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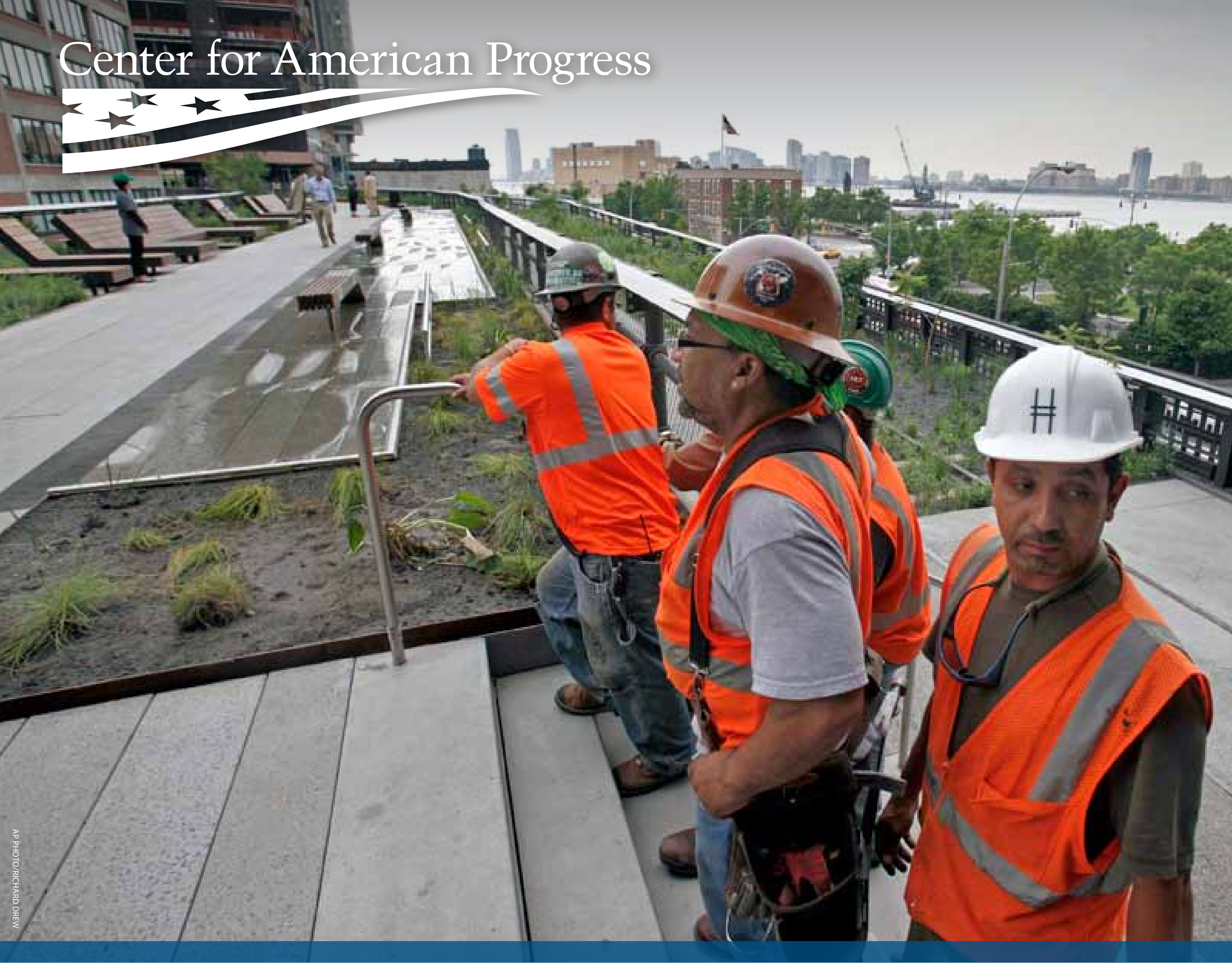

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Meeting the Jobs Challenge

How to Avoid Another Jobless—or Job-Loss—Economic Recovery

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Introduction and summary

The U.S. economy is now in "recovery" in the eyes of most economists. Gross domestic product grew at a 2.8 percent pace in the third quarter of 2009—the first growth in five quarters—and is expected to grow again in the fourth quarter. But the challenge of sustained job creation remains ahead of us.

The economy is still shedding close to 200,000 jobs per month and we have yet to have a month with net job growth since the Great Recession began in December 2007. Indeed, there are increasing indications that even if the economy continues to grow it will not do so at a pace fast enough to absorb quickly the 16 million people now out of work and searching for a job. Slow job creation in and of itself could stall the nascent recovery. Consumer spending accounts for about 70 percent of U.S. GDP and unemployed workers are unable to be the customers that businesses need to see before they hire and invest. Dampened consumption from unemployment drags down economic growth

Congress and the Obama administration understand this danger. Since January, they have taken significant steps—most notably the $787 billion American Recovery and Reinvestment Act—to get the economy back on track. In addition, the Federal Reserve eased credit conditions and continues to keep interest rates low to encourage investment. The actions of Congress, the administration, and the Fed are to be applauded. The fact that we are now emerging out of a Great Recession and not mired in a second Great Depression should not be taken for granted.

The ARRA economic recovery package provided a much-needed boost to economic growth in the third quarter and saved or created upwards of 1 million to 1.5 million jobs.[1] Even though we haven't seen net job growth, saving jobs is just as important as creating them amid a sharp economic downturn. For every worker not laid off, there are fewer unemployed adding to the historically high six unemployed workers vying for every job opening. Recovery dollars will continue to pump up demand and add jobs to the economy as the remaining $553 billion is spent in 2010.[2]

The recovery package included a variety of mechanisms for getting the economy back on track, among them:

- Aid to the unemployed, which boasts the biggest bang for the buck in terms of spurring economic demand
- Aid to state and local governments to help them avoid layoffs and maintain services
- Tax cuts for most families, which help to boost spending
- Investments in infrastructure, which are still ramping up and coming on line, as these projects take longer to get up and running
- Investments in a green economy, which not only creates jobs but also paves the way for long-term economic sustainability.

The economic effects of ARRA dollars, however, will start to diminish beginning in the middle of 2010—well before we will be fully out of the woods. Economists now predict economic growth of only about two percent for 2010 given the policy efforts already in place. This is a clear indication that without additional action on the part of Congress and the Obama administration, the U.S. economy could easily slip into an extended jobless recovery—or see the recovery stall altogether.

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Jobless recoveries were exactly what happened following the last two recessions. When the economy improved in the early 1990s after an eight-month-long recession, and then again in the early 2000s after the equally short-lived recession from March to November 2001, job creation did not immediately follow. In the early 1990s and early 2000s, the unemployment rate did not peak for 15 months and 19 months, respectively, after those two recessions were declared over by the National Bureau of Economic Research.

Today, the current economic recovery could result in an even longer period of job losses and slower job creation compared to the past two recessions. The nearly two-year-long Great Recession began with the collapse of the U.S. housing bubble and ensuing financial crisis, which led to a recession that was deeper and more protracted than other kinds of recessions.[3] Even now, we continue to see global financial markets subject to debt-related shocks that could potentially upend this economic recovery by hampering access to credit. On top of this, the massive deleveraging going on in households across the United States is putting sharp limits on the potential for consumption to grow quickly.

This all suggests a need for additional actions—some of which will require additional government spending. Such a suggestion, however, will no doubt trigger concerns about contributing to federal budget deficits. But the path to fiscal probity is not through excessive frugality in 2010, but rather in wise action to get the economy back on track in the short term so that we can see deficits, as a percentage of GDP, begin to decline.[4]

In fact, government spending in 2010 that gets people back to work would be the best thing for restoring fiscal balance in the coming decade. There are costs—both for the government and society more broadly—to high unemployment. It adds to government expenses as more families need assistance from all levels of government, including unemployment benefits and food stamps, help with health care bills, and help coping with a home mortgage foreclosure. And unemployed workers do not have earnings on which they owe taxes, a trend which has contributed to this year's rise in the deficit. While tax revenues fell by 17 percent in 2009, spending increased only a bit more—18 percent.[5]

This is why constraining the 2010 federal budget deficit should not be a high priority. But the money spent in 2010 will, of course, have to be paid back eventually. Although not all job creation options have substantial price tag, for those that do, one way to address these concerns is to legislate the ways we will pay for job creation as we legislate job-creation provisions. Despite the challenges of this strategy, putting in place mechanisms to pay in the future for what needs to be spent now combines the necessary immediate boost with needed fiscal rectitude over the long run.

In short, the challenge is to sort out the best role government can play to pave the way for sustained economic growth and job creation.

This paper provides a list of suggested policy steps that Congress and the Obama administration can take and suggestions for how to pay for it. It is not intended to be a "plan" but rather a set of options that, in our judgment, can contribute substantially to putting our nation's labor market back on track. In this report we describe in detail each option we present and, where available, provide a cost estimate and a so-called "multiplier" to represent the amount of economic activity we estimate will be generated for each dollar of expenditure. A table in Appendix A lists all the provisions and the available multipliers, but briefly here is a summary of our recommendations.

Directly boosting employment and reducing unemployment

In the first section of the report we present options that would directly create or save jobs or reduce unemployment. The options we believe would create jobs the most quickly and reliably would do so by:

- Providing federal funds to states, localities, and schools to reduce job losses and maintain valuable services.
- Targeting new job creation in sectors with special investment needs, including national service employment, private- and public-sector employment in child care, and after-school programs, and elderly and disabled care alongside more training for health professionals
- Creating community jobs such as those undertaken by nonprofit groups to help distressed individuals or communities
- Creating jobs in needed infrastructure investment, including foreclosed homes and schools
- Reducing the numbers of unemployed by encouraging early retirement to reduce unemployment through social security, job sharing, and saving primary- and secondary school teachers' jobs by offering early retirement.

Support for those hardest hit

The second section of the report describes ways to help those who are most in need, which is the right thing to do and good for the economy. Channeling funds to the unemployed has a direct impact on communities as unemployed workers spend these funds. This not only helps the unemployed and their families, but helps the overall economy since without aid, unemployed workers who are rendered destitute, have no income, and no assistance from the government are not active consumers contributing to economic recovery.

The economic hardships faced by communities hit hardest during the Great Recession also threaten long-term social and economic damage. They threaten the cohesiveness of neighborhoods and institutions such as schools and churches. These things matter from an economic perspective—saving a neighborhood is less costly than restoring it both financial and social terms.

Doing more to ensure that families in need get the assistance they need not only boosts local economies by pumping money into them and helps the national economy by spurring economic demand, but also helps families until job creation starts back up. So in the second section of the report we recommend the following options to spur support for those hit hardest by the Great Recession:

- Extend the unemployment compensation provisions for the long-term unemployed contained in the ARRA recovery package, which are expire at the end of 2009, to at least the end of 2010.
- Ensure that the unemployed have access to health care by extending the federal program that subsidizes health insurance coverage for the unemployed.

Creating the conditions for a strong and sustained economic recovery

The economic recovery following the recession in 2001 was the weakest in the post-World War II era in terms of job gains and income growth, leaving the typical family worse off in terms of income in 2007—the year the most recent recovery peaked—than they were in 2000, at the prior economic peak following the 1990s expansion. The reason: the George W. Bush administration and a conservative-led Congress pushed through tax cuts for the exceedingly wealthy that did not trickle down to create broad-based economic growth and job creation while also failing to supervise our financial sector amid an explosion of ill-considered lending.

This time, a progressive administration and Congress understand that health care reform, prudent regulation of the financial sector, improving education, and addressing the long-term issue of climate change and energy independence will, together, pave the way for a more vibrant economy in the medium to long run. Integrating these goals into our short-term goals of job creation where possible should continue to be a priority.

This third section of the report presents two options that focus on one of those pillars of our future economic growth, the clean-energy transformation of our economy, through:

- A "green bank," or more specifically a Clean Energy Deployment Administration that would finance new green-energy projects and home and building green retrofits to boost energy savings and job creation
- A new $30 billion federal revolving loan fund, as outlined in the Investments for Manufacturing Progress and Clean Technology Act now before Congress, to help small and midsized component parts manufacturers retool their plants and retrain workers to serve the growing global market for low-carbon energy technology.

Tax provisions to spur job creation

Tax cuts are not as direct, fast-acting, or reliable a way to create jobs or spur growth as the other options presented above. Nevertheless, as a politically viable means of encouraging job creation in the private sector with a minimum of administrative overhead, they are sometimes the best option. They also can, in some cases, be designed to pay for themselves over a period of time.

In the fourth section of the report we recommend several tax provisions to spur private-sector jobs growth, specifically:

- A deficit-neutral partial tax moratorium on income taxes in 2009
- A two-tier residential and commercial building retrofit program featuring a "cash for clunkers" program for household appliances and a "home star" certification program for deep energy efficiency retrofits for entire residential and commercial buildings
- An expansion of currently effective industrial retrofit measures that provide tax credits for investment in clean energy manufacturing
- A one-year extension of the current fix to the Production Tax Credit for renewable energy to ensure that this important tax credit continues to have impact, and that includes manufacturers of significant components such as wind turbines and blades to extend its benefits to cover domestic manufacturing supply chains
- A job-sharing tax credit that would encourage employers to reduce hours rather than laying off workers
- Changes to the Low Income Housing Tax Credit to revive the stalled credit market and spur investment in shovel-ready and much needed affordable housing projects

Paying for it

This last section of the report suggests how the options offered above that have price- tags associated with them could be paid for. Specifically, we suggest that Congress:

- Tap the remaining $317.3 billion in the $700 billion Troubled Asset Relief Program enacted by Congress at the height of the financial crisis in late 2008 to pay down the federal deficit.[6]
- Tax the U.S. financial services industry to raise an additional $150 billion a year

The detailed analysis in the pages that follow demonstrates that Congress and the Obama administration could enact job-creation measures in 2010 to ensure today's nascent economic growth becomes a strong and sustained recovery—one that boosts new job creation across the economy, invests in the cutting-edge industries and services of the 21st century, and ensures broad-based income growth and security for the largest number of Americans.

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