The Effects of the Great Recession
Special Editor: Sheldon Danziger

Companies forced to close.
Profit slips.
Businesses vanish.
Bank bailouts.
Jobs will not help.
Will Fed do next?

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 than a general tax cut