

The Economist: U.S. In Depression, Not Recession

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Renowned financial publication *The Economist* reports that, based on the characteristics of the current financial crisis, the U.S. is in a depression, not a recession.

The admission marks the first time that a major international financial news outlet has acknowledged that the scale of the economic mess is unlike anything seen in recent decades.

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Under the headline, *Diagnosing depression*, the article asks, "What is the difference between a recession and a depression?"

The Economist piece makes the argument that the current crisis is far closer to a depression than a recession and that the only question remaining is how deep the downturn will be. *Photo: Unemployed people looking for work in 1935.*

A depression is characterized by "falling asset prices, a credit crunch and deflation," according to the article, all factors that we see unfolding in the current crisis.

"A depression is the result of a bursting asset and credit bubble, a contraction in credit, and a decline in the general price level," according to the article. "In the Great Depression average prices in America fell by one-quarter, and nominal GDP ended up shrinking by almost half."

Fast forward to the start of 2009 and house prices have fallen by at least 17 per cent over the last two years with that number only set to plunge further over the coming 18 months. Overall, American homeowners have lost \$2 trillion of equity during what has become the worst housing slump since World War II.

U.S. GDP in the fourth quarter last year fell an estimated six per cent, but that number is expected to accelerate through 2009.

The piece also states that assurances from economists who say that a repeat of the 1930's is impossible "because policymakers are unlikely to repeat the mistakes of the past," are coming from the same people who confidently predicted that "a nationwide fall in American house prices was impossible and that financial innovation had made the financial system more resilient."

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