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Policy Responses to Economic Crises

USA, 2008-2012

Note: Policy background memos contain information from various sources on the political economy of a particular country and economic and social policy choices before, during, and after an economic crisis. The memos do NOT contain any original information or analyses, but rather summarize material from various sources. The material is at times quite raw - the text is often presented in bullet points and sources are often quoted verbatim. Thus, the background memos should primarily serve as an overview of 1) policy developments in a particular country, and 2) academic research on the subject.

# 1 Background

### Politics

When the crisis hit in September 2008, the George W. Bush held the presidency, although Barack Obama took office in January 2009. Both the House of Representatives and Senate was controlled by Democratic majorities.

### Fiscal Policy and Welfare

The US welfare state is relatively small, compared to other OECD countries. However, the US employs "tax expenditures" to a larger degree than most other countries, i.e. tax breaks to companies that offer health insurance or pensions plans for employees and tax breaks for individuals with children etc. As such, the US welfare state is less redistributive than other welfare states, since benefits are tied to employment (and usually salary as well) and is, to a large degree, organized by the private sector (Waddan 2010, 245). Moreover, large government programs, such as the Temporary Assistance to Needy Families (TANF), which provides support for single-parent families, have considerable work requirements for benefit receipt (Waddan 2010, 246).

# 2 Crisis

From 2007 to 2009, real GDP fell by 3.1 percentage points (Moffitt 2013, 143). The unemployment rate more than doubled in a span of three years, going from 4.4% in March 2007 to 9.7% in March 2010. Additionally, there were significant numbers of individuals under-employed or discouraged from the labor market (Waddan 2010, 247).

# 3 Policy Response and Politics

### February 2008

Fiscal → The Economic Stimulus Act signed into law by George Bush. The stimulus amounted to $152 billion, with more than two-thirds consisting of cash rebates to tax payers. The rebate amounted to between $300 and $600 per taxpayer for low- and middle-income households. The rebate phased out at higher levels of income (Shapiro and Slemrod 2009, 3).

Policy Responses to Economic Crises

# USA, 2008-2012

**February 2009**

Fiscal → The American Recovery and Reinvestment Act (ARRA) was passed into law in February. It contained a variety of measures meant to stimulate the economy, with an estimated cost of $787 billion (5.5% of GDP) (Auerbach, Gale, and Harris 2010, 154). The stimulus was to be spread out over 10 years, although approximately $500 billion had been spent by the end of 2011 (Fording and Smith 2012). This was considerably larger than the average OECD stimulus response (2.5% of GDP), but since the US has relatively small automatic stabilizers, the combined US stimulus for 2008-10 only ranks sixth among OECD economies (Auerbach, Gale, and Harris 2010, 154).

Taxation → ARRA included several tax cutting measures, which amounted to 37% of the stimulus package (Daguerre 2011, 401). The largest tax cut was the Making Work Pay Credit, which was a refundable, income-tied tax credit of up to $400 per taxpayer. ARRA also extended the eligibility criteria and raised the maximum value of the Earned Income Tax Credit, as well as implementing several smaller tax cuts (Auerbach, Gale, and Harris 2010, 153).

Poverty → ARRA provided additional funds for food stamps, which become an increasingly important resource for low income and unemployed households during the crisis. The maximum amount available to per household was increased and eligibility was extended (Waddan 2010, 250). Along with other initiatives introduced or strengthened, ARRA is estimated to have prevented 7 million Americans from falling into poverty in 2010 (Sherman 2011).

Unemployment → Strict eligibility criteria, which often excluded part-time and low-waged workers, meant that unemployment insurance were provided to less than half of those registered unemployed at the height of the crisis. Moreover, benefits were only provided for 26 weeks (Waddan 2010, 249). ARRA contained measures to encourage states (which control unemployment eligibility conditions) to extend eligibility for workers and lengthen the duration of benefits. The measure was not mandatory, with some states refusing to participate in the program (Waddan 2010, 250). Furthermore, ARRA extended the duration of the previously passed Emergency Unemployment Program (EUC, originally passed in June 2008) until December 2009, which extended benefit duration up to 33 weeks (Daguerre 2011, 402).

**February 2010**

Fiscal → Discretionary spending frozen for three years (excluding defense) (OECD 2011, 211).

**March 2010**

Health → The Affordable Care Act (a.k.a. Obamacare) passed, which afforded health care coverage to millions of low income household, previously uninsured (Waddan 2010, 250).

**June 2010**

Fiscal → Government agencies asked for plans to trim at least 5% from their budgets (OECD 2011, 211)

**November 2010**

Politics → Midterm elections, with Democrats losing control of the House of Representatives (Bartels 2013, 54). "Tea Party" candidates won several seats in the elections and employed what some have called "austerity by gridlock" to prevent effective policy making (Williamson 2013).

**December 2010**

Taxation → Bush tax cuts extended for two years. Employee contribution to Social security reduced from 6.2 to 4.2 per cent for a year (McCarty 2012, 225).

Unemployment → $57 billion appropriated to extend unemployment benefits (McCarty 2012, 225).

**August 2011**

Fiscal → Budget Control Act (BCA) passed, which formally ended the debt ceiling crisis. In exchange for raising the debt ceiling, Obama and the Democrats had to commit to significant (Williamson 2013, 13).

**November 2012**

Politics → Obama reelected for a second term. Tea party candidates lost ground.

**January 2013**

Taxation → American Taxpayer Relief Act passed, which cemented the Bush tax cuts for lower and middle income households, while repelling them for higher income households. The tax rate on capital gains was raised and an estate tax was reintroduced (Williamson 2013, 15).

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