THE COMING NEXT RECESSION

While job losses continued through 2010, and many communities still haven’t fully recovered, June of 2019 marked the tenth anniversary of the official end of the Great Recession. This recovery is now the longest U.S. economic expansion in history, besting the 120 month recovery from 1991 to 2001. It has lasted more than twice as long as the average post-war economic expansion.

IT WILL NOT LAST FOREVER.

Much has already been written about the possible immediate triggers for the next recession: Should we worry about another housing bubble? What are the consequences of the escalated multi-lateral trade war? Have last year’s interest rate hikes already set a recession in motion?

Less attention has been paid to the structural causes of the next recession, and the ways in which trickle-down policies, and actions by the Trump Administration have both hastened the end of the recovery and ensured that the next recession will be deeper and more damaging than it needs to be.

In the end, the economy is not asset prices, trade flows, or bond markets. We are the economy – people going about our lives, trying our best to provide a decent life for ourselves, our families, and those in our communities. When we lose sight of that, we can miss enormous vulnerabilities in our macroeconomy.

THE ROOT CAUSES OF THE NEXT RECESSION ARE SKYROCKETING INEQUALITY AND ECONOMIC INSECURITY, MADE WORSE BY FINANCIAL DEREGULATION AND REGRESSIVE TAX POLICY

The inequality and exclusion that has marked the last 40 years of U.S. economic activity is both a threat to long-term prosperity and deeply unjust. When people or communities are excluded from participating fully in the economy, or when the value of those contributions is extracted from them and captured by others with more power or privilege, the economy as a whole suffers, and becomes more vulnerable to recessions.

As more and more money is concentrated in the hands of the wealthy, fewer and fewer workers and families are able to purchase goods and services from one another and keep our economy healthy. This leads to lower economic growth over the long run, but also to higher risk of economic catastrophe in the short run. As money piles up at the top, middle-class Americans borrow more, both because their incomes haven’t kept pace with their needs and because the savings of the rich (and government policies) make borrowing cheap. In this world, a job loss or unexpected emergency can plunge them into crisis, and ripple through their local economy as they cut back their spending drastically.

In a new paper for the Center for American Progress [PENDING], Kimberly Clausing of Reed College describes how the Trump tax bill has made our economy more vulnerable to recession, partly by exacerbating income inequality:

When households are left behind others in society, they are more likely to borrow to finance their consumption, in part due to the competitive nature of some economic transactions (e.g., spending on housing to afford better school districts). Borrowing increases household debt, increasing vulnerability to economic shocks. In the wake of economic adversity or unemployment, indebted households have less ability to cushion their consumption from savings. Income inequality also drives concerns over secular stagnation, or the notion that there is an imbalance between the large supply of financial capital and the opportunities for worthwhile investments. Since investment is a crucial ingredient for economic growth, but ultimately depends on a healthy middle class that can afford increased consumption on the goods that the investment would ultimately generate, secular stagnation implies a link between economic inequality and suboptimal economic growth.

Chirag Mehta at Community Change shows how gendered and racialized disinvestment in the care economy is both a driver and a symbol of our larger economy’s precarity:

The stories of women and women of color rarely factor into mainstream discussion of the macro-economy and forces that might explain economic weakness and our inability to weather the next recession... [but] understanding the conditions that women and women of color experience trying to make ends meet for their families is integral to understanding the weakness of our economy and root causes of the next recession. We begin with a discussion of the scale of the racialized and gendered poverty and its impact on the broader economy, and then move on to how our failed child care system contributes to economic weakness and will hamper our ability to respond to the next recession.

Marcus Stanley at Americans for Financial Reform links growing inequality and economic instability to the financialization of our economy, and tax and deregulatory policies that increase the power of Wall Street:

How has this happened? As Wall Street has grown more powerful, the business cycle has changed. Instead of strong wage increases, allowing ordinary people to build wealth, periods of economic expansion are now characterized by rapid debt and asset price growth which lay the groundwork for increasing inequality. When the economy switches into recession, these downturns have frequently been amplified by the fallout from unsustainable levels of debt and asset price crashes. This makes recessions even worse than they otherwise would be.

GOOD JOBS CREATE A STRONG ECONOMY, BUT POLICIES THAT DRIVE LOW-QUALITY JOBS AND DISEMPOWER WORKERS HAVE LEFT FAMILIES – AND THE ECONOMY – ON THE EDGE

When we are all doing better, living a bit easier and enjoying some security and dignity, it sets up the conditions that are necessary for workers to create and enjoy an abundance of goods and services. Healthy, happy, educated, trained, empowered, safe and valued people will always produce more, innovate more and create more than sick, stressed, marginalized and disempowered people. They are also more able to create strong, stable demand for other workers’ goods and services.

Further, empowered workers – those with bargaining power through unions, political power over labor standards, and...
government spending is critical for laying the foundation for a prosperous economy through public investment in workers and families – investments like public schools and childcare, research and higher education, healthcare and the safety net, transportation and energy infrastructure, market regulation and affordable housing, and the many other ingredients that are needed for a modern, thriving economy.

During recessions, government spending is a critical replacement for private spending, and fiscal expansion is the most effective tool we have to fight and end recessions. Without the American Recovery and Reinvestment Act, often called the 2009 Stimulus, the Great Recession could have tipped into another depression.

But ARRA was not enough, and it was followed by a decade of budget austerity at the federal level and catastrophic spending cuts at the state and local level. This short-sighted belt-tightening is a drag on economic growth now, and is set to amplify the effects of the next recession when it comes.

Erica Williams and Michael Leachman of the Center on Budget and Policy Priorities describe a decimated public sector at the state level:

Ten years after the official end of the Great Recession and six years since we began to turn the corner on the state fiscal crisis that ensued, many state governments have not recovered, in part because some states worsened their problems by cutting taxes sharply in the aftermath of the recession or adopting new limits on raising revenue in the future. The result is public systems, including school systems in some states, that are badly weakened and ill-prepared to take another hit from a new recession, inadequate “rainy day” funds and unemployment insurance trust funds that will be quickly exhausted when recession hits, and 3 million fewer jobs in the economy than we’d have if state governments had recovered at the same rate as private employment.

Michael Madowitz of the Center for American Progress connects public sector disinvestment to the broader story of trickle-down policymaking:

Preparing for the next recession begins with making sound policy choices when recession is not a threat. Unfortunately, the combination of a financial crisis followed by severe austerity has led to an unusually slow recovery in the decade since the start of the Great Recession, and we are no more prepared for the next recession than we were for that shock. After congressional Republicans championed the austerity that impeded recovery from the last recession, the Trump administration has made fiscal policy even more pro-cyclical. In following the trickle-down playbook to the letter the Trump Administration has—at best—failed to plan for the next recession, while sowing some seeds that may grow into it with a mix of regressive tax policy, a deregulatory agenda that pushes more risk from corporations to those who can least afford it, and disinvestment in public activities that could actually help our economy thrive. Too often when we think about the economy we think of markers that are easy to measure and see: the daily ups and downs of the stock market, interest rates, or unemployment rates. But the economy is about people. The tragedy of recession is not in the fall in these indicators, it is in the human toll of unemployment and insecurity – the mom who loses hours at her two retail jobs and can’t afford to pay for quality childcare anymore; the childcare worker who loses income and can’t buy food and clothes for her own kids or send money to her aging father in another city; the grandfather who loses his home to a predatory lender when his income falls and he can’t refinance.

None of these tragedies are inevitable. They are policy choices. While the next business cycle downturn may be triggered by monetary policy or global events, the next recession will be caused by an economic worldview that empowers the wealthy and powerful, and fails to invest in workers and families.

For more information, you can reach out to Groundwork at info@groundworkcollaborative.org