Halfway through a lost decade

By Justin Wolfers
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A closer look at the GDP number shows something unsettling about the state of the U.S. economy.

TESS VIGELAND: Those mortgages figures we talked about earlier are just the most recent in a slew of economic numbers that we follow week in and week out. Some carry more weight than others, like last Friday’s monthly job report and the GDP -- Gross Domestic Product. If you remember, the Commerce Department kept its original GDP estimate a couple of weeks ago -- a weak 1.8 percent annual growth.

But commentator Justin Wolfers warns that’s not the entire story.

JUSTIN WOLFERS: There’s an untold story in the economic data. And it’s this: Our current slump has been going on a lot longer than you might think.

Many people believe the recession began when Lehman Brothers collapsed. That happened in September 2008, just six weeks before the historic presidential election.

But the economy had already been declining through 2008, and the United States was already in recession when the financial collapse began. The National Bureau of Economic Research, which is the semi-official arbiter of these things, reckons that the recession began three-and-a-half years ago. That’s December 2007.

But if you sift through the old data, you see that the downturn may have begun even earlier.

When the economy is this weak for this long, it’s time for policymakers to abandon the fiction that a sick economy will heal itself.

Let me explain. Economists usually evaluate economic conditions by analyzing Gross Domestic Product, which we affectionately called GDP. Most economic commentary focuses on the headline number, which is the sum of all spending in the economy. But there is an alternative way of measuring GDP -- you just add up the sum of all of our incomes.

In theory the two measures should be the same. After all, every dollar you spend is a dollar of income to someone else. But in practice, measurements differ. Most economists are focused on the less informative measure. But the better data measuring total income show that the economy entered a recession in late 2006.

Today our Gross Domestic Product is only around the level it was at when the recession began. So if it feels like we’ve been in a downturn for a long time, you’re right. It’s been nearly five years.

In the wake of the financial crisis, many economists argued that we need to do whatever we can to avoid a lost decade. Unfortunately, here’s my progress report: We’re halfway there.

VIGELAND: Justin Wolfers is an associate professor at the University of Pennsylvania's Wharton School of Business. Got a comment. Write to us -- click on the contact link.
At last, some genuine rethinking of economics in light of recent events showing the old theorems to be utterly inadequate.

Woo-hoo! We're halfway there!

When the economy was tooling along at a mediocre rate, many politicians, bankers, businessmen, and others were just not happy with the status quo. They could not resist stimulating the economy, usually by inflation in one form or another. That is how they achieved happiness during the start of our housing bubble. Lots of profit was made while many greedy little people are now left holding the bag. Many seniors who remembered the Great Depression hold some of those bags. The acquired thrifty habits. Now with their nest eggs tied up in time deposits receive a fixed income return—zero and less when inflation is considered.

The truly scary thing about this is that the same inflationary plans are the ones being followed to get us out of this economic funk. If continued, we just will get more pain.

I do not have a solution. Both Democrats and Republicans have different plans, but neither seems to have one that is likely to work.