Private business investment growth continues strongly, but it is too little to overcome other formidable obstacles. Chief among them is the high debt burden of consumers, which holds back consumption growth and contributes to slow job growth. Consequently, the unemployment rate remains high while families experience massive financial distress as foreclosures and credit defaults hover near record highs.

Building a bridge to a stronger, self-sustaining recovery hence remains a top policy priority. American families will have to work longer for no good reason if policymakers fail to build on the successes of recent policy interventions such as the American Recovery and Reinvestment Act of 2009. The proposed Middle Class Tax Relief Act of 2010 would offer millions of families much needed income and thus some relief, boost consumption, offer businesses incentives to invest more money more quickly, and help create 2.2 million new jobs. But this new policy initiative still leaves at least one critical obstacle to economic growth unaddressed—it offers no new help to states and localities that continue to see financial shortfalls and lay off employees.

1. The U.S. economy is recovering. Gross domestic product, or GDP, grew at an annual rate of 2.5 percent in the third quarter of 2010, the fifth quarter of positive growth in a row. Much of this growth would not have happened without the American Recovery and Reinvestment Act of 2009. ARRA provided additional income to consumers and businesses, which led to more business investments.
Investment growth in inventory stock piles, commercial construction, and equipment such as computers and software explained 90.4 percent of the third quarter growth.  **SEE FIGURE 1**

2. The trade deficit rises again. The U.S. trade deficit stood at 3.7 percent of GDP in the third quarter of 2010, up from its latest trough of 2.4 percent of GDP in the second quarter of 2009. U.S. exports are still rising, but U.S. imports, especially for industrial supplies, capital goods, and petroleum imports, are growing more than twice as fast.

3. The labor market recovery slowly takes hold. The U.S. economy continuously added private-sector jobs for the first 11 months of 2010 for a total of 1.2 million jobs, compensating for government job losses. State and local governments lost 233,000 jobs during the same 10 months. Total job growth for 2010 through October amounted thus to 951,000. This causes a problem since the economy still has 7.4 million fewer jobs in September 2010 than at the start of the recession in December 2007, and the population has also grown since then, putting the labor market deeper into the hole.

4. Unemployment stays high among the most vulnerable. The unemployment rate was 9.8 percent in November 2010. The African-American unemployment rate that month stood at 16.0 percent, the Hispanic unemployment rate at 13.2 percent, and the unemployment rate for whites at 8.9 percent. Youth unemployment stood at a high 24.6 percent. And the unemployment rate for people without a high school diploma jumped to 15.7 percent, compared to 10.0 percent for those with a high school degree, and 5.1 percent for those with a college degree.

5. Employer-provided health insurance benefits continue to disappear. The share of people with employer-provided health insurance dropped from 64.2 percent in 2000 to 55.8 percent in 2009. This is the lowest share since 1987 when the Census started to track these data.

6. Family incomes drop sharply in the recession. Median inflation-adjusted household income fell 3.6 percent in 2008 and by another 0.7 percent in 2009. It stood at $49,777 in 2009, its lowest level in inflation-adjusted dollars since 1997. White family income stood at $54,461, compared to African-American family income, which was $32,584, or 59.8 percent of white income. Hispanic family income was $38,039 in 2009, or 69.8 percent of white income.

7. Poverty continues to rise. The poverty rate stood at 14.3 percent in 2009—its highest rate since 1994. The African-American poverty rate was 25.8 percent, the Hispanic rate was 25.3 percent, and the white rate was 9.4 percent in 2009. The poverty rate for children under the age of 18 stood at 20.7 percent. More than one-third of African-
American children (35.7 percent) lived in poverty in 2009, compared to 11.9 percent of white children and 33.1 percent of Hispanic children.

8. Corporate profits soar. Profits in the non-financial corporate sector rose in inflation-adjusted terms by 92.0 percent before taxes and 93.3 percent after taxes from December 2008 to September 2010. These profits in September 2010 were thus at their highest point since at least September 2007, before the recession started.

9. Family wealth losses linger. Total family wealth was down $14.6 trillion from June 2007 (its last peak) to September 2010, despite an increase of $4.7 trillion in 2010 from March 2009—the lowest point during the recession—to September 2010. Home equity is also recovering, but homeowners on average still own only 38.3 percent of their homes, with the rest owed to mortgage banks.

10. Debt levels are still high. Total household debt equaled 117.6 percent of after-tax income in the third quarter of 2010. This is down from a record high of 130.2 percent in the third quarter of 2007, but still higher than at any point before 2005. See Figure 2

11. Mortgage troubles stay high. One in seven mortgages is delinquent or in foreclosure. The share of mortgages that were delinquent was 9.1 percent in the third quarter of 2010, and the share of mortgages that were in foreclosure was 4.4 percent. See Figure 3

12. Families feel the pressure. Credit card defaults amounted to a high 8.4 percent of all credit card debt by the third quarter of 2010—up 93.3 percent from the fourth quarter of 2007.