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BTC Brief

NC BUDGET & TAX CENTER

September 2010

WHAT COULD HAVE BEEN: Averting the Great Depression 2.0

Timely, accessible, and credible analysis of state and local budget and tax issues

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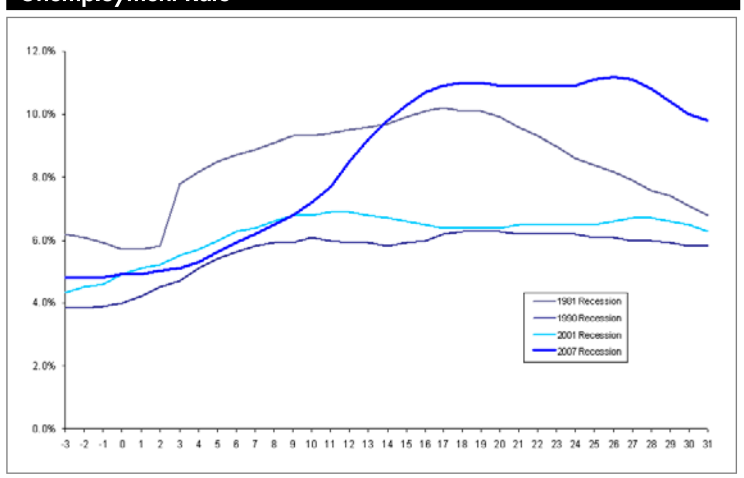
KEY FINDINGS:

- **Compared to the recessions of the past twenty years, the Great Recession has been the severest with regards to the duration and level of unemployment, low labor force participation and loss of jobs.**
- **Newly available analysis by the Congressional Budget Office and economists Mark Zandi and Alan Blinder demonstrate that federal policymakers' actions on monetary and fiscal policy minimized the impact of the recession on workers and the broader economy.**
- **The Congressional Budget Office modeled the impact of the Recovery Act on Gross Domestic Product (GDP) and found that GDP is now 1.5 percent to 4.0 percent higher than it would have been without the Recovery Act. The unemployment rate in 2010 will be 0.7 to 1.8 percentage points lower than it would have been, and payroll employment will be between 1.3 million and 3.3 million jobs greater than it would have been.**
- **Early estimates by the Center on Budget and Policy Priorities in December 2009 suggested that key provision of the Recovery Act kept 6 million Americans out of poverty. For North Carolinians, the analysis suggests that 206,000 North Carolinians were kept out of poverty and a million North Carolinians were protected from more economic hardship.**
- **Data from the Current Population Survey released by the U.S. Census Bureau last week finds that the Recovery Act improvements to programs like unemployment insurance kept 3.3 million Americans out of poverty in 2009. The elderly poverty rate was at a record low due to the support of Social Security and the boost to it provided under the Recovery Act.**

FIGURE 1

Unemployment Rate



Months from start of recession

SOURCE: Economic Policy Institute analysis of Bureau of Labor Statistics data

OVERVIEW

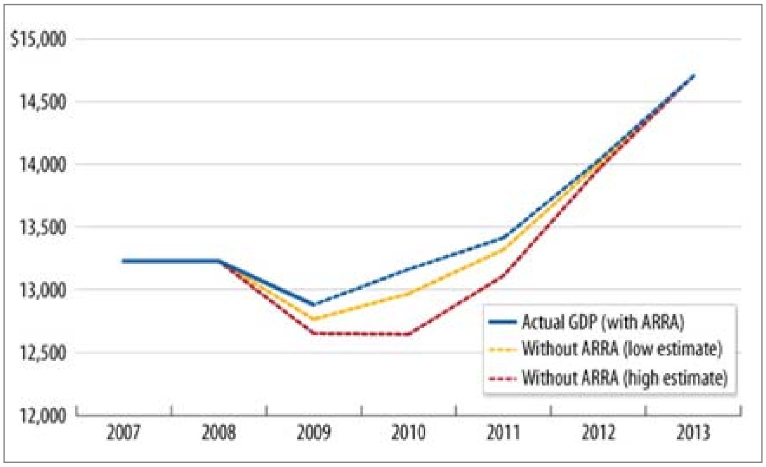
Last week, the U.S. Census Bureau released the latest data on poverty in America revealing one of the largest year to year increases in poverty on record. Although American workers face ongoing challenges in the labor market, including high unemployment, low labor force participation and the failure of job creation to restore those lost during the Great Recession, the public's focus on the struggles of workers is waning in favor of deficit reduction. Renewed attention to economic hardship and the labor market is required if the economic recovery is to be sustained. The ongoing weakness in job creation and employment outcomes is largely a reflection of the severity of the economic crisis and not an outgrowth of the ineffectiveness of the federal policies implemented to date (**See Figure 1**).

In fact, newly available analysis of the actions taken by policymakers during the Great Recession—both monetary and fiscal policies—estimates that the severity and duration of the economic crisis could have been much worse without them. Two recent studies—one by the Congressional Budget Office and the second by economists Mark Zandi of Moody's Analytics and Alan Blinder of Princeton University—point to the essential role that financial stabilization and the American Recovery and Reinvestment Act played in reversing the trajectory of the downturn and bringing about a modest, yet clear, recovery.[1]

However, economists expect the Recovery Act's impact on output to begin to wane during this third quarter of 2010 and its impact on employment to wane by the end of the year. Therefore, the nation needs to identify effective strategies to support the recovery, especially on the jobs front. Ongoing investment in policies that can stabilize the state revenue crisis and support job creation in the private sector will be necessary in the coming months if the recovery is to be sustained and growth is to be enjoyed in North Carolina.

FIGURE 2

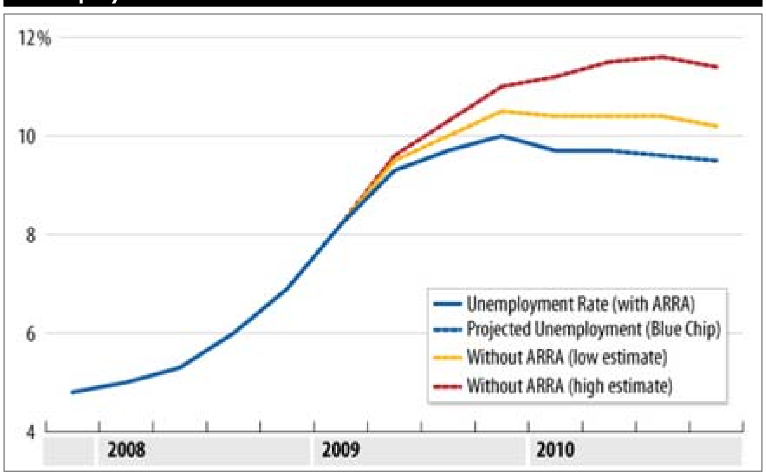
Gross Domestic Product (billions of 2005 US dollars)



SOURCE: CBPP calculations from Bureau of Economic Analysis data and Congressional Budget Office estimates. Center on Budget Policy Priorities (cbpp.or)

FIGURE 3

Unemployment Rate



SOURCE: CBPP calculations from Bureau of Economic Analysis data and Congressional Budget Office estimates. Center on Budget Policy Priorities (cbpp.or)

Stimulating Growth

The Congressional Budget Office modeled the impact of the Recovery Act on Gross Domestic Product (GDP) and found that GDP is 1.5 percent to 4.0 percent higher than it would have been without the Recovery Act (**See Figure 2**).[2] In the second quarter of 2010, the actual growth experienced in the economy of 1.6 percent could have been stagnant without the Recovery Act, according to these projections.[3]

Addressing Unemployment

The Recovery Act aimed to maintain demand for goods and services and minimize the cuts to services by state and local governments, which faced an unprecedented revenue crisis during the recession. The Obama administration intended for Recovery Act funds to preserve jobs in the recession and create jobs in the recovery.

The Congressional Budget Office estimates that without the Recovery Act, the unemployment rate in 2010 would have been 0.7 to 1.8 percentage points higher and payroll employment would have been between 1.3 million and 3.3 million jobs less (**See Figure 3**).[4]

Zandi and Blinder suggest that unemployment could have hovered at 15 percent in the second quarter of 2010 without the fiscal stabilization or Recovery Act. Without the Recovery Act, they estimate that the unemployment rate would have been 11 percent.[5]

Minimizing Economic Distress

The Great Recession has increased the number of North Carolinians in poverty and made the degree of their economic need more severe. But early analysis from the Center on Budget and Policy Priorities in December 2009 suggested that 6 million Americans were kept out of poverty as a result of the Recovery Act.[6]

The particular provisions of the Recovery Act that provided assistance to low-income families included the Make Work Pay tax credit, improvements to the Child Tax Credit, Earned Income Tax Credit, unemployment insurance benefits and food stamp levels as well as one-time payments to the elderly and disabled. This aid not only lessened the economic hardship for these families but also spurred the economic recovery as low-income families are most likely to spend quickly the money they receive. Thus, the Recovery Act was estimated to create or save between 1.3 and 2.7 million jobs maintaining workers source of income and reducing the risk of being pushed into poverty by job loss.[7]

For North Carolinians, the rough estimates by the Center on Budget and Policy Priorities in December 2009 suggested that 206,000 North Carolinians were kept out of poverty as a result of the Recovery Act.[8] A million North Carolinians did not experience the full severity of economic hardship because their incomes were lifted through these provisions.

Data recently released by the U.S. Census Bureau from the Current Population Survey supports these earlier findings. Nationally, unemployment insurance benefits kept 3.3 million Americans out of poverty. Since the start of the recession, the number of people kept out of poverty by unemployment insurance benefits increased 581 percent.[9] Additionally, the poverty rate for those older than 65 years declined to a record low in 2009 due to the Social Security system and the payment boost provided under the Recovery Act. An additional 14 million older Americans would have been in poverty if not for the support of Social Security.[10]

Conclusion

It is difficult to imagine the implications of the economic conditions modeled above because the current economic conditions are already so difficult for North Carolina's families and businesses. However, it is clear that without the Recovery Act the economic turnaround that began in mid-2009 would still be on the horizon.

Just as the policy responses of the past two years helped to create relatively better outcomes today, the policies adopted moving forward will influence the trajectory and speed of the recovery. It is clear North Carolina is at a point in the recovery where an ongoing commitment to support job creation, to invest in key programs and services, and to protect North Carolinians most vulnerable to economic hardship must be the state's priorities.

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