On more than one occasion over the past few months, after President Bush insisted publicly that the U.S. economy is well on the road to recovery, the stock market has responded with a significant drop the following day, as if to prove him wrong. In mid-July, Washington Post staff writers noted, “For the second time in as many weeks, President Bush offered reassuring words today about the nation’s economy. And for the second time investors drove stock prices steeply down just after his address.”¹ Throughout the spring and summer the White House tried to convey optimism about the course of the nation’s economy. Some over-enthusiasts in Washington went so far as to doubt that a recession had even occurred since, according to initial data, the gross domestic product (GDP) had only contracted for a single trimester in 2001. Near the end of July, Treasury Secretary Paul H. O’Neil said on NBC-TV’s Meet the Press, “If people count as a recession one quarter of negative growth, God bless them. I don’t care.”²

In early June, the National Bureau of Economic Research (NBER) pinpointed “sometime in March” 2001 as the peak of the economic expansion that began in March 1991, and hence the beginning of a recession. They cited four key indicators for determining whether or not “a significant decline in activity” — their definition of a recession — has taken place: 1) employment; 2) industrial production; 3) manufacturing and wholesale-retail sales volumes; and 4) real personal income minus transfers. “Most of the recessions identified by our procedures do consist of two or more quarters of declining real GDP, but not all of them,” the NBER affirmed, adding, “The present recession may be an example that lacks two quarters of decline.”³ At that time the bureau did not identify a trough date, i.e., a turn-

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¹ Researcher at CISAN.
ing point that would indicate the end of the recession. In fact, as they themselves stated, the bureau’s Business Cycle Dating Committee “waits for many months after an apparent trough to make its decision, because of data revisions and the possibility that the contraction would resume.”

Data revisions released at the end of July did indeed raise new uncertainties about the current and future course of the U.S. economy. They also dispelled any doubts about whether or not a recession had occurred. The Commerce Department “revised its GDP data back to the start of 1999, revealing that national economic output contracted for three straight quarters during the first nine months of 2001, handily surpassing a rule-of-thumb definition that two quarters or more of declining output is a recession.” Although first quarter growth — originally reported at 5.8 percent and subsequently 6.1 percent — was revised downward to 5.0 percent, surely the most disappointing news was that in the second quarter of this year output only grew at a 1.1 percent seasonally adjusted annual rate — that is, “half the 2.2 percent rate estimated by Wall Street economists.”

It now seems that the decline in economic activity was a bit longer and deeper than originally estimated (a decrease of 0.8 percent rather that a rise of merely 0.1 percent) and yet mild when compared to other downturns. In spite of all the time and energy spent making predictions and all the paper and ink used to print them, the questions remaining unanswered thus far are: “Is it over?” “How bad was it, really?” and “What long term effects will it have?”

Although economics has made enormous strides since the days of Adam Smith, the business cycle, while seemingly still inevitable, is nonetheless a highly unpredictable phenomenon in terms of its precise timing, exact magnitude and overall impact. Only the advantage of hindsight allows us to fully explain the often erratic behavior of certain economic indicators and even then experts do not always agree in their interpretations of the economic events observed and their underlying causes.

The 2001 recession is an excellent example of how difficult it is at times for economists to make reliable predictions in spite of all the information to which they now have almost instantaneous access.

While the experience of the past two decades may indicate that the cycle has been tamed somewhat — judging by the magnitude of the fluctuations in GDP — it definitely has not been eliminated. Furthermore, the ostensibly mild recession in 1990-91, for example, had a much stronger and longer lasting impact than initially expected. According to David Brauer the subsequent recovery and expansion’s lack of momentum, after the recession trough was reached, is without precedent in the entire postwar period. Both GDP and industrial output took over two years to reach their previous peaks. Private sector employment fell continuously for 19 months (until February 1992) and as late as July 1993 had not recuperated its pre-recession level.

Nevertheless, the long lingering effects of that recession were finally dimmed by the economy’s surprisingly strong performance during the second half of the 1990s. In spite of the president’s public and private scandals, which cast their shadows over Clinton’s White House years, and the numerous defeats he suffered in Congress, the Clinton administration can claim several important accomplishments in the economic domain, such as lowering unemployment, eliminating the fiscal deficit and sustaining GDP growth for eight years. After the first trimester of 1998, the unemployment level reached a 28-year low. The fiscal deficit was eliminated more rapidly than expected and, for the first time in 30 years, there was a budget surplus in 1999.

Midway into Clinton’s second term his Council of Economic Advisers assured that there were no indications the existing economic expansion was in danger of winding down yet.

They pointed out that there were no inflationary pressures, nor build-up of inventories and no evidence of financial disequilibrium.

They highlighted the fact that investment had been growing since 1993 and productivity and salaries had been on the rise since 1996. However they also recognized that personal sav-
An ominous sign is that even though the twin towers have not been replaced yet, the twin deficits—the trade deficit and the fiscal deficit—have reappeared.
Currently a V-shaped recession—a brisk dip followed by a quick upswing—seems much less likely that it did some months ago. It now appears much more likely that the recession has assumed a U shape—an apparently mild decline followed by a rather slow, sluggish recovery. However it is still too soon to discard the possibility of a W-shaped, or double-dip, recession. Regardless of the form the U.S. recession assumes, the only thing certain for the Mexican economy is that the negative impact will probably be even stronger and last even longer here than in the U.S. It has been shown time and time again that in terms of economic health, when the U.S. sneezes, Mexico gets a cold, and if the U.S. gets a cold, Mexico comes down with pneumonia. 

NOTES


4 Ibid.


6 Ibid.


