# Not if Exports Save Us

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## Abstract

Looking only at standard macroeconomic statistics, you would think the economy was in very good shape. Gross domestic product has grown at a 4.4 percent annual rate in the last six months, well above the historical average. But these statistics are like looking through a rearview mirror. Jason Furman, director of the Hamilton Project at the Brookings Institution and Tax Policy Center contributor, discusses where the US economy is headed in this *New York Times* op-ed.

## Introduction

LOOKING only at standard macroeconomic statistics, you would think the economy was in very good shape. Gross domestic product has grown at a 4.4 percent annual rate in the last six months, well above the historical average. The price index for personal consumption expenditures, excluding the volatile food and energy components, rose at a 1.6 percent annual rate over the same period, well below the historical average.

But these statistics are like looking through a rearview mirror. The latest G.D.P. statistics go only through the end of September. They do not tell us where the economy is today, let alone where it is heading.

Much of what we see outside the windshield, like falling house prices, rising foreclosures, financial turmoil and oil prices near an inflation-adjusted record, are more timely and troubling. But they shed light on only a small fraction of what goes into producing G.D.P. That millions of families are suffering is undeniable and requires a robust policy response. But whether economic growth is turning negative, pushing the economy into a recession that would hurt tens of millions more, remains unclear.

It is difficult to discern whether a recession is inevitable because we are in the midst of a new type of financial crisis, one for which history has no map. When banks sustain large losses, like the savings and loan association crisis in the 1980s or the collapse of the Japanese bubble in the 1990s, the result is a contraction in credit, a slowdown in consumption and investment, and a recession.

But in the current turmoil, the banking sector (which started out with very healthy capital balances) seems to be incurring losses that, while large, appear to be far lower than those in previous crises. The losses are spread across a range of poorly understood entities and investors, such as hedge and pension funds, around the globe. It is far from inevitable that this bad financial news, the equivalent to the loss in assets seen in a typical bearish day on Wall Street, will translate into a sustained reduction in economic activity.

The one piece of good news, contrary to public perception, is the falling dollar. It is increasing exports and slowing imports, thus helping to prop up the American economy. Net exports added 1.4 percentage points to economic growth over the past six months, more than making up for the 0.7 percentage point subtracted by the decline in residential construction. Exports should continue to grow over the coming year.

Even if the economy avoids a recession, the road ahead will be rocky. A slowing economy compounds the problems facing workers, who did not receive inflation-adjusted wage gains even in the past few years of strong G.D.P. growth. As our focus necessarily shifts to the short-run task of averting a recession, we should not forget the need for the progressive tax policies and robust social insurance that are needed to help everyone share in the gains of a strong economy.

http://www.nytimes.com/2007/12/16/opinion/16furman.html?_r=1&scp=1&sq=furman&oref=slogin

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