Policy Memorandum

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THE JOB ISN'T DONE
More Jobs and Family Supports Needed

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In April, EPI began sounding the alarm that the economy was deteriorating much faster than anyone predicted six months earlier and that stronger measures need to be taken, both to stop the downward slide and also to protect millions of Americans from lasting damage wrought by persistent high unemployment.

The stimulus legislation Congress and the Obama administration passed—the American Recovery and Reinvestment Act (ARRA)—is a well-designed program to stimulate demand and thereby generate jobs and income. The ARRA also smartly lays the foundation for future growth through public investments in energy, health, infrastructure, science, training, and other areas. The ARRA was designed in late 2008 in the hopes of limiting the rise of unemployment to around 8%, instead of the then-predicted increase to somewhere between 9% and 10% without the intervention.

Unfortunately, the economic forecasts at that time (November 2008) understated the growth of unemployment ahead; in fact, they weren't even close. June's unemployment level of 9.5% was not only the highest in 26 years, but it was substantially higher than either President Obama or most of the nation's economists were forecasting last winter.[1] So although the ARRA will successfully create millions of jobs and substantially lower joblessness from what it would have otherwise been, the unemployment rate is destined to exceed 10% and remain high for a sustained period of time. Goldman Sachs, for instance, projects unemployment to be 10.0% by the end of this year and 10.5% at the end of 2010. If so, then unemployment will have risen for a three-and-a-half-year period starting in the spring of 2007. This means there is much pain in the pipeline: eroded incomes, escalated poverty, and damage to our current and future productive capacities.

The economy the Bush administration passed on to President Obama is the worst since the Great Depression. All of the gains in jobs and wages of the Bush years proved so fragile that they have been wiped out by the recession that began 18 months ago.

Just how bad is the economy?

The ARRA is a bold and well-designed program to generate and save jobs, to provide social supports for those in need, and to lay the foundation for future growth. It has started delivering, and by the end of 2010 it will generate roughly 3.5 million jobs and lowered unemployment by up to 2 percentage points. Unfortunately, the ARRA will be insufficient because the economy has seriously deteriorated since the ARRA was designed. That is, the economy the administration inherited was in deep trouble and in even worse shape than was generally realized at the time. For instance, the November

2008 Blue Chip consensus economic forecast (an average of 48 leading forecasters) was for unemployment to rise from 6.0% in the third quarter of 2008 to 6.9% in the first quarter of 2009, a 0.9 percentage-point rise. Yet, unemployment actually grew more than twice as much, by 2.1 percentage points to 8.1% in the first quarter of 2009, and ended the first quarter in March 2009 at 8.5%. Clearly, the job market had seriously weakened even before the ARRA could have been expected to have any impact.

Here is where we are now:

1. ***Unemployment and employment***—In June, unemployment was at 9.5% and 6.5 million jobs had already been lost during the recession. But just to absorb the growth in the working-age population, the economy needed to add 2.3 million jobs in this period, meaning it was actually short 8.8 million jobs. This is the sharpest percentage loss of employment and the greatest increase in unemployment of any downturn since the 1930s, and we have not yet hit bottom. According to an analysis by EPI economist Heidi Shierholz, if we match the employment growth rate of the 1990s recovery, clearly not a worse-case scenario, we will still be millions of jobs short in June 2013. Looking at the rate for specific groups is even more startling: blue-collar unemployment is now 14.7%, and adult male unemployment has already hit 10.0%. College graduate unemployment is relatively low at 4.7%, but it is the highest level on record.

2. ***Underemployment***—It is reasonable to expect unemployment to exceed 10% by the end of the year and to stay high for several years thereafter. When unemployment is 10% in a given month, roughly 18% of the workforce will be either unemployed or underemployed (e.g., working part time, though seeking full-time work) in that month, and over the course of a 12-month period, roughly a third of the workforce will go through a period of being unemployed or underemployed at some point. Minorities are even harder hit: a 10% *national* unemployment rate implies an unemployment rate of 14-17% in Hispanic and African American communities, with roughly 40% of those populations either unemployed or underemployed at some point over the course of 12 months.

3. ***Wages***—Workers with jobs are not escaping the pain of the downturn. High unemployment has hammered wages, which grew on average at only a minimal 1.4% annual rate over the last six months. Because of fewer work hours, weekly earnings actually fell. It is reported that actual nominal wage reductions and unpaid furloughs are occurring in many workplaces, and many employers have stopped contributing to their employees' defined-contribution pension plans. As we go forward, wages for most workers will not likely keep pace with inflation, even with relatively subdued expected inflation.

4. ***Incomes and poverty***—Broad-based declines in family income and increased poverty and economic distress will result from the worsening trends in unemployment, underemployment, retrenched work hours, and eroded wages. For instance, when unemployment hits 10% it will be driving up the child poverty rate from its 18.0% level in 2007 to 27.0%, with the rise of poverty among black children rising from 34.5% to over 50%. It will be several years before incomes return to their 2007 pre-recession level (which itself was a disappointing level, given that the last business cycle from 2000 to 2007 was the first on the record that failed to increase the incomes of working-age households).

What can be done?

The challenges now are to lower unemployment, lessen the downturn's damage on those affected, and generate jobs to ensure a robust recovery. We need to be concerned about the economy that will be rebuilt as we recover, crafting policy that will lead to the shared prosperity that has eluded our nation for nearly all of the last three decades. But the urgent, immediate concern is assisting families over the next several years so that they can sustain themselves through a prolonged period of high unemployment and eroded incomes. Federal policies to augment job creation and support families need not necessarily be compiled in a single “stimulus” or supplemental bill. What is critical is that a variety of actions are taken, rather than expecting that a single piece of legislation can address all of these concerns. Meeting these challenges can be accomplished in several ways:

1. ***Strengthen the social safety net.*** Unfortunately, the social safety net is very weak and is not extended to enough vulnerable and adversely impacted workers and families. To cushion the blow, we must continue to keep (or expand) unemployment insurance’s length of coverage and bolster the percent of wages it replaces with a weekly supplement. Similarly, we should provide increased support to those receiving supplemental nutrition assistance beyond the augmented levels directed in the ARRA. Much of the assistance to low-income workers in our current system is in the form of work-related tax credits or supports, which obviously are not effective in helping people when their work hours are reduced or they are unemployed. It is evident that a longer-term solution is necessary. However, in the short-term, increasing the available social supports will not only cushion the blows of unemployment, but will also be an effective way to generate spending that will boost demand and generate jobs.

2. ***More relief to states.*** As states cut back on programs and employment in order to balance their budgets, they are in effect exacerbating the recession, undermining the stimulative effects of the ARRA, and undercutting future growth while failing to assist vulnerable families. More relief to the states—general assistance—is warranted.

3. ***Targeted employment programs.*** Distressed communities desperately need jobs, and targeted employment programs can help. Unfortunately, years of misguided policies have left federal and state governments without the capacity to provide public service employment to distressed communities. However, that capacity should be rebuilt so that employment can be provided where it is most needed. Even if such employment is not created immediately, it will surely be needed for many years to come since unemployment in distressed communities will remain at recessionary levels even after the national unemployment rate returns to an acceptable level.

Conclusion

Some people fear that further government intervention will cause inflation or damage the long-term health of the economy by increasing the national debt. Some argue that we can just tough it out, while others want to revisit the tried-and-failed policies of tax cuts for high earners and those who receive income from capital gains and dividends. It is surprising to hear claims that the stimulus plan is not working from those whose policies got us into this deep hole in the first place.

The cost of failing to act is substantial. The impoverishment of a quarter of our children would have lasting effects on their lives, our nation’s social cohesion, and future economic progress. We cannot afford to have one-sixth of our population unemployed or underemployed for long periods of time, wasting human capital and productive potential. Moreover, a severely depressed economy can suppress future growth in investment and innovation. The federal government must recognize the changed realities and increase its recovery effort proportionately.

Endnote

1. See *Stimulus Is Working, But May Not Be Enough*, EPI Web feature at http://www.epi.org/analysis_and_opinion/entry/stimulus_is_working_but_may_not_be_enough.