The economy, particularly the labor market, is gradually gaining strength. Job creation is up, and the unemployment rate keeps falling. But American families need more than a few good months to overcome the massive economic pain wrought by years of high unemployment. Incomes have dropped, poverty is up, long-term unemployment stays high as does the unemployment rate, households suffer from crushing debt burdens, and massive wealth losses linger. The economy and the labor market will have to grow much faster for much longer to restore economic security for America’s middle class.

Growth and job creation come from the private sector, but the current economic recovery would have been weaker and happened later had policymakers not taken steps in the past few years to invest in infrastructure measures and help the most vulnerable.

Smart economic policy can continue to strengthen the economic recovery and help accelerate private-sector job creation. Policy can boost the economy by increasing infrastructure spending and extending key middle-class tax cuts such as the temporary payroll tax cuts for an additional year. And policymakers can lend a helping hand to millions of unemployed workers who cannot find a job and need extended unemployment insurance benefits until the economy and the labor market improve further.

1. **Economic growth remains robust.** Gross domestic product, or GDP, grew at an annual rate of 2.8 percent in the fourth quarter of 2011. No single sector stands out as driving economic growth to higher terrain, however. Consumption grew only 2 percent in the fourth quarter of last year, and business investment grew a mere 1.7 percent. Exports stayed relatively slow at 4.7 percent, and government spending actually fell by 4.6 percent. Economic growth remains weak because of low consumer demand due to high unemployment and households’ crushing debt burden, but also because of slow demand for U.S. exports in the wake of European economic turmoil and the fiscal struggles of federal, state, and local governments.
2. **Competitiveness gains strength but at a slow pace.** Worker productivity—the amount of goods and services produced in an hour of work in the nonfarm business economy—is a key measure of our economy’s global competitiveness. It increased 0.7 percent in the fourth quarter of 2011—decelerating from 1.9 percent growth in the previous quarter. Productivity now stands 6.5 percent larger than in December 2007 at the start of the Great Recession but well below the average increase of 7.9 percent for similar periods in the past.²

3. **The labor market recovery continues.** The economy has added jobs continuously since October 2010 and had 1.9 million more jobs in January 2012 than in June 2009, when the economic recovery started. The private sector added 2.5 million jobs during this period.³ The difference is explained by the loss of 620,000 state and local government jobs, as budget cuts reduced the number of teachers, bus drivers, fire fighters, and police officers, among others.⁴ Clearly job creation remains a top policy priority since private-sector job growth is still too weak to overcome other job losses and to improve the economic fortunes of America’s middle class.

4. **The unemployed continue to suffer.** The unemployment rate stood at 8.3 percent in January 2012, and long-term unemployment has ballooned in recent years, as the unemployment rate has stayed high. That same month 42.9 percent of the unemployed were out of work and looking for a job for more than six months. And the average length of unemployment remains at 40.1 weeks.⁵ The long-term unemployed are still struggling even as private-sector job creation accelerates since there are millions of unemployed workers vying for the newly created jobs. (see Figure 1)

5. **Labor market pressures fall especially on communities of color, young workers, and those with less education.** The African American unemployment rate in January 2012 stayed well above average at 13.6 percent, and the Hispanic unemployment rate was 10.5 percent, while the white unemployment rate was 7.4 percent. Youth unemployment stood at a high 23.2 percent. And the unemployment rate for people without a high school diploma remained high at 13.1 percent, compared to 8.4 percent for those with a high school degree and 4.2 percent for those with a college degree.⁶ Vulnerable groups have struggled disproportionately more amid the weak labor market than white workers, older workers, and workers with more education. But even those groups that fare better than their counterparts in the weak labor market suffer tremendously from high and long-term unemployment.

---

**FIGURE 1**

**Share of long-term unemployment, business cycle averages**

<table>
<thead>
<tr>
<th>Average weeks of unemployment</th>
</tr>
</thead>
<tbody>
<tr>
<td>40%</td>
</tr>
<tr>
<td>6.8%</td>
</tr>
</tbody>
</table>

*Dec-48 Aug-53 Sep-57 May-60 Jan-70 Dec-73 Feb-80 Aug-90 Mar-01 Dec-07*

6. **Household incomes continue to drop amid prolonged labor market weaknesses.** Median inflation-adjusted household income—half of all households have more and the other half have less—stood at $49,445 in 2010, its lowest level in inflation-adjusted dollars since 1996. It fell by 2.3 percent that year, an accelerated decline after median income dropped by 0.7 percent in 2009. Unfortunately, American families saw few gains during the recovery before the crisis hit in 2008 and experienced no income gains during the current economic recovery after 2009.7

7. **Income inequality on the rise.** Households at the 95th percentile had incomes of $180,810 in 2010, which was 9.04 times the $20,000 income those at the 20th percentile made. This is the largest gap between the top 5 percent and the bottom 20 percent of households since the U.S. Census Bureau began keeping record in 1967.8

8. **Poverty continues to rise across a wide spectrum.** The poverty rate rose to 15.1 percent in 2010—it’s highest rate since 1993. The African American poverty rate was 27.4 percent, the Hispanic rate was 26.6 percent, and the white rate was 9.9 percent that year. The poverty rate for children under the age of 18 stood at a high 22 percent. More than one-third of African American children (39.1 percent) lived in poverty in 2010, compared to 35 percent of Hispanic children and 12.4 percent of white children.9 The prolonged economic slump, following an exceptionally weak labor market before the crisis, has taken a massive toll on the most vulnerable.

9. **Employer-provided benefits continue to disappear.** The share of people with employer-provided health insurance dropped to 55.3 percent in 2010 from 59.8 percent in 2007.10 The share of private-sector workers who participated in a retirement plan at work fell to 39.5 percent in 2010 from 42 percent in 2007.11 Families suffer from less economic security than in the past due to less access to key employment-based benefits, requiring more private savings than in the past to make up the difference.

10. **Family wealth losses linger.** Total family wealth is down $15.1 trillion (in 2011 dollars) from June 2007—its last peak—to September 2011. Home equity stays low, and homeowners on average still own only 38.7 percent of their homes, with the rest owed to banks.12 Households are struggling with low incomes in a weak labor market, and they feel growing pressures to save more and consume less. The dual burden of low income and decimated household wealth puts the breaks on consumer spending, holding back economic and job growth.

11. **Households are burdened by large debt levels.** Total household debt equaled 114.2 percent of after-tax income in September 2011. This is down from a record high of 130.2 percent in September 2007, but it’s still higher than at any point before September 2004.13 The unprecedented decrease in household indebtedness since the crisis began is due to a combination of factors—tight lending standards, falling
interest rates, and massive foreclosures—that are slowly abating, suggesting that further decreases in household indebtedness, or deleveraging, will also slow unless incomes rise faster than they have in the past. High household debt will continue to slow economic growth in the future as households focus on saving more rather than on spending. (see Figure 2)

12. **The housing market remains depressed.** New home sales amounted to a low annual rate of 307,000 in December 2011, which is below the 331,000 sold in December 2010 even though median house prices in December 2011 were 12.8 percent lower than a year earlier.14 Existing home sales were up by 3.6 percent in December 2011 from a year earlier, but prices for existing home sales had also fallen by 2.5 percent during this period.15 The housing market—and hence construction and the economy—is held back by high unemployment and crushing household debt burdens.

13. **Financial distress is widespread among families.** One in eight mortgages is still delinquent or in foreclosure, even though mortgage troubles have been gradually easing since March 2010. The share of mortgages that were delinquent was 7.6 percent in the fourth quarter of 2011, and the share of mortgages that were in foreclosure was 4.4 percent at the same time.16 High unemployment coupled with massive wealth losses has pushed many families to delay or even default on mortgage payments. Household economic distress reverberates across the economy, as banks are nervous about extending new mortgages, which prolongs the economic slump. (see Figure 3)
1 All GDP data are from the Bureau of Economic Analysis, *National Income and Product Accounts* (U.S. Department of Commerce, 2011). Investment growth is expressed as year-over-year change, rather than the most recent quarterly change by itself, as quarterly investment data can be more volatile than consumption data.


3 The discussion here focuses on private sector job creation since private-sector employment is vastly larger than public-sector employment and since public-sector employment fluctuated widely in 2010 due to temporary hiring associated with the 2010 Census. The private-sector employment numbers thus offer a more accurate picture of the health of the labor market than the total nonfarm payroll numbers.


7 Data for family incomes are from the U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2010* (U.S. Department of Commerce, 2011). This report is occasionally referred to as the poverty report.

8 Other measures of income dispersion also show a growing gap between families in the top 5 percent, top 10 percent, and top 20 percent, relative to families in the bottom 20 percent and bottom 50 percent. See U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2010*.

9 Data for poverty rates are from the U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2010*.

10 Data for health insurance are from the U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2010*.


13 Debt calculations are based on the Board of Governors, *Release Z.1 Flow of Funds Accounts of the United States*. Debt levels are the ratio of the nominal debt levels divided by the nominal disposable personal income. Debt refers to total credit instruments.


16 Data are taken from the Mortgage Bankers Association, “National Delinquency Survey” (2011).