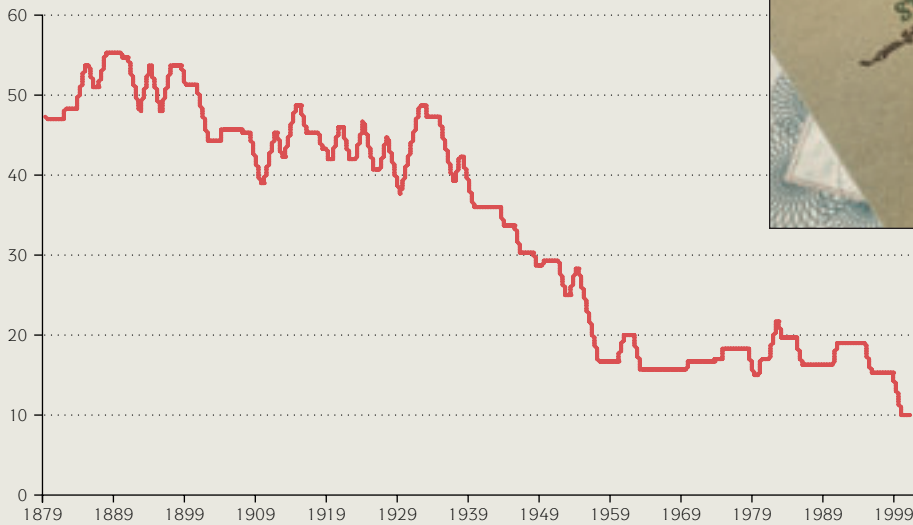


EXHIBIT 8. **Ten Steps Forward, One Step Back**
Economic Downturns

25-year moving average



The U.S. economy has endured many blows in its 225 years—wars with foreign powers, our own Civil War, the Great Depression, the assassination of four presidents, stock market crashes, racial strife and more.



A Stable Economy

As the nation recovers from the September 11 shocks, we're seeing how our economy handles hard times. A big, sprawling economy, with decentralized production, redundant systems and a deep storehouse of knowledge, runs with a dynamism that just won't quit.

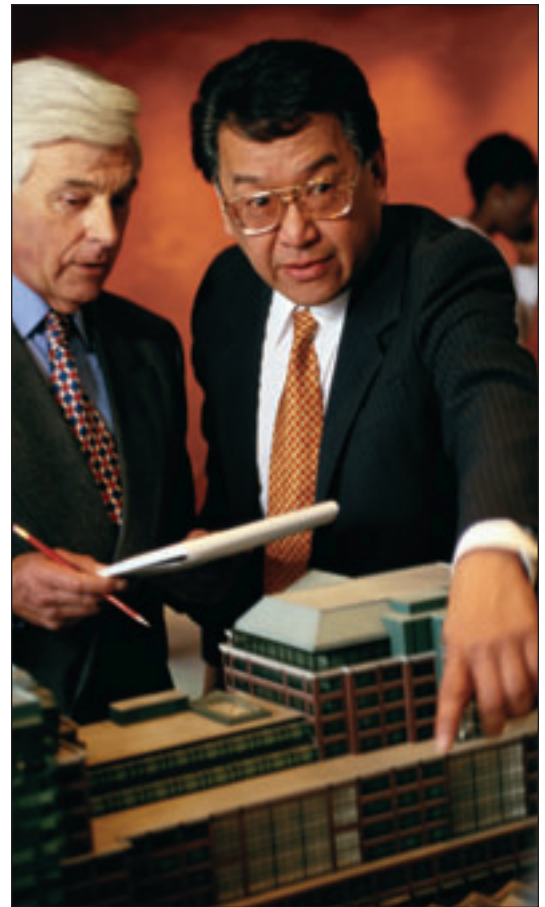
Recessions still occur, of course. In the modern era, though, they're shorter and shallower than they were during much of the nation's history. From 1879 to the start of World War II, a moving average of the previous 25 years shows that the United States was in recession more than 40 percent of the time. Since 1953, the time has been reduced to less than 20 percent. In the past quarter century, the economy has been in recession less than 10 percent of the time. (See Exhibit 8.)

Since 1960, the average recession has lasted 11 months. Before 1940, only one in seven recessions was over within 11 months; a third of them hung on for at least 23 months. Between 1887 and 1950, recessions meant an average decline of 13 percent in industrial production. Since 1960, the toll has been reduced to 7 percent.

If history plays out, our current recession should be relatively brief. The National Bureau of Economic Research, the arbiter of the economy's ups and downs, has decreed that the 10-year expansion, the longest in U.S. history, ended in



Nonetheless, the country has survived, learned and emerged stronger. Our stability is reflected in the economy, which today takes more steps forward and fewer steps back than at any time in history. A 25-year moving average of expansion versus contraction shows that for nearly a century—until the 1940s—the economy was in recession 40 to 50 percent of the time, taking one step back for nearly every step forward. From 1940 to 1982, our performance improved, and the frequency of recessions fell to an average of about 15 percent. More recently, the economy has shown even more stability, marching forward up to 90 percent of the time.



Today's workers have more than 300 job-search engines they can access 24/7. What keeps us working keeps us stronger.

March 2001. As we went into 2002, though, the economy was showing signs of revival in rising stock prices, declining job cuts and improving consumer confidence.

Hard times always mean lost jobs, but our country's capacity to recover quickly from recession makes unemployment a short-term pain for most workers. After the previous recession, an eight-month interval that ended in March 1991, we made up all the job losses in the first year of recovery. Then we went on to create jobs for an additional 17 million workers.

In this recession, we worry about the 1.8 million Americans who lost their jobs in 2001. What past business cycles teach us, though, is that this economy can rapidly recycle workers from declining to expanding industries.

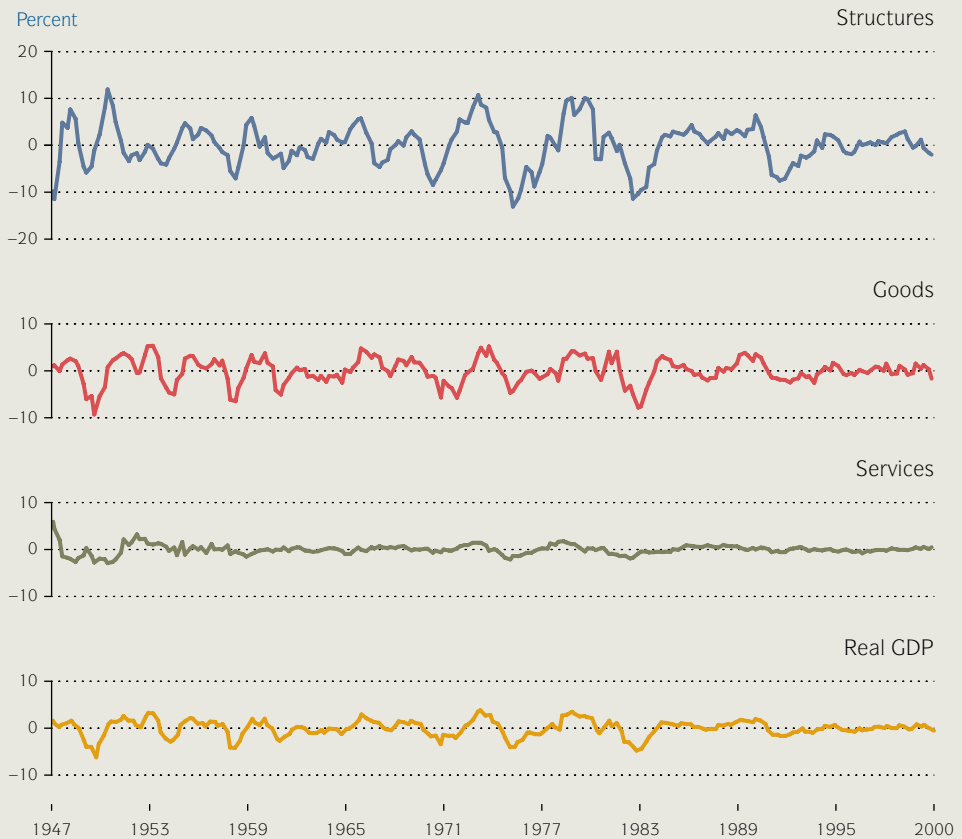
Our recessions are shorter and milder than they once were because boom-to-bust industries—such as farming, mining, manufacturing and construction—no longer dominate the economy. The volatile sectors are not only smaller slices of the pie, but they've also been offset by more stable pieces, especially services. Since 1947, goods-producing activities have fallen from 57 percent to 37 percent of total output. At the same time, service industries have increased their share of the economy from 34 percent to 54 percent.



The Commerce Department divides gross domestic product into three sectors—goods, services and structures. The most volatile sector is structures; the least, services. At 1.1 percent, the standard deviation from trend growth in services output is less than one-fourth that of structures (4.6 percent) and less than half that of goods (2.7 percent).

Two factors have helped make GDP growth more stable. First, the variation in each GDP component has declined. Second, the share of the economy owing to services has increased. In 1947, GDP was roughly 57 percent goods, 34 percent services and 9 percent structures. Today the shares are 37, 54 and 9 percent, respectively.

EXHIBIT 9. **Steady as She Goes**
Deviations from Trend Real Growth



Over the business cycle, services exhibit less than half the volatility of goods and about a quarter of the instability of construction. (*See Exhibit 9.*)

Smoother business cycles aren't just the result of a shifting industrial base. Wealthy nations can maintain their spending in hard times with savings, credit and social spending. They can also afford more and better economic analysis, which should lead to sounder policies.

We've learned from past mistakes. Bad policies worsened the Great Depression of the 1930s. But with the financial shocks of 1987 (the stock market crash) and 1998 (the Asian crisis), as well as the aftermath of September 11, steady, experienced policymakers helped contain the damage and promote recovery.

Less severe recessions are proof of the economy's increased resilience. Confidence in our ability to bounce back should reduce anxiety, even if attacks or threats temporarily disrupt our economic lives. Being able to see beyond the fear and uncertainty bolsters consumer and business confidence, further enhancing our economic security.