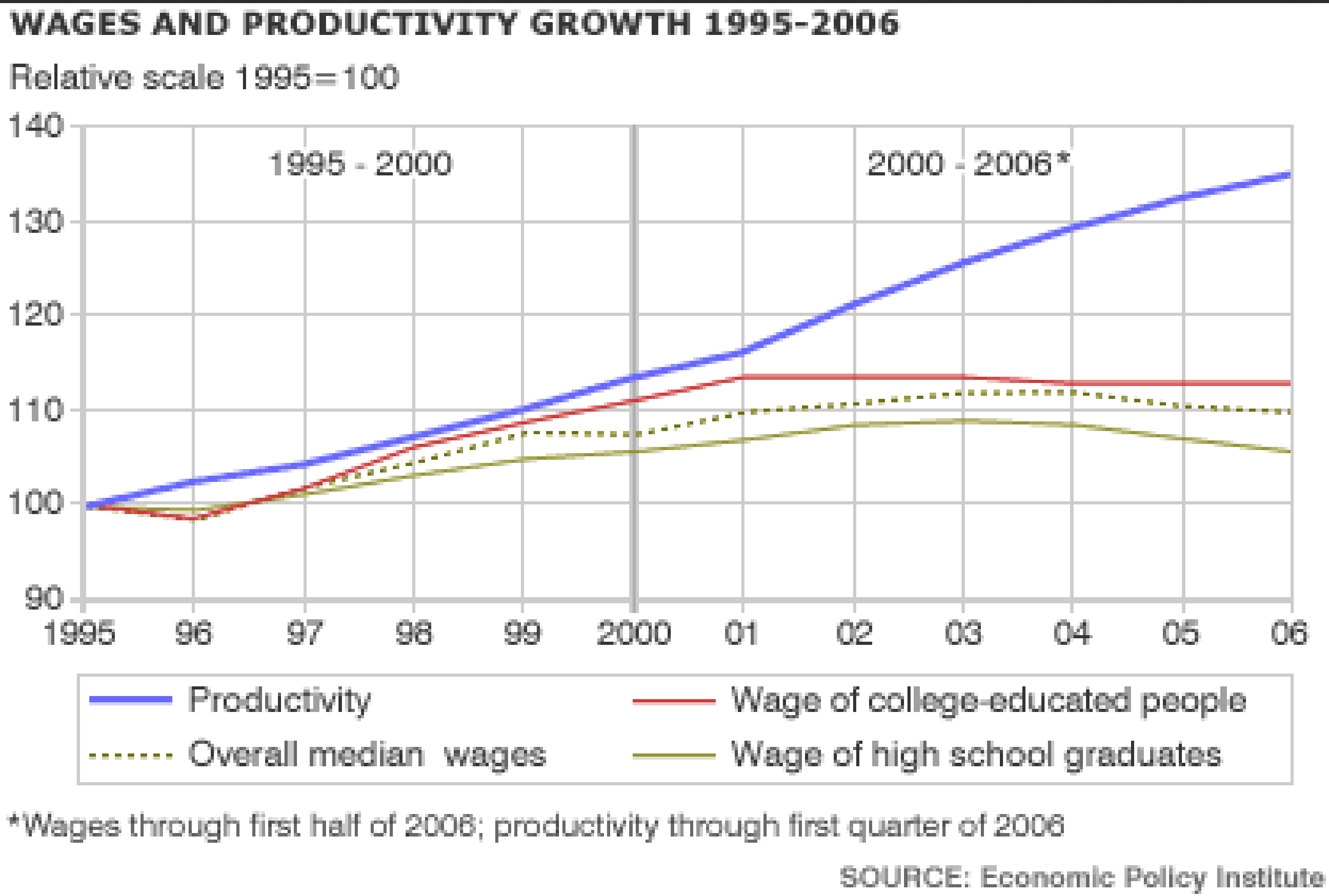
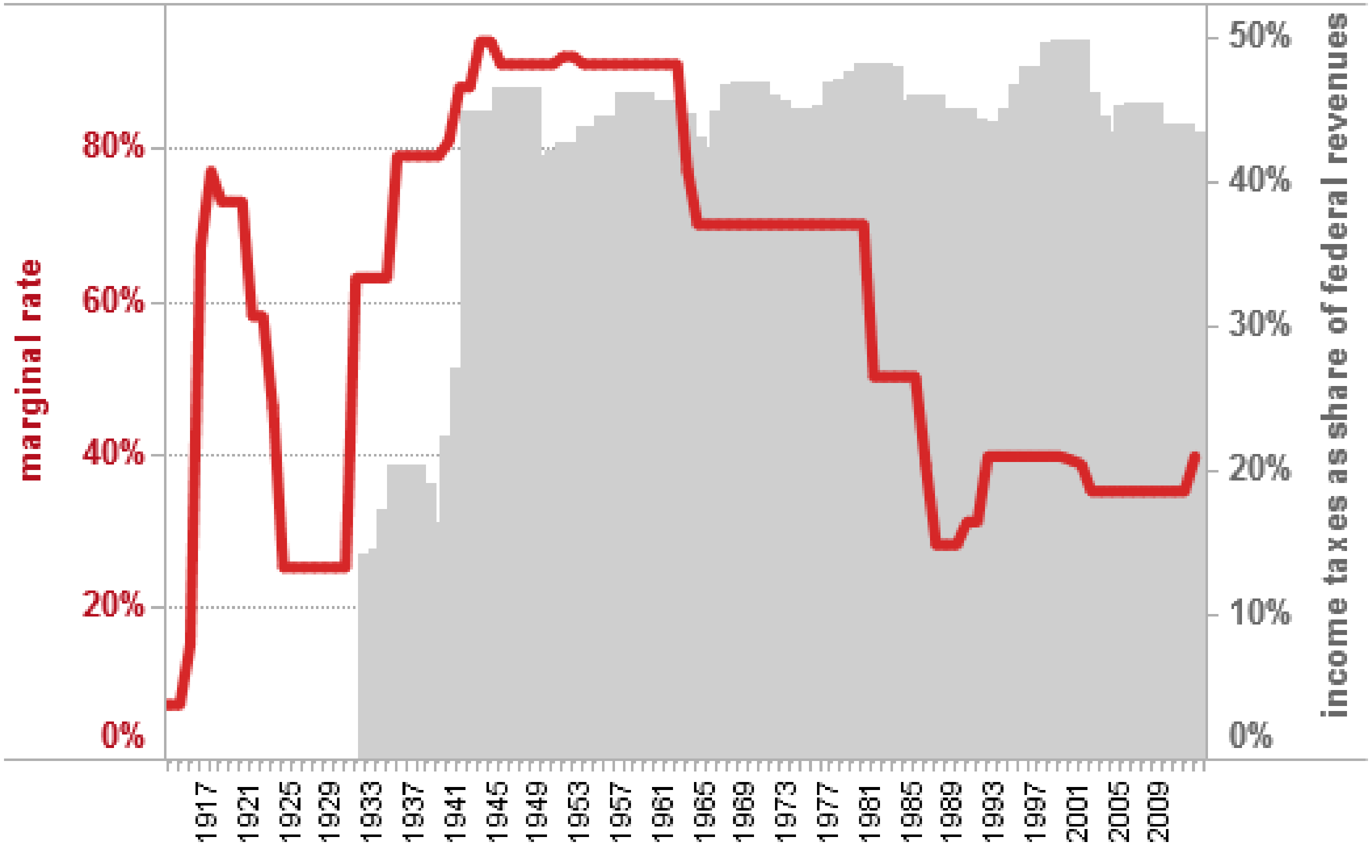
2008 Great Recession

What caused the Great Recession?


WAGES AND PRODUCTIVITY GROWTH 1995-2006
Relative scale 1995=100
140
130
120
110
100
90
1995 - 2000
2000 - 2006*
1995
96
97
98
99
2000
01
02
03
04
05
06
Productivity
Wage of college-educated people
Overall median wages
Wage of high school graduates
*Wages through first half of 2006; productivity through first quarter of 2006
SOURCE: Economic Policy Institute

Marginal Tax Rates, 1913-2013



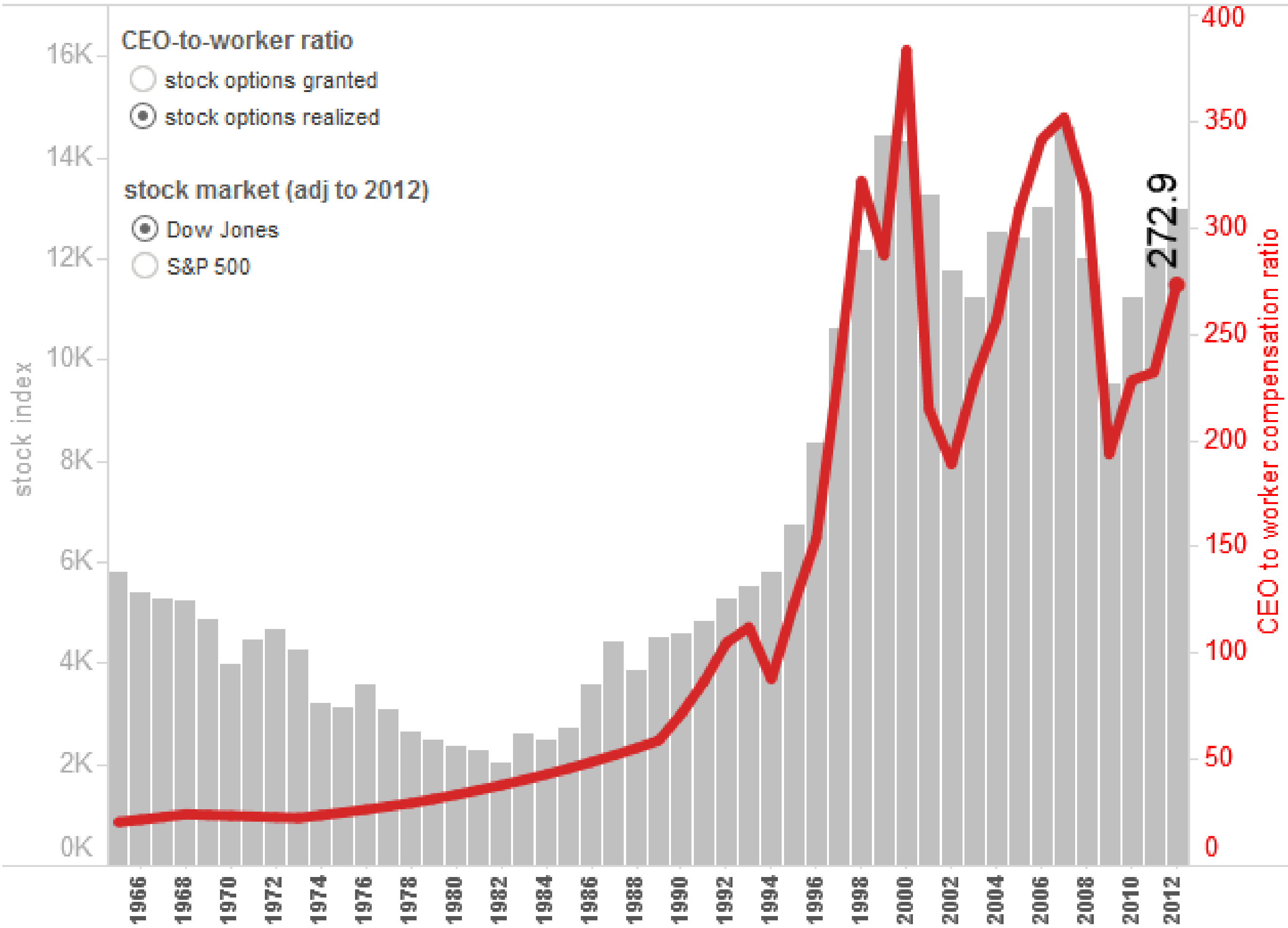
marginal rate by income

- ○ $15,000
- ○ $50,000
- ○ $100,000
- ○ $250,000
- ○ $1,000,000
- ◉ top marginal rate

This graphs shows the marginal tax rates (married, filing jointly) for five income thresholds (all in 2011 dollars) and the top marginal rate. The marginal rate is the rate paid on the last dollar earned, and is higher than the effective tax rate (which includes deductions and exemptions). The grey bars show the share of federal revenues coming from the individual income tax (after 1934), which spikes with the Revenue Act of 1942. Marginal rates rise across the board as the income tax becomes an important source of revenue, but then come down for higher earners ($250,000 and up) just as dramatically with the Kennedy, Reagan, and Bush tax cuts.

CEO Compensation, 1965-2012

CEO-to-worker compensation ratio, stock options realized; Dow Jones



Data from Mishel and Sabadish, CEO Pay in 2012 Was Extraordinarily High Relative to Typical Workers and Other High Earners (EPI, June 2013)

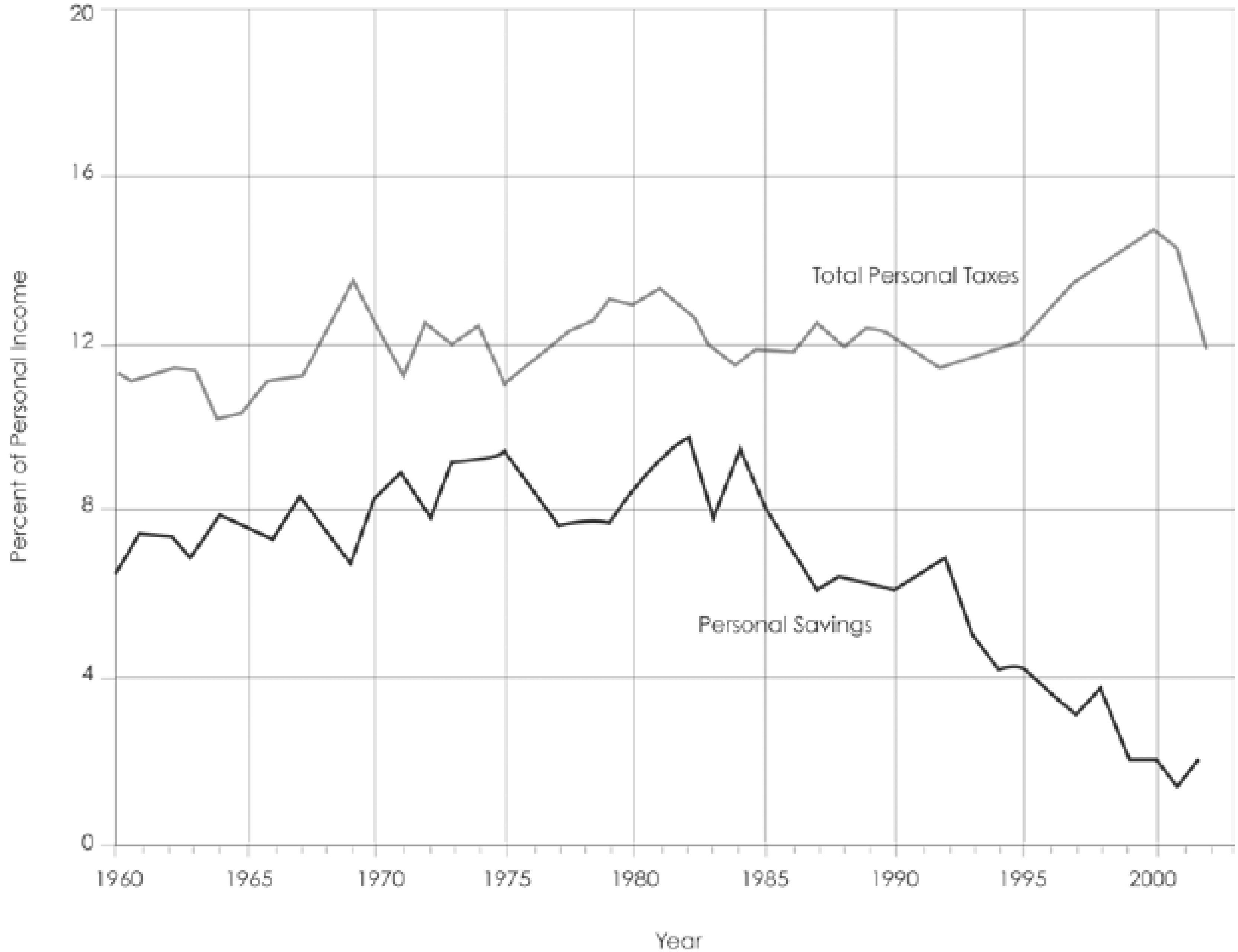
Growing Apart at www.inequality.org; chart updated June 2013

“…The onrush of technology largely explains the gradual development of a ‘two-tier labor market’ in which those at the bottom lack the education and the professional/technical skills of those at the top and, more and more, fail to get comparable pay raises, health insurance coverage, and other benefits.

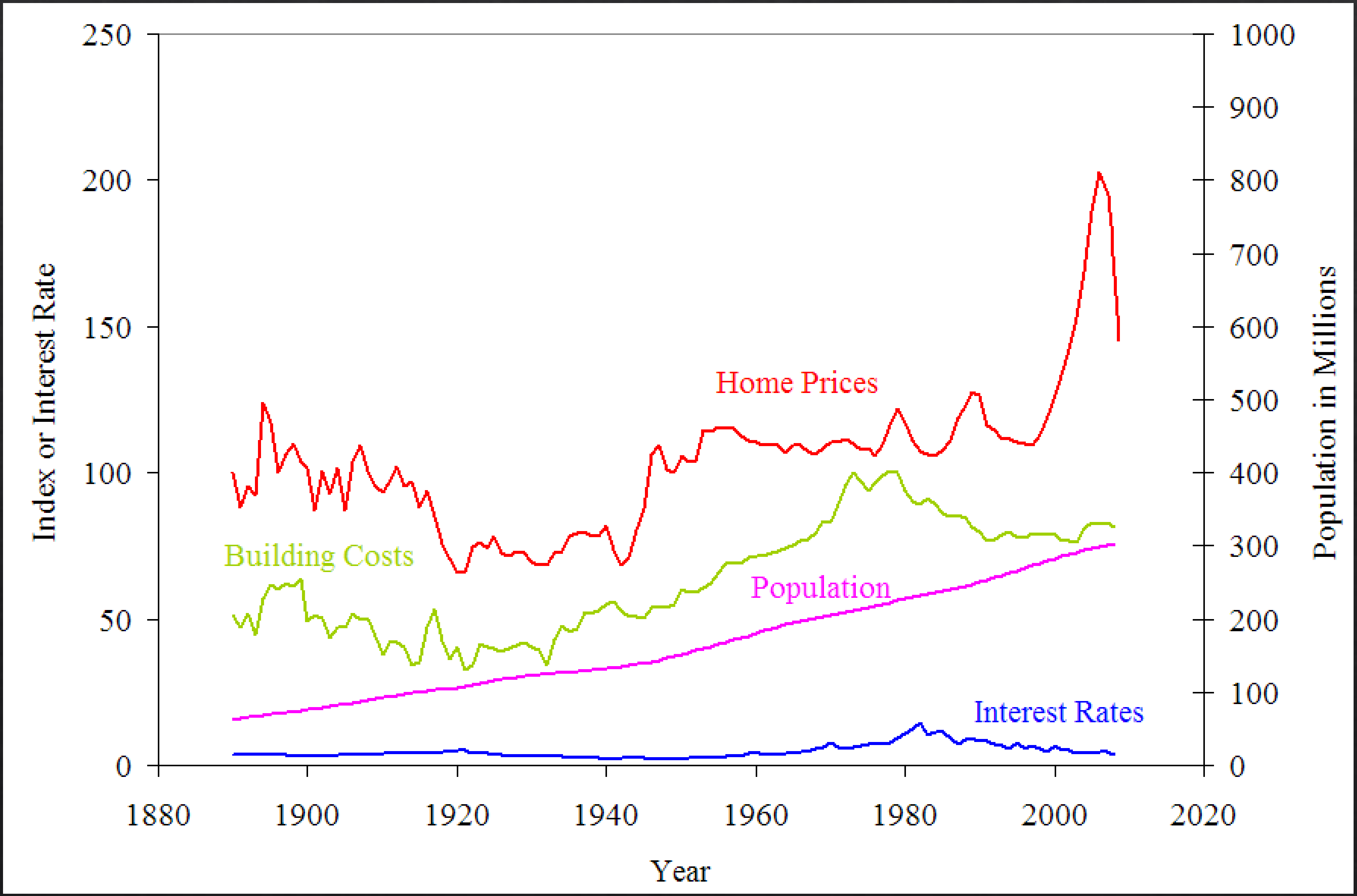
“Since 1975, practically all the gains in household income have gone to the top 20% of households. The years 1994-2000 witnessed solid increases in real output, low inflation rates, and a drop in unemployment to below 5%. Long-term problems include inadequate investment in economic infrastructure, rapidly rising medical costs of an aging population, sizable trade deficits, and stagnation of family income in the lower economic groups…

CIA World Fact Book 2001

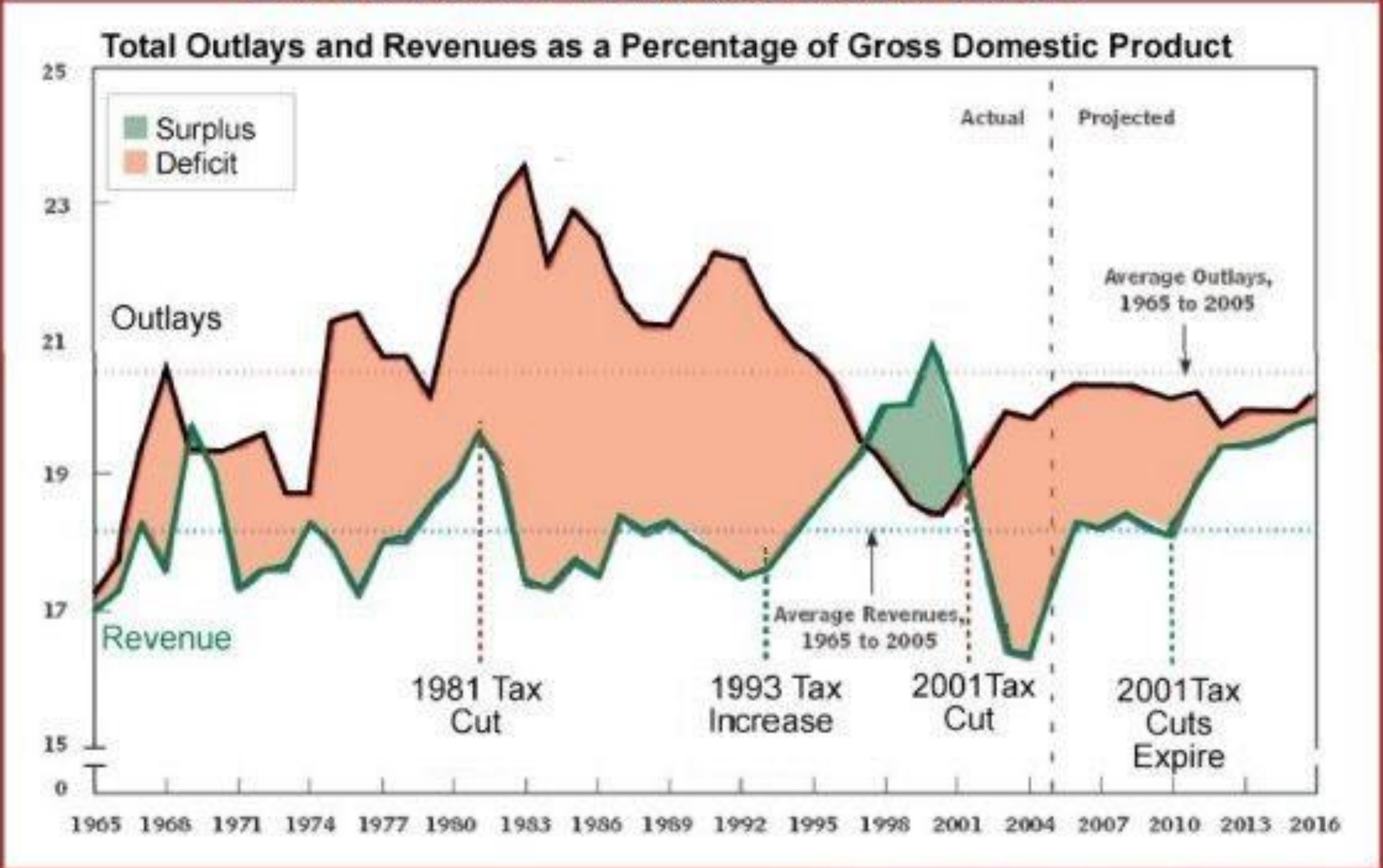
Total Personal Taxes and Personal Savings
(Percent of Personal Income, 1960–2002)



Case-Shiller Home Price Index



Do Tax Cuts Increase Revenues?



Source: Congressional Budget Office

Now vs. then

In the United States, recessions have become rarer in recent decades.

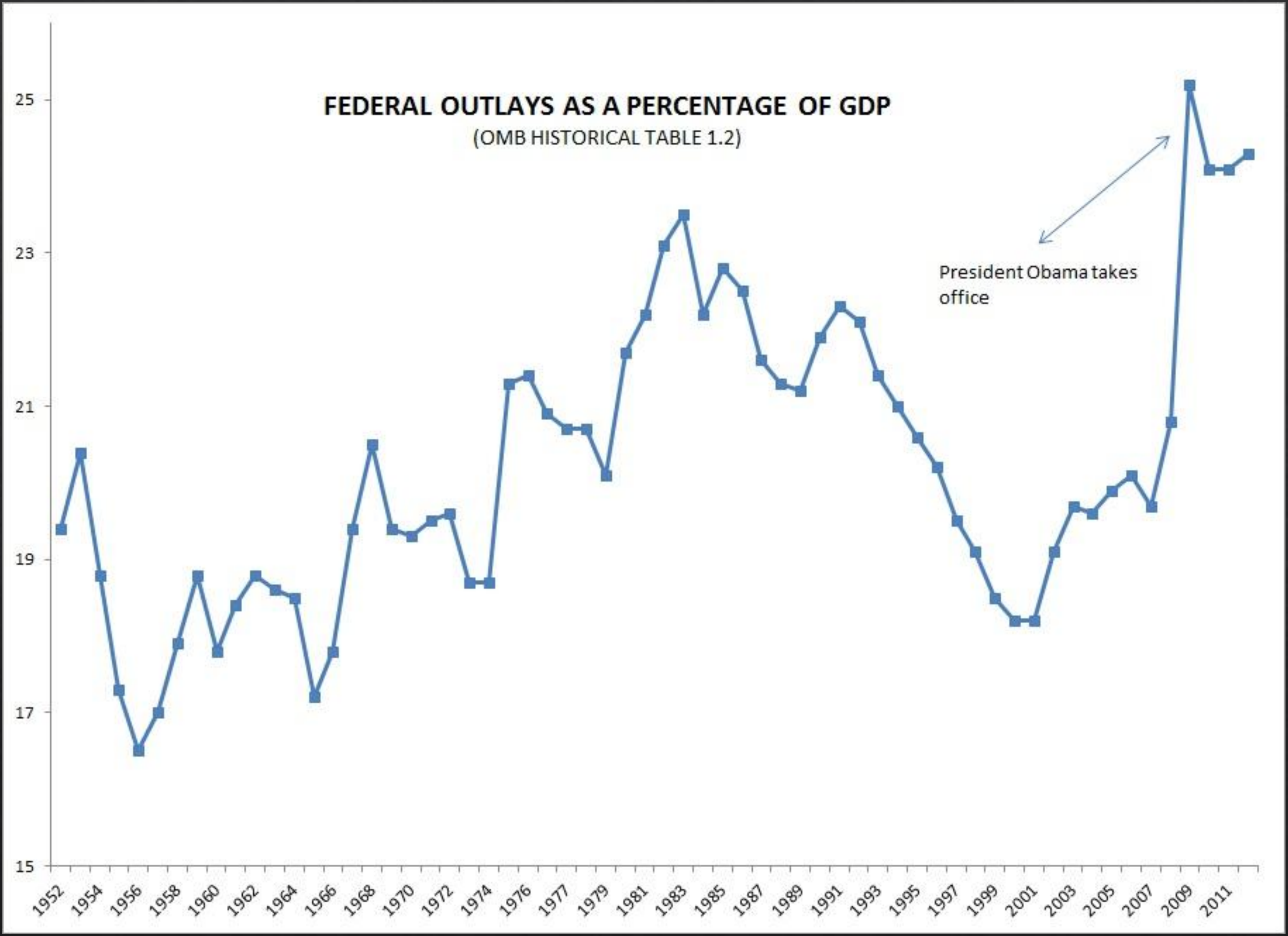
- From the end of the Civil War in 1865 until the end of World War I in 1918, the economy was in recession about half the time.
- From the end of WWI to WWII in 1939, the U.S. economy was in recession about one-third of the time.
- From the end of the Korean War in 1953 until 1984, the economy was in recession about 20 percent of the time.
- Since 1984, the economy has been in recession only 7 percent of the time, with a recession occurring roughly once every 12 years.

Recessions also have become shorter on average. Prior to WWII, recessions averaged 22 months. Since then, recessions average 10 months.

Global Financial Crisis 2007

"[In a] 2007 article in the *Journal of Business Ethics*, 31 of 34 directors surveyed (each of whom served on an average of six Fortune 200 boards) said they'd cut down a mature forest or release a dangerous, unregulated toxin into the environment in order to increase profits. Whatever they could legally do to maximize shareholder wealth, they believed it was their duty to do."

How did the government respond to the crisis?


FEDERAL OUTLAYS AS A PERCENTAGE OF GDP
(OMB HISTORICAL TABLE 1.2)
President Obama takes office
25
23
21
19
17
15
1952
1954
1956
1958
1960
1962
1964
1966
1968
1970
1972
1974
1976
1977
1979
1981
1983
1985
1987
1989
1991
1993
1995
1997
1999
2001
2003
2005
2007
2009
2011

"Obamunism"

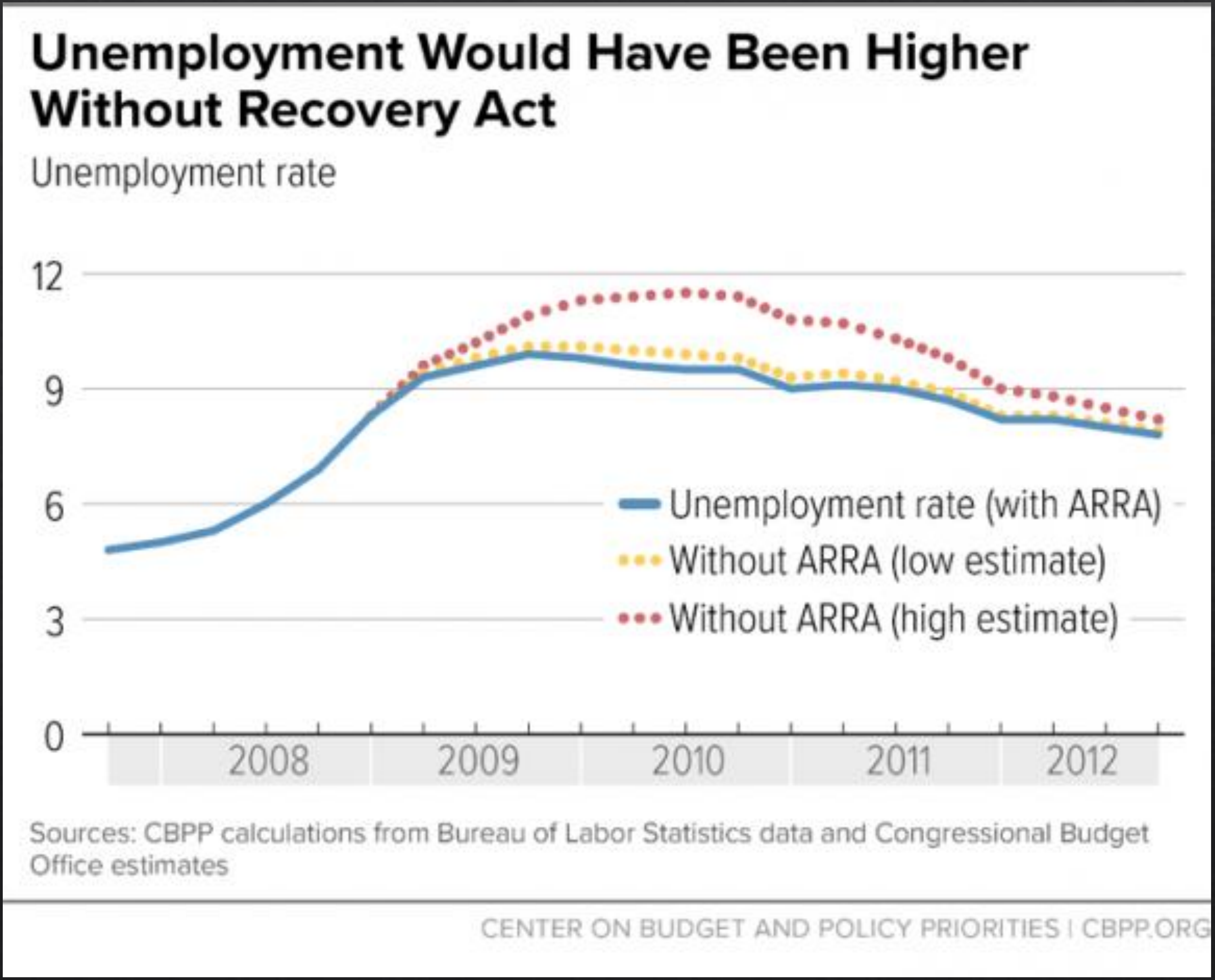
- **Helping Families Save Their Homes Act**
- **Credit Card Accountability, Responsibility, and Disclosure Act (CARD)**
- **Cash for Clunkers** ($3 billion)
- **Small Business Act Temporary Extension**
- **Payroll Tax Suspension** (2% temporary reduction)
- **Jobs for Main Street Act** ($75 billion for transit, schools, police, firefighters, small business)
- **Affordable Health Care for America Act (Obamacare)** (85 percent a Republican alternative – from Heritage Foundation – to the 1994 legislation)

American Recovery and Reinvestment Act

Major costs:

- $260 billion to families through tax cuts, credits, and unemployment benefits
- $83 billion in infrastructure
- $23 billion to sustainable energy programs
- $148 billion to expanding health care (most going to help state Medicaid programs)
- $117 billion for education (preschool through college)
- $18 billion for science and technology research
- $53 billion to small businesses

Total cost originally estimated at $787 billion. Actual spending approximately $831 billion.


Unemployment Would Have Been Higher Without Recovery Act
Unemployment rate
12
9
6
3
0
2008
2009
2010
2011
2012
Unemployment rate (with ARRA)
Without ARRA (low estimate)
Without ARRA (high estimate)
Sources: CBPP calculations from Bureau of Labor Statistics data and Congressional Budget Office estimates
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Recovery Act vs. New Deal

Recovery Act	New Deal
Total cost in 2009 dollars	
$840 billion	$653 billion
Per capita cost in 2009 dollars	
$2,738	$5,231
Cost compared to nation's output	
5.7 percent of 2008 output	40 percent of 1929 output
Increase in federal debt*	
32 percent 2008 to 2011	30.3 percent 1931 to 1939

**As a fraction of gross national product*

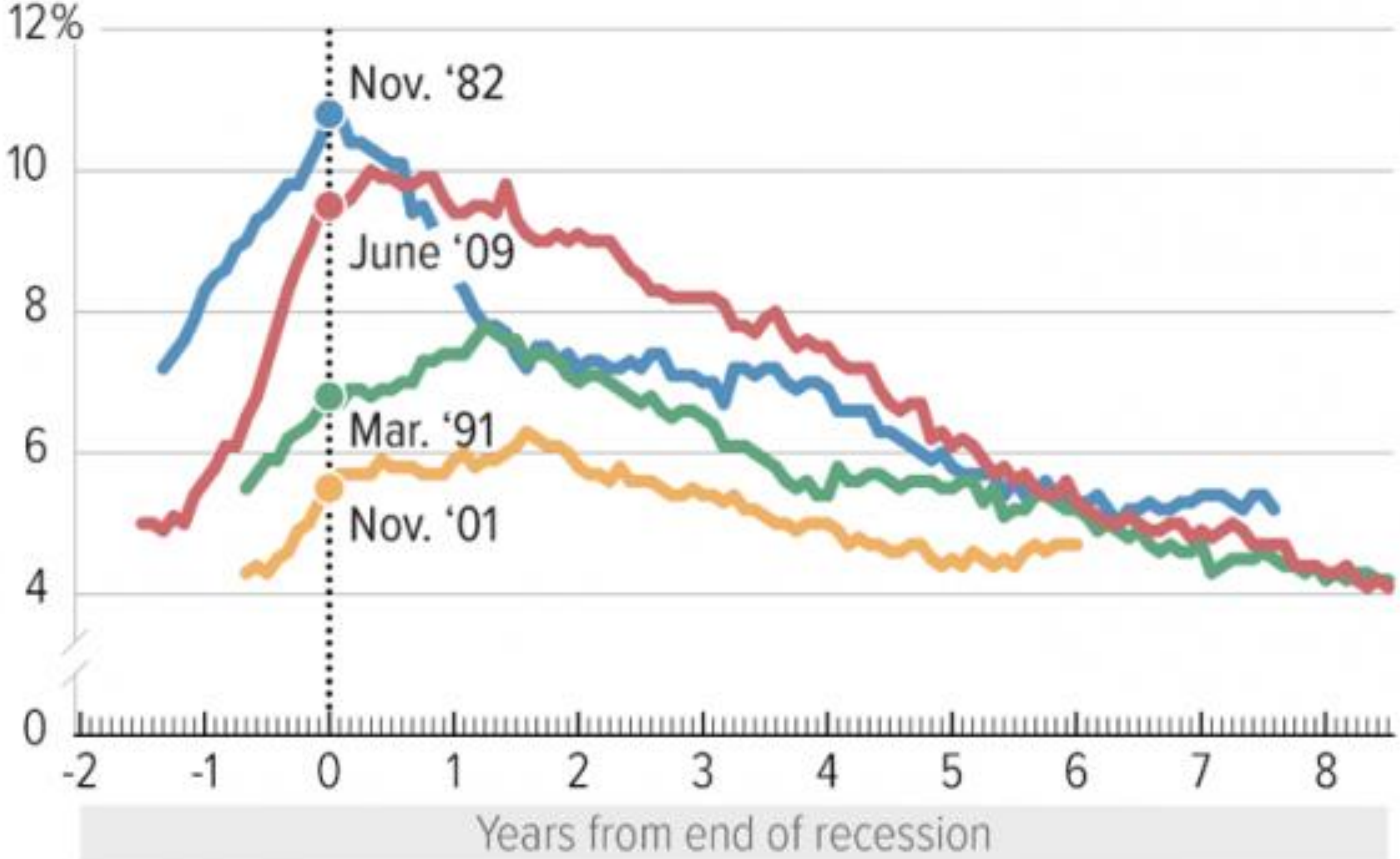
Dodd-Frank Wall Street Reform and Consumer Protection Act

- **Improve financial system accountability and stability**
  - Volcker Rule: Prevents banks ensured by FDIC from making certain kinds of speculative investments with their own accounts
  - Banks must have a shutdown plan in place to implement if they approach bankruptcy
  - Banks must keep more reserves on hand
  - Every bank with more then $50 billion in assets must take an annual "stress test" to see if they could survive a crisis
  - Monitor for new risks to the stability of the financial system
- **Protect consumers**
  - Consumer Financial Protection Bureau (CFPB): write and enforce rules regarding mortgages, credit cards, student loans, and other consumer financial products
  - Protections against predatory home mortgages

What were the effects of the 2008 Recession? What should we learn from it?

Unemployment Rate Stayed High Long After Great Recession's End

Unemployment rates during recessions and recoveries



Source: CBPP calculations from Bureau of Labor Statistics data

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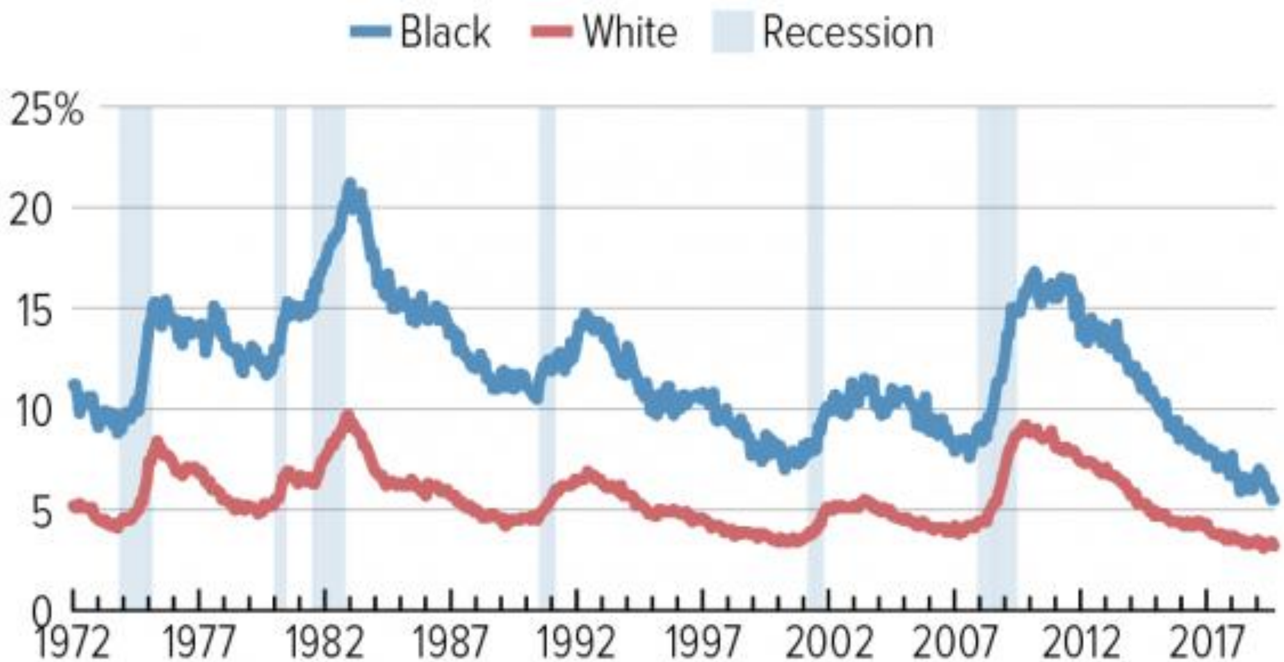
Growth in Workers' Earnings Has Stopped Rising in 2019 Despite Low Unemployment

Change in average hourly earnings from one year earlier

Source: CBPP calculations from Bureau of Labor Statistics data

Black Unemployment Rate Has Fallen to Historic Low But Remains Much Higher Than White Rate



Note: Black unemployment data were first available beginning January 1972.

Source: Bureau of Labor Statistics and National Bureau of Economic Research

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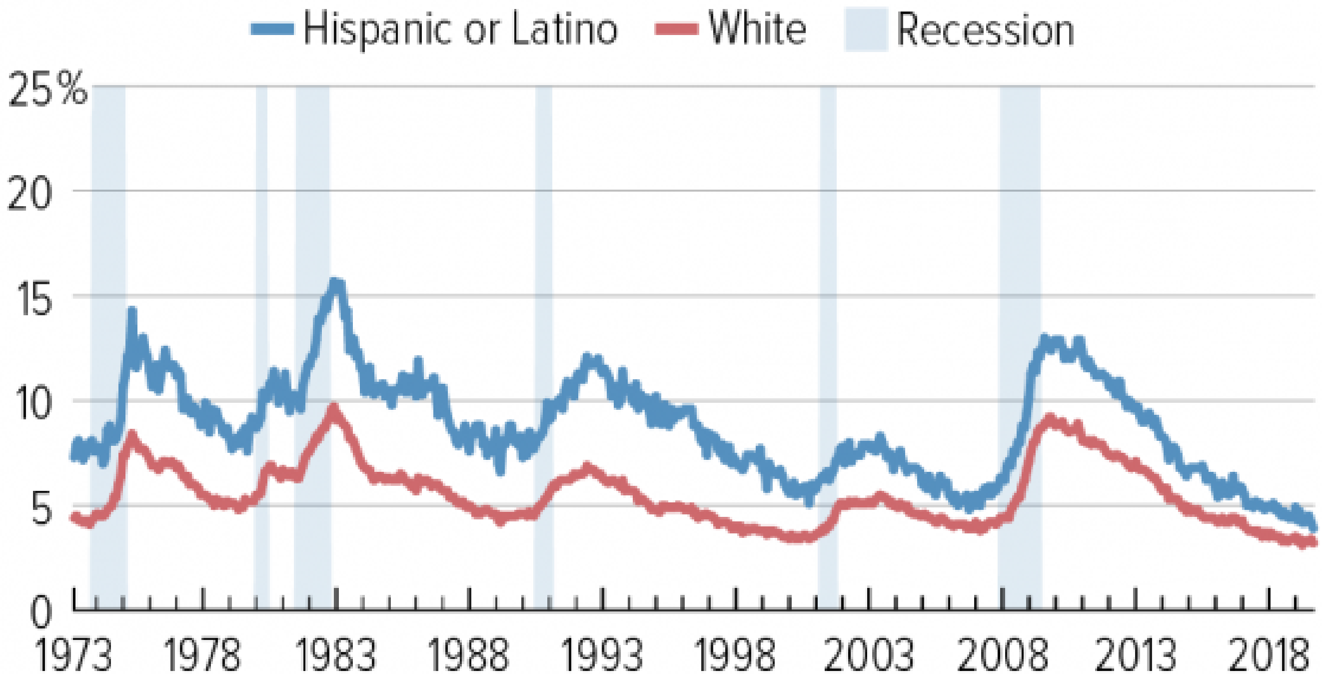
Hispanic/Latino Unemployment Rate Near Historic Low



Note: Hispanic/Latino unemployment data were first available beginning in March 1973.

Source: Bureau of Labor Statistics and National Bureau of Economic Research

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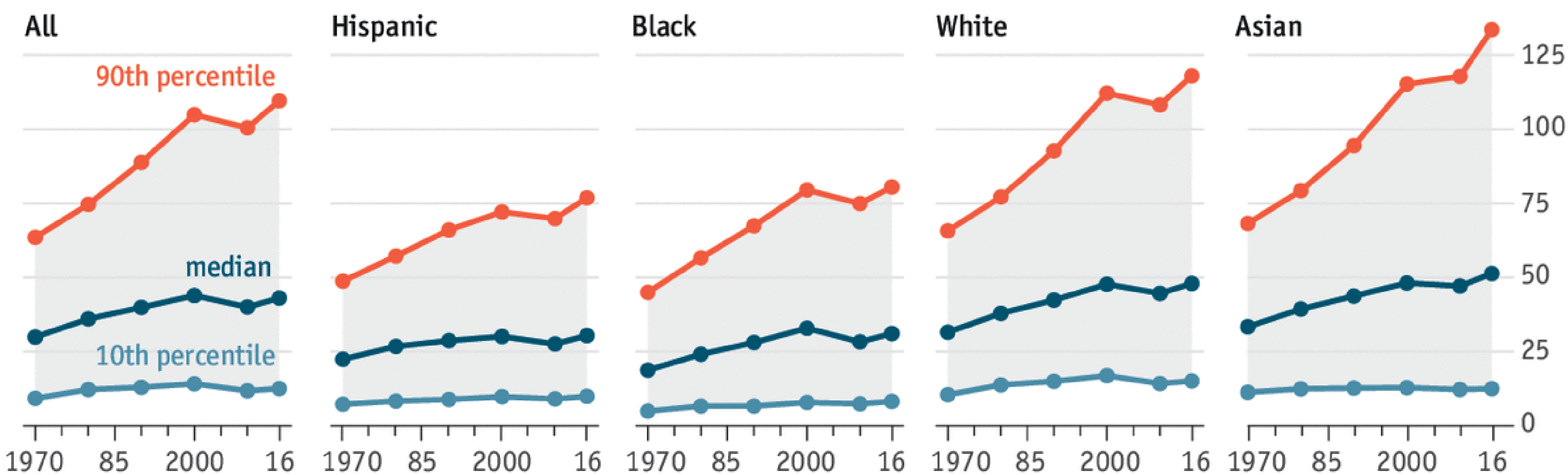
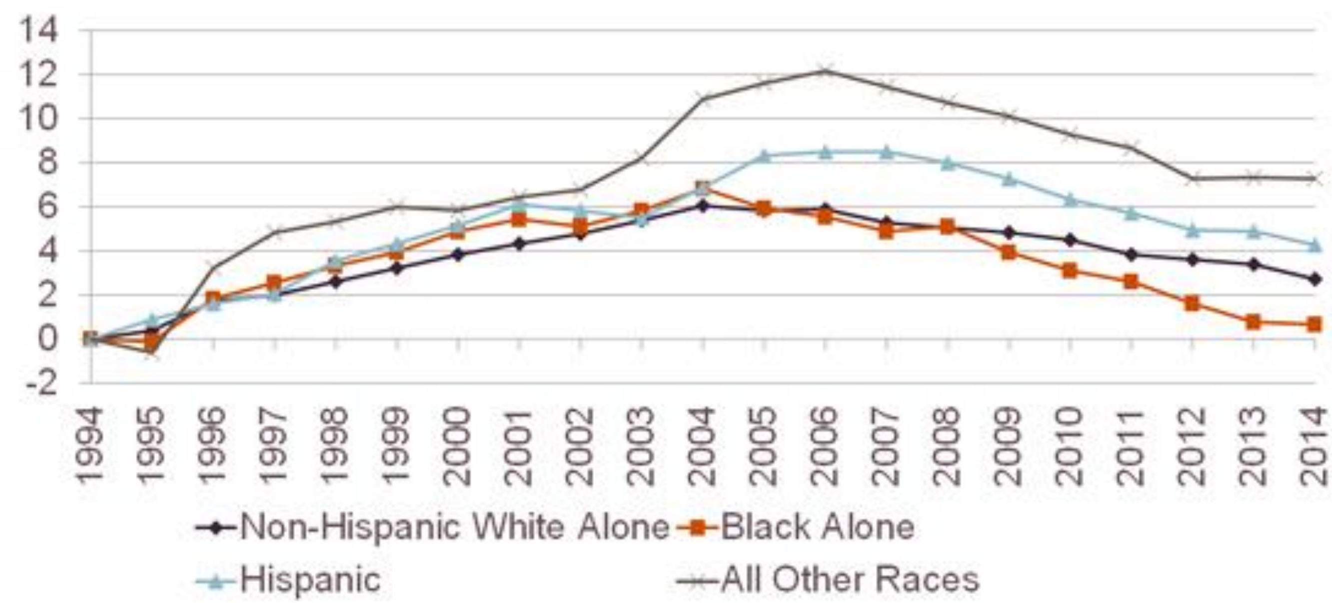
United States, household income per person, $'000, 2016 prices, by race



Source: Pew Research Centre

Figure 2: By Race/Ethnicity, Homeownership Rates are Still Above Prior Lows

Change in Homeownership Rates since 1994 by Race/Ethnicity, 1994-2014

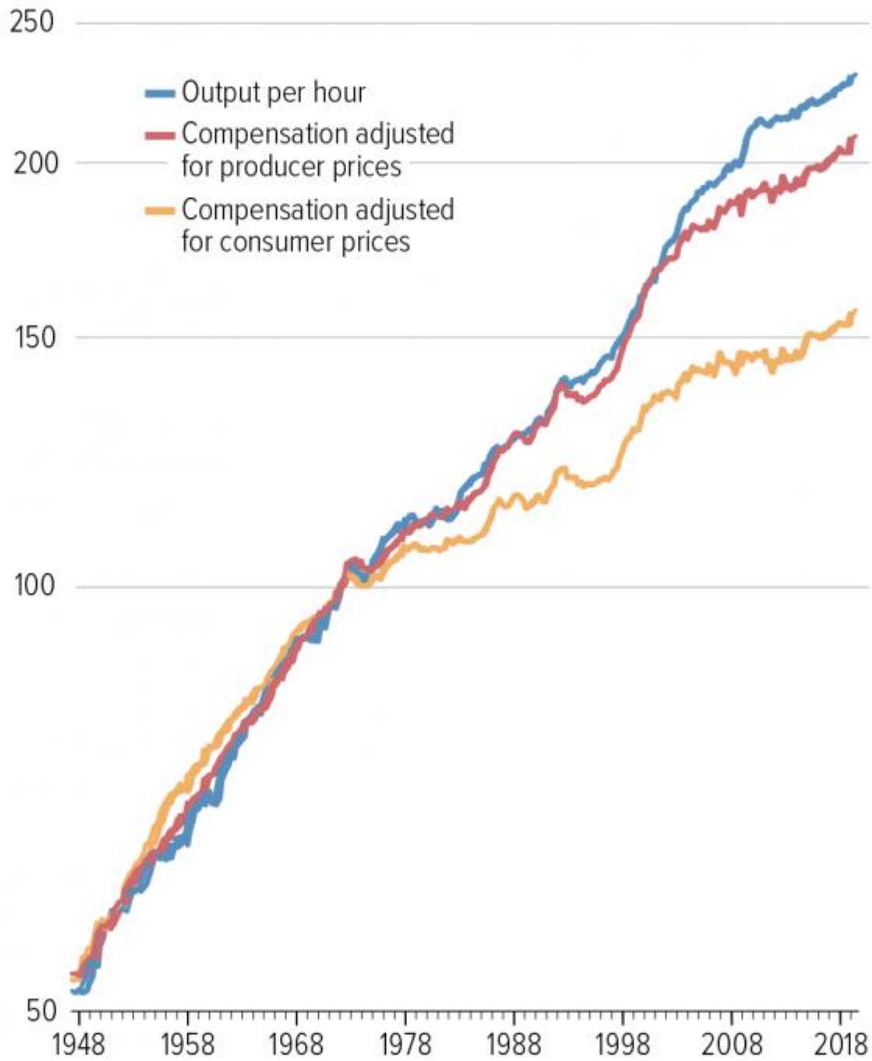


"Scarring" of the Great Recession

- **Educational achievement:** Unemployment and income losses can reduce educational achievement by threatening early childhood nutrition; reducing families' abilities to provide a supportive environment (including adequate health care, summer activities, and stable housing); and by forcing a delay or abandonment of college plans.
- **Opportunity:** Recession-induced job and income losses can have lasting consequences on individuals and families. The increase in poverty that will occur as a result of the recession will have lasting consequences for kids.
- **Private investment:** The reduction in investment will lead to reduced production capacity for years to come. The investment slowdown can also be expected to reduce the adoption of new innovations.
- **Entrepreneurial activity and business formation**

Growth in Purchasing Power of Workers' Wages and Benefits Has Not Kept Pace With Productivity Growth

Output per hour and real labor compensation per hour index, 1972=100



Note: Productivity is measured by output by hour, or how much the average worker produces in an hour.

Source: CBPP calculations based on Bureau of Labor Statistics data