

Are We In A Recession?

So -- are we in a recession? You've heard twice now that we aren't, once from one of my fellow community columnists, and once from our esteemed President. Oddly enough, neither of them has any documentable expertise on economic growth rates, so maybe we should hear from a real live Economist. What do you think, Dr. McGee? Are we in a recession now? And the Economist replies, "maybe."

The truth is no one knows yet, and anyone willing to give you a firm answer is a charlatan. The best anyone can say is that we either probably are, or probably aren't. (In my opinion we probably are.) And that's because we won't actually know whether we're in a recession for almost a year or so.

(You can believe George Bush's pronouncement that we're not in a recession, if you think he's particularly good at forecasting the future. Me, I expect him to pronounce "Recovery Accomplished" any day now.)

Officially, according to the National Bureau of Economic Analysis, a recession occurs when we have three consecutive quarters of economic decline ("negative GDP growth"). That is, it's only termed a recession if total production drops, and the decline lasts at least 9 months. Since officially the economy didn't decline during the last quarter of 2007, if we're in a recession it began on January 1st. Therefore, we'll only have been in a recession if the slump lasts through next September.

But that is seeming more and more likely. All the signs right now point that way. If you're a betting man, I wouldn't recommend betting against it being a recession.

So how did we get into this slump? Interestingly enough, the same way we got into the last one – through greed and stupidity. Through rampant speculation, and easy credit. In other words, pretty much the same way we always do.

Nine years or so ago, it was the stock market and especially internet stocks that people had gone crazy over. There was easy money to be made, a ton of it, just buy low and wait to sell high. No money, no problem – some broker will lend you the cash, you can buy on margin, and so long as the market keeps rising, you're good. Except the market doesn't keep rising, and then the house of cards collapses.

Same story this time, only it was the housing market that was the culprit. I keep reading about all these investor groups that were snapping up houses with almost no down payment, expecting to make a killing after the house doubled in value. Fools who got their investment advice from late night info-commercials. Suckers who believed that they too could make easy money fast.

(The only way to make easy money fast is to write a book about How To Make Easy Money Fast. Then find a bunch of dupes to sell it to.)

But the biggest fools were the banks lending them the money. Zero down payment mortgages, easy terms now, high interest rates later. Banks (and the investors they then resold the mortgages to) who assumed that housing prices would continue to skyrocket, and that their collateral, the house itself, would be worth a lot more than the loan. Irresponsible lenders, who got burned, and are now reluctant to make even the responsible loans.

And so credit tightens, and spending slows, and the economy shrinks. Greedy fools have to get their comeuppance, but unfortunately, the rest of us have to suffer as well. So hold onto your hats, and tighten your belts. September's still a long way to go.