VIEWPOINT
Triad Business Journal welcomes letters to the editor

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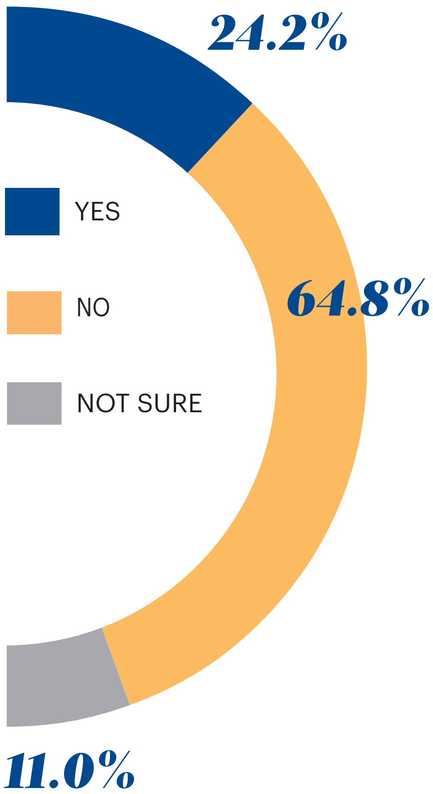
▸ BUSINESS PULSE SURVEY

WE ASKED

SHOULD E-CIGARETTES BE ALLOWED IN RESTAURANTS, WORKPLACES AND OTHER NON-SMOKING PUBLIC PLACES?

BASED ON 327 TOTAL RESPONSES



THIS WEEK'S QUESTION

WILL REYNOLDS' ACQUISITION OF LORILLARD BE GOOD FOR THE TRIAD?

POINT OF VIEW

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.

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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 potential Gross Domestic Product, the full-employment level of GDP and the best measure of our economic potential. Actual GDP usually fluctuates around potential GDP. Sometimes it's below, as in a recession. When the economy overheats, the actual can rise above the potential. But the two measures are never far apart.

Until now, that is. In the current downturn, actual GDP has fallen farther below potential GDP than at any time since 1949, when our potential GDP estimates start. By the CBO's reckoning, we're still 4.3 percent below potential (the largest gap was 6.2 percent in mid-2009).

Part of why we're getting closer to potential GDP is that our potential is lower. The CBO's estimate of potential GDP has flattened out and is currently 2.2 percent below its long-run trend value. A recent study from the National Bureau of Economic Research claims that the damage is even worse. It estimates that potential GDP in 2015 will be 5.3 percent below 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 permanently harm our long-run growth prospects. The hysteresis of the 2010s will leave our children poorer than if we'd kept our policy focused on unemployment.

Or will it? Some economists argue that if the economy's fundamentals can be damaged, they can also be repaired. But it won't be easy or cheap. Are we willing to make tough investments? Or will we simply accept a slower-growing economy?

▸ GAINERS & LOSERS

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OBAMACARE SUBSIDIES

Federal subsidies for health insurance got a thumbs down, and then a thumbs up, in two different court rulings this week. Looks like another Affordable Care Act lawsuit is heading to the U.S. Supreme Court.

LLOYD WHITTINGTON/TRIAD BUSINESS JOURNAL

HIGH POINT LANDS HQ

It's official. Heritage Home Group picks former Henredon, Maitland-Smith showroom to host 300 HQ employees and also boosts downtown showroom presence.

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TRIAD BRIDGES FALLING DOWN

AAA Carolinas included seven Triad bridges in its list of the state's worst, with the I-40/I-85 bridge crossing South Buffalo Creek in Guilford County as the top offender.

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DAN RIVER REVITALIZATION

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?