Employment, profits, sales slump: Recession is what happens to people
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Chicago Tribune (1963-Current file); Feb 10, 1974; ProQuest Historical Newspapers: Chicago Tribune
pg. A13

Employment, profits, sales slump

Recession is what happens to people

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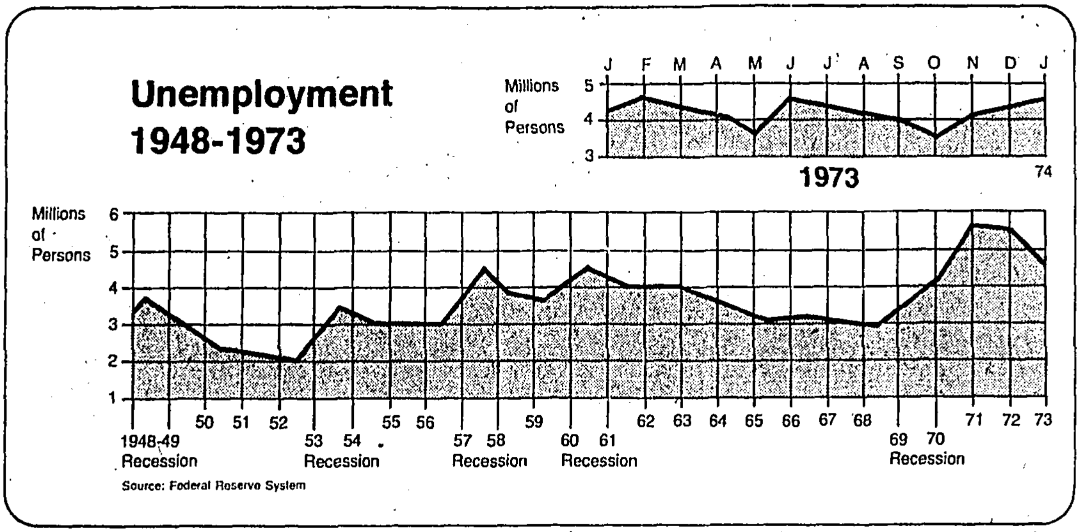

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WHEN YOU GET right down to it, a recession is what happens to people. It's not just numbers.

It's unemployment—5.2 million people out of work in June, 1958, and 5.6 million in February, 1961, the peaks of two of the post World War II recessions. It was 4.6 million people unemployed in 1970, the mildest recession in 25 years.

In January, 1974, there were 4.7 million people out of work.

But there's more than unemployment to a recession. Over-time is cut, profits are slashed, sales slump.

A recession may even be a gut feeling. The Harris survey found early this month that 54 per cent of Americans believe they are now in a recession.

THERE IS AN INTENSE preoccupation today with finding out in specific numbers and words whether there will be a recession, if there is one already and, if so, how deep it is.

Figuring that is downright difficult. There is no Olympian definition of a recession; no iron clad limits.

When President Nixon says there will not be a recession he may very well be right according to the criteria used by his economic advisers; he may be right according to the unofficial "official" scorekeepers of the trends of the economy—the National Bureau of Economic Research.

The generally accepted interpretation of a recession—two quarters of zero or negative real growth in the gross national product—isn't chiseled in marble. It wasn't handed down thru the ages.

In fact, it's not a definition.

"IT'S A GOOD working approximation, a good working rule," but not a definition, said Arthur Okun, chief economic adviser during the Johnson administration.

Okun, now a senior fellow at Brookings Institute in Washington, is credited by other economists with having first expressed the concise statement that passes for a definition in almost every news story on current economic outlook.

"It came out in an interview eight or nine years ago," he recalled.

"When the real GNP goes down for two quarters, the decline is serious enough and the factors that go into the decline are enough to give you a recession."

OKUN BELIEVES the United States is now in a recession. "I think the economy will decline in the first half and it will be pronounced," he said. "There is no point arguing about it. The only thing debateable is how sharp a decline."

As supporting evidence he noted that unemployment has gone up seventenths of one per cent in three months. [The unemployment rate was 5.2 per cent in January.] He also pointed out that industrial production was down in December.

Some economists agree with Okun, but the N. B. E. R. is not ready to make that pronouncement.

The nonprofit organization, formerly headed by Arthur Burns, current chairman of the Federal Reserve Board, was organized in 1920 to present objective determination of the factors bearing on the economy. It has traditionally lagged behind others in officially labeling the state of the economy.

Sometimes by the time the decision has been issued by the New York-based think tank, the economy is several weeks into the next economic stage.

GEOFFREY MOORE, vice president-research, disagrees that statements are always after the fact. He said if the decline starts off sharply enough the decision could be made quickly.

But there is no snappy definition for a recession that can be applied, he said. In fact, Moore prefers to use the term contraction rather than recession because he said it more aptly describes what happens to business activity.

The N. B. E. R. determines a recession by studying:

- The depth of the decline, including the real GNP and unemployment, and its relationship to performances of past recessions.
- The length of the decline.
- The scope of the decline—how widely it filters thru industry and business.

After all the factors are studied a staff group gives its combined judgment.

"THERE ARE NO absolutes, only guides," he said. "We can go to 6 per cent unemployment, but if we were at 4½ per cent as we were earlier in 1973, the increase would be only 1½ per cent and we would have to evaluate how much of an impact that was considering other factors."

The N. B. E. R. studies "hundreds" of factors, said Charlotte Bouchan, director of the data processing department. It's a constant process these days because of the great interest in the economy.

It is true, Moore said, that Okun's observation about a recession holds true for every period identified by the N. B. E. R. The postwar recession periods were November, 1948, to October, 1949; July, 1953, to August, 1954; July, 1957, to April 1958; May, 1960, to February, 1961; and November, 1969, to November, 1970.

"But you could have a decline in one quarter, a slight rise in the next quarter, and then a serious decline in the third quarter," he said. "You'd have a serious recession, but it wouldn't fit the definition."

MOORE BELIEVES the economy is in a growth recession. That's a description of what happens when the growth of the GNP slows, but does not decline.

Researchers have identified three previous periods of growth recession: 1951 to 1952, 1962 to 1963, and 1966 to 1967. The current growth recession started in March, 1973, Moore said.

John Meyer, president of N. B. E. R., said a growth recession happens when the economy crawls along the ceiling of full capacity. It can't go up, so it comes down a bit. "Some say it is what happens when the economy comes down from an abnormally high level to a normal level," he said.

By the way, don't ask Meyer or Moore for a definition of a depression. That's just a steeper version of what others call a recession.

Nothing like what happened in the 1930s depression will occur again, Moore said. The economic system has some built-in safety features such as unemployment compensation, which helps prevent spending power from going down, and insurance of deposits at banks, which will prevent bank failures, Moore said.