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Then and Now: How the Economy Has Changed Since 9/11

By Catherine New Posted 7:00AM 09/11/11 Economy, Special Report

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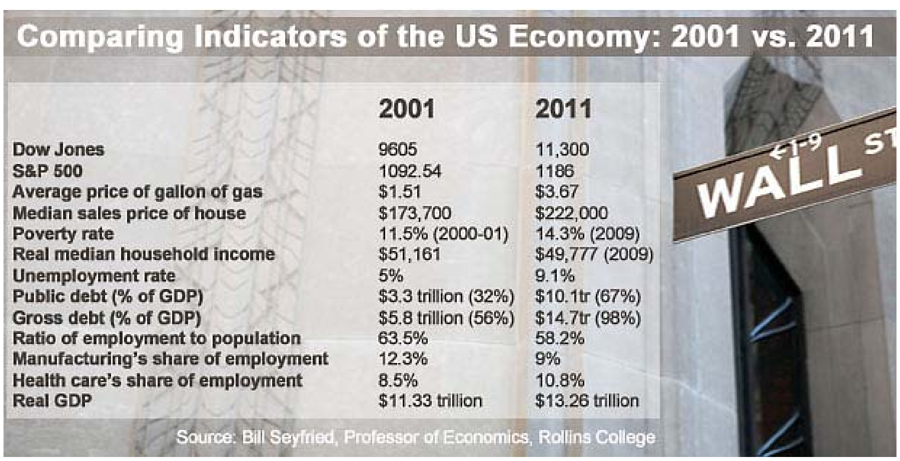
Think back to the evening of Sept. 10, 2001: It's been 10 years, and in some ways, it's as if nothing has changed. That Monday night, the United States was coming off a recession stemming from a bursting bubble, consumer confidence was declining, and predatory lending was in the headlines.

But as we all know, everything did change the next morning, in ways that we are still working to understand.

The terror attacks of Sept. 11, 2001 were only one element of what shaped the last 10 years, but those traumatic events magnified and accelerated underlying trends already in motion in the U.S. economy, such as the shift from manufacturing to services, the move away from small businesses to big ones, and the opaque power of bubbles.


Comparing Indicators of the US Economy: 2001 vs. 2011

	2001	2011
Dow Jones	9605	11,300
S&P 500	1092.54	1186
Average price of gallon of gas	$1.51	$3.67
Median sales price of house	$173,700	$222,000
Poverty rate	11.5% (2000-01)	14.3% (2009)
Real median household income	$51,161	$49,777 (2009)
Unemployment rate	5%	9.1%
Public debt (% of GDP)	$3.3 trillion (32%)	$10.1tr (67%)
Gross debt (% of GDP)	$5.8 trillion (56%)	$14.7tr (98%)
Ratio of employment to population	63.5%	58.2%
Manufacturing's share of employment	12.3%	9%
Health care's share of employment	8.5%	10.8%
Real GDP	$11.33 trillion	$13.26 trillion

Source: Bill Seyfried, Professor of Economics, Rollins College

Over the last decade, consumer confidence and housing prices have gone through a dramatic rise and fall, and two massively expensive wars in Iraq and Afghanistan were initiated. We asked a number of economists to share their thoughts on two questions: What were the most significant economic shifts between 2001 and 2011; and if that decade had a headline, what would it be. Here is what they told *DailyFinance*.

The Great Disappointment in Real Wage Growth and European Integration
Niso Abuaf, professor of finance, Pace University

"Technology [the innovation of the '90s] bore fruit and the productivity gains we have experienced in technology, media and telecom sectors have been tremendous with the iPhone, iPad, Blackberry and virtual workplace. But has that accrued to the typical U.S. worker or European worker? Unfortunately, those productivity gains have not translated into real wage gains and it has been a disappointment. Wages have not kept up with productivity gains. Another disappointment is that Europe's lack of political union and its response to crisis in [the PIIGS nations] has not been as decisive and quick a response as the U.S. response during the Great Contraction."

The Economic Rise of China
Terry Connelly, dean emeritus, Ageno School of Business at Golden Gate University

"If you look at the 21st century as a 10-round fight, China won [the first round]. China has managed to get its arms around its population in a way that has not produced a hard landing. It has made a lot new friends around the world, even as the U.S. has suffered. [The United States] is still a fundamentally strong and vibrant economy. [We have] some issues to deal with, [which are] mostly political consensus issues.

But those are trivial compared to real fundamental issues of bankruptcy. ... Meanwhile in the left passing lane, there goes China, and we need to start worrying about that. They managed these 10 years better than we have. Their middle class is rising, but ours is [experiencing] death by a thousands cuts."

How the Housing Market Hid Our Problems
Edward Leamer, professor of economics and statistics, UCLA Anderson School of Business

"We are transitioning from an industrial to a post-industrial society. That transition was hidden by the Internet bubble and then the housing bubble. Now, we are faced with uncertainty in the post-industrial economy. ... The transition started in the '80s, but was hidden by those bubbles. ...The switch from manufacturing to intellectual services like movies, tech products and financial services [is part of the transition, and] that is where wealth is being created. That, by nature, is unequal [in income distribution.] In addition, we are having a change in income. The 1960s were the happy days, and earnings were growing at every level. But from 1970 to 2000, earnings were good for college grads and above, and since 2000, it is the highest [level of education], such as the Ph.D.s and investment bankers, who are the ones are getting earnings."

The Climax of the Era of Excessive Balance Sheet Expansion
David Levy, economist, The Jerome Levy Forecasting Center

"In 2001, we were still in era of the big balance sheet economy and bidding the prices of assets and stocks up higher and higher. In 2011, we are coming down the hill and adjusting to that period of excess. A lot of people think [the] excesses were in last decade, but in fact it was part of bigger process. ... A private economy needs to be expanding wealth in order to generate profits, so if you're not expanding the economy, it just doesn't work. Unlike 2001, when people were shocked by the stock market and then traumatized by 9/11, [there was] a correction. Now, we are in a much longer and more thorough correction and that will keep the economy satisfactory. The good news is that we will get through it."

Runaway Wealth
Eric Malm, professor of economics, Cabrini College

"In 2001, we had runaway wealth with house values expanding and 401(k)s growing, and we felt justified not saving as much, and we were still accumulating wealth. We were in an optimistic place and spending, and we were happy. But with the bubbles bursting, both the debt bubble and housing bubble, we are now having negative wealth effects. Americans are feeling poorer, and now that wealth has run away, we are not as optimistic."

The Not-So-Great Decade
Bill Seyfried, professor of economics, Rollins College

"In September 2001, a recession was just ending, but we were about to enter a jobless recovery that would last until 2003, when a stronger recovery took hold. Unemployment would rise into the recovery and policymakers would debate how to stimulate the economy to restore stronger economic growth and create jobs. A decade later, we face similar problems, but much more severe. Unlike the early 2000s, the budget deficit and the national debt are much higher, limiting how much the government can respond to economic weakness.

Since September 2001, the U.S. economy has lost 400,000 jobs and the percentage of Americans with jobs has declined from 63.5% to 58.2%. The type of jobs have changed as manufacturing has declined from 12.3% of all jobs to 9%, while health care has risen from 8.5% to 10.8%. Other items of note include the rise in poverty from 11.5% to 14.3% (as of 2009) and the decline in median household income adjusted for inflation. Overall, the decade spanning September 11 to the Great Recession has been the weakest decade for the economy since the Great Depression."

A Decade of Surprises and Disappointments
Susan Woodward, former chief economist of the Securities and Exchange Commission

"This recession has been especially hard on small firms, including the one-person businesses of self-employed people. The number of self-employed -- not the hobbyists, but people whose only work is self-employment -- is down 12% from a peak in early 2007, in contrast to the 5% decline in payroll employment we hear about in the news. In monthly figures, seasonally-adjusted, there is no recovery so far in self-employment since 2007.

For at least 40 years, employment has been shifting away from smaller businesses into larger ones. In 1975, 22% of workers were in firms with under 20 employees. Now it is about 18%. Not all sizes are suffering equally now. The number of very small firms (one to 19 employees) has fallen only 5% since 2007, and these businesses (covered by the Intuit Small Business Employment Index) have been hiring since the fall of 2009. In contrast, the number of firms with 20 to 250 employees is down 10% from 2007.

Looking back a decade by industry, small businesses have exited specific sectors both because of the recession and for structural reasons. The biggest decline, by number, is in local retail, second is construction, and third is real estate services and finance. The recession has hurt local small retail, but so has competition from online shopping and big stores. We cannot expect all of the decline will be reversed by a recovery. The sectors associated with construction will revive, and sometime in the next few years we will have a construction boom. We are now two million houses behind the long-term trend in residential construction despite all the building in the years running up to the collapse."

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