The economy: Recession's over, so when does the recovery start?

While many analysts agree that the *recession* is over, there is no consensus as to when the *recovery* will kick in. Put ten economists in a room and you'll get thirteen different opinions.

Jerry Haar

Since the Federal Reserve Board is among the "least non-credible institutions" in reporting on the state of the economy, it is worth noting that the board's Federal Open Market Committee recently reported that economic activity is picking up a bit and that labor market deterioration is abating. Household spending appears to be expanding at a moderate rate, though constrained by a weak labor market, modest income growth, lower housing wealth and tight credit.

While discussion on economic recovery will heat up after the first of the year and intensify going into the November mid-term elections, it is not the macroeconomic – big picture – issues that will determine the recovery – its shape, pace and depth – but the smaller, more close-to-home ones that confront state and local governments and economies. California and Florida vividly illustrate the point.

Even before the October 2008 financial meltdown, California was drowning in a self-made fiscal mess. It could not pay its bills and began issuing IOUs.

State government had expanded faster than income or population, with spending growing 31% vs. a 5% growth in population between 2003 and 2007. Real unemployment exceeds double digits; and added to its fiscal woes, excessively punitive business and environmental regulations have contributed to a loss of 400,000 manufacturing jobs between 2000 and 2007. Industrial employment has gravitated to Texas and Arizona, instead.

With powerful labor unions – especially government workers – wielding unbridled power and the middle class fleeing the state (even high-tech workers are moving to Austin, Salt Lake City and other knowledge centers with better quality-of-life indicators), California's fortunes will not improve significantly even after national economic recovery moves into full swing.

As for the Sunshine State, the situation is better but still grim. Florida's economy is shrinking, with population in the nation's fourth largest state dropping by over 58,000 during the past year.

Workers in construction, real estate and mortgage banking have seen their livelihoods disappear, victims of Ponzi game thinking (and action) of "build-it-and-they-will-come." With a third of all Florida jobs concentrated in construction and real estate at the height of the boom, and the state one of five (California, Arizona, Michigan and Nevada) accounting for 65% of troubled mortgages, recovery will be slow in coming.

Add to that a $6 billion budget shortfall, high property and insurance taxes, a lack of affordable housing, and severe deficiencies in transportation system, education and social services, and the picture is not a pretty one.

The Writer

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However, the bright side is that Florida *is* Florida, with a winning climate, steady influx of domestic and foreign tourists, a growing Latin media and entertainment sector, and emerging urban clusters in life sciences, information technology, healthcare and other knowledge-intensive industries on both coasts and in the center of the state.

State-level problems are not confined to fiscal, regulatory and management issues but also encompass major industrial changes that are reshaping (and creating upheaval) in the national economy – mainly the immutable shift from a manufacturing economy to a services one.

Whole industries are moving offshore, by choice or necessity; other industries are disappearing, and the entire nature of work and employment is undergoing a paradigm shift.

Technological innovation is producing continuous improvements in productivity, resulting in less labor input in both manufacturing and even services. Since redundant labor with one set of skills cannot readily transfer them to "new economy industries" (e.g., a lathe operator cannot assume a job writing software code), higher levels of unemployment and underemployment will characterize the post-recovery economy.

Essentially, the intractable structural problems that confront many states such as Michigan, Ohio, Pennsylvania, Missouri and Connecticut, in addition to California and Florida, and industries that were on the decline even before the recession (e.g., automotive, electrical machinery, steel, electronics, apparel, furniture) will remain long after the recovery is in full swing.

The recession may be over, as many observers assert. But as for recovery, we are not yet out of the woods (no reference to Tiger intended).

The state of the states and the state of declining industries pose challenges far greater than the 18-month deep recession from which we are emerging.

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