

ACTIVITY 1

RECESSIONS IN U.S. HISTORY

1. The Financial Crisis of 2007-2009

What happened? The subprime mortgage crisis led to the collapse of the housing market in the U.S. Falling prices of housing-related financial assets contributed to a global financial crisis. The crisis led to the failure or collapse of many of the U.S.'s largest financial institutions, including Bear Stearns, Fannie Mae, Freddie Mac, Lehman Brothers and AIG, as well as the automobile industry. The government responded with an unprecedented \$700 billion bank bailout and \$787 billion fiscal stimulus package. By June 2009, the recession ended. Real GDP began to increase in the third quarter of 2009 (1.6 percent, annual rate) and continued in the fourth quarter (5.0 percent, annual rate). As is often the case at the end of a recession, unemployment continued to be a problem at between 9 and 10 percent.

2. The Recession of 2001

What happened? During the 1990s, the U.S. experienced the longest period of continuous growth in American history. The collapse of the speculative dot-com stock bubble brought this period of growth to an end while accounting scandals and fraud at Enron and other companies caused further problems. Increases in interest rates also contributed. Despite these major shocks, the recession was brief and shallow.

3. The Recession of 1990-1991

What happened? After a long economic expansion in the 1980s, inflation began to increase and the Federal Reserve responded by raising interest rates from 1986 to 1989. This slowed growth, but the 1990 oil price shock (due to the Gulf War), the debt accumulation of the 1980s, ongoing concern from the savings and loan crisis, and growing consumer pessimism combined with the weakened economy to produce a brief recession. This recession contributed to the defeat of President George H.W. Bush and the election of President Bill Clinton.

4. The Recession of 1981-1982

What happened? The Iranian Revolution sharply increased the price of oil around the world, causing the 1979 energy crisis. The new regime in power in Iran, which exported oil at inconsistent intervals and at a lower volume, forced prices up. Tight monetary policy in the U.S. was adopted to control inflation. The Fed feared a possible spiraling of inflation that was carried over from the 1970s and adopted policies that fell to sharply higher interest rates.

In 1982, business bankruptcies rose 50 percent over the previous year. Farmers were especially hard hit, as agricultural exports declined, crop prices fell, and interest rates rose. Although this slowdown in economic activity hurt the nation it also finally ended the long battle with inflation the country had been fighting since the 1970s.

ACTIVITY 1, CONTINUED

RECESSIONS IN U.S. HISTORY

5. The Recession of 1973-1975

What happened? During this period, there was economic stagnation in much of the Western world, putting an end to the general post-World War II economic boom. It differed from many previous recessions—it was characterized by a stagnant economy (causing high unemployment) and coincided with high inflation. The phenomenon was labeled stagflation.

Among the causes were the Vietnam War and the 1973 oil crisis. The 1973 oil crisis began when members of Organization of Petroleum Exporting Countries (OPEC) proclaimed an oil embargo. This caused the 1973 “oil price shock,” which severely slowed the production of goods and services in the U.S.

According to the National Bureau of Economic Research, the recession in the United States lasted from November 1973 to March 1975. Although the economy expanded in the years following, inflation remained extremely high for the rest of the decade.

During this recession, the real GDP of the U.S. fell 3.2 percent. Although the recession ended in March 1975, the unemployment rate remained high for several months. In May 1975, the rate reached its peak for the cycle at 9 percent.

6. The Great Depression (1929-1938)

What happened? The Great Depression of 1929-1938 began with falling demand for durable and investment goods followed by a slowdown in business activity. A stock market crash occurred in October 1929, reducing the value of many Americans’ assets and their willingness to spend money. Unemployment continued to rise. In March 1933, more than a quarter of the labor force was out of work. The primary cause of this continued decline was more than 9,000 bank failures between 1929 and 1933, which led to a significant reduction in the money supply.

Although the Federal Reserve System had been established in 1913 in part to prevent bank failures, it chose not to act as the lender of last resort during this period. The Federal Reserve also raised interest rates in late 1931, which further discouraged business borrowing and expansion. A combination of President Roosevelt’s New Deal and government spending on World War II eventually led to the end of this dark period in American history.