

What U.S. Economic Recovery? Five Destructive Myths

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Double dip is not a term that a government keen to extricate itself from the economic-crisis-management business likes to hear. A couple of weeks ago, the Obama Administration was poised to switch to growth mode. Then the ugly data started pouring in like the overflowing Mississippi. First-quarter GDP numbers showed a measly 1.8% increase, well short of the expectations of above 3%, and second-quarter estimates are not much better. Then came a report on housing-price declines that have not been seen since the Great Depression, followed by reports of consumer spending at six-month lows and weak manufacturing surveys. The worst was unemployment figures to make you cry: a mere 54,000 jobs were created in May, less than half of what was expected and less than a third of what is needed to lower a 9.1% unemployment rate.

You can hardly blame Council of Economic Advisers head Austan Goolsbee for picking this moment to retreat to his tenured university post in Chicago. The professor tried to put a good face on things, brushing away worries of a double dip and citing stiff but temporary "headwinds" from such factors as the Japanese-nuclear-disaster-related supply shocks and higher gas prices. Fed Chairman Ben Bernanke was somewhat more sober, admitting that the recovery was proving to be "uneven" and "frustratingly slow." Yet he gave no hint of being willing to helicopter in a third round of fiscal stimulus — at least not yet. "Monetary policy," he said, "cannot be a panacea." Or as Goolsbee put it, it's time for the private sector to "stand up and lead the recovery." ([See what Goolsbee's resignation means for the economy.](#))

If only. There may be \$2 trillion sitting on the balance sheets of American corporations globally, but firms show no signs of wanting to spend it in order to hire workers at home, however much Washington might hope they will. Meanwhile, the average American is feeling poorer by the week. "If one looks at unemployment and housing, it's clear that for all practical purposes, we have yet to fully get out of recession," says Harvard economist Ken Rogoff, summing up what everyone who doesn't live inside the Beltway Bubble is thinking. While the White House's official 2011 growth estimate, locked in before Japan and the oil shock, is still 3.1%, most economic seers are betting on 2.6%. That's not nearly enough to propel us out of an unemployment crisis that threatens to create a lost generation of workers who can't find good jobs and may never find them. Welcome to the 2% economy.

While the Administration is taking a sort of "move along, nothing to see here" approach, Republicans are trying to pin every economic problem on Obama in the run-up to the 2012 election. Let's be clear: the slow growth the U.S. is experiencing is not an Obama-specific problem. Many of the ingredients in it were already baked into the economy and were simply laid bare by the financial crisis. According to research by Rogoff and economist Carmen Reinhart, it takes four years after a financial crisis just to get back to the same per capita GDP level you started with, and there's no doubt things would have been dramatically worse had the Administration not taken all the action it did in the wake of the crisis. ([See "Is a Double Dip Becoming More Likely?"](#))

But at the same time, the growth problem is Obama's. Every President inherits his predecessor's economy; indeed, it's often what gets him the job. It's then up to the new guy to change the numbers as well as the debate. Now it looks as if Obama is losing that debate. The Republicans have pulled off a major (some would say cynical) miracle by convincing the majority of Americans that the way to jump-start the economy is to slash taxes on the wealthy and on cash-hoarding corporations while cutting benefits for millions of Americans. It's fun-house math that can't work; we'll need both tax increases

and sensible entitlement cuts to get back on track. Yet surveys show 50% of Americans think that not raising the debt ceiling is a good idea — that you can somehow starve your way to economic growth.

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