Recession and Redistribution: 
*The Economy, Public Policy, and the Poor*

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Economic crisis: Impact and remedies

- Recession ranks with worst since World War II
  - It is *not* the Great Depression

- Even without special Congressional action, automatic responses are built into law

- Special Congressional actions
  - Already amount to almost 5% of US output
  - More special actions are likely
    - *The Worker, Homeownership and Business Assistance Act of 2009*
Economic crisis: Impact and remedies

- Most special government actions are familiar:
  - Temporary tax reductions
  - Extensions of unemployment benefits
  - Increased government investment in buildings, roads, technology

- **Unusual** federal actions:
  - Generous health insurance subsidies
  - Massive grants to state governments
  - Emphasis on protecting education & training
Dimensions of the crisis
Unemployment Rate among Americans Aged 25-54, 1948-2009:III

Rise in Unemployment Rate after End of Economic Expansion

Change in Unemployment Rate
(Percentage Points)

-12 -8 -4 0 4 8 12 16 20

Months before or after previous business cycle peak

-12 -8 -4 0 4 8 12 16 20

1981-82 recession
2008-09 recession

2.4 pctg. pts.
Fall in Payroll Employment after End of Economic Expansion

Change in Payroll Employment
(Percent of Peak Employment)

Months before or after previous business cycle peak

1981-82 recession
2008-09 recession

3.1 pctg. pts.
Impact of the Recession on American Households' Real Per Capita Private Incomes, December 2007 - September 2009

Private income in December 2007 = 100
Loss of household wealth
Index of Real U.S. House Prices, 1975-2009:II

Real U.S. House Prices (1980 = 100)

U.S. Stock Market Prices, 1950-2009: II

S&P stock index (deflated using 2005 prices)

Source: Standard and Poors composite stock index.
Ratio of Net Household Wealth to Household Disposable Income, 1952-2009: II

Sources: Board of Governors of the Federal Reserve System, Flow of Funds
Americans' Personal Consumption Expenditures, 1948-2009:II

Automatic social protection

With cross-national comparisons
Government Unemployment Insurance Benefit Payments, January 1960 through September 2009

Percent of personal disposable income

Net Income Replacement in the Initial Period after Job Loss in 21 OECD Countries, 2005

Net benefit / Net earnings in employment (%)
Maximum Duration of Unemployment Insurance Benefits in 21 OECD Countries (2005)

Duration of unemployment benefits
(in months)

Source: OECD.
Net Income Replacement in the First Five Years after Job Loss in 21 OECD Countries, 2005*

Percent of net earnings before layoff

Country: Italy, Greece, United States, Spain, Australia, New Zealand, Canada, Japan, France, Portugal, Belgium, United Kingdom, Austria, Germany, Sweden, Norway, Netherlands, Finland, Ireland, Switzerland, Denmark

Source: OECD.
Percent of the Unemployed Who Have Been Jobless for 27 or More Weeks, 1960 - August 2009

Source: Author's tabulations of U.S. BLS data (downloaded Sept, 12, 2009).
Unemployment Insurance Benefit Exhaustion Rate, 1960 - July 2006

Percent of beneficiaries who exhaust regular UI benefits

Source: Author's tabulations of UI benefit exhaustion data from Department of Labor, Employment and Training Administration (downloaded Sep 11, 2009). Data are annual averages before 1972 and monthly thereafter.
Special programs for the unemployed

- Unemployment benefit extensions of up to 73 weeks -- giving a total of 99 weeks protection
  - Length of extension tied to state unemployment rate
- Federal gov’t pays all extra cost
- $25 / week hike in benefits (8%)
- $2,400 of yearly benefits are tax free
- 65% federal subsidy for continued health insurance
  - An all-time first
Special programs for the afflicted

- Increases in monthly food stamp allotments
- Aid to the states for social assistance to children
- Doubling of budget for training the unemployed and hard-to-employ
- Increases in EITC and Child Tax Credit
... and for the not-so-afflicted

- Federal income tax cuts, phased out for folks with high income ("Make Work Pay")

- Special grants to Social Security recipients, VA recipients who do not pay income taxes

- "Alternative Minimum Tax" (AMT) relief
Impact of the Recession on American Households' Private Incomes, December 2007 - September 2009

Private income in
December 2007 = 100

Personal & social insurance taxes
December 2007 = 100

Month
Dec-07  Jan-08  Feb-08  Mar-08  Apr-08  May-08  Jun-08  Jul-08  Aug-08  Sep-08  Oct-08  Nov-08  Dec-08  Jan-09  Feb-09  Mar-09  Apr-09  May-09  Jun-09  Jul-09  Aug-09  Sep-09

2008 Stimulus
2009 Stimulus
Impact of the Recession and Stimulus Package on Government Transfer Payments, December 2007 - September 2009

Gov't transfer payments
December 2007 = 100

Month

Dec-07  Jan-08  Feb-08  Mar-08  Apr-08  May-08  Jun-08  Jul-08  Aug-08  Sep-08  Oct-08  Nov-08  Dec-08  Jan-09  Feb-09  Mar-09  Apr-09  May-09  Jun-09  Jul-09  Aug-09  Sep-09

100  101  102  103  113  112  113  105  106  107  106  107  108  111  112  114  117  120  120  120  121

110  115  120  125  130

Billions of current dollars

- $848 bil.
- $572 bil.
Composition & timing of the stimulus

Sources: Congressional Budget Office and Joint Committee on Taxation.

Stimulus Spending as % of Potential GDP

Sources: Congressional Budget Office and Joint Committee on Taxation.
Importance of state fiscal relief
Contributions of Health Insurance Benefits to Personal Income in the March CPS, by Age, 1996-2005

Percent of size-adjusted money income:
1996-2005 average

Source: Tabulations of 1997-2006 CPS files.

Average insurance value (2005 $)

$6,000

$5,000

$4,000

$3,000

$2,000

$1,000

$0

Bottom 2 3 4 5 6 7 8 9 Top Average

Source: Authors’ tabulations of 1997-2006 CPS files.

Source: Authors’ tabulations of 1997-2006 CPS files.
Total Health Expenditures (Per Person), by Money Income Decile, 2001-2005

Average health care spending per person
(2005 $)

Decile of size-adjusted money income distribution

Source: Tabulations of 2001-05 MEPS files.
Average health care spending per person
(2005 $)

Decile of size-adjusted money income distribution

Source: Tabulations of 2001-05 MEPS files.
Average health care financed by gov't or employers, per person (2005 $)

Decile of size-adjusted money income distribution

**Source:** Tabulations of 2001-05 MEPS files.
Economic Crisis & Social Protection
Impact and remedies

- What is old:
  - Automatic stabilization
  - Standard gov’t reactions –
    - Tax cuts / UI benefit extensions / Gov’t capital projects

- What is new:
  - Health insurance for the unemployed
  - Massive federal aid for state governments
  - Unusual focus on protecting education & training

- What Congress avoided:
  - Huge investment in public works (They’re too slow)