The twenty-fifth edition of the *NBER Macroeconomics Annual* continues with its tradition of featuring theoretical and empirical contributions that shed light on central issues in contemporary macroeconomics. As in previous years, the contributions push the frontiers of macroeconomic work in areas ranging from short-run macroeconomic fluctuations to international economic crises and long-run economic growth. Also as in previous years, the contributions address important policy-relevant questions and open new debates, which we expect to continue in the years to come. This year’s volume continues one of the major themes of last year’s volume and features several papers that investigate questions related to the recent financial crisis and policy responses to it. In addition, the volume also includes papers investigating the causes of rapid economic growth in Europe in the decades following World War II, the sources of product-level price rigidities, and how the U.S. economy, particularly the automobile sector, has adjusted to higher oil prices and how it responds to changes in oil prices. Each of the six papers tackles an important area in macroeconomics and advances the literature in several directions. We hope that these papers and the detailed discussions of the two experts on each paper will provide a useful starting point for the further study of these important debates.

The first paper by Rong Qian, Carmen Reinhart, and Kenneth Rogoff, “On Graduation from Default, Inflation, and Banking Crises: Elusive or Illusion?” uses a unique data set covering the history of 200 years of sovereign debt, banking, and inflation crises from around the world to investigate a question that has so far received little attention from the literature: what enables and what delays the “graduation” of a country from the typical pattern of serial crises, a common fate for many emerging markets? Qian, Reinhart, and Rogoff first document that such graduation is a slow and arduous process. Countries that suffer sovereign
debt, banking, and inflation crises in the past are typically more likely to do so again in the future. For banking crises, this type of graduation appears to never happen, while for sovereign debt and inflation crises, there are signs of a pattern of graduation after about 20 years; but even after that forms of “recidivism” are common. The paper raises several important empirical and theoretical questions. One issue concerns the causes of this type of serial crises. In particular, is it the history of crisis, so a form of path dependence? Or is it (unobserved) heterogeneity, perhaps driven by some institutional or policy characteristics of countries, causing the serial crises? The paper also raises some interesting questions about why markets agree to lend to countries that have undertaken serial default in the past and, according to this research, are likely to do so again.

In “What Fiscal Policy Is Effective at Zero Interest Rates?” Gauti Eggertsson tackles a major academic and policy question: the effectiveness of fiscal policy, particularly when further stimulus from monetary policy appears no longer to be an option, as recently in the United States and elsewhere. There has been much recent debate about whether U.S. and European fiscal stimulus packages were too small or too big and what their contributions have been to the slow recovery. Empirical estimates of the impact of the fiscal stimulus vary, and more work is required for us to have a greater understanding of what the impacts of different fiscal policies have been in the past and what they may be in the near future. But there is also a big gap in our theoretical understanding. Eggertsson’s paper provides important new insights by developing a new Keynesian model in which the effect of fiscal policy is very different during crisis periods, in which the nominal interest rate has reached the zero lower bound, from what it is under more normal circumstances. Essentially, the effects of fiscal policy depend greatly on the interest rate response, and this is very different when interest rates are constrained by the zero bound than when the central bank can be expected to adjust interest rates in response to changes in the level of economic activity and/or inflation. Eggertsson shows that an otherwise standard new Keynesian model leads to several novel and perhaps surprising conclusions. Several policies commonly thought to be expansionary, such as reductions in taxes on wages or reduced capital taxes, are recessionary during a crisis. These policies encourage greater savings precisely when greater consumption is required for recovery and encourage firms to cut prices at a time when deflationary expectations are especially dangerous, because of the impossibility of lowering nominal interest rates. In contrast, fiscal policies that increase aggregate demand, for example, by increasing government spending, are more
effective than under normal circumstances, because there should be less crowding out of private spending in the absence of the usual increase in interest rates. Eggertsson finds that temporary tax cuts and government spending increases should be particularly effective. Interestingly, and again somewhat paradoxically, temporary investment tax credits are less effective. Eggertsson also provides a quantitative analysis, showing that under at least some circumstances the “multiplier” effect of government purchases can be much larger than has been indicated by many previous studies. The results of this paper are both new and provocative; the discussion focused on how credible the implied numbers are and whether the channel that works through future inflationary expectations and the impact of those on savings today capture the main impact of fiscal policies.

Adam Ashcraft, Nicolae Gârleanu, and Lasse Heje Pedersen, in “Two Monetary Tools: Interest Rates and Haircuts,” develop a theoretical and empirical analysis of a new dimension of monetary policy that has been important during the recent crisis: direct lending by the Fed to private borrowers on terms other than those otherwise available in the market. In particular, they discuss the Term Asset-Backed Securities Loan Facility (TALF), which sought to increase the availability of credit to the economy by financing private investors’ acquisitions of asset-backed securities (ABS) on terms that involved the Fed allowing loans to be taken out backed by given ABS collateral larger than private lenders were at that time willing to allow. Despite the importance of this kind of policy during the recent crisis, very little theoretical or empirical analysis of it exists. The paper first develops a simple theoretical model that provides a simple framework for understanding how the “haircuts” required in collateralized lending can affect real activity, in addition to the more familiar effects of changes in the level of interest rates. In a production economy with multiple sectors and binding collateral constraints on intermediaries (or those investors who would otherwise be most willing to accept risk), the government can affect economic activity either by changing the interest rate or by lowering haircuts, which relaxes the collateral constraints and thus allows more risky projects to be financed. The paper then empirically investigates these ideas by looking at the effects on the required returns on commercial mortgage-backed securities of qualification for financing under the TALF, which resulted in lower haircuts for the particular securities that qualified. They find that the program reduced required returns on qualifying securities relative to those not qualifying by more than 0.7%; additional survey evidence suggests that the impact of the program could have been even larger. This
paper opens the discussion of new and nonconventional monetary policies and poses the challenge of modeling the consequences of these policy tools for macroeconomic equilibria.

In “Technology Diffusion and Postwar Growth,” Diego Comin and Bart Hobijn turn to a major period of economic growth for the world economy: the aftermath of World War II. This period is distinguished by the very rapid growth (recovery) of European economies but also differential growth rates both within Europe and between Europe and other areas of the world. Comin and Hobijn show that the Solow model, where convergence takes place via capital accumulation, is not a good approximation of these events. They suggest instead that technology dynamics are crucial for understanding convergence. They develop a vintage model of technology adoption and then use this model in order to guide their empirical work on the role of technology in post–World War II European growth. The patterns in the data are broadly consistent with the implications of the model. In addition, Comin and Hobijn show how U.S. policy, in particular the Marshall Plan and associated technology assistance programs, have helped the process of technology distribution to Europe and argue that this was a crucial part of the process of technology diffusion, leading to the rapid growth.

Gita Gopinath and Oleg Itskhoki in “In Search of Real Rigidities” attempt to reconcile the different approaches and results in the closed and open economy macro literatures on the prevalence and role of price rigidities. They focus on the evidence for real rigidities, meaning near invariance of suppliers’ desired relative prices despite changes in the volume of sales, that may occur for a variety of reasons. Using international price data and exchange rate shocks, they document that there is considerable real rigidity in price setting. For example, the response of recent price inflation to exchange rate shocks is highly persistent. Even conditioning on changing nominal prices, individual import prices are related to exchange rate shocks prior to the last price change, creating an interesting pattern of persistence. However, aggregate reset-price inflation for imports and, as documented in the closed economy literature, aggregate reset-price inflation for consumer prices exhibit little persistence. One reason for this might be differences between wholesale and retail prices. The pattern might also be related to differences in competition patterns. Gopinath and Itskhoki show that competitors’ prices affect firm pricing and that exchange rate pass-through into import prices is greater in response to trade-weighted as opposed to bilateral exchange rate changes. Motivated by these patterns, Gopinath and Itskhoki develop a simple dynamic model of price setting with sticky
prices (à la Calvo) that incorporates variable markups at the wholesale level and constant markups at the retail level. Such a model has the potential of being consistent with both the closed economy and open economy evidence. They show that such a model is capable of generating real rigidities and in particular sluggish price adjustments, though quantitatively the effects seem to be small.

Finally, Valerie Ramey and Daniel Vine reexamine an important source of macroeconomic fluctuations in “Oil, Automobiles, and the U.S. Economy: How Much Have Things Really Changed?” A large literature shows that oil price hikes lead to (or precede) output contractions. Several papers have also found that the effect of oil appears to be less now than it was in the 1970s and 1980s, and this has been linked to either the declining role of oil in the economy or adjustment of technologies, making them less energy or oil dependent. Ramey and Vine, in contrast, find that there is remarkable stability in the response of aggregate real variables to oil shocks. The key to their result is that they carefully take into account the additional costs resulting from shortages and rationing, which were important in the oil price shocks of the 1970s but disappeared after price controls were lifted. To develop a better perspective on the effect of oil prices on real activity, they focus on the automobile industry, which is one of the sectors most sensitive to oil prices. Contrary to what is sometimes argued, Ramey and Vine show that the automobile industry (broadly all motor vehicles) does not have a declining share in the economy. They show that within the motor vehicle industry, oil price shocks throughout the sample period have similar effects on production. More interesting, they can also study capacity utilization and changes in production and demand across different segments (from large to small cars, e.g.). Here too, paradoxically, they find little change in the responsiveness of the automobile industry and real activity between the 1970s and today. To the extent that the 1970s were subject to larger shocks, there were larger responses, but the responsiveness does not seem to change. This raises several puzzles as to why there is this type of stability in the economy at large and in the automobile industry, despite significant changes in technology and the changing role of oil in the economy, and invites more research on this important topic.

This volume also continues last year’s innovation of including a published speech of a more policy-related nature. The final chapter is a speech by former undersecretary of the Treasury (and longtime NBER researcher) John Taylor, delivered at the conference dinner. Taylor provides a lively discussion of the ways in which macroeconomic policy
during the financial crisis has differed from previous practice and from prescriptions proposed by the research literature. He questions the desirability of this “Great Deviation” from standard approaches to policy and suggests that researchers need to devote more attention to the study of the political economy of macroeconomic policy in order to understand why the conclusions of the research literature do not have more influence on actual policy.

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