Lessons From The Great Recession

by Michel Bell

The *Great Recession* came with a bang, went with a whisper, leaving more questions than answers. It was shorter, shallower, and significantly less severe than predicted.

In Heaven There Is No Recession

Still, fear and panic prevailed. Rather than examining our lives to see where God was signaling change, several Christ followers, in business and elsewhere, panicked and acted without seeking His guidance. Many didn't see the recession as a reminder to examine themselves, their circumstances, and return to God's chosen path.

They forgot Hebrews 13: 8: *Jesus Christ is the same yesterday and today and forever. In the valley*, they ignored God's promises to them on the mountaintop. They turned from His goals, focused on their situations, developed their solutions, and missed His best.

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Christ followers must *live our faith*—seek His wisdom, trust Him in all areas of life, and resist the temptation to follow so-called experts and chase more… and more.

Often Experts Are Wrong

How could so many experts miss calling the recession? With great confidence, economists, bankers, financiers, forecast future economic performance by extrapolating the present or massaging the past—frequently, they are wrong. After one year in recession, in December 2008, folks in the USA found out officially they were in recession for a year! Probably in a year, officially, they will learn the economy emerged from recession, a year earlier!

Why didn't we heed many obvious recession signs? Managing God's Money Fall 2003 letter and Vanier Institute of the Family's 2004 report, "Living on the Edge," warned of excessive unsustainable consumer spending. Vanier's report stated:

"... a growing number will fall over the precipice when, and not if, interest rates begin to rise ... "Households need to reign-in ... spending, pay off some debt and build a bigger cushion against slow times … and the time to act is now."

Households are drowning in debt. Yet, household spending continues unabated. For the first time during a recession, Canadians took on more debt. Today, the average Canadian household debt is around 145 percent of disposable income. Because it excludes assets, alone, this standard Government measure isn't a good indicator of indebtedness. Still, up from 91 percent in 1990 and 116 percent in 2005, the growth rate is alarming.

Aggressive *neuromarketing* has convinced consumers it's fine to consume now and pay later. But there is a debt level that will force households to deal with their debt addiction. Already we can see the ticking time bomb. In 2009, at 116,381 and 28.4 percent over 2008, consumer bankruptcies were the highest in history. Many experts don't see today's situation as a crisis, just as they didn't see the consumer debt meltdown in the US.

Household spending cannot continue to drive economic growth. We must expect several sluggish quarters while consumers adjust their lifestyles. Consumers must learn a new mantra: *pay down debt, save, and then buy!*

Government Spending Isn't The Economic Growth Engine

Technically out of recession, Canada is experiencing high unemployment, a *bubbling* housing market, low but rising interest rates, spiraling Government deficits, and massive household debt. How do we tackle these realities?

Not surprisingly, there is no evidence Government stimulus worked. The private sector, not Government, is the job creation engine. Though the Federal Government is addressing the shrinking *manufacturing* sector, to accelerate retooling, productivity improvement, and expansion, particularly where Canada has a *comparative advantage*, Government needs to do more in that sector.

The stronger Canadian dollar is another reason we need carefully crafted tax incentive strategies at all Government levels to help rebuild a stronger competitive manufacturing base that creates sustainable jobs. These could be the strategy's planks:

1. *Double* and extend beyond 2011, the two-year write-off for investments in *manufacturing* and processing equipment.
2. Introduce additional tax credits for *trades training.*
3. Allow the economy to shed *unproductive jobs*—don't subsidize dying businesses.
4. Provide targeted grants and scholarships to laid off employees and others to learn *needed skills,* particularly in *manufacturing* and *high tech industries.*
5. Lower corporate taxes in *manufacturing* to 12.5 percent.
6. Lower *personal tax rates* on earnings less than $80,000.

Low Interest Rates Contributed To The Recession, Lower Rates Caused More Debt In The Recession

For too long, Canadian and US Governments kept interest rates low. Slashing rates when the recession started compounded the personal debt crisis, and ignored Einstein's advice: "You can't solve a problem using the same kind of thinking that created it."

Canadian households must cut back consumption sharply and start paying down debt. Because we haven't learned from the US, this might

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be delayed. In the US, danger signs abounded but the economy kept ticking and few persons decried the *consume* now pay *later* practice.

Consumers Are Not Victims

As interest rates rise, will Government accept the inevitable economic slow-down while households repay debt and build savings? Will they panic again and start irrational stimulus spending? Will they accept that borrowers *aren't victims* and let consumers face *consequences* of exorbitant mortgages and huge credit card debts that are propping up unrealistic living standards? If Governments try to keep people in *unaffordable* homes, driving *unaffordable* vehicles, we will have missed a key lesson from this recession: debt is hazardous to families.

Unlike the US, we have a solid banking system. By God's grace, *when* our personal financial crisis erupts, distrust and panic shouldn't engulf it.

God Is In Control

Are Canadian businesses ready to adjust to new realities where consumers cut spending progressively? While *maximizing shareholder value*, Christian business leaders must apply ethical principles and practices that discourage consumers taking on prohibitive debt. I pray these leaders become more circumspect as they carry out God's mandate. I pray too, they recognize God is in control and His plans will prevail (Proverbs 19:21).

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