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WHOSE RECOVERY?

In recent months President Reagan has stated that the American recovery is "on the right track" with "spectacular" recent declines in the unemployment rate, and that we need only to "stay the course" to have a "strong, sustained, non-inflationary recovery." Despite this optimism, for many persons the economy has never looked worse. As the 1984 election year approaches, it is worth considering how the economy has fared under Reagan. In doing so, we may well wonder what kind of improvement the present administration so admires. Put succinctly, we should examine for whom has there been a recovery?

The Good News – In December of last year, the unemployment rate reached 10.8%, the highest level since the Second World War; GNP, capacity utilization, investment, and earnings were similarly depressed. Since December 1982, unemployment decreased to 9.5%, real output grew at an annual rate of 9.2% in the second quarter of 1983–the highest quarterly growth rate since 1978, retail and auto sales rose, as did the production of aluminum and steel. Second quarter inflation rates remained below six percent (annualized basis), a fraction of the double digit rates so recently considered unavoidable. Profits in the second quarter also jumped almost 15% above those of the previous three months. Interest rates actually fell slightly in the first two months of the year and then stabilized. Do these seemingly impressive statistics demonstrate the curative powers of the economic doctors guiding our country back to health? Unfortunately not. A more accurate diagnosis is that their patient was dying ten months ago and is now merely extremely ill. Although this indicates some improvement, they fail to identify the original source of disease.

No Recovery for the Unemployed – Rapid percentage growth rates in most economic indicators are the rule rather than the exception in the early stages of recoveries. Neither the speed nor size of the present recovery has been exceptional. For example, quarterly growth rates in GNP during the recovery from the 1970-71 recession were substantially higher than at present. A better method of evaluating Reagan's economic policies is to examine how present economic conditions compare to those existing at the time of his inauguration. By this criteria, the primary result of recent policies has been to further balkanize the US economy into the "haves" and the "have nots." Under Reagan, the rich and the lucky (those who have not lost jobs) have experienced slight economic gains, while persons losing jobs or newly entering the labor force have suffered significant losses. Average real weekly earnings fell during the first year and a half of Reagan's term and have now "recovered" to approximately their level when he was inaugurated. Combined with three years of tax cuts, this has left job holders with small increases in disposable income. Regretably, jobs have become far less available during this period. As shown in Table 1, the overall unemployment rate rose from 7.4% to 10.0% (an increase of over four million workers) between 1/81 and 6/83. Increases are even larger for selected population groups: for example, unemployment among non-whites and in durable goods manufacturing rose by almost one-half.

Table 1:
Unemployment Rates by Selected Demographic Group

	Current (6/83)	Reagan's Inauguration (1/81)	Previous Worst Recession (5/75)
All Workers	10.0%	7.4%	9.2%
Whites	8.6%	6.7%	8.5%
Nonwhites	18.9%	12.9%	14.7%
Nonwhite teenagers	50.6%	36.5%	39.9%
Construction	18.1%	13.3%	21.8%
Durable Goods Mfg.	12.2%	8.3%	12.7%

Dismal as these statistics are, they understate the true decline in employment possibilities. Persons desiring work but who have given up looking for it because of poor economic conditions are excluded from unemployment statistics, as are individuals preferring full-time employment but able to find only part-time work. Including these people, we find that 17.1% of all workers are unemployed or underutilized. The comparable underutilization rate in the first quarter of 1981 was only 9.8% To see how little the present recovery has benefitted labor, it is worth comparing current unemployment rates to those of May 1975 (shown in Table I). The latter month represents the low point of the 1975 recession, the most severe post WWII economic downturn prior to 1981. Between November 1982 and June 1983, unemployment fell from 10.8% to 10.0%, yet even the lower level of joblessness substantially exceeds the 9.1% peak in 1975. Not only are the rates in June 1983 higher than in May 1975 for virtually all demographic groups, but the differences are the largest for those groups with traditionally high rates. For example, while unemployment rates were essentially the same in the two months for whites, non-white rates increased almost 29% and among black teenagers, **employment** rates fell to less than 50%.

For the long-term unemployed, no recovery of any kind has yet appeared. The month Reagan took office, 29.9% of all unemployed workers had been out of work for at least 15 weeks and 16.2% for more than six months. By December 1982, these numbers had reached 38.8% and 21.3% respectively. Despite a "spectacular" decline in unemployment rates, by June 1983, the proportion of unemployment spells lasting more than 15 weeks had **increased** to 41.0% and those lasting over six months to 26.4%. Whose recovery indeed?

An Uncertain Future Lies Ahead – Anemic as the recovery has been, the alternative of no recovery is worse. While economic forecasters register a diverse range of opinions, there is little cause for optimism concerning the prospects of a sustained recovery. The general consensus is that economic growth will continue at a slower rate for the next six to twelve months, admidst moderate increases in inflation and interest rates and slight decreases in unemployment. After that time, predictions range from a strong recovery to a new and even more severe recession. Even those expecting sustained growth agree that it can occur only if budget deficits are reduced. Campaigning on a platform promising a balanced budget and higher rates of saving by 1984, the Reagan-engineered tax cuts and military buildup have produced neither. Savings rates plunged to a 33-year low this spring and budget shortfalls are expected to reach at least $180 billion in the 1984 fiscal year.

Hard choices are necessary before sustained economic improvement is possible. These choices should weigh importantly in our minds as we consider what policies we desire for the coming four years and beyond. If Reagonomics has taught us nothing except to beware of overly simplistic solutions to complex problems, we have learned a valuable lesson.

-- Christopher J. Ruhm