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Chapter 3

Recession or Depression?

A good deal of talk is going around about whether the United States is, or soon will be, in a depression. That raises the question what is the difference between a depression and a recession, which is what most people have been calling the current decline.

My definitions:

A *recession* is a period of decline in total output, income, employment and trade, usually lasting six months to a year and marked by widespread contractions in many sectors of the economy.

A *depression* is a "Big Mac" recession. Fortunately, unlike many Big Macs, they are rare!

Some of us can still remember the Great Depression of the 1930s, but many cannot. Fortunately, we do have an extensive record of these periods, compiled and studied for many years by scholars at the National Bureau of Economic Research. The Bureau's chronology of business cycles in the U.S. starts in 1834, so the record of when each downswing in the cycle began and how long it lasted covers nearly 150 years. Between 1834 and 1980 there were thirty-four of these downswings and on average they lasted nineteen months. The longest, from 1873 to 1879, lasted sixty-five months. The second longest, from August 1929 to March 1933, lasted forty-three months, which is one reason why it became known as the Great Depression. The shortest was the six-month decline from January to July 1980. The NBER dates the current decline from July 1981, and the downswing, based on the latest published data, has lasted at least

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eight months. So far, then, it is clearly on the short side, but of course we may not have seen the end of it.

In deciding what movements in the economy qualify as a business cycle the NBER looks broadly at three dimensions of recessions: how long they last; how deep they get; and how wide are their effects among industries or other sectors of the economy. Table 3-1 brings together a sampling of measures of these dimensions for all the downswings since 1920, of which there were thirteen. The current episode is the fourteenth in the list.

To help in reading the table we have put the past recessions and depressions into four groups. In a class by itself is the Great Depression—longer, deeper, and more widely felt than any of the others. Next are two major depressions, 1920-1921 and 1937-1938. They did not last very long, but were very severe while they lasted, and nearly all industries reported declines in employment (last column). The remaining ten recessions fall into two groups, sharp and mild. Not every measure yields the same verdict on whether a recession is sharp or mild. The recession at the end of World War II (1945) shows an especially wide diversity, but the brevity of the decline, the low rate of unemployment, and the transitional nature of the period when industries were shifting back to peacetime production led to the decision to place it in the mild recession group. The 1980 recession is also in the mild group, even though the high in unemployment, 8 percent, was above that in some of the sharp recessions.

If the current recession were to have ended in March 1982, it would almost certainly belong in the mild recession category, which is where President Reagan said he would like to see it. If it did not end in March, the figures on the bottom line will get larger when we have more recent information. What we do know, from other information besides that in the table, is that when the current recession is compared with others since 1948 over the same period of time (the first seven or eight months), it is more like an average of the sharp recessions than the mild. That is to say, most measures of economic activity have declined more than they did in the first seven or eight months of the mild recessions, and about as much as they did in the sharp recessions. This is true also of the index of leading indicators, which gives some advance warning of things to come. It too has declined on a path similar to the average pattern for the sharp recessions (see Figure 6-5).

When we push this kind of comparison back to 1929, we find that what has happened during the first eight months of the current recession isn't even in the same economic ball park. For example, after

Table 3-1. A Capsule History of Recessions and Depressions, 1920-1982.

		How Deep?					
					Unemployment Rate		
	How Long? (months)	*Real GNP (%)*	*Industrial Production (%)*	*Nonfarm Employment (%)*	*High (%)*	*Increase (%)*	*How Wide? (% of industries with employment decline)*
The Great Depression (1933)	43	-33	-53	-32	25	+22	100
Two major depressions (1921, 1938)	16	-13	-32	-11	16	+10	97
Five sharp recessions (1924, 1949, 1954, 1958, 1975)	12	-3	-13	-4	7	+4	90
Five mild recessions (1927, 1945, 1961, 1970, 1980)	10	-2	-8	-2	6	+3	78
Current recession to date (see note)	8	-2	-9	-1	9	+2	76

Note: The first column is the period from the peak of the business cycle to the trough, as determined by the National Bureau of Economic Research. The next three columns show the percentage declines in output or employment from the high month or quarter to the low. For unemployment (columns 5 and 6) the highest monthly figure reached is shown as well as the increase from the low to the high. The last column is the percentage of industries that experienced a decline in employment over a six-month interval. The figure shown is the highest percentage reached during the depression or recession.

All the entries on lines 2, 3, and 4 are averages covering the respective depressions or recessions. Entries on line 5 are based on the latest published figures through March 1982. No forecasts are used.

Source: Center for International Business Cycle Research, Rutgers University.

eight months of the 1929 Depression—that is, from August 1929 to April 1930—nonfarm employment had dropped more than 5 percent, compared with about 1 percent in this recession. Translated to current employment levels that would have meant a loss of five million jobs instead of the current loss of about one million. One million is bad enough, but *five* million . . . ?

The statistics, of course, do not rule out the possibility of depression. They do show that some of the relevant evidence is consistent with a happier outcome.

(Postscript: Early in 1983 it seemed likely that the recession had reached bottom in December 1982. If this turns out to be the case, the 1981–82 recession, having lasted 17 months, with a drop of less than 3 percent in real GNP and a rise of about four percentage points in unemployment, would clearly belong in the sharp recession category.)