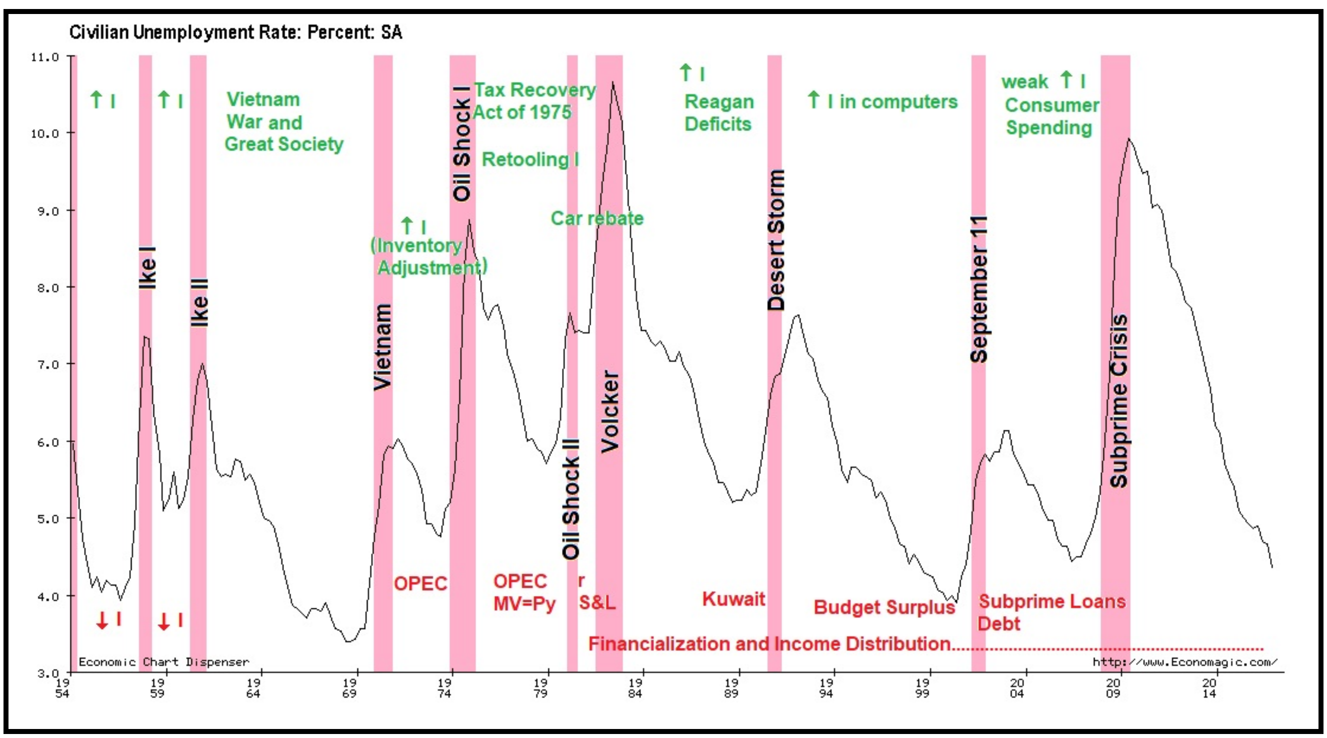
Perspectives in Macroeconomics

Recessions Since 1954

The nine recessions since 1954 are outlined below. I have given each a descriptive name to make it easier to remember, but note that I selected those names more on the basis of what would be easy for you to remember than what actually caused the recession. The official dates for each were set by the *National Bureau of Economic Research* (www.nber.org).



The Ike I Cycle

	Dates	Unemp	GDP
Trough to Peak	May 1954 to Aug 1957.....39 months	4.44%	4.09%
Late Expansion	Final year of Trough to Peak period	4.07%	2.02%
Peak to Trough	Aug 1957 to Apr 1958.....8 months	5.71%	-1.85%

Key Events: The private sector was the primary driver of economic activity. Investment increased at a brisk pace over the first two years of the upturn. At this same time, profits had increased nicely and business optimism remained high. Indebtedness was rising, however, something that drew comment from contemporary observers. In addition, pressure was clearly increasing on the cost of capital, where the rate of price increase had accelerated every quarter from 1954:3 through 1955:4 (not actually reaching its peak until 1956:4).

Exogenous-Cycle View of Recession: Higher interest rates reduced and reduced government defense spending lowered demand.

Endogenous-Cycle View of Recession: The saturation of the market for physical capital and rising indebtedness lowered spending.

Los Angeles Times

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PARTS—PART ONE CC ★ SUNDAY MORNING, MARCH 9, 1958 348 PAGES SUNDAY 20c

Eisenhower Asks Huge Boost in Spending to Halt Recession

Would Use 7 Billions for Public Projects, Highways, Defense

WASHINGTON, March 8 (U.P.)—President Eisenhower proposed today a multibillion-dollar increase in Federal spending to pull the nation out of the recession.

He included new as well as recently announced spending plans totaling more than $7,000,000,000. Much of the outlay would be spread over several years, however.

The President rejected Democratic moves in Congress to set up a Works Projects Administration or other antirecession "pump-priming schemes" which he said would pour "other people's money into dubious activities" and "do great damage to America."

Calls for Speed

But he called for a speed-up in spending on "genuinely needed" public works and more generous State compensation payments to the unemployed.

He announced budget request increases or actions totaling $611,000,000, plus a ...

... firmed his confidence that better days are ahead.

An 80% increase in defense spending in the current half year over the last half of 1957 was announced in the Feb. 12 statement and detailed in a letter to Senate Democratic Leader Johnson (Tex.) from the Defense Department yesterday.

Outlines Program

President Eisenhower outlined his antirecession plans in letters to Senate Republican Leader Knowland (Cal.) and House GOP Leader Martin (Mass.).

It came as the Democrat-controlled Congress threatened to seize the initiative from the administration in action to deal with the business slump and boost employment.

The administration apparently had planned to wait until Tuesday's regular ...

PRESIDENT POSES—President Eisenhower poses with breakfast guest, Senate Republican Leader Knowland of California, on north portico of White House. The President outlined his plans to spend billions in an antirecession move. Wirephoto

Legislators Consider Pay Raise

Amendment Drawn to Boost Salaries of Both Houses

BY ROBERT BLANCHARD
Times Staff Representative

SACRAMENTO, March 8 — California legislators, faced with the problem of balancing a $1,984,576,603 budget without increasing taxes, also are attempting to negotiate a pay raise for themselves.

The move is being led by Assemblyman Allen Miller, San Fernando Democrat, who has drawn up a constitutional amendment which would increase the salary of members of both houses of the Legislature, to consider the subject at the special session running concurrently with the budget session.

The Governor, however, reports he is taking no position on the legislation but merely is authorizing its consideration.

Committee Proposal

The proposed pay raise was a conditional recommendation of a citizens' legislative advisory commission appointed by the Legislature last year to determine whether the lawmakers should get more money, have more help and so forth.

Along with the pay raise, however, the commission ...

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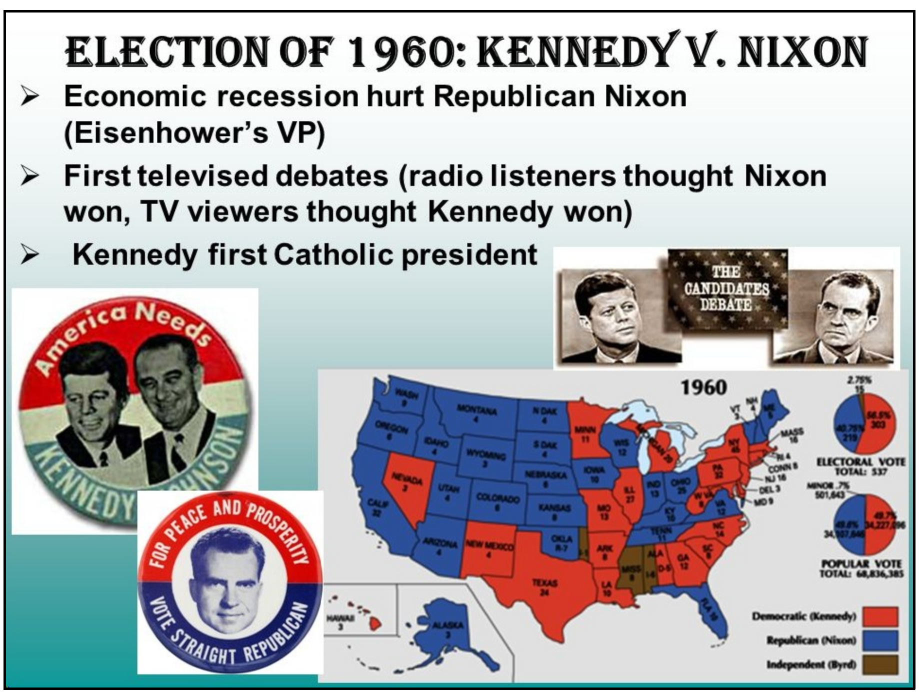
The Ike II Cycle

	Dates	Unemp	GDP
Trough to Peak	Apr 1958 to Apr 1960.....24 months	5.80%	6.72%
Late Expansion	Final year of Trough to Peak period	5.28%	5.03%
Peak to Trough	Apr 1960 to Feb 1961.....10 months	5.96%	-0.63%

Key Events: Like the previous cycle, this one was witness driven by fluctuations in investment. Real government spending barely changed over the entire expansion, although interest rates did move more significantly than they had in the previous two cycles. However, with one exception (1959:3), investment continued its strong growth despite the rising cost of financing. It was not until 1960:2, when interest rates (real and nominal) were actually falling, that investment moved into a significant decline. This coincided with a rapid deceleration in realized profits but still very optimistic numbers from the Purchasing Managers' Index.

Exogenous-Cycle View of Recession: Rising interest rates reduced spending.

Endogenous-Cycle View of Recession: The saturation of the market for physical capital lowered spending.



The Vietnam War Cycle

	Dates	Unemp	GDP
Trough to Peak	Feb 1961 to Dec 1969.....106 months	4.67%	5.14%
Late Expansion	Final year of Trough to Peak period	3.45%	2.99%
Peak to Trough	Dec 1969 to Nov 1970.....11 months	4.70%	-0.44%

Key Events: Expansion before this was longer than three previous combined. Spending for Vietnam War and LBJs Great Society program were significant factors. Twice, we almost went into recession but did not. Late in the expansion, the government raised interest rates (up about 2.5 percentage points from first quarter 1969) in attempting to lower economic activity. Fed started easing rather quickly into 1970, however. A major General Motors strike at the end of the year delayed recovery.

Exogenous-Cycle View of Recession: Higher interest rates and reduced government defense spending lowered demand.

Endogenous-Cycle View of Recession: Investment had not slowed appreciably by the end of the expansion, but profits were shrinking while optimism was high. This period was witness to the largest increase in firm costs in the post-war period. Both led to a large fall in investment by the end of 1969.

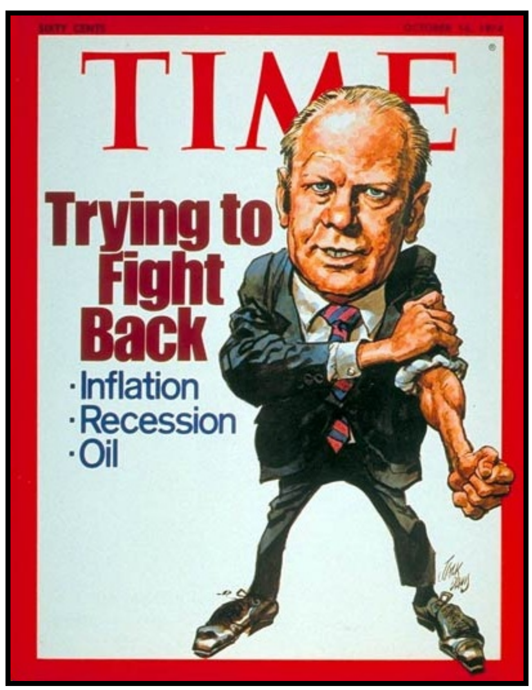
Oil Shock I Cycle

	Dates	Unemp	GDP
Trough to Peak	Nov 1970 to Nov 1973.....36 months	5.53%	5.27%
Late Expansion	Final year of Trough to Peak period	5.01%	4.87%
Peak to Trough	Nov 1973 to Mar 1975.....16 months	5.93%	-1.43%

Key Events: Expansion started off with a massive jump in investment, no doubt from rebuilding inventories after the General Motors strike. The rate of increase of investment and profits had fallen (though still not negative), but optimism was high–it was not clear that there was going to be a recession. However, the OPEC oil embargo in October changed all that. It became the longest post-war recession to date.

Exogenous-Cycle View of Recession: While nominal interest rates had risen, thus potentially slowing economic activity, in real terms they were actually lower. The shock of the OPEC Oil Embargo was the major factor.

Endogenous-Cycle View of Recession: Investment was definitely slowing by late expansion, but the OPEC Oil Embargo was the major factor.



Time Magazine cover Oct. 14, 1974.

Oil Shock II Cycle

	Dates	Unemp	GDP
Trough to Peak	Mar 1975 to Jan 1980.....58 months	6.96%	4.50%
Late Expansion	Final year of Trough to Peak period	5.85%	1.31%
Peak to Trough	Jan 1980 to Jul 1980.....6 months	7.10%	-2.39%

Key Events: Economy still sluggish as it emerged from Oil Shock recession, but Tax Recovery Act of 1975 helped. Combined with automatic stabilizers, new antirecession programs, and the need to retool to meet new government regulations, GDP growth stayed strong until 1980. However, a new policy stance at the Fed (October 1979) combined with a renewed increase in oil prices due to the Iranian Revolution (1979) and the Iran-Iraq war (1980) eventually had negative effects on growth.

Exogenous-Cycle View of Recession: The Federal Reserve had adopted a full-fledged monetarist approach (along with an explicit acceptance of Say's Law), and had therefore shifted to targeting monetary aggregates rather than interest rates. Because they believed that inflation was caused by monetary expansion, they engaged in highly contractionary policies, thereby raising interest rates to historic levels. This reduced demand. In addition, events in the Middle East drove oil prices up once again, introducing an unwelcome shock into the economy.

Endogenous-Cycle View of Recession: Even without the new Fed policy and the events in Iran and Iraq, investment and profits were already decelerating and had been for almost a year. Though the external and policy shocks certainly hurt, the economy was already slowing.

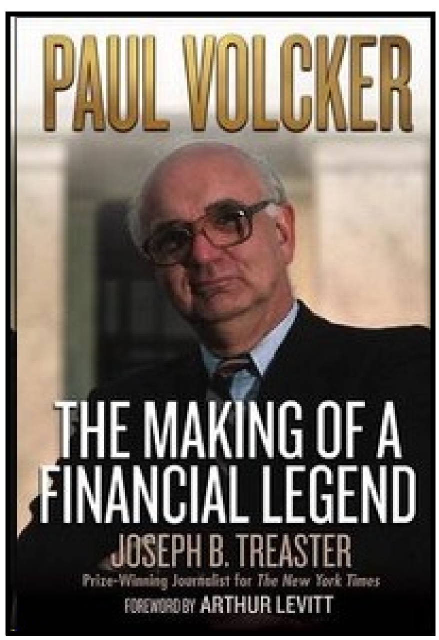
The Volcker Cycle

	Dates	Unemp	GDP
Trough to Peak	Jul 1980 to Jul 1981.....12 months	7.41%	4.42%
Late Expansion	Not calculated since entire expansion was only one year		
Peak to Trough	Jul 1981 to Nov 1982.....16 months	9.08%	-0.88%

Key Events: Despite incredibly high interest rates, investment did rise again. However, expansion was only one year long! Part of the upturn was due to a car rebate program, but it eventually expired. Also serving as a draw was the savings and loan crisis. Continued tight monetary policy led interest rates to reach historical highs, causing large declines in investment and consumer durables purchases.

Exogenous-Cycle View of Recession: A continuation of the approach to monetary policy that helped cause the 1980 recession also contributed here.
As an aside, that policy clearly worked since inflation decelerated from 8.9% from 1973:4 to 1982:4 (start of Oil Shock recession to end of Volcker recession) to 3.79% from 1983:1 to 1990:2 (span of next expansion).

Endogenous-Cycle View of Recession: This was, in many respects, a continuation of the Oil Shock II recession. The same contractionary monetary policy was in place (through 1982) and investment only really recovered for a couple of quarters before turning negative again.
In terms of inflation, Fed policy did not solve it, the collapse of OPEC quota agreements did. The rest of the world was learning how to substitute away from oil, plus the cost of the Iran-Iraq war led both to cheat on their quotas. Other OPEC members followed suit.



Desert Storm Cycle

	Dates	Unemp	GDP
Trough to Peak	Nov 1982 to Jul 1990.....92 months	6.78%	4.44%
Late Expansion	Final year of Trough to Peak period	5.31%	2.41%
Peak to Trough	Jul 1990 to Mar 1991.....8 months	6.14%	-1.71%

Key Events: Inflation finally fell and firms were ready to invest after the long recession. The first two years of expansion very strong, but then there was a sudden and dramatic drop in investment. However, the Reagan administration was creating very large budget deficits, so this offset it. Investment recovered, but not at rates seen earlier in expansion, and economy grew but was sluggish. Invasion of Kuwait by Iraq in 1990 added uncertainty and final nail in coffin of expansion.

Exogenous-Cycle View of Recession: Economy returned to strong growth. But, as recovery went on, the Fed raised interest rates to prevent inflation. This caused the recession.

Endogenous-Cycle View of Recession: Recession occurred due to saturation of demand for investment goods. Indeed, it would have come sooner had it not been for the large federal government deficits.

Time Magazine cover Jan. 13, 1992. Technically, the recession was over, but unemployment continued to rise until June of that year.

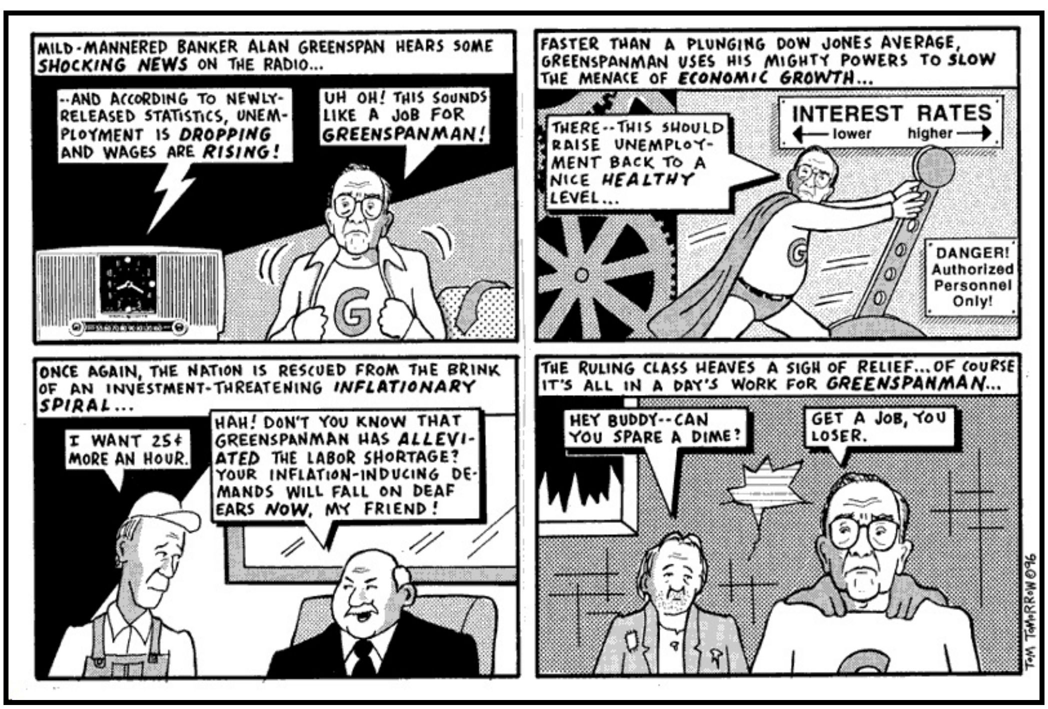
September 11 Cycle

	Dates	Unemp	GDP
Trough to Peak	Mar 1991 to Mar 2001.....120 months	5.57%	4.44%
Late Expansion	Final year of Trough to Peak period	3.97%	2.93%
Peak to Trough	Mar 2001 to Nov 2001.....8 months	4.74%	-0.22%

Key Events: Steady, if not strong, surge of investment (driven to a great extent by businesses purchasing computer technology) led to longest peacetime expansion in history. This finally came to a close in 2000 (rate of change of consumer durable spending also turned negative). Fiscal policy, already contractionary, had turned increasingly so. The terrorist attack in September 2001, didn't cause the recession, but it didn't help.

Exogenous-Cycle View of Recession: Recession due to monetary tightening in response to anticipated inflation, plus contractionary fiscal policy as the US budget went into surplus.

Endogenous-Cycle View of Recession: Recession occurred due to saturation of demand for investment goods plus the highly-contractionary effect of the US federal government budget surplus. Note that up to the recession, profits had been declining steadily (with one quarterly interruption) for over three years–yet entrepreneurial expectations were still positive.



Source: http://www.thismodernworld.org/arc/rar/TheNation/800Wide/Greenspanman.gif

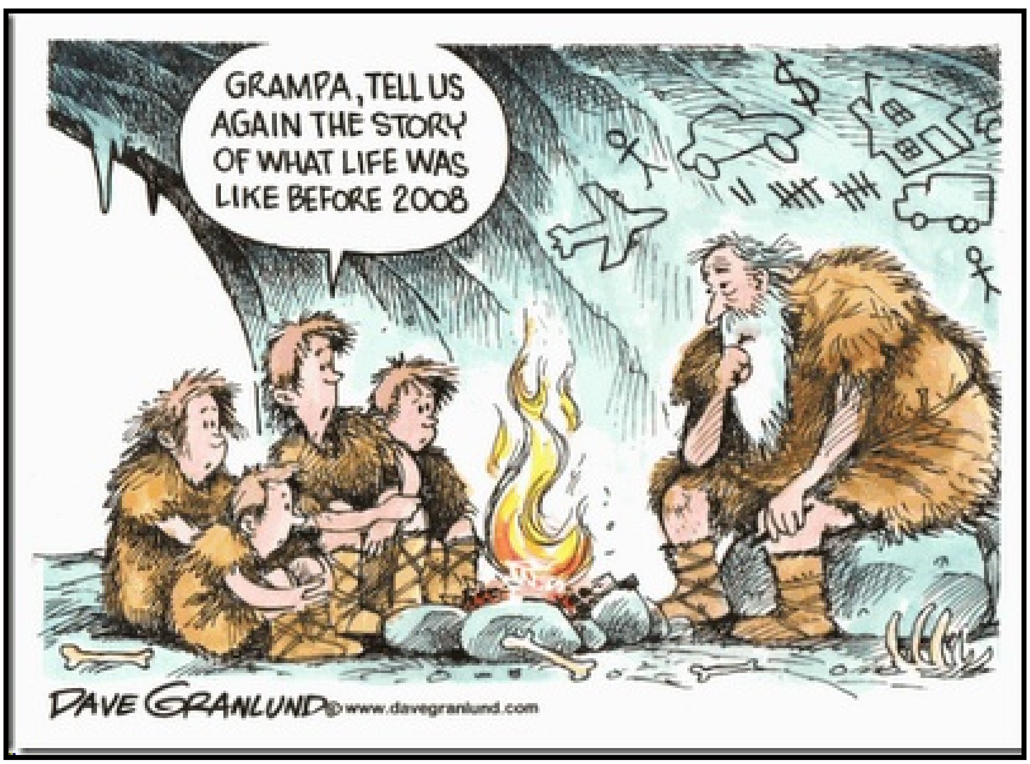
The Subprime Crisis Cycle

	Dates	Unemp	GDP
Trough to Peak	Nov 2001 to Dec 2007.....73 months	5.29%	2.87%
Late Expansion	Final year of Trough to Peak period	4.53%	2.31%
Peak to Trough	Dec 2007 to Jun 2009...18 months	6.51%	-2.19%

Key Events: Expansion was the weakest of any since 1950. Recession could have started sooner, but consumer spending kept the economy going (which raised private sector debt levels). Defaults in the subprime mortgage market then added to woes and these led to a credit crunch and a collapse of real economic activity.

Exogenous-Cycle View of Recession: Excessively expansionary monetary policy allowed unwise investments, then when interest rates were raised it led to a broad collapse.

Endogenous-Cycle View of Recession: Investment never really recovered and so expansion was fueled by consumer spending financed by increasing levels of debt and overvalued equities. Once the defaults started, the interlocking debt structure collapsed and finance was no longer forthcoming for working capital or investment. All this was exacerbated by three long-term issues: the financialization of the US economy, increasingly uneven income distributions, and increasing debt-income ratios.



Post-Subprime Crisis Cycle

	Dates	**Unemp**	**GDP**
Trough to Present	July 2009 to Dec 2016.....90 months	7.35%	2.14%
Late Expansion???	Last year of Trough to Present	4.85%	1.96%
Peak to Trough	???	???	???

Key Events: Unemployment has slowly recovered, but wages are still stagnant. In addition, debt levels are making people reluctant to spend. There was a run of negative growth rates in investment 2016 and profits in 2015 and 2016. Not surprisingly, GDP growth has been very weak.