Figure 2.SF.1. Policy Uncertainty in the United States and Europe

Policy uncertainty tends to spike in response to identifiable economic, financial, and geopolitical events.

1. U.S. Policy Uncertainty

Gulf War
Russia/LTCM Crisis
9/11
Iraq War
Large interest rate cuts and fiscal stimulus
Bankruptcy of Lehman Brothers
TARP; Transition to Obama administration
Debt ceiling dispute

2. European Policy Uncertainty

EU Treaty of Accession; Iraq War
9/11
Greek bailout request; rating cuts
Financial crisis spreads to Europe
Papandreou calls for referendum, later resigns

Sources: Baker, Bloom, and Davis (2012); and Haver Analytics.
Note: Uncertainty shocks are defined as periods during which detrended uncertainty is more than 1.65 standard deviations above its mean. LTCM = Long-Term Capital Management; TARP = Troubled Asset Relief Program.