



The Economy

## What Is A Depression, Anyway?

Maurna Desmond, 01.14.09, 4:30 PM ET

When is a recession a depression? No one really knows.

While there's a fairly standard definition for a recession (two quarters of shrinking gross domestic product), there isn't one for a depression.

The National Bureau of Economic Research (NBER), in charge of determining when the economy is in a recession, declines to even take a crack at it, acknowledging only that "the term depression is often used to refer to a particularly severe period of economic weakness."

But with unemployment jumping and the economy on the skids, we found a few economists willing to give it a shot.

"Now, if you ask me, I believe that a draw-down of 10% in real GDP will lead to a labeling of depression," said Campbell R. Harvey, a professor at Duke's Fuqua School of Business and the man behind the first comprehensive online financial dictionary. Indeed, a 10% contraction is often cited as the tipping point.

Harvard's Gregory Mankiw, a former economic adviser to President George Bush, says that downturns "are called recessions if they are mild and depressions if they are more severe."

Joel Naroff, of Naroff Economic Advisors, says we aren't currently in a depression, but "when we are in it, we will know it." He also doesn't think that one is around the corner. "We would have to get to 15% or more in my mind to qualify," he says.

**JP Morgan's** Michael Feroli noted that a bunch of people have thrown out alternative definitions, including double-digit unemployment for a certain number of quarters and the like, "but I don't think by any of these definitions we're in a depression," adding ominously, "yet."

Victor Zarnowitz also doesn't think we're there yet. He ought to know. The 89-year-old is one of six NBER board members that date U.S. business cycles. Besides being one of the world's leading economists, Zarnowitz was also a young man himself during the Depression of the 1930s.

"It's too close, and the information is too incomplete to be sure we are in a depression and not a severe recession," he said. "Unemployment is much lower than it was at the peak. It was much worse than what I see today."