Armchair Economics

Perspectives from an economic everyman

Recession, Anyone?

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How could anyone have such a wish? Recessions are bad. They destroy companies, loans, banks, jobs, careers and, unfortunately, families. Yes, but in terms of the collective economy, recessions also make us more competitive and productive. To repeat an overused adage, "that which doesn't kill us only makes us stronger."

Recessions clear the decks of inefficiencies, take the air out of bubble investments and wipe out poorly run companies. This process of course hurts, but historically—and more often than not—recessions serve as the cyclical prescription that increases the future health of economy. We've certainly grown economy from every recession in the past.

However we may try to eliminate recessions once and for all, we cannot. They are a natural occurrence, especially in a free market-oriented economy.

A few years ago I wrote about the illusion of free markets: "Free markets are an aspiration during economic expansions, but they are of little interest during economic contractions."

During expansions the prevailing sentiment is, "if it ain't broke don't fix it." But during contractions (recessions) the prevailing sentiment quickly shifts to "fix it immediately!" No one wants to kill the golden goose, but no one also wants to experience pain.

An interesting phenomenon is how frequently recessions happen early in the first term of a newly elected president. Eight of the eleven last recessions occurred within the first year of a new president's first term.

Why have so many modern presidents experienced a recession early in their first term? Of course the Armchair has a theory.

Every new presidential administration is swept into office by a vote for change. No matter the circumstances at the time, all new presidents have their own "recipe" for fixing what ails the US. And there is always something that ails us.

But there's a rub. New presidents may come into office with their "make things better" agenda, but they are not dictators or emperors. They can't change things measurably without first working through the system. That system consists of Congress, the courts, existing federal agencies, and all the policy infrastructure of the previous administration, as well as any left over policy infrastructure of many previous administrations.

Woodrow Wilson created the Federal Reserve. FDR created Social Security. Richard Nixon eliminated the gold standard. Bill Clinton struck down Glass-Steagall. Barack Obama created Obamacare.

Virtually every president (and some more than others) has done something that in some way remains today. Each has influenced social and economic activity that remains part of our current socioeconomic infrastructure. Each has added to "the swamp." And the longer any particular policy lasts, the more embedded it becomes in our overall system. Who wants to kill Social Security?

No matter what "great" ideas any newly elected president brings to the table, rather formidable forces stand between them and new policy. Getting through "the swamp" takes time, especially since every president leaves behind something that grows it.

The time it takes to implement new presidential ideas and new policy sets the stage for economic challenge.

When change is expected, the natural instinct in the commercial (business) part of the private sector is to wait. Why invest money today? You don't yet know how new policy may influence the best investment to make.

So companies—a very large driver of private sector economy—are incentivized to sit on their hands until they get clarity on policy. When companies sit on their hands, when they don't invest in their businesses or they invest less, economy can stagnate, increasing the risk of recession.

It's hard for economy to push forward productively when there is uncertainty over the rules by which to conduct private sector activity.

This deer-in-headlights private sector infliction can be exacerbated by the most previous administration's attempts to juice economy before they leave office. There are natural reasons for administrations to do so. What president doesn't want to go out on a high note? What president doesn't want to influence voters, who mostly vote from their pocket books, to support their chosen successor?

Why did the US federal budget deficit grow from $399B to $550B between 2015 and 2016 (September is our year end) when the US economy was supposedly gaining momentum and unemployment was falling? Why did an extra $150B of federal stimulus show up right before an election? Were we pulling economy forward in order to provide Hillary Clinton a less challenging run for the presidency?

Consider recent economic activity. First quarter 2017 GDP growth came in at an anemic 0.7%, while third quarter 2016 GDP growth, the last reported before we all went to the voting booth, came in at 3.5%, the highest level of the previous eight quarters.

Donald Trump was elected president by voters who desire some pretty dramatic change with immigration policy, globalization policy, economic policy, health care policy and tax policy. That's a lot of policy to change.

Because this change in policy seems rather dramatic, there are a lot of embedded legacy forces standing in resistance. Trump can't even count on congressmen in his own party to toe the line.

When there is no policy change, the private sector is going to sit on its hands. The longer it sits on its hands, the less and less fuel there is for economic growth, leading to a greater chance of economic malaise. And any attempt by a prior administration to bring economy forward for political reasons adds to economy's fragility for the new administration.

Let's not forget our lesson on "free markets". When economic contractions happen there is a very forceful call to arms to fix things quickly.

When we consider the "the swamp's" quicksand sucking down the current administration's effort to Make America Great Again, we may just want to wish that a recession happens soon. How else can we change the partisan fighting, bickering, backstabbing and hatred into a call to arms to fix things immediately? From foes across the aisle in congress the villain becomes economic decline.

There is nothing like crisis to sharpen the focus. As Winston Churchill said: "Don't let a good crisis go to waste."

As we look back and into the future, maybe we shouldn't be surprised to see new presidents experience a recession early in their first terms. There are reasons that this curious coincidence might not be so curious a coincidence after all. Without a recession, there is less opportunity for presidents to put their stamp on American history—those signature accomplishments that make America great, greater, or great again.

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