

Nobel Prize Economist Paul Krugman on Long Depression Rather than Great Depression—Neither, Says Business Panel; We're in a Severe Recession



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1.0 Overview

Much of the media debate among publicly engaged economists either fails to resonate with the COMPAS business panel or is at least somewhat repudiated.

In the *New York Times*, influential Nobel Prizing winning economist Paul Krugman ignited a debate about whether the world is a 1873-type Long Depression instead of a 1929-like Great Depression. CEOs and business leaders on the COMPAS business panel insist that it is neither, that the world is in a severe Recession instead.

For years, liberal and conservative economists have been engaged in battle over whether serious recessions and depressions are caused primarily by capitalist irrationalism (Krugman) or failed regulation (Milton Friedman). Panelists repudiate the two sides, saying that both government and free markets are at fault.

When it comes to prescription, panelists tend to be conservative rather than liberal or fence-sitters. Most favour cuts in government spending.

These are the key findings from this past week's Internet survey of CEOs and business leaders on the COMPAS panel. The weekly business survey is undertaken for *Canadian Business* magazine under sponsorship of BDO Dunwoody LLP.

2.0 Details

Krugman and other economists may debate whether the world is in a Long or Great Depression, but few panelists believe that neither term describes the situation. Most believe that the world is in a severe Recession, as shown in table 2a.

The overwhelming majority of panelists repudiate leftwing and rightwing economics perspectives alike, saying that both free market players and



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government regulators are responsible for Recessions and Depressions, as shown in table 2b.

Finally, on the issue of what governments should do, a solid two-thirds majority opts for cuts in spending, the rightwing solution, as shown in table 2c.

Table 2a: Which of the following best describes your view of the current state of the world economy? We're in...

	%
A Severe Recession	58
The start of a Long Depression like the one that began in 1873 and was less deep than the Great Depression	13
Recovery/Coming out of a Recession	8
A virtual Great Depression like the one that began in 1929	5
A Mild Recession	2
Other	9
Don't Know	6

Table 2b: Do you believe that Recessions and Depressions are caused by...

	%
A combination of both	79
The failure of free markets, for example bubbles that burst	9
The failure of governments, for example monetary policy that is too tight or too loose for a given situation	5
None of these	8



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Table 2c: To spur economic recovery, which of the following opinions is closest to your own?

	%
Governments need to cut spending because current high spending is perceived as too reckless for investors and consumers to feel confident enough to spend money and help fuel an economic recovery	70
Governments need to keep spending today to provide jobs and inject money into the system to spur growth, and governments should worry about debt only after economies have begun to recover	30

The following verbatim comments provide a nuanced sense of respondent opinion:

Although there may be some more 'bubbles' in the economy that will burst and we may see an 'aftershock', largely I believe that we are coming out of this regression/depression.

Government spending needs to be kept lean and all excesses need to be eliminated.

Governments, individuals and corporations must get their financial houses in order.

Governments should do a better job of regulating and be less involved in equity participation!

I think we have to stop insurance companies, oil companies and banks from excess profit and make Agriculture more profitable to secure a good food system and environmental safety.

I'm afraid that with governments around the world being so far in debt that our only choices are going to be between rampant inflation and prolonged depression. My guess is that in the end we'll see high inflation take over but, for at least the next year it's more recession.



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Investors worrying about the debt should focus on what the outcome would be of a 1930s style depression - 90% loss on stocks, 30 to 40% unemployment

It is difficult to measure what is happening - recession, depression - as we are experiencing a new era. In the past recessions were more local in nature, closely aligned regions or countries. This is a new experience that is a result of world markets and hiccups are felt world wide.

Measurements as requested are largely based on comparison to previous events and we cannot compare as we have little to compare to. Governments trying to spend our way out will, at best, only delay the inevitable. The result will leave us deeper in debt which will in itself delay natural healing of our world economy. The economies of the world must adjust to a World Economy. Interference will only serve to lengthen the adjustment period. Government interference will only serve to create a situation which will require continual and expensive government maintenance to maintain a contrived and artificial world economy without free markets.

Like families, governments need to cut expenses. However, just like in Europe, these are very unpopular actions that lead to political and civil uncertainty but they are actions that are essential. There are too many people that live day by day and the social programs encourage remaining on government support. Government should encourage businesses to retain and build staff levels instead of low employment, but high cost, construction and similar stimulus spending programs.

Multiple convergences pose a unique scenario. We may have to resort to radical solutions such as massive debt forgiveness to solve them.

Some sectors---i.e. some electronic components are in huge demand



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Stimulus spending was useful last year in order to give an impression of confidence. I think that worked. But the time for having a psychological influence, such as in 2009, is past. There are limits on how much debt can be taken on. Now is the time for governments put some real focus on where they must spend and where they must cut back. Cutbacks should focus on efficiencies. It is still a good investment to spend on infrastructure, preventative health care, and education. There is still a lot of improvement needed in those areas.

The biggest thing we need is government(s) to take the politics out of the management of our economic affairs and approach the problems (serious as they are) with a pragmatic approach and long term vision.

The general population is not being given enough credit for their role and impact to the economic challenges.

The issues affecting the economy are diverse and complex. What I do know is that people without work are vulnerable to many issues: illness, depression, and feelings of unworthiness. These strain social services and informal networks. With governments lamenting the loss of taxes, cuts to these vital services are felt even more keenly. Surely all of us must have learned lessons from over a century of economic and social behaviour! It seems unlikely as social services in BC are being savaged by a government primarily concerned with preserving its power.

...Governments NEED to quit operating solely on political short term gain and concentrate on doing what is right for the economy as a whole. Governments are SUPPOSED TO SPEND WHEN THE ECONOMY IS DOWN AND PAY OFF DEBT WHEN THE ECONOMY IS GOOD. This has the effect of moderating inflation, and keeps the economy moving at a reasonable pace. We can now expect inflation (or stagflation) as a result of excessive debt. We need to resist the "special interest" and political groups later so



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spending can be reduced and debt paid down. Failure means a constant boom bust cycle until we bottom into a massive depression. We also need a new "world" (multi-country) money for international trade where expansion of supply is regulated.

The world situation is caused by pure greed.

This is all due to greed on the part of Americans and the Greeks are just following their example.

...Canada exited the recession over a year ago. We COULD possibly fall back into recession depending on factors outside our borders but have not at this time.

...Pessimism can actually work to worsen economic circumstances. I'm not suggesting Pollyannaism but, a constant focus on the negative will itself fuel more negative sentiment about future prospects.

To think that the governments can continue spending on projects and programs and not tighten their belts will continue to get us farther and farther in debt. Time to wake up and take some positive action for long term prosperity. Governments don't make profits companies do! If companies don't make profit then they don't pay taxes, and the income of the governments declines. If you don't stop it soon it will become a never ending spiral. If you want an example look at Greece and the other European countries.

What Krugman fails to understand is that cutting government spending is a process that takes years to implement. The United States has to at least start the conversation.

You can't spend your way out of debt!



3.0 Methodology

The COMPAS web-survey of CEOs and leaders of small, medium, and large corporations was conducted July 5-July 6, 2010. Respondents constitute an essentially hand-picked panel with a higher numerical representation of small and medium-sized firms.

Because of the small population of CEOs and business leaders from which the sample was drawn, the study can be considered more accurate than comparably sized general public studies. In studies of the general public, surveys of n=103 are deemed accurate to within approximately 9.7 percentage points 19 times out of 20. The principal and investigator on this study is Conrad Winn, Ph.D.

