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THE GREAT RECESSION: GETTING BACK TO WORK

by Larry Mishel, President, Economic Policy Institute

The Great Recession that we are in is one of the largest economic challenges this nation has faced since the 1930s. There is a dramatic amount of pain out there among working families and what is going on right now will scar the country, its productive capacity, and its children for years to come.

This is also an important time for debates about policy. Historically, for 30 years we've said, "just get government out of the way." We have hesitated to use government for public purposes. This has been reflective of both parties.

The American people have decided that the idea that government should not ever intervene in the economy is no longer to be blindly followed. This does not mean, however, that they will be readily persuaded that government can actually fix the economy.

Now is the moment where those of us who believe that government has a very useful role to play need to demonstrate it. We must do so in a way that actually changes people's lives for the better.

30 Years of Growing Income Inequality

Even before we got into the Great Recession we had quite a mess. Over the last 30 years, incomes of the typical middle class family did not move much except for one small period of time during the late 1990s. The 2000 to 2007 business cycle was the very first time that incomes of working people were lower at the end of the business cycle than at the beginning.

One of the main reasons for this is that we experienced tremendously unbalanced growth. Of all the income growth the economy generated from 1989 to 2007, only about 16 percent went to the bottom 90 percent of families. The upper 1 percent got 55 percent of the total income growth. The upper tenth of the upper 1

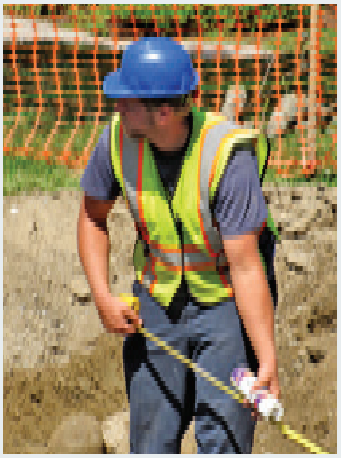
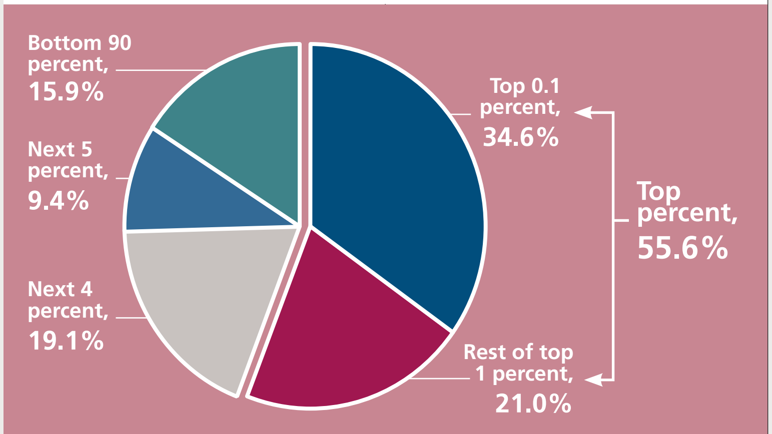


Photo: Deborah Felder

Some people seem to believe that when you reach 10 percent unemployment, 90 percent of people are okay. That's just not true.

UNBALANCED INCOME GROWTH – 1989-2007



Source: Authors' analysis of Pikkety and Saez (2009).

percent, that is 1 out of 1,000 families, received over a third of all the income growth during that period of time. That was no accident. It was the result of a very conscious set of policies.

The underlying theme is this: the hourly compensation of the typical worker during the first part of the post-World War II period up through the 1970s grew along with productivity. Since then, compensation has hardly grown at all despite continued productivity growth. The biggest gap between productivity growth and compensation growth enjoyed by the typical worker was actually during the last recovery from 2002 to 2007. On average, the hourly compensation of people with a high school degree or a college degree did not grow at all even when overall productivity was growing at very high rates. That is the mess our policies over this period created.

Employment Challenges Ahead

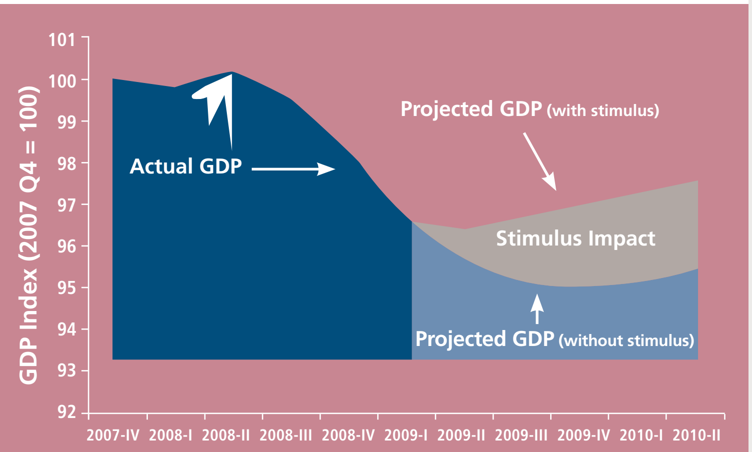
Since the start of the recession we have lost 5.8 percent of our job base – 8.1 million jobs. If you count how many jobs we would need to create to get back to the pre-recession unemployment rate of 4.9 percent, we would need to create 10.6 million new jobs. Thus we have a lot of work ahead of us over the next 3 or 4 years just to get back to where we were.

These figures only tell part of the story. Unemployment has more than doubled to 10 percent with 15.3 million people unemployed. If you include involuntary part time workers (who would rather have a full time job) and people who have looked for work sometime in the last year and are available to work, 27 million people are unemployed or underemployed right now.

In addition, these rates only provide a snapshot of the number of people unemployed or underemployed at a given point in time. The number of people who experience unemployment during the course of the year is almost double the number who experience it in a given month. If unemployment is 10 percent in 2010 and underemployment is 18 percent each month, then over a third of the workforce is going to be unemployed or underemployed at some point in 2010. This is important because some people seem to believe that when you reach 10 percent unemployment, 90 percent of people are okay. That's just not true.

In Maine, unemployment from the 3rd quarter up through the end of September 2009 was 8.5 percent, less than the national average of 9.6 percent. Going forward, however, Maine is going to see its unemployment rise by 1.6 percent, a bit faster than the national forecast of 1.1 percent.

GDP – IMPACT OF STIMULUS



The Recession's Human Impact

This recession has tremendous impact on people. 10 percent unemployment is going to raise child poverty from 18 percent in 2007 to 27 percent in 2010. In 2007, one in three black children was in poverty. By the peak of the recession fully half of all black children will be poor.

Wages are not keeping pace, either. As wage growth gets smacked down in a recession, even those with a job are not doing so well. During the first six months in 2009, the annual wage growth rate was as low as 1.3 percent, compared to 3.7 percent at the beginning of 2007.

This affects every family, but low-income families more than most. From 2007, incomes for low-income families will decline by $1,160 or a 7.2 percent decline over the 2008 to 2011 period. For middle income families, the picture is not much better. They will see an income loss of approximately $3,460 or 5.6 percent over this same period. This has a dramatic impact on families.

Assessing the Recovery Act

Let's shift now to federal policy. How is the American Recovery and Reinvestment

Act (ARRA) passed in February 2009 going? You hear that it is a waste of money, the money did not get out quickly, it did not affect jobs. However, all the evidence from any fair-minded person would say that it really has had a positive effect. The problem is that we are in such a deep hole that it will take a tremendous amount to get us out of it.

Even before ARRA started having an effect in April, the economy was dramatically worse than anyone had thought before. The Administration's economists projected that because of ARRA unemployment would not exceed 8 percent. However, it was already more than 8 percent before the effects of the stimulus even hit.

As for economic activity, without ARRA, gross domestic product (GDP) was expected to continue declining into the fourth quarter of 2009. With the stimulus, GDP hit bottom in the second quarter of 2009 and growth was maintained over the rest of the year.

Either way you look at it, the decline in GDP is dramatic and the hole in our economy is huge. The consensus is that ARRA actually lifted economic growth by 3 percent meaning that it created around 750,000 jobs. This helped us move from a place where we were losing 650,000 to 750,000 jobs per month in early 2009 to losing very few jobs near the end of the year. That is not good enough but it is a real improvement.

How does it work? First, roughly $12.4 billion hit the street in the form of infrastructure spending. And the biggest part of it came in the spring when the stimulus plan put out $25.1 billion in aid to states for Medicaid and $21.2 billion to states for education and other activities. Aid to states helps keep demand up in the economy, thus preserving both public and private sector jobs.

Another $41.5 billion went directly to people, including $13 billion to Social Security recipients. The remaining funds went toward unemployment insurance and food stamps. Again, when you give money to people who do not have it, they spend it. By spending it, they help create jobs and help the economy.

So ARRA pumped a lot of money – including tax cuts – into the economy. The same thing happened over the summer and even more funds will be disbursed in 2010. The 2010 funds are much more heavily weighted to infrastructure, which means we are going to get jobs now and have enhanced productivity into the future.

Getting Back to Work

It is unacceptable for unemployment to rise throughout this year and stay high for a very long period of time. We are now projecting 8 percent unemployment at the end of 2011. There are a few things that we need to do about it.

First we have to continue all the extended benefits we have already made available – food stamps, health care and unemployment insurance. Right now, you can get up to 99 weeks of unemployment insurance.

We need to do more to provide fiscal relief to states and also to local governments. This could easily create 1 million jobs and keep people from being laid off in both the public and private sector.

More needs to be done to boost public investment in infrastructure as well. In particular, we favor a plan to rehabilitate and modernize schools over the summer. The average school district across the country has a big backlog that does not require building a new school.

We need direct job creation working with municipal governments. It is truly cost effective; $40 billion dollars would get us 1 million jobs. At the national level, we need a jobs tax credit that encourages employers to hire earlier than they might otherwise do.

There are lots of things that need to be done and this is a great time to do them.

Maine Solutions

To have Washington provide more relief to state and local governments, representatives from Maine really need to be there to ask for HELP. This is no time to be timid, no time to be timid whatsoever.

State government itself is going to have to balance its budget requiring difficult choices. There are no easy answers but let me offer an economist's view about how spending cuts are more damaging to local employment and incomes than raising revenue.

When people spend money much of it will not be spent in Maine. Some of their money is saved and not spent at all. Some is spent on imports and other money is spent on goods and services from other states. All of this spending does not stimulate the Maine economy and create jobs in Maine. So, a dollar that is taxed displaces some spending in Maine but

RECOVERY EXPENDITURES IN MAINE

	Awarded ($mil)	Spent in 2009 ($mil)
Infrastructure	267.5	118.7
Medicaid	416.3	283.0
Education & Other Gov't Services	141.2	59.5
Social Security	76.3	76.3
Unemployment Assistance	n/a	12.4
TANF, Food Stamps & Child Support	14.3	6.4
Tax Relief for Individuals (excl. AMT exemption)	n/a	369.7

Note: These are major categories of ARRA awards and expenditures in Maine and do not include all categories.

Recommendations

1. Continue extended benefits for food stamps, health care and unemployment insurance.
2. Provide fiscal relief to state and local governments.
3. Increase public investment in infrastructure.
4. Provide direct job creation through municipal governments.
5. Pass jobs tax credit.

some of the spending is done outside of Maine.

Contrast that to government spending. With government spending there is no savings. It is all spent and most heavily spent in Maine. Preserving spending and services means preserving jobs in Maine. So, if there is a choice of raising taxes versus cutting spending in the short term, it is pretty clear that cutting spending will have a larger impact in reducing goods and services produced in Maine.

We also have this long term problem of needing to create good jobs. Steps like raising the minimum wage would actually increase the amount of income in the workforce and boost spending. We need high labor standards. All employers must meet minimum standards so that bad employers do not undercut good employers. Things like paid sick leave fall into that.

Conclusion

Getting people back to work should be our top priority. We do have a problem with a big federal deficit because we are in a large recession. But the federal deficit is not really so much out of control, the economy is.

The way to reduce deficits and get fiscal responsibility going is to create more jobs with more people spending, consuming and paying taxes. It is very appropriate at this point in time to borrow some more money to put people to work. Our choices today have very real implications on the duration and depth of the Great Recession's impact on our lives. Now is the time for bold action.

About the Author

Larry Mishel is President of the Economic Policy Institute and a nationally recognized economist specializing on the economy and economic policy as it affects middle- and low-income families. The text for this Choices is based on Dr. Mishel's keynote address at MECEP's annual tax and budget conference held January 11, 2010.

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