EPI TESTIMONY

Testimony Given By

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In a hearing before the
Committee on Financial Services

"Prospects for Employment Growth: Is Additional Stimulus Needed?

Tuesday, February 23, 2010

Rayburn House Office Building

INTRODUCTION

On behalf of the Economic Policy Institute and the Jobs for America Now Coalition, 68 organizations representing tens of millions of Americans, I thank you for the opportunity to testify on the urgent need for a large and effective job creation program.

The United States has already experienced the sharpest rise in unemployment and the longest recession since the Great Depression in the 1930s. This "great recession" is doing great harm to many lives, will impoverish millions, and do great damage to a generation of children, indeed permanently scarring them in ways not easily overcome. It is also doing damage to our long-run growth potential. Consequently, the key priority for economic policy must be to generate millions more jobs this year and start the unemployment rate on a steep downward trajectory. In the absence of additional policy action we can expect the unemployment rate to climb throughout the year, reaching 10.5% or so by the end of the year. For reasons explained below, we can expect the unemployment rate to keep increasing even when the expected positive job growth materializes in the next few months.

The administration's and Congress' early effort to offset the recession was bold and effective and, given the extreme situation, needed to be the largest policy intervention in the economy in several generations. It has undoubtedly slowed the economy's free fall and restored economic growth starting in the summer. However, current projections suggest that unemployment will remain very high and be above 8% at the end of 2011. If so, that means that four years after the recession began we would have unemployment greater than the highest unemployment rate reached in the recessions of the early 1990s and early 2000s. There are strong economic and moral reasons to work to create more jobs so as to avoid this high, persistent unemployment: much more must be done to generate robust job growth, restore incomes, create consumer demand, and generate sustained economic growth.

To paraphrase another economist, Alan Blinder of Princeton, we face unacceptably high unemployment and that means we should not accept this outcome. Congress has the tools to create millions of jobs over the next 12 months. It also has the responsibility. The public is rightly demanding action, and there is no excuse—not the budget deficit, not fears of inflation, not feasibility—for failure to act.

In fact, given the economic realities, only a large scale intervention by the federal government can generate sufficient employment demand and economic activity to sustain healthy job growth and markedly reduce unemployment.

This testimony will discuss:

- The recession—why it happened and how deep it is
- The persistent unemployment ahead
- The damage being done by high unemployment
- What the recovery plan does and how it's working
- Why that isn't enough, why we need to do more, and what can be done: a 5-point plan to create more than 4.6 million jobs
- Reconciling concerns about the fiscal deficit with the need for job creation

STRUCTURAL PROBLEMS—A LONG, SLOW TRAIN WRECK

The United States did not wreck its economy overnight. Developments over the last 30 years and deep structural problems lie at the heart of the current economic crisis. Foremost among those problems is a huge growth in inequality of wealth and incomes, greater than in any other advanced nation, and the greatest inequality of our history. It is this inequality that laid the foundation for the crisis we are in, and addressing this inequality will be essential for establishing a firm foundation for growth.

Unbalanced growth

Since 1989, the bottom 90% of Americans received only about 16% of all the income growth in our economy (Table 1). On the other hand, the top 1% obtained three-and-a-half times as much—56%. Even more astonishing, the upper tenth of the top 1%, representing about 150,000 households, reaped more than a third of all the income growth of the last 20 years. The Internal Revenue Service just released data on the income of the top 400 households. Between 1992 and 2007 (the complete years available) the income of this group grew 408% and because taxation diminished their after-tax incomes grew by 476%. The result was that these 400 households saw their share of total income grow from 0.5% in 1992 to 1.5% in 2007. This massive redistribution of income upwards was no accident—it took concerted political power and policy to accomplish. It was because of this unbalanced growth that the economy's growth heavily depended upon consumption based on the inflated asset values of stocks and housing and from consumer debt.

The feverish growth of the financial sector and its compensation helped drive this unparalleled inequality. By diverting capital from the productive sectors of the economy, pouring money into the kind of derivative trading and securitization that ultimately brought down the economy, economic policy and financial deregulation over the last two decades helped enrich a narrow slice of society to a degree unseen since the Gilded Age. They also generated tremendous risk that resulted in our current economic calamity.

Productivity-pay disconnect

At the heart of this dynamic is the fact that in recent decades the typical worker became much more productive but received hardly any of the benefits of the greater amount of goods and services she produced. Productivity—the ability to produce more per hour worked—grew throughout the last 60 years. But it was only in the early postwar period that the compensation of the typical worker grew in tandem with greater productivity. Since 1973, there been a huge and growing gap between the two (Figure A).

The gap was greatest in the 2002 to 2007 recovery, when productivity surged at historically high rates but the hourly compensation of both high school and college graduates did not grow at all.

It should not be surprising then that this last business cycle, from 2000 to 2007, was the first on record where the typical working family was no better off at the end of the recovery than it was before the recession began.

To summarize, things weren't going well long before the current recession. Moreover, it will be necessary to address these structural inequalities in order to establish a basis for robust, sustained growth coming out of this economic crisis.

THE GREAT RECESSION

Unemployment/Underemployment

The recession officially started in December 2007, but unemployment started rising earlier in the Spring of 2007 and has now more than doubled to 9.7%. The steep rise in unemployment we have seen, up 4.7 percentage points, is even greater than the rise in unemployment in the deep recession of the 1980s (Table 2). Of course, the unemployment rate doesn't capture the folks who are working part-time but want full-time work or those who are not included in the labor force but want a job. Adding them in shows an *underemployment* rate of 16.5%—25.7 million people. In addition, roughly 3.5 million people dropped out of the labor force over the last two years, and they are not counted either as unemployed or discouraged. I will discuss this 'missing labor force' below as I describe the challenges ahead.

We are now short 11.0 million jobs

We've lost 8.4 million jobs so far, a 6.1% drop in total employment and the sharpest drop in employment of any recession since the 1930s. As my colleague Heidi Shierholz has written, "This number, however, understates the size of the gap in the labor market by failing to take into account the fact that simply to keep up with population growth, the labor market should have *added* around 2.6 million jobs since December 2007 (Figure B). This means the labor market is now roughly 11 million jobs below what would restore the pre-recession unemployment rate. In order to fully fill in this 11 million jobs gap in the labor market in three years (by January 2013), employment would have to increase by over 400,000 jobs every month between now and then." [1]

Wage deceleration

High unemployment adversely affects those who have jobs as well, as wages grow more slowly. Furloughs, reduced hours, and losses in benefits are other ways people are impacted. Gallup reports that a third of workers fear their wages will be reduced, and a survey conducted for EPI by Hart Research Associates found that 44% of households have already experienced job loss or cuts in pay or hours. According to the Bureau of Labor Statistics' Employment Cost Index, wage growth in the last 12 months was the weakest since the start of that series in the mid-1970s.

Unemployment—the full picture

So far, I've dealt with "averages" and we all know that there is no "average person" walking around on the streets. Unemployment affects different populations differently. While average unemployment is 9.7%, it is 60% higher for blacks (16.5%), almost a third higher for Hispanics (12.6%), and below average for Asians and whites. Men are experiencing 10.8% unemployment, blue-collar workers have higher unemployment (14.3%) than the national average, and white-collar unemployment is at 6.5%, which may seem low but has never been higher since the 1930s (Figure C). College graduates have half the average unemployment (4.9%), but it is the highest on record (with data going back to the early 1970s).

Our latest measures of underemployment by demographic group are from December 2009, and they show that when overall underemployment was at 17.3% there was underemployment among blacks and Hispanics of 25.0% (Figure D). Those with high school degrees had underemployment of 21.3%.

Long-term unemployment explodes

The statistic that most stands out in the current recession is the high rate of long-term unemployment: 6.3 million people have been jobless for more than six months, 4.1% of the total labor force. This far surpasses the previous peak of 2.6% set in June 1983 (Figure E). The cause of this lengthening unemployment is clear: there are no jobs available. More than six people are looking for work for every job opening (Figure F), a situation twice as challenging as at any time in the last recession.

Needless to say, if Congress had not acted to extend unemployment benefits to a maximum of 99 weeks, millions would have been cut off from their only source of income. More than 2 million workers have already been unemployed for more than a year.

Unfortunately, there are still more job losses and rising unemployment ahead.

THE UNEMPLOYMENT AHEAD

I anticipate that unemployment will keep rising throughout 2010, topping out at 10.5%. Some forecasters expect unemployment to keep rising into 2011. Mark Zandi of Economy.com forecasts the unemployment rate to be 8.6% at the end of 2011 (Figure G). If so, unemployment at the end of 2001, four years after the start of the recession, would remain higher than it had reached in either of the last two recessions and higher than it has been for the 25 years before this recession. It might also be noted that when the first stimulus was passed in early 2008, under President George W. Bush, the fear was that unemployment might go as high as 7.0%, a fear that generated policy action. By any yardstick one can imagine the future path of unemployment is an unacceptable one that that aggressive policy action must alter.

With an unemployment rate rising above 10% and remaining there for most of 2010, we will have an underemployment rate of between 17.0 and 18.0% each month. Since people flow into and out of unemployment we'll have over a third of the workforce unemployed or underemployed at some point during 2010. In the African American and Hispanic communities, about 40% of the workforce will be unemployed or underemployed at some point in 2010.

THE PAIN AHEAD

So, there is a great deal more pain in the pipeline. Families will have fewer family members working, and they will work fewer hours each week at lower hourly wages and with fewer benefits. This will continue for a number of years.

Hardest hit will be children, whose poverty will rise by half, from the 18% level in 2007, to 27%. For black children, poverty will likely rise from the already unacceptable level of a third in 2007 to over half in the year or two ahead.

The recession will cause income declines among families at all income levels, but hit low-income families the hardest. We already know that the median family's income fell by 3.6% in 2008, the largest one year decline since 1967 (See Heidi Shierholz, Income Picture, September 2009, http://www.epi.org/publications/entry/income_picture_20090910/). This decline happened as unemployment rose from 4.6% in 2007 to 5.8% in 2008, a rise of 1.2 percentage points. We also know that the unemployment rate rose three times faster between 2008 and 2009 (up 3.5 percentage points to 9.3%) than in the prior year so it is inescapable that incomes fell sharply in 2009. A very conservative estimate based on historical relationships is that over the four years from 2008 to 2011, the average low-income family will have income averaging 7.2%, or $1,200, less than they earned in 2007 before the recession, a total loss of over $4,600. On average, a middleclass family will see losses of roughly $3,500 a year for those four years with incomes in this period 5.6% below their 2007 levels.

These estimates are for all families, those that do and do not directly experience periods of unemployment. The situation will, of course, be much worse for those families that directly experience unemployment.

THE RECOVERY ACT

Matters would have been far worse if Congress had not passed the American Recovery and Reinvestment Act last year. The Recovery Act has been effective, pumping over $250 billion into the economy and generating about 200,000 jobs each month since April—roughly 2 million jobs overall. The fact that the job situation remains so dismal only reflects how deep a hole the flawed policies that led to this recession had dug. For the most part, those who deny the effectiveness of the recovery package are the very ones who supported the anything-goes, free market policies that pushed us into this huge hole.

The deep hole

The economic downturn is far worse than what economists (myself included) predicted in November 2008. The consensus predicted unemployment would hit 6.9% in the first three months of 2009, but it actually hit 8.1% in the first quarter and reached 8.6% in March—before the ink was even dry on the recovery legislation. By March 2009 there were 5.9 million jobs lost, a 4.3% erosion of the job base and a bigger job erosion than even occurred at any moment in the deep 1980s recession. In terms of GDP, the forecasters were saying in November 2008 that the economy would shrink at a 1.5% rate over the last half of 2008 and the first three months of 2009. Note how wrong they were even though they were in the middle of this nine month period: GDP actually fell three times as fast, at a 4.5% annual rate (Figure H). The loss of $14 trillion in housing and stock market wealth, the credit freeze, and business retrenchment were worse than economic forecasters anticipated.

GDP decline and growth

The economy was headed steeply downward last winter and in early 2009. The Recovery Act interrupted that decline and created actual growth starting last summer. In the second quarter of 2009, the domestic economy's only area of positive growth was government consumption and investment, which increased by 6.7% over the previous quarter. Private consumption and investment both fell in that quarter. Without the Recovery Act, non-defense federal government expenditures would likely have fallen as they did the quarter before, state and local governments would not have been able to expand spending at their highest rate since 2002 (3.9%), and private consumption spending would have fallen even further as it would not have been buoyed by the increased transfer payments and tax cuts the Recovery Act provided. The result would have been a contraction of GDP of 3.7% rather than the actual 0.7% decline. Therefore, the Recovery Act saved between 600,000 and 750,000 jobs in that quarter alone.

In the third quarter the economy expanded by 2.2%. Without the Recovery Act this quarter would surely have seen either stagnation or outright contraction again. Economic growth in the fourth quarter was 5.7%. Overall, it is clear that without the Recovery Act there would not have been any economic growth in the last half of 2009.

It is important that the manner in which the Recovery Act had this impact not be an abstraction. It came about because there were efforts to support household income to allow spending to be greater than it would have been. This is due to the one-time payments to those on Social Security, to higher food stamps, and from the unemployment benefits and COBRA assistance to the unemployed. Second, the fastest and largest impact came from the relief to state governments, which prevented layoffs and boosted employment in both the public and private sectors. Third, there was some government spending on infrastructure that boosted demand. Last, various temporary tax cuts—such as the Making Work Pay tax cut that limited the taxes withheld from paychecks starting in April 2009—helped boost spending as well.

The impact of the Recovery Act is apparent if one just looks at the monthly employment trends over the last year or so (Figure I). In the first three months, before the Act's impact, we were losing over 750,000 jobs each month. The job erosion lessened in the Spring and fell to 35,000 jobs lost each month in the last three months. We are not where we need to be but we are in an improved situation.

MORE NEEDS TO BE DONE

The fundamental problem in the economy today is excess capacity—both too many people unemployed and facilities underutilized. In fact, capacity utilization for total industry stood at 71.3% in November, a rate 9.6 percentage points below its average for the period from 1972 through 2008. The solution is to increase demand. When the housing and stock bubbles collapsed, people lost wealth and income and cut back. Businesses lost customers and pared back. Exports fell as the world economy declined. That vicious cycle is continuing, though at a slower pace, and that's why government has to intervene. Businesses won't invest and start hiring until consumer demand picks up, which won't happen with 27 million people unemployed or underemployed.

Obviously, the overwhelming need is to create jobs—millions of them, as quickly as possible. As long as employers are creating only a single job for every six unemployed workers, consumer sentiment and unemployment will not improve, and the recession will continue.

The jobs challenge

To be effective at bringing down the unemployment rate, job creation policies must not only *focus* on those policies that provide the most bang for the buck, but must also be *big enough* to have a significant impact. Unless Congress approves a job creation plan of sufficient scale, the unemployment rate will be higher in the summer and winter of 2010 than it is today. It should be noted that these projections assume that Congress will extend the unemployment insurance program throughout the year, so making progress on unemployment will take significant *additional* policy action.

What will it take to keep the unemployment rate from rising through next fall? Moody's Economy.com forecasts 10.5% unemployment in the last half of 2010, which implies that roughly a million more people will be unemployed by the end of the year. This projection assumes that legislation already passed—including Recovery Act provisions and the homebuyers' credit—will have a positive impact and assumes there will be a renewal of the unemployment insurance/COBRA package, which also helps create jobs (about 900,000 according to our estimates) and reduce unemployment. The projection shows 800,000 more jobs in the last quarter of 2010 relative to the last quarter of 2009, a growth of about 67,000 jobs each month.

There are two special challenges at this moment in time that may make lowering unemployment even more difficult than these projections imply: fast growing productivity and the "missing labor force."

Consider the “missing labor force” first. As mentioned above, the labor force has actually shrunk over this recession rather than grow proportionate to the increase in the working-age population. What this means is that there is a large group of people not currently counted as unemployed—the missing labor force—who reasonably can be expected to start looking for work when job growth resumes. For instance, the labor force has contracted by 700,000 since December 2007 instead of growing by the 2.6 million that could have been expected (with 0.9% annual growth). That means the labor force is missing over 3.3 million workers, over 2% of the labor force. Since May 2009 the labor force has declined by an astonishing 1.8 million. When these workers restart their job searches (as job growth returns), they will either drive the unemployment rate up or make it more difficult to obtain reductions in the unemployment rate.

The second challenge is the recent spike in productivity growth. This means that employers are able to produce more goods and services with the same number of employees. Consequently, it will take faster growth in overall demand and economic activity in order to generate job growth. This spike in (non-farm business) productivity is very large, growing 7.2% and 6.2%, respectively, in the most recent two quarters. Productivity has grown 5.1% over the last year. Some have interpreted this spike as employers retrenching more than necessary, implying that we’ll get strong employment growth as overall growth continues (employers will have to hire rapidly to increase production because they have cut to the bone already). I do not think that interpretation is correct. I have been impressed by the recent research of Robert Gordon of Northwestern University, which shows that this productivity spike is the continuation and deepening of a trend observed in the last two recessions. In this light, the productivity growth is not a fluke but expected behavior that will make it extremely difficult to generate a substantial number of jobs in the recovery. Gordon’s research helps explain why we have had two successive “jobless” recoveries and why we should expect a repeat performance in this recovery.

So, how many jobs must we create in order to see unemployment fall rather than continuing its upward trajectory? To see 9.5% unemployment at the end of the year rather than the projected 10.5% we would need at least 1.5 million more jobs than we expect to see. There will be roughly 1 million jobs generated (lowering unemployment by roughly 0.67%) for each $100 billion of additional (beyond unemployment insurance/COBRA) spending targeted at job creation, say through state and local government assistance or infrastructure spending. That means that we would need at least $150 billion package beyond UI and COBRA.

I fear, however, that productivity growth will be faster than expected and that some of the missing labor force will reenter the labor market. The result would be that these factors could totally absorb the full impact of a jobs initiative (beyond unemployment insurance/COBRA) at the $150 billion scale. For instance, it easy to imagine that 1 million of the more than 3.3 million workers in the “missing labor force” restart their job searches. It is not hard to imagine productivity (of the non-farm business sector) exceeds the roughly 2.3% growth assumed by forecasters generally. If productivity growth were just 1% faster than expected then employment would be correspondingly 1%, or roughly 1.2 to 1.4 million, smaller than expected. My suggestion would be to shoot for an initiative that would generate 4.0 million jobs, which is large enough to ensure that we’d see a marked decline in unemployment over the next year. The risk is doing something too small because people’s confidence in the economy and in our institutions will suffer if we continue to muddle along with high unemployment. We also should be mindful of avoiding any second contraction. Moreover, there’s no risk of creating too many jobs since under any circumstance we will have painfully high unemployment for several more years to come. It will require about $200-250 billion of additional spending, *above and beyond full-year UI/COBRA renewal*, to assure that unemployment would peak by the end of 2010 and start falling thereafter.

We should also consider the longer-term context. To return, within two years, to even the December 2007 pre-recession 4.9% unemployment rate, we'd need to create roughly 550,000 jobs every month for the next 24 months. This would require obtaining GDP growth of roughly 7%, significantly higher than the expected 3% growth over the next two years. To put this in perspective, the nation hasn't experienced a rate of job growth this rapid and sustained since 1950-51, two of the best years on record for job creation in the United States. GDP growth in those two years averaged 8.2%.

Clearly, any job creation proposals must be laser-focused on creating the maximum possible number of jobs for every dollar spent. But they must also be part of a job creation package that is big enough to have a major impact and return the economy to where we can rely on private-sector growth (Table 3).

Serious, large-scale job creation will require a five-part approach

First, Congress must strengthen the safety net and provide relief for those directly impacted by the recession. There is a direct boost to GDP (and therefore to employment) from unemployment compensation, COBRA continuation, and food stamps. As a new CBO report, "Policies for Increasing Economic Growth and Employment in 2010 and 2011" makes clear, paying unemployment compensation is among the most effective ways to boost demand and create jobs. All of the Recovery Act provisions to improve and extend benefits to the unemployed (including a total of 99 weeks of unemployment compensation) should be renewed for another year. We predict that a full-year renewal will create about 900,000 jobs, while CBO estimates that about 700,000 jobs would be created, on the assumption that each billion dollars of aid to the unemployed creates 7,000 jobs.

Action to renew these programs is urgently needed, since under current law they expire on February 28. If the program expires, millions of the unemployed will lose benefits, since almost 40% have been unemployed for more than the normal 26-week period of benefit payments.

Second, Congress should provide more fiscal relief to the states. All of us were taught that, "A penny saved is a penny earned." Helping state and local governments avoid job cuts is as effective as creating new jobs. Nothing is more clearly an obstacle to recovery than another round of public employee job losses and cutbacks in state spending on goods and services contracted out to the private sector. As Paul Krugman puts it so well, we cannot afford to have the states become 50 little Herbert Hoovers, cutting back spending and raising taxes as the economy struggles to recover. State budget cuts cause direct job loss in the private sector, but also damage the private sector. We estimate that half the jobs lost through fiscal retrenchment would be private-sector jobs that either directly provide services to citizens (think highways and health care), inputs to state services, or are supported by the spending (restaurants, supermarkets, etc.) done by those who deliver services. These actions would also, of course, badly erode needed public services. This damage can and must be avoided. With budget gaps expected to exceed $450 billion in 2010 and 2011, the state and local governments need federal revenue sharing as never before. EPI researcher Ethan Pollack estimates that if Congress does not intervene, and state and local governments close their budget gaps by cutting spending, GDP growth will be reduced by about 4.5% over the next two years, at a cost of more than 3 million jobs. We can expect to see state and local government efforts to close their fiscal imbalances lead to large scale layoffs and cutbacks this spring and an even larger retrenchment this summer and early fall.

We recommend that Congress provide $150 billion to state and local governments, an investment that, we estimate, would save or create 1.0-1.4 million jobs. CBO's job creation estimates are lower but still large, assuming that each billion dollars of fiscal relief to the states will create 3,000 to 7,000 jobs over the next two years, for a total of 450,000 to 1.05 million jobs.

Third, we recommend that the federal government fund the direct creation of public-service jobs—putting unemployed people to work doing jobs that will benefit their communities. Twice in the past during times of high unemployment, the United States successfully turned to large-scale programs of direct job creation. We can build on those successes to increase employment and household income in the communities most severely affected by the economic downturn. In doing so, we can reduce the need for unemployment compensation and health coverage for the unemployed while improving health, housing, education, job readiness, transportation, and public infrastructure.

With a goal of putting a million people back to work, the program should be funded at $40 billion per year for three years, with funding allocated to local governments and states using a modified Community Development Block Grant (CDBG) formula.

The U.S. Department of Labor should allocate funds and oversee the program at the federal level. Projects would be selected for funding by the highest local elected official based on the ability of the project to provide immediate employment to community residents, its benefit to the community, and the management capacity of the applicant.

Local governments would design public-sector programs or select projects proposed by non-profit organizations and public-private partnerships that can quickly employ residents of the targeted communities while delivering a needed service.

During the first six to nine months, the program could fund fast-track jobs. Projects would be limited to a discrete list of activities, in order to allow for quick implementation and large scale employment. This "fast-track" authority should be carefully defined to prevent abuses and limited to four areas that reflect national priorities and demonstrate a high potential impact for aggregate job creation: neighborhood/community improvement; child health and development; access to public services; and public safety.

Fast-track jobs could include, for example:

- Painting and repairing schools, community centers, and libraries;
- Clean up of abandoned and vacant properties to alleviate blight in distressed and foreclosure-affected neighborhoods;
- Staffing emergency food programs to reduce hunger and promote family stability;
- Work in Head Start, child care, and other early childhood education programs to promote school readiness and early literacy; and
- Renovation and maintenance of parks, playgrounds, and other public spaces.
- After 9 months, the program would move into the full implementation phase, and projects would be identified based on a planning process that would involve community input. Priority for funding under the longer term phase would be given to employment projects that:
    - integrate education and job skills training, including basic skills instruction and secondary education services,

- coordinate to the maximum extent feasible with pre-apprenticeship and apprenticeship programs, and
- provide jobs in sectors where job growth is most likely and in which career ladders exist to maximize opportunities for long term, sustainable employment.

Jobs would be made available broadly to the unemployed, but local governments would be permitted to target the program to those most in need, such as those unemployed for more than six months or people residing in a high-poverty community.

It is critically important that the jobs created be new jobs that add to total employment, and not substitutes for jobs currently held by public employees. Experience shows that local governments will be tempted to replace employees paid by local taxpayers with employees paid with federal funds. To prevent this, there must be strict rules against substitution and strong enforcement along with the state and local fiscal relief also proposed as part of this plan.

To ensure the maximum job creation, 80% of funding for each project must be spent on wages, benefits, and support services (such as child care) for individuals employed. To ensure that the jobs do not undermine local labor standards, the projects must pay prevailing wages and benefits.

During the Great Depression in the 1930s, public job programs employed millions of people and left a legacy of improvements in the national parks and forests, hundreds of thousands of miles of new roads, 35,000 public buildings, urban art and murals, soil conservation, and many other valuable contributions to national life and prosperity. A smaller program in the 1970s employed 750,000 people at its peak, gave on-the-job training that boosted the long-term income of hundreds of thousands of young people and urban residents, and performed valuable services in thousands of communities.

We know from those experiences that a $40 billion public jobs program can be geared up quickly and help put a million of our citizens back to work in jobs that will improve their communities and contribute to shared prosperity.

The fourth component of our plan is increased investments in school repair and modernization. A bold plan to address one of America's most pervasive infrastructure problems could quickly put hundreds of thousands of people to work while improving the safety and education outcomes for millions of children. Investment in the repair and maintenance of the nation's 97,000 public school buildings would boost the recovery and deliver long-term benefits to the economy.

In 1995, the Government Accountability Office (GAO) did an extensive survey and analysis and found that America needed $113 billion ($159 billion in today's dollars) to bring its school building inventory into good repair. Although the United States expended nearly $550 billion for public school construction from 1995 to 2007 ($770 billion in today's dollars), most of these funds were spent to build new schools and additions to meet the space needs of nearly 5 million additional public school students. While thousands of new buildings were built, the 86,000 already existing school buildings were neglected. Most school districts were unable to catch up or keep up with the maintenance, repair, or capital renewals needed to support the health, safety, or educational requirements of staff and students.

A detailed analysis by the 21st Century School Fund of school district spending on maintenance, repair, and capital renewals revealed that the nation's deferred maintenance deficit has worsened considerably since 1995. Nearly $300 billion of required maintenance in our pre-kindergarten through 12th grade public school buildings has been neglected. This is an average of about $41 per square foot of space and $5,400 per student.

Chronic deferred maintenance, repair, and capital renewals can result in unsafe drinking water; unsafe food storage and kitchen equipment; inoperable building door locks; infection risk and asthma from exposures to mold under carpets; unrepairable alarm systems; and danger from structural problems. Gyms, pools, and libraries are closed because of leaky roofs and other maintenance problems.

Without adequate funds, school buildings are maintained as part of a "run to fail" system—neglecting preventive and routine maintenance and doing upgrades and replacements of major building systems, components, and finishes only in response to crisis.

Maintenance and repair work are labor intensive. Making progress on the most critical needs with an investment of $30 billion—just 10% of the most urgent deferred maintenance—could provide important, productive work to nearly 240,000 workers in the private and public sectors. Currently, 1.5 million construction workers are unemployed and the market for new construction remains severely depressed. Both small businesses and their employees desperately need the work.

We recommend that your Subcommittee allocate $30 billion to school districts for school modernization, using the Elementary and Secondary Education Act's title I formula to ensure that the money reaches every school district quickly and efficiently.

It is critical to recognize that half-measures like guaranteeing local government construction borrowing won't work. The process to approve the issuance of new bonds, which often includes a public referendum, is too slow to create jobs this summer when school repairs could be done with the least disruption of classroom activities. Equally important, the poorer districts that most need the money and jobs would be the least likely to borrow. And most districts are forbidden by statute to borrow for maintenance and repair of facilities, which are considered part of operations. They can borrow only for their capital budget, for the long term, which limits loans for purposes such as new construction and the purchase of assets with a useful life as long as the term of the bond.

Finally, Congress should enact a new job tax credit to spur job creation in both the private and nonprofit sectors. According to our estimates, a tax credit for firms equal to 15% of expanded payroll costs would lead them to hire an additional 2.8 million employees next year. The cost of this program would be relatively low. Net revenue losses to the federal government would total an estimated $28 billion in the first year, but half of these costs would likely be recouped in lower spending on unemployment insurance, Medicaid spending, and other safety net programs. Such a credit should be:

1. Wide-ranging, designed to stimulate a wide range of jobs across economic sectors and across all kinds of firms, regardless of size or current profitability.
2. Temporary, to encourage job creation when the labor market is weakest and to limit the cost to the Treasury.
3. Large enough so that it will lead firms to hire new employees, and cause a significant number of jobs to be created economy-wide.
4. Efficient. The tax credit should target new job creation as much as possible and not simply be a handout to businesses.

In line with these principles, we suggest a broad-based refundable tax credit for employers that expands their workforce in 2010 and 2011. In the first year the credit would be equal to 15% of the net increase in that portion of a firm's payroll subject to Social Security taxes. In the second year the credit would drop to 10%. This would encourage firms to hire sooner rather than later, and would provide a significant incentive for expanded employment.

To ensure that the credit is most effective at stimulating new hiring and to ease implementation, the credit would be calculated as a percentage of the increment to firms' Social Security payroll tax expenses over a base amount. We suggest using firms' payrolls in the four quarters prior to enactment (adjusted for inflation), and calculating the tax credit based on the incremental increase in the expenses for payroll taxes paid. This could be implemented by providing the tax credit as part of the employers' quarterly filing of their IRS Form 941, which they use to report Social Security and Medicare payroll taxes. Adding a few lines to the Form 941 would allow a wage credit to be implemented relatively simply. This credit would be refundable so even firms that are not profitable would benefit. It would also be provided quarterly so it would help firms' cash flow immediately after hiring.

The credit should also be broad-based. The wage credit should be extended to all private firms, non-profit organizations, and state and local governments.

By applying the credit based on total Social Security payroll taxes, the credit would also reward expansion of work hours as well as employment. The credit should also be based on that portion of wages that is subject to Social Security payroll taxes to ensure that the credit does not apply to wage increases for very high wage earners.

Impact

The job creation tax credit would have a very significant impact on job creation. Using estimates of how wage costs influence employer hiring, we find that the credit would lead to the creation of 1.4 to 2.8 million new jobs in the first year, and slightly less in the following year as the tax credit is reduced.

Even in a down economy many firms expand their workforce, even without a tax credit, so much of the credit will inevitably go to firms that would have expanded anyway. Nevertheless, the cost of our proposal is relatively modest. The revenue loss from the credit would be limited by offsetting increases in revenue from corporate tax receipts and individual tax payments. We estimate the gross revenue cost to be $80 billion in the first year. Given our estimate of 1.4 to 2.8 million jobs created, the gross cost per net new job would be between $28,600 and $58,000. Taking into account the positive effects on GDP and reduced expenditures for unemployment compensation and other safety net programs would greatly reduce the net cost per new job, making a job creation tax credit a very efficient job creator.

It is important to note that all jobs tax credits are not created equal. The Schumer-Hatch new hire credit under consideration in the Senate is too small and too poorly targeted to create many jobs, despite a $13 billion price tag. Upjohn Institute economist Timothy Bartik has generously estimated that it might create between 150,000 and 180,000 jobs.
(http://www.epi.org/analysis_and_opinion/entry/not_all_job_creation_tax_credits_are_created_equal/)

THE DEFICIT IS NOT A REASON TO FAIL TO ACT

The initiatives I have outlined above necessitate increased spending or lower revenue over the next two years, and thus they will add to the federal debt in the short run. While we do face longer-term budgetary challenges, we cannot be paralyzed into inaction—deficits are both necessary and appropriate with unemployment at current levels.

In fact, the best way to get our fiscal house in order is to ensure we have a vibrant, growing economy and enough jobs and taxpayers so that we as a nation can start to address the long-term budget. In other words, a major job creation initiative is complementary to any strategy for addressing our future fiscal imbalances.

Experts agree deficits are appropriate and desirable in recessions

During times of economic contraction and/or high unemployment, deficits will naturally increase. As incomes and profits fall, tax revenues will decline as a share of the economy. Greater unemployment and lower wages will increase spending on a variety of social supports including unemployment insurance and Medicaid. These "automatic" reactions to recessions imply that deficits will increase. Further, policies enacted specifically to combat recession (through, e.g., infrastructure spending or tax cuts) will have an impact on the deficit as well, at least for the time-limited existence of such efforts.

Textbook economics as well as expert opinion are in agreement that deficits that arise from both the automatic reactions as well as from deliberate, counter-cyclical policy changes are appropriate and desirable to reduce the size and duration of the recession. See examples below for illustrations from experts who are thought to be "deficit hawks":

David Walker, President and CEO of the Peter G. Peterson Foundation: *"I think it's very important to separate the short term from the structural. It's understandable to run deficits when you have a recession, a depression or unprecedented financial services and housing-type of challenges and crises that we've had. That's not what I'm concerned about."*[2]

Gene Steuerle, Senior Fellow, The Urban Institute, and co-director of the Urban-Brookings Tax Policy Center: *"Contrary to much debate, getting the long-term budget in order does not require avoiding stimulus in bad times; it only means reasonable reductions in those levels in good times."*[3]

Greg Mankiw, Harvard Professor and Former Chairman of the Council of Economic Advisors under George W. Bush: *"It is a textbook principle of prudent fiscal policy that deficits are an appropriate response in times of war and recession."*[4]

Isabell Sawhill, Senior Fellow, Brookings: *"It is important to stimulate the economy now and not worry about the deficits needed to do this but we should simultaneously be enacting legislation that will gradually phase in spending cuts and revenue increases over the next decade."*[5]

Concord Coalition: *"It may be appropriate for government to spend more than it taxes during downturns in the business cycle. The Concord Coalition has always recognized the importance of fiscal stimulus, so long as the stimulus is timely, targeted, and temporary."*[6]

Long-term impact

Discussions of economic recovery and deficits often portray recovery spending as boosting the economy in the short-term while having negative impact on long-term growth through higher debt levels.

However, as a substantial body of economic literature shows, benefits from a recession-fighting effort can have long-lasting positive impacts. Further, because debt is paid off over a very long period of time, and because interest rates are very low, the consequences of debt increases during recessions can be minimal.

According to a recent report by my EPI colleague, John Irons: [7]

> [T]he consequences of high unemployment, falling incomes, and reduced economic activity can have lasting consequences. For example, job loss and falling incomes can force families to delay or forgo a college education for their children. Frozen credit markets and depressed consumer spending can stop the creation of otherwise vibrant small businesses. Larger companies may delay or reduce spending on R&D.
>
> In each of these cases, an economic recession can lead to "scarring"—that is, long-lasting damage to individuals' economic situations and the economy more broadly….
>
> A recession, therefore, should not be thought of as a one-time event that stresses individuals and families for a couple of years. Rather, economic downturns will impact the future prospects of all family members, including children, and will have consequences for years to come.

As such, the benefits of a recovery effort can be very high in both the short-run and the long-run. Over time, the additional borrowing to finance these costs would add to the national debt. However, with interest rates at very low levels, and since the costs are spread out over many years, the long-term impact of recovery-related deficit spending would be minimal.

According to a simple example presented by Brad DeLong, a University of California economics professor, $100 billion in extra government purchases would yield $150 billion of increased production and incomes, at a cost of just $800 million a year in additional payments. According to DeLong: "It's not a free lunch… but it is a very cheap lunch: like getting a 2 lb. lobster with all the trimmings for $1.95." [8]

Paying for recovery: Financial transactions tax

As noted above, we should not be concerned about deficits in the short-run. However, there are longer-term challenges that face the nation and the budget. It is thus reasonable to put in place today revenue options that would be used to pay for recovery efforts over a longer horizon.

The spending required by a jobs plan would likely occur primarily within the first two years after its enactment; in years three through 10, all of this spending could be recouped through a financial transactions tax. According to a recent EPI report by my colleague Josh Bivens: [9]

> An intelligently designed financial transactions tax should be a key item on the policy menu. Those concerned about the state of the job market today and the state of the deficit tomorrow should embrace a proposal that calls for increased action to boost employment in the next two years that is paid for with the implementation of an FTT. The economic bottom line is that a financial transactions tax is a progressive revenue-raiser that is likely to

> be either efficiency-neutral or even efficiency-enhancing. Few other revenue-raisers can make this claim.

A financial transactions tax could raise considerably more than these estimates—0.8% to 1.6% of GDP according to a 2002 study—by taxing a wider range of assets than stocks. In 2009, that range would amount to $113-226 billion. In short, the tax can be a significant revenue raiser.

Deficit reduction will require economic growth and low unemployment

History shows us that a strong economy and low unemployment are a prerequisite for deficit reduction. Without an adequate revenue base—which is unachievable in an economy with high unemployment and substantial unused capacity—it is exceedingly difficult to bring tax revenues in line with desired spending.

As noted above, deficits arise from weak economic conditions. For example, between January 2008 and August 2009, the baseline CBO deficit projection rose by $1,380 billion, with over half of this increase stemmed from changing economic conditions.[10] Policies put in place to combat the recession, including TARP and the Bush-era recovery act, made up most of the rest. Thus a return to economic growth will play a large role in reducing deficits.

Given the large and persistent costs of economic recession and stagnation, the risks associated with doing too little to create jobs far outweigh the risks associated with greater deficits in the short-term. Congress's first priority thus needs to be to enact a jobs package of sufficient size to reduce employment and create a robust recovery. Doing so is not at odds with efforts to address our fiscal imbalances; rather, job creation is totally complementary to and consistent with efforts to lower our longer-term deficits.

The public understands this better than the Congress

Many Members of Congress believe that the Recovery Act and the bailout of the financial sector exhausted our ability to act or at least exhausted the public's appetite for intervention. Neither is true.

Several recent polls, including one conducted by Hart Research for the Economic Policy Institute, show that the American people understand the need to act. While they believe the Recovery Act helped the economy and want it continued, they also want to see more direct action to create jobs. Large majorities support a public jobs program and job creation tax credits, and a majority support more aid to the states. The public feels that Congress has helped the banks and financial institutions and should now act boldly to help average Americans find jobs. Given a choice between deficit reduction or more spending to create jobs, voters support more job creation by 2 to 1.

Conclusion

We face a national jobs crisis that requires immediate attention and a bold response. The jobs recovery won't happen by itself. If Congress doesn't act quickly and at sufficient scale, high and damaging unemployment will continue for years.

Endnotes

1. Shierholz, Heidi. 2010. "Unemployment Drops to 9.7% Despite More Job Losses." EPI Jobs Picture, http://www.epi.org/publications/entry/jobs_picture_20100205/

2. January 11, 2009, Interview with National Public Radio at http://www.npr.org/templates/story/story.php?storyId=122436097&ft=1&f=3

3. November 30, 2009, National Journal Experts Blog at http://economy.nationaljournal.com/2009/11/obama-and-the-deficit-1.php

4. July 16, 2003, Ask the White House blog at http://georgewbush-whitehouse.archives.gov/ask/20030716.html

5. May 13, 2009, Brookings Transcript at http://www.brookings.edu/events/2009/0513_budget_chat.aspx

6. December 19, 2002, "A More Responsible Fiscal Course" at http://www.concordcoalition.org/issues/facing-facts/more-responsible-fiscal-course.

7. John Irons, "Economic Scarring: The Long-Term Impacts of the Recession," Briefing Paper #243, Economic Policy Institute, September 30, 2009, at http://www.epi.org/publications/entry/bp243/.

8. J. Bradford DeLong, "The Simple Arithmetic of Boosting Government Purchases," October 8, 2009, at http://delong.typepad.com/20091008d-epi.pdf

9. Full details at *American Jobs Plan*, at http://www.epi.org/index.php/american_jobs/paying_for_the_plan

10. Josh Bivens, "Budgeting For Recovery—The Need to Increase the Federal Deficit to Revive a Weak Economy." January 2010, at http://www.epi.org/publications/entry/bp253/

Table 1. Share of income growth, 1989-2007	
	Share of income growth, 1989-2007
Top 10%	84.1%
Top 1%	55.6%
Top 1/1000	34.6%
Rest of top 1%	21.0%
Next 4%	19.1%
Next 5%	9.4%
Bottom 90%	15.9%

Source: EPI analysis of Pikkety and Saez data.

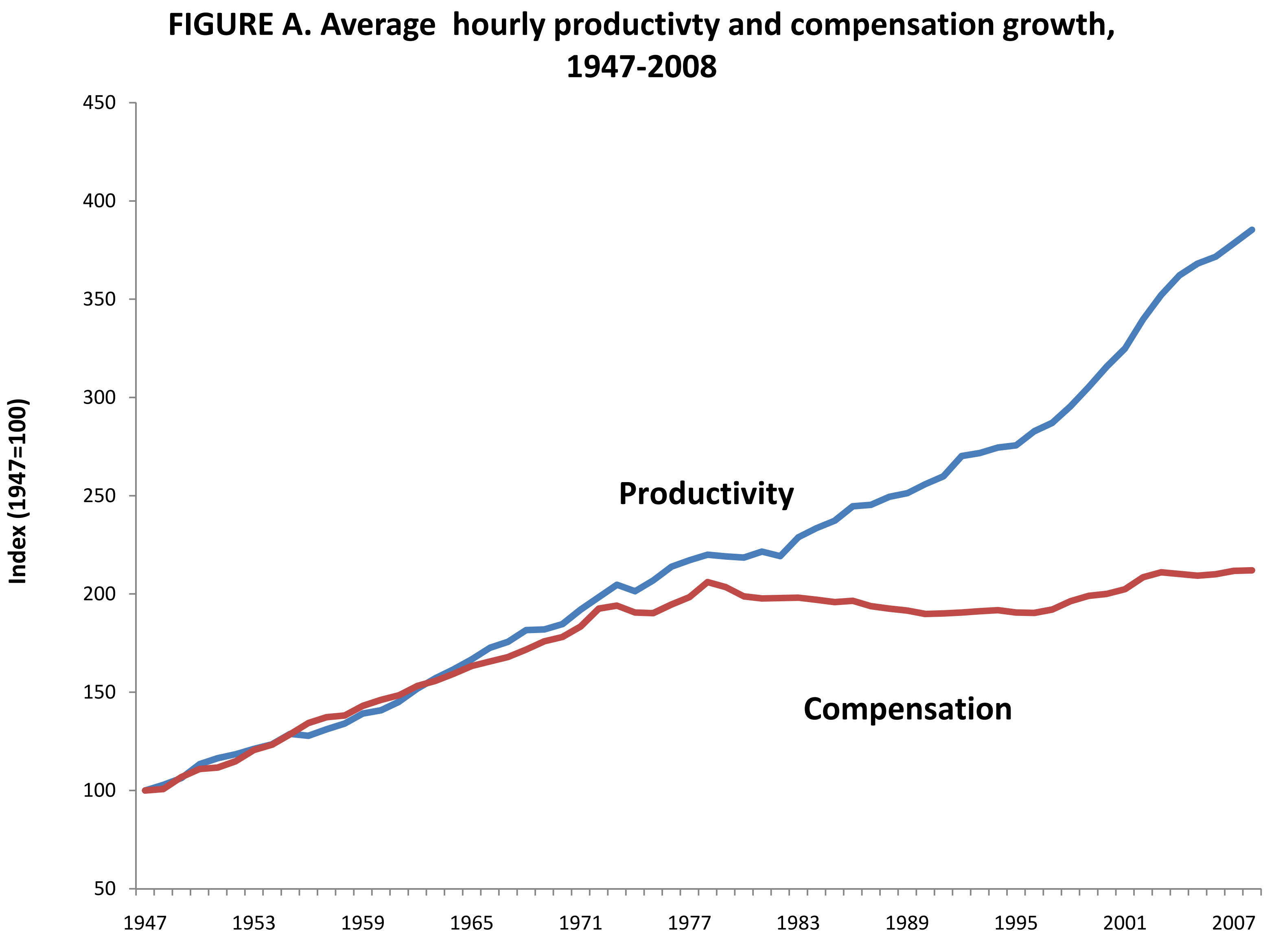
Table 2. Unemployment rise in post-war recessions				
Recession	Rate at beginning of recession	Highest rate attained	Months from peak	Change
November 1948	3.8	7.9	12	4.1
July 1953	2.6	6.1	15	3.5
August 1957	4.1	7.5	12	3.4
April 1960	5.2	7.1	14	1.9
December 1969	3.5	6.1	21	2.6
November 1973	4.8	9.0	19	4.2
January 1980	6.3	7.8	7	1.5
July 1981	7.2	10.8	18	3.6
July 1990	5.5	7.8	24	2.3
March 2001	4.3	6.3	28	2.0
		(current rate)		
December 2007	5.0	9.7	25	4.7

Source: EPI analysis of BLS data.

Table 3. Cost and jobs created under the *American Jobs Plan*				
Policy	**Cost ($billions)**	**Multiplier**	**GDP impact**	**Job impact (thousands)**
Strengthened safety net	$110	1.7	1.30%	931
Relief to state and local governments	$150	1.4	1.50%	1,046
School modernization	$30	1.6	0.30%	239
Public service jobs	$40			1,000
	$330			**3,216**
Job creation tax credit*	$71-$80			1,420 to 2,840
Total	**$401 to $410**			**4,636 to 6,056**

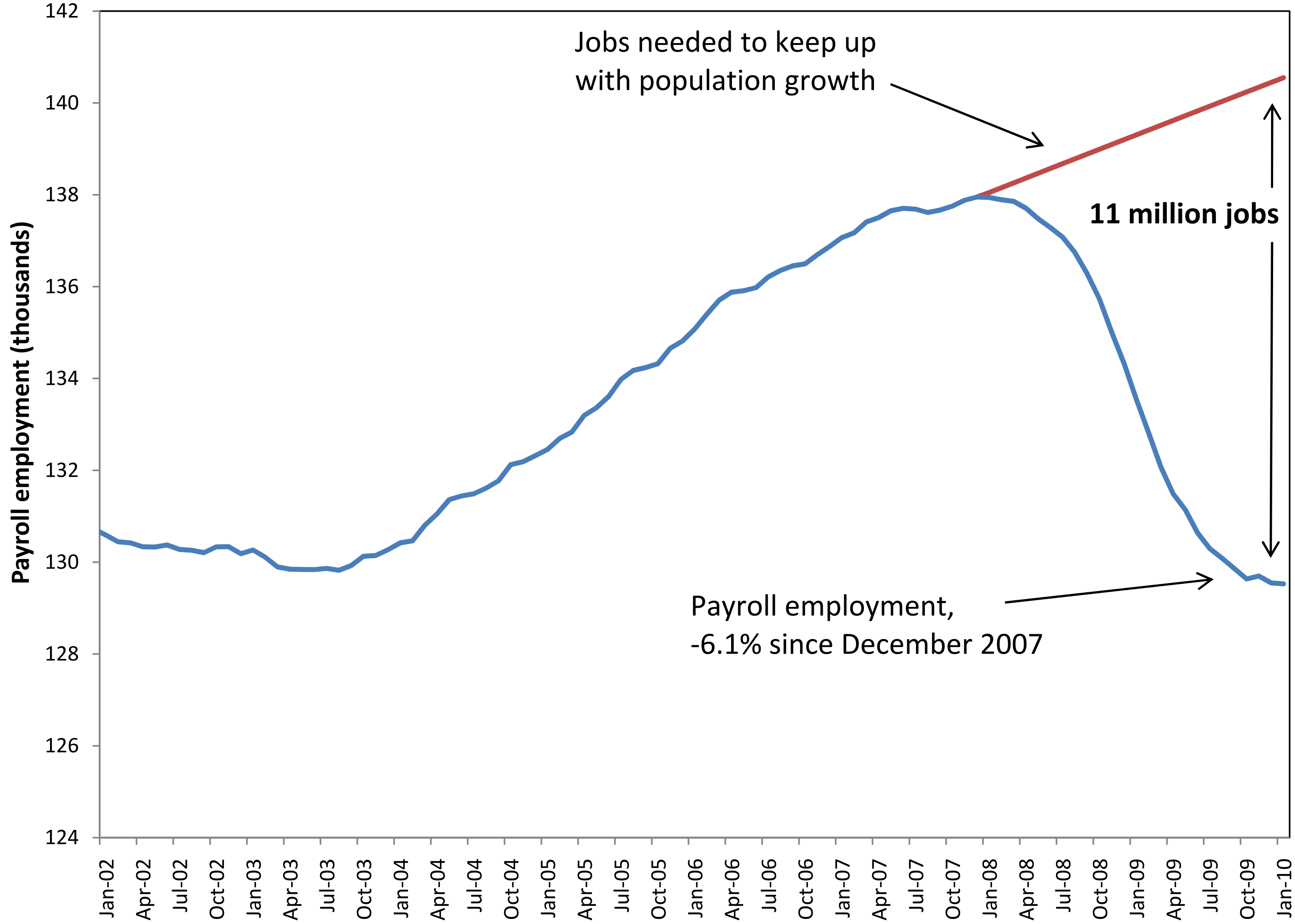
* The range is due to different assumptions about the responsiveness of hiring to labor costs.

Source: Economic Policy Institute *American Jobs Plan* .



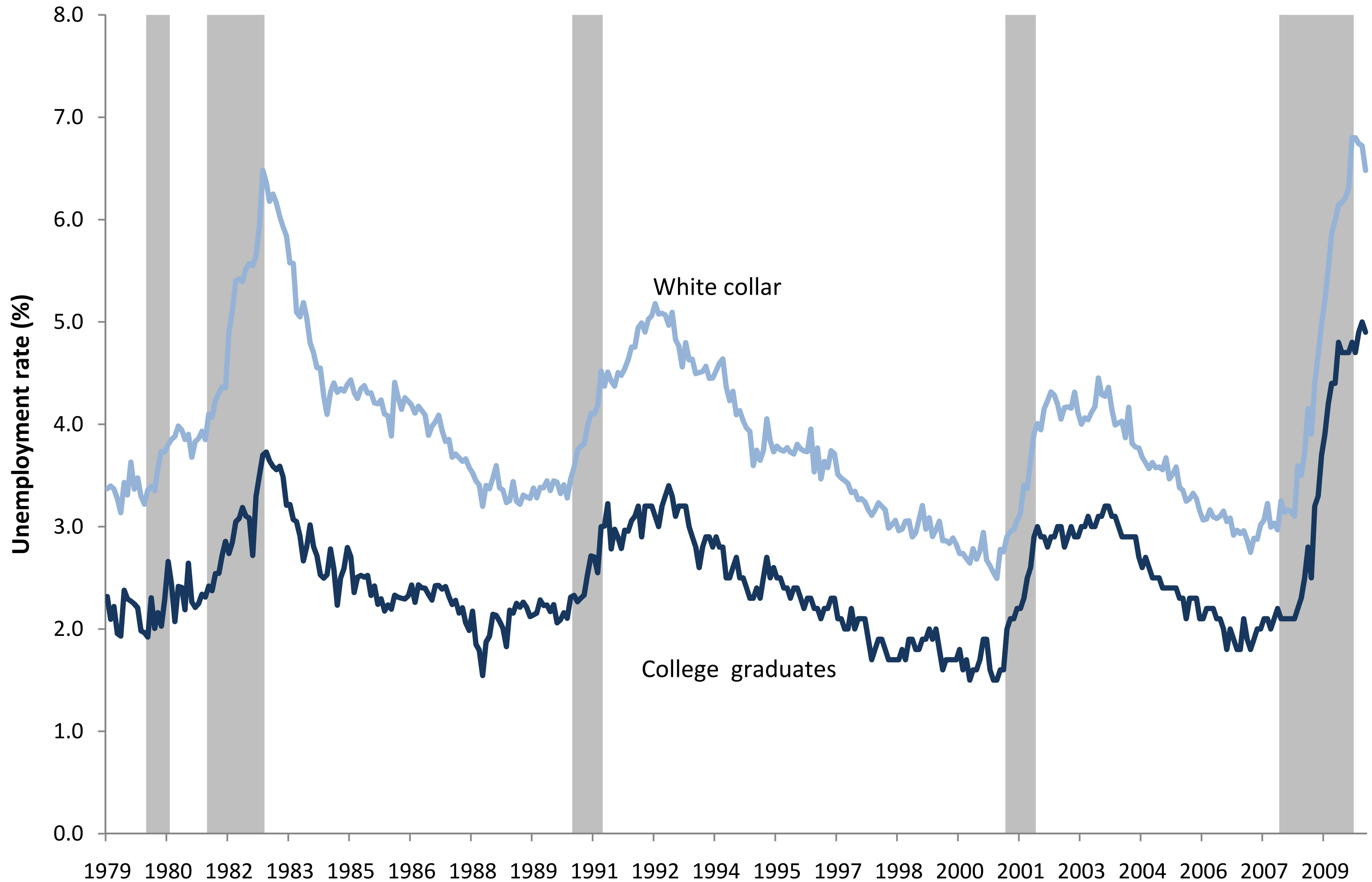
Source: Author's analysis of BEA and BLS data.

FIGURE B. The jobs gap



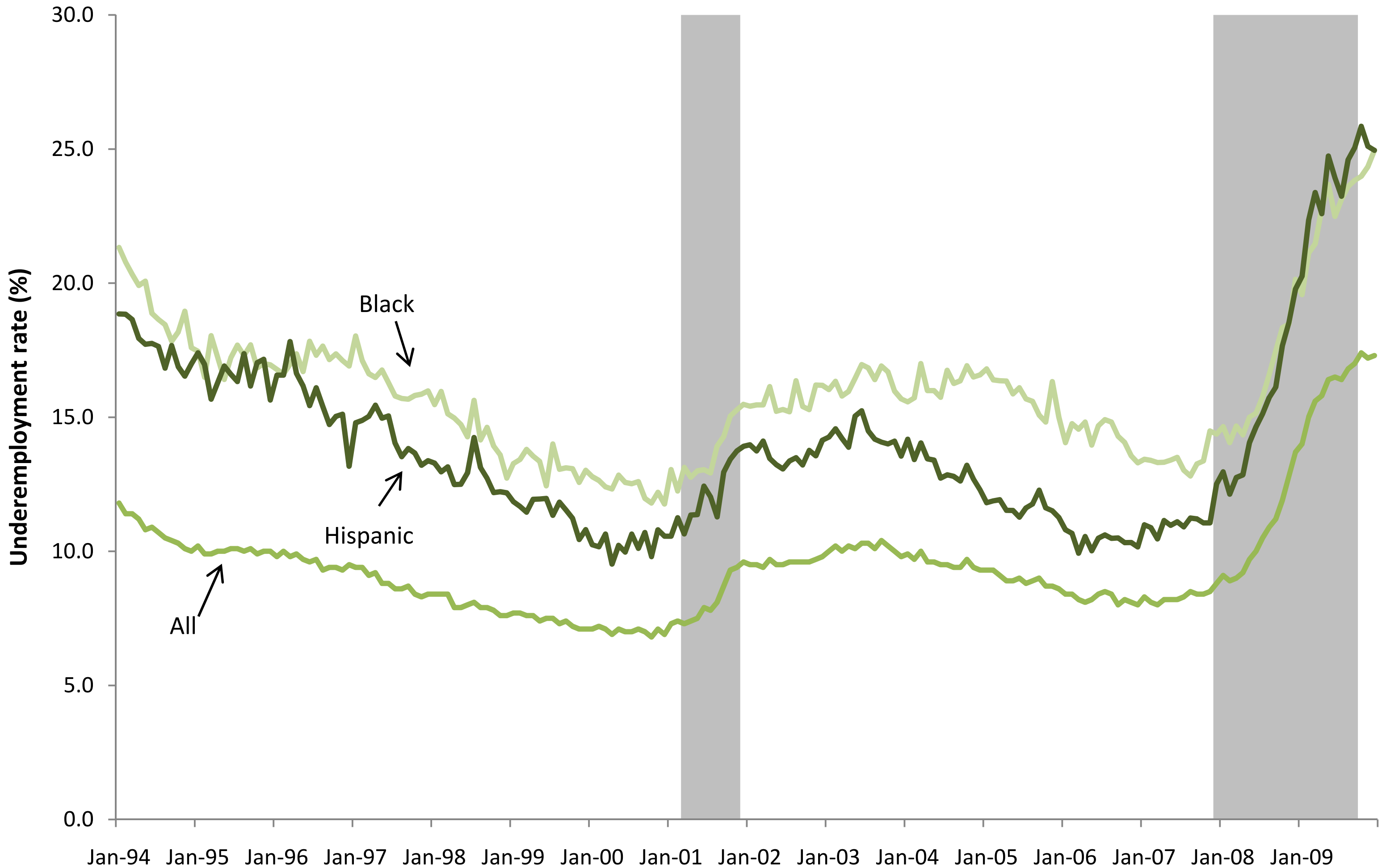
Source: Author's analysis of BLS data.

FIGURE C. White-collar workers and college graduates, unemployment rates, 1979 - 2010



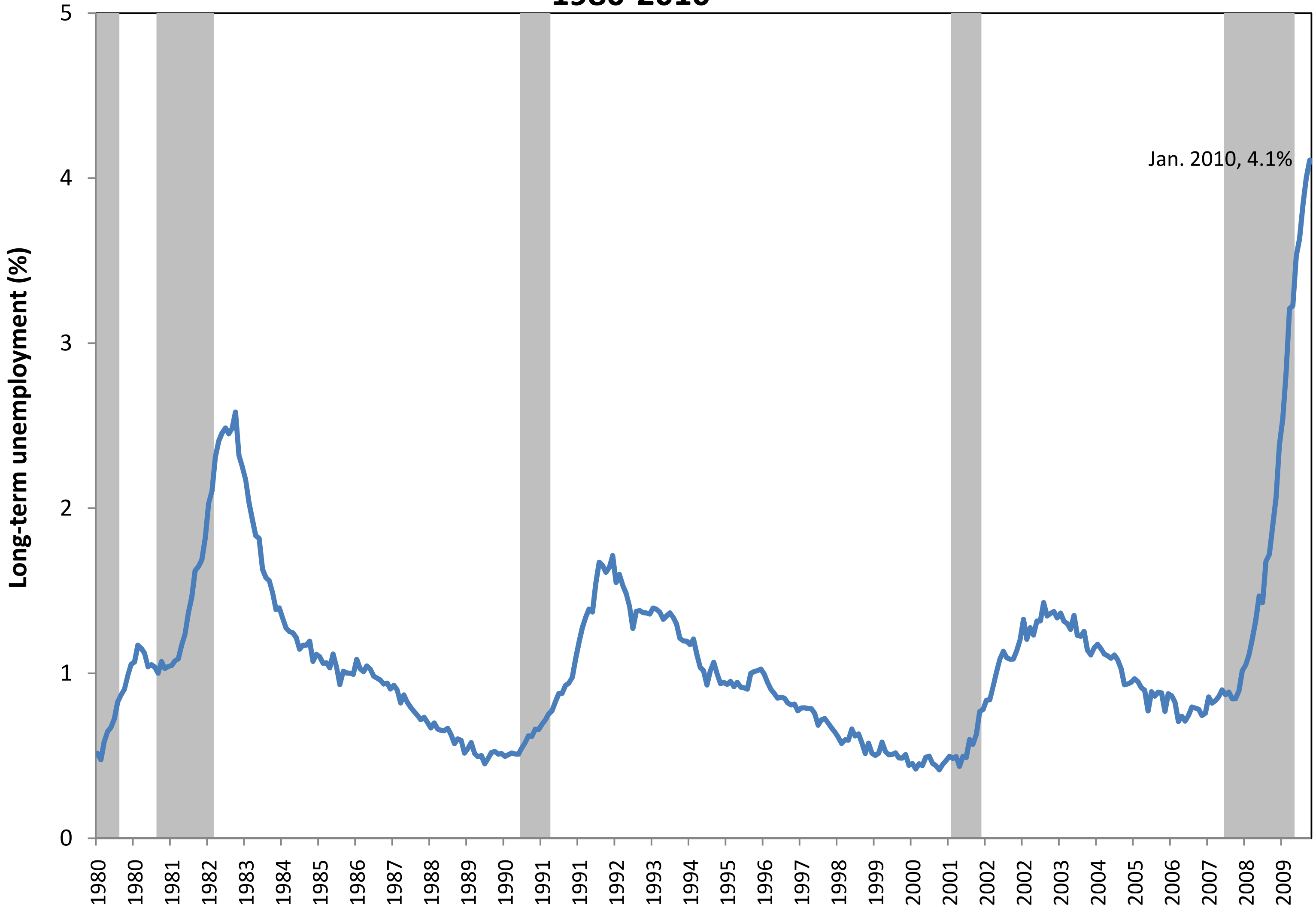
Source: EPI analysis of Current Population Survey.

FIGURE D. Underemployment by race, 1994-2010

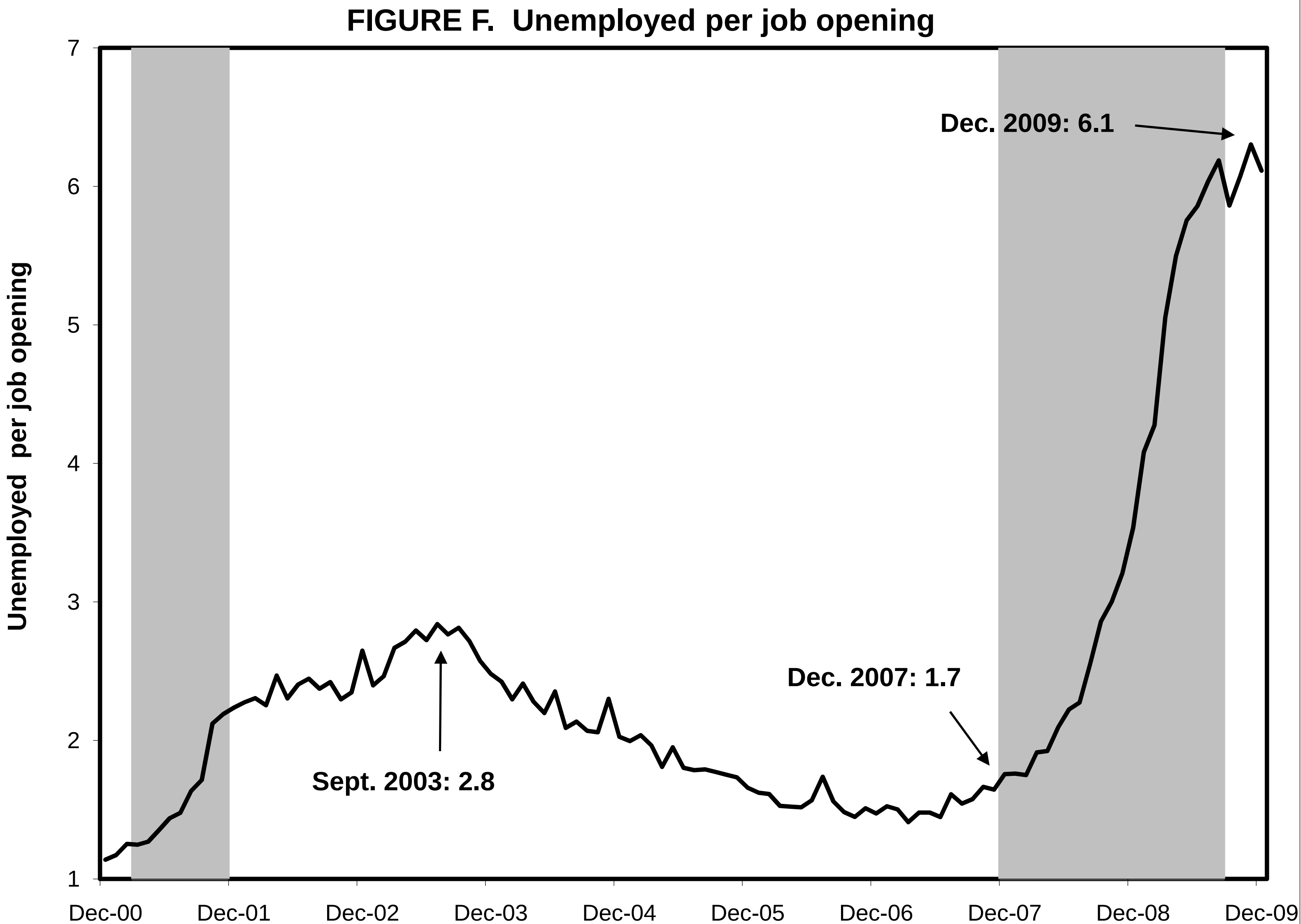


Source: EPI analysis of Current Population Survey.

FIGURE E. Long-term unemployed as a percent of the labor force, 1980-2010



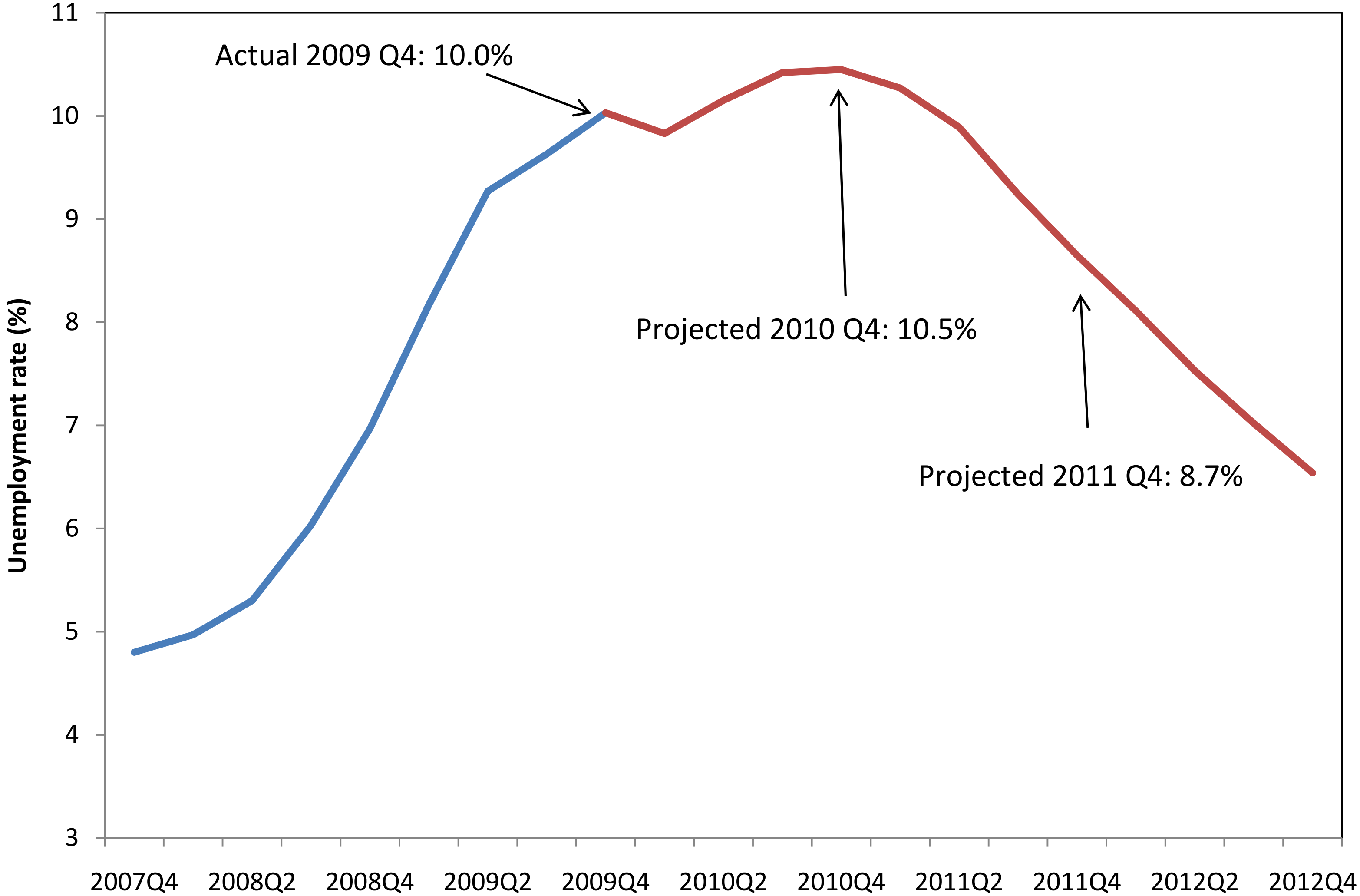
Note: Long-term unemployed are jobless for 27 weeks or more.
Source: Author's analysis of BLS data.



Note: Shaded areas denote recessions

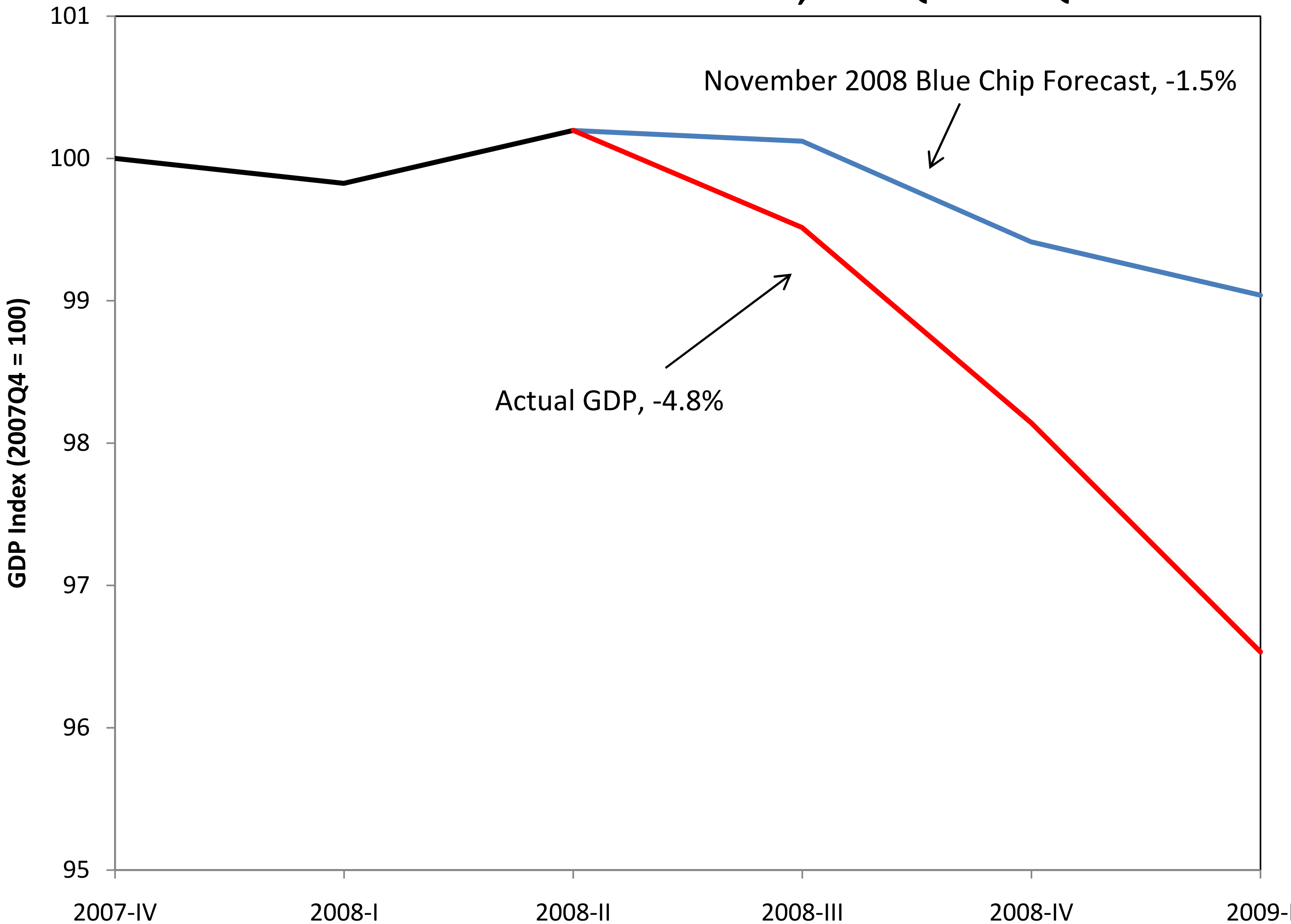
Source: Author's analysis of data from the Job Openings and Labor Turnover Survey and the Current Population Survey.

FIGURE G. Projected unemployment

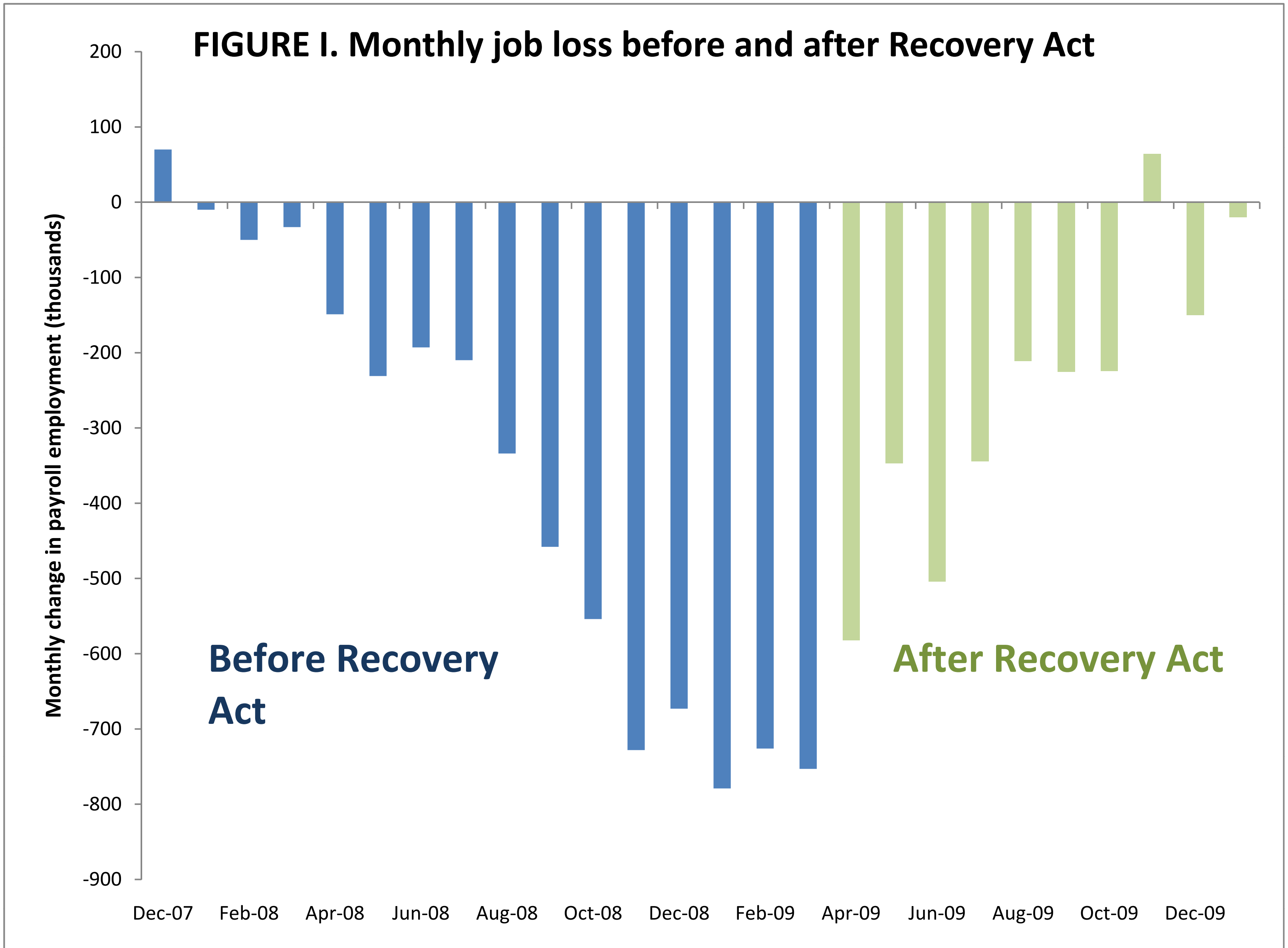


Source: Bureau of Labor Statistics and Moody's Economy.com.

FIGURE H. Actual GDP vs. forecasted, 2008Q4-2009Q2



Source: Beareau of Economic Analysis and the Federal Reserve Bank of Philadelphia.



Source: Bureau of Labor Statistics.