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Outlook for the Economy--Summary

Panelists

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This panel of distinguished Brookings economists discussed the outlook for the economy, noting the economic head winds slowing our recovery to full potential GDP, which at current growth rates could take five to seven years. Full employment will be slow to recover as well. The panelists did not expect a double dip recession, and nor do they see state or local governments as the next Greece, defaulting on their debts.

Key Observations include:

- The recession officially ended in mid-2009. Recovery since then has been weak by historical standards: GDP growth has averaged 3 percent per quarter since the recovery began, compared with a more typical rate of 5 percent in the early quarters of past recoveries.

- Projections indicate that it would take about five years of GDP growth averaging 4 percent a year to reach full potential GDP. Potential GDP is the output that would be produced from an economy operating at a normal level of output with unemployment at about 5 percent.

- The labor market has been slow to recover, as unemployment is still at 9.4 percent. Of particular concern are the long-term unemployed -- those unemployed for six months or more -- who account for about 45 percent of the unemployed. Their employment prospects are grim.

- The layoff rate has returned to its normal pre-recession level. The real problem is the low rate of job creation in the labor market, which has not kept pace with productivity growth or population growth.

- Economic head winds slowing recovery include the tremendous loss of household wealth during the recession, the ongoing tightness of credit, and state and local governments' budget problems.

- A double dip recession is unlikely given the forward momentum of the U.S. economy and the nature of the head winds -- the effects of which are gradual rather than sudden, and can be worked out.

- While the pace of recovery has picked up during the last several months, we also face the dilemma of how to sustain a recovery while addressing the nation's long-term fiscal problems by raising taxes to increase revenues and cutting federal expenditures.

- State and local governments have implemented their short-term budget fixes, including the use of federal stimulus dollars, borrowing, and temporary tax increases. Now, to balance their budgets they face difficult decisions in terms of what people want from government and what they're willing to pay for.

- No state is the next Greece. State debt burdens are roughly 16 percent of their GDP, compared to over 100 percent for Greece (and more than 60 percent for the U.S.). Debt burdens comprise a small share of state and local budgets, at roughly 3 to 4 percent.

- In 1960, about 6 or 7 percent of the total final consumption in the United States was in the form of health care. Today, that figure is 22 percent. Health care is the most expensive item in consumption, more expensive than housing.

- Controlling health care costs and, likewise, the cost of Medicare and Medicaid, is crucial to our economic future -- as well as to freeing up discretionary spending for areas such as higher education.