

PERSONALLY SPEAKING

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U.S. ECONOMY IN STAGE II RECESSION

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Last January Mayo Research Institute predicted that “the U.S. economy most definitely will experience a recession.” The latest data from the Bureau of Labor Statistics confirm that prediction.

The Institute’s prediction was based on a new and we argue better definition than the one commonly in use: a recession is two consecutive quarters with a decline in real gross domestic product (GDP). The Institute advanced this definition instead: the economy has entered a Stage I recession when the number of persons employed has been falling and the number of persons unemployed (including discouraged workers) has been rising for three consecutive months. It has entered a Stage II recession if that trend continues into a fourth consecutive month.

According to official estimates for 2008 the United States has entered a Stage II recession. The total number of persons employed according to the BLS household survey (CPS) has fallen for five consecutive months from 146,331,000 in April to 145,477,000 in August. The number of persons unemployed (including discouraged workers) has risen over the same five months from 8,027,000 to 9,782,000. Discouraged workers meet all the tests for being classified as unemployed except they are not looking for work because they are convinced there is no work available for them. Even if they were not included, the five-month increase in unemployment would persist. The BLS estimates of the number of jobs (CES) more than confirm the drop in employment -- payroll employment has fallen every month since January.

Further, the increase in the jobless rate this year from 5.0 percent in April to 6.1 percent in August is unprecedented. Since 1998 there has not been a similar five-month increase in the unemployment rate, not even in the months immediately following the terrorist attacks on 9/11.

We much prefer to use seasonally-adjusted employment and unemployment data from the CPS than GDP data to define a recession for two reasons, one technical, one substantive. First, GDP estimates derive from a quarterly survey of employers and are released to the public in advance form based on incomplete source data one month after the close of the quarter and in preliminary form and final form based on more detailed and comprehensive data two months and three months later. Thus, real GDP data in final form for second quarter 2008, for example, will not be available until October 2008. Thus, GDP data are not available in timely enough fashion to help policymakers prevent a recession from occurring. In contrast, the CPS data are available within two-three weeks of the month in which the survey is administered.

Second, we are convinced that in economic affairs human well-being is much more important than GDP. Work has a powerful impact on the person who works not only in terms of income earned but also regarding a personal sense of belonging that working in the company of others engenders and the opportunities the workplace affords to utilize a person's creative talents and energies. Unemployment, especially long-term unemployment, strips away those positive effects.

There are two types of government intervention to address a recession: fiscal policy and monetary policy. Fiscal policy involves stimulating the economy by reducing taxes and boosting government expenditures. Monetary policy generates more economic activity by cutting interest rates, making it less costly for consumers and producers alike to borrow funds and therefore increase their expenditures. Both types of economic policy have been implemented this year.

The problem is that these policy tools are more likely to produce the desired outcomes when the economy is experiencing a cyclical slump where jobs are lost temporarily and workers can expect to be called back when economic activity improves. This time around, the U.S. economy is witnessing a systemic-secular decline. There are serious problems in the financial system brought on in part by a wave of mortgages to high-risk, low-income persons and a flood of foreclosures when the new homeowners could not make their monthly mortgage payments. Financial institutions have become much more conservative about lending money creating a credit crunch for both consumers and producers. This systemic problem calls for long-term diligent reform on the part of private financial institutions.

Additionally, due to the globalization of economic affairs, powerful secular forces are impacting the U.S. economy and the jobs that are being lost will not be restored. The U.S. workers who held those jobs will not be recalled. Putting those workers back to work will require the development of new private-sector jobs by the creation of new products and services. That task depends critically on finding ways to release entrepreneurial energies through the U.S. economy. Monetary and fiscal policy in large measure are not able to release the necessary private-sector energies and for that reason the present recession likely will remain resistant to conventional monetary/fiscal remedies. Recovery will depend largely on reform of U.S. financial institutions and practices and the visionary, risk-taking efforts of American entrepreneurs.

Edward J. O'Boyle is Senior Research Associate with Mayo Research Institute. Since completing his doctorate in economics from Saint Louis University more than 35 years ago, Dr. O'Boyle has specialized in economic research and analysis increasingly from the perspective of the human person engaged in everyday activities both as a unique individual and as a community member. In January 2004 the Association for Social Economics conferred on Dr. O'Boyle its prestigious Thomas Divine Award for lifetime contributions to social economics and the social economy. He taught economics at a state university in Louisiana for 30 years prior to his retirement in 2007.
