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I don't think we ever left recession in 2008, says Expert

The US economy added 103,000 jobs in September, far exceeding analyst expectations of 60,000. Although the national unemployment rate remained steady at 9.1%, September's US department of labour report boosted financial markets following months of disappointing readings.

In an interview with CNBC-TV18�s Menaka Doshi, Kenneth Rogoff, professor of economics at Harvard University said, the jobs data could have been worse. �It was marginally better than we were expecting. I think it shows that the recovery continues to be very weak.�

He further said, �I don�t think we ever left the recession in 2008. I call this the second great contraction. It�s a very slow recovery.�

According to him, the European situation is a mess. �I think it has to get worse before it gets better.�

Below is the edited transcript of the interview. Also watch the accompanying videos.

Q: What you make of the jobs data?

A: It could have been worse. It was marginally better than we were expecting. I was worried it might be something awful and shake confidence. I think it shows that the recovery continues to be very weak.

I don�t think we ever left the recession in 2008. I call this the second great contraction. It�s a very slow recovery.

Q: You have pointed out that this is going to be a more protracted downturn. Therefore, it�s very difficult to draw conclusions from the constant weekly or monthly data that we see. Do you see cumulatively the housing data, the jobs data pointing towards a marginal improvement that should help put us back on track for better expectations from the second half?

A: I don�t think so. I think we are still in a very shaky situation where the base case is very moderate growth, decent growth, but the downside risk is still huge. The European situation is a mess. I think it has to get worse before it gets better.

If Europe pulls it together then we could see things shaping up the colour, the tenor of the markets and of the economy. But right now it is hang in sideways and the rest are a bit worrisome.

Q: Given that this is going to be a protracted downturn for the US, do you like what you see in terms of the political solutions that are on the table, given that there is very little room for both monetary and fiscal stimuli?

A: I am afraid we are in an election year. We are headed into the election in 2012. I expect to see paralysis. We have the super committee meeting on the debt trying to solve that. I think they are very energised. But I don�t think that Congress one way or the other will back them even if they do reach a compromise.

Maybe the Republicans will go along with the President suggesting of extending the payroll tax cuts, which are biggest part of his bill. That might happen. But it�s a very poisoned atmosphere at the moment and you worry they won�t do anything. I think that�s been piece of why things haven�t picked up more, why it�s been even worse than the baseline case.

Q: Is it down now only to the Fed Reserve to in step-in in some fashion? Do you think they have room to step-in?

A: The Fed has lot of room to step-in. The Fed could be much more aggressive than it has been. It too is somewhat paralysed by the political process. Some of the Republican leaders have lobbied Bernanke not to choose up the economy during the election year. But my goodness with things so risky the least of our problems is to have a bit of inflation at the moment, I actually think it would be helpful. I think the Fed could do something. I think the ECB probably could loosen its monetary policy. I was surprised it didn�t.

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Q: What do you expect to see in the US over the course of the next month, six months both in the case of economic as well as how markets react to that data?

A: A lot of business people in the US just say their sales are not growing very fast and they are seeing 1-2% sales growth. They can buy an iPad instead of hire more workers. And that�s what they are doing, that�s what you are seeing in the jobs numbers. I don�t think that dynamics going to change anytime soon.

We likely are to have moderate growth, 1-2%. It is very unlikely that it is going to be tonne better than that. There is some chance, if Europe goes to the worse, that it could be bad.

The most likely scenario is the modest growth. Maybe sometime next year, if Europe stabilises, sentiment will pickup, maybe Congress will pass some kind of tax cuts, maybe the Fed in 2012 exasperated will do something despite the Republican pressures. But it is still a very shaky situation.

Q: You were at the IMF meetings and the World Bank�s meetings just a few weekends ago. What do you make of the situation in Europe?

A: Market seems to be overjoyed every time they find out the world is not ending today in Europe. So, it doesn�t take much to make them happy, they are so scared. I think the Europeans have certainly become more energised and moving towards something better. But I think they are still nowhere near the end of this.

I suspect they are coming close actually to cutting the cord on Greece, not so much rescuing it and then trying to protect everybody else. But Portugal has problems, Ireland has problems. You have to draw line in the sand, but it has to be in a realistic place and they just haven�t got there yet. Their political system requires unanimity and some decisions make it hard also. So, I think markets well hear news which cheers them for a month or two, but it�s still a long way from the end.

Q: You said that you think Europe is coming closer to cutting the cord on Greece. It could be an orderly default, it could be a disorderly default. Do you think Europe is going to get worse before it gets better or do you think it�s going to muddle along for the next six-eight months before it finds a solution to breakout this deadlock?

A: No, it is not going to find a solution to breakout of the deadlock, until things gets much worse. That�s the unfortunate reality. If you live in Germany things just aren�t that bad yet. The chancellor just doesn�t have the political power to take the dramatic steps towards the fiscal union that they really need to take. So, I am afraid it is still ways off the solution in Europe. And that is not to say there won�t be moments of cheer from markets as they get thrown here and there.

Q: Are you in favour of orderly default with regards to Greece or do you believe that it is very difficult to visualise what the outcome could be, just like we couldn�t quite visualise what Lehman would do to us?

A: There isn�t going to be an orderly default for Greece. But the rest of Europe has to be protected, when it happens. They have to decide what they are going to do. If they had done it a year ago, it would have been a lot easier.

They need to have a firewall and they need to decide where to place it. All those pieces need to be decided and in place as Greece goes. Greece default is just a matter of semantics. They are not repaying money now and nobody seriously believes they are going to, the questions when they are just going to pull the plug on the whole thing.

Q: How do you assess the chances of contagion?

A: There is 100% contagion. But the Europeans need to back the other countries. They have to stop cascade of bank loans in Italy and Spain. If they do that then it will be manageable.