Big government kept a "contained depression" from being a Great one: Levy

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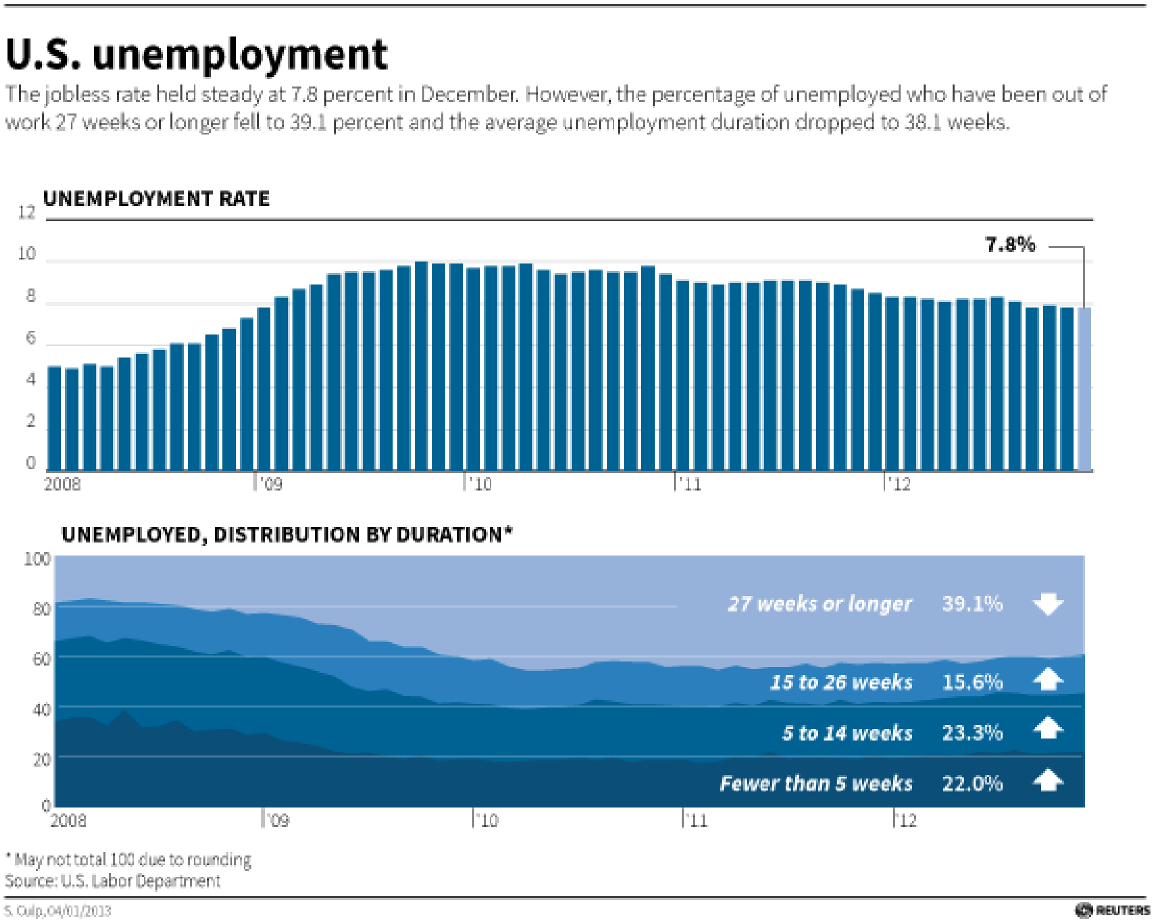
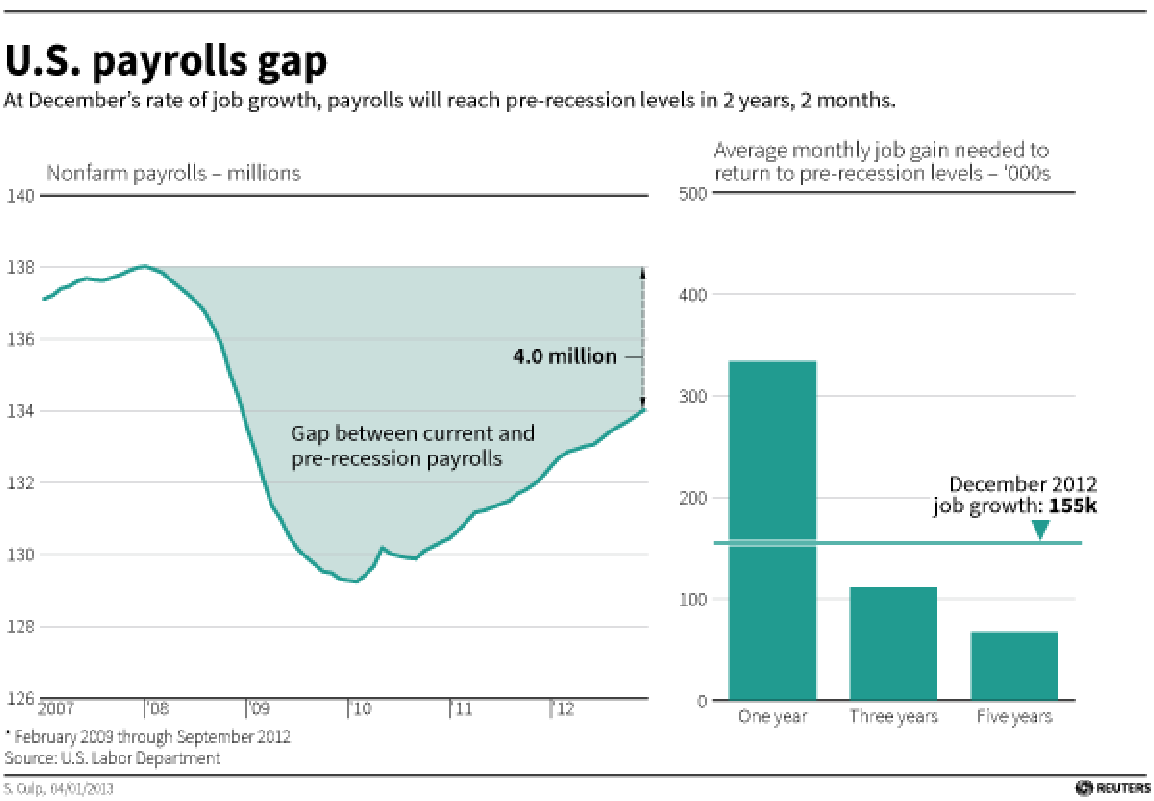
By Pedro da Costa

David Levy says he is bullish on the U.S. economy long term. But for now, the country is effectively stuck in a "contained depression," the chairman of the Jerome Levy Forecasting Center told Reuters during a recent visit to our Washington bureau.

Still, things could have been much worse, says the third generation economist. For Levy, the interventions of a large and proactive federal government prevented a repeat of the 1930s.

> In this corrective process, the reason we haven't had a collapse in profits as we had in the Great Depression is we have – what nobody seems to like very much – a big government that's stabilizing it by just simply running these deficits and being a much more active lender of last resort.
>
> We have the institutions to protect our financial system. As much as we have a lot of people upset about the deficit, and there are some long term issues that need to be tackled, I see this deficit right now as something that was going to happen no matter what mix of taxes and spending we had because the private economy would weaken until we basically pumped out enough to support (it).
>
> We're in an overall period of contained depression here which means expansions are going to be very heavily dependent – entirely dependent – on government deficit spending. […]
>
> Fortunately in a modern economy we have much bigger institutions to act as lender of last resort. We have ways to stabilize things.
>
> We also have a government that is an order of magnitude bigger relative to the size of the economy. So when you have a federal government whose budget was about 3 percent of GDP in 1929, even when you had a huge deficit relative to that, that was not going to do a whole lot to stabilize the economy.


U.S. unemployment
The jobless rate held steady at 7.8 percent in December. However, the percentage of unemployed who have been out of work 27 weeks or longer fell to 39.1 percent and the average unemployment duration dropped to 38.1 weeks.
UNEMPLOYMENT RATE
7.8%
UNEMPLOYED, DISTRIBUTION BY DURATION*
27 weeks or longer 39.1%
15 to 26 weeks 15.6%
5 to 14 weeks 23.3%
Fewer than 5 weeks 22.0%
2008
'09
'10
'11
'12
* May not total 100 due to rounding
Source: U.S. Labor Department
S. Culp, 04/01/2013
REUTERS


U.S. payrolls gap
At December's rate of job growth, payrolls will reach pre-recession levels in 2 years, 2 months.
Nonfarm payrolls – millions
4.0 million
Gap between current and pre-recession payrolls
Average monthly job gain needed to return to pre-recession levels – '000s
December 2012 job growth: 155k
One year
Three years
Five years
2007
'08
'09
'10
'11
'12
* February 2009 through September 2012
Source: U.S. Labor Department
S. Culp, 04/01/2013
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