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Justin Fox

# The Rites of Recession

## It may already be upon us, and it could be painful. But it's not the biggest economic issue in town

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EVERY DAY IT'S LOOKING more like a recession in the U.S. The December economic numbers (released in January) have been mostly bad: unemployment up, to 5%; retail sales down 0.4%; industrial production flat. The housing market, where all the trouble started, is still in the tank. Banks are reporting big new losses and layoffs. Stock prices are plummeting. Presidential contenders are starting to focus on the economy on the campaign trail. It's ugly out there.

So let's just say it is in fact recession time for the world's biggest economy. What does that *mean*, exactly?

To be pedantic about it, that means a "significant decline in economic activity spread across the economy, lasting more than a few months." That's the semiofficial definition of a recession, courtesy of the National Bureau of Economic Research, a private think tank that since 1929 has determined the start and end dates of U.S. downturns. A clearer but clunkier standard is two straight quarters of declining gross domestic product. Or there's Harry Truman's classic definition: "It's a recession when your neighbor loses his job; it's a depression when you lose yours."

What we're talking about is an economy-wide mood swing. Businesses in lots of industries shed jobs. Consumers tighten their belts. Banks curtail lending. And then, usually within 12 months, things bottom out and start heading upward again. It's a temporary, cyclical phenomenon—not to be confused with long-term trends like the rise of China and India, the growth in income inequality and the decline of the TV sitcom.

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From 1945 to '82, there were nine recessions in the U.S. That's about one every four years. Since then, the downturns have become rarer and shallower. This would be the first since 2001, and before that, there hadn't been one since 1991. The move from manufacturing toward a less volatile services-dominated economy is one explanation. A more competent Federal Reserve is another. The trade-off has been that postrecession recoveries have been more muted than those of yore, while prerecession angst has, if anything, grown.

**Flat retail sales** *American consumers, like these in Chicago, may finally be pulling back*

The very shallowness of the last recession is part of what's causing worry now. In 2001 most businesses cut back sharply on spending. Thanks to the superlow interest rates set by the Fed, though, households plowed on, and for the first time ever, consumer spending kept rising during a recession. It continued rising afterward, much faster than incomes, with Americans paying for the difference by taking on more and more debt. That debt spiral is now unraveling, and the ensuing credit crunch could crimp spending for years.

Still, people need to eat, and since World War II, outright declines in consumer spending in the U.S. have always been modest and brief. That's partly because the government has become so acutely responsive to signs of distress. The Fed is already on the case, with three interest-rate cuts since September and more likely on Jan. 31. There's also fevered talk in Washington of a fiscal-stimulus package—income-tax rebates are a possibility, although so far Congress and the White House haven't been able to agree on anything.

None of this will have much impact, though, on long-run big issues like U.S. competitiveness, the state of the middle class, etc. For example, if the world economy is able to shrug off a U.S. downturn—a big topic of debate among economists at the moment—it would be a sign that America's global role has been permanently downgraded. But it won't be the doing of the recession, which is, remember, just a passing phenomenon.

Keep that in mind when listening to those presidential candidates talk economics. By the time one of them takes office a year from now, this year's slump will probably be history. It's the other stuff that he or she might actually be able to do something about. ■

BRIAN ULRICH FOR TIME