Reflections

The Rival Definitions of Economic Recession: Resolved

JOHN F. GASKI

recession: the act of receding, retreating, or moving back; (in some contexts) the action of becoming lesser

—adapted from *Merriam-Webster* 2023 and *Webster's Dictionary* 1828

This definition captures the generic concept of recession, as applied to any variable or parameter, any quantity, aggregate, or magnitude, economic or otherwise.

* * *

For many years, including the entire memory of almost everyone reading this piece, there had been little or no public-sphere controversy about the conceptual definition of economic recession, i.e., a decline, contraction or "negative growth" in the total output of an economic unit such as a nation or region. A popular operational translation of the concept has long been considered to be at least two successive calendar quarters of negative real growth in gross domestic product (GDP)—in other words,

John F. Gaski is professor emeritus of marketing at Mendoza College of Business, University of Notre Dame.

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economic shrinkage. This is how the *Oxford English Dictionary* (2023) explicates economic recession and how the classic Samuelson text (1967) defined it for decades. The renowned economist Robert Barro (2022, 1) points out that the two-negative-quarter (2Q/–) definition has an infallible record, in the sense of zero false positives, of identifying recessions. Others concur (Layton and Banerji 2003, 1793–94; Mora and Siotis 2005).[1] In fact, the U.S. federal government has formally incorporated this simple definition in various laws, as do the U.K., Germany, France, Australia, and Canada (Magness 2022a, 2022b), so the 2Q/– interpretation is the closest thing to an official recession definition there is within leading governments. Its first formal public expression by a U.S. federal entity appears to have been a Bureau of Labor Statistics statement in the early 1970s (Shiskin 1974).

Concerning the historical provenance of a 2Q/– standard, academic focus on the negative range of business cycles, i.e., economic crises, began as early as the eighteenth century (Mitchell 1927, 3). The practice of expressing macroeconomic sluggishness in terms of aggregate output decline may be over 150 years old, as Mitchell also noted and seemingly endorsed (1, 16–18, 29–31, 35–37). Burns and Mitchell (1946, 3, 7) tentatively proposed a theoretical time-limit range for the whole cycle of "more than one year to . . . 12 years," and then empirically, using several examples from secondary data, reported minima of six, nine, and twelve months for each phase (113). Across nine peak-trough downturns (129; different examples), the shortest duration was eight months. Another illustrative set of fourteen cycles (407; covering the 1857–1933 period) yielded a minimum contraction phase of ten months. These reflections may bear witness to the genesis of a lower temporal limit for designating economic recessions in the range of at least two calendar quarters. (The original Burns-Mitchell concept also involved dividing the business cycle into four parts: expansion, recession, contraction, and revival.)

The remaining path of evolution to the six-month proto-consensus is difficult to trace, but one landmark was an *American Economic Review* proceedings paper by Fels (1955) that used a variant of the 2Q/– rule—requiring the second successive quarter's decline to be greater than the first (358). Then came Samuelson, as mentioned, and the quasi-governmental imprimatur of Shiskin (the Bureau of Labor Statistics commissioner at the time) imparting momentum to the 2Q/– interpretation, which has been overt ever since, despite some resistance.

So, what's the problem? How could a high-profile controversy have erupted recently over such an abstract and abstruse definition within the reputedly dull field of economics? Politics, of course.

1. Only once in the last sixty-plus years—during the 2001 dot-com bubble aftermath—a false negative *may* have occurred based on divergence between the GDP 2Q/– standard and another, looser recession definition to be detailed presently. In other words, a recession was recognized and declared, by some, without the two successive negative quarters having occurred.

Conceptual Corruption?

When economic conditions in a governmental jurisdiction turn south, naturally the politicians in charge look for cover to avoid culpability. When an economic downturn—albeit small—occurred in the U.S. in the first part of 2022, confirmed by GDP numbers across two calendar quarters, the incumbent administration likely felt vulnerable. A recession occurred on their watch! “We can’t have that,” they probably thought, as almost any politicians in the same circumstance might have. The administration could not legitimately lean on the federal Bureau of Economic Analysis to get it to fudge the numbers (as has been suspected before; Gaski 2012, 120), so plan B was bald political messaging to manipulate the national psyche into questioning its own perceptions—and so the American people would no longer “believe their lying eyes.” How to overcome the objective data? Finesse the words: that is, change the definition of recession so the public, the voters, will be led to believe that down is up, black is white, (economic) war is peace, and recession is prosperity. But how could they get away with a semantic ruse so crude and blatant?

Fortunately for the administration’s team, an alternative, ersatz definition was at the ready. A prominent private organization, the National Bureau of Economic Research, has been the quasi-official recession-duration arbiter since 1978 through its Business Cycle Dating Committee (BCDC), after having performed the function without a dedicated committee since the 1960s. Long after economic conditions signaling a possible recession have occurred, often over a year later (NBER 2010), the organization retroactively decides, based on its own stylized definition, (1) whether there really was a recession and (2), if so, when it began and ended. How stylized? The BCDC/NBER approach is mainly a composite blend of several judgmentally based economic indicators.

So, in this case, an off-the-shelf fig leaf for the administration was available. Instead of acknowledging that a recession had taken hold in the U.S. mere months after their first economic plan, the federal budget, went into effect, they simply claimed that there was no recession because the NBER had not yet declared it. Voilà!

Ironically, the Biden administration’s ploy echoed one from half a century earlier, as used by Richard Nixon. When the 1974 recession appeared to begin (per the 2Q/– definition, widely recognized by media and government as the standard even then), after President Nixon had promised the country recession would not occur, he and his administration embarked on a public relations campaign to urge media use of the (unconfirmable) NBER interpretation, thereby denying the existence of a recession or at least postponing its recognition (Silk 1974; Magness 2022b). The more things change . . . .

In fairness, politicians are not the only ones advocating for the NBER operationalization of recession. One camp of the economics profession also champions it—and

not only members of the NBER recession dating group (e.g., see Horpedahl 2022; Wall 2022). Because of that scholarly faction's well-earned stature, a conscientious rebuttal such as follows is warranted.

The Comparison

What sense does it make substantively to favor the NBER treatment over the two-negative-quarters alternative? It makes even less economic sense than meets the eye. Aside from the extreme time lag imposed by the NBER methodology, which removes any value for contemporaneous public information or policy purposes, the traditional 2Q/– construal is simply a better definition in other ways.

First, it is more objective. GDP or the similar metric, gross national product (GNP), has been the consensus measure of economic scale or magnitude for as long as the field of macroeconomics has existed. It presently is the virtually universal measure (Lepenies 2016)—which renders the NBER approach a literal renegade, although an enduring one. Therefore, a decline in the size of a national economy, for practical intents and purposes, means a decline (or recession) in real GDP. This point should not be controversial. The only subjectivity attached is the two-quarter time limit, but that minimalist functional simplism serves to beneficially inhibit even greater subjectivity in the form of argument over the minimum necessary duration to define recession. That is, the only shorter practical duration would be one quarter (which also would happen to indict the 2022 economic record). The objective case against a prospective one-quarter standard would be similar to what is universally considered unsatisfactory throughout all scientific research: small sample size.

Instead of such generally acknowledged objectivity, uniformity, and parsimony, essential qualities in the science and practice of definition (Caws 1959, 203–20), the BCDC/NBER approach involves more judgmental subjectivity or arbitrariness. Its actual growth/shrinkage measure is indeed a composite of several *objective* factors including real income, employment, industrial production, and consumer spending, as well as GDP. This is a totally reasonable selection of indices, to be sure, but it is still a subjective selection from the universe of all such macroeconomic variables that could have been used. Another quirk of the NBER's recession calculation is that not only are the components subjectively chosen, but the weights assigned to each in the composite formula are, too (NBER 2008, 2010; Wall 2022).

But is not the use of GDP alone even more selective and subjective? No, again, because that parameter is equivalent to and interchangeable with overall economic scale, i.e., the *size* of an economy. It thus qualifies as a legitimate definiens (definer) for the concept of economic magnitude and, by extension, changes in that aggregate.

Of added significance, 2Q/– itself embodies a definite, objective characteristic. When 2Q/– occurs, the reality of the change is there manifestly for all to see. Therefore, 2Q/– is meaningful in its own right, whether the metric's shorthand

equivalent goes by the name *recession*, *banana*, or *horse*. (Senior readers may recall that economists have used all these terms for the phenomenon over the years. Really.)[2] Less so for the NBER creation: Its components may be inherently objective, but the composite is *conceptually* amorphous or indefinite, literally a fabricated construct, even though a fair second-order proxy for macroeconomic difficulty. Yet different BCDC-contrived weights would yield different results, and whether the weighted formula's end product is adjudged and designated a "recession" in a given case is ultimately a subjective call by a committee. It was the NBER's own leaders, Burns and Mitchell (1946, 11), who deemed that such "an index [comprising] production, prices, sales, employment [etc.]" is not equivalent to a business cycle measure. The NBER then roils things even further by referring to its overall concept as the more vague economic "activity" rather than output. Maybe the group should just invent a different term for its downturn construct, such as economic *illness*, *morbidity*, or *malaise*.

Yet it should be conceded that the NBER formula's limitations are perfectly consistent with its original mission as designed by the Dating Committee's creator, Geoffrey Moore, in the 1970s.[3] Rather than an economic umpire calling safe or out in real time—i.e., recession or otherwise—it was to be what its name implies: a retrospective chronicler of the duration of prior economic events of a certain type. Political application of NBER's work product, as reviewed here, is a perversion of its purpose.

Multifactor measures such as the NBER's do have a recognized role in social science, but the particular label applied to such an amalgam is always arbitrary. Often the labeling makes little difference, but here the issue is the profound politico-economic impact of the semantics—i.e., recession or not. With 2Q/– as indicant of the recession concept, there is no such semantic fog.[4]

Finally, again and for emphasis, the NBER recession measure is necessarily delayed and lagging, therefore impractical for diagnostic and policy purposes. But sometimes that is an asset and escape route for the culpable economic managers, the Biden administration in the latest instance, as in: "Recession? What recession? We defined it away through selection of our preferred definition! Of course, our allies in the media and some parts of the economics profession went along with the smoke screen. This game's easy." (Again, echoes of Nixon. The difference is a compliant

2. Alfred Kahn, President Carter's economic adviser, satirically substituted the word *banana* (and later *kumquat*) for *recession* because of the R-word's sensitivity. President Reagan's top economist, Herb Stein, lampooned the politicized term *growth recession* by referring to a friend's small dog as a "growth horse."

3. The author gratefully acknowledges background provided by a referee who evidently had a contemporaneous, bird's-eye view of the early NBER and BCDC.

4. Bry and Boschan (1971), working with the NBER actually, pursued a different route to objectivity by simply comparing a quarter's growth rate with nearby peak and trough rates. (Growth in what variable? Again, it would be GDP!) Their comparison recognizes the adjacent two quarters before and after the cycle's inflection point, but without imposing a *consecutive* quarter decline (growth) requirement for recession (expansion). So the method at least establishes another precursor of the 2Q/– rule.

media in only one of the two cases.) The 2Q/– tool, because of its simplicity and objectivity, is less subject to such political manipulation. And with many members of the BCDC having served in the higher reaches of the federal executive branch, questions of political bias in the NBER model are inescapable.

So, why does the NBER not reform and use a more viable measure? Actually, there is a rightful place for an alternative measurement design for confirmatory purposes, after the fact. In other social sciences they call it *convergent validation*, i.e., agreement among different measurement approaches.[5] And the NBER result almost always confirms the 2Q/– method, so it has fulfilled and demonstrated such value for post hoc validation. It just has no value in real, tactical time. Of course, 2Q/– is not exactly rapid either, with GDP reporting about a month after quarter's end, and subject to two revisions. But this still beats the NBER schedule by miles or, literally, months.

Regardless, whenever the next U.S. recession does occur, already forecast by many financial markets and economists to arrive soon, it will be most reliably announced and *defined* by 2Q/– while the NBER is ruminating in slow motion, of necessity—enabling the administration in power, whoever it may be then, to again try to deny grim reality. When that happens, beware, and let us not allow them to get away with the subterfuge.

Concluding Reflection

This note has offered a rare, contrarian perspective, highlighting objective attributes of the 2Q/– recession interpretation in opposition to the more establishmentarian, if not orthodox, NBER measure. The author's conclusion, naturally, is that the more objective 2Q/– dominates and should eclipse its conceptual competitor based on the relative merits. So, in the interest of macroeconomic measurement, theory, and understanding, 2Q/– is nominated as the winner, at least definitionally and taxonomically. Nevertheless, further interchange on the issue is invited.

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5. Psychometric purists might suggest that *criterion* validity is a more accurate descriptor for the comparison because the NBER composite actually embodies a somewhat different construct than overall economic scale, as captured by 2Q/–.

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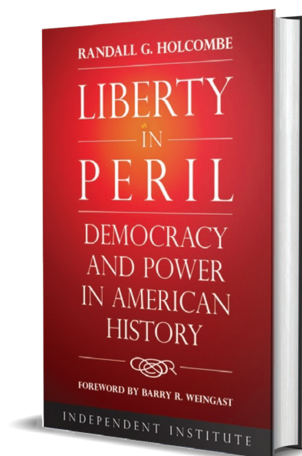

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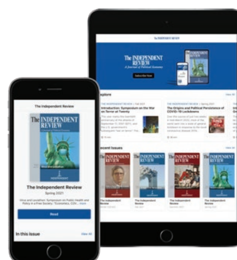

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