ECONOMIC POLICY INSTITUTE
1333 H STREET, NW • SUITE 300, EAST TOWER • WASHINGTON, DC 20005
PHONE: 202.775.8810 • FAX: 202.775.0819

EPI report outlines tools to fix the jobs crisis now

EPI
www.epi.org

NEWS FROM EPI

FOR IMMEDIATE RELEASE
Wednesday, April 6, 2011

CONTACT
Phoebe Silag or
Karen Conner
202-775-8810
news@epi.org

Policies that boost demand for goods and services—applied with enough force—are the only way to lower unemployment and achieve a full economic recovery in the short term, a new Economic Policy Institute Briefing Paper finds. ***Abandoning what works (and most other things, too): Expansionary fiscal policy is still the best tool for boosting jobs*** by economist Josh Bivens explains that federal policymakers can effectively address the persistent unemployment crisis by stabilizing the economy through expansionary fiscal policy—increasing government spending, investments and transfer payments. However, President Obama and most members of Congress seem ready to give up on this approach.

The Great Recession officially lasted from December 2007 to June 2009, but employment continued to fall during the recovery, until February 2010. All told, the economy lost 7.5 million jobs between the beginning of the recession and February 2011, and an additional 3.8 million jobs should have been created to keep pace with population growth. Thus, for the unemployment rate to drop to its pre-recession rate of 5.0%, more than 11 million jobs must be created.

Key findings of *Abandoning what works (and most other things, too)* are as follows:

- Unemployment remains so high more than a year and a half after the official end of the Great Recession because the shock to private-sector demand for goods and services resulting from the bursting housing bubble was so large.
- A return to pre-recession unemployment rates any time before 2016 is extremely unlikely absent some policy that fills the gap left by retreating private demand and spending.
- The most promising policy lever to fill the gap in demand and lower the unemployment rate over the near-term is expansionary fiscal policy.
- The growing consensus in Congress that spending must be cut in the near-term will significantly delay a full recovery.

Besides walking away from fiscal support, policymakers are also under intense pressure to ramp down other efforts to spur growth. The Federal Reserve, for example, is being pressured by many conservatives to tighten monetary conditions – which would make it harder for firms wanting to expand to gain access to credit. And exchange-rate policy, largely set by the Treasury Department, has yet to be used at all during the crisis to boost growth through exports.

###