Can the Great Recession’s damage ever be repaired?

Recessions tend to be temporary phenomena. They’re caused by various factors, ranging from crop failures to financial crises. But typically, the economy soon revives. In the modern era, the average recession in the U.S. has lasted just 11 months, as compared to 59 months for the average expansion.

The Great Recession lasted 18 months, the longest since the 1930s, but the damage it did endured well beyond that. It took another 59 months, the length of an average expansion, for U.S. employment to return to its pre-recession level.

When it started, no one expected the recession to cause permanent damage to the economy. Yes, household debt was very real, as were cuts in consumer spending and massive job losses. But the fundamentals hadn’t changed. The economy hadn’t suddenly become less productive in 2009 than in 2007. Businesses weren’t less efficient. Workers weren’t dumber.

Then, in 2010, U.S. economic policy pivoted away from addressing unemployment and toward reducing the federal deficit. The result of the pivot was to prolong the underutilization of productive resources, most importantly labor. What we’re only now beginning to realize is that this was more than just downtime. It has led to an actual deterioration of our productive capacity. Economists refer to this as “hysteresis.”

Hysteresis is usually associated with labor. The longer people are unemployed, the less employable they are. Skills atrophy and employers start preferring younger workers with newer skills. When the unemployment rate finally falls, it doesn’t go as low as it was before the recession. And the work force becomes, on average, less productive.

The concept applies to other resources as well, such as the capital stock of buildings and machinery. Idle equipment must be maintained but generally isn’t when orders aren’t coming in. After enough time without maintenance and repair, the result is shrunken productive capacity.

The Congressional Budget Office estimates that potential GDP in 2015 will be 2.2 percent below its long-run trend. That represents nearly a trillion dollars of national income that we’ll forfeit each and every year from now on – and the loss will grow over time. Thanks to our policy choices and the 2010 pivot, a recession whose costs could have been limited to the short run will permanent harm our long-run growth prospects. The hysteresis of the 2010s will leave our economy? Not forever.

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Public health officials this week declared the Dan River safe again for recreational use following the coal ash disaster five months ago. Ready to go take a dip?