THE CURRENT STATE OF THE UNITED STATES ECONOMY: A PERSPECTIVE

Editorial
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The Current State of the Economy

In terms of the current job losses and the decline of economic output, the 2008 to 2009 recession is the deepest and the longest of post-World War II recession. Many economic observers have justifiably stated that the United States is in the midst of the greatest recession facing the nation since the Great Depression of the 1920’s. In December of 2008, the National Bureau of Economic Research, the United States department responsible for categorizing the country’s economic condition, acknowledged what most Americans have known for some time; that their country is officially in a deep and painful recession, and that was 2008.

As of September 2010, the American economy is once again tilting toward danger. Despite an aggressive regimen of governmental actions, from the conventional to the exotic, more than $800 billion in federal spending, and trillions of dollars’ worth of credit from the Federal Reserve Bank, fears of a second recession are growing, along with worries that the country may face several more years of lean economic progress.

Most recently, on August 27, 2010, Ben Bernanke, Chairman of the Federal Reserve Bank, speaking with unmeasured tones, acknowledged that the U.S. economy was weaker than he had hoped, while promising to consider new policies to invigorate it should conditions worsen.

Yet as key indicators show that plunging home sales, a bleak job market, and confirmation that the quarterly rate of economic growth had slowed, to 1.6 percent, down from a projected 2.6 percent, a sense has taken hold that the federal government policy makers may not be able to deliver a meaningful intervention to address this dilemma; and that is because nearly any proposed curative could risk adding to the national debt which currently could be a political nonstarter. The situation then has left American fortunes to an uncertain remedy; hoping that things somehow get better. A very un-American trait, hope, as the American character is one of action.

This is, in a sense, where the current recession has taken the world’s largest economy; to a great ambiguity over what lies ahead and what can be done to rescue it. Many economists debate the benefits of previous policy actions, but, in the political realm, a rare consensus has emerged: The future is that running up any additional debt seems politically risky in the month before the Congressional elections in November, even in the name of creating jobs and generating economic growth. So much for any additional stimulus.

My colleagues, Professor Carl Van Horn, Director, and Cliff Zukin, Ph.D., Senior Research Fellow and Professor at the John J. Heldrich Center for Workforce Development, Edward J. Bloustein School of Planning and Public Policy at Rutgers University, released their powerful study, “American Workers Assess an Economic Disaster” in September 2010. It brought the chilling news that the economy had actually lost over 130,000 jobs and that the estimates for the previous month had also overestimated job growth in the private sector.

In effect, while the nation’s Gross Domestic Product continues to grow, albeit at an anemic pace, the unemployment rate is stuck at the high level of 9.6 percent and job creation is not growing sufficiently to absorb unemployed workers or new entrants to the labor market. This news was greeted with renewed concern about a double dip recession and predictions of sustained high levels of unemployment for years to come.

Leaving aside the above predictions, we already know that the Great Recession gave us the:

- The longest recession in history,
- The highest levels of unemployment in over 25 years,
The greatest number of people out of work for more than one year, and
The longest average duration of unemployment.

The study also indicates that the recession had negative consequences in all regions and across all demographic groups and industrial sectors. For some groups, such as minorities, men, and older workers, the recession was especially damaging, but the effects have been felt by the majority of Americans.

The study also suggests that fundamentally different characterizations of the unemployed are emerging. For example, some political leaders have claimed that the unemployed are either not looking hard enough for work or have become addicted to government entitlement programs, such as unemployment insurance. Others have complained that the government has not done enough to create jobs and assistance so people can weather the battering of the recession.

And again, with the 2010 election approaching, the policy landscape is already marked by deep partisanship and widely different proposals about what, if anything, should be done to fix the ailing economy.

The only consensus among policy makers seems to be that the current recession will not be fixed until unemployment declines and the private sector job growth is strong and sustained.

The study led by Professor Carl Van Horn, with essential leadership provided by Cliff Zukin, Ph.D., probed the views of a nationally representative sample of 818 American workers between July and August of 2010 and examined the differences and similarities between the views of those who have jobs and those who are out of work. Specifically, they, with Jessica Godofsky, Research Assistant at Princeton Survey Research Associates International, investigated how American workers assess the following:

- The near and long term future of the economy and the labor market,
- The impact of the recession on Americans,
- The causes of unemployment, and
- The policies and political leaders.

The details of the study indicate that American workers share a grim outlook on the future of the U.S. economy, regardless of their employment status, age, or income level. For example, just 7 percent of American workers believe that now is a good time to find a job.

More than half, 56 percent, think the U.S. economy has undergone a fundamental and lasting change as opposed to a temporary downturn, 43 percent. Survey respondents are also very pessimistic about the near term future: fully 41 percent anticipate that the United States will be experiencing similar economic conditions a year from now, while another quarter, 27 percent, actually believe the economy will get worse before it gets better. Overall, nearly two thirds of Americans, 64 percent, expect that the nation will still be in a recession next year, while another 18 percent fear a depression is coming. Just 16 percent believe the recession will be over a year from now.

Those Americans who are unemployed expressed grave concern about the labor market. Eight in ten job seekers are very concerned about the condition of the job market. Roughly 74 percent of those unemployed and looking for work are very concerned about the unemployment rate, a view shared by 50 percent of those employed. So much for on the job risk taking and innovation, which is the foundation for corporate and small business growth. In fact, nearly 9 in 10 Americans, 86 percent, who are still working express at least some concern about their job security; half of them report being very concerned, suggesting widespread fears about the labor market and the U.S. economy.

The unemployed and their families are experiencing increasingly severe financial and emotional crises, and a majority of those with jobs fear that their employment security may remain threatened in the coming year. So, in essence, the pessimistic outlook of both the American employed and unemployed workers, and the lack of a consensus about what should be done about the economy, should worry national policy makers, both in the short and near term.

The study also indicates that the argument by some Republicans that high unemployment persists because job seekers are spoiled by overgenerous entitlement payments will not find much support among American workers. Instead, the findings present that 8 in 10 adults blame a lack of new private sector jobs and more than 80 percent believe that those out of work sincerely want a job.
The study further suggests that job creation emerges as an urgent concern for a large number of Americans in and out of the labor market. More than half of all adults are taking on additional debt and know an immediate or extended family member who has recently lost a job. They believe that the U.S. economy is experiencing a permanent change, not a temporary slowdown, and expect the effects of the recession to still be felt one year from now. In short, American workers’ faith in the future will not easily be restored until they see credible evidence that robust private sector job growth has returned.

It has been stated that the growing impression of a weakening U.S. economy, combined with a dearth of policy options, has reinvigorated concerns that the United States risks sinking into the sort of economic stagnation that captured Japan during its so-called “Lost Decade” in the 1990s. At least we in the United States have a plausible model for recovery, for then, as now, the trouble began when a speculative real estate frenzy ended, leaving banks awash in debts they preferred not to recognize and hoping (that word again) that bad loans would turn good, or at least be forgotten. The crisis, then and as now, was deepened by indecisive policy, as the ruling party fruitlessly explored ways around a painful reckoning; that being the boosting of exports, tinkering with accounting standards, and the like.

As the Nobel Laureate economist, Joseph Stiglitz, has said, “there are many ways in which you can see us almost surely being in a Japan-style malaise.” Of course, it is Dr. Stiglitz who has accused the Obama administration of underestimating the dangers of weighing on the economy; an economy that in its current state was inherited from the prior Republican administration, along with two very costly wars.

Again, sorry to bring it up once more, but the impending elections in November, with the control of Congress hanging in the balance, has further narrowed the range of political possibility by both political parties, particularly the Obama administration.

Six months ago, Alan Blinder, a former vice chairman of the Federal Reserve and now an economist at Princeton, dismissed the idea that America’s political system would ever allow the country to sink into a Japan-style quagmire. “Now I’m looking at the political system turning itself into a paralyzed beast,” he says, adding that a lost decade now looms as “a much bigger risk.” Congress and the Obama administration appear to have ruled out further stimulus spending. The Federal Reserve appears to be running out of real options. As Dr. Blinder says, “Its really powerful ammunition has been expended.”

Barlett, who was a Treasury economist in the first Bush administration, implies that even after the November election, few expect a different dynamic since, as Barlett states, “we’re already in a gridlock situation, and nothing substantive is going to change.” He further comments that “clearly, a weak economy in 2012 will be very good for whoever the Republican presidential candidate is. It’s hard to see how the Republicans lose by blocking stimulus.” However, if deflation emerges as a verifiable menace, many economists expect Ben Bernanke, an expert on the Great Depression, to again champion aggressive measures, perhaps expanding the Federal Reserve balance sheet, states Dr. Kenneth Rogoff, a former chief economist at the International Monetary Fund. He adds, “It’s very likely the Fed will bend in that direction if the economy stays soft, especially if they are starting to see deflation.”

So given the current state of the economy, Ben Bernanke sums the situation up best by stating, “the issue at this stage is not whether we have the tools to help support economic activity and guard against disinflation, we do.” Then Mr. Bernanke adds, “The issue is instead whether, at any given juncture, the benefits of each tool, in terms of additional stimulus, outweigh the associated costs or the risks of using the tool.”

The combination of high unemployment, coupled with slowness in recovery and the reluctance of major corporations to reinvest in its enterprises, despite a noticeable improvement in their profits in 2009, going into the current second quarter of 2010, indicates that a stagnant economy will linger and skeptics about the effectiveness of public policy and the recovery will persist. The fact remains that, though the recession has been declared over, economic conditions are not about to improve in the very near future.

REFERENCES:

