Center for American Progress Action Fund

Testimony before
the House Committee on Education and Workforce
on "The State of the American Workforce"

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Thank you, Chairman Kline and Ranking Member Miller for inviting me here today to testify on the state of the American workforce. My name is Heather Boushey and I'm a senior economist with the Center for American Progress Action Fund.

The challenges workers are as great as they've been in generations. The Great Recession has wrought havoc in the lives of millions of families. The policies that will create jobs are those that will increase aggregate demand by making investments that will not only boost employment in the short-term, but lay the foundations for long-term economic growth.

Until we fill the demand gap, we will have continued unemployment, which in turn will continue to drag down economic growth. Unemployment—the ultimate unused capacity—is a terrible thing. Allowing it to fester when you have tools at your disposal to alleviate it sends a message that our government not only doesn't care about the very real hardships families are facing, but that they don't recognize the enormous waste of human potential.

The real question is whether policymakers will focus on not repeating the mistakes of the Great Depression and, rather, continue to focus on boosting investment until the recovery solidly takes hold.[1] While the immediate imperative is to address in the short-term high unemployment, we must also simultaneously begin to address the deep structural challenges to long-term growth and job creation.

Jobs will not, however, be created by limiting regulation or repealing the Affordable Care Act, nor by creating by cutting spending or focusing on the short-term deficit. And, I would caution you on focusing too much on the short-term deficit. That deficit is not due the result of overspending, but rather due to the failed economic policies and two unfunded wars of the Bush Administration, and the higher costs and lower tax revenues caused by the Great Recession.

## The issues facing workers

Today's high unemployment is a function of the reality that there simply aren't enough jobs to go around because there is not sufficient demand in our economy. While the economy has been growing for at least five quarters now, businesses have not yet begun to ramp up hiring. While unemployment creates significant hardships for individual families, it also threatens the nascent economic recovery: the unemployed can't spend what they don't earn and spending is what keeps our economy humming. Thus, there is a direct link between lack of hiring and future economic growth.

**High unemployment threatens economic stability of millions of American families**

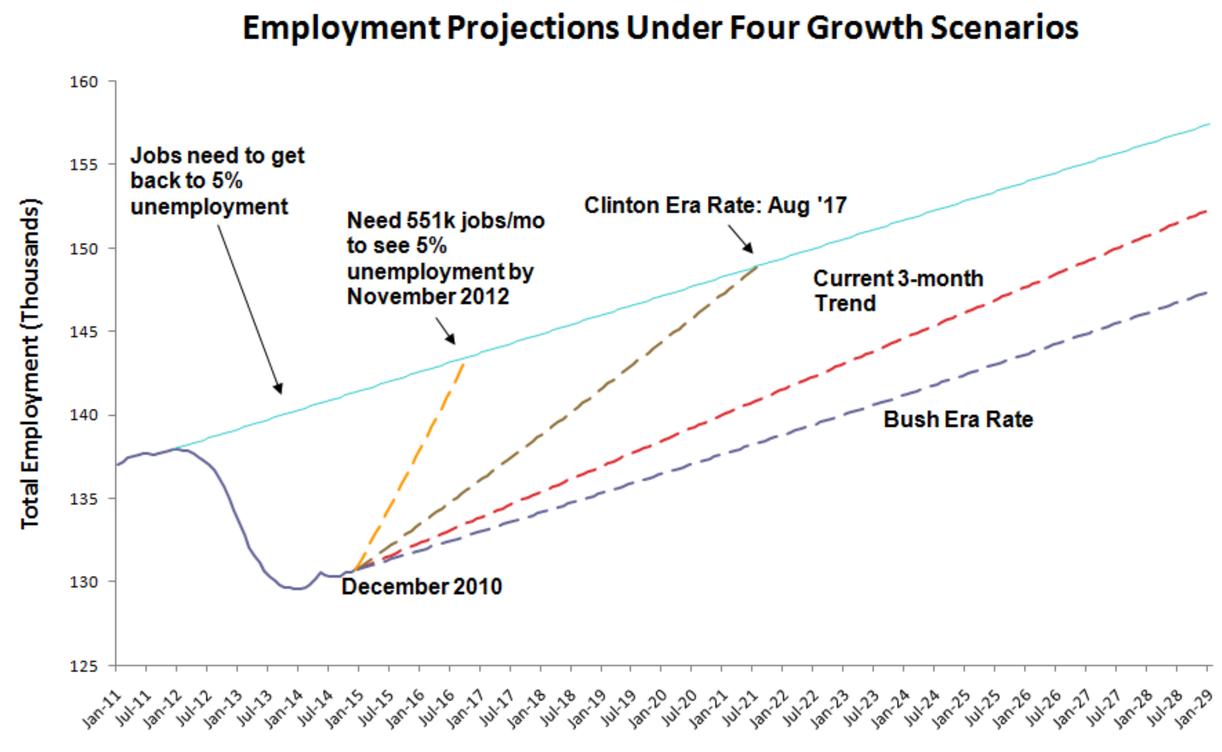
While the recession ended in June 2009, for everyday Americans, there's been no recovery. The private sector has been adding jobs every month for a full year and averaged 128,000 jobs per month over the past three months.[2] This is a faster pace than in the 2000s economic recovery, but at this rate, we won't reach 5 percent unemployment for decades (Figure 1).[3] To get to 5 percent unemployment by November 2012, we'd need to add more than four times the number of jobs that our economy is adding now—551,000 jobs each month.

Unemployment has stood at or above 9 percent for a record 20 months and economists predict it will remain this high at least through 2011. Nearly half of those unemployed have been job searching for at least six months.[4] The odds of finding work continue to look rather grim. For every five people searching for a job, there is only one job available. It's like a sad game of musical chairs: one chair, five seeking a seat. We all know how that game ends.

High unemployment has long-term consequences for workers and their families, as well as our economy overall. The more than 6 million unemployed workers who have been searching for a new job for at least six months are unable to make use of their skills or contribute to our nation's productive capacity. Consider these facts: Average mature workers who lose a stable job will see their earnings fall by 20 percent over 15 years to 20 years,[5] and the labor market consequences of graduating from college in a bad economy are large, negative, and persistent.[6]

Many workers may never find jobs at the level of the job they lost during this Great Recession. Recent data from the Bureau of Labor Statistics has found that as of last year at this time among those who were displaced from their job—permanently losing their job or laid off because their employer's plant closed or business failed—between 2007 and 2009, just half (49 percent) were reemployed. This is lowest reemployment rate on record for the series, which began in 1984. Of those reemployed in full-time work, more than half (55 percent) were earning less than they did prior to displacement.[7]

**Figure 1**




Source: Adam Hersh and Isha Vij, "Employment Growth Continues, But Too Slowly to Secure Recovery." Center for American Progress (January 7, 2011).
*Assumes monthly labor force growth of 100,000.

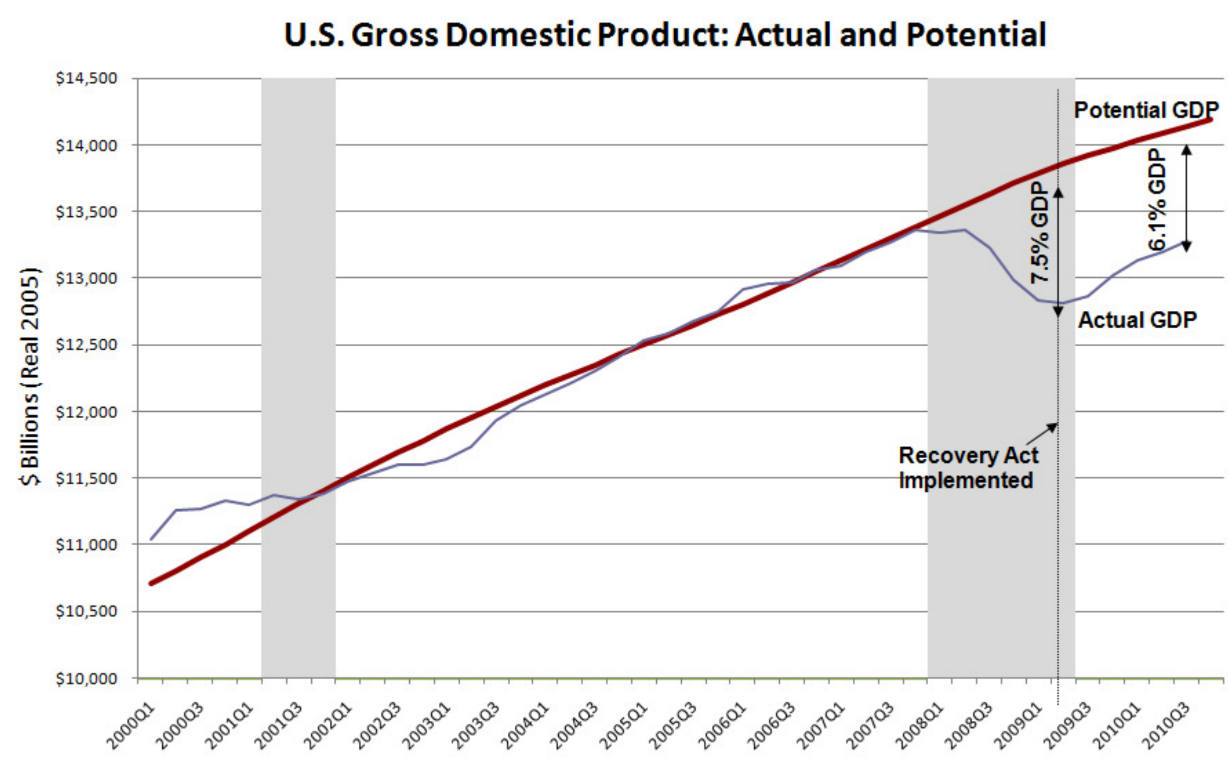
**The continuing slow pace of the jobs recovery stems from one factor: Insufficient aggregate demand in the overall economy**

Gross domestic product, or GDP, grew at an annual rate of 2.6 percent in the third quarter of 2010, the fifth quarter of positive growth in a row.[8] Much of this growth would not have happened without the American Recovery and Reinvestment Act and other policies aimed at addressing the fallout from the financial crisis.

Yet, our economy continues to have what economists call "excess capacity," which means there is not enough demand for all the goods and services we have the capacity to produce, and thus not enough demand for more workers. As of December 2010, capacity utilization was 76 percent, 4.6 percent below its average from 1972 to 2009.[9] Excess capacity is a technical term that economists use to describe what Americans are currently seeing everyday around them—excruciatingly high unemployment, especially long-term unemployment, and the devastation it causes families and communities all around our nation.

Another way to measure excess capacity is the "output gap," the gap between what our economy currently produces and what it would be producing if workers and the economy's productive assets were to be used at full employment. Currently, the output gap is equal to over 6 percent of our total gross domestic product (Figure 2). This is down from 7.5 percent when growth was at its nadir and just before the American Recovery and Reinvestment Act was passed and signed into law.[10]

**Figure 2**




Source: Adam Hersh and Isha Vij, "Employment Growth Continues, But Too Slowly to Secure Recovery." Center for American Progress (January 7, 2011).

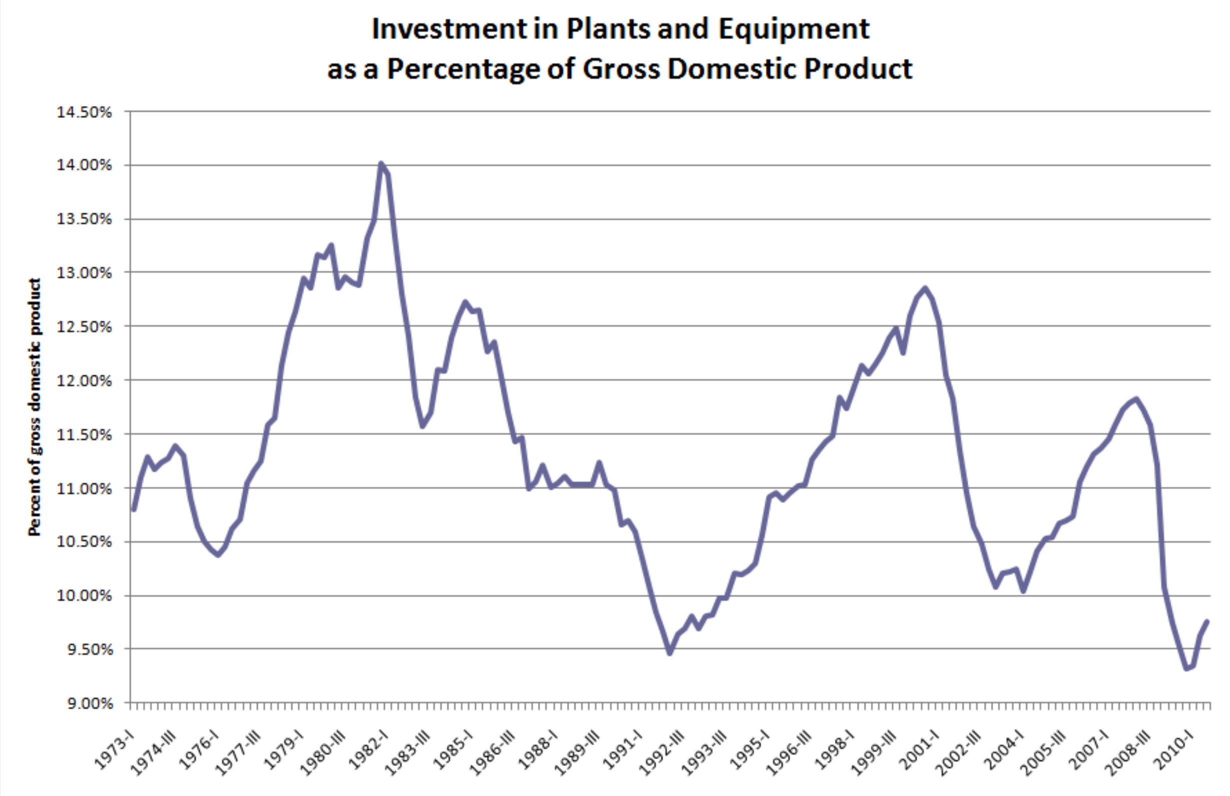
Currently, about a third of the total output gap is due to the lost wages of the unemployed.[11] To put some back of the envelope numbers on this, think of it this way: the typical worker brings home about $40,000 annually and about 15 million are out of work, leaving our economy about $600 billion smaller this year due to unemployment.[12] It's that gap that unemployment insurance fills and why it's critical to sustaining the economic recovery. And, why we can't just fill the output gap with tax cuts.

And, we are now in another jobless recovery, while profits soar. From December 2008 to September 2010, profits in the nonfinancial corporate sector rose in inflation-adjusted terms by 92.0 percent before taxes and 93.3 percent after taxes. In September 2010, profits were at their highest point since at least September 2007, before the recession started. The nonfarm nonfinancial business sector is holding more than $1.9 trillion in cash, totaling 7.4 percent of total corporate assets in the third quarter of 2010—the highest level since the fourth quarter of 1959.[13]

Even though corporate America is flush with cash, investment is at the lowest level in more than five decades. So far in this business cycle, from December 2007 to September 2010, business investment has averaged 9.8 percent of gross domestic product, the lowest average for any business cycle since the late 1950s (Figure 3). This low level of investment is not because of the cost or availability of capital, which continues to be at lows not seen since the 1960s.[14]

Without investment, our resources—the American people—languish in unemployment. A key challenge for policymakers is sorting out how to encourage investment.

**Figure 3**



Source: Bureau of Economic Analysis, National Income and Product Accounts Table 1.1.5

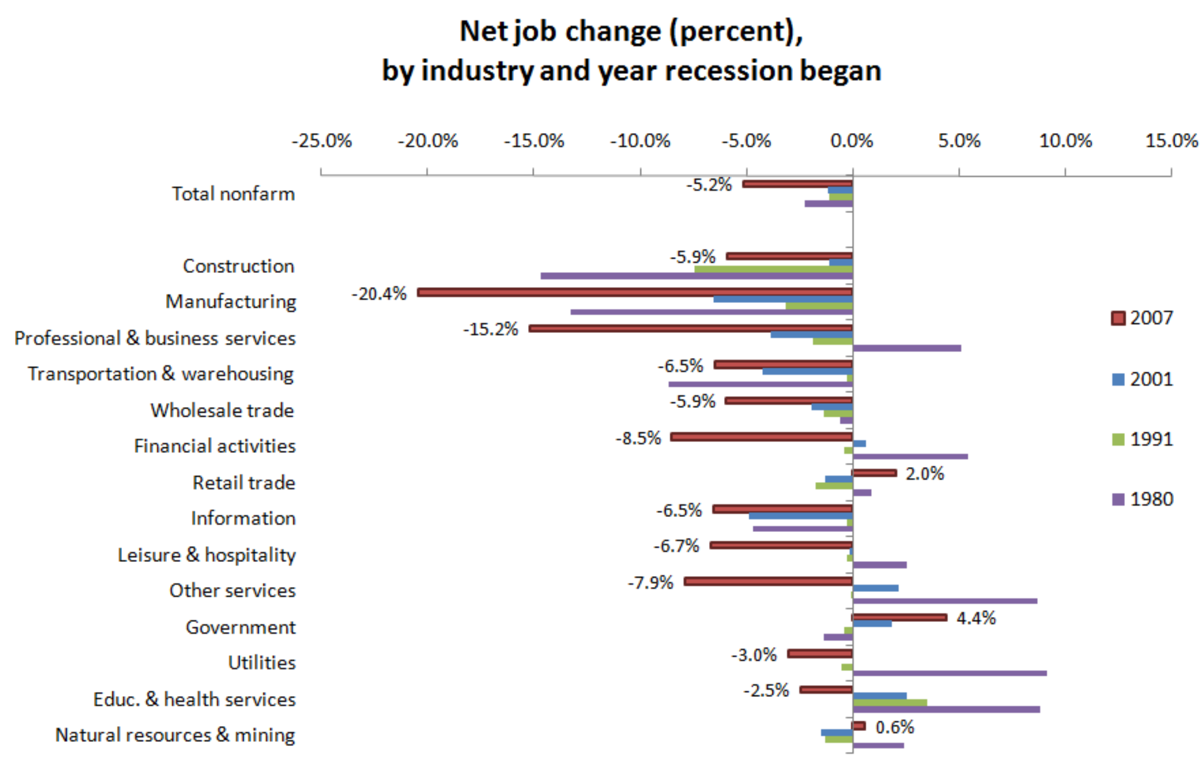
## This jobs crisis is not a structural problem

In May of 2007, the unemployment rate was 4.5 percent. Just over a year and a half later, the private sector was shedding 700,000 to 800,000 jobs per month and unemployment continues to linger above 9 percent. For the unemployment problem to be structural, it would have to be the case that our nation's workers and employers all of a sudden become mismatched due to some new set of technological advances that made one in 10 workers instantaneously obsolete. There is no evidence that this has been the case in the years since 2007.

If today's high unemployment were largely about shifting workers out of the sectors hardest hit by the bursting of the housing bubble—primarily construction—job losses would have to be concentrated there. But, this has not been the case. In fact, the Great Recession has seen fairly broad, widespread job losses across industry, which contradicts the idea that there's one or two sectors that U.S. workers need to transition out of (Figure 4). Manufacturing, professional and business services, transportation and warehousing, financial activities, leisure and hospitality, and information services have all lost a larger share of jobs than construction.

Further, if unemployment was structural, the money pumped into the economy through monetary and fiscal policy would lead to higher prices. If more money were chasing a limited pool or workers or capacity, then prices should go up. Yet, in fact what we've seen is the opposite. Over the past year, prices have risen by just half a percent, just barely above deflation.

**Figure 4**




Source: Author's analysis of BLS Current Establishment Survey.

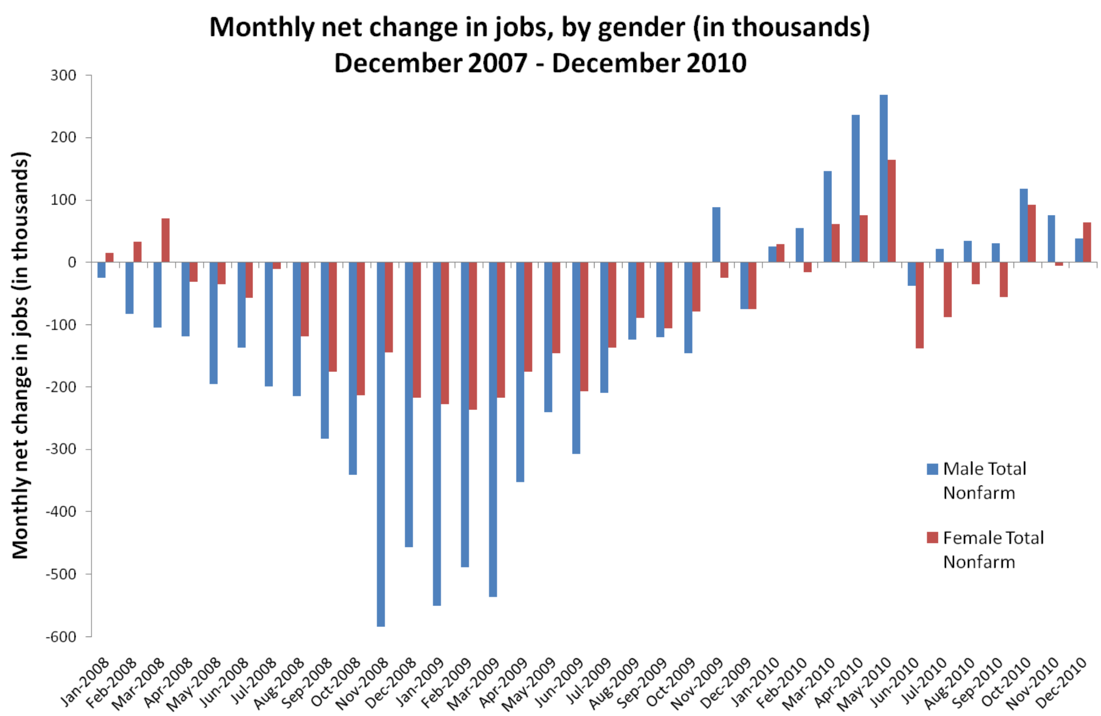
If the problem with unemployment were structural, the primary policy lever to address this is education and training. There are many reasons for policymakers to be concerned about the skills of the U.S. labor force: American students are consistently behind their academic peers internationally. According the U.S. Department of Education, out of 30 peer countries, students in the United States were ranked 30th for math, 23rd for science, and 17th for reading.[15] However, even if unemployment was a structural problem and training and education could solve it, this is not a solution that can address our immediate high unemployment. Setting up those programs, getting workers the skills they need will take time and our economy will not see the fruits of those endeavors for years. Investing in education is critical for our economy, but it cannot solve our current unemployment problem.

In thinking about the challenges facing workers and their families, we also need to remain cognizant of the difference in employment patterns for specific demographic groups. Workers of color continue to experience higher unemployment than white workers and the trends in employment continue to play out differently by gender. Between December 2007 and June 2009, the official timeframe for the recession according to the National Bureau of Economic Research, jobs held by men accounted for more than 70 percent of all the jobs lost. In ten of the past 12 months of job gains, the growth in jobs for men outpaced the growth for women and last summer, women actually lost jobs while men saw small increases. Over 2010, men gained just more than a million jobs, while women gained a paltry 149,000 (Figure 5).

The biggest gains for men have been in professional business services, where men gained 278,000 jobs, compared to 103,000 for women; trade, transportation, and utilities, where men have gained 245,000 jobs, while women lost 74,000; and administrative and waste services, where men gained 231,000 and women gained 137,000. One of the biggest gender gaps in employment trends is in government employment

The aid to the states as a part of the ARRA helped sustain women's employment through the Great Recession, but with the state budget crisis lingering, this could continue to bring down women's employment[16]. Women make up the majority of state and local government employees. Last year, local governments shed 259,000 workers, of whom 225,000 were women. At the state level, women have gained 55,000 jobs and men lost 43,000, but these gains for women were not enough to offset the local layoffs.

**Figure 5**




Source: Bureau of Labor Statistics, Current Employment Statistics Survey

# How did we get here?

Mismanagement of the economy in the 2000s, a financial sector only in service of its own profit rather than fostering productive investments, and a housing bubble all led to the economic disaster in front of us.

### The failed economic policies of the 2000s

We now know that the perception of prosperity in the 2000s was in many ways a mirage. The housing bubble and financial innovations and the Great Recession masked deeper structural problems. The housing bubble, rapid growth of the real estate and financial sectors, and debt-fueled growth during the Bush era masked what were otherwise largely negative trends for American workers.

While the economy was growing, American workers were living through a lost decade. The 2000s saw no income gains for the typical American family[17] and saw the weakest employment gains and weakest growth in business investment of any economic cycle in the post-World War II era.[18] For most Americans, wages were stagnant, even though productivity rose.[19] Moreover, over the past two decades, we've seen two "jobless" economic recoveries and, with the exception of a few years in the late 1990s, widening wage and income inequality.[20]

Our labor market has become bifurcated, with fewer and fewer good jobs paying good wages and benefits and growth in employment at the high and low ends, leaving out the middle.[21] This is not a recipe for a strong middle class, restoring economic opportunity, or long-term economic competitiveness. Beyond the Great Recession and its global consequences, this is the great economic policy challenge of our time.

Most women now work outside the home and families have no one available to provide full-time care for children or ailing family members. Coupled with declining prospects for future job growth, this analysis gives a whole new meaning to middle-class squeeze.

### The Recovery and Reinvestment Act

Congress has taken important steps to encourage private sector job creation. The Congressional Budget Office credits the American Recovery and Reinvestment Act, or ARRA, signed into law in February 2009 with saving or creating 1.4 to 3.6 million jobs and they estimate that 2.6 million jobs will be saved or created by in 2011.[22] Last summer, economists Alan Blinder and Mark Zandi estimated that the American Recovery and Reinvestment Act and other fiscal policies have saved or created 2.7 million jobs and without them, unemployment would stand at 11 percent and job losses would have totaled 10 million. On top of this, they estimate that if nothing had been done to address the financial crisis—no Troubled Asset Relief Program, no bailouts of American International Group Inc, and no investment in the auto industry—our economy would have 5 million fewer jobs than we do today and unemployment would be sharply higher, at 12.5 percent.[23]

The ARRA kept teachers in schools and police officers on their beats, even as tax revenues fell. It kept money flowing into the pockets of the long-term unemployed, which in turn has not only helped those individual families hardest hit by the Great Recession, but also helped keep dollars flowing their local communities. It helped unemployed workers access health care, undoubtedly mitigating the well-documented negative health effects of unemployment.

Even with the success of the Recovery Act, there have been clear indications since 2009 that in order to fill in the output gap and lower unemployment, Congress will need to focus on policies that raise, not lower, aggregate demand.[24] As Federal Reserve Chairman Ben Bernanke noted this month in testimony:

> Our nation's fiscal position has deteriorated appreciably since the onset of the financial crisis and the recession. To a significant extent, this deterioration is the result of the effects of the weak economy on revenues and outlays, along with the actions that were taken to ease the recession and steady financial markets***. In their planning for the near term, fiscal policymakers will need to continue to take into account the low level of economic activity and the still-fragile nature of the economic recovery*** (emphasis added).[25]

In this Great Recession, sustained government spending until the recovery hits its full stride is the best—and only—option to push the unemployment rate down. Because the Great Recession was preceded by a massive financial crisis, we knew from day one that it was likely to be deeper and more protracted than more recent recessions.[26] We've also known for two years now that the Federal Reserve has no more room to lower interest rates to boost demand.[27]

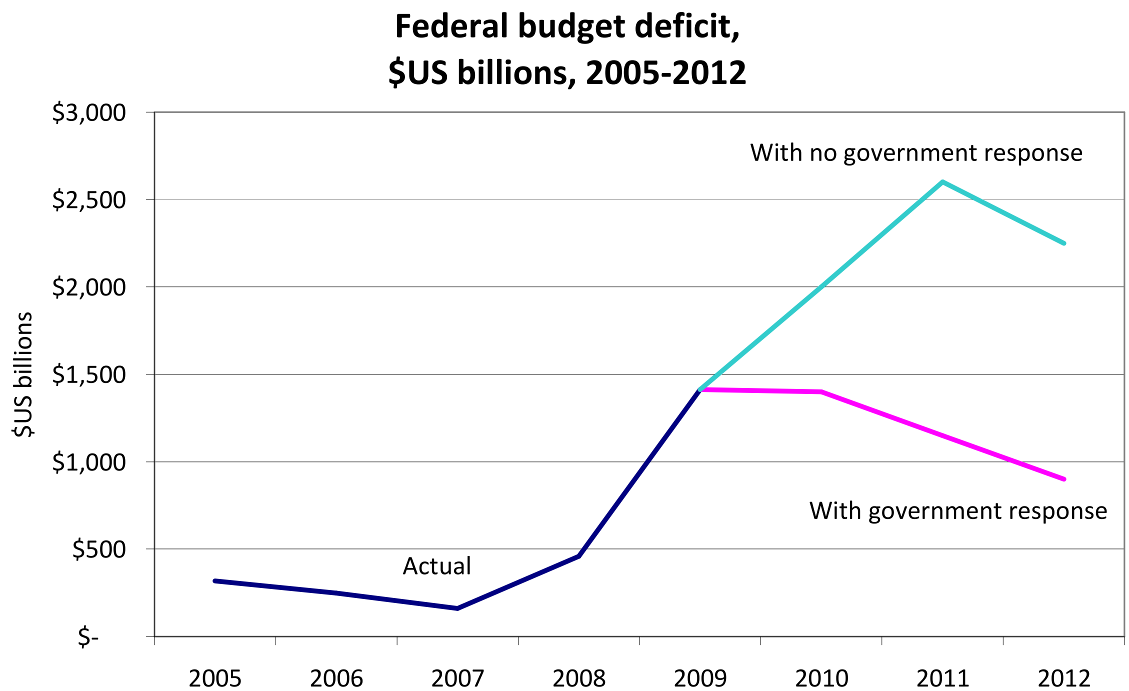
In other recent recessions, lowering interest rates was sufficient to push the economy toward sustainable growth, but this time it's not possible. The last recession that brought us double-digit unemployment, in the 1980s, was caused by tightening of monetary policy by the Federal Reserve under Chairman Paul Volcker as they were trying to address rampant inflation. The Federal Funds Rate hit nearly 20 percent in the 1981, which stopped inflation, but then also gave the Federal Reserve a great deal of room to lower rates to encourage economic activity. To boost growth, the Fed has pursued quantitative easing, using the proceeds from the central bank's mortgage bond portfolio to buy long-term government debt. That is, they are using unorthodox methods of pumping money into an economy and working to lower interest rates that central bankers do not usually control. Their effect is the same as printing money in vast quantities, but without ever turning on the printing presses.

Yet there is a rising chorus of voices singing the praises of deficit reduction over the benefits of saving our economy through expansionary fiscal policies. Once our economy recovers, of course, the deficit must be addressed, but until unemployment begins to fall and the economic recovery is firmly in train, these voices push us in the wrong direction. Their rhetoric argues that we not burden the next generation with unsustainable debts, but the reality is this: by not boosting demand for goods and services by helping existing excess capacity—the nearly 15 million unemployed workers in our country today—millions of workers will find no means of support today and will see their economic future grows dimmer by the week.

**It is important to remember that by taking actions to avert greater unemployment, we averted a bigger federal deficit.** The steps taken to shore up our economy have ended up being a better investment for jobs and for the deficit than doing nothing at all (Figure 6). Economists

Blinder and Zandi estimated that had Congress done nothing, the deficit would have ballooned to more than 2.5 times as large as it did, hitting more than $2 trillion by the end of the 2010 fiscal year, $2.6 trillion in fiscal year 2011, and $2.25 trillion in fiscal year 2012. In actuality, they estimate that by the end of the 2010 fiscal year, the federal budget deficit will be $1.4 trillion and it will fall to $1.15 trillion in fiscal year 2011 and $900 billion in fiscal year 2012.[28]

**Figure 6**




Source: Congressional Budget Office and Blinder and Zandi, *How We Ended the Great Recession*

The most important reason for the rise in the deficit is rising unemployment and falling incomes.[29] In 2009, federal receipts were $419 billion below 2008 levels, a 17 percent drop, which was the largest decline from one year to the next in more than 70 years. Individual income tax receipts decreased by 20 percent, and corporate income tax revenues plummeted by more than 54 percent, which means corporations paid less than half in taxes than they paid the year before.[30]

## To fix the jobs problem, fix the aggregate demand problem

Unlike any point in the decades since before World War II, the challenge of laying the foundation for a strong economy lies with you and this body of government. These are unusual times because it continues to be the case that fiscal policy is the primary lever that the federal government has at its disposal to spur economic growth. I urge you to consider that these extraordinary times call for extraordinary action—continued spending to aid to the long-term unemployed. The sense of imminent collapse of our financial sector, thankfully, now appears behind us, but the fallout for our economy remains and it is just as dramatic and continues to require bold steps.

Let's be clear: An overgrown financial sector, bloated on the real estate bubble it helped create, threw our economy into crisis. **Moving forward, policymakers must continue to ensure that financial markets are focused on making funds available to promote investment in America, not just speculation and dividends for those in the financial services industry.** We need vibrant capital markets so that innovative companies can access funds to invest; we do not need innovative financial products to allow Wall Street to siphon off these funds for its own gain.

**Investment is the key to creating jobs now and building the foundation for a high-productivity future.** The American Society of Civil Engineers estimates that we need to spend at least $2.2 trillion over the next five years just to repair our crumbling infrastructure.[31] This doesn't even include things like high-speed rail, mass transit, and renewable energy investments we need to free ourselves from foreign oil and climate change.

The Obama administration has proposed a $50 billion fund, which is a good start, but we need to invest more to both address today's jobs problem and lay the foundation for long-term economic growth. Infrastructure has been a traditionally bipartisan issue and one that hopefully this Congress can build a bridge across the aisle to address.

**We also need to make sure that if a goal of our trade policy is job creation, then we need to evaluate whether these policies reduces our trade deficit and, on net, create jobs.[32]** Economists estimate that local labor markets that have had increased exposure to Chinese imports have had higher unemployment, lower labor force participation, and reduced wages relative to local labor markets that have not had such exposure. What is notable is that although employment decline is concentrated in manufacturing, the declines in wages occur across the local labor market and are actually most pronounced outside of manufacturing.[33] The authors note that:

> Growing import exposure spurs a substantial increase in transfer payments to individuals and households in the form of unemployment insurance benefits, disability benefits, income support payments, and in-kind medical benefits. These transfer payments are two orders of magnitude larger than the corresponding rise in Trade Adjustment Assistance benefits. Nevertheless, transfers fall far short of offsetting the large decline in average household incomes found in local labor markets that are most heavily exposed to China trade.[34]

There is also not strong evidence that the Korea Free Trade Agreement will generate economically meaningful job gains. The U.S. International Trade Commission, the independent federal body that analyzes potential effects of trade pacts for Congress and the executive branch, estimate that while the Korea FTA would increase exports, it would increase imports even more and result in an increase in the total U.S. goods trade deficit of between $308 million and $416 million.[35] The largest estimated increases in the trade deficit would be in motor vehicles, electronic equipment, "other transportation equipment," iron, metal products, textiles, and apparel.

**The unemployment insurance system and other automatic stabilizers must remain in working order.** Filling the gap in demand will require continued attention to one of the key sources of demand: high unemployment. Most of the state's unemployment insurance trust funds are insolvent, however, with 30 states' owing a total of $41 billion, a debt that could rise to $80 billion.[36] The loans from the federal government will require that in 2011, 25 states must pay an extra $2 billion in federal unemployment taxes levied on employers, an increase of 30 percent over 2010.[37]

We all have an interest in not seeing the cost of hiring workers rise as firms struggle to ramp up hiring, but we also need to make sure that the unemployment insurance system has the integrity to continue to act as an important automatic stabilizer. Recent analysis shows that this system generated significant positive economic effects and kept unemployment from rising to more than 11 percent.[38]

With a mess like this, creating jobs isn't simple, but there couldn't be a better time to invest in America. Interest rates are low. Wages are low. We need jobs now and we need the kind of investments that will transform our economy and renew long-run prosperity.

Thank you.

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