EPI TESTIMONY

TESTIMONY GIVEN BY

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“Policy responses to long-term unemployment”

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Rayburn House Office Building

Thank you, Chairman McDermott and members of the subcommittee for the opportunity to testify today. I am Lawrence Mishel, president of the Economic Policy Institute.

I have three messages for you today:

1. The nation's jobs crisis is so catastrophic that, unless Congress acts on the scale of the New Deal, millions of Americans will experience extremely long periods of unemployment for many years ahead.
2. The only viable solution to this problem is an array of large federal jobs programs, beginning with the Local Jobs for America Act and the American Jobs and Tax Loopholes Closing Act. Deficit spending is not just unavoidable, it is desirable.
3. Until sufficient jobs are created to give the long-term unemployed a decent chance of finding work, Congress must continue to extend the Recovery Act's unemployment insurance and COBRA provisions (which are themselves efficient job creators), and should enact a new program of cash assistance for the long-term unemployed.

THE JOBS CRISIS IS CATASTROPHIC, AND THERE IS NO END IN SIGHT

The United States is undergoing the worst economic downturn in 70 years, and the damage and suffering it is causing will last many years beyond the official end of the recession. There are a few signs of hope: with the help of the Recovery Act, economic activity and employment are rising, although slowly; with federal assistance the auto industry has survived a near-death experience; and there is even a little growth in manufacturing employment. But we still have enormous problems. It is likely that unemployment will rise again before the year ends, and CBO forecasts that unemployment will average 9.5% next year, a rate historically associated with severe economic crisis. Even two years from now the unemployment rate will likely be 8% or so, a higher unemployment rate than at any time in the prior two recessions.

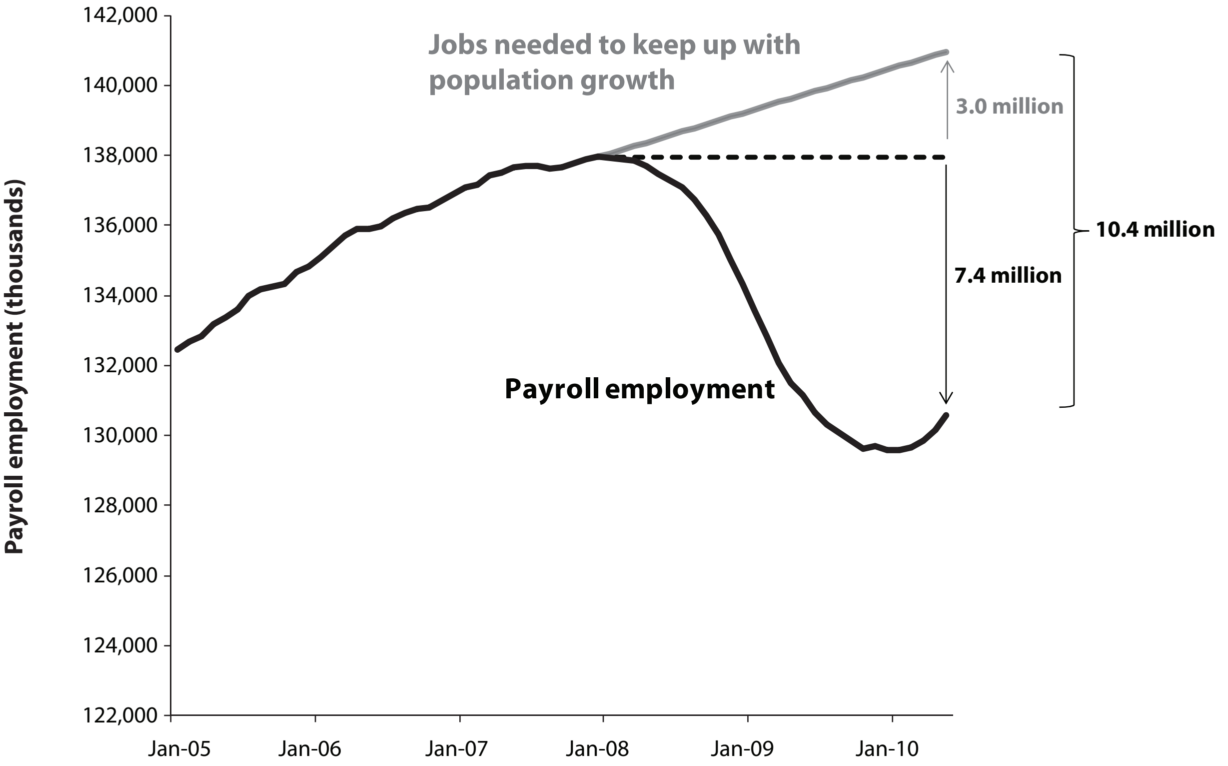
Only 41,000 net new private-sector jobs were created last month, far too few for the millions of Americans who have been out of work for a year or more. And the public sector is about to lay off hundreds of thousands more. There are still five jobless workers for every job vacancy – proof by itself that there is nothing most of the unemployed can do to find a job. Businesses aren't hiring because, as the Council of Economic Advisers has noted, there is still a huge shortfall in demand. The jobs just aren't there to absorb new workers and bring the needed reductions in unemployment. Even though job openings have increased lately, they still remain one-third below the number being generated on average in 2007 before the recession (during 2007, even with those job openings, unemployment rose throughout the year).

The result is record levels of long-term unemployment. In May, nearly half (46%) of all unemployed workers had been unemployed for over six months. That translates into 6.8 million long-term unemployed workers, by far the highest since the Great Depression – the previous high was 26% in June 1983.

We are now 7.4 million jobs below where we were when the recession started. And that enormous loss doesn't tell the whole story: because the population is growing all the time, we need to add jobs every month just to keep the unemployment rate from rising. Over the two years and five months since the recession began in December 2007, we needed to have *added* around 3 million jobs simply to keep up with population growth. The gap in the labor market is thus currently a mind-boggling 10.4 million jobs (see **Figure A**). To put this all in perspective, consider the following: in the boom of the late 1990s, the fastest year of employment growth was 2.6% in 1998. If we somehow achieve that extremely strong level of growth from today onward, we would still not get unemployment rates down to pre-recession levels (5% in December 2007) until January 2015. Unfortunately, as of today no policy has been enacted that would allow us to hope for that rate of job creation in the coming years.

FIGURE A

The Jobs Hole



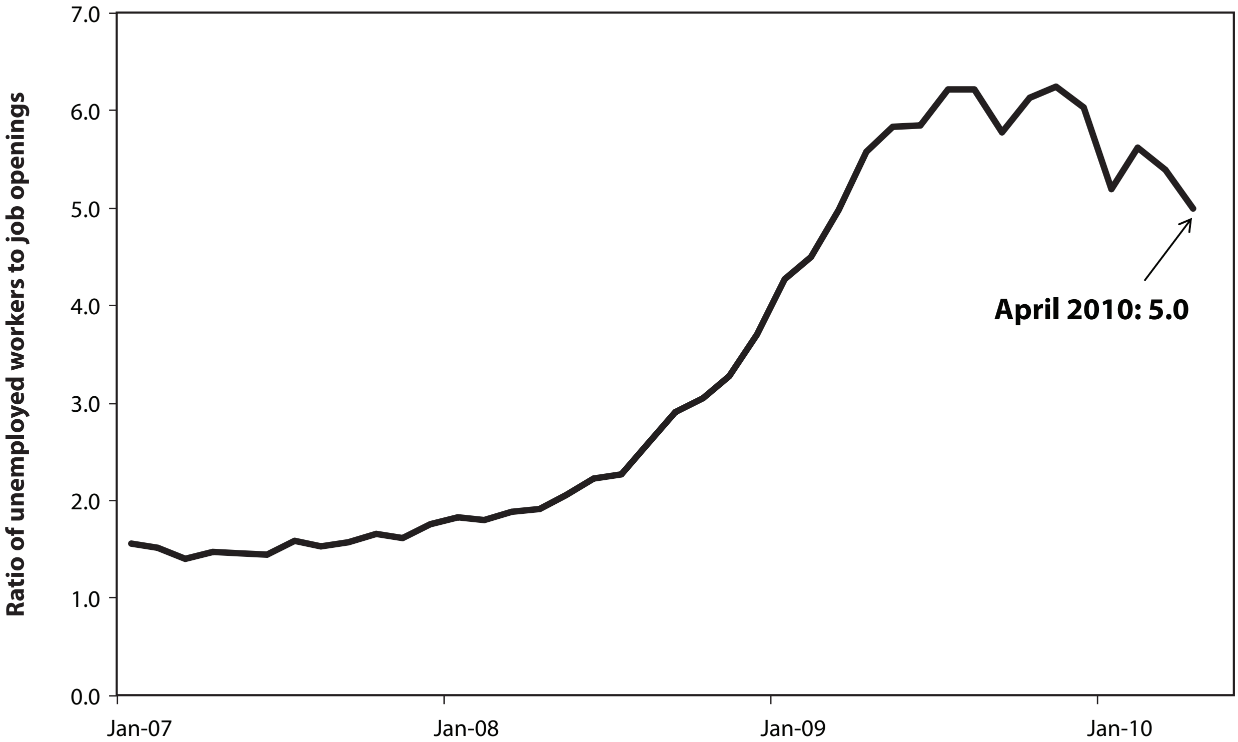
SOURCE: EPI analysis of BLS data.

As mentioned earlier, the number of job openings in the economy is now starting to pick up. **Figure B** shows the number of job seekers per job opening In 2007, before the recession started, there were around 1.5 job seekers per job opening. In April 2010, the latest data available, there were 5.0 unemployed workers per available job, far greater than the peak level of the early 2001 recession, which was 2.8.

Even these figures understate the extent of the distress in the labor market. As is well known, many workers are underemployed, including many working at part-time jobs though wanting a full-time job and some who have given up on looking for work and thus are not even counted in the official unemployment statistics. There were 26 million Americans underemployed in May, 16.6% of the labor force. The recession is even more severe among minority workers, with unemployment of 15.5% and 12.4%, respectively, for black and Hispanic workers. I estimate that under-employment among minority workers is now roughly 24%. All the figures I am citing describe the number affected in a particular month. However, since there are flows into and out of unemployment there are many more people affected over the course of a year. In 2010, I expect that roughly a third of the workforce and roughly 40% of minority workers will be unemployed or underemployed at some point during the year. Last, the deep recession is also damaging those who remain employed as wage growth descends to historically low growth and benefit cuts and even wage cuts become widespread.

FIGURE B

Ratio of unemployed workers to job openings, January 2007 to May 2010



SOURCE: EPI analysis of BLS and JOLTS data.

JOB CREATION REQUIRES MORE FEDERAL INTERVENTION

Obviously, what the economy and the unemployed need is job creation, and Congress has to take responsibility for creating them. Some policymakers may be getting tired of having to deal with job creation and unemployment, but it is surely true that American families are even more tired of having to endure extreme labor market distress with no real end in sight. Because so much wealth – $12 trillion – was lost in the twin financial disasters of the housing market crash and the stock market crash, consumer purchasing power and demand for goods and services have been greatly reduced. Consumer demand is further reduced because 15 million workers are unemployed and surviving either on unemployment benefits that are a fraction of their previous income, or no benefits at all. Another 9 million workers have part-time jobs – with part-time incomes – even though they want full-time jobs. This reduced demand discourages business investment: why add extra employees or new equipment if consumers can't buy what you produce? To maintain or increase their profits, businesses have been increasing productivity, squeezing more out of their existing workforce while resisting additional hiring.

To break this cycle, Congress should pass all three pieces of jobs legislation currently under serious consideration: (1) the American Jobs and Closing Tax Loophole Act of 2010 (the tax extenders bill) – including the provisions for COBRA and FMAP that the House removed; (2) the Harkin amendment to preserve education jobs; and (3) the Local Jobs for America Act, H.R. 4812, which Rep. George Miller has introduced in the House, along with 160 co-sponsors. Passage of these three pieces of legislation could create more than 2 million jobs and make a significant contribution to a sustainable recovery. Let's be clear: passing these would be a very minimal program for job creation. Economic forecasters have been assuming the extension of the UI/COBRA program and fiscal relief to the states in their forecasts, so failure to do so means that the unemployment horizon will be more severe than I have already described. If Congress does not want to accept the unacceptable, then it will need to enact the Miller bill and other measures to generate jobs.

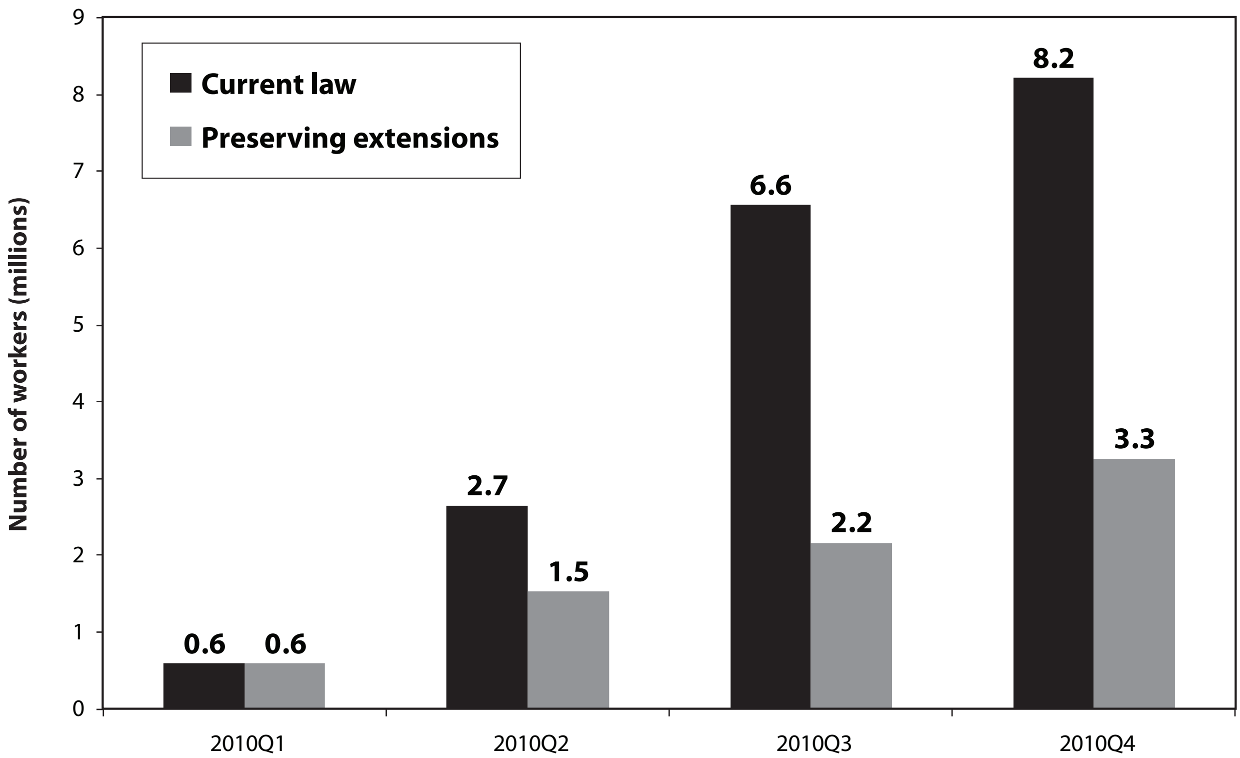
The Miller bill, for example, would distribute $100 billion in grants to state and local governments over the next two years to retain public safety and education employees, create new local government jobs, and help local non-profits create hundreds of thousands of jobs doing work that would improve their communities – everything from environmental clean-up to child care. The funds would be distributed by formula to every major jurisdiction based on unemployment and poverty to ensure that the areas that need help the most get the most help. Scores of organizations, led by the National League of Cities and the U.S. Conference of Mayors, have called on Congress to enact this legislation, which builds on a long history of successful public service job creation efforts dating back to the New Deal, but also including the Nixon Administration's Emergency Employment Act of 1971.

We have calculated that the tax extenders bill would create at least a million jobs – more, if the $25 billion for Medicaid matching grants for the states and $8 billion for continued COBRA subsidies are included. These provisions will help states avoid devastating layoffs of public employees and maintain the purchasing power of unemployed workers who purchase health insurance.

Failure to pass the tax extenders bill and its extensions of emergency unemployment benefits would have ugly consequences. **Figure C** shows estimates of the number of people who will exhaust benefits this year. In the first quarter

FIGURE C

Unemployment insurance exhuastions: Current law versus the American Jobs and Closing Tax Loopholes Act of 2010 extension



SOURCE: ETA.

of 2010, over half a million people exhausted their benefits. If the emergency benefits are allowed to phase out, then a total of 8.2 million jobless workers will exhaust benefits by the end of the year. If, on the other hand, the emergency benefits are preserved through the end of the year, then only 3.3 million will exhaust benefits by the end of the year. In other words, preserving the emergency benefits will mean roughly 5 million jobless workers keep their benefits, instead of losing them and being left to a labor market where there are five unemployed workers per available job.

The Harkin amendment to the supplemental funding bill for defense (and a similar provision in H.R. 4812) would appropriate $25 billion to help states retain education employees who will otherwise be laid off. The American Association of School Administrators estimates that 275,000 school employees will be laid off in the coming year if assistance is not provided. An additional 81,000 jobs will be lost in other sectors as a consequence of the reduced spending by laid off school employees.

Even these two million jobs, however, will not solve the unemployment problem facing so many millions of desperately unlucky, unemployed Americans. Frankly, the Miller bill would need to be three or four times bigger to begin to meet their needs. America needs a New Deal, with bold programs at the scale of our enormous problems. This requires a significant amount of new deficit spending, but the costs of that spending are far preferable than years of sluggish job growth and very high unemployment or the possibility of a double-dip recession.

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 couple of 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. Furthermore, 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."[1]

Gene Steuerle, Senior Fellow, The Urban Institute, and co-director of the Urban-Brookings Tax Policy Center: "Contrary 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."[2]

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."[3]

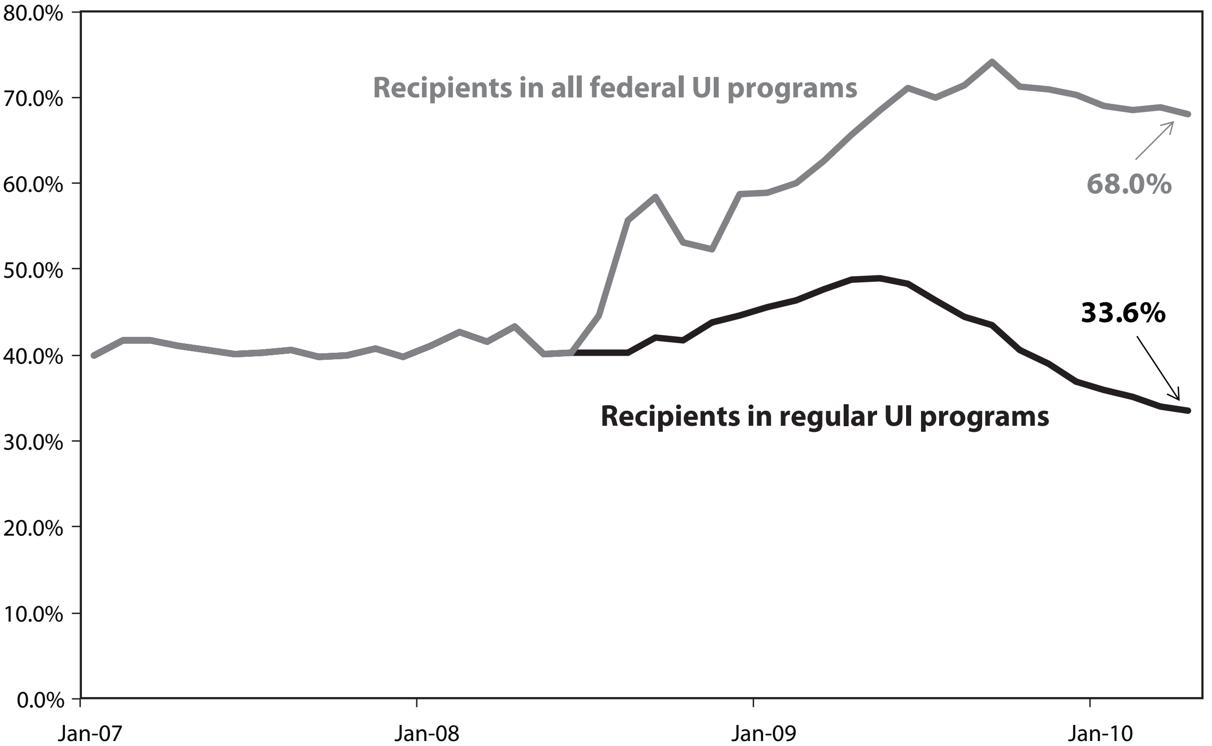
Isabell Sawhill, Senior Fellow, Brookings: "It is important to stimulate the economy now and not worry about the deficits needed to do this, but we should simultaneously be enacting legislation that will gradually phase in spending cuts and revenue increases over the next decade."[4]

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."[5]

In fact, David Walker, president of the Peterson Foundation and a well-known deficit hawk, wrote an op-ed with me in February arguing that our short-term deficits should not be the focus of concern: rather, it is the longer-term structural deficits that we need to address. We argued that job creation is the immediate priority and that this will necessarily mean higher deficits in the short term. Since measures taken now to generate jobs have very little effect on our long-term imbalances, one should not invoke worries about future deficits as a reason to avoid creating jobs now. In fact, these are complementary strategies, creating jobs and more taxpayers now is the way to move the fiscal situation to a healthier place.

FIGURE D

Share of unemployed receiving unemployment insurance (UI), January 2007 to April 2010



SOURCE: EPI analysis of ETA data.

THE LONG-TERM UNEMPLOYED NEED FAR MORE HELP

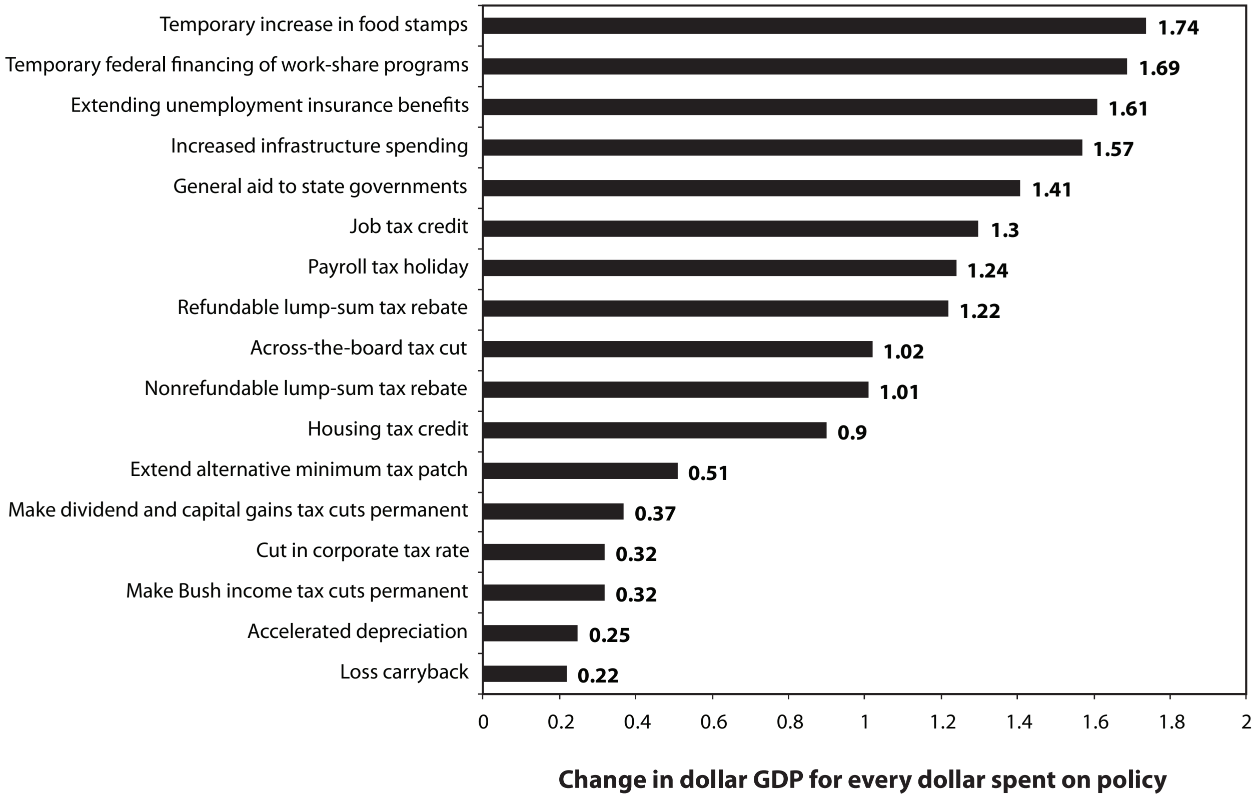
As I have explained, the only real option for increasing economic activity and consumer demand for goods and services is federal government intervention in the economy, specifically through more deficit spending. The safety net programs are a vital part of this picture. Unemployment benefits have been a lifeline to the long-term unemployed in this recession. The top line in **Figure D** shows the share of the unemployed who are receiving benefits. In 2007, before the recession started, only around 40% of unemployed workers were eligible for and received unemployment insurance benefits. As more and more workers were involuntarily laid-off during the downturn, that share grew. In April, just over two-thirds of all unemployed workers were receiving unemployment insurance benefits. But importantly, because such a large proportion of unemployed workers are experiencing long-term unemployment spells, less than half of all workers receiving benefits right now are receiving regular benefits. The rest have exhausted their normal benefits and are receiving emergency benefits. The lower line in Figure D shows the share of the unemployed who are receiving regular benefits. If the emergency extensions are allowed to expire, we will essentially drop down to that line, and millions of workers will lose benefits.

Benefits to the macro-economy of unemployment insurance.

If the Recovery Act's expansions of unemployment insurance and COBRA are not renewed, hundreds of thousands of additional jobs will be lost, and the economy's recovery could be jeopardized. While there is variation in "bang-for-

FIGURE E

Fiscal stimulus "bang for buck"



SOURCE: Zandi (2010).

the-buck" estimates of different types of stimulus spending, among economists there is a generally accepted hierarchy of the economic benefits of various stimulus provisions. **Figure E** shows that hierarchy, along with the economic benefit for each dollar spent as estimated by Mark Zandi of Moody's Economy.com. The hierarchy shows that aside from food stamps, government spending on extending unemployment insurance provides the most economic benefit to the economy of any form of stimulus spending. In other words, extending and expanding unemployment insurance benefits are among the most efficient things the government can do to generate jobs. The reason extending unemployment insurance is such good stimulus is that it gets money to people who are the most likely to have depleted their savings and thus tend to have no choice but to quickly spend essentially every dollar they receive on necessities found in their local economy. In other words, virtually every dollar spent on extending unemployment insurance benefits goes directly, and immediately, toward the purchase of local goods and services, providing an extremely efficient demand boost. Not only is extending and expanding UI benefits the right thing to do for the people hurt most by this economic downturn, it is also excellent economic policy.

Who are the long-term unemployed?

An important point about a recession this long and severe is that all subgroups of the labor market are experiencing substantial unemployment and, in particular, substantial long-term unemployment. The cause is not their age, education,

TABLE 1

Unemployment and long-term unemployment, 2009

		Long-term unemployment	
	Unemployment rate	*Share of labor force*	*Share of unemployed*
All	9.5	3.5	37.1
Age			
16-24	18.2	4.6	25.6
25-54	8.5	3.4	40.1
55-up	6.8	3.1	45.9
Gender			
Male	10.4	3.9	37.9
Female	8.6	3.1	35.9
Education			
Less than High School	18.3	6.1	33.2
High School	11.7	4.5	38.2
Some College	9.0	3.5	39.2
College	5.7	2.1	36.2
Advanced Degree	3.8	1.4	35.5
Race/Ethnicity			
White	8.0	2.9	36.1
Black	15.3	6.7	43.8
Hispanic	12.5	4.2	33.7
Other	9.2	3.4	37.4

SOURCE: EPI analysis of BLS data.

or occupation: what they have in common is the bad luck to be laid off during the worst recession in 70 years. **Table 1** shows unemployment and long-term unemployment rate for 2009 (the latest data available) for selected demographic groups; it also presents the share of each group's unemployed that are long-term. Matters have worsened in 2010 as the share of unemployed who have been unemployed for more than half a year is now 46%, higher than the 37% prevailing in 2009. Moreover, we currently have 4.4% of the labor force experiencing long-term unemployment, up from the 3.5% in 2009. Nevertheless, the demographic breakdowns in 2010 probably mirror those of 2009, and it is clear that this problem affects each group. The unemployment rate shows that while young workers, those with a high school degree, and minority workers are all seeing the highest unemployment rates and extensive long-term unemployment, all groups are experiencing extensive unemployment. In fact, a greater share of the college-educated unemployed were stuck in long-term unemployment than even those without a high school degree. In other words, while more-educated and experienced workers are less likely to become unemployed, they are as likely or more so to get stuck in unemployment for long periods if they do lose their jobs. No subgroups of the labor market are sheltered from an economic downturn as deep and long as the one this country currently faces.

A BETTER SAFETY NET

Sadly, the jobs hole is so deep that even if Congress enacts the Miller bill and the tax extenders bill, more than 10 million Americans will remain unemployed for the next two years, and probably longer. Three million of the long-term jobless will exhaust unemployment benefits before the end of the year. What will become of them?

The rest of the safety net has come to look more like a cement floor. TANF, for example, has been almost completely unresponsive to the recession. Note that case loads in Michigan – our hardest hit state – were lower in January 2010 than in January 2007, even though almost 100,000 workers have exhausted their entire entitlement to UI. Food stamps, thanks to the Recovery Act, have been made available without the normal three-month limit for able bodied adults without dependents, and caseloads increased about 20% between January 2009 and January 2010. But the average benefit is less than $150 per month, too little to be more than a supplement to another source of income. Moreover, the waiver of the three-month limit expires in September 2010.

General assistance programs, through which many states formerly provided cash payments to the unfortunate, have disappeared. And the federal mortgage foreclosure assistance program has helped only a fraction of the millions of homeowners facing foreclosure. When jobless workers exhaust their unemployment compensation, how will pay their rent or pay off their mortgages?

The other nations with advanced economies show far more concern than the United States for their citizens who fall on hard times. Denmark, in particular, is a model of what a government can do if it decides to leave no worker behind.

Danish workers participate in a voluntary, contributory unemployment insurance system that pays the unemployed benefits equal to 80% of prior wages, for a period up to four years – more than twice as long as the U.S. system pays, even under the Recovery Act's special provisions. At the end of four years, a worker who is still unemployed receives welfare payments equal to 60% of previous pay, with no time limit. According to some conservative critics of UI, like Rep. Linder, this must lead to stratospheric unemployment. Not exactly. Denmark's unemployment rate is currently less than 4.5% – high for Denmark, but lower than U.S. unemployment before the recession!

Danish workers are never abandoned. Every Danish citizen has national health insurance providing free physician and hospital care. Unlike the United States, every Danish worker is offered re-training and re-employment services, and university education is free. Employers list their job vacancies with the government, and job matching activities are far more intensive and sophisticated than in our decentralized Workforce Investment Act system. The workers have responsibilities, too: if they refuse a reasonable work offer or training opportunity, their benefits can be cut.

These efforts are not cheap. Denmark spends about 4.5% of GDP on labor market programs, the equivalent in the United States of $600 billion a year. But it is hard to argue with the results: despite its high taxes, Denmark benefits from high productivity, a trade surplus, low unemployment, better and cheaper health care, and almost no poverty. In a world racked by recession, it's hard to find a more successful economy.

If we cared more about our fellow citizens, if we believed that we are in this together, we would follow Denmark's example at least to the extent of ensuring that those who are unemployed through no fault of their own do not fall into poverty and despair. Instead, according to a recent report by Rutgers University's John Heldrich Center for Workforce Development, 8 in 10 workers who have lost jobs in this recession are still without work, 40% have gone without health care for themselves or family members, and one in five has gone to a soup kitchen or food pantry.

By the end of 2011, the Labor Department estimates that 13 million Americans will exhaust all entitlement to unemployment compensation. If even half of them find jobs, that still leaves more than 6 million workers with no source of income. I recommend that Congress enact a special means-tested program of emergency cash assistance for the unemployed to help them keep their homes, keep their health, and keep their dignity. Until sufficient jobs are created, the number of long-term jobless Americans who have exhausted their unemployment compensation will continue to soar. I urge you not to turn your backs on them in their time of need. We cannot accept the unacceptable. We must generate millions more jobs and get unemployment moving sharply downward, and we must help those not able to locate work because of circumstances they do not control.

Endnotes

1. January 11, 2009, Interview with National Public Radio at http://www.npr.org/templates/story/story.php?storyId=122436097&ft=1&f=3
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3. July 16, 2003, Ask the White House blog at http://georgewbush-whitehouse.archives.gov/ask/20030716.html
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5. December 19, 2002, "A More Responsible Fiscal Course" at http://www.concordcoalition.org/issues/facing-facts/more-responsible-fiscal-course.