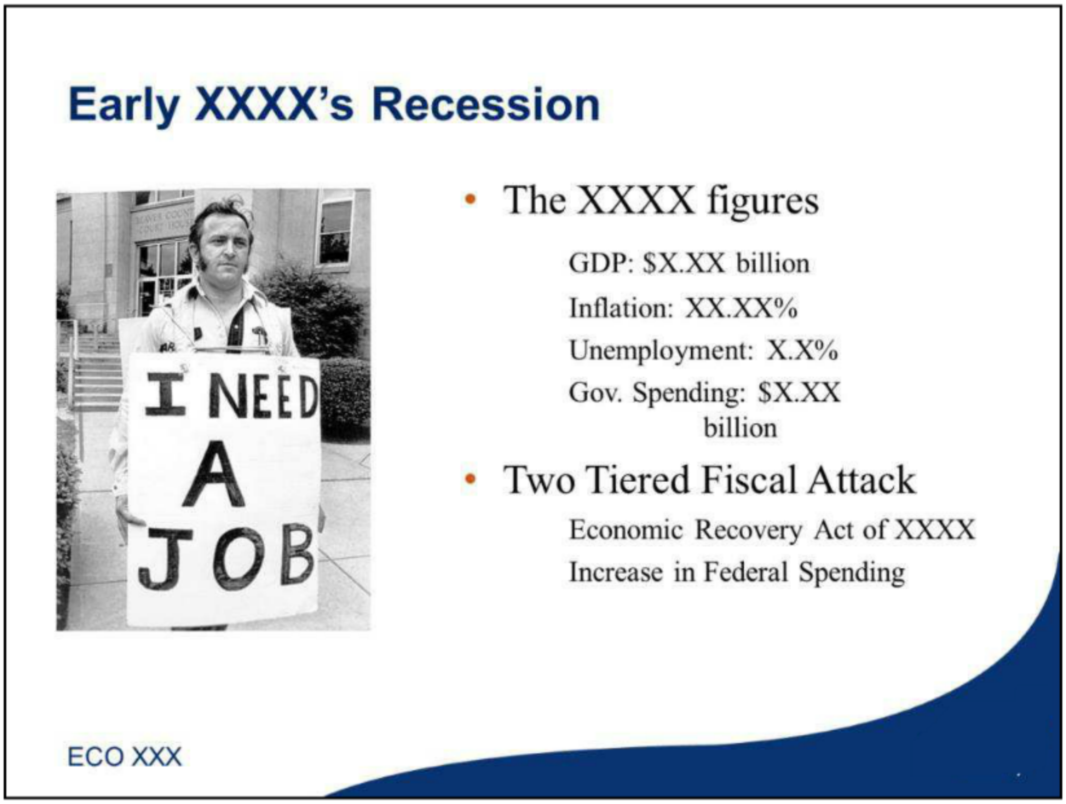
In this segment, we will be discussing the effect of fiscal policies in the XXXXs. This includes a review of the policies that led to the economic situation at the start of the decade and those policies implemented by the Reagan administration to address economic shortcomings. As noted above, fiscal policies indirectly influence the monetary policy set by the Federal Reserve (Federal Reserve, XXXX). For example, a fiscal policy that inadvertently increases inflation, can be adjusted/corrected by the FOMC taking action to reduce the discount rate. These impacts will be considered in greater detail later in the presentation.

What is stagflation? It is an unusual economic situation in which there is stagnant GDP growth, combined with increasing inflation and unemployment. This condition is rare, as in an unregulated free market, sluggish growth causes a decline in demand, resulting in falling prices. As companies have to layoff workers to remain profitable, individual income dwindles and consumer spending tightens. However, due to fiscal intervention that stifled the economy's normal response, stagflation dominated the XXXX's. This began with a televised statement on August, XX,XXXX by President Richard Nixon initiating a new fiscal plan to curb what he considered to be excessive inflation. It should be noted based on the charts above depicting CPI Inflation Rate (Econ Review, XXXX) and the Unemployment Rate (BLS, XXXX), at the time this policy was announced, inflation was already falling and unemployment was at X.X%.

While inflation rates were below X% at the start of XXXX, they reached nearly XX% by the start of XXXX and unemployment hit a high of X.X%. Rather than reduce inflation, price/wage controls had a nearly opposite affect, leading to both an increase in inflation, as well as unemployment (Econ Review, XXXX). This process was accelerated by Nixon announcing the removal of the U.S. from the Gold Standard. When the US removed the Gold Standard, the value of the dollar plummeted internationally. As import costs increased, U.S. companies could not increase prices, so they sought to reduce costs by reducing expenditures and laying off employees. "It was a rocky transition, characterized by plummeting stock prices, skyrocketing oil prices, bank failures and inflation" (Stephey, XXXX).

Finally, in an effort to control the rising inflation, President Jimmy Carter instituted his anti-inflation act on October XX, XXXX including both voluntary price and wage controls, and a call to reduce the government's deficit. Having alternated his focus between unemployment and inflation throughout his presidency, Carter received less and less support for his programs, and more and more questions. The reduction in government spending alienated the liberals, wage controls diminished union support and observations of internal administration conflict reduced corporate confidence (President Profiles, XXXX). While the GDP remained in small, but positive growth during the quarters within the Carter administration, real GDP at the end of XXXX represented only a X% increase from the prior quarter. Coupled with rising unemployment (at the end of XXXX) and ever increasing interest rates, the economic prospects for the XXXXs look bleak, with recession on the horizon.

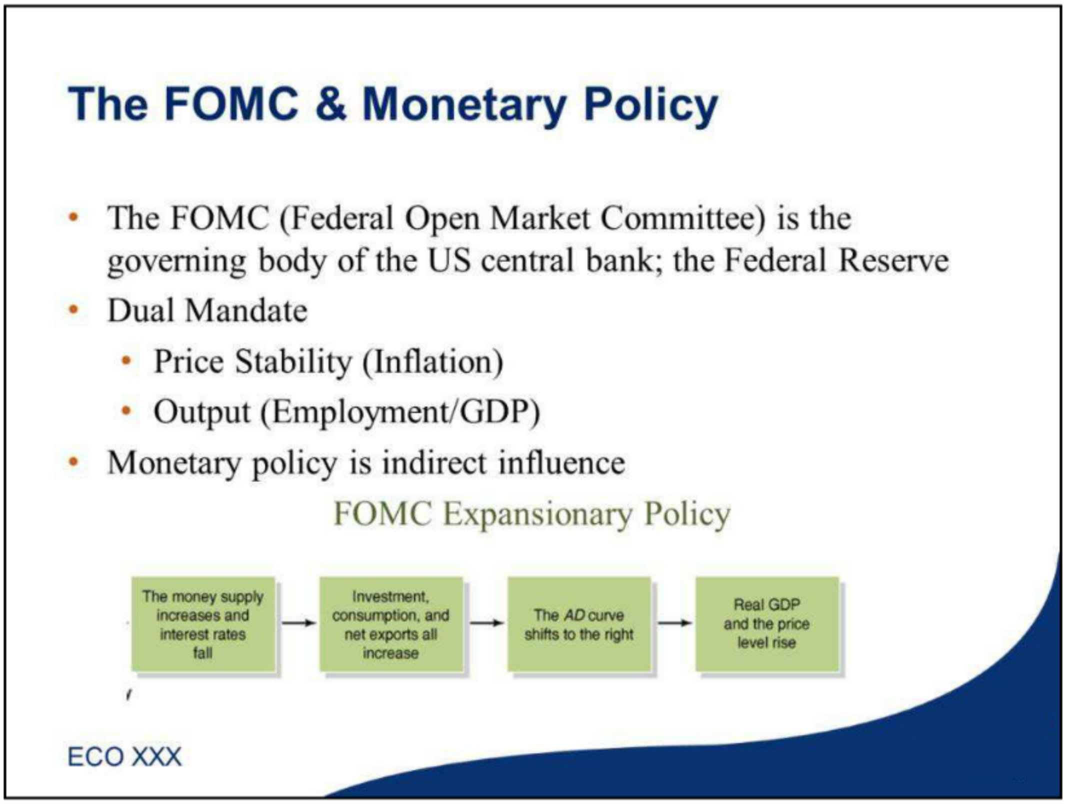


According to the Bureau of Labor Statistics, the unemployment rate in January of XXXX was X.X%. This rate began to grow in the fourth quarter of XXXX, eventually reaching a high of XX.X% in December XXXX (BLS, XXXX). Simultaneously, inflation was hitting double digits, and as noted by the Consumer Price Index, was X.XX% higher than the average rate of X.X% (CPI, XXXX). The government needed to act quickly in order to prevent a full depression, the likes of which had not been seen since the Great Depression. Given the lack of success by the prior administrations using more Keynesian economics, the Reagan administration took a different tact. Instead of applying additional regulations to "manage" the economy, the philosophy shifted to freeing the market, while simultaneously applying a vigorous monetary policy. In particular, Reagan applied two strategies; a tax cut and an increase in government expenditures.

The Economic Recovery Tax Act instituted by the Reagan administration in XXXX was designed to reduce taxes. The highlight of the bill was an across the board XX% cut in individual marginal rates, encouraging consumption. In addition, tax indexation would begin in XXXX, increasing personal exemptions and standard deductions annually based on inflation. The argument for this particular addition to tax law was simple. Under the existing system, as nominal incomes rose with inflation, the standard deductions protected less and less of a family's income from tax. The net result was that for every XX% increase in prices and wages, a XX% increase in taxes was generated, giving the government "a hidden tax increase every year without having to take a vote in Congress…" (Entin, XXXX). In the pre-eighties economy, the combination of inflation and lack of indexation resulted in a loss of productivity. There was no incentive for an employee to work overtime when the slight increase in hourly rate pushed workers into the highest tax brackets, dropping earnings below regular pay. Further, the lack of indexation penalized savers. Rising nominal interest rates were subject to higher and higher tax rates, eroding savings to the point of loss. Without consumer savings, financial systems were reducing lending, putting an additional strain on production (Entin, XXXX).

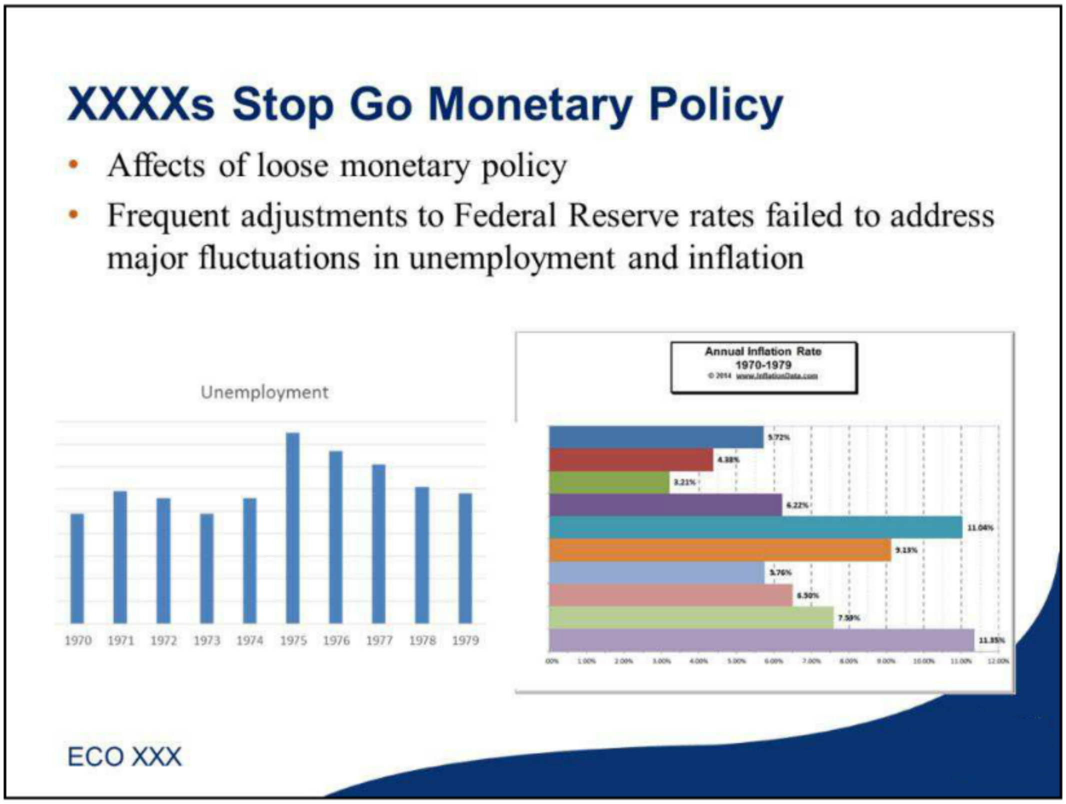
The second fiscal policy that Reagan instituted was a massive increase in defense spending. Again, the benefits were two-fold. Improving America's military strength reduced the risk of all out nuclear war with the Soviet Union, and created new jobs as defense contractors expanded production. Second, government expenditures increase the gross domestic product. In XXXX, overall government spending was $XXX.X billion with $XXX.X billion associated with defense spending, or X% of the total GDP. By XXXX, defense spending had grown to $XXX.X billion or X.X% of GDP. With less than a X% increase in relation to GDP, defense spending (and some other minor government expenditures) had shifted the GDP from $X,XXX.X billion to $X,XXX.X billion, again of XX% in five years

During the XXXXs, Reagan refocused fiscal policy on both the long-run benefits and short-term gratification beginning the Great Expansion. "His policies resulted in the largest peacetime economic boom in American history and nearly XX million more jobs" (Sperry, XXXX). Tax cuts and increases in expenditure provided a short term relief, encouraging greater productivity and growth, while items like the tax indexation continue to benefit the economy of today.



Before analyzing the monetary policies in place at the onset of the XXXX's and the decade of changes that followed, it is important to understand monetary policy and its role in the macroeconomic environment. Monetary policies are driven by central banks; whereas fiscal policy, is instituted by the White House or Congress. Unlike some other countries, the powerful US central bank, also known as the Federal Reserve, operates independent of the federal government. It's demand-side policies are designed to impact growth in the short term, either quarter to quarter or year to year. In fact, the role of monetary policy is really one of dampening or encouraging aggregate demand. While the Fed cannot directly encourage productivity - this is a supply side adjustment, it can influence the interest rate and money supply (Tobin, XXXX). These changes then indirectly impact production and overall GDP.

Take, for example, an FOMC expansionary monetary policy noted above. As you can see, when the Fed decreases the federal funds rate, a reduction in overall interest rates occurs. Lower interest rates reduce prices, encouraging individual and corporate consumption through capital investment and residential purchases. They (reduced interest rates) also expand net exports, all of which expand the GDP.

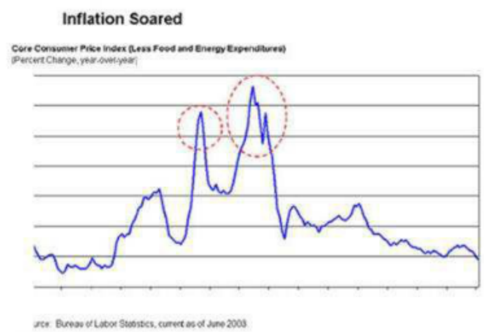


In the years prior to XXXX, the country entered a period of unprecedented peacetime inflation that tripled the general price level (Goodfriend, XXXX). While there are a number of theories surrounding the stagflation that became evident during the late XXXX's, most agree that Fed monetary policy was a significant cause. At the time, the Fed was using a Stop Go monetary policy. For example, according to Federal Reserve data on the Federal Reserve rate, the fed's reserve rate started XXXX at X.XX%, then it dropped to X.XX% by XXXX, then rose to XX.XX% in XXXX and went back down to X.XX% a year later. Given the erratic fluctuations of the Federal Reserve and interest rates, by the time the Fed became sufficiently concerned about rising inflation to lower interest rates (go cycle), businesses did not lower their prices in response, as they anticipated another spike in interest rates. In addition, fiscal price and wage setting further neutralized the favorable employment effects of monetary stimulus in the go phase of the policy cycles.

Around XXXX, macroeconomists began to question the validity of a model that did not adjust for structural or fiscal policy changes. Coupled with evidence that long run GDP and inflation were not fluctuating with monetary supply adjustments as initially presumed, FOMC Chairman, Paul Volcker publically announced a new Fed course (Gali & Gertler, XXXX) in October XXXX. The Fed, for a brief period, began to target the quantity of money, specifically non-borrowed reserves. It was Volcker's hope that this disinflation mechanism, while temporarily increasing unemployment, would sufficiently drop inflation to usher in a new era of confidence in the Fed's ability to contain inflation (Goodfriend, XXXX).

XXXX's Monetary Policy

- XXXX – XXXX the Fed adopted a funds quantity vs pricing procedure
- Inflation and unemployment soared before dropping significantly
- XXXX Fed shifts again, back to price driven model



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As noted in the prior fiscal policy discussion, the start of the XXXX's were recessionary, with double digit inflation and unemployment. A spike in inflation in early XXXX caused the Fed to further tighten it's monetary policy and in March XXXX, Volcker raised the federal reserve rate X points to XX%. However, once data revealed that the peak in the normal business cycle in occurred in January XXXX, the potential magnitude of the impending recession made the Fed cut the rate by around X percentage points between April and July XXXX. The quick action taken by the Fed ended the recession quickly, but inflation remained high until late XXXX (Goodfriend, XXXX). While it took some time for the adjustment to fully realize, Volcker's tight monetary policy did eventually succeed, dropping both unemployment and inflation dramatically. By XXXX, in response to financial market innovation and decreased inflation, the Federal Reserve shifted back to its post XXXX approach of conducting open market operations targeting a particular degree of tightness or ease in reserve market conditions (FRBSR, XXXX).

Thereafter, inflation stabilized at around X percent and real GDP grew by around X.X percent and X.X percent in XXXX and XXXX, respectively. An active, public commitment to keeping inflation low, helped re-establish the Federal Reserve's ability to deliver on its promises. Continued transparent communication between the FOMC and the public regarding upcoming monetary adjustments allowed business and individuals to plan for the long term. A new, more cohesive theory evolved, a synthesis of New Keynesian theory and real business cycle approaches. With evidence mounting that there was no long-run tradeoff between inflation & unemployment, and greater awareness of the impact of private sector expectations, Fed policy began to include instinct and judgment along with qualitative analyses (Gali & Gertler, XXXX) . The XXXXs spurred a shift in macroeconomic theory that still holds value today.

In conclusion, the adjustments to monetary policy that began in the XXXXs have continued to evolve into current macroeconomic policies that efficiently smooth out fluctuations in the business cycle. By accepting that modeling cannot forecast sudden economic shocks like changing oil prices or evolving technology, monetary policy has instead focused on creating an economic environment that continually remains conducive to business. The maintenance of imperfect competition is designed specifically to keep firms price setting, rather than price taking. “Because nominal prices adjust sluggishly, by directly manipulating nominal interest rates, the central bank is able to influence real rates and hence real spending decisions, at least in the short run” (Gali & Gertler, XXXX). With ongoing research adjustments to the traditional Phillips curve, including how expectations play a critical role, the Fed has successfully (in most cases) maintained price stability by adjusting short term interest rates. As noted above, the US GDP per capita has benefitted substantially from this change in mindset, growing from just over $XX,XXX to $XX,XXX.XX in April, XXXX according to the website, Trading Economies.

While Reagan fiscal policies left us with some long term issues including the deregulation of the banking industry (a tie to the most recent recession) and a large federal deficit, the good seems to far outweigh the bad. This is especially true if you follow a more Natural Rate of Hypothesis regarding the federal deficit. Recent research suggests that deficit spending has no effect on the long term equilibrium output or unemployment level as Keynesian theory initially suggested. Growing macroeconomic data points to the possibility that both Natural Rate Hypothesis and Richardian Equivalence theories are more accurate (Chrystal & Thornton, XXXX). Therefore, one of the negatives frequently assessed to Reagan, the burgeoning federal deficit, can be rationally discarded.

When looking at the macroeconomics of an economy, as noted in prior slides, a change in any one area can negatively (or positively) affect others. They are not only interdependent, but dependent on foreign influences as well. For example, the Iran oil embargo caused the price of energy to rise and was a contributing factor to the recession early in the decade. Black Monday caused stock markets worldwide to crash along with the NYSE. As more countries enter the global economy more symbiotic relationships will be established, and predictability of rate/market changes as well as stabilization of markets will become even more challenging.

The lessons learned from the past must be applied to the future to ensure slow, long term growth. To encourage more free trade, it will be necessary for Congress to work in conjunction with the President. While the strict protectionism of the Reagan era highlighted the negative impact to foreign policy and trade, it does have its place. The threat of protectionism has bargaining power, and by creating deadlines with economic constraints attached, faster negotiations and decisions can occur. "At the same time, U.S. trade laws should be reoriented toward pressing other countries to open their markets, rather than toward protecting domestic industries" (Aho et al., XXXX/XXXX). Given increases in technology and the creative destruction that follows, the government will need to invest more in re-training and relocation programs. The mobility of the working population, both in terms of physical movement and intellectual adaptation will be key to improving research, development and advancement. By investing in the population's ability to work, the government can more easily support the removal of industries that are no longer productive, increasing U.S. competitive advantage.

Finally, it will be pivotal for the U.S. to properly balance consumption (which was excessive in the XXXXs at approximately XX% of GDP), with government expenditures on the military (X% of GDP) and investment (~XX% of GDP). "Consumerism, not militarism, is the threat to American strength. The declinists have it wrong; Montesquieu got it right: 'Republics end with luxury; monarchies with poverty' " (Huntington, XXXX/XXXX). This means consumption will need to decline through a combination of monetary and fiscal policies designed to encouraging greater savings and less personal expenditures. Of course, this brings to bear the ever present and unpredictable variable, human nature. Culture, history and religion all contribute to national values and priorities, and influencing the public's perception will be at the heart of any real economic gain. Politicians and economists will need to continually juggle unemployment, inflation, interest rates and foreign affairs while being mindful of public opinion. Dropping just one ball disrupts the entire performance.

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