

Transitioning from the “I-word” to the “R-word?”

And Shifting Conversations about our Cost of Living to our Standard of Living

Last fall, my September *Chicago Life* column on some “I-words”—Infrastructure, Investment, and Inflation—concluded with a question for readers: “And for 2022? As long as voters love free lunches and politicians like to provide them to their constituents, this is not a story that is going to end well for our economy. Expect continued high inflation and slower economic growth.”

2021 ended, and 2022 thus far has been spot on, with inflation averaging 8.6 percent midyear, and daily news accounts and photos show motorists wincing or crying at the pump, staring at empty shelves and/or skyrocketing prices at grocery stores, and killing time with their iPhones while in long lines at airports. Our central monetary authority, the Fed (or Federal Reserve System), finally admitted to itself that inflation is here to stay and started adding significant fractions to interest rates.

The only bit of cheery news is that our labor markets, while still trying to decide if the “new normal” means some mix of remote work and zoom meetings along with commuting on some days each week, and quitting one’s job is a legitimate response to dissatisfaction at the office and stress at home, are here to stay.

BY ALLEN R. SANDERSON

While inflation rates in the United States have averaged about 3 percent a year over the last 50 years, not far from the Fed’s target of 2 percent (which it and the European Central Bank—ECB—consider no inflation because our measures likely overstate actual price level increases by that amount, coupled with a desire to stay away from the allegedly dreaded “deflation”), over that same period our unemployment rates have fluctuated considerably but have averaged about 6 percent a year. For the last several years, except for a stretch in 2020 and early ’21 when COVID-19 was our biggest challenge and threat, in 2018, 2019, and currently, our unemployment rates have stayed below 4 percent. Economists’ rough estimate of what could be considered “full employment” would be about 5 percent, so 3.5 percent is a very impressive performance for our economy.

Mid 2022, the unemployment rate for adult men and adult women was both 3.4 percent. It was 2 percent for those with a bachelor’s degree or higher. For members of the labor force who are white, it was 3.2 percent; it was 6.2 percent for Blacks, 2.4 percent for Asians, and 4.3 percent for those who identify as Hispanics.

Over the last 50 years, the United States has thus far experienced seven recessions. The 1973-75 one was attributed to OPEC and the oil crisis; some of us remember long lines at the pumps as price ceilings ensured the demand for gasoline would exceed supply. In 1980, we had a short, non-descript slump, followed by one that lasted over a year in 1981-82. The early ‘90s and early 2000s both produced

eight-month recessions. The most memorable 21st century downturn, 2007-09, labeled the “Great Recession,” was referred to by many as the financial crisis and coined accompanying terms like subprime mortgages, housing bubbles, and bailouts.



One old joke asks how to define and distinguish a recession from a depression. The answer has it that a recession is when your neighbor loses her job and a depression is when you lose yours. Formally, there is no distinction other than to state the obvious: one is more severe. We usually consider a recession as a sustained period—two quarters or up to six consecutive months—in which there is weak or no growth in real GDP, the economy’s inflation-adjusted output (and the unemployment rate likely increases significantly). During 1929-33, the “Great Depression,” GDP fell by over 10 percent and our unemployment rate hit 25 percent.

The COVID-19 recession in 2020 technically only lasted two months. The unemployment rate zoomed in April to almost 15 percent but was down to under 8 percent by September of that year. Our next recession will be our eighth since 1970.

For the record, real GDP declined significantly in the first two quarters of 2020, our main COVID shock, then grew for the remainder of 2020 and in all four quarters of 2021, including a robust 6.9 percent rate in the last quarter of last year. However, it declined by 1.5 percent in the first quarter of 2022. As of this moment (late June), second quarter 2022 GDP is not available, but there will be a lot of money wagered that real output will have declined in the second quarter, or during the third and/or fourth quarter. Thus 2022 will likely end up being classified as a recession year, and the talk will turn further from our cost of living to our standard of living.

If you’re in Las Vegas, bet on it. □