No good reason to feel depression

Ross Gittins – Sydney Morning Herald

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You don't need me to tell you, but I will anyway. Yes, we're in for a terrible year. The economy's almost certain to drop into recession. Indeed, we may be there already.

That means rapidly mounting unemployment and various businesses collapsing.

This will be our first recession in 17 years, which means it will be a novel experience for everyone under about 30. For the rest of us, however, recession is nothing new. And while everyone's busy working themselves into a funk, it's worth reminding ourselves of a few home truths.

The first is that, although every recession is regarded a monumental failure of economic management, capitalist economies move in cycles of boom and bust. Always have; always will.

So this isn't the first recession we've had and it won't be the last.

That's worth repeating because it's a reminder of something we're prone to forget in the depths of our gloom: this recession will pass, just as every other one has.

A lot of people are saying this will be the worst recession we've experienced since the Great Depression of the 1930s. This may prove to be true. After all, it was true of the last recession, in the early '90s, and also the one before it in the early '80s.

But no matter how bad this recession proves to be, it's a safe prediction it won't be nearly as bad as the Depression, when the rate of unemployment leapt to more than 20 per cent. So don't let the talk of depression spook you.

In a recession, just about everyone is adversely affected. It's worth remembering, however, that most of us get let off pretty lightly. The great majority of businesses, for instance, won't go out backwards, even if many lay off staff. And consider this: were the rate of unemployment to more than double to 10 per cent, that would still mean 90 per cent of workers had kept their jobs.

What's more, the risk of unemployment is far from evenly spread across the workforce. It falls most heavily on young - those leaving education to seek a job - and the less skilled and less educated. There are exceptions, of course, but the higher your level of educational attainment, the lower the likelihood of your being unemployed.

Another factor is that some industries are more susceptible to the business cycle than others. Manufacturing, retailing, advertising and media are always hard hit, whereas the public sector and providers of basic goods and services are largely impervious. We still have to eat, for instance.

I predict that, before the year's out, we'll see letters to the editor proclaiming: What recession? My local restaurant is still full on Saturday nights. Why am I sure we'll see this? Because I hear people saying it in every recession.

Remember, too, that contrary to what we first think, the economic news is never all good or all bad. Just as booms are marred by rapidly rising prices and ever-increasing interest rates, so recessions are leavened by falling interest rates, government giveaways and slowing inflation.

Interest rates have another couple of percentage points to fall, with the next fall likely next week.

It's a good time to seek out generous discounts. And recessions are a time when the cashed-up and canny buy shares and real estate while they're cheap, setting themselves up for the next boom.

One thing that's different about this recession arises from the introduction of compulsory employee superannuation. Many of us have accepted the notion that, to live comfortably during retirement, we'll need to replace or at least supplement the age pension with a private pension.

The sharemarket always falls heavily in advance of the "real" economy dropping into recession (then recovers in advance of the real recovery). The point is that the build-up in our super nest-eggs over the past decade or more - much of which is invested in shares - has made a lot more of us conscious of the ups and downs of the sharemarket in a way we used not to be.

So now we have a lot of people looking at their diminished retirement savings, feeling poorer and feeling a need to tighten their belts and save more. They should remember that the sharemarket, too, will recover. Even those close to retirement (but a long way from death) will enjoy this recovery provided they leave a fair bit of their savings in the sharemarket.

I hope I've said enough to persuade you that recessions are a time when a lot of people do a lot more worrying than ultimately proves necessary. This is inevitable, but unfortunate.

It's inevitable because humans are herd animals. When other people are worried we have an almost irresistible urge to join in. It's unfortunate because everyone who tightens their belt unnecessarily makes the recession that much worse. There is, as the economists say, a multiplier effect.

And that brings us to a vexed question. Paul Keating used to be always urging us to save, save, save, but now his compatriot Kevin Rudd is pressing us to spend, spend, spend.

Which is it to be? Which is right? The conflict is easily resolved - it's a matter of time perspective. Over the longer term, saving more than we do at present will leave us better off - particularly in retirement. But spending preserves or creates jobs, so in the short term - at this point in the business cycle - it's better for the economy if we spend.

I'm reluctant, however, to cast this as a moral issue. In tough times people are motivated primarily by self-preservation and all their instincts tell them to pull in their belts and save, which for many people means paying down their debts - by itself, no bad thing.

This may not be ideal, but there's not a lot we can do about it. And remember, the more people save and get on top of their debts, the sooner they'll reach a point where they're ready to start spending again.

No matter how bad this recession proves to be, we're not out for the count.

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