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Economics

America's economy

An unimaginable waste

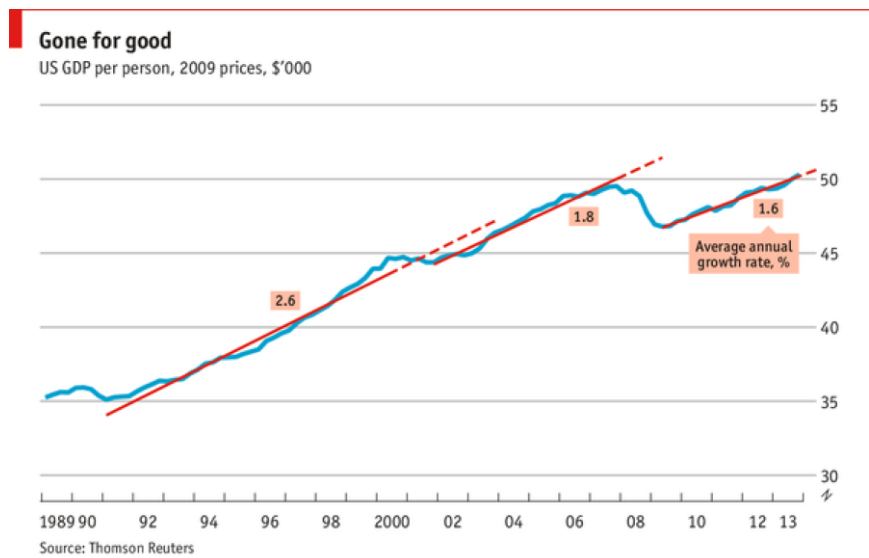
Jan 31st 2014, 16:46 by R.A. | LONDON

YESTERDAY, the Bureau of Economic Analysis [released](http://bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm) its first estimate for economic growth in the fourth quarter of 2013. It was pretty decent by the standards of America's recovery. Output expanded at a 3.2% annual pace. That was down from a 4.1% rate in the third quarter, but the third quarter figure was buoyed by transitory factors while fourth quarter growth was powered ahead by consumer demand, investment, and export growth. Hopes are high that momentum might be sustained into early 2014.

I am having trouble generating enthusiasm, however. Here is the bigger picture:

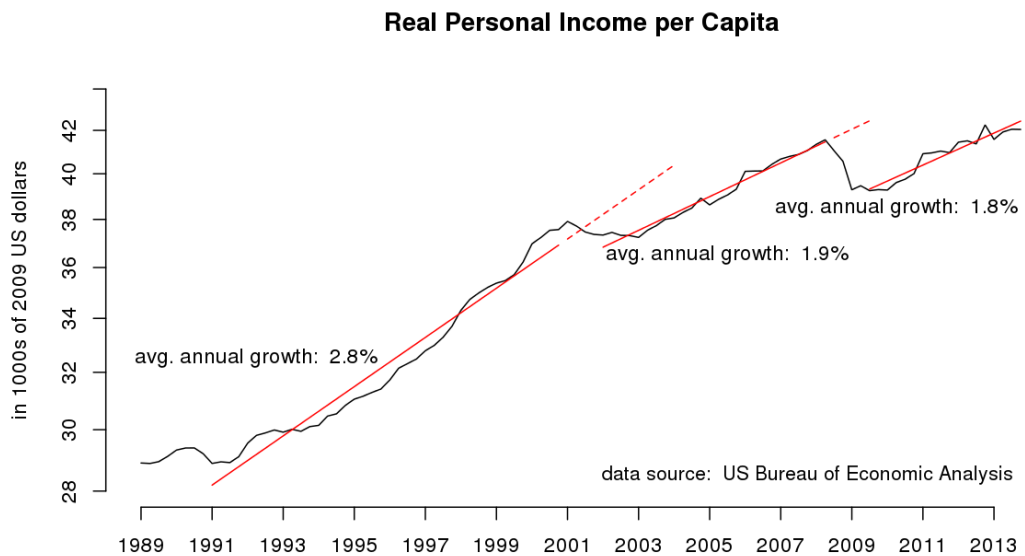
Growth in this recovery has been slower than in either of the past two recoveries, despite the much larger decline in output during the recession. There is no sign of any reduction in the enormous gap that opened up between actual output and trend. On reasonable [estimates](http://econbrowser.com/archives/2013/12/the_output_gap_1), the cumulative loss of output relative to potential will approach \$6 trillion in 2014, or almost \$20,000 for every man, woman, and child in America.

America is on the verge of writing off a stunning amount of annual output forever. Faster quarterly growth is better than slower quarterly growth, but no one in America's government should be remotely happy about its economic performance.



Notes

Avent (2014) used the graph above in his blog post. Redrawing the graph on a logarithmic scale (as below) emphasizes the permanent reduction in average income that slower growth rates have caused.



References

R. Avent. "America's economy: An unimaginable waste". *Free Exchange at Economist.com*, 31 Jan. 2014. URL <http://www.economist.com/blogs/freeexchange/2014/01/americas-economy>.