Crisis response in the United-States

The United States are the place from where the financial crisis originated as of mid 2008, which has turned into a global economic crisis. The crisis became first visible in the stock markets and the financial sector, but it has taken hold of the real economy too. In the U.S. the real economy is in recession until today. Major banks and enterprises have only survived through state support and guarantees. Unemployment has skyrocketed.

An unseen effort was undertaken by the U.S. administration to curtail the impact of the crisis and shorten the recession. The $ 787 billion fiscal stimulus package includes vast investments in infrastructure, social security and health care and aims at the creation of millions of jobs.

Impact of the crisis

For the depth of the crisis in the U.S., good indicators are the stock markets, which suffered enormous losses from the bursting bubble of the sub prime credits and the economy is still in recession. In the U.S. the financial sector is an essential part of the country's economic power, the stock indices are therefore considered as a reliable source of information for the whole economy.

Stock markets hit rock bottom

On May 30, 2007, the S&P 500, an index including the 500 biggest U.S. enterprises, closed at 1,530.23 to set its first all-time closing high in more than seven years. One and a half a years later, on November 20, 2008, the index closed at 752.44, its lowest close since early 1997, it had lost half of its value. This year-to-date loss was the greatest since 1931, when the broad market declined more than 50%. 2009 saw a return to a declining market with 12 year lows being made during March. The index closed at 676.53 on March 09, 2009.

Poor stock performance reflects the sluggish U.S. economy and other examples, unfortunately, confirm this trend which is affecting investment and access to credit. For example, venture investments, an important source of financing for small businesses in the area of new technologies, totalled only $ 3.0 billion dollars invested in 549 transactions for the first quarter of 2009. Business investment was down 47 percent in dollars and 37 percent in number of transactions compared to fourth quarter 2008, while 5.7 billion dollars were invested in 866 transactions. The quarter, which saw double digit declines in every major industry sector, marks the lowest venture investment level since 1997.¹

Unemployment skyrocketed

In employment, the impact of the crisis is of course negative. Figure 1 gives a look at the evolution of unemployment rate, which was for many years

maintained a relatively low level, reached 8.5% in March (the highest rate in 25 years):

Figure 1. Unemployment^2

Among the unemployed, the number of job losers and persons who completed temporary jobs increased by 547,000 to 8.2 million in March. This group has nearly doubled in size over the past 12 months.^3

Growth prospects are poor

This trend towards a slowdown in the U.S. economy is also confirmed in the predictions of U.S. gross domestic product in the years to come. The IMF predicted a decline of the GDP in 2009 of -2.751 percent and -0.049 percent in 2010. In 2111, according to IMF predictions, the economy should return to positive GDP 3.530 percent.^4

Crisis induced challenges to social security systems

The original Social Security Act and the current version of the Act, as amended encompass several social welfare and social insurance programs. The larger and better known programs are:

- Federal Old-Age, Survivors, and Disability Insurance (OASDI)
- Unemployment benefits
- Temporary Assistance for Needy Families
- Health Insurance for Aged and Disabled (Medicare)
- Grants to States for Medical Assistance Programs (Medicaid)
- State Children’s Health Insurance Program (SCHIP)
- Supplemental Security Income (SSI)

U. S. Social Security is a social insurance program funded through dedicated payroll taxes called Federal Insurance Contributions Act (FICA). Today, about

^4 IMF, World Economic Outlook Database, April 2009.
163 million people work in jobs covered by Social Security. The FICA taxes workers paid in 2006 represented $626 billion in Social Security revenue. Taxes are deposited in a fund to the extent that such taxes are not needed immediately to pay expenses\(^5\). The Social Security trust funds are invested in interest-bearing U.S. securities (certificates of indebtedness and special-issue bonds). Although Figure 2 shows that the income of social security always outweigh the outgo, the growing number of unemployed will certainly affect its financing in these times of economic slowdown.

Figure 2. Social Security Income, Outgo\(^6\)

Social security operations in the first quarter 2009 show $185.3 billions in income, $167.2 billions in outgo for an $18.1 billions surplus.

Figure 3. Who receives Social Security Benefits?

\(^6\) Based on the social security trust fund data, [http://www.ssa.gov/OACT/STATS/table4a3.html](http://www.ssa.gov/OACT/STATS/table4a3.html)
According to the social security data about 162 million people will work in OASDI-covered employment in 2009 and almost 50 millions of Americans get retirement benefit from the Social Security (see figure 3, retired workers represent the biggest part of the beneficiaries of benefits distributed by the social security).

**Losses in pension funds**

One of the others challenges posed by the crisis is the loss in pension plan assets. Because of their financing pattern, defined contribution pension plans are more affected by a financial crisis; even tough defined benefit plans may suffer of growing unemployment in economic downturn (for more information see the section on pensions and the crisis. Table below shows that the majority of American workers contributing to a pension plan are members of Defined Contributions plans. A look at defined contribution plans assets losses would permit to analyse more on the question, but the importance of workers contributing to these type of plans suggest that many workers will feel the negative impact of the crisis when retiring.

Table 1. Pension coverage of workers on current job, by type of plan 1992, 2004 & 2007

<table>
<thead>
<tr>
<th>Type of Pension</th>
<th>1992</th>
<th>2004</th>
<th>2007</th>
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<tr>
<td>Defined contribution only</td>
<td>19%</td>
<td>29%</td>
<td>30%</td>
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<tr>
<td>Defined benefit only</td>
<td>21%</td>
<td>9%</td>
<td>8%</td>
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<tr>
<td>Both</td>
<td>8%</td>
<td>8%</td>
<td>9%</td>
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<tr>
<td>None</td>
<td>53%</td>
<td>54%</td>
<td>53%</td>
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**Responses in general to the crisis**

The response to the financial crisis was articulated in February 2009 by The American Recovery and Reinvestment Act of 2009 (Pub.L. 111-5), which establishes an economic stimulus package. The Act of Congress was based largely on proposals made by President Obama and is intended to provide a stimulus to the U.S. economy in the wake of the economic downturn. The measures are nominally worth $787 billion or 5.6 percent of 2009 GDP and are invested in the following sectors:

Figure 2. ARRA investment by sectors

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8 ARRA investments, “recovery.gov” website.
The source of funding of the stimulus package is not clear. Although the Obama administration has advocated greater transparency in investment and allocation of funds, this question remains unclear. It is suggested that the plan is financed by an increase of the public debt of the U.S. government.

**Net Effects of the ARRA on Output and Employment**

Taking all of the short- and long-run effects into account, Congressional Budget Office (CBO) estimates that the legislation implies an increase in GDP relative to the agency’s baseline forecast of between 1.4 percent and 3.8 percent by the fourth quarter of 2009, between 1.1 percent and 3.3 percent by the fourth quarter of 2010, between 0.4 percent and 1.3 percent by the fourth quarter of 2011, and declining amounts in later years (see Table 1). Beyond 2014, the legislation is estimated to reduce GDP by between zero and 0.2 percent.

The estimated effects on employment would correspondingly be the following: 0.8 million to 2.3 million jobs could additionally be created by the fourth quarter of 2009, by 1.2 million to 3.6 million by the fourth quarter of 2010 and by 0.6 million to 1.9 million by the fourth quarter of 2011. The effect on employment is never estimated to be negative, despite lower GDP in later years, because CBO expects that the U.S. labor market will be at nearly full employment in the long run. The reduction in GDP is therefore estimated to be reflected in lower wages, rather than lower employment. Table 2-3 gives the projection numbers estimated by the CBO.

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Table 2-3.

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<tbody>
<tr>
<td><strong>Real GDP (Percentage change from baseline)</strong></td>
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<tr>
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<td>1.4</td>
<td>1.1</td>
<td>0.4</td>
<td>0.1</td>
<td>0.0</td>
<td>-0.1</td>
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<tr>
<td>High estimate of effect</td>
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<td>0.5</td>
<td>0.3</td>
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<td><strong>GDP Gap (Percent)</strong></td>
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<tr>
<td>Baseline</td>
<td>-7.4</td>
<td>-6.3</td>
<td>-4.1</td>
<td>-2.2</td>
<td>-1.7</td>
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<tr>
<td>Low estimate of effect</td>
<td>-6.1</td>
<td>-5.3</td>
<td>-3.7</td>
<td>-2.0</td>
<td>-0.6</td>
<td>-0.1</td>
<td>0.0</td>
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<tr>
<td>High estimate of effect</td>
<td>-5.9</td>
<td>-5.2</td>
<td>-2.9</td>
<td>-1.7</td>
<td>-0.1</td>
<td>0.1</td>
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<tr>
<td><strong>Unemployment Rate (Percent)</strong></td>
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<tr>
<td>Baseline</td>
<td>9.0</td>
<td>8.7</td>
<td>7.5</td>
<td>6.4</td>
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<tr>
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<td>7.6</td>
<td>6.6</td>
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<td>5.3</td>
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<tr>
<td><strong>Employment (Millions of jobs)</strong></td>
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<tr>
<td>Baseline</td>
<td>141.6</td>
<td>143.3</td>
<td>146.2</td>
<td>149.3</td>
<td>152.1</td>
<td>153.9</td>
<td>154.9</td>
<td>155.7</td>
<td>156.4</td>
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<td>157.7</td>
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<tr>
<td>Low estimate of effect</td>
<td>142.4</td>
<td>144.5</td>
<td>146.8</td>
<td>149.6</td>
<td>152.2</td>
<td>153.9</td>
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<td>155.7</td>
<td>155.4</td>
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<td>157.7</td>
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<tr>
<td>High estimate of effect</td>
<td>143.9</td>
<td>146.9</td>
<td>149.0</td>
<td>151.0</td>
<td>153.4</td>
<td>154.1</td>
<td>155.0</td>
<td>155.7</td>
<td>156.4</td>
<td>157.0</td>
<td>157.7</td>
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</tbody>
</table>

Source: Congressional Budget Office.

* Real GDP is gross domestic product, excluding the effects of inflation. The GDP gap is the percent age difference between gross domestic product and CBO’s estimate of potential GDP. Potential GDP is the estimated level of output that corresponds to a high level of use of labor and capital resources. A negative gap indicates a high unemployment rate and low utilization rates for plant and equipment.

Social security responses

The American Recovery and Reinvestment Act (ARRA) allows a lot of funds to existing social security schemes. Rather than the introduction of new benefits, we see an extension of existing schemes under the impulsion of the ARRA. For most of the existing programs the financing has been considerably increased. Still, it is difficult to evaluate the percentage of the package attributed only to social protection.

In the field of social security central measures are aid to low-income workers, the unemployed and retirees, which total $82.5 billion (including job training). Firstly, unemployment benefits have been extended considerably. They have been extended a) in the maximum duration of benefit payment, which is now 33 weeks, and b) increased the benefit level by $25 a week. These extensions will be valid through Dec. 31 2009 and will cost $40 billion. Other major expenditure foreseen includes $19.9 billion for the Food Stamp Program, and $14.2 billion for one-time payments of $250 to Social Security recipients, people on Supplemental Security Income, and veterans receiving disability and pensions. The smaller investments in this field include $3.95 billion for job training, $3 billion for temporary welfare payments and $400 million for employment services. The ARRA also aims at direct job creation, e.g. by subsidizing community service jobs for older Americans with $120 million.
Health in focus

One of the main focuses of the stimulus package – and of the new administration in general – is the health sector, which will receive $147.7 billion. Of the whole stimulus package, more than 11% or $86.6 billion are allocated to support the federal states in the financing of Medicaid, the state financed health care scheme that primarily supports poorer households, children, elderly and people with disabilities. The support is to be stretched over 2009 and 2010.

Another major measure in the field of health care is the extended health coverage for people who have lost their jobs. They are eligible for subsidized health insurance under the COBRA programme, which is supported with $24.7 billion. Investments are also foreseen measures such as health information technology ($19 billion), health research and construction of National Institutes of Health facilities ($10 billion), medical care for members of military service and their families ($1.3 billion), for prevention and wellness ($1 billion) and for Community Health Centers ($2 billion). $0.5 billion are devoted to train healthcare personnel and same amount goes to healthcare services on Indian reservations.

Education

Another major field of investments through the ARRA is education, which will receive $90.9 billion, among which the single biggest post with $13 billion is destined for low-income public school children. Other spending includes $2 billion for childcare services, $300 million for increased teacher salaries and $70 million for the education of homeless children.

Tax relief for individuals

Although, tax relieves – as education – is not strictly speaking social security in the narrow sense, such might nevertheless ease the economic pressure on individuals and thereby contribute help to sustain their income levels. Measures taken in this field are worth $237 billion. Such are the expansion of child tax credit: A $1,000 credit goes to more families (also for those that do not make enough money to pay income taxes); the costs foreseen are $15 billion. Other tax relief include college credits and tuition fees, homebuyer credits, and the exemption of maximum $2,400 of unemployment compensation from income tax.

Job creation through infrastructure investments

Another focus of the ARRA is the investment in infrastructure development, which should also generate jobs and thereby impact on employment levels. The modernization of roads and bridges (costs $27.5 billion) should create 750,000. Another 200,000 jobs should be created through and $8.4 billion investment in improved public transports and rail. 300,000 more shall find work in the infrastructure projects related to clean water, flood control and environmental restoration.
Conclusions

After a brief overview of the situation in the United-States, we can see that the ARRA gives a lot of financing to the healthcare sector. This is not a surprise as it was one of the president’s proposals during his presidential campaign to extend the accessibility to low cost healthcare services for the American population.

One other important part of the ARRA regarding social protection is education and training. The act put a lot of emphasis on training for the unemployed and old-age. This may be a good response to the high unemployment rate in the medium-term (BCO predict a return to a 5.5 percent unemployment rate in 2013)

The extension of unemployment benefit is limited until the end of 2009, and the question remains, whether this will be sufficient. If the economy does not pick up soon, and the jobs created by the government are not sufficient for all the job seekers, many people might be without employment for way more than 33 weeks and well into 2010. Based upon these considerations, the prolongation of the unemployment benefits and the increase by 25$ might have been necessary, but not sufficient measures.

Another critical open question is concerning private pensions. It is not yet clear how big the losses of the private pension funds are, but given that most Americans contributing to a pension plan are affiliated to defined contribution plans, the situation seems critical enough to require a proper response from the administration. On a positive note, the crisis may be the impulsion the president needed to build a broader social protection system for the American people.