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COLUMN

Maine can dig out of recession by nurturing jobs, income

CHARLES LAWTON

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Speaking of economic activity in terms of cycles risks conveying an unrealistic sense of regularity. In a recession, the economy "loses" jobs, and in a "recovery" it regains them. Over the course of six quarters in 1991 and 1992, Maine lost about 35,000 jobs.

By 1994, we had regained them as total employment again reached the pre-recession level of about 545,000. Over two quarters in 2001, we lost about 5,000 jobs, and by 2004 we had regained them as total employment again reached the pre-recession level of about 611,000.

Seen merely as cycles, these numbers are understandable but somewhat misleading. The lost jobs are never entirely regained. Many are lost forever, and total employment reaches its previous peak through the creation of entirely new jobs.

That process, of course, is going on all the time. Some jobs are lost even during booming expansions, and other jobs are created even during general declines. Recessions are simply those periods when – for a wide range of reasons – the losses outweigh the gains.

So the idea of economic recovery does not mean simply regaining what was lost, but creating more new jobs instead of hoping to recover the old ones.

In many ways, recessions are the times when the unsustainable excesses of the past are cleared out and new, more highly desired and sustainable products and services emerge. Economic recovery is less about re-creating what was lost than about accelerating creation of the new.

In this regard, it is instructive to look at the pattern through the ups and downs of the business cycle not just of employment – the number of jobs in the economy – but also at earnings – how much those jobs pay.

During the 1990 recession, growth in total earnings for the nation as a whole peaked at 2.1 percent in the first quarter of 1990, fell to zero growth in the first quarter of 1991 and regained a 2.3 percent growth in the first quarter of 1992.

In Maine, earnings growth peaked slightly earlier (in the fourth quarter of 1989) at a slightly lower rate (1.9 percent), fell further (declining 2 percent in the fourth quarter of 1990) and took longer to recover (reaching a 1.8 percent growth rate in the second quarter of 1992).

During the 2001 recession, Maine seemed to fare relatively better. In the U.S. as a whole, total earnings were flat for the final three quarters of the year and did not regain the pre-recession growth rate of 1.5 percent until the second quarter of 2003.

In Maine, total earnings continued to grow right through the recession. The rate of growth fell to 0.3 percent in the second quarter of 2001, but then rebounded to a 1.3 percent quarterly growth by the third quarter of 2002.

But Maine's recovery proved weak in the longer run. Maine's average quarterly earnings growth exceeded that of the U.S. as a whole for 2002 and 2003, but fell short of the U.S. growth rate from 2004 through the second quarter of 2008, bouncing up and down from a high of 2.6 percent in the fourth quarter of 2003 to a low of –0.9 percent in the first quarter of 2005.

And this is the major lesson to be learned about the impact of recessions on Maine's economy – what is our staying power? What is our ability to continue to create new jobs over and above the recovery of those lost during the declining demand during the recession?

The evidence is not encouraging.

Over the 40 quarters of recovery and expansion between the second quarter of 1991 and the first quarter of 2001, total earnings for the U.S. as a whole increased 77 percent – an average of 1.4 percent growth per quarter.

In Maine over the same period, total earnings increased 58 percent – an average of 1.0 percent per quarter.

Over the 26 quarters of recovery and expansion between the first quarter of 2002 and the second quarter of 2008, total earnings for the U.S. as a whole increased 35 percent – an average of 1.2 percent growth per quarter. In Maine over the same period, total earnings increased 27 percent – an average of 0.9 percent per quarter.

In short, Maine has climbed out of the holes created by recession quite handily. But we have not regained the rates of earnings growth that we had seen before the recessions. In a word, we have not been creating and nurturing the new sources of earnings as rapidly as the nation as a whole.

If there is any lesson to learn as we head into what appears to be the next recession, it is that we need to redouble our efforts to stimulate new sources of employment and earnings to replace those not likely to be "recovered."

Charles Lawton is senior economist for Planning Decisions, a public policy research firm. He can be reached at:

clawton@maine.rr.com.

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