San Fran Fed Finds Another Recession Likely

The San Francisco Branch of the Federal Reserve Bank has found that the United States will more likely than not be dipping back into formal recession over the next two years, according to an August 9 study of nine economic indicators. Study authors Travis J. Berge and Òscar Jordà concluded that "for the period 18 to 24 months in the future, the probability of recession goes above 0.5 [50 percent], putting the odds of recession slightly above the odds of expansion."

"Intriguingly, just as we seemed to be leaving the recession behind, talk of a double dip became increasingly loud," the San Francisco Fed study authors noted, and found that nine of ten traditional recession statistics (the tenth statistic was the difference between the Federal Reserve discount rate and 10-year Treasury notes, which isn't relevant because the Fed has suppressed both in an attempt to "stimulate" business) show an increasing possibility of a "double dip" recession within the next two years. The authors explain that "forecast trends indicate that the macroeconomic outlook is likely to deteriorate progressively starting sometime next summer, even if the data suggest that a renewed recession is unlikely over the next several months. Of course, economic policy can strongly influence the outcome. The policies that are adopted today could play a decisive role in shaping the pace of growth."

But if policies "could play a decisive role," then current policies make a double-dip recession all but certain. President Obama keeps getting historically and economically ignorant covering fire from his leftist supporters, just as Washington keeps passing more deficit-increasing bailout packages (most recently for government employees).

"The central problem is lack of demand," Clinton-era Secretary of Labor Robert Reich (above) wrote recently, "and that's what has to be tackled." And like any reliable Keynesian economist, by "demand" Reich means that government needs to spend more: "That leaves only one remaining source of demand

— government. We need a giant jobs program to hire people and put money in their pockets that they'll spend and thereby create more jobs. Put ideology aside and recognize this fact. If it makes you more comfortable call it the National Defense Jobs Act. Call it the WPA. Call it Chopped Liver. Whatever, we have to get the great army of the unemployed and underemployed working again."

Reich even calls for a Bush-like stimulus plan, even if he also intends to soak the rich: "Put more money in consumer's wallets by eliminating payroll taxes on the first $20K of income (and make it up by applying payroll taxes to incomes over $250K.)"

Of course, genuine economic thought concludes that the economy will only recover when the American people save and invest, rather than just get a few bucks in their pockets from the government and then go and blow it on electronics and new furniture at the galleria mall. And massive deficit spending is only going to get the nation into much deeper economic trouble that will prolong the recession, something that Japanese have recently discovered over the course of their 21-year recession and deficit spending binge. But that doesn't worry Reich:

> What to do? First, don't listen to Wall Street and the Right. Forget the Neo-Hoover deficit hawks who say we have to cut government spending and trim upcoming deficits. We didn't get into this mess and aren't remaining in it because of budget deficits. In fact, the only way to reduce long-term deficits is to restore jobs and growth so government revenues rise and expenses like unemployment insurance drop.

Reich's argument is both economically and historically ignorant. Herbert Hoover never even attempted to balance the federal budget, even as he and his Republican Congress increased federal spending by 40 percent. He left Roosevelt the two largest deficits in U.S. history after the World War I deficits. Roosevelt and his Democratic Congress continued Hoover's borrow-and-spend policies by increasing federal spending some 80 percent over his first two terms. The result was the Great Depression that lasted until the demobilization after World War II, the longest economic recession in U.S. history.

Reich concludes — in a reality-deprived rant — that "If we let the deficit hawks and government haters dominate this debate, as they have, the Big Dipper will continue for years. The Great Depression lasted twelve." Government haters and deficit hawks have ruled the debate? Really? That hardly explains some three bailout packages and the two largest deficits — both in excess of $1.4 trillion — in U.S. history. Secretary Reich should read a newspaper once in a while. The reality is that if we allow the likes of Obama and Reich to dictate deficit policy, we'll be following the Hoover-Roosevelt policy of the Great Depression exactly.

Photo: Clinton administration Secretary of Labor Robert Reich at Boston College Conference in 1996: AP Images