PROSPECTS FOR EMPLOYMENT GROWTH: IS ADDITIONAL STIMULUS NEEDED?

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C O N T E N T S

Hearing held on:
February 23, 2010 .......................................................... 1
Appendix:
February 23, 2010 .......................................................... 43

WITNESSES

TUESDAY, FEBRUARY 23, 2010

Hassett, Kevin A., Director, Economic Policy Studies, American Enterprise
Institute ................................................................. 11
Mishel, Lawrence, Ph.D., President, Economic Policy Institute .................. 10
Stern, Andy, President, Service Employees International Union ............... 8
Zandi, Mark, Chief Economist, Moody's Analytics ................................. 13

APPENDIX

Prepared statements:
Hassett, Kevin A. ........................................................................... 44
Mishel, Lawrence, Ph.D. ............................................................... 54
Stern, Andy ................................................................................ 83
Zandi, Mark ................................................................................. 91

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Package of statements from the National Council of La Raza (NCLR) ......... 114
PROSPECTS FOR EMPLOYMENT GROWTH: IS ADDITIONAL STIMULUS NEEDED?

Tuesday, February 23, 2010

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 2:03 p.m., in room 2128, Rayburn House Office Building, Hon. Barney Frank [chairman of the committee] presiding.

Members present: Representatives Frank, Waters, Maloney, Watt, Sherman, Moore of Kansas, Clay, Baca, Miller of North Carolina, Scott, Green, Bean, Ellison, Perlmutter, Donnelly, Foster, Carson, Kosmas, Himes, Peters; Bachus, Castle, Royce, Manzullo, Biggert, Capito, Hensarling, Garrett, Marchant, Posey, Jenkins, Paulsen, and Lance.

The CHAIRMAN. The hearing will come to order. This is a hearing, in conjunction with the hearing we will be holding tomorrow, according to the statutory requirement that the Chairman of the Federal Reserve report twice a year to both the House and the Senate to talk about the state of the economy, and particularly about employment under the Humphrey-Hawkins Act. It has been our practice since I have been the chairman not simply to have the official view of the Chairman of the Federal Reserve, but also to invite some other witnesses, economists in particular, to talk about these issues. And that is today’s hearing.

The question is whether additional stimulus should be adopted by the Congress, given the state of the economy. I want to address a couple of issues. One of the things I have heard from some of my Republican colleagues from time to time is that part of the problem has been taxation. Indeed, I was on a panel with some of my Republican colleagues in which they complained about increased taxation. I think it has not, I guess, been expressly underlined, maybe because someone thought the obvious need not be underlined—but that is not politics—that a substantial part of the bill that passed a year ago was in fact tax reduction.

People used the $787 billion figure or whatever figure they used as if it was all spending, where over $200 billion of it was tax reduction. There have subsequently been two other much smaller tax reductions adopted to try to stimulate the economy: the Cash-for-Clunkers to stimulate the sale of automobiles; and the homeowners’ tax. Now those were supported in varying degrees by different Members, but in fact those were also additional tax cuts. So while a majority of the activity designated stimulus was spending, in fact a significant amount was tax cutting, and certainly people
who talk about $787 billion of spending as if that were the whole stimulus are simply wrong.

There is also the argument that because, having passed an economic recovery plan, we did not see unemployment disappear, the plan hadn't worked. The crudity of that logic is so basic that, once again, one would not have thought you needed to talk about the obvious, but apparently you do. The relevant question is: What would things have been in its absence? I know of very few economists who think that there were no jobs created or kept and that the unemployment would have been the same as it is today if we hadn't passed the stimulus.

I am particularly struck, and I know Bloomberg talked about this, with some of my Republican colleagues who have, with a very straight face, maintained two propositions which one might have thought inconsistent: one, that the stimulus did not create any jobs; and, two, that officials in charge of stimulus money should provide some to their districts so jobs could be increased. I have seen the releases from people who have steadfastly denied there were any jobs here, arguing the stimulus would produce jobs in their district.

Now I am not making the argument that, having voted against something which passed, you should boycott it. That is simply wrong. That is undemocratic. People who live in a particular district should not be denied anything because their Member voted against it. What I am talking about is the intellectual inconsistency of writing a letter to Administration officials to ask that certain funds be made available because of the job creation and then denying there was any such job creation. That, I think, flies in the face of a number of things, including the facts.

I will reserve the balance of my time because I will have other Members. The gentleman from Alabama is now recognized for 4 minutes.

Mr. BACHUS. Thank you, Mr. Chairman.

First, let me say that Mr. Peters and I and some others traveled to Afghanistan last week, and I enjoyed our conversation. I think we came back better informed. I think you have a good Member in Mr. Peters.

Mr. BACHUS. Mr. Chairman, we all want the same thing. We want every American who wants a job to have a job. We want those jobs to be real productive employment. And a jobless recovery is no recovery for millions of Americans on the unemployment line. And that is basically what we have. I am really surprised that we are even debating the need for a new stimulus in light of our experience with the old stimulus.

It was just a year ago today that the Obama Administration and congressional Democrats really sold the American people on the idea of a government stimulus as a way to create 3.5 million jobs by the end of 2009 and to cap unemployment at 8 percent.

The chairman mentioned his Republican colleagues. Well, we warned that the stimulus wouldn't work and that those were overblown promises. We said the way to fix an economy that had been distorted by government meddling was not for the government to meddle further. And we continue to believe that the answer is not
growing government. Our warnings were not realized, and I think it is time to reevaluate the current course of action, which is just to grow government and more government response, which pulls money out of the private sector. The last thing America needs is a sequel to the so-called stimulus, which only succeeded in adding hundreds of billions of dollars to the debt, an unsustainable debt and one that I think is a fiscal catastrophe waiting to happen.

The time has come, Mr. Chairman, for this Congress to stop pretending we can spend our way out of a recession caused by excessive debt by borrowing and spending yet more money we just don’t have. That is not the way that American families recover, by spending more and borrowing more when they are deeply in debt, and that is not the way the government ought to address it.

Before he became the Chief White House Economic Advisor, Larry Summers famously asked, “How long can the world’s biggest borrower remain the world’s biggest power?” We must remember this as we go forward. Unless and until we take the steps necessary to put our house in order, our financial house in order, we will not have an economy capable of producing the kind of jobs that sustain families and communities. We can’t continue to waste billions of taxpayers’ dollars on job creation schemes which fail to produce jobs. What we need are new solutions that will put Americans back to work without burdening future generations with crushing deficits.

A good first step would be to abandon the Administration’s health care and cap-and-trade proposals, which are freezing small business in place and impeding economic recovery and focus on policies that promote growth and investment. There is one way and one way only to spur the creation of new jobs; it is to take the heavy hand of government off the economy’s neck and take the government’s hand out of ordinary people’s pockets. That will let business make what it knows how to make best and people to have enough money to buy the things they need.

The government doesn’t make jobs. People create jobs by making things and buying things. Jobs created by government spending, especially in the public sector, take money out of the private sector, where most productive jobs are created.

So, Mr. Chairman, I want to take a page from President Obama’s playbook and invite you and the congressional Democrats and the President to come work with us. Let’s pass a financial regulatory reform bill that fixes what is wrong without wrecking what isn’t. Let’s do the same thing with health care. And let’s give businesses and families some certainty about what their income picture will be like for years to come so they can start budgeting for spending again without worrying what their government will do next, increased taxes and failure to be able to meet our obligations.

Thank you again, Mr. Chairman, for holding this hearing. I look forward to the testimony of the witnesses.

The CHAIRMAN. The gentleman from Delaware is recognized for 1½ minutes.

Mr. CASTLE. Thank you, Mr. Chairman.

Despite signs that our financial system is more stable than it was a year ago, we are still facing obvious serious economic problems. Millions of Americans are unemployed and finding it difficult
to pay their bills. I recently held a second job fair in my State, which brought over 400 job-seeking Delawareans for an opportunity to meet with businesses that were hiring or offering training. This fair was in Kent County with an 8.2 percent unemployment rate, under the double digit numbers we have in other parts of the State.

With respect to the American Recovery and Reinvestment Act, commonly known as the stimulus bill, I am concerned about the longevity of the employment opportunities derived from this law. I worry that too much of the stimulus has failed in this respect.

How many of these jobs were long term, and how many were just temporary? When the stimulus funds run out, how many more Americans will become unemployed? As I see it, we should be creating permanent jobs by helping small businesses grow and American companies to innovate and expand.

As we move forward here, I hope we can collaborate in a bipartisan way to address the unemployment and economic challenges in this country and focus on providing long-term solutions that will create jobs and improve job training and placement programs for those people unable to find work.

I yield back the balance of my time.

The CHAIRMAN. The gentleman from Georgia is recognized for 2 minutes.

Mr. SCOTT. I can't express to you how much I appreciate this hearing, because the jobs and economy is the most important issue we are faced with today. But I hope that this panel will take just a couple of minutes to talk about the disproportionate impact that unemployment is having in the African-American community.

The overall White unemployment rate is right around 8 percent. But among African Americans, it is 6.4 percent. And we haven’t even begun to factor in those individuals who have given up looking for work or, especially, African-American males. In some communities, it is 50 percent.

Now, we can put our head in the sand and not want to talk about this because it brings up the big question of race, but it has to be dealt with. We can’t begin to deal with this pressing unemployment when we don’t look at the high disproportionate share. It dovetails into other issues, into crime, into family breakdowns. Why?

So I think we ought to figure out, when we are talking about this unemployment, how can we address this issue? How can we look at the impact of this issue that is happening to a very important part of a segment of our economy? We are never going to bring the unemployment rate down unless we target things to those areas where there is a high disproportionate number of unemployed. And so definitely we need more stimulus, but we need it directed, and we need it focused. Just as surely as we target and focus money to Wall Street, to specific banks where the problem was, we need to do the same thing with unemployment.

The CHAIRMAN. The gentleman from Texas, Mr. Hensarling, is recognized for 1½ minutes.

Mr. HENSARLING. Thank you, Mr. Chairman.

The question of this committee hearing, is additional stimulus needed, another way of asking the question is, is additional debt
needed? We know, with the interest factor, the so-called stimulus bill created $1.2 trillion of additional debt for our Nation, which begs the question, how much debt is enough?

We have seen that the deficit has increased tenfold in just 2 years. Recently, the President has presented a budget which will double the national debt in 5 years, and triple it in 10 years, from Fiscal Year 2008. We see that the debt held by the public will soon go from roughly 40, 43 percent of the economy, under the President’s budget, up to 77 percent of the economy.

I spent most of the break, which turned out to be a 2-week February break, speaking to small business people in my district in Texas. I spoke to community banks, spoke to people who are involved in investment management. I hear the same message. People are reluctant to create jobs or expand business.

The CHAIRMAN. The gentleman’s time has expired as allotted. We had 1½ minutes, was that correct? Let me apologize. The red light went on. I have to apologize. This doesn’t do minutes. I apologize. The gentleman is recognized for an additional 30 seconds. Don’t have the red light go on after 1 minute. Do the 2 minutes.

Mr. HENSARLING. I would be happy to start over from the beginning, if that would be helpful.

The CHAIRMAN. I thought the gentleman had, several times.

Mr. HENSARLING. Thank you, Mr. Chairman.

I continue to hear business people say, how are we going to pay for all this debt, all of this deficit? It will lead to massive taxation or massive inflation. It is a huge impediment to job growth, as is the threatened takeover of our health care system, which by any honest accounting, could cost up to $2 trillion. Add in the threatened $800 billion potential energy tax. No one is going to create jobs and expand businesses in this economy. Wipe that away and this economy, by any historical standards, should already be out of recession and creating jobs. That is what needs to be done.

I yield back the balance of my time.

The CHAIRMAN. The gentleman’s time has expired. I am going to use my remaining time to repeat, again, I am struck by the unwillingness of my Republican colleagues to acknowledge that a substantial part of the stimulus was tax reduction. Now the gentleman just said more debt. Well, a third of that debt, almost 25 or 30 percent of it, came from tax reduction. If what we are hearing is a Republican objection to tax reductions this time, we may have more agreement than I thought.

But let’s understand that the stimulus package included over $200 billion of tax reductions. There were several additional tax reductions in a smaller amount, $10 billion or $12 billion. So I am, as I said, impressed that there is no differentiation. The tax reduction and spending are apparently equally destructive to the economy in their rhetoric, not in their analysis.

The second argument that there is no role for the government is a very surprising one. Let me talk about two elements of the economic recovery that I think are essential. One, I think 47 Governors just asked for an extension of the FMAP program, the program that helps with Medicaid. That was part of the stimulus. They are facing serious problems. The notion that we should not
help Governors avoid serious cuts in Medicaid is shocking to me. In fact, that is a part of what we are talking about.

Secondly, we have the whole problem of State and local budgets. We are told, well, the private sector will create those jobs. There are police officers in cities in the district I represent in New Bedford and Fall River, for example, and firefighters who are now at work because of the economic recovery funds. The private sector does wonderful work, but they don’t make cops. They can’t hire cops. They are not supposed to. They don’t hire firefighters. There is an element of public service that we are getting, and it is a two-fold benefit. You are providing services, and you are helping avoid strains at the local government.

So I understand the notion of how much and whether, but the notion that it did no good whatsoever; the notion it was all bad, when a substantial part, not a majority but a substantial part, of that deficit addition was tax cutting, let me put it this way, as I listen to the rhetoric here, if we had avoided the tax cut part, it would have been better if we simply had done the spending. Because that added to the deficit. There is no differentiation in their rhetoric.

Secondly, the notion that the private sector will do it all. No, the private sector will not keep policemen on the street. It will not keep teachers in the classroom. It will not keep them shoveling the snow in the municipalities. And that, I think, is a serious fault.

I reserve the balance for other members who have since arrived. The gentleman from New Jersey is recognized for 1½ minutes.

Mr. GARRETT. Thank you, Mr. Chairman.

Just a quick note. Only about 12 percent of the American population believe that they got any tax cut, so that may explain the effectiveness of the tax cuts that you speak of.

I thank the chairman and thank the panel for coming here today. It is amazing, isn't it, that there are many voices still on the other side of the aisle calling for more massive government spending despite the fact that the last massive stimulus bill obviously did not work.

Now some are going to try to defend, as they already have, the last year's stimulus, saying that it hasn’t created any new jobs; it saved jobs that wouldn't have otherwise been lost. Yet, I studied economics for a number of years, and I have yet to see any chart that shows anything other than employment numbers of people employed and unemployed. I have never see that column actually say, "saved jobs.”

It comes down to this; the American public has spoken loud and clear. They are telling us very clearly that the Federal Government is doing too much in too many different areas and is spending too much money, and they want Washington to stop and slow down.

The consequences of ignoring their call and the spending problems are starting to become evident throughout the world. Greece has been in the news about possibly defaulting on its obligations. But Greece is really only the tip of the iceberg. You have Spain and Italy, among others, who are showing serious strains because they, too, like us here, ignored their spending problems for way too long.

So here in the United States, we have $1.6 trillion deficits and no real serious commitment to cut spending by this Administration
Mr. Chairman, I yield back.

The CHAIRMAN. I thank the gentleman.

I will just take 15 seconds to say this is an interesting way to analyze. The reason they didn’t mention tax cuts on the other side is because 12 percent of the people only thought they had them. It is a vicious cycle. They keep telling people they didn’t exist, so some people are persuaded. The notion that tax cuts didn’t happen when they in fact did happen because 12 percent of the people thought they did, that is an odder form of economical analysis than any others the gentleman talked about.

The gentlewoman from Illinois is recognized for 1 minute.

Mrs. BIGGERT. Thank you, Mr. Chairman, and thank you for holding today’s hearing.

Where are the jobs? About 1 month ago, in his State of the Union address, President Obama said jobs must be our number one focus in 2010. I couldn’t agree more.

To create jobs, we need to accomplish at least three things. The first way to create jobs is right in front of us—trade. Congress can pass three trade agreements now instead of allowing U.S. businesses to lose out to foreign competitors. On deals to export, expand, and create jobs, Congress needs to move the U.S.-South Korea, Panama, and Colombia trade agreements.

Second, we need serious tax reform. Reduce the corporate tax rate. Permanently repeal the death tax. And extend the increased section 179 expensing limits, to name a few.

What we don’t need is a bank tax, transaction tax, and more out-of-control Federal spending.

Third, we need commonsense financial services reform that will again bring certainty to the marketplace and get credit flowing again to small businesses.

We don’t need another Federal program, another Federal agency, or another taxpayer-funded bailout. We need for Federal legislators and regulators to get their act together and implement policies that make sense. We don’t need, for example, mark-to-market accounting; rules that seem to be distorting the books, tying up money that could be lent to small businesses and causing some financial institutions to unnecessarily fold. Small businesses need tax relief and certainty to help them invest, expand, grow, and produce more goods and services, create jobs and give our economy the jump start it needs.

The CHAIRMAN. The gentlewoman from California is recognized for the remaining 1 minute and 45 seconds.

Ms. WATERS. Thank you very much, Mr. Chairman.

I want to follow up on David Scott’s plea to talk about what we do about the disproportionate loss of jobs and unemployment in these minority communities.

As you know—and he cited some of those figures—it is up to about 17 percent officially in the 20- to 30-something category, and in many communities, this translates into 40 to 50 percent of un-
employed in certain areas in this country. And so we have to be serious and creative about creating jobs.

I would like to hear today from some of the testimony that is before us about how we can truly empower businesses to create jobs. And it is not simply with tax breaks. Tax breaks means you have to spend money on the front end. And if you spend money on the front end and you do well, then maybe tax breaks will mean something to you. We have to talk about how we support businesses and doing training and offset the costs of dealing with government and doing training. Of course, tax breaks are okay, but we can't simply rely on them.

Also, I would like to say, those who are saying the stimulus has not done anything, that is not quite true. The stimulus did save some jobs, create some jobs, but in minority communities, after you get through the bid process, the Association of General Contractors and the big boys, the well-connected ones, the ones making all the campaign contributions, they are the ones getting these bids. They are not getting down to small contractors and minority contractors. And that is why we have not felt the impact of the stimulus in some of these communities.

So let me just say that it is not only the Tea Party that is angry. We have a lot of small business people, unemployed people, and minorities who are angry about what is happening in this economy. I hope we can put politics aside and truly deal with the issue of job creation.

I yield back the balance of my time, and I thank you.

The CHAIRMAN. We will begin our testimony now with Andy Stern, President of the Service Employees International Union.

Mr. Stern.

STATEMENT OF ANDY STERN, PRESIDENT, SERVICE EMPLOYEES INTERNATIONAL UNION

Mr. STERN. Thank you, Mr. Chairman, and thank you, Ranking Member Bachus, for this opportunity to testify today. I submitted my formal testimony, which I offer today.

The CHAIRMAN. Let me say, all statements by all the witnesses, and any supporting material, without objection, will be made a part of the record.

Mr. STERN. As the president of the Nation's fastest growing union, representing more than 2.2 million people, I know that our members struggle with the same challenges that nearly every working family faces across the Nation. People are scared. They are scared that the American Dream, the dream of owning your own home, having a decent job with affordable health care, retiring with dignity and security, while providing a better life for your children and grandchildren, is now slipping away.

The problem of good American jobs, sadly, is not new. We began this decade, 2010, with fewer jobs than we had at the beginning of the last decade, although the labor force grew by nearly 11 million workers. And now, 16 months into the economic crisis, we have lost another staggering 8.4 million jobs.

So, today we are in a very unusual situation where the recession appears to have ended. Economic growth is slowly improving, leaving many pundits and politicians to cheerfully predict that such a
moment does not require the government to do more to reduce unemployment.

As Paul Krugman says, and I believe, “We are in the aftermath of a severe financial crisis which has led to mass job destruction, and right now we need more of that deficit spending because millions of Americans are blighted by high unemployment, and the government should be doing everything it can to bring unemployment down.”

With more than 6 unemployed workers seeking every single job opening; nearly 15 million unemployed workers, of which 6 million have been jobless for over 6 months; and 11 more million workers underemployed, which combined between the unemployed and underemployed is equal to the population of 18 States, the scope and scale of the job crisis in the United States continues to be a national emergency, and now is not the time to put our foot on the brake of job growth.

Lost jobs, lost wages, and lost wealth cannot fuel an economy where consumption drives 70 percent of our growth, coupled with Americans losing $11 trillion of wealth in 2008, and several years after the supposed recovery in median wealth actually declined even before the crisis hit.

Members of Congress who voted for the American Recovery and Reinvestment Act clearly understood this challenge and appropriately acted when we were losing more than 2 million jobs in just one quarter.

The Recovery Act, in my opinion, has been a success. It stopped a free fall of our economy, saved jobs, and produced almost all of the economic growth we have seen in the past 2 quarters.

As successful as it has been, it is clearly not enough. With unemployment at 9.7 percent and the bulk of the ARRA’s relief scaling back later this year, just as States and local governments start to really feel the impact of their budget shortfalls, we still need to act.

States alone will confront an estimated $100 billion budget gap for the coming fiscal year. To address the shortfall, Governors are proposing a new round of deep budget cuts that would increase unemployment and threaten the fragile economic recovery. Without further Federal aid, the actions States will have to take to close the budget gap could cost the economy another 900,000 jobs, jobs of teachers and firefighters, and also make painful cuts at a time when people need help the most.

Nevada, for example, is planning to make cuts to the State’s Medicaid program, including rationing adult diapers, eliminating denture and hearing aid programs, and forcing personal care assistants to buy their own disposable gloves. In Arizona, there are plans to eliminate the State’s Children’s Health Insurance Program and repeal Medicaid coverage for more than 300,000 adults. In California, the Governor has proposed eliminating the entire welfare program and reducing eligibility for in-home services of the elderly and disabled by 87 percent.

The magnitude of the job crisis and the deteriorating budgets of State and local governments demand serious action now and doing more, like putting people to work and providing for the services that Americans need today.
We have offered as part of our testimony a 10-point job program, some of which does not require Federal assistance, and others which would. But I would also like to state for the record that we should not overlook, as some have suggested, the role health care reform can play in promoting a robust economic recovery.

First of all, it is important to understand that the private sector is supporting, in many cases, the passage of health care reform for its own economic security and competitiveness. Two, that health care reform, even despite this recession, health care has added 631,000 jobs since the recession began. And if Congress sends a health care bill to the President, that legislation is expected to add between 2.5 million and 4 million jobs over the next decade and at the same time reduce the deficit.

Health care and bioscience have the potential to be a major solution to jobs for our kids and our grandkids. It is now time to act aggressively so we don’t face the same problem and mistakes we made in 1937.

I thank you very much for the opportunity to address this committee.

[The prepared statement of Mr. Stern can be found on page 83 of the appendix.]

Ms. WATERS. [presiding] Mr. Mishel.

STATEMENT OF LAWRENCE MISHEL, PH.D., PRESIDENT, ECONOMIC POLICY INSTITUTE

Mr. MISHEL. Thank you very much for the opportunity to testify today.

The United States is in the worst jobs crisis since the Great Depression, with unemployment hovering around 10 percent and probably rising to 10.5 percent by the end of the year. Note that these projections actually assume that we are going to renew UI for the entire year, when in fact it has not yet been done.

Unemployment 2 years from now will probably top 8 percent, a rate higher than was achieved in either of the prior two recessions. This is unacceptable, as it will lead to severe losses of income, a scarred generation of young people, and limit our future potential growth by retarding investment and innovation.

So what should we do? I think we should target getting unemployment down to 9.5 percent by the end of the year. This would mean we need an additional 1.5 million jobs. But I think we have to go beyond that because there are three reasons we should go beyond that:

First, we have seen the labor force shrink by roughly 2 million people since last May. They are going to come back in the labor market. If we get growth, that is going to make it hard to get unemployment. I think we can expect a million people back.

Second, we have exceedingly high productivity growth, which means when we have growth, we are not seeing much job growth. I think productivity will likely be a percent faster than what most forecasters are saying, meaning we need an additional 1.2 million to 1.4 million jobs.

And third, we have seen a historic decline in work hours. And so I think that as employers look to increase output, they may in-
crease work hours before they add jobs. And I think that is another reason to add more jobs.

Overall, I think we have to look to increase jobs by around 3.5 million beyond those that would be created by the unemployment insurance extension. That would cost $250 billion to $300 billion. That is what is needed.

The Economic Policy Institute has developed the American Jobs Plan to accomplish this. I will review the five ways we suggest to do jobs:

First, we need to continue the expanded unemployment insurance. This is giving money to people who will spend it. This creates jobs throughout the economy. At a time when there are 6 unemployed for every job opening, this is both compassionate and will lead to around 900,000 jobs.

Second, as the State and local governments are going to pare back on their budgets in response to the deficits, we will see a million public sector and private sector jobs lost this summer and fall. It is therefore essential, both to preserve services and to preserve those jobs, that we do provide more relief to State and local governments.

Third, I think we should do infrastructure investment. I think we can provide support for rehabbing and modernizing schools. That would create 240,000 jobs this summer.

Fourth, we need to directly create jobs. It is the most cost-effective way to create jobs, providing funds to local governments for people to do jobs that are needed in their communities. It is a good way to target employment creation to those most distressed communities.

And fifth, I have been in favor of a jobs tax credit if these other policies are implemented that would help boost demand. I should say, however, that I strongly oppose the approach taken by the Senate, which I regard as extremely poorly designed and terribly small, especially in the context of not any other stimulus besides that.

Let’s talk about the budget deficit. And I encourage discussion with the members afterwards on this. This is an important issue. We need to understand that we have a large deficit because we have a huge jobs crisis that lowered revenues and raised safety net expenditures. We do not have an out-of-control budget; we have an out-of-control economy. Thank you very much.

[The prepared statement of Dr. Mishel can be found on page 54 of the appendix.]

Ms. Waters. Thank you very much.

Mr. Hassett.

**STATEMENT OF KEVIN A. HASSETT, DIRECTOR, ECONOMIC POLICY STUDIES, AMERICAN ENTERPRISE INSTITUTE**

Mr. Hassett. Thank you, Ms. Waters.

While the short-term trajectory provides some sign of hope, there is no way to sugarcoat the description of the labor market.

In the Post-War period, unemployment has only reached our current level once, peaking at 10.8 percent in November and December 1982. As bad as the current number is, there are indicators below the top line that are truly horrifying. In particular, it is astounding...
the extent, which was mentioned by the Member, to which Black Americans have borne the brunt of this recession. For Black Americans, the rate at trough was 14 percent and now has risen all the way to 16.5 percent.

It is important to look closer at the data for Blacks, as this has received far too little attention. While White employment has been declining since last November, unemployment among Blacks has steadily risen. The picture among less-educated African Americans is far worse. This month, the BLS reported 21.3 of African Americans without a high school diploma were unemployed.

It is, sadly, a statistical regularity that unemployment has been far worse for Black Americans. Since 1972, the earliest year the BLS reports unemployment data for African Americans and Blacks, the White unemployment rate has averaged roughly 5.5 percent, while Black Americans have experienced an average rate of 12.1 percent.

In bad economic times, racial differences in unemployment are magnified. Since 1972, the monthly unemployment rate for Black Americans has risen as high as 21.2 percent, nearly 2 times the highest rate for the overall population during the same period.

Why are the effects of recession exacerbated for Blacks? Economists from the University of Connecticut and the University of California examined what is known as the last-hired/first-fired hypothesis, which speculates that Blacks are the last to be hired during an expansion and the first to be let go during an economic contraction. They examined labor market transitions for Black and White men during the business cycle and find Blacks are usually the first to be let go as the business cycle deteriorates.

But contrary to the hypothesis, they are usually hired back early in the recovery phase. Thus, it is likely that the gross flow data right now would show us, if available up to the minute, that Black Americans are flowing into new jobs created at about the same rate as everyone else but are disproportionately still bearing the job destruction.

Now I cover a lot of policy prescriptions in my testimony, but since time is limited, I want to focus on one that I think is the most important.

Ms. Waters. Unanimous consent for 5 more minutes.

Mr. Hassett. I think that the policy that I would like to focus on is a policy that, for me, it is unusual because Mr. Stern and I agree. It was the first that he mentioned. And the reason that I think it is such an important policy that has, to this point, been neglected in the job creation debate, and the reason why I think it is most important is because of these Black American statistics.

The fact is that the policy I am about to discuss is the best thing I can think of for addressing the Black unemployment problem, precisely because of the academic result that I just mentioned, that Blacks bear disproportionately layoffs when they occur.

The fact is that underneath a net change like 20,000 jobs, which we saw in January, there is a tremendous amount of job creation and destruction. In November, the numbers were along the lines of 4 million created and 4 million destroyed. About half of the destroyed were people who did it voluntarily. If you could reduce job destruction even by a small proportion, then, all of a sudden, the
monthly data might like more favorable. A 10 percent reduction might add 200,000 jobs net in the month that this happened.

There is a policy that can do that effectively, and because Blacks bear disproportionately layoffs, it would disproportionately benefit them. It is modeled after the German policy known as “Kurzabeit” or “short work.” The idea is really simple, and it won’t make me run over very much. The idea is that if you reduce a worker’s hours by say 20 percent, then why not let him get 20 percent of his unemployment insurance? If you provide an incentive like that, then firms will want to spread layoffs out amongst large numbers of their workers with hours reductions rather than terminations. And so if you reduce hours for 5 workers by 20 percent, then that is the same as laying someone off.

Right now, the government only really shares in supporting that worker if you lay the whole worker off. By adopting job sharing, we can give firms an incentive to slow job destruction. The German experience, and there are other countries that have similar programs, has been astonishing. Even during this recession, while GDP has declined about at the rate we have seen in the United States, the unemployment rate has barely budged.

I share with this committee the concern that the job market is the worst in our lifetimes, and that something needs to be done. I would encourage the committee members to support policies like job sharing that are smart and target precisely the things that are the most important things to target and don’t cost nearly as much as the stimulus of last year.

Thank you.

[The prepared statement of Mr. Hassett can be found on page 44 of the appendix.]

The CHAIRMAN. Finally, a witness who has always given his time very generously, Mark Zandi, who is the chief economist from Moody’s Analytics.

STATEMENT OF MARK ZANDI, CHIEF ECONOMIST, MOODY’S ANALYTICS

Mr. ZANDI. Thank you, Mr. Chairman, and the rest of the committee for the opportunity to speak here today.

These are my views and not those of the Moody’s Corporation. I would like to explicitly address the four questions that were posed in anticipation of the hearing.

First, what is your current forecast for employment growth? My view is that the job losses will end this spring, and that by this coming spring, the spring of 2011, we will have enough job growth that it will start to measurably bring down unemployment.

It is not going to be a straight line. At times, we will have a better job market. When the Census is hiring in April and May, we will get good solid job numbers. And at times, it will be weaker. In the summer, for example, when the Census jobs fade away, the job market will be softer.

I don’t think we will get enough job growth through the remainder of this year to bring down unemployment. I think it is very likely that unemployment will drift back up into the double digits and, by late this year, be closer to 10.5 percent. That goes to the fact that the labor force is declining, which is incredibly unusual.
The last time that has happened on a consistent basis was during the Korean War. That will start growing again, and many of those people will be counted as unemployed, and unemployment will move higher.

This forecast I just articulated is based on a number of assumptions: One, that the Federal Reserve will not raise interest rates this year' and two, that we get some legislation to add more unemployment insurance benefits for those folks who lose their jobs in 2010. Other than that, I am assuming nothing else.

One other point on the outlook. I think the risks are to the downside. I think as long as businesses aren't hiring—they have stopped laying off, but they have not started to hire. And as long as they are not hiring, we can't conclude that the coast is clear. I expect them to hire. All of the preconditions are now in place. But that is still very much a forecast, and we need to see it. And with each passing month that we don't see it, I think there are reasons to be concerned.

One other quick point about the outlook. Even under the best of circumstances, I don’t think the unemployment rate will get back to anything anyone would consider to be full employment, say 5.5 percent unemployment rate, until 2014. So I think it is going to be a long, long time before we get back to full employment.

The second question, why isn’t there any job growth? What is going on? Why haven’t we seen any job growth since the recession ended 6 months ago? I think it boils down to two things. The first is credit; a lack of credit for small businesses. Big business can get credit. The bond market is working. The commercial paper market is functioning very well. But small businesses can’t get credit. Many rely on their credit cards. And the number of credit cards outstanding has been falling very rapidly. Many rely on small banks, and this is very important in small communities. Small banks, obviously, are under tremendous pressure, in large part because the commercial mortgage portfolios are not extending loans, so small businesses can’t get credit, and therefore, they can’t hire.

It is confidence, a lack of confidence. And that is really a concern in a lot of things. I do think it is necessary to address things like health care and energy policy, financial regulatory reform and tax policy. But as long as we are debating those things, and I think we should be debating them, but as long as we are, that creates policy uncertainty, particularly among big businesses, and they are reluctant to hire as a result.

It is also important to remember that many businesses were put through the proverbial wringer not too long ago. About a year ago, many were failing, and it is very difficult for many of them to forget that.

Going to the third question, is this recovery going to be more like the jobless recoveries in the wake of the last recession and the one in the early 1990’s, or not? I think it is going to be very much like the jobless recoveries. Everything so far suggests that we are not going to see this job market revive in a significant way. Maybe for other reasons than the ones that we suffered back in the last recession and in the early 1990’s, credit and confidence. But, nonetheless, I think this will be a jobless recovery.
This goes to the last question, what should we do? Should we have any more additional stimulus? I think the answer is “yes.” I think that is prudent risk management. I think because the risks in my outlook are to the downside, I think it is very important to be aggressive. Moreover, if we go back into a recession, although it is a low probability, but if we go back into a recession, we are not coming out. We have a zero percent funds rate target. We have a $1.4 trillion budget deficit. If we have another recession, we will have no policy response. Therefore, we have to err on the side of doing too much rather than too little.

Let me just list five things I would do quickly: First, unemployment for those workers who lose their jobs in 2010; second, more help for State and local governments; third, expand out SBA lending for credit to small business; fourth, I concur with work share, that is a fabulous idea we should implement; and fifth, a jobs tax credit. I think that could turn the light switch on and get this job market rolling sooner rather than later. Thank you.

[The prepared statement of Mr. Zandi can be found on page 91 of the appendix.]

The Chairman. Thank you, Mr. Zandi, and thanks to all the panel.

Mr. Hassett, I am particularly interested in the create jobs directly. Let me ask, on job sharing, is that something which would need to be encouraged legislatively? I assume people can do that. Are there tax implications? Do we need to do this legislatively if we wanted to do it?

Mr. Hassett. Yes, sir, you do, because what we want to do is provide the firm the ability to reduce the salary or the payments to the worker and have the government fill in some of that so it doesn’t damage—

The Chairman. I meant on the job sharing.

Mr. Hassett. Excuse me. That is how the job sharing works. The way the job sharing works is that the firm will reduce hours 20 percent for 5 workers rather than lay a guy off. And then those guys will maybe each get 20 percent of their unemployment insurance, and he will reduce their wages.

The Chairman. Also, you talk about the direct jobs program. Both of those would require the expenditure of Federal funds?

Mr. Hassett. Yes.

The Chairman. Both of them would add to the deficit?

Mr. Hassett. Yes.

The Chairman. Both of them you would recommend us doing at the current time?

Mr. Hassett. Yes. They are very cost-effective ways to create jobs.

The Chairman. Right. But you don’t get too cost-effective until you accept cost. If your mantra is never add to the deficit, no way, no how, then what is the most effective way to do it becomes irrelevant. That is my difference with many of my colleagues. Debating how most efficiently to do that is a very important thing for us to do. But to simply take the position anything adds to the deficit at a time of this economic situation you all described, that is a problem. You can’t get the cost-effectiveness. So I appreciate what you have to say, and I think these are things that are very useful.
Let me go on to Mr. Stern, in particular. There are two things that I have been surprised are not more largely supported here. One is extension of the aid for Medicaid. One of the things we are told is the private sector would take over.

Mr. Stern, everybody else, if we don’t extend aid to the States for Medicaid to keep things going, in what way would the private sector step in and take up the slack?

Mr. Stern. I think to the contrary, unfortunately, what the private sector is doing is dumping its responsibilities onto the States. As their obligations and budgets get tight, what they are doing is increasing copays, premium sharing, things that make it difficult for workers to take up the health care. So I think we are going to see an ever-increasing burden on the States. And I think it is appropriate, as the 47 Governors said, to continue assistance.

The CHAIRMAN. Let me go back to Mr. Hassett. I want to go back to the Governors, because on the creating jobs directly, is that the one that I read Governor Barbour of Mississippi is employing?

Mr. Hassett. That is correct.

The CHAIRMAN. So a former Republican National Chairman is in fact adding to the deficit by using funds that the Federal Government has provided to him to do this?

Mr. Hassett. That is correct. He has publicly supported this program. Again, it is a much more cost-effective way to create jobs, maybe on the order of 10,000 or 20,000, as opposed to last year’s stimulus, if we accept President Obama’s numbers, is about 100,000.

The CHAIRMAN. I think it is an example of how sometimes politics can get in its own way. The notion of directly doing this offends some people, and therefore, we get into ways to mask it and wind up adding to the costs and being less effective in this regard.

You say that House Democrats have correctly judged this program positively. Republicans support such a program, too. I want to pay tribute to the bipartisanship of my colleagues who did select you as their witness. So I do want to say—

Mr. Hassett. At least this time.

The CHAIRMAN. I think that people are ready to pick up your option if you decide to become a free agent in this regard. But I think, again, if you start out with ideological binders—no, we will do nothing—you have a problem. Once you agree that something needs to be done and that we are not going to get out without a combination of public and private efforts, then it becomes relevant to talk about these things.

The last thing I would say is this, and we will get—I am just making a statement—we have State Governors also telling us that they are going to have to lay off police officers and teachers and sanitation workers and home health care workers, etc. If we do not extend the aid, that is going to happen, and you have a double hit there; you will have important services not provided and you will have more people added to unemployment and all that does.

The gentleman from Texas.

Mr. Hensarling. Thank you, Mr. Chairman.

I heard you use the word “offended.” I must admit, yes, I am offended by ineffectiveness. And I have rarely seen a more ineffective
piece of economic growth legislation than the so-called stimulus bill.

As the chairman has referenced, a substance of the bill had tax relief, there are a number of provisions and policies that I support in Federal law, but I don’t necessarily confuse them with pro-growth economic policies. I believe $112 billion of that package would be more aptly described as tax relief for people who don’t necessarily pay income taxes. There are aspects of welfare. Not to say that they weren’t needed in the economy, but something that temporarily increases personal income does not necessarily translate into increased demand in our economy, much less creating jobs. By most calculations, a very, very small percentage of that particular legislation had anything to do with pro-growth policies that historically have created jobs, hope, and opportunity in our society.

Again, I would point out, you can’t fool all the people all the time. So if the new talking point for my friend on the other side of the aisle is, look at all this great tax relief we had to create jobs in the stimulus programs, I would ask my friends on the other side of the aisle, then why are you getting ready to take it all away? Why is it that all the tax relief is about to expire? Why is it that the death tax is about to go from zero to 55 percent? Why is it that many small business men and women in America are about to see their capital gains taxes increase by a full third? Why are they going to see their dividends tax increased by over 150 percent? Why are they going to see their marginal rates for every bracket increase under current law, with one exception? And so Milton Friedman, Nobel Laureate, who had the permanent income theory, and you can’t fool people with temporary tax relief.

I wish it were true, but it is not. And so what we see is a policy that still has us mired in almost double-digit inflation. It has been a while, but I have actually studied economic histories. That is what I had my undergraduate degree in. And I cannot find a single instance where you have anywhere close to this deep a recession to where you shouldn’t have had already a bounceback recovery. That has been the post-war history of all recessions, and yet we don’t see it today. And why don’t we see it?

One of the reasons, I believe, again, in my talks with business people and bankers, from small and large throughout America and in my districts, is fear. I believe that Mr. Zandi spoke of a lack of confidence. People who invest capital, people who create jobs, have a lack of confidence on how to deal with this debt and this deficit.

I hear absolutely no words of concern from my friends on the other side of the aisle. I suppose the theory is that there is no level of debt or debt that we cannot exceed for some price of short-term economic growth. Number one, we really haven’t seen it. Perhaps I am paraphrasing Mr. Stern, but what I believe I heard him say is: No jobs, no recovery. It is certainly what I believe. And I don’t see the jobs in my district. And people across America continue to ask: Where are the jobs?

And so why would you want to follow the same failed policies? I am not even sure John Maynard Keynes would have claimed that particular stimulus program. And here we are contemplating another one. You look at the spend-out rates; you look at the shovel-
ready projects. It wasn’t there. Even following classic Keynesian economics, this package was a complete failure. And now we are contemplating more of the same.

I also think there is an aspect of, frankly, generational theft here, borrowing from future generations, robbing future GDP growth to try to promote current GDP growth. At some point, do you ask yourself, is this really fair to future generations?

I see that my time is drawing near, so I will ask a question. And that is, Mr. Stern, you said we need more deficit spending. Let me ask you the question, is there any level of deficit spending that you would not accept? Are you at least troubled by the aspect that perhaps future members of your union may have to pay for this debt with future jobs?

Mr. Stern, I am absolutely concerned about the long-term economic stability of this country, including the deficit. I don’t, however, think there is any way out of this situation without job growth and wage growth. I don’t think we can cut, borrow, or spend our way out until we have Americans back at work and gaining raises.

But I do think we have a short-term and a long-term issue. And I think in the short term, as everyone has said up here in one form or another, we can debate what are more effective ways, but we need an effective way forward from this moment of history. We can all attempt to continue to adjudicate what we did, but we are here now. I think there are ways you have heard to do effective job growth, including from Governor Barbour and others. I think we should pursue them.

The Chairman. The gentleman’s time has expired.

I recognize the gentlewoman from California.

I will take 20 seconds to say that the gentleman said we need to have permanent tax cuts. And look what has happened to the estate tax. It is going to go from zero to 55 percent. I didn’t vote for that. They did. That was George Bush’s cockamamie way to get around the budget rules. The fact we have an estate tax going from zero to 55, that was what was voted on in that tax package that I opposed.

Mr. Hensarling. Will the gentleman yield?

The Chairman. I will give unanimous consent for an additional 15 seconds.

Yes.

Mr. Hensarling. Do I understand the gentleman is then against the policy and so would support a policy that keeps the death tax zeroed out?

The Chairman. No. I am talking about the gentleman’s point that it is a mistake to have nothing permanent, and that it is going from zero to 55 percent. That is what you guys voted for because you were trying to play games with the budget rules. I would have kept it up, not at 55 percent, but at a more reasonable level. This going from zero to 55 percent, this is nothing anybody here voted for. That was part of the Bush tax package the Republicans supported.

The gentlewoman from California.

Ms. Waters. Thank you very much.
Mr. Hassett, I would first like to thank you for espousing the last hired/first fired scenario that we know something about. I would like to thank you for not being afraid to talk about Black unemployment. It is real. It is profound. It is hurting and destroying communities. Not a lot of people would like to give recognition to that.

I like your idea of job sharing. I like the idea that you have some creative thought about what to do about unemployment in general and Black unemployment. I want to ask you about a few concepts that I am thinking about that have not really been employed in trying to do job creation. What about loan guarantees for small businesses who employ the unemployed? It seems to me, again, I have this idea that small businesses need upfront money. Even tax incentives are okay, but it comes after the fact. So I like the idea of loan guarantees. I am not so sure what others think about it.

The other thing is, in the bid process, part of what was wrong with the stimulus, it is not that it didn’t create jobs; it just took so long to do because of the bureaucracy and the bid process. Our small businesses are up against big businesses and competing for some of these contracts and these so-called shovel-ready projects. What about breaking up these contracts and not having such large contracts? But spreading them out so more small businesses can participate and create more jobs? What about credits for hiring in the area where the contracting is being done? One of the things that we see in some communities is once the stimulus projects are awarded, the large contractors are getting the contracts. They hire from all outside of these districts and not from the districts where they are working. What about some credits for hiring in the areas where the jobs are being done? And what about joint venture projects that would put together some large and small businesses so that small businesses would have an opportunity and they would get credit in the bid process as the request for proposal that is being honored recognizes the fact that they should involve small businesses?

Mr. Hassett. Thank you very much for the kind words, Ms. Waters. I think that it would be important to try to shy away from a strategy of trying a million little ideas. I think the job-sharing program that we have, I guess, all mentioned is something that has been designed and implemented in other countries and shown to be effective.

I think that the best strategy right now, if we are going to do a targeted program, would be to copy success and do it in a big way, but I also think that we should be careful with some of the issues that you mentioned to lose sight of the fact that we do have an environment right now that is not one that is producing a lot of optimism. And we need optimism from every business, not just small businesses. We need optimism from big businesses and small businesses. And I have other parts of my testimony where I talk about why I think there isn't that optimism. And there are bigger, less targeted programs, I think, that would adopt it.

I think we do need to have a commission to restore fiscal balance so that people aren’t worried about future tax hikes, and I think we have to address the fact that we have a really unfriendly climate for corporate America with really high tax rates.
Ms. WATERS. Don't you think that small businesses are suffering more than the big businesses?

Mr. HASSETT. I think that is clear. But I think as we are trying to create jobs, then big businesses will be an important way to do that. And to focus help only on small businesses, I think—

Ms. WATERS. Don't we have some statistics that show us that small businesses are more job-intensive than large businesses, and they actually, in the final analysis, create more jobs?

Mr. HASSETT. That is a long thing to talk about. But those statistics have often been misstated to say that small businesses create all the jobs and so on. But going forward, big businesses definitely could be an engine of growth if we could make the U.S. climate more friendly towards them, too.

Ms. WATERS. I like your job sharing. I am not sure I like your approach to big business as opposed to small businesses.

The CHAIRMAN. One out of two is pretty good with Ms. Waters.

The gentleman from Delaware.

Mr. CASTLE. Thank you, Mr. Chairman.

Mr. Zandi, I am concerned about the permanency of the jobs which have been created in the stimulus bill. If you can help me with this and let me tell you why I say what I just said. A lot of these jobs are created by the extension of help to the States and local governments in terms of their governmental jobs. And I assume at the end of a fiscal year, they will no longer have that money. Those jobs may or may not continue depending on what we do or they are able to do.

And in addition, a number of the other jobs that were created were capital projects, perhaps adding a lane to a highway, whatever it may be, which may have expired after 3 months, and I assume those jobs with the construction companies that were hired may also not be continued.

Have you analyzed that or looked at that at all?

It is hard to follow it in terms of all the numbers. I will be the first to tell you that some jobs were certainly saved and maybe even created by this bill. But were they jobs that 3 or 4 months later have expired? We really haven't changed the underlying fundamentals of the economy.

Mr. ZANDI. Your intuition is correct. The stimulus is not designed to provide permanent job growth. The purpose of the stimulus was to provide a bridge to a time when businesses can again get credit and have the confidence to start hiring on their own to fill the void left by the fact that businesses were panicked a year ago. So the intent of the stimulus is not to create lasting jobs; its intent is to stimulate the economy, to get private businesses to step up to the plate and begin to hire.

I can give you a sense of what my analysis has shown, that the level of employment will be 2.5 million jobs greater than it would have been otherwise at the end of this year with the stimulus. So that is the net benefit of the stimulus.

Mr. CASTLE. But many of those jobs will drop off at some point, too.

Mr. ZANDI. That is the peak employment effect. By the year end 2011, we are down closer to 1 million; by the year end 2012, it
fades largely away. The stimulus was not designed to create permanent jobs.

Mr. CASTLE. Thank you.

You also indicated in your testimony, if I wrote it down correctly, that we should have more stimulus, and that could be measured in a variety of ways. As you know, we passed a House bill. There is a Senate bill which is being acted on this week, we think, and there is also more stimulus in terms of the stimulus bill that we passed last year which has not yet been expended. Can you expand on when you say “more stimulus,” what you are talking about?

Mr. ZANDI. Right. So you passed a bill at the end of last year that is worth about $50 billion to south of that for 2010. That was the housing tax credit through April, that was lost carryback, that was the higher conforming loan limits, and some UI.

I would budget another approximately $50 billion for UI benefits, extended emergency benefits, for people who lose their jobs in 2010. I would allocate another approximately $50 billion for FMAP extension. I think that is vital to the job market later this year, because if the States don’t get that, we will see very large job losses at States. And then I would allocate another $50 billion to include things like a jobs tax credit, an empowerment of the Small Business Administration to become more aggressive in extending credit to small business, and if you are interested, we can talk about how you want to do that. If you add all those things up, it comes up to be $150- to $200 billion over the course of 2010, 2011.

I think that would be appropriate in the context of, again, risk management. We do not want to go back into a recession. It will cost taxpayers measurably more if we do.

Mr. CASTLE. This question could be for anybody, but you are the one who mentioned it, Mr. Zandi, and that is the need to have— one of your five solutions was to have the Small Business Administration—you just mentioned it again—do more, get more money. But that doesn’t speak to bank lending, and a lot of us here are concerned about that. So many of our businesses are used to dealing in that particular way, and my concern is what, if anything, can we be doing to extend bank lending to businesses who may hire?

Mr. ZANDI. Be more aggressive. For example, as part of the stimulus, the loan guarantee on an SBA loan under the two programs went from 70 percent to 90 percent. You could lift it to 95, 97½ percent, make it like an FHA loan, not for very long, I wouldn’t do it for very long, but if you do that, that would incent banks to then go out and be much more aggressive in extending credit to small business. There are a number of other things you could do, but that would be one of the most obvious things to get money out to small businesses very quickly. And the President has an idea: Take TARP money, provide capital to community banks so that they will go out and lend. I don’t think that is going to work, at least not that quickly.

Ms. WATERS. [presiding] Thank you.

Mel Watt.

Mr. WATT. Thank you, Madam Chairwoman, and I thank the Chair for convening this hearing. I will say right at the outset the witnesses were very clear in their presentations, and I am not
planning to ask you any questions because I think you have been very clear about what you had to say. But I am not planning to yield back my time either.

I just want to get a couple of things off my chest.

First of all, I don't usually pay much attention to whose witness is invited to testify. I just listen to the substance of what they say. But I can assure Mr. Hassett that he isn't likely to be invited back again by my colleagues on the other side. And I can say to him that I wish he had written their talking points today rather than all of the crap that we have heard.

And that is what has me a little agitated and frustrated here, because I came to Congress in 1993, and I didn't come into Congress thinking that I was going to spend a lot of time trying to reach a balanced budget and getting us out of deficit. I am not even sure at that time I had much of an appreciation for what that meant. But it didn't take me long to figure out if we kept spending more and more of our budget, paying interest on debt, that was taking more and more and more of our budget away from things that I came to Congress to work for.

And I took some tough votes in the 8 years, the first 8 years that I was in Congress, leading to a point that we could get to a balanced budget with surpluses projected forward as far as the eye could see. And it frustrates me to have a bunch of ideologues here making it sound like they are the first people in life to have any concerns about balancing the budget and creating fiscal discipline when it took their President less than 1 year to wipe out everything we had done in 8 years of trying to get to a balanced budget. I think that is disingenuous. And for anybody to come in here and try to make it sound like we created this problem, and we are not trying to do anything long term or short term that will have any impact on this problem, I think—I can't say under the protocols that we are constrained to act under how much of a frustration that creates for me.

I think Mr. Hassett's idea is a wonderful idea. I turned to my staff and said, go draw me a bill that will do this kind of sharing if nobody else has introduced that bill. But if he thinks that the folks who were responsible for inviting him here today will get on board, even though it has been implemented by a Governor in their party, and that they will be more interested in doing something positive to create jobs than just bitching and moaning about what isn't working or what might be politically expedient for him, then I think he is deluding himself.

On that bill, we aren't going to get any support on the stimulus; we didn't get any support on anything that we have tried. We haven't gotten any support, including health care and the kinds of things that you have talked about cogently today, that would help address job creation. We have gotten no support, and all we have gotten is opening statements that make it sound like we are un-American because we are trying to dig out of this situation that they created. I am sick of it. And I am glad my time is over because I just can't take it any more.

I yield back. I thank the lady for allowing me to express myself.

Ms. Waters. Thank you, Mr. Watt.

Mr. Manzullo.
Mr. Manzullo. Thank you.

In going through the testimony and listening to the witnesses’ answers to the statement, I don’t think I have heard the word “manufacturing” come up once. The area that I represent in northern Illinois is the largest county. One of the four jobs is directly related to manufacturing. And next to it, McHenry County is one out of five, and our unemployment is probably effectively 25 percent. You take 17 percent and add 7 percentages to that.

We can’t buy out of way out of this recession. We have to manufacture our way out of it, and none of the four of you have mentioned that. And unless we get the supply chains going again, we are going to go nowhere.

I had introduced a bill last year to get our manufacturing of automobiles back up to around 15 million vehicles sold each year. Follow this: For every 1 million cars that are sold in this country, it is 60,000 employees, the government saves—the government takes in $1.7 billion in Federal income tax; the States take in $300 million to $500 million in State income tax; States take in $1.3 billion in sales tax; and the Federal Government saves $1.3 billion in unemployment compensation, COBRA extensions, food stamps, and job retraining.

Now, I don’t know what it is going to take for this country to understand that manufacturing does it all. Once we restart the supply chains, we go back to the minerals and the ores and the chemicals that start the manufacturing process all the way through exporting, once the automobile industry is restarted, that will help out.

Only one person mentioned the lack of credit. I can show you case after case—Ibsen, for example, in the congressional district that I represent, is the only manufacturer of a portable heat-treating machine. It is called the Titan. It costs less than $250,000. For high-end carbon, that is not that high. A lot of people want to buy it. There is no credit. Orders are coming in. The Institute for Supply Management, I think it is 7 months in a row, it increases. It is above 50.

No one in this country seems to think that the way to come out of this thing is to start the wheels of manufacturing going again. And I would like to know what you gentlemen think about that. No one mentioned it.

Mr. Hassett. Actually, sir, it figures prominently in the policy response that Ms. Waters didn’t like that I gave that is in my testimony. I think you can’t expect to have firms decide to locate a whole bunch of manufacturing plants in the United States when our corporate tax rate is about 10 percentage points higher than the average for our overseas—

Mr. Manzullo. I understand they are not thinking about that now. They are thinking about getting a line of credit so they can sell their machines. That is the most immediate thing right now. They are also concerned, a lot of the shops, about card check. They are concerned about the health care bill that would cost 5 million jobs. We lost in our congressional district because of the carbon tax—the mere fact that came up, an $800 million project was dumped in East Dubuque, Rentech, a company that—could I ask for another minute? Would that be possible?
Ms. Waters. Without objection, it is so ordered.

Mr. Manzullo. Thank you. Rentech makes anhydrous ammonia. They are going to switch to the Fischer-Tropsch process—1,000 manufacturing jobs for several years, $800 million investment, it would have started the green revolution across northern Illinois. It was killed because of the carbon tax and cap-and-trade. No one has talked about the fact that those are job-killing policies and scare manufacturers from getting involved in it.

So we have lost out on the latest technology. There is a loss of credit, and we seem to be adrift with very few people concentrating in restarting of manufacturing. And unfortunately, I talked too long and didn't give you the opportunity, but if you want to respond to me in writing, I would appreciate your thoughts on that. Thank you.

Ms. Waters. Thank you very much.

Mr. Moore.

Mr. Moore of Kansas. I am concerned about how the commercial real estate market will impact any economic recovery for our country. The Congressional Oversight Panel for TARP issued a report this month expressing a concern that a wave of commercial real estate loan losses over the next 4 years could jeopardize the stability of many banks, particularly community banks. In the report they say, “A significant wave of commercial mortgage defaults would trigger economic damage that could touch the lives of nearly every American.”

You touched on this issue in your testimony, Mr. Zandi, but is there anything Congress can or should do to minimize the negative impact of a commercial real estate crisis?

Mr. Zandi. You are absolutely right. If you are going to list in rank order the impediments to the recovery, potential impediments to recovery, commercial mortgage defaults would be right at the top. It has two negative consequences for the economy. One is obviously small banks that are choking on their defaulting mortgage loans, which is restricting credit to small business in small communities in particular; and second, the collapse in construction as a large employer in many communities.

Unfortunately, there is no direct way that the Federal Government can help, unlike the residential mortgage market. In the residential mortgage market, Fannie Mae, Freddie Mac, and the FHA can come in and fill the void left by the fact that private lenders aren't extending credit. There is no direct mechanism to do that.

There are a couple of things that can be done. Fannie Mae and Freddie Mac do have arms that make multifamily mortgage loans, and so they can be empowered to go out and extend more credit to the multifamily sector of the commercial real estate market, which is quite important.

Also, I think it is important to have regulators apply forbearance with respect to how they address these commercial mortgage loans. If they can figure out ways to work with these small banks to make sure that they don't have to force the mortgage owner to default on the loan, that would be quite therapeutic, and I think it would be good policy for regulators to show some forbearance in that regard.

Mr. Moore of Kansas. Thank you, sir.
Would any other witnesses care to comment?
Thank you. I yield back, Madam Chairwoman.
The Chairman. The gentleman from Texas, Mr. Marchant.
Mr. Marchant. Thank you, Mr. Chairman.
Mr. Zandi, I would like to take advantage of your expertise in the
home building field. Have we ever had—a—
Mr. Zandi. Like is your home going to fall in value? What is your
address?
Mr. Marchant. Have we ever had a recession where home build-
ing was not one of the leading components that led us out of that?
Mr. Zandi. It has always led us. It is one of the sectors that has
always led us out of recession into recovery because it is a very
rate-sensitive sector, and historically in recessions interest rates
come down. That juices up demand, and you get more construction.
So it has also been a sector that is key to recovery.
Mr. Marchant. So what is different about this recession, and
why hasn’t home building, housing production, led us out of this re-
cession?
Mr. Zandi. Well, of course, housing is ground zero for the finan-
cial crisis that we are in. It was aggressive lending, speculation in
the housing market which led to the collapse of the financial sys-
tem and the mess that we find ourselves in. So the housing market
is now significantly overbuilt. The number of vacant homes that
are for sale or for rent is still very high by historical standards.
House prices, we still have a mountain of foreclosures to work
through which will continue to depress prices. And so given the ill
effects of all of the speculation and euphoria during the bubble,
housing is not going to be able to lead the way out of this, lead the
way through—into this early part of this recovery. It is just not
going to do it. Another reason to suspect the recovery is going to
be modest as a result.
Mr. Marchant. Have we ever had the phenomena of apartment
occupancy actually going down when home building is going down
at the same time?
Mr. Zandi. No. This is extraordinarily unusual. When you have
both rental vacancy rate and homeownership vacancy rate high
and rising, that goes to the mountain of vacant homes that are out
there for sale and for rent, and fundamentally due to the over-
building that occurred during the boom and the bubble. So I think
it is fair to say it is unprecedented, yes.
Mr. Marchant. So the industries that normally recover quickly,
manufacturing, furniture, housewares, all of these other industries
that traditionally will follow right behind the housing boom, that
is not happening either?
Mr. Zandi. No, it won’t happen—when you get a home sale, peo-
ple go out and they buy furniture, they may even buy a car, they
refurbish the home. So this is remodeling and repair. So, yes, all
those things will be depressed, at least compared to where they
would be normally at this point in an economic recovery. We are
just not going to see it in this go-round.
Mr. Marchant. So in any kind of new economic package or stim-
ulus package, shouldn’t there be some component of it that ad-
dresses this issue?
Mr. ZANDI. I don’t think it is part of the stimulus. I think it is part of the policy response, though, and if I were you, I would focus entirely on loan modification and foreclosure mitigation. That is the most positive thing that you could do. At this point, I think an extension of the housing tax credit would not be particularly helpful; you have done that now 3 times, and it is losing its firepower. You extend it a fourth time, it is really not going to add anything. In fact, it is going to be very inefficient because you are just giving it away to people who would have bought a home anyway.

So if I were you, I would devote all of my resources, and you have resources in TARP, to figure out a more effective method of modifying mortgage loans.

Mr. MARCHANT. So we are finding that this latest round of first-time homebuyer stimulus is not having the effect.

Mr. ZANDI. Well, the one that expired in November, fabulous, it worked very well. I think the Realtors got out and really marketed it. This next round, this next tax credit extension expires in April. It is still early to judge, but I suspect you are going to get more sales come March or April. But if you do it again, I don’t think it is going to provide much juice, because you pulled forward all those sales as a result of these previous three tax credits. You are not going to get much of a benefit, no.

Mr. MARCHANT. Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman from California.

Mr. BACA. Thank you, very much, Mr. Chairman. Thank you for holding this hearing.

I agree with what Congressman Mel Watt said earlier. A lot of us are very much concerned that a lot of positive things are not happening. But as we look at our Nation and our country, and we look at the last quarter of 2009 and again the first month of 2010, but obviously the big issue remains high unemployment. And in my State of California, the unemployment rate is about 12 percent. In my home district, it is over 14 percent. Many have termed these recent events to be a sign of jobless recovery, and people are concerned right now, they are saying, hey, what about a job for me? I have lost a job. What are you going to do? And they are asking us specifically what can be done in that area.

What is unique about our current economic crisis compared to the ones this country has experienced in the past where significant job growth has fallen, significant economic growth? And I say this because it needs to be addressed in the area that we have all talked about.

You talked about the manufacturing, you talked about home loans, Mr. Zandi, but when you look at the mortgage lenders, remember that the manufacturers, the furnitures and others, all those jobs were never outsourced. So when you look at economic recovery from the past, we didn’t have the outsourcing, we didn’t have the trade that is going on right now. That is attributed a lot to the growth and economics in the area because we don’t have these manufacturers in our areas. We don’t have them creating those jobs here in the United States; they are being outsourced. The same greedy corporations that got involved with predatory lending and everything else went outside of this country, operated
outside of this country, and then we end up not being able to em-
ploy the bodies or people that we need.

Hopefully, you can address that, and address the outsourcing the
impact it has had on the recovery. And that is open for all three
of you, maybe starting from labor, Mr. Stern, starting from you.

Mr. Stern. Let me just start by saying I think there is some-
thing much more profound here, and I know we could talk about
life in terms of this economic crisis, but I said I want to respond
to you. This is not our fathers' or grandfathers' economy. The "one
job in a lifetime" economy is gone. We had a jobless decade, not
just a jobless 2 years. American workers faced 5 years before the
economic crisis where they didn't get a raise, the longest period of
economic stagnation in the history of our country.

So there is something profoundly different, I agree with you, sir,
that is going on, and the first thing is that we are in a global econ-
omy, and our country no longer salutes our flag, they salute their
own corporate logo a lot more. And in a global economy, the respon-
sibility of America is really different. We are a team. And I would
say our team has no plan to how to deal with a 21st Century econ-
yomy instead of a 20th Century economy. Whether it is about our
manufacturing center, whether it is about trade or incubating the
jobs of the future, the privatizing, deregulating, "let the market
solve all our problems" failed us miserably in the last century, at
the end of last century, and in a global economy we need to change.

And I think all the policy issues you have talked about, what we
do about manufacturing, about the fact that if we pass the health
care bill, we will add 2½ to 4 million jobs that are paid for in
America, which no one really wants to talk necessarily about; or
that health care and bioscience and pharmaceutical are really the
jobs that we do export—

Mr. Baca. And those jobs won't be outsourced. They will be cre-
ated right here in the United States.

Mr. Stern. In every State, in every community. This is not a
Democrat, a red State or a blue State, it is an American solution
to a problem as well.

So there are some things we are looking for jobs in all the wrong
places I like to say sometimes, because the health care bill is a jobs
bill that is paid for. But I do think we need a different economic
plan in the 21st Century, and we don't have one right now.

Mr. Baca. The rest of the panel?

Mr. Hassett. I just think that if you think of it from the point
of view, say, a State, suppose you are a State, and you are charging
corporations a lot more to be in your State than all your neighbors.
Then what is going to happen is the plants are going to locate in
the neighboring States because they have lower tax rates.

We are way out of line with the rest of the world right now, and
the fact is that in order for firms to compete, they have to locate
activity in places where the taxation of their activities is com-
parable to the people they are competing against. And that is not
because they are evil or unsympathetic, it is because—

Mr. Baca. There has to be a fair, level playing field because they
all leave the United States, and they say it is a lot cheaper to go
outsourc out there and create those jobs out there versus out here,
and then all we end up having is distribution centers in our area.
Mr. Hassett. There is very clear evidence that relates changes in corporate taxation to blue-collar wages. If we made ourselves a more attractive country for the location of manufacturing plants, then wages would go up, and we would create jobs. We can’t go around and micromanage little things like access to credit and expect really big responses when there is a fundamental knife in the chest of manufacturing in the United States, which is that we are the most unattractive tax climate if you add, for example, the California tax rate to it on Earth.

So people aren’t going to look at the deficit that we have and the high taxes that we have and say, well, I will locate my activity there and create jobs there, because there are so many more attractive places. And unless you address that fundamental problem, then we are going to be tinkering around the edges. And it is not because of the motives of corporations, that they are bad people. It is because they are competing against folks who have a tremendous advantage because our policies are messed up.

Mr. Baca. Mr. Mishel?

Mr. Mishel. I don’t believe that corporate tax rates are what is deindustrializing America, but I think we should at least mention the fact that exchange rates are way out of line, and people are totally afraid to even deal with it. And so we have a very large external deficit, especially with China. When people complain about all the public debt going to China, that is really a process of our trade problem with China and not, in fact, anything to do with our current fiscal position. So I would suggest that we have an exchange about that.

Mr. Baca. For a level playing field.

The Chairman. The gentleman from California.

Mr. Royce. Thank you.

Mr. Hassett, I was going to ask you as we talk about the need for job creation, I think it is hard for those out there who are entrepreneurs to ignore the uncertainty that many Americans face when they turn on the news and they hear what is coming out of Washington. The rush by the Administration, and frankly by this Congress, to transform the U.S. economy into one centered on the Federal Government, and that is the way a lot of people perceive it, has created, frankly, a level of uncertainty among our Nation’s small businesses that is a 35-year low in terms of the polling that you see in business.

Businesses are not hiring. One of the reasons is they see the new mandates. They see the new taxes being debated in the health care bill. They understand that the cap-and-trade legislation will restrict growth. Certainly, it is going to increase their costs of doing business if their energy costs are going to go up.

I know my overarching concern with the regulatory reform bill that this committee passed out late last year was the power delegated to government bureaucrats in terms of the way in which it was done. And I think businesses throughout our financial system see the creation of a new expensive consumer protection agency. They understand that a common theme found throughout the legislation is a spike in legal liabilities, which is another thing for them to be concerned about. They are going to have to deal with that. In the past few months, you saw the Speaker and an advisor to the
President, John Podesta, both raise the idea of another tax, a Value Added Tax, or VAT tax, to generate revenue.

Well, if you are in the small business community, and you are looking at what is around the corner, and you are looking at the potential of facing all of those taxes, card check would be another thing that you would put into the equation, all of these factors, arguably, lead to an aversion to risk across-the-board, an aversion to the idea that you are going to put more capital at stake. And instead of bringing on new employees or investing in the firm, I think businesses are preparing for what they believe will be hostile operating environments that they are going to have to live in for years to come, basically a politically hostile environment as the government grows and the private sector shrinks.

The National Federation of Independent Businesses were the ones that did the recent study on capital expenditures and near-term plans for new capital investment. They say that is at a 35-year low.

So these facts suggest that it was a serious economic mistake to press for this major transformation, in my mind, to government power in Washington, centered in Washington. That has been a lot of the messaging, that these decisions are not going to be made in the private sector. A lot of them, including even the ownership of institutions, are going to stay with Washington for a while. Political pull is going to replace market discipline, is going to replace market forces on the heels of the worst financial crisis in decades.

And I would like to ask you, Mr. Hassett, for your views on that topic. Are small businesses around the country hesitant to expand because of the rhetoric coming out of Washington and the concerns that some of these things are going to come to pass?

Mr. Hassett. Thank you for the question, Mr. Royce. I think that absolutely uncertainty about policy is something that squashes investment, especially capital formation. It is something we have seen repeatedly in the past. But also uncertainty about things like tax policy and future taxes. If we take just the stimulus, for example, if you are a small business or a medium-sized business with a taxable income, say, between $200,000 and $500,000 a year, you employ a few people, your own bill for the stimulus and expected future taxes is about $41,000 just for that one guy. That is his share of the stimulus. It is about $8,000 for every taxpayer.

And the fact is that we have to pay off this stuff or we are going to keep making our credit card payments every month. And I think that that creates a lot of uncertainty. That is why the first policy that I addressed in my testimony was fiscal consolidation, the notion that—I know it was addressed in the Senate recently where it was actually a failed initiative to have a panel, a bipartisan panel, try to seek ways to fix the budget deficit. If we don't address these problems and provide some kind of clarity, then we should expect high-risk aversion to continue, and we will continue to be disappointed by the recovery.

Mr. Royce. Mr. Zandi?

Mr. Zandi. I think it is fair to say that policy uncertainty is contributing to the lack of hiring. I think, though, that these are issues that need to be addressed. And I think health care needs to be addressed, and energy policy, and financial regulatory reform
and tax policy. All those things are very, very important. I don’t think there is any way around addressing them. But I think one unfortunate byproduct of that is it creates uncertainty and is playing a role in the lack of hiring, yes.

Mr. ROYCE. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. The gentlewoman from New York.

Mrs. MALONEY. Thank you. I didn’t expect to be called on, but I am delighted to be called on, and thank all of you.

I would like to follow up on the gentleman’s questioning on uncertainty. And I believe that part of what the Democratic Congress and President was attempting to do was to create certainty. We had whole segments of the housing market that were not regulated, and it burst into a flame of pain for many people. And we came forward with regulations so that there would be certainty. So what we were doing was working to put certainty back into the system so that you knew what the health care plan was and what the housing regulation was going to be. But many of these economists have said that we basically have two choices: We can either provide stimulus money or tax credits for jobs.

Mr. ZANDI. I think a combination of both would be appropriate. I think a jobs tax credit is probably the best idea for trying to generate hiring this year to do it quickly.

Mrs. MALONEY. Do you think we need more stimulus to keep the recovery that we are experiencing now going forward? I understand OMB came out with numbers today that showed that we are really continuing to trend in the right direction, but rather slowly.

Mr. ZANDI. Yes, I think we need more stimulus, including the job tax credit and the help for unemployed workers and State governments. Work Share, helping to fund Work Share would be a good idea, more money to the Small Business Administration so that they can get more credit out.

So I think—I expressed this early on, and I will restate it—the odds are that our economy, without any more policy help, will get through this. The job market will rev up, and by this time next year, we will feel better. But I think the odds are uncomfortably high that I am wrong and that we go back into a recession or some very weak economic environment, and if we do, it is going to be very difficult to get out. So prudent risk management would say err on the side of doing too much rather than too little.

Mrs. MALONEY. Now, in terms of the jobs tax credit, Professor Blinder in his op-ed in the Washington Post this week—and incidentally, he was supposed to testify when you were, but he was snowed in, so he turned his testimony into an op-ed, and he talked about major ways employers may “game” a jobs tax credit. So I would like to ask you, and the others if they would like to participate, how would you design a credit? What would be the key parts? For example, should we target firms of a particular size or age, or should it be all firms? Should it be tied to head counts, or should it be tied to overall payroll increase?

If you were to design a tax credit bill—and there are a number of them out there, the Senate may be moving forward with theirs,
and I even have my own in, I am sure the chairman has two or three in, everybody on the committee has one—but I would ask Mr. Mishel since you seem to want to respond, how would you design it if you—and anyone who would like to participate or have ideas?

Mr. MISHEL. Thank you for the opportunity.

My institute has offered a jobs tax credit designed by Professor John Bishop of Cornell and Tim Bartik of the Upjohn Institute, and it works in the following way: Employers have to file a quarterly tax return, and in that you can see how much payroll tax they pay this year versus four quarters ago. If they are paying more payroll tax this year, over a certain amount, then you estimate, not normal wage growth would generate, and they get a credit up to around, I think, 15 percent. So what you are doing is you are rewarding employers for raising wages, increasing hours of work, and increasing head count. And I think that is pretty impossible to game other than issues around new firms, which I think are easily handed. I think this is a useful thing to do in the context of getting more growth.

One of the things we haven't talked about here is that we have also seen—whatever growth we have seen, it has been from the stimulus. But the growth that we have seen is very slow, 3 percent growth. We need to have twice as much growth. So, in fact, we need robust, increased demand. If employers see that, and if they have some kind of job tax credit, I think we can multiply the effect of that.

The CHAIRMAN. The gentleman from Alabama.

Mr. BACHUS. Thank you, Mr. Chairman.

Mr. Zandi, if you look at possible ways to create jobs without taking on more debt, in other words, government expenditures, or without expanding the deficit—that is actually one thing about tax cuts is you do expand the deficits—but are there ways that we can create jobs without doing either of those? What might some of those be?

Mr. ZANDI. Well, there is no reason that these stimulus proposals that we are talking about can't be paid for. In fact, I wouldn't pay for them this year, but I would pay for them over a 10-year budget window.

Mr. BACHUS. Which ones?

Mr. ZANDI. All of them. I think it is important to show fiscal discipline, particularly now. In fact, that will buy us a lot of goodwill in financial markets and will help our economy. So we should run a larger deficit this year, and some of the proposals I said would do that. That doesn't mean we can't pay for it over a 10-year budget window.

Mr. BACHUS. What are some of the things that you think would do that? Are you saying the tax cuts?

Mr. ZANDI. Yes. I would think that some of the things that you could do to pay for it would be to focus on things, and I am just blue-skying it for you, but the financial TARP tax, the so-called TARP tax that has a 10-year window. I think that is a very legitimate kind of tax. It is a way to address the "too-big-to-fail" issue. You are raising the cost of capital for large institutions. It is a much more effective way of addressing it than trying to break these institutions apart, and you generate revenue. I would make
that permanent, and I would use that money to pay for this additional stimulus. That would be one way of paying for it.

Mr. BACHUS. What are some of the other tax cuts that you think would be beneficial and revenue-neutral?

Mr. ZANDI. I agree with Kevin that I think the corporate tax rate, of all the taxes we have, that is the worst tax. It is inefficient. It is reasonable to argue that it is inappropriate and that we should work to reduce that, and we have to do that—

Mr. BACHUS. Do you think that would create jobs?

Mr. ZANDI. I do, but we have to do it in the context of broader tax reform and make sure we don't raise future deficits, because this is 10 percent of tax growth.

Mr. BACHUS. Mr. Hassett, do you agree with him that the tax cuts actually would create jobs and would in the long term be revenue-neutral or actually produce revenue?

Mr. HASSETT. On the corporate tax specifically, there is a fairly recent Brookings paper by Kim Clausing, who is a professor at— is it Reed College—who shows that again the multinationals are so nimble with respect to the corporate tax that it appears that we are on the wrong side of the Laffer curve. That is probably the only tax rate that I can think of where that is really true. But there is academic literature that suggests that reducing the corporate rate wouldn’t be very costly at all.

I agree the deficit is so large, it is a key part of my testimony that we need to be concerned about that, but I think some kind of cautious reductions, especially phased in—there is a great policy opportunity to phase in a reduction in the corporate rate, because if the rate, say, went from 35 to 25 over 10 years, then firms would have incentive to buy machines today and deduct them at 35 cents, and when they get profits in the future from the operation of the machine, it is a lower rate, so it is a double positive. So I think it would be very, very important to do something like that.

With regard to the stimulus, the one thing I can say is that the thing that pains me looking back—and I agree with the chairman that anyone who says that it hurt last year, I think, doesn’t have at least the literature to point to. Even Bob Barrow's piece in the Journal today talked about a positive effect last year of the stimulus. The thing that pains me is that we have all these broken policies, and we didn’t use the money to fix any of them. And this corporate tax thing is something I care as much about as the jobs credit that we were talking about earlier, and we don’t have the money to fix it.

Mr. BACHUS. Both of you agree that cutting the corporate tax rate, Democrat and Republican witness. My next question would be this, and called by the Republican and Democrats. What about the free trade agreements? Would those create jobs? There are four of them pending. Mr. Zandi or Mr. Hassett, just the two of you all, just to maybe—and how many jobs do you think?

Mr. ZANDI. You are stretching my limits of expertise. I don’t know these agreements well enough to comment. Let me say this: I think we are a net benefactor of globalization, and one of the—

The CHAIRMAN. Benefactor or beneficiary?

Mr. ZANDI. Beneficiary. Net beneficiary of globalization. One of the most amazing things, from my perspective, that came out of
this global crisis is that we were able to globally coordinate and co-operate, and no one raised barriers in a significant way. We all had our Buy America provisions, but they were modest. And I think that is testimonial to the fact that at the end of the day, it is very important that we keep our—

Mr. BACHUS. Can Mr. Hassett respond?

The CHAIRMAN. Briefly. Sure.

Mr. HASSETT. Really quickly, I think that the arguments against trade all have a great deal more purchase when our policies are so terrible that everybody wants to leave. And so the reason why we are worried about things like the jobs being located off-shore is that locating domestically is unattractive, and if we fix that problem, I think there would be very significant benefits from trade for sure.

The CHAIRMAN. The gentleman from Georgia.

Before that, don't start his clock yet, I ask unanimous consent that a package of statements from the National Council of La Raza be made part of this hearing. And without objection, they will be.

The gentleman from Georgia.

Mr. BACHUS. Mr. Chairman, Mr. Stern and Mr. Mishel wanted to respond, too.

The CHAIRMAN. The gentleman can't take other people's time.

Mr. BACHUS. I am sorry.

The CHAIRMAN. Can we get unanimous consent? If there is unanimous consent for 45 seconds for Mr. Mishel, I think we can do that. That was a fair comment. Forty-five seconds unanimous consent.

Mr. MISHEL. On the free trade agreements, I find it remarkable that people claim that as something that is going to create a lot of jobs. Somehow they seem to think we get more exports, but don't take in more imports, and whatever estimate there is of the gain would be so small as to be almost unmeasurable.

And I think what my colleagues were saying as a long-run stance that we are for globalization. But actually most economists don't think trade is about jobs; it is about increasing comparative advantage and increasing productivity and wealth, and it is not a job-creation measure. And in fact, all the trade agreements we have had in the past have led to severe net job losses, in my view.

The CHAIRMAN. We have 15 seconds.

How low would we have to get the corporate tax rate to be fully competitive with China?

Mr. MISHEL. I am not sure about that. I think our issues with moving to China have almost nothing to do with corporate tax rates.

The CHAIRMAN. The gentleman from Georgia, finally, again.

Mr. SCOTT. Thank you, Mr. Chairman.

The CHAIRMAN. And a full 5 minutes, please, for the gentleman from Georgia.

Mr. SCOTT. Thank you again.

Mr. Hassett, let me go to you, if I may. First of all, let me commend you on the profundness of your paper. You have nailed the core of the unemployment problem by willingness to address the disproportionate impact that this unemployment is having on African Americans. And until we deal with that, until we pull the covers off and say we have to go where the core of the problem is, just
as surely as we went at where the core of the problem was on Wall Street, we targeted there, and I commend you for that.

I want to call attention to a couple of points you made. First of all, you said it is astounding the extent to which Black Americans have borne the brunt of this recession. Then you go on to say it is important to look closer at the data for Blacks as this has received far too little attention. While White unemployment has been declining since November, unemployment among Blacks has steadily increased, which brings me to my point that the reason we are going up so high is because the African-American unemployment is going so high, while the White unemployment is going down. It is, sadly, a statistical regularity that unemployment has been far worse for Black Americans.

And then you ask the profound question, why? Why are the effects of the recession exacerbated for Blacks? You point to the study. You bring your information from the study by the economists at the University of Connecticut and the University of California, and they say that Blacks are the last to be hired and the first to be fired. And you conclude that given the terrible state of the labor market, it is clear that more must be done. And you say, I would add that we should look especially to policies that are most likely to help Black Americans who have suffered the worst of the recession’s job destruction. Thank you for stating that.

Now, what must we do about it? I commend you on your job sharing, and I want to ask you, first of all, how is House Resolution 4135 going? Where are we on that? That is the job-sharing bill. How can we help you move it forward, and what needs to be done to strengthen it, especially with the emphasis on the African American jobless situation?

Mr. HASSETT. I think the policy itself is really focused on helping those who are first to be laid off when those begin to occur. And so I don’t think that it needs to be modified to increase its targeted nature. I think the concern is that the difference between the United States and many European nations that have had an astonishing success from job sharing is that fixed costs in the United States, like benefit costs, are a bigger share because, say, in Germany, the government would give you your health insurance. And so if you reduce somebody’s hours 20 percent and their wages 20 percent, then the saving to the firm wouldn’t be as much, because the lump of the health insurance is still there.

And so I just think that to be—to get effectiveness along the lines of what we see in Europe, it needs to be a pretty darn generous program. And so I think that as ambitious as you could challenge your staff to be about making it generous, I think the returns from that would be large and perhaps necessary because of the share of fixed costs and overall labor compensation.

Mr. SCOTT. We will find where that bill is. My staff is over there, and I will join you on that bill, sign on to that bill. I think that is a creative way to go.

For those who might not be familiar with it, my understanding is that instead of firing a person, you kind of reduce the workload and be able to share that, and that saves the government because you fire them, they got to do unemployment, and there is a greater return on keeping him there so you don’t have to go through your
training and retraining of new employees when the economy gets better. It is great.

Would you not also agree that any future stimulus—and some of you may answer this, too. Mr. Stern, good to see you here. And you are absolutely right about the health care bill. It will create more jobs.

But here is the point and the problem. I am worried about more stimulus because I am concerned about it going to the States, particularly when you look at trying to engender employment. Most of the African Americans who are employed are concentrated in the cities, governments. And where we have found we have had greater impact is when we have been able to get that money away from the States, and many States, particularly like my own State of Georgia, let money sit there. And many of them are—unfortunately, they are Republicans, and they don't want the stimulus, no way, until it comes someplace, and then they will go and may take a photo op with it. So wouldn't it make sense for us if we do more stimulus to try to get it targeted into the cities and the counties?

Mr. GREEN. [presiding] I am sorry. Your time is up. We will ask that your responses be in writing.

I have instructions. Apparently, we will have votes in the near future, perhaps as early or as late as 4:20. I would like to at this time announce the order such that everyone will know that they will be heard in the order of arrival. We will have Representatives Ellison, Kosmas, Bean, and Sherman, and if time permits, we will go to this guy known as Al Green. With this said, we will go to Mr. Ellison. You are recognized for 5 minutes.

Mr. Ellison. Thank you, Mr. Chairman, and let me thank all the panelists.

Mr. Mishel, I join in commending Mr. Hassett for identifying the disparate impact of unemployment on African Americans. But weren't you saying this at a panel that I had you on back in September 2009?

Mr. Mishel. I commend my friend Kevin for saying this. We, in fact, have a Web site at our institute, economytrack.org, which provides even further information.

The underemployment rate for Blacks and Hispanics is both now at 25 percent. You can't find that in any other place. So, yes, there is disparate impact by minorities. But there is also—I must add we also had the highest unemployment rate among college graduates than we have ever had, among white-collar workers. This is a disaster.

Mr. Ellison. Let me also ask you this question. I think it was Mr. Stern had got to this issue a little earlier. Before this recession hit us, there was a general malaise among working-class people, stagnancy of wages, and so it is no doubt that we are—the bounce of this recession is not going to go as high because we started so low anyway. Do you want to elaborate on that?

Mr. Mishel. I will comment on that. The last business cycle was pretty much the worst economic performance in the postwar period, and that was the one I have to reflect on, deep tax cuts with large deficits.

The Chairman. Give the years of that.
Mr. Mishel. The years of tax cuts, 2000 to 2007. It is the first time we had a business cycle where a typical working-class family had less income at the end than they had at the beginning. It is the first time in a recovery, from 2002 to 2007, where we had fast growth of productivity and the hourly compensation of either a high school graduate or a college graduate compensation, wages and benefits, didn't increase by one penny. And so we saw surveys back in way before we had a recession where the American population responded that they actually thought they were in a recession before we even had a recession.

I would also add that the stimulus bill was passed in February and started affecting the economy pretty much in April. In March of that year, unemployment already happened to be, by the way, 8.6 percent, which has already exceeded what we had in the prior two recessions, and we had already lost a greater percentage of our jobs than we had in any recession since World War II.

So I find some of the discussion here quite flabbergasting to me as if somehow those people who were in charge of the economy before the Recovery Act somehow are absent from our discussion, and it annoys me greatly.

Mr. Ellison. Mr. Hassett, I do commend you for that very important observation. But I would like to turn and ask you about something else, and that is you have mentioned corporate taxation. And I think that we should look at things to find a way to improve the economy, but as you compare the United States with other economies that had a lower corporate tax rate than the United States, perhaps Germany, how do you factor in the fact that they do have universal health care, that German workers work about 300 hours a year less than American workers do?

We may have a higher corporate tax rate. But the standard of living and wellbeing of the average German worker, I hate to say this, probably exceeds our own. Can you comment on that? I would love to hear what Mr. Stern has to say about that, too.

Mr. Hassett. Thanks for the question. There are 56 seconds, so I will go quickly. I would add that I commend you for mentioning Larry's long work in this area and will even broadcast that Jared Bernstein and I also pursued a project jointly between our two institutes for many years on how to measure the welfare of those who are less well off.

There is a big literature that looks at the impact of corporate taxes on the welfare of workers that finds that when you lower corporate taxes, that you make the workers better off. That is across many, many nations, with different rates.

I think the big difference between today and back when President Clinton signed a 1 percent increase in the corporate rate is that when they did that, the average rate for our OECD trading partners was about 39 percent, and now it is about 24 percent. So we have stayed 34, 35 percent for a long time, and the rest of the world has moved.

Mr. Ellison. I didn't realize we were so short on time, so I have to ask this question. What about a bill for direct job creation for chronically unemployed people?

Mr. Mishel. Yes. Well, I don't know about how unemployed, but we should have direct job creation in distressed communities.
The CHAIRMAN. Mr. Hassett covered that in his testimony.
Mr. HASSETT. I also covered that.
Mr. ZANDI. I think for this summer and for this period in the next year or two, I think that would be quite therapeutic.
Mr. ELLISON. So I have a bill on that.
The CHAIRMAN. The gentleman's time has expired.
The gentleman from Texas.
Mr. GREEN. Thank you, Mr. Chairman.
I thank the witnesses for appearing.
I don't know the history of all of the witnesses, but I do know Mr. Stern's history, and it is one of doing an admirable job for workers, for persons who are many times the last hired and the first fired. I, too, would like to compliment you.
And I compliment all of the other witnesses as well.
Mr. Chairman, it seems to me, and this is by way of an observation, that it is beneficial to some to do nothing such that you will be in a position to criticize whatever is done. If we do a good job, you get to compare the good job to the perfect job. And when you compare the good to the perfect, there is always reason to find that the job done was not done well enough. And that is what we are having to cope with. No matter what we do, it will be compared to perfection.
The only person in this Congress who can draft a perfect bill is speaking right now. Nobody else can draft a perfect bill. By the way, my 434 colleagues all are of the same opinion. So since we can't draft perfect legislation, we will continually subject ourselves, those of us who are willing to do the hard work of taking on the challenges, will continually subject ourselves to the criticisms of those who do nothing, yet criticize the perfect—excuse me, the good. They compare the good to the perfect.
Now, to answer the question, where are the jobs, I will tell you how to find the answer: Ask your school superintendent, who has teachers who were not released because so-called stimulus dollars were there to help them. Ask your mayors, who have firefighters who were kept on because stimulus dollars were there to keep them on. Ask your mayors about the first responders who are police officers who were able to maintain their jobs because the stimulus dollars were there to keep them on. These jobs are important, too.
It seems to me that some are of the opinion that keeping a person at work is somehow less than an honorable thing to do in a time of crisis. The money was well spent by keeping these people on their jobs. Education is important to this country. We are falling behind. We cannot afford to lose our teachers. First responders are important. There are always concerns that have to be met, and first responders meet these concerns. So keeping these people employed has been an absolute necessity, and it was the right thing to do. I back down from no one when it comes to defending my position.
And I am just glad that Carlyle is right. No lie can live forever. And William Cullen Bryant is right: Truth crushed to Earth will rise again. And Dr. King is right: Although the arc of the moral universe is long, Mr. Stern, it bends toward justice. That means it bends toward those who were in a position to do and did, as op-
posed to do nothing and criticize those who have the courage to do. History will reveal, as they look through the vista of time, that those who took the hard votes to save this economy did the right thing. There is no question about it. We have to just move on and let history vindicate us.

Now, having said that, let's talk about this create jobs directly caption that has been called to our attention by Mr. Hassett and others have agreed with. Let's talk about the teen unemployment this summer. Is there anyone who thinks that we should create jobs directly for these teenagers, many of whom, by the way, will be of African ancestry? Is there anyone who thinks we shouldn't do this?

Mr. MISHEL. I think it is one of the successful things that was done last summer and we should definitely be repeating summer—

Mr. GREEN. We should repeat it. We should have direct jobs created for young people who are going to be in the job market. There is value in this.

Can anyone believe that if we do it, that it won't be criticized? I absolutely assure you it will be criticized if we do it. Make no mistake. And the criticism will, again, come from those who would have us do nothing so that they can criticize us for doing nothing. If we don't get the job done, we get criticized. If we do the job, we get criticized. The thing to do is do it and let history vindicate us.

I yield back. Thank you, Mr. Chairman.

The CHAIRMAN. The gentlewoman from Illinois.

Ms. BEAN. Thank you, Mr. Chairman.

And thank you all for being here today and sharing your subject matter expertise with us on a topic that is of such great importance to our Nation's economy.

The feedback that I have heard from employers in the Illinois district that I represent and really even outside of Illinois is that, typically, hiring decisions are made mostly based on the confidence they have in their own forecasts. And they like to see some repeated quarters of increase in trending before they have the confidence to move forward in making additional hires.

Mr. Zandi stated that businesses aren't likely to give up productivity gains they have achieved in recent years. Mr. Hassett claims that firms maintain excess capacity in downturns and strive to increase output through the activities of workers already employed.

Given these premises, and even Mr. Mishel's comments that over the last decade we have seen GDP growth without the wage correlation, and so there has been growth without wages. And where they have typically tracked historically, they haven't been tracking in these recent years, and that is the struggle that so many families are facing. And given that the economy is driven 70 percent by consumer spending, should we consider—would the likelihood of some of the payroll subsidies or cuts being proposed be as effective as what has also been suggested by some, including the President, that we look at incentives for wage increases for companies that are profitable and are essentially doing non-executive profit sharing?

Would that be potentially more stimulative so that the consumer spending goes up, the forecasting goes up, and the hiring would
then follow? I would be curious. Can I start on this side and go this way? Can I start with Mr. Zandi?

Mr. ZANDI. I am sorry; I am not familiar with the proposals you are referring to.

Ms. BEAN. There haven’t been hard proposals, but some suggestions for increasing overall wages within firms, small businesses specifically, to drive consumer spending, which would then in turn build the demand side of consumer spending, which will help drive jobs.

Mr. ZANDI. What policy proposal?

Ms. BEAN. The President recently talked about it as something to consider. He didn’t detail it.

Mr. ZANDI. I am not familiar with this.

Mr. MISHIEL. Well, the proposal that the Obama Administration has talked about as well as the one that we have offered that has been introduced by Senator Casey rewards firms for both—new hires. If your payroll taxes go up, and they can go up because you have hired someone, you have increased hours of work, or you have given wage increases.

Mr. ZANDI. Are you talking about the jobs tax credit?

Ms. BEAN. I am actually in general saying it is one thing to try to get people to hire new people based on saying we are not going to make you pay payroll tax; it is another thing to say overall wage increases go up reflecting the profitability in your firm. So it is a slightly different approach. And I am asking for a comparative from you, just your opinions.

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Mr. MISHIEL. Well, let me say this about that, because I think in moving forward to get the economy that we want, to get robust economic growth will require addressing this problem of the disconnect between wages and productivity, in my view, because we have grown over the last 30 years based on people borrowing or based on consumption tied to asset bubbles. Those are neither desirable nor can we return to that. If we are not going to return to that, then we have to find a way to do it based on the creation of good jobs and wages that grow with productivity, or else we are not going to get robust growth. So I view that as an essential thing that we start doing.

I would add that the idea of a higher minimum wage, 50 percent of the average wage, that we provide the people the right to have unions, that we have labor standards that are worth something and enforced, these are essential core items to reestablish a connection between wages an productivity.

Mr. ZANDI. I think the key here is to get unemployment down, because unless we are back at full employment, labor is not going to be on the same playing field with business in terms of their negotiation about compensation and wages.

Ms. BEAN. But many have suggested that just because you are going to cover payroll, I am not going to go out and hire people because of that. I am going to hire when I see my demand increase. That is the question, would it be a better return if essentially we were to provide that incentive, and they don’t hire because of it, that that is not going to be our best policy initiative. So I am asking if you have some other suggestion.
Mr. Zandi. I think those policies that incent businesses to hire and hire as quickly as possible to bring that unemployment rate down will get us back to where we need to be with the compensation growth. So things that support demand, UI and State government aid, things that support credit, SBA lending and things that lower the cost of labor, at least temporarily, get them hiring again, like a job tax credit, would be helpful.

Ms. Bean. Mr. Hassett?

Mr. Hassett. I just think that Mark’s proposals are kind of indirect, and you could just directly do it by increasing the share of profits that a firm gets to keep if they make some money.

The Chairman. The gentlewoman’s time has expired.

The gentleman from California, Mr. Sherman.

Mr. Sherman. Thank you.

A couple of preliminary comments. Mr. Hassett talks about tax rates. As an economist who used to be a tax lawyer, you are working with phony numbers because you are looking at the tax rate without looking at the way the base can be hidden through the phony use of tax havens, which we in Congress have not plugged those loopholes for so long that the corporate taxes are far less than you can determine without cracking down on the tax savings.

As for free trade, it would create jobs if life followed theory. The economic theorists tell us that anybody who actually looks at the facts and sees that we have not free trade but malignantly disproportionate trade, anybody who looks at those facts is just too dumb to understand the theory.

Mr. Zandi, we get a crack at Mr. Bernanke tomorrow, he is very slightly less than pedal to the metal in the use of monetary policy to expand our economy. Lowering the discount window, some hints on other things. Fiscal stimulus, which I support, does increase the deficit, at least short term. Monetary policy does not involve the use of Federal expenditures and, in fact, usually reduces the deficit because it reduces borrowing costs. Should we be making sure that the Fed continues and goes all the way, pedal to the metal on monetary policy and stays there before we look at fiscal policy as a way to expand the economy?

Mr. Zandi. I don’t think they are mutually exclusive. I think it is important to keep monetary policy pedal to the metal, as you put it, with fiscal stimulus this year.

Mr. Sherman. So push him to go pedal to the metal and continue—

Mr. Zandi. I don’t think you have to push him too hard. I don’t think the Federal Reserve will raise interest rates, the interest rate on reserves or the funds rate, until employment rate is definitively moving lower, and I don’t see that until this time next year.

Mr. Sherman. Now there is this proposal for giving a tax credit or tax holiday or tax relief for those who hire new employees. Imagine a restaurant that used to have 50 employees; now they are down to 48, and they are struggling to hold on to 48. Somebody is planning to put a restaurant across the street with 40 new employees. Does it make sense for the new restaurant to get a huge tax incentive that will allow them to out-compete the struggling existing restaurant across the street? How do we design a new jobs tax credit that doesn’t just put more pressure on those enterprises that
aren't hiring new employees but are struggling to hold on to the old ones?

Mr. Mishel. I think you have identified the downside of this policy. But it is something that would be for a year or two. I am hostile to a permanent jobs tax credit. This is temporary, to advance the hiring. And there would be special rules for new startups where they would get less than a firm that is just expanding. But that is a problem.

Mr. Sherman. And I will point out, hiring a new employee involves an awful lot of costs, which are just partially offset by the credits that are being proposed.

So, Mr. Stern, it is pretty well accepted that we are going to need stimulus for the next 12 or 18 months. I hope we are not in a position where we need a stimulus 2, 3, or 4 years from now. So the emphasis is on finding shovel-ready projects. Even if you turn dirt today, you may still be building the bridge 3 or 4 years from now. Is there anything as shovel-ready as not firing a school employee or not firing someone in law enforcement?

Mr. Stern. Clearly, when we are threatened with losing 900,000 jobs in State and local government who are teachers and firefighters, as many people said, if we are just going to write that off and then start looking for a payroll tax to hire someone else back at the restaurant across the street, it doesn't seem like a very responsible policy. So I would say no.

Two, there are a whole series of jobs—child care, home care—that are in desperate need of people to go to work immediately. It is just that budgets in States have restricted even the job growth, forget even retaining the people. It seems to me there are things that are job-ready, may not be shovel-ready, but are job-ready, and citizens can use those services, particularly at this moment in history.

Mr. Sherman. Coming from California, I don't dream of new hires to meet needs that have not been met during the good times. I will settle for not firing people.

I yield back.

The Chairman. I thank the gentleman.

I would say for people who want to continue the discussion of pedal to the metal, the Toyota hearing is in Government Affairs just around the corner. So if you haven't gotten enough of that, feel free.

I thank the witnesses. It has been a very useful thing. We did it at a time when the House was not fully engaged, and so I think it was interesting. Thank you all for a very thoughtful discussion. The hearing is adjourned.

[Whereupon, at 4:19 p.m., the hearing was adjourned.]
Testimony before the House Committee on Financial Services on
“Prospects for Employment Growth: Is Additional Stimulus Needed?”

Kevin A. Hassett
Director of Economic Policy Studies
American Enterprise Institute
February 23, 2010

The views expressed in this testimony are those of the author alone and do not necessarily represent the views of the American Enterprise Institute.
Chairman Frank, Ranking Member Bachus and members of the Committee, it is an honor to appear before you today to discuss the employment outlook and what can be done to address current challenges in the U.S. labor market. I also look forward to addressing the question of whether additional stimulus is needed to facilitate employment growth.

Your invitation asked me to specifically address four questions. Given the current state of the labor market, I must commend you for asking precisely the correct questions. In my testimony, I will address them each in turn.

1. **What is your current forecast for employment growth?**

Unlike my fellow panelist, Mark Zandi, I am not a professional forecaster. Indeed, given Mr. Zandi’s impressive record, I would even stipulate that the best available forecast is whatever Mr. Zandi says. Instead of providing a competing forecast, I will focus my attention on the risks. Currently, the CBO and Blue Chip are both calling for the unemployment rate to hover around 10 percent throughout this year, and only drop to 9.3 to 9.5 percent in 2011.1 These forecasts are based on the observation that employment recoveries have generally lagged behind the overall recovery.

I think the risks of such a forecast are, thankfully, on the upside.

The basic idea behind this observation is a simple one. Economists became convinced that the economy had undergone a “Great Moderation.” This meant that they thought that deep recessions were a thing of the past, of course, but swings moderated under this view in both directions. It may be that rejecting the idea of a Great Moderation opens the door for the possibility of a more rapid recovery.

It may be that the employment recoveries that followed more severe recessions would be a better guide in this episode, specifically, what happened at the ends of the recessions in 1975 and 1982. In those cases, the first decline in the unemployment rate signaled the good news that a sustained jobs recovery had begun.

In 1975, the unemployment rate peaked two months after the end of the recession at 9 percent, and then began a steady decline that lasted almost five years. In 1982, the unemployment rate peaked at 10.8 percent one month after the end of the recession, and plummeted from there at a rate of about 1.5 percentage points per year. Those two recessions are the only ones since World War II that rival the current one in severity.

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Even looking beyond those two, it is interesting to note that unemployment does appear to have turned the corner. One way to look at how employment can be expected to recover is to examine the historical trend once employment stabilized in the aftermath of recessions. We have not seen an uptick in the last three months of unemployment numbers (November and December 2009 and January 2010). If we look at the first instance following each recession in which the unemployment rate did not see an increase in a three month period, and examine what happened over the following 11 months, we can get a good sense for what may happen in the near future. Using this model, and including each of the recessions since 1950, we calculate an average unemployment rate decline over the following 11 months to be 67 percent. This suggests that we should expect a December 2010 unemployment rate of just over 9 percent.

Putting the two together, it seems possible that the unemployment rate may drop into the high 8 percent range by the end of this year. That is hardly an acceptable level of unemployment, of course, but it is better than the baseline forecasts, and better than the 9.4 percent that would follow from averaging the recovery of the last two recessions.

2. Why has job growth not accelerated six months into recovery?

As just mentioned, it is typical for job growth to lag a bit. One reason this is true is that firms tend to hold on to workers and maintain excess capacity in downturns, in part because this will reduce search and hiring costs once the recovery eventually begins. This means that firms will tend to have excess capacity at the beginning of a recovery, and will be able to ratchet up output by increasing the activity of people who are already employed. Real hiring only begins when capacity constraints start to bind.

It is worth noting, however, that underneath that lagging job growth, there is a tremendous amount of flux. For example, using the BLS data on job creation and destruction for late last year as a guide, it is likely that the small loss of 20,000 jobs in January masked an enormous amount of job creation and destruction. I will return to this point below.

As we begin to look forward to policies to address high unemployment, it will be important to remember the fact that there are pockets of the economy where massive job creation is under way, and pockets that are still hemorrhaging jobs.

3. Do employment conditions today differ from previous recoveries, including the so-called “jobless” recoveries that followed recessions in 1990-1991 and 2001? If so, please describe.

The current unemployment rate is 9.7 percent. This is a bit higher than the 9.4 percent registered last July at what will likely be viewed as the business cycle trough. The recent recession and the two “jobless” recoveries are the only three recessions since 1950 that have had a higher unemployment rate 6 months after the trough. One other recession (1969-1970) had no change after six months. In the nine recessions immediately prior to the 2007-2009 recession, the average decrease in unemployment six months after the trough was .26 percent.
While the short-term trajectory mentioned previously provides some sign of hope, there is no way to sugar coat the description of the labor market. In the post-war period, unemployment has only reached our current level once, peaking at 10.8 percent in November and December 1982. As bad as the current number is, there are indicators below the top line that are truly horrifying. In particular, it is astounding the extent to which black Americans have borne the brunt of this recession. For black Americans, the rate at trough was 14.7 percent, and has now risen all the way to 16.5 percent.

The disappointing six months aligns well with the previous recession, but the levels are much, much worse. The 2001 recession reached its trough in November of that year with an unemployment rate of 5.5 percent, while the rate for black Americans was 9.8 percent. Six months later, the overall rate was 5.8, and the rate for blacks was 10.2 percent.

The recovery following the 1990-1991 recession was actually a bit better for workers (in terms of changes). It ended in March of 1991, when overall unemployment was 6.8 percent and black unemployment was 12.5 percent. Six months later the overall rate was 6.9 percent and the rate for black Americans was 12.3 percent.

It is important to look closer at the data for blacks, as this has received far too little attention. While white unemployment has been declining since last November, unemployment among blacks has steadily increased. The picture among less educated African Americans is far worse. This month, the BLS reported 21.3 percent of African Americans without a high school diploma were unemployed.²

the business cycle deteriorates, but, contrary to the hypothesis, they are usually hired back early in the recovery phase.3

Thus, it is likely that the gross job flow data would, if available for the current moment, indicate that black Americans are flowing into the new jobs created at about the same rate as everyone else, but are disproportionately bearing the job destruction.

4. Is additional economic stimulus needed to spur job growth, and if so what form should it take?

Given the terrible state of the labor market, it is clear that more must be done. I would add that we should look especially to policies that are most likely to help black Americans, who have suffered the worst of the recession’s job destruction.

As we look for ideas, there really is no productive reason to re-litigate last year’s stimulus debate. In that regard, allow me to make just one point. Even if we accept the most optimistic assessments of last year’s stimulus, the cost to taxpayers per job created is in the neighborhood of $100,000 per job. Given our budget situation, it seems to me that everyone should be willing to stipulate that we have to do something, and it has to be much more cost effective than that.

The good news is that there are a number of proposals out there that would be extremely valuable at this time.

Fiscal Consolidation

As we look to new policies, we must keep in mind the current fiscal situation, and the risks that the situation imposes. Many Americans probably think that it is impossible for the U.S. government to reach the point where its checks start to bounce. The massive expansion of U.S. borrowing, both public and private, that has occurred in the past year suggests otherwise.

The nagging problem is that interest payments to our overseas creditors subtract from our ability to consume and invest. Periodically, this debt must be rolled over, with the government and citizens alike borrowing from new lenders to pay off the old. As a nation gets overextended, red flags go up, and lenders take their business elsewhere, and default becomes a real risk.

Figure 1 compares the external debt (debt held by foreigners) of the U.S. to the external debt of...

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middle-income countries that experienced default (or restructuring) between 1970 and 2001. U.S. debt is now higher relative to our national income than it was for the typical middle-income country that defaulted on its debt in the 31 years of this sample. This year, our total external debt has reached 94 percent of GNP. There were so many Latin American defaults in our sample (Argentina twice, Brazil, Chile twice, Ecuador twice, etc.) that the chart aggregates all Latin American countries into a single category. The shocking news is that the U.S. is now in worse shape than was the typical Latin American country that defaulted.

![The U.S. Debt vs. the Debt of Defaulting Countries](chart.png)

And yet it is important to note that even with our unsustainable fiscal situation, default is not necessarily imminent. Countries with deficits this high have historically proceeded down three divergent paths. Some have chosen fiscal consolidation, others have chosen to attempt to inflate away the debt, and others have simply defaulted, if not intentionally, because of the failure to pursue either of the first two strategies.

In a recent paper with my AEI colleagues Aparna Mathur and Desmond Lachman, we find that the most successful policy responses to high deficits have mimicked that adopted by the U.S. following World War II. That is, successful consolidations have generally reduced spending. Failure to do so exposes the U.S. government to significant default risk that could, if history is a guide, emerge as a factor in financial markets without significant notice. It is my
belief that there will be increasing pressure on the U.S. to engage in a fiscal consolidation. It is likely that many firms share that belief, creating an enormous amount of uncertainty regarding future policy. This uncertainty doubtlessly is undermining current activity.

Giavazzi and Pagano (1990) began an enormous literature when they studied the impact of fiscal contractions. They found that in some cases—the first identified were Ireland and Denmark—a country can have a dramatic reversal in economic growth when it achieves a successful fiscal consolidation; that is, when it cuts rather than increases government spending, and raises rather than lowers taxes. Similar results have been found for other countries by Alesina and Perotti (1997), Alesina and Ardagna (1998), and Alesina, Perotti, and Tavarez (1998).

Reading through the literature, it is clear that fiscal consolidations can be stimulative. We should also not underestimate the possible current gains from phasing in long run changes that restore fiscal sanity to our budgetary outlook. We could do so either with a specific bill, or by appointing a commission to make the difficult choices for us.

**Job Sharing**

I encourage Congress to consider a specific economic policy that has been adopted by German policymakers, known as “Kurzarbeit” or “short work.”

That policy enables firms that face a temporary decrease in demand to avoid shedding employees by cutting hours instead. If hours and wages are reduced by 10 percent or more, the government pays workers 60 percent of their lost salary. This encourages firms to use across-the-board reductions of hours instead of layoffs.

The economic argument in favor of such a policy is powerful. When a recession strikes, firms are faced with a dilemma: sales and profits are down, and many workers are idle. But finding skilled workers is costly and time-consuming, involving large fixed costs. If a firm fires workers, it may incur large hiring and training costs when the recession ends and sales turn back up. Thus, a firm would prefer, all else equal, to hoard labor during a recession.

Firms might well prefer to respond to a 20 percent cut in sales by reducing everyone’s work by 20 percent. That way, employees remain part of the firm, and ramping up production is less costly down the road.

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A number of factors discourage American firms from making that choice. The biggest is government policy. If a firm lays off workers, the government mails the unemployed a check. If the firm reduces work-hours, there is no government assistance, and employees are left to face the entire decrease in wages on their own.

A U.S. program based on Germany’s would be attractive to firms, workers and taxpayers.

It would subsidize firms as they hoard labor, enabling them to keep the best parts of their team even when sales dip. As the economy expands, firms will then be able to expand rapidly too, without sinking tons of time and resources into costly search.

In the U.S., this sort of hour-trimming is most commonly known as work-sharing, and 17 states utilize it in some form to make up part of employees’ reduced wages. But few companies are participating because the government’s contribution is not large enough to make work-sharing attractive. If the U.S. is to share in the labor-market success of its German friends, it needs a significant expansion of subsidies for work-sharing. Compared with the $787 billion economic stimulus, the costs would be low.

In work in progress, Economist Dean Baker co-director of the Center for Economic and Policy Research and I are working on quantifying the possible benefits of such a program in the U.S. Even at this late stage, the potential benefits seem quite impressive.

For example, the 20,000 job-loss figure for the economy in January was a net number. Every month there is a huge amount of churning with firms adding and subtracting millions of jobs. We don’t have data yet for January, but for November the Labor Department reported that a total of 4,176,000 jobs were “created,” while 4,340,000 jobs were “destroyed.” Roughly half of the lost jobs were due to people voluntarily leaving their jobs. The other half, almost 2 million lost jobs, were cases where people were either laid off or fired.

The November data are typical. The net monthly job gain or loss conceals a huge amount of churning that produces this figure. This is an important policy opportunity, because there is already a massive amount of job creation out there. If we can slow job destruction even a little bit, then we will have set the stage for big increases in net job creation. If the rate of involuntary job loss can be reduced by 10 percent, then it would have the same effect on employment as if the economy generated an additional 200,000 jobs a month. Given the astonishing performance of German labor markets, such a change is not beyond the realm of the possible.

Work-sharing bills have been introduced in both the House and the Senate (H.R. 4135 and S. 2831) based on the programs in the several states. It is my opinion that these bills should be made stronger, with increased incentives for employers and employees to utilize the program. Support for this program comes from both sides of the aisle and we should move forward with it immediately.
For me, the strongest argument for work sharing is that blacks bear a disproportionate share of layoffs, so slowing layoffs through expanded work sharing will benefit them the most.

Create Jobs Directly

The literature is clear. Someone separated from the labor force runs the real risk of permanently separating from the normal economy. It is crucial that we reconnect as many people as possible before it is too late. The good news is that a lifeline now could easily start a worker back on a positive career track, making the lifeline a much more cost effective policy than years of welfare support.

Direct jobs programs could be a much more powerful way to get this process going than last year’s stimulus. If the economic stimulus moneys were spent directly hiring individuals, they would have created 21 million jobs.

The Emergency Contingency Fund (ECF) provides funding for states to temporarily cover a portion of workers’ wages in both public and private sector jobs. I believe that Republicans and Democrats should be able to come together and accept a major expansion of this program if it focuses as much as possible on private sector jobs.

Here is how it would work. If a firm sends out a lifeline to a currently unemployed worker, government funds help cover some of the costs. Through the program, federal funds reimburse states 80 cents for each additional dollar they spend getting people back to work. Over time, as the worker’s reattachment to the labor force becomes stronger, the federal monies are gradually taken away.

As many as 29 states have or are developing employment programs funded through the ECF, and some estimates show as many as 120,000 subsidized jobs could be created at a cost of only $10,000 to $20,000 per job.

House Democrats have correctly judged this program positively. H.R. 4564, would make funds available for an additional year and presumably provide the publicity needed to increase the reliance of states on direct hiring incentives. Republicans should support such a program too, especially if the program is redesigned to send most of the money to workers employed in the private sector.

After all, a worker participating in the program gets a job. A firm gets an extended period of production from the worker at a heavily subsidized cost. This low cost input should increase the firm’s profits, and increase the chances that they will lift their capital investments. It is like an indirect tax cut from the perspective of the firm.

Reduce Corporate Tax Rates
If we want firms to create jobs again in the U.S. on net, then we should not underestimate the importance of creating an attractive climate in which firms can operate. The sad fact is, the U.S. is about the least hospitable climate for corporate investment on earth, with the second highest corporate tax rate among developed nations. We should not be surprised that such a statistic accompanies disappointing wage and job growth. The U.S. is increasingly becoming a radical outlier in this dimension. Congress must act to address this before we wake up one day to find that every business that could has decided to locate itself offshore.

The good news is that there are a number of recent studies that have suggested that the U.S. rate is so out of line with the rest of the world that we are on the wrong side of the corporate tax Laffer curve. A phased in reduction of the corporate tax rate, perhaps to something like the OECD average rate of around 25 percent, would likely cost very little revenue, and likely would induce an investment and hiring boom of the first order immediately.

The alternative, continuing to tax firms heavily, but then contriving special provisions that return monies to firms if they create a job, is foolishly complex, and likely counterproductive. Occam’s razor applies in this case. If we want firms to create jobs, we should give them a reason to want to expand their U.S. operations.

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TESTIMONY GIVEN BY

Lawrence Mishel, Ph.D.
President
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IN A HEARING BEFORE THE
COMMITTEE ON FINANCIAL SERVICES

“Prospects for Employment Growth:
Is Additional Stimulus Needed?”

Tuesday, February 23, 2010
Rayburn House Office Building
INTRODUCTION

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

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

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

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

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

This testimony will discuss:

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

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

Unbalanced growth

Since 1989, the bottom 90% of Americans received only about 16% of all the income growth in our economy (Table 1). On the other hand, the top 1% obtained three-and-a-half times as much—56%. Even more astonishing, the upper tenth of the top 1%, representing about 150,000 households, reaped more than a third of all the income growth of the last 20 years. The Internal Revenue Service just released data on the income of the top 400 households. Between 1992 and 2007 (the complete years available) the income of this group grew 408% and because taxation diminished their after-tax incomes grew by 470%. The result was that these 400 households saw their share of total income grow from 0.5% in 1992 to 1.5% in 2007. This massive redistribution of income upwards was no accident—it took concerted political power and policy to accomplish. It was because of this unbalanced growth that the economy’s growth heavily depended upon consumption based on the inflated asset values of stocks and housing and from consumer debt.

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

Productivity-pay disconnect

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

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

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

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

Unemployment/Underemployment

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

We are now short 11.0 million jobs

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

Wage deceleration

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

Unemployment—the full picture

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

Our latest measures of underemployment by demographic group are from December 2009, and they show that when overall underemployment was at 17.3% there was underemployment among blacks and Hispanics of 25.0% (Figure D). Those with high school degrees had underemployment of 21.3%.
Long-term unemployment explodes
The statistic that most stands out in the current recession is the high rate of long-term unemployment: 6.3 million people have been jobless for more than six months, 4.1% of the total labor force. This far surpasses the previous peak of 2.6% set in June 1983 (Figure F). The cause of this lengthening unemployment is clear: there are no jobs available. More than six people are looking for work for every job opening (Figure F), a situation twice as challenging as at any time in the last recession.

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

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

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

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

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

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

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

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

THE RECOVERY ACT

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

The deep hole

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

GDP decline and growth

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

In the third quarter the economy expanded by 2.2%. Without the Recovery Act this quarter would surely have seen either stagnation or outright contraction again. Economic growth in the fourth quarter was 5.7%.

Overall, it is clear that without the Recovery Act there would not have been any economic growth in the last half of 2009.
It is important that the manner in which the Recovery Act had this impact not be an abstraction. It came about because there were efforts to support household income to allow spending to be greater than it would have been. This is due to the one-time payments to those on Social Security, to higher food stamps, and from the unemployment benefits and COBRA assistance to the unemployed. Second, the fastest and largest impact came from the relief to state governments, which prevented layoffs and boosted employment in both the public and private sectors. Third, there was some government spending on infrastructure that boosted demand. Last, various temporary tax cuts—such as the Making Work Pay tax cut that limited the taxes withheld from paychecks starting in April 2009—helped boost spending as well.

The impact of the Recovery Act is apparent if one just looks at the monthly employment trends over the last year or so (Figure 1). In the first three months, before the Act’s impact, we were losing over 750,000 jobs each month. The job erosion lessened in the Spring and fell to 35,000 jobs lost each month in the last three months. We are not where we need to be but we are in an improved situation.

MORE NEEDS TO BE DONE

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

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

The jobs challenge

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

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

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

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

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

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

We should also consider the longer-term context. To return, within two years, to even the December 2007 pre-recession 4.9% unemployment rate, we’d need to create roughly 350,000 jobs every month for the next 24 months. This would require obtaining GDP growth of roughly 7%, significantly higher than the expected 3% growth over the next two years. To put this in perspective, the nation hasn’t experienced a rate of job growth this rapid and sustained since 1950-51, two of the best years on record for job creation in the United States. GDP growth in those two years averaged 8.2%.

Clearly, any job creation proposals must be laser-focused on creating the maximum possible number of jobs for every dollar spent. But they must also be part of a job creation package that is big enough to have a major impact and return the economy to where we can rely on private-sector growth (Table 5).

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

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

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

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

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

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

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

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

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

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

Fast-track jobs could include, for example:

- Painting and repairing schools, community centers, and libraries;
- Clean up of abandoned and vacant properties to alleviate blight in distressed and foreclosure-affected neighborhoods;
- Staffing emergency food programs to reduce hunger and promote family stability;
- Work in Head Start, child care, and other early childhood education programs to promote school readiness and early literacy; and
- Renovation and maintenance of parks, playgrounds, and other public spaces.
- After 9 months, the program would move into the full implementation phase, and projects would be identified based on a planning process that would involve community input. Priority for funding under the longer term phase would be given to employment projects that:
  - Integrate education and job skills training, including basic skills instruction and secondary education services.
coordinate to the maximum extent feasible with pre-apprenticeship and apprenticeship programs, and
provide jobs in sectors where job growth is most likely and in which career ladders exist to maximize opportunities for long term, sustainable employment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[http://www.epi.org/analysis_and_opinion/entry/not_all_job_creation_tax_credits_are_created_equal/]

THE DEFICIT IS NOT A REASON TO FAIL TO ACT
The initiatives I have outlined above necessitate increased spending or lower revenue over the next two years, and thus they will add to the federal debt in the short run. While we do face longer-term budgetary challenges, we cannot be paralyzed into inaction—deficits are both necessary and appropriate with unemployment at current levels.
In fact, the best way to get our fiscal house in order is to ensure we have a vibrant, growing economy and enough jobs and taxpayers so that we as a nation can start to address the long-term budget. In other words, a major job creation initiative is complementary to any strategy for addressing our future fiscal imbalances.

Experts agree deficits are appropriate and desirable in recessions

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

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

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

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

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

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

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

Long-term impact

Discussions of economic recovery and deficits often portray recovery spending as boosting the economy in the short-term while having negative impact on long-term growth through higher debt levels.
However, as a substantial body of economic literature shows, benefits from a recession-fighting effort can have long-lasting positive impacts. Further, because debt is paid off over a very long period of time, and because interest rates are very low, the consequences of debt increases during recessions can be minimal.

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

'The consequences of high unemployment, falling incomes, and reduced economic activity can have lasting consequences. For example, job loss and falling incomes can force families to delay or forgo a college education for their children. Frozen credit markets and depressed consumer spending can stop the creation of otherwise vibrant small businesses. Larger companies may delay or reduce spending on R&D.

In each of these cases, an economic recession can lead to "scarring"—that is, long-lasting damage to individuals' economic situations and the economy more broadly....

A recession, therefore, should not be thought of as a one-time event that stresses individuals and families for a couple of years. Rather, economic downturns will impact the future prospects of all family members, including children, and will have consequences for years to come.

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

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

Paying for recovery: Financial transactions tax

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

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

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

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

Deficit reduction will require economic growth and low unemployment

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

As noted above, deficits arise from weak economic conditions. For example, between January 2008 and August 2009, the baseline CBO deficit projection rose by $1.380 billion, with over half of this increase stemmed from changing economic conditions. Policies put in place to combat the recession, including TARP and the Bush-era recovery act, made up most of the rest. Thus a return to economic growth will play a large role in reducing deficits.

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

The public understands this better than the Congress

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

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

Conclusion

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

<table>
<thead>
<tr>
<th>Share of income growth, 1989-2007</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 10%</td>
<td>84.1%</td>
</tr>
<tr>
<td>Top 1%</td>
<td>55.6%</td>
</tr>
<tr>
<td>Top 1/1000</td>
<td>34.6%</td>
</tr>
<tr>
<td>Rest of top 1%</td>
<td>21.0%</td>
</tr>
<tr>
<td>Next 4%</td>
<td>19.1%</td>
</tr>
<tr>
<td>Next 5%</td>
<td>9.4%</td>
</tr>
<tr>
<td>Bottom 90%</td>
<td>15.9%</td>
</tr>
</tbody>
</table>

Source: EPI analysis of Piketty and Saez data.
Table 2. Unemployment rise in post-war recessions

<table>
<thead>
<tr>
<th>Recession</th>
<th>Rate at beginning</th>
<th>Highest rate</th>
<th>Months from peak</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 1948</td>
<td>3.8</td>
<td>7.9</td>
<td>12</td>
<td>4.1</td>
</tr>
<tr>
<td>July 1953</td>
<td>2.6</td>
<td>6.1</td>
<td>15</td>
<td>3.5</td>
</tr>
<tr>
<td>August 1957</td>
<td>4.1</td>
<td>7.5</td>
<td>12</td>
<td>3.4</td>
</tr>
<tr>
<td>April 1960</td>
<td>5.2</td>
<td>7.1</td>
<td>14</td>
<td>1.9</td>
</tr>
<tr>
<td>December 1969</td>
<td>3.5</td>
<td>6.1</td>
<td>21</td>
<td>2.6</td>
</tr>
<tr>
<td>November 1973</td>
<td>4.8</td>
<td>9.0</td>
<td>19</td>
<td>4.2</td>
</tr>
<tr>
<td>January 1980</td>
<td>6.3</td>
<td>7.8</td>
<td>7</td>
<td>1.5</td>
</tr>
<tr>
<td>July 1981</td>
<td>7.2</td>
<td>10.8</td>
<td>18</td>
<td>3.6</td>
</tr>
<tr>
<td>July 1990</td>
<td>5.5</td>
<td>7.8</td>
<td>24</td>
<td>2.3</td>
</tr>
<tr>
<td>March 2001</td>
<td>4.3</td>
<td>6.3</td>
<td>28</td>
<td>2.0</td>
</tr>
<tr>
<td>(current rate)</td>
<td>5.0</td>
<td>9.7</td>
<td>25</td>
<td>4.7</td>
</tr>
</tbody>
</table>

Source: EPI analysis of BLS data.
Table 3. Cost and jobs created under the *American Jobs Plan*

<table>
<thead>
<tr>
<th>Policy</th>
<th>Cost ($billions)</th>
<th>Multiplier</th>
<th>GDP impact</th>
<th>Job impact (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthened safety net</td>
<td>$110</td>
<td>1.7</td>
<td>1.30%</td>
<td>931</td>
</tr>
<tr>
<td>Relief to state and local</td>
<td>$150</td>
<td>1.4</td>
<td>1.50%</td>
<td>1,046</td>
</tr>
<tr>
<td>governments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>School modernization</td>
<td>$30</td>
<td>1.6</td>
<td>0.30%</td>
<td>239</td>
</tr>
<tr>
<td>Public service jobs</td>
<td>$40</td>
<td></td>
<td></td>
<td>1,000</td>
</tr>
<tr>
<td></td>
<td>$330</td>
<td></td>
<td></td>
<td>3,216</td>
</tr>
<tr>
<td>Job creation tax credit*</td>
<td>$71-$80</td>
<td></td>
<td></td>
<td>1,420 to 2,840</td>
</tr>
<tr>
<td>Total</td>
<td>$401 to $410</td>
<td></td>
<td></td>
<td>4,636 to 6,056</td>
</tr>
</tbody>
</table>

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

Source: Economic Policy Institute *American Jobs Plan*. 
FIGURE A. Average hourly productivity and compensation growth, 1947-2008

Source: Author’s analysis of BEA and BLS data.
FIGURE B. The Jobs gap

Jobs needed to keep up with population growth

Payroll employment, -0.1% since December 2007

11 million jobs

Source: Author's analysis of BLS data.
FIGURE G. Projected Unemployment

Actual 2009 Q4: 10.0%
Projected 2010 Q4: 10.5%
Projected 2011 Q4: 8.7%

Source: Bureau of Labor Statistics and Moody's Economy.com
FIGURE I. Monthly job loss before and after Recovery Act

Statement of Andy Stern
President, Service Employees International Union
Before the U.S. House of Representatives
Committee On Financial Services
Hearing on:
Prospects for Employment Growth: Is Additional Stimulus Needed
February 23, 2010

Chairman Frank and Ranking Member Bachus, thank you for the opportunity to testify before your committee today about one of the most important issues facing this country: the prospects for employment growth.

As the President of the nation’s fastest-growing union, which represents more than 2.2 million people, I know that our members are struggling with the same challenges that every working family across this nation faces. They’re scared that the American Dream—owning your own home, having a decent job with affordable healthcare and retirement security, providing a better life for your children—is slipping away.
We are now 26 months into the worst economic crisis since the Great Depression, a crisis that has cost a staggering 8.4 million jobs. And in a sign of how deep the crisis has been and how weak the economy was before the crisis, we began 2010 with fewer jobs than we had in 2000, though the labor force has grown by almost 11 million workers since then.

We are in an unusual situation right now. The recession appears to have ended and economic growth is slowly improving. There are many pundits and politicians who are now cheerfully predicting a strong recovery, who don’t believe the government needs to do more to reduce unemployment.

I think they are wrong -- dangerously wrong. There are currently more than 6 unemployed workers for every job opening. There are nearly 15 million unemployed workers in America; more than 6 million have been jobless for over six months. Worse yet, there are now almost 26 million workers who are either unemployed or underemployed. That is the equivalent to the population of 18 states. The scope and scale of the jobs crisis is clearly a national emergency.
There are many obstacles to a strong economic recovery. Despite the rosy forecasts I noted above, we cannot lose sight of the fact that America lost $11 trillion in wealth in 2008. Or that the crisis came at the end of several years of “recovery” in which median wealth declined—before the crisis hit. The impact on American families has been devastating. Lost jobs, lost wages, lost wealth, in an economy where consumption drives 70% of our growth—where is the fuel for recovery supposed to come from?

Members of Congress who voted for the American Recovery and Reinvestment Act clearly understood this challenge. Remember that when it was signed, we had lost more than 2 million jobs in just one quarter. The Recovery Act has been a tremendous success—it stopped the freefall of our economy. It is responsible for creating between 2.5 and 3 million jobs and almost all of the economic growth we have seen in the past two quarters.
The benefits of the Recovery Act have been real and immediate—for SEIU members and our communities.

For people like Akbar Chatman, a substance abuse counselor for the Department of Mental Health in Los Angeles County, the Recovery Act played a critical role in helping him do his job. With the $111 million in Recovery Act funding that the county received, counselors like Chatman were able to provide better care for their patients.

As successful as it has been, it’s clearly not enough. Unemployment is at 9.7 percent, and many experts expect it to rise further this year. In the face of a persistent jobs crisis, the bulk of ARRA’s fiscal relief will scale down later this year, just as states and local governments start to really feel the impact of their budget shortfalls. States will confront an estimated $180 billion budget gap for the coming fiscal year. To address the shortfall, governors are proposing a new round of deep budget cuts that would increase unemployment and threaten the fragile economic recovery. Without further federal aid, the actions states will have to take to close their budget gaps could cost the economy another 900,000 jobs.
Painful cuts are being proposed everywhere, including:

- **Nevada**, where cuts to the State’s Medicaid program include plans to ration adult diapers, eliminate denture and hearing aid programs, and force personal care assistants to buy their own disposable gloves;

- **Arizona**, where there are plans to eliminate the state’s children’s health insurance program that covers 47,000 children and repeal Medicaid coverage for more than 310,000 adults with low incomes and/or serious mental illnesses;

- **California**, where the governor has proposed eliminating the entire welfare program (Cal Works) and reducing eligibility for in home services for the elderly and disabled by 87%.

The magnitude of this jobs crisis and the deteriorating budgets of state and local governments demand serious action to create jobs. This means that the federal government should continue the most successful aspects of the ARRA — providing
immediate fiscal relief for states and local governments, extending
unemployment insurance and COBRA, and expanding investment in infrastructure
and green jobs – and doing more, like putting millions of Americans to work in a
public jobs program. SEIU has a comprehensive 10-point jobs program which I
have attached to this testimony and that calls for these actions.

I would also note that we’ve overlooked the role that healthcare reform can play
in promoting a robust economic recovery. The healthcare industry remains a
critical driver of job creation in every community in the nation, adding 631,000
jobs since the recession began.¹ If Congress sends a health care bill to the
President, the legislation could add between 2.5 and 4 million jobs over the next
decade.² Economic recovery efforts must include reform of the healthcare system
and a focus on the crucial role of the healthcare industry in rural and urban
communities as both an employer and provider of services.

Unless we act aggressively, I fear we will repeat the mistake this country made in
1937-- when the Roosevelt administration decided that the Great Depression was

to 400,000 a Year this Decade." Center for American Progress. David Cutler (CAP and Neerja Sood)(Leonard D
over, government pulled back, and the economy promptly fell back into depression.

That doesn’t mean we can ignore our long-term fiscal outlook–on the contrary. For too long, we’ve put off the hard conversations and hard choices we need to make to put our country on sound long-term footing. We can’t continue the same tired debates in Washington based on ideas that have clearly failed. We need a new dialogue, with all Americans, about how we fund vital government programs and restore long-term fiscal discipline. We need to define a clear, progressive vision for our nation’s future. A vision that is grounded, first and foremost, in the acknowledgment that the foundation of a strong economy is the creation of good jobs with decent wages.

Thank you for the opportunity to address the Committee.
SEIU’s 10 point jobs program
February 2010

SEIU’s 10 point jobs program will create millions of jobs in the short term and lay the groundwork for a sustainable economy that rebuilds the American dream.

1. Extending the safety net, including increasing unemployment insurance and expanding work sharing programs to provide unemployment benefits for reduced hours of work. Estimates indicate that strengthening the safety net would create 931,000 jobs in one year.

2. State and local governments are crippled by their budget deficits as a result the recession. Extending Medicaid funding and dramatically expanding other federal fiscal relief to states and local governments will save an anticipated 900,000 jobs and the vital services in our communities. Helping states and local governments avoid jobs cuts is as effective as creating new jobs.

3. Establishing a public jobs program that targets the fastest-growing sectors of human services such as child care, in-home services for the elderly and disabled, and other services our communities need. This will create jobs in the public and private sectors and ensure our communities are healthy, educated and well-cared for.

Other Public Jobs are needed as well. State and local governments should get funding to support public jobs or non-profits that can quickly employ residents of the targeted communities while delivering a needed service.

4. We need to leverage private investment with public dollars to promote energy-efficiency and renewables as a major source of job creation, in both the short and the long term. By acting now, America can lead the way on green technology.

5. Expanding the retrofitting programs begun under the Recovery Act to include commercial and public buildings will create good jobs in construction and related industries. The jobs we create today will lay the groundwork for the industries of tomorrow.

6. Investing in our aging and failing infrastructure by rebuilding our schools, roads and bridges and building our future economy with high speed rail and a smart grid will put millions to work. We need to leverage private investment to begin to develop the large scale, regional projects that are critical for America to succeed in the 21st century economy.

7. Expanding worker training programs on a national scale so that young people are prepared for new industries and workers can learn the skills necessary to compete for new jobs. It’s time to provide flexible lifelong training for the new economy.

8. Using TARP funds to increase credit for small businesses.

9. Planning for the passage of healthcare reform, which will add tens of millions of Americans to the healthcare rolls and create between 2.5 and 4 million new and different jobs in healthcare and related industries in the next decade.

10. Passing of the Employee Free Choice Act to protect workers’ freedom to form unions and allow them to share in the prosperity of a new 21st century economy.
The Great Recession is over, and an economic recovery has begun. Real GDP grew at a strong 4% average annualized rate during the second half of 2009, powered by the unprecedented monetary and fiscal stimulus and a massive inventory swing. It is no coincidence the recession ended just when the fiscal stimulus passed by Congress a year ago was providing its maximum economic benefit.

While the government's monetary and fiscal stimulus worked as planned to end the recession, the recovery will not evolve into a self-sustaining economic expansion until businesses respond by hiring more workers. It is therefore particularly worrisome that employment continues to decline and the unemployment rate remains near double digits. The job market is arguably as bad as it has been since the Great Depression, with nearly every industry, occupation, and region of the country suffering from weak labor demand. The pace of layoffs has abated since the worst of the financial panic and recession a year ago, but it remains uncomfortably high. Worse, hiring and job creation remain dormant.

The job market's struggle represents the most serious threat to the fledgling recovery. In a typical business cycle, recession occurs when consumer and business demand is undermined by a shock such as a surge in oil prices, a stock market crash, or—as in the current cycle—a bursting house price bubble. Businesses respond by slashing investment and payrolls to cut costs and stabilize profits. As profits improve, investors, who had driven stock prices down leading up to the recession, now bid prices up. With better profit margins and higher stock prices, businesses stop cutting, and recession gives way to recovery. A self-sustaining expansion takes hold when businesses regain the confidence to invest and hire. In the current cycle, profits and stock prices have risen, firms have stopped cutting, and recovery has begun. But because employers have yet to resume hiring, expansion remains elusive.

Some firms have found they can produce more with fewer employees. Judging by the astonishing recent surge in productivity, businesses may only now be seeing the full benefits of the information technology revolution of a decade ago. Making the changes needed to fully realize these benefits might have been too difficult in the good times; but in tough times, managers feel unflinched and compelled to act, even (or especially) if that means slashing payrolls. With so many out of work, some may sense that they can require their remaining employees to work harder. Corporate profits and stock prices have jumped with the productivity surge, but businesses have yet to respond by expanding or hiring. Unless they do so soon, job and income growth will not be sufficient to support the spending necessary for a self-sustaining expansion.

A lack of credit is also short-circuiting job growth, particularly for small and midsize firms that rely on credit cards and small banks for loans. Credit card companies and small banks remain under pressure and are pulling back. Lending standards have been tightened significantly, contributing to a sharp decline in the number of credit cards and commercial loans outstanding. Smaller businesses account for a surprisingly large share of the nation's job base, and if they are unable to obtain the credit necessary to expand, the job machine will not function.

A lack of confidence is another explanation for weak hiring. Many businesses suffered near-death experiences not long ago, and their managers are not convinced conditions are yet strong enough to justify expansion. It will take more time for those animal spirits to return than in past business cycles. While major changes to the healthcare industry, financial system, energy policy, and the tax code are essential, businesses may also be grappling with the policy uncertainty created by the debate over these issues.
Policymakers are rightly focused on addressing the troubled job market. The Obama administration and Congress have proposed legislation that provides more temporary tax cuts and spending increases in hopes of restarting the job market. Proposals being discussed would boost the flow of credit to small businesses, give firms that add workers a payroll tax break, increase public-service and summer youth jobs, and add spending on infrastructure. Many of these steps would help revive the job market this year.

These policy efforts would be expensive; the total estimated cost to the federal government would be close to $100 billion over the next two years. Policymakers are also considering spending as much as $150 billion more on unemployment insurance benefits and relief to financially strapped state and local governments.

Yet the cost to taxpayers will be measurably greater if the economy does not quickly turn the corner into expansion and instead falls back into recession. With the unemployment rate already near double digits, a deflationary cycle of falling wages and prices could well take hold. If it does, policymakers will have no good response, given the 0% federal funds rate and the federal government’s rapidly eroding balance sheet.

Failing to use fiscal policy aggressively now could also cost the economy significantly in the longer run. Even under the best of circumstances, and assuming policymakers take the steps recommended here, the 8.4 million payroll jobs lost in the recession will not be regained until 2013. The unemployment rate, which is expected to peak later this year, will not return to a rate consistent with full employment until 2014-2015. The long road to recovery will be very uneven across industries and regions of the country.

The nation has made significant strides in the last year; 12 months ago, the financial system was in disarray and the economy was in free fall. Yet the proverbial coast is not clear. The Great Recession has given way to recovery, but with firms still unwilling to add to their payrolls, it will take more policy help to guarantee the expansion becomes self-sustaining and begin the long process of re-employing those who lost their jobs over the past two years.

How bad is it?

The severity and breadth of the job market’s problems are clear. The unemployment rate has surged to nearly 10%, despite a very unusual decline in the labor force. Unemployed workers are giving up looking for work, feeling there are no jobs to be had. Indeed, there are now almost six unemployed workers for each available position. In normal economic times, there is at most one unemployed worker per open position. If the labor force were growing at closer to the 1% annual pace that prevailed just before the recession, the unemployment rate would be near 11%.

For anyone who loses a job, moreover, it is extraordinarily difficult to find another. The average length of unemployment has risen above six months, and well over a third of the unemployed have been out of work longer than the 26 weeks that unemployment insurance normally covers. Even in the early-1980s downturn—the last time unemployment hit double digits—only a fourth of the unemployed were out of work that long. During the worst recession of the 1950s, closer to a tenth of workers were in this difficult position.

The unemployment statistics are bad, but they still underestimate the stress in the job market. Including those working part-time because they cannot find full-time work and those who want to work but are not counted as unemployed because they have not looked for jobs in the past month, the so-called underemployment rate jumps to almost 17% (see Chart 1). This is the highest level since the Great Depression and represents 25 million Americans.
Jobs are hard to get, and unemployment is high in every corner of the market. While the worst job losses have occurred in manufacturing and construction, unemployment has risen measurably across every occupation and demographic group. The only industry adding to payrolls throughout the recession has been healthcare. The unemployment rate for males between 45 and 54 years old, historically the most stable group in the job market, has surged past 9%. At the worst of the early-1980s downturn, this group briefly suffered a 7% unemployment rate.

In every corner of the country, job markets are troubled. A year ago, meaningful job losses were occurring in more than 90% of the nation's 384 metropolitan areas (see Chart 2). Even now, three-fourths of the nation's metro areas are experiencing losses. In most past recessions, one or more regions avoided the downturn; this time no area of the country has been spared. This has undermined one of the nation's historical strengths: workers' ability to relocate. In the past, a laid-off auto worker from Michigan might move to Florida, and a displaced aerospace worker in Southern California could seek work in Las Vegas. Today, unemployment rates in Florida and Las Vegas are in the double digits.
Some recent signs are encouraging. The rate of job loss is down significantly, from 735,000 per month in the first quarter of 2009 to 150,000 in the fourth quarter. Initial claims for unemployment insurance have fallen from above 650,000 per week to around 450,000. A rate of new unemployment claims closer to 400,000 per week would be consistent with stable payrolls. The number of temporary jobs has also risen recently, a positive leading indicator; businesses hire more temps before they add full-time workers. The Census Bureau will also soon begin hiring more than a million temporary workers to conduct the 2010 Census. All this is good news, suggesting job growth is set to resume soon. But it is not nearly good enough.

What is the threat?

Historically, changes in employment and unemployment closely follow changes in GDP. Output grows coming out of recessions; employment expands a few months later, and unemployment begins to decline some months after that. Unemployment took longer to fall because the expansion drew formerly discouraged workers back into the job market, temporarily raising the jobless rate while they sought and found new work.

This dynamic of stronger output leading to hiring leading to lower unemployment has been important in the transition from recession to recovery to expansion. Without the additional jobs and income, consumers do not have the confidence to spend more aggressively, which is precisely what is required for businesses to increase output.

The dynamic changed somewhat in more recent business cycles, including the 1990-1991 and 2001 downturns. GDP increased as the recessions ended, but hiring lagged and the unemployment rate stayed elevated longer. Expansions ultimately took hold, but the jobless recoveries of these periods made the transition difficult. The process seems to have broken down even further in the current cycle. GDP swung from a sharp decline to an increase in the third quarter of 2009, and while job losses have become less severe, they continue.

Only because the federal government has supported household incomes has the current recovery been able to continue. Automatic stabilizers and the fiscal stimulus have sharply lowered tax burdens and...
increased transfer payments. After-tax incomes have risen a bit over the past year, but only because federal help has more than offset moribund wage growth.

Concern about the job market would be less acute if unemployment were not already so high. With such a surfeit of labor, already-weak nominal compensation growth threatens to stall or even decline. It is not unusual for real, or inflation-adjusted, compensation growth to fall in recessions, but nominal compensation has not fallen since the Great Depression. Such a decline would be the catalyst for a pernicious deflationary cycle.

What ails the job market?

Employment continues to decline despite rising GDP, mainly because productivity has increased—indeed, it has soared. Productivity expanded at close to a 7% annualized pace during the last three quarters of 2009, among the strongest gains seen since World War II (see Chart 3). Productivity growth weakened during the Great Recession, but it never fell.

Chart 3: Productivity Soars
Annualized % change, 3 qtrs

Businesses will not be able to ratchet up productivity at this pace indefinitely, but neither are they likely to give up the gains they have achieved, particularly if the surge is due to information technology investments made since the mid-1990s. Information technology has powered productivity for years, but firms may not have taken full advantage of all the new tools available, because of the costs associated with significantly cutting payrolls. There is less financial pressure to make such changes when times are good. But in tough times such as those now, firms are more willing and able to change. The result is a measurable and permanent downward shift in the number of workers needed to produce a given level of GDP.

This does not need to be a bad thing for workers, assuming businesses use the profits generated by productivity gains to expand and eventually add to payrolls. Such a process is particularly important now, with demand already fragile. But it has yet to happen. Businesses are scaling back layoffs—although they remain uncomfortably high—but hiring remains dormant. The number of workers hired each month has slid from nearly 5.5 million before the recession to 4 million in recent months (see Chart 4).
Chart 4: Layoffs Abate, but Hiring Remains Dormant

What makes the recent downturn unusual is not the rise in layoffs but rather the plunge in hiring. The so-called job destruction rate is lower today than it was during the height of the 2001 recession, but the job creation rate is much lower (see Chart 5). Judging by the job creation rate, businesses are much less willing to hire than at any time since the BLS began calculating these numbers in the early 1990s. The contrast with the job creation rate during the tech boom of the 1990s is particularly striking.

Chart 5: Job Creation Evaporates

Rate of job creation and destruction, %
Job creation has fallen across all industries, although not surprisingly, it has been most pronounced in construction and manufacturing and related industries such as wholesaling and transportation. The decline is also evident across firms of all sizes but has been disproportionately large among very small businesses (zero to four employees) and very big ones (more than 1,000 employees). Given the large number of workers in small businesses, about half the decline in job creation has been among firms with fewer than 100 employees, about one-fourth has occurred among firms with between 100 and 1,000 employees, and the remaining fourth has happened at firms with more than 1,000 employees (see Table 1).

<table>
<thead>
<tr>
<th></th>
<th>Job Creation</th>
<th>Job Destruction</th>
<th>Job Creation Loss</th>
<th>Share of Jobs 2007</th>
<th>Share of Job Creation</th>
<th>Share of Job Destruction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>-1,640</td>
<td>2,984</td>
<td>-1,344</td>
<td>81.5</td>
<td>10.4</td>
<td>30.3</td>
</tr>
<tr>
<td>0-49 employees</td>
<td>-649</td>
<td>340</td>
<td>-309</td>
<td>61.5</td>
<td>38.4</td>
<td>29.4</td>
</tr>
<tr>
<td>50-99 employees</td>
<td>-166</td>
<td>92</td>
<td>-74</td>
<td>8.0</td>
<td>8.9</td>
<td>8.9</td>
</tr>
<tr>
<td>100-199 employees</td>
<td>-134</td>
<td>38</td>
<td>-96</td>
<td>8.0</td>
<td>8.1</td>
<td>5.4</td>
</tr>
<tr>
<td>200-499 employees</td>
<td>-194</td>
<td>142</td>
<td>-52</td>
<td>10.6</td>
<td>13.0</td>
<td>12.3</td>
</tr>
<tr>
<td>500-999 employees</td>
<td>-301</td>
<td>918</td>
<td>-649</td>
<td>29.0</td>
<td>29.1</td>
<td>25.1</td>
</tr>
<tr>
<td>1000-4999 employees</td>
<td>-131</td>
<td>143</td>
<td>-294</td>
<td>12.9</td>
<td>12.4</td>
<td>10.2</td>
</tr>
<tr>
<td>5000-9999 employees</td>
<td>-106</td>
<td>175</td>
<td>-325</td>
<td>10.0</td>
<td>10.0</td>
<td>12.7</td>
</tr>
<tr>
<td>Over 10000 employees</td>
<td>-670</td>
<td>409</td>
<td>-261</td>
<td>20.3</td>
<td>21.7</td>
<td>21.7</td>
</tr>
<tr>
<td>0-100 employees</td>
<td>-504</td>
<td>183</td>
<td>-321</td>
<td>54.5</td>
<td>46.5</td>
<td>41.7</td>
</tr>
<tr>
<td>100-1000 employees</td>
<td>-455</td>
<td>385</td>
<td>-788</td>
<td>32.1</td>
<td>24.5</td>
<td>25.3</td>
</tr>
<tr>
<td>Over 1000 employees</td>
<td>-447</td>
<td>259</td>
<td>-750</td>
<td>13.4</td>
<td>17.1</td>
<td>24.9</td>
</tr>
</tbody>
</table>

Sources: BLS Business Employment Dynamics, Moody’s Economy.com

The principal impediment to hiring at smaller businesses appears to be a lack of credit. The financial crisis has undermined the secondary market for small-business loans, and bank lenders remain very cautious in their underwriting. According to the Federal Reserve’s senior loan officer survey, banks are not tightening as aggressively in their small-business lending as they were a year ago, but they remain exceptionally tight (see Chart 6). This is evident in the credit data, as commercial and industrial loans outstanding continue to fall rapidly and the number of bank credit cards has plummeted by nearly 50 million, or 25%, since peaking in mid-2008. Most C&I loans go to large businesses, while credit card debt is held by consumers, but small businesses rely heavily on loans and credit cards to finance their activities.
Credit conditions for small businesses will remain under pressure. Hundreds of small banks vital to small-business lending, particularly in smaller communities, have failed or will fail in the next couple of years. More than 550 banks are now on the FDIC’s troubled list; in many cases, defaulting commercial mortgage loans are overwhelming banks’ capital. Credit card lenders are also cautious in extending new credit as they adjust to new regulations. Small-business borrowers are also being hampered by the collapse in housing and commercial real estate prices. Real estate is often used by small-business owners as collateral; with its value less certain, lenders are less willing to make loans.

The likely impediment to job creation at large businesses is not credit—corporate bond and commercial paper markets are functioning well—but rather a lack of confidence. Many of these businesses have been through wrenching restructurings and downsizings, and it will take a while before they feel comfortable expanding their operations again. Changes to the healthcare industry, financial system, energy policy, and the tax code are essential to the nation’s long-term economic health, but the uncertainty created by the debate over these wide-reaching reforms may also be constraining expansion decisions.

Uncertainty and indecision among business executives cannot be discounted as a reason for the poor job market. Business surveys broadly show sentiment has improved since this time last year, but it remains extraordinarily fragile (see Chart 7).°°° Many businesses suffered near-death experiences in the past year, and those memories remain fresh. Managers must also wonder whether recent pickups in demand will prove temporary. The massive monetary and fiscal stimulus and an inventory swing have clearly contributed to the turnaround, but these are not long-lasting sources of demand growth. Executives are plagued by the thought of what will happen if they build it and no one comes. Until that question fades, many will neither build nor hire.
What can policymakers do?

A reasonable baseline (most likely) near-term outlook calls for the job market to stabilize this spring and for meaningful job growth to resume, with sufficient strength to bring down unemployment, by late in the year. If history is a guide, strong recent gains in productivity and profits will prompt firms to first end layoffs and then resume hiring in coming months. This script should roughly hold with the monetary and fiscal stimulus already in place.

However, risks to this outlook remain decidedly to the downside. Given the impediments to hiring and other threats, the probability of the recovery unraveling instead of evolving into a self-sustaining economic expansion is uncomfortably high. Just as important, if the economy were to fall back into recession, it would be very difficult to get out, given the likelihood of a deflationary spiral to which policymakers will not have the resources to respond.

Considering the downside risks and the prospects for a very serious downturn if the recovery were to falter, it is important for the government to maintain a very aggressive policy stance. The Federal Reserve appears set to hold the fed funds rate target at zero until unemployment moves decidedly lower. While there is a strong and understandable desire at the Fed to end its credit easing efforts on schedule this March, the central bank will likely remain flexible and increase its commitment if the recovery remains fragile.

Fiscal policymakers should also consider expanding support of the economy in 2010. This could include additional steps to bolster final demand, provide credit to smaller businesses, and lower the cost of labor.

The following policy steps would be most effective in supporting final demand:

- **Extend unemployment insurance for workers who lose their jobs through 2010.** Given prospects for a double-digit unemployment rate for much of this year, reinforcing the financial safety net is vital to supporting consumer spending and confidence. No other federal program provides a bigger bang for the buck in terms of economic activity per federal dollar spent (see Table 2). Without this extra help, laid-off workers and their families will slash their own spending, leading to the loss of even more jobs. The cost of extending UI benefits through the end of 2010 is estimated at $100 billion.
Table 2: The Fiscal Stimulus’ Bang for the Buck

Source: Moody’s Economy.com

<table>
<thead>
<tr>
<th>Bang for the Buck</th>
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<tbody>
<tr>
<td>Tax Cuts</td>
</tr>
<tr>
<td>Nonrefundable Lump-Sum Tax Rebate</td>
</tr>
<tr>
<td>Refundable Lump-Sum Tax Rebate</td>
</tr>
<tr>
<td>Temporary Tax Cuts</td>
</tr>
<tr>
<td>Payroll Tax Holiday</td>
</tr>
<tr>
<td>Job Tax Credit</td>
</tr>
<tr>
<td>Across-the-Board Tax Cut</td>
</tr>
<tr>
<td>Accelerated Depreciation</td>
</tr>
<tr>
<td>Loss Carryback</td>
</tr>
<tr>
<td>Housing Tax Credit</td>
</tr>
<tr>
<td>Permanent Tax Cuts</td>
</tr>
<tr>
<td>Extend Alternative Minimum Tax Patch</td>
</tr>
<tr>
<td>Make Bush Income Tax Cuts Permanent</td>
</tr>
<tr>
<td>Make Dividend and Capital Gains Tax Cuts Permanent</td>
</tr>
<tr>
<td>Cut Corporate Tax Rate</td>
</tr>
<tr>
<td>Spending Increases</td>
</tr>
<tr>
<td>Extending Unemployment Insurance Benefits</td>
</tr>
<tr>
<td>Temporary Federal Financing of Work-Share Programs</td>
</tr>
<tr>
<td>Temporary Increase in Food Stamps</td>
</tr>
<tr>
<td>General Aid to State Governments</td>
</tr>
<tr>
<td>Increased Infrastructure Spending</td>
</tr>
</tbody>
</table>

Note: The bang for the buck is estimated by the one-year dollar change in GDP for a given dollar reduction in federal tax revenue or increase in spending.

- **Provide additional financial help to state and local governments.** Fiscal 2011 budgets, which begin next July for most states, are likely to be more troubled than those for the current year. Tax revenues and new borrowing capacity are weakening. Unless municipalities receive more help from the federal government, they will be under intense pressure to cut jobs and programs and to raise taxes and fees. This will be a serious drag on the economy at just the wrong time. To avoid this, more federal aid to states for their FMAP and educational obligations may be necessary. The collective fiscal 2011 budget deficit for states is estimated at close to $150 billion. The current fiscal stimulus provides only $40 billion to states in fiscal 2011. To forestall more draconian spending cuts and tax increases, it seems appropriate to provide an additional $50 billion to state and local governments for fiscal 2011.

To free up credit to smaller businesses, the following policy step would be effective:

- **Expand lending by the Small Business Administration.** The federal government could temporarily increase the guarantee on SBA loans from the current 90% to 95%, raise the maximum loan size to $5 million, and raise the interest rate cap from its current level—the prime rate plus 275 basis points—to prime plus 500 basis points. Lenders are reluctant to extend small-business loans at the current top lending rate of below 6% because of significant credit risks. SBA oversight of lenders would have to be strengthened and penalties on poor lending increased to ensure the SBA does not take on too much credit risk. The cost of expanding SBA lending through 2010 is estimated at under $5 billion.

To lower the cost of labor, the following policy steps would be effective:

- **Expand work-share programs.** Seventeen states offer some type of work-share program, which allows employers to cut workers’ weekly hours and pay, typically between 20% and 40%, with states making up half the lost wages from their unemployment insurance funds. Like the temporary extension of
unemployment insurance benefits, work-share has a high bang for the buck; it provides financial help to
distressed workers who are likely to quickly spend the aid. Work-share’s bang for the buck is even larger
than that of UI benefits, as the reduction in unemployment lowers both the financial and psychological
costs of layoffs to workers and their employers. It is particularly helpful for firms that expect workforce
reductions to be temporary; work-share allows these firms to avoid the cost of severance, rehiring and
training. Providing seed money to establish work-share programs in other states and fund the program
through 2010 would cost no more than $1 billion.

- Offer a job tax credit for businesses that hire this spring and summer.11 The size of the
credit could equal the payroll tax costs of new hires for at least one year and perhaps two. While firms are
more focused on the demand for their output and the availability of credit when making hiring decisions,
the cost of labor, which this credit targets, is also important. The credit could be made more effective by
allocating a set amount—say $30 billion—for businesses that hire first. This would encourage firms to act
quickly and accelerate the benefit of the credit on hiring.

If policymakers adopt each of these measures, the total cost to taxpayers would be approximately $200
billion over 2010 and 2011. Combined with the $45 billion package of tax cuts and spending increases
recently signed into law, the programs would raise payroll employment by 1.1 million jobs by the end of
2010 and reduce the unemployment rate by 0.7 of a percentage point. More importantly, it would
significantly increase the odds that the recovery will quickly evolve into expansion.

Crowding out

In addition to lowering the risk that a weak and fragile recovery will falter, there are a number of other
reasons fiscal policymakers may want to take additional action to shore up the job market and broader
economy. Key among these is the difficulty the Federal Reserve will have if the economy weakens. The
federal funds rate is near zero, and the central bank is reluctant to further expand its credit-easing efforts.
The Fed has committed to purchasing Fannie Mae- and Freddie Mac-insured mortgage securities through
March but is reluctant to do more. The Fed has effectively become the nation’s predominant residential
mortgage lender, a situation it would like to end as soon as possible. If the Fed winds down its purchases
as planned, mortgage rates will rise as much as a full percentage point next spring, just when foreclosure
sales are expected to increase. The pressure on house prices and the broader economy could be significant.

Purchasing more Treasury securities also seems out of the question given the angst that previous Fed
purchases created among investors, who fear policymakers might try to monetize the nation’s debt. While
this fear is unfounded, investors’ concerns were strong enough that long-term interest rates began to rise
despite the Fed’s bond purchases.

Further supporting aggressive action by fiscal policymakers is evidence that the government’s record
borrowing has not crowded out private investment. Despite a $1.4 trillion fiscal 2009 deficit and robust
municipal borrowing, total U.S. borrowing—including that done by households, nonfinancial businesses
and financial institutions—has fallen sharply. As a share of GDP, total borrowing is about as low as it has
been since World War II. Households, businesses, and financial institutions are rapidly deleveraging,
allowing more than enough room for increased government borrowing without driving up interest rates.

This will not continue long once the recovery gains traction and private credit demand rebounds. If
budget deficits and government borrowing are not receding at the same time, interest rates will rise sharply.
Policymakers thus have the latitude to provide more near-term support to the soft economy through
temporary increases in borrowing to finance more tax cuts and spending increases, but they need to also
address the increasingly worrisome longer-term fiscal outlook. Indeed, the more credible these policy
efforts are in reducing projected budget deficits over the longer run, the more room policymakers will have
to help the economy in 2010.
102

The long road back

Failing to take aggressive action now may also cost the economy significantly in the longer run. Even under the best of circumstances, and assuming policymakers take the steps recommended here, the 8.4 million payroll jobs lost since the peak over two years ago will not be regained until 2013. The unemployment rate, which is expected to peak later this year, will also not fall back to a rate consistent with full employment until 2014-2015.

This long road to job market recovery will also be uneven across industries and regions of the country. Healthcare and, to a lesser extent, educational services have been stalwart creators of jobs even during the recession, thanks to a powerful demographic tailwind in the aging population and to steady funding from the government.

Manufacturing employment, which was hit exceptionally hard during the recession, is picking up; vehicle, metal and machinery manufacturers in particular cut production and jobs well below levels consistent with even currently depressed demand.\textsuperscript{56} The recent increase in employment at temporary supply firms is due in significant part to demand for these workers from busier manufacturers.

Job growth in warehousing, distribution and logistics is expected to resume soon, driven by increased manufacturing and global trade. Export and import volumes have rebounded in recent months with improving global economic conditions. Global trade should increase steadily and be a long-term source of job growth.

During the second half of this year, job creation is expected to resume in a broad array of technology industries including computer software and data processing, electronics, and biotechnology and medical instrumentation. Exports of technology products are already growing, as is business investment as firms use new technology to support productivity and profitability. Various professional service industries will also begin adding to payrolls, including accounting and legal services, management consulting, and scientific and technical services. These are generally higher-paying jobs.

Job growth will broaden in early 2011, as the construction trades finally add to payrolls again. Housing construction will pick up from its recently depressed levels by then and will more than offset the loss of jobs in commercial construction. Public infrastructure spending will also support construction employment growth.

Resource-related industries, including mining and agriculture, should respond to higher commodity prices and stronger global demand by hiring more as well. These industries are not large national employers, but they are important to many smaller communities in the Rocky Mountain West and Farm Belt.

Financial services, particularly related to asset management and real estate, will also begin adding jobs more noticeably. Traditional commercial banking job growth should also resume as lending by depository institutions revives. Wall Street-type jobs are not expected to increase substantially until 2012.

By the second half of 2011, job creation should be in full swing as retail and leisure and hospitality also add to payrolls. Weak consumer spending and business travel during the recession have been hard on these industries—very large employers whose reticence to hire is a significant reason why the job market will not move into high gear quickly.

State and local governments are expected to be the last to resume adding meaningfully to payrolls, most likely not until 2012. Even with more financial help from the federal government, budgetary pressures on state and local governments will remain intense for a number of years. Collectively, the country’s largest employers, state and local governments, will have little choice but to continue cutting their payrolls.

Given how long it will take for job creation to revive fully, unemployment is expected to remain uncomfortably high for a number of years. Even under the best of circumstances, and assuming
103

policymakers take the steps recommended here, the 8.4 million payroll jobs lost since the peak over two years ago will not be regained until 2013. The unemployment rate, which is expected to peak later this year, will not fall back to a rate consistent with full employment until 2014 or 2015.

Perhaps the most disconcerting implication is that what we consider full employment in the United States is changing for the worse. The embedded, structural long-term unemployment rate is rising as those losing jobs stay jobless longer, undermining their skills and marketability. People in their late 40s and 50s will have a particularly difficult time getting back into the workforce. Structural unemployment is also rising because a large number of homeowners are underwater on their mortgages, a phenomenon that undercuts labor mobility. Historically, someone who lost a job in one part of the country could readily move for a new one. This is much more difficult if that worker must first put up more equity to sell a home.

The unemployment rate considered consistent with full employment has already probably risen from below 5% before the Great Recession to above 5% now. Under the best of circumstances, it is expected to reach nearly 6% in the next several years. This provides another compelling argument why policymakers should act aggressively now to ensure job growth resumes in earnest.

Conclusions

The Great Recession is over, and odds are that the recovery will evolve into a self-sustaining expansion by this time next year even without additional substantial support from fiscal policymakers. However, the risks to this sanguine near-term outlook remain decidedly to the downside, and the possibility that the economy will backtrack into recession is uncomfortably high. These risks will be at their greatest this summer and fall after the current economic boost from the monetary and fiscal stimulus and the manufacturing inventory swing fades. It is also during this period when the census-taking jobs are ending and house prices will come under renewed pressure. A double-dip recession would be an especially dark scenario, almost certainly involving a deflationary spiral of falling wages and prices. The Federal Reserve and fiscal policymakers would have fewer options and resources with which to respond.

A range of problems suggest that such a scenario cannot be easily dismissed. Most obvious are high unemployment and weak wage growth, the growing foreclosure crisis, rising commercial mortgage loan defaults and resulting small bank failures, budget problems in state and local governments, and dysfunctional structured-finance markets that restrict credit to consumers and businesses.

It is therefore prudent for policymakers to provide more help to the economy to ensure that the recovery becomes self-sustaining. The Federal Reserve must not raise interest rates too soon and remain flexible with regard to the renewed use of credit easing later this year. Congress should also provide more resources—to unemployed workers whose benefits are running out, to state governments unable to balance their budgets, and to small businesses looking for credit and all firms that expand payrolls.

All this help comes at a significant cost. While the fiscal stimulus has been vital, it has helped produce a $1.4 trillion budget deficit this past fiscal year and will lead to a similarly sized deficit in the current one. Yet the cost to taxpayers would have been measurably greater if policymakers had not acted aggressively. The recession would still be in full swing, undermining tax revenues and driving up government spending on Medicaid, welfare, and other income support for distressed families.

It is a tragedy that the nation has been forced to spend so much to tame the financial crisis and end the Great Recession. Yet it has been money well spent.
The last time the labor force declined was in the early 1950s during the Korean War. The statistics cited in this section are from the BLS.

The highest unemployment rate since the Great Depression was the 10.8% suffered in late 1982.

Also curtailing labor mobility is the situation of an estimated 15.6 million homeowners whose equity in their homes is negative. To move, someone whose mortgage debt exceeds a property’s value must either raise cash, persuade the lender to accept a short sale, or default.

This is based on the BLS’s job openings and turnover survey. Net job growth equals the number of workers hired less the number of layoffs, quits and other separations.

Job destruction and creation rates, measured as the ratio of layoffs and hires to the labor force, respectively, are from the BLS’s business employment dynamics survey.

The Fed asks respondents whether they have tightened their underwriting or increased their loan spreads in the last quarter. Recent responses indicate that fewer lenders are tightening further, but there is no indication they have eased after the extreme tightening that occurred this time last year.

It is difficult to disentangle the impact of credit standards and weaker credit demand on credit outstanding, but suffice it to say, standards have arguably never been as stringent.

The national Federation of Independent Business Survey of small businesses, the Conference Board survey and Business Roundtable surveys of large businesses, and the Moody’s Economy.com weekly global business survey all roughly show this.

A discussion of these risks was presented by Mark Zandi in testimony before the Joint Economic Committee at the hearing “The Impact of the Recovery Act on Economic Growth,” on October 29, 2009.

Another argument for temporarily providing more UI benefits is the scaling back of welfare and disability benefits in the mid-1990s reform of the nation’s welfare programs.

An assessment of the job tax credit proposals recently put forth by the Obama administration, Senators Casey and Gillibrand, and Senators Schumer and Hatch is provided in “An Assessment of Job Tax Credit Proposals,” Mark Zandi, February 8, 2010.

Much of the recent increase in temporary help jobs is due to hiring in manufacturing and manufacturing-related industries.
Jump-Starting the Job Market:
How Well Will a Job Tax Credit Work

Mark Zandi
February 08, 2010
Jump-Starting the Job Market: How Well Will a Job Tax Credit Work

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The Great Recession is over, and an economic recovery has begun. Real GDP grew at a strong 4% average annualized rate during the second half of 2009, powered by a massive inventory swing and an unprecedented monetary and fiscal stimulus. These are temporary boosts, however, and until businesses respond by hiring more workers, it is unclear that the recovery will evolve into a self-sustaining economic expansion. The situation is particularly worrisome given that employment continues to decline and the unemployment rate is already close to double digits.

Policymakers are rightly focused on addressing the troubled job market. The Obama administration and the House of Representatives have proposed legislation that provides temporary tax breaks and spending increases in hopes of restarting the job market. The Senate will follow soon. Proposals being discussed include increased credit to small businesses, additional infrastructure spending, and more public-service and summer youth jobs.

Also being debated are temporary tax breaks for businesses that expand their payrolls. Proponents hope a well-timed and meaningful reduction in the cost of labor will be the catalytic business need to restart hiring.

Gauging the employment impact of such tax breaks is very difficult. There was only one similar job tax credit in the late 1970s, but it was not well publicized and many businesses did not know about it. Much also depends on how the tax break is structured. Concerns about businesses cheating or gaming the tax benefit are reasonable, and safeguards to minimize abuse could make the process more complicated and less attractive, reducing participation.

Despite this uncertainty, however, a tax break is the best idea currently under consideration for ensuring the U.S. job machine kicks into full gear later this year. The plan could be particularly effective if implemented by late spring. Firms then will have had time to regain their confidence, and banks should be extending credit at a much more freely.

This article reviews conditions in the troubled job market and considers scenarios for its ongoing difficulty. The advantages and disadvantages of a job tax break are considered broadly, and then more specifically in regard to proposals by the Obama administration, Senators Casey and Gillibrand, and Senators Schumer and Hatch.

Using the Moody’s Economy.com macroeconomic model, we can quantify the plan’s effects on employment and the broader economy. The models’ simulations suggest the president’s proposal would have the greatest impact, resulting in a maximum addition of 725,000 payroll jobs. The Casey-Gillibrand proposal would add 670,000 additional jobs and the Schumer-Hatch proposal would add some 250,000 jobs. The different employment impacts largely reflect differences in the size of the proposals. The president’s plan adds nearly three times as many jobs as the Schumer plan, but it also costs approximately three times as much. In other words, the budgetary bang-for-the-buck of the plans is similar.

How bad is it?

The severity and breadth of the job market’s problems are clear. The unemployment rate has surged to near 10%, despite a very unusual decline in the labor force. Unemployed workers are likely leaving the job market, presuming that there are no jobs to be had. Indeed, there are now almost as many unemployed workers as there are in the recession. Concerns about businesses cheating or gaming the tax benefit are reasonable, and safeguards to minimize abuse could make the process more complicated and less attractive, reducing participation.

Despite this uncertainty, however, a tax break is the best idea currently under consideration for ensuring the U.S. job machine kicks into full gear later this year. The plan could be particularly effective if implemented by late spring. Firms then will have had time to regain their confidence, and banks should be extending credit at a much more freely.

Anyone who loses a job has an extraordinarily difficult time finding another. The average length of unemployment has risen above six months, and well over a third of the unemployed have been out of work for more than the 26 weeks normally covered by unemployment insurance. Even in the early 1980s downturn—the last time the unemployment rate was in double digits—only a fourth of the unemployed were out of work for that long. During the worst recession of the 1970s, closer to one-third of workers were in this difficult position.

The unemployment rates are bad, but they still underestimate the stress in the job market. Including those working part-time because they cannot find full-time work and those who want to work but are not counted as unemployed because they have not looked for jobs in the past month, the so-called underemployment rate jumps to almost 17%. This is the highest level since the Great Depression (see Chart 1) and represents 25 million Americans.

Some recent signs have been encouraging. The rate of job loss has slowed significantly from nearly 700,000 per month in the first quarter of the year to fewer than 100,000 in the fourth quarter. Initial claims for unemployment insurance have fallen from a peak above 650,000 per week to around 450,000. A rate of new unemployment claims close to 400,000 per week would be consistent with stable payrolls. The number of temporary jobs has also risen recently, a positive leading indicator, as businesses hire more temps before they add full-time workers. The Census Bureau will also soon begin to hire more than 2 million temporary workers to conduct the 2010 Census. All this is good news, suggesting job growth is set to resume soon. But it is not nearly good enough.

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1. The tax cut the labor force declined in significantly during the Great Depression—see Chart 1. The unemployment rate was 10.8% in 1938. The labor force participation rate was 64.9% in 1938.

2. The tax cut was enacted in 1979. The unemployment rate was 7.9% in 1979. The labor force participation rate was 58.7% in 1979.
What's the threat?

Historically, changes in employment and unemployment closely follow changes in GDP. Output rises coming out of recessions; employment increases a few months later, and unemployment begins to decline some months after that. In the past, businesses could not produce more without hiring more workers. Unemployment took a bit longer to fall as formerly discouraged workers rejoined the job market. In the time it took for this group to find work, the unemployment rate would increase before beginning to decline.

This dynamic of stronger output leading to hiring leading to lower unemployment has been important in the transition from recession to recovery to expansion. Without the additional jobs and income, consumers do not have the confidence to spend more aggressively, which is precisely what is required for businesses to increase output.

In more recent business cycles, including the 1990-91 and 2001 downturns, the dynamic has held less strongly. GDP increased as the recessions ended, but hiring lagged, and unemployment lagged even more. Expansions ultimately took hold, but the jobless recoveries of these periods made the transition difficult.

This dynamic seems to have broken down even further in the current cycle. GDP swung from a sharp decline to an increase in the third quarter of 2009, and while job losses have become less severe, they continue.

The current recovery has continued despite the lagging job market only because of the support to household incomes coming from the federal government. Automatic stabilizers and the fiscal stimulus have sharply lowered tax burdens and increased transfer payments. Also-tax incomes have risen a bit over the past year, but only because help from the federal government has more than offset modest wage growth.

Concern about the job market would be less acute if unemployment were not already so high. With such a surplus of labor, already-weak compensation growth threatens to stall or even decline. It is not unusual for real, or inflation-adjusted, compensation growth to fall in recessions, but nominal compensation has not fallen since the Great Depression. Falling compensation would be the catalyst for a perceivable deflationary cycle.

What's ailing the job market?

The most straightforward answer is why employment continues to decline despite rising GDP is that productivity has increased—indeed, it has soared. Productivity expanded at close to a 7% annualized pace during the last three quarters of 2009, among the strongest gains since World War II (see Chart 2). Productivity growth weakened during the Great Recession, but it is never fall.

Businesses will not be able to raise productivity indefinitely, but neither are they likely to give up gains they have achieved, particularly if the surge is due to information technology investments made since the mid-1990s. Information technology has powered productivity growth for years, but businesses may not have been able to take full advantage of it because of the costs associated with significantly cutting payrolls. There is less financial pressure to make such changes when times are good. But in tough times such as now, firms are more selling and able to change. The result is a measurable and permanent downward shift in the number of workers needed to produce given level of GDP.

This does not need to be bad for workers, assuming businesses use the profits generated by productivity gains to expand and eventually add to payrolls. Such a process is particularly important now, with demand already fragile. But it has yet to happen. Businesses are scaling back layoffs—although they remain uncomfortably high—but hiring remains dormant. The number of workers hired each month has still from nearly 5.3 million before the recession to 4 million in recent months.

What makes the recent downturn unusual is not the rise in layoffs, but the plunge in hiring. The so-called job destruction rate is somewhat lower today than it was during much of the 2001 recession, but the job creation rate...
Chart 3: Job Creation Evaporates  

| Source: RLS |

Job creation has fallen across all industries, although not surprisingly, it has been more pronounced in construction and manufacturing and related industries such as wholesaling and transportation. The decline is also evident across firms of all sizes but has been disproportionately large among very small businesses (those with up to four employees) and very big ones (with more than 1,000 employees). Given the large number of workers in small businesses, almost half the decline in job creation has been among firms with fewer than 100 employees; about a fourth has occurred among firms with between 100 and 1,000 employees; and the remaining fourth has involved firms with more than 1,000 employees (see Table 1).

The principal impediment to hiring at smaller businesses appears to be a lack of credit. According to the Federal Reserve’s senior loan officer survey, banks are no longer aggressively tightening underwriting standards for loans to small and mid-sized businesses, but standards remain exceptionally tight. This is evident in the credit data, as commercial and industrial loans outstanding continue to fall rapidly, and the number of bank credit cards has plummeted by nearly 50 million, or 2.5%, since peaking in mid-2008. Most C&I loans go to large businesses, and credit cards go to consumers, but small businesses rely heavily on both loans and credit cards to finance their activities.

Small-business borrowers are also likely being hampered by the plunge in housing and commercial real estate prices. Real estate is often used by small-business owners as collateral for borrowing. With the value of that collateral less certain, lenders are less willing to make loans.

The likely impediment to job creation at large businesses is not credit—the cor-

Table 1: Very Small and Very Big Businesses Account for a Disproportionately Large Share of the Problems in the Job Market

<table>
<thead>
<tr>
<th>Change between 2009Q1 and 2007, 1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job Creation</td>
</tr>
<tr>
<td>employees</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>TOTAL</td>
</tr>
<tr>
<td>0-4 employees</td>
</tr>
<tr>
<td>5-9 employees</td>
</tr>
<tr>
<td>10-19 employees</td>
</tr>
<tr>
<td>20-49 employees</td>
</tr>
<tr>
<td>50-249 employees</td>
</tr>
<tr>
<td>50-99 employees</td>
</tr>
<tr>
<td>100-499 employees</td>
</tr>
<tr>
<td>Over 500 employees</td>
</tr>
<tr>
<td>250-499 employees</td>
</tr>
<tr>
<td>500-999 employees</td>
</tr>
<tr>
<td>Over 1,000 employees</td>
</tr>
<tr>
<td>0-100 employees</td>
</tr>
<tr>
<td>100-3,000 employees</td>
</tr>
<tr>
<td>Over 3,000 employees</td>
</tr>
</tbody>
</table>

Sources: RLS Business Employment Dynamics, Moody’s Economy.com

Moody’s Economy.com – www.economy.com – help@economy.com – February 2010

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pose bond and commercial paper markets are functioning well—but not all policy uncertainty. Policy changes now being debated in Washington arguably have not been this sweeping since the Great Depression. The most obvious include reforms of healthcare, energy, financial regulation and tax policy. Except for the energy and climate change legislation, all seem likely to produce new laws during the coming year. Each could have enormous implications for businesses; thus, firms are likely holding back on expansion decisions until there is more clarity from Capitol Hill.

The potential of policy to impact job creation is amplified by the ability of large firms to shift activities overseas. Despite big productivity gains and lower labor costs in the U.S., costs and market opportunities in emerging economies are growing in attractiveness. Uncertainty and indecision among business executives cannot be discounted as a reason for the poor job market. Business surveys broadly show sentiment has improved since the time last year, but it remains extremely low (see Chart 4). Many businesses suffered near-death experiences during the recession, and these memories remain fresh.

**Job tax breaks**

Given the struggling job market and the slowness to the recovery, it is appropriate for policymakers to consider steps to jump-start job creation. As the top of the list is a temporary tax break for firms that hire new payroll. Businesses may expand payrolls by bringing back existing employees, hiring new ones, raising wages, and/or hiring more workers. The tax break being considered is a number of forms, including reductions in payroll taxes and tax credits for adding and retaining employees.

The principal economic logic behind such a tax break is that temporarily reducing the cost of labor will help businesses to expand. The time appears increasingly opportune for such an inducement. For businesses to add to their payrolls they must first be confident that there is sufficient demand for whatever their new employees will produce. Demand, as measured by real final sales, has been increasing modestly since the recession ended last summer. Gains in exports have been particularly notable. Policy efforts to shore up demand remain substantial; moreover, federal money could soon fund additional emergency unemployment insurance benefits and increased aid to financially strapped state governments. Many businesses also need access to credit to finance expansion and increase hiring. While credit remains constrained, particularly to smaller businesses, there are substantial policy efforts underway that should soon bear fruit. The Small Business Administration has been empowered to extend more credit, and substantive changes to the SBA’s loan guarantee programs have made them more effective. The Obama administration has also proposed funneling leftover TARP funds to small banks, to enable them to make more small business loans. Only when demand is sufficiently strong and credit is ample do businesses focus on the cost of labor and whether it makes sense to add jobs. Demand should be firmer and credit flowing more freely by this summer—just about the time a tax break for hiring would be in full swing. There are some meaningful downsides to providing tax breaks for hiring. The most obvious is their cost. The proposals

<table>
<thead>
<tr>
<th>Tax Breaks</th>
<th>Bang for the Buck</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonrefundable job tax credit</td>
<td>1.03</td>
</tr>
<tr>
<td>Refundable job tax credit</td>
<td>1.22</td>
</tr>
<tr>
<td>Temporary tax cuts</td>
<td></td>
</tr>
<tr>
<td>Payroll tax holiday</td>
<td>1.29</td>
</tr>
<tr>
<td>Job tax credit</td>
<td>1.30</td>
</tr>
<tr>
<td>Across-the-board tax cut</td>
<td>1.02</td>
</tr>
<tr>
<td>Accelerated depreciation</td>
<td>0.25</td>
</tr>
<tr>
<td>State tax credit</td>
<td>0.22</td>
</tr>
<tr>
<td>Housing tax credit</td>
<td>0.40</td>
</tr>
<tr>
<td>Permanent tax cuts</td>
<td></td>
</tr>
<tr>
<td>Federal alternative minimum tax</td>
<td>0.51</td>
</tr>
<tr>
<td>Make work income tax credit</td>
<td>0.42</td>
</tr>
<tr>
<td>Defer dividend and capital gains tax cuts permanently</td>
<td>0.37</td>
</tr>
<tr>
<td>Cut to corporate tax rate</td>
<td>0.32</td>
</tr>
<tr>
<td>Spending increases</td>
<td>Bang for the Buck</td>
</tr>
<tr>
<td>Temporarily unemployment insurance benefits</td>
<td>1.61</td>
</tr>
<tr>
<td>Temporary federal housing of work-share programs</td>
<td>1.69</td>
</tr>
<tr>
<td>Temporary increase in food stamps</td>
<td>1.74</td>
</tr>
<tr>
<td>General aid to state governments</td>
<td>1.41</td>
</tr>
<tr>
<td>Increased infrastructure spending</td>
<td>1.87</td>
</tr>
</tbody>
</table>

Note: The bang for the buck is estimated by the one-year dollar change in GDP for a given dollar reduction in federal tax revenue or increase in spending.
being debated have upfront costs ranging from approximately $12 billion to $35 billion. The ultimate costs—after accounting for the additional tax revenues and lower government spending from a better job market and stronger economy—are lower still, unless these costs are covered, they will add to the nation’s already daunting long-term fiscal problem. It is worth noting that the bang-for-the-buck from a job tax break—the increase in real GDP per dollar of forgone cost—is the highest among various tax cuts often considered as part of the fiscal stimulus (see Table 2).

Job tax breaks are also not particularly efficient, in that most firms that receive the benefits would arguably have increased their payrolls without it. It is probably not a bad thing to provide a boost to these businesses, as they likely are the engines of job growth, but the number of jobs directly created because of firms’ temporarily lower taxes is modest.

Another potentially serious problem is the potential for gaming by businesses. It is difficult for policymakers to anticipate all the ways businesses might take unintended or inappropriate advantage of a job tax break. Various safeguards can be put in place to mitigate this, but the tighter the safeguards, the more complex the process becomes, reducing businesses’ participation and thus the number of jobs ultimately created.

Yet weighing all the potential pluses and minuses, a job tax break still seems a worthwhile policy effort at this point in the recovery. A well-crafted and appropriately sized tax break will measurably raise the odds that hiring will revive in earnest and that the recovery will evolve into a self-sustaining economic expansion by this time next year.

The Obama plan

The Obama plan, known as the “Small Business Jobs and Wages Tax Cut,” provides a credit of up to $5,000 to be applied against a firm’s payroll taxes for each new employee hired in 2010. The credit is available for all businesses, regardless of their size, and new startup firms may claim a credit of up to $2,500. Small businesses, defined as firms with fewer than 50 employees, would also not be required to pay their 6.2% share of Social Security payroll taxes on wage increases above the rate of inflation. This benefit is based on Social Security payroll taxes and would thus not apply to wage increases above the current taxable maximum of $106,800.

The credit would be claimed quarterly by businesses and the total tax benefit per business would be capped at $100,000. Nonprofit organizations would be eligible, but state and local governments would not.

The upfront cost of the Obama plan is estimated at $133 billion (see Table 3). At its peak employment impact, reached at the end of 2010, the plan would add close to 725,000 jobs. The upfront cost per additional employee, a measure of its efficiency, is also the lowest among the plans at $43,500. After accounting for the increase in either tax revenues and lower government spending resulting from the plan’s impact on broader economic activity, the ultimate cost per additional employee is $36,400. It is the most cost efficient of the plans, although differences among the plans are modest and within the margin of error involved in making such estimates.

The Obama plan’s ability to spur additional job growth is enhanced by the size of the tax credit for adding workers. This is a substantial incentive to businesses to add jobs rather than give existing workers more hours or raise wages. With hours worked near a record low, businesses have a strong incentive to increase hours rather than employment. Paying nonprofits and startups with a tax break also increases the plan’s reach and the number of jobs created.

Another nice feature, common to all of the proposals, is allowing businesses to claim part of the credit each quarter instead of waiting to file annual tax returns. Businesses will appreciate the quick cash to defray some of their hiring and other costs.

Limiting the job creation potential of the Obama plan is its $100,000 cap on the tax break per business. The intent is to limit the plan’s cost, so ensure that smaller businesses are able to receive much of the benefit, and to guard against some forms of gaming, but the cap also limits the plan’s efficacy. The plan is also relatively complex, reducing its job impact, but as such, it is also the least at dealing with potential abuse by businesses.

The Casey-Gallibrand plan

The Casey-Gallibrand plan, “Job Creation Tax Credit,” provides a credit against payroll taxes equal to 20% of the increase in payroll costs for small firms with less than 100 employees. Large firms would receive a 15% credit but only if they have at least a 3% increase in payroll over the past year. To claim the credit firms must have more employees than they did in the same quarter in the prior year. The credit is based on Social Security payroll taxes and thus does not apply to wage increases above the current taxable maximum of $106,800.

As in the Obama plan, the credit would be claimed quarterly by businesses, but the total tax benefit per business would be capped at a lower $33,000. The credit is nondeductible which means that nonprofits and state and local governments are not eligible for the credit.

Table 3: Employment Impact and Cost of Job Tax Break Proposals

<table>
<thead>
<tr>
<th>Plan</th>
<th>Maximum Additional Jobs</th>
<th>Upfront Cost</th>
<th>Upfront Cost Per Employee</th>
<th>Ultimate Cost Per Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obama</td>
<td>726,532</td>
<td>33,099,660,000</td>
<td>45,390</td>
<td>56,392</td>
</tr>
<tr>
<td>Schumer/Blunt</td>
<td>349,265</td>
<td>11,678,200,000</td>
<td>40,787</td>
<td>43,980</td>
</tr>
<tr>
<td>Casey-Gallibrand</td>
<td>607,377</td>
<td>20,099,690,000</td>
<td>32,384</td>
<td>41,139</td>
</tr>
</tbody>
</table>

Source: Moody’s Economy.com

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1. The cost estimate is very similar to the Administration's estimate of the plan's cost.
2. The job tax benefit is assumed to begin in April 2010 for all of the plans considered in the analysis.
The upfront cost of the Casey plan is estimated at $33 billion, and its peak employment impact early in 2013 is 610,000 additional jobs. The upfront cost per additional job is thus $53,600 and its ultimate cost per additional job after accounting for the impact of a stronger economy on tax revenues and government spending is $45,000.

The Casey plan's most significant advantage is the size of the tax credit, which is the largest of the proposals. The tax savings to businesses are large enough that it should get them to spurt and encourage widespread and quick participation. Enhancing the plan's impact is that more than half of employment is in firms with fewer than 100 employees that get the large 30% credit.

The plan is also relatively straightforward and can be easily implemented by businesses, but does not appear to be waterborne to serious abuse. It is also the friendliest of the plans towards smaller businesses.

The Casey plan's job impact is reduced because it does not provide an explicit incentive for businesses to add jobs. Only firms that add at least maintain their payroll qualify for the credit, but with so many workers already on reduced hours, firms have a strong incentive to extend their hours before hiring more employees. The relatively low dollar cap on businesses and the exclusion of nonprofits also limit the plan's reach.

The Schumer-Hatch plan

The Schumer-Hatch plan, the "Hire Now, Pay Later" plan, is the simplest and most straightforward of the proposals. It is effectively a payroll tax holiday, equal to 6.2% of payroll costs, for all workers hired in 2010 who have been unemployed at least 60 days. Business of all sizes are eligible for the tax benefit, as are nonprofit state and local governments. Since businesses would simply not have to pay their portion of new workers' payroll taxes, they would benefit immediately. The Schumer plan also includes a retention bonus equal to $1,200 per new worker still employed a year after they were hired.

The Schumer plan is significantly less expensive than the other proposals, with an estimated upfront cost of about $12 billion. Large businesses are hit particularly hard, with up to 250,000 additional jobs. The peak employment impact would likely occur a few months earlier than the other plans, as the value of the tax benefit to businesses will be very small during the last months of the year. The upfront cost per additional job is $40,800, and its ultimate cost per additional job is $44,000.

The Schumer plan's biggest advantage is its simplicity. There are no restrictions on eligibility, and the plan is easy to explain—no employer payroll taxes or new employment to hit. This may bring rapid and broad participation by businesses. The restriction that firms must hire unemployed workers also has the clear advantage of targeting the most disadvantaged.

The plan's simplicity does increase the chance of abuse. Unemployed workers would have to sign affidavits saying they had been unemployed more than two months, yet there would be no formal oversight. Employers could also replace current employees with unemployed workers at a lower cost. Although this would be prohibited, the plan contains no formal enforcement mechanism. Targeting the unemployed could also slow or even reduce hiring, since it could be difficult to maintain open positions with the skills and education of the unemployed in some industries and regions.

A Suggestion

Any tax cut plan's success will be determined by how much more quickly businesses hire than would have been the case without the tax benefit. One way to accelerate businesses' response would be to cap the dollar amount of the program and provide it to those firms that hire first. First, foreword worked particularly well for the car loan buy-backs program, which buyers were given a reason to act quickly or lose the tax break. Funding was quickly exhausted as vehicle sales soared last fall.

The same principle could be used for the tax credit. Using the Obama plan as a framework, suppose the government committed $23 billion to a plan offering a $5,000 credit against payroll taxes paid on any new net employee hired in 2010. Or use the Schmidt plan idea to focus the tax break to benefit the unemployed: the plan would provide a credit of up to $7,000 for any new hire of a previously unemployed worker. The credit would be payable quarterly and the total tax benefit per business would be capped at $500,000. Nonprofit organizations would be eligible but states and local governments would not. The tax benefits would be provided until the $23 billion was used up.

Businesses would have to hire quickly or lose the opportunity for a tax benefit. Most firms would have a reason to put aside their concerns and hire as soon as accelerating job creation, an advantage of the plan would be that the less of the $23 billion would go to firms that would have hired anyway. The peak employment impact under this plan would occur in the third quarter of 2010, when an additional 615,000 jobs would be created. The upfront cost per employer would be $34,000 and the ultimate net cost $30,000. This plan would then create jobs somewhat more quickly than the other plans being considered, at a somewhat lower cost.

Conclusions

If history is a guide, job growth should resume this spring. Positive signs point this way: Initial claims for unemployment insurance have fallen significantly, temporary hiring is up, weekly hours worked are off the bottom, and various business surveys suggest firms are more open to expanding payrolls. With the government set to create more than a million temp jobs to continue the 2010 Census, it is hard to believe job growth will not resume soon.

Yet there are reasons to be nervous that hiring will not revolve as easily and may even peter out after the census is completed. This is particularly true for small businesses, and a lack of confidence across all businesses threaten to short-circuit the job machine.

With a jobs revival and full economic recovery now nearly at hand, the focus ought to be on providing further support to the economy. Fiscal policymakers, in particular, should focus on providing further support to the economy. Fiscal policymakers, in particular, should focus on increasing the generosity of the tax treatments for hiring and unifying the tax treatments for hiring and unemployment. This legislation would boost credit to small businesses, infrastructure spending, and public service and summer youth jobs. A jobs tax break, which would lower the cost of adding new businesses, would be particularly effective in this summer. By then, businesses will have had more time to form terms with the Great Recession, and banks should be extending credit somewhat more freely than before.

While the recovery is likely to slowly lose traction even without more help from policymakers, the odds remain uncomfortably high—about one in four—that it will not. And if the recovery backtracks into recession, unemployment will surge, igniting a vicious deflationary cycle that even
more aggressive action by the Fed would have difficulty breaking. The fiscal outlook would quickly become untenable. Pre-
vailing a bit more policy help this year to avoid this very dark scenario seems worth the cost.
February 22, 2009

Honorable Barney Frank
Chairman
Financial Services Committee
United States House of Representatives
2252 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Frank:

On behalf of the National Council of La Raza (NCLR)—the largest national Hispanic civil rights and advocacy organization in the United States—I respectfully submit the attached materials for the record for the hearing, "Prospects for Employment Growth: Is Additional Stimulus Needed?" on Tuesday, February 23, 2010.

All Americans are experiencing the hardships of the recession, including millions of Latino families. Disparities in unemployment and foreclosure rates between Hispanic and non-Hispanic White Americans, together with anecdotal testimonials that NCLR is hearing from our community-based Affiliates, tell the story of millions of Latinos struggling to find and keep work while putting food on the table and keeping a roof over their heads. As of January 2010, the Latino unemployment rate stood at 12.6%, nearly four percentage points higher than the White unemployment rate.

Although the American Recovery and Reinvestment Act (ARRA) has saved and created jobs, it was missing significant measures to target high-unemployment communities with job creation. Politically and substantively, policies to create jobs have been too diffuse to impact Latino workers directly. Consequently, Latino voters and families are not convinced that Congress is paying attention to and fighting for them. In response to this brewing crisis of confidence and to the painful economic realities Latino families are facing, NCLR, along with other civil rights and advocacy organizations, has worked to raise awareness of these trends and develop specific policy recommendations for job creation.

I request that the Chairman accept the following documents for the Congressional record:

- Letter to the president and Congress, “Urgent Call for Action to Stem the U.S. Jobs Crisis,” from Economic Policy Institute, American Federation of Labor and Congress of Industrial Organizations (AFL-CIO), Center for Community Change, Leadership Conference on Civil Rights, NAACP, NCLR, November 17, 2009, Washington, DC.


Thank you for accepting these materials for the record. We look forward to working with you and other members of the Financial Services Committee to advance policies that put Latinos and other struggling communities back on the road to economic security.

Sincerely,

Janet Murguía  
President and CEO  
National Council of La Raza
MEMORANDUM

To: President Barack Obama
Members of the 111th Congress

From: National Council of La Raza (NCLR)

Re: Latino Priorities in a Job Creation Package

Date: November 17, 2009

The American Recovery and Reinvestment Act (ARRA) was intended to stem job losses and stimulate new employment in the economy overall. However, unemployment data and public opinion polls cast doubt on the impact of ARRA on Latino employment. According to a recent survey of registered voters conducted by the Hart Research Group, 54% of Hispanics report that someone in their household has been personally affected by the recession. Yet, fewer than 30% of Latinos report seeing any direct benefits of federal recovery efforts in their communities, including jobs saved or created in the public and private sector or new loans for small businesses.

Latinos have endured eight months of double-digit unemployment and the largest increase in underemployment of any group since the recession began in December 2007. Widening disparities in economic well-being have left many Latinos with little confidence in the government's ability to stop the steady unraveling of economic security.

Congress and the administration must take bold action to create more jobs quickly, with specific strategies for reaching communities of color. NCLR recommends a range of investments in human and community capital development which would lead to large-scale direct job creation in communities hardest hit by unemployment.

1. Create millions of community jobs in hard-hit neighborhoods. An effective way to employ millions of people in a short time is to pay them to meet existing needs in their local communities. Congress should award grants to states for employing workers to repair and maintain buildings and grounds, work at community health centers, care for children before and after school, or provide services for seniors.

Any publicly funded jobs initiative that aims to reach the communities hardest hit by the recession should:

- Reserve 20% of grants to states for hiring in the nonprofit sector. In many communities, local nonprofit organizations are the primary providers of the services mentioned above. Community-based organizations (CBOs) have the local knowledge and trust of the community to make them ideal employers of these new workers. But as more families fall into economic hardship and philanthropic giving dries up, CBO capacity has been severely strained. Invigorated CBOs should be part of the recovery formula as service providers and job creators.

* In this memo, "nonprofit" refers to community-based social service organizations.
- Dedicate $1 billion of funding for hiring workers to maintain and rehabilitate abandoned and foreclosed properties. Despite government-subsidized home prices, the supply of real-estate-owned properties far exceeds the number of willing and able buyers. Part of the problem is that neglected properties are falling into disrepair, blighting neighborhoods, breeding crime, and lowering property value and desirability. Congress should allocate additional funds for the Neighborhood Stabilization Program (NSP) for the express purpose of hiring local residents to maintain, repair, and in some cases redevelop government- and real-estate-owned homes and properties. These improvements will help attract buyers and respond to changing community needs.  

- Mandate that at least 30% of new jobs go to economically disadvantaged job seekers. Jobs seekers with low income and low levels of educational attainment, and those who are not currently receiving unemployment insurance, should be given priority consideration in the publicly funded jobs initiative. The NSP already includes a 30% target to hire low-income residents from the areas in which projects are funded. However, under ARRA, this target is only a recommendation and is not strong enough to ensure employer compliance. Instead, this requirement should apply to future NSP projects, with fully-funded enforcement.

2. Make affordable loan products available to nonprofits and CBOs for infrastructure and capital investments. As with businesses and governments, the current economic environment has severely hindered nonprofits’ access to credit, leaving them largely unable to make crucial investments in their facilities and equipment. But lending through the Community Development Financial Institutions Fund (CDFI Fund) reaches nonprofits at a far lower rate than it does other borrowers, with community service providers accounting for just 1% of the borrowers and 3% of all outstanding CDFI financing in 2007. Even with the increased investment in the CDFI Fund through ARRA, the dramatic disparity in borrowing by the nonprofit sector remains.

In addition, expanded funding for alternative financial institutions through the CDFI Fund would allow lenders to meet the needs of community-based institutions seeking access to affordable credit, and allow CBOs to meet the rising demand for services in the vulnerable communities they serve. Congress should:

- Encourage CDFIs providing commercial loans to dedicate 20% of their lending to nonprofits and CBOs. As credit markets have tightened and traditional lenders have moved up market to avoid riskier borrowers, more and more institutions are seeking financing from CDFI lenders, leaving this relatively small group of lenders with a growing pool of potential borrowers competing for their limited dollars. CDFIs, which have traditionally focused the bulk of their financing on small businesses, should be encouraged and rewarded for efforts to increase the number and amount of new loans made to nonprofits.

- Empower CDFIs and other alternative lenders to provide technical assistance to borrowers to ensure better loan performance. Using capital effectively takes
skill and savvy. Technical assistance offered in tandem with loan services can help a CBO develop an effective operating strategy as well as improve its loan performance. To ensure that nonprofits and lenders alike get the most mileage out of their loans, CDFIs should be funded to provide technical assistance, including help with financial planning, debt management, and loan restructuring services for institutions that have existing loans with unfavorable terms.

3. Invest in the human capital of workers overlooked by ARRA. For many workers struggling in the current recession, investment today in education and skills development will prepare them for the jobs of tomorrow. ARRA authorized millions of dollars for worker training programs in green jobs and health care in order to support their entry into emerging industries. The U.S. Department of Labor received an unprecedented number of applications from entities around the country hoping to train and place job seekers in these fields, but because funds were limited a significant number of worthy projects will go unfunded. Congress should authorize additional funding for human capital investment in emerging fields such as green jobs, but should target programs that:

- **Support the skills development and language acquisition of low-income, limited-English-proficient (LEP) workers.** Latinos and workers with limited proficiency in English have been severely underserved by public workforce programs. Integrated training programs that combine adult education and ESL services with postsecondary education and training is a proven strategy that can open doors to high-quality employment for millions of LEP workers. However, there was little guidance under ARRA to encourage green and health training programs to use these promising practices. Future funding should prioritize programs that integrate skills training with basic literacy and English language skills in order to ensure that access to jobs in emerging industries is open to Latino and other underserved communities.

- **Prioritize programs that provide case management and supportive services.** Without access to a range of supportive services, many Latino and other vulnerable workers will be unable to access training programs. Investment in human capital programs must focus on those programs that couple training with services that fill the gaps for those historically underserved by workforce development systems, including health and mental health services, legal services, and child care, as well as investments in career advancement services such as career coaching for incumbent workers.

4. **Use the tax system to reward small businesses and nonprofits that hire new workers.** In these uncertain times, businesses of all sizes, as well as nonprofit organizations, may have the immediate means to employ new workers but lack the confidence to hire. Policymakers should encourage hiring through a refundable tax credit for companies, including small businesses and nonprofits that hire new workers or expand the hours of workers on their payroll.

It is not too late for the administration and Congress to take bold steps to reach communities of color with effective job creation policies. NCLR urges policymakers to
seriously consider the above proposals as part of a strategy to positively change the
course of the American economy.

For more information about strategies to create jobs in Latino communities, please contact
Catherine Singley, Employment and Economic Policy Analyst at NCLR, at cesingley@nclr.org.

Endnotes

1 Hart Research Associates, Tracking the Recovery: Voters’ Views on the Recession, Jobs, and the
Deficit, survey conducted September 21–23, 2009 for the Economic Policy Institute,
2 New America Media survey, Gauging the Impact of the American Recovery and Reinvestment Act,
3 Kathryn Edwards, Minorities, less-educated workers see staggering rates of underemployment,
educated_workers_see_staggering_rates_of_underemployment (accessed November 2009).
4 The Neighborhood Stabilization Program (NSP), administered by the Department of Housing and Urban
Development (HUD), received funding through ARRA to subsidize the prices of foreclosed homes for resell.
6 CDFI Data Project, Providing Capital, Building Communities, Creating Impact, Fiscal Year 2007,
2009).
7 Make the Workforce Investment Act Work for Latinos: Principles for WIA Reauthorization (Washington,
AN URGENT CALL FOR ACTION TO STEM THE U.S. JOBS CRISIS

November 17, 2009

The U.S. unemployment rate exceeded 10% in October for the first time in a quarter century. Nearly 16 million Americans who are able and willing to work cannot find a job. More than one out of every three unemployed workers has been out of a job for six months or more. The situation facing African American and Latino workers is even bleaker, with unemployment at 15.7% and 13.1%, respectively.

These grim statistics don’t capture the full extent of the hardship. There are another 9 million people working part time because they cannot find full-time work. Millions of others have given up looking for a job, and so aren’t counted in the official unemployment figures. Altogether, 17.5% of the labor force is unemployed—more than 27 million Americans, including one in four minority workers. Last, given individuals moving in and out of jobs, we can expect a third of the workforce, and 40% of workers of color, to be unemployed or underemployed at some point over the next year.

Despite an effective and bold recovery package we are still facing a prolonged period of high unemployment. Two years from now, absent further action, we are likely to have unemployment at 8% or more, a higher rate than that attained even at the worst point of the last two downturns.

Joblessness on this scale creates enormous social and economic problems—and denies millions of families the ability to meet even their most basic needs. It also threatens our nation’s future prosperity by casting millions more children into poverty, foreclosing educational opportunities for many, limiting the investment and innovation that will fuel future growth, and dimming long-term labor market prospects, especially for younger workers.

The president and the Congress have already taken significant steps to stop the economy’s nosedive. Their efforts have already created over a million jobs and led to renewed economic growth in the third quarter of 2009. But it’s clear that much more must be done to generate millions more jobs to assure a robust recovery that reaches all Americans.
We, the undersigned, representing a broad cross-section of Americans, urgently call on President Obama and members of Congress to take action to address this severe job crisis. If we act swiftly and decisively, we can create millions of jobs and provide urgently needed relief to American families.

A first step is to provide relief through continued unemployment benefits and COBRA. This directly helps the state and local governments that are putting the brakes on growth as they curtail programs in order to balance their budgets. Second, extending substantial fiscal relief to state and local governments will not only preserve needed services, but will also provide millions of jobs in both the public and private sectors (as many private firms deliver public services from health to infrastructure).

Third, we can directly create jobs that put people to work helping communities meet pressing needs, especially in distressed communities facing severe unemployment. These initiatives are critically important and can be carefully crafted so they do not displace existing jobs or undermine labor standards.

Fourth, there are opportunities to invest in infrastructure improvements in schools, transportation, and energy efficiency that can provide jobs in the short run and productivity enhancements in the longer run.

Last, we should explore spurring private-sector job growth through innovative incentives and providing credit to small and medium-sized businesses.

These initiatives will cost money, and we will need to tolerate higher deficits in the next few years. However, a jobs initiative can be coupled with a revenue stream, such as a financial transactions tax, that can take effect in the third year and more than pay for these efforts over a 10-year period.

Americans are confronting the worst jobs situation in more than half a century. This is not a situation we must continue to tough out. A robust plan to create jobs in transparent, effective, and equitable ways can put America back to work.

**Lawrence Mishel**
President, Economic Policy Institute

**Richard Trumka**
President, American Federation of Labor and Congress of Industrial Organizations

**Deepak Bhargava**
Executive Director, Center for Community Change

**Wade Henderson**
President and CEO, Leadership Conference on Civil Rights

**Benjamin Toto Jealous**
President and CEO, National Association for the Advancement of Colored People

**Janet Murguia**
President and CEO, National Council of La Raza
MEMORANDUM

To: Members of the 11th Congress
From: National Council of La Raza
Re: Creating Jobs through Neighborhood Revitalization and Fiscal Relief to Community-Based Institutions
Date: January 11, 2010

The National Council of La Raza (NCLR), the largest national Hispanic civil rights and advocacy organization in the United States, has previously indicated its support for a broad array of initiatives to address the economic crisis, including:

1) Continued extension of unemployment insurance to the long-term unemployed, and expanded fiscal relief to state and local governments
2) Increased transfer payments through both entitlement (e.g., food stamps) and discretionary (e.g., Women, Infants, and Children [WIC], child nutrition) programs
3) Increased investments in infrastructure development programs, including transportation and school modernization
4) A major new initiative focused on creation of at least one million new public-sector and nonprofit jobs to carry out functions that advance other national priorities

We remain supportive of all of these efforts. That said, the first three of these initiatives already have been enacted in various forms and are clearly insufficient. Even if, as many predict, these initiatives will eventually bear fruit, even the most optimistic observers do not believe they are likely to produce significant, sustainable job growth anytime soon. Just as important, while a strong macroeconomic case can be made for such initiatives, their connection to job growth is tenuous at best in the minds of many Americans. And, from a Latino perspective, unemployment insurance, fiscal relief to state-local governments, and many infrastructure development efforts are unlikely to produce proportional employment results for Hispanics, who are highly underrepresented in the public sector.

Thus, this memorandum focuses on a specific variant of the fourth initiative—public-sector and nonprofit job creation—as an important, visible, tangible way both to produce jobs that are highly targeted to Hispanics and other groups disproportionately affected by the recession and to simultaneously advance national priorities. NCLR presents the following recommendations:

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Recommendation #1: Incentives to Expand Community-Based Financial Advice/Assistance to Low-Income Families

Policymakers should fund an initiative that would put hundreds of thousands of community-based financial counselors on the streets to help low-income families get back on their feet financially. The Department of Housing and Urban Development (HUD) has a housing counseling program that currently provides grants to nonprofits to do pre-purchase, post-purchase, and foreclosure prevention work with families. The Community Development Financial Institutions (CDFI) Fund currently has a small demonstration program (secured with the help of Representative Serrano, Senator Menendez, and Senator Akaka) to provide several million dollars in grants to nonprofits for financial counseling. New grantees will be announced in February, though it likely to be a very small number given limited federal funds.

The House of Representatives included in its regulatory reform bill a modest expansion of this effort which would have been placed in the newly created Consumer Financial Protection Agency (CFPA), funded by fees collected. There is also widespread support for this concept among a broad cross-section of stakeholders, altogether signaling traction, potency, and feasibility. HUD’s Housing Counseling program creates hundreds of thousands of jobs within nonprofit organizations. Extending this work beyond housing/homeownership to financial advice can at the same time significantly expand the number of families served; NCLR’s HUD-certified program alone, with just 50 organizations, served more than 50,000 families in 2009. Refundable tax credits to families can also potentially bring this initiative to scale and create a new market for providing high-quality financial advice to low-income, low-wealth families.

Recommendation #2: Neighborhood and Community Revitalization Jobs

Policymakers should create or save hundreds of thousands of jobs by dedicating several billion dollars to hiring workers to maintain and rehabilitate foreclosed or abandoned properties. The supply of real-estate-owned properties far exceeds the number of willing and able buyers. Partially driving this trend is that neglected properties are falling into disrepair, blighting neighborhoods, breeding crime, and lowering property value and attractiveness for would-be buyers. Meanwhile, nearly two million construction workers and 500,000 maintenance and repair workers and groundskeepers were out of work in December 2009, and hundreds of thousands of others are underemployed.\(^3\) To correct this contradiction and improve the effectiveness of the Neighborhood Stabilization Program (NSP), a major initiative could be developed, complementing the NSP grant mechanism, to provide resources to state and local government, nonprofits, and other eligible grantees for the main purpose of directly hiring workers and firms to carry out neighborhood revitalization in areas hit hard by foreclosures.

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Recommendation #3: Human and Social Needs Infrastructure Development Fund

Policymakers should target credit, grants, financing, and loans to nonprofit social service providers; largely those that would be considered "Recovery Act Partners" or those who have or will receive grants from the American Recovery and Reinvestment Act (ARRA) to stabilize, expand, and/or otherwise hire additional workers to meet grant objectives. Some of the usual sources of revenue for community-based organizations (CBOs)—foundations, state and local governments, and corporations—are projected to reduce their contributions in 2010. Similarly, state and local governments are cutting grants and delaying or changing payment terms for contracts with CBOs. According to Independent Sector, a national network of nonprofit organizations, in August 2009, $15 billion was owed in backlogged payments to nonprofits by state governments.

This revenue pressure adversely affects the administration and impact of ARRA-funded programs. Even large-scale nonprofit social service providers that have received ARRA funds and have a strong tradition of administering good programs and services, are having troubles maintaining fiscal stability, meeting local demand, and substantially expanding their operations. ARRA grantees have also expressed legitimate concerns about the temporary nature of ARRA investments which has created sufficient levels of uncertainty to impede necessary hiring. An initiative could be launched to create a new nonprofit social service investment fund. The fund would include investment brokers/managers coordinating with major ARRA partners to work with philanthropic and private-sector partners to develop and expand the operations of ARRA grantees in priority areas such as health, education, energy, and job training.

Conclusion

There are several other potential investments to address the complex dynamics outlined at the beginning of this memo. For instance, many of the aforementioned solutions could be naturally integrated into a robust public-sector jobs initiative. We have attached supporting documents detailing these and other proposals that hold promise to put all Americans on a path to strong economic recovery.

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CIVIL RIGHTS COALITION URGES CONGRESSIONAL LEADERSHIP TO ACT SWIFTLY ON DEBILITATING JOBS CRISIS

Press Conference Call Audio Recording:

http://dl2.newmediamill.net/media/terr/7JOB5%20021910%20(1).mp3

Civil Rights Coalition Urges Congressional Leadership to Act Swiftly on Debilitating Jobs Crisis

Twenty-Five Civil Rights Organizations and Economists Issue Bold Proposal for Alleviating Jobs Crisis to House Speaker Pelosi and Senate Majority Leader Reid

Washington, D.C. – Today, civil rights leaders and economists from The Leadership Conference on Civil and Human Rights, the AFL-CIO, the Center for Community Change, the Economic Policy Institute, the NAACP, and the National Council of La Raza held a press conference call to outline their proposal to Congress for legislation to mitigate the jobs crisis facing millions of Americans.

The proposed actions will provide immediate relief to people who are out of work and will lay the foundation for a broad-based economic recovery that benefits all Americans.

The recommendations, which include the extension of emergency Unemployment Insurance and COBRA benefits, the creation of public sector jobs, fiscal support for States and local governments, investment in school and public transit, and the prevention of foreclosures, were
detailed in a letter to House Speaker Nancy Pelosi and Senate Majority Leader Harry Reid today (original text of the letter [here]).

During the press conference call, leaders from the civil rights community issued the following statements:

“Across our country, high and lingering unemployment – particularly among young workers, low-income workers and workers of color – are straining families to the breaking point and decimating whole communities. While our economy is no longer on the brink of collapse, it should be obvious to everyone that the pace of the recovery is not generating jobs fast enough to sustain our growing workforce. That’s why it’s now a moral imperative for Congress and the Obama Administration to take bold, meaningful action to ensure that our nation’s working families survive this crisis and to create jobs now that put us on a sound foundation for future prosperity.” – Wade Henderson, President and CEO of the Leadership Conference on Civil and Human Rights

“Young Hispanics are among the most vulnerable to this economic crisis. The jobs crisis is the greatest challenge our nation is facing. Working families have not just lost their pay checks, but also their benefits and even their homes. America’s workers are proud to stand with our brothers and sisters in the civil and human rights communities to solve this problem. We need 10 million jobs and Wall Street should pay the bill because their abusive practices caused this financial collapse.” – Richard Trumka, President of the AFL-CIO

“Congress must act boldly and do more to promote job growth after neglecting America’s workers for the last 20 years. Without a community jobs program to boost employment quickly, high unemployment rates will continue to weigh down economic growth, continue to ravage
lower- and middle-class Americans’ earnings, and continue to incur long-lasting damage on our economy.” – Deepak Bhargava, Executive Director of the Center for Community Change

“Without aggressive action to create jobs, high unemployment will persist for years. It will likely be higher in the fall than it is now. And it could still be hovering around 8 percent by the end of 2011. To put that in perspective, we never saw unemployment as high as 8 percent in either of the last two recessions. This is a human disaster that we can and must prevent.” – Larry Mishel, President of the Economic Policy Institute.

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