Nevada's current unemployment rate of 13% is one of the highest in the nation, much higher than the national average of 9.7%. Nevada’s economy, which was the fastest-growing in the nation before 2007, has declined the most of any state during the current recession.

It wasn’t always this way. For the thirty years prior to the start of this recession, Nevada's unemployment rate was less than the national rate on average, and never more than 2% different. With an economy dependent on industries like tourism, gaming, and construction, Nevada offered a decent living to many without requiring much education, and gaming revenues helped to fund a minimal state government while migration from other states kept us growing.

Now all of a sudden, our unemployment rate has spiked, and state revenues have plummeted. What is different now points to the nature of this recession, which goes right to the heart of the nature of Nevada’s economy.

Postwar recessions have followed a typical pattern, usually triggered by tight monetary policy or a shock to energy prices. Investment slows, consumption follows suit, and things get worse for six months to a year before the economy starts to grow again. Unemployment rises steeply for a year, then comes down slowly as the economy gets moving again.

What makes this recession particularly painful for Nevada was that our boom was tightly connected to housing prices. Our housing boom was tied to our rapid growth, which came largely from Californians bringing insane amounts of home equity with them. The share of our economy from construction was largest in the nation, and twice the national average. We were building houses for construction workers who came here to build houses for others.

Furthermore, the expansion of credit based on all that home equity made it possible for the country as a whole to live beyond its means, and many high-roller wannabees were attracted to the rapid expansion of the Las Vegas Strip. The immense loss of wealth associated with the housing collapse in California tore a huge hole in our state economy. Our own foreclosure rate became the highest in the nation, largely because more of our homes were newly built and purchased.

Depressions are recessions caused by financial crises, and we haven't had a depression since the 1930s. These are typically much worse, lasting a year more than other recessions. In the Great Depression, a major banking collapse was triggered by a bubble economy based on bad credit. A stock market crash hit investors and lenders hard, and many houses went into foreclosure. Most people lost a major portion of their wealth as a result.

Of course, the Great Depression was exacerbated by the Federal Reserve doing everything it could to tighten credit, and by state and local governments doing everything they could to cut spending to match falling revenues. Deflation resulted. The federal government was pretty small and ineffectual, but it didn’t help that the Hoover Administration was cutting spending and raising taxes by 1932, in hopes of winning re-election. Spending cuts by the private and public sectors all led to a downward spiral.

Coming out of that crisis, Nevada switched course. Gaming was legalized, with revenues funding what we billed as “one sound state,” while millionaires were wooed from the east coast with promises of low taxes.

This depression is different, because the Federal Reserve has done everything within its power to prevent a monetary collapse, and the federal government has done more as well, including bailing out states to keep them from cutting spending even more. In Nevada, the painful cuts to education and other state services would have been much worse without the stimulus bill, or our taxes would have been raised much more significantly. While necessary to stanch the bleeding, the stimulus bill may still have other state services would have been much worse.

Like Nevada, many of the mountain states had once seemed insulated from recessions, as population growth from California and elsewhere kept construction going. This recession hit everybody hard. Unlike Nevada, most of these states are now starting to recover, helped along by an educated workforce that offers new business opportunities. Having ridden the gaming industry for six decades, until gaming spread to Indian casinos and elsewhere, and then ridden the construction industry until the bubble burst, Nevadans are now looking for the next big thing. Until we find it, our unemployment rate is likely to remain high, and our growth rate low, for a while.

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