The unending search for what´s behind the paltry, but long, expansion.

At this time, we are plodding along what has become the second longest expansion in available history. By this time next year, the length of this expansion will beat the record held by the 120-month expansion of 1991-01.

Several attempts at an explanation have been made. Two years ago, for example, Greg Mankiw wrote "One Economic Sickness, Five Diagnoses" that have been further elaborated since:

> It may be tempting to blame the Great Recession of 2008-9 for the **paltry** 10- year growth rate. Indeed, this recession was a deep one. Yet the explanation for the poor long-run performance is not that simple. **The recession of 1982 was also a deep one**.
>
> The difference: The 1982 recession was followed by a **robust recovery**, whereas the recession of 2008-9 has been followed by a **meager one**.
>
> So what's wrong with the economy? No one knows for sure. But numerous theories are being bandied about. Here are five of them:

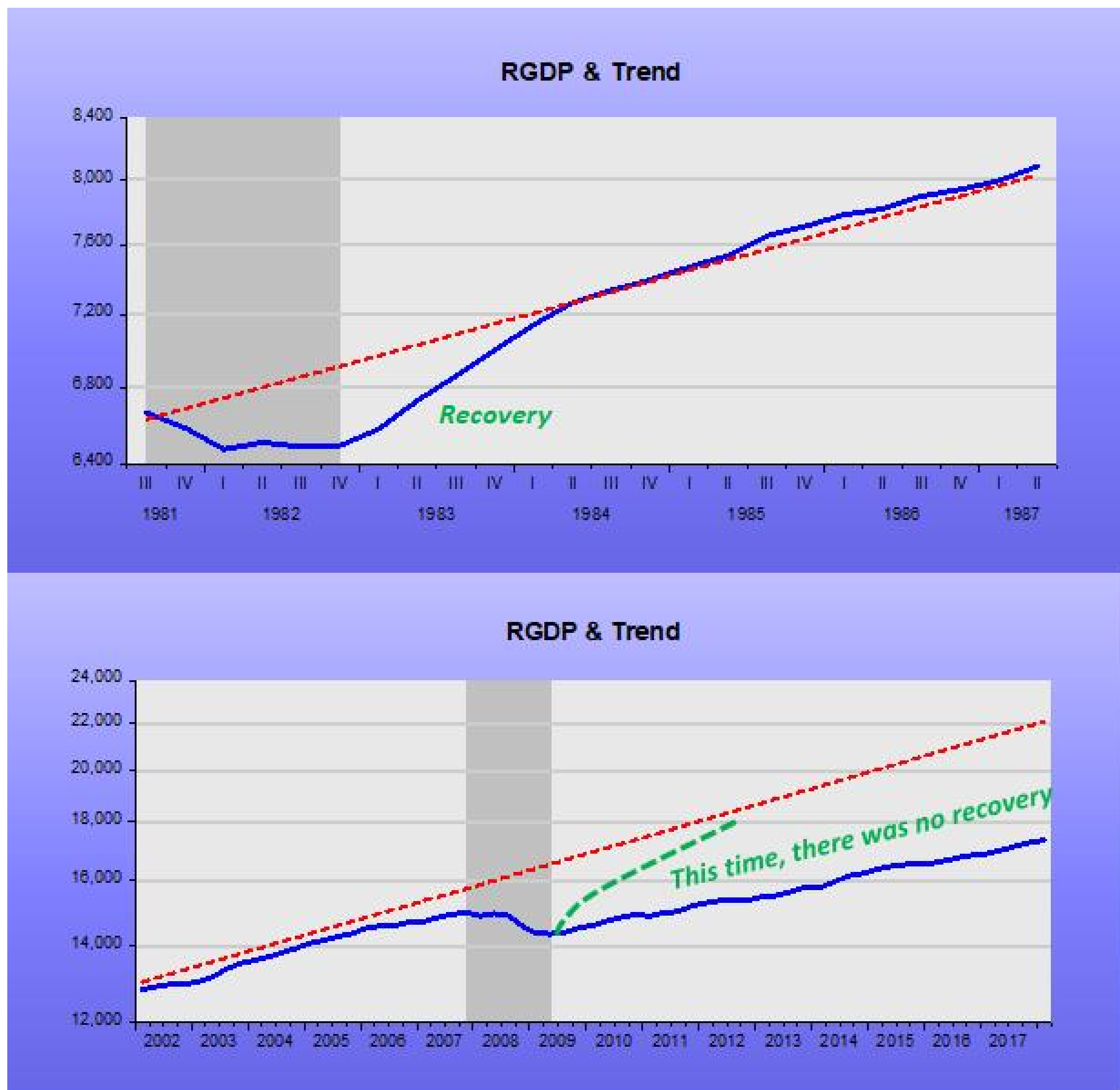
While he provides explanations such as "hangover from the financial crisis" and "policy missteps" that relate only to fiscal policy, there´s not a single word about monetary policy.

In fact, what appears to be the conventional wisdom, is that monetary policy has and is largely doing what it can to support a **robust** recovery, and what remains are fiscal and regulatory policies.

A picture can be stronger than words. The charts below illustrate Mankiw´s comparison of the "robust recovery" that followed the 1981-82 recession and the "meager" one since the 2007-09.

If one understands a "recovery" as being the "action" that takes the economy back to where it would be if it had not "stepped off the track", we see there was no recovery after the last recession, with the economy moving straight on from the recession phase to the

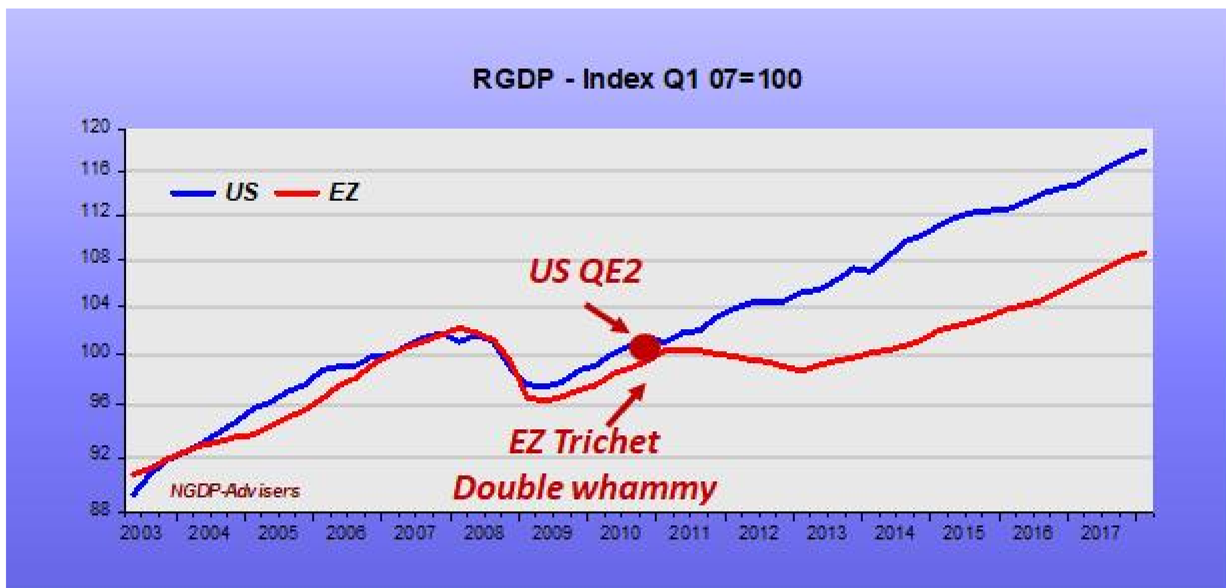
expansion phase.

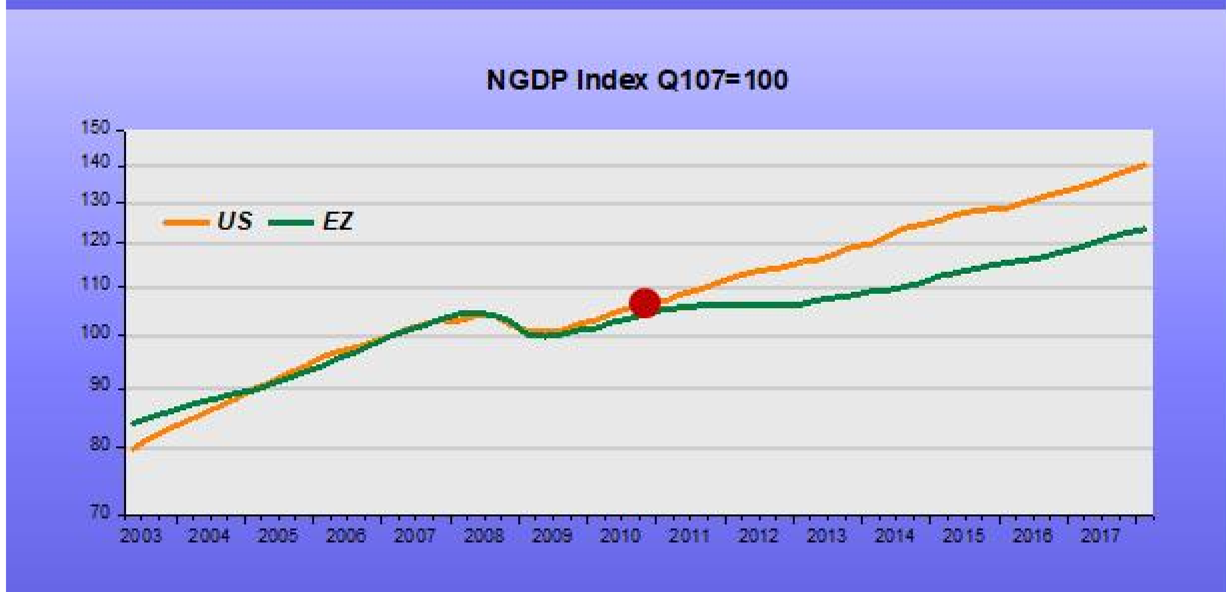


To use a medical analogy, the “patient” went “home” straight from the ICU. Not having gone to a room to “recover”, it lacked the “strength” to climb back to the previous path!

The **monetary explanation** for the “meager” expansion is illustrated in the charts below, comparing the US and Euro Area (EZ).

The “Great Recession” was a little “greater” in the EZ, influenced by the bigger impact in the “periphery” countries. From the trough, both economies began to expand (without going through the recovery stage), at a similar pace.





Then, while the US introduced QE2 in late 2010, in early 2011, Jean Claude Trichet, president of the ECB, stepped twice on the brake. NGDP growth in the EZ stopped and real growth took a dive. In other words, while monetary policy became more expansionary in the US, it was strongly tightened in the EZ.

Things in the EZ only turned for the better after the new ECB president Mario Draghi uttered the famous expression “do whatever it takes” six years ago. The “whatever it takes”, however, also did not contemplate a recovery from the second recession, so the gap between real output in the US and EZ widened.

Next July, I believe the “celebration” of the longest US expansion will feel more like a “funeral”.