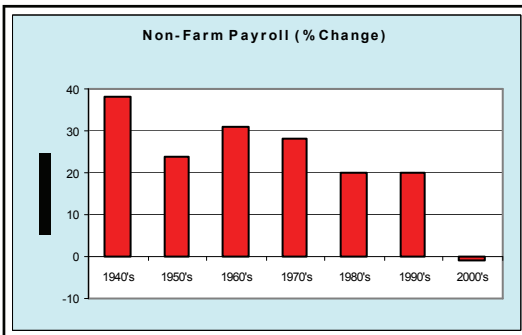


Economic Perspectives

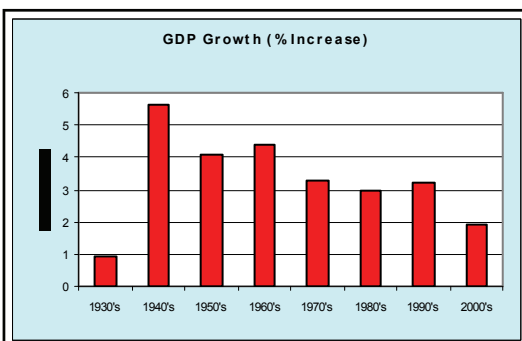
America's Lost Decade

March 17, 2010

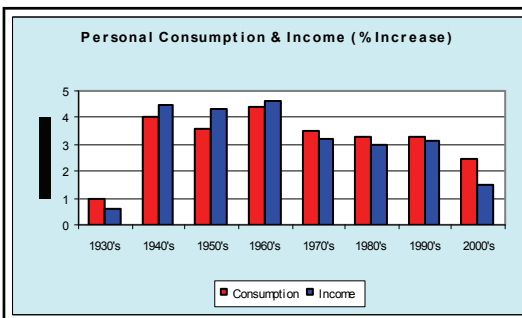
Employment Change by Decade 1940s through 2000s



Gross Domestic Product Change by Decade 1930s through 2000s



Spending & Income Change by Decade 1930s through 2000s



SOURCES: Bureau of Labor Statistics | Commerce Department
Census Bureau | Seacoast Economic Research

Volumes have been written about Japan's "lost decade" — the decade of the 1990s, when economic expansion came to a halt. How did it happen and why did it last so long? Japan's lost decade was a long time in the making. In the decades following World War II, the government implemented tariffs and policies designed to force savings. With more money in banks, credit eventually became easy to obtain and, with Japan running large trade surpluses the Japanese currency (Yen) appreciated against other world currencies. By the 1980s, with so much money available, speculation was inevitable and both real estate and stocks surged to record high levels. Housing, stocks and bonds peaked in 1989 and at one point, the government began issuing 100 year bonds. Banks also began making increasingly risky loans. At the 1989 peak of the bubble, residential real estate became extraordinarily over-valued with choice properties in Tokyo's Ginza District fetching the U.S. equivalent of \$139,000 per square foot! The combination of exceptionally high values and exceptionally low interest rates fueled a massive wave of speculation.

The Japanese government recognized that such growth was unsustainable and the Finance Ministry sharply raised interest rates. This abruptly burst the bubble which led to a stock market crash, plunging real estate values, a debt crisis and a banking crisis. Prices remained low and credit became difficult to obtain — a combination of events that lasted a decade. Unemployment rose sharply but not to crisis levels. The crash led to deflation, non-performing loans and bank failures. Today, the Japanese economy has still not recovered. Economic growth is muted and the lost decade has had a profound effect on the economy, investment and everyday life. *Does the Japanese experience sound familiar?*

Fast forward to the 2000s in the United States. The so-called dot-com bubble of the late 1990s burst in 2000. That led to a short recession (8 months) in 2001 that was exacerbated by the 9-11 terrorist attacks. The Federal Reserve sought to revive the shocked economy by lowering the federal funds rate. By 2003, that rate was a mere 1%. Mortgage rates dropped, home sales surged, home prices skyrocketed, new development surged. Credit was inexpensive, easy to obtain and speculation was rampant. The cycle repeated itself until the housing bubble burst in late 2007.

The bursting of the housing bubble severely weakened the broader economy and The Great Recession emerged. That recession turned out to be the worst since the Great Depression of the 1930s. But is there more to the story? Does the entire decade of the 2000s have characteristics of an American lost decade? Look at the charts to the left.

Employment in the United States was a lost decade in the 2000s. Employment grew by only 400,000 jobs even though the population grew by 30 million. On a percentage basis, employment fell by 0.8%. Compare that with an average growth of 27% per decade from 1940 through 1999. Today, the nation has 14.9 million people unemployed and 60% of them have been unemployed long term (defined as for 27 weeks or more).

The nation's Gross Domestic Product (GDP) may also have experienced a lost decade. Real GDP grew by an average of 1.9% per year for the full decade. That is the worst economic performance in six decades. Only the Great Depression decade of the 1930s was worse. The same story is true for consumption and income. Both grew slower than any other decade since the 1930's. As a sidebar, note that consumption grew much faster than income — a likely by-product of easy and inexpensive credit.

Looking forward, the dismal economic performance of the last decade and the pain it caused for consumers and businesses alike will continue to be felt for a long time.