THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

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What can we learn from recessions throughout history?

Published 24 January 2023

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The UK is currently experiencing a cost-of-living crisis, with the Bank of England warning that the country could face its longest recession since records began. Work by **Jason Lennard** looks at historical recessions and the lessons we can learn for the future.

With the UK facing what is predicted to be one of its longest ever recessions, understanding historical slumps and recoveries can help us navigate the present and learn valuable lessons for the future.

A recent paper by Dr Jason Lennard from the Department for Economic History at LSE uses GDP and qualitative sources, such as historical diaries and newspapers, to map out business cycles in the UK from 1700 to 2010. Understanding these historical cycles can help contextualise today's economic events.

A business cycle is the sum of two phases – the expansionary (growth) phase and the contractionary (recession) phase. A recession is defined as a drop in economic activity that meets the three Ds – it is deep, it is durable, and it is diffuse, across many economic activities.

Dr Lennard's research shows that the average recession (although there has been some variation over time) has evolved in a tick shape where there is a short one-year contraction and a longer recovery to pre-crisis levels lasting about two years.

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The role of policymakers

While the length of recessions has not varied remarkably over time, Dr Lennard's study finds that the growth (or expansionary) phase has significantly increased in length. He notes: "In the 18th century this lasted about two years but has increased since World War II to about 14 years. Growth periods have become much longer over time and the gap between recessions has become much bigger."

Dr Lennard believes there are two reasons for this change. Firstly, our economy is no longer heavily vulnerable to good and bad harvests which can be very volatile. Secondly, economic policy now plays a much more prominent role in stabilising the economy, with policymakers having the power to make a big difference.

So, with economic policy having a significant impact, can we use it to avoid recessions completely?

Dr Lennard doesn't think so. "To draw an analogy, you could think about managing the economy a bit like managing your health," he explains. "There are good practices you can adopt to put off visits to the doctor and, likewise, you can implement prudent economic policy. However, one day, something is going to come up and a doctor's visit will be necessary. The goal is to minimise the severity and frequency of these bad events rather than avoid them forever."

Multiple economic shocks

On the question of how policymakers can help manage the recession we are currently facing, Dr Lennard acknowledges this will be particularly problematic. Traditionally, recessions are caused by a single event. This one, however, is the result of three big shocks to the economy – the 2022 energy crisis, the impact of COVID-19, and Brexit.

Although we have dealt with similar issues in the past - such as the energy spikes of the mid-1970s and early 1980s – we have rarely had three big shocks come together at the same time.

This has created a particularly difficult situation with the cost-of-living crisis and inflationary problems, which require different policy responses than those to address a forthcoming recession. The standard policy tools to improve economic activity will also unfortunately exacerbate inflation, so managing that balance is difficult. It may be that fiscal policy has to do one job with targeted support to vulnerable households to protect their incomes and monetary policy must do the other job of fighting inflation. But it's a bit like having one foot on the accelerator and another on the brake."

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What history has taught us though, is that strong coherent policy and managing expectations can help us navigate even the most turbulent of economic times. "Our expectations for the future can govern our behaviour today," explains Dr Lennard.

A key example can be drawn from the 1930s where there were deflationary expectations – as households and companies expected prices to continue falling, they perpetually postponed consumption and investment in anticipation of cheaper prices in the future causing severe damage to the economy. "Policymakers in the US and, to a lesser-extent, the UK, had to reverse these expectations through clearly-communicated bold and coherent policy," he explains.

Public health and the economy

Interestingly, this also isn't the first time a public health crisis has played a significant role in causing a recession. "One thing I hadn't anticipated while doing this research is that public health crises were a cause of recessions long before COVID-19. Going through the historical records, there were at least three recessions caused by public health crises in the 18th century. In the UK, the clearest example is the recession of 1737 where there was an epidemic of colds and fevers," says Dr Lennard.

One historical source from the time reads that "there was a general distemper of violent coughs and colds all over the nation, of which many died" (Harland, 1851). Another cites that the people of Plymouth were struck with "violent swelling of the face, the parotids and maxillary [salivary] glands, followed by an immense discharge of an exceedingly acrid pituita from the mouth and nose; toothache and, in some, hemicrania; 'in multitudes,' wandering rheumatic pains; in others violent sciatics; in some griping of the bowels" (Creighton, 1894). This "epidemic of colds and fever – probably influenza – may have reduced industrial activity in the country generally" (Ashton, 1959).

Although the flu of 1918 to 1920 (sometimes called the Spanish flu) is often thought to have had a big impact on the economy, Dr Lennard believes more research is needed in this area. While the UK suffered its most severe recession in modern history between 1919 and 1921, like the recession we face today, a lot was going on at the time. Factors including the impact of World War I and the separation of Ireland from the UK have made it hard for historians to isolate the effect of the flu on the economy.

And just how we look to past recessions for answers, it is very possible the historians of tomorrow will look back at the recession of 2023 to glean lessons on how to better understand their economic landscape and the recessions of the future. ■

Dr Jason Lennard was speaking to Charlotte Kelloway, Media Relations Manager at LSE.

Watch: ***How long do recessions last?*** As part of the UK Economy video series, we talk to Dr Jason Lennard about the history of recessions and the shape of them.