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“S” Shaped Recovery for the Economy?

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Predictions are tricky business; economic predictions even more so. Most economists offer choices between “U”, “V”, “W” (and sometimes “L”) shaped recoveries. At RIA’s [Robotics Industry Forum](#) (June 20-22, 2010), Chris Thornberg of Beacon Economics offers another possibility: the “S” shaped recovery.

What makes this economic cycle different (and so hard to predict) is the amount of influence politics has in the outcome of any recovery from the Great Recession. Market drivers such as supply and demand are not the main factors today, according to Mr. Thornberg.

Years ago at the Robotics Industry Forum he predicted the crisis of a sub-prime mortgage bubble before it ever burst. Now he tells us the politicians at home and abroad have inserted such a heavy imprint on the state of the economy that normal drivers don’t matter as much. He cautions that another dip is not unlikely if for no other reason than a change by the government in accounting rules to defer the impact of toxic loans at Wall Street institutions considered too big to fail.

On the up side, he contends that credit is more available now to most businesses than is widely perceived. Inventories are in serious need of replenishment so positive trends in demand are likely to persist and give manufacturers more confidence to borrow.

What can’t be known is how governments will unwind bailout efforts instituted to spark recovery. The choice to spend unprecedented amounts of tax money to revitalize the economy has created huge national debts that dwarf anything seen before. Will taxes go up? Will interest rates go up? Either would have a heavy impact on consumer wealth and a negative effect on demand. Neither can stay as low as they are forever.

The problem is as severe in the United States as anywhere else in the world, but the Eurozone has already begun to crack as demonstrated by the recent admission by Greece that it is running an unsustainable level of debt. Estimates put it at 12.7 percent and Mr. Thornberg wouldn’t be surprised if it is even greater than that. Unless Greece gets a loan from somewhere it may have a gigantic financial meltdown. This may not devastate the U.S., but it goes to show how serious the problem is as countries lean on tax payers to spend their way out of the Great Recession.

What will U.S. politicians do to avoid a similar fate? So far, according to Mr. Thornberg, they are printing money to offset the crunch of bailout efforts. He predicts many hundreds of U.S. banks will fail in 2010 which would overwhelm the FDIC and could tip the economy back into recession.

New regulations and changes to federal oversight of the financial markets is a political fix that he says does not address the fundamental problems. Politicians on the one hand decry the obscenity of bonus packages at major Wall Street firms that caused this mess, and on the other they take equally obscene amounts of lobbyist money from major financial institutions.

At one point, Mr. Thornberg put it this way, “If you owe the bank a million dollars they own you. If you owe them a billion you own them.”