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The Economy in 2010: Stories You May Have Missed

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A full two years after the financial crisis hit (and even longer if you look at the start of the housing bust), Americans are all too familiar with the gloom and disappointment that largely dominated the economic headlines this past year -- and appropriately captured much of our attention at the NewsHour in reports filed by economics correspondent **Paul Solman** and others.

Joblessness remained THE story, as unemployment persisted at chronically high levels, **finishing the year with an unemployment rate near 10 percent**. Use of the term "Recovery from the Great Recession" seemed tepid at best. Was "recovery" even the right word to describe the bifurcated nature of the economy in 2010? Yes, **corporate profits were up**, **customers seemed to go shopping again during the holidays** and markets rebounded.

But many Americans remained deeply pessimistic **about their own economic situation** and the country's future. And **millions of foreclosures continued apace** while there were **signs of a double-dip in the housing market.**

It's enough to make you never want to read another business story again. But there were other important developments worth noting from the past year that may have been overlooked.

Here are four (totally subjective) stories we thought were worth calling to your attention -- ranked in no particular order.

1) The government bailout known as TARP is costing much less than thought.

When the Troubled Asset Relief Program (TARP) was created in desperation in 2008 to provide lifelines to banks and the financial sector, then-Treasury Secretary Hank Paulson asked Congress to authorize up to $700 billion that could be used to help stabilize the economy. Although the full tab was never utilized -- the actual amount was $389 billion, some of which also went to insurance giant AIG, some to foreclosure relief and some went to help GM and Chrysler restructure through bankruptcy -- many were skeptical that the government would get much of its money back.

But with banks eager to get out under the thumb of the government, about $270 billion has been paid back in total. Last month, the **Congressional Budget Office revised its estimate of the ultimate cost**, saying taxpayers will lose about $25 billion on the program in total.

Even so, the program remains unpopular with the public and critics who say that even though TARP helped stabilize Wall Street and even allowed it to profit from the program, the CEOs of the banks were largely left in place and the broader economy did not benefit significantly. Moreover, **some of the smaller banks that were recipients of TARP money are failing.**

But economist Mark Zandi of Moody's Analytics, said TARP is not getting its due praise.

"Most people are confused by it and think it was a catastrophic failure," Zandi told us.

I think TARP was a slam dunk success. It was vital to keeping everything together with the economy. CBO now estimates that the costs will come in around $25 billion, far short of the $700 billion originally allocated. And the part that got the most heat was the bank bailout and that will be very profitable for taxpayers.

They had to pick a really big number of $700 billion to make it work but that was what scared everybody. It was an important message that they imparted -- that the government was backstopping the system. If they had picked a number of $350 billion, that would not have restored confidence in the system and we could've lost that money."

One important footnote related to this that's often confused with TARP: There was another big separate government bailout at the time -- of housing giants Fannie Mae and Freddie Mac. That totaled about $130 billion so far and it's not yet clear how much the government will get back.

2) State pension funds are falling ever deeper in the hole.

State pension liabilities for several states have been rising in recent years, but in the aftermath of the recession and financial crisis, the debt picture for several states is reaching alarming levels, according to many experts.

While the exact numbers are hard to pin down, estimates show that states may be more than $3 trillion short in their pension obligations. As state finances have worsened over the past two years, the situation has grown worse for several states.

"Many state-defined benefit pension plans have become severely underfunded," says Marcia Wagner, managing director of the Wagner Law Group, which closely follows employee benefits. "Illinois racks up a staggering $78 billion pension liability. New Jersey has a $46 billion pension gap. California's real unfunded pension debt may be as high as $500 billion."

The reasons for the shortfall are numerous, but Wagner and others say they include investment losses from the financial meltdown, accounting gimmicks by several states, and adding to benefits too generously when times were good.

Some are suggesting it could lead eventually to bond defaults by states and municipalities (**a prediction made recently by banking analyst Meredith Whitney on "60 Minutes")**. But while many experts say it won't come to that, **states already are starting to cut back on some benefits**, as Mary Williams Walsh found in her continuing New York Times series about the pension problem.

Wagner, citing the work of Northwestern University economist Joshua Rauh, says that by 2030, more than 30 states could be in trouble in need of a federal rescue that could cost more than $1 trillion.

3) China is now the world's second-largest economy.

A development that was long expected, the move finally happened in the second quarter of the year when **China's quarterly GDP outpaced Japan's.** In part, this story reflects Japan's long fall and decade of lost growth. But there's no question it shows China's continuing rise in the global economy.

"This refocuses our attention on China's very strong long-term performance," Nicholas Lardy, an economist at the Peterson Institute of International Economics who studies China, told us.

"To me, the way I like to look at it, if you go back 15 or 20 years ago, for every country in that region of the world, the U.S. was the biggest trading partner. Now China is the biggest trading partner even for Australia. It used to be that Australia's strongest security and economic relationship had been with the U.S. Now the biggest economic relationship is with China, which creates a more complex relationship for them and the U.S. You can tell similar stories for virtually every country in the region."

While there's plenty of debate about whether China can keep up annual growth rates that have exceeded 10% in recent years, some experts still expect China to surpass the U.S. economy in total size by 2030.

But Lardy points out that China is not close to the U.S. when it comes to a number of important measurements.

"Some people have an exaggerated sense of China's economic footprint," he says. "They still rank 110th in in the world in per capita income (around $3,600 a year per person). A lot of people think China is overtaking the U.S. and think they're getting richer, but there's a very big gap."

4) Long-term unemployment is at its highest level since the Great Depression

This story is more well-known than the rest but the magnitude of the problem is sometimes lost in the broader jobs picture.

Here are the numbers:

Of the 15 million-plus Americans who are unemployed, more than six million have been jobless for six months. That's the highest amount since the government began tracking it in 1948. The average length of unemployment has risen to 34 weeks. Nearly 10 percent of the jobless have been looking for work for two years or more.

The situation is so stark that the **Bureau of Labor Statistics announced this week that it will raise how long someone can be considered jobless** from two years to five.

"It's unclear how these people's families are surviving especially now that our political system doesn't want to extend benefits beyond 99 weeks," says Brad DeLong, an economist at University of California, Berkeley. "If you've been out of work for two or more years, it's unclear how you get someone to hire you. It's unclear what will happen to these people."

"Even under the most optimistic scenarios, it will take years to dig out," says Zandi. "The unemployment rate will be higher for years after this. People who lost their jobs and are in their fifties will find it very hard to get back in."

Paul Solman has extensively chronicled this problem -- **including that of the so-called '99ers.**

Of course, there's no way to tell what the major stories of the year ahead will be. But there are a few that we already know we will be keeping an eye on, including these:

-- **A push for tax code reform** in Washington. Almost everyone agrees the tax code is too complicated with too many loopholes. The Obama administration reportedly has this on its agenda for the coming year, and so do some Republicans. But changing the tax code is incredibly complicated and hard to agree upon given some pretty big philosophical divides between the two parties.

-- **What to do with housing giants Fannie Mae and Freddie Mac?** Republicans and Democrats agree they need some big changes, but that's where agreement ends. Republicans have long sought to rein Fannie and Freddie in, but Democrats have argued they play an important role in financing affordable housing. Should they become completely private? Should they have any level of government guarantee? How do you change two massive entities when they are linked with three-quarters of all new mortgages at the moment?

-- **Deficits and spending.** You've already heard a lot about it and there's plenty more to come including a huge battle between Republicans and Democrats in the months ahead.

-- **Continuing fallout from the Euro crisis**. Does it spread to other countries? Is the bailout fund large enough? What happens with Spain?

-- **The government pulls back from AIG.** Reuters reports that the **Treasury Department plans to sell two large stakes of its 92 percent share in AIG next year.**

And of course, there's the headline for which we all hope -- a serious pickup in the labor market. Few, including Fed Chairman Ben Bernanke are expecting remarkable growth next year, but one hopes for much better news on that front in 2011.