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A 21ST CENTURY ECONOMIC GROWTH AGENDA

Not Out of the Woods*

A Report on the Jobless Recovery Underway

In recent weeks, new signs of an economic recovery have emerged in the form of stock market rallies, surprisingly high bank profits, and better-than-feared official unemployment and economic growth reports.¹ But accompanying these so-called green shoots is worrying evidence of a recovery that could be compromised if not cut short altogether by high levels of unemployment and by a long period of unusually weak and uneven job creation. Not only is actual unemployment more severe than is reflected in official measures, it is also concentrated in those industries and sectors that must grow in order to replace debt-financed consumption as the United States' primary economic engine. Indeed, what is emerging is what economists call a "jobless recovery," but one in this case that could perpetuate the crises in the housing and banking sectors and prevent a sustainable and healthy economic recovery.

The two most recent recessions of 1990-91 and 2001 were each followed by jobless recoveries: the labor market remained weak and relatively high unemployment persisted, well after the 18 months that it usually takes such indicators to rebalance themselves after downturns.² Each of the last two jobless recoveries had progressively slower job growth than the one preceding it,³ and recuperation from this current deep recession looks to have the slowest job growth yet. Projections suggest that employment levels will remain lower than they were during the previous business cycle for a long time; in fact, the Federal Reserve recently predicted that unemployment is unlikely to settle at the desired

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¹ See "Are We in an Economic Recovery Yet?: Analyzing the 'Green Shoots' Debate." BNET, May 14, 2009. <http://industry.bnet.com/financial-services/10001156/are-we-in-an-economic-recovery-yet-analyzing-the-green-shoots-debate/>; "Green Shoots of Recovery or Hopeless Optimism?" CNN.com. May 19, 2009. <http://edition.cnn.com/2009/BUSINESS/05/19/recession.green.shoots/index.html>; "Even Roubini Now Sees Green Shoots!," Yahoo! Finance, May 27, 2009.

<http://finance.yahoo.com/techticker/article/254886/Even-Roubini-Now-Sees-Green-Shoots!>

² See for example Barry Bosworth, "A Jobless Recovery?: Offshoring of Jobs Versus Productivity Growth at Home," Publications from the Forum for the Future of Higher Education, 2005, EDUCAUSE.

<http://net.educause.edu/ir/library/pdf/FFP0503S.pdf>; Jeffrey Frankel, "The Jobless Recovery," *The Forward*, December 19, 2003. http://ksghome.harvard.edu/~jfrankel/The_jobless_recovery.pdf

³ Erica Groshen and Simon Potter, "Has Structural Change Contributed to a Jobless Recovery?," *Current Issues in Economics and Finance*, Vol. 9, No. 8, August 2003, Federal Reserve Bank of New York.

http://www.ny.frb.org/research/current_issues/ci9-8.pdf; Robert Reich, "This Jobless Recovery is Worse Than the Last," *The American Prospect*, January 16, 2003.

http://www.prospect.org/cs/articles?article=this_jobless_recovery_is_worse_than_the_last; Richard B.

Freeman and William M. Rodgers III, "The Weak Jobs Recovery: Whatever Happened to 'the Great American Jobs Machine'?" *Federal Reserve Board of New York Economic Review*, August 2005. pp. 3-18.

<http://www.newyorkfed.org/research/epr/05v11n1/0508free.pdf>

“normal” level for another five to six years.⁴

A protracted jobless recovery would have a particularly worrying effect on U.S. economic prospects because it would not only perpetuate the housing and banking crisis but complicate the painful deleveraging process that is just beginning in the household sector. In order to be able to both pay down debt and maintain consumption levels, households will need to enjoy a rise in incomes. But a protracted period of weak job growth and high levels of unemployment will put a damper on wages. Weak wage growth in turn will slow a recovery in private business investment, cutting off the traditional pathway to sustained economic recovery. This promises therefore to be no ordinary jobless recovery, just as this recession was no ordinary recession. In order to generate a real sustained economic recovery, the Obama Administration must do more to create jobs and close the huge job creation deficit.

The True Scope of Unemployment

According to the Bureau of Labor Statistics (BLS), the unemployment rate in the United States is currently at 9.4 percent, or 14.5 million Americans—a quarter-century high.⁵ The total number of unemployed Americans has almost doubled since the recession began in December 2007, and 6 million jobs have been officially lost over that same period. Moreover, extended mass layoff events—in which a business has at least 50 initial claims for unemployment insurance filed against it during a consecutive 5-week period, and where at least 50 workers were separated from their jobs for more than 30 days and hourly pay—reached their highest first quarter level ever in 2009.⁶

Projections for the future are similarly dismal. The Federal Reserve estimates that the unemployment rate for the fourth quarter of 2009 will fall somewhere between 9.2 and 9.6 percent, with only a modest decline in 2010 and a still-high unemployment rate of between 7.7 and 8.5 percent into late 2011.⁷ The Congressional Budget Office projects that the unemployment rate will probably continue to rise into the second half of next year and peak above 10 percent, while the consensus of Blue Chips firms puts the average unemployment rate of 2010 at 9.7 percent.⁸ These rates are far higher than the natural unemployment rate of 4 to 5 percent that economists account for in a healthy economy with “full” employment.

Yet these estimates still understate the true scope of the problem because they conform to the official BLS definition of unemployment—which only addresses jobless people who

⁴ Federal Open Market Committee, Minutes for April 28-29, 2009. Federal Reserve, May 20, 2009.

<http://www.federalreserve.gov/newsevents/press/monetary/fomcminutes20090429.pdf>

⁵ Bureau of Labor Statistics, “The Employment Situation: May 2009.” June 5, 2009.

<http://www.bls.gov/news.release/empsit.nr0.htm>

⁶ Bureau of Labor Statistics, “Extended Mass Layoffs in the First Quarter of 2009.” May 12, 2009.

<http://www.bls.gov/news.release/pdf/mslo.pdf>

⁷ Federal Open Market Committee, May 20, 2009.

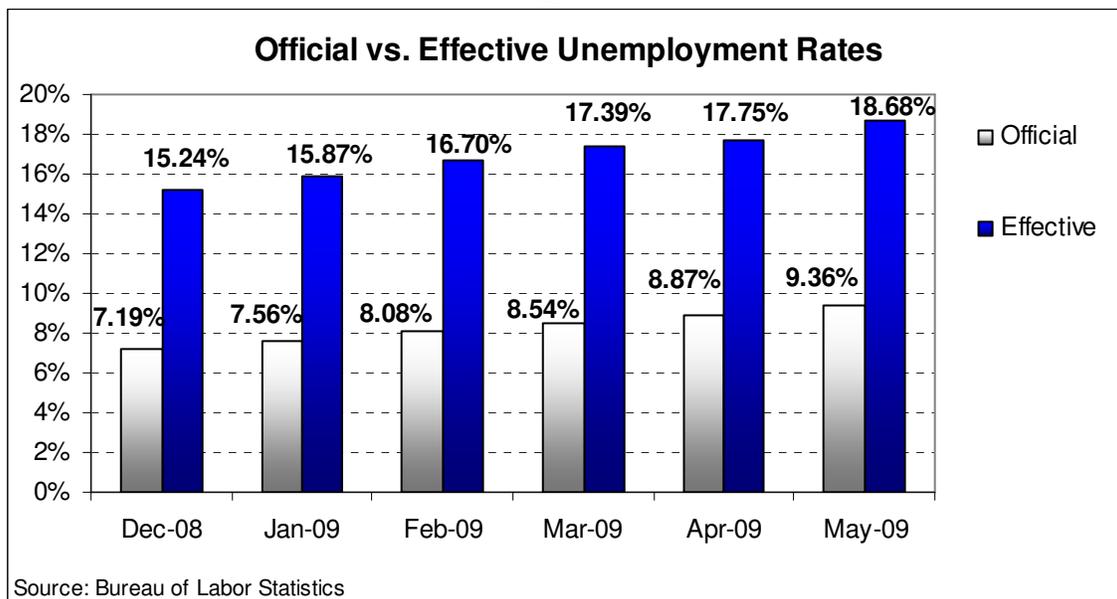
⁸ Statement of CBO Director Douglas W. Elmendorf before the Committee on the Budget, U.S. House of Representatives, “The State of the Economy.” May 21, 2009. http://cbo.gov/ftpdocs/100xx/doc10086/05-21-State_of_Economy_Testimony.pdf

have actively searched for work within the past four weeks. Official BLS measures do not consider other groups who currently make up the majority of underemployed Americans, such as workers who are forced to work part-time of necessity, people who want work but have not looked during the month before the unemployment survey, and people who have totally abandoned the job search.

While the BLS does have an alternative, expanded measure of unemployment that accounts for the 2.2 million marginally attached workers (that is, jobless people who are available to work and have looked for worked over the past year) and the 9.1 million workers who are only employed part-time because they cannot find full-time work, this so-called “U6” measurement still leaves out the other 4.4 million Americans who report wanting to work but gave up the job search over a year ago.⁹

Because of the incompleteness of official measures, Leo Hindery, Chairman of New America’s Smart Globalization Initiative, in cooperation with New America’s Economic Growth Program, has constructed a broader measurement of unemployment called *effective unemployment*. Effective unemployment incorporates the BLS’ more inclusive U6 measurement along with the 4.4 million-strong “labor force reserve” to give a more accurate accounting of the number of Americans lacking full-time, productive work. Currently, the effective unemployment total is 30.2 million people, more than twice the official BLS unemployment estimate. This number—when compared against a labor force measure that includes the 6.6 million Americans who report wanting work, who the BLS does not officially include in its calculations—represents an alarming 18.68 percent effective unemployment rate (Figure 1).

Figure 1



⁹ See Bureau of Labor Statistics, Economic News Release, Table A-12: Alternative measures of labor underutilization. <http://www.bls.gov/news.release/empsit.t12.htm> and Economic News Release, Table A-13: People not in the labor force and multiple job holders by sex, not seasonally adjusted. <http://www.bls.gov/news.release/empsit.t13.htm>

In sum, the reality is far worse than even the grimmest of reports from government and industry experts suggest: today there are more than 30 million people, and almost one-fifth of the labor force, out of work.

The Threat of a Jobless Recovery

Given the current seriousness of unemployment, a sustained economic recovery is likely to be more difficult than many expect. Recent historical precedent and economic analysis suggest that recovery from this recession will not only be a jobless recovery—in which high unemployment persists for many months after GDP growth improves—but may be so weak as to barely seem like any recovery at all.

The most straightforward reason why recovery will be so painful is that jobs have been lost at an alarmingly rapid rate during this recession. Over just the last three months, the economy has lost 1.6 million jobs, yet employment needs to grow by at least 125,000 jobs a month in order to keep pace with the average estimated growth of adults ready and willing to work in the coming months.¹⁰ Since the current recession began, the United States has seen the largest job losses ever experienced in the post-World War II era; to date, job losses in this recession are already 4.5 times as high as they were on average in the prior ten recessions, including those that fed into the prior jobless recoveries (Figure 2).¹¹

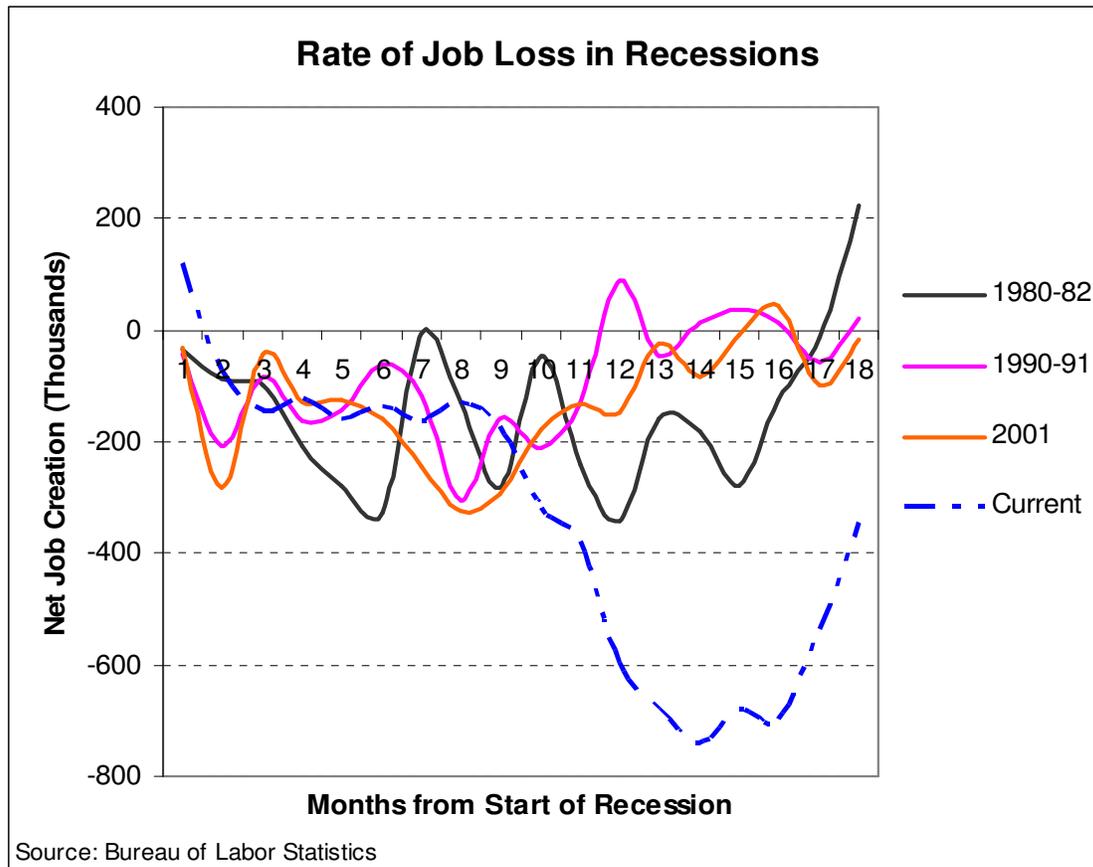
Indeed, the “double-dip” recessions of the early 1980s—the first in 1980, the second from 1981-1982—only eliminated 1.9 million jobs throughout their duration: the 1990-91 recession cost the economy 1.3 million jobs, and the 2001 recession erased 1.6 million. By contrast, in the current recession, the economy has already lost 6 million jobs, and unemployment is expected to increase further in the months ahead. The problem here is simple: we have lost so many jobs so quickly that the economy is very unlikely to recoup them at a comparable rate. As a result, economists expect that the trajectory of recovery will not look like the “V-shape” that we would expect to see when employment dips and then rebounds at a similar pace, but rather a “slanted L shape,” in which accelerated job loss is followed by a much more gradual improvement.¹² This is, in part, why the Federal Reserve projects a six-year recovery for what has to date been only a year-and-a-half long recession (since December 2007).

¹⁰ “The Jobless Recovery,” *Forbes*, May 22, 2009. <http://www.forbes.com/2009/05/22/labor-recovery-jobs-markets-economy-gdp.html>

¹¹ Andrew Sum, Ishwar Khatiwada, Joseph McLaughlin, and Sheila Palma, “The Economic Recession of 2007-2009: A Comparative Perspective on Its Duration and the Severity of Its Labor Market Impacts,” Center for Labor Market Studies, Northeastern University. April 2009. http://www.clms.neu.edu/publication/documents/Economic_Recession_of_20072009.pdf

¹² “Analysis: Slow, jobless recovery awaits U.S. economy.” *Reuters*, May 7, 2009. http://www.forbes.com/feeds/reuters/2009/05/07/2009-05-07T170405Z_01_N07470348_RTRIDST_0_USA-ECONOMY-RECOVERY-ANALYSIS.html

Figure 2



Another important reason why the economy is headed toward jobless recovery is high productivity growth. Under normal circumstances, greater productivity is a good thing—it is often a marker of technological progress and efficiency improvements that benefit not only businesses, but also consumers. However, when productivity continues to increase at the same or a faster rate during recession and the initial recovery as it did prior to the recession, employment growth tends to be hindered. This is because high productivity means that firms can meet demand for their output without hiring new workers.¹³

During a usual recession, productivity would be expected to decrease, but during the early 1990s and early 2000s, productivity increased at a somewhat consistent rate of around 2 percent, in sharp contrast to the productivity contractions seen in earlier recessions. This dynamic has repeated itself today, with productivity—measured as output per hour in the nonfarm business sector—increasing at a faster rate than was seen even in the previous two recessions (Figure 3). (The good news from this is that the Fed and the government will be able to sustain economic stimulus longer without fear of inflation.)

¹³ Bosworth 2005 and Ben S. Bernanke, “The Jobless Recovery,” remarks at the Global Economic and Investment Outlook Conference, Carnegie Mellon University, Pittsburgh, Pennsylvania November 6, 2003. <http://www.federalreserve.gov/BoardDocs/Speeches/2003/200311062/default.htm>

Figure 3

Productivity Percent Growth* for Select Recession Years

	Year	Q1	Q2	Q3	Q4	Annual
Conventional Recoveries	1974	-1.6	-1.9	-2	-0.5	-1.5
	1980	-0.1	-1	-0.5	0.7	-0.2
	1982	-2.3	-0.8	-1.6	0.6	-1.1
Jobless Recoveries	1990	1.8	2.2	2.2	1.2	1.9
	1991	0.6	1.3	1.6	3	1.6
	2001	2.4	2	2.7	3.2	2.5
	2008	3.5	3.4	2.2	2.2	2.8
	2009	1.8				

Measured as output per hour in nonfarm business sector.
Source: Bureau of Labor Statistics.

A prolonged jobless recovery is also likely because of the structural downsizing that is taking place in key industries, in which overcapacity existed or in which technological change is resulting in creative destruction. Downsizing is particularly evident in the domestic auto industry and in the world of publishing but it is also occurring or should be occurring in those sectors directly affected by the bubble—in particular, the financial industry, real estate, and construction. From the restructuring of the auto industry to the diminishing of the aerospace industry to the collapse of investment banks to the fact that non-Internet publishing has lost almost 25 percent of its workforce since 2000, we can see that this is not just an ordinary downturn—it is one entailing the restructuring and consolidation of entire sectors and industries.¹⁴ While one would expect jobs lost in declining industries to be replaced eventually with jobs in growing industries, this process, especially if left to the market alone, is likely to be at best extremely protracted, because it takes time for new jobs to be created and for workers to relocate and retrain.¹⁵

In this deeply unstable economic environment, firms are being understandably aggressive when it comes to shedding workers. Job losses due to insufficient business demand for services reached an all-time high in the first quarter of this year, and financial reasons for job separations, such as employer bankruptcy and cost-cutting, set an all-time first quarter high in 2009. Furthermore, in Q1 of this year, only 27 percent of employers reporting an extended layoff indicated that they were anticipating rehiring some of the workers, the lowest proportion since the BLS started recording this data in 1996.¹⁶ These unprecedented circumstances suggest that job creation is a less attractive prospect to

¹⁴ Bureau of Labor Statistics, Employment, Hours, and Earnings from the Current Employment Statistics survey.

http://data.bls.gov/PDO/servlet/SurveyOutputServlet?series_id=CES5051100001&data_tool=XGtable

¹⁵ Bernanke, 2003.

¹⁶ Bureau of Labor Statistics, “Extended Mass Layoffs in the First Quarter of 2009.”

employers today than it ever has been in the past. The result will likely be a delay in employment growth, even as other economic indicators inch upward.

The Unique Character of “Recession Feedback”

The jobless nature of the recoveries from the two previous recessions did not prevent the economy from achieving a period of reasonably strong economic growth, flawed though its pattern may have been. The situation today is more worrying because of the way employment feeds back into the housing and banking crisis and more generally into the household deleveraging process. Indeed, there is a danger that this jobless recovery will be particularly susceptible to a new downturn because of the way it feeds back on itself, worsening the circumstances that triggered it.

During normal business cycle recoveries, one of the first signs of recovery involves increased residential investment and spending on consumer goods and services,¹⁷ but these areas are unlikely to lead the way to recovery this time. At the peak of the bubble, consumer spending—aided by rising housing prices and increased debt levels—comprised 71 percent of U.S. GDP. But the credit and housing crises, coupled with pervasive unemployment, have forced households to begin to de-lever—i.e. to reduce debt and increase in savings.¹⁸ At the end of 2008, U.S. household debt—which increased dramatically from 1980 to 2008 and which has been growing since the Federal Reserve began tracking it in 1952—declined for the first time, and U.S. consumer spending declined for the first time in 17 years.¹⁹

This deleveraging process is a necessary part of the adjustment the economy must make if it to make a transition to a healthier and more sustainable pattern of economic growth—one that is less reliant on debt-financed consumption and more driven by production and by consumption that is made possible by rising incomes. Unfortunately, the pattern of the jobless recovery that is beginning to take shape does not point in that healthy direction. To begin with, let’s look at the sectoral pattern of current job loss, and what we find is that many of the sectors of the economy that will need to grow in the future to enable a more balanced and sustainable pattern of economic growth are the ones being hardest hit by the current recession. The industry with the highest total number of unemployed persons in the United States right now is (in addition to construction) manufacturing—precisely the sector that must be expanded if production is to compensate for the fall-off in consumer spending. Since the recession began in December 2007, the U.S. manufacturing workforce has continued its long-term slide and decreased by 13 percent, the number of construction workers has contracted by 16.2 percent, and

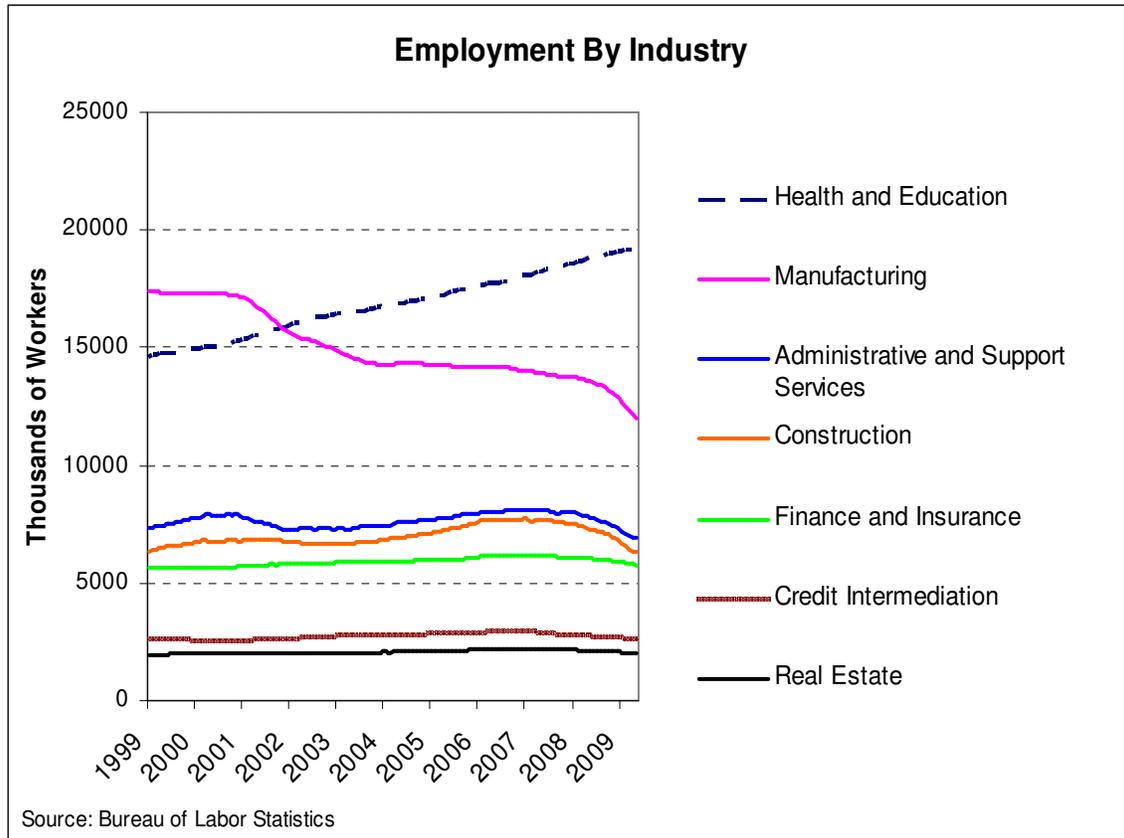
¹⁷ Edward E. Leamer, “Housing and the Business Cycle,” presented at a symposium sponsored by the Federal Reserve Bank of Kansas City, August 30-September 1, 2007. <http://cr4re.com/documents/LeamerHousingandBusinessCycle.pdf>; James Hamilton, “What will Recovery Look like?” Econbrowser, March 16, 2009. http://www.econbrowser.com/archives/2009/03/what_will_recov.html

¹⁸ Reuvin Glick and Kevin Lansing, FRBSF Economic Letter, Number 2009-16, May 15, 2009. <http://www.frbsf.org/publications/economics/letter/2009/el2009-16.pdf>

¹⁹ “Hard Hit Families Finally Start Saving, Aggravating Nation’s Economic Woes,” *Wall Street Journal*, January 6, 2009. <http://online.wsj.com/article/SB123120525879656021.html>

the number of administrative support workers—needed to buttress a production-based infrastructure—has declined by 14.1 percent (Figure 4).

Figure 4

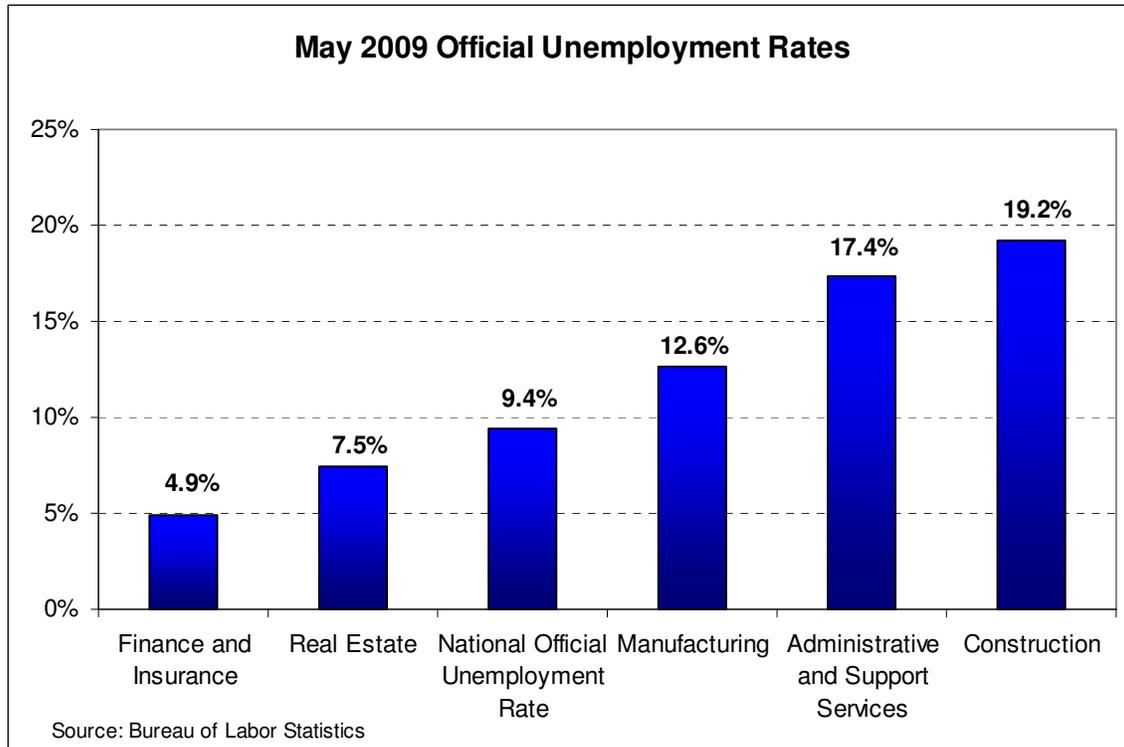


Meanwhile, those sectors of the economy that should shrink relative to manufacturing and tradable goods and services have seen little or no job losses. Employment in health care and education has steadily increased, despite the fact that health care is already a notoriously bloated and inefficient sector, gobbling up almost 16 percent of the U.S. GDP. Employment levels in finance and insurance, and even credit intermediation services, have stayed remarkably stable for years, even through the current recession (Figure 4). Since December 2007, the finance workforce has shrunk only by 5 percent, leaving the United States with about 150,000 more finance and insurance employees than there were a decade ago. Similarly, despite this recession’s origins as a credit crisis, credit intermediaries have been reduced by a mere 6.5 percent since the recession started and remain a similar share of the workforce as they have been over the past decade. And while the housing crisis played a critical role in setting off this recession, the number of real estate employees has shrunk by a relatively minor 7.3 percent—nowhere near as quickly as have jobs in the productive sector—and the United States still has more real estate workers than it did in 1999.

In short, an analysis of industry and sector trends in employment levels makes clear that job losses have been much more serious in those sectors that must grow in order to

expand production and compensate for the consumption slow-down. Meanwhile, those industries that are widely acknowledge as being outsized, and which played key roles in the precipitation of recession, are holding up relatively well (see also Figure 5).

Figure 5



Now let's turn to the question of incomes and consumption. As noted earlier, in order for deleveraging to proceed in a healthy way, consumption in the future will need to be driven by increases in wages and incomes and not by credit expansion. Yet the jobless recovery we see taking shape is incompatible with wage-led consumption increases. In fact, what we see is a continuation of the trends of the past decade, with wages lagging behind productivity and in some years even inflation. As is well known, wages and family incomes have been essentially stagnant for the past 10 years: the real median wage for males has actually decreased since 1999, by 1.1 percent, and the real median female wage has increased by only 4 percent since 2000.²⁰ In recent years, inflation has outstripped wage growth, resulting in negative real wage growth and less real purchasing power for American workers.²¹ (Figure 6).

²⁰ U.S. Census, "Historical Income Tables-People."

<http://www.census.gov/hhes/www/income/histinc/p53ar.html>

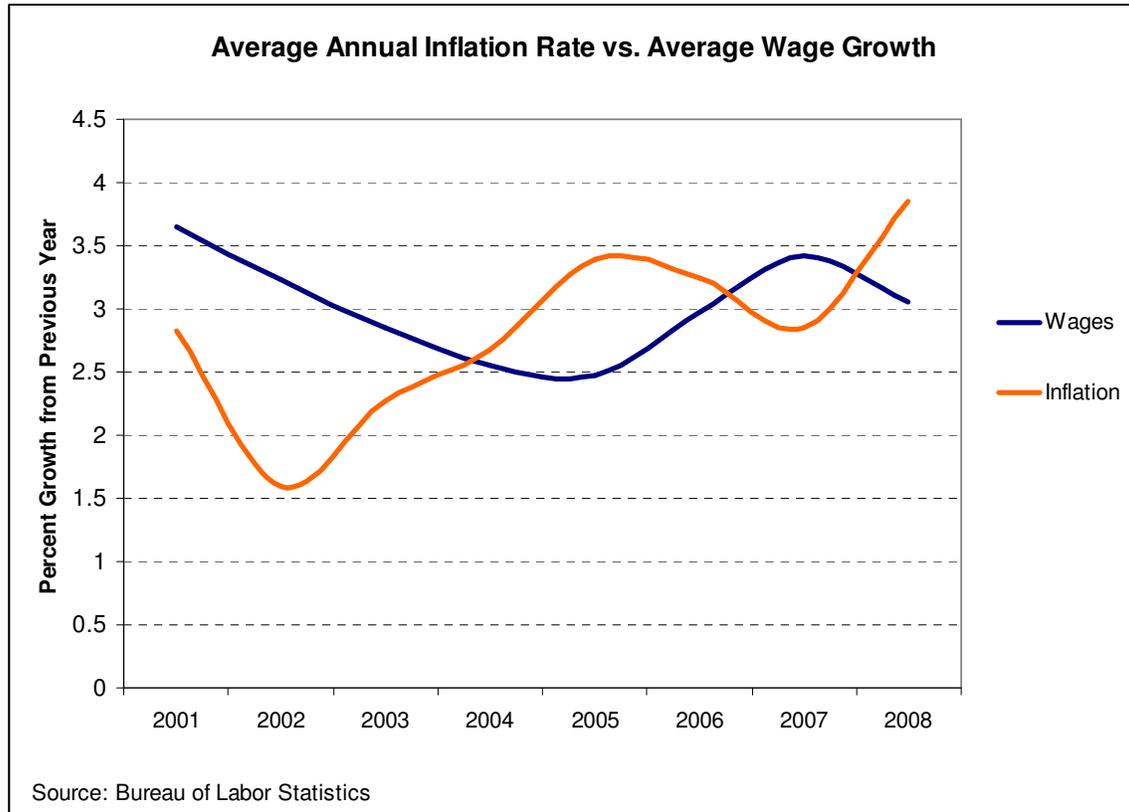
²¹ "Report: Most not seeing real wage gains," CNN.com, August 28, 2006.

http://money.cnn.com/2006/08/28/news/economy/real_wages/index.htm; Jared Bernstein, "Real Wages Decline in 2007," Economic Policy Institute, January 16, 2008.

<http://www.epi.org/publications/entry/ib240/> and "Real Wage Reversal Persists," Economic Policy Institute Economic Snapshot, February 20, 2008.

http://www.epi.org/economic_snapshots/entry/webfeatures_snapshots_20080220se/; International Labor Organisation, "Global Wage Report 2008/2009." November 25, 2008.

Figure 6



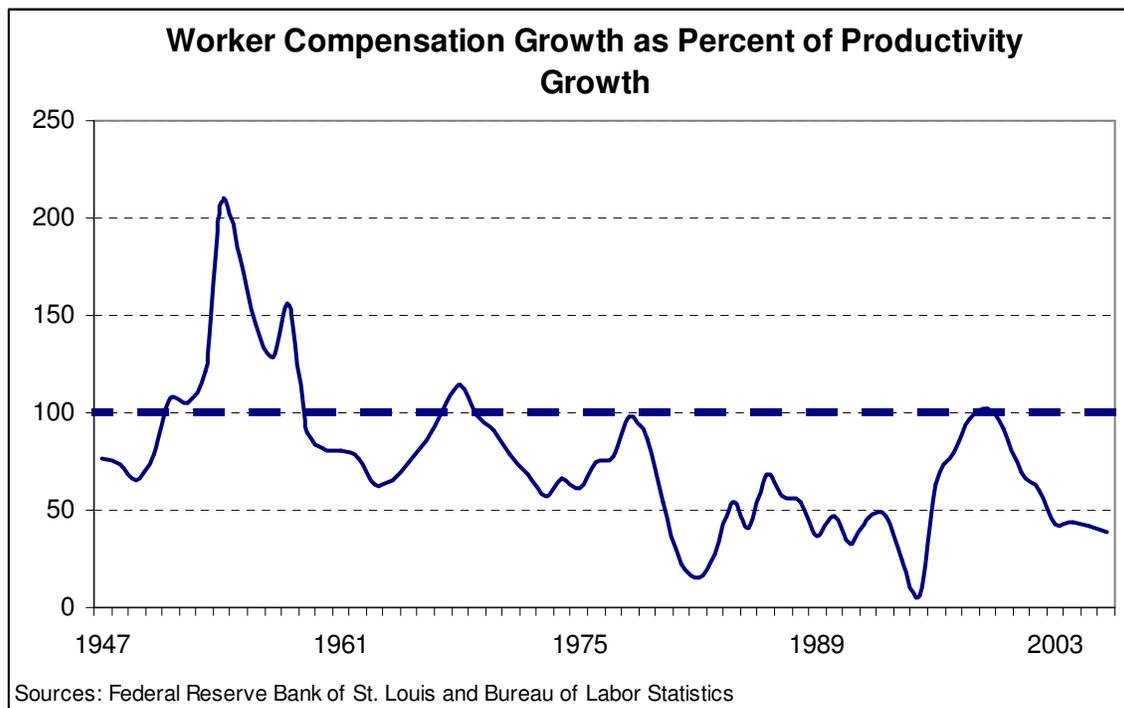
Worker compensation has for many years also failed to keep pace with productivity growth (Figure 7), and while productivity increases are often associated in the near term with a jobless recovery, this time the effect will be greater, as workers have already been producing more but receiving less. And given the unimpressive rate of worker unionization in the U.S.—just 12.8 percent of workers belonged to unions in 2008, down from almost 30 percent in 1960—it is unlikely that labor can effectively improve the wage and compensation situation through collective bargaining or political pressures.²² For a number of reasons, then, a jobless recovery is likely to create a protracted drag on wages and incomes, and thus create a negative feedback loop that will prevent a strong and sustained recovery.

http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_100790.pdf

²² Bureau of Labor Statistics, “Union Members in 2008.” January 28, 2009.

<http://www.bls.gov/news.release/union2.nr0.htm>

Figure 7



One of the most important of these negative feedback loops will be the effect that the jobless recovery will have on the housing market. Initially, the housing crisis was the result of the housing and credit bubble: millions of Americans bought homes that they could not afford and took out loans that they could not pay back. But with the realignment of housing prices, along with the passing of the first wave of subprime mortgage defaults, the dynamic is changing: the economy is now moving from a bubble housing crisis to an unemployment housing crisis. According to a study by the *New York Times*, 60 percent of the mortgage defaults this year will be set off primarily by unemployment, up from 29 percent last year. As unemployment has increased, the credit type of mortgage has become a less important predictor of housing debt--the total amount of money at risk in prime mortgages with payments more than 90 days overdue is now increasing rapidly, and converging with the amount at stake in overdue subprime mortgages.²³ In the last quarter, about 5.7 percent of prime fixed-rate loans were overdue or in foreclosure, up from 3.2 percent a year earlier.²⁴

The spread of the foreclosure crisis to prime mortgages means further bank losses and another chapter of bank failures. Banks may also be hit by mounting losses in commercial real estate. At the same time that job losses and weak income streams cause more and more prime borrowers to default on their home loans, poor business conditions have also compromised commercial real estate loans that were used to fund projects like

²³ "Job Loses Push Safer Mortgages to Foreclosure," *New York Times*, May 25, 2009.

<http://www.nytimes.com/2009/05/25/business/economy/25foreclose.html>

²⁴ "Mortgage Delinquencies Reach 12% in the U.S.," *Wall Street Journal*, May 28, 2009.

<http://online.wsj.com/article/SB124352408197662869.html>

shopping malls and apartment complexes. The result is another impending major money-loss for financial institutions: a recent application of the federal government's bank stress test to 900 small and mid-sized banks across the U.S. found that they will likely see losses of \$100-200 billion by the end of next year because of commercial real-estate loans gone bad, in addition to another \$49 billion in losses on home loans.²⁵

As commercial development goes under, and banks face greater financial losses, the economy will also lose out on the jobs that these projects would provide. The intractability of this vicious cycle has already led one of the nation's leading risk analysis firms to grade almost one-quarter of the banks in the United States with an "F" in its stress index.²⁶ Whereas in the past, low grades for stress tests were given out to banks whose return on equity was below industry standards, this recession has so crippled banks that the new standard for failure has become negative net income, which of course was a non-issue in the pre-2008 days of easy credit. As a result, while bank collapses are still relatively rare, in the first quarter of 2009 alone the number of bank failures has increased by 44 percent from the 2008 total and is already 12 times what for the entirety of 2006.²⁷

Finally, a jobless recovery means that there will be little or no relief for state and local governments, whose budgets have been hard hit by falling tax revenues. As a result, state and local governments can be expected to continue to cut back on spending even as they face mounting social welfare burdens. For example, unemployment and employer cutbacks will fuel widespread losses in employer-sponsored health care coverage: the Center for Medicare and Medicaid Services projects that spending by private health insurers will reach a 15-year low in the 2009 period while spending by the federal and state governments is expected to grow from \$1 trillion in 2008 to \$1.2 trillion because of expanded Medicaid rolls.²⁸ This means increased fiscal pressure on the public sector from health care during a time of already contentious politics around government spending.

²⁵ "Local Banks Face Big Losses," *Wall Street Journal*, May 19, 2009.

<http://online.wsj.com/article/SB124269114847832587.html>

²⁶ Chris Walen, "IRA Releases Preliminary Q1 2009 Bank Stress Index Results," Institutional Risk Analytics, May 7, 2009. http://www.advisorperspectives.com/commentaries/ira_050709.html

²⁷ Nancy Cleeland, "Community Banks: Small Enough to Fail," Economic Policy Institute, June 3, 2009.

http://www.epi.org/economic_snapshots/entry/snapshot_20090603/

²⁸ Andrea Sisko, Christopher Truffer, Sheila Smith, Sean Keehan, Jonathan Cylus, John A. Poisal, M. Kent Clemens and Joseph Lizonitz, "Health Spending Projections Through 2018: Recession Effects Add Uncertainty To The Outlook." *Health Affairs*, vol. 28, no. 2, February 2009.

<http://content.healthaffairs.org/cgi/content/abstract/hlthaff.28.2.w346>

The Magnitude of the Challenge Ahead: What Should Be Done?

For both social and economic reasons, the primary goal of any recovery program ought to be to move the economy as quickly as possible toward full employment to avoid the worst effects of a jobless recovery. That in turn means creating millions more jobs. Experts estimate that the economy must add approximately 125,000-127,000 jobs a month for the foreseeable future just to keep pace with population growth.²⁹ This means that 3 million jobs will be needed over the next two years—in addition to jobs for the 14.5 million officially unemployed Americans and for the 6.6 million people who report wanting to work but who are not able to find a job. That would be a total of 24.1 million jobs.

An honest assessment of the unemployment situation today leads to a single conclusion: much more must be done in order to promote full employment. By the Administration's own estimate, its recently enacted Stimulus Plan will create and save—but mostly just save—only 3.6 million jobs over the next two years, a target that falls well short of the total number of jobs needed. Yet for the reasons we discussed earlier, unemployment is clearly one of the most critical pieces of the recession puzzle and could be the main obstacle to a sustainable recovery in the months ahead.

There is a considerable lag time between the time Congress passes economic recovery measures and actual job creation. For that reason, the Administration and Congress need to begin now to address the job creation deficit and begin to put in place the programs that will be required to create jobs, particularly in those industries that make up America's productive economy. Recovery planning should not be based on a two-year horizon, as has been the norm in political discussions and legislation, but rather on an extended timeline—perhaps as much as ten years—in order to account for the long trek through a multi-year jobless recovery. Investment in jobs that will reinvigorate the productive sector, such as infrastructure construction and modernization, must be expanded; according to some estimates, doing so will immediately create 18,000 new jobs for each \$1 billion spent.³⁰ Jobs programs like VISTA and CETA should also be expanded to provide employment opportunities for this year's 6.4 million high school and college graduates and the graduates who will follow. This will help to alleviate some of the pressures that come with consistent labor force growth during periods of high unemployment. Initiatives must also be introduced to strengthen the apprenticeship and training programs in various industries, as the primary qualification for more than 60 percent of the jobs in our economy is on-the-job training.

²⁹ "The Jobless Recovery," *Forbes*, May 22, 2009. <http://www.forbes.com/2009/05/22/labor-recovery-jobs-markets-economy-gdp.html> ; Lawrence Mishel and Heidi Shierholz, "Seven Million Jobs Needed to Return to Pre-Recession Employment Levels," Economic Policy Institute. May 7, 2009. http://www.epi.org/publications/entry/jobspict_200905_preview/#When:14:00:07Z

³⁰ Robert Pollin, "Infrastructure Investments and the Obama Recovery Plan," *New Labor Forum*, Vol. 18, No. 2, pp.96-99, Spring 2009. http://www.peri.umass.edu/fileadmin/pdf/other_publication_types/Pollin--NLF--Infrastructure_and_Recovery_Plan_5-09.PDF

Reducing unemployment is not only an aim in and of itself, but it is also a way of reducing the pressures that joblessness creates on households, employers and banks. The unique toxicity of this recession necessitates bold interventions, and it is difficult to conclude that the recovery measures to date are at all sufficient to meet this challenge. More ambitious, more comprehensive, and longer-term policy responses will be necessary in order to help the economy move toward full employment and true economic recovery.