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LONG-TERM UNEMPLOYMENT: CAUSES, CONSEQUENCES, AND SOLUTIONS

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BEFORE THE

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LONG-TERM UNEMPLOYMENT: CAUSES, CONSEQUENCES, AND SOLUTIONS

THURSDAY, APRIL 29, 2010

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The committee met, pursuant to call, at 2:00 p.m., in Room 210, Cannon House Office Building, The Honorable Carolyn B. Maloney (Chair) presiding.

Representatives present: Maloney, Sanchez, Cummings, Brady, Burgess, and Snyder.

Senators present: Klobuchar and Brownback.

Staff present: Andrea Camp, Gail Cohen, Colleen Healy, Kinsey Kiriakos, Jessica Knowles, Justin Ungson, Jim Whitney, Lydia Mashburn, Rachel McFadden, Jeff Schlagenhauf, and Robert O'Quinn.

OPENING STATEMENT OF THE HONORABLE CAROLYN B. MALONEY, CHAIR, A U.S. REPRESENTATIVE FROM NEW YORK

Chair Maloney. I understand Mr. Brownback is on his way, so we are going to call this committee meeting to order. The Chair recognizes herself for an opening statement.

Just over one year ago, the current Administration took office while the country was suffering from the worst economic crisis since the Great Depression. In fact, last October, Council of Economic Advisers Chair Christina Romer testified to this Committee that the shocks we endured in the Great Recession were actually worse than those of the Great Depression.

But today it is clear that America is on a path toward economic recovery. After four straight quarters of negative growth, the economy grew during the last two quarters of 2009. There is a consensus that when the latest GDP numbers are announced tomorrow, we will see that our economy continued to expand during the first quarter of 2010.

The most recent employment report showed that 162,000 jobs were created in March, with three-fourths of those new jobs coming from the private sector. Manufacturing employment has been up for 3 straight months. Sales of cars and light trucks were up in March. Excluding aircraft orders, durable goods orders were up almost 3 percent in March, and retail sales were up 1.6 percent, their third straight month of growth. Sales of both existing and new homes increased in March, with sales of new single-family homes rising by almost 27 percent, and many surveys of the economy are

optimistic about growth in both the service and manufacturing sectors.

These improvements in our economy are proof that actions taken by Congress, the Fed, and the Administration have put our economy back on track. While we are making progress, the road to recovery will not be without bumps. Although we saw significant job creation last month, we need stronger job creation to reduce unemployment.

In addition, while the unemployment rate rose during this recession, it is the rise in the long-term unemployment rate that is especially troubling. Nearly half of the unemployed have been without work for over 6 months, and more than a quarter of unemployed workers have been looking for work for over a year, even before the Recovery Act was signed into law. Some groups are suffering more than others. Younger workers, less educated workers, and African-American workers are among those who are likely to be unemployed and stay unemployed.

The painful aftermath of long-term unemployment is borne by the unemployed, their families, and the economy as a whole. While the long-term unemployed earn 30 percent less in their new jobs than before they lost their jobs, even 15 to 20 years later these workers' earnings are still about 20 percent less than similar workers who did not lose their jobs. The scarring effect of long-term unemployment also reaches into the next generation. The children of displaced workers have lower earnings and are more likely to be unemployed than those whose fathers had stable employment.

Finally, the costs to the economy in terms of lost output are great, which will have an impact on our debt and deficit; $3.1 trillion of the deficit over the next 10 years can be attributed to the recession due to lost and lower incomes and the need for government assistance during periods of unemployment.

While many believe that a rising tide will float all boats and that a growing economy is all that we need to help the long-term unemployed, it is clear that targeted provisions are needed to move the large numbers of unemployed back into the labor force.

Congress passed legislation to lessen the depth of the recession, including the Recovery Act, which provided tax relief for 95 percent of American families and created jobs, while investing in clean energy technologies, infrastructure, and education. The Worker, Home Ownership and Business Assistance Act expanded the first-time home-buyer tax credit and enhanced small business tax relief. And just last month, Congress passed the HIRE Act, which provides tax incentives for businesses that hire out-of-work Americans. The House of Representatives passed the Disaster Relief and Summer Jobs Act of 2010, which supports an additional 300,000 summer jobs for young workers.

But when it comes to long-term unemployment, we need to do more. That is why we are particularly fortunate to have such a distinguished panel of labor economists before us today. We owe it to the unemployed workers, some of whom are watching this hearing, their families, and to our economy to search for ways of getting all workers jobs.

At a recent JEC hearing, Dr. Berner, Chief Economist of Morgan Stanley, said that we have a responsibility to look under every rock

for solutions. I look forward to looking under new rocks this afternoon with today's panel as we search for solutions to the problem of long-term unemployment.

[The prepared statement of Representative Maloney appears in the Submissions for the Record on page 30.]

Chair Maloney. I thank our panelists for coming, and recognize Mr. Brady for 5 minutes.

OPENING STATEMENT OF THE HONORABLE KEVIN BRADY, A U.S. REPRESENTATIVE FROM TEXAS

Representative Brady. Madam Chair, I am pleased to join in welcoming today's witnesses before the committee.

Although many economic indicators show signs of recovery, the employment situation remains dire. As of last month, 15 million Americans were out of work, for an employment rate of 9.7 percent. Moreover, over 44 percent of the unemployed have been out of work for 27 weeks or longer, which is an all-time high. Given these grim unemployment statistics, I thank the chair for convening this hearing on long-term unemployment.

I agree with many of the things that today's witnesses have to say.

Long-term unemployment presents Congress with two distinct challenges. First, what policies will boost economic growth, entrepreneurship, and business investment in the private sector so the rapid job creation will slash unemployment? Secondly, how does America successfully address the mismatch between skills and jobs, both today and in the future? Too many of our long-term unemployed have limited education and skills, while the high-paying jobs they are seeking require higher levels of both.

Ms. Furchtgott-Roth, your written statement is such a comprehensive indictment of the economic policies of President Obama and this Congress that there is little to add.

To accelerate economic growth, create millions of new jobs, and address the Obama unemployment bubble, we need to restore America to the best business climate in the world in which to invest, innovate, and produce. To do that, we must admit America has fallen behind. Other nations have taken a page from our successful playbook and have attracted U.S. companies and jobs by lowering taxes, rewarding investment, and recruiting research and development facilities.

To restore our economic strength, the United States must lower its punitive taxes on business investment. Countries around the world have been slashing their corporate income tax rates to stimulate job-creating business investment while the United States has largely stood pat. In 1990, our average combined Federal and State corporate income tax rate was 6 percentage points lower than the average in other OECD countries. We were leading our competitors. Today, it is 9 percentage points higher, and now we are losing out to them.

The same goes for incentivizing research employment in America. In 1981, realizing the importance of research and development for technological leadership and economic strength, the United States enacted the R&D tax credit. At the time we were leading the world. Seeing the benefits, other countries have enacted more

generous R&D tax credits and created incentive packages to relocate these critical jobs elsewhere, and now we are losing out. This Congress stood by while our R&D tax credit expired last year. We need to restore, modernize, and expand that tax credit immediately and permanently or watch as the exodus of American research workers overseas accelerates.

Misguided and harmful proposals by this White House and Congress, during an economic recession of all times, to levy hundreds of billions of dollars in higher taxes on capital gains, dividends, income, U.S. energy production, inventories and U.S. businesses reaching customers around the globe, will only ensure America will fall further behind its international competitors and fall further behind in creating the types of high-paying jobs that will help solve our long-term unemployment crisis.

If these job-killing tax increases become law, America will have tragically gone from first to worst in business climates among the world's largest economies. Instead, we should boldly strive to create the best business climate in the world for 21st century jobs by reducing the Federal corporate income tax rate to no more than 25 percent, modernizing and making permanent the R&D tax credit, eliminating taxes on dividends and capital gains, and reforming our international Tax Code.

The United States must also seek new customers around the world by ratifying this year the three pending free trade agreements with Colombia, Panama, and South Korea. They represent $13 billion in new sales abroad and 250,000 new high paying jobs here in America. And then to ensure our companies and workers don't fall further behind in the global marketplace, Washington should renew Trade Promotion Authority, conclude a meaningful Doha Round at the WTO, and aggressively negotiate new free trade agreements, beginning with the Trans-Pacific Partnership.

Shifting gears and wrapping up, Dr. Katz, I would like to thank you for your research identifying skill-biased technological change due to the rapidly falling costs of computers and computer-driven machinery as the major cause for the growth of income inequality in the United States since the 1970s. Skill-biased technological change is a global phenomenon that has widened the income gap in developing countries alike.

Your research indicates that to address the mismatch between jobs and skills, we must improve the educational attainment and skills of our workforce. To compete and win in the global economy, the needs of our children in public schools must come first. We should sweep away wasteful layers of education bureaucracy, redirect tax dollars to classrooms, and free principals to manage their schools.

We must also focus on the needs of young adults entering college and workers seeking continuing education or retraining based not on the needs of politicians or union leaders or bureaucrats. Our current Federal retraining programs are often too slow, bureaucratic, and driven by special interests rather than the workers. With a worker-driven program, our colleges, universities, and training centers can help both current and future workers improve their skills to qualify for high paying jobs. At the end of the day,

the greatest affirmative action program yet invented is a good, solid education.

I look forward to today's discussion, and yield back.

[The prepared statement of Representative Brady appears in the Submissions for the Record on page 31.]

Chair Maloney. Thank you so much.

Mr. Cummings is recognized for 5 minutes.

OPENING STATEMENT OF THE HONORABLE ELIJAH E. CUMMINGS, A U.S. REPRESENTATIVE FROM MARYLAND

Representative Cummings. Thank you very much, Madam Chair, and I thank you for this hearing.

Like many of us in Congress, I have spent the bulk of the last week talking about Goldman Sachs and financial regulatory reform. We have been able to generate strong support for the SEC casting a wider net around Goldman Sachs' Abacus transactions. I am grateful for the support of my colleagues in this endeavor, including members of this committee. However, I have consistently told my staff that none of this matters if, at the end of the day, it does not result in benefits to our constituents.

My constituents and neighbors in Baltimore continue to struggle—to find a job, to stay in their homes, and to provide for their families. So many have lost jobs in this recession, and as CBO Director Douglas Elmendorf told this committee, a large number of those jobs are simply not coming back. That is why the work of one of our witnesses, Dr. Katz, on the benefits of education is essential to our ongoing recovery.

Dr. Katz has argued persuasively on the need for educational systems and protocols that produce high returns for young students and adult learners alike. He has written that "Although college enrollment rates among new high school graduates have been rising since the early 1980s, the share of young adults completing four-year college degrees has risen only modestly."

Clearly, as strong as our higher education system is, there are constituencies that are not able to thrive within the current infrastructure. Therefore, we must embrace alternative approaches to higher education that not only provide the necessary critical thinking, but also real job training and work skills.

I know that these two goals can be attained through two approaches. First, America's community college system, which offers not only higher education to those who otherwise could not afford it, but also critical worker and vocational training programs. Community colleges also provide a haven for the non-traditional student, offering, as Dr. Katz noted in his opening statement, high returns for the dislocated workers.

Unfortunately, the community college system relies heavily on State and local governments to meet financial obligations, and as we know, the recession has decimated State and local government coffers. While the Recovery Act provided essential assistance to community colleges, more must be done to allow these institutions to continue to meet the needs of a changing workforce.

The second way we can complement our traditional higher education institutions is through customized programs developed by business and community organizations. A top example of this is the

Bio Stars to Bio Professionals Program, a product of the East Baltimore Development Initiative and the Biotechnical Institute of Maryland located in my district.

The program, one I pushed for, prepares the residents of east Baltimore for careers in biotechnology through not only technical training, but also with the personal and professional skills that are applicable in any vocation. This program helps address the skill mismatch that plagues our unemployed, especially the young and minorities, who are among the most vulnerable in this recession.

I hope today's hearing will not only discuss the benefits of programs like Bio Stars, but also what other efforts we must explore and undertake to ensure that none of our constituents fall through the cracks during the recovery.

I would also be interested to hear about how we can direct more of our young people to jobs, say, in the green area, and jobs in the health area.

What we have found in Baltimore is we have got Coppin State University, for example, an Historically Black College, which has a phenomenal and top-rated nursing school, yet they are denying admittance. For every person they admit, a qualified student they admit, they cannot admit five qualified students. These students are from the inner-city of Baltimore and they are left out in the cold. Why? Because there is not enough space and faculty at the university.

So, I would love to hear our witnesses talk about how do we put our priorities in order to begin to push our young people in the direction of where the jobs are and where they will be, and then, of course, we will address the issue of retraining. A lot of people think they are going to get their jobs back, but they are not.

With that, Madam Chair, again, I thank you for this hearing, and I yield back.

[The prepared statement of Representative Cummings appears in the Submissions for the Record on page 32.]

Chair Maloney. Thank you very much.

Senator Brownback.

OPENING STATEMENT OF THE HONORABLE SAM BROWNBACK, RANKING MINORITY, A U.S. SENATOR FROM KANSAS

Senator Brownback. Thanks, Madam Chair. I appreciate your holding this hearing. I appreciate the witnesses being here. I look forward to your testimony.

Job one, two and three is getting jobs back to the United States. We all know that. We have different perspectives maybe on how we can get that done. I hope that you can provide us as a panel with what we know from the data that works, that is within our reach to do? I think that is what we need to look at, and that is what we need to hear from you folks.

We have lost over 8 million jobs in this downturn. If you just have a slow growth of 3 percent, you are barely keeping track and you are barely moving up with the population of the United States. So we need growth. We need jobs. That is what I hope for more than anything.

Madam Chair, I appreciate very much your holding the hearing, because this is what is on most Americans' minds. I have a statement I will submit for the record. I look forward to the testimony.

[The prepared statement of Senator Brownback appears in the Submissions for the Record on page 33.]

Chair Maloney. Thank you very much.

I would now like to introduce our panel of experts. Dr. Lawrence F. Katz is the Elisabeth Allison Professor of Economics at Harvard University and a Research Associate of the National Bureau of Economic Research. His research focuses on issues in labor economics and the economics of social problems.

His past research has explored a wide range of topics, including wage and equality trends; the impact of globalization and technological change on the labor market; the economics of immigration, regional labor markets, and the problems of low income neighborhoods; and the social and economic consequences of the birth control pill.

Professor Katz has been Editor of the Quarterly Journal of Economics since 1991 and served as the Chief Economist of the U.S. Department of Labor for 1993 and 1994.

Dr. Till von Wachter is an Associate Professor at the Department of Economics of Columbia University, as well as a Faculty Research Fellow of the Aging and Labor Groups at the National Bureau of Economic Research. He is also affiliated with the Center for Economic Policy Research in London. His research focuses on the long-term impact of job loss on earnings, health, and retirement. He has also studied the persistent effect of business cycles on career outcomes of younger and older workers. His work has been published in top economic journals.

Ms. Diana Furchtgott-Roth is a Senior Fellow at Hudson Institute and directs the Center for Employment Policy. From February 2003 to April of 2005, she was Chief Economist of the U.S. Department of Labor. She was Assistant to the President and Resident Fellow at the American Enterprise Institute from 1993 to 2001. Prior to that, she served as Deputy Executive Director of the Domestic Policy Council and Associate Director of the Office of Policy Planning in the White House under former President George H.W. Bush.

So, starting with you, Dr. Katz, we look forward to all of your testimony. Thank you so much for coming.

STATEMENT OF DR. LAWRENCE F. KATZ, ELISABETH ALLISON PROFESSOR OF ECONOMICS, DEPARTMENT OF ECONOMICS, HARVARD UNIVERSITY

Dr. Katz. Chair Maloney and other members of the committee, I am honored to have the opportunity to talk to you today about the extremely important and distressing issue of the plight of the long-term unemployed. I will talk about what we know about the causes of the growth of long-term unemployment, the consequences of which Professor von Wachter will talk more about, and possible solutions for the current situation.

The past 2½ years have been particularly trying ones for American workers and their families. Labor market conditions have deteriorated dramatically since the start of the Great Recession in

late 2007, making this the severest labor market downturn since the Great Depression of the 1930s.

We have already lost 8.4 million payroll jobs, or a 6 percent decline in employment, through February 2010. There are some encouraging signs of employment growth in the last month and of GDP recovering, but we still have a tremendous jobs problem and jobs deficit. If you take into account how much we would have needed employment to grow just to keep up with population growth, we are actually about 11 million jobs behind where we would need to be, and we need to create 15 million jobs in the next 4 years to get back to sort of a normal employment situation.

So, clearly there is a huge job creation problem. But on top of that, there are two particularly worrisome signs about the aspects of the labor market. That is, as has been noted, unemployment is increasingly concentrated in the long-term unemployed. We have 6½ million Americans who have been out of work for 27 weeks or more, over 6 months, and another almost 2 million that have become so discouraged that they are no longer even looking for work, who have exhausted benefits or have dropped out of the labor force.

So there are over 8 million Americans that can be reasonably classified as long-term unemployed, and most of them are permanent job losers. The rate of long-term unemployment and the share of the unemployed who are permanent job losers are at record levels since we have collected data starting in 1945.

This is quite worrisome because permanent job losers and the long-term unemployed seem to have quite persistent earnings losses. It impacts on their family and it impacts on their health. So doing something to assist them is going to be a first order of importance in making our society whole over the upcoming period.

Additionally, a large share of long-term unemployed also is a drag on a macroeconomic recovery. Their employment opportunities tend to be less sensitive to standard macro policies, whether fiscal or monetary policy, than those of the short-term unemployed. So we need a robust jobs recovery, and we are going to need to do something targeted to the long-term unemployed.

How did we get to this situation? Obviously, the financial crisis and the macroeconomic problems are the first order of fact. A way of putting this in context, we currently have more than five unemployed workers per job. We actually have two-and-a-half long-term unemployed workers per job opening. So clearly a macroeconomic jobs recovery is a necessary factor for anything that will help the long-term unemployed.

But there are several reasons to think there are structural problems beyond that were already in the economy. The first are the skill-biased technological change and the polarization of job opportunities in the U.S. over the last 25 years.

We have growing employment opportunities in very high-end jobs and in-person services; a weakening of employment opportunities in traditional middle-class jobs, whether middle management with education, or production jobs or construction jobs, and we are going to need to find the types of training and job creation to provide new middle-class jobs.

So there is a skills and aspiration mismatch between the long-term unemployed and the jobs. There also is a regional mismatch

tied up in our housing market problems and the fact that the usual areas of expansion in the U.S. economy, places like Nevada, places like California and Florida, are depressed. Currently a large part of the U.S. recovery is the dynamism of moving workers to areas of new opportunities.

What can we do to try to deal with the problems of the long-term unemployed? On top of job creation, there are several things I would like to conclude would make sense.

One is we need to do something to supplement their earnings when they take a new job, serious consideration of wage loss insurance as an additional component, a way of using unemployment insurance more effectively to provide people with support when they move into a new job with training.

Second, we need better reemployment services and training opportunities. We have a lot of people going into community colleges. They have a high rate of return when they get proper training, but they have very little rate of return when people are taking remedial classes or caught in a maze and not taking the courses that line up with labor market projects.

So we need to make sure that community colleges are reasonably funded, but we also need to provide the student services and guidance so people take courses that have a return.

Finally, one of the things we have learned in the last few years is a tremendous innovation in job training. Some of the stuff that Representative Cummings was talking about are these what we call sectoral employment training, working between businesses, community organizations, community colleges and labor market intermediaries.

The latest evaluations show the highest rates of return that we have ever seen on job training programs, and we need to think about redirecting many of our resources that now go into, frankly, not terribly effective Federal job training programs into some of the more innovative ones that are working at the community level.

I think if we do those things, we can at least have a chance of trying to provide better job opportunities to those who we worry are going to be left behind in this recovery.

[The prepared statement of Dr. Lawrence F. Katz appears in the Submissions for the Record on page 35.]

Chair Maloney. Thank you so very much.

Dr. von Wachter.

STATEMENT OF DR. TILL M. von WACHTER, ASSOCIATE PROFESSOR OF ECONOMICS, DEPARTMENT OF ECONOMICS, COLUMBIA UNIVERSITY

Dr. von Wachter. Chair Maloney, Vice Chairman Schumer, Ranking Members Brady and Brownback and members of the committee, it is a great honor to be with you today.

As you know, as was already pointed out, the labor market in the United States is recovering from the most severe recession since World War II. As the overall economy continues to recover, an important question is the fate of the large number of workers affected by layoffs and lengthy spells of unemployment. My testimony is going to focus on the short- and long-term consequences of layoffs

and unemployment and on potential policy options to ease the burden of adjustments on workers and their families.

Judging from experience in past recessions, the consequences of layoffs for job losers are substantial and long-lasting along several dimensions. Our evidence suggests that average mature workers losing a stable job at a good employer will see earnings reductions of 20 percent lasting over 15 to 20 years. While these earnings losses vary somewhat among demographic groups or industries, no group in the labor market is really exempt from significant and long-lasting costs of job loss.

A job loss is also typically followed by extended periods of instability in employment and earnings. During this period, job losers can experience declines in health. In severe downturns, these health declines can lead to a significant reduction in life expectancy of 1 to 1.5 years.

The consequences of job losses are also felt by workers' children, who can suffer from the consequences even as adults, and by their families. All of these costs are likely to be greater for the long-term unemployed.

Government programs can alleviate part of the short-term earnings loss associated with job loss and unemployment. As a typical measure, extensions of unemployment insurance ease the burden of adjustment for laid-off workers. They are likely to prevent entering into more costly government programs, such as disability insurance, and they also provide a degree of demand stabilization, and at least in this large recession, they are unlikely to be associated reduction in employment in the short or the long run.

Extension of unemployment insurance could be combined with policies that have been able, shown to be able, to improve employment prospects of the long-term unemployed such as targeted efforts to help in their job search or programs reducing costs of long-term adjustments, such as the cost of retraining or the cost of relocating.

However, the available evidence suggests that it may be difficult to help workers recover from the large and long-term reductions in earnings that eventually follow a spell of unemployment or a job loss. The majority of long-term losses are due to losses in the value of certain skills as industries decline. They are due to the loss of long-term career jobs, or they are due to slow wage adjustment in the labor market.

None of these factors are likely to be easily manipulated by government policies. Yet there may be policy options available to prevent large-scale layoffs in the future. Such options could be programs of work sharing, to subsidize employment before workers are laid off and become unemployed, or to introduce flexible work time arrangements with workers and their employers.

For example, the cost of unemployment insurance benefits for a typical worker is a fraction of the lifetime loss in earnings once the job loss has taken place. So if the same benefits were paid during employment to avoid job loss, this would substantially reduce the cost of a recession and this would be beneficial even if the worker were to be let go eventually, since their earnings losses tend to be much smaller for layoffs that don't occur in recessions.

To conclude, the evidence suggests that job loss and unemployment during severe recessions can impose substantial and lasting costs on affected workers, in terms of earnings, in terms of health, and strain on their families, and it appears the short-term burden of these costs may in part be alleviated compared to these small costs, for example, by extension of unemployment insurance or by introductions of wage insurance to get long-term unemployed back into employment.

Similarly, cost-effective policies may be available to help reemploy the long-term unemployed, for example, by informing where they could get better jobs or where retraining would be most efficient. Yet, less is known about how to help reduce the substantial long-term earnings losses following a job loss and unemployment, and given these large and long-term costs, preventive measures to avoid massive layoffs in the future may be a policy option worth considering.

Thank you.

[The prepared statement of Dr. Till M. von Wachter appears in the Submissions for the Record on page 48.]

Chair Maloney. Ms. Furchtgott-Roth.

STATEMENT OF MS. DIANA FURCHTGOTT-ROTH, DIRECTOR, CENTER FOR EMPLOYMENT POLICY, HUDSON INSTITUTE

Ms. Furchtgott-Rott. Thank you.

Madam Chairwoman, Senator Brownback, members of the committee, thank you very much for allowing me to testify today. I don't want to repeat what my fellow panelists have said about the dire situation of the long-term unemployed. They and you have laid it out well.

Over the past few days, I have spoken to many long-term unemployed who have contacted me personally through a forum for the unemployed called Unemployed Friends. I have spoken to Pamela from Philadelphia, who used to work at the State's Career Placement Center. She has been out of work for over 2 years. Doug from Battle Creek, Michigan. Greg Rosen, who used to be a sales manager for a telecom company. Natasha Jones used to work in administration. They are long-term unemployed. They are all desperately looking for jobs.

Greg said to me, "I have scaled down. All I want is a position where I can pay my mortgage and bills." Gloria Stevens sent me suggestions for changing the unemployment insurance program.

But whereas jobs are the first priority of all these Americans, unfortunately, the legislative agenda has reduced jobs rather than created them. The high minimum wage, the proposed energy and environmental legislation, the new health care law, tax increases and the Employee Free Choice Act all serve to drive jobs abroad rather than attract them here. And the legislation that is under consideration but has not yet passed serves as a warning to any employers who want to create jobs: You create a job, we are going to punish you.

There is a joke that says Democrats love jobs; it is employers they can't stand, and many of the legislative priorities today show that.

Low-skill Americans are having a harder time recovering from the recession because the minimum wage has increased over the past 3 years from $5.15 to $7.25 an hour. A minimum wage of $7.25 an hour plus the mandatory employer's share of Social Security, unemployment insurance and worker's compensation brings the hourly employer cost close to $8 an hour, even without any benefits. So employers only hire workers who can produce $8 an hour or more in goods and services.

At a time of high unemployment, the Federal Government is dooming unskilled workers to the ranks of the unemployed by saying they cannot even take the first step on the rung of the career ladder.

Let's look at tax increases. Income taxes on the most productive small businesses, often called the engine of growth in the economy, are going to increase, making them less willing to expand production and employment now. The top tax rate on business owners who pay taxes as individuals, not corporations, which is how small businesses file their taxes, is now 35 percent. It is scheduled to go up to 39.6 percent on January 1st, 2011, and under the new health care bill it will rise even further with an addition of an almost 1 percent Medicare tax on wage and salary income and a 3.8 percent tax on investment income. With state taxes, some combined rates will exceed 55 percent.

In addition, last week the Senate Budget Committee passed a fiscal 2011 budget resolution that includes an increase in the top tax rate on dividends to 39.6 percent from the current 15 percent. That is a 164 percent tax increase.

The cap-and-trade bill, another legislative priority, would raise energy prices, impose strict new efficiency standards on automobiles and appliances, and mandate greenhouse gasses per person back to 19th century levels by 2050. That is enough to discourage anyone from creating a job here in the United States. It would discourage jobs in the United States in oil, natural gas, and coal. It will create jobs building more expensive forms of energy, such as solar panels and wind turbines, in China, not here.

The bill's $800 billion-plus price tag comes from new taxes, higher prices for energy and increased borrowing. Again, this decreases jobs in the United States.

In Spain, Economics Professor Gabriel Calzada Álvarez of the Universidad Rey Juan Carlos has indicated that Spain has spent about $763,000 per green job, and higher energy costs have driven away many kinds of jobs. This is not the path we want to be following. And even in Spain, which has beautiful sunshine, solar power didn't account for even 1 percent of 2008 electrical production.

As we all know, and as we have seen, the new health reform bill is also going to hurt employment. Companies across the industry spectrum, such as AT&T, Prudential, Verizon, and Caterpillar, are all writing down their earnings because the new bill is going to raise their taxes. Higher insurance premiums and taxes on income and payrolls are going to leave individuals with less to spend on goods and services. Employers are going to be required to offer health care to workers or face a $2,000 per worker fine. Again, that doesn't encourage employment. That discourages employers from

hiring. It makes them want to have more machines and fewer people.

Let's look at the Employee Free Choice Act, which attempts to raise union membership by making it easier for unions to organize. The bill would take away the secret ballot in elections for union representation, as required for almost 75 years, and impose mandatory 2-year contracts through political arbitrators.

Michigan, one of the highest unionized states, has one of the highest state unemployment rates, now about 14 percent. Why do we want to make more states follow Michigan?

Let's look at regulating private sector employment. The Davis-Bacon and Service Contract Acts and their associated regulations have always required contractors to pay prevailing wage rates. Now, in addition, project labor agreements ensure that workers in the construction sector are being paid wages even higher than Davis-Bacon rates, and the Administration is also discussing giving preferences to "high road" contractors.

These regulations worsen unemployment by raising the price of labor, causing fewer workers to be hired. Taxpayer dollars don't go as far because projects are more expensive. And small business, the engine of job growth, will employ workers.

Under project labor agreements, all employees on projects over $25 million have to receive union-approved wages and benefits, even if they don't belong to unions. This drives out small business from competing for these projects, raises their costs from taxpayers, and funnels a larger stream of union dues from taxpayer pockets to union treasuries.

On April 13th, the Administration issued final regulations for this executive order mandating project labor agreements. The order is going to take place on May 13th.

In addition to these project labor agreements, the Administration is discussing an additional method of regulating Federal contracts called the high road procurement process. The high road contractors would pay living wages and they would be given preference for government contracts now worth about $500 billion a year. And just as with project labor agreements, the government would award the contracts to the highest bidder, not the lowest bidder, reducing employment.

Recommendations: What is needed is a whole new approach to job creation, and I agree with my fellow panelists on some of their recommendations. Approximately $358 billion of the $787 billion stimulus has been spent, leaving us with more than $420 billion that we could use. There is still time to reallocate the remainder.

Lower taxes encourage firms——

Chair Maloney. The gentlelady's time has expired. Could you summarize and move forward with questions?

Ms. Furchtgott-Roth [continuing]. Yes, let me summarize.

We could have lower taxes; we could reduce the minimum wage to $5.15 an hour; we could encourage community colleges to offer high return courses.

In answer to Congressman Cummings's question as to why more high-return jobs are not created, community colleges have an incentive to offer fewer courses in nursing, which is a high-return

profession, and I have written a paper on this. They could be encouraged to have more high-return slots, such as nursing.

We could have wage insurance that would give the unemployed an incentive to take a lower paying job and pay part of the difference between the lower paying job and the higher paying job.

I would just like to conclude with today's editorial from the Washington Post talking about the problem with Greece and the debt ratio. It says, "For all of Europe's indebted governments, the key statistic is the ratio of government debt to gross domestic product. Greece's is 125 percent." Ours, by the way, is now 63 percent, due to be 90 percent in 2020.

The Washington Post writes, "Austerity can cut the numerator—debt—but only growth can increase the denominator—GDP. In many countries, labor protections, bloated public sectors, byzantine taxes and other stultifying policies have hindered private investment and employment. From Madrid to Athens, politicians must take on the special interests that benefit from outmoded practices, lest their countries sink into permanent stagnation or worse." And we in the United States must also pay attention.

[The prepared statement of Ms. Diana Furchtgott-Roth appears in the Submissions for the Record on page 67.]

Chair Maloney. Thank you very much for your testimony.

I first would like to ask the panelists if they are aware of the use of unemployment checks to cover the costs of training as one idea of how to move forward.

Beginning with Dr. Katz, are you familiar with the Georgia Works program that began in 2003, and other States trying to follow this example? It pairs unemployed workers with companies for job training, and during their training they would receive their unemployment check and also a stipend to cover transportation and other costs, and there is no cost to the employer. And at the conclusion of the training, sometimes there is a job waiting for them that they have been trained for. According to a report I read, over half of the people who entered the Georgia Works program ended up with a full-time job.

I wonder if you have looked at this, and if such a model could be successful with the long-term unemployed that we have in our country now?

Dr. Katz. I think Georgia Works is a quite interesting and promising program. I do not know all the details of it in specific, but there is something—traditionally the way our unemployment insurance system worked is basically employers paid money, which largely came out of workers' wages when you look at the incidence of it, to provide this insurance for when downturns occurred workers would have some support. The unemployment insurance system was only supposed to use its money to pay out benefits and determine eligibility.

People who receive unemployment insurance benefits are supposed to be searching for work, but a big question is what does it mean to search for work within that system? Historically, there are two other ways to get work than to just go pound the pavement. One is to actually increase your skills and move into a new job, which is known as State-approved training, and Georgia is using that ability and interpreting it I think in the correct way. And the

other way is to actually form your own business, and about half the States in the U.S. allow people to use unemployment insurance to set up a business plan and support themselves while they are forming their own business.

Our evaluation of the self-employment one is that for a small group of unemployed it is a quite beneficial program that helps in moving forward in both getting them employed and creating new businesses for others. And the best evidence on these sort of sectoral employment training businesses, where the unemployed receive some support and are linked up with employers, is that those are very promising.

This specific one I don't know about. But combining the use of some supplement, some intermediary and employers with a job at the end, can be a very promising approach. And making sure that the U.S. Department of Labor and States liberally interpret the rule of what approved training is to continue receiving a stipend I think is quite important, and it is something I know there are a number of efforts in many States right now to try to expand.

Chair Maloney. A lot of job training is a job training program at the end of which there is no job. So by hooking them together it seems like a better approach. Can you think of changes that you could suggest that would strengthen this approach or to tailor it to particular sectors or demographic groups? Or what are your ideas for generating training for new jobs? It seems like putting the two together is an effective way of doing things. Are there particular challenges with this kind of approach that policymakers should be aware of as they consider new job training and placement options?

Dr. Katz. There are a number of challenges. So what we do know is we have seen some evaluations of programs that are quite successful, that combine a local community group that recruits people or gets people from unemployment insurance that have employers, that do a lot of research in, let's say, what do the local hospitals need, what sort of positions are they having difficulty finding people in, can we sort of set up something that works there.

Those programs have been quite successful at modest scale in places like Project Quest in San Antonio. There is the Jewish Vocational Services in Boston which appears to be quite successful. So there are a number of these.

The issues we face are they take a lot of work and they tend to be long-term. They are not things you can just set up in 3 weeks and get going. So we don't know how scalable they are. We don't know how easily transferable they are. But we do know with creativity and the combination of employers having an incentive of getting good workers, local communities working with them, and workers really getting the support to go through training that leads somewhere, the best evaluation show things like 20–30 percent persistent earnings increases from such programs. So those are the most promising models I have seen in recent years.

In general, the combination of some financial support for employers to get people into positions, some training, and some intermediary that vouches that the worker is seriously doing the training seem to do better than stand-alone training programs by themselves that aren't linked to employers, and can supplement giving workers things that look like vouchers to go out on their own into

community colleges, which can be helpful, but this combination really does look promising.

So I think making sure that training money, that UI does not rule out that as an appropriate way to find a job is important, and, additionally, encouraging these models to be transferred. For example, Project Quest in San Antonio is spreading out into a number of other cities in Texas with some of the State support, and there are some very nice models out there that are promising for both the long-term unemployed and for people with limited education from disadvantaged backgrounds.

Chair Maloney. Thank you very much.

Congressman Brady.

Representative Brady. Thank you, Madam Chair.

I agree with members of our panel who are concerned about the mismatch between skills and jobs, and I agree with many of the recommendations that we need to modernize our job training programs. We have an eight-track tape stereo job training system in an iPad world, and it is serving us very poorly.

I want to talk about unemployment. Obviously, jobs are the key issue. The signature portion of this Administration's and this Congress' job creation program has been the stimulus bill, $862 billion, plus interest, over $1 trillion.

If I could have this chart, we were told about three promises if Congress went debt to finance the stimulus bill. One is that the unemployment rate wouldn't rise above 8 percent. We know that failed.

The second one, 90 percent of the jobs would be created in the private sector. That is just the opposite. The private sector has lost 3.7 million jobs. Government has gained some 100,000 jobs.

But the one that really relates to unemployment is this: We were promised that by the end of this year, payroll employment in America would be at 137 million jobs. What this chart shows is what it would take in performance on job creation over the next months to reach that, which shows we would have to create 866,000 jobs each and every month to be able to meet that standard that the White House and this Congress set for itself.

So my question for each of the panelists is, one, is the White House and Congress going to be able to keep that promise of reaching 137 million jobs by the end of this year? Secondly, to do that, to reach it, what should Congress be doing or not be doing in order to create job growth?

I should point out the only time in American history we have ever added 866,000 jobs was one time, September of 1983, only because there was a settlement of an AT&T strike that temporarily that month boosted employment.

My question is, are they going to be able to keep this promise, and what should Congress be doing or not doing to create job growth over the rest of this year?

[The chart titled "Measuring the Stimulus" appears in the Submissions for the Record on page 85.]

I will start with Ms. Furchtgott-Roth.

Ms. Furchtgott-Roth. There is no way employment is going to grow by that much towards the end of the year. Congress should say this is an emergency. We are going to freeze tax rates. We are

not going to increase tax rates on January 1st, 2011. We are going to let the minimum wage go down to $5.15 an hour, so low skilled workers can get their foot on the first rung of the career ladder. We are not going to pass the Employee Free Choice Act, we are not going to pass cap-and-trade, and we are going to focus on basic measures that help employers create jobs.

In the way of job training, there are many high-return slots that could be funded through our community colleges. I did a study of 85,000 community college students, including those who got Cs, in the State of Florida. When they graduated from community college with an AA or a credential in the health care sector, they got jobs earning $45,000.

Education and health services is a sector that has been hiring every single month since the recession began, and of course even before. We need to make more use of these high-return fields to get workers, especially low skilled workers, back into the job market.

Representative Brady. Thank you very much.

Dr. von Wachter, will they be able to keep that promise, meet that goal?

Dr. von Wachter. Well, that is a very important question. I am not qualified to speak on that particular question as that is very hard to predict. That is clearly an enormous task. Several things could be done to get towards that.

First of all, one could subsidize employment through tax breaks for employers, and reemploy many unemployed workers by providing wage insurance to raise hiring. This could work together with incentives for firms to provide on-the-job training, so this could lead to the instant reemployment of large groups of workers. This could be complemented with public works programs, although this form of spending typically takes longer to take effect. And certainly what is needed is to ramp up the matching of workers and firms by providing information on workers where the viable jobs are.

Finally, one version of job sharing that was proposed would probably cut down on continuing job obstructions and immediately raise the number of total created jobs.

Representative Brady. Run that last part by me?

Dr. von Wachter. Of course. This was laid out in a recent testimony by Mr. Hassett. As others have done, Mr. Hassett has proposed a system of job sharing in which the total number of employment that should be reduced by a firm could be spread across all workers by lowering hours instead. Instead of firing workers, you lower hours and the government steps in to take part of the wage bill. Mr. Hassett calculates that that would lead to an instantaneous increase in jobs.

Representative Brady. Dr. Katz, are we going to hit that goal?

Dr. Katz. I would call it an inaccurate forecast rather than a promise. But, no, there is no conceivable way that we will have that amount of job growth, given how deep the shock to our financial sector was in 2008 and early 2009. So, no, that is not a reasonable forecast.

What could we do to sort of try to get closer in that direction? Well, I think that we could do more on providing short-run tax breaks for job creation. I personally think a short-run net job cre-

ation tax credit that provided a hefty tax break to companies that expanded employment would both speed up hiring as the economy recovers, and it would also target those to jobs that are likely to last, because the people who would be using it would be firms that are expanding. It should be available to new employers since new startups are actually a key part of economic recovery.

We need to do something to improve credit access to new and small businesses. Those would be important things to do in the short run. We need to make sure the purchasing power of the unemployed stays reasonable through continuing the current extensions of unemployment insurance both on humanitarian and fiscal stimulus grounds, as well as on consumptions moving. And we certainly need to improve access to training and education and do something like wage insurance.

We can do better than the current trend. This economy has faced a lot of damage. Employers are going to be very hesitant to expand employment greatly. There has been a lot of reorganization and productivity improvement.

And the other thing to remember is, while one talks about job sharing, there actually has been a lot of job sharing in this downturn. The number of workers who work part time for economic reasons which we call involuntary part time is at a record level. Just getting them back up to normal hours, which is going to happen before firms do new hiring, is going to take a long time. And there is going to be a lot of temporary hiring also before permanent jobs. So all of those things are going to have to take place before we will have a sustained jobs recovery.

Representative Brady. Thank you, Madam Chair.

Chair Maloney. Mr. Cummings.

Representative Cummings. I was listening to the testimony, and I have always—this issue of minimum wage—a lot of the people who have minimum wage live in my district. And I don't know if anybody ever tried to live off of $5.15 an hour. It is hard. And I just want you all to—Dr. Katz and Dr.—I just want you all to talk about that for a moment. I want job creation, but I also want people to be able to survive. So, Dr. Katz, would you comment on that, please?

Dr. Katz. Yes. We both want job creation, and we want people to have jobs of reasonable quality at a reasonable living standard. The minimum wage had eroded dramatically. $5.15, if you put it into real terms, was much lower than the minimum wage prevailing, say, in 1980 or 1970. The current level of the minimum wage is not very high by historical standards.

Before this downturn hit, the first year of the minimum wage increase, there is no evidence whatsoever of significant employment effects on the youth labor market. The best analyses of minimum wage research using the sharp changes across States of the Federal minimum wage or State minimum wage changes have found in the range of minimum wages in the U.S. almost no adverse employment impacts but substantial positive impacts on earnings.

Furthermore, the notion of lowering a minimum wage from existing standards—in fact, there is a large amount of experimental evidence of what happens in a labor market when you cut back wages from what was the prevailing standard. In fact, workers won't work

at something that is viewed substandard. The reservation wage, which is a technical term in economics, rises with the minimum wage. So reversing a pre-existing increase in minimum wage does not have the same effect, even if you believe the minimum wage has adverse employment effects.

Furthermore, we have had youth sub-minimum wages and training wages, and firms don't take them up. They actually don't believe in paying teenagers lower wages than people doing the exact same job standing next to them. It violates their standards. I did some of the earliest work on that.

So I don't think time is right for a large new increase in the minimum wage, given the state of the labor market, but I think what Congress did was a reasonable response to the erosion in the past and that what we need to do is have much more demand for workers, improved training so people are really worth over 8 bucks an hour. And, if necessary, we need to do the type of net job creation tax credit, which is naturally going to be somewhat capped and will lower the cost of hiring new workers and at least for some period will offset the impact of the minimum wage. But that would not be a particularly effective way of either improving employment and it certainly wouldn't improve the living standards of disadvantaged workers.

Representative Cummings. Let me just throw this question out to you, Dr. Katz, and you, Dr. von Wachter. You both discuss in your written testimonies the fact that falling home values, especially in places like Florida, California, and Nevada, have limited workers' geographic mobility and limit a workers' ability to move to where the jobs have sprung up.

Now, as the chairlady said a moment ago, there are people probably watching this right now or they may be watching it later on on tape; and they are glued to their TVs because they are trying to figure out—they are saying, okay, if there is one job, for every job there are five folks trying to get it. And they are one of the five, and they are trying to figure out, where can I go to get a job?

So what do you say to people like that? Are there areas that have recovered faster? And why have they recovered faster?

You mentioned a program, something Quest, a moment ago. So where do they go, the person who is desperate, has got two kids, five and aides, and a husband, a husband and wife? They are just trying to make it. Right now, they are both out of a job, or one of them has lost a job and now 65 percent of the income is gone. What do you say to them? Any of you.

Dr. von Wachter. As I pointed out—and I should make clear—this is more of a medium- to long-term help to help workers once the economy has picked up to move to the places where more jobs are being created.

In the short run, as you point out, there is no place to go, and we need other measures. We need to match workers and firms with firms who want to create jobs or to train workers, and then we could pay firms to effectively lower the minimum wage but require that workers be trained alongside. Or we need to provide some form of wage insurance, or we need to provide unemployment insurance in the short run to help people do their living.

But in the medium run, helping workers to reset their mortgages would be very helpful, and here is a program for workers receiving unemployment insurance that is called HAMP that helps them reset their mortgage which will in the long run improve mobility. So that is the right way to go.

Representative Cummings. Doctor?

Dr. Katz. I agree with what Dr. von Wachter just said. I think that in an economy that still has a 9.7 percent unemployment rate there are some pockets of opportunity. There are a few States out there with actually low unemployment rates, but they—the truth is, we for a long time have had—the U.S. is a very mobile society. There are certain areas that have been attracting workers for the last century. As things get better in the Sunbelt and other places—and most of those areas are still quite depressed because they were some of the areas where the subprime hit the worst.

So we need a stronger recovery. There will be. Florida will grow in the future. Places like Nevada and California will again. And there will be new opportunities, but it is going to take some time.

The key thing is, one, to pick up a set of skills that are going to be valuable as the economy recovers. So finding a good community college program, finding a good program through one of these sectoral employment things and trying to learn about what are your interests and what are the types of things available, some of the local programs you talked about and being willing to actively search and to take a job that might not have the best wage to start but might be a stepping stone to some other place.

But the truth is we do need more aggregate job creation. Because even if we could magically take every unemployed worker and put them in the existing openings, we would still have an 8 percent unemployment rate.

Chair Maloney. Thank you.

I would like you to comment on younger workers. I have been talking to graduating students, and many of them do not have jobs. Some of you testified earlier about the impact of long-term unemployment on productivity and on long-term earnings, and it appears that this would have a huge impact, particularly on younger workers. So I would like to ask, Dr. von Wachter, if you could comment on what we can do to help get these young people back on track. And should training programs for teens and young adults look different from those that we are trying to develop for our other workers that have lost jobs? And are there training and placement strategies that have been particularly effective for younger workers?

I am particularly concerned about the comments you made earlier about the long-term unemployment having such a huge impact on future productivity and earnings, as it seems to be extremely challenging for young workers who are not able to find a job upon graduation from high school or college.

Dr. von Wachter. Thank you, Chair Maloney, for your question.

First, the good news. Compared to a laid-off mature worker, a worker, for example, that graduates from college in a recession will eventually recover their earnings, on average. The bad news is that this will take between 10 to 15 years.

The recovery process typically works this way. Workers start at firms and employers that pay, on average, low wages. They search for a better employer. And then, once they arrive at the better employer, say after 5 years, they keep growing within the firm to recover the wage loss.

So workers have to stay very mobile. And that is the first message that has to go out there to younger workers or young college graduates, that they have to stay mobile for the next 5 to 10 years. And mobile means being mobile across regions, it means being open to new occupations, it means switching jobs and switching industries. And whatever can be done to help these workers in this rebuilding of a career that got off the wrong foot should be helpful.

First of all, informing workers and making them realize two things. First, once the economy picks up, they are not going to immediately pick up. It is going to take another 10 years from there. And they have to be active.

Second, they have to realize that something may have to give, meaning their ideal career path or their ideal location won't come through anymore. So either they have to change occupation or change location. Whatever help can be given, for example, for non-college graduates or something like the Georgia Works program would be an excellent example. Or, for college graduates, help to do internship or to match to growing firms would be extremely helpful.

Chair Maloney. Dr. Katz and Ms. Roth, would you like to comment on strategies for our younger workers?

Dr. Katz. So I think what Dr. von Wachter said was quite sensible. I mean, the first thing I—I would reiterate what he said, which is the largest consequences of job loss are actually the more mature workers. Young workers luckily, they experience a lot of pain, are more flexible and adaptable and more willing to go back to school.

But the first thing I would say is staying in school is always a good thing to do, given the economic returns to higher education in the U.S. It is even more important given the current employment situation and the fact of having a set of skills that will allow you to adapt to things that we don't understand yet where the jobs of tomorrow will be quite important.

So there are two interesting signs in the current labor market and overall experience for young people. One, the Bureau of Labor Statistics just released 2 days ago numbers that we have a record rate of college enrollment among last year's high school graduates, up to 71 percent. That is something to applaud, because that is going to pay off in the long run. In fact, it was the tremendous expansion of people staying in high school in the Great Depression that greatly set us up for a GI bill afterwards and for great growth afterwards. That is important.

On the other hand, the youth problem is bifurcated. While more people are staying in school, the enrollment rate is up, more people are both out of work and out of school. And when you leave school and don't have a job and don't go any farther, that is where the persistent things happen.

So we need to, one, encourage people to be in school, but, two, we need to think about things that are actually going to provide

employment and training for young workers out. And if you look, what we sometimes call the idleness rate for young men now in particular in the U.S. is reaching incredibly high levels, and those are not the college graduates who all will make it up in a decade. We need to keep people out of crime, which has long stigma effects. And thinking of something seriously on youth jobs directly being created or some form of wage subsidy there I think is a sensible thing in the short run. We now have the lowest youth employment rate since it has been recorded since World War II.

Chair Maloney. And we did pass in the House this summer a youth program and also the HIRE Act that has a tax incentive to hire unemployed workers.

Mr. Brady.

Ms. Furchtgott-Roth. I thought you said I could answer the question.

Chair Maloney. Yeah. Absolutely. Go right ahead.

Ms. Furchtgott-Roth. My research shows that if young people get degrees in high-return fields—and it doesn't necessarily mean a 4-year BA; it could also be credentials or an AA degree in a community college—they do very well. Forty-five percent of the Nation's freshmen are at community colleges; and they need to be guided into fields, these high-return fields.

What is also relevant for these young people is the minimum wage. I agree with Dr. Katz, that it doesn't affect the economy as a whole, but it overpoweringly affects teenagers. More than half of the people on the minimum wage are teenagers, many of them in the leisure and hospitality sector.

We talked about internships, letting them get internships. Well, the Labor Department is now investigating internships at for-profit businesses. So not only are we raising the minimum wage so we can't let them have minimum wage jobs, we are not letting them work for free to have business experience either. They are just supposed to sit around at home and not do anything.

If the minimum wage didn't have any effect, as Dr. Katz says, why not raise it to $20 an hour? That way everyone would be better off if there were no costs associated.

The point is, it does affect, not the economy as a whole but this small group of teens. It means that when they graduate from college they will not have the work experience that they would have had otherwise.

By the way, there is still an exemption for teens in the minimum wage. They can earn $4.25 an hour. But the reasons firms aren't taking them up is because it is just so complicated to do the paperwork. It is really complicated paperwork. If you only hire them for 3 months at a time, then they can be employed right now for $4.25 an hour.

Chair Maloney. Thank you.

Mr. Brady.

Representative Brady. Thank you, Madam Chairwoman.

The problem with subsidizing employment is the job only lasts as long as the taxpayers pay for it, and we are running trillion dollar deficits last year and for this year and for the next decade if we don't change our ways. That is adding a great deal of, I think, angst to consumers who are not only worried about their own jobs

but they are worried about this dangerous level of deficits and debt and the drag it will create ultimately on our economy.

I guess we all know job creation from our local region. In 2007/2008, while unemployment was increasing in Michigan, Ohio, and other States, our biggest problem in southeast Texas—we met every 2 weeks—is we could not find enough workers for the jobs. Yet our Federal training programs actually discouraged relocation and discouraged regions from advertising in other areas to tell them what the jobs are in that area.

I think, again, we want our folks to stay in their community and to find jobs there. Sometimes regional opportunities occur, and I think we ought to be more worker-neutral, geographic-neutral in our training programs so that, given other options, if moving is one that gives them a standard of living and restores it, that we allow the worker to make that choice.

It has changed in our region. I have run past our small- and mid-sized business the ideas and the details of the job tax credit and they reject it and the reason being is they are fearful of what is coming ahead of them. They are fearful about and have been about the health care mandates, about cap and trade, which would destroy 200,000 jobs in our region, 30 to $40 billion in new energy taxes that would discourage exploration production here in the United States and would cost our independent producers 300,000 jobs. They are very worried about new taxes on real estate partnerships, the ones who construct our apartments and strip centers and office buildings and multifamily housing; and I am convinced the reason we are having such a subpar economic recovery is that uncertainty that has been created by the agenda up here in Washington.

But back to the original point. How do we remove that uncertainty and how do we finally reform our job training program so that they actually are effective? I see pockets of them. I see models of them. But, as a whole, I think they are generally—I don't want to say doing a poor job but not doing a good job of training for the skills not just of today but of tomorrow.

Dr. Katz—I started last time on the other end of the dais. Dr. Katz, do you want to weigh in? How do we make them work the right way? Because we have all talked about it for an awfully long time.

Dr. Katz. Yeah. So there are a number of ideas out there. One is, we should be consistently evaluating programs, using true, scientific, random assignment methods; and then we ought to be hardheaded about the ones that don't seem to be effective, and we ought to be much more generous with the types of ones that seem to be effective. That is the first important thing to do.

A second important thing to do is we need to improve the incentives of the job training programs and the one-stops themselves. There are some interesting examples, for example, in welfare to work, that a number of States have done where they basically use intermediaries to try to help people find jobs. Sometimes they are community colleges, sometimes they are other nonprofits and community groups. But they basically essentially say, you don't get to choose who your clients are. We are going to assign you ones. Those clients can go to other places, but you are responsible for try-

ing to make them do well. We are going to compensate you not just on a fixed amount of money for each client you see. You are not going to get the same amount for your center. We are actually going to pay you on the things we care about, not just are they placed tomorrow because you got them a temporary job but a year from now or 2 years from now, how many of them are sort of earning and how well are you doing versus others.

We could greatly improve—we use a lot of contractors. We have very short-term limited sort of incentives. And in the welfare to work area, we have seen the ones where they get sort of longer term incentives, don't just churn people through temporary jobs and short-term programs, so we can use the intermediaries better.

And then we have to empower the workers themselves with better information and choice. These intermediaries ought to have incentives, but they shouldn't have monopoly power on what sort of programs workers use.

I think if we do all of those things, we could have a much more effective system.

Just to conclude, there was one other important point. We have lots of people entering community college. And when you take a good program that leads to a certificate, it has very high payoff, but a huge number of people in community colleges spend time taking remedial courses, taking courses that are not going anywhere.

We need to, one, reform, make sure the people up front do some sort of intensive, getting over their remedial courses quickly, rather than just throwing them, not knowing they are not getting credit; and, two, we need much better guidance for students entering community colleges about what types of things are actually leading to jobs.

We could do much better. The graduation rates at many community colleges in the U.S. are in the 15 percent, 20 percent range. We need to do better than that.

Representative Brady. I am out of time. Is there disagreement with some of those recommendations?

Dr. von Wachter. I completely agree that it is sensible, what Dr. Katz said. Let me just say that my research shows that people who have more math-based subjects, say, in college will do much better in a recession. So that is an extremely important point.

Another point is that the idea of matching firms with potential trainees allows an input by employers to what type of training they require, and that would be a very helpful step in making the training programs work.

Ms. Furchtgott-Roth. There is a certain amount of accountability already at One-Stop centers to the extent that they don't take everyone who comes in and wants to be trained. They give them tests beforehand. And if they think they can't be trained properly and given a job, they actually don't take them on. So there is a problem also with the people that One-Stop centers turn away. What do we do with those?

One idea—you asked about relocation—that we explored when I was in the Bush Administration was career advancement accounts or personal reemployment accounts, where someone, instead of getting their 6-month unemployment insurance benefits spread out over 6 months, would have it as a fixed sum at the beginning. This

would give them a fixed sum of money, which they could use either for a training program, or to relocate, or to buy a car to get to work, or something like that. And, unfortunately, this did not pass Congress, but it was a well-developed idea which I think could still be considered.

Representative Brady. Madam Chair, thanks for letting me go over time.

Chair Maloney. Thank you.

And Mr. Cummings.

Representative Cummings. Madam Chair, Dr. Katz, I want to pick up on where you left off with regard to this community college thing.

You make a very valid point. I know a lot of young people who go to community colleges and never graduate because they can't get past the remedial math. In other words, they have taken all the courses, they get to the end, and then they are spending all kinds of money and time to do remedial math when they have already gotten through everything else and some of them with very, very good grades.

I guess this is what I am trying to get to. Based on what you are saying, you mean—you don't mean—you are not saying take those courses out, are you? What are you saying? So do they never get a degree or what?

Dr. Katz. No. What I was saying is I think the way we organize remedial or what is called developmental education in the community colleges is not working as well as it could in the sense that taking all of your regular courses and having this one or not being able to go into your regular courses, there are a number of pilot programs that seem quite successful that essentially, rather than just entering, taking the exam the day you enter school and then being told you can't take any of the courses you want because you have to do the remedial, the summer before you enter community college we actually do the diagnostic exam.

If you are going to be needing developmental courses, we have an intensive spending the summer—it might be 1 month, it might be 2 months—sort of 5 days a week just on that subject with quite talented teachers in sort of a group environment to get you to the level where you can take the courses you really need. Those programs where it is a group experience, there is an ongoing evaluation of them. That is what these programs like Project QUEST, which is quite successful, in Texas uses, seem to be much better. Not kids who have always had problems in certain subjects just thrown into classes like they had in high school is not going to work.

This seems to be an approach that gets people ready to start community college and take the type of valuable courses that lead to a career and not get hung up. So it is not that they don't learn math. It is clear that if you ended up at that stage, you have a problem with the way it is traditionally taught, not that you can't do math and there has to be a better way of doing it. And just having a large, impersonal community college and throwing you into these courses that you are told to take doesn't seem to be that effective. I think we could do much better with this sort of up front,

get you past there, and then you enter taking the regular courses. That is what I mean.

Representative Cummings. In addition to my role as a Congressperson, I am also on the board of a historically black college, Morgan State University. One of the things I am discovering, panel, is that the retention rate is not what I would like for it to be, and one of the main reasons why it is not is because the kids don't have money. A lot of people think the kids are just not bright. They don't have the money. And in this recession, the McDonald's job that used to go to that college kid is now going to that 45-year-old man that was just laid off from Bethlehem Steel.

So it seems to me that when we are talking about reductions in various things that government does, one of the things that I think is very positive was this whole Pell grant—increasing the amount of the Pell grant that folks can get out of the Pell grant. But we have got to find ways to help fund this education.

And then there is another piece. The Commission on Future Graduate Education released its report today in which it posited that, by the end of the decade, nearly 20 percent more jobs will require a masters degree or Ph.D. However, the report also noted that graduation rates in Ph.D. programs are low and relatively few minority students go beyond an undergraduate education.

As we have been so often told, the minority community has suffered disproportionately in current and in past recessions, and I am just wondering what policies would be used to encourage minority students to continue their education and keep all graduate students in the pipeline to get the doctoral degrees.

So I am combining two things. The one, a lot of these kids don't even have money to even get out of a community college, let alone to get a BA degree. So it just seems to me that we need to put our priorities in order a little differently, because I have got kids that probably would do fine if they had the financial support. Mamma has lost her job, daddy has lost his job, and they are in pretty bad shape.

Panel, respond to what I just said. Dr. Katz, we will start with you.

Dr. Katz. I completely agree that the cost of college and the ability to pay for it is a big barrier to people completing. So there are a couple of barriers. One we talked about is people who aren't prepared need to do remedial courses. The other important one, the dirty little secret, is that the vast majority of American college students work simultaneously while being in college. And prior to this downturn, far more than half of all college students were working 20 hours a week or more in the labor market to fund it. So that greatly slows down people and the types of credits they can take. It disrupts their training.

So, yes, one, that is exacerbated in this downturn because the types of jobs they would get to support are now not available. But, two, there are some interesting programs that tie sort of financial support to taking a full load and to sort of doing reasonably well in it.

There was an interesting program called the PROMISE scholarship in West Virginia, which basically gave you free tuition and support if you took a sufficient load and passed it, that you could

actually graduate within 4 years at a 4-year college. So there are potentially ways of using financial aid that would probably be more economical in getting people through in 4 years rather than in 6 and 7 years and reduce the workloads and having some where we have more sort of performance requirements of the students but set a new norm that you actually take a full load but we will give you support to do that. The evidence is that could be a quite successful path.

And the final thing you mentioned, the returns to going beyond a bachelors degree are the one thing that has grown the most in the U.S. economy over the last 20 years. So, yes, anything that can encourage minority, disadvantaged to continue on, if they have done well as an undergraduate, is going to have a very high payoff. That has been what we call a convexification, that is, the higher up you go in education, the bigger seem to be the marginal returns. So that is where the bucks are, and getting people to the point where they can take advantage of it is certainly important.

Representative Cummings. I see my time is up.

Chair Maloney. I want to—would you like to comment on it further?

Dr. von Wachter. Let me just add a brief thing.

Financial aid is typically based on last year's income of the parents. Now, for the people who have been admitted to a BA and their parents lose their job, they might not even show up at the college or while they go to college the parents lose their job, financial aid is based on an earnings level that doesn't really correspond to the actual resources. So poor-income kids are more likely to drop out. And something that is worth considering is supporting those kids whose parents just had a tremendous job loss while they are in college or while they got accepted to college.

Chair Maloney. Thank you so very much.

When it comes to long-term unemployment, it is clear that we have a great deal more to do. The painful aftermath of long-term unemployment is borne by the unemployed, their families, and the economy as a whole.

I want to thank our witnesses today for their excellent testimony. You have given us some good ideas that I hope we can follow up on in a bipartisan way.

We are shortly going to be called for votes, so I am adjourning this meeting. Thank you.

[Whereupon, at 3:34 p.m., the committee was adjourned.]

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF CAROLYN MALONEY, CHAIR, JOINT ECONOMIC COMMITTEE

Just over one year ago, the current Administration took office while the country was suffering from the worst economic crisis since the Great Depression.

In fact, last October, Council of Economic Advisers Chair Christina Romer testified to this committee that the shocks we endured in the "Great Recession" were actually worse than those of the Great Depression.

But today, it is clear that America is on a path toward economic recovery:

- After 4 straight quarters of negative growth, the economy grew during the last two quarters of 2009. There is a consensus that when the latest GDP numbers are announced tomorrow, we will see that our economy continued to expand during the first quarter of 2010.
- The most recent employment report showed that 162,000 jobs were created in March, with three-fourths of those new jobs coming from the private sector.
- Manufacturing employment has been up for 3 straight months.
- Sales of cars and light trucks were up in March.
- Excluding aircraft orders, durable goods orders were up almost 3 percent in March.
- Retail sales were up 1.6 percent in March, the third straight month of growth.
- Sales of both existing and new homes increased in March with sales of new single family homes rising by almost 27 percent.
- And many surveys of the economy are optimistic about growth in both the service and manufacturing sectors.

These improvements in our economy are proof that actions taken by Congress, the Fed, and the Administration have put our economy back on track.

While we are making progress, the road to recovery will not be without bumps.

Although we saw significant job creation last month we need stronger job creation to reduce unemployment.

In addition, while the unemployment rate rose during this recession, it is the rise in the long-term unemployment rate that is especially troubling. Nearly half of the unemployed have been without work for over 6 months and more than a quarter of unemployed workers have been looking for work for over a year—even before the Recovery Act was signed into law.

Some groups are suffering more than others. Younger workers, less educated workers, and African-American workers are among those who are likely to be unemployed and stay unemployed.

The painful aftermath of long-term unemployment is borne by the unemployed, their families, and the economy as a whole.

While the long-term unemployed earn 30 percent less in their new jobs than before they lost their jobs, even 15 to 20 years later, these workers' earnings are still about 20 percent less than similar workers who didn't lose their jobs.

The scarring effect of long-term unemployment also reaches into the next generation. The children of displaced workers have lower earnings and are more likely to be unemployed than those whose fathers had stable employment.

Finally, the costs to the economy in terms of lost output are great, which will have an impact on our debt and deficit. $3.1 trillion of the deficit over the next 10 years can be attributed to the recession, due to lost and lower incomes and the need for government assistance during periods of unemployment.

While many believe that a "rising tide will float all boats" and that a growing economy is all that we need to help the long-term unemployed, it is clear that targeted provisions are needed to move the large numbers of unemployed back into the labor force.

Congress passed legislation to lessen the depth of the recession, including:

- The Recovery Act, which provided tax relief for 95 percent of American families and created jobs while investing in clean energy technologies, infrastructure, and education;
- The Worker, Homeownership & Business Assistance Act, which expanded the first-time homebuyer tax credit, and enhanced small business tax relief.
- And just last month, Congress passed the HIRE Act, which provides tax incentives for businesses that hire out-of-work Americans.
- The House of Representatives passed the Disaster Relief and Summer Jobs Act of 2010, which supports an additional 300,000 summer jobs for young workers.

But, when it comes to long-term unemployment we need to do more. That is why we are particularly fortunate to have such a distinguished panel of labor economists before us. We owe it to the unemployed workers—some of whom are watching this

hearing, their families and to our economy to search for ways of getting all workers jobs.

At a recent JEC hearing, Dr. Berner, Chief Economist of Morgan Stanley, said that we have a responsibility to look under every rock for solutions.

I look forward to looking under new rocks this afternoon with today's panel as we search for solutions to the problem of long-term unemployment.

PREPARED STATEMENT OF REPRESENTATIVE KEVIN BRADY

I am pleased to join in welcoming today's witnesses before the Committee.

Although many economic indicators show signs of a recovery, the employment situation remains dire. As of last month, 15 million Americans were out of work for an unemployment rate of 9.7 percent. Moreover, 44.1 percent of the unemployed have been out of work for 27 weeks or longer, which is an all-time high.

Given these grim employment statistics, I thank the Chair for convening this hearing on long-term unemployment. I agree with many of the things that today's witnesses have to say.

Long-term unemployment presents Congress with two distinct challenges:

- First, what policies will boost economic growth, entrepreneurship, and business investment in the private sector so that rapid job creation will slash unemployment?
- Second, how does America successfully address the mismatch between skills and jobs—both today and in the future? Too many of our long-term unemployed have limited education and skills, while the high-paying jobs they are seeking require higher levels of both.

Ms. Furchgott-Roth, your written testimony is such a comprehensive indictment of the economic policies of President Obama and this Congress that there is little to add. To accelerate economic growth, create millions of new jobs and address the Obama unemployment bubble, we need to restore America to the best business climate in the world in which to invest, innovate, and produce.

To do that we must admit America has fallen behind. Other nations have taken a page from our successful playbook and have attracted U.S. companies and jobs by lowering taxes, rewarding investment, and recruiting research and development facilities.

To restore our economic strength the United States must lower its punitive taxes on business investment. Countries around the world have been slashing their corporate income tax rates to stimulate job-creating business investment while the United States has largely stood pat. In 1990, our average combined federal and state corporate income tax rate was 6 percentage points lower than the average in other OECD countries. We were leading our competitors. Today, it is 9 percentage points higher—and now we are losing out to them.

The same goes for incentivizing research employment in America. In 1981, realizing the importance of research and development for technological leadership and economic strength, the United States enacted the R&D tax credit. At the time we were leading the world. Seeing the benefits, other countries have enacted more generous R&D tax credits and created incentive packages for U.S. companies to relocate these critical jobs elsewhere—and now we are losing out. This Congress stood by while our R&D tax credit expired last year. We need to restore, modernize and expand that tax credit immediately and permanently or watch as the exodus of American research workers overseas accelerates.

Misguided and harmful proposals by this White House and Congress—during an economic recession of all times—to levy hundreds of billions of dollars in higher taxes on capital gains, dividends, income, U.S. energy production, inventories, and U.S. businesses reaching customers around the globe will only ensure America will fall further behind its international competitors and fall further behind in creating the types of high-paying jobs that will help solve our long-term unemployment crisis.

If these job killing tax increases become law, America will have tragically gone from "first-to-worst" in business climates among the world's largest economies.

Instead, we should boldly strive to create the best business climate in the world for 21st century jobs by reducing the federal corporate income tax to no more than 25 percent, modernizing and making permanent the R&D tax credit, eliminating taxes on dividends and capital gains, and reforming our international tax code.

The United States must also seek new customers around the world by ratifying this year the three pending free trade agreements with Colombia, Panama, and

South Korea that represent $13 billion in new sales abroad and 250,000 new high-paying jobs here in America.

Then, to ensure our companies and workers don't fall further behind in the global marketplace, Washington should renew Trade Promotion Authority, conclude a meaningful Doha Round at the World Trade Organization, and aggressively negotiate new free trade agreements beginning with the Trans-Pacific Partnership.

Shifting gears, Dr. Katz, I would like to thank you for your research identifying skill-biased technological change due to the rapidly falling cost of computers and computer-driven machinery as the major cause for the growth of income inequality in the United States since the 1970s. Skill-biased technological change is a global phenomenon that has widened the income gap in developed and developing countries alike.

Your research indicates that, to address the mismatch between jobs and skills, we must improve the educational attainment and skills of our workforce. To compete and win in the global economy, the needs of our children in public schools must come first. We should sweep away wasteful layers of education bureaucracy, redirect tax dollars to classrooms, and free principals to manage their schools.

We must also focus on the needs of young adults entering college and workers seeking continuing education or retraining—not on the needs of politicians, union leaders, or bureaucrats. Our current federal retraining programs are too often slow, bureaucratic, and driven by special interests rather than the workers. With a worker-driven program, our colleges, universities, and training centers can help both current and future workers improve their skills to qualify for high-paying jobs.

At the end of the day, the greatest affirmative action program yet invented is a good, solid education.

I look forward to today's discussion.

PREPARED STATEMENT OF REPRESENTATIVE ELIJAH E. CUMMINGS

Thank you, Madam Chair. Like many of us in Congress, I have spent the bulk of the last week talking about Goldman Sachs and financial regulatory reform.

We have been able to generate strong support for the SEC casting a wider net around the Goldman Sachs ABACUS transactions. I am grateful for the support of my colleagues in this endeavor, including members of this committee.

However, I have consistently told my staff that none of this matters if, at the end of the day, it does not result in a benefit for our constituents.

My constituents and neighbors in Baltimore continue to struggle—to find a job, to stay in their homes, and to provide for their families.

So many have lost jobs in this recession, and as CBO Director Douglas Elmendorf told this committee, a large number of those jobs are not coming back.

That is why the work of one of our witnesses, Dr. Katz, on the benefits of education, is essential to our ongoing recovery. Dr. Katz has argued persuasively on the need for educational systems and protocols that produce high returns for young students and adult learners alike.

He has written that "although college enrollment rates among new high school graduates have been rising since the early 1980s . . . the share of young adults completing four year college degrees has risen only modestly."

Clearly, as strong as our higher education system is, there are constituencies that are not able to thrive within the current infrastructure.

Therefore we must embrace alternative approaches to higher education that not only provide the necessary critical thinking, but also real job training and work skills.

I know that these two goals can be attained through two approaches:

First, America's community college system—which offers not only higher education to those who otherwise could not afford it, but also crucial worker and vocational training programs.

Community colleges also provide a haven for the non-traditional student, offering, as Dr. Katz noted in his opening statement, high returns for dislocated workers.

Unfortunately, the community college system relies heavily on State and local governments to meet financial obligations. And as we know, the recession has decimated the state and local government coffers.

While the Recovery Act provided essential assistance to community colleges, more must be done to allow these institutions to continue to meet the needs of a changing workforce.

The second way we can complement our traditional higher education institutions is through customized programs developed by business and community organizations.

A top example of this is the BioStars-to-BioProfessionals program—a product of the East Baltimore Development Initiative and the Biotechnical Institute of Maryland.

The program, one I pushed for, prepares the residents of East Baltimore for careers in biotechnology through not only technical training, but also with the personal and professional skills that are applicable in any vocation.

This program helps address the "skill mismatch" that plagues our unemployed, especially the young and minorities, who are among the most vulnerable in the recession.

I hope today's hearing will not only discuss the benefits of programs like BioStars, but also what other efforts we must explore and undertake to ensure that none of our constituents fall through the cracks during the recovery.

With that, I look forward to the testimony of our witnesses, and yield back the balance of my time.

PREPARED STATEMENT OF SENATOR SAM BROWNBACK, RANKING MINORITY

Chair Maloney, I want to thank you for scheduling today's hearing to examine the particularly vexing problem of long-term unemployment: the causes, consequences and solutions. Our economy continues to struggle through a deep recession. While economic growth, as measured by Gross Domestic Product, has returned, the labor market continues to struggle. A total of 8.2 million payroll jobs have disappeared since the recession began in December 2007. The official national unemployment rate stands at 9.7%. We have experienced the first year over year declines in the labor force since 1962. If normal labor force growth trends had continued, the official unemployment rate would be well north of 10% and would have registered above 11% early in the fourth quarter of last year.

Recent gains in temporary-help services jobs are encouraging, but since more than one million workers have exited the labor force in the last nine months alone, as they re-enter the job market we may experience rising payroll employment and a rising unemployment rate at the same time.

There is no room for debate. Getting Americans back to work is job one—and job two—and job three. A key part of that job is addressing the problem of long-term unemployment. The duration of unemployment is a key indicator of the health of the labor market. Short durations of unemployment are often an indicator of a healthy labor market because it is a sign that workers are easily able to move in and out of jobs and various sectors of the economy.

The number of long-term unemployed—those unemployed for 27 weeks or more—has reached 6.5 million or 44% of the nation's 15 million workers looking for work. I suspect that number would be even more staggering if it included those workers who have simply given up looking for a new job. Prior to the current recession, the highest previous percentage of long-term unemployment was 26% in June 1983 as we were exiting the double-dip recessions of the early 1980s. To put this in perspective, at the start of this recession, 17.3% of all unemployed workers were classified as long-term unemployed. The average, since data collection began in 1948, is 13.4%.

That the percentage of long-term unemployed is now close to 50% is particularly troubling because long spells of unemployment not only adversely affects workers' economic circumstances, but can lead to deterioration in their future job prospects.

As Federal Reserve Chairman Ben Bernanke stated in testimony before the Joint Economic Committee on April 14th, "Long periods without work erode individuals' skills and hurt future employment prospects. Younger workers may be particularly adversely affected if a weak labor market prevents them from finding a first job or from gaining important work experience."

Historically, a primary cause of long-term unemployment has been periods of economic recession in which more unemployed workers are competing for fewer job openings, leaving the average unemployed person out of work for a longer period of time. The current high rate of long-term unemployment has likely been exacerbated by the housing crisis. Mobility plays a significant part in the ability of unemployed workers to find new jobs, and the recent housing crisis has reduced the mobility of many homeowners.

With nearly one out of every four mortgage holders "under water," many people cannot afford to move to places that offer better employment prospects because doing so would involve taking a significant loss on their homes. Additionally, the glut of housing inventory has made it extremely difficult even for homeowners who are not under water to find buyers.

I could speculate on a number of other factors for the current levels of long-term unemployment such as the increased presence of two-earner families, the changing make up of the economy, or government policies that reduce incentives to hire and be hired. We have an outstanding panel of witnesses to discuss these and other issues. I am hopeful that their testimony and the questions and answers will provide us with some commonsense solutions that we can pursue on a bipartisan basis. As I mentioned earlier, for Congress, jobs one, two and three are getting America back to work.

Long-Term Unemployment in the Great Recession

Testimony for the

Joint Economic Committee
U.S. Congress

Hearing on "Long-Term Unemployment: Causes, Consequences and Solutions"
Cannon House Office Building, Room 210
April 29, 2010

by

Lawrence F. Katz
Harvard University

Overview – The Jobs Deficit and the Long-Term Unemployment Problem

The past two and a half years have been particularly trying ones for American workers and their families. Labor market conditions have deteriorated dramatically since the start of the Great Recession in late 2007 making this the severest labor market downturn since the Great Depression of the 1930s. The unemployment rate more than doubled from 4.8 percent in the fourth quarter of 2007 to 10.0 percent in the fourth quarter of 2009 and remains at 9.7 percent in early 2010. The unemployment rate today is even higher than the 10.8 percent postwar unemployment peak in the 1982-83 recession once one adjusts for changes in the age-structure of the labor force (Elsby, Hobjin, and Sahin 2010). The conventional unemployment rate understates current labor market distress and misses the huge growth in underemployment (involuntary part-time work) and a substantial increase in discouraged workers no longer counted in the labor force.

Payroll employment recorded a precipitous decline of 8.4 million jobs (or 6.1 percent) from December 2007 to an apparent employment trough in February 2010. We finally saw some modest employment growth of 160 thousand in March 2010. Since we would have needed a net increase of 2.4 million jobs from December 2007 to March 2010 just to keep up with civilian population growth, we have a *current Jobs Deficit of 10.6 million*. In other words, we would need 10.6 million more jobs today to get back to the employment rate (employment-population ratio) prevailing before the start of the Great Recession in late 2007.

Although there are increasing signs of a nascent economic recovery in the latest GDP and labor market data, we still face an enormous job creation challenge even if we get a strong economic recovery. For example, to get back to something approximating normal labor market conditions (the employment rate of late 2007) by January 2014 would require a net payroll employment expansion of 14.9 million jobs to make up the current 10.6 million jobs deficit and to absorb the 0.8 percent per year normal labor force growth projected by the Bureau of Labor Statistics. In other words, we need over 332 thousand net new jobs per month sustained for the next 45 months (or 2.9 percent per year employment growth) to make up for the two years of severe job losses in the Great Recession. This would require even stronger employment growth than the 2.4 percent per year in the robust 1993 to 2000 recovery and expansion.

Unemployment increases in the Great Recession have disproportionately affected men, workers from goods producing industries, young workers, and non-college workers. But this downturn has been so severe that it has had adverse impacts on almost every group of workers and all regions of the country in terms of both substantial unemployment and stagnant wages.

Two particularly worrisome signs suggestive of longer-term structural labor market problems and persistent costs of unemployment from this recession are the concentration of the rise in unemployment among permanent job losers and the huge increase in long-term unemployment. Permanent job losers (job losers not on temporary layoff) increased from 1.7 percent in November 2007 to a peak of 5.6 percent in October 2009 and remained at 5.0 percent in March 2010. The previous post-World War II high for permanent job losers as a share of the labor force was 4.4 percent in November 1982, during the depths of the 1982-3 recession. The number of long-term unemployed (those unemployed 27 weeks or longer) reached over 6.5 million in March 2010 representing 44.1 percent of the unemployed. The long-term unemployment rate (those unemployed 27 or more weeks as a share of the labor force) has increased from 0.9 percent in November 2007 to 4.3 percent March 2010 well above the previous postwar peak of 2.6 percent in June 1983. And the current long-term unemployment rate of 4.2 percent understates our actual long-term joblessness problem by not capturing the large number of discouraged and marginally attached workers (equivalent to another 1.4 percent of the labor force in March 2010) who continue to desire work but who no longer are actively searching for work and thereby are not counted in the official unemployment rate.

Much research demonstrates that permanently displaced workers and the long-term unemployed face particularly difficult labor market adjustments (Arulampalam, Gregg, and Gregory 2001; Jacobson, LaLonde, and Sullivan 2003; Couch and Placzek 2010). Workers displaced from long-term jobs in the early 1980s recession faced large earnings declines upon re-employment and still had 20 percent earnings losses at 15 to 20 years after displacement (Von Wachter, Song, and Manchester 2009). The health consequences of permanent job loss from long-term jobs are also severe for with a 50 to 100 percent increase in mortality the year following displacement, 10 to 15 percent increases in mortality rates for the next 20 years, and an implied loss of life expectancy for a worker aged 40 at displacement of 1 to 1.5 years (Sullivan and Von Wachter 2009). The health problems and mortality increases from job loss are strongly positively associated with larger permanent earnings losses. A substantial number of permanent job losers also end up moving onto the disability insurance rolls as they become discouraged in searching for new jobs and often have many health problems (Autor and Duggan 2003). Parental job loss also appears causally related to adverse impacts on children including poorer schooling outcomes and worse labor market outcomes as adults (Oreopoulos, Page, and Stevens 2008; Stevens and Schaller 2009). Thus, policies designed to help displaced workers transit to new jobs, gain valuable new skills, and reduce their earnings losses will be necessary to try combat the potential for huge and potentially persistent human costs associated with today's long-term unemployment. Such policies have upfront costs but if effective can actually be fiscally

responsible over the long-term in raising the taxable earnings of displaced workers, improving their children's economic prospects, and reducing the growth of the disability rolls.

Cyclical and Structural Unemployment Problems

The labor market deterioration from late 2007 to early 2009 followed the historical cyclical negative relationship between job openings (vacancies) and unemployment (i.e., moving down the Beveridge Curve with rising unemployment and falling vacancies). In other words, rising unemployment through around May 2009 looked like a severe but normal cyclical unemployment increase. But the unemployment rate continued rising in 2009 after the job openings rate stabilized and the unemployment rate is now much higher than would be implied by the historical Beveridge curve (Elsby, Hobjin, and Sahin 20010). This pattern suggests the potential emergence of structural unemployment problems of mismatches between the unemployed and potential new jobs and/or the exacerbation of the longer-term U.S. labor market trends of rising wage inequality and declining employment opportunities in traditional middle-class jobs.

Although the apparent outward shift of the Beveridge curve indicates some increase in structural labor market problems, there is no doubt that we still have a huge cyclical unemployment problem with a continued severe shortfall of aggregate demand and real GDP still well below its potential (trend) level. Most of the rise of long-term unemployment reflects the cyclical collapse of aggregate demand and labor demand. When hiring rates remain low for a sustained period, job losers (as well as labor market new entrants and reentrants) are unable to find work quickly and have a much greater risk of becoming long-term unemployed. The job openings (vacancy) rate declined from 3.2 percent in November 2007 to 1.8 percent in April 2009 and remained at only 2.1 percent in February 2010. With 5.5 unemployed job seekers per job opening (as of February 2010), cyclical problems swamp structural problems in terms of the source of unacceptably high overall and long-term unemployment. The long-term unemployed often tend to be at the end of queue in terms of gaining employment when labor demand starts picking up again. While the origins of the large recent rise in long-term unemployment are predominantly cyclical in nature, targeted policies to assist the labor market adjustments of the long-term unemployed are likely to be necessary even once a jobs recovery is underway.

A key component of policies to assist the long-term unemployed and their families is the continuation of (emergency) extended unemployment insurance (UI) benefits. Some analysts -- such as Mulligan (2010) – argue that the disincentive effects of the UI extensions themselves have contributed to rising long-term unemployment. But the most compelling research suggests

only modest impacts of UI extensions on the search effort and duration of unemployment of unemployment insurance recipients (Card and Levine 2000; Schmieder, Von Wachter, and Bender 2009). Furthermore, previous estimates of larger impacts of unemployment durations of UI extensions for the United States (Katz and Meyer 1990) are based on data from the 1970s and early 1980s in with much of the responsiveness coming from firms and industries using temporary layoffs and the sensitivity of recall dates to unemployment insurance benefits. This layoff-recall process is much less important today than it was in the 1970s and early 1980s downturns. Unemployment insurance extensions also have important consumption smoothing benefits for the unemployed (Gruber 1997) and much of the impact on job search comes from reducing liquidity (credit-constraint) problems rather than traditional job search disincentives (Chetty 2008). Traditional microeconomic estimates of the impact of UI on the unemployment durations of UI recipients further tend to overstate the aggregate impact by ignoring the spillover effects of shorter unemployment spells for the other unemployed workers no receiving UI benefits (Levine 1993). They also ignore the macroeconomic stimulus impacts of increased consumption expenditures by the unemployed from UI raising aggregate demand and labor demand during a deep recession as well as the gains from keeping more of the long-term unemployed attached to the labor market rather than moving onto disability programs.

Although unemployment insurance extensions are not a major source of current structural unemployment problems, some features of the current U.S. labor market are suggestive of potentially persistent structural problems. Regional labor market problems and geographic disparities in the location of job seekers and potential job openings may be an underlying source of structural unemployment problems. Relative to those in other nations Americans have always been highly-mobile and their moves in pursuit of new opportunities have enhanced U.S. economic dynamism. High rates of geographic labor mobility have allowed the United States to recover more rapidly from adverse economic shocks and to have smaller regional unemployment differences than European nations with less mobile work forces (Blanchard and Katz 1992).

But American geographic mobility has declined over the last two decades and has fallen sharply in the Great Recession since 2007 (Frey 2009). First, the housing market crisis and large house price declines in many regions potentially generate a geographic lock-in effect. Homeowners with negative equity are hesitant to sell their houses at a loss thereby reducing mobility from distressed areas (Ferreira, Gyourko, and Tracy 2009). Second, the subprime crisis has created economic distress in typically fast-growing areas, such as Florida, California, and Nevada, further acting to slow the labor mobility from declining to expanding regions that ordinarily helps drive U.S. job recoveries. Third, lingering credit market problems, especially for potential new start ups, hinder job creation in economically vibrant locales slowing labor

mobility to these areas. Finally, greater educational attainment has been the traditional way young Americans acquire the skills demanded by growing occupations and regions. Greater federal aid to higher education may be necessary, given the budgetary problems of most states and many families, to maintain access and allow young Americans to gain the skills to move in pursuit of their American dreams.

The sharp cyclical downturn of the Great Recession comes on the heels of a three decade increase in U.S. wage inequality and educational wage differentials. The large rise in wage inequality has been associated with rapid skill biased technological change associated with computerization and a slowdown in the growth of U.S. educational attainment (Goldin and Katz 2008). The finance boom of the 1990s to 2007, some aspects of globalization and offshoring, and weakening U.S. labor market institutions have exacerbated these wage inequality trends. Current Population Survey data indicate that wage inequality (as measured the ratio of the earnings of 90th to the 10th percentile worker) and the college wage premium (driven by those with higher degrees) continued to increase from 2007 to 2009.

The last twenty years has also seen a twisting of technological change and a rise in offshoring that have lead to a *polarization of the U.S. labor market* with strong growth in high-end, high-skill jobs and in traditionally lower-wage jobs in the in-person service sector but particularly weak demand for traditional middle class jobs such as manufacturing production jobs and middle management positions (Autor, Katz, and Kearney 2006, 2008). The typical high-wage jobs of non-college men and many middle class jobs for those with college training have been hard hit. The housing market boom and bubble of 2002 to 2006 hid some of these trends in buoying demand for non-college men in construction. The Great Recession has reinforced the longer-term jobs polarization and wage inequality trends with huge declines in construction, manufacturing, and middle management employment.

These long-term structural labor market problems suggest that substantial mismatches between the skills and aspirations of job losers (especially the long-term unemployed) and the skill requirements and compensation packages of new job openings are likely to emerge as the economy recovers from the Great Recession. Many job losers from sectors such as construction and manufacturing may face difficulties in making the psychological and financial adjustments as well as gaining the training and education required for the new jobs available in the growing (primarily service) sectors .

The bottom line is that the U.S. economy faces two major jobs challenges. The first is the need for strong economic recovery to increase vacancy creation, hiring, and create a sustained

jobs expansion. The second is the need for policies to address structural labor market problems to improve the matching of job seekers to new job openings, to assist in the labor market adjustments of the long-term unemployed, and to deal with our long-term job quality problem.

An open question as we see initial signs of some economic recovery is whether we are likely see "jobless recovery" as following the recession of 1990-91 and 2001 or a sharp jobs recovery and labor market reversal as following the recessions of the 1970s and 1980s. The greater depth of the current recession could mean a faster jobs recovery and there are some recent signs of employers indicating plans to increase hiring. But several factors suggest we may be in for a slower jobs recovery than those following the deep recession of the mid-1970s and early 1980s. First, firms appear to increasingly use downturns to improve organizational efficiency and productivity and reduce the need for new hiring for some time (Gordon 2010). Second, the much higher share of permanent layoffs to temporary layoffs in this downturn tends to delay a job recovery as firm won't be quickly expanding by recalling previously laid off workers as in the 1970s and 1980s recoveries. Third, the large share of workers who are part-time for economic reasons means firms can expand output for some time in raising hours and effort of existing workers before doing new hiring. Thus, we need policies to stimulate job creation in the short-run to insure a robust jobs recovery and reduce the increased suffering that will occur in a jobless recovery.

Job Creation Policies

Both the continued fragility of the economy and the possibility of a sustained jobless recovery represent calls to action for immediate policy steps to expand employment and incentivize job creation. Several promising components of such a jobs creation package include increased aid to fiscally strapped states, enhanced short-run tax incentives for increased private sector employment expansion, and incentives for facilitating investments with high long-run payoffs in energy efficiency (such as some form of a "cash for caulkers" program) and infrastructure. The extremely high current unemployment rate and continued rise in long-term unemployment also make a strong humanitarian and economic case for increasing aid to the unemployed and for a longer-than-normal duration of benefits through the continuation of emergency unemployment compensation.

A net job creation tax credit (as opposed to the recently enacted tax credit for new hires of unemployed workers) could provide a useful incentive to speed up private sector employment growth as the economy starts to recover. The best available evidence indicates that firms do respond to short-run reduced (marginal) wage costs by moderately expanding employment (e.g.,

Card 1990). Recent analyses suggest a net job creation tax credit could have a reasonably high effectiveness in terms of employment expansion per dollar of budgetary cost (Bartik and Bishop 2009; Congressional Budget Office 2010). The main problems with the previous 1977-78 New Jobs Tax Credit of the lack of knowledge of the policy by many small firms, high complexity, and lack of timeliness of payments can be addressed by better marketing and information campaigns, attention to the design, and allowing a quarterly payment option. An advantage of a tax credit for net employment and payroll expansion is that it focuses the incentives on firms that are on the margin of expanding and likely to expand in the future so that needed labor reallocation to growing firms is expedited and the added jobs are more likely to persist after the credit expires. The large importance of new start ups for net job creation means new firms should also be eligible for some employment expansion credit. A key design issue is whether such a net job creation tax credit should be capped such as in Obama Administration's proposed Small Business Jobs and Wage Tax credit with a $500,000 dollar cap per business. Such a cap can blunt the incentives and effectiveness for larger growing firms. Nevertheless, the elimination of a cap per business on such a tax credit could create perverse incentives for many firms to do their new hiring through temporary help firms rather than hire workers into more permanent positions. Such hires would be net employment expansions for temporary and receive a tax subsidy even when hiring the worker into a permanent position would not represent a net employment expansion at the original employer.

Policies for Structural Labor Market Problems and to Help the Long-Term Unemployed

The U.S. labor market is likely to continue to have persistent structural unemployment problems from mismatches between job seekers and job openings even in the face of a robust economic recovery. Permanently displaced workers and the long-term unemployed are likely to face difficult times gaining suitable new employment and face many years of lower earnings and financial difficulties without steps to help their labor market adjustments. Longer-term trends of rising inequality and job market polarization exacerbate these adjustment problems. The dismal state of the youth labor market requires direct action in providing more employment opportunities for youth and young adults in distressed areas and in making sure all young people have the financial resources to gain valuable post-secondary education and training and appropriate guidance for making sensible educational and training choices.

Labor market policies to combat these problems that merit serious consideration include[1]:

[1] See Babcock, Congdon, Katz, and Mullainathan (2009) for more details on these proposals.

- *Wage Insurance for permanent job losers with high tenure in their previous jobs.* Permanent job losers often are reluctant to accept new job offers below their pre-separation wage and often take a long time searching for jobs like their previous one even when prospects are much brighter in other sectors and for other types of jobs. This leads to a form of long-term "retrospective wait unemployment," particularly for high-tenure workers displaced from declining sectors. And much evidence finds large financial and health costs of such persistent unemployment on these workers and their families. A promising policy to address these issues and supplement unemployment benefits for likely permanent job losers is wage-loss insurance (also called wage insurance) which (at least temporarily) subsidizes worker earnings upon reemployment when the wage they receive on their new job is less than that of their old job. Wage-loss insurance offers a way of assisting individuals with the psychological adjustment to changing labor market conditions and addresses likely biases in wage expectations that impede job search incentives. It also helps buffer the financial adjustments of moving into an initially lower-paying position. Wage-insurance could be designed to provide nearly full insurance immediately upon reemployment, and declining over time possibly in a manner linked to typical wage growth patterns on new jobs.

- *Improving Employment services, job search assistance, education, and job training systems.* The evidence from a wide range of evaluations suggests that employment services and job search assistance can be cost-effective in helping dislocated workers and disadvantaged workers to obtain employment more rapidly and can raise earnings at least in the short-run (Meyer 1995; O'Leary 2004). The economic returns to further education and training at community colleges that lead to degrees and certificates are also high for dislocated workers (Jacobson, LaLonde, and Sullivan 2005). The economic returns to post-secondary education remain extremely high for young workers and there is also much evidence that well-functioning job training and education programs – such as the Job Corps and the National Guard Youth Challenge – can improve the labor market and social outcomes of disadvantaged youth.

  But the existing employment service programs and job training systems through the Workforce Investment Act (WIA) are fragmented and difficult for many workers to navigate. First, we need to make sure dislocated workers and young workers have sufficient resources (Pell grants, individual training accounts) to invest in high-quality education and training and to offset the current lack of part-time work opportunities that are typically used to self-finance continuing education. Second, efforts need to be made to provide more accessible and meaningful information about labor market conditions and occupational projection and to simplify program take-up, navigation, and completion, and provide user-friendly

information on the quality of training providers. Third, a supplementary approach to ensuring that individuals qualifying for job training services receive effective guidance and assistance would be to experiment with creating a structured market for providers of counseling and advice. A demonstration project should experiment with creating markets for advice in which providers are rewarded based on meaningful performance measures (employment and earnings outcomes) instead of just the use of services.

- *Sectoral Employment Programs.* Sector-focused training programs (also known as sectoral employment programs) have emerged over the last fifteen years as a particularly promising approach to workforce development. Sectoral employment programs work closely with local employers to create industry-specific programs that prepare and connect unemployed and under-skilled workers to employers seeking to fill skilled vacancies such as for allied health professions, information technology, and skilled manufacturing jobs. Successful examples include Project Quest in San Antonio, the Wisconsin Regional Training Partnership in Milwaukee, Per Scholas in New York City, and the Jewish Vocational Service in Boston. These sectoral employment programs, originally initiated by nonprofit, community-based organizations, have developed strong connections to employers and to the broader community. The early evaluations suggest that well-run versions of these programs can be quite successful in placing workers into high-quality jobs and in improving hourly and annual earnings (Maguire et al., 2009). Investments to expand access to and the development of high-quality sectoral employment programs appear to be warranted as a crucial additional tool for improving the labor market prospects of the long-term unemployed and of disadvantaged workers.

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Testimony before the Joint Economic Committee of U.S. Congress on "Long-Term Unemployment: Causes, Consequences and Solutions"

April 29th 2010

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Chair Maloney, Vice Chairman Schumer, Ranking Members Brady and Brownback, and members of the Committee, it is an honor to be with you today. The labor market in the United States is recovering from the most severe recession since World War II. As you know, since the beginning of 2008, millions of individuals have lost their jobs, the unemployment rate has nearly doubled, and long-term unemployment is at its highest level since 1945.[1] As the overall economy continues to recover, an important question is the fate of the large number of workers affected by layoffs and lengthening spells of unemployment.

My testimony focuses on the short- and long-term consequences of layoffs and unemployment for affected workers and on potential policy options to ease the burden of adjustment on workers and their families. Judging from experience in past recessions, the consequences of layoffs for job losers are severe and long lasting along several dimensions. The average mature worker losing a stable job at a good employer will see earnings reductions of 20% lasting over 15-20 years. While these earnings losses vary somewhat among demographic groups or industries, no group in the labor market is exempt from significant and long lasting costs of job loss.

A job loss is also typically followed by an extended period of instability of employment and earnings. During this period, job losers can experience declines in health. In severe downturns, these health declines can lead to significant reductions in life expectancy of 1 to 1.5 years. The consequences of job loss are also felt by workers' children, who can suffer from the consequences even as adults, and by their families. All of these costs are likely to be greater for

the long-term unemployed.

Government programs can alleviate part of the short-term earnings loss associated with job loss and unemployment. As a typical measure, extensions of unemployment insurance ease the burden of adjustment for laid off workers, are likely to prevent entry into more costly government programs such as disability insurance, provide a degree of demand stabilization, and – at least in recessions – are unlikely to be associated with significant reductions in employment in the short or the long run.

However, policy is unlikely to be able to prevent the large and lasting reductions in earnings that eventually follow a typical job loss. The majority of long-term losses are due to losses in the value of certain skills as industries decline; due to the loss of long-term career jobs; or due to slow wage-adjustment in the labor market. None of these factors are easily manipulated by government policy. Yet, some policies have been shown to be able to reduce unemployment, such as targeted efforts to help workers in their job search, or programs reducing the costs of long-term adjustment, such as the costs of retraining.

Given the difficulties of helping job losers and unemployed workers recover from long-term earnings losses after the fact, it may be worthwhile to explore available options to prevent large-scale layoffs in the future. Such options include programs of work sharing to subsidize employment before workers are laid off and become unemployed; to encourage the introduction of flexible work-time arrangements; or to encourage the provision of credit to economically viable firms affected by distress in financial markets. For example, the cost of unemployment insurance benefits for a typical worker is a small fraction of the total earnings lost due to a layoff over the remainder of the individual's working life. If the same benefits were paid during employment to avoid job loss, this would substantially reduce the cost of recessions. This would be beneficial even if the worker were to be let go eventually, since earnings losses tend to be significantly smaller for layoffs that do not occur in a large recession.

To conclude, job loss and unemployment during severe recessions can impose substantial and

[1] E.g., Congressional Budget Office (2010b).

lasting costs on affected workers in terms of earnings, health, and strain on their families. The short-term burden of these costs can in part be alleviated at comparatively small cost, for example by extensions in unemployment insurance. Less is known about how to help reduce the substantial long-term costs. While cost-effective policies may be available to help reemploy the long-term unemployed, the potential of policy interventions to significantly aid recovery of long-term earnings declines appears bleaker. Given these large and long-term costs, preventive measures to avoid massive layoffs are a policy option worth considering.

The Short- and Long-Term Consequences of Layoff and Unemployment

An increasing literature has documented that job losses during recessions have severe and lasting consequences for earnings. For example, workers displaced in the recession of the early 1980s – which until 2008 was the strongest U.S. recession since World War II – on average had earnings reductions of 30% or more in the first year after layoff. These losses declined somewhat over time, but even 15 to 20 years after job loss, the earnings reduction was still 20%.[2] Such lasting earnings reductions occurred for job losers in all age ranges, in all industries, for men and women, and throughout the earnings distribution. This phenomenon is not limited to the early 1980s recession, is not limited to particular regions of the country, and does not depend on the particular way of measuring the cost of displacement.[3] Older workers suffer larger losses in earnings, but these losses extend over shorter periods of time, since remaining lives are shorter and job loss hastens retirement.[4] Workers in the middle of the education-distribution, such as workers with some college or only a high-school degree, appear to lose more than very low or very high skilled individuals.[5]

These lasting reductions in earnings occur alongside, and may be partly augmented by, increases in job instability, recurring transitions to non-employment, and repeated switches of industry or

[2] Jacobson, Lalonde, and Sullivan (1993), von Wachter, Song, and Manchester (2009).
[3] Farber (2005) provides estimates of the short-term costs of job loss for the U.S. over the past two decades. Schoeni and Dardia (2003), von Wachter, Handwerker, and Hildreth (2008), Couch and Placzek (2010), and Kodrzycki (2007) show medium run estimates for California, California, Connecticut and Massachusetts in the early 1990s.
[4] Chan and Stevens (2001).
[5] von Wachter and Handwerker (2009).

occupation.[6] Some of this increased mobility between jobs may be a sign of beneficial adjustment, but on average those workers who immediately find a stable job in their pre-displacement industry do significantly better. The increase in job instability lasts up to ten years after layoff. During the same period, these workers experience lasting increases in earnings instability. Thus, there is no sign that laid-off workers trade off lower earnings for more stable employment. While heightened regional mobility appears beneficial in the short run as mobile workers may eschew a particularly depressed local labor market, movers do not have lower long-term earnings losses.

There is also increasing evidence that laid-off workers suffer short and long term declines in health. In the short term, layoffs and unemployment are associated with an increasing incidence of stress-related health problem, such as strokes or heart attacks.[7] These problems can lead to a large spike in mortality right after job loss. For example, mature men who lost their stable job in Pennsylvania during the early 1980s experienced an increase in mortality right after job loss of up to 100%. This initial rise in mortality declines over time, but mortality remains significantly higher for job losers than for comparable workers who did not lose their jobs. If sustained until the end of their lives, such increases lead to reductions in life-expectancy of 1 to 1.5 years.[8]

Several studies also point to short and long term effects of layoffs on the children and families of job losers and unemployed workers. For example, in the short run parental job loss reduces schooling achievement of children.[9] In the long run, it appears that a lasting reduction in the earnings of fathers also reduces the earnings prospects of their sons.[10] There is also emerging evidence that layoff heightens the incidence of divorce, reduces home ownership, and increases the rate of application to and the receipt of disability insurance programs.[11]

All of these costs are likely to be larger for workers unemployed for a longer period of time. It is well documented that earnings losses for unemployed workers increase significantly with time

[6] Stevens (1997) and von Wachter, Song, and Manchester (2009).
[7] Burgard, Brand, and House (2007).
[8] Sullivan and von Wachter (2009).
[9] Stevens and Schaller (2009).
[10] Oreopoulos, Page, and Stevens (2008).
[11] Charles and Stephens (2004); von Wachter and Handwerker (2009); Rupp and Stapleton (1995) and Rege, Telle,

spent outside of employment.[12] It is difficult to establish whether this is because the duration itself worsens labor market prospects, or because those workers facing the strongest challenges in the labor market take longer to find a new job. Independently of the source, longer unemployment spells are likely to put significant additional strain on workers' financial situation and the overall well-being of them and their families. These workers are also particularly dependent on benefits form unemployment insurance. The poverty rate among long-term unemployed is high, especially for those exhausting unemployment benefits.[13]

Finally, even though they were not laid off or are not officially counted as unemployed, the long-term earnings and career prospects of young workers entering the labor market during a recession also suffer. For example, individuals graduating from college during a large recession are likely to see reduced earnings for 10 to 15 years compared to more lucky graduates.[14] As is the case for job losers, those labor market entrants in the middle of the education distribution do worse, while those with lower or higher education tend to do better.[15] The pattern of recovery of unlucky college graduates is telling; a recession reduces the quality of the first employer. After about five years workers find an employer of better quality, but their earnings still have to recover within the firm relative to more lucky graduates who obtained their job in better economic times. Thus, the initial set-back in the career can take 10 to 15 years to dissipate even for this very mobile demographic group.

The Reasons for Long-Term Earnings Losses after Layoff and Unemployment

There are several main sources of lasting reductions in earnings after a layoff. An often cited explanation attributes the losses in earnings to a loss in the use of certain skills, as some industries or occupations shift their operations elsewhere or permanently reduce their employment levels. If some of workers' earnings derived from payment for services and skills only needed in specific industries or occupations, upon job loss workers lose wages associated

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and Votruba (2009).
[12] Congressional Budget Office (2007). Machin and Manning (1999).
[13] Congressional Budget Office (2004), Tables 6 and 9.
[14] Oyer (2008), Kahn (2010), Oreopoulos, von Wachter, and Heisz (2008).
[15] Oreopoulos, von Wachter, and Heisz (2008), Kondo (2008).

with these skills.[16] Such a loss can lead to long-term earnings declines if workers do not reinvest in a new equivalent set of skills. In particular for middle-aged or older workers, it might not be worth spending their time and money in costly retraining as they face uncertain reemployment over a shorter remaining working life.

Another explanation is that workers in stable jobs, especially workers aged 30 or above, are likely to have found an occupation and an employer suitable for their interests and qualifications. The process of searching for such a job can take time, involving both changes of occupations and employers at the beginning of their career, as well as job search and promotions within a firm.[17] On average, this phase of workers' careers can last 10 years. Part of the gain from this prolonged search and matching process is lost at job loss. By its nature, finding such a suitable job again is likely to take a long time. If suitable job offers start arriving only as the economy picks up, the adjustment process can last well beyond recovery in the aggregate labor market.

Increasing evidence also suggests that the first wage on a worker's new job is likely to influence her pay for a long time.[18] This persistence can arise from (explicit or implicit) wage contracts between workers and firms. Since many unemployed workers end up finding the first job when wages are still depressed due to the recession, persistence implies they may live with lower earnings for quite some time. As a result, workers laid off in recessions suffer substantially larger earnings losses than workers laid off in booms.[19] While workers can improve their pay by obtaining outside job offers, changing jobs, or moving to different regions, many face obstacles to such adjustment, often due to family commitments. However, the rate of mobility is likely to be too low even given those factors, possibly because individuals do not realize the need to keep improving their economic situation over 5 to 10 years following a job loss or an unemployment spell.

Some workers may also experience reductions in earnings because they held jobs in industries or at firms that paid exceptionally high wages. Yet, it does not appear that workers in such jobs are

[16] Neal (1995), Parent (2000), Poletaev and Robinson (2008)..
[17] Topel and Ward (1992), Neal (1999), Baker, Gibbs, and Holmstrom (1994).
[18] Beaudry and Dinardo (1991), Schmieder and von Wachter (2010).
[19] von Wachter, Song, and Manchester (2009).

more likely to be laid off. In fact, during large recessions job losers are less likely to be selected from high-wage jobs, partly because economic difficulties are widespread and do not just affect single firms or sectors. Similarly, it is unlikely that job losses arise because firms systematically let go those workers who are overpaid or who are least productive.[20]

Policy Options to Ease Burden of Adjustment of Laid Off and Unemployed Workers

Policies Aimed at Reducing the Burden of Short-Term Earnings Losses

Government programs can help to ease the burden of the short-term cost of job loss and unemployment. The most common approach to do so has been to increase the duration over which eligible workers can receive unemployment benefits. Currently, the maximum duration of unemployment insurance (UI) benefits is 99 weeks, about four times the regular duration of 26 weeks. Significant extensions in the duration of UI also took place in the 1982 and 1990 recessions.[21]

Extensions of UI benefits have several beneficial aspects for recipients and for the economy as a whole. Extended benefits allow workers to buffer the effect of the earnings loss on consumption, albeit consumption still falls for the average UI recipient.[22] In addition, extended benefits allow workers to search longer for a suitable job, and provide insurance against the stress of not being able to find a job because of continued slack in the labor market. Extensions in UI benefits also prevent some workers from applying to other government programs not intended to smooth short-term economic shocks, such as Social Security Disability Insurance or Old Age and Survivors Insurance. In particular, benefits provided under disability insurance can be very costly, especially if provided to younger or middle aged workers with low-mortality impairment.[23] While increases in unemployment rates typically lead to a significant rise in application and award rates, extensions in UI have the potential to dampen this effect. Finally,

[20] Estimates of the cost of job loss are robust to extensive controls for worker and firm characteristics; the effect of layoffs is not larger when firms displace fewer workers, such as during plant closings or good economic times.
[21] Congressional Budget Office (2004)
[22] Gruber (1997), Browning and Crossley (2001), Congressional Budget Office (2007).
[23] Autor and Duggan (2006), von Wachter, Song, and Manchester (2010).

extended UI benefits provide a degree of demand stabilization through the multiplier effect.[24]

On the downside, several studies have suggested that UI may impose a cost by reducing recipients' willingness to work.[25] In addition, prolonged spells of unemployment may lead workers' skills to atrophy or otherwise reduce their employability. Yet, it is likely that in severe recessions, the benefit of extended UI outweighs the costs. First, the value of income replacement to workers should be particularly high. Second, longer UI durations are unlikely to have a strong effect on employment, since strategic considerations are likely to be weaker when the number of jobs is scarce.[26] Moreover, recent research suggests that a sizeable part of the decline in employment may not due to the distortion in work incentives, but due to the presence of individuals facing credit constraints. If this is the case, not all of the employment effects of UI represent a distortion, but may be a sign that UI helps to alleviate credit constraints that prevent individuals to self-insure against unemployment shocks.[27]

In the only study of its kind, our work analyzing large extensions in the durations of UI in Germany has shown that these led to only moderate reduction in employment, without a noticeable difference in this effect in large recessions.[28] Based on a very large sample of unemployed workers spanning over 25 years and utilizing a very credible research design, these findings lie at the lower range of typical U.S. estimates.[29] For a large increase in UI duration from 26 to 99 weeks, the estimates from Germany suggest that extended UI would lead to a moderate increase in the rate of unemployment. Yet, the current effect in the U.S. would likely be smaller due to several factors. The increases in UI durations were stepwise and extension was not always certain. Only 50% of all eligible unemployed workers have taken up UI benefits in this recession, further reducing the potential impact of UI extensions on employment.[30] Finally, the effects on aggregate employment are based on the assumption of full employment; under a slack

[24] Congressional Budget Office (2008), Table 1.
[25] Congressional Budget Office (2008). For a more technical overview, see Meyer (2002).
[26] E.g., Congressional Budget Office (2008).
[27] This point is made by Chetty (2008), who estimates that over half of employment effects of unemployment insurance may be due to such an income effect.
[28] Schmieder, von Wachter, and Bender (2009).
[29] Meyer (2002), Table 5.
[30] The take up rate of UI fluctuates between 40-50% for all unemployed and between 70-80% among job losers (Congressional Budget Office 2004). A similar back of the envelope calculation and caveat is made by Elsby, Hobijn, and Sahin (2010), Section 3.2.

labor market, the effect of individual search decisions on aggregate employment is likely to be smaller.

This research also suggests that contrary to what is often believed, extensions in UI benefits appear to neither help nor hurt the longer term job prospects of recipients. Increases in UI durations have no effect on the wage at the first job after unemployment. Similarly, neither the wage nor the employment rate five years after entry into unemployment is affected by longer UI durations.[31] Thus, it appears extended UI benefits have an effect on workers' disposable income, consumption, and on short-term employment choice, but may have neither adverse nor beneficial effects on long-term employment prospects.

Several other measures to ease the short-term burden of adjustment have been tried in the current and in past downturns and have been featured in policy proposals in this recession. These include wage subsidies paid to employers and tax breaks for firms to raise job creation; temporary assistance to obtain further training; and some form of public employment. The best available evidence suggests that these measures have some success in reducing unemployment and alleviating earnings losses of job losers.[32] These measures do not share the advantage of extended UI that it builds on an existing infrastructure of a successfully functioning program and that its effect is felt immediately by UI recipients and the economy.[33] However, with the exception of training, they share with extensions in UI benefits the focus mainly on the short term, with less known long-term benefits for laid-off and unemployed workers.

Policies Aimed at Reducing Long-Term Unemployment and Lasting Earnings Losses

The reach of the large losses in earnings, increases in job instability and reductions in health lasts beyond the duration of extended UI benefits. In fact, since the losses last well beyond 5 or 10 years, the majority of the lifetime loss in earnings occurs after eligibility for UI benefits has expired. Yet, few policy options are available to alleviate the long-run costs of job loss and

[31] Schmieder, von Wachter, and Bender (2009).
[32] For example, for an assessment of the effect of wage subsidies see Perloff and Wachter (1979) and Congressional Budget Office (2010a). For an assessment of the effect of training programs for displaced workers see Department of Labor (1995), Section 5.

unemployment.

For example, at present there is no evidence that the longer duration of UI benefits significantly alters the long-term earnings or employment trajectory of the unemployed.[34] Similarly, the evidence of the success of efforts to train laid-off workers in new skills is mixed.[35] Little evidence on the long-term effects of other programs is available. By the nature of the mechanisms behind long-term earnings losses as explained above, it is in fact unlikely that any policy will completely close or significantly reduce the long-term earnings gap – short of altering the market's mechanisms of wage setting, the trade-offs governing workers' investment in their skills, or the multiple factors affecting the decision to relocate. Yet, there are some options available to help those with long unemployment spells to find jobs and to try to improve the long-term earnings prospects of job losers.

In particular, it is likely that a lack in mobility between jobs, occupations, or regions may contribute to the persistence of observed reductions in earnings at job loss. A reason may be that workers are not aware of the time it would take to dissipate their earnings losses. As explained above, the individual's recovery process is likely to last well beyond the recovery of the aggregate labor market. Job losers might not be aware of the long-term efforts required to rebuild a career, and active counseling may help in bringing expectations in line with the reality workers will be facing in the labor market. Evaluations of job search assistance have found it to reduce UI rolls and to be cost effective.[36]

Another reason why workers do not move or change occupations might be because they are not aware that the job prospects in their line of work and in their local labor market may have declined permanently. This may lead individuals to wrongly assess the prospects of finding a job in their old industry or occupation in their local labor market, and wait too long to switch careers, change employers, or move to another region. Information on how job prospects in the workers' profession and related occupations are evolving both locally and nationally might be a useful tool

[33] Congressional Budget Office (2008), Table 1.
[34] Schmieder, von Wachter, and Bender (2009).
[35] While the average returns from training is positive, relatively few displaced workers take up training (Jacobson, Lalonde, and Sullivan 2005).

to help unemployed workers and their families make better choices. Such information is routinely available from the Census Bureau and the Bureau of Labor Statistics, and could for example be included with workers' UI benefit checks.

Part of the effort to rebuild a career might involve retraining or relocating. One way to raise mobility is to offer workers support in covering expenses related to retraining or moving. Evaluations of subsidies to attend community college have found that they on average raise earnings of displaced workers, in particular if covered subjects are of more technical nature. However, such programs seem to be beneficial and cost-effective for selected populations and may not be a solution for the broader population of participants.[37] Less is known about the potential benefits of relocating unemployed workers. On the one hand, reallocation of labor across regions plays an important role in equilibrating local labor markets.[38] On the other hand, regional mobility does not appear to significantly lower earnings losses of displaced workers, perhaps because most large recessions afflict most regions of the country.[39] Yet, over the longer run, government programs helping unemployed workers to relocate, for example by reducing their mortgage debt, are likely to help workers recover some of their lost earnings.

An alternative set of policies includes efforts to directly stimulate employment growth at the local level. These could be targeted at improving the economic situation in regions particularly hard-hit by the recent downturn. Yet, in general an upturn in the labor market improves the lot of some workers, but does not raise the earnings trajectory of job losers or those formerly unemployed.[40] There is no reason per se why localized policies should have a different effect on the employment of long-term unemployed or the earnings of reemployed laid-off workers than a regular upturn in the labor market.

One reason why workers experiencing long-term unemployment spells are not affected by an improvement in labor market conditions is that they have become detached from the labor market. In this case, low-cost policies such as informing workers about job opportunities or the

[36] Department of Labor (1995), Section 5. For a survey of recent evidence see Jacobson (2009).
[37] Jabobson, Lalonde, and Sullivan (2005).
[38] Blanchard and Katz (1992).
[39] von Wachter, Song, and Manchester (2009).

employment outlook in their occupation may not deliver the desired effect of increasing workers' mobility and raising their chances of finding a job. In this case, a more active approach may be needed to reintegrate long-term unemployed workers into the labor market. For example, it may be cost-efficient to temporarily subsidize workers' wages upon reemployment for a certain period if this leads to a permanent increase in labor force participation and reduces applications to programs geared for the disabled or the poor.[41]

Finally, given increasing evidence that children's long-term economic success might be affected by the lay off of a parent, it is worth considering ways of directly helping individuals coming from affected families. One possibility that builds on existing programs would be to provide additional financial aid to cover college tuition and living expenses. While work on the cross-generational effects of displacement is still developing, many families that experienced a lay off with children in college or nearing college age today are likely to feel the sting in their financial resources. Thus, it may be worth beginning to explore measures to help cover part of the costs of higher education or training for the children of job losers.

Policy Initiatives to Avoid Mass Layoffs in Future Recessions

It is likely that cost-effective government policies can help long-term unemployed find renewed employment. Yet, few measures promise to be are able to substantially reduce the long-term earnings losses that can afflict laid-off or unemployed workers. While Congress considers financial reform to safeguard against another financial crisis, it may be worth considering reforms that help prevent costly earnings losses during a future recession.

For jobs lost in declining firms or industries, this may mean that inevitable job destruction would be spread over time. Thus, layoffs would likely occur in a better economic environment, and therefore lead to significantly smaller losses in earnings. For jobs lost at economically viable sectors or at viable firms, this could avoid costly breakup of productive employment

[40] Jacobson, Lalonde and Sullivan (1993), von Wachter, Song, and Manchester (2009).
[41] This has been recently advocated under the name of 'wage insurance' for example by Jacobson, Lalonde, and Sullivan (1993), Litan and Kletzer (2001), and Kling (2006). Evidence on related 'reemployment bonus experiments' suggest that short-term subsidies raise employment, but may only be cost effective if targeted to

relationships that would have likely continued in the absence of an economic crisis.

Two mechanisms to achieve such a temporary buffering of employment at firms in economic difficulties could be so-called "work-sharing" arrangements supported by the government, or private arrangements such as "work-time" accounts. Work-sharing has effects that are similar to those of current measures to increase job creation through tax breaks or wage subsidies, except that incentives to generate employment are given prior to job displacement. In particular, instead of firing, say, 30% of its workers, an employer would reduce hours worked by all its workers by 30%. Subsidies by the government make up part of workers' reduced earnings. Part of these subsidies could be financed by the UI system, in which case workers essentially draw part of the benefits they would have received if they had become unemployed.

Work-sharing policies have been currently adopted by 17 U.S. states. Yet, these have a limited public commitment to replace earnings, so the take up is relatively low. Even though a large amount of layoffs have already taken place, if expanded such programs could increase aggregate employment by reducing continuing layoffs at those firms that keep shedding workers.[42] Work-sharing was also available to firms in Germany during the current recession, and has been credited to have helped to avert a significant number of layoffs, despite a drop in GDP growth that was larger than the decline in the U.S.[43] Clearly, it is important to pay attention to the details of such an arrangement. From the point of view of Unemployment Insurance, being unemployed is a clearly defined state. For administering work sharing, it may be difficult to screen eligible firms. Yet, the successful implementation by many U.S. states suggests that these difficulties can be surmounted on a practical level.

The evaluation of work-sharing is still at an early stage. Yet, it comes with lower financial involvement and less direct steering of economic activities than more targeted interventions, and is likely to extend the benefits of government support to a much broader group of workers. A related strategy to help avert layoffs of productive workers would be programs geared to maintain access to short-term credit to from viable firms in financial distress that are otherwise

workers most likely to exhaust their benefits (Department of Labor 1995, O'Leary, Decker, and Wandner 2005).
[42] This argument is spelled out in Hassett's (2010) testimony to the House Committee on Financial Services.

economically viable. Such an approach would be most sensible in times of a sudden reduction in private credit, such as occurred after the financial crisis in 2008.

A second approach would be to encourage workers and firms to find private solutions to the risk of layoffs. For example, work-time accounts would be based on an agreement between workers and firms to smooth hours over the business cycle. Thus effectively the firm saves part of the overtime pay on behalf of workers during good economic times, and draws down balances when economic conditions worsen instead of firing the worker. In addition to work-sharing, such work-time accounts were a major factor in keeping layoffs to a minimum in Germany during the current recession. The use of these accounts was particularly prevalent in sectors that exhibited stable growth prior to the crisis and were experiencing shortages in skilled labor.[44] Such an arrangement is based on long-term relationships between workers and firms that involve some degree of firm- or sector-specific skills. While the paradigm in the U.S. is one of high labor turnover, many employment relationships are long-lasting, and employers invest in searching for and training workers. Thus, in light of the large costs of job displacement, such arrangements may be beneficial to both workers and firms.[45]

Clearly, layoffs cannot be prevented altogether and are to some extent a natural feature of a market economy. However, in special circumstances such as the financial crisis of 2008 or high interest rates in 1982, some layoffs might occur at otherwise healthy firms, leading to costly layoffs as productive employment relationships are severed. Similarly, layoffs in declining industries might be accelerated, leading to large-scale layoffs exceeding the capacity of the labor market to reallocate these workers. For such cases, mechanisms that allow firms to avoid large-scale layoffs could prevent large and lasting consequences affecting a high number of workers. The potential benefit of such safe guards is underscored by the difficulty of alleviating the long-term consequences of workers affected by layoffs and unemployment.

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[43] Moeller (2010) assesses the role of work-sharing and work-time accounts in averting layoffs in Germany.
[44] Moeller (2010).
[45] A small theoretical literature discusses why such contracts are not prevalent in the U.S. (Grossman and Hart 1983, Ramey and Watson 1997).

To conclude, job loss and unemployment during large recessions can impose large and lasting costs on affected workers. The short-term burden of these costs can be alleviated relatively cost-effectively, for example by extending unemployment insurance. Less is known about how to help adjustment to the significant long-term costs. While cost-effective policies exist to reintegrate long-term unemployed into the labor market, the potential for policy interventions to reduce long-term earnings losses appears bleaker. Given the large long-term costs of layoffs and unemployment, preventive measures to avoid large-scale layoffs in future recessions should be a high priority.

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Long-Term Unemployment: Problem and Solutions

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Testimony before the Joint Economic Committee
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Long-Term Unemployment: Problem and Solutions

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Ms. Chairwoman, members of the Committee, I am honored to be invited to testify before your Committee today on the subject of long-term unemployment. I have followed and written about this and related issues for many years. Currently I am a senior fellow at the Hudson Institute. From February 2003 until April 2005 I was chief economist at the U.S. Department of Labor. From 2001 until 2003 I served at the Council of Economic Advisers as chief of staff and special adviser. Previously, I was a resident fellow at the American Enterprise Institute. I have served as Deputy Executive Secretary of the Domestic Policy Council under President George H.W. Bush.

Introduction

As America celebrates renewed economic growth, something is terribly wrong. Even as gross domestic product, retail sales, and consumer durables awake from their slumber, unemployment remains close to 10 percent,[1] with 44 percent of the unemployed out of work for six months or more,[2] a record since the Bureau of Labor Statistics started keeping track of the data in 1948. Low-skill workers are finding it increasingly difficult to get jobs.

It is most troubling that whereas jobs are the first priority of most Americans, the Administration's legislative agenda has reduced jobs rather than created them. Proposed energy and environmental legislation, financial regulation proposals, tax increases, and the Employee Free Choice Act would also serve to drive jobs abroad rather than attract them to the United States.

The Administration's emphasis is on creating union jobs and passing legislation to help unions recruit additional members using measures such as project labor agreements and "high road" contracting. This is vital to the union sector, because it needs more workers to bolster the finances of its underfunded pensions, both at the state and at the private multiemployer level. However, this raises the price of projects, increases federal and state budget deficits, and ensures that fewer people are employed for each dollar spent.

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[1] U.S. Department of Labor, Bureau of Labor Statistics. (2010). "The Employment Situation – March 2010." Table A-1. http://www.bls.gov/news.release/pdf/empsit.pdf
[2] Ibid. Table A-12

This testimony is divided into four sections. The first section reviews America's current employment situation. The second describes how the administration's legislation priorities result in fewer jobs. The third section shows how the administration is trying to regulate private-sector employers through regulations on federal contractors, resulting in a higher concentration of employment in the union sector, and fewer workers employed in low-skill jobs. The fourth section contains proposals for restructuring unemployment insurance to help the long-term unemployed. The final section presents conclusions.

The Employment Situation

Although the economy created 162,000 jobs in March, the first significant increase since the beginning of the recession, the unemployment rate remains unacceptably high at 9.7%. The number of unemployed rose in March to over 15 million, and the percentage of the unemployed out of work for 27 weeks or longer increased to 44%, up from 41% in February, a record since the Labor Department started keeping records in 1948. Although the civilian labor force participation rate increased for the third month in a row to 64.9%,[3] it is still at 1986 levels, meaning that many Americans are awaiting an improvement in job market conditions before moving back into the labor force. The Labor Department's broadest measure of unemployment, including discouraged workers and those at work part-time for economic reasons, rose to 16.9% from 16.8%.[4]

Furthermore, of the jobs created, 88,000 were short-term. Temporary help services added 40,200 jobs,[5] and 48,000 temporary workers were hired for 2010 Census operations.[6] Since the recession began in December 2007, 8.2 million jobs have been lost. At the rate of 162,000 new jobs per month it would take 51 months—until June 2014—to recoup the losses.

The 9.7% overall unemployment rate masks other groups within the economy that are doing far worse. The African American unemployment rate is 16.5%, and unemployment stands at 12.6% for Hispanics.[7] Teens' unemployment rates are even higher. The overall teen unemployment rate is 26%, while the African American teen unemployment rate is 41%.[8]

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[3] Ibid. Table A-1
[4] Ibid. Table A-15
[5] Ibid. Table B-1
[6] Ibid
[7] Ibid, Table A-1
[8] Ibid, Table A-1 and Table A-2

All groups face unemployment, especially the low-skilled. The unemployment rate for adults without a high school diploma stands at 14.5%, and that for those with a high school degree and no college is 10.8%. In contrast, Americans with a B.A. degree or higher have unemployment rates of 4.9%.[9]

One reason that low-skill Americans are having a harder time recovering from the recession is that the minimum wage has increased over the past three years from $5.15 to $7.25 an hour.[10] With the stubbornly-high unemployment rate and the large percentage of long-term unemployed, Congress should rethink the increase in the federal minimum wage.

Members of Congress assumed that if the minimum wage were raised, all workers would retain their jobs. But this is not the case. An increase to $7.25 an hour, plus the mandatory employer's share of Social Security, unemployment insurance, and workers' compensation taxes, brings the hourly employer cost close to $8, even without any benefits.

With the minimum wage increase, employers only hire workers who can produce $8.00 an hour of goods or services. That is fewer people than they employ today. As the recovery progresses, employers are changing technologies or hiring more skilled workers to keep their firms in business.

Denying work opportunities to those whose skills and output do not add up to $8.00 per hour is not compassionate, it is manifestly unfair. At a time of high unemployment, the federal government is dooming unskilled workers to the ranks of the unemployed by saying that they cannot even take the first step on the career ladder.

The Effects of the Democrats' Legislative Priorities on Employment

The Administration's legislative and regulatory agenda dampens overall job creation. President Obama's priorities, namely tax increases, health reform, green jobs, climate change legislation, and increased unionization discourage employers from hiring. With this agenda, the economy will not produce the jobs needed to reduce significantly unemployment, including long-term unemployment.

Naturally, these projects' supporters claim they create jobs. They may create some, but they displace others.

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[9] Ibid, Table A-4
[10] U.S. Department of Labor. "What is Minimum Wage?" http://www.dol.gov/elaws/faq/esa/flsa/001.htm

The American Clean Energy and Security Act, sometimes known as the cap-and-trade bill, would raise energy prices, impose strict new efficiency standards on automobiles and appliances, require firms to use nonexistent technology, and mandate greenhouse gas emissions per person back to 19th century levels by 2050.

Its cosponsor, Democrat Ed Markey of Massachusetts, said the bill would "create jobs by the millions," [11] and Speaker Nancy Pelosi said it was about "jobs, jobs, jobs, and jobs." [12]

The cap-and-trade bill would create jobs building more expensive energy, such as solar panels and windmills, and inventing the technology to comply with the government's new requirements. Many solar panels and wind turbines are being manufactured in China, hence creating jobs for the Chinese. But the bill's $800 billion plus price tag comes from new taxes, higher prices for cheaper energy such as oil and gas, and increased borrowing. [13] This reduces employment in the United States.

This problem is not new. In 1850 the French economist Frédéric Bastiat wrote an essay entitled That Which Is Seen, and That Which Is Not Seen.[14] That which is seen are the jobs directly created by the government, and that which is not seen are workers displaced by the effects of increased taxes, tariffs, and government regulation.

Bastiat wrote, "When an official spends for his own profit an extra hundred sous, it implies that a taxpayer spends for his profit a hundred sous less. But the expense of the official is seen, because the act is performed, while that of the tax-payer is not seen, because, alas! he is prevented from performing it."

With resonance today, he explains, "The State opens a road, builds a palace, straightens a street, cuts a canal; and so gives work to certain workmen - this is what is seen: but it deprives certain other workmen of work, and this is what is not seen."

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[11] Congressman Markey, Ed. (2009, June 26). "House Passes Historic Waxman-Markey Clean Energy Bill" [News Release].
http://markey.house.gov/index.php?option=content&task=view&id=3748&Itemid=125

[12] Speaker Pelosi, Nancy. (2009, June 26). "Pelosi: 'Remember These Four Words For What This Legislation Means: Jobs, Jobs, Jobs, and Jobs " [Press Release].
http://www.speaker.gov/newsroom/pressreleases?id=1254

[13] Congressional Budget Office. (2009). "Cost Estimate for H.R. 2454 : American Clean Energy and Security Act of 2009" http://www.cbo.gov/ftpdocs/102xx/doc10262/hr2454.pdf

[14] Bastiat, Frederic. (1850). "That Which is Seen, and That Which is Not Seen."
http://bastiat.org/en/twisatwins.html

Health Reform

The health reform bill, which dominated Congress and the White House until its passage in March, will hurt rather than help employment. Companies across the industry spectrum such as AT&T, Verizon, Prudential, and Caterpiller are already taking write-downs of earnings because the new bill will raise their taxes. Higher insurance premiums and taxes on income and payrolls will leave individuals less to spend on goods and services and businesses less to spend on hiring workers.

The law will discourage recruitment and result in lower take-home wages. Small business tax increases will take effect on January 1, 2011, and regulations on health insurance and the employer penalties and mandates will become fully effective on January 1, 2014.

The job-killing provisions of the law are numerous, especially among low-skill workers.

First, employers will be required to offer health care for workers or pay a $2,000 fine. This requirement will cover employers with at least $500,000 in annual payroll costs, and it will add to employment costs for workplaces that do not now have the prescribed set of health benefits. Workers who were not laid off would receive lower wages to compensate for the higher benefits.

The law also prescribes what constitutes a qualified benefit plan. Such coverage will be expensive, because the law prohibits copayments for routine visits, such as annual check-ups and mammograms, and requires coverage for mental health and substance abuse, and dental care for children. Insurance companies will be required to cover everyone, regardless of preexisting conditions, with relatively low penalties for those who do not participate, which will lead many to purchase health insurance only when they get sick.

Income taxes on the most productive small businesses will increase, making them less willing to expand productions and employment. The top tax rate on business owners who pay taxes as individuals, not corporations, now is 35%. It is already scheduled to go up to 39.6% on January 1, 2011, and under the new health care bill it will rise even higher, with the inclusion of an additional 0.9% Medicare tax on wage and salary income and a new 3.8% Medicare tax on investment income for singles and couples earning over $200,000 and $250,000 respectively. With state taxes, some combined rates will exceed 55%. That will discourage hiring and encourage retrenchment and use of contractors.

The proposed taxes on expensive policies, scheduled to take effect in 2018, are

meant to discourage employers from providing a large tax-free benefit to workers. While that is a worthy purpose, the law prevents individuals from switching to lower-cost plans by forbidding high-deductible low cost plans. Since the mandated qualified plans are overly-generous, middle-class Americans will be sitting ducks for the tax collector, just as they are now paying an increasing share of the alternative minimum tax.

The increases in premiums would gradually raise the amount everyone would have to pay for health insurance, leaving less disposable income to buy other goods and services. Rather than bending down the health cost curve, the economy would be stifled by rising health insurance premiums.

Energy and Environmental Regulation

No one has properly defined a "green" job, the kind that Mr. Obama wants to encourage, but many believe such jobs include installers of insulation and energy-efficient windows, and producers of renewable energy, as from sunshine and wind. Tax revenues used to subsidize the manufacture of these products create jobs in those sectors, but leave less to be spent on other activities.

In Spain, economics professor Gabriel Calzada Alvarez of the Universidad Rey Juan Carlos has calculated that his country has spent €571,138 ($763,383 at today's exchange rates) per green job.[15] Higher energy costs have driven away jobs in metallurgy, mining, and food processing, so over two jobs have been destroyed for every one created. Even in Spain, solar power did not account for even one percent of 2008 electrical production.

In a section of his 2011 Budget entitled "Creating the Clean Energy Economy of Tomorrow," President Obama asks Congress to enact policies that would reduce greenhouse gases by 17% by 2020 and more than 80% by 2050.[16] This is breathtaking regulatory ambition—and dangerous for the American economy and workforce.

Mr. Obama believes that increases in greenhouse gases contribute to global warming, which purportedly hurts plants and animals by damaging their environments and harms humans by flooding. Even if true, unilateral emissions reduction by America, without similar action by China and India, would have a negligible effect on global warming. And with the revelation that scientists at the

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[15] Alvarez, Gabriel Calzada. (2009). "Study of the effects on employment of public aid to renewable energy sources." http://www.juandemariana.org/pdf/090327-employment-public-aid-renewable.pdf

[16] Office of Management and Budget. " Budget of the United States Government, Fiscal Year 2011." http://www.whitehouse.gov/omb/factsheet_key_clean_energy/

University of East Anglia in Britain destroyed original temperature data, the science of global warming is far from settled.[17]

At a time of fragile employment growth, President Obama's proposals would worsen unemployment, both long- and short-term. American greenhouse gas emissions, chiefly carbon dioxide, would decline on a per person basis to late 19th century levels. Businesses would be required to invest in energy efficiency and low-carbon or zero-carbon fuels, to offset emissions through investments in agriculture and trees, and to pour money into emission-offset activities abroad.

Mr. Obama is proposing the same "cap-and-trade" mechanism that he suggested a year ago in his initial budget. A cap-and-trade bill increasing federal spending by $846 billion and raising direct spending by $821 billion passed the House of Representatives in June in legislation sponsored by Democrats Henry Waxman of California and Ed Markey of Massachusetts.[18]

Allowances to emit greenhouse gases within the United States would be issued by the Environmental Protection Agency at a steadily declining rate through 2050. If emissions exceed a firm's allowance, or cap, the company would have to buy allowances from the government or other firms. Such mandatory purchases would be a tax under another name, and like any tax would drive up costs, which would be passed on to consumers, reducing spending and employment.

Not only do such proposals penalize American firms through higher costs, they give firms a financial incentive to move abroad to acquire "offsets," credits from activities that supposedly lower carbon emissions elsewhere. The offset provisions encourage firms to shift economic activity to countries with laxer emissions standards, further damaging U.S. job creation. A plant's emissions might exceed its U.S. allowances, yet its technology might produce lower emissions than the norm in a developing country, allowing relocation abroad to count as an offset.

If global warming is indeed a problem—and it currently polls low on Americans' list of concerns, far behind jobs[19]—it could be addressed in less expensive ways, such as injecting fine sulfur particles into the upper atmosphere to slow down the sun's warming, or spraying clouds with salt water to make them reflect radiation away from earth. These approaches could be successful without other

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[17] Leake, Jonathan. (2009, November 29). "Climate Change Data Dumped." *Times Online*. http://www.timesonline.co.uk/tol/news/environment/article6936328.ece

[18] Congressional Budget Office. (2009).

[19] The Pew Research Center for the People & the Press. (2010) "Public's Priorities for 2010: Economy, Jobs, Terrorism." http://people-press.org/report/584/policy-priorities-2010

countries' cooperation.

At the same time as the administration moves to lower greenhouse gas emissions, it also proposes getting rid of incentives for American workers to produce oil, natural gas, and coal in the United States. Over the next decade, oil, gas, and coal companies would lose almost $39 billion in exploration and production incentives if Congress adopts the Obama budget policy, including favorable treatment of new drilling techniques and write-offs for equipment.[20] Less development of carbon energy in America translates into fewer American jobs. And the jobs generated by domestic exploration would necessarily remain in the United States, unlike jobs in alternative energy.

Employee Free Choice Act

The Employee Free Choice Act attempts to raise union membership by making it easier for unions to organize. The bill would take away the secret ballot in elections for union representation, as required for almost 75 years by the 1935 National Labor Relations Act, and impose mandatory two-year contracts through political arbitrators on newly-unionized firms if they and their union could not reach an agreement. Increased unionization discourages U.S. job creation, raises unemployment, and encourages businesses to move offshore. Michigan, one of the most highly-unionized states, had one of the highest state unemployment rates, 14.1%.[21]

An arbitration provision would require the Federal Mediation and Conciliation Service to appoint arbitration panels to write contracts between newly-unionized workers and firms, if their negotiators fail to agree on an initial collective bargaining contract within 120 days. The arbitrators' contracts would, by law, hold for two years.

If the arbitrators are political appointees, chosen by the director of the mediation service, himself a presidential appointee, neutrality may be compromised. Unions will know that the arbitrators are more likely to take their side in a Democratic administration, and employers will know that their offer will more likely be picked in a Republican administration. Neither case encourages true compromise.

Most important, free choice as a result of free collective bargaining would be lost. Neither the union nor the employer would have the option of walking away from a contract imposed by the arbitrators. This, a crucial flaw in the original

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[20] Office of Management and Budget. " Budget of the United States Government, Fiscal Year 2011." Summary Table S-8.
[21] U.S. Department of Labor, Bureau of Labor Statistics.

EFCA bill, has not changed. Congress would revoke for newly-organized firms the traditional principle, in law, of free collective bargaining, namely that employers and unions may refuse to sign a contract they find unsatisfactory.

Pittsburgh was once a great industrial city, emblematic of hard-working American manufacturing. No more. Today, Pittsburgh is enjoying a sparkling renaissance as a city of service workers, no thanks to union organizers. Manufacturing has been driven away in part by excessive union demands. If passed, EFCA would drive manufacturing away from other parts of America also, increasing unemployment.

Regulating Private-Sector Employment

Whereas laws relating to private-sector employment generally have to go through Congress, the administration uses its power over firms that do business with the federal government to push additional regulations on federal contractors. The Davis-Bacon and Service Contract Acts and their associated regulations have always required contractors to pay "prevailing wage rates." Now, in addition, "project labor agreements" ensure that workers in the construction sector are being paid rates even higher than Davis-Bacon rates, and the administration is discussing giving preference to "high road" contractors.

These regulations will worsen unemployment by raising the price of labor, causing fewer workers to be hired.

Under project labor agreements, all employees have to receive union-approved wages and benefits, even if they do not belong to unions. This drives out small businesses from competing for these projects; raises their cost to the taxpayers; and funnels a larger stream of union dues from taxpayers' pockets to union treasuries.

On April 13, the administration issued final regulations for an executive order issued by Mr. Obama on project labor agreements.[22] The executive order favors union labor over nonunion shops on large federal construction projects – those worth over $25 million each. The order will take effect on May 13.

According to the new rule, "every contractor and subcontractor engaged in construction on a construction project agrees, for that project, to negotiate or become a party to a project labor agreement with one or more labor organizations."

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[22] "FAR Case 2009-005, Use of Project Labor Agreements for Federal Construction Projects (Rules and Regulations)." Federal Register 75 :70 (2010, April 13) pp. 19168-19179. http://edocket.access.gpo.gov/2010/pdf/2010-8118.pdf

This executive order makes job growth in the private sector harder to achieve. Taxpayer dollars do not go as far because projects are more expensive, and small businesses, the engine of job creation, hire fewer workers.

In addition to project labor agreements, the administration is discussing an additional method of regulating federal contractors, the "high road" procurement process. It was given new voice on February 26 with publication of the first annual report of the White House Middle Class Task Force.[23]

The term "high road" refers to contractors that pay their workers high wages and benefits. It was used by the AFL-CIO in recommendations to Mr. Obama's transition team. The AFL-CIO proposed that "a new administration should strengthen the existing responsible contractor requirements to ensure that government contracts go to high-road, law-abiding employers that provide good jobs and respect workers' rights." (Italics added.)[24]

This means firms that pay a "living wage" – defined by the Merriam-Webster dictionary as "a wage sufficient to provide the necessities and comforts essential to an acceptable standard of living" [25] – be given preference for government contracts, now worth approximately $500 billion a year and covering tens of millions of workers.[26]

Just as with project labor agreements, the government would award contracts to the high bidder, not the low bidder. That upside-down logic smacks of waste and corruption.

Some Democrats in Congress are in favor. Some Republicans ask whether premium wages would drive up federal spending, disadvantage small business, reduce employment of low-skill workers, and abrogate to the president authority to regulate wages that traditionally has been exercised by Congress.

On November 2, 2009, Democratic representative Rosa DeLauro of Connecticut wrote to her House colleagues asking them to support such procurement "reforms." Reforms would, she wrote, "ensure that taxpayer dollars go to high-

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[23] Middle Class Task Force. (2010). "Annual Report of the White House Task Force on the Middle Class." http://www.whitehouse.gov/strongmiddleclass/about

[24] "Turn Around American : AFL-CIO Recommendations for the Obama Administration." http://otrans.3cdn.net/360ed1682ee79e81f0_9lm6b8pjy.pdf

[25] Merriam-Webster's Online Dictionary

[26] "Memorandum for the Heads of Executive Departments and Agencies." (2010, March 4). http://www.whitehouse.gov/the_press_office/Memorandum-for-the-Heads-of-Executive-Departments-and-Agencies-Subject-Government/

road employers that obey the law and respect workers' rights and help expand the middle class."[27] According to her staff, six other representatives co-signed her letter.

On February 1, five Republican senators—Susan Collins of Maine, Robert Bennett of Utah, Lindsey Graham of South Carolina, Tom Coburn of Oklahoma, and Olympia Snowe of Maine—wrote to the president's budget director, Peter Orszag, expressing concern that the new "high road" preference would increase the cost of government and disadvantage small business.[28] Three days later, two Republican representatives, Darrell Issa of California and John Kline of Minnesota, wrote to Jared Bernstein, staff director of the Task Force, arguing that it was inappropriate to use an executive order to circumvent Congress's authority to regulate wages.[29]

The Task Force report asserts that "substandard wages and benefits can have negative impacts on employees' productivity and stability, which in turn can reduce the quality of performance on Federal contracts."[30] It states that "contracts should not be awarded to irresponsible sources with unsatisfactory records," and that "we expect to produce shortly some new recommendations to bring these ideas into practice."

Presumably, the administration would simply require firms that do business with it to pay higher wages than required by the law now, and deliver non-wage employee benefits such as sick leave, health insurance, and retirement income.

Such a requirement, raising employment costs for contractors, would conflict with the president's own professed goals, to lower the deficit and raise employment throughout the economy. It would be particularly detrimental to low-skill workers, because the gap between their wages and the "living wage" is the highest. Employers would have an incentive to lay off these workers and hire those with more skills.

The higher cost of government contractors would be passed on to the public through higher taxes. But raising wages for everyone is like playing Russian roulette: someone takes a bullet and loses a job. All of the firm's workforce must

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[27] Represemtative DeLaur, Rosa L. (2009, November 2) "Support Common Sense Federal Procurement Reforms." [Letter to House Colleagues.] http://www.govexec.com/pdfs/040110rb1c.pdf

[28] Senators Collins, Susan, Robert Bennett, Lindsey Graham, Tom Coburn & Olympia Snowe. (2010, February 1). [Letter to Honorable Peter R. Orszag.] http://www.govexec.com/pdfs/022610rb1.pdf

[29] Schoeff, Mark. (2010, February 26). "Government Mulls Contractor Rules on Wages, Benefits". *Workforce Management*.

[30] Middle Class Task Force. (2010).

be paid higher wages for the firm to qualify as a federal contractor, and some would necessarily lose their jobs.

While the American tradition is that a vibrant private sector supported a limited public sector—with the latter offering lower-paying jobs with more security—that tradition is being overturned. To a large degree, the federal government's focus is now on creating high-paying public sector jobs, with generous pension and other benefits, at the expense of a dynamic and vital private sector.

Recommendations

It is not surprising that employment is still stagnant. The latest Job Openings and Labor Turnover Survey for February, published earlier this month by the Labor Department, shows job openings and hiring at near-lows. There are over 5 unemployed persons per job opening, compared to 1.5 three years ago. And in February there were 2.7 million job openings, compared to 4.5 million three years earlier. Additionally, this February saw 4 million hires, compared with almost 5.3 million three years ago.[31]

What is needed is a whole new approach to job creation. Approximately $358 billion of the $787 billion stimulus has been spent, leaving $429 billion more.[32] There's still time to reallocate the remainder.

Lower taxes encourage firms to expand and hire workers. Rather than allowing taxes to rise on January 1, 2011, Congress should keep taxes at current levels and cut spending, as proposed by Congressman Paul Ryan in his Roadmap for America's Future.

In addition, Congress could cut the minimum wage to $5.15 per hour, and abolish it entirely for teenagers. It could leave further environmental regulation and the Employee Free Choice Act until the unemployment rate has declined, roll back the executive order on Project Labor Agreements, and put aside discussion of "high road" contracting.

As well as stimulating hiring, Congress needs to explore new ways to reorient the delivery of unemployment benefits to encourage employment and get the long-term unemployed back to work. Protracted periods out of work cause deterioration in job skills and networks, and the development of poor habits. Rather than a series of checks spread over a six-month period, I suggest

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[31] U.S. Department of Labor, Bureau of Labor Statistics. (2010). "Job Openings and Labor Turnover - February 2010." http://www.bls.gov/news.release/pdf/jolts.pdf.
[32] CNNMoney.com. "CNNMoney.com's bailout traxker." http://money.cnn.com/news/storysupplement/economy/bailouttracker/.

providing unemployed workers with a lump sum that they can use for training, relocation, or the purchase of a car to get to another job. If they found employment before the funds were used up, they could keep the remainder as an incentive to return to work early.

Community colleges offer a vast resource nationwide that can be used for training the long-term unemployed. In a study that I coauthored with Louis Jacobson and Christine Mokher on the use of community colleges to promote economic mobility, we suggest providing career counseling and assessment to ensure that the unemployed understand the full range of course and employment options open to them.[33] In addition, it is important to provide job placement services to help students completing programs find suitable careers, using the skills they have developed.

Many community colleges do not have the resources to offer enough slots in high-cost, high-return courses, such as nursing. They are turning away candidates, even though there are vacancies in local hospitals. Funding mechanisms for community colleges need to be altered to remove perverse incentives to enroll the unemployed in low-return courses, or other courses they are unlikely to complete.

It would be a useful investment to adopt accountability systems capable of identifying benefits and costs that could provide the guidance needed by community colleges to raise their return on educational investments.

In addition, Congress should consider some forms of wage insurance, to encourage unemployed to take lower-paying jobs, with the government paying part of the wage difference.

Wage insurance goes beyond unemployment insurance. It pays a worker who has a job. The most often-cited version of the proposal was developed by Brookings Institutions scholars Lael Brainard, Robert Litan, and Nicholas Warren. Full-time workers would receive half the difference between the wages of a lost higher-paying job and a new lower-paying job, with benefits capped at $10,000 a year for two years.[34]

One version of wage insurance can be obtained under Alternative Trade Adjustment Assistance. It compensates manufacturing workers age 50 and older

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[33] Furchtgott-Roth, Diana, Louis Jacobson & Christine Mohker. (2009). "Strengthening Community Colleges' Influence on Economic Mobility." Economic Mobility Project, The Pew Charitable Trusts.

[34] Brainard, Lael, Robert E. Litan & Nicholas Warren. (2005). "Insuring America's Workers in a New Era of Offshoring." *The Brookings Institution Policy Brief*, No. 143.

who lose jobs to imports. Benefits are capped at $5,000 annually, for 2 years. Wage insurance might expand ATAA to the entire workforce, or it could be limited to those who work full-time, have been in their jobs for at least two years, and are above a certain age, perhaps 40 or 50. This may encourage workers to return to work sooner than they would otherwise, arresting the decay of skills and reducing payments of unemployment benefits.

Because unemployment varies widely by locality and industry, the challenge is to encourage workers either to get retrained for skills with expanding demand or to relocate to where the new jobs are. Will wage insurance motivate unemployed workers in Rochester to move to Tuscaloosa to take six-figure jobs that don't require a college degree, or will it encourage them to stay where they are?

With over 15 million Americans unemployed, 44% for six months or more, Congress and the Administration need to move on multiple fronts both to removing obstacles to job creation and helping those who are out of work. These approaches need to be tackled simultaneously, and the time to start is now.

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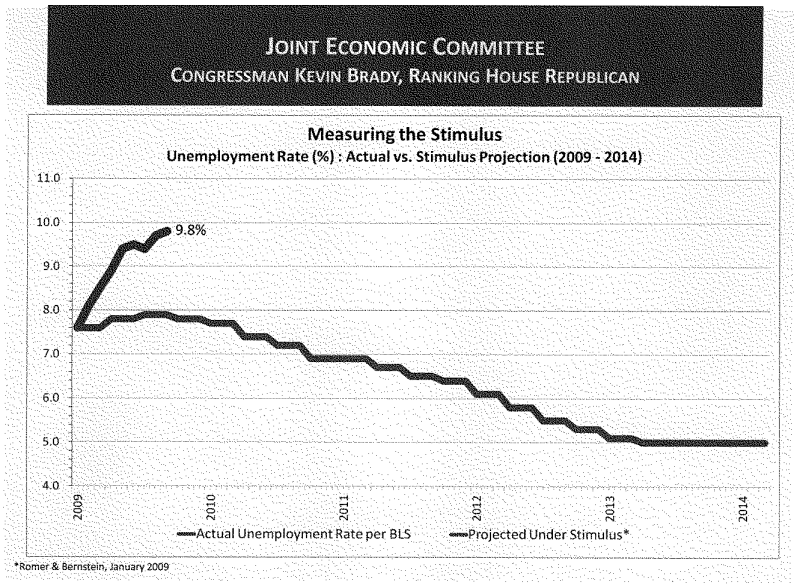
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Unemployment Rate (%) : Actual vs. Stimulus Projection (2009 - 2014)
11.0
10.0
9.0
8.0
7.0
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4.0
9.8%
2009
2010
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2012
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Actual Unemployment Rate per BLS
Projected Under Stimulus*
*Romer & Bernstein, January 2009

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