

The State of Our Economy

Jeffrey S. Zax

With the presidential election approaching, it's time to understand the true state of our economy. Here are the facts from the three full years of the Obama administration. The economy shrank by 3.1% in 2009, grew by 2.4% in 2010 and 1.8% in 2011.¹ The unemployment rate was 9.3% in 2009, 9.6% in 2010 and 8.9% in 2011.²

The federal deficit, the amount borrowed by the federal government in order to finance its spending, was about 1.4 trillion dollars in 2009, 1.3 trillion dollars in 2010 and 1.3 trillion dollars in 2011.³ Gross federal debt, the total amount owed by the federal government, was nearly 12 trillion dollars in 2009, 13.5 trillion dollars in 2010 and 14.8 trillion dollars in 2011.⁴

In other words, the economy is doing surprisingly well.

What?

Growth has been slow, unemployment high, federal deficits huge and the federal debt huger still.

However, it should have been much worse.

Conditions seem bad in comparison to the experience of the past couple of decades. However, that's the wrong comparison. The recession that began with the last year of the Bush administration and extended into the first six months of the Obama administration was the worst since the Great Depression. Downturns like these, provoked by financial crises, are notoriously destructive.

In the five comparable post-WWII crises⁵, economies shrank for an average of three years in a

¹ <http://www.bea.gov/national/index.htm>, gdpchg.xls.

² <http://www.bls.gov/cps/cpsaat01.htm>.

³ Office of Management and Budget, Table 1.1, "Summary of receipts, outlays, and surpluses or deficits (-): 1789-2017".

⁴ Office of Management and Budget, Table 7.1, "Federal debt at the end of the year: 1940-2017".

⁵ These crises occurred in Spain in 1977, Norway in 1987, Sweden in 1991, Finland in 1991 and Japan in 1992 (Reihard and Rogoff, chapter 10).

row,⁶ unemployment increased by an average of approximately eight percentage points⁷ and national debt increased by an average of almost 90%.⁸ Our economy shrank for only one year⁹, unemployment increased by only five percentage points¹⁰ and the federal debt increased by only 65%.¹¹

We've also done better than the other rich countries who suffered from the Great Recession. Our economy recovered to its pre-recession peaks by the first quarter of 2010.¹² Germany and France didn't accomplish this until the first quarter of 2011, the Netherlands until the second quarter of 2012. Spain and the United Kingdom haven't yet returned to their pre-recession peaks.¹³

Moreover, our future looks better too. Unemployment in September declined to 7.8%, almost two percentage points below its recessionary peak.¹⁴ It would be another percentage point lower if the political climate didn't exacerbate macroeconomic uncertainty, such as that associated with the the impending fiscal cliff.¹⁵ The chance that we'll experience a recession through the beginning of 2013 is only 15%. It's 80% in Europe.¹⁶

Does all this mean that things are great? Or even good?

No, they're not. However, bad as they are, they're much better than they could have been. Even our federal debt, enormous as it is, could easily have been much larger. Moving forward, we're in a better position to deal with it than we had any right to expect.

⁶ Reinhart and Rogoff, Figure 10.4.

⁷ Reinhart and Rogoff, Figure 14.3.

⁸ Reinhart and Rogoff, figure 10.10.

⁹ <http://www.bea.gov/national/index.htm>, gdpchg.xls.

¹⁰ <http://www.bls.gov/cps/cpsaat01.htm>.

¹¹ Office of Management and Budget, Table 7.1, "Federal debt at the end of the year: 1940-2017".

¹² <http://www.bea.gov/national/index.htm>, gdplev.xls.

¹³ http://epp.eurostat.ec.europa.eu/portal/page/portal/national_accounts/data/database, namq_gdp_c.xls, namq_gdp_p.xls and author's calculations.

¹⁴ <http://www.bls.gov/web/empsit/cpseea03.htm>.

¹⁵ Leduc and Liu.

¹⁶ International Monetary Fund, Figure 1.12.

In sum, by all relevant historical and contemporary comparisons, the Obama administration has done a very good job of managing the epic macroeconomic mess that the Bush administration left behind.

References

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Jeffrey Zax is a Professor in the Department of Economics at the University of Colorado Boulder. His current research and teaching address issues of public policy in the United States and inequality in the United States and China.