"The Real Reason for the Current Economic Recession"

Are we on the verge of recovery or on the verge of collapse? On the one hand, new and existing home sales are beginning to tick up and prices are beginning to firm up. On the other hand, key U.S. corporations, such as General Motors, are entering bankruptcy proceedings. Where are we in this economic cycle? While this is a key question going forward, it is often instructive to consider the chain of events that brought us to our current point.

You are probably thinking that this essay is going to be a rehash of the underpinnings to the current financial and economic crisis. That is, you are expecting us to argue that our current state is linked tightly to the sub-prime lending crisis and the breakdown of financial institutions. No doubt about it, the just-cited factors contributed to our current economic situation. However, we should ask, "Can we dig deeper?" Yes we can. In fact, Secretary of the Treasury Timothy Geithner recently cited the Federal Reserve Board's easy money policy of the early part of the decade as a key contributing factor to our current economic condition.

It was that easy money policy and high levels of saving in emerging market economies that enabled very low interest rates, which, in turn, motivated the overselling of sub-prime mortgages. We all know the story too well: Non-performing sub-prime loans stressed financial institutions and triggered credit default swap claims. In addition, the press oversold all of these stories and created a stampede in equity markets that precipitated the evaporation of $4 trillion in market capitalization from October of 2007 to September of 2008.

Again, these events help explain where we are today economically. However, let's try to get to the root cause of the current financial and economic crisis. In our humble opinion, the crisis began with 9/11. Why 9/11? Do you recall economic conditions that existed shortly before and immediately after 9/11?

You'll recall that the Dot.com bubble burst during 2000, and the economy was slipping and sliding during 2001. The horrific 9/11 events, in an economic sense, were like an upper-cut to an economy that was falling forward off the ropes. Planes crashing into the Twin Towers, into the Pentagon, and into a field in Pennsylvania planted an icy fear in the hearts and minds of Americans. We awakened to the fact that our nation was not safe. We stopped flying. We stopped shopping. We stayed at home behind shuttered windows and locked doors. Our economy buckled. Real gross domestic product contracted 1.4% during the third quarter of 2001.

In an effort to get the U.S. economic heart pumping again, the Federal Reserve Board turned on the spigot; the government mailed out tax rebate checks; firms offered a wide range of concessions; and financial institutions opened their safes wide to extend credit to whosoever came.

So there you have it. Our current financial and economic crisis—easing though it may be today—is inextricably linked to 9/11. While the U.S. economy did not collapse and die from the effects of 9/11, it has been on a life-support system of easy credit, bailouts and takeovers, and economic stimulus ever since.

The future will tell whether we are currently at a recovery point or near economic collapse. However, knowing a critical cause of the current economic illness should inform what is prescribed to remove the economy from life-support systems, heal it, and make it vibrant again.

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