

Not Your Father's Recession

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Recently, we have seen a wave of discouraging economic data. This has been followed by a stream of commentary forecasting a return to negative economic growth. Considering the already severe slump in job creation, it hardly matters whether such a downturn would constitute the second dip of a “double-dip” recession, a continuation of the “Great Recession,” or a confirmation that the economy has entered a Japanese-style “lost decade.”

The mainstream economics profession has been resistant to the very idea that growth in a market economy could stagnate over a protracted period. One reason for this misplaced optimism can be illustrated by fitting a growth trend to an inflation-adjusted GDP series. As we show in Figure 1, the fit is quite good for data from January 1967 through November 2007. However, the more recent data points (at the right of the graph) illustrate a marked departure from this prerecession growth trend, which has left real GDP at 11.9 percent less than one would have expected based on earlier data.

Another way of looking at the July data is to chart GDP growth rates for each quarter. Figure 2 shows this series in blue. The other lines in the figure depict averages of these raw numbers. For example, the yellow line, marked “12-quarter Moving Average,” is a simple average of the growth rates for a given quarter and the previous 11 (the averages help smooth away short-lived shocks and measurement errors). The yellow, black, and red lines all show a steady decline in average growth rates beginning in 2000. Finally, Figure 3 shows the employment picture, with separate lines for the past six US recessions. Each line traces the path of the employment-to-population ratio relative to its level in the first month of each recession. The pink line corresponds to the most

recent recession; it shows that, as of July, the ratio stood at 58.1 percent—4.6 percent less than at the recession’s start, 43 months earlier.

Together, these figures make the case that the recession has turned into a prolonged and very unusual slump in growth, preventing a labor-market recovery. The government has barely begun the task of creating the new jobs needed to deal with this disaster.

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Figure 2 GDP Growth Rates and Average Growth Rates, 1975Q1–2011Q2

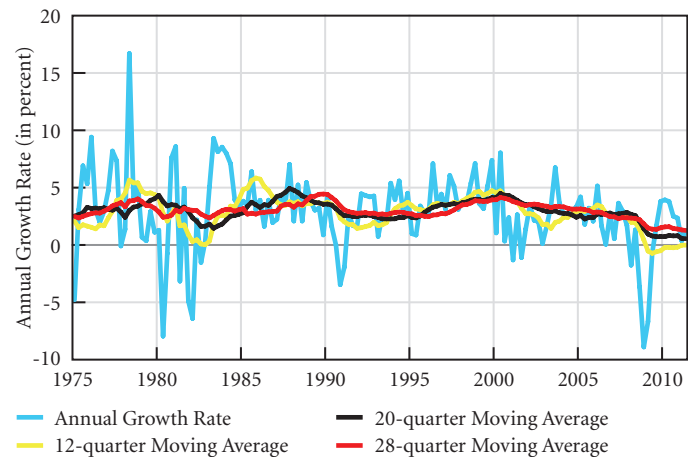


Figure 3 Employment–Population Ratios following Beginnings of Recessions, 1970s to Present

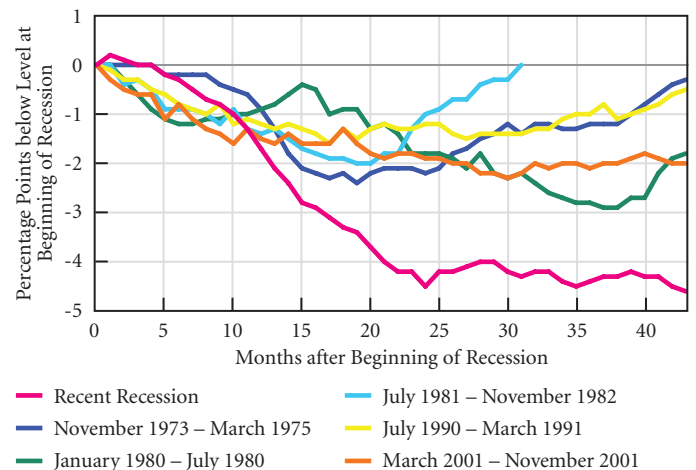
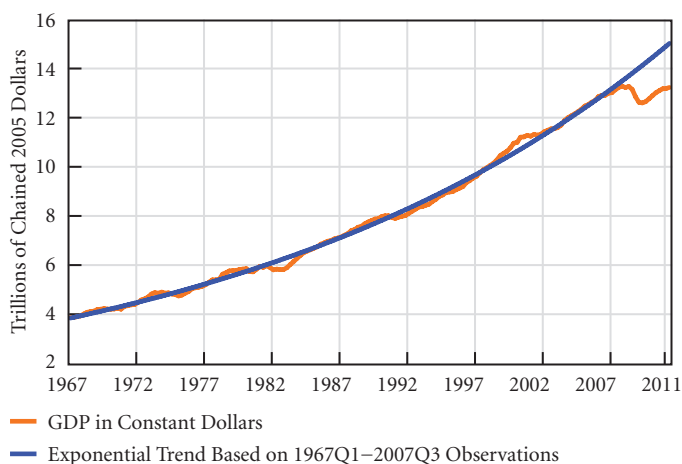


Figure 1 Real GDP and Its Prerecession Growth Trend, 1967Q1–2011Q2



Sources: St. Louis Federal Reserve Bank, FRED database; authors’ calculations