THE GLOBAL RECESSION

By Aaron McCullough
Do you know...

someone who has lost job recently?
Do you know...

any local stores that have closed down?
Do you know...
someone who had trouble finding a job?
All of these things you may have noticed are potential effects of a recession.
WHAT IS A RECESSION?

Recession: a general slow-down in economic activity over a period of time.

http://www.youtube.com/watch?v=Ms36Ck-1Ewc
**Economic Definition of a Recession**

At least 2 consecutive quarters of negative GDP (Gross Domestic Product) growth

– GDP: a measurement of a country’s economic output
OTHER WAYS TO DEFINE RECESSION

A decline in annual GDP
OTHER WAYS TO DEFINE RECESSION

High unemployment rates
OTHER WAYS TO DEFINE RECESSION

Less trade with other countries

**US Exports**

**US Imports**
All of these things can be used to define a recession, but *how did it start?*
CRASH OF FINANCIAL SYSTEM

• Cheap credit: buying with borrowed $$
• Housing “Price Bubble” fueled by speculative buying
• Sub-prime mortgage lending
• Failure to uphold safe lending practices
• Housing prices plummet—impact spread throughout financial system and the world
THE CRISIS OF CREDIT

• Financial Companies held the “toxic” mortgages, lost $$

http://crisisofcredit.com/
FEAR AND PANIC

- $17 trillion in wealth “evaporated”
  - financial companies bankrupt
  - US stock market crash
  - value of US homes plummets
- Banks cut lending
- Businesses cut costs and stop expanding
- Households (consumers) stop spending
- a “ripple effect”
What we now know as the “Great Recession”

- low economic production
- high levels of unemployment
- negative GDP growth
- less foreign trade
The Sovereign Debt Crisis in Europe (P.I.I.G.S)
What is the Sovereign Debt Crisis?

Gov’t spending > Gov’t Revenue

*Sovereign Debt:* National (Government) Debt
*PIIGS:* Portugal, Ireland, Italy, Greece, Spain
*Bailout:* loan made to a country/firm to prevent bankruptcy

Causes
– Unique for each nation
– Effects of financial crisis
– Aftereffects of recession
– Bursting of real estate bubbles worldwide
Greece

• Greece “hid” the actual amount of borrowing
  • Greece financed spending with debt
  • decrease in revenue from tourism and shipping—the country’s two largest industries

• Eurozone and IMF bailed Greece out
  • Interest rates for Eurozone loans are high (for a bailout loan) at 5%

• Austerity Measures:
  • 10% rise in luxury taxes and taxes on alcohol, cigarettes, and fuel
  • Average retirement age increased from 61 to 65
  • High tax on pensions
  • Big taxes imposed on company profits

• May 5, 2010 – STRIKE!!!
Austerity Measures incite Social Unrest and Riots
Asia

• Many Asian countries rely on exports
  • Biggest investors include U.K., Japan, and Europe, all of which were hit hard by financial crisis

  • Demand for exports plunged

  – Job losses in India mainly from export-oriented industries, e.g. textiles

  – Yet, employment levels in domestic market nearly unaffected
Asia

• But...
  – India had little exposure to subprime lending
  – China invested a lot of money in U.S. securities, but those were not subprime
Contagion: the recession spread worldwide through interconnected economies.
Post-Recession: Changes

• Increased regulation of Wall Street
  - Wall Street Reform Bill passed in 2010.
  - Dodd Frank Reform Act 2010
  “our financial system is, in many respects, still unchanged from what existed on the eve of the crisis.”
  - Financial Crisis Inquiry Commission, 2011

• Three Stimulus plans (totaling over $1 Trillion)
  - Government injects money into the economy
    http://www.youtube.com/watch?v=n-MGWcJ6PNg
Post-Recession: Collective Action

• Everyone suffers in a recession
  – Some more than others

• Occupy Movement
  – “We are the 99%”
  – Worldwide protest
The Occupy Movement

#occupywallstreet

#occupynigeria

#occupylondon
Growing Income Inequality

AVERAGE HOUSEHOLD INCOME
before taxes

$2M
$1.5M
$1M
$0.5M

‘79 ‘83 ‘87 ‘91 ‘95 ‘99 ‘03 ‘07

2007 dollars. Source: Congressional Budget Office

Mother Jones
The Current Situation

The country is rebuilding and recovering. 

Obama: “it’s about jobs.”

- Discouraging outsourcing
- Promoting Made in America
- Jobs through government projects 
  e.g. infrastructure projects
Sources

- http://www.rferl.org/content/Ukraine_Impact_Global_Crisis/1330330.html