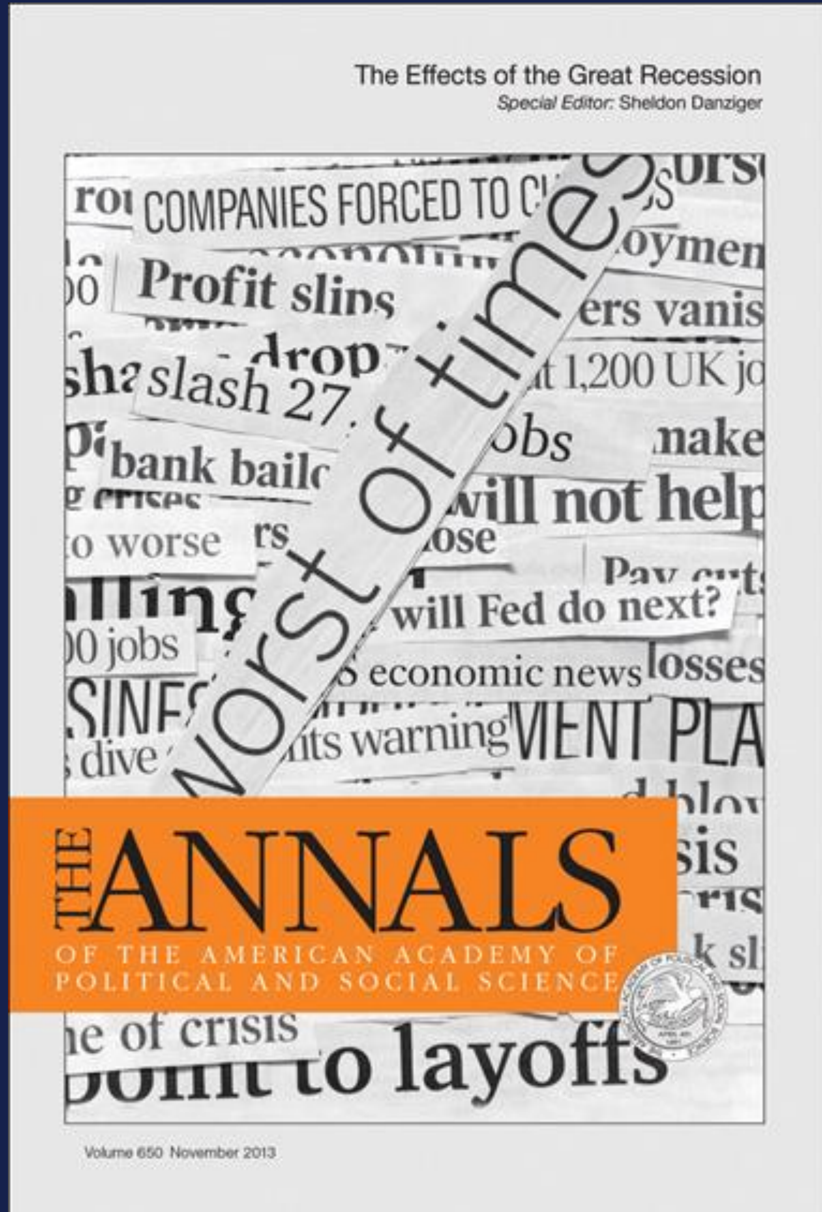
The Effects of the Great Recession

Sheldon Danziger
President, Russell Sage Foundation

January 30, 2014


The Effects of the Great Recession
Special Editor: Sheldon Danziger
worst of times
THE ANNALS
OF THE AMERICAN ACADEMY OF POLITICAL AND SOCIAL SCIENCE
Volume 650 November 2013

Key Points

- Great Recession was longer and deeper than expected
- Stimulus (American Recovery & Reinvestment Act), actions by the Fed & other policies prevented another "Great Depression" and reduced poverty and unemployment
- Austerity policies contribute to high poverty and unemployment rates

Alan Blinder on Policy Paradox

- Too little public intervention contributed to collapse
- Too little stimulus slowed recovery
- TARP & other Federal reserve policies were a success
- These successes triggered a backlash against activist monetary and fiscal policies

American Reinvestment & Recovery Act

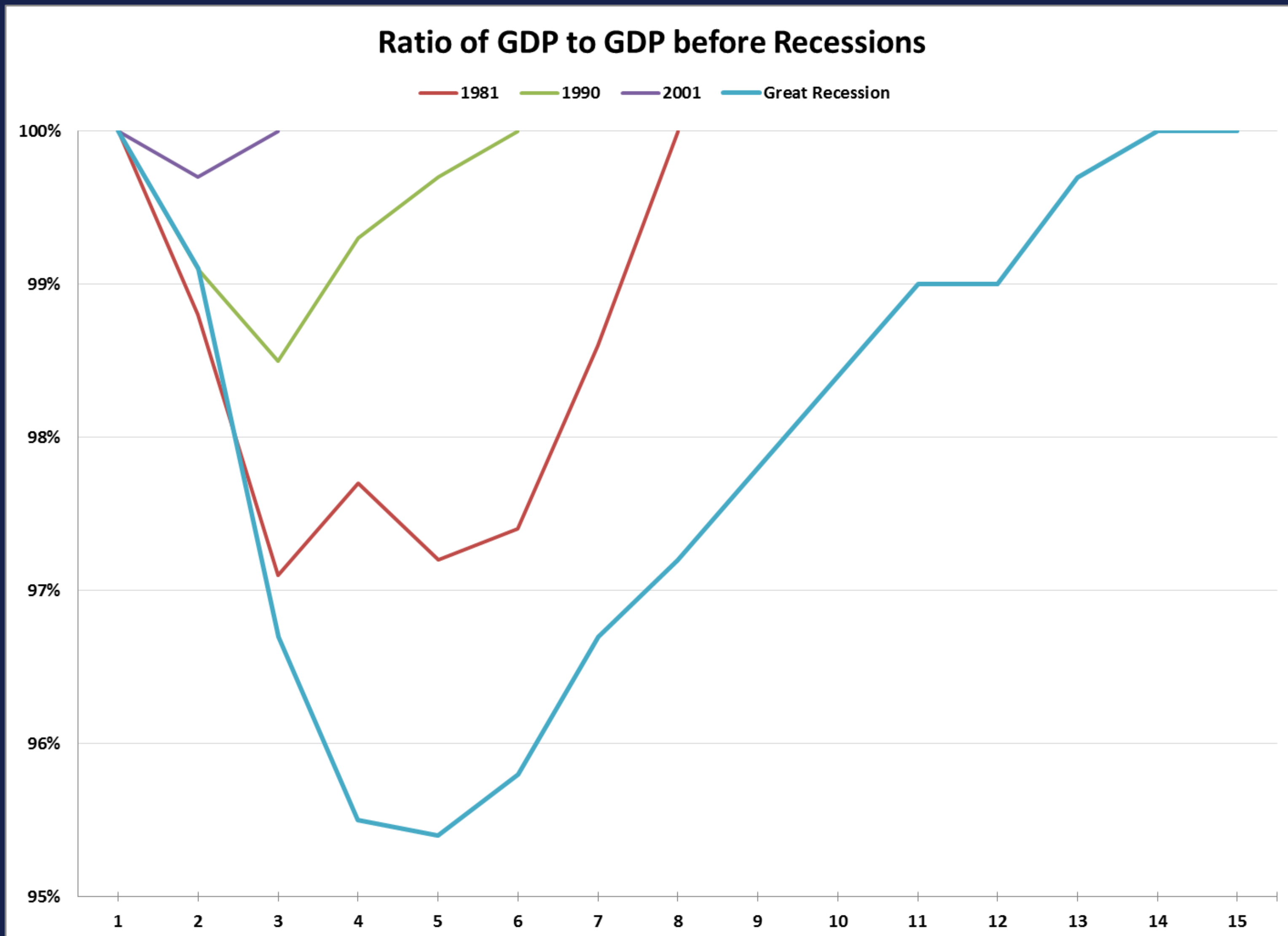
- Economically Successful, but too small in retrospect
- Kept poverty & unemployment from being higher. The counterfactual—"it would have been much worth without it." But, "people see what is, what might not have been
- Poorly explained by the administration
- Misunderstood by the public

Federal Government Actions

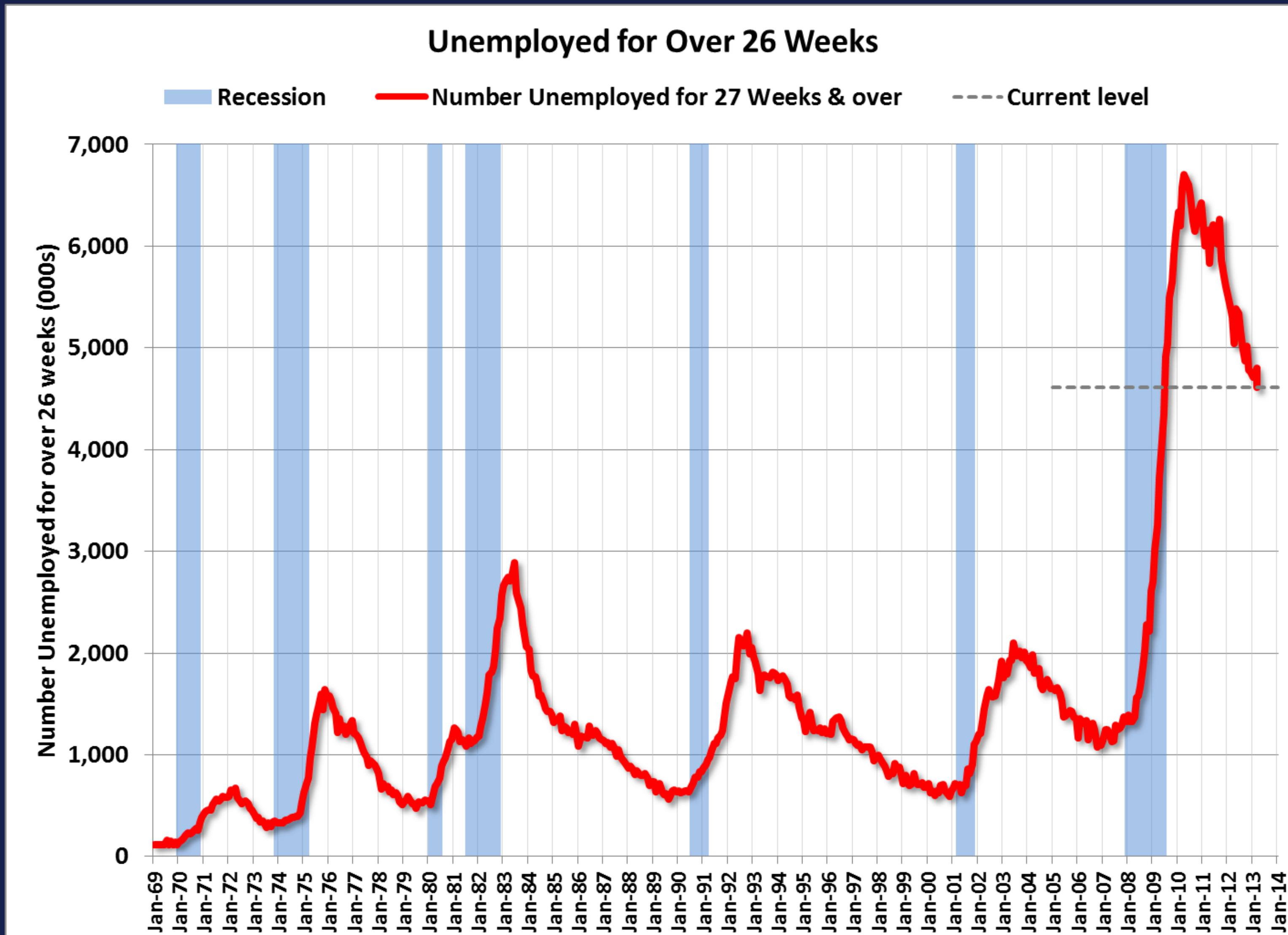
- Prevented failure of major financial institutions
- Stimulated consumer spending
- Provided funds to state & local governments to keep them from laying off even more workers
- Protected incomes & health insurance of laid-off workers

Robert Hall on Fiscal Stimulus

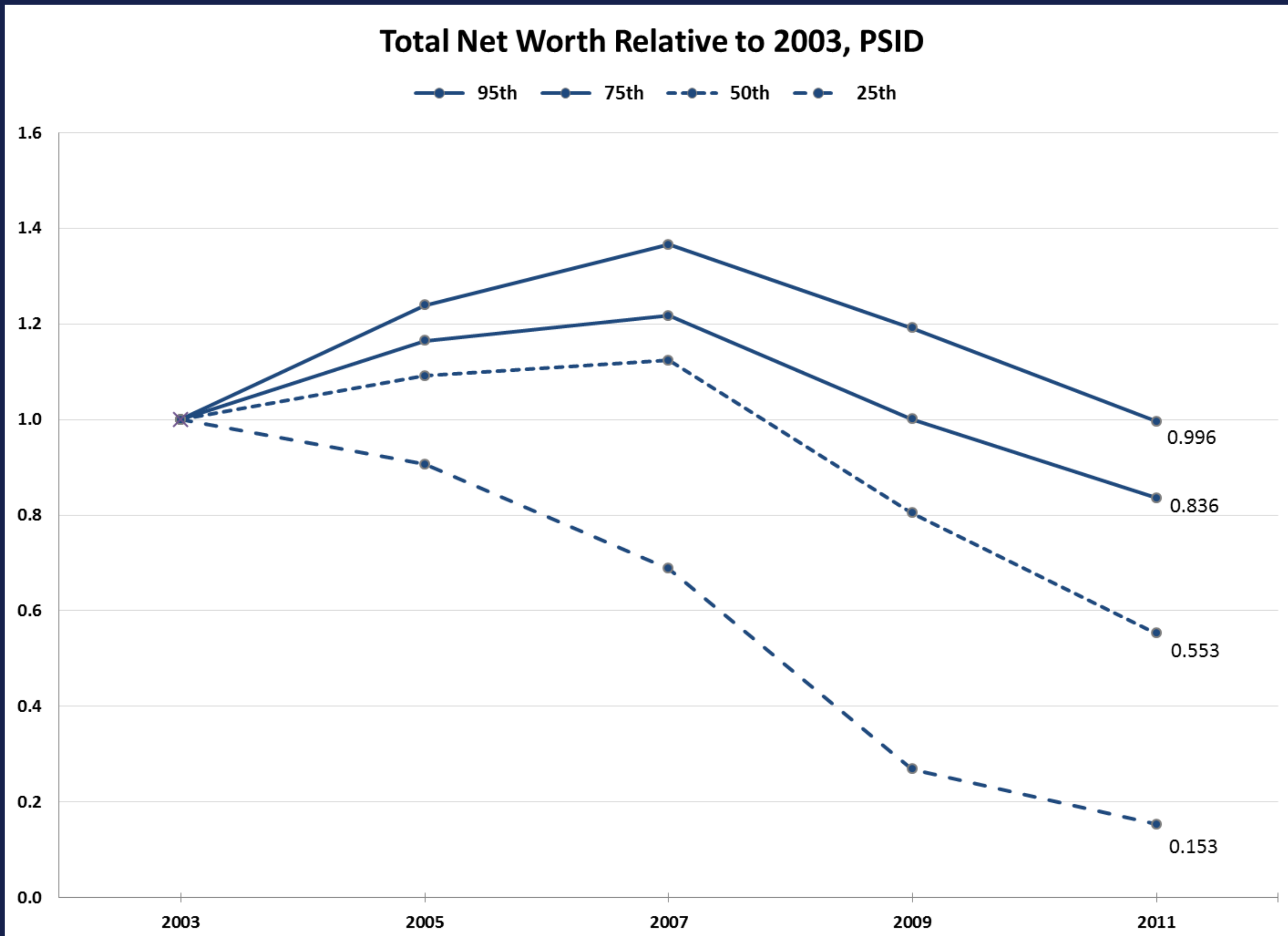
- Federal spending was offset by state and local spending reductions—"a greater effort…would have served the purpose"
- Balanced budgets of state & local governments made situation worse
- Federal benefits offset a substantial part of decline in personal income; raising UI benefits generates more consumption that a general tax cut

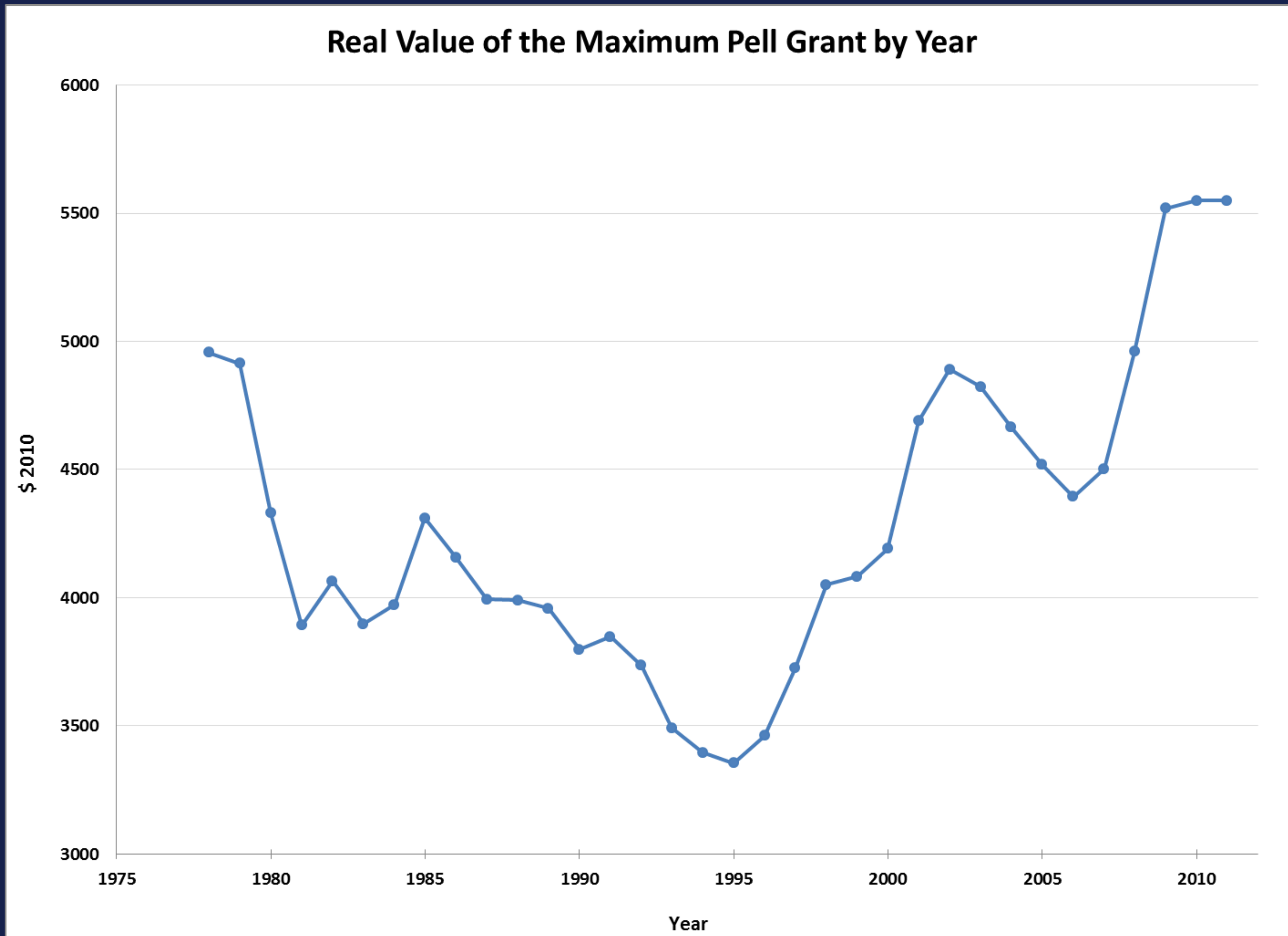


Ratio of GDP to GDP before Recessions
1981
1990
2001
Great Recession
100%
99%
98%
97%
96%
95%
1
2
3
4
5
6
7
8
9
10
11
12
13
14
15



Unemployed for Over 26 Weeks
Recession
Number Unemployed for 27 Weeks & over
Current level
Number Unemployed for over 26 weeks (000s)
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
Jan-69
Jan-70
Jan-71
Jan-72
Jan-73
Jan-74
Jan-75
Jan-76
Jan-77
Jan-78
Jan-79
Jan-80
Jan-81
Jan-82
Jan-83
Jan-84
Jan-85
Jan-86
Jan-87
Jan-88
Jan-89
Jan-90
Jan-91
Jan-92
Jan-93
Jan-94
Jan-95
Jan-96
Jan-97
Jan-98
Jan-99
Jan-00
Jan-01
Jan-02
Jan-03
Jan-04
Jan-05
Jan-06
Jan-07
Jan-08
Jan-09
Jan-10
Jan-11
Jan-12
Jan-13
Jan-14


Total Net Worth Relative to 2003, PSID
95th
75th
50th
25th
1.6
1.4
1.2
1.0
0.8
0.6
0.4
0.2
0.0
2003
2005
2007
2009
2011
0.996
0.836
0.553
0.153


Real Value of the Maximum Pell Grant by Year
6000
5500
5000
4500
4000
3500
3000
$ 2010
1975
1980
1985
1990
1995
2000
2005
2010
Year