Chapter 1

The Consequences of the Great Recession

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AFTER EIGHTEEN MONTHS of recession, the longest since the Great Depression of the 1930s, growth returned to the U.S. economy in the summer of 2009. The recession may now be officially over, but its effects live on in the form of high unemployment, a host of associated labor-market problems, and the ongoing threat of a double-dip recession. For the 13.9 million Americans who were still out of work as of May 2011, the recession continues and economic recovery remains elusive.

The purpose of this book is to describe the various and manifold consequences of the recession, not just the direct and ongoing consequences for the labor market but also the indirect, and possibly more subtle, consequences for how we live our lives, the beliefs and commitments that we’ve come to hold, and the ways our institutions have evolved. The questions we ask are whether and to what extent the Great Recession has transformed the social and economic life of the country. We look for answers by exploring recent trends in employment, poverty, income, wealth, consumption, fertility, mortality, marriage, attitudes, charitable giving, and much more.

Why might one believe that the Great Recession has been transformative? The simplest answer to that question is that it’s the longest post-war recession and the associated labor-market dislocations have been especially severe, and remain so. The 1981-to-1982 recession, which was previously regarded as the most severe in postwar history, lasted only sixteen months and didn’t bring about labor-market disruptions as pro-
found as those we are currently experiencing. In comparison to past recessions, the increase in joblessness has been greater, the long-term unemployed are a larger fraction of total employment, and the recovery of the labor market, in terms of job growth and falling unemployment, has been very slow. From May 2007 to October 2009, the labor force lost over 7.5 million jobs, and the unemployment rate climbed from 4.4 to 10.1 percent. At the same time, long-term unemployment increased sharply, and by 2010 over 40 percent of the unemployed had been looking for work for more than six months. Because discouraged workers withdraw from the labor force in bad economic times, and because some workers are forced to work part-time even though they want full-time jobs, the conventional unemployment rate understates the magnitude of the employment problem. A broader measure of slack in the labor market, one that counts both discouraged workers and involuntary part-timers, hovered between 16 and 18 percent throughout 2010.

A further distinguishing feature of the Great Recession is its origins in an unusually dramatic financial crisis. As occurred at the outset of the Great Depression, the crisis began with a financial collapse that erased more than half the capitalization of the stock market. The Dow Jones Industrial Average dropped in a mere nineteen months from a high of 14,165 in October of 2007 to a low of 6,547 in March of 2009. In March 2008, the former labor secretary Robert Reich warned of “a 20 percent chance of a depression” (Poor 2008, para. 2), revealing the crisis mentality of the time. Although complete disaster has seemingly been averted, the financial sector is now more concentrated, reform has been limited, and bank failures continue.

Another reason why the Great Recession differs from many other postwar recessions is the deep housing crisis that both precipitated and sustained the financial and labor-market crises. The housing market began a sustained rise in the late 1990s and gathered momentum through 2004 and 2005. Just before the fall, real home prices increased by 49 percent in Las Vegas in 2004, by 43 percent in Phoenix in 2005, and by over 60 percent in Miami throughout 2004 and 2005 (Shiller 2007). The bubble burst the following year as home prices around the country plunged. From their peak in May 2006 to their trough in May 2009, real housing prices fell by about one-third across the nation, and in some cities, such as Las Vegas and Phoenix, they fell by more than 50 percent. The collapse of housing prices was of course associated with delinquencies in mortgage payments. Property foreclosures more than doubled through 2007, and foreclosure activity continued to increase through 2008 and 2009.

The Great Recession is distinguished, finally, by the multipronged government response elicited by both the initial crisis and the recession it engendered. The initial response took the form of equity or asset pur-
chases of troubled financial institutions. When the housing bubble burst, investors found that mortgage-backed securities were much riskier than advertised, and both European and American financial markets tightened as these toxic assets quickly became untradable. The investment houses that were heavily invested in these assets foundered as a result. In March 2008, Treasury Secretary Henry Paulson, in collaboration with Fed Chairman Ben Bernanke and New York Fed President Timothy Geithner, engineered a rescue of the Bear Stearns investment house. The quasi-governmental mortgage brokers Fannie Mae and Freddie Mac were then taken over in August of 2008. On September 15, the investment bank Lehman Brothers fell into bankruptcy, unable to borrow or to sell its toxic assets. The international insurance firm AIG was nationalized the next day as panic spread. At this point, credit markets became entirely frozen, and the stock market crashed. On October 3, Congress enacted the Troubled Asset Relief Program, or TARP, which aimed to keep troubled financial institutions solvent by purchasing equity or assets from them.

The second wave of government response was directed toward the labor-market consequences of the financial crisis. As the recession unfolded, February 2009 saw passage of the American Recovery and Reinvestment Act (ARRA), a stimulus package that took the form of fiscal relief for state governments, benefit increases and tax cuts for households, and investments in infrastructure and technology. In December 2010, President Barack Obama signed into law another large stimulus package, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. This package focused on extending temporary income and payroll tax cuts and providing additional funding for emergency unemployment compensation.

The Great Recession thus stands out because it was brought on and prolonged by an unusually dramatic housing crisis; because this housing crisis in turn engendered a financial crisis that evoked memories of the Wall Street Crash of 1929; because the associated financial problems triggered a deep labor-market crisis that continues to this day; and because the federal government’s response to these housing, financial, and labor-market crises was both substantial and multipronged. Taken together, all of these factors make it at least plausible that the Great Recession will prove to be an event that transforms beliefs, behaviors, and even institutions. To regard the recession as a purely economic event—even one of historic severity—may well be to underestimate its impact on U.S. society.

The purpose of this book is to provide the first general assessment of precisely such far-flung social and economic consequences of the Great Recession. Whereas other scholars have turned to the important question of the causes of the Great Recession (see, for example, Posner 2009;
Lounsbury and Hirsch 2010), our volume assembles some of the first social science research on the consequences of the recession for individuals, families, public policy, and private organizations. Drawing on a varied array of recently released data, we consider not only the narrow range of indicators referenced in technical definitions of recession but also a wider band of social variables, such as marriage, fertility, attitudes, and politics. The most authoritative technical definition of recession, that used by the Business Cycle Dating Committee of the National Bureau of Economic Research (NBER), is a “significant decline in economic activity spread across the country, lasting more than a few months, normally visible in real gross domestic product (GDP), real income, employment, industrial production, and wholesale-retail sales” (NBER 2010). In our labor-market analyses we examine many of these variables (including income and employment), but we also consider the broader and more distal social effects of the recession.

Why are such social effects of interest? It’s partly that the economic costs of recession, such as loss of income or wealth, cannot fully capture the social costs and hardships that individuals and families must endure in hard times. These social costs of the recession may be in the form of divorce, delayed or forgone fertility, foreclosures and homelessness, postponed consumption, despair and pessimism, and much more. We will report on a variety of social and economic costs and how they are distributed among different social groups. That is, we care not just about whether, and how much, the recession is imposing extra stress and hardship on the population but also about which groups are especially at risk of bearing those costs. Has the recession hit the already-disadvantaged especially hard? Or have its effects been unusually far-reaching and thus harmed the middle class and even the rich nearly as much as the poor?

This dual focus on the extent and distribution of costs plays out across the three lines of analysis pursued in this book. In part I we inquire into the extent and distribution of the economic costs of the recession, as revealed in trends in employment, poverty, income, and wealth. In part II we inquire into the extent and distribution of the social and cultural fallout in areas such as consumption, family behavior, and political attitudes. In the final section we examine governmental and nongovernmental efforts to cushion the recession’s negative effects and how these efforts helped some groups more than others. We turn next to describing these themes in more detail for each section.

**Economic Effects**

Our first task is to document trends in employment, earnings, poverty, income, and wealth during the recession and its aftermath. The employment trends, with which we begin, are especially fundamental because
they underlie trends in other important outcomes, such as poverty. We ask a variety of questions pertaining to the distinctiveness of the Great Recession relative to prior recessions. To what extent are the unemployment trends consistent with those of prior recessions? Have the ranks of the long-term unemployed grown more quickly than in prior recessions and created a new jobless underclass (Burtless 2009)? Is the number of discouraged workers especially large? Has there been a substantial increase in poverty? Or have automatic stabilizers and the government’s stimulus package worked as intended and moderated the rise in poverty? How much wealth was lost in the early stages of the recession, and how much has since been regained? For many of these questions, it is too early to secure any definitive reading, and our efforts can only provide the first round of evidence on the severity and distinctiveness of the Great Recession. Indeed, because employment is a lagging indicator, it adds an especially long tail to the recession and makes it impossible at this early point to understand the full storyline.

We will also be asking whether certain groups and subpopulations have borne the brunt of these effects. Because the stimulus and automatic stabilizers serve to preserve employment and income at the bottom of the economic ladder, it’s possible that the poor and disadvantaged have to some extent been protected from the fallout. Furthermore, given the extensive wealth destruction at the start of the recession, one might expect a temporary or even long-term closing of the gap between rich and poor. We will likewise examine trends in employment and income across racial, gender, education, and occupation groups. We will ask, for example, whether we’re experiencing a “man-cession,” in which unemployment has especially increased for men (see Nancy Folbre, “The Declining Demand for Men,” New York Times, December 13, 2010), whether the college-educated are indeed having difficulties finding jobs (see Sara Murray, “The Curse of the Class of 2009,” Wall Street Journal, May 9, 2009, p. A1), and whether certain occupational sectors have experienced unusually high levels of unemployment and job loss (Autor 2010). The simple question behind these analyses is whether we’re experiencing an inequality-increasing recession in which those who were poor or disadvantaged prior to the recession’s onset were also the ones most harmed.

Social and Cultural Effects

Such economic effects may be understood in part as exogenous shocks experienced by individuals who had few alternatives but to bear them. In many cases, economic catastrophe is deeply disempowering, as workers find themselves subject to impersonal economic forces that bring about a loss in employment or in the value of their real estate or stock market holdings. When we shift our attention to the social and
cultural fallout from the crisis, a more complicated behavioral model is required. Whereas layoffs or stock market losses are largely thrust on individuals who must simply bear them, other types of behaviors and outcomes are less determinate and subject to more subtle psychological and sociological forces. We might expect, for example, that individuals who are pessimistic about the economy and their own future would be more likely to delay a major purchase, to forgo or delay marriage or childbearing, or to opt to live with their parents or to cohabit with others. Likewise, individuals living in hard-hit regions or neighborhoods will observe others engaging in such cautious behaviors, and their own behavior may then fall in line as a result of usual mimetic and social network dynamics.

We know surprisingly little as yet about the extent and variation in such behavioral and attitudinal responses to the recession. To be sure, there’s a growing scholarly and journalistic literature about possible social effects, a literature suggesting, for example, that “conspicuous consumption is now out of favor” (Flatters and Willmott 2009, 112), that the crisis will have a “devastating impact on American families” (Greenstone 2010, para. 6), that it will plunge many into “despair and dysfunction” (Peck 2010, para. 6), and that it is “rejiggering our lives by elevating experiences over things” (“Recession Impact: Americans Spending Less, Doing More,” Economic Times, January 5, 2010). These types of stories may well be true: after all, the Great Depression entailed social and cultural effects of precisely this sort (see, for example, Elder 1974), although typically they revealed themselves over a longer time horizon than we can yet observe. So far, the case for similarly strong effects of the Great Recession has yet to be convincingly made, and not simply because deadline-pressed journalists are sometimes obliged to craft stories on the basis of relatively weak evidence. It’s additionally worrying that well-known selective processes will bias readers of popular media toward the conclusion that social effects are indeed profound. In deciding what stories to run, editors presumably find a tagline of “no effects” rather the hard sell, and a steady diet of stories about how the crisis is instead “rejiggering our lives” may be a built-in outcome of journalistic decisionmaking. Although we can hardly claim to provide a definitive analysis at this early point, we can at least supplement the existing journalistic accounts with more rigorous quantitative evidence.

Collective Responses

To understand the Great Recession it’s important to attend not just to the ways in which individuals were affected but also to the ways in which governmental and nongovernmental groups sought to manage it. The modern view is that recessions can be managed not just via the conven-
tional weaponry of macroeconomic policy but also, in more extreme crises, by recasting existing institutions and developing new ones. In the past, economic crises have sometimes given rise to institutions that redistributed rewards in a lasting way, rewriting the economic rules to reduce the population’s vulnerability to the business cycle. The Depression of the 1930s provides the key example here. Many pillars of American social policy, such as the National Labor Relations Act, the minimum wage, and Social Security, were instituted in response to the Depression and have moderated economic inequality and the effects of recessions throughout the postwar period. These institutional changes were as important to the post-Depression decline in inequality—the so-called “great compression”—as were the fortunes destroyed by the plunging stock market. In the late nineteenth century, the landscape of social provision was again reshaped by institutional change, although in this case more by private organizations than governmental reform. For example, amid the economic instability of that era, settlement houses and mutual aid societies promoted social welfare under conditions of mass migration and rapid urbanization.

Thus, the twofold question we take on is whether the collective response, in its governmental and nongovernmental forms, has (1) blunted at least some of the labor-market fallout and (2) sown the seeds of more fundamental institutional reform. The latter question is arguably the more complicated and speculative one. It might on the face of it appear that major institutional reform, even a fundamental rewriting of the rules of economic distribution, would be in the offing. The crisis exposed stratospheric Wall Street bonuses, cast high CEO pay in especially sharp relief, and called all such remuneration into question insofar as it was paid out despite seemingly poor performance. It now appears, however, that Depression-style institutional reform is unlikely, at least in the short run. Although a new Democratic administration came to office in 2009 with commanding majorities in the Congress, other currents were flowing in the opposite direction. The labor movement was in decline, the social safety net had frayed under Democratic and Republican administrations alike, and congressional Republicans became more conservative as the Tea Party movement emerged and gained influence.

The role of the nonprofit sector must also be considered as we gauge the collective response to the recession. Compared to other countries, the United States is exceptional in the extent to which it relies on charitable giving and the nonprofit sector to provide for the most needy and to protect people from the consequences of hard times. The nonprofit sector is of interest because we depend upon it to respond to rising need, although the obvious catch-22 here is that such need emerged precisely as endowments were plunging in value and the capacity for charitable giving was being undermined by unemployment, declining income, and
declining wealth. Our first question: Did the nonprofit sector manage to withstand such problems and continue delivering aid even as it was seemingly weakened by the recession?

The nonprofit sector is of further interest because it sheds light on the resilience of civil society under economic stress. Have Americans stepped up to the plate during a moment of crisis and worked together to assist others? Or have they withdrawn into a self-protective and individualistic cocoon? Although American society has characteristically been understood as overcoming rank individualism through civic associations and mutual aid, there is evidence that at least some forms of civil society have been eroding over the previous two to three decades (see, for example, Putnam 2000). Indeed, some critics associate the conservative turn in American politics with a burgeoning individualism that offers little sense of fellow-feeling or shared fate, a sensibility that then culminates in a declining commitment to volunteering or a redistributive social policy. The resurgent debates about the legitimacy of federal spending on the safety net and health care are the most recent expression of this long-standing tension between our nation’s collectivist and individualist commitments.

Our Analytical Approach

The foregoing analyses are carried out by examining each of the main social and economic domains in which substantial recession effects might be anticipated. We recruited leading scholars in the relevant disciplines to analyze how the recession affected the labor market, the distribution of income, the distribution of wealth, consumption behavior, the family, political and social attitudes, public policy, and charitable giving. In chapter 2 we asked Neil Fligstein and Adam Goldstein to set the stage for these analyses with an account of the events that led up to the crisis as well as the larger social and economic forces behind it.

We charged the contributors with examining the depth of social and economic effects of the Great Recession and investigating how such effects were experienced by different groups. This is a broad task that allowed the contributors to focus on the most important results within their respective domains. The chapters on the labor market, income, and wealth pertain mainly to economic effects; the chapters on consumption, the family, and attitudes pertain mainly to social and cultural effects; and the final chapters, on public policy and charitable giving, relate mainly to the collective response to the recession. These are, of course, just rough-and-ready classifications, and some chapters touch on several areas.

The virtue of recruiting a cast of experts is that a wide range of data sets could be analyzed by those who know them best. In some cases the
contributors were allowed special access to advance releases of survey data, thus allowing us to produce and release this book in a relatively timely way (at least by the slow-as-syrup standards of conventional academic research). Our contributors relied primarily on the Current Population Survey (CPS), the American Community Survey (ACS), the Survey of Consumer Finances (SCF), the National Income and Product Accounts (NIPA), the Index of Consumer Sentiments (ICS), the Consumer Expenditure Survey (CEX), the Panel Study of Income Dynamics (PSID), the annual Capgemini and Merrill Lynch World Wealth Report, the RealtyTrac foreclosure data, the National Vital Statistics Reports, the General Social Survey (GSS), the Political Values and Core Attitudes Survey, and Giving USA.

Whenever possible, the analyses not only cover the Great Recession (and the years immediately preceding it) but also make comparisons to earlier recessions. To maintain uniformity, our graphs and figures will adopt the six recession periods identified by the NBER Business Cycle Dating Committee: 1973 to 1975, 1980, 1981 to 1982, 1990 to 1991, 2001, and 2007 to 2009.1 In all of the book’s graphs, we adopt the NBER end date of June 2009 for the current recession, but obviously our graphs reveal that severe labor-market disruptions continue on well past that conventional end date.

Overview of Volume

In the first analytic chapter, “The Roots of the Great Recession,” Neil Fligstein and Adam Goldstein review the most important signposts of the Great Recession and lay out a new synthetic account of how it came about. The main competing stories on offer have been quite aggressively marketed and now enjoy the status of conventional wisdom. For example, the “hot potato” story has it that mortgage brokers and originators engaged in reckless underwriting because they were merely collecting fees and could quickly sell off to packagers, while the packagers in turn could pass off the “hot potato” bonds to unwitting investors. According to the “complexity” story, however, the financial instruments were too opaque or complicated to be fully understood and consequently risk was underestimated. In debunking these and other conventional stories, Neil Fligstein and Adam Goldstein show instead that the subprime crisis may have had its roots in early decisions to stimulate the housing market, decisions that then were fateful coupled with an unwillingness to regulate the new financial instruments devised to exploit this stimulus. Although the roots of the crisis extend back to early housing policy, it was not until quite recently that banks in search of a new source of cash aggressively expanded into the subprime market, one that ultimately came to play a central role in the financial system. At every turn, Flig-
stein and Goldstein show that the government and regulators promoted this expansion, all operating with an abiding faith in a self-equilibrating market. The banks, having ready access to cheap money, thus fueled a housing price bubble, fed on that bubble, and ultimately brought about the financial crisis when the bubble burst.

The financial crisis quickly infected the wider economy. In chapter 3, “Job Loss and Unemployment,” Michael Hout, Asaf Levanon, and Erin Cumberworth show how the financial collapse brought about job losses and unemployment on a scale not experienced since the early 1980s. Over the course of the crisis, the United States lost some 8.5 million jobs. The peak employment level (138.1 million jobs) occurred in December 2007 and the trough (129.6 million jobs) arrived twenty-six months later, in February 2010. During the same period the unemployment rate increased from 5.0 percent to 10.4 percent, and it remains very high as of this writing. The plunge in jobs and the spike in unemployment were much sharper in the current recession than in the previous three recessions (1981 to 1982, 1990 to 1991, 2001). Moreover, the spectacular rise in long-term unemployment is, the authors contend, a “defining difference” between the Great Recession and all previous recessions, with unemployed Americans in January 2010 finding themselves out of work for twenty-one weeks on average. The comparable average in the four recessions from 1977 to 2001 is a mere nine weeks at the depth of each of those recessions. The authors’ stark conclusion: “The Great Recession of 2007 to 2009 was a jobs disaster that took unemployment to historic heights.”

Is this also an inequality-generating recession in which the most disadvantaged are the most harmed? The evidence suggests that it’s not entirely so. For example, Hout and his coauthors report that unemployment increased most in the construction and manufacturing sectors, whereas job loss was comparatively limited in some of the lower-paid service industries. Moreover, because of the types of industries affected, unemployment also increased more among men (approximately 7.5 percentage points) than among women (approximately 4.2 points). At the same time, the disadvantaged do fare worse with respect to education, which is perhaps surprising in light of frequent media reports of the travails of the college-educated (Sara Murray, “The Curse of the Class of 2009,” Wall Street Journal, May 9, 2009, p. A1). Although unemployment did increase at all levels of schooling, including the college level, the size of the increase was roughly proportionate to the base rate. It follows that the unemployment increase among college graduates was less in absolute terms than that experienced by workers with a high school education (as their base rate is quite high). The larger story, then, is that many disadvantaged groups are suffering disproportionately, yet some of the
recession’s effects also reached up to somewhat more privileged workers. This complication emerges because, as with past recessions, the Great Recession has been a vehicle for industrial restructuring and thus affects industrial sectors that have been the province of white unionized males.

In chapter 4, Timothy M. Smeeding, Jeffrey P. Thompson, Asaf Levinon, and Esra Burak explore the extent to which the Great Recession increased poverty and reduced income. The official poverty rate for 2009, 14.3 percent, is slightly less than the peak poverty rates of the recessions of the 1980s and 1990s, but simulations show that poverty may rise to well over 15 percent by 2012. This recession-induced increase in poverty is especially prominent among young unskilled men and children.

The labor-market data also reveal an increase in inequality from 2007 to 2009, with incomes falling for the bottom 60 percent of Americans while holding steady or rising for those at the top. If one takes into account income generated by wealth, this takeoff in inequality is moderated because wealth-generated income fell off substantially at the top and middle of the distribution. This is likely to be just a temporary falloff given that the stock market has since rebounded and will allow those at the top to continue to regain some of their wealth-generated income. In contrast to the great compression of incomes that followed the 1930s, so far the Great Recession has done little to reduce the gap between rich and poor.

The distribution of wealth is the topic of chapter 5, “How Much Wealth Was Destroyed in the Great Recession?,” by Edward N. Wolff, Lindsay A. Owens, and Esra Burak. As expected in a “financial recession,” the destruction of wealth has been profound, as high-net-worth individuals (those with over $1 million in investable assets) lost $2.6 trillion in wealth between 2007 and 2008. Of course this destruction was also experienced by the middle class. By the end of 2009, 16.4 percent of all homeowners were “underwater” with their mortgages, meaning that they had negative net home equity, and 14.1 percent of American homeowners were delinquent or soon to be delinquent on their mortgage payments. The share of households with negative net worth also increased to 24.8 percent by the end of 2009.

There was clearly much pain to be spread around, but the question arises as to whether certain groups experienced losses disproportionately. The rich lost wealth, especially early in the recession, but their wealth has been partly recouped as the stock market has recovered. The middle class, whose wealth tends to consist mostly of housing and retirement accounts, have suffered as well and may not rebound as quickly. Some of the biggest relative losses have occurred among the disadvantaged. Indeed, African Americans and Hispanics are especially likely to
be underwater with their mortgages, and poor and minority neighborhoods are experiencing the highest probabilities of foreclosure.

In part III of the book the social and cultural effects of the recession are addressed. Chapter 6 provides an analysis of consumption, a properly transitional topic insofar as consumption is rooted not only in financial and labor-market forces, but also subjective perceptions of the economy and its future path. In “An Analysis of Trends, Perceptions, and Distributional Effects in Consumption,” Ivaylo D. Petev, Luigi Pistaferri, and Itay Saporta-Eksten document that the decline in consumption has been unusually steep and enduring when compared to the declines of past recessions. Consumption declined sharply in 2008 and the first half of 2009 but has since recovered somewhat, although even now it hasn’t regained pre-recession levels.

Which groups were behind this decline? In a financial recession, one might expect the rich to reduce spending dramatically in response to their declining wealth and the poor to be protected from equally severe cuts by transfer payments and other social programs. There is indeed some evidence of just such an asymmetric effect. Although this early evidence is important, the compression at the top may of course be short-lived as stocks and other sources of wealth make a sustained recovery and induce the well-off to begin spending again.

In “The Surprisingly Weak Effect of Recessions on Public Opinion,” Lane Kenworthy and Lindsay A. Owens examine long-term trends in public opinion. The key question: Did the Great Recession produce enduring shifts in opinion of the sort that the Great Depression quite famously precipitated? The answer is largely no. Although confidence in banks and financial institutions did suffer during the Great Recession, the authors find no evidence of lasting change in confidence in nonfinancial corporations, the tendency to blame the government or to support government activism, perceptions of fairness and social justice, or support for redistributive policies or policies aimed at helping the poor. They conclude that “recessions have not produced lasting changes—scarring effects—in attitudes throughout the full population.” It’s nonetheless possible, they point out, that the economic downturn could protract or deepen and ultimately bring about more fundamental changes than have yet surfaced.

There’s somewhat more evidence of a demographic response to the recession. In chapter 8, “The Great Recession’s Influence on Fertility, Marriage, Divorce, and Cohabitation,” S. Philip Morgan, Erin Cumberworth, and Christopher Wimer explore the effects of the recession on family life, an analysis that’s motivated in part by the many journalistic suggestions that such effects are substantial. The authors find little change in patterns of marriage, divorce, or cohabitation, but they do find
a decline in fertility rates, a decline that’s rather stronger in Republican (“red”) states than in Democratic (“blue”) states. Although the source of such state-level differences cannot be definitively established, the authors provide preliminary evidence suggesting that blue-state residents are relatively optimistic about the economy and hence more inclined to go forward and have children, whereas red-state residents are quite pessimistic about the economy, and such pessimism induces them to delay childbearing until the future appears more certain. Because these results hold even when objective differences in state-level economic circumstances are controlled, they are suggestive of politically colored variability in how couples view the economy and their capacity to afford a child. The authors also report that young adults are increasingly “returning to the nest” and moving in with parents or grandparents. Young adults have good reason to fall back on relatives for housing because they are more likely to lose their jobs, to fail to find jobs, or to fear that they may soon lose their jobs.

In part IV, “The Collective Response,” we explore how the government and the nonprofit sector have responded to the recession. Gary Burtless and Tracy Gordon provide a comprehensive description of the government’s response and a preliminary assessment of its effectiveness in “The Federal Stimulus Programs and Their Effects.” The discussion focuses on the four main features of the response: extension of unemployment benefits and social transfers, provision of tax cuts and credits, support for state and local governments, and new spending on infrastructure projects.

Although some of these measures, such as the extension of unemployment benefits and the expansion of Food Stamps, are standard antirecession policy, the federal response was also innovative in several ways, including its subsidy of state governments and of individual health insurance for those who lost their jobs and benefits. Was this aggressive and (somewhat) innovative response effective? The most striking result in this regard is that, despite the large recession-induced decline in personal income, disposable income (which takes account of taxes and transfer payments) held steady through 2009 and 2010. The implication is that the stimulus prevented what would have otherwise been a more substantial decline in consumption and well-being.

The concluding chapter, “Has the Great Recession Made Americans Stingier?,” by Rob Reich, Christopher Wimer, Shazad Mohamed, and Sharada Jambulapati, examines whether Americans continue to be a particularly charitable people even in times of economic duress. Has the Great Recession induced us to hunker down, tend to our own needs, and scale back our well-known generosity? The answer to this question is largely no. Although total giving declined by 2.4 percent between 2007
and 2008 and fell even more dramatically in 2009, Americans are still giving at high levels and at nearly the same proportion of their total income as before the recession. This giving, while slightly reduced in amount, also appears in some cases to be more efficiently channeled to those in need; that is, there’s evidence of a shift in giving priorities toward contributing to benefit organizations, food banks, and other charitable causes serving the truly needy. The authors note, however, that some charities serving the needy, such as human services organizations, have suffered steep declines in donations. The slight decline in monetary giving is somewhat offset by a continuing growth in volunteering. This may in part reflect an increase in free time resulting from rising unemployment, but the authors also consider whether the increased volunteering arises from an authentic response to escalating poverty and need.

How Does It All Add Up?

We began this chapter by asking whether the Great Recession stands out relative to prior postwar recessions. The clear, if unsurprising, conclusion is that it has indeed been distinctively severe. Although previous postwar recessions have also been labeled the Great Recession (David Wessel, “Did ‘Great Recession’ Live Up to the Name?” Wall Street Journal, April 8, 2010, online), our view is that the label is especially warranted now. The results in this book show that the recession of 2008 to 2009 is distinguished from all prior recessions by the rise of long-term unemployment, the profound destruction of wealth (and housing wealth in particular), and the deep and long-lasting decline in consumption.

The travails in the U.S. labor market are especially troubling and reflect an increasingly tenuous relationship between economic growth and the labor market. Although growth in GDP and productivity once straightforwardly improved circumstances for U.S. workers, it’s no longer the case that they invariably deliver gains in employment or income (Levy and Temin 2007; Elsby, Michaels, and Solon 2009). This tenuous relationship will evidently continue for the near term: the Congressional Budget Office predicts that even as GDP continues to grow, the unemployment rate will remain over 8 percent at least until 2012. The present recession adds an especially high rate of long-term unemployment to the jobless mix and hence raises the new specter of a more permanent jobless underclass.

Another conclusion of interest pertains to changes in the distribution of income and valued goods. The key question is whether the Great Recession has the potential to slow down the historic increase in economic inequality in recent decades. In the recessions of the twentieth century, those at the bottom of the distribution were hit hardest, and inequality increased. The Great Depression, by contrast, triggered a small income
compression in 1929 that was followed by a far more substantial compression in the 1940s, brought about in part by the New Deal and World War II. The question that arises, then, is whether the Great Recession is just another inequality-increasing recession or whether it may instead bring decades of increasing inequality to a close, just as the Great Depression and its aftermath ultimately ended the Gilded Age of the late nineteenth and early twentieth centuries.

It is too early to answer this question with confidence, but our preliminary conclusion is that we haven’t yet witnessed fundamental institutional changes of the New Deal variety that made the post-Depression period redistributive and inequality-reducing. The stimulus program is extensive, but it is only a temporary initiative and it principally works to buttress existing programs rather than establish new institutions or rules for economic redistribution. At the same time, health-care reform as embodied in the Patient Protection and Affordable Care Act may ultimately have equalizing effects for the distribution of health and life chances, but it’s not a reform directed toward the labor market and it doesn’t address the economic restructuring that the Great Recession appears to have accelerated. In the absence of fundamental labor-market or social policy reform, it’s unlikely that the Great Recession will permanently reverse the ongoing increase in income inequality, and indeed the analyses in chapter 4 by Timothy M. Smeeding and his coauthors suggest just that.

This is not to imply that the Great Recession has been straightforwardly and exclusively inequality-increasing. Although there have been some compressive features to the recession, we’re suggesting that they’re likely to be transitory because they’re not undergirded by major institutional change. For example, the stock market decline brought about a transitory reduction in wealth-based income and consumption at the top of the income distribution, and the government subsequently acted to extend unemployment benefits and other programs for the purpose of temporarily propping up income and spending at the bottom of the income distribution. These two compressive effects are likely to be short-lived. The stock market has partly recovered and restored wealth-based income at the top, while the prospects for a major stimulus that would continue to prop up incomes at the bottom seem, at present, unlikely.

This conclusion leads us quite directly to our line of inquiry on the extent of cultural and social effects. It bears recalling that the Depression was distinctive not just because it was compressive but also because it ultimately ushered in fundamental social and cultural change. Here again, it’s far too early to attempt any definitive statement on the extent of such change, and indeed any conclusions we can offer are more hypotheses than statements of fact. The evidence does nonetheless suggest a largely negative conclusion on the matter of early collateral change.
With a few notable exceptions, there is no evidence of sizable recession effects on attitudes or behaviors, a result that led Lane Kenworthy and Lindsay A. Owens to conclude in their chapter that recessions have not produced lasting “scarring effects.” Even where we do find social effects, such as the decline in fertility or the downturn in charitable giving, the magnitude of these effects is arguably on the small side.

Why, one might ask, are the social and cultural effects of the recession seemingly so small? The institutionalist response to this question is that major behavioral or cultural transformations don’t typically occur in the absence of new institutions that support such transformations. We’re unlikely, for example, to witness any sea changes in attitudes toward regulating CEO pay in the absence of new and well-publicized measures that institute such regulation, that subsequently come to be accepted and taken for granted, and that ultimately change the discourse on regulation. It’s likewise unlikely that attitudes about the legitimacy of unions will change without first changing the rules by which unions can be organized and thereby reintegrating unions into the fabric of American life (Rosenfeld 2010). By this logic, the question “Will major social and cultural changes emerge?” becomes “Will major institutional reform occur?” The answer appears to be no.

The more obvious point is that we’re still on the leading edge of the crisis, and any attempt to judge its impact now is quite heroic. This does not necessarily invalidate the institutionalist position. For example, Tea Party activism may in the end precipitate a backlash (such as that seen in the Wisconsin protests) and lead to increased support for fundamental reform, while some of the more austere economic pathways might bring about Greek-style agitation and ultimately institutional reform. It’s surely too early to rule out a prolonged economic downturn of the sort that Japan continues to experience. It’s possible that severe unemployment will persist or even worsen, that consumption will recover only slowly, and that the housing sector will continue to contract over the long term. If the anticipated recovery is indeed long in coming (or, worse yet, a new crisis emerges), then support for Roosevelt-style reform might ultimately surface and we might observe more substantial social and cultural change.

This volume should be viewed as an early reading of an unusually volatile economic and political landscape. It is no less foolhardy, some might argue, to attempt to weigh in a mere three years after the market’s crash than it would have been to attempt to write a book in 1932 on the social fallout from the 1929 crash. This ill-fated book would have been written before President Franklin Roosevelt’s election, before any major institutional reforms were undertaken, and hence before the real fallout could have been observed. Since a thorough-going assessment is not yet feasible, we plan to produce a second volume on the Great Recession,
also to be published by the Russell Sage Foundation, after some of the volatility has played out and a clearer economic and political course has been charted.

Note


References


