

# Maintaining Perspective on the Economic Issues of Today

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# Maintaining Perspective on the Economic Issues of Today

David L. Lindauer<sup>1</sup>

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**Abstract** As the new administration takes office it is important to maintain some perspective on the economic challenges facing the nation. The situation is far better today than when President Obama took office in 2009 and 2013. Unemployment is close to pre-Great Recession levels, incomes are rising and poverty rates falling. We face economic challenges but the most important ones are not international trade or immigration. Sluggish economic growth, a fiscal crisis in our entitlement programs, high inequality in incomes and wealth, and climate change are what should demand our attention.

**Keywords** Economic Priorities · Sluggish economic growth · Entitlement programs · Income inequality · Climate change

The presidential election is behind us, and this is a good time to take stock of the economic challenges we face. Let's begin eight years ago and remember what a frightening time it was. In September 2008, Lehman Brothers, the fourth largest investment bank in the nation, founded in 1850 and a pillar of Wall Street, filed for bankruptcy. With the collapse of Lehman Brothers the financial crisis intensified. Stock prices tumbled. There was fear that the global financial system might collapse and the world's economy come crashing down. The US economy had been contracting for three quarters with GDP falling and unemployment rising rapidly, with no end in sight. These were the economic issues Barack Obama faced as he was sworn in as president in January 2009.

Four years later, the economy still was not doing well. Although the Great Recession, officially, ended in June 2009, the economy continued to perform poorly as it worked off the lingering effects of the financial crisis. Unemployment stood at 7.9% at Obama's second inauguration, down from 10% in 2009, but still stubbornly high for an economic recovery well into its third year. 14 million American homeowners were "underwater", owing more money to the banks than their homes were worth. Foreclosures were rampant in Florida, Nevada and many other parts of the country. The stimulus package in early 2009 had helped achieve some economic recovery and Obama favored more fiscal stimulus to get the economy moving faster. But a Republican Congress, more concerned about budget deficits and increasing national debt, wouldn't go along.

At the inaugurations in 2009 and 2013 the nation faced acute cyclical economic problems. How does the situation look today? The economic recovery is now in its 7th year. Unemployment is below 5%, just a few tenths of a percent higher than the levels in 2007 before the start of the Great Recession. The stock market set record highs in 2016. A report released in September by the US Census concluded that household incomes are rising again. Median household income in 2015 was \$56,500, up 5.2% from 2014 — the largest single-year increase since record-keeping began almost 50 years ago and the first annual increase since 2007. Gains were widespread: household incomes rose 7.9% for households in the bottom 10th percentile and 6.3% for those in the bottom 20th percentile. The number of households falling below the poverty line shrank by 3.5 million people and the poverty rate, at 13.5%, is the lowest in eight years.<sup>1</sup> Because of

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<sup>1</sup> Proctor, Bernadette D., Jessica L. Semega, and Melissa A. Kollar U.S. Census Bureau, *Current Population Reports, P60-256(RV), Income and Poverty in the United States: 2015*, U.S. Government Printing Office, Washington, DC, 2016.

Obamacare, the percentage of Americans without health insurance is as low as it has ever been.

When we compare the US economy in January 2009 and 2013 with today the overall economy is in a much better place than it was during the past two inaugural cycles. Despite Donald Trump's portrayals, the U.S. economy is not a disaster today. Does that mean that everyone is doing well? Of course not. Median household incomes remain below pre-recession levels and \$1400 below their peak in 1999; 43 million households officially are poor. But some perspective is needed. We are back to facing long-term, chronic problems rather than the acute ones of the recent past.

Just because an economic problem is chronic rather than acute, long term and not cyclical, does not mean it isn't serious. What are the top economic problems the US faces today? Let me suggest four:

### Sluggish Economic Growth

The U.S. economy, measured by real GDP, is growing slowly. It has been growing by under 2% for four of the last six years. The US is not alone. Other major industrialized economies – France, Germany, Japan, and the UK – are doing even worse. Something systemic is going on and economists are puzzled. One clue is that productivity growth has slowed in recent decades. Is the rate of innovation slower? Are the innovations that are taking place now not as significant as earlier technological advances? There is lots of debate among economists about what can be done to increase productivity and the rate of GDP growth, but there is little debate that sluggish economic growth is a problem. Neither the diagnosis of nor remedies for this problem got the attention they warranted during the presidential campaign.

### Medicare and Social Security

Another chronic problem facing the US economy is funding the social programs that care for seniors, Medicare and Social Security. These programs are fiscally unsustainable for the Federal government. We have known this for a while but the day of reckoning is getting closer and closer as the U.S. population ages (as baby-boomers retire and begin to draw on these programs), as people have fewer children and live longer, and as health care costs continue to rise (albeit at a slower

pace the last few years.) How will we pay for and reform these mandated programs? Proceeding as if there isn't a problem is no longer viable. We have choices to make.

### Income and Wealth Inequality

For four decades, income and wealth inequality have been rising in the U.S. There are really two problems: the rising share of income and wealth going to the top 1%; and, despite the good news on household incomes in the recent Census report, the overall trend remains one of stagnant earnings and household incomes for a large percentage of US workers and their families. Bernie Sanders raised the issue repeatedly but since the end of the Democratic primaries it rarely received informed discussion.

### Climate Change

Climate change is the existential threat facing the US and the world. It received far less attention this fall than Hillary Clinton's e-mails and Donald Trump's tax returns. Will a Trump administration give this issue the attention it requires?

Instead of discussing sluggish economic growth, the impending fiscal crisis in our entitlement programs, high and rising income and wealth inequality, and climate change, much of this election season has focused on two other economic issues: immigration and international trade. Despite the claims of the new president, neither seems like a pressing *economic problem*. They are not remotely as pressing as the economic problems we faced in 2009 and 2013. And despite what candidate Donald Trump said or implied, neither international trade nor immigration is a *significant* cause of the chronic, long-term and serious problems we face.

Trade and immigration took center stage as economic issues during the presidential campaign while the more consequential economic problems facing the nation were neglected. With a new president and Congress taking office, the pressing economic challenges of our time demand our attention and theirs.

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