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# Second Recession in U.S. Could Be Worse Than First

By CATHERINE RAMPELL

If the economy falls back into [recession](#), as many economists are now warning, the bloodletting could be a lot more painful than the last time around.

Given the tumult of the Great Recession, this may be hard to believe. But the economy is much weaker than it was at the outset of the last recession in December 2007, with most major measures of economic health — including jobs, incomes, output and industrial production — worse today than they were back then. And growth has been so weak that almost no ground has been recouped, even though a recovery technically started in June 2009.

“It would be disastrous if we entered into a recession at this stage, given that we haven’t yet made up for the last recession,” said Conrad DeQuadros, senior economist at RDQ Economics.

When the last downturn hit, the credit bubble left Americans with lots of fat to cut, but a new one would force families to cut from the bone. Making things worse, policy makers used most of the economic tools at their disposal to combat the last recession, and have few options available.

Anxiety and uncertainty have increased in the last few days after the decision by Standard & Poor’s to downgrade the country’s credit rating and as Europe continues its desperate attempt to stem its [debt](#)

crisis.

President Obama acknowledged the challenge in his Saturday radio and Internet address, saying the country's "urgent mission" now was to expand the economy and create jobs. And Treasury Secretary Timothy F. Geithner said in an interview on CNBC on Sunday that the United States had "a lot of work to do" because of its "long-term and unsustainable fiscal position."

But he added, "I have enormous confidence in the basic regenerative capacity of the American economy and the American people."

Still, the numbers are daunting. In the four years since the recession began, the civilian working-age population has grown by about 3 percent. If the economy were healthy, the number of jobs would have grown at least the same amount.

Instead, the number of jobs has shrunk. Today the economy has 5 percent fewer jobs — or 6.8 million — than it had before the last recession began. The unemployment rate was 5 percent then, compared with 9.1 percent today.

Even those Americans who are working are generally working less; the typical private sector worker has a shorter workweek today than four years ago.

Employers shed all the extra work shifts and weak or extraneous employees that they could during the last recession. As shown by unusually strong productivity gains, companies are now squeezing as much work as they can from their newly "lean and mean" work forces. Should a recession return, it is not clear how many additional workers businesses could lay off and still manage to function.

With fewer jobs and fewer hours logged, there is less income for households to spend, creating a huge obstacle for a consumer-driven economy.

Adjusted for inflation, personal income is down 4 percent, not counting payments from the government for things like unemployment benefits. Income levels are low, and moving in the wrong

direction: private wage and salary income actually fell in June, the last month for which data was available.

Consumer spending, along with housing, usually drives a recovery. But with incomes so weak, spending is only barely where it was when the recession began. If the economy were healthy, total consumer spending would be higher because of population growth.

And with construction nearly nonexistent and home prices down 24 percent since December 2007, the country does not have a buffer in housing to fall back on.

Of all the major economic indicators, industrial production — as [tracked](#) by the Federal Reserve — is by far the worst off. The Fed's index of this activity is nearly 8 percent below its level in December 2007.

Likewise, and perhaps most worrisome, is the track record for the country's overall output. According to newly revised data from the Commerce Department, the economy is smaller today than it was when the recession began, despite (or rather, because of) the feeble growth in the last couple of years.

If the economy were healthy, it would be much bigger than it was four years ago. Economists refer to the difference between where the economy is and where it could be if it met its full potential as the “output gap.” Menzie Chinn, an economics professor at the University of Wisconsin, has [estimated](#) that the economy was about 7 percent smaller than its potential at the beginning of this year.

Unlike during the first downturn, there would be few policy remedies available if the economy were to revert back into recession.

Interest rates cannot be pushed down further — they are already at zero. The Fed has already flooded the financial markets with money by buying billions in mortgage securities and [Treasury bonds](#), and economists do not even agree on whether those purchases substantially helped the economy. So the Fed may not see much upside to going through another politically controversial round of buying.

“There are only so many times the Fed can pull this same rabbit out of its hat,” said Torsten Slok, the chief international economist at Deutsche Bank.

Congress had some room — financially and politically — to engage in fiscal stimulus during the last recession.

But at the end of 2007, the federal debt was 64.4 percent of the economy. Today, it is estimated at around 100 percent of gross domestic product, a share not seen since the aftermath of World War II, and there is little chance of lawmakers reaching consensus on additional stimulus that would increase the debt.

“There is no approachable precedent, at least in the postwar era, for what happens when an economy with 9 percent unemployment falls back into recession,” said Nigel Gault, chief United States economist at IHS Global Insight. “The one precedent you might consider is 1937, when there was also a premature withdrawal of fiscal stimulus, and the economy fell into another recession more painful than the first.”

There is at least one factor, though, that could make a second downturn feel milder than the first: corporate profits. Corporate profits are at record highs and, adjusted for inflation, were 22 percent greater in the first quarter of this year than they were in the last quarter of 2007.

Nervous about the future of the economy, corporations are reluctant to make big investments like hiring. As a result, they are sitting on a lot of cash.

While this may not be much comfort to the nation’s 13.9 million unemployed workers, it may be to their employed counterparts.

“In the financial crisis, when markets were freezing up, the first response was, ‘I’ve got to get some cash,’” said Neal Soss, the chief economist at Credit Suisse. “The fastest way to get cash is to not have a weekly payroll, so that’s why we saw such big layoffs.”

Corporate cash reserves today, he said, could act as a buffer to layoffs if demand drops.

“There are arguments that another recession would be worse, and there are arguments in the other direction,” Mr. Soss said. “We just don’t know at this juncture. But ultimately it’s a question you don’t want to know the answer to.”



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