The Economic Crisis – One Year Later
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Taking Stock of Where We Are—Summary
Mark Zandi, Moody's Economy.com

Economist and author Mark Zandi estimates that the recession ended in August 2009, largely due to the federal government's policy responses to the fiscal crisis. He maintains that the $800 billion-plus stimulus package provided a necessary and vital boost to the U.S. economy, and urges federal policymakers to remain aggressive by providing on-going stimulus and keeping the Fed funds rate close to zero. Zandi outlines several reasons why the economic recovery won't be smooth, but does project that economic expansion will be in full swing by 2012, if not sooner. That expansion, however, will be tested by a fiscal crisis caused by significantly rising interest rates. Zandi outlines a roadmap for job market recovery and reviews his detailed timeline to economic recovery.

Key observations include:

- The recession ended in August 2009. It lasted approximately 20 months, twice as long as the average recession since World War II, and saw greater drops in employment and GDP than any other recession since World War II.

- Economic recovery has begun largely due to the federal government's policy responses to the fiscal crisis. That is, the fiscal stimulus package was successful.

- Export growth is key to economic recovery, and to our long-term growth prospects because that will be the source of jobs.

- The recovery is not going to evolve smoothly into a self-sustaining economic expansion for a number of reasons:

- While businesses have stopped laying off workers, they have not yet begun to hire.
- Credit is still crunched, particularly for small businesses, and confidence with regard to the future is weak.
- The foreclosure crisis is ongoing, and will get worse before it begins to abate.
- State and local government revenues have collapsed and their budget gaps are massive.

∞ Federal policymakers need to remain very aggressive and err on the side of doing too much to make sure that the economy evolves into expansion. If they do too little, we will backtrack into a recession that it will be even harder to recover from.

∞ If the U.S. economy successfully navigates the next six to twelve months—with businesses deleveraging and households fixing their finances—it will be in far better shape and by 2011, or certainly by 2012, economic expansion will be in full swing.

∞ The cost of the economic stimulus, which ended the recession, has created a massive federal budget deficit that will lead to higher interest rates as the economy starts to expand.

∞ It is likely that there will be a fiscal crisis as a result of significantly rising interest rates in early 2012.

∞ In the near term, deflation is a greater risk than inflation, and when inflation does start to go up, the Fed will be able to rein it in—although doing so could exacerbate the interest rate problem.

∞ To address our nation's long-term fiscal problems, higher taxes and new taxes such as the VAT will be necessary. On the spending side, entitlements such as Social Security and Medicare will be means tested. Thus, we're likely to pay more in taxes and receive less in benefits.