PERSONALLY SPEAKING

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RECESSION IS OVER WHEN THE DAMAGE HAS BEEN REPAIRED

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Larry Summers, appointed by President Obama as director of the National Economic Council, says that the recent uptick in GDP indicates that the recession is over. At the same time, Christine Romer who was selected by Obama to chair the Council of Economic Advisors, asserts that the recession is not over until everyone who wants a job is back at work.

So, who's right? The simple answer is neither one is right because the National Bureau of Economic Research is the responsible agency for dating the end of a recession based on GDP, income, employment, production, and sales and the Bureau as yet has not declared an end to this recession.

Clearly, though, that answer does not suffice. A better one emerges when one addresses the U.S. economy as if it were a human being who for the most part is fit and healthy but from time to time needs the professional services provided by doctors and hospitals. Until late 2007 the economy gave the appearance of being fit and healthy: employment was at an all-time high of 146 million, unemployment was relatively low at less than 5 percent, GDP was growing at an annual rate of 2.2 percent, and the stock market was booming with the DOW setting a record high at 14164.

However, growing silently inside was a serious disease which in early 2008 displayed these symptoms: employment slipping below 146 million, joblessness climbing above 5 percent, and deteriorating inventory investment, exports, consumer spending, and housing investment. By mid-2008, the DOW was off its peak by nearly 3000 points. One year earlier, the Mortgage Bankers Association reported a rise in home mortgage foreclosures to a rate unseen in more than 50 years along with a fall in home prices. For many economic analysts, however, there was little reason for alarm even as late as summer 2008. The economy was experiencing another slump not unlike the ones in 2001 and 1990-91. In June the ever-cautious Federal Reserve's Open Market Committee stated that "Although downside risks to growth remain, they appear to have diminished somewhat, and the upside risks to inflation and inflation expectations have increased."

All that changed drastically in September when financial markets began to collapse under the weight of mortgage defaults driving down the value of the mortgage-backed securities and putting pressure on insurance companies which had written policies to protect financial institutions against losses deriving from defaults. Suddenly, the economy/patient had become acutely sick in need of intensive care. At first, intervention under President Bush took the form of a $700 billion bailout package to rescue the threatened banking and insurance sectors. Several months later in early 2009 with the jobless rate topping 8 percent and the DOW having fallen by 7100 points, Congress rushed through a $787 billion federal spending bill to stimulate the economy.

The patient survived and in that sense Larry Summers is right. However, the patient has not been discharged from the system. Instead, the economy has been moved to the medical-surgical floor to monitor its recovery and to determine when it will be transferred to a rehabilitation unit. In that sense, Christine Romer is right. The recession is over when the damage has been repaired and the rehabilitation of the economy has been completed. The economy has suffered a crippling stroke and it will take time to repair the damage to those who lost their jobs, lost their homes, lost their self-confidence, lost their sacred human dignity, lost their trust in private and public institutions including rating agencies and Congressional oversight committees. Tragically, for some the damage simply cannot be undone because they already have succumbed to the severe stress of an economy struck down by a human weakness for gambling heavily on the false promise of a big payoff.

There are two important lessons to be drawn from this recession. First, economic experts still are divided as to how best to intervene in the next recession. Some want to boost public spending, others support a cut in taxes. Some want to take over control of troubled private enterprises, others want to expand the money supply and drive interest rates lower. And others just want to let the market sort through the mess. Second, unless we change our ways and begin to seriously practice the kind of moderation in consuming and investing that is required of a successful dieter the economy may end up in the intensive care unit once again. This lesson, sadly, may be forgotten shortly after the patient is discharged from rehabilitation because it is only human to want more and to have more.

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