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## **What Do Recessions Teach?**

Recessions are like economic winter, in that the activity which so bustled in summer dwindles and some of it even dies, never to be reborn. But for survivors, winter and recessions offer a period of renewal, a time for the generation of new ideas and methods which will characterize the next spurt of activity.

Recessions, unlike winter, do not occur because of some external force, like the rotation of the earth around the sun. Rather, recessions are caused by our very own psychology in that we humans tend to excess. Economic excess, which never seems excessive while we are doing it, comes in the form of living beyond one's means, producing too much, producing too little or fighting among ourselves (war). Recessions, in theory, are preventable. In practice, they are just part of the business cycle – boom to bust.

It is true that many people had thought that the business cycle had been repealed. So too did people in the late 20's think that permanent prosperity had arrived. Too much good is bad, face it. At least that's true in economics. Good times which last too long allow inefficiencies to become part of business and people to become lax and less guarded than they might otherwise be. When caution is lowered, people can make the mistakes which will prove to be their downfall.

Recessions are the logical conclusion to a false premise. In the late 80's, the false premise that junk bonds were a great investment any time was prevalent, among banks, insurance companies and pension funds. Ouch when the economy turned down. In the late 90's, the false premise that internet companies and the new economy had created a "new paradigm" made the populace drunk with that ridiculous premise. From 2002 to about 2006, the false premise that "You can't lose in real estate" filled the Christmas stockings with a fairy tale which turned out to be the "Nightmare on Elm Street." Real estate can go down and with it a whole bloated credit superstructure.

Was the taking down in any of the above cases inevitable? No, but in each case government failed in its regulatory duty to keep markets functioning smoothly and openly and, most of all, failed to protect the public interest. Arguably, the public interest is amorphous and open to interpretation. But the record of each speculative mania exposes glaring regulatory flaws. So let it be with this downturn.

The good news? Recessions, even depressions, end and something good emerges. Recessions spawn efficiencies, inventiveness, creativity and resourcefulness. Government helps through monetary and fiscal policy, by filling the gap that individuals and businesses make due to belt tightening. But what happens when government is the culprit? THAT is a much bigger problem. A government like Greece which has racked up a huge fiscal debt is less equipped to ward off deflationary forces. External funds must enter the country to balance the downdraft which surely follows economic excess. Fortunately, the U.S. does not face such a dire situation. But all is not rosy.

We as Americans must sober up (we probably are quite sober by now) and analyze our mistakes that we may move forward again. It was not just the banks, the mortgage companies, the mortgage brokers and the realtors who are at the core of fault; "We have met the enemy and he is us" (Pogo). People who stretched beyond their means to fulfill a dream played their parts in the excess, too. For every seller, there is a buyer.

Recessions are the inevitable conclusion of the equivalent of a weeks-long alcoholic binge - the hangover is awful but necessary to return to normality. Cheer up, this one may get worse, but the government lifeguards are working overtime to pull us out of the rising recessionary waters. Honest. The question, "How will you behave after the recession?"

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