

**Module 5:
Making Sense of the Recession**

Trainer's Guide

**A Popular Economics Education
Workshop Series**

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Module 5

Making Sense of the Recession Workshop

Given the obscene inequities and the palpable injustice that affects the lives of millions of human beings, we must not allow ourselves to be seduced by the “I’m-all-right-so-long-as-I’m-not-harming-anyone” philosophy. Unless we are actually helping someone we are contributing to injustice by omission and delict. We simply cannot plead ignorance or continue to be impervious to the cries of the poor. Nor can we limit our own religious journeys to any kind of self-focused spirituality or liken them to a pleasant and leisurely stroll in the woods.

— Anthony Gittins,

Workshop Objectives

1. Demystify the recession: what is it, what caused it, how do we get out of it.
2. Demonstrate that “recovery” or “stimulus” policies can increase or decrease equality and workers’ power.
3. Identify allies, strategies, and actions for dealing with the recession and increasing economic equality.

Key Workshop Concepts

- *Inequality.* Inequality is rising, fueling both underconsumption (people worldwide don’t have the capacity to purchase everything business can produce) and overinvestment (too much productive capacity, and speculative investment).
- *Power.* The dominant theme of the last three decades is the growth of investors’ and corporations’ power over the power of working people.
- *The Business Cycle is not a “force of nature.”* Choices are made by power-holders that influence the business cycle. Rules — such as tax laws, interest rates, and public spending initiatives — are made by people and push the cycle in one direction or another.

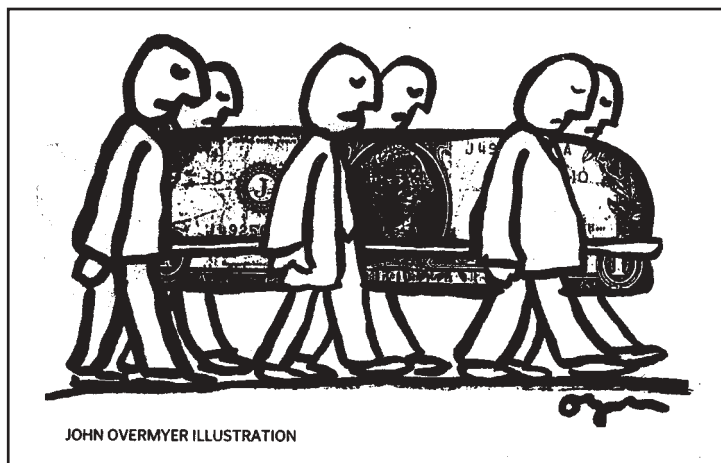
Agenda

1. Introduction and Agenda Review (5 min.)

- a. The trainer asks one of the participants to lead the group in a prayer (or leads the group her/himself).
- b. Trainer states the objectives of the workshop (see page 2) and reviews the agenda.

Agenda Outline

1. Introduction & Agenda Review
2. What is a Recession?
3. Downturns, Recessions and the Business Cycle
4. The Corporate Strategy
5. Steps to Recovery and Equality
6. Wrap-up



2. What is a recession? (10 min.)

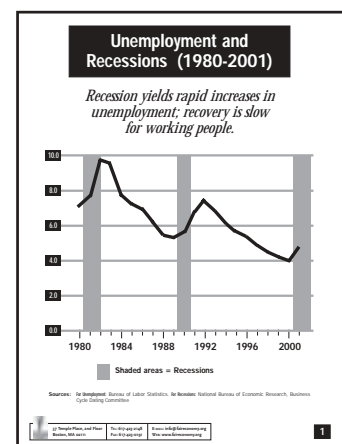
- a. In pairs, participants briefly introduce themselves, share their names and describe what they've seen happening to them, their families, co-workers, and neighbors, as a result of the recession. A sample of responses are shared with the whole group.
- c. The trainer defines "recession".

A recession is when the economy shrinks for at least half a year — which means that it produces fewer goods and services (two consecutive quarters of decline in Gross Domestic Product adjusted for inflation, also known as 'real' GDP).

Talking Points: This technical definition is for business people — layoffs, a consequence of recession we've noted — often continue well after the recession officially ends. However, the official definition does contain some useful information:

- The decline is widespread, not just happening in one industry.
- The decline is not just happening in one place but generally across the country or the world. (It doesn't have to be happening everywhere but it needs to be widespread enough to pull the whole economy down.)

Recessions aren't one-time events. They occur every several years. They are part of the economy we live in, and now we are going to see why (*Chart 1: Unemployment and Recessions (1980-2001)*).



3. Downturns, Recessions, and the Business Cycle (10 min)

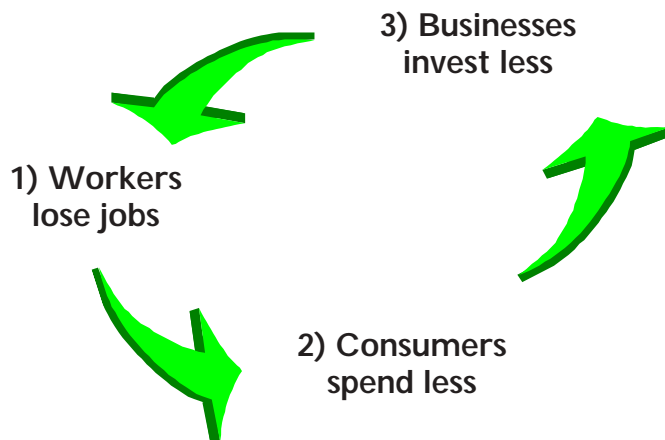
- a. The recession cycle – Listen to this description and look at this illustration of the recession cycle. [The trainer goes back to the list of the consequences of a recession generated by participants and sums up with these three key points.]

A recession is when

- 1) People/workers lose jobs.
- 2) People/consumers spend less.
- 3) Businesses invest less.

[The trainer writes these up on a chart and draws arrows from one to the next to show how these consequences can be a vicious cycle.]

- 1) Arrow from 1 to 2: People don't have jobs, so they don't have money.
- 2) Arrow from 2 to 3: People don't have money, so they don't buy stuff.
- 3) Arrow from 3 back to 1: There's less demand, so businesses don't invest, so they don't hire, so people don't have jobs.



Talking Point: This is a vicious cycle; it goes around and around and gets worse and worse. The economy can't help itself in the short term. That is why so many people, from liberals to free market conservatives, are calling on the government to intervene and turn this cycle around. However, they have different ideas about *where* the government should intervene. Conservatives think the government should give money to businesses to stimulate investment and put people back to work. Labor and liberals think the government should give money or jobs to workers so they buy more, which would give business a reason to invest.

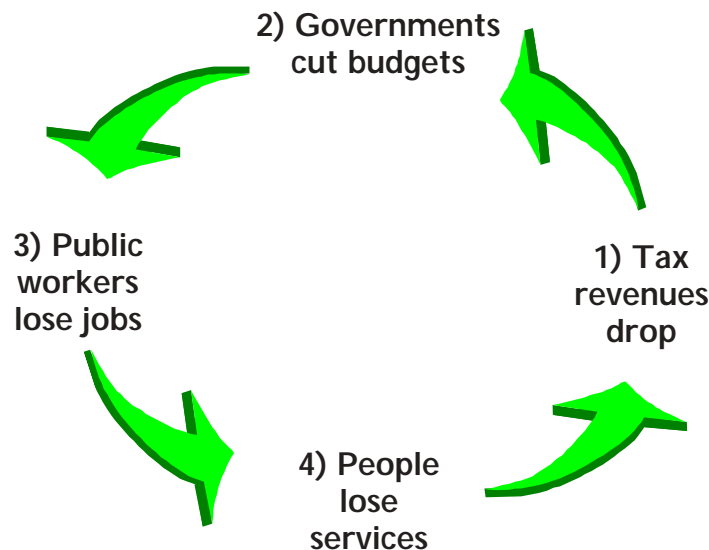
- b. The cycle of budget cuts – Publicly funded services are an important part of the economy. They employ millions of workers and they provide services to millions of people. Since early 2001, when the recession started, nearly every state has cut services as they grapple with declining revenues.

There are four more key things that happen in a recession:

- 1) Tax revenues drop because workers lose jobs and business profits fall.
- 2) Governments cut their budgets.
- 3) Public sector workers lose jobs.
- 4) People lose services — and they need them most in a recession.

- c. The trainer writes these up on a chart and draws arrows between them to show the vicious cycle of budget cuts:

- 1) Arrow from 1 to 2: Tax revenues drop, so governments cut their budgets.
- 2) Arrow from 2 to 3: Public sector workers lose their jobs, or their jobs are privatized and they lose union protection and their wages, hours, etc. may be cut.
- 3) Arrow from 2 to 4: People who need services most lose them when they need them the most.
- 4) Arrows from 3 and 4 to 1: Tax revenues fall still more.



This vicious cycle (of budget cuts) makes the other vicious cycle (of recession) worse. [Draw arrows from the budget cycle chart to the recession cycle chart.]

So why is it so hard for us to get government to reverse the cycles by increasing spending for public works? [bridge to the next section]

4. The Corporate Strategy: The Incredible Shrinking Government (10 min)


- Over the last 30 years corporations and wealthy investors have systematically worked to change the rules that regulate the economy in order to boost their own profits.

Talking Points: The strategy of large corporations and wealthy investors has been to defund, defame, deregulate, and privatizes government services (*Chart 2: Conservatives' Anti-Government Strategy*).

New rules to create "investor friendly" environments shift costs and risks onto the majority of the people, while profits are shifted upward to investors and corporations. Regulation for us, deregulation for them. Rules for us, free trade for them.

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 *



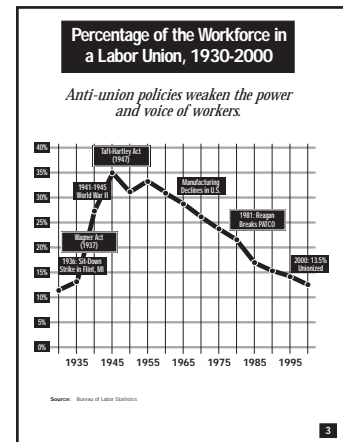
- ★ **Defame it**
 - "Government is just big bureaucracy without accountability."
 - "All those politicians are in the pockets of special interests."
- ★ **Defund it**
 - Taxes are cut to reduce government spending.
 - Human services are cut at federal and state levels.
- ★ **Deregulate it**
 - Standards are cut for workplace & food safety.
 - Environmental rules are undercut with trade treaties.

and privatize

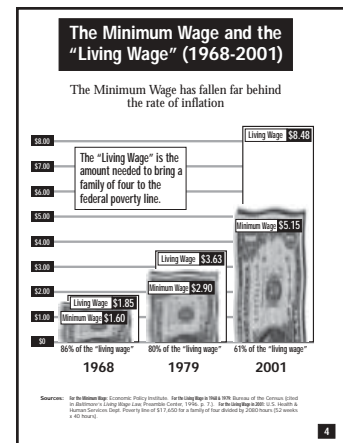
* President of Americans for Tax Reform and a nationally recognized leader of anti-tax forces in the U.S.

2

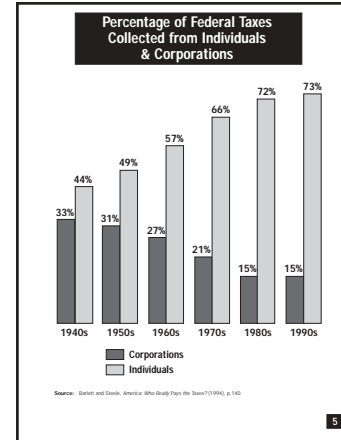
Corporations and their supporters in government have aggressively cut down workers' rights and waged relentless struggle against organized labor. This has contributed to the decline of union membership and led to a reduction of labor's power in the workplace and in government. (*Chart 3 Percentage of the Workforce in a Labor Union, 1930-2000*).



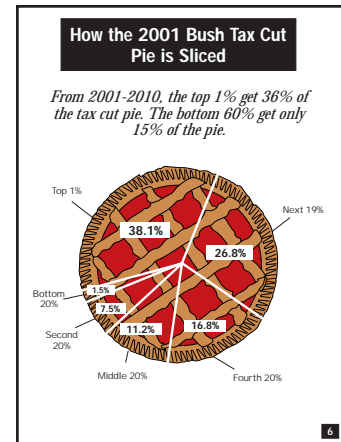
The gap between the federal minimum wage and the "living wage" — that workers need to stay above the poverty line — has grown dramatically in the last 30 years (*Chart 4: The Minimum Wage and the "Living Wage" - 1968-2001*).



Talking Points: In the 1950s and 1960s, taxation was a way of redistributing wealth from corporations and wealthy people to the rest of us, by way of government programs that subsidized home mortgages, paid for veterans' college education, built roads, funded public education, health, and other public services. Since then the costs of maintaining our infrastructure and our society have been shifted onto us and we are paying corporations to build factories and put us to work (*Chart 5: Percentage of Federal Taxes Collected from Individuals & Corporations*).



The Bush Tax Law of 2001. This rule change, officially known as the Economic Growth and Tax Reconciliation Act of 2001, continued to shift wealth upwards. *Citizens for Tax Justice* has calculated that over the ten year period the tax cut is in effect, the richest one percent will get more than a third of the tax cut pie (36.1%)! In the final year of the Bush Tax Cut, 52 percent of the tax cut goes to the top one percent! Although the wealthy have already received, on average, a \$12,000 tax break this year (2002), 80 percent of their total windfall will take effect from changes after 2005. In contrast, the vast majority of tax payers have already received most of their tax cuts from the 2001 legislation. (See *Chart 6: How the Bush Tax Cut Pie is Sliced*.)



These rule changes didn't just happen. Corporations and wealthy individuals invested in: lobbying and campaign contributions to change the rules and the way they are enforced in order to decrease the power of organized workers. (For example, passing right-to-work legislation or cutting the number of federal labor inspectors). Think tanks, reports, radio and TV stations employed a strategy to mold public opinion.

Talking Points: Because of the growing inequality, workers don't have enough money to buy and owners have "too much money" to invest. When you pay someone in Bangladesh 10c an hour to sew your clothes instead of paying someone in Detroit or Los Angeles \$7 an hour, you're going to end up with more clothes than people can buy. This is the equality story, which is really a story about corporations capturing more of the value of people's labor.

That was the scene throughout the 1990s, during the boom. And that is where this recession came from. It wasn't caused by inflation in rising wages. It was caused by inflation in the stock market — money gushing upward into corporate treasuries and wealthy people's accounts which pushed up stock prices to twice their normal value, compared to corporate earnings.

So the story of the 1970s, '80s, and '90s is a story of growing inequality and a shift in power. And the recession was the result of too much money at the top and not enough at the bottom (*Chart 7: The Roots of Recession*).

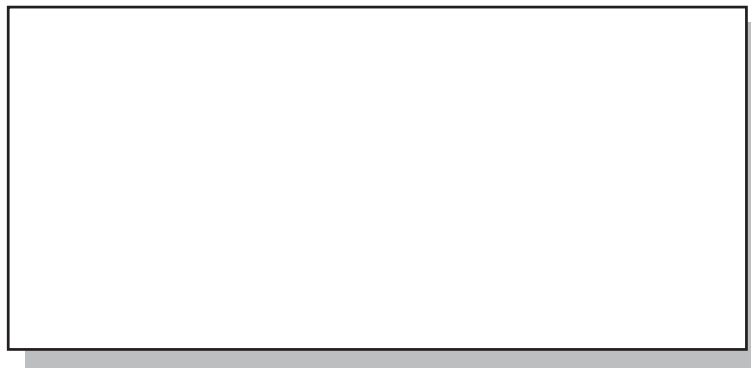
The Roots of Recession

Twenty years of . . .

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

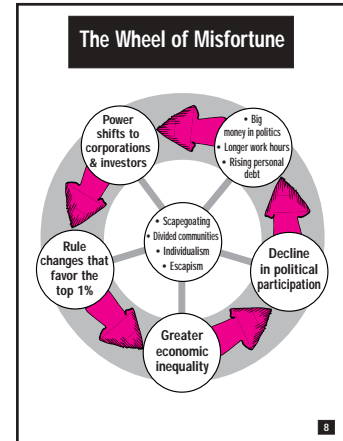
. . . also imposed on developing countries by the IMF and the World Bank (called *Structural Adjustment*).

7



4. Steps to Recovery (20 min)

Talking Point: The “cycle of recession” is a vicious cycle. It just gets worse and worse every time you go around, it can’t stop itself. That is why in a recession, both labor and business call on the government to intervene. The economy can’t get itself out; some outside force has to. Even many free market advocates who usually say “leave it to the market, get the government out of the economy” are calling for government intervention. But business and labor have very different ideas how to intervene.



- a. In small groups (4-5 people each), participants read the list of Alternative Economic Stimulus proposals and compare them to Bush’s proposed “Stimulus” plan (*Chart 8: Bush “Stimulus” Proposal* and *Chart 9: Alternative “Stimulus” Proposals*. The alternative proposals with examples are on the next page). Feel free to add your “ideal” proposal if it is not there.

Evaluate at least one proposal by answering:

1. How might this rule change stimulate the economy and pull us out of recession?
2. How might this rule change effect economic inequality?
3. How might this rule change effect the power of working people (labor, people of color, women...)?

There will be 10 minutes for this task and 5 minutes to hear a sample of the groups’ conversations.

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

1. Extend Unemployment Insurance Benefits from 26 to 52 weeks

2. Declare a “Holiday” on Payroll Taxes

A payroll tax withholding holiday would cancel payroll tax withholding during a specific interval, probably a month.

3. Increase Spending on Social Services

Expand health care coverage to 100% COBRA and Medicaid, increase funding for weatherization, job training, welfare (TANF), Head Start, WIC, CAPTA anti-child abuse programs, and state revenue sharing.

4. Invest in Public Works

For example, invest in emergency school construction and repairs, drinking and waste water systems repair, affordable housing, rail investments, small business and economic development programs.

5. Your Idea

- b. What are your suggestions of steps that congregations and churches can take to support these efforts? [See *Chart 11: What We Can Do.*]

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

11

6. Evaluation (5 min)

- a. The trainer asks participants to share with the whole group a highlight of this session and suggestions for changes they feel would improve the workshop.
- b. The trainer asks for a volunteer to lead the group in a closing prayer.

As each one has received a special gift,
employ it in serving one another, as
good stewards of the manifold grace
of God.

— 1 Peter 4:10

