

THEME: ECONOMIC DOWNTURN – Working With It

By John W. Day, MBA

ACCOUNTING TERMS: Recession vs. Depression

Here is a simple explanation you may have already heard:

A recession is when your neighbor loses his job. A depression is when you lose your job.

This is an old joke and not very helpful if you really want to know the difference between a recession and a depression. According to Mike Moffatt, an economist who has written an article about this at www.About.com, there is no universally agreed upon definition.

So where does that leave us? Moffatt says that the Business Cycle Dating Committee at the National Bureau of Economic Research defines a recession as the time when business activity (such as employment, industrial production, real income and wholesale-retail sales) has reached its peak and starts to fall until the time when business activity bottoms out. When the business activity starts to rise again it is called an expansionary period. By this definition, the average recession lasts about a year. This is much more precise than using what he calls the “newspaper definition” that a recession is a decline in the Gross Domestic Product (GDP) for two or more consecutive quarters.

What then, is a depression and how is it different from a recession? First, Moffatt says that the simple definition of a depression is a recession that lasts longer and has a larger decline in business activity. Actually, the term “recession” was invented after the Great Depression in order to differentiate a lesser period of downturn from a more severe one.

Okay, I think I get that. If you are curious and want to know more about the history of recessions and depressions in the U.S., go to www.About.com and read Moffatt’s full article, “Recession? Depression? What’s the difference?”

FEATURE ARTICLE: Tough Times: A Good Thing?

Experts are saying things are bad right now and probably will get worse. How much worse is anybody’s guess. So what the heck is going on? It’s really no mystery. The current economic downturn is a phase of a business cycle that is in continual motion. It’s as normal as breathing in and breathing out. It’s the movement of expansion and contraction which seems to be a natural law of the universe, so to speak. We are just moving into the contraction phase.

When the expansion phase reaches its peak, it can go no farther. If the expansion breeds too much greed, and principles of moderation are overlooked for short-term gain instead of long-term results, then the peak point is artificially prolonged resulting in a more severe contraction when it is finally reached. Simple enough, if you dance, the Piper has to be paid.

It doesn't help to scapegoat others for this event such as Wall Street or Congress. Let's face it, we've all contributed to the event in one way or another. I'll admit it. I've taken advantage of the equity in my home and used the money for things other than home improvement. I've bought things using credit cards I would not have bought had I only used cash. I have succumbed to the "easy money" lure. It's been hard to resist. Now it's time to be honest about it so I can adapt to the new situation. It would be pretty hard to change the error of my ways if I wasn't willing to own that I'd done anything that needed to be changed.

What's fascinating about this whole thing is that we are suffering from what seems like a slow economic earthquake. It's not over yet. In fact, the shaking has just begun. Some buildings have toppled, there are a few fires and a number of people have been injured. It is in this moment that we have to stop, realize what is happening, assess our surroundings and make decisions regarding our immediate safety. Once this is done, we can ascertain what other likely damage might occur. Some folks are still dazed and haven't figured out that this economic earthquake is going to eventually affect them. Thomas Friedman recently said in a television interview that he noticed people are still going to restaurants and using credit cards. His thought was that these people don't seem to have a clue about what is happening and should be home eating tuna.

It can help to develop an overall perspective of the situation. A contraction means that all those things that were weak, unfounded and unsustainable are being rooted out and destroyed. The old is dying so the new can be born. Therefore, we want to be in the best position to recognize the potential of the new and to do what is necessary to adapt.

Fortunately, it appears that our president-elect is someone who has this perspective. He is already setting in motion the means to rebuild the nation in such a way to make it healthy again. After all, no company, country, or person can keep borrowing and borrowing before the cost of servicing that debt uses up all the resources. This lesson is being burnt into our collective nervous system. Now, with our leadership understanding and implementing this on a macro level, and us, as individuals, doing our part on the micro level, it certainly seems likely we will one day look back and be able to say that these tough times were actually *a good thing*.

QUESTION: I'm Unemployed! What Now?

I'm already getting calls from people who have been laid off from executive jobs, forced to live with their kids and postpone their retirement plans. They call me because they want to know if my accounting courses will refresh their memories about accounting enough so they can either teach accounting or get an accounting job. These are folks who are doing what they have to do.

I remember a time in my life when I was job hunting. I hated it. I felt like I was in a box. I had bought into the false belief that there were only so many jobs out there and most had already been taken. I began to demote myself to seeking some lesser job, but, would be rejected because I was "overqualified." It was so frustrating.

Now that I am older and wiser, I know that I was sucked into a mental trap because I could not think of myself outside of that so called "box." I know that this is easier said than done, but if you stretch your imagination and consider alternatives outside of your familiar zone, some good opportunities might come across your horizon.

Currently, I'm reading Ken Folliet's, "Pillars of the Earth." If you haven't read it, a young girl, named Aliena, and her younger brother, Richard, have experienced an economic meltdown while living in England during the middle-ages. They were raised by their father who was an Earl and they had it pretty easy all their lives. Suddenly, the father is arrested for treason and thrown into prison, leaving Aliena and Richard penniless to fend for themselves in a cruel and heartless world. They wander around searching for work and can find none. They are ragged and hungry until they find a little bit of money the father left them. They realize that if they just keep spending it on food, it will soon be gone and they will be back with nothing. Aliena figures out that if she buys wool from shepherds in the countryside and transports wool into the city she can sell the wool for a profit. The shepherds make more money because they don't have to travel to the city and can shear more sheep. So she invests the remaining money, takes the risk, and eventually creates a way to make a living. Aliena was forced to think outside the box of trying to find a job in the city.

Most people are a bit shocked when they get laid off, even if they are expecting it. So I say, "After the shock, take stock." It's important to take a personal inventory. Many of us have skills we learned while we were employed by someone else. We may even have skills we have developed that come naturally. It might take a friend or relative to remind us of those skills. Here is a case in point:

My sister is sixty years old. Last April her husband died suddenly of a heart attack. He left her with a mortgage and only his social security income. Talk about shock. It's been six months since he died and only recently has she been

able to think straight enough to realize she has to find some work. Her first thoughts were that there were no jobs available. But that was because she was thinking about jobs such as a retail clerk in a store. The family members had to remind her that she is extremely organized and efficient. In addition, she is a master gardener and very computer literate. Now she is interviewing for work as a personal secretary to a wealthy woman.

Obviously, there are some questions to be answered: What skills do I have that someone else would be willing to pay for? How can I market those skills? Can the Internet help market those skills? I know it's a little scary in the beginning, but that usually passes once the ball gets rolling. I went through it personally and I know of dozens of others that have struck out on their own and made it work. It's a learn-as-you-go situation like most other things. Often, people with good skills are reticent to become self-employed because they don't understand how the bookkeeping would work. I think that may be an easy excuse to avoid the unfamiliar because there are plenty of part-time bookkeepers willing to do the work for not much money.

I worked as an Internal Auditor for a private corporation in San Diego where my accounting skills were developed. After a few years, I decided to hang up my own shingle, become a sole-proprietorship and moved to Santa Barbara. I didn't know anybody. A local CPA told me that the slices of the accounting work pie were already taken in Santa Barbara and it was virtually impossible to break into it. Wow! That was encouraging. But what actually occurred was I rented office space from the owner of music store. He became my first client. He introduced me around town and I picked up several other clients through him. He introduced me to a lawyer. He started sending me clients. I went to a bank to get a loan to buy some equipment. The loan officer and I hit it off and he sent me so many clients I could barely keep up. Within two years, I carved out my own "piece of the pie".

The lesson is that if you have skills people need and can communicate effectively how those skills would benefit a person, then you, in a sense, create your own reality regardless of what others say or what the general consensus about the economy happens to be. The new usually comes with a challenge. I was timid about selling myself to others, but I had no choice other than to set that aside and just do it. Looking back, I needed a little kick in the seat of the pants to force me out of my comfort zone.

TIP: Hunker Down and Work Together.

It's obvious that it is time to stop using the credit cards and pay them down as quickly as possible. We simply don't know what is going to happen. For instance, I may think I have a secure job today, but if tomorrow I don't, then I need to be in as good a shape as possible to weather the storm. That's what Tom Friedman was getting at. Back in the depression days, when things were

very bad, families learned to work closely together to make things work. They shared homes, hired each other, made the kids work, and kept the lines of communication open because, if they didn't, life was much harder.

I'm reminded of a survival tale I read where four guys take off from Australia in a Trimaran (sailboat with 3 pontoons) intending to sail to another country. A few hundred miles out they were caught in a huge storm which flipped the boat upside down. They were crammed into a very small space inside. They fought with each other and created alliances and were not doing very well. After a couple of months, they finally realized that, if they worked together in a systematic way, they could catch fish. If any one person didn't participate, they couldn't catch any fish. When this started working, they became friends again and actually started viewing their misfortune as an adventure. After four months, the currents brought them back to Australia, a few hundred miles up the coast.

In hard times, in order to survive, people tend to let their differences go and become closer. Isn't this the fabric that holds a society together? Maybe this catastrophic event will cause us to become more closely knit, share our resources and cause us to get to know each other on a more intimate level. Wouldn't that be something?

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