Reflection on History of US Recessions essay and presentation

"A History of US Recessions 1920-2010" was a group assignment for Macro Economics. The assignment included an essay regarding an economical topic of interest with a corresponding presentation.

Miheala and I chose alternating time periods, researched them, and wrote rough drafts summarizing the information obtained, then came together and gave each other pointers and revised before creating a final paper.

I put together the PowerPoint based on the information on the final draft of the essay, as a visual guide. I also wrote a short script for us both as a guide during the presentation.

This assignment was rewarding in that we gained a better understanding of the causes and effects of recession, the different types of recessions that there are, and also working with an ESL student posed a welcome challenge which inadvertently lead to some additional cultural learning.

A History of US Recessions 1920-2010

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Introduction

Recession is one of the four phases of the economic cycle which includes, expansion, peak, recession and recovery. A recession is a significant decline in economic activity for a certain period of time, characterized by damage of several macroeconomic indicators such as GDP, unemployment, gross revenues, etc.

In our report we've covered and compared the major recessions following World War I leading up to the present. We learned that while all recessions share many similarities, there are a surprisingly large amount of differences that set them apart from each other. The first recession we would like to discuss is the Depression of 1920-21.

Depression of 1920-21

The Depression of 1920-21 was an 18 month deflationary recession characterized by a drastic increase in the value of the American dollar. The recession occurred a short time after World War I, lasting from January 1920 until July 1921. This recession lasted longer than most post-World War I recessions, with the obvious exception of the Great Depression which lasted 132 months, and less obviously, the recession of 1910-12 and the recession of 1913-1914.

Depression of 1920-21: The Numbers

The deflation rates within the first year was the largest one year decline in 140 years of recorded history with an estimate of over 14% and a 36.8% fall in wholesale prices redoubled the impact of the depression. Moreover, unemployment rates jumped from 5.2% to nearly 12%, and GNP declined 17%. Automobile production dropped by 60% and total industrial production fell by 30%. The AT&T index of Industrial Productivity showed a decline of 29.4% during this recession, followed by a 60.1% increase immediately following the recession. This is considered to be the most severe drop followed by the greatest recovery of any recession between 1899 until the great Depression. The stock markets suffered greatly during this period. Prior to the recession, the Dow reached a peak of 199.6 on November 3rd, 1919, two months before the recession began. The market bottomed out at 63.9 on August 24th, 1921, a decline of 47%. For the sake of comparison, the Dow fell 44% during the panic of 1907 and 89% during the great depression. It was a difficult time for businesses as well. The rate of failing businesses tripled, from .37% to 1.2%. Businesses who avoided bankruptcy saw a 75% decline in profits.

Depression of 1920-21: The Cause

Economists have found quite a few contributing factors of this recession, many of which having to do with modifications made to the economy after World War I. There was a brief recession following the war. This small recession lasted only 7 months before the economy started to grow again, however factors such as incomplete transition from wartime economy to peacetime economy and the return of a the troops causing a surge in the labor force, a decline in union labor strife, changes in fiscal and monetary policy, and changes in price expectations. Factories which had previously focused on war time production had to reevaluate their products or shut down all together. This only worsened the already raising unemployment levels caused by the return of the soldiers. In 1919 the armed forces removed 1.4 million men and women from their payroll at the end of the war, leaving them no choice but to find new employment. In 1920 another 1.12 million were removed from payroll. In 1920 alone, the labor force grew by 1.6 million, or 4.1%, the second largest labor force growth spurt within a single year. This statistic is only seconded to the Post-World War II demobilization in 1946 and 1947. During the early 1920's the cost of living and price of goods were subject to more drastic and frequent change than it is today, so employers were more likely to offer returning soldiers a lower salary in an effort to keep their costs low. Labor unions, who had been very powerful during World War I, lost nearly all power when massive surge of returning soldiers joined the labor force. Large labor strikes began to break out including iron and steel workers as well as coal miners in 1919 and railroad workers in 1920. More than 4 million employees refused to work unless their demands were heard, however, by the spring of 1920 labor unions had to back down to the growing levels of unemployment

Some historians and economists argue that the recession of 1920-21 was necessary in correcting the market by creating the need to formulate the massive changes required of private businesses and industry following the end of the war. Historian Thomas Woods attributes the rapid private-sector recovery to President Harding's "laissez-faire" economic policies during the recession and the rapid government downsizing.

The Great Depression

The Great Depression was a severe worldwide economic depression. The duration of the Great Depression varied from country to country, however, in most countries it started in 1930 and lasted until between the late 1930's or middle of the 1940's. In the United States the beginning of the Great Depression is referred to as "Black Thursday", which was October 24th, 1929. The Great Depression was the longest, most devastating and widespread depression of the 20th century.

The Great Depression: The Numbers

The effects on the economy by the Great Depression were indeed great, worse than almost any other depression of the 20th century and far more wide spread and long lasting. Within the United States international trade fell by 70%. Unemployment rose to 25%, a 607% increase when compared to the years prior to the Great Depression. Those who managed to keep their jobs suffered pay cuts of over 40%. Farming and rural areas were hurt as crop prices fell by nearly 60%. Cities everywhere were devastated, but the ones dependent on heavy industry were hit the hardest as industrial production declined by more than 45%. Wholesale prices dropped by 32% and the construction industry came to a standstill as virtually all construction halted. However, communities dependent on primary sector industries such as mining, logging, and the direct use of other natural resources suffered the most due to quickly diminishing demand and no job alternatives.

The Great Depression: The Cause

On Black Thursday 12.9 million shares of stock were sold, which was triple the average amount. Within the week following, prices dropped by 23%. On the following Tuesday, October 29th, 1929, an additional 16 million shares of stock were sold. These events became known as the stock market crash of 1929, which caused the beginning of the Great Depression. From a peak of 386.10 in September of 1929 to its lowest point of 40.60 in July of 1932, the stock market suffered a decline of nearly 90%. While an exact cause has yet to be pinpointed as to why the stocks crashed as they did, economists have proposed that overexpansion during the 1920's are a likely cause. The prospect of wealth and prosperity in the city due to the expansion of America's industrial sector caused vast migrations of Americans from rural American into the cities. This coupled with continued neglect on the United States' agriculture industry created vast financial crisis among farmers. Other proposed arguments include attempts to stop market speculators by the media, or that the great expansion of investment firms and margin buying encouraged the purchase of public utility stocks which in turn increased their prices.

Recession of 1937-38

The recession of 1937-1938 occurred at the tail end of the Great Depression, during the first stages of recovery. By the spring of 1937 the economy was beginning to see improvement. Wages, profits, and production were nearly at the levels seen in 1929, the year before the start of the Great Depression. Unemployment had improved only slightly since 1933 dropping from 25% to just under 15%. However, just as it looked as if the Great Depression was coming to a close, the economy took a sudden downturn, plunging the United States into a 13 month recession that came to be known as the Roosevelt Recession.

Recession of 1937-38: The Numbers

During the Recession of 1937-38 Industrial production fell by nearly 30%. Real GDP fell by 11%. Unemployment levels rose from 14.3% up to 19% in 1938. Manufacturing output fell by 37% when compared to its peak in early 1937. Producers reduced their spending on durable goods, and inventories remained low; however, unlike other recessions we've spoken of, during the Recession of 1937-38 hourly wages continued to climb throughout most sectors, partially compensating for reduced hours. As unemployment rose consumer spending declined, pushing producers into a vicious cycle.

Recession of 1937-38: The Cause

Economists disagree on what may have caused the recession. One thing that cannot be denied is there was a steady annual growth of 12% in the United States' money supply between January of 1934 and January of 1937 when the growth ended and then declined later that same year. Some relate this to the treasury's decision to sterilize all gold inflows starting in December of 1936. New gold holdings were kept in a separate inactive account rather than being directly added to the Federal Reserve, causing a halt in growth of the monetary base.

Another frighteningly familiar theory stems from the fact that the Roosevelt administration began be grow concerned about the size of the deficit. Putting aside concern about whether or not the economy could sustain a recovery, Roosevelt took actions in order to reduce the federal deficit, such as cutting stimulus spending. This is why some refer to the recession as "The Roosevelt Recession". Supporting this theory, the recession saw the beginning of its end in April of 1938 when Roosevelt brought a bill to congress which called for a substantial increase in federal spending and lending, very similar to the one Obama recently brought to congress that was turned down. However, unlike the recent situation, congress backed Roosevelt and as a result the recovery was soon perceivable.

Recession of 1973-75

The Recession of 1973-75, also known as the 70's recession, put an end to what was a post-world war II economic boom. Within the United States the recession lasted from November 1973 until March of 1975 and it was a period of economic stagnation which effected much of the western world. Unlike many previous recessions, the 70's recession was one of stagflation, meaning it suffered from inflation and high levels of unemployment. This is significant because measures that would normally slow or even fix the effects of inflation may worsen the effects of unemployment and vice versa. While there were many economic signs of a coming recession, it was most evident when the stock market crashed in January of 1973.

Recession of 1973-75: The Numbers

The Recession of 1973-75 was primarily characterized by low economic growth and high levels of inflation. What made the Recession of 1973-75 worse than future recessions was it occurred simultaneously with the 48% stock market crash which lasted from January 1973 to December for 1974. Although the economy began seeing improved growth in 1975 the effects of inflation continued on until the early 80's. Despite the official end of the recession in March of 1975 it was not until May of the same year that unemployment reached its peak of 9%. There are only three times within the last hundred years where US unemployment peaked higher than this; during the late 2000's recession, where unemployment peaked at 10% in October of 2009; during the Early 80's recession, where unemployment peaked at 10.8% in November of 1982, and during the Great depression, where unemployment peaked at 25% in 1933.

Recession of 1973-76: The Cause

There are a multitude of factors that are attributed to causing the Recession of 1973-76. Such factors include the 1973 oil crisis, when members of the Organization of Arab Petroleum Exporting Countries, which included Arab members of OPEC, Egypt, Syria and Tunisia refused to engage in trades involving oil with the countries of Japan, Canada, the United Kingdom, the Netherlands, and the United States. By the end of this embargo the price of oil quadrupled, from $3 USD to $12 USD per barrel.

Another factor attributed to the Recession of 1973-76 was the fall of the Bretton Woods system, which was a set of rules, institutions, and procedures set up to regulate the international monetary system. This system was developed by 730 delegates from all of the 44 allied nations who deliberated during the month of July 1944 at the Mount Washington Hotel in Bretton Woods New Hampshire. It called for each country to adopt a monetary policy that maintained an exchange rate by tying its currency to the US Dollar, which, in turn, was tied to gold. It was August 15th 1971 that President Nixon terminated convertibility of the US Dollar to gold, effectively ending the Bretton Woods system and causing the dollar to become a fiat currency – one that derives its value from government regulation or law. This action came to be known as the Nixon Shock. Because of this change, many states adopted the US dollar as a reserve currency. While other countries using the US Dollar as a reserve currency allows the US government to borrow at lower costs, it also causes a disadvantage for US exporters.

A third strike to the US economy occurred nearly simultaneously, as competition from newly industrialized countries triggered a steel crisis within Europe and North America, causing a need to restructure.

Recession of 1981-1982

Also known as “The Reagan Recession” the recession which occurred in the early 1980's was the most severe and the most significant in terms of economic policy of the post-World War II recessions. The recession coincided with U.S. President Ronald Reagan’s steep cuts in domestic spending and led to minor political fallout for the Republican Party. The early 1980s recession was caused in part by the circumstances of the Iranian Revolution of 1979, which sparked a second large round of oil price increases. In an article by US Economy, Kimberly Amadeo says “This was technically two recessions: the first six months of 1980 and 16 months from July 1981 - November 1982”.

Recession of 1981-1982: The Numbers

It was partially caused by the Iranian oil embargo, which reduced U.S. oil supplies driving up prices. The Fed raised interest rates to combat inflation, reducing business spending. GDP was negative for six of the 12 quarters. In the same article from US Economy, Kimberly Amadeo mentions that “the worst was Q2 1980 at -7.9%, the worst quarterly decline since the Great Depression (until the 2008-2009 recession). In Q1 1982, it was nearly as bad, plummeting 6.4%”. Unemployment jumped sharply to 6.9% in April 1980 and to 7.5% in May 1980. In November of 1982 unemployment peaked at 10.8%, the highest level of unemployment in any recession. It was above 10% for 10 months. President Reagan ended it by lowering the tax rate and boosting the defense budget.

Recession of 1981-1982: The Cause and Effects

The primary cause of the recession was a contractionary monetary policy established by the Federal Reserve System to control high inflation. In the wake of the 1973 oil crisis and the 1979 energy crisis, stagflation began to afflict the economy of the United States. By 1979, inflation reached a startling 11.3% and in 1980 soared to 13.5%. A brief recession occurred in 1980. According to Kimberly Amadeo in article “A Review of Past Recessions” the Energy Crisis Recession had a duration of 6 month from January 1980 until July 1980. During this period “inflation had reached 13.5% and the Federal Reserve raised interest rates and slowed money supply growth, which slowed the economy and caused unemployment to rise. Energy prices and supply were put at risk causing a confidence crisis as well as inflation”. The Iran/Energy Crisis Recession had a duration of 16 month from July 1981 until November 1982. “This long and deep recession was caused by the regime change in Iran; the world's second largest producer of oil at the time, the country came to regard the U.S. as a supporter of its ousted regime. The "New" Iran exported oil at inconsistent intervals and at lower volumes, forcing prices higher. The U.S. government enforced a tighter monetary policy to control rampant inflation, which had been carried over from the previous two oil and energy crises”.

According with “Monthly Labor Report” from February 1983, important industries like: steel manufacturing, automobile production or housing were affected and they did not recover through the end of the next recession." Many of the economic sectors that supplied these basic industries were also hard-hit". The combination of tax cuts and higher military spending overwhelmed more modest reductions in spending on domestic programs. As a result, the federal budget deficit swelled even beyond the levels it had reached during the recession of the early 1980s. The central theme of Reagan's national agenda, however, was his belief that the federal government had become too big and intrusive. In the early 1980s, while he was cutting taxes, Reagan was also slashing social programs. Reagan also undertook a campaign throughout his tenure to reduce or eliminate government regulations affecting the consumer, the workplace, and the environment. At the same time, however, he feared that the United States had neglected its military in the wake of the Vietnam War, so he successfully pushed for big increases in defense spending.

In the article "The economy in the 1980s" it is noted that "farmers also suffered hard times in this recession. The number of farmers declined, as production became concentrated in the hands of a smaller number". During the 1970s, American farmers had helped India, China, the Soviet Union and other countries suffering from crop shortages, and had borrowed heavily to buy land and increase production. Then the rise in oil prices raised farm costs and a worldwide economic slump in 1980 reduced the demand for farm products.

The deep recession throughout 1982 combined with falling oil prices had one important benefit: it curbed the runaway inflation that had started during the Carter years. Conditions improved for some segments of the economy in late 1983; by early 1984, the economy rebounded and the United States entered one of the longest periods of sustained economic growth since World War II. Consumer spending increased in response to the federal tax cut. The stock market climbed as it reflected the optimistic buying spree. The article "The economy in the 1980s" specified that "over a five-year period following the start of the recovery, GNP grew at an annual rate of 4.2 percent. The annual inflation rate remained between 3 and 5 percent from 1983 to 1987, except in 1986 when it fell to just under 2 percent -- the lowest level in decades. The nation's Gross National Product grew substantially during the 1980s; from 1982 to 1987, the U.S. economy created more than 13 million new jobs".

The robust recovery that followed remains the source of considerable dispute, with some giving credit to the stimulating effects of the Reagan era tax cuts, others crediting the Reagan era defense accrual and others pointing to the Fed's gradual loosening of monetary policy. During the 1980s the incomes of wealthy and working class Americans began to diverge sharply, and Reagan's fiscal policies led to unprecedented federal budget deficits and a massive buildup of the national debt. Many poor and middle-class families actually lost ground, as low and semi-skilled jobs were eliminated from the economy, or failed to keep pace with the rest of society.

Recession of 1990-1991

Also known as the "Gulf War Recession", the Recession of 1990-1991 could easily have started in 1987, after Black Monday's worldwide drop in stocks on Oct. 19. For the month stocks fell 46% in Hong Kong, 41% in Australia, 26% in the U.K. and 23% in the U.S., which might have set off a panic lasting many weeks but didn't. The 1990-91 recession caught a lucky break in timing, happening when Americans had more faith in both markets and institutions. Ronald Reagan retired in 1989 with a 63% approval rating; George W. Bush left office nearly 30 points lower. President Obama has suffered the worst drop in the polls of any first-year President.

Recession of 1990-1991: The Numbers

Statistics show that the GDP decline was 1.5; unemployment rises 55% from 6.9% of the working population in 1990 to 10.7% in 1993. It took 13 quarters for GDP to recover to that at start of recession.

Recession of 1990-1991: The Cause and Effects

On August 2nd, 1990, Iraq invaded Kuwait. On 17th Jan, 1991, the US began bombing Iraq positions in Kuwait, and by Feb 28th, President Bush (I) declared a ceasefire. This resulted in a spike in the price of oil in 1990, which caused manufacturing trade sales to decline. This was combined with the impact of manufacturing being moving offshore as the provisions of North American Free Trade Agreement (NAFTA) kicked in.

The 1990-1991 recession was not a typical inventory recession. The source of this recession was the amount of leverage in the system. The 1980s was a decade of enormous speculative surge in the price of real estate and other assets. A large part of this was made possible by the tremendous growth in debt financed by the country's financial institutions. The decline in the value of commercial real estate has affected not only commercial construction--it has weakened financial institutions. The hardest hit areas have been financial firms, banks, thrifts, and insurance companies. This produced tight money without a tight monetary policy by the Federal Reserve. The top of the credit cycle was not that of a typical business cycle. The weakness in manufacturing was not as bad as the 1974 and 1982 recessions, while the weakness of the service sector was close to what it was at its worst point in the three recessions prior to 1990-1991.

The U.S. restructuring of corporations caused the loss of an average of 2,200 white-collar jobs per day in the third quarter of 1991, followed by an average of 2,500 jobs per day in the fourth quarter. Typically, this was the type of job that was well paying and guaranteed success for the American white-collar worker. This sector may have been harder hit for a longer period because this type of cut-back is atypical from that of inventory recessions, when production workers are the ones being laid off. When demand returns at even moderate levels, the production worker is rehired but this did not happen with white-collar workers.

Recession of 2001

Also known as the "9/11 Recession" was barely a recession at all. The National Bureau of Economic Research (NBER) has officially declared that the national recession started in April 2001, ending a 10-year expansion of the U.S. economy. In 1999, there was an economic boom in computer and software sales caused by the Y2K scare. After the companies all buying the computer system, the stock price of those companies with high technology started to increase. This led to many of the investors' money going to the high technology companies, no matter if the companies were making money or not. In part, recession of 2001 was caused by irrational exuberance in high tech.

Recession of 2001: The Numbers

According with the article published on usatoday.com "after contracting the first three quarters of 2001, gross domestic product or GDP, the country's total output of goods and services, began growing again in the fourth quarter 2001 and has been rising since, although in a zig-zag pattern that has not been strong enough to keep unemployment from rising". GDP growth remained positive during the first two quarters of 2001, until September 11th, when terrorist attacks shut down financial markets and a significant part of the nation's transportation system for several days. Output only shrank for two, non-consecutive quarters, and in each the rate of contraction was barely over 1%. The unemployment rate never got above 5.9% during the recession, and it subsequently peaked at 6.3%. Relative to the late 1990s, that seemed like a very high unemployment rate. Relative to the 25 years before the late 1990s, that looked like full employment, or close to it. According to the National Bureau of Economic Research (NBER), which is the private, nonprofit, nonpartisan organization charged with determining economic recessions, the U.S. economy was in recession from March 2001 to November 2001. John S. Irons in his report "2001 Recession in Perspective: Economic and Budget Situation" says that "unemployment rate has risen from 4.2 percent at the beginning of the recession to the current rate of 6.2 percent. In addition, the number of jobs has fallen by around 2.6 million. Despite the relatively small drop in total output, federal government revenue has dropped to 16.4% of gross domestic product (GDP) – the lowest level since 1959. In addition, deficits have reached a record $455 billion after being in surplus at the start of the recession."

Recession of 2001: The Cause and Effects

The collapse of the dotcom bubble, the 9/11 attacks and a series of accounting scandals at major U.S. corporations contributed to this relatively mild contraction of the U.S. economy. In the next few months, GDP recovered to its former level. Kimberly Amadeo in article "Causes of Economic Recession" in useconomy.com states that "in spite of the stock market decline in March 2000, the Federal Reserve continued raising interest rates to a high of 6.25% in May 2000. The Fed didn't start lowering rates until January 2001, and lowered them about 1/2 point each month, resting at 1.75% in December 2001. This kept interest rates high when the economy needed low rates for cheap business loans and mortgages." The failure of technological advance to actually deliver on the sky-high expectations embodied in stock prices has produced an environment where businesses of all kinds find their access to capital blocked. Many companies whose fortunes have fallen hardest are dominated by producers of physical, technological, and intellectual capital goods that other businesses can no longer afford. Coming off the boom years when the cash spigot was turned on full, the adjustment has been harsh indeed. For the sake of economic efficiency, it was also necessary. The September 11th attack caused a significant loss of life and physical damage; but the U.S. economy, because of its size and diversity, proved resilient. For example, air transportation, the industry hit hardest by the attack, represented only 0.8% of total national output. In addition, the nation's advanced technological infrastructure has shown tremendous capability to overcome major disruptions, sustain services and support business activities. The terrorist attack has had some significant ramifications for the economy: defense spent over the next few years was more than 3% share of the nation's total output; and society's priorities shifted to devoting more resources to domestic safety and security.

Recession of 2007-2009

Known as "The Great Recession", the Recession of 2007-2009 was the worst recession since the Great Depression. Officially it lasted from December 2007 to June 2009 and began with the bursting of an 8 trillion dollar housing bubble. It is related to a liquidity crisis, commonly being dated to have started when several central banks had to step in with liquidity lending to the interbank lending market on 9 August 2007.

Recession of 2007-2009: The Numbers

According to the NBER, this recession was one of the longest downturns since the Great Depression of the 1930's, lasting 18 month. The last two recessions (1990-1991 and 2001) lasted eight months each, and only two of the 10 previous post-Depression downturns lasted as long as a full year. Nouriel Roubini, in an article published in Forbes say that the economy shrank in five quarters, including four quarters in a row. Two quarters shrank more than 5%, and Q2 2008 shrank a whopping 8.9%, more than any other recession since the Great Depression. The recession ended in Q3 2009, when GDP turned positive. According with site www.stateofworkingamerica.org in 2008 and 2009, the U.S. labor market lost "8.4 million jobs, or 6.1% of all payroll employment. This was the most dramatic employment contraction (by far) of any recession since the Great Depression. By comparison, in the deep recession that began in 1981, job loss was 3.1%, or only about half as severe".

Recession of 2007-2009: The Cause and Effects

Irrational enthusiasm in the housing market led many people to buy houses they couldn't afford, because everyone thought housing prices could only go up. According with Kimberly Amadeo in the article "Causes of economic Recession", the bubble burst as housing prices started to decline from 2006. "This caught many homeowners off guard, who had taken loans with little money down. As they realized they would lose money by selling the house for less than their mortgage, they foreclosed. An escalating foreclosure rate panicked many banks who had bought mortgage-backed securities on the secondary market and now realized they were facing huge losses". By August 2007, banks became afraid to lend to each other because they didn't want these "deadly" loans as collateral. The weak dollar was another factor that caused the economy to become fail. America is the world's biggest economy and its failure would cause a domino effect of the economy. In exchange rates, the strength of currency depends on the rate of imports and exports of the country. Governments reacted by creating huge stimulus packages that greatly increased national deficits and debts, and by loosening monetary policies with interest rates close to zero and huge expansions of the money supply. In their efforts to save the financial system, governments also offered bail-out packages to banks, including loans, guarantees and equity. By the fall of 2009, the crisis had stabilized, and the appearance of "green shoots" gave promise of recovery. In October 2010, 16 months after the official end of the recession, the economy still had 5.4% fewer jobs than it did before the recession started. The Great Recession has brought an extremely high number of lost jobs, combined with a slow recovery.

Conclusion

While some signs of a potential recession may be apparent, there is no way to predict a recession with absolute certainty. Even after a recession it is often difficult to pinpoint exactly what caused it. While recessions may be generally undesirable, there are favorable as well as necessary aspects to them. For instance, making wise business investments, or purchasing real estate, while the prices are low can prove extremely beneficial to an individual when the economy begins to recover. Moreover, seeing the flaws in the economy made apparent by a recession gives the government opportunity to find ways to mend and re-solidify the foundation of our economy in an effort to prevent a future recession by the same cause.