Recessions are part of the economic cycle. Each economic cycle contains a period of growth – called an expansion – and a period of decline, which is labelled a recession. Since World War II there have been a dozen recessions. The last recession occurred in 2020. It lasted only two months, but was very deep.

Bad things happen during recessions. Businesses go bankrupt, workers lose their jobs, the stock market declines, and the federal government goes deeper in debt trying to help the country survive.

One of the long-studied issues about recessions is what causes them. The consensus answer is that recessions result from some excess that had developed in the economy. Indeed, recessions are the way those excesses are eliminated.

Consider the recession of 2007-2009, the so-called “subprime recession.” Affordable interest rates and lenient lending standards motivated a boom in home construction and buying. Home prices surged, and investors became convinced investing in homes was a “sure thing.” Unfortunately for buyers, home prices eventually peaked, sparking a big sell-off as investors took profits. Those who bought at the peak in prices lost large amounts of money, as did the financial institutions that backed them. The country came close to having a financial meltdown similar to the Great Depression of the 1930s.

The last recession in 2020, dubbed the “Covid-19 recession,” had an unusual origin. It occurred as a result of government mandates for some businesses to close and individuals to stay home in order to curtail the spread of the virus. Policymakers knew the economy would decline as a result, but the costs were deemed necessary to lower cases, hospitalizations, and deaths from Covid-19.

If there is a recession in 2022, there will also be a Covid link. Here’s why. With the economy partially shut down in early 2020, and with public institutions such as hospitals facing rising numbers of patients, the federal government began providing an unprecedented amount of financial aid. Stimulus checks to households, enlarged unemployment compensation checks to laid-off workers, special payments to households with children, expanded Food Stamps, broader health care support, and special loans to businesses were provided in several aid packages over 2020 and 2021. These allocations totaled $5.5 trillion.

The financial assistance was so broad and generous that median household income rose and the poverty rate fell. Many households actually emerged from the worst of the virus in 2021 in better financial shape than prior to the virus. They were flush with cash and the desire to spend.

But a problem arose because the virus also curtailed the ability of producers to make products and deliver them to consumers. So, with robust spending but limited supply, the national inflation rate – which had been running between 1% and 2% annually in the 21st century – began rising, and ended 2021 at 7%, three times higher than the level it had been for most of the 21st century.

Hence, 2022 began with inflation a top economic problem for the first time in forty years. Although improvements in the supply chain will ease inflation, most experts estimate it will be months before supply problems are completely fixed.

Therefore, the work of reducing the inflation rate will fall to the nation's central bank, the Federal Reserve (Fed). The Fed will have to unwind its "cheap money" policy followed during the pandemic, when it pushed interest rates to near zero and expanded the money supply by 85%. Interest rates will have to be raised and the money supply curtailed.

Forty years ago, the Fed faced a similar situation. As a result of stimulus provided by the Fed to deal with two recessions in the 1970s, the economy was running hot and the annual inflation rate reached double-digit levels for several years. After the Fed raised interest rates and curtailed money growth, the inflation rate plunged. But so did the economy as a recession set in.

In the best case, today's Fed will be able to slow the economy enough to reduce the inflation rate, but not too much that the economy contracts, unemployment rises, and a new recession occurs. Unfortunately, the "gas pedal" the Fed controls is not precise. The Fed never knows exactly how the eco

The Fed has strongly hinted it will raise interest rates in 2022. Watch what they do, because everyone's economy will be impacted. Will a recession be in our future? You decide.

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