OFF THE NEWS

Common Sense in the Defense of Stability Is No Vice

An appreciation of John H. Makin, May 29, 1943 – March 30, 2015

John Makin

Many macroeconomists thrive on being outrageous. Academics like to be counterintuitive if not confusing, to advance their standing in the profession. Market pundits gain notice (and clients) by making out-of-the-money forecasts until one comes true. Policy advocates garner influence by getting a distinctive voice that stands out.

John Makin engaged in none of these self-promoting distortions, and yet was respected by the academic profession, was a proven success as an advisor and portfolio manager in global markets, and had ongoing influence on major policy debates.

John had the power instead of being profoundly sensible: he had a deep understanding of financial markets and of policymaking, but most of all of what real-time economic data meant (including when it meant nothing and was just noise). Whether discussing the role of monetary policy in reversing Japan's deflationary slide or the need for base-broadening in the U.S. tax system, John would calmly marshal his evidence-based arguments and hope that reality checks brought others around.

He was unafraid to say when something was fanciful or unfounded, but was always happier if someone else was making sense or bringing good data to bear, too. A whole generation of us macroeconomists currently in the policy debate learned from him, and can continue to learn from his example of how to contribute to that debate.

—Adam S. Posen
President, Peterson Institute for International Economics, and member, TIE *Editorial Advisory Board*

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Debt Alert I

Asian debt, excluding Japan, in 2014 rose to 205 percent of GDP, compared to 144 percent in 2007 just before the financial crisis.

—Morgan Stanley

Debt Alert II

Total Chinese debt jumped to $28 trillion in mid-2014, or more than 280 percent of GDP, up from $7.4 trillion in 2007.

—McKinsey

Debt Alert III

The U.S. debt-to-GDP ratio is 269 percent.

—McKinsey

Disturbing Trend

"Chinese lending has grown less potent. In the six years before the financial crisis, each yuan of new credit resulted in about five yuan of economic output. In the six years since the crisis, each yuan of credit has yielded three of output."

—Wall Street Journal

How Europe Works

In 2003 the overall employment rate in Germany and France was similar; today it is 74 percent in Germany but only 64 percent in France. Among 55- to 64-year-olds, only 47 percent of the French go to work, next to 66 percent of Germans.

—The Economist

Canary in The Coal Mine?

Only 38 companies have gone public in the United States in 2015. This is nearly 60 percent fewer than at the same time last year. These initial offerings raised $6.2 billion, roughly 68 percent less than during the previous yearly period.

—Wall Street Journal

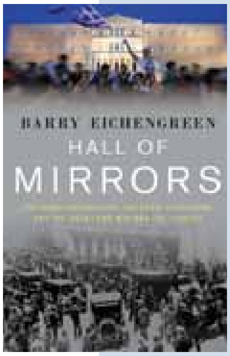
Brave New World

Until 2015, no country had ever sold ten-year debt that gives investors a yield below zero percent, or a 100-year bond denominated in euros. In April, Switzerland sold ten-year bonds that investors are paying to hold. Meanwhile, Mexico lined up an unusual transaction to borrow in euros it promised to repay a century from now, at a yield of 4.2 percent.

—Wall Street Journal

TIE Bookshelf

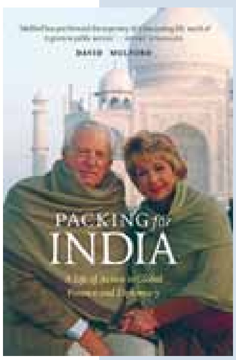
Recent and notable works from some of our regular contributors.



Hall of Mirrors: The Great Depression, The Great Recession, and the Uses—and Misuses—of History
by **Barry Eichengreen**
(Oxford University Press (2015)

"The Great Depression was the signal economic event of the twentieth century and, we hope, the Great Recession will be the signal event of the twenty-first. Few people on earth can draw out the similarities and differences as well as Barry Eichengreen, who paints with equal facility in broad strokes and in fascinating detail. Reading *Hall of Mirrors* is a joy. Keeping it on your bookshelf for future reference is a necessity."

—Alan Blinder



Packing for India: A Life of Action in Global Finance and Diplomacy
by **David Mulford**
(Potomac Books, 2014)

"David Mulford has few equals in the field of international finance. This book is an American story of adventure, persistence, and accomplishment."

—Nicholas F. Brady,
former U.S. Secretary
of the Treasury

U.S. Economic Disappointment I

"Compared with the average recovery since World War II, the economy in the past six years has created 12.1 million fewer jobs and $6,175 less income on average for every man, woman, and child in the country. Had this recovery been as strong as previous postwar recoveries, some 1.6 million more Americans would have been lifted out of poverty and middle-income families would have a stunning $11,629 more annual income. At the present rate of growth in per capita GDP, it will take another 31 years for this recovery to match the per capita income growth already achieved at this point in previous postwar recoveries."

—Former U.S. Senator Phil Gramm (R-TX)

U.S. Economic Disappointment II

The Congressional Budget Office has estimated that the U.S. economy over the next decade will grow by a low 2.3 percent. From 1790 to 2014, U.S. GDP in real dollars grew at an average annual rate of 3.73 percent. Had America grown at the low rate of 2.3 percent for its entire history, GDP today would be $780 billion instead of more than $18 trillion. GDP per capita would be $2,433, lower than Papua New Guinea's. Had GDP grown from 2001 to 2014 at the 3.87 percent annual rate of 1993–2000, the federal government would have had a $500 billion surplus in 2014 instead of a $500 billion deficit.

—Wall Street Journal