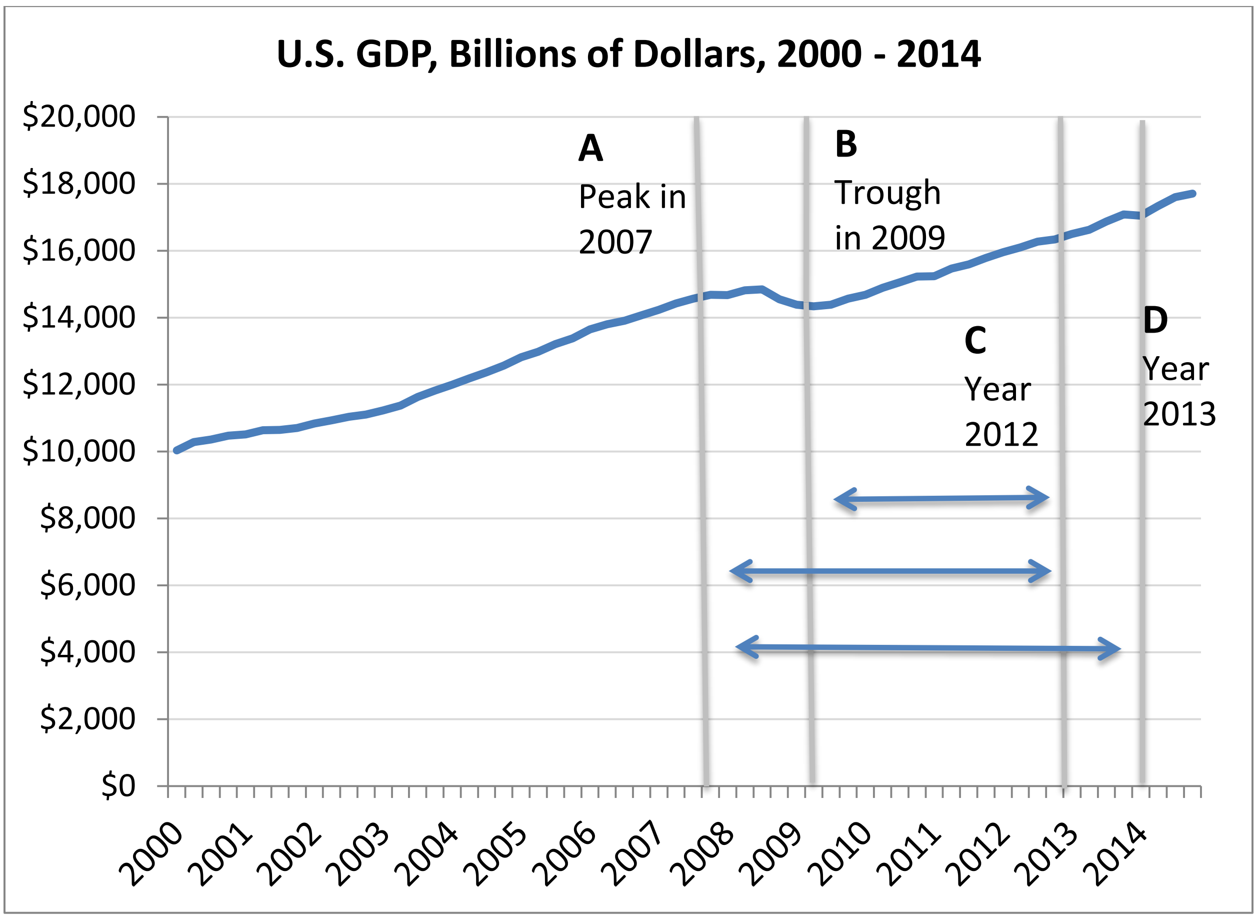
Why the Business Cycle Matters

The Great Recession was the most severe business cycle downturn since the Great Depression. Measuring growth in incomes from the trough of a recession gives a very different result than measuring from peak to peak. The economy has not yet reached a new peak, but measuring growth in incomes from the previous peak to the current situation gives a more meaningful measure of income growth.

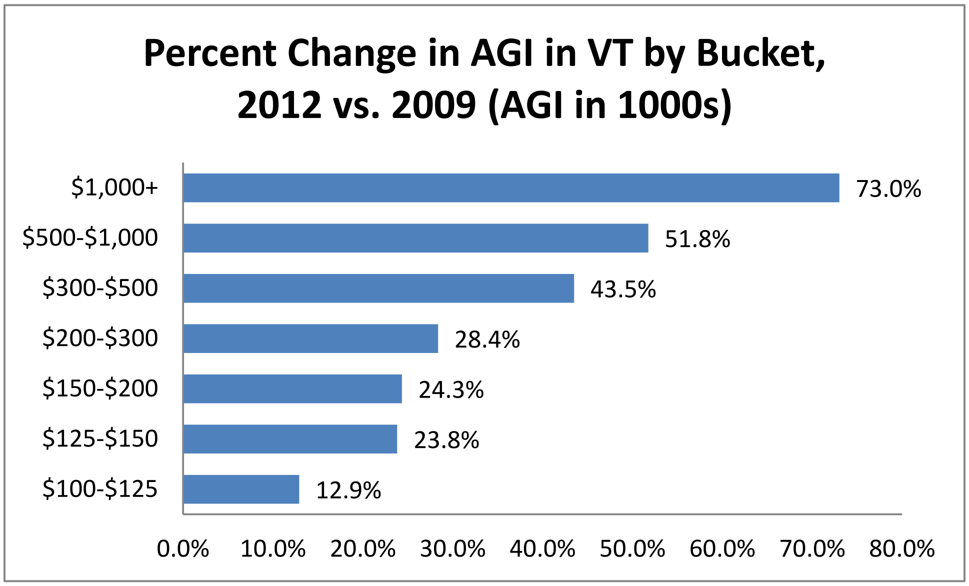
NBER business cycle dating for the U.S. economy

Peak: Dec 2007 --- Trough: June 2009

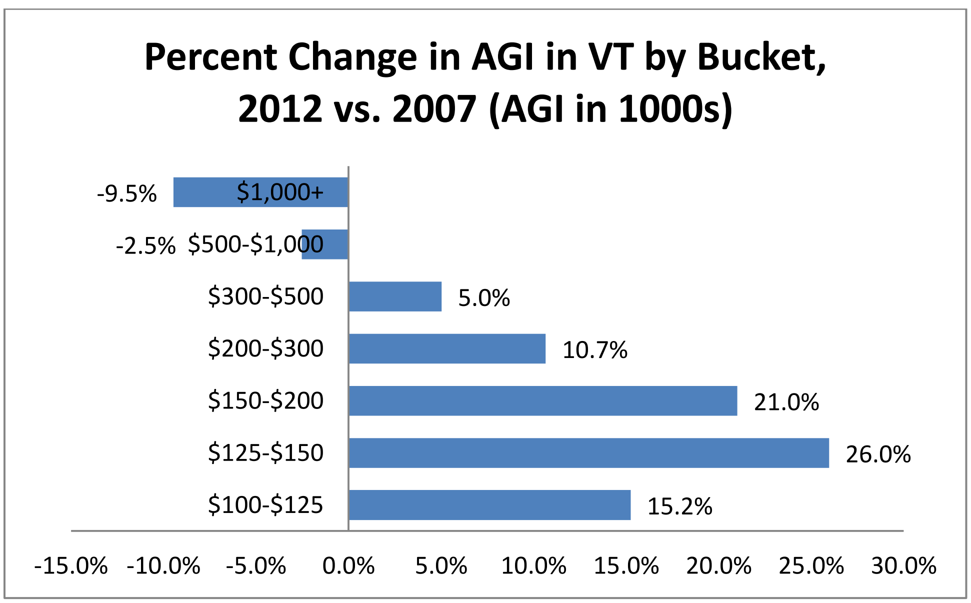


The Growth of AGI in the Top AGI Categories

The chart of AGI growth used on the House floor on March 26, 2015, looked at growth in AGI from 2009—the trough of the business cycle—to 2012. For the higher AGI groups, I replicate it here:



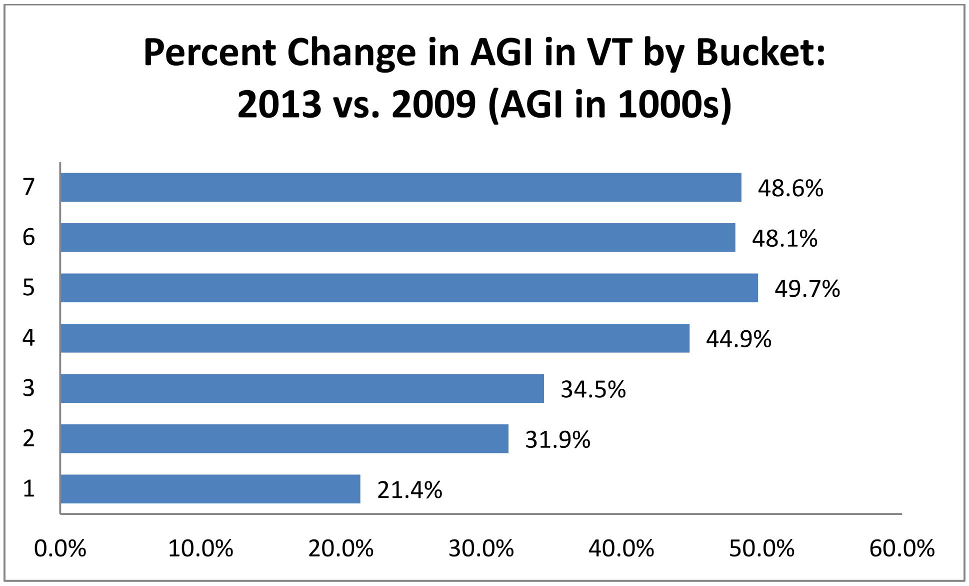
But AGI in the highest categories is highly volatile across the business cycle. It is considered more reasonable to capture a complete business cycle by showing from peak to peak, or from trough to trough (and not from trough to peak). Who knows if we are at a peak yet, but we know we are not at a trough. Here is the picture relative to 2007, the previous peak.



Continued on next page…

To illustrate how volatile incomes at the very top can be, here are similar charts using 2013 data relative to 2009 and relative to 2007.

Relative to the previous trough:



Relative to the previous peak: