Recession...There, we said it! Not that we are predicting one, mind you, but we’ve noticed that the R-word is rarely used in Federal Reserve publications and we just wanted to get it into print. Now that we have your attention, we can discuss what recessions are and what you should know about them.

Some working economists have adopted a quick-and-dirty benchmark for gauging recessions: two consecutive quarterly declines in the real value of the gross domestic product. The most widely accepted arbiter of business cycle peaks and troughs—the Business Cycle Dating Committee of the National Bureau of Economic Research, or NBER (a private, nonprofit, educational organization)—defines a recession as “a recurring period of decline in total output, income, employment, and trade, usually lasting from six months to a year, and marked by widespread contractions in many sectors of the economy.”

Of necessity, the NBER’s cycle-dating deliberations occur at some time after the period in question. Economic data are received after varying lag times and undergo significant revisions as more complete information becomes available. Experience with data revisions shows that observers who rely on contemporary data alone can be very seriously misled about a current situation’s true nature. Consequently, the NBER’s cycle-dating process is designed less for current economic policy purposes than for better understanding business cycle dynamics.

The NBER’s definition of a recession should make clear that the cycle-dating process requires two kinds of judgments: First, has economic activity actually declined? Second, can the aggregate decline be attributed to a broad range of industries and locations? During the mid-1980s, for example, economic conditions in the Midwest were quite poor due to surging imports of manufactured goods and declines in agricultural exports. Had the rest of the country been struggling too, the NBER might well have labeled the period a recession, but conditions elsewhere were more buoyant. The early 1990s provided a nice counterpoint, in which the Midwest led the nation out of recession because there was strong demand for its manufactured products. The national recession might have lasted longer had manufacturing conditions in the Midwest not improved so quickly.

To reflect for a moment on the current situation, it is not yet plain whether the pullbacks announced in certain industries will trigger declines in other sectors. The structure of the U.S. economy has changed in the 10 years since the last recession. Fewer employees work in manufacturing industries, import and export activity are both more prominent, and high-tech sectors account for a much greater share of overall investment spending. In addition, supply-chain management has become more sophisticated, reducing the risk of major, unintended stockpiling of inventory. This development is significant because the process of inventory buildup and liquidation has amplified smaller disturbances leading to previous recessions. The modern economy may not be recession-proof, but future recessions could very well generate different warnings and follow different patterns.

Recessions can be regarded as extreme versions of a relatively common economic phenomenon, that is, a temporary market mismatch between supply and demand, caused by an unexpected disturbance. Left unfettered, prices, wages, and interest rates generally adjust quickly enough to clear out excess supply in the affected markets without transmitting the initial disturbance into other, unrelated markets. Recessions, then, are those rare occasions on which many people are unable to adjust and coordinate their plans without serious disruptions.

How our economy’s evolving structure might affect its ability to respond to disturbances remains to be seen. Certainly it responded far better than most analysts expected in 1998 to shocks emanating from international capital markets. But history shows that economic activity propelled by booms—which rely heavily on widespread confidence and leverage during the upsurge—can become similarly vulnerable to decline when broad-based retrenchments set in.

Policymakers face difficult obstacles in heading off recessions, whose seeds are often sown during the prior boom. Experience shows how hard it is for policymakers to counsel restraint during periods of exuberant growth, let alone to take actions that are regarded as antigrowth. The difficulties are compounded because no one can be certain what the propagating impulse for a recession might be or when it might occur.

The U.S. economy has demonstrated a remarkable resilience during the past several decades, as its leaders have relied on markets to deliver lasting noninflationary growth. Whatever the economy’s short-term performance, the long-term benefits of this strategy should not be forgotten.