INTRODUCTION

Evaluating the Effects of the Great Recession

By
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The Great Recession, as officially dated by the National Bureau of Economic Research, lasted from December 2007 through June 2009.[1] It was the most severe recession since the Great Depression of the 1930s, with both gross domestic product (GDP) and the number of jobs declining by about 6 percent and median family incomes by about 8 percent. It lasted longer (18 months) than any recent recession and was precipitated by a collapse in housing values and stock prices that negatively affected the economic well-being and security of most U.S. families.

Although the recession officially ended four years ago, the economy has yet to fully recover. In July 2013, the national unemployment rate was 7.4 percent, below the October 2009 peak rate of 10.0 percent, but well above the prerecession November 2007 rate of 4.7 percent.[2] These monthly, point-in-time unemployment rates understate the percentage of workers who experienced any unemployment during the Great Recession era. That is, in any month, some of the unemployed find new jobs while other workers are laid off, so the number experiencing unemployment increases over time even if the flows into and out of jobs leave the unemployment rate unchanged. Farber (2011) documents, that 16 percent of all workers experienced a job loss at some time during the

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three-year period from 2007 to 2009, well above the average monthly unemployment rate during these three years—9.3 percent.

A return to normalcy in the job market is still several years in the future. In February 2013, the Congressional Budget Office (2013) projected that calendar year "2014 will be the sixth consecutive year with unemployment exceeding 7½ percent of the labor force—the longest such period in the past 70 years" (p.1).

In addition, many home owners, particularly the long-term unemployed, lost their homes during the foreclosure crisis, which distinguished the Great Recession from previous ones. For those who retained their homes, housing equity is much lower than it was prior to the recession. Even though housing prices have rebounded from their recessionary lows, as of spring 2013 they were still almost 30 percent below their 2006 peak according to the national Case-Shiller Index (S&P/Case-Shiller Home Price Indices 2013). Only the stock market indices (the Dow-Jones, NASDAQ, and S&P/500) have recovered all their losses associated with the Great Recession.

This volume of *The ANNALS* contains twelve articles by leading experts from economics, political science, sociology, and psychology that focus on how federal and state government policy responses affected the course of the Great Recession and on the many ways in which the recession has affected the lives of American workers, families, and children. This is not the first broad analysis of the effects of the Great Recession (for an analysis of the early effects, see Grusky, Western, and Wimer [2011]), nor will it be the last. Rather, the authors in this volume document what has been learned about the effects of the Great Recession through mid-2013 and suggest where we might expect other effects to emerge or subside in the coming years.

The Great Recession in Historical Context

As a result of the lingering labor market and housing market difficulties, the Great Recession has exacerbated inequalities and disparities in many dimensions of economic well-being, as the articles in this volume document. However, many of these inequalities had been increasing since the 1970s. As a result, those groups experiencing the most severe effects of the Great Recession had been faring badly for decades. For example, the labor market outcomes (employment, earnings, and fringe benefits) of less educated workers relative to those of workers with at least a college degree had fallen dramatically in the three decades leading up to December 2007. Although unemployment rates rose for all groups of workers during the Great Recession, they rose much more for groups that have higher unemployment rates at all phases of the business cycle—workers with a high school degree or less, African Americans, Hispanics, and those under age 25. Disparities in employment, income, wealth, and health, which had widened in the decades leading up to the Great Recession, have widened even further in its aftermath according to several articles in this issue.

The anemic economic growth during the first four postrecession years (2009–2013) has done little to reduce poverty, income and wealth inequality, or other disparities. Indeed, the economy's experience since the early 1970s casts doubt on the adage that "a rising tide lifts all boats," the assumption that when the economy is growing and unemployment is falling that the poor, the middle class, and the rich will benefit to a similar extent.

In contrast, economic growth in the quarter century that lasted from the end of World War II to the early 1970s did deliver "a rising tide" to most workers and families. During this period, inflation-adjusted annual earnings increased rapidly for workers with no more than a high school degree as well as for college graduates, family incomes rose rapidly across the income distribution at a time when most families were supported by a single male worker, and poverty fell rapidly. This period, in retrospect, was a "golden economic age" of rapidly rising earnings and family incomes, rapidly falling poverty rates, and modestly declining income inequality (Danziger and Gottschalk 1995).

This "golden age" came to an end in the early 1970s, following the economic disruptions brought about by the first oil embargo. With the exception of a few years during the late 1990s, U.S. economic growth no longer lifts all boats. For almost 40 years, we have experienced a "gilded age" of rising inequalities. After adjusting for inflation, workers with no more than a high school degree now have mean annual wages and salaries that are lower than those of similar workers in the early 1970s. Yet our gilded age has the highest number ever of professionals with annual compensation above a million dollars and the highest number ever of families with more than a billion dollars in assets. Our age of rising inequalities is one in which both foreclosures and the sale of multi-million-dollar mansions are the focus of news stories, ones in which we read about working families that struggle to pay their mortgages and medical bills and others in which we read about the spending sprees of hedge fund billionaires.

In the twenty-first century, robust economic growth and low unemployment rates are necessary, but are no longer sufficient, to reduce poverty, income and wealth inequality, and disparities in health and child well-being. Indeed, poverty, income inequality, and wealth inequality were all higher prior to the Great Recession in 2007 than in the early-1970s, even though GDP per capita increased substantially over these 35 years. Changes in employer practices, labor market changes, and changes in public policies have all contributed to a situation in which most workers no longer captured the benefits of rising labor market productivity (Freeman 2008).

These changes included labor-saving technological changes that reduced the number of middle-income jobs—consider that electronic passes have replaced many highway toll-takers and that most passengers purchase airline tickets online instead of from a local travel agent. In addition, the globalization of labor and product markets, immigration of workers with low educational attainment, the declining real value of the minimum wage, and declining union influence have also led to diminished wages for workers without a college degree. Congress has taken as long as a decade to legislate periodic increases in the minimum wage, the inflation-adjusted value of which is now well below its value in the early

1970s. And many firms have adopted "low-road" practices that gave them greater flexibility but reduced the real wages and fringe benefits of their workers.

Thus, the quarter century prior to December 2007 was bad enough for the typical worker and family, but it was followed by a very severe recession and an anemic economic recovery. As the articles in this volume document, many key economic, social, and health disparities widened further during and after the Great Recession, and unfortunately, the prospects for reducing these disparities, given current economic conditions and public policies, are not good.

A Guide to the Articles

Taken as a whole, the authors of the articles presented here draw four key conclusions about the effects of the Great Recession on our social and economic well-being. First, a substantial proportion of all workers, families, and children have been negatively affected in some domain, and it is likely that some of the "scars" of the Great Recession will be evident for many years. Second, the financial panic that took the U.S. economy to the brink of a depression was blunted by active federal government fiscal and monetary policies. However, the budget-cutting of state and local governments reduced somewhat the positive effects of federal actions. The net result, however, is that the Great Recession, as long and as severe as it was, did not become another Great Depression because of the federal government interventions.

Third, the recession induced behavioral responses in some nonmonetary dimensions of well-being that were beneficial. These include increased enrollment in higher education, improvement in some aspects of population health, and the supportive responses of families to the hardships experienced by their close relations. Fourth, several of the authors note that we are likely to experience some negative effects that will become more evident in the future. These include decreased security for retirees and negative long-run effects on child development, particularly for children whose parents lost their jobs and homes during the recession.

Federal government activism and the political response

The two articles in this section provide a broad overview of how the federal government pursued monetary and fiscal policies that responded to the economic crisis brought on by the Great Recession and how the public responded to these policies when they voted in national elections. In his article, Alan S. Blinder makes the case that the financial crisis was exacerbated because there was too little public intervention in the financial sector in the years leading up to the Great Recession. He then documents how the federal government successfully used fiscal and monetary policies to mitigate some of the damages to our economic institutions and the economic well-being of the population. Despite these efforts, the recovery has been anemic and high unemployment rates persist. The federal deficit has increased substantially and the public has concluded

(erroneously according to Blinder) that we had too much public intervention in 2008 and 2009 and that it failed to help the economy recover.

President Obama proposed, and Congress passed, the American Recovery and Reinvestment Act of 2009 (ARRA, or the stimulus package) about six weeks after his inauguration. The stimulus was large—about $800 billion or 5 percent of GDP—and included tax cuts, increased spending on infrastructure and social safety net programs, and additional payments to state and local governments to help them pay for increased Medicaid spending and prevent them from laying off even more teachers and public employees.

Blinder cites several studies that estimate that the ARRA raised real GDP and reduced the unemployment rate in the years following its passage. He notes, however, that "you do not get far in political discourse with counterfactual arguments," and he cites Daniel Kahneman (2011) who points out that "people see what *is*, not what *might have been*." In other words, many politicians, the media, and the public adopted the term "failed stimulus" in the months leading up to the midterm elections because the 2010 unemployment rate (9.5 percent in October 2010) was higher than it had been when the stimulus passed (8.3 percent in February 2009). In contrast, many economists estimated that the "counterfactual" rate for fall 2010 would have been 11 percent or higher, and concluded that the stimulus had successfully reduced unemployment.

Other recent studies of the effects of the Great Recession conclude, as does Blinder, that the stimulus should have been larger because of the magnitude of the GDP decline. For example, Robert Hall's (2010) empirical analysis concludes that the "stimulus worked in the sense that the recession would have been substantially worse without the stimulus considered here. But the stimulus moved the economy only a bit of the way toward its normal growth path. It left an economy badly injured by the recession" (p. 93). Hall further notes that the output-increasing and unemployment-reducing effects of the stimulus were being offset at the same time by the spending cuts and layoffs being implemented by state and local governments.

Arloc Sherman (2011) provides another example of how the failure to consider the appropriate counterfactual has led many to inaccurately view the stimulus as a failure. He documents that the number of people living in poverty in 2010 was about 7 million lower than it would have been had the stimulus not expanded tax credits, food stamp benefits, and unemployment insurance benefits. However, because poverty was higher in 2010 than in 2009, many critics condemned the stimulus for failing to reduce poverty.

Blinder is concerned that the legacy of the stimulus is a paradox—by denying that the stimulus had any economic benefits, the critics say it created our "deficit problem." He acknowledges that the dramatic rise in the federal budget deficit from about 3 to 10 percent of GDP between fiscal years 2008 and 2009 was due, in part, to the stimulus and other active fiscal policies. But it was also due to the decline in federal revenues caused by the sharp drop in economic activity. Almost every Republican in Congress voted against the stimulus and shortly thereafter they began referring to it as "the failed stimulus," claiming that it was not only ineffective but also exemplified uncontrolled public spending.

At the end of 2010, when some components of the stimulus were winding down, many economists advocated for additional stimulus, noting that the recession was longer and more severe than they had realized in early 2009 when the ARRA was being formulated. However, after the 2010 elections (see Bartels, this volume), the Republicans in Congress, who now controlled the House of Representatives, rejected any additional stimulus and made controlling spending and reducing the deficit their top priority.

Blinder also gives high marks to the Federal Reserve for its expansive monetary policies. Yet the paradox of a successful policy being perceived as a failure persists for monetary policy as well. The Federal Reserve has been criticized for overstepping its authority and fostering inflation, even though inflation has remained low in the first four postrecession years. Many people refer to the Troubled Assets Relief Program (TARP) as a "bailout" or "giveaway" to bankers, even though the government will end up with a net profit on the program because the loans made have mostly been repaid and many of the equity investments are worth more than their purchase price due to the rapid rise in stock prices from spring 2009 to spring 2013.

Blinder has several criticisms of the federal response to the recession. First, President Obama, his Treasury Secretary, and other administration officials did not do enough to inform the public about how the many policies that were implemented had benefited the economy. Second, the administration did not vigorously prosecute corporate executives whose fraudulent and near-fraudulent financial dealings contributed to the severity of the economic crisis. Third, the federal government did too little to limit the number of home mortgage foreclosures.

Blinder cautions that if the current false impressions regarding the effectiveness of government fiscal and monetary policies are not addressed, it will prove very difficult for future administrations to pursue appropriately active policies in response to future severe recessions. If that is the case, a negative legacy of this era would be its damage to economic policymaking.

Larry M. Bartels evaluates the political legacy of the Great Recession. With regard to voting in national elections, he concludes that "Americans responded to the extraordinary circumstances of the Great Recession in ways that were, for the most part, quite ordinary." Or to quote an old saying, "the more things change, the more they remain the same." Bartels bases his analyses on a regression model that predicts the vote share of the incumbent party, using only two independent variables—income growth measured by the change in real disposable income per capita in the middle two quarters of the election year and a variable measuring how long the incumbent party has held the White House. His model suggests that the severe economic shocks in fall 2008 contributed greatly to President Obama's election. He goes on to suggest that the unpopularity of the economic stimulus contributed to the large loss of Democratic seats in both the House and the Senate in the 2010 elections. However, the positive effects of the stimulus on economic growth and unemployment leading up to the fall 2012 election grew the economy rapidly enough to foster the president's reelection.

Bartels rejects the view, adopted by several analysts, that the 2008 election represented a sharp break with tradition and provided Obama with an opportunity to reshape domestic policies as President Franklin Roosevelt had done in response to the Great Depression. He notes that Obama's most important initiatives had barely enough votes to avoid a Senate filibuster—the ARRA received sixty-one votes and both the Affordable Care Act (health care reform) and the Dodd-Frank Wall Street Reform and Consumer Protection Act (financial regulation) received sixty. The administration's energy and climate change policies never made it out of the Senate. Immigration reform finally passed in the Senate in summer 2013 but, at the time of this writing, had not yet been taken up by the House.

Bartels concludes that Democratic incumbents who voted for the stimulus and health care reform received significantly fewer votes in the fall 2010 election than would have been the case had they voted against them. The negative effects of having voted for health care reform were particularly large. Bartels suggests that "if every vulnerable Democrat (those in seats where Obama received less than 60 percent of the two-party vote in 2008) had refrained from voting for health care reform, the party would have lost about twenty-five fewer seats in 2010." The capture of the House of Representatives by the Republicans made it nearly impossible for Obama to pass additional stimulus bills and related economic legislation that he proposed in 2011 and 2012. Accepting Blinder's conclusion that the ARRA fostered growth, Bartels estimates that the stimulus kept the 2010 electoral losses from being even larger.

Bartels reviews some classic and recent political science studies of the responsiveness of American political attitudes and policy preferences to economic distress. He finds relatively little change in the public's views due to the Great Recession (see the article by Owens and Cook, this volume). He notes that those experiencing unemployment and foreclosure in the United States did not stage public protests, as was the case in some European countries. And in contrast to Blinder, he is skeptical of the view that President Obama could have increased electoral support for the Democrats if he had been more active in using the "bully pulpit." Bartels concludes that "ideological mandates are exceedingly rare in American politics, even in times of economic crisis," and suggests that the outcome of the 2016 presidential election will be primarily determined by the growth of the economy in the months leading up to the election, not by any lingering legacies of the Great Recession.

Effects on employment, wealth, retirement security, and the social safety net

The four articles in this section examine the effects of the Great Recession on workers and households. They describe the extent of job losses and the collapse of housing and stock prices and their effects on household wealth and retirement security, and the extent to which social safety net programs cushioned some of the resulting family income losses.

In his article, Richard B. Freeman writes the obituary for the "Great American Jobs Machine," the popular view that our labor market flexibility and lack of labor market regulations generated rapid employment growth during the 1980s and

1990s along with relatively low unemployment rates and short spells of unemployment. He notes that, at the time, many economists, including those at the International Monetary Fund, were urging European countries to rely more on market forces and less on labor market regulations. Freeman documents that the American experiences during the Great Recession and the slow recovery are more similar to the European experiences than to our own historical experience. That is, job creation during the recovery has been very slow and the ranks of the long-term unemployed have greatly increased.

Freeman reports that during a typical post–World War II recession, about 3 percent of all jobs were lost, whereas 6.3 percent of all jobs were lost during the Great Recession. Greenstone and Looney (2013) suggest that it may take until 2020 for the economy to regain the number of jobs it had in December 2007. Freeman points out that GDP growth during the recovery has been much more rapid than job growth—from the end of the recession through 2012, GDP increased by 7.5 percent, but employment increased by only 1.2 percent, meaning that productivity per worker has increased.

The wages of the more productive workers, however, have not increased during this period, calling into question the view that "growing the economy" is sufficient to reduce unemployment and increase wages. As Freeman notes, even in the 1980s and 1990s, when economic growth generated the great American jobs machine, the real wages of less educated workers also lagged productivity growth, and prosperity was not widely shared.

Postrecession economic growth has also not been widely shared. Between 2007 and 2011, median family income declined by 8.2 percent, and the official poverty rate increased from 12.5 to 15.0 percent. Inflation-adjusted median earnings fell even for those who worked full time for the full year over this period—by 1.5 percent for men and 4.2 percent for women.

Freeman goes on to analyze the duration of unemployment spells and shows that after the Great Recession, the American experience with long-term unemployment has converged with the typical European experience. Those who experience long spells of unemployment relative to those with shorter spells are less likely to be reemployed and more likely to get jobs that pay less than their prior job. In 2000, 6.0 percent of unemployed American workers, but 30.8 percent of the unemployed in OECD[3] countries, were out of work for 12 months or more. In 2007, 31.2 percent of unemployed Americans and 33.6 percent of the unemployed in OECD countries were out of work for a year or more.

Freeman notes that in most other advanced economies, hours worked in the manufacturing sector during the recession fell less rapidly than output; however, in the United States, hours fell much more than output. He suggests that the federal government should have done more to promote the kind of job-saving and work-sharing policies adopted in several European countries. However, given the nature of public opinion as described by Bartels, coupled with the hostility to the successful stimulus described by Blinder, there was little political support for such policies. As a result, it is not surprising that state and local government employment fell substantially during and after the end of the recession and that President Obama in 2011 and 2012 was unable to convince Congress to

continue the stimulus funding that shored up state and local government employment in 2009 and 2010.

Freeman concludes that different economic situations require different responses from employers and governments. The flexible labor market system of the United States seems to have worked well during economic booms, but it failed to protect workers during the Great Recession. What might be optimal is to have the ability to switch from a flexible system during economic booms to a European-style system that better cushions labor market shocks during recessions.

In their article, Fabian T. Pfeffer, Sheldon Danziger, and Robert F. Schoeni document the unprecedented decline in household wealth brought on by the collapse of housing prices, declining stock prices, and the increased unemployment that characterized the Great Recession and its aftermath. Between 2007 and 2011, about one-fourth of all households lost at least 75 percent of their wealth and more than half of all households lost at least 25 percent.

The Great Recession further exacerbated two trends that have been evident for several decades—increasing wealth inequality and increasing racial wealth disparities. Pfeffer, Danziger, and Schoeni show that wealth inequality increased between the early 1980s and the start of the recession. For example, inflation-adjusted net worth at the 95th percentile in 2007 was more than double its 1984 value, whereas that at the 25th percentile was 30 percent lower than in 1984.

Wealth losses were widespread during the recession, but wealth inequality continued to widen in its aftermath. For example, the net worth of the median household increased from about $85,000 to $95,000 (in constant 2011 dollars) between 2003 and 2007 and then fell to $47,000 in 2011, substantially below the 1984 median of about $68,000. The top 5 percent of the population lost wealth during the recession, but by 2011 had recovered some of their recessionary losses and had much greater net worth than the top 5 percent had in the 1980s. For example, wealth at the 5th percentile in 2011 was about $1.1 million, below the $1.6 million level of 2007 but well above the 1984 level of about $700,000.

Wealth disparities have also increased. Between 2003 and 2011, the median net worth of nonwhite households (including African Americans, Hispanics, and Native Americans) fell by 73 percent to about $5,000, whereas that of white and Asian households fell by 31 percent to about $84,000. The ratio of net worth for white and Asian households to that of nonwhite households thus increased from 6.6 to 16.7 over these eight years.

Pfeffer and his coauthors find few signs of recovery from the wealth losses associated with the Great Recession, at least through 2011.[4] If anything, they speculate that the slow economic recovery in the labor market and the continuing increase in stock prices are likely to generate increased wealth inequality in the coming years.

Alicia H. Munnell and Matthew S. Rutledge examine how the labor market changes analyzed by Freeman and the wealth changes analyzed by Pfeffer, Danziger, and Schoeni have negatively affected the current economic well-being and future retirement security of older workers (ages 55–64). These workers are more likely than younger workers to have experienced widespread losses in

financial assets and home equity. The deep recession and slow economic recovery with continuing high unemployment rates for older workers have made it more difficult for them than for other workers to work longer and save more. As a result, many in this age cohort will have lower incomes throughout their entire retirement as a legacy of the Great Recession.

Even prior to the recession, older workers had relatively small amounts in retirement accounts. In 2007, 401(k) plus IRA (Individual Retirement Account) balances for the typical householder between the ages of 55 and 64 were only $118,000, and only about $30,000 in financial assets was held outside of retirement accounts. These amounts declined during the Great Recession but had mostly recovered by 2013 when the stock indices reached record highs. However, Munnell and Rutledge point out that older workers experienced six years, 2007–2013, with no return on their retirement savings.

The National Retirement Risk Index shows the share of working households that are "at risk" of being unable to maintain their preretirement standard of living during retirement. Munnell and Rutledge show that this index increased from 44 to 53 percent for all workers and from 32 to 44 percent for those between ages 50 and 59 between 2007 and 2010. The increase was not larger, in part, because expected Social Security benefits and pensions from defined benefit plans were not much affected by the Great Recession.

Munnell and Rutledge note that one of the ways in which this recession was different from previous ones is that the unemployment rate increased almost as much for workers over age 55 as for those between the ages of 25 and 54. Older workers also had a larger increase than other workers in their median duration of unemployment, from about 11 to 38 weeks between December 2007 and March 2012.

In response to the difficult labor market conditions of the Great Recession, a greater than expected percentage of 62-year-olds applied for Social Security benefits, and applications for Social Security Disability Insurance also increased. Workers who retire early partially offset their immediate income losses due to unemployment, but will have lower benefits and hence lower incomes for the remainder of their lives than would have been the case if they postponed retirement until age 65.

Munnell and Rutledge point out that retirement security for many older workers was a problem even before the onset of the recession and that the long-term prognosis for retirement security is not promising. They note that retirement security will erode even further if the Social Security reforms currently under discussion reduce benefits for current and future retirees.

In his article, Robert A. Moffitt examines how the social safety net, including means-tested programs and social insurance programs, performed during the Great Recession. He documents that total spending on the main safety net programs increased more during this recession—by about 30 percent between 2007 and 2010—than it did during previous recessions. Most of this increase was due to increased benefits and increased caseloads in three programs, each of which was expanded by the ARRA. The stimulus raised benefit levels in the Supplemental Nutrition Assistance Program (SNAP, formerly Food Stamps),

expanded the Earned Income Tax Credit (EITC) for families with three or more children and extended the number of weeks a jobless worker could receive Unemployment Insurance (UI) benefits. Spending also increased as caseloads increased because these programs are countercyclical—when unemployment increases and earnings decline, the number of people who become eligible for these programs and receive benefits increases.

Moffitt notes that because other safety net programs are focused on the retired, elderly, and disabled, they are not expected to be as responsive to recessions as are SNAP, the EITC, and UI. However, as Munnell and Rutledge also document, the Great Recession contributed to large expansions in applications for, and hence caseloads in, Social Security Retirement, Social Security Disability Insurance, and Supplemental Security Income programs. Moffitt also documents that Medicare and Medicaid spending increased between 2007 and 2010.

Spending on SNAP more than doubled between 2007 and 2010 from $30 to $65 billion, with the average number of monthly recipients increasing from about 26 to 40 million (U.S. Department of Agriculture, Food and Nutrition Services 2013). The SNAP program provides families that have both low incomes and few assets benefits that can be used only for specified food purchases. It is federally funded and is an entitlement program open to all family types and unrelated individuals.

In contrast to the countercyclicality of SNAP, Moffitt points out that the Temporary Assistance to Needy Families Program (TANF) was not very responsive to the increased economic hardships resulting from the Great Recession. TANF provides cash assistance to children and their caregivers, mostly single mothers, in families with low income and assets. TANF, established by the 1996 federal welfare reform (the Personal Responsibility and Work Opportunity Reconciliation Act) is not an entitlement program and is funded by a fixed federal block grant to each state. Caseloads did not increase by much, even though unemployment increased dramatically, in part because many states continued to enforce the work requirements introduced in 1996 as a condition of eligibility.

The EITC provides a refundable federal tax credit to low-income working families, mostly those with children. In addition, about half of the states have their own EITC programs that add state credits on top of the federal credit. Moffitt points out that as earnings fall during a recession, some families who were previously not eligible for the EITC will become eligible for the credit and others will receive higher benefits. But if low-earnings workers experience a decline in hours worked, their EITC benefit will decline; if they become long-term unemployed and have no earnings during the year, they will not receive any EITC. He notes that EITC spending increased about 20 percent from $49 to $59 billion between 2007 and 2010, primarily because of an increase in the number of recipients.

Moffitt documents that the UI program grew much more rapidly during the Great Recession than it did during previous recessions, including the severe recession of the early 1980s when unemployment also reached 10 percent. Annual spending increased fourfold from $34 to $142 billion between 2007 and 2010. In part, this was because several congressional actions, including the

stimulus, extended UI benefits for as long as 99 weeks for those residing in states with high unemployment rates. The ARRA also included provisions that encouraged states to broaden eligibility for UI.

Moffitt examines how safety net spending changed in response to the recession for different demographic groups—single-mother families, two-parent families, childless families, and individuals; nonworkers; the employed; and the elderly and disabled. He finds that all demographic groups benefitted, with the nonelderly, nondisabled groups experiencing the largest increase in transfers in response to their earnings losses due to the recession.

Moffitt concludes that the safety net as a whole was relatively successful cushioning income shocks for low-income families during the Great Recession. But he cautions that many of the stimulus expansions have expired or will expire before the economy fully recovers. This implies increased inequality at the bottom of the income distribution as those who remain long-term unemployed will exhaust UI benefits and not qualify for the EITC.

Effects on education, health, families, and children

The four articles in this section focus on the extent to which a range of nonmonetary outcomes was affected by the Great Recession. These include college enrollments, population health, family life, and child development.

Andrew Barr and Sarah E. Turner analyze how students and institutions of higher education responded to the reductions in both family incomes and government revenues that resulted from the recession. They document that total enrollment increased by about 15 percent from fall 2007 through fall 2010, even though state appropriations for higher education declined over these years. Enrollment growth was particularly rapid for community colleges and for-profit institutions.

Barr and Turner note that enrollment increased broadly—for men and women; for whites, blacks, and Hispanics; for recent high school graduates; and for older students. They estimate that an increase in a state's unemployment rate of 5 percentage points (the national unemployment rate increased from 5 to 10 percent between December 2007 and October 2009) is associated with a 12 percent increase in enrollment for 18- to 19-year-olds and a 17 percent increase for 20- to 24-year-olds.

As was the case for social safety net programs, federal spending on Pell grants, a program to help low-income students pay for higher education, was greatly expanded by the ARRA. The inflation-adjusted maximum Pell grant (in 2011 dollars) increased from $4,675 to $5,613 from the 2007–08 to the 2009–10 academic year. The number of Pell grant recipients almost doubled from 5.5 to 9.4 million students from the 2007–08 to 2011–12 academic year. Barr and Turner estimate that a 5 percentage point increase in a state's unemployment rate is associated with a 15 to 20 percent increase in Pell grant receipt.

The enrollment of students, ages 18–19, from families with incomes below $40,000 is nearly twice as responsive as that of their more affluent peers to changes in the unemployment rate. Barr and Turner suggest that the increased

generosity of Pell grants is likely a key factor in the relatively large enrollment gains for low-income students in the aftermath of the recession. In addition, the Obama administration encouraged states to change their policies to allow UI recipients to receive Pell grants and enroll in college rather than being required to continue to search for work. Barr and Turner estimate that the UI extensions contributed to a significant increase in the likelihood of enrollment by job losers.

The increased enrollment of youths from low-income families and the unemployed stands in stark contrast to the distributional consequences of the Great Recession noted by other authors in this issue. In many articles and for most outcomes, those with the least resources tended to experience the most negative consequences of the recession. In this case, enrollment disparities narrowed. However, if these low-income youths enroll in low-quality programs or fail to complete their courses of study, their long-run gains from higher enrollment might be limited.

Barr and Turner cite changes in student borrowing as another positive response to the recession. First, the ARRA increased tax credits for students. Second, there was a substantial increase in student use of federal subsidized and unsubsidized loans, and a substantial decline in the use of private sector loans. Barr and Turner suggest that “in the wake of the credit crisis, better lending standards may produce fewer cases of ‘extreme’ borrowing, but these less extreme cases often receive less media attention.” However, they are concerned about increased student debt for those whose returns to education may not be very high, particularly for students attending for-profit schools and those not completing their courses of study.

While the enrollment increases represent “good news,” large decreases in state appropriations for higher education represent the “bad news.” Constant dollar spending by the states fell by 17 percent between the 2007–08 and 2011–12 academic years. Factoring in the enrollment increases, appropriations per student fell by about 26 percent. States with the greatest unemployment increases tended to cut higher education spending the most. Barr and Turner estimate that a 5 percentage point increase in the unemployment rate is associated with a 20 percent reduction in state appropriations.

In response to state spending cuts, public colleges and universities dramatically increased tuition, with increases at four-year public colleges much greater than those at community colleges. This has meant that spending per student has remained relatively stable at the former but declined at the latter. If tuition increases continue without offsetting increases in aid for low-income and moderate-income students, access problems are likely to increase.

Barr and Turner conclude that the positive effects of the Great Recession on higher education enrollment were driven by very large increases in federal spending that offset large cuts in state spending. They see little reason to expect state spending to increase and speculate that the drive to reduce the federal deficit might lead to reductions in federal spending. If this were to be the outcome, higher education would become even less affordable for students from low-income families.

In their article, Sarah A. Burgard, Jennifer A. Ailshire, and Lucie Kalousova assess the associations between recessions and health. Studies at the national level find that mortality rates are procyclical—they generally decline during recessions and increase during economic booms. One reason for this is the cyclical changes in deaths from traffic accidents, which decline as the total miles driven decreases during recessions and increases when the economy is growing. Declines in economic activity are also associated with lower air pollution, reduced consumption of tobacco, and fewer workplace accidents, in part because the least experienced workers in dangerous industries are laid off first. These positive health effects of a recession affect a broad range of the population, not just workers and the unemployed. Some research also finds that nursing home quality improves during recessions when more qualified workers remain on the job, potentially explaining why deaths among the institutionalized elderly are procyclical.

Recessions also have negative effects. For example, the suicide rate is countercyclical—it typically increases during recessions. Health declines for many individuals who personally experience or expect to experience unemployment, material hardships such as foreclosure and food insecurity, and other negative shocks. Burgard, Ailshire, and Kalousova note that workers who have been laid off have higher mortality risks and that increased stress resulting from layoffs can lead to negative health outcomes both in the short and long run. They also suggest that job loss can affect household members who do not directly experience job loss, in part because household spending declines and may result in increased material hardships for all household members. For example, if a breadwinner loses his or her job and subsequently the family loses its home, all household members are at increased risk for negative health and mental health consequences.

Burgard and her coauthors analyze data from two sources. The first shows that one's own unemployment and mortgage delinquency, either on one's own mortgage or that of a family member, are associated with an increased likelihood of new material hardships. In the second dataset, they find that increased material hardships are associated with negative health outcomes. They conclude that the recession has probably widened existing health disparities between the economically advantaged and disadvantaged, as the Pfeffer, Danziger, and Schoeni article shows for wealth disparities.

Burgard, Ailshire, and Kalousova have one optimistic hypothesis regarding the negative effects of job loss on individual health. Currently, many laid-off workers experience increased stress and material hardship and also lose their health insurance. In response, they reduce their use of medical services, which may negatively affect their health in the long run. However, because of the forthcoming expansion of health care coverage by the Patient Protection and Affordable Care Act of 2010 ("Obamacare"), a smaller percentage of the unemployed in future recessions, compared to prior recessions, will lose access to health care. This may reduce the negative health effects of future recessions for the individuals who experience negative economic shocks.

Andrew Cherlin, Erin Cumberworth, S. Philip Morgan, and Christopher Wimer suggest that even though many changes in family outcomes occurred in

the aftermath of the Great Recession—postponed childbearing, marriage, divorce, and moving out of the parental home; and increased coresidence of young married couples—there are likely to be few lasting family effects. Just as safety net programs offset part of the income losses due to the recession, the responses of families offset some of the family behavior changes induced by the recession.

Cherlin et al. point out that the general fertility rate (the number of births per 1,000 women ages 15 to 44) declined 9 percent from 2007 to 2011 and that states that had larger increases in the unemployment rate experienced larger declines in fertility. They document that fertility declined more among poor and near-poor women, again reflecting the responsiveness of fertility to economic conditions. However, because the overall decline in fertility was concentrated among women under age 30 and because older women did not reduce their fertility, the authors hypothesize that the younger women will make up most of the recession-induced fertility decline by having children later, resulting in only minor changes in completed family size and population growth.[5]

The Great Recession and increased border enforcement greatly reduced the number of women who are recent immigrants from Mexico, a group with particularly high fertility. This change in the demographic composition of the Hispanic population, the authors conclude, can explain why fertility declined more in recent years for Hispanics than for non-Hispanics.

Cherlin et al. estimate that the higher the unemployment rate in a state, the lower the proportion of persons living as divorced or separated. This supports the view that divorce and separation become more difficult during recessions, when married individuals may find it more difficult to afford separate residences. However, the magnitude of the divorce effect was relatively small.

Although a very small percentage of young married couples live in extended families with parents, there was an increase of about 20 percent (from 4 to 5 percentage points) in multigeneration families in the aftermath of the recession. There was also an increase of several percentage points in the likelihood that 25- to 34-year-old nonmarried young adults live with their parents. Again, there is a strong association with economic status, as young adult college graduates who have more economic resources and experienced smaller increases in unemployment had smaller changes in living with parents.

Cherlin et al. document that these changes in family outcomes were much smaller than those associated with the Great Depression. They conclude that "the Great Recession showed that economic conditions matter for families and that financial hardship has consequences. But it is unlikely to have a lasting effect on the course of family life over the next few decades."

Ariel Kalil examines the potential effects of the Great Recession on child development. Because current parental job loss, residential moves, and material hardships tend to have effects on child development outcomes in the future, she draws implications from existing research on the kinds of long-run effects we might expect from the Great Recession.

Kalil notes that parental job loss adversely affects child development and that the impact is more negative for children from low socioeconomic status (SES)

families than for those from higher SES families. The children of job losers are more likely to have behavior problems and repeat a grade in school and are less likely to graduate high school and to attend college.

The Great Recession is notable not only for its extensive job losses but also for the collapse of housing prices, which generated increased housing instability and home foreclosures. Residential moves, particularly frequent moves, are accompanied by disruptive changes in schools and peer networks. Kalil's review documents an association between moving and lower school achievement and increased social and emotional problems in children and adolescents.

As noted by Burgard, Ailshire, and Kalousova regarding health outcomes, Kalil suggests that perceptions can also adversely affect children. She notes that children's perceptions of their parents' job insecurity can be distracting and reduce their motivation to work and lower academic performance. Parents' subjective perceptions of financial stress are also associated with increased child behavior problems.

Kalil presents a conceptual model that outlines the relationships between economic and psychological stresses induced by recessions and how subsequent changes in parental economic and psychological resources can affect child development. Recessions may increase family conflict, negatively affect parenting practices, and reduce the resources parents have available to invest in their children. Based on the large reductions in employment, income, and wealth; and increased material hardship noted in other articles in this issue, Kalil is pessimistic about the long-run effects of the Great Recession on child development, particularly for youths from disadvantaged families.

State and local variations in responses to the recession

The two articles in the final section examine how state governments responded to the spending and revenue challenges of the Great Recession and how individual attitudes and interpersonal trust varied across states and local areas.

Andrea Louise Campbell and Michael W. Sances document that states' tax revenues plunged and demands for social spending surged in response to the Great Recession, creating very large state budget shortfalls. Tax revenues from personal income taxes and sales taxes fell as rising unemployment, furloughs, and reductions in hours worked and the collapse in home values reduced household income, wealth, and consumer spending. At the same time, a greater percentage of the population became eligible for spending, from programs that the states must continue, such as Medicaid. Because most states cannot run budget deficits, as does the federal government, they implemented a combination of revenue increases and spending cuts to balance their budgets.

In the aggregate, between fiscal years 2008 and 2012, spending cuts accounted for 45 percent of state deficit reductions, increases in taxes and fees for 16 percent, use of rainy-day funds and other reserves for 9 percent, and other means for 7 percent. The remaining 24 percent came from the increased federal funding from ARRA. Despite this infusion of federal funds, about 640,000 state and local government jobs were eliminated, making this aspect of the Great Recession very different from that of previous recessions.

Campbell and Sances note that most state actions—reducing spending, and raising taxes and fees—retarded the pace of the economic recovery. It is ironic that the ARRA was vilified for increasing the federal deficit while the states received credit for balancing their budgets. However, in the absence of the federal stimulus, the state budget cuts and layoffs would have been even more severe, and in the absence of state austerity, the recovery would have been more robust.

Campbell and Sances analyze how economic, institutional, and political factors are associated with both the magnitude of state budget gaps during the recession and how states chose to close these gaps. In fiscal 2010, state budget gaps varied from 1.8 percent of the general fund budget in Wyoming to 65 percent in Arizona, consistent with their divergent experiences of the recession. In July 2009, the unemployment rate in Wyoming was 6.3 percent; in Arizona, 10.2 percent.

What is surprising is that Campbell and Sances find that institutions meant to impose greater fiscal stability generally do not result in smaller budget gaps, with the exception of more stringent balanced budget rules. They also find that the magnitude of a state's budget gap is the best predictor of its policy responses: the larger a state's budget gap, the more likely it is to cut government employee numbers, hours, and benefits. But politics also matter in that states with Democratic-controlled legislatures are more likely to raise revenues in general and the state personal income tax in particular in response to a budget deficit. Similarly, states with larger public sector unions were more likely to raise the personal income tax and made smaller budget cuts on average.

Lindsay A. Owens and Karen Cook examine how local variations in the severity of the recession affected confidence in key institutions (banks and financial institutions, major corporations, Congress, organized labor, and the leaders of the federal government) and interpersonal trust (trust, fairness, and helpfulness). They hypothesize that changes in confidence will be greater in counties hardest hit by the recession than in those that were barely affected. For example, the average increase in the county unemployment rate between 2007 and 2009 in their sample was 3.5 percentage points, with the hardest-hit 10 percent of counties experiencing an increase of 6.4 percentage points and the least affected 10 percent an increase of only 0.6 points.

Owens and Cook note that much existing research on political attitudes and policy preferences examines the responses of individuals to national economic conditions (see, for example, Bartels, this volume). The authors instead focus on changes in the economic conditions of the county of residence because they expect that these conditions are more likely to affect the respondents' daily lives and perceptions.

Owens and Cook review trends in confidence and personal trust for the period from 1970 to 2010. They document a dramatic decline in confidence in banks and financial institutions and a smaller decline in confidence in major companies and Congress between 2006 and 2010. Confidence in organized labor does not change much but is low over the entire period. There are relatively modest changes in respondents' perceptions of whether most people are generally fair,

helpful, and trustworthy between 2006 and 2010. The decline in confidence in banks and financial institutions may reflect the popular view, which is contradicted by Blinder in this issue, that the federal government lost vast sums in the TARP program, and the popular view, which is supported by Blinder in this issue, that the justice system did not vigorously prosecute bankers for illegal practices that contributed to the collapse of the financial sector.

Owens and Cook analyze newly available panel data in which the same respondents were asked their views in 2008 and again in 2010. Their regression results indicate that individuals who live in the counties that experienced the greatest economic shocks have larger declines in confidence in the federal government and organized labor than those living in other counties.

They find that changes in the unemployment rate are not associated with changes in interpersonal trust, but that individuals living in counties in which the poverty rate increased the most have reduced perceptions of whether people are mostly fair or helpful. There are also racial disparities in trust, with particularly low levels for African Americans, a group that has experienced greater than average unemployment increases and wealth losses in the aftermath of the Great Recession.

Summary

Taken as a whole, the articles in this volume paint a rather pessimistic picture of our future. Because the Great Recession was deeper and more severe than previous post–World War II recessions, it affected more Americans than previous recessions on many dimensions—employment, earnings, income, wealth (including home values and retirement security). In 2013, unemployment is higher, while inflation-adjusted earnings, family incomes, and net worth are lower than they were when the recession began in late 2007. Along all these dimensions, the typical American worker and family is worse off now than they were at the turn of the twenty-first century. There is political gridlock in Washington, and all levels of government seem to have prioritized spending reductions over policies designed to alleviate the lingering economic hardships of the Great Recession. A combination of these political conditions and the slow economic recovery suggest that the inequalities and disparities highlighted by the articles in this volume are unlikely to diminish soon. Before too long, it is likely that a "lost decade of economic progress" may become "two lost decades."

Notes

1. The Business Cycle Dating Committee of the National Bureau of Economic Research is responsible for the official dating of recessions and economic recoveries. See http://www.nber.org/cycles/sept2010.html.

2. The Bureau of Labor Statistics measure of labor force utilization, U6, was 14.0 percent in July 2013. This is defined as the total unemployed plus those marginally attached to the labor force plus total

employed part time for economic reasons as a percent of the civilian labor force plus all persons marginally attached to the labor force. See http://www.bls.gov/news.release/empsit.t15.htm.

3. The Organisation for Economic Co-operation and Development includes the United States and thirty-three other advanced economies. See http://www.oecd.org/about/.

4. The stock market indices continued to increase and by spring 2013 had reached their prerecession levels. No data were available when this issue went to press that would allow one to measure wealth inequality for years beyond 2011.

5. Because early childbirth is associated with negative effects on child development, it is possible that the postponement of births by poor women would represent a positive child development outcome of the Great Recession.

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