CHICAGO POLITICAL ECONOMY GROUP

The Great Recession Ten Years On

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June 2019 marked ten years since the official end of the Great Recession. Of course, declaring the ends (and beginnings) of recessions is rather arbitrary and always done in retrospect. It was not until September 2010 that the National Bureau of Economic Research (NBER) declared that what became known as the Great Recession had ended in June 2009. The same body determined the Great Recession began in December 2007, but did not make that call until a year later, in December 2008.

The Great Recession was the deepest and longest since the Great Depression of the 1930s, and books and papers analyzing the event are legion. Ushered in by the financial crisis of 200-2007, the Great Recession featured high unemployment, housing foreclosures, GDP downturns, government interventions aimed at countering the downward spiral, and more. However, less attention has been paid to the structure and functioning of the economy in the years that followed, and the long shadow of the Great Recession is still with us a decade later—particularly in the ways that the crisis changed, or failed to change, the U.S. economy.

There are three striking features of the American economy that have emerged in the past decade—two that are new and one that is a reincarnation of an already established trend:

- The United States is in a prolonged period of slow growth that was triggered by the financial crisis and the Great Recession.
- There is an ongoing decline in labor force participation—especially among males—alongside an official declining and now low unemployment rate.
- Lastly, despite its role in triggering the Great Recession, finance has returned to its position as the dominant sector in the U.S. economy, with the associated process of financialization.

A. The Slow Growth Economy

The reality of slow economic growth may be difficult to appreciate, especially if you listen to our current president, who denies this slow growth reality while simultaneously claiming that the economy would roar into overdrive if only the Federal Reserve would cooperate. Or if you follow the stock market, which has been reaching new highs.[1] —and if the 2019 year-to-date IPO performance is anything to rely on, will be getting better in the future.[2] The media is full of stories about employers unable to find enough employees. And finally, in what at first appears a major contradiction to the slow growth reality, the United States is experiencing its longest economic expansion on record.

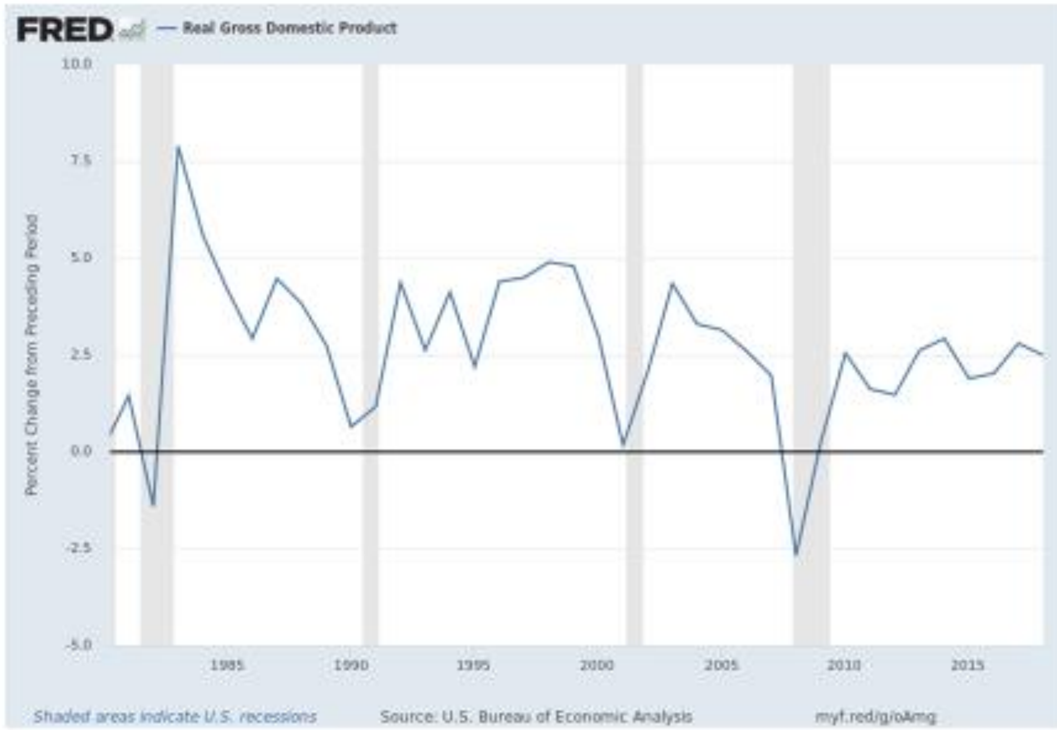
While it may be the longest economic expansion, it has also been a period of unusually tepid growth. The underlying reality is that 2018 marked the thirteenth consecutive year in which U.S. real GDP growth was below 3.0%. **This experience is unique in U.S. economic history.** The last year of real GDP growth above 3.0% was 2005, followed by a strong first quarter 2006 with real GDP growth rate of 5.4%. Then the political and economic dynamics that led to the financial crisis and the Great Recession came to dominate the news and our economic reality.[3] The graph below shows the evolution of the United States into a slow growth economy.

Real US GDP Growth Rate, Annually, 1980–2018

[1] Although the market is up only modestly compared to early 2018.

[2] Except LYFT and UBER, of course.

[3] First quarter 2019 real GDP growth was initially estimated at 3.1%. There have been many individual quarters over the past few years that exceeded the 3.0% level, but no complete years. The 2Q19 initial growth estimate was 2.1%. https://www.bea.gov/news/2019/gross-domestic-product-2nd-quarter-2019-advance-estimate-and-annual-update



The period covered begins in 1980, roughly the beginning of the neoliberal period. While these almost 4 decades have exhibited slower real GDP growth overall than *Les Trente Glorieuses,* the three decades after WWII, it is clear that the rate of real GDP growth has slowed significantly as a result of the Great Recession.

Economists continue to debate the reasons for the slow growth of the U.S. economy. While there may be some short-term factors, the extended nature of this pattern suggests deeper roots.[4]

B. Declining Labor Force Particiaption and Unemployment Rates

The graph below tracks the second feature of our new political economy as it appears to many people: falling and low unemployment, not something that is usually associated with slow growth periods. In fact there has even has been concern among those still fighting the high

[4] Robert Gordons's *The Rise and Fall of American Growth,* Princeton University Press, 2016, provides what is perhaps the most compelling macro argument for a long-term economic slowdown; for an argument that the United States is not alone in entering a long period of slow growth, see Alan Freeman. A.2019. *The Sixty-Year Downward Trend of Economic Growth in the Industrialised Countries of the World.* GERG Data Group working paper No.1, January 2019. Manitoba: Geopolitical Economy Research Group.

inflation of the early 1970s that the unemployment rate is too low and will soon kindle inflation, despite all evidence to the contrary. (This view is also still held by some mainstream economists.) Over the long term, the pattern has been clear: in years of strong GDP growth, unemployment falls and vice versa. But the extended weakness in GDP growth, beginning with the lead in to the Great Recession, appears to change that relationship—as we now have weak GDP growth and declining unemployment.

Or do we? There are serious questions that can be raised about the falling unemployment picture. First, to be counted in the official U.S. figures as unemployed, a person must be actively seeking work in the period prior to the monthly BLS report. Taken together, the employed and the officially unemployed (i.e., those seeking employment) are considered to be participants in the labor force. But these two categories do not exhaust the number of potential workers—the total possible labor force. There are always people who are not employed and not actively seeking work. Some may be moving from one job to another, some may be in training programs or in school—and some may simply have left the official labor force.

U.S. Unemployment Rate, 1980-2019

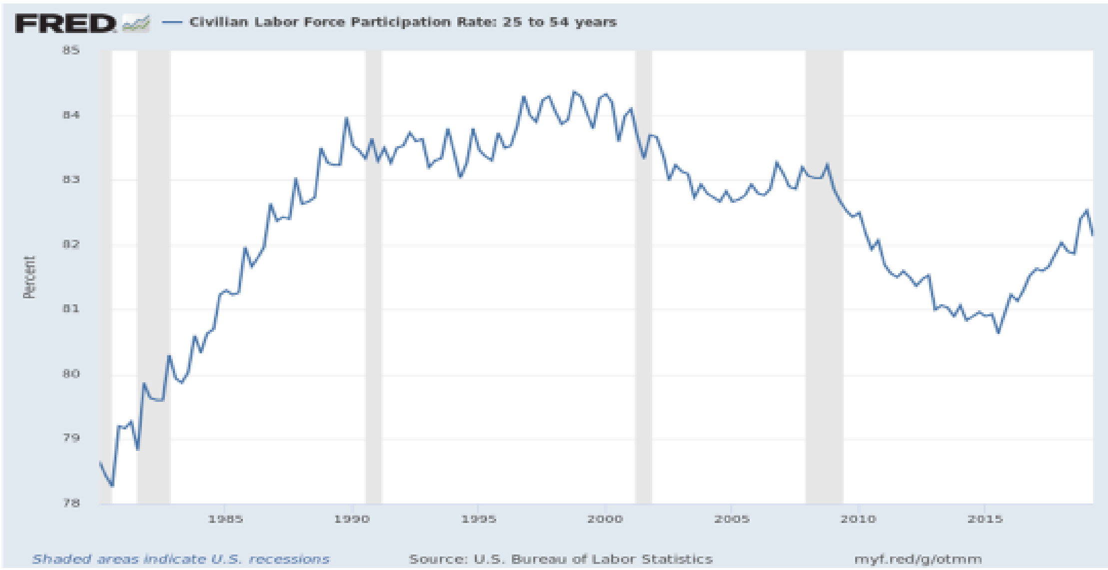
A more insightful way to understand the labor picture of our post-Great Recession political economy can be found by looking at the labor force participation rate (LFPR) or activity rate. This rate compares the number of labor force participants with the total number of people in the same age and/or gender category. One of the striking labor force features of the years following the financial crisis that inaugurated the Great Recession is the disappearance of several million potential workers from the U.S. labor force.

The graph below focuses on "prime age workers," people aged 25-54, as a percentage of total population in that same age range. Prior to the 2000-01 recession, the LFPR had climbed steadily, in large part because numbers of women entered the wage labor force. The LFPR peaked shortly before 2000-01 at just over 67% for all workers, dipped after the 2000-01 recession, and then fell sharply with the onset of the Great Recession.

Excluding people at both the young and old ends of working life allows us to get a picture of how labor force participation has changed in the age groups that have been the core of the labor force. In the United States the LFPR has been falling since the 2000-01 recession, but the fall accelerated with the onset of the Great Recession. As of mid-2019, the LFPR had not returned to even the levels that prevailed between the 2000-01 downturn and the Great Recession. This is a sharp contrast with almost all other wealthy industrial societies including the EU as a whole, where the LFPR has risen, both compared to 2000 and to the years immediately prior to the Great Recession.[5]

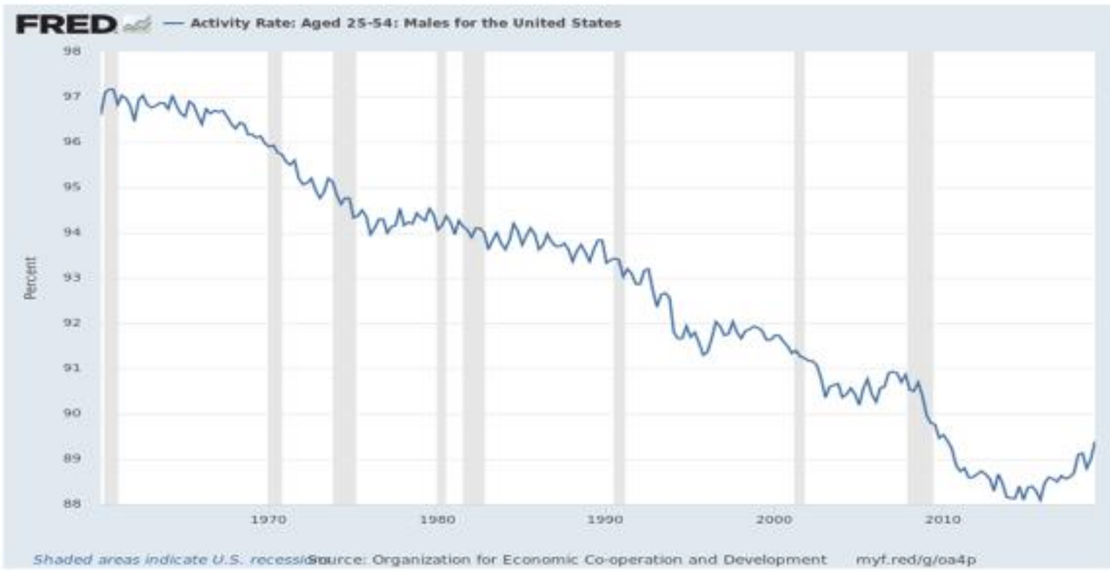
[5] https://stats.oecd.org/viewhtml.aspx?datasetcode=LFS_SEXAGE_I_R&lang=en#

Labor Force Participation Rate, 1980-2019



Much of the continued decline in LFPR for the U.S. after 2000 and weak rebound in the past few years has been driven by falling prime age male labor force participation, as evidenced in the next chart. A decade after the end of the Great Recession, the LFPR for males remains below the levels of the early 2000s; female LFPR also remains below that prevailing prior to the Great Recession, but the gap is less than for males.

Activity Rate, Males 25-54, 1960-2019



The overall picture of this second feature of the post-Great Recession political economy is clear: a lower unemployment rate, yes, but one that is significantly driven by the decline in labor force participation. For example, if the same LFPR that prevailed prior to the 2000-01 recession were true today, there would have been an additional 9.6 million people in the labor force—and the (adjusted) unemployment rate would have been 9.1% instead of 3.7%.

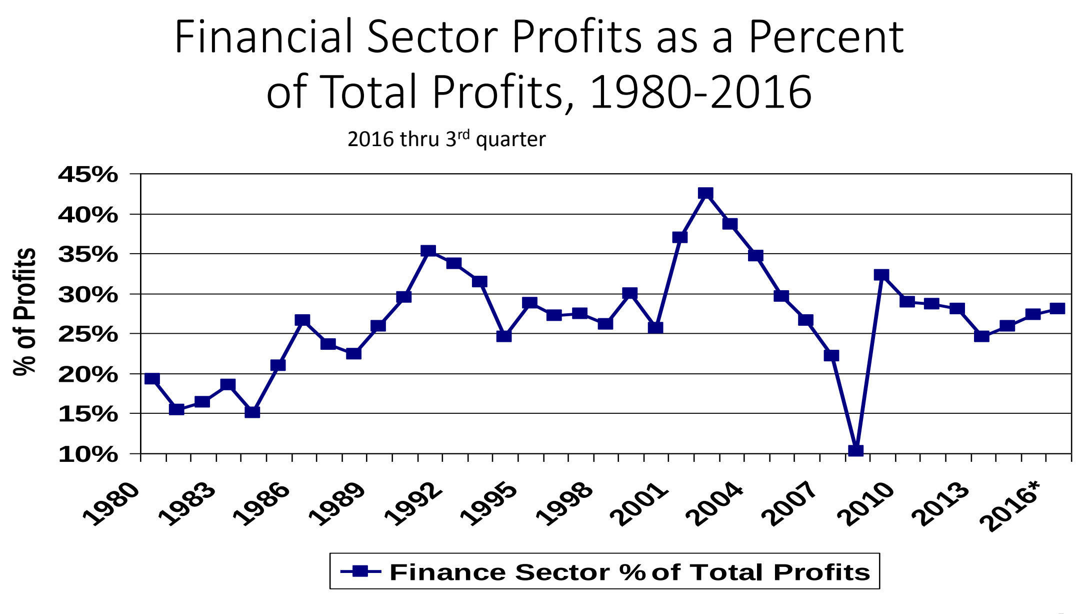
Readers of an earlier version of this paper have asked, why have these males left the labor force? There have been a large number studies of this question and a variety of answers posed. Proximate causes, such as increased opioid addiction, increased rates of incarceration, or the rise of disability claims have all been advanced. All of these factors are present but, it seems to me that the underlying cause is the decline of manufacturing employment in the U.S. In 1990 there were almost 18 million people employed in manufacturing; today there are less than 13 million. Manufacturing employment has been heavily male and a source of relatively high paying jobs for men with often limited education and thus limited good job opportunities in the rest of the economy.

C. The Return of Finance and Financialization

The financial crisis of 2007 and the subsequent Great Recession led many to believe, or at least hope, that the outsized role of the financial sector in the U.S. political economy would end—but that did not occur. Mortgage lenders went bankrupt, big investment banks collapsed, and financial sector profits virtually disappeared (for a short time)—but in the ensuing years the financial sector re-emerged to be as big, and by some measures even bigger, than before. And financialization, a process by which profits are increasingly generated through financial activities rather than production of goods and services,[6] only paused for breath.

The five largest banks in the financial sector are now more dominant than two decades ago. In 2000, the five largest banks controlled 28% of total assets; by 2016 the top five—JP Morgan, Bank of America, Citigroup, Wells Fargo and Goldman Sachs—controlled 46%.[7] All except Goldman had over $1 trillion in total assets.

The best single piece of evidence for the resurgence of the financial sector is also the most obvious one: the financial sector's share of total business profits. As has often been noted, during the first four post-WWII decades, the financial sector's share of total business profits remained in a narrow band between 10 and 15%. However, this stability changed dramatically in the late 1980s, with financial sector profits jumping into the 25-35% range of total profits, followed by a final surge to over 40% on the eve of the 2007 financial crisis.



The collapse of the financial sector in 2007-2008 drove this profit share down to 10% of total business profits—but the recovery has been quick. In the post-Great Recession decade, financial

[6] See Greta Kripnis, "The Financialization of the American Economy," *Socio-Economic Review*, 2005, vol. 3 for an excellent analysis of financialization in our political economy.
[7] https://fred.stlouisfed.org/series/DDOI06USA156NWDB

sector profits remain at or above the 25% level set in the late 1980s. As a reminder, this 25% or more share of total profits is accruing to a sector that employs only 6-7% of the total labor force.

The financial sector is also a major driver of wealth inequality, an inequality that has returned to—and even exceeded—the levels that prevailed prior to the Great Recession. The stock market crash of 2007-08 imposed a temporary reduction of both the total national wealth and the share going to the top 1% and the next 9%. However, these losses have been reversed since the June 2009 ending date of the Great Recession.[8] Much of this reversal and increased wealth concentration at the very top of the wealth distribution has been driven by the stock market's decade-long bull run that coincides with the timing of the current economic expansion.[9] Today the wealth share of the top 1% (as well as the next 9%) of households is greater than in the years immediately prior to the Great Recession and is exceeded only by the wealth and income concentration of the late 1920s.

But the impact of the resurgent financial sector is not just on profit shares and wealth distribution; it extends into the rest of the economy through the process of financialization.

The financial sector in the United States is primarily extractive in nature. The process of financialization transfers value from other sectors of the economy into the financial sector and, in turn, into the hands of wealthy households and individuals who own the bulk of the stock in financial institutions. The pre-Great Recession value extraction mechanisms remain in place—privatization of formerly government-provided services, debt issuance to households, restructuring in retail, and more.[10] But perhaps the most striking example of the resurgence of value extraction returning to pre-Great Recession levels is the decision making in the non-financial corporate sector. Instead of increased investment, businesses are allocating more and more cash, and in many cases borrowing large sums of money, to buy back their own shares.[11] And, of course, cash going into stock buybacks (also labeled "stock retirements") is cash not going into productive investment, and such lack of investment results in slow growth.

Buybacks ramped up significantly in the years immediately prior to the financial crisis as companies entered the market to purchase their own shares—when prices were at then record highs (acting contrary to the standard advice to buy low and sell high). In the Great Recession years, in contrast, share buyback activity dropped to levels not seen since the early 2000s. However, the bull run of the last decade has meant a return of the buyback. And, most recently, the extra cash flowing into corporate coffers as a result of the "Tax Cuts and Job Creation Act"

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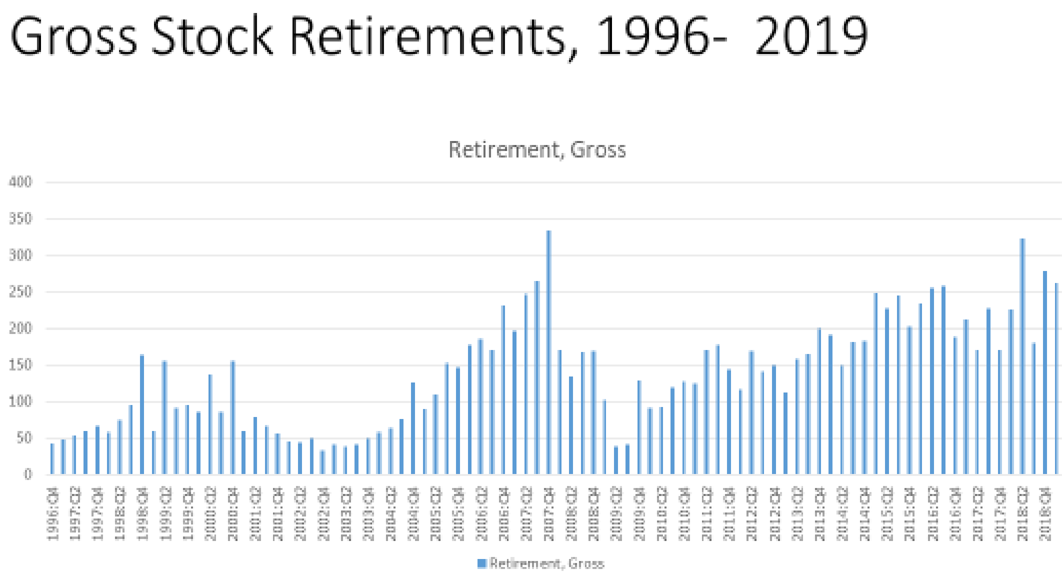
[8] See http://gabriel-zucman.eu/usdina/ for detailed year over year changes in wealth distribution since the trough of the Great Recession.

[9] The bull market dates from April 2009; according to the NBER, the current economic expansion dates from June of that same year.

[10] Mariana Mazzucato, *The Value of Everything*, (Public Affairs Books, 2018) chapter 7 has an extended analysis of financial value extraction.

[11] Stock buybacks were banned as an illegal form of market manipulation until the early 1980s.

of 2017 (TCJA) has resulted in share buybacks at record levels,[12] rather than providing “rocket fuel for the economy” as Trump claimed it would do. Stock buybacks increase wealth inequality since the top 1% of households own a third of all stock, the next 4% own another third and the remaining half of the top 10% own about 12-14%. Thus 8 of every 10 shares are in the hands of the top 10% of households. Half of all households own no stock, and most households who own stock have holdings worth less than $20,000.



Source: https://www.federalreserve.gov/releases/efa/efa-project-equity-issuance-retirement.htm, table 1

D. The Great Recession Ten Years On: A Failed Recovery

In the early years of the Obama administration, President Obama’s chief of staff Rahm Emanuel was widely quoted as saying “never let a good crisis go to waste.” Good advice—if only it had been followed. But they did let it go to waste. Rather than seizing the opportunity offered by the apparent collapse of the neoliberal order, our political and economic elites tried to patch it back together—to the detriment of the rest of us. They have thus created a slow growth economy with declining labor force participation. Only the financial sector, the incubus for the collapse, has fully recovered.

When Donald Trump ran for president in 2016, his campaign rhetoric recognized the reality of slow economic growth. What about the actual economic policies once in office? To the extent his policies form a coherent whole, Trump has been doubling down on some of the very economic policies that drove us into the Great Recession. His administration's actions are likely

[12] See, e.g., https://americansfortaxfairness.org/wp-content/uploads/2019-03-20-1-Trillion-in-Stock-Buybacks-PRFINAL.pdf

the result of both class interests and ideology. Class interests—looking after the top first—are reflected in the treatment of the financial sector, where the administration has steadily chipped away at the limited reforms imposed by the Dodd-Frank Act. Ideology is reflected in Trump's policies such as the TCJA that remain rooted in the idea that, if we feed the horses, the sparrows will eat (the cruel lie that also goes by the name "trickle-down economics"). Economic policies based on the fallacy that U.S. business needs more cash to invest and grow the economy—when the market tells us that businesses are faced with a glut of excess capital, lack good ideas to invest in, and are settling for buying back their own shares—are unlikely to achieve Trump's promised "4%, even 5 or 6%" GDP growth.[13]

It remains to be seen whether Trump's opponent in 2020—whoever that may be—can and will propose a different path, one that leads out of our current cul-de-sac.

[13] https://www.washingtonpost.com/news/wonk/wp/2016/12/29/donald-trump-keeps-moving-the-goal-post-for-economic-growth/?noredirect=on&utm_term=.89f685890634 during the October 2016 presidential debate.