

If you thought the recession was all over, think again

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The [First Post](#) has a report from the annual meeting of the American Economic Association.

I don't like quoting at too much length, but this one is pretty important, so I'm going to and remind you at the same time there is still more in the original:

Despite optimism reflected in stocks hitting a 15-month high yesterday on hopes of a global economic recovery, several leading financial gurus are sounding highly pessimistic about 2010 and beyond. At the American Economic Association's annual gathering in Atlanta yesterday, many predicted US GDP will grow less than two per cent per year for the next 10 years.

Throwing more cold water over new year optimism, economics' heaviest hitters, including Nobel Prize winner Paul Krugman, warn that far from entering into a robust period of recovery, the US in 2010 could end up looking like 1937. Then, the Roosevelt administration considered the Great Depression over, removed economic supports and the economy crashed again.

It is important to remember, says Krugman, that "occasional good numbers, signifying nothing... are common even when the economy is, in fact, mired in a prolonged slump." In 1996, statistics in Japan suggested its economy was recovering strongly when, in fact, it was only halfway through its stagflationary decade.

Krugman, an economics professor at Princeton, believes the Obama plan to start withdrawing stimulus mid-year is too early. "Congress should have enacted a second round of stimulus months ago, when it became clear that the slump was going to be deeper and longer than originally expected. The illusory good numbers we're about to see will probably head off any further possibility of action."

Harvard's Ken Rogoff believes many of the largest US banks still need Treasury backing. If the US government ever "credibly" pulled away from its backing of the financial system, then a renewed collapse would likely ensue, Rogoff told the Atlanta conference.

Corporate profits, he continued, are dependent on the near-zero cost of borrowing. "There's something of an illusion of profitability," Rogoff reported.

Joseph Stiglitz, Nobel laureate and professor of economics at Columbia University, told the conference he could not see how the US consumer could resume spending aggressively while house prices - the principle source of wealth - remained depressed. "It's very hard to see what will replace it," said Stiglitz. "It's going to take a number of years."

Harvard's Martin Feldstein, former head of the National Bureau of Economic Research, continued the gloomy prognostications, offering that there is unlikely to be any typical post-recession growth surge. "It will be difficult to have a robust recovery while housing and commercial real estate are depressed," he said.

But it was Krugman who - quite typically - came up with the darkest forecast. He foresees a 30 to 40 per cent chance the US will slide back into recession during the second half of the year. "It is not a low probability event," he told Bloomberg. "The chance that we will have growth slowing enough that unemployment ticks up again I would say is better than even."

I see no difference here inn the UK.

And we face talk of cutting deficits, balancing budgets, meeting the needs of bankers and more. All of which is ludicrous. Krugman is right: what we actually face is a risk of a repeat of 1937. And that means more spending is needed. let's call it a Green New Deal.

George Osborne please note.