# Recession Obsession

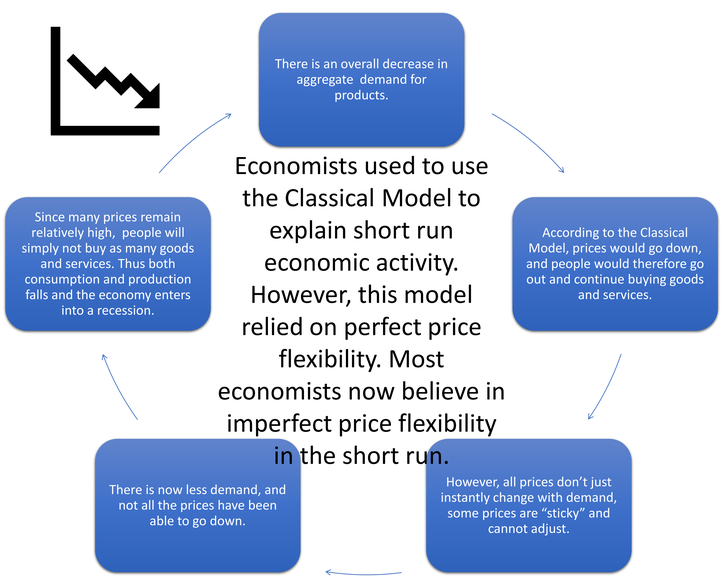
## Information on recessions in the U.S.

Most economists agree that the United States has been through 47 recessions in its existence, six of which have taken place in the last 50 years, and the most recent lasting from December of 2007 to June of 2009. Most Americans have lived through at least one recession, but may not have even known it. Why not? Recessions aren't always as obvious to some as they are to others. Some businesses might be majorly affected; others may not take much notice. However, most recessions are costly. Individuals lose jobs and income and the economy wastes resources. Some recessions have been very severe, like the Great Depression or the Great Recession. Economists, as of yet, are unable to exactly predict when recessions will occur but have worked with policy makers to develop strategies to counter them. These strategies are meant to "smooth" business cycles and reduce the severity of recessions.

### What are some indicators of a recession?

- *Reduction in demand*
- *Inverted yield curve on bonds*
- *Lower consumer confidence*
- *Lower orders for raw materials from businesses*

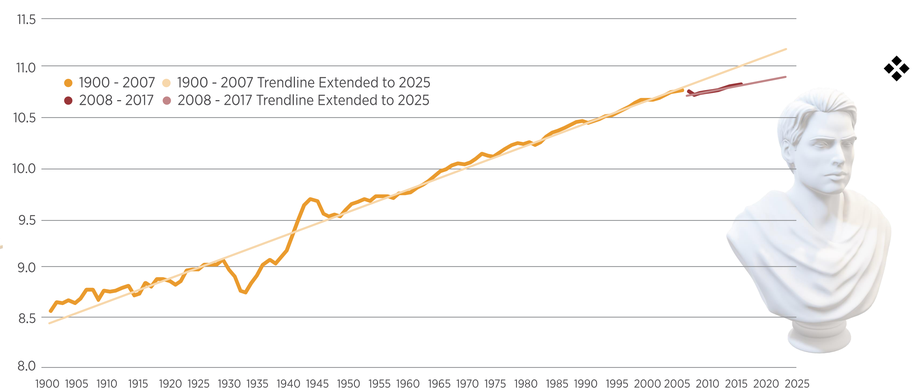
Recessions are most commonly caused by a reduction in aggregate demand working together with sticky prices.




### What is a recession?

Economists define a recession as a decline in overall economic activity (Gross Domestic Product, GDP) for two consecutive quarters – a period of six months.

**U.S. Real GDP Per Person (1900 - 2017)**






*Notice how the fluctuations in real GDP per person become smaller or "smoother" after WWII.*

**Economists have gotten better at smoothing business cycles since the Great Depression by applying concepts developed in the 1930's by the economist John Maynard Keynes.**

### Current methods for smoothing a business cycle

- Monetary Policy: adjusting the money supply to impact interest rates to impact overall economic activity.
- Fiscal Policy: changing government spending or taxes to impact overall economic activity.

## Criticisms of current policies

- Policy lags: policies meant to lessen a recession may take too long to implement and impact the economy after the recession is over. (especially true with fiscal policy)
- The severity of a recession is difficult to predict and perfect smoothing of the business cycle has not yet been achieved. Therefore, policy makes often can over or under correct for a recession.
- Smoothing business cycles also requires policy makers to slow down the economy to prevent an unsustainable economic boom. This is often difficult and unpopular to do. Therefore, policies meant to stimulate the economy during a recession, if left in place too long, might lead to a unsustainable economic "bubble" that could lead to a future recession.

## Possible ways to improve the smoothing of a business cycle

- ❑ Create more or enlarge current "automatic" stabilizers, such as unemployment insurance.
- ❑ Create an infrastructure bank to plan and fund projects to be undertaken during a recession.
- ❑ Create "automatic" monetary policy
- ❑ Reduce the timeframe of a recession down to a period less than 6 months.
- ❑ Develop computer algorithms to better predict the severity of a recession and aid policy makers in making an appropriate response.