

February 23, 2009

## **This Too Shall Pass**

A personal reflection on economic fluctuations

by *Natalie Gochnour, COO, Salt Lake Chamber*

King Solomon was feeling blue and asked one of his advisors for help. The King had dreamed about a silver ring that would quell his suffering. You see, during the good times the King worried that his joy would not last; in the bad times, he feared his sorrows would continue forever. He longed for a calm, steady stability.



The dutiful advisor searched throughout the kingdom, but to no avail. Just when he was about to give up, he met a merchant who showed him a ring with an inscription inside: "This too shall pass."

Miraculously, when the King received the ring, he found the peace he was seeking. His sorrow turned to joy because he knew the pain would end. His joy turned to sorrow because he knew wealth was fleeting. Then both joy and sorrow gave way to an enduring calm. *This too shall pass.*

During these uncertain and challenging economic times we would do well to heed such counsel.

The late R. Thayne Robson, the spokesperson for the Utah economy for well over fifty years and a mentor of mine, taught that the only certainty during a downturn is that a recovery is imminent. I can still remember him saying, "Just as certainly as markets create excesses, markets certainly correct."

So we find ourselves during the worst economic downturn since the end of the 1930s, wondering when it will end. The asset price bubble that interacted with new kinds of financial innovations and masked risk sent our economy into a financial freefall. We suffer from a system-wide failure of risk assessment, over spending and rock-bottom consumer confidence. The contraction, which at 13 months is already longer than most recessions, continues and is expanding its reach. Nearly every industry, occupation, and region in our state and country feel the pain.

We search for the positives – and there are many – but still lack the confidence to spend and invest like in normal times.

The obvious question is what to do about it. How should a seasoned public policy maker, a prudent business leader and a head of household respond to the current recession?

I suspect there are many answers to this question, each of them based on the unique circumstances of the moment and a realization of what history teaches us about responding to economic crises.

My experience in this regard is limited, although I did have a front row seat during the last major economic catastrophe – the 2001 bursting of the dotcom bubble and the crashing of hijacked planes into our homeland. At the time, I was Governor Mike Leavitt's Deputy for Policy and Communications and a close economic advisor.

Even though today's challenges are quantifiably worse, I have to tell you that in late 2001, the circumstances were quite dire. It was a disaster of nationwide proportions that left the high tech, finance, insurance, and tourism industries reeling. Even worse, the American psyche was incredibly vulnerable, even fearing for our own personal safety. And we had the world's largest peace time event – the Olympics – just a few months away.

The challenges felt even more daunting given that the United States and Utah had just experienced the longest economic expansion in modern economic history. We had almost forgotten that severe recessions occur.

In Utah, for instance, 2002 was the first time in 38 years that we lost jobs on an annual basis (see Figure 1). Sure, we had experienced fluctuations and slower growth, but rarely did we ever experience full out declines in total jobs.

During the dotcom/9-11 crisis, we experienced many of the same circumstances as leaders face today:

- **Government grows during a recession.**

During a recession government’s customers actually increase in the form of more unemployed, more people in need of medical and basic assistance, and more students at our institutions of higher learning. When coupled with our steady and nation-leading population growth, government faces a Herculean task of serving many more people with dramatically less revenue.

- **People resist cuts in education.**

In a state that has so many children and an already under-funded public education system, draconian cuts in education become untenable.

- **Executive/Legislative tension builds.**

Tension builds between the executive and legislative branches as the governor manages the state and the legislature appropriates its finances. The real battles on Capitol Hill aren’t partisan; they are between branches of government.

- **Forecasters miss the inflection points.**

Forecasters are too prone to extrapolate the recent past. They miss the turning points and so the good times and bad times are predicted to last longer than they really do. Surpluses and deficits are the natural consequence.

- **Prosperity returns.**

In the end, Utahns’ work ethic, entrepreneurial spirit, and talent helps the economy rebound. State government prudently manages its budget by funding critical needs, maintaining triple A credit worthiness and securing, yet again, the label of “Best Managed State in the Nation.” We live in a great state.

So our response to any recession requires a healthy dose of perspective – a perspective that is rooted in the common themes of a downturn and a sure confidence in a brighter future. So what are these themes?

The first of these is that economic fluctuations are irregular. Since World War II, the U.S. economy has suffered through 11 recessions (see Table 1); each lasted for varying amounts of time and in unevenly spaced cycles. There is no method to the madness, making the term “business cycle” a non sequitur because of the order and regularity implied.

**Table 1: Recessions and Job Losses-A Historical Perspective**

Recession	Number of Months	Peak Employment	Month Peak Employment Obtained	Number of Jobs Lost During Downturn	Lost Jobs as a Percent of Total Jobs	Number of Months to Return to Peak Employment
Nov 48-Oct 1949	12	45,194,000	Nov-48	2,244,000	5.0%	9 (Jul-50)
Jul 53-May 1954*	11	50,536,000	Jul-53	1,711,000	3.4%	12 (May-55)
Aug 57-April 1958	9	53,128,000	Aug-57	2,216,000	4.2%	12 (Apr-59)
Apr 60-Feb 1961	11	54,812,000	Apr-60	1,256,000	2.3%	10 (Dec-61)
Dec 69-Nov 1970	12	71,453,000	Mar-70	1,044,000	1.5%	10 (Sep-71)
Nov 73-Mar 1975*	17	78,634,000	Jul-74	2,171,000	2.8%	11 (Feb-76)
Jan 80-Jul 1980	7	90,991,000	Mar-80	1,159,000	1.3%	6 (Jan-81)
Jul 81-Nov 1982*	17	91,594,000	Jul-81	2,838,000	3.1%	12 (Nov-83)
Jul 90-Mar 1991*	9	109,775,000	Jul-90	1,579,000	1.4%	23 (Feb-93)
Mar 01-Nov 2001*	9	132,500,000	Mar-01	2,678,000	2.0%	38 (Jan-05)
Dec 07-Present	14	138,152,000	Dec-07	3,572,000	2.6%	TBD

Source: US Bureau of Labor Statistics, Current Employment Series (CES),  
Seasonally Adjusted Data and National Bureau of Economic & Business Research,  
Business Cycle Dating Committee

\*Jobs in these recessions hit their low point after the recession was official declared over. For most, this low point was within a few months. The 2001 recession is the exception--jobs did not reach the trough until March 2003

The second is that economic fluctuations are unpredictable. Analysts can know that an imbalance is occurring, but they cannot predict the inflection points.

Third, each downturn occurs for varying reasons and requires its own set of policy responses. History is rich with these examples.

The early 1900s brought us the Panic of 1907 where J.P. Morgan put up his own money to stop a run on the banks in New York. In 1911, the Supreme Court ruled that Standard Oil was an unreasonable monopoly and the Federal Trade Commission was established shortly thereafter. The 1929 crash led to the Great Depression and ushered in the New Deal, including the creation of Social Security, Fannie Mae, the Federal Deposit Insurance Corporation, and the Security and Exchange Commission.

In more recent times, we witnessed economic contractions as the manufacturing economy shifted to the service economy in the 1960s. We felt the burden of spiraling stagflation and an oil crisis in the 1970s and 80s. We experienced the consumer spending slowdown of the early 1990s and the irrational exuberance of the early 2000s.

The policy responses included a mix of countervailing measures. We reduced marginal tax rates, launched supply-side, trickle-down economics, and deregulated. Later we increased marginal tax rates to help with the deficit, and created more regulation.

The result is an economic history and series of policy responses of mind-numbing complexity, and quite frankly, inconsistency. Such is the fabric of our governance system and the policy balance that occurs based on competing ideologies.

The good news is the last lesson of economic fluctuations. Just as sure as recessions are irregular, unpredictable, and policy confusing – they end. They end because spending, investment, taxes, government spending, and the money supply all adjust – some naturally, some purposefully – to get the economy back on track. That is the magic of markets. That is the magic of our mixed economy. That is why on average over the past 50 years, the U.S. economy, as measured by real GDP, has grown about 3 percent per year. Markets are a great way to organize economic activity and we have the evidence to prove it.

Even now, I am confident that the root causes of the economic crisis are being addressed. Housing is becoming more affordable, the inventory of unsold homes is shrinking, the personal savings rate is rising, and the trade deficit is narrowing. An imperfect, but badly needed, federal stimulus package will funnel upwards of \$1.4 billion into the Utah economy. And a can-do Legislature will deliver on smart spending and wise investment to create jobs and invest in a more prosperous future.

So when you see one of the bumper stickers or t-shirts that say ...

Standard and Poor: My life in a nutshell

Money talks ... mine said goodbye

Or,

Since the recession, I've had to play in the sandbox with the kitties.

Just remember the Wisdom of Solomon. This too shall pass.

Published by [Center for Public Policy & Administration](#)

Copyright © 2009 The University of Utah. All rights reserved.

The Center for Public Policy & Administration offers research, education and services to public and nonprofit organizations that will strengthen administration, leadership and public policy making.

Powered by [IMN](#)