Making Sense of the Recession

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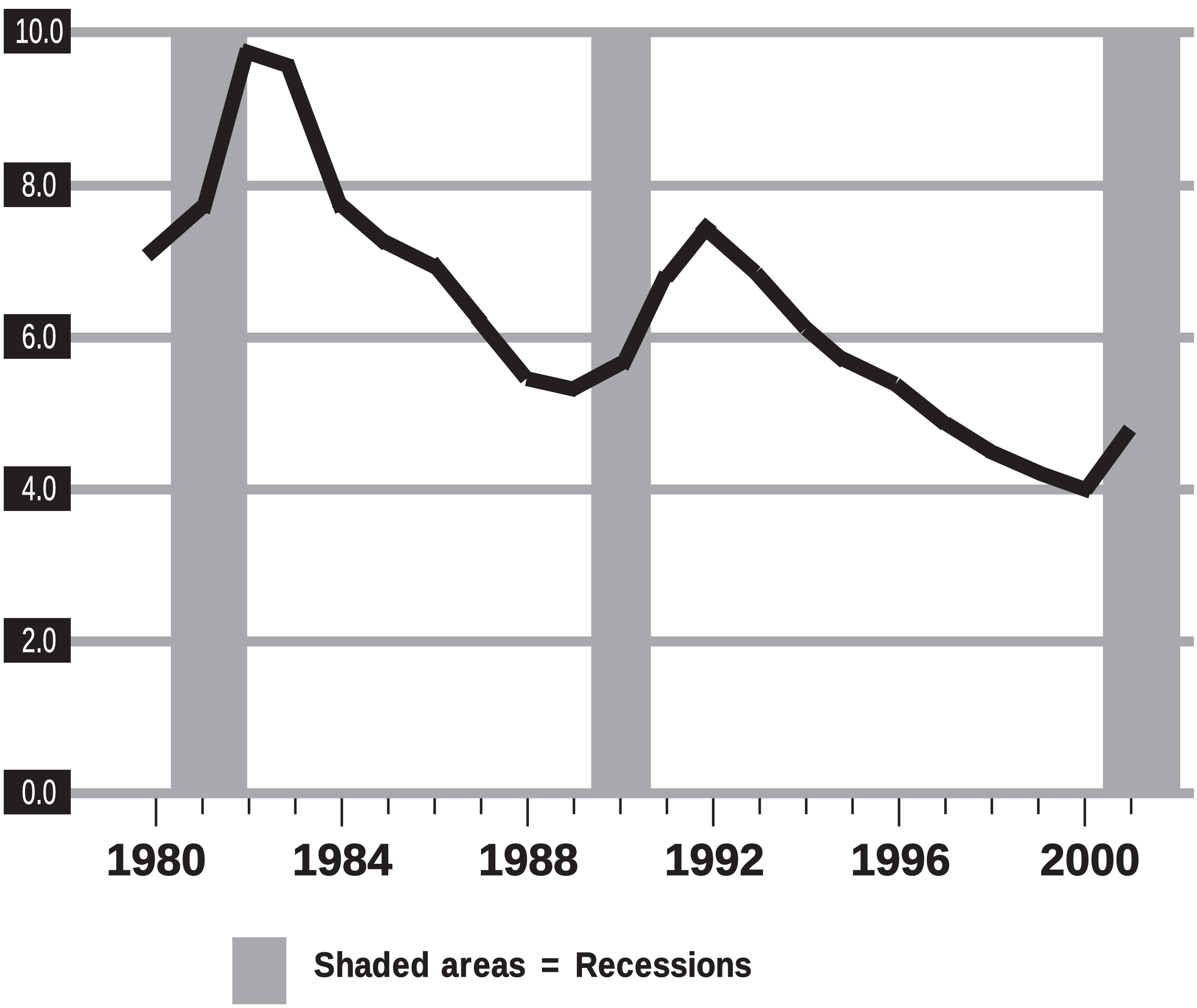
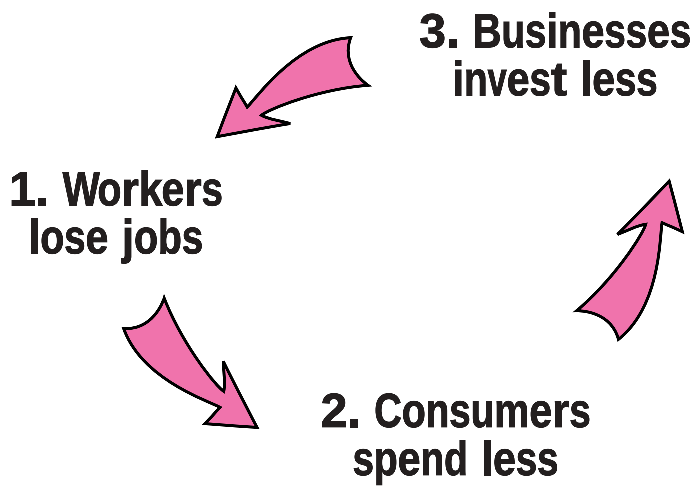
Unemployment and Recessions (1980-2001)

Recession yields rapid increases in unemployment; recovery is slow for working people.



Sources: For Unemployment: Bureau of Labor Statistics. For Recessions: National Bureau of Economic Research, Business Cycle Dating Committee

The Recession Cycle



★ Once this vicious cycle starts, the economy can get worse and worse. And it cannot help itself in the short run. Government must intervene.

★ The immediate cause of recessions are drops in investment and spending; this recession was preceded by an extraordinary concentration of wealth and speculation in the stock market. When the bottom dropped out of the market, investment capital was reduced dramatically.

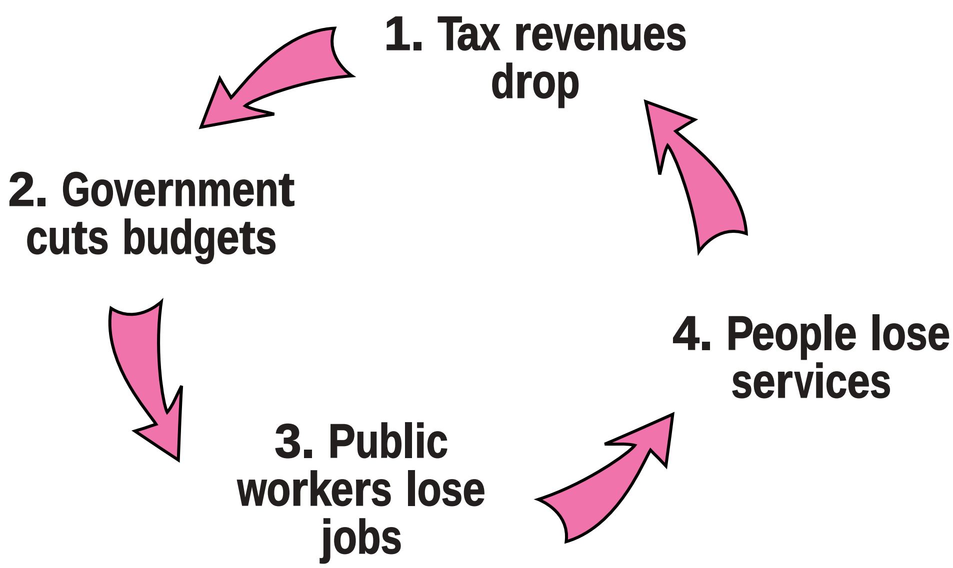
★ Basically, there are three intervention strategies:

1) give money to businesses to stimulate investment;

2) give jobs to workers;

3) give money to consumers to stimulate spending.

The Cycle of Budget Cuts



- ★ Over the last 25 years or more, the public sector has grown while the manufacturing sector has shrunk. Millions of workers now provide essential services to tens of millions of people.

- ★ When the economy goes into recession, tax revenues drop and government reacts by cutting spending (discretionary programs like health, child care, housing and education).

- ★ This is the opposite of what needs to happen. In a recession, government is the one force that can break the downward business spiral and turn the economy around.

Conservatives' Anti-Government Strategy

"I simply want to reduce government to the size where I can drag it into the bathroom and drown it in the bathtub."

— Grover Norquist *

★ Defame it

- "Government is just big bureaucracy without accountability."
- "All those politicians are in the pockets of special interests."

★ Defund it

- Taxes are cut to reduce government spending.
- Human services are cut at federal and state levels.

★ Deregulate it

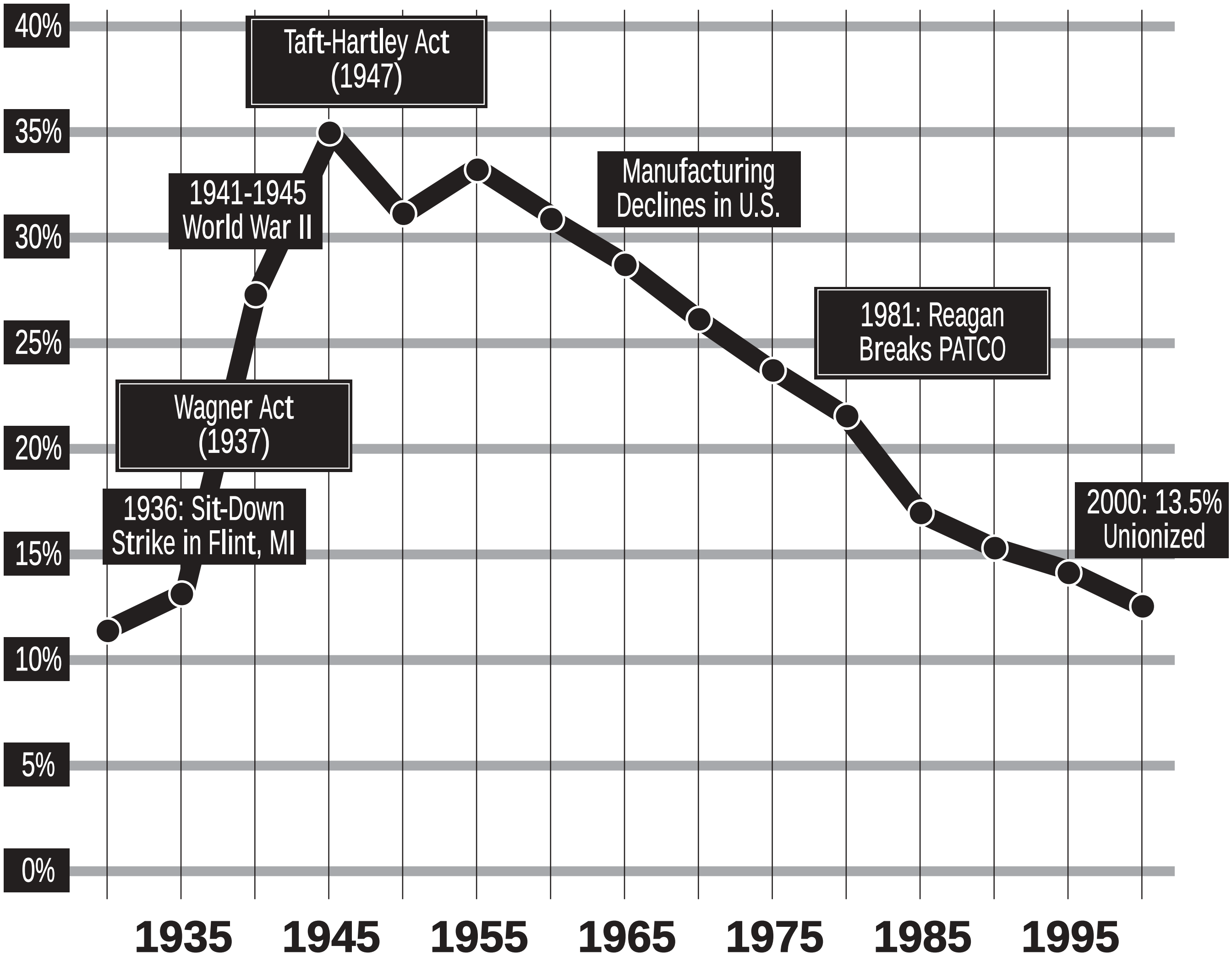
- Standards are cut for workplace & food safety.
- Environmental rules are undercut with trade treaties.

and privatize

* President of Americans for Tax Reform and a nationally-recognized leader of anti-tax forces in the U.S.

Percentage of the Workforce in a Labor Union, 1930-2000

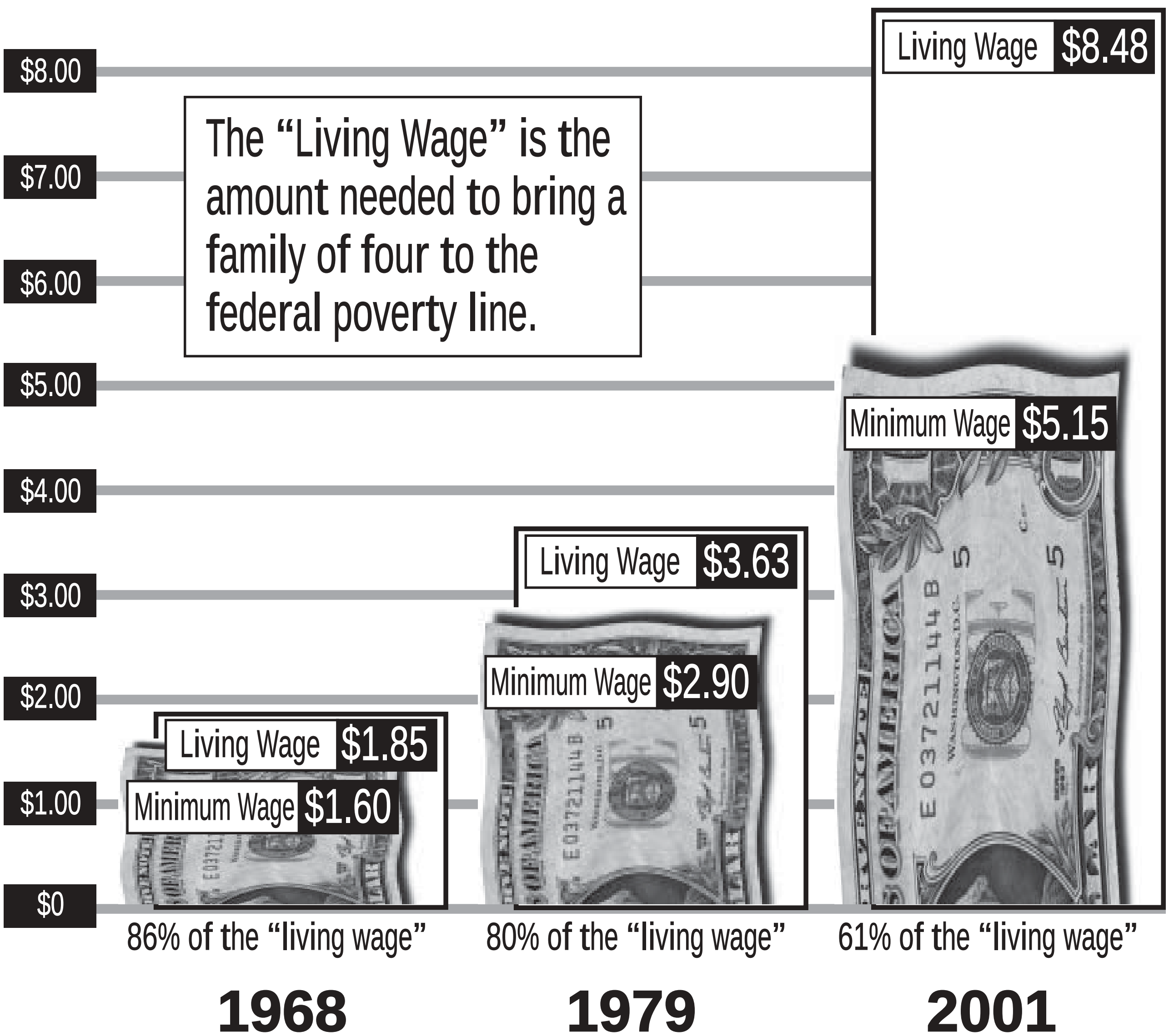
Anti-union policies weaken the power and voice of workers.



Source: Bureau of Labor Statistics

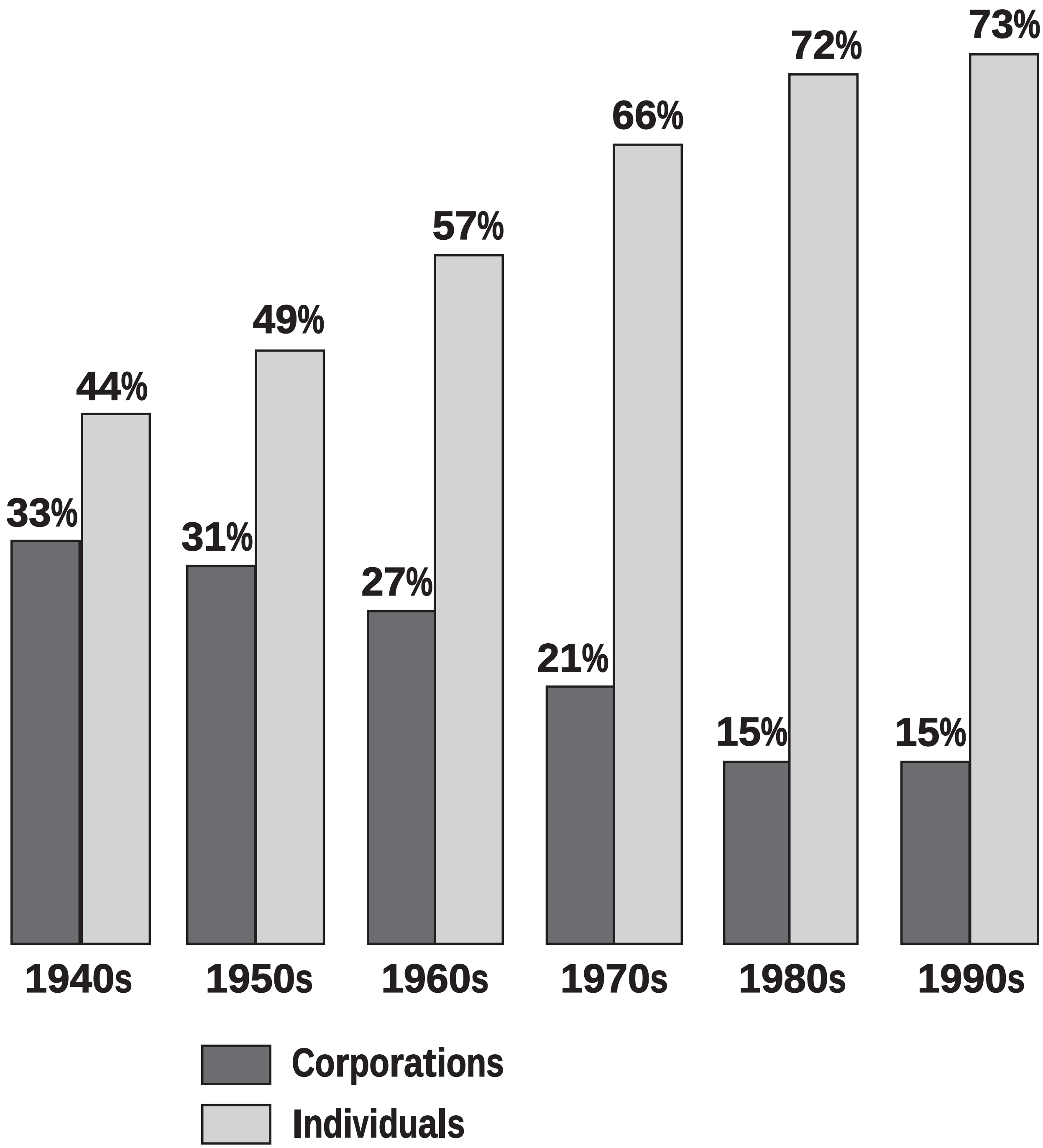
The Minimum Wage and the "Living Wage" (1968-2001)

The Minimum Wage has fallen far behind the rate of inflation



Sources: For the Minimum Wage: Economic Policy Institute. For the Living Wage in 1968 & 1979: Bureau of the Census (cited in *Baltimore's Living Wage Law,* Preamble Center, 1996. p. 7.). For the Living Wage in 2001: U.S. Health & Human Services Dept. Poverty line of $17,650 for a family of four divided by 2080 hours (52 weeks x 40 hours).

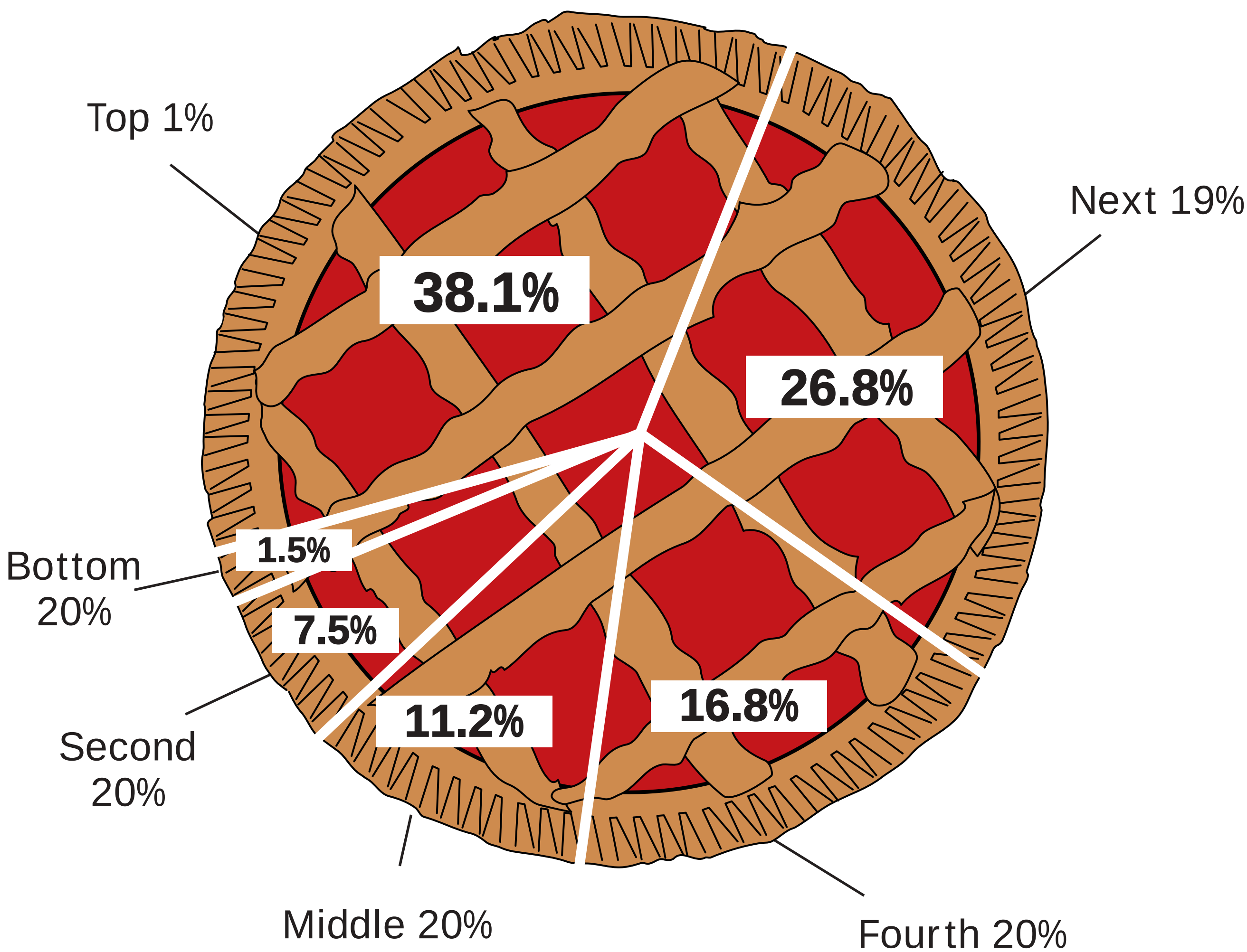
Percentage of Federal Taxes Collected from Individuals & Corporations



Source: Barlett and Steele, *America: Who Really Pays the Taxes?* (1994), p.140.

How the 2001 Bush Tax Cut Pie is Sliced

From 2001-2010, the top 1% get 36% of the tax cut pie. The bottom 60% get only 15% of the pie.



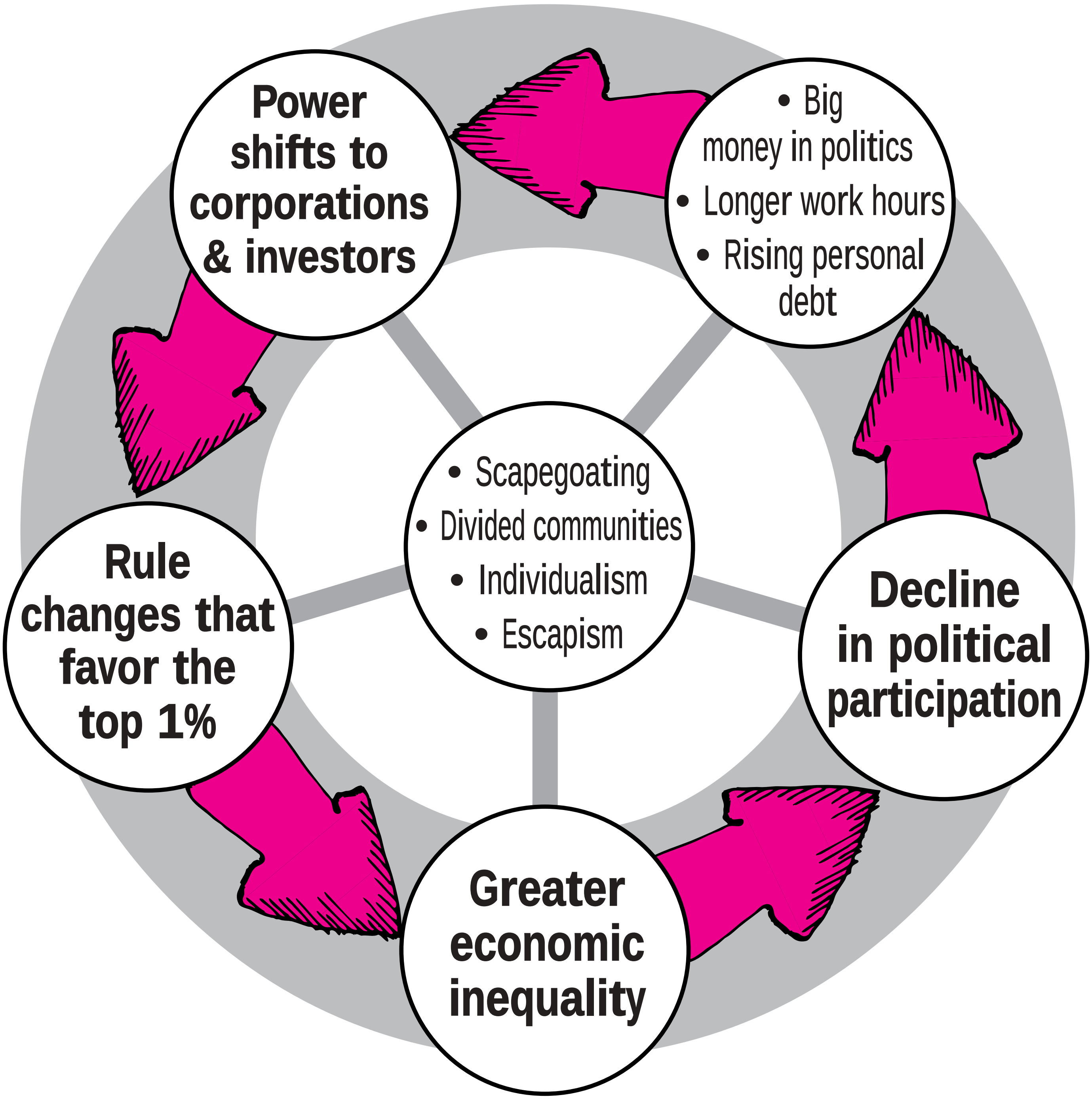
The Roots of Recession

Twenty years of . . .

- **Wage Cuts**
- **Budget Cuts**
- **New fees for schools and health care**
- **Attacks on labor laws**
- **Downsizing government**

. . . also imposed on developing countries by the IMF and the World Bank (called *Structural Adjustment*).

The Wheel of Misfortune



Bush "Stimulus" Proposal

- **Eliminate personal income taxes on dividends**
- **Increase child tax credit from $600 to $1,000**
- **Speed up tax rate reductions approved in 2001**
- **End the "marriage penalty"**
- **Increase alternative minimum tax threshold**
- **Increase tax breaks for small business equipment purchases**
- **Unemployment aid to states**

* * * * * *

Total cost = $674 billion

In 2003:

60% of tax reductions go to top 10%

More than $4 of $10 goes to top 1%

Typical taxpayer would get a tax cut of $289

Top 1% would get $30,000 plus

Alternative "Stimulus" Proposals

- **Extend Unemployment Insurance Benefits from 26 to 52 weeks**
- **Declare a "Holiday" on Payroll Taxes**
- **Increase Spending on Social Services**
- **Invest in Public Works**

★ **$110 Billion in Federal Aid for State Budget Crises**

-$50 billion in immediate budget relief
-$25 billion to repair schools
-$25 billion for unemployment insurance
-$10 billion for other urgent programs

★ **$65 Billion for Workers**

-immediate wage bonus limited to the first $15,000 in wages
-up to $525 per worker
-benefit 149 million workers

★ **Limit Everything to One Year**

-stimulate the economy immediately
-don't deepen the long-term federal deficit
-fund urgent, unmet needs

What We Can Do

- ★ Find allies (service workers, providers and consumers)
- ★ Build coalitions
- ★ Defend and extend services, fully and fairly funded
- ★ Support progressive taxation that is fiscally responsible

Strategies for Making the Economy Work for Us

* Fight for fair labor standards and basic worker rights.

The global race to the bottom means falling standards and denial of worker rights. Stopping the race to the bottom means building a floor below which wages and working conditions cannot fall. It means fighting for an adequate social safety net for those without work. And it means fighting for the right to organize into unions and other forms of association, to bargain collectively, and to strike.

Successful campaigns: Living wages, raising the minimum wage, rights for contingent workers (like the UPS strike), right to organize, stronger social safety net.

* Use government to promote stability, not capital mobility.

Corporations demand government subsidies to attract or keep jobs. Global corporations are skilled at playing workers, communities, and governments against each other in a bidding war, with incentives ranging from tax abatements to infrastructure improvements. In response, groups around the world are campaigning for government programs that raise wages and working conditions, and promote job creation and retention.

Successful campaigns: Living wages, demand secure, decent jobs in return for public subsidies, target public investment in job creation and retention, fund community controlled economic development.

* Build a community controlled economic sector.

We need an economic sector that is insulated from global markets. This sector needs to be rooted in and controlled by local people, so it meets local needs.

Success stories: Democratic community development and housing agencies, innovative union organizing and bargaining around job retention, worker owned businesses or coops, capital for grassroots economic development.

* Link with others fighting for the same goals elsewhere.

Across the country and across the world people are engaged in local fights to reverse the global race to the bottom. But corporations are global. To challenge globalization effectively, we must overcome the isolation of local fights waged by community groups and unions.

Success stories: Anti-sweatshop campaigns, the UPS strike, and the global campaigns against AIDS in Africa, the IMF and World Bank, and the World Trade Organization.

From *Fight Where You Stand* by Jeremy Brecher, Tim Costello, and Brendan Smith, Campaign on Contingent Work (617-338-9966).

Frequently asked questions

Are recessions really that harmful? Isn't unemployment — one of the main outcomes of a recession — necessary for the economy to become more efficient?

"Researchers have found that with every one percent increase in the U.S. unemployment rate, 920 more people commit suicide, 650 commit homicide, 500 die from heart and kidney disease and cirrhosis of the liver, 4,000 are admitted to state mental hospitals and 3,300 are sent to state prisons. In total, a one percent increase in unemployment is associated statistically with 37,000 more deaths, including 20,000 heart attacks. Unemployed workers are also more likely to experience dizziness, rapid heart beat, troubled sleep, back and neck pain, and high blood pressure."

(Source: "Macroeconomics" by Robert J. Gordon, from the third chapter of *The Deindutrialization of America* (1982) by Barry Bluestone and Bennett Harrison. Data are probably from the late 1970s or early 1980s, but the basic point still holds and the numbers may be even worse today.)

What is supply-side economics (Reaganomics) and demand-side economics (Keynesianism)?

Supply-side economists focus on investors — they think that supplying investors with enough capital is what stimulates the economy. Demand-side economists focus on workers — they think the important thing is to make sure workers have enough money to buy things, which increases demand and keeps the economy rolling. What do you think are the interests behind each economic philosophy?

What is the difference between a downturn and a recession?

Technically, in a downturn, the economy keeps growing but it doesn't grow as fast. In a recession, the economy actually shrinks — it produces less than it did in the previous three months. That means millions of people get laid off, wages and hours are cut, people spend less, governments cut their budgets, people lose services (all the things described in the opening exercise of this workshop). Another key difference is that a downturn is something the Federal Reserve Bank tries to create (to slow the economy and keep inflation down) and a recession is something it tries to avoid, because it hurts businesses and investors much more than a downturn.

What is price inflation?

Prices can rise for two reasons. One is shortages. Look at computer sales. People (or businesses) might start buying so many computers that they use up the whole available supply. The computer manufacturers hire more workers, they put on a third shift, but they can't keep up with the demand. People still want computers and they are willing to pay more for them, so the manufacturers raise the prices. This is called "price inflation."

Prices can also go up because of wage inflation. When wages go up, businesses could just cut their profit margin and keep the price the same. But they'd rather pass the wage increases on, and they do that by raising their prices for the products they are selling.

How do interest rate hikes slow down the economy?

By raising the cost of borrowing money. More and more, people aren't using their own money to buy dishwashers or furniture or even food and medicine; they are using credit cards or borrowing money from banks. Businesses are doing the same thing: instead of financing expansion out of their "retained earnings," they are borrowing. So the Federal Reserve Bank (Fed) can have a very big influence on both spending and investing by increasing the cost of borrowing money (by raising the prime lending rate). Think about buying a house. When home mortgage rates are at 3%, it sounds like a good deal. When they are at 18%, you wouldn't even consider it. Businesses act the same way. So the Fed can really slow down the economy by raising interest rates.

Whom does the Fed (Federal Reserve Bank) represent?

Mainly stockholders and bondholders. Unlike companies, investors can't raise their prices when inflation starts eating away the value of their investments, so they are especially eager to see interest rates raised and the economy slowed. Over 63 percent of stocks are owned by investors with family incomes over $100,000 a year (the top 20%). The wealthiest one percent own 49% of all stocks and mutual funds.

What brought on this recession?

Raising interest rates is a controlled way to slow down the economy. But sometimes the slowdown gets out of hand because there are things the Fed doesn't control, like the stock market and the psychology of investors. And that is what happened in this recession. There was almost no inflation. Wages for most workers are still below what they were in 1973 — wages only really started rising for most workers in the last three years of the ten-year boom, and declined again in 2002. There wasn't much price inflation either. But there was a great deal of inflation in the stock market. If you compare average stock prices to the earnings of those companies, stock prices at the end of the 1990s were twice as high as normal. (At its peak in March 2000, the market as a whole was valued at more than 33 times corporate earnings; the historic ratio is 14.5 to 1. See Dean Baker, "The new economy recession." www.cepr.net, 12/20/01.)

The stock market inflation was worst in the dot.com industry. One company, amazon.com, had never made a dime of profit but its stocks were worth more than General Motors. One day, investors woke up and realized that was ridiculous. They started selling their dot.com stocks. Other stockholders saw those stock prices falling and figured they'd better sell too while their stocks were still worth something. It turned into a stampede, and it carried over into the rest of the stock market, wiping out a third of the paper value of stocks. That means that investors had one-third less money to invest in business expansion. And they were in no mood to invest — the mass mood had shifted from "boom" to "hunker down." All this happened by early 2001, well before September 11. The recession officially started in March.

Why is the Stock Market so volatile (up & down like a roller coaster)?

Investors act in herds. No one knows the future, so myths and stories about what is going on have great power. When everything looks rosy, investors will make silly decisions like investing in dot com companies that have very little solid worth. When things look bad, they won't invest in solid companies, even if the Fed cuts interest rates. So recoveries downturn must await an improvement in the mood of investors. When everybody down at the country club says there is some real money to be made if you get in now, then the investment faucet opens up. Business spending picks ups, people are rehired, unemployment comes down, consumers spend more, and the recession is over.

Why is there so much disagreement about anti-recession policies?

Practically everyone agrees the government should intervene to get the country out of a recession — even free market types. But there are big differences about where to intervene — class differences. The "give people money to spend" or "put people on the payroll" or "expand public services" approach increases equality because it gives money to people who don't have much money. The "give money to business" approach increases inequality because it gives money to people who already have it — in fact having money defines them economically, they are owners of capital, that's their role in the economy.

It's a political choice. Some approaches increase economic equality, others increase inequality. There's nothing automatic or inevitable about it. "Equality policies" can also be "recovery policies," since they get money to people who will spend it quickly, and consumer spending is two-thirds of the economy (GDP). Equality policies do not guarantee economic recovery, but they should help.