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CURRENT ECONOMIC SLUMP LONGEST SINCE 1929-1933

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The current economic contraction began in December 2007 with unemployment at 5.0 percent. Joblessness climbed slowly month after month until it peaked at 10.1 percent in October 2009. Today, according to the June report from the Bureau of Labor Statistics, unemployment stands at 9.5 percent. Congress, the White House, and the media have hammered away at this near double-digit jobless rate for months in part because President Obama insisted that joblessness would not climb above 8 percent if his stimulus package were approved. Thus, most Americans including those who have not been personally touched by the economic slump are aware that the last time joblessness reached 10 percent was in the early 1980s. However, the public probably does not know that the current contraction very likely is the longest on record since the 43-month contraction in August 1929-March 1933.

The official agency that dates the business cycle in the United States is the Business Cycle Dating Committee of the National Bureau of Economic Research. Unlike many others, the Committee does not define a recession as two consecutive quarters of a decline in GDP. Instead it defines a contraction as a significant decline in economic activity across the economy that lasts more than a few months as indicated by real GDP, real income, employment, industrial production, and wholesale-retail sales. It has not yet determined the date of the trough in economic activity that identifies the end of the current contraction.

If the Committee determines that the trough came in May 2009 the current contraction would have lasted 17 months and would become the longest on record since 43-month contraction in August 1929-March 1933. Longer than the 16-month contractions in November 1973-March 1975 and July 1981-November 1982.

Since the jobless rate to date has not fallen below the May 2009 rate of 9.4 percent, Mayo Research Institute expects the Dating Committee to fix the end of the contraction sometime later in 2009, possibly October when joblessness hit 10.1 percent. An October 2009 trough would make for a contraction that lasted 22 months. What sets this contraction apart from the other 12 contractions since 1929-1933 is a combination of a very high unemployment rate and a nearly two-year duration.

Concerns about the size of the federal deficit and the public debt, the still fragile housing and commercial real estate markets, continuing bank failures, cash-laden investors shying away

from shaky financial markets, sagging consumer confidence, the weakening of the euro, the future of deepwater drilling, contagion related to the sovereign crisis in Greece that may spill over to Italy, Spain, Portugal, and Ireland, already scheduled higher tax rates starting in 2011, not to mention geopolitical instability in Mideast, make for fears that any economic expansion following the current contraction will be cut short. In other words, we may be headed toward a double-dip recession.

There are two instances of double-dip recessions since the end of World War II: the April 1958 trough that was followed by an expansion phase that lasted only 24 months; the July 1980 trough followed by an even shorter 12-month expansion phase. In sharp contrast the last three expansion phases lasted 92, 120, and 73 months.

With the two double-dip recessions, tax cuts were the prescribed remedy though in the first case President Kennedy's Keynesian economic advisers justified the cuts in the early 1960s as necessary to strengthen aggregate demand. In the second case President Reagan's supply-side advisers, having lost confidence in Keynesian economics, argued the need in the early 1980s to bolster aggregate supply.

Is the United States headed toward a double-dip recession? *NO*, if the necessary market corrections already have taken place and prices across the board have declined sufficiently to clear away surpluses in labor, resource, product, and financial markets. *YES*, if those surpluses remain in place and further corrections are necessary.

It could be argued that the very duration of the current contraction has provided all the correction needed. But keep in mind that the huge contraction that ended in March 1933 did not provide all of the correction necessary to haul the U.S. economy out of the Great Depression. That 43-month contraction was followed by a 13-month contraction that got underway in May 1937.

Even the best economic analysts see the future as if "through a glass, darkly." Even so, Mayo Research Institute hazards two forecasts, both based on the historical record. First, whether a double-dip recession is in our immediate future or not, we can say with considerable confidence that the jobless rate will remain high for several more *years* because economic history demonstrates that labor markets respond slowly to market corrections. To illustrate, it took 14 years for the August 1983 jobless rate of 9.5 percent to drop to 4.9 percent.

Second, whether there is a double-dip recession in our immediate future or not, we can say with even more confidence that there is another contraction further down the road. Leaving aside the war years of the early to mid 1940s, we experienced two contractions in the 1940s, two in the 1950s, one in the 1960s followed by another that began at the very end of the decade and extended into the next, one other in the 1970s, two in the 1980s, one in the 1990s, and two others more recently.

What we don't know with any measure of certainty is when that contraction will take occur. Mayo Research Institute is inclined to think that next expansion phase will not run as long as the last three which averaged 8 years because all three were driven by the job-creating, entrepreneurial energy of the ICT revolution. Based on the 9 other expansions since the end of World War II, our best guess is that the coming expansion will peak in approximately 4 years. If as we suggested earlier the latest trough is dated sometime around May-October 2009, it follows that the coming expansion phase will top out sometime in 2013.

The historical record establishes clearly that economics has not yet figured out how to *prevent* a contraction. Further, economics is split on how best to *cure* a contraction with Keynesians, monetarists, supply-siders, and neoclassicals offering different remedies. At best we are able to *alleviate* some of its effects through programs like unemployment insurance until the slump ends and expansion sets in. Some argue, however, that by putting off the necessary market corrections alleviative measures such as extending the maximum duration of unemployment insurance benefits from 26 to 99 weeks make the contraction even worse.

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