

PRINCETON: LWV hears economist's take on recession and recovery

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The good news, according to economist James W. Hughes, is that the first decade of the 21st century is over, and the United States has survived what could have been "Great Depression 2.0."

Mr. Hughes, dean of Rutgers University's Edward J. Bloustein School of Planning and Public Policy, spoke this week at the 78th annual meeting of the League of Women Voters of the Princeton Area.

In his Tuesday afternoon speech at Princeton Windrows, titled "From the Great Recession to the Great Stabilization," Mr. Hughes gave an analysis of the economic downturn and discussed scenarios that economists are predicting for the future.

"Economic Armageddon has been avoided," he said. "The tide may have slowly started to turn, but it has not yet started to ebb."

Looking at the nation's Gross Domestic Product, a technical indicator of the state of the economy, the recession began in December 2007 and ended in September 2009. At 21 months in duration, it was the longest recession on record since the span from August 1929 to March 1933.

When 3.8 million jobs were lost in 2008, it was the worst employment loss in a single year on record since payroll statistics were first compiled in 1939. But that record was shattered in 2009, when 4.7 million jobs were lost, he said.

"That is a huge hole, a huge deficit, that's going to take many years to make up," he said.

During the first eight months of the recession, the pace of job loss was that of a very severe recession, he said. Around the time global financial services firm Lehman Brothers went bankrupt in September 2008, "we went from sliding down the mountain to falling off the employment cliff," he said.

It wasn't until May that job loss was slowed from "terrifying to merely depressing," he said. But as indicated by last Friday's jobs report, which revealed that the pace of job creation had slowed, bringing jobs back is going to be a "daunting task," he said.

The year 2009 will go down in economic history as the year economic disaster was averted, he said, as evidenced by the markedly brighter outlook in 2010.

"We're staring at economic recovery rather than economic downturn," he said. "What a difference a year makes."

In terms of job loss, this latest recession was different than those that came before, he said. In the recession of 1981 to 1982, when 2.6 million jobs were lost, 98 percent of those were in construction and manufacturing. In the recessions of 1990 and 2001, that figure was about 82 percent for both.

But in this latest recession, just 48 percent of job losses were in manufacturing and construction. Fifty-two percent of job losses were in the services industry, making this the "first white collared recession," he said.

With no precedent for this magnitude of job loss among knowledge-based workers, economists have nothing on which to base their predictions for a recovery, he said.

In New Jersey, job creation in the private sector has lagged behind the country as a whole in its recovery, he said.

Private sector job growth has been in decline in the state for the past decade. During the 1990s, about 250,000 jobs were created in the state, 11,000 of which were in the government. But over the last decade, the private sector lost 156,000 jobs while 69,000 government jobs were added, for a net loss of 87,000 jobs.

That means that for every government job added, two private sector jobs were lost, he said. "That's not a sustainable pattern," he said.

In terms of recovery, the nature of the economic downturn creates two conflicting outcomes based on historical precedent, he said.

Historically, deep recessions have been followed by a strong recovery — a V-shaped recovery. However, deep financial crises have been followed by weak recoveries — an L-shaped recovery where job creation is stalled.

Another possibility is the combination of both, a “reverse-square-root recovery,” he said, where a sharp rebound is followed by a period of extended economic stagnation before full recovery is reached.

The final possibility Mr. Hughes presented was a W-shaped recovery, where a failure of the private sector to maintain the stabilization created by the government’s stimulus plan would result in a second downturn.

Mr. Hughes was hesitant to commit to a prediction himself — he prefaced his speech by saying that he has been accused of being “much better at forecasting the past than the future,” and that he had predicted “nine of the last five” recessions.

All of the scenarios for recovery he presented are still on the table, he said, though he is “fairly confident” that the V-shape would not happen. In terms of job growth, he said he expected the pattern to resemble an “elongated soup bowl,” a long period of stagnation before recovery.

”Let’s hope the second decade of the new millennium is an improvement,” he said.

Mr. Hughes, who holds a doctorate in urban planning, researches demographics, housing, regional and New Jersey economics, and development patterns. He was named dean of the Bloustein school in 1995.

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