

Economic Growth Slower Than Previous 10 Expansions

June 30, 2016 (IN10520)

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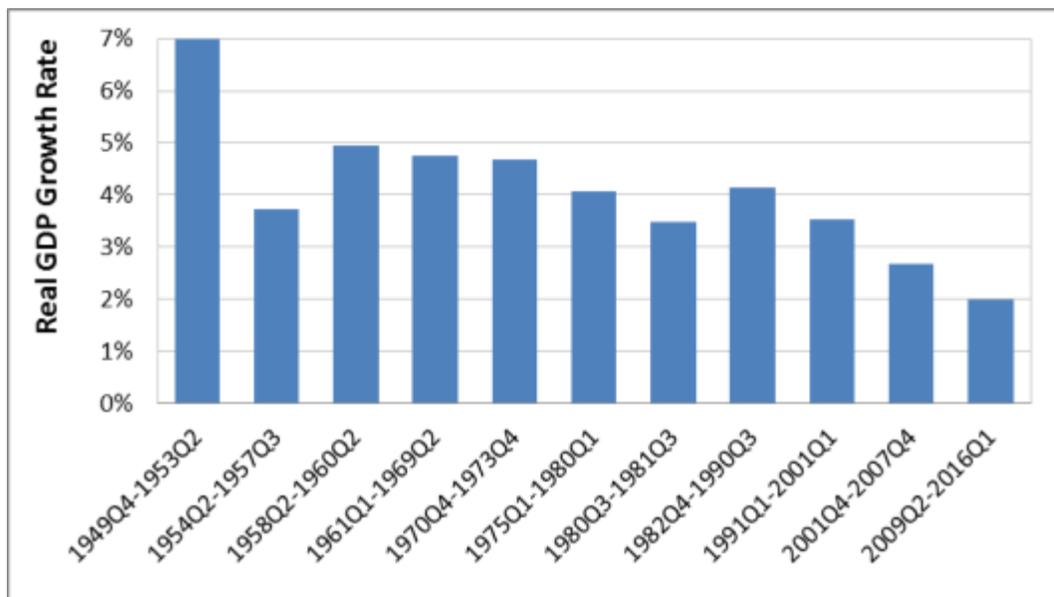
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Legislators and individuals continue to express discontent with the recent pace of economic growth in the United States, particularly since the end of the recession in 2009. A recent [poll](#) found that nearly 60% of U.S. adults believe that the economy is performing poorly. Although this expansion is already the fourth longest since the 1850's (34 quarters to date), the slow pace of economic growth means the overall gains have been relatively small. As shown in [Figure 1](#), the current economic recovery is the slowest recovery seen in the post-WWII period era. Real GDP has grown at an average pace of 2.0% per year during the current recovery, compared with an average rate of 4.3% during the previous 10 expansions.

Figure 1. Real GDP Growth by Expansion

Post-WWII Period

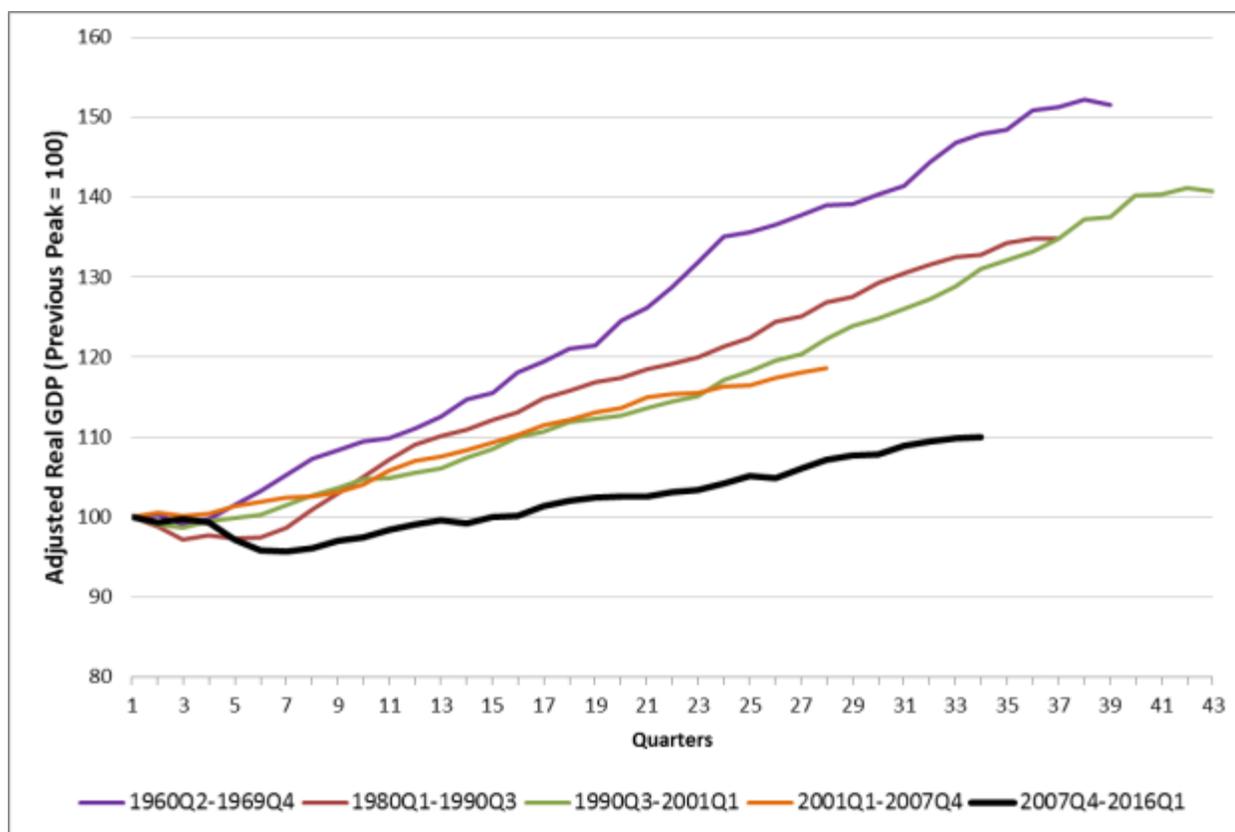


Source: CRS calculations based on data from the Bureau of Economic Analysis (BEA).

Note: Economic expansions as identified by the National Bureau of Economic Research.

Larger recessions are generally associated with faster growth during the following expansion, referred to as *catch-up growth*, but this has not been the case following the 2007-2009 recession. The most recent recession was particularly long and severe compared with other previous recessions, lasting six quarters and decreasing real GDP by about 4%. **Figure 2** displays the level of GDP in the five longest business cycles, adjusted so that real GDP at the initial peak of each business cycle is equal to 100. As shown in **Figure 2**, the recession beginning in 1980 was also particularly long and severe and the economy grew very quickly after entering its recovery. The economy is now 34 quarters into the current business cycle, and real GDP has only increased by about 10%, in comparison to the 1980 business cycle in which real GDP increased by more than 30% after 34 quarters. Based on previous experience with severe recessions, some anticipated that the economy would grow at an above average pace once the economy emerged from the 2007-2009 recession. However, in spite of the severe nature of the most recent recession, the anticipated catch-up growth has yet to materialize. For more information on expansions and recessions, see CRS In Focus IF10411, [Introduction to U.S. Economy: The Business Cycle and Growth](#).

Figure 2. Real GDP Change Across Long Business Cycles



It has been [suggested](#) that recoveries following damage to the financial sector tend to be slower on average. Recessions typically result from a decrease in total demand within the economy, however, the financial crisis disrupted both total demand in the economy and the supply of credit. The financial crisis resulted in a deleveraging process, in which individuals and businesses decreased spending to pay off outstanding debts, which shrank demand, but also limited individuals' and businesses' access to credit as financial institutions significantly decreased lending to all but the safest investments.

Alternatively, some have [suggested](#) that the slow growth is instead due to reduced productivity among workers who were unemployed for significant durations during the previous recession. At the height of the recession, the [unemployment rate](#) reached 10%, and the [share of the unemployed](#) who were without a job for more than 26 weeks rose to more than 45% shortly after the recession. Economists suggest that long-term unemployment can atrophy the skills of workers, and upon return to work they will be less productive than before they were laid off. This erosion of productivity lowers the potential capacity of the economy and may help explain the slow economic growth.

As economic growth has continued to remain below average in the seventh year of the recovery, alternative hypotheses for the sustained slow growth have arisen, which cite conditions that are largely independent of and pre-date the previous recession. Some economists have [suggested](#) that the economy is currently suffering from *secular stagnation*. Secular stagnation is a phenomenon principally characterized by very low or negative real interest rates, which result in suboptimal investment and economic growth. During a period of secular stagnation conventional monetary policy is likely to be ineffective at spurring short-term economic growth due to a central bank's inability to lower nominal interest rates below zero and an undesirably low inflation rate.

Some economists [argue](#) that the overall slowdown in economic growth is a result of a confluence of long-term trends occurring across many developed countries, including the United States. As shown in [Figure 1](#), the growth rate during economic expansions appears to be slowing over time. In particular, the last four expansions have seen decreasing economic growth rates in each subsequent expansion. An aging population, a slowdown in educational attainment, increased inequality, and a high debt to GDP ratio are explanations that have been [proposed](#) to explain the slowdown in economic growth. For more information on GDP and economic growth, see CRS In Focus IF10408, [Introduction to U.S. Economy: GDP and Economic Growth](#).