Has Policy Uncertainty Slowed the Recovery?

Scott R. Baker (Stanford)
Nick Bloom (Stanford & NBER, nbloom@stanford.edu)
Steve Davis (Chicago Booth & NBER)

SF Fed, April 10th 2013

Policy uncertainty has recently been argued to be a key factor in delaying the current recovery

BUSINESS | Updated October 9, 2012, 10:53 a.m. ET

Global Recession Risk Rises

IMF Lowers Growth Forecasts, Warns New Downturn Would Be Tougher to Tame

Audio

Sudeep Reddy stopped by The Wall Street Journal This Morning with the latest.

00:00 | 03:03

"Risks for a serious global slowdown are alarmingly high," said the IMF's World Economic Outlook report, which was released here Tuesday ahead of the fund's annual fall meeting. It was its bleakest assessment of global growth prospects since the 2009 recession.

The fund expects the world economy to expand just 3.3% this year and 3.6% in 2013, as growth slows in nearly every major nation and political uncertainties threaten recoveries in the U.S. and euro zone. That is a revision downward of 0.2 percentage point for 2012 and 0.3 percentage point for 2013 from its July forecast. Under the IMF's definition, global gross domestic product doesn't have to shrink for the world to be in recession.

"No significant improvements appear in the offing," the IMF said. The global economy grew 3.8% in 2011 and 5.1% in 2010.

The IMF noted the absence of a simple unified message for how to avert

But not everyone agrees: Krugman clearly disagrees

The Conscience of a Liberal
PAUL KRUGMAN

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Paul Krugman is an Op-Ed columnist for The New York Times.
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October 13, 2011, 8:52 AM | 🗩 60 Comments

Varieties Of Uncertainty

Some of the usual suspects have lately been touting a research paper by Baker et al that supposedly shows that policy uncertainty is an important factor in restraining the eco... view. Larry Mishel...

As Mishel points ... uncertainty is bas... Murdoch empire c... uncertainty, the au... as the propaganda...

But even setting th... all what the right v... visibly move their... dispute. So you co... that socialist Islan... hostage-taking. Th... the analysis.

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· Principles of Economics, 2nd ed. (2009)
· The Return of Depression Economics and the Crisis of 2008 (Dec. 2008)

October 31, 2012, 3:15 PM | 🗩 157 Comments

Asymmetrical "Uncertainty"

Ever since it came out, Obama-bashers have loved to cite a paper by Baker, Bloom, and Davis claiming that policy uncertainty is holding back the recovery. See, they say, it's Obama and his socialist plans! The paper never deserved this much weight — like the Alesina/Ardagna work on expansionary austerity, or, yes, the unfortunate and uncharacteristically sloppy Reinhart/Rogoff paper on the burden of debt, it's preliminary academic ...h that has b... rmore, as m... et al measu... Obama age... Republican c... aker et al h... xcept that it ... sibility lies ... ce. Their da... e debt ceilin... t's be clear: ...

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October 22, 2012, 1:18 PM | 🗩 53 Comments

The "Uncertainty" Scam

One of the central talking points of right-wing economists is that "uncertainty" caused by Obama is holding the economy back; they cite, again and again, a paper by Bloom et al purporting to find a relationship between uncertainty and jobs, with uncertainty measured via such things as article counts.

But what's driving that uncertainty index? Jan Hatzius and his team at Goldman have an analysis, cited by FT Alphaville, pointing out something that I thought I knew, but with much more clarity: it's not at all about Obama.

Here's my key graph from the Hatzius paper:

Exhibit 2: Is Policy Uncertainty Cause or Effect of the Weak Economy?

Index (left axis): -20 to -240
Percentage points (right axis): 4 to -8

— US Policy Uncertainty Index (inverse, left)
— Output Gap (right)

(x-axis years: 85 87 89 91 93 95 97 99 01 03 05 07 09 11 13)

For the most part, "uncertainty" seems to reflect the fact that the economy is...

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BOOK

The Conscience of a Liberal
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August 10, 2012, 5:10 PM | 🗩 294 Comments

Culture Of Fraud

Still on vacation, but I have internet access for a bit, and have checked in on a few matters. The big story of the week among the dismal science set is the Romney campaign's white paper on economic policy, which represents a concerted effort by three economists — Glenn Hubbard, Greg Mankiw, and John Taylor — to destroy their own reputations. (Yes, there was a fourth author, Kevin Hassett. But the co-author of "Dow 36,000" doesn't exactly have a reputation to destroy).

And when I talk about destroying reputations, I don't just mean saying things I disagree with. I mean flat-out, undeniable professional malpractice. It's one thing to make shaky or even demonstrably wrong arguments. It's something else to cite the work of other economists, claiming that it supports your position, when it does no such thing — and don't take my word for it, listen to the protests of the cited economists.

THE CHOIC...
A weekly e-mail newsletter for c... applicants and their parents ex... facets of the college admissio...

Of course Fox disagrees with Krugman's disagreement

Why is Uncertainty So Unbelievable to Paul Krugman?

By Elizabeth MacDonald / Emac's Bottom Line / Published October 23, 2012 / FOXBusiness

The Certain Role of Uncertainty | D.C. Uncertainty Costs Americans 2.3M Jobs | The Top 5 Concerns for Investors

As the presidential campaign winds down, some economists have been playing down the role of economic and political uncertainty in hamstringing the U.S. economic recovery.

Now, the *New York Times'* liberal firebrand Paul Krugman is out with a

The paper tries to investigate this methodically

1) Measuring policy uncertainty

2) Evaluating our measure of policy uncertainty

3) Estimating the impact of policy uncertainty on the recovery

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Our US Economic Policy Uncertainty index has 4 components – how we make the data "sausage":

- News-based index (weight=1/2)

- Forecaster disagreement about government purchases of goods and services (weight=1/6)

- Forecaster disagreement about inflation (weight=1/6)

- Scheduled tax code expirations (weight=1/6)

Normalize each component to have unit standard deviation, then compute weighted sum to get overall index.

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Normalize each component to have unit standard deviation, then compute weighted sum to get overall index.

Constructing our US News-Based EPU Index

- For 10 major US papers get monthly counts of articles with:
  {economic or economy}, and
  {uncertain or uncertainty}, and
  {regulation or deficit or federal reserve or congress or legislation or white house}

- Divide the count for each month by the count of all articles

- Normalize each to SD=1, then sum all 10 papers to get the U.S monthly index

US News-based policy uncertainty index: Jan 1985-Dec 2012

Black Monday

Gulf War I

Clinton Election

Russian Crisis/LTCM

Bush Election

9/11

Gulf War II

Lehman and TARP

Stimulus Debate

Obama Election

Debt Ceiling; Euro Debt

Fiscal Cliff

Euro Crisis and 2010 Midterms
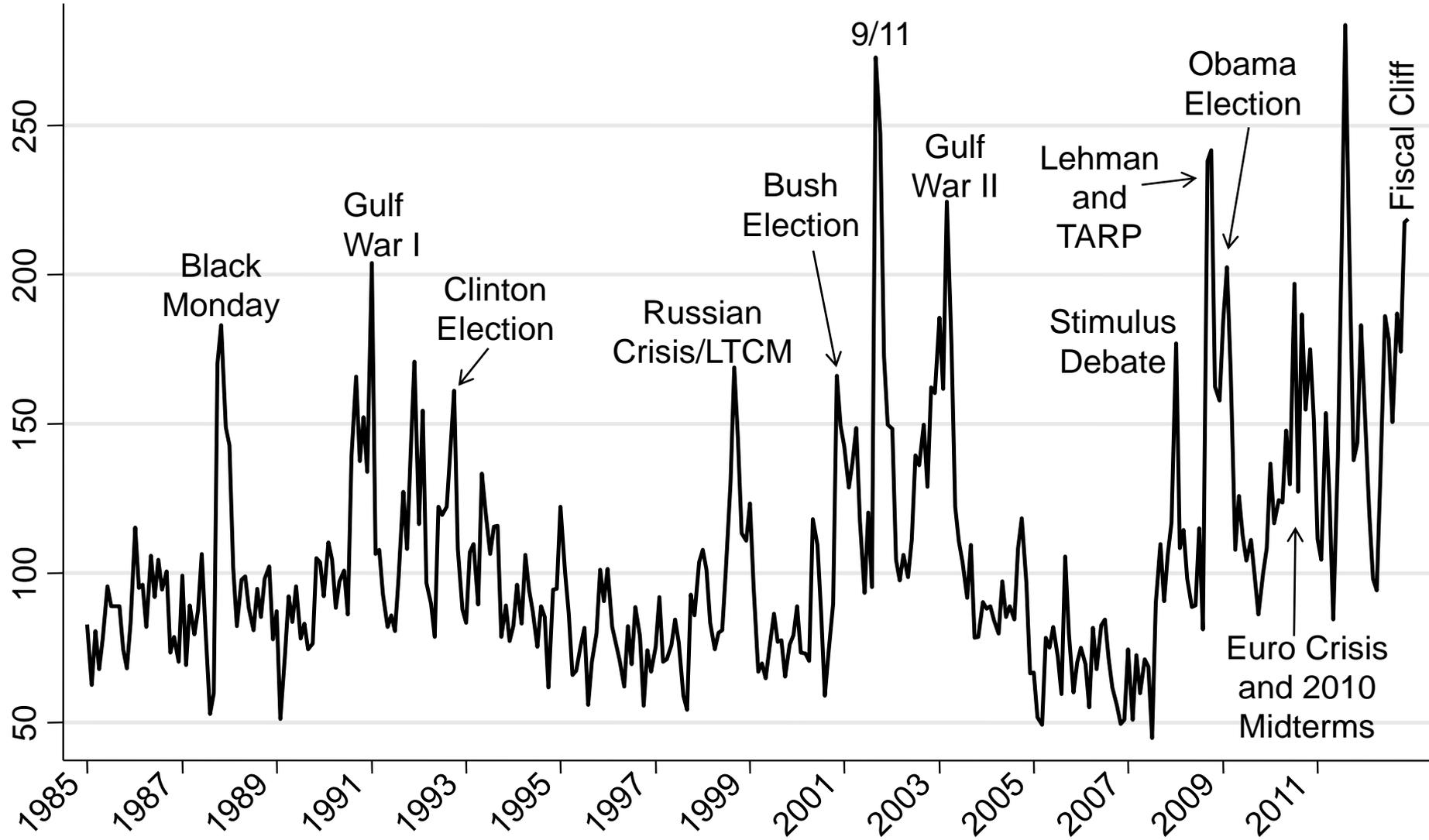
Source: "Measuring Economic Policy Uncertainty" by Scott Baker, Nicholas Bloom and Steven J. Davis, all data at www.policyuncertainty.com. Data normalized to 100 prior to 2010.

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– Scheduled tax code expirations (weight=1/6)

Normalize each component to have unit standard deviation, then compute weighted sum to get overall index.

State and Local Govt Purchase Forecasts, IQ Range
Q1 1985 - Q4 2012
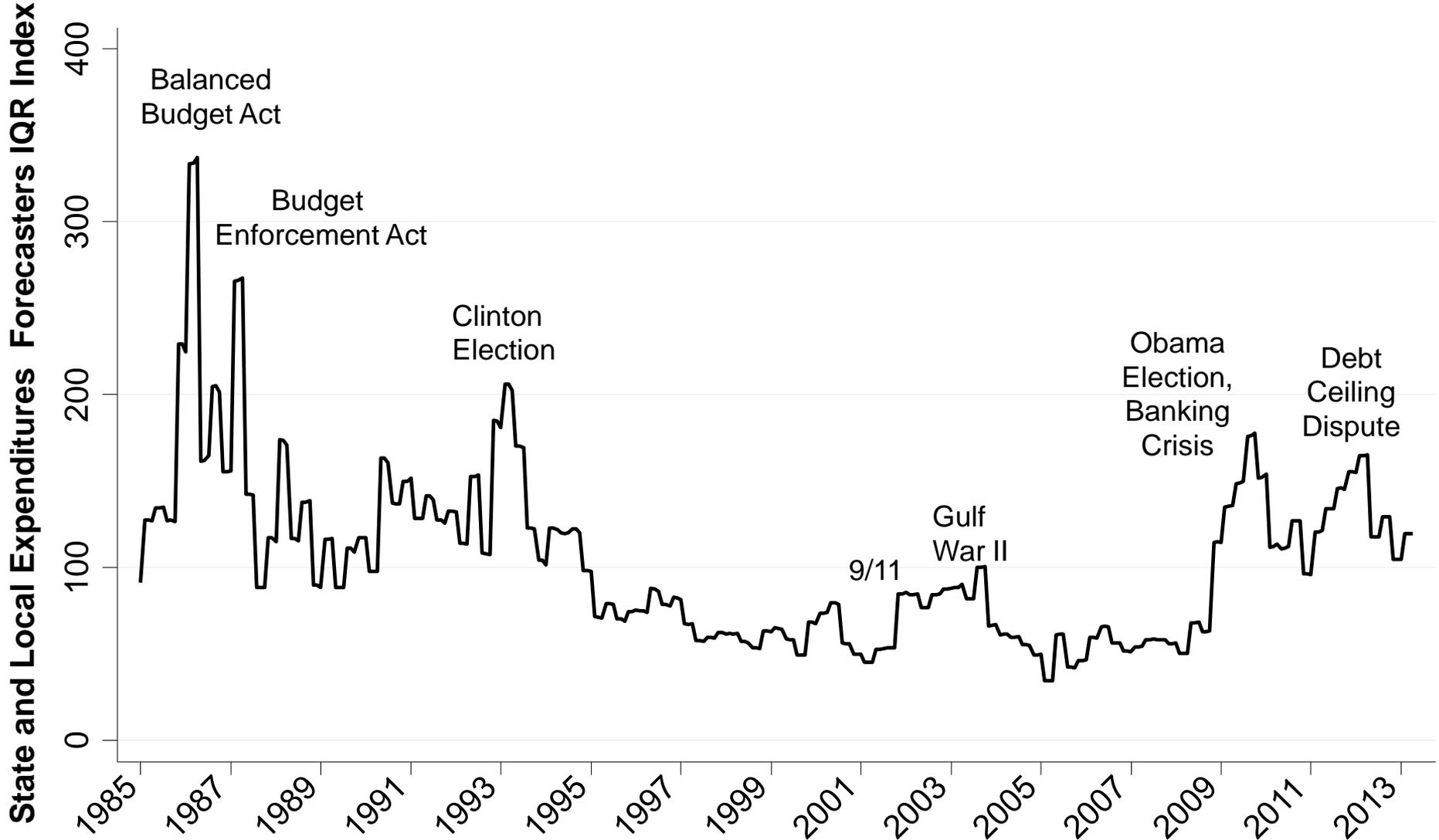
Notes: From the Philadelphia Federal Reserve Survey of Professional Forecasters. Takes the interquartile (IQ) range of the 1-year ahead forecasts (made every quarter) of total state and local government purchases relative to five year backward moving average GDP. Normalized to a mean 100 from 1985-2009. Spans about 45 forecasters per year.

CPI forecasts, IQ range
Q1 1985 - Q4 2012

CPI Forecaster Interquartile Range

Balanced
Budget Act

Budget
Enforcement
Act

Gulf
War I

Clinton
Election

Gulf War II & Fed
Interest Rate Cuts

Obama
Election,
Banking
Crisis

QE and Fed
Statements

1.5

.5

0

1985 1987 1989 1991 1993 1995 1997 1999 2001 2003 2005 2007 2009 2011 2013

# Our US Economic Policy Uncertainty index has 4 components – how we make the data "sausage":

– News-based index (weight=1/2)

– Forecaster disagreement about government purchases of goods and services (weight=1/6)

– Forecaster disagreement about inflation (weight=1/6)

– **Scheduled tax code expirations (weight=1/6)**

Normalize each component to have unit standard deviation, then compute weighted sum to get overall index.

Combine the yearly CBO tax code expiration figures into an index by discounting by 50% per year the amount of tax code scheduled to expire in future years
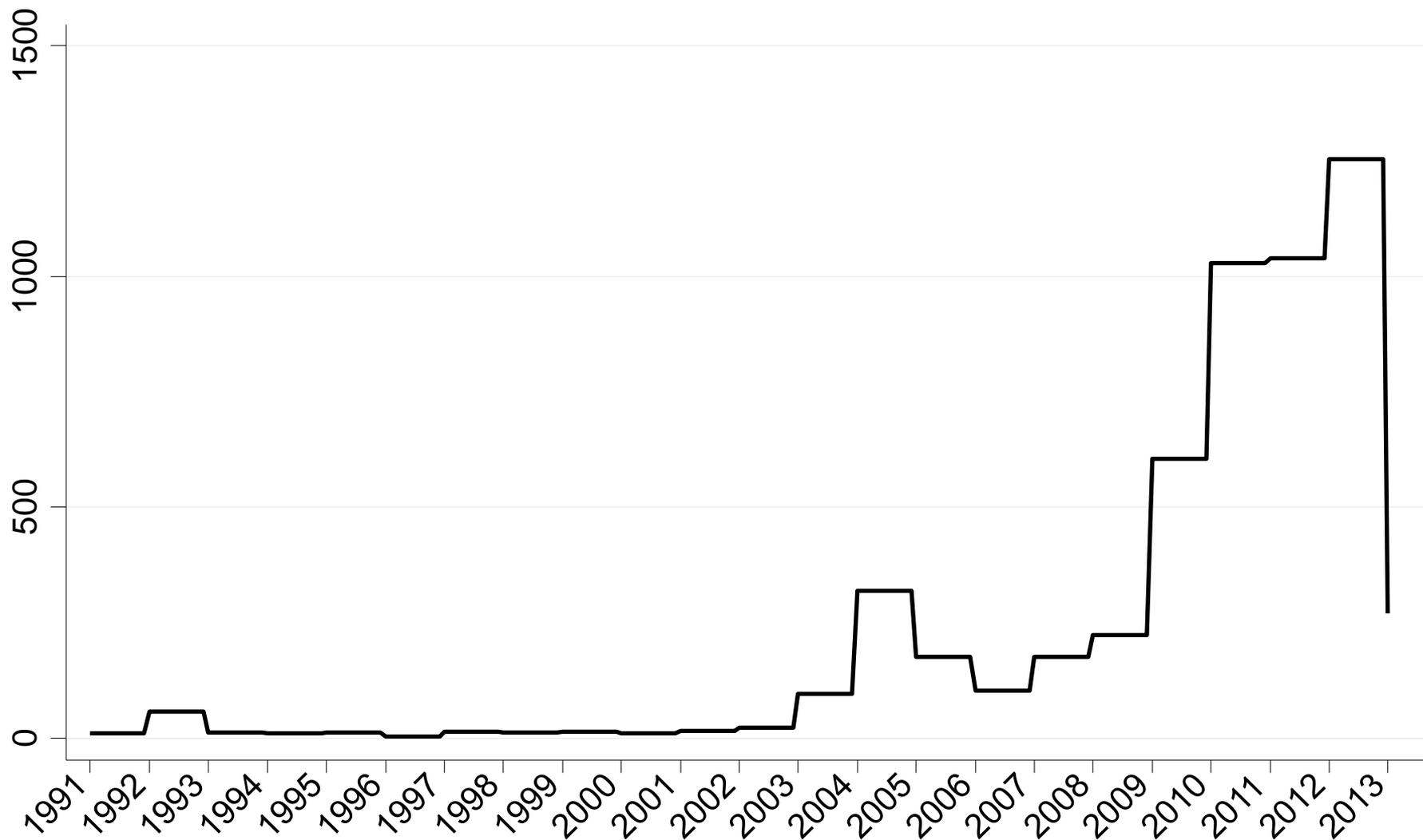
Our US Economic Policy Uncertainty index has 4 components – how we make the data "sausage":

– News-based index (weight=1/2)

– Forecaster disagreement about government purchases of goods and services (weight=1/6)

– Forecaster disagreement about inflation (weight=1/6)

– Scheduled tax code expirations (weight=1/6)

Normalize each component to standard deviation=1, then compute weighted sum to get overall index.
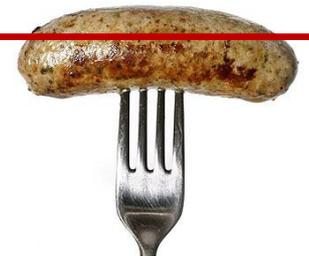
Our main index of US policy uncertainty
January 1985-December 2012
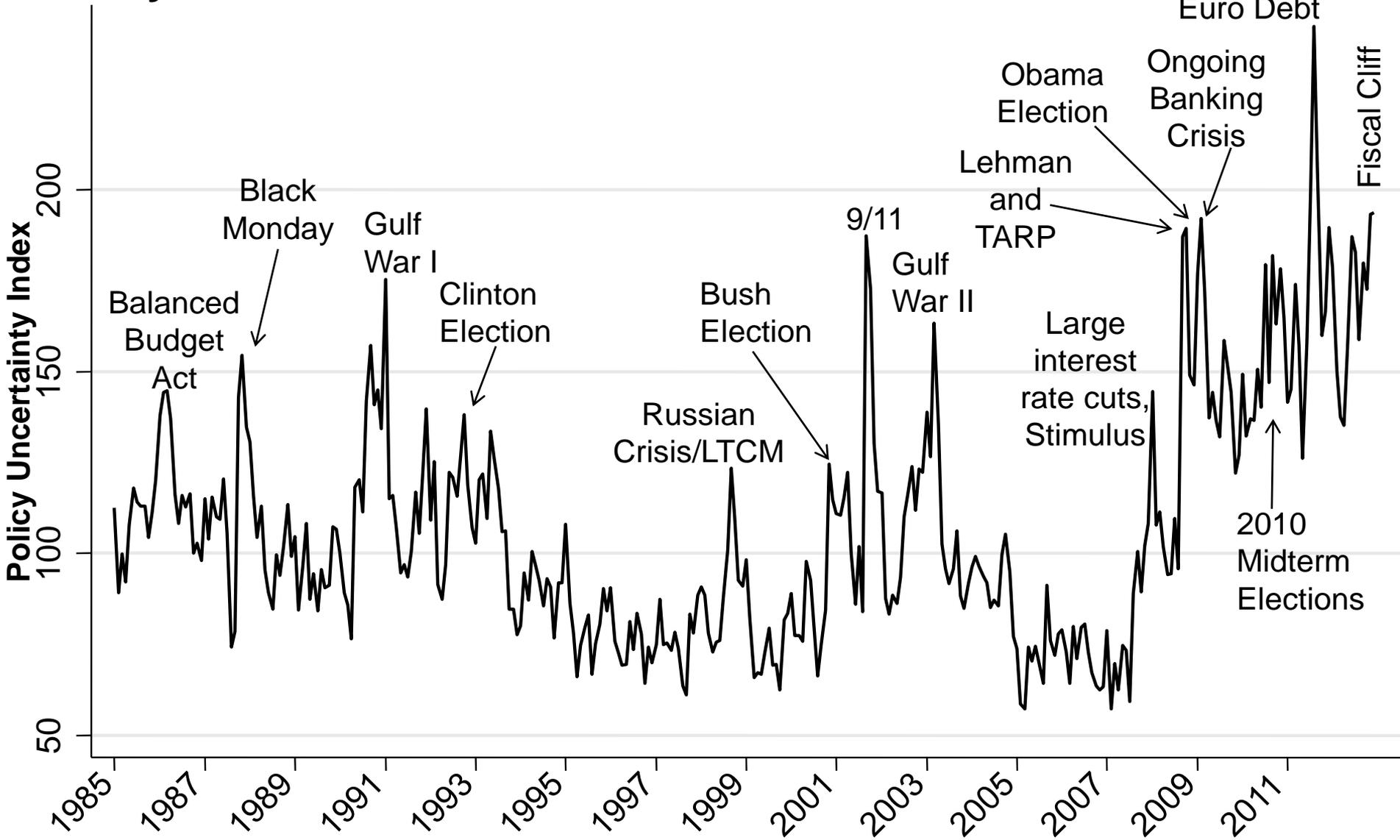
Source: Data at www.policyuncertainty.com. Data normalized to 100 prior to 2010.

US index is similar to the VIX index of 1 month implied S&P500 stock market volatility, but not the same

Correlation VIX and Policy Uncertainty is 0.55

Economic Policy Uncertainty Index (Blue)

VIX (red)

Credit Crunch

Debt Ceiling

Obama Election, Banking Crisis

9/11

WorldCom & Enron

LTCM default

Gulf War I

Clinton election

Asian crisis

Gulf War II

Large interest rate cuts
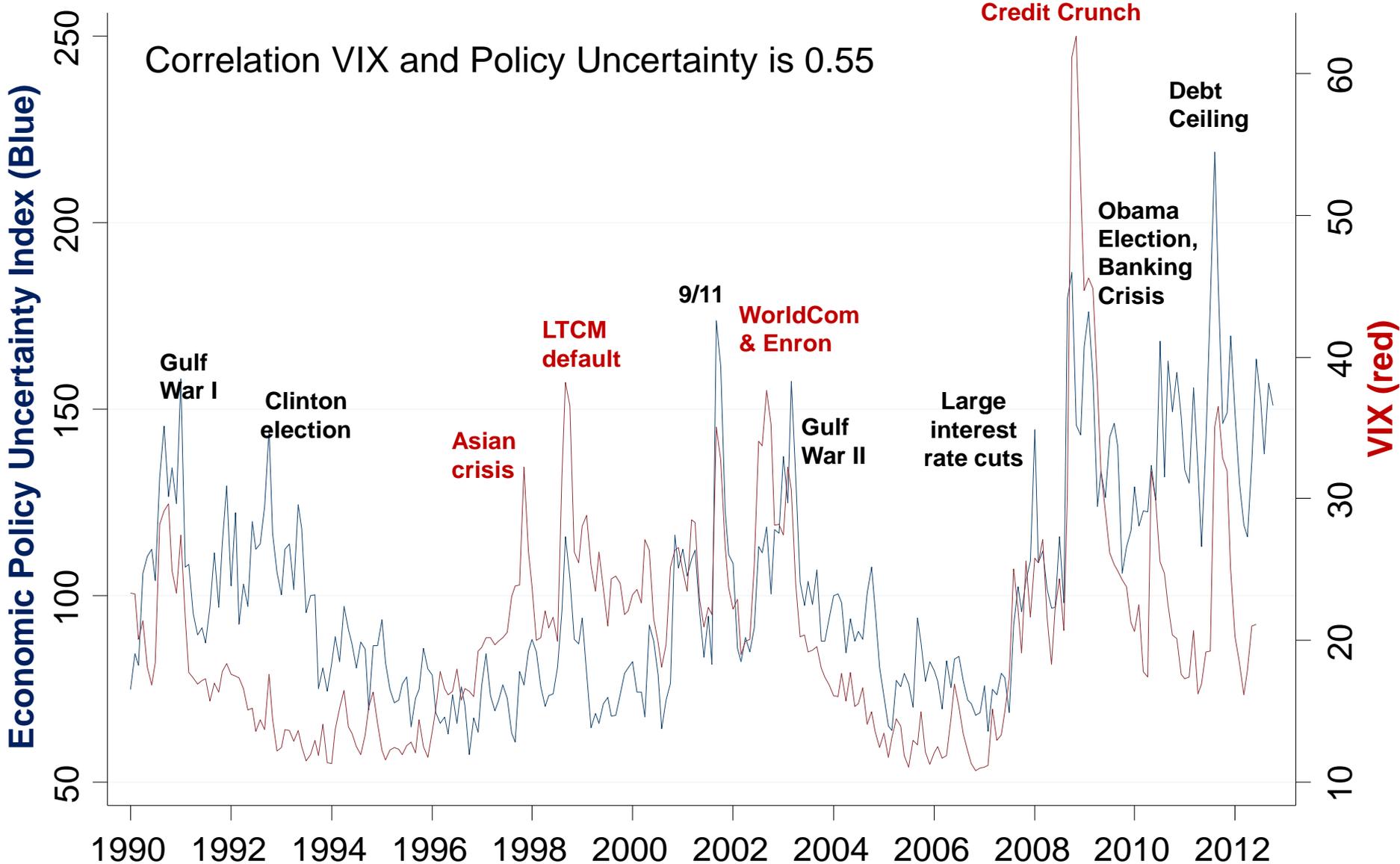
Source: www.policyuncertainty.com. Data until October 2012

US index is more similar to 10 year implied S&P500 stock market volatility (correlation 0.73)
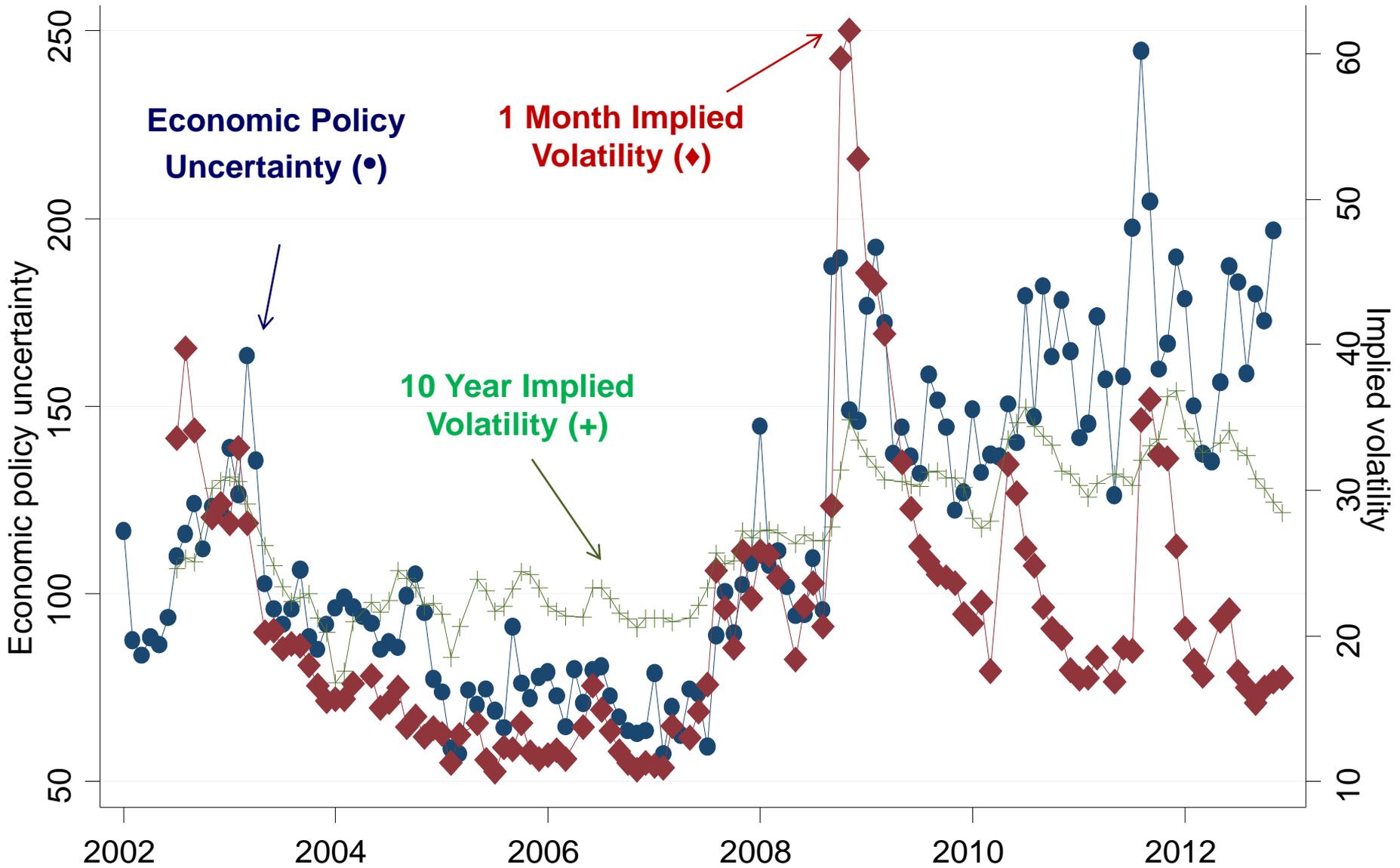
Notes: Data from "The buzz: Links between policy uncertainty and equity volatility", by Krag Gregory and Jose Rangel, Goldman Sachs, November 12, 2012.

European Economic Policy Uncertainty Index

Source: www.policyuncertainty.com. Data until October 2012
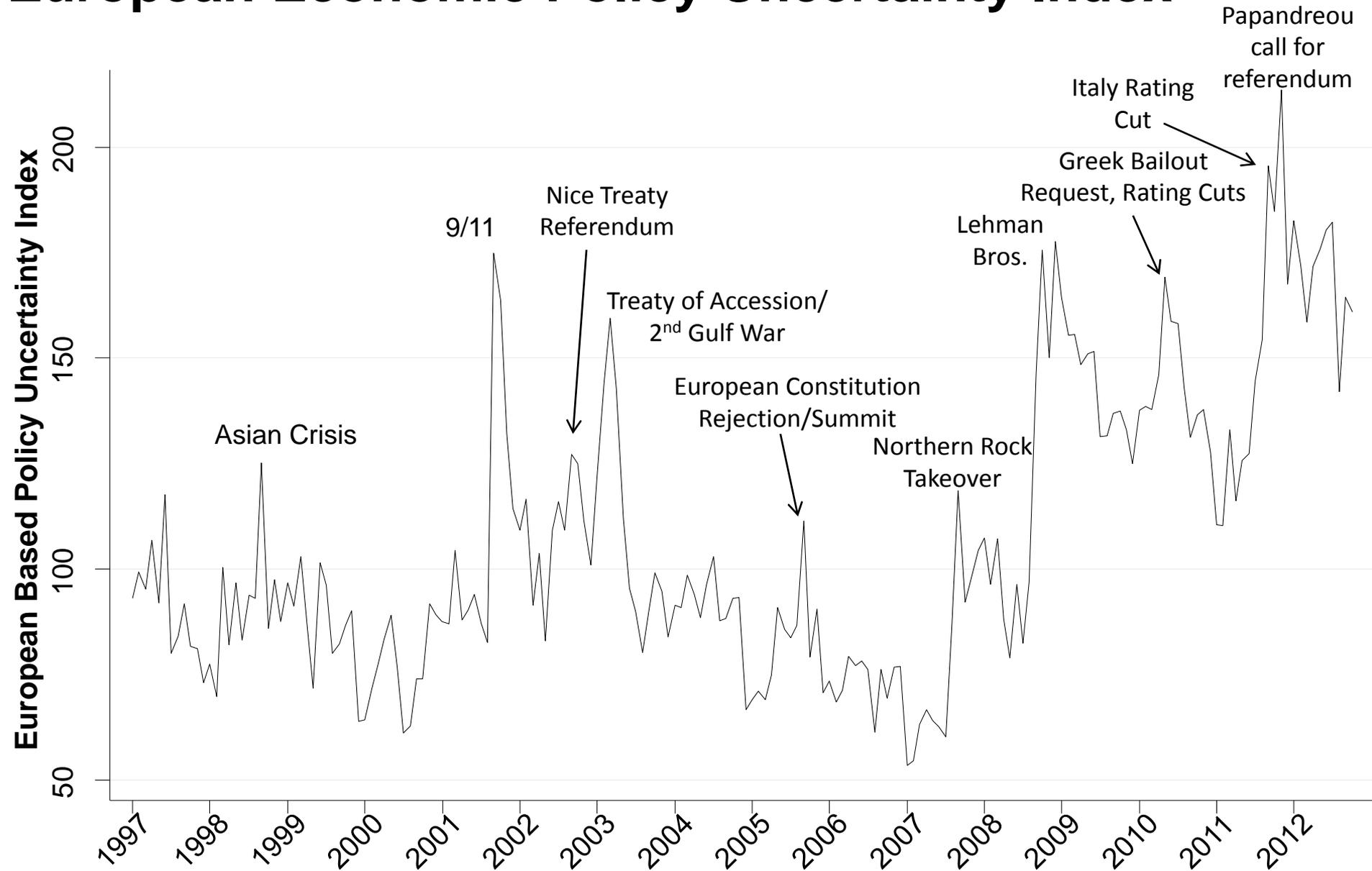
What seems to be driving <u>US</u> policy uncertainty? It seems to be mainly fiscal policy and health care

	1985:1-1990:6	1990:7-1991:12	1992:1-2001:8	2001:9-2002:12	2003:1 2007:6	2007:7-2008:8	2008:9-2009:12	2010:1-2012:10	Average
Economic Policy Uncertainty	109	141.2	87.7	127.8	71	83	131.5	127.8	100
Monetary policy	32.5	41.6	25.9	44.9	22.1	31.5	27.6	26.8	28.8
Taxes	39.7	48.1	31.7	50.9	30	31.3	56.6	67.9	39.7
Government spending	22.6	26.7	12.1	17.2	8.5	6.6	17	30.6	16.5
Health care	7	15.3	14.9	18.3	13.1	13.4	29.2	39.2	16.3
National security	24.9	53.4	17.9	54.5	25.3	15.8	21.2	19.3	24.4
Entitlement programs	7.2	12.5	11.4	18.6	8.8	8.2	15.2	23.4	11.8
Regulation	15.7	22.9	14.5	19.5	11.1	15.4	29.1	30.4	17.2
Trade policy	3.8	4	6.3	2.6	1.7	2	1.4	2.3	3.9
Sovereign debt, currency	1.4	0.6	2.3	0.5	0.4	0.3	0.4	4.5	1.7
Overall Economic Uncertainty	217.1	348	185	325.3	159	183.8	369	262.8	219.3

Note: Analysis uses Newsbank coverage of around 1000 US national and local newspapers

The paper tries to investigate this methodically

1) Measuring economic policy uncertainty

2) Evaluating our policy uncertainty

3) The impact of policy uncertainty on the recovery

Two Measurement Concerns with News Indices

Suitability: Does a count of news articles about uncertainty provide a good indicator for actual economic uncertainty?

Accuracy: Do specific text-string searches accurately identify the set of articles that discuss economic policy uncertainty

Suitability test: news based indices for tracking equity market uncertainty seem to work quite well
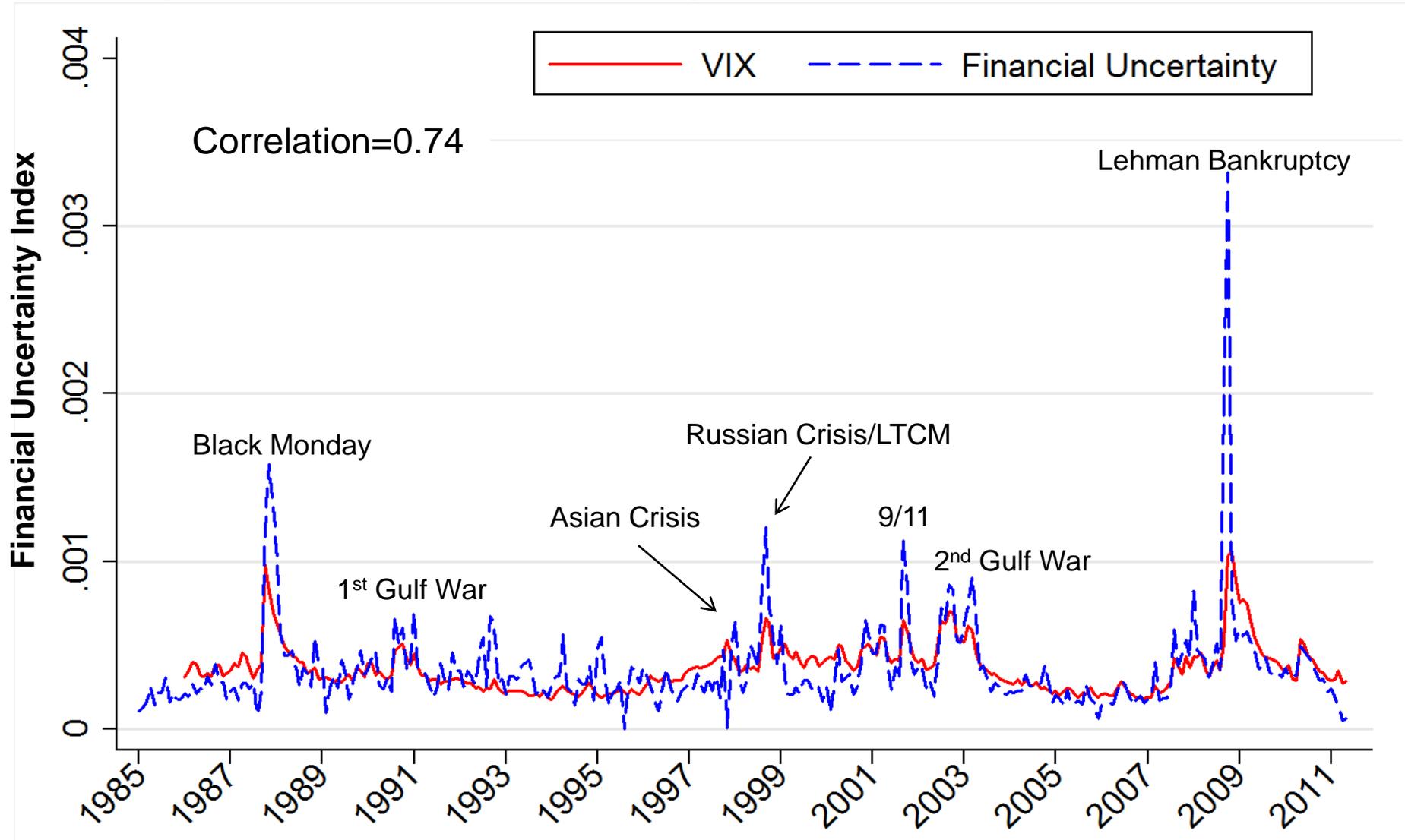
Notes: News-Based Financial Uncertainty Index composed of monthly number of news articles containing uncertain or uncertainty, economic or economy, and 'stock prices', 'equity prices', or 'stock market'. Daily VXO data is scaled so both series have equal means. Data to October 2012

Suitability test: news based indices for tracking unemployment also seem to work quite well

Correlation=0.72

Unemployment news search (left axis, values 50, 100, 150, 200, 250)

Unemployment rate (right axis, values 2, 4, 6, 8, 10)

Years: 1950, 1960, 1970, 1980, 1990, 2000, 2010
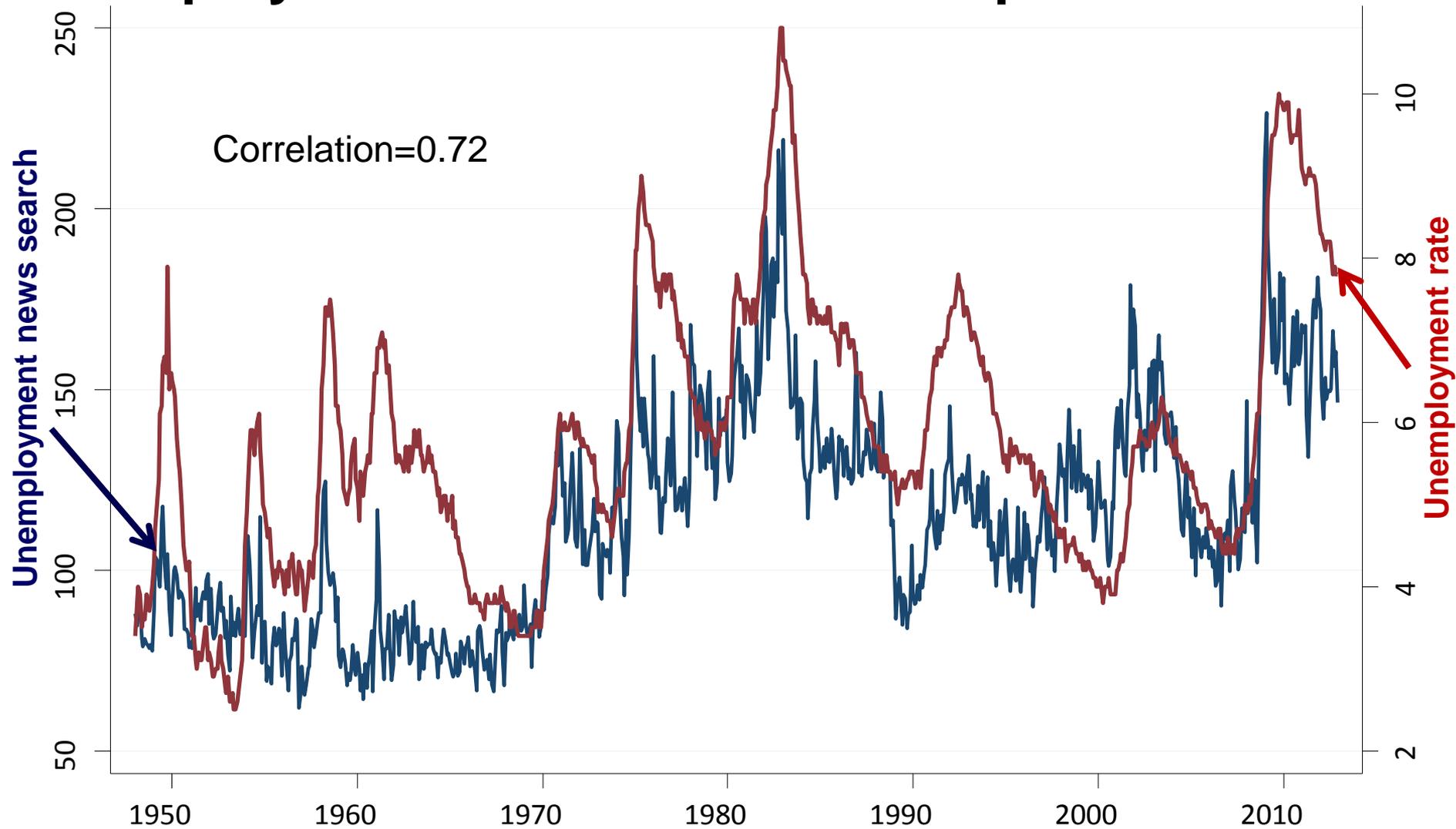
Notes: Index of Unemployment News composed of quarterly news articles containing terms like 'unemployment', 'layoffs', or 'job loss' (scaled by the smoothed total number of articles) in 5 newspapers (WP, BG, LAT, WSJ and CHT). Data normalized to 100 from Jan 1900-Dec 2011. Unemployment data is overall seasonally adjusted unemployment rate taken from the BLS.

Accuracy test: performing human audits

We had 6 undergraduates read 3,500 newspaper articles using a 29-page audit guide to code articles if they discuss "economic uncertainty"=0/1 and "economic policy uncertainty"=0/1

Economic Policy Uncertainty

New

Augu...

CHIC
The Universi...

Audit Methodology: Main Steps

1. Download all NY Times, LA Times, and SF Chronicle articles from 1985 to 2012 that pass our Economic Uncer...
   (unce...
   – Th...
     pa...
2. Draw...
3. Assig...
   – Ea...
   – As...
4. Revie...
   meth...
   the a...

August 30 Sampling Details, 2

3. Assign 84 of the sampled articles for each paper to Kyle and 84 to Sophie. Call these subsamples Sub(Name,Paper), where...
4. For eac...
   17 z va...
   get rev...
5. In sum...
   per pap...
6. Lastly,
   review...

Auditing the Sampled Articles, 2

3. If yes to 2, then identify the policy category (checking all that apply):
   – Monetary policy   Fiscal policy   Taxes
   – Labor regulations   Legal Policy   Competition Policy
   – Government spending   Health care programs and regulations
   – National security and terrorism   Trade Policy
   – Energy & environmental regulation, natural resources and commodities
   – Entitlement programs, social safety net, welfare programs
   – Financial regulation (including banking and equity markets)
   – Political conflict and leadership changes
   – Sovereign debt, exchange rate policy, foreign reserves
   – Other policy matters (specify)
4. Code other aspects of policy uncertainty treated in the article: direction of change, nature of policy uncertainty (is it about who, actions, or effects?), and whether it discusses policy concerns in the United States or foreign countries.

FAQ

4. Given that the outcome of government policy is always uncertain, at some level, does any mention of a new or proposed policy constitute EPU=1?

No. An artic...
the poli...
etc... F...
mention...
under c...

True Positive 2

ATHENS — In the year since Greece received its first financial bailout, many things have changed. The country has reduced its budget deficit by 5 percent of gross domestic product. Workers have been hit by wage freezes and pension cuts, prompting a growing popular outcry. The state has revealed for the first time how many people it employs, and tax collectors can now cross-reference swimming p... determine wealth and...

Code as EPU = 1, because the article discusses uncertainty as

False Positive 5

Our Love Affair With Malls Is on the Rocks

"There are days now when I make $160 and think I had a good day," says Mark Classen, co-owner of Just Dogs! Gourmet, a store in the mall that sells, among other items, signs that say "My Lab..."

"You'd be amaze... going to have to...

He reaches unde... "xxsmall," which...

"A woman just b... booties is gone. I... $300 in sales, so... forth all day."

Mr. Classen isn't... about. In fact, yo... for the big ones. ...

This is a revelatio... harder that times...

Ms. Eftesvaag s... moving in to rep... a labyrinth for ch... outside the mall...

Code as EPU = 0, because the article does not mention any aspects of uncertainty...

False Negative 4

Canada Is Expected to Join U.S.-Mexico Trade Talks

By MARK A. UHLIG, Special to The New York Times
Published: January 30, 1991

After months of high-level talks, the United States, Mexico and Canada have reached agreement to include Canada in negotiations toward a continentwide North American free-trade zone, diplomats and trade officials said today.

The agreement, which could be announced as early as this week, would make Canada a direct participant in talks that have been under discussion by the United States and Mexico since the middle of last year.

The negotiations envisioned in the agreement would seek to bind the three countries' economies in a common market that would include more than 350 million people and would be larger than the European Community. Such a huge unhindered market would encompass interests as diverse as the machine shops of northern Mexico, the financial district of New York and the farmlands of western Canada.

"Everything is ready," one diplomat said, describing preparations for the three-way talks. "It's just a matter of making the formal announcement."

Speculation about the possibility of continentwide free-trade negotiations has been strong since last year, when President Carlos Salinas de Gortari formally requested free-trade talks with the United States.

Canada quickly expressed interest in having a role in the new talks, but its status was left unclear amid uncertainty about how its inclusion might affect the United States-Mexican talks, which were considered a high priority by both countries.

President Salinas has sought to conclude a free-trade pact quickly to accelerate the economic growth that has become a hallmark and a crucial test of his administration. President Bush has also made an accord a central economic objective and has sought to complete it before it could become embroiled in the politics of the 1992 Presidential election year.

Code as EPU = 1, because the article mentions uncertainty over the trade policy in North America. The automated search incorrectly codes the article as EPU = 0, because it never mentions any of the terms in the "policy" part of our search filter.

Evaluation results from the human audit helped refine our search, and confirmed our EPU measure is well correlated with true policy uncertainty
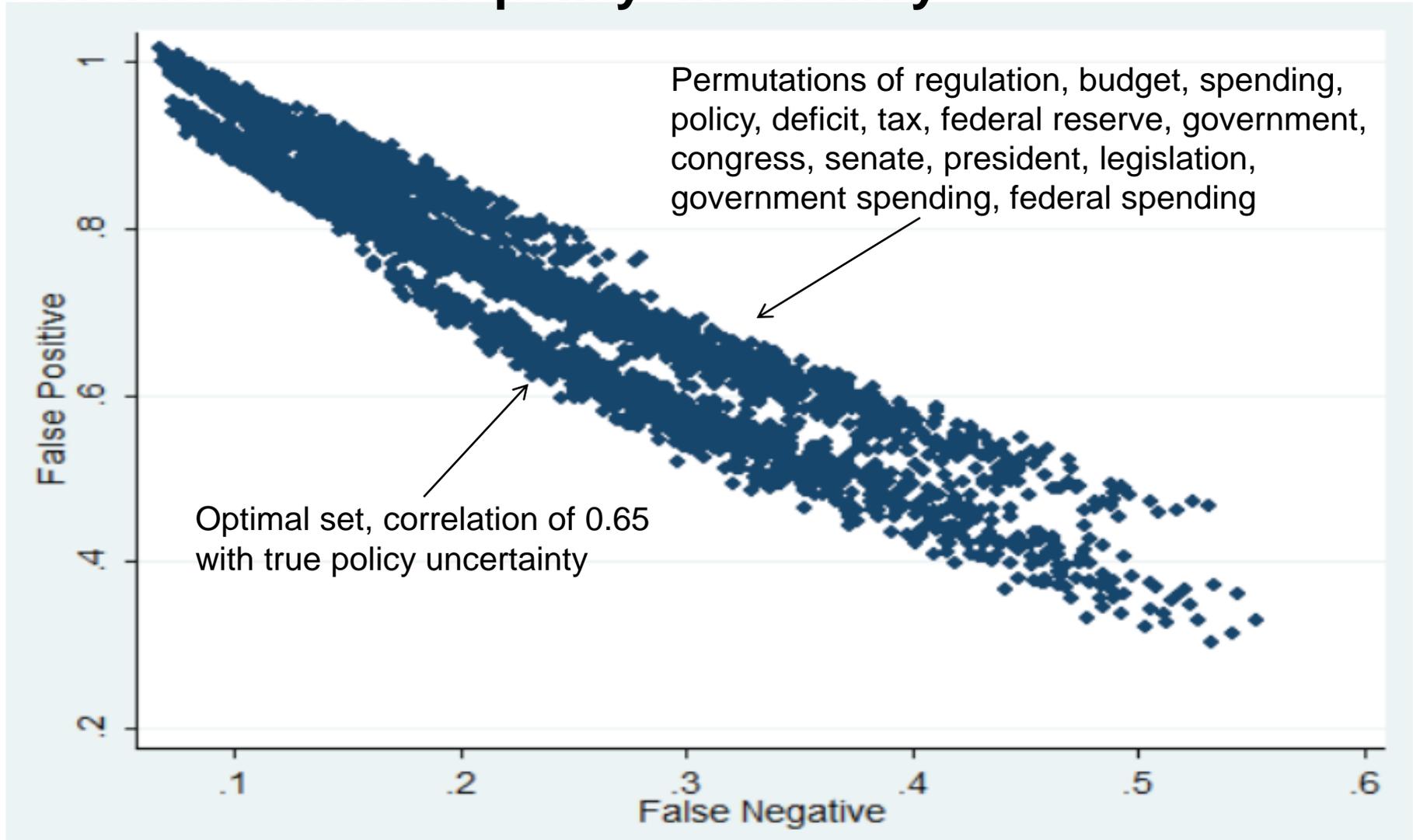
Note: Optimal set is 'regulation', 'federal reserve', 'white house', 'congress', 'legislation', and 'deficit'.

Finally, also checked for political bias – some, but quantitatively very small (explains <2% of movement)
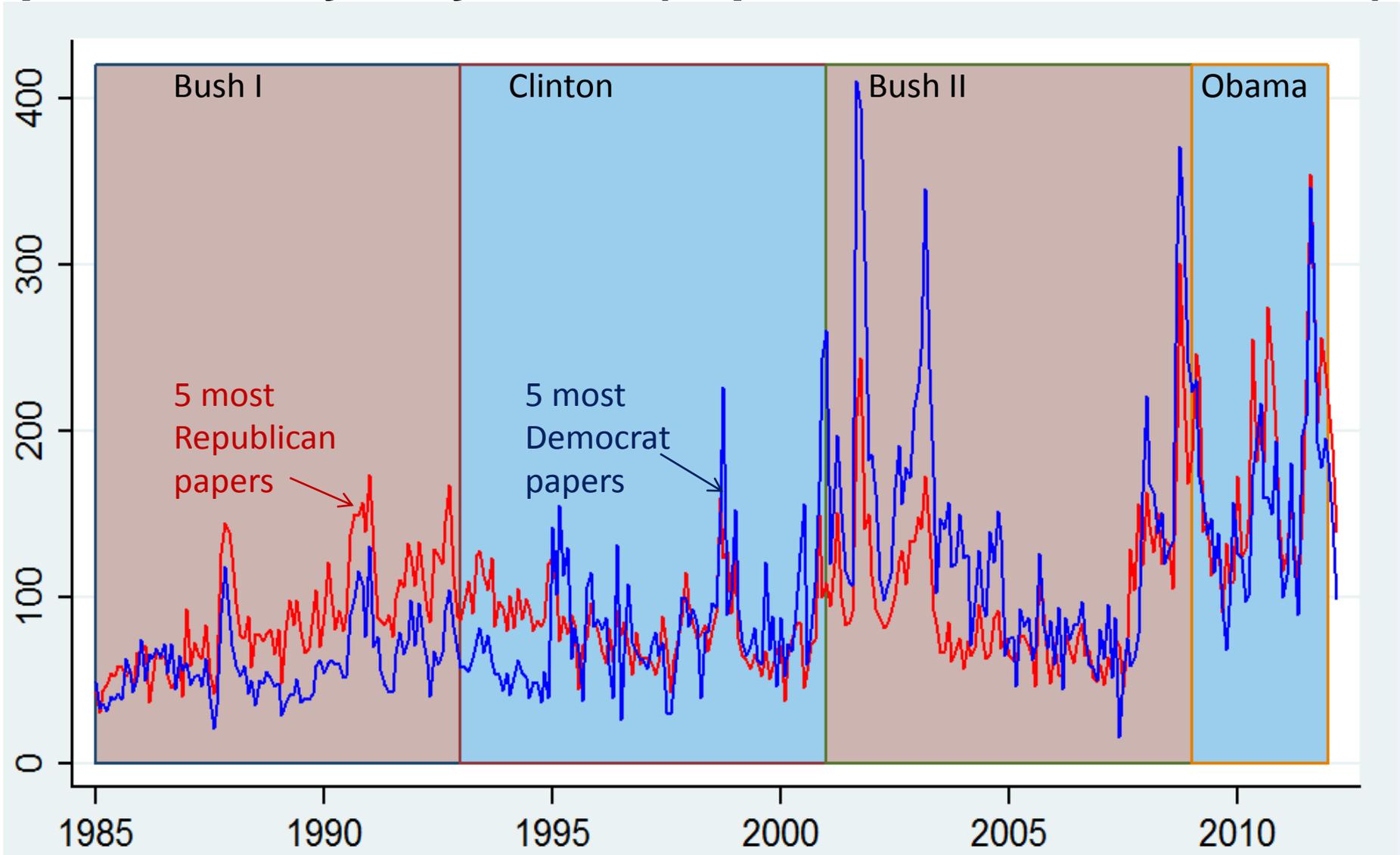
Papers sorted politically using the media slant measure from Gentzkow and Shapiro (2010).

The paper tries to investigate this methodically

1) Measuring economic policy uncertainty

2) Evaluating our policy uncertainty

3) The impact of policy uncertainty on the recovery

Why might uncertainty impact the real economy?

Economics literature has mainly focused on three channels:

- "Real-options effects": Uncertainty can make firms cautious about investing and hiring

- "Financing costs": Uncertainty can increase risk-premia

- "Precautionary savings": Uncertainty can reduce consumption

The most important channel seems to be real options (caution) effects

Dave Cote, chairman and CEO of Honeywell, a Fortune 500 firm that employs 130,000 people worldwide stated "*Right now we're holding back on all but the most necessary external hiring. And on capital expenditures, if I can make the decision now or six months from now, I'll make the decision six months from now and see what develops*".

November 5th 2012

Lots of survey evidence pointing to uncertainty as a problem – Chamber of Commerce

REPORT

harris
INTERACTIVE

United States Chamber of Commerce
Q2 Small Business Study

July 16, 2012

Survey Dates: July 2, 2012 – July 9, 2012

Flat Economic Growth and Uncertainty Continue to Limit Hiring

Eight-out-of-ten small businesses continue to think the national economy is off on the wrong track and more than half (53%) of small businesses surveyed cite economic uncertainty as their top concern.   Only 14% say the national economy is on the right track.

Forty-five percent of small business owners surveyed are not sure if their business's best days are ahead of or behind them.   In addition, only 34% of small business owners say the business climate over the next two years is likely to greatly or somewhat improve.

Business's Best Days Are...

	Jul	Oct	Jan	Mar	Jul
Ahead of you	39%	33%	40%	37%	35%
Behind you	23%	26%	20%	22%	20%
Not Sure	38%	40%	40%	41%	45%
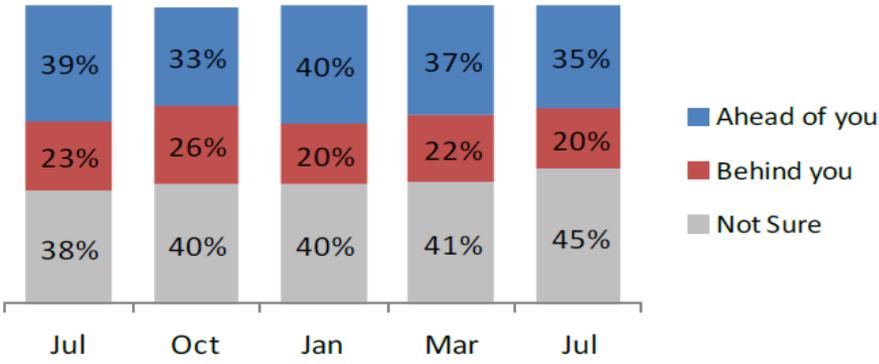
Lots of survey evidence pointing to uncertainty as a problem – Global CEO survey

15th Annual Global CEO Survey 2012
Confidence disrupted [p5]/Balancing global and local [p9]/Risk resilience [p16]/
The talent challenge [p20]/What's next [p27]/CEO interviews [p30]

Figure 10: Global economic uncertainty remains the top threat to growth prospects

Q: How concerned are you about the following potential threats to your business growth prospects?

North America	Western Europe	Asia Pacific	Latin America	CEE	Middle East/Africa
Uncertain or volatile economic growth	Uncertain or volatile economic growth	Uncertain or volatile economic growth	Uncertain or volatile economic growth	Uncertain or volatile economic growth	Uncertain or volatile economic growth
Public deficits	Public deficits	Exchange rate volatility	Increasing tax burden	Exchange rate volatility	Exchange rate volatility
Over-regulation	Unstable capital markets	Unstable capital markets	Over-regulation	Unstable capital markets	Availability of key skills
Unstable capital markets	Shift in consumers	Increasing tax burden	Availability of key skills	Increasing tax burden	Public deficits
Availability of key skills	Increasing tax burden	Public deficits	Exchange rate volatility	Public deficits	Over-regulation
Shift in consumers	Over-regulation	Availability of key skills	Public deficits	Over-regulation	Bribery and corruption
Increasing tax burden	Exchange rate volatility	Over-regulation	Bribery and corruption	Shift in consumers	Unstable capital markets
Exchange rate volatility	Inability to finance growth	Energy costs	Inadequacy of basic infrastructure	Availability of key skills	Inflation
Protectionism	Availability of	Shift in consumers	Unstable capital	Bribery and	Increasing tax

Lots of survey evidence pointing to uncertainty as a problem – National Association of Business Economists

NABE Policy Survey:
Tighten Macroeconomic Policies Later Rather than Sooner

The National Association for Business Economics (NABE) recently surveyed its members on a number of policy issues. Results of the survey show that generally, there is not much support among the economists surveyed for policy tightening over the next 12 months. A majority of respondents would prefer that both monetary and fiscal policies become more stimulative or remain unchanged in 2013. Only one-third of the respondents feel that both monetary and fiscal policies should, respectively, become more restrictive next year. However, support among the panel rises for policy tightening in the longer run, with more than one-half of the business economists surveyed indicating that they feel fiscal policy should become more restrictive in 2014.

Consistent with findings of the March 2012 NABE Economic Policy Survey, there is overwhelming support among NABE members for a balanced approach to eventual fiscal tightening. Although respondents' views seem to tilt in the direction of favoring spending cuts, roughly 90 percent of panelists would prefer some combination of spending cuts and tax increases in order to reduce the federal government budget deficit. Only a small minority (less than 15 percent) of survey participants think that the payroll tax should be permanently extended at its current rate, but higher percentages—between 35 percent and 45 percent—favor permanent extension of current tax rates on income, dividends, and capital gains. The vast majority of panelists feels that uncertainty about fiscal policy is holding back the pace of economic recovery.

Most respondents consider current monetary policy to be "about right" and three-quarters of the respondents believe that short-term interest rates will remain unchanged over the next 12 months.

Lots of survey evidence pointing to uncertainty as a problem – FOMC Beige Book


Correlation with our EPU index=0.84
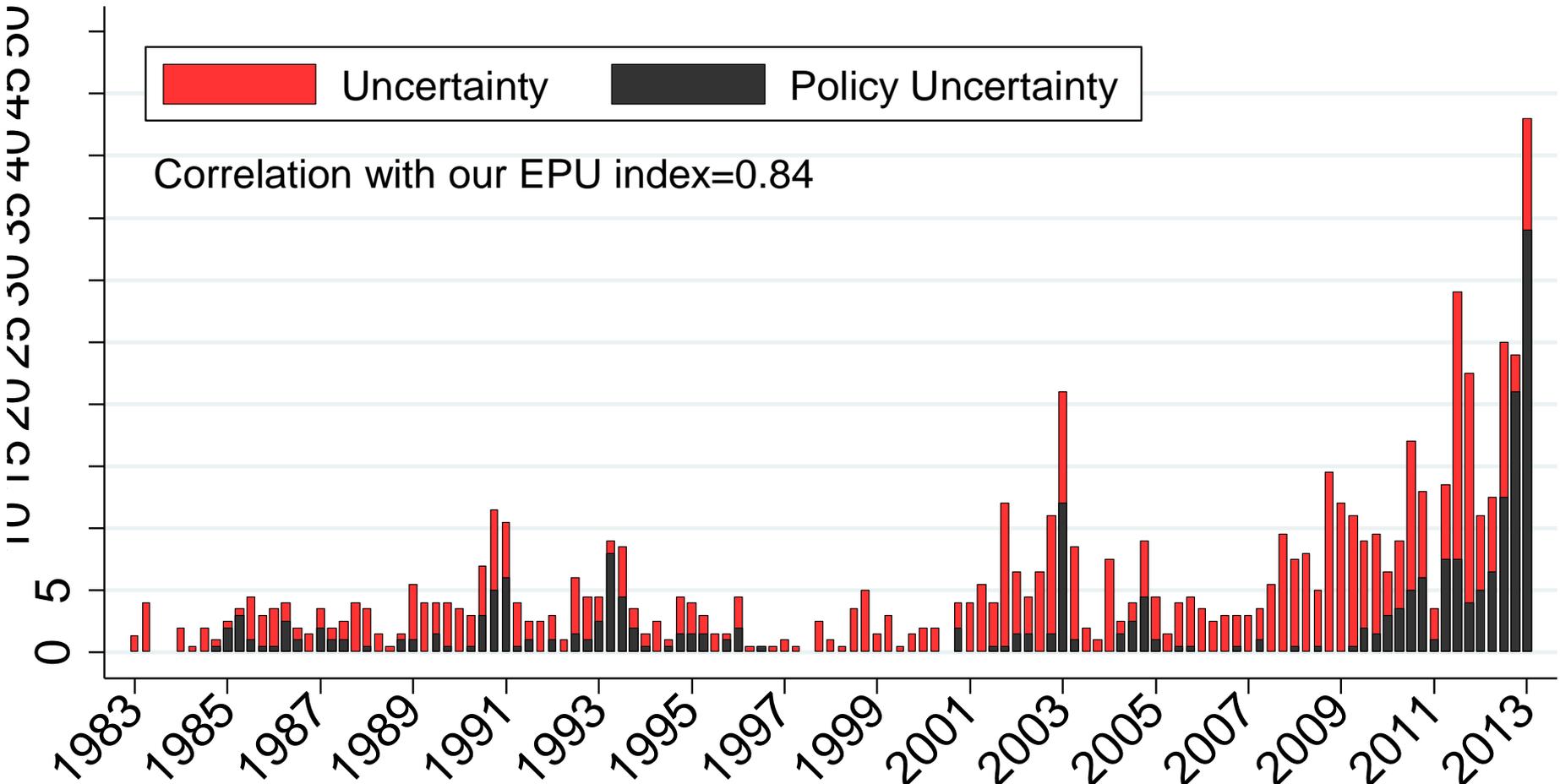
Note: Plots the frequency of the word "uncertain" in each quarter of the Federal Open Market Committees' (FOMC) Beige Book. Data from 1983Q4 (when the Beige book started) to 2013Q1. The Beige Book is an overview of economic conditions of about 15,000 words in length prepared two weeks before each FOMC meeting. The count of "Policy Uncertainty" uses a human audit to attribute each mention of the word uncertain to a policy context (e.g. uncertainty about fiscal policy) or a non-policy context (e.g. uncertainty about GDP growth). See the paper for full details.

The Beige Book Policy Uncertainty also focuses on tax, spending and regulation uncertainty 2010-12

PU Category	2001 Q4 – 2002 Q2	2002 Q4 – 2003 Q2	2008 Q3 – 2009 Q4	2010 Q1 – 2012 Q4	Full Sample: 1996 to 2012
b) Fiscal Policy	0.3	0	0	**1.6**	0.3
c) Taxes	0.2	0	0.3	**1.0**	0.2
d) Government Spending	**1.0**	0	0.2	**0.8**	0.2
f) Health Regulation	0.0	0	0.2	**0.5**	0.1
g) Financial Regulation	0.0	0	0.2	**1.3**	0.3
h) Labor Regulation	0.0	0	0.0	0.3	0.1
i) Environmental Regulation	0.7	0	0.0	0.3	0.1
j) National Security	0.0	2	0.0	0.1	0.1
k) Sovereign Debt	0.0	0	0.0	**0.8**	0.1
o) Political Conflict/Leadership Change	0.0	**3.2**	0.0	2.3	0.8
Policy-Related Count	1.2	4.8	0.8	6.3	1.7
Policy-Related Count (Each category mention counted once)	2.2	5.2	0.8	9.0	2.3
Total Uncertainty Count	7.7	13.5	10.2	15.3	6.9

Source: Baker, Bloom and Davis analysis of FOMC Beige Books

VAR Estimated Industrial Production and Employment changes after a Policy Uncertainty Shock
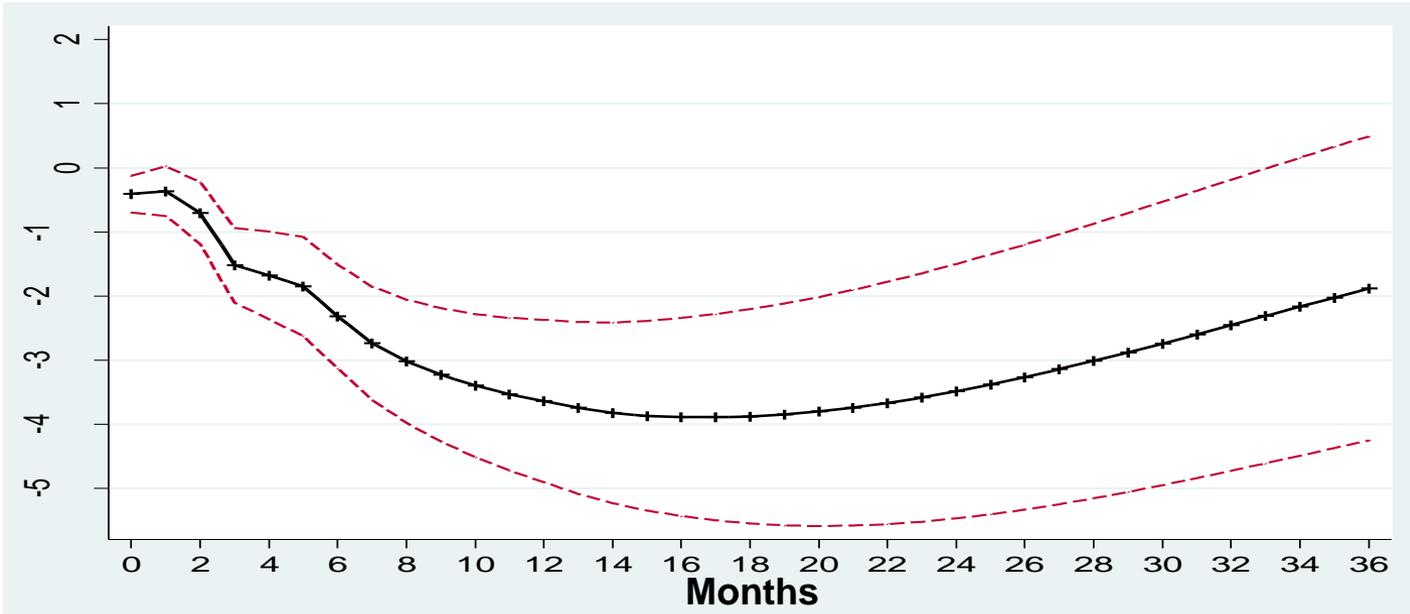

Notes: This shows the impulse response function for Industrial Production and employment to an increase in the policy-related uncertainty index, equal to the rise in the increase from 2006 (the year before the current crisis) until 2011.

The central (black) solid line is the mean estimate while the dashed (red) outer lines are the one-standard-error bands.
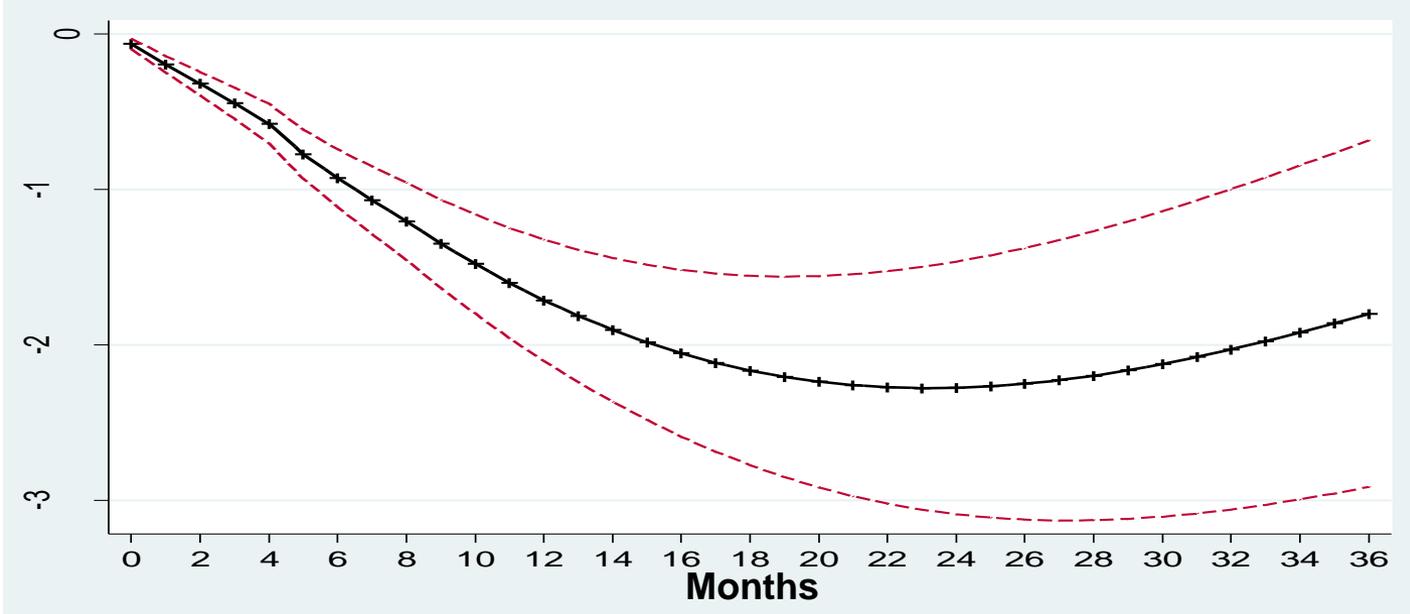
Estimated using a monthly Cholesky Vector Auto Regression (VAR) of the uncertainty index, log(S&P 500 index), federal reserve funds rate, log employment, log industrial production and time trend. Data from 1985 to 2011.

Robustness to Different VAR Specifications
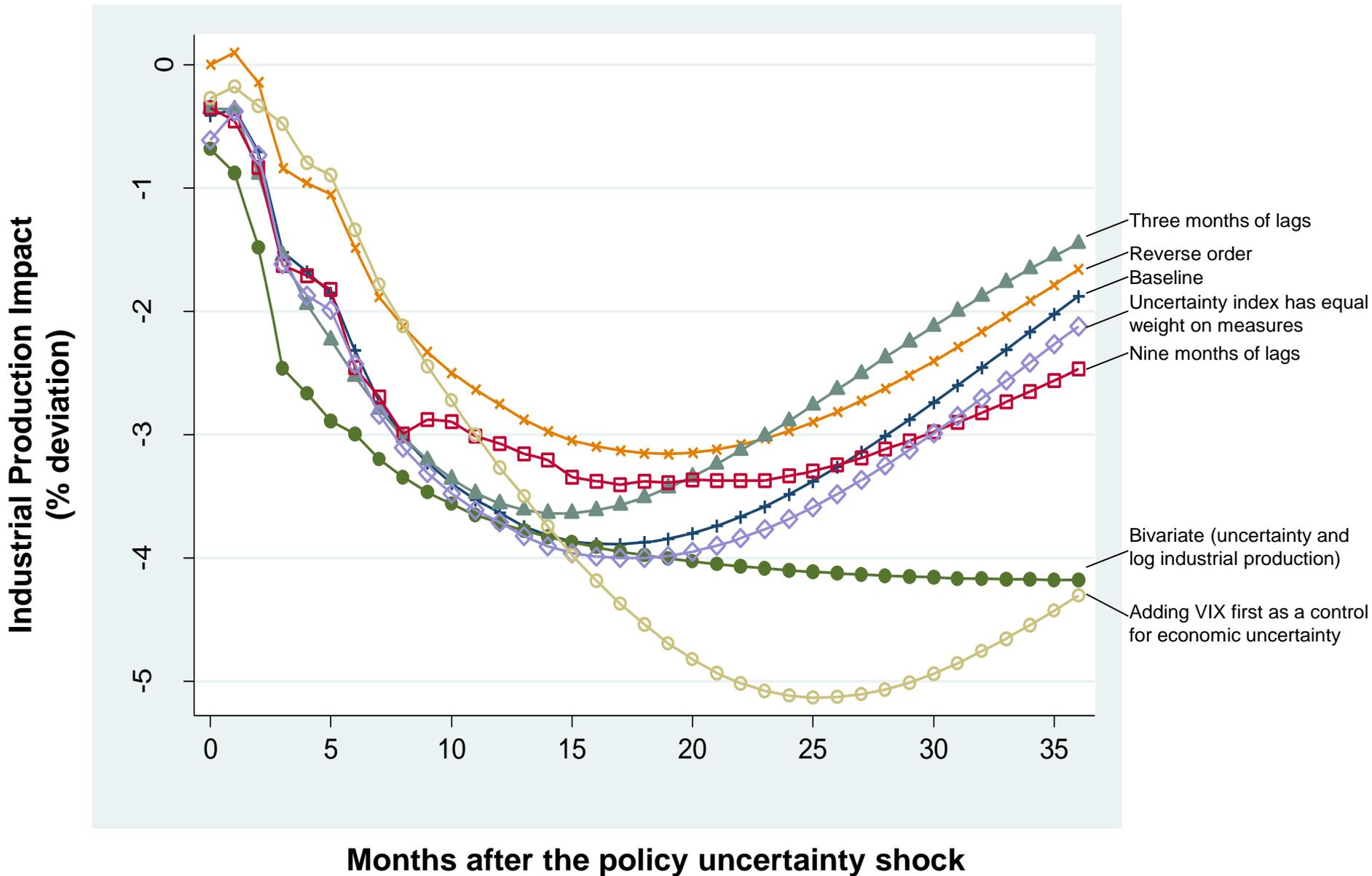
Notes: This shows the impulse response function for GDP and employment to an 124 unit increase in the policy-related uncertainty index. Estimated using a monthly Cholesky Vector Auto Regression (VAR) of the uncertainty index, log(S&P 500 index), federal reserve funds rate, log employment, log industrial production and time trend unless otherwise specified. Data from 1985 to 2011.

My view - based on data, surveys and business discussion - is that from 2008-2010 policy uncertainty was an effect of low growth, but from 2011 onwards is starting to cause low growth

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Policy Uncertainty: Is Now the Time?

- A common explanation for the economy's disappointing performance in recent years is a rise in "policy uncertainty," a term popularized by Nicholas Bloom of Stanford University and his co-authors. They suggest that the increase in their "US policy uncertainty index"—which is based on news searches, expiring tax provisions, and forecaster disagreement—has depressed real GDP by more than 3%.

- We do not doubt that uncertainty shocks depress economic activity, or that uncertainty has risen substantially since 2006. But we do not believe that the economy's poor performance has been caused by an exogenous increase in US policy uncertainty.

- First, the observation that most forecasters have been surprised by the economy's poor performance probably says more about the forecasters than about the economy. The historical record shows clearly that the bursting of a large asset price and debt bubble inflicts enormous and long-lasting damage on economic activity, and the

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Recently extending the news data back to 1900 and see intriguingly a rise since the 1960s
**(Jan 1900 – Dec 2012)**
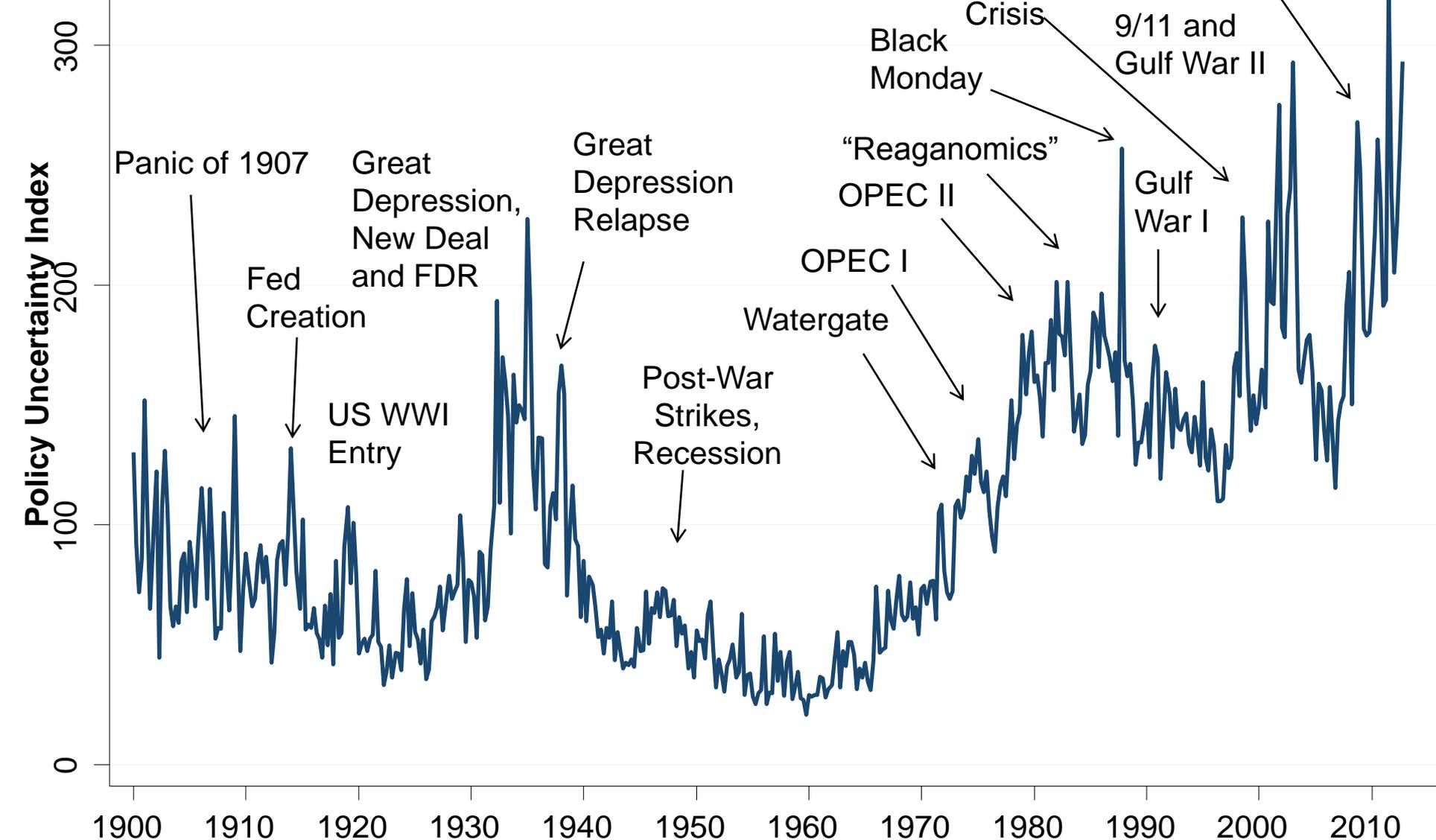
Notes: Index of Policy-Related Economic Uncertainty composed of quarterly news articles containing uncertain or uncertainty, economic or economy, and policy relevant terms (scaled by the smoothed total number of articles) in 5 newspapers (WP, BG, LAT, WSJ and CHT). Data normalized to 100 from 1900-2011.

One reason for rising policy uncertainty appears to be a rising Government share of the economy
(Jan 1948 – Dec 2012)
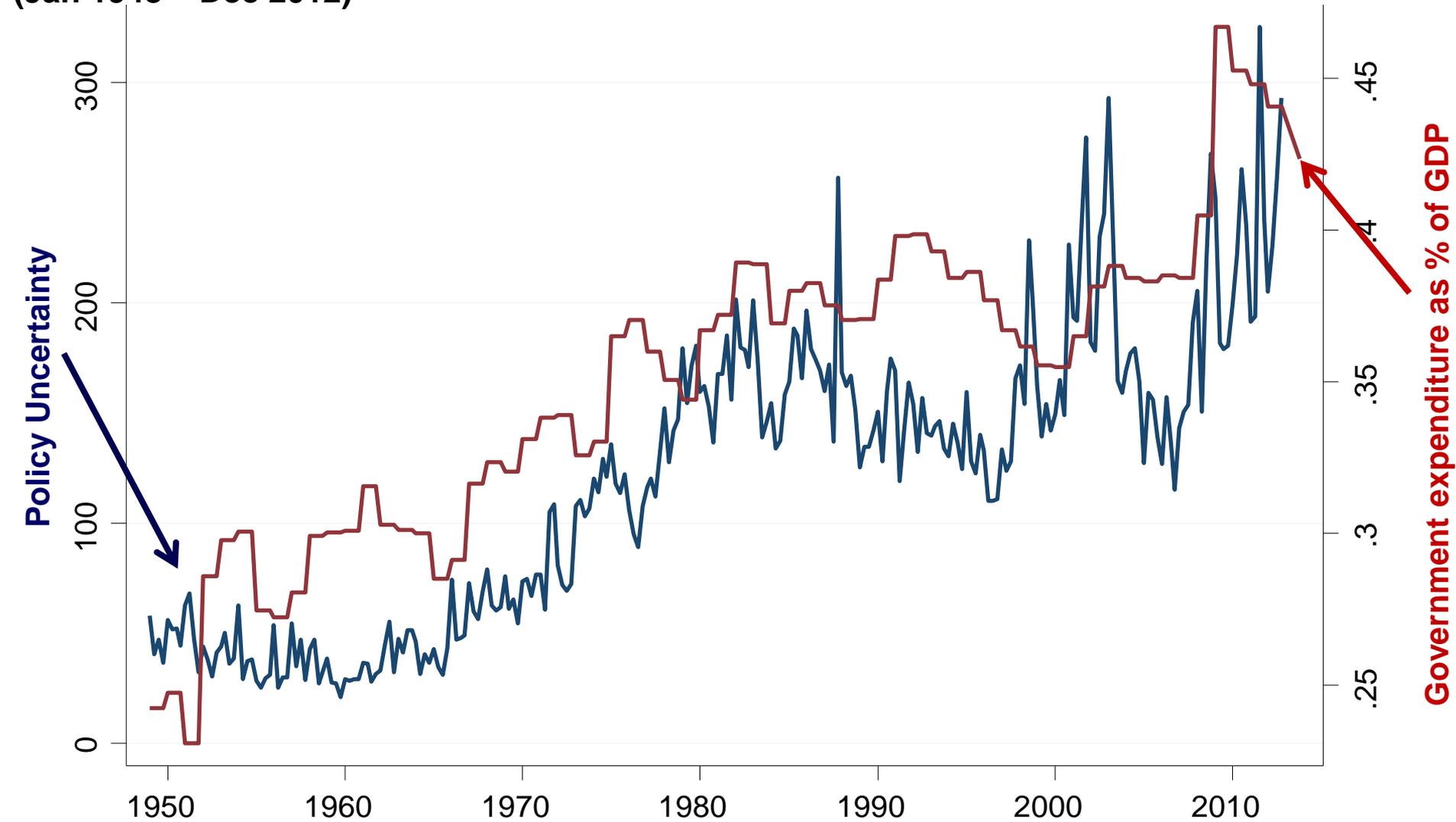
Notes: Index of Policy-Related Economic Uncertainty composed of quarterly news articles containing uncertain or uncertainty, economic or economy, and policy relevant terms (scaled by the smoothed total number of articles) in 5 newspapers (WP, BG, LAT, WSJ and CHT). Data normalized to 100 from Jan 1900-Dec 2011. Government expenditure is total federal, state, and local expenditures over GDP, annually.

Another reason for rising policy uncertainty might be rising Government regulation

Legend:
- Pages of Federal Regulations
- News-Based EPU
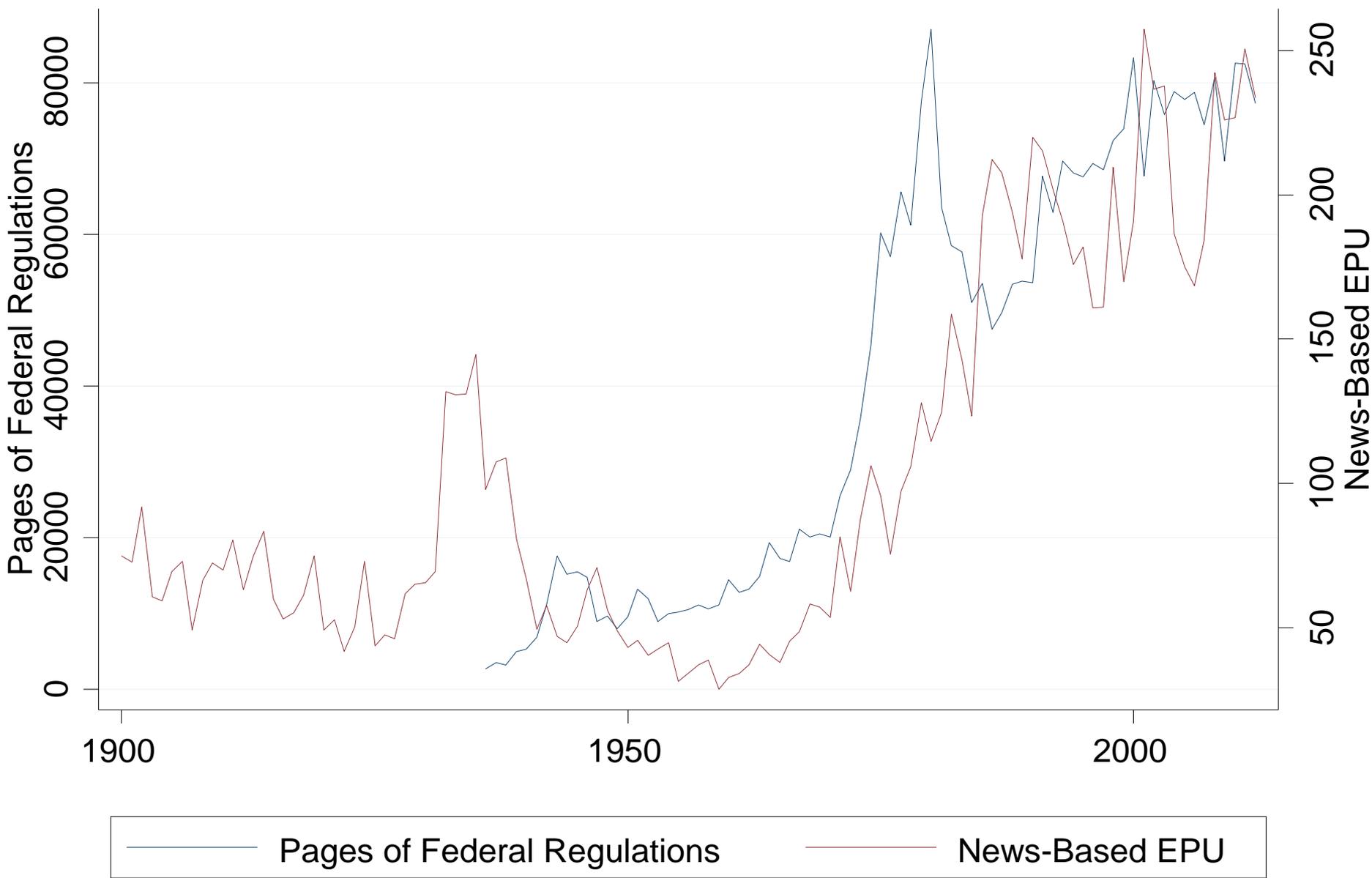
Finally note that monthly & daily data is on-line

Data available at: www.policyuncertainty.com

Conclusion

- Appears policy uncertainty has risen since 2008

- Evidence suggests this may be holding-back the current recovery, although not definitive

- Also appears that policy uncertainty rising post 1960 alongside the expansion of government

Looking ahead I see policy uncertainty easing this year, but still well above pre-2008 levels given lack of long-term reform