

Economic Recessions, Taxes, and Utah: Lessons Learned From the Past *Research Report #648, February 2002*

Lesson Summary

Ten recessions have occurred since 1948, lasting an average of 11.6 months. However, full recovery from recession takes longer, as employment, corporate profits, and other factors remain below their peak. The current recession is taking a toll on Utah jobs and tax revenues.

Related Websites

- U.S. Bureau of Economic Research: www.bea.gov
- U.S. Bureau of Labor Statistics: www.bls.gov
- Utah Tax Commission: www.tax.ex.state.ut.us

Utah Core Curriculum

- **Standard** 6320 – 03
Students will demonstrate why and how ideas, attitudes, events, persons, movements, and documents have influenced humanity.
- **Objective** 6320-0302
Identify and describe selected periods or movements of historical change within and across cultures.

Describe the nature and causes of business cycles, using examples from selected periods of time i.e., inflation/deflation, depression/recession, expansion/contraction.

This lesson plan is provided by Utah Foundation to assist in using the accompanying Research Report in high school or middle school classes. Please feel free to copy the Research Report for your students.

Find overhead masters for this lesson on our website at: www.utahfoundation.org/schools.

Vocabulary

Coincide: Occur at the same time.

CPI: Consumer Price Index—Compares current prices on goods to prices for similar goods in another time period.

Exacerbate: To make a situation more serious.

Fiscal Year: Any yearly period used for financial accounting. Often July to June for government agencies.

GDP: Measure of goods and services produced in the country.

Negligible: So small that it may not be noticed.

Prodigious: Amazing.

Recession: A significant decline in economic production, employment, income and trade.

Regressive Tax: Those with lower incomes pay a higher percentage of their incomes toward the tax.

Social Contract Theory: Citizens give up rights to a government in return for services.

Transfer Payments: Payments to individuals by federal or state governments for income maintenance.

Quick Questions

1. What is the average length of a recession?

Answer: 11.6 months.

2. How long does it take the American economy to fully recover?

Answer: 21.3 months.

3. What is the basic philosophy of the Social Contract Theory?

Answer: Citizens willingly give up some of their rights to a government in exchange for desired services.

4. What three principles should be followed when making tax policy?

Answer: Adequate to provide services, flexible, and stable.

5. How many recessions have there been since World War II?

Answer: Ten, counting the current recession.

6. What is the strongest indicator of whether a country is in a recession?

Answer: Employment dropping.

7. What is the typical effect of a recession on state government?

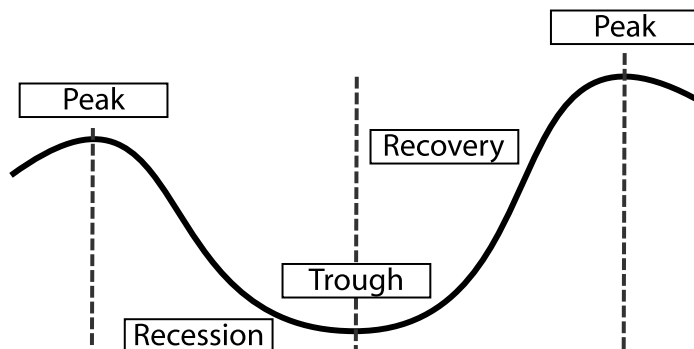
Answer: Falling tax revenues.

8. List and define the 7 indicators used to describe growth and contraction in an economy.

Answers:

- a. Total Non-Farm Employment: A count of the number of jobs by industry during a given time period.
- b. Corporate Profits: The amount of money earned by companies after subtracting expenses.
- c. Personal Consumption: The amount of goods and services purchased by individuals.
- d. Gross Domestic Product: The comprehensive measure of goods and services produced in the United States during a given time period.
- e. Personal Income: The amount of money received by individuals from salary and wages, dividends, interest and rent, and transfer payments.
- f. Fixed Investment: The amount of purchases by both residences and businesses in land, equipment, buildings and other goods that have a long useful life.
- g. Consumer Sentiment: Data regarding consumers' confidence in the economy.

9. Label the points of the economic cycle on this graph:



10. When did the current recession begin?

Answer: March 2001.

Critical Thinking Activities

1. Look at the major characteristics of past recessions chart (see Figure 20 on Page 14). Note that in nearly every recession, in two categories the same patterns occur. Business investment declines and consumer spending decreases, while the general economic conditions vary widely. To lessen the likelihood of a recession business investment needs to remain high and consumer spending needs to remain constant. Why does lower business investment lead to recessions? What can the government do to encourage business investment?

How does this affect consumer sentiment? What else could be done to improve consumer sentiment?

2. Employment in Utah has changed dramatically since 1948. Utah’s employment was quite different from the United States in 1948. By 2001, the two were very similar in the percentages of employment in the various sectors. Look at pie charts in Figure 3 (on Page 5), Figure 11 (on Page 9), and Figure 23 (on Page 15). Write the percentages for each of the following sectors in the table below and consider how each changed.

Sector	United States			Utah		
	1948	1969	2001	1948	1969	2001
Government*						
Services*						
Transportation & Public Utilities*						
Mining						

*Note: In the graphs, these are abbreviated as Gov’t, Srvcs, and TPU.

- a. Why do you think the services segment has grown to be such a large percentage of employment? Name some of the industries and businesses that contributed to the growth. Explain your answer.
 - b. What factors have contributed to the change in transportation and public utilities? What are some companies in your area that fall into this category?
 - c. What are some of the major products that are mined? How will the changes in mining affect your part of the state? What other areas might be affected?
 - d. The percentage shift in government is much larger in the state than in the US as a whole. What are some areas where government employment would likely remain fairly constant? Where would it probably decrease? What increases would you expect to see?
3. Three principles govern tax policies. First, taxes should be adequate to provide services. Second, taxes should be flexible to adjust as needs change. Third, taxes should be stable so that it is easy to predict the amount of money generated by the tax.

Sales tax on food easily fits these criteria. However, it is considered to be a regressive tax since the lower income families pay a higher percentage of their income toward the tax. You are a legislator looking for a solution. What tax can you levy that will generate the same revenue as sales taxes on food but would be fairer to lower-income families?

Quiz Page

Vocabulary

Coincide

GDP

Regressive Tax

CPI

Negligible

Social Contract Theory

Exacerbate

Prodigious

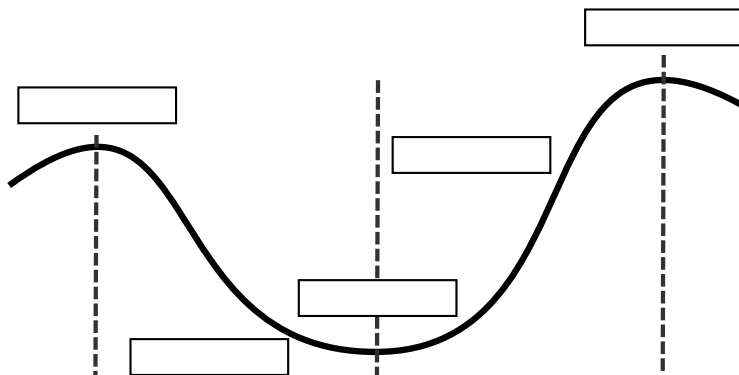
Transfer Payments

Fiscal Year

Recession

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7. What is the typical effect of a recession on state government?
8. List and define the 7 indicators used to describe growth and contraction in an economy.
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