Keeping the global recession in perspective

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The global recession has been spreading and deepening for nearly a year. It could become the worst downturn since the Great Depression of the 1930s, and it has captured nearly all of the attention we, our media, and our leaders pay to economic issues. Perhaps we’re paying too much attention to it. I want to convince you in this editorial that a recession—even a major depression—is not an economic problem of the first magnitude. Our most pressing economic problems are distribution, and they exist whether we are in recession or not. Recessions appear to be a major problem primarily because we allow existing distributional problems to get worse during recessions.

To see my argument, imagine that you lived through the entire Twentieth Century. You were born on January 1\textsuperscript{st}, 1900 and died exactly 100 years later on January 1\textsuperscript{st}, 2000. During all of that time you were a member of a representative American family of three with an income equal to the average U.S. income for a family of that size.

I have included figures below of average income per person and per family of three for the entire Twentieth Century. The appendix includes a table with the background data for these figures as well as some information about the percentage changes you’re looking it. Don’t fear all these numbers. I’ll just ask you to glance at it and take a closer look at a few important ones. These figures are “adjusted for inflation” meaning that they are reported in 2008 prices. It is notoriously difficult to adjust for inflation in a world in which the prices of different goods are
changing at different rates, new products are being introduced, and old products are being discontinued. Adjusting for inflation is much more subjective than most economists let on, but these figures represent our best guess about how to do it.

Financially, your imaginary family did awfully well during the Twentieth Century. A simple glance at the graph shows that your family’s income goes up and down, but mostly up. Your family’s income started at about $20,000 in 1900. It rose sporadically to reach $136,000 in 1999. That an increase of more than 577 percent—almost six times what your family made the day you were born. In the early years you could not have afford a computer, television, and many things we now take for granted, but your family’s $20,000 income would have been more than enough to pay for a home, for food, and for clothing for the whole family. At no time in that 100 year period would your family have had any difficulty securing its basic needs, and you were able to consume many luxuries as well.
Your income didn’t rise every year; it fluctuated with the business cycle. Glance down the third column of the appendix table. That shows the percentage change in your income from year to year. The years when your income dropped (shown in bold) are the recession years. In the first half of the Twentieth Century, the business cycle was volatile. Your income could go
down 9 percent one year and up 10 percent the next. But if you look at the graph, you see that the only downturn that looks terribly significant was the period of 1930-1933, when over four years your family’s income declined from by nearly 25% from $34,093 to $23,607.

You might be tempted to think that 1945-1947 was worse because your income declined by a greater percentage in a shorter time. To see that this isn’t so, you have to realize that there is a lot this table doesn’t show. I doesn’t show how hard you are working, how much you want to work, and what you’re working for. You had a great increase in your income during the years 1940-1945, but that was largely because you were working extra hard for the goal of winning the Second World War. The decline from 1945 to 1947 mostly reflects that you no longer needed to work so hard because the war was won. Your income in 1947 (after 3-years of decline) was still more than 25% percent higher than 1940 and 85% higher than in 1933. You were actually doing just fine in that year.

The depression was different. You didn’t want to work any less in those years, but as a representative American, you were unemployed 25% of the time in 1933. This would have been difficult for your family. You might have had to sell some of your luxuries or move into a smaller home. But your inflation-adjusted income was still more than 16 percent higher than when you were born. If you could feed, cloth, and house your family in 1900, you could do so in 1933 and you could have spent all of your additional income on luxuries that you couldn’t afford in 1900. As a representative American family, you were not in financial distress even in the depths of the Great Depression. There would have been no reason for a member of your family to stand in a bread line or head to California in search of work as a migrant farm laborer.

After 1950, the business cycle became even less of a problem for you and your family. You experienced the occasional 1 or 2 percent decline, but such a small decline would have been
barely noticeable, especially with your income being 300% or 400% higher than a few decades earlier. The worst recessions such as in the mid 70s and early 80s caused less than a 3 percent drop in your income. That might have slowed your accumulation of savings or caused you to put off buying a new luxury for a year or two, but no more than that.

The current recession might well cause national income to drop by 6 percent this year. Suppose it goes on, and we experience a decline similar to the Great Depression, say lowering national income to 20 percent less than it was in 1999. That would bring the income of our representative American family down to $109,509—higher than in the boom year of 1987. That means, even if we suffer the worst depression since the 1930s, we will still have a greater technical capacity to feed, clothe, house, and provide luxuries our people than we did in the boom year of 1987. If we dealt with such a crisis sensibly, it would affect only our consumption of luxuries, not necessities.

These facts illustrate the point that I’m trying to make: if we keep in mind the truly important economic issues, recessions are something we can easily handle. The most important thing about your income is not whether it rises or falls by a few percentage points in a given year, but that’s all a recession is. The most important thing is not even that your income grows over time, although a growing income is always nice. Actually, the most important thing about your income is that it meets your needs.

Our main concern about the national economy should be same the same as each individual’s main concern about his or her own income. Before worrying about the bankers, or about the rise or fall of an abstract figure like GDP, we should ask ourselves: how can we secure food, housing, clothing, medical care, and education for everyone? Whether we are in a recession or not has little to do with our answer to that question. Going back to 1776, there has never been
a time when America lacked the economic capacity to secure every citizen’s needs. Nor was there a time when it was even close. This fact is not unique to America. Economist Amartya Sen has found evidence that there has not been a famine in modern history in which any nation actually lacked the economic capacity to feed its citizens. Modern famines have all been caused by mal-distribution of plentiful resources.

Sen’s observation is true only for modern history, not for all of human history. The Norse in Greenland, the Mayan Empire, the Easter Islanders and other societies all apparently experienced episodes in which they simply could not feed their people. But these were environmental disasters, not financial depressions. Once we solve the important economic problems of how to secure our needs without screwing up our environment, even a severe depression means no more than a fluctuation in our accumulation of luxuries. Distribution of necessities is what is important, not a 10 percent fluctuation in our ability to produce luxuries. A recession is a trivial issue for the nation as a whole; it is a minor fluctuation in output. This could and should cause no more than a pause in our accumulation of luxuries.

Of course, what actually happens during recessions is significant: more people are in poverty; more people are homeless; more people lack their necessities; more people have reason to fear economic security. All of this is true, but it is only true because we allow it to happen. We had the technical capacity to eliminate economic deprivation in the recession years of 1982 and 1992 just as we did in the boom years of 1987 and 1999. We did not do solve these problems in boom years and we let them get worse in recession years. A recession cannot hurt anyone in a significant way unless we let it. The tragedy is that we let it.