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America's Two Economies

Thomas F. Cooley and Peter Rupert 02.03.10, 12:01 AM ET

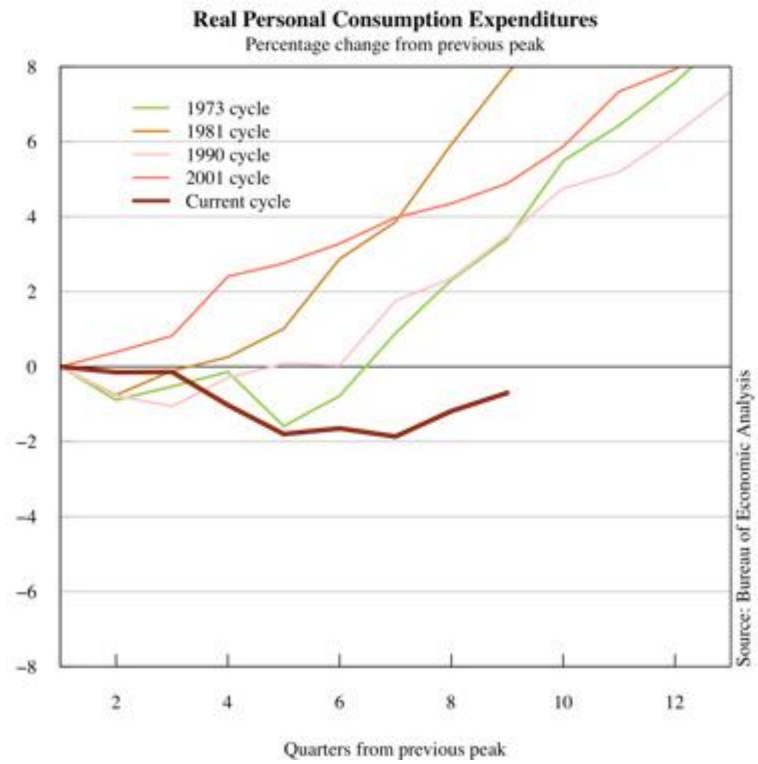
When the Obama administration put forth the American Recovery and Reinvestment Act of 2009, the hope was that the $700 billion stimulus to the economy would halt the economic decline and temper the deterioration in labor markets. In this column we bring you up to date on the progress of the economic recovery.

The news in the numbers is often difficult to discern. It is not helped by the desire of the administration and its critics to put a particular spin on the success or failure of various policies. In a previous column we commented on the early claims of success for the stimulus package. Those claims have since been muted by the actual performance of the economy, and we hear relatively less about the number of jobs that have been saved.

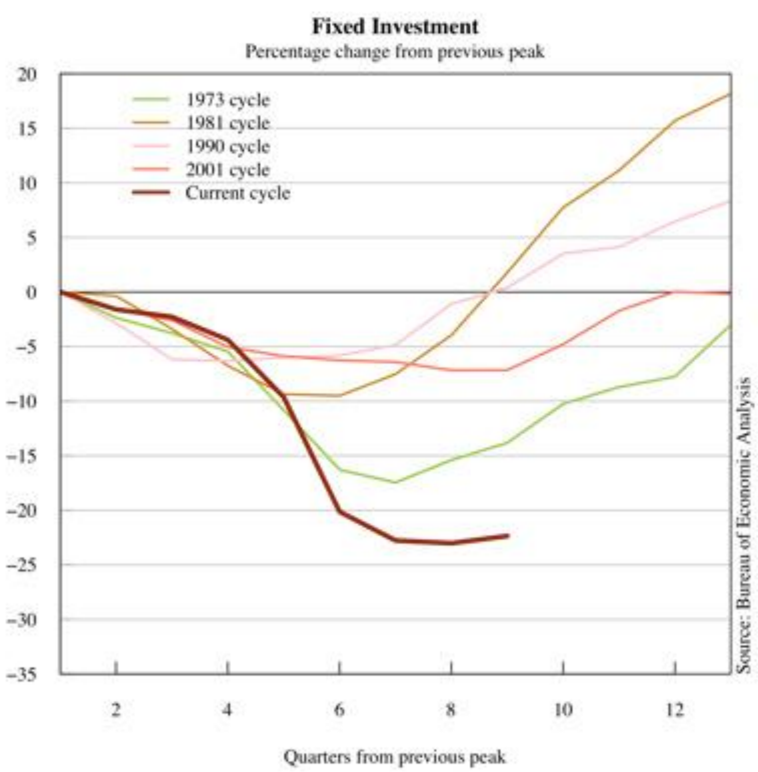
The data are also confusing because they tell two different stories--or as Nouriel Roubini has described it, a tale of two different economies. Our primary goal here is to present the data in a way that best illustrates what is going on in the economy. This is important because it makes clear that this economic downturn is not your garden-variety recession. It is indeed the "Great Recession," and it is far from over.

The Commerce Department reported on Friday that GDP rose at a pace of 5.7% in the fourth quarter, its fastest rate of growth in three years. Change in inventories held in warehouses and stockrooms, the most volatile component of investment, accounted for 3.39% of that change. While that seems like a very good outcome, in our interpretation of the data the news is far less encouraging.

Here we present the most up-to-date data in a way that contrasts the current recession and recovery with previous downturns. This gives a good visual representation of the progress of the recovery. The first figure below shows the time path of consumption since the beginning of the downturn. It also shows the time path of consumption during four previous recessions, two of them severe, 1973 and 1981, and two of them mild, 1990 and 2001.

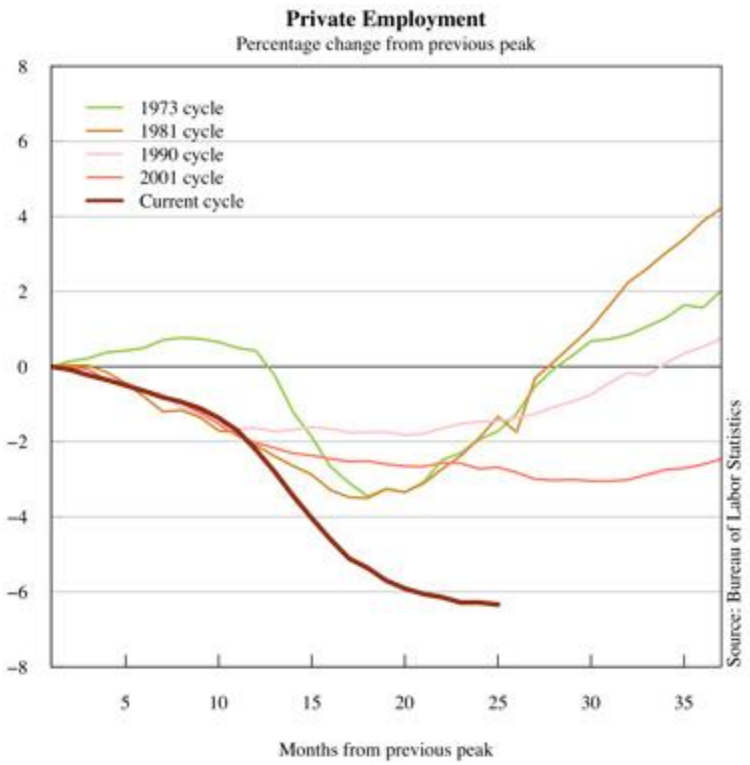


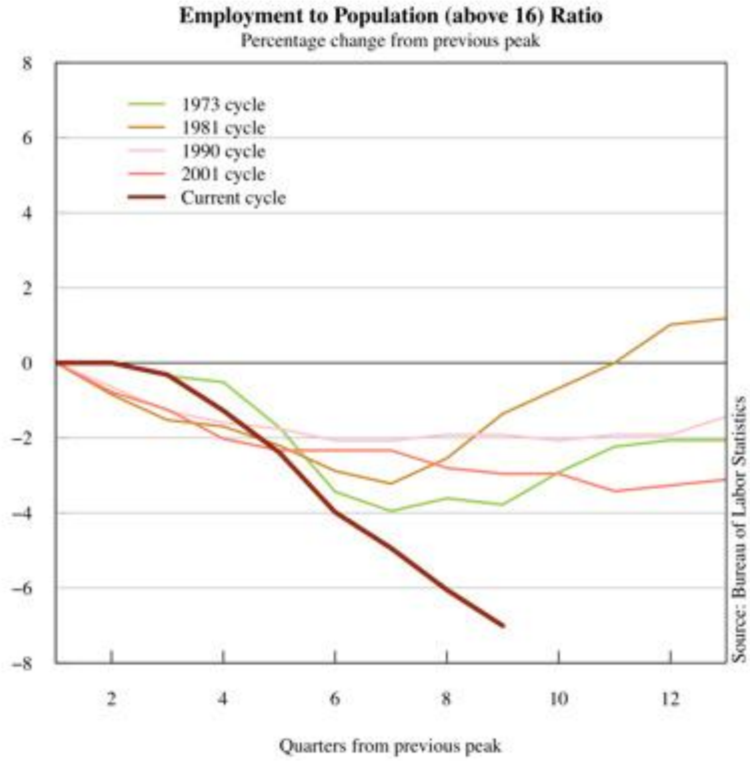
The data show a continuing recovery in consumption, which comprises roughly 71% of GDP, and contributed about 1.4% to GDP growth. The next figure shows the change in fixed investment, excluding inventories, the most volatile component.



Fixed investment, which is about 12% of GDP, shows a very modest sign of recovery and still stands nearly 22% below its peak level nine quarters ago. If inventories were included, it would show a more significant increase. Both of these charts emphasize the severity of the decline and the sluggishness of the rebound.

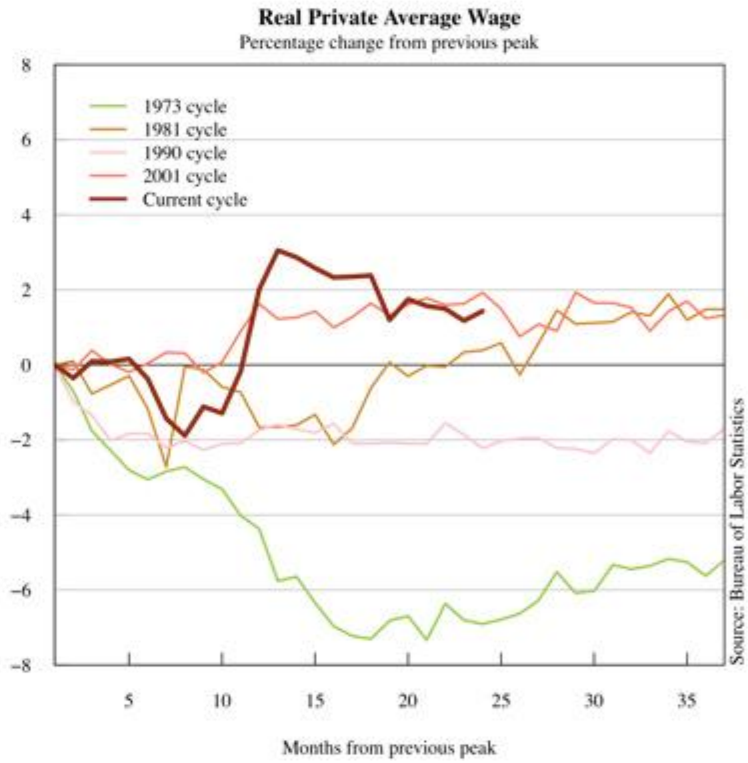
So is this a recovery--is the recession over as the pundits proclaim? Unfortunately the labor market presents a more dismal view. The next two figures show total employment and the fraction of the population over 16 years of age who are employed.





Although job losses slowed in December, there is no evidence of recovery in employment. This will be a continuing drag on the economy and on the fiscal condition of both state and federal governments.

Interestingly, for those who are working, the data suggest that things are improving. Average weekly hours of work did not decline more than in previous bad recessions and have begun to increase. For those who are employed, real average hourly wages have increased as is shown in the next figure.



This is a bit surprising, but it is worth bearing in mind that productivity has increased dramatically as firms have shrunk their employment sharply.

The data confirm what we see and hear around us if we are willing to look and listen. There is this "other" economy with high unemployment and a very low and still-declining employment-to-population ratio. The term "jobless recovery" doesn't quite capture it. Perhaps we will call this the "job loss recovery" because we don't seem to have turned the corner in the labor market--and it appears much worse than earlier jobless recoveries (thanks to Erica Groshen at the New York Fed for finding that the first use of the term "jobless recovery" was in *The New York Times* in the 1930s).

Part of the reason that there is a groundswell of populist anger at the economic solutions that suit those "too big to fail" banks is that too many people and businesses who are infinitesimally tiny by comparison are on the verge of failure. Many who are underemployed and struggling to cope are subsidizing the grander schemes of economic recovery. Until policy makers reassure taxpayers that they are reading all the data--not just the happy stuff--the anger will grow. For many, many Americans there are no jobs and few prospects. For them the Great Recession is not a cute aphorism but a major cataclysm.

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