

Bellringer: Automatic Stabilizers

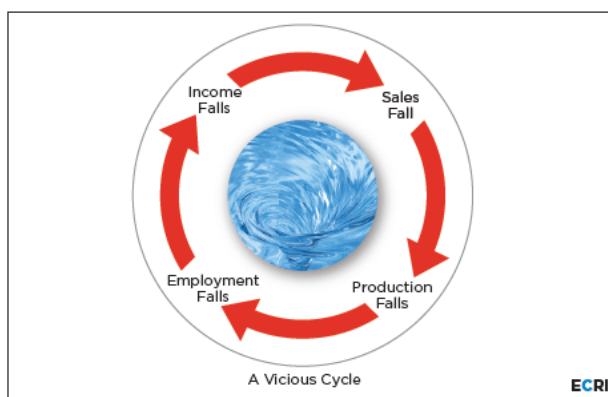
Name: _____ Date: _____

Overview

When the economy collapses workers, consumers and business owners often need an immediate lifeline to keep them afloat. Where will this response come from?

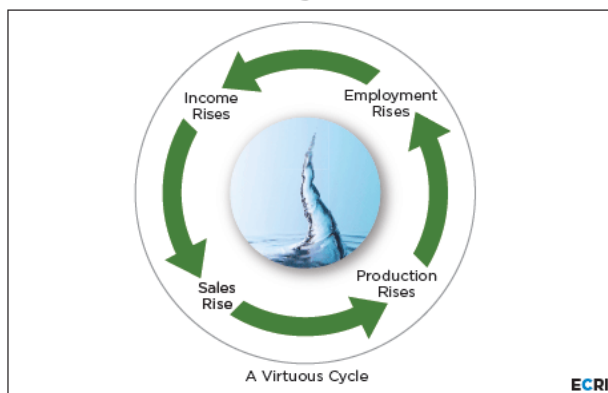
This is the downward spiral an event like a housing crisis or a pandemic can create. Each of these phases feed on each other and people struggle to pay their bills, stay in their homes and keep their businesses open.

What is a Recession?



This is the positive cycle we all want the economy to return to, money flowing and people finding economic stability again.

What is a Recovery?



Where will those struggling in the economy find the temporary help they need to bridge the gap between recession and recovery, and give them the means to sustain economic activity?



Automatic Stabilizers in the Real World

For the last six months, the economy has begun to contract. At first, nothing seemed to change. The parking lots at the Sawgrass Mills Mall were still full. The lines at the 20 screen Movieplex were still long. People were still packing the restaurants at Mizner Plaza on Friday night. Uber and Lyft drivers jockeyed to swift people to their destinations. Little by little, though, over several months, the telltale signs have begun to emerge: an abundance of coupons showing up at the checkout registers of the grocery store; foot traffic at the dollar store has tripled while the other retail stores are now half empty. Restaurants cutting shifts as tables remain empty on weekday nights. In addition, news stories on the radio are including segments touting the joys of a "staycation".

It's a Saturday morning here in town and Hector is the manager of the Seacoast Bank. Right now, he is in his office talking with Charles about a way to refinance his business. Charles the Plumber remodels kitchens and bathrooms for a living, and last year he had the best year he's ever had, completing enough remodeling projects to earn a six-figure income. However, he hasn't received a call in several months, and he's at the bank trying to restructure his business

loan payments in response to an economy that's now clearly in recession. Because his income is lower this year, he'll pay much less in taxes next April.

Ellen is a single mom with two kids who used to work as a sales associate for a retail store, but she's been laid off. Because of how low her income is, she qualifies for welfare. Ellen is at the bank this morning waiting to cash her welfare check from the federal government. Right behind Ellen is Linda. Linda has worked at least twenty years for an assembly line in a factory that produces cars. Auto sales have slumped dramatically, and the local Chrysler plant had no choice but to lay off some workers, and Linda was one of those that got laid off. Linda's at the bank standing in line waiting to cash the unemployment check that she just received from the government.

At the Publix down the street, Walter is doing the family's weekly grocery run. Both he and his wife work in the gig economy. He drives for Uber and she is a free-lance programmer helping businesses set up websites. Their income has tanked as fewer people contract their services and Walter is now inserting his SNAP debit card in the reader at checkout. He is accessing what people used to call food stamps to help pay for the groceries.

What do all of these folks have in common? They're benefiting from what economists call 'automatic stabilizers.' These represent a lifeline that people, hurt in an economic downturn, automatically receive because their income and job loss make them immediately eligible.

Assessment Questions

Directions: Respond to the questions below.

1. The government is putting money in people's pockets during the downturn. What do they hope the people do with this money?

