Chapter 1

America's Jobs Emergency

According to the Bureau of Labor Statistics (BLS), nearly 12 million Americans remain unemployed—more than four years *after* the official end of the Great Recession. To put that figure in perspective, 12.8 million Americans were unemployed in 1933, the worst year of the Great Depression, and 11.9 million Americans were unemployed in November of 1982, the deepest point of the severe 1981–1982 recession. Another eight million Americans currently work part-time involuntarily, while an estimated 4 million have simply given up looking for work. More than four years into the current economic recovery, 15 percent of the American workforce is either without work, underemployed, or has left the workforce discouraged. At the current pace of job creation—a monthly average of just 180,000 new jobs since the beginning of 2012—America will likely not return to pre-recession levels of employment until 2023.[1]

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The economic downturn that began in December of 2007 certainly earned the grim and, by now, familiar moniker "The Great Recession." According to the National Bureau of Economic Research (NBER), the unofficial arbiter of recession start and end dates, the recent recession stretched 18 months—until June of 2009—making it the longest period of economic contraction since World War II. The longest post-war recessions had been those of 1973–1975 and 1981–1982, both of which lasted 16 months.

The recent recession was also the most severe post-war downturn, with the nation's gross domestic product (GDP) contracting by more than 5 percent. The next most severe downturn was the 1957–1958 recession, during which GDP contracted by 3.7 percent. At the depth of the recent recession—the fourth quarter of 2008—the economy contracted at a frightening annualized rate of nearly 9 percent.

Perhaps most alarming, the recent recession destroyed 7.5 million American jobs, or more than 5 percent of the pre-recession total. By comparison, the 1973–1975 recession eliminated 2 million jobs or about 2.5 percent of the pre-recession total, while the 1981–1982 downturn destroyed 2.8 million jobs or 3 percent of the pre-recession total.

As Figure 1.1 shows, the damage to U.S. labor markets continued until February of 2010, with an additional 1.3 million jobs eliminated in the eight months following the official end of the recession, bringing the total number of jobs lost since the beginning of the recession to a staggering 8.8 million—wiping out all employment growth achieved over the previous decade.

As Figure 1.2 shows, every other decade since World War II produced employment base growth of at least 20 percent.[2]

After fluctuating between 4 and 6 percent for most of the previous 15 years, the unemployment rate began a steep climb from 5 percent in April of 2008, doubling in just 18 months to 10 percent by October of 2009—breaching double-digit territory for only the second time since World War II.

Policymakers responded to the severe recession and the damage to U.S. labor markets with unprecedented measures. On February 17, 2009, newly inaugurated President Barack Obama signed into law the

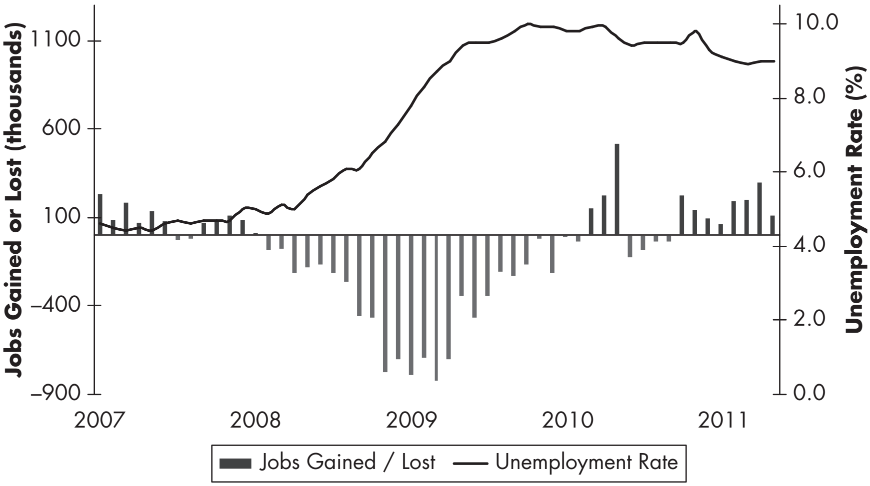

Figure 1.1 Monthly Job Gain/Loss and Unemployment Rate
SOURCE: Bureau of Labor Statistics.

American Recovery and Reinvestment Act, the principal purpose of which was to save or create jobs. The $800 billion fiscal stimulus provided unemployment relief, subsidies to states, and investments in infrastructure, education, health, and "green" energy. A number of temporary, more targeted programs followed, including "cash-for-clunkers," "cash-for-caulkers," tax credits for home buyers, and 99 weeks of jobless benefits.

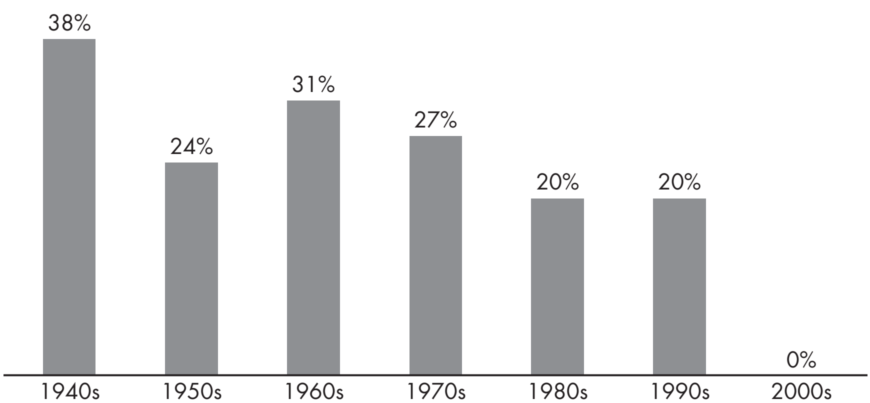

Figure 1.2 Employment Base Growth by Decade
SOURCE: Bureau of Labor Statistics.

On the monetary policy side, the Federal Reserve ("the Fed") also aggressively engaged. In September of 2007, the Federal Open Market Committee (FOMC)—the Fed's interest rate setting body—lowered the targeted fed funds rate[3] for the first time in more than four years. Over the next 15 months, the FOMC lowered the rate nine more times—ultimately, in December of 2008, to 0-to-0.25 percent, where it has remained for nearly five years.

In November of 2008, the Fed also turned to the power of its balance sheet, launching a program to purchase $600 billion in mortgage-backed securities in an effort to force long-term interest rates lower. Unsatisfied with the economy's response, the Fed began a second $600 billion program of "quantitative easing" in November of 2010. It would later launch a third.[4]

For a while, the extraordinary policy response seemed to be working. As Figure 1.3 shows, the economy emerged from recession in the third quarter of 2009, expanding by a weak yet welcome 1.4 percent. Growth continued through 2010, accelerating to 2.4 percent. And as the economy expanded, the nation's unemployment rate improved,

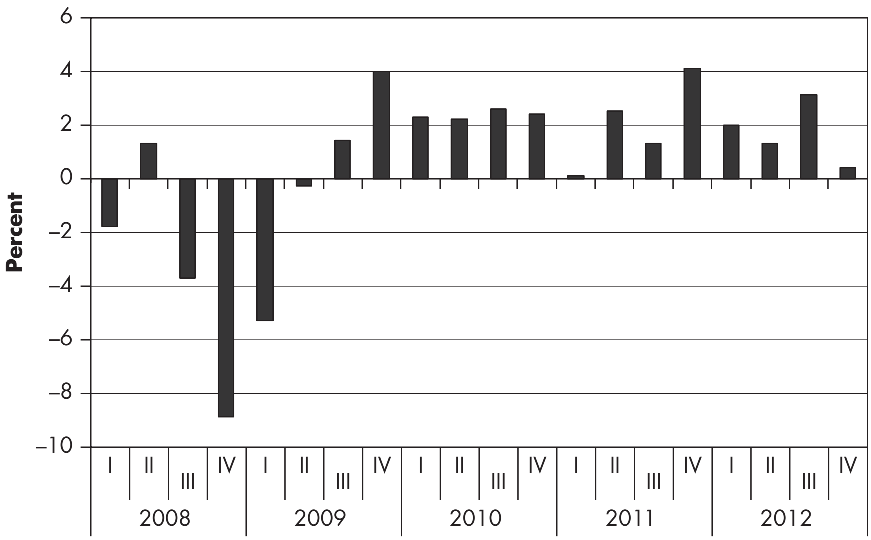

Figure 1.3 Quarterly GDP Growth
SOURCE: Bureau of Economic Analysis.

dropping from its peak of 10 percent in October of 2009 to 9 percent by February of 2011.

By early 2011, however, the economy seemed to stall. Growth slowed to a barely detectable 0.1 percent in the first quarter, followed by better but still sluggish performances of 2.5 and 1.3 percent in the second and third quarters—making the nine-quarter recovery the weakest in post-war history. Growth accelerated again in the fourth quarter, but for the year the economy expanded by a meager 1.8 percent. After its initial improvement, the unemployment rate leveled off, hovering at or near 9 percent for most of 2011.

On January 25, 2012, the Federal Reserve, citing slowing business investment and a "depressed" housing sector, announced its intention to keep short-term interest rates near zero "at least through late 2014." A week later, the nonpartisan Congressional Budget Office (CBO) lowered its forecast for economic growth to just 2 percent in 2012 and only 1 percent in 2013.[5] And, indeed, the economy expanded by just 2.2 percent in 2012. Sustained growth in excess of 3 percent is generally regarded as necessary to meaningfully reduce unemployment.

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More than four years after the end of the Great Recession, the U.S. economy is only scarcely larger than it was in 2007 and economic output is more than 10 percent lower than it would have been had the economy continued on its pre-2008 trend.[6] Even worse, only 6.5 million jobs have been created—about 70 percent of the jobs lost between February of 2008 and February of 2010. Moreover, a disproportionate share of the jobs created since economic growth resumed in mid-2009 has been in low-wage and temporary categories such as retail, "leisure and hospitality" (wait staff and bartenders), and "health care and social assistance."[7] Federal Reserve Board Governor Sarah Bloom Raskin lamented this reality in a speech in March of 2013:

> [R]ecent job gains have been largely concentrated in lower-wage occupations such as retail sales, food preparation, manual labor, home health care, and customer service . . . There is no simple cure to these conditions, but government policymakers

> need to focus seriously on the problems, not simply because of notions of fairness and justice, but because the economy's ability to produce a stable quality of living for millions of people is at stake.[8]

Moody's Analytics has projected that 42 percent of the jobs created between 2011 and 2015 will be low-wage, while only 19 percent will be high-wage.

As Figures 1.4 and 1.5 show, the economy's weak performance since emerging from recession represents a stark break from the historical pattern. Since World War II, U.S. recessions have tended to be brief and recoveries sharp—with the strength of the recovery generally correlated

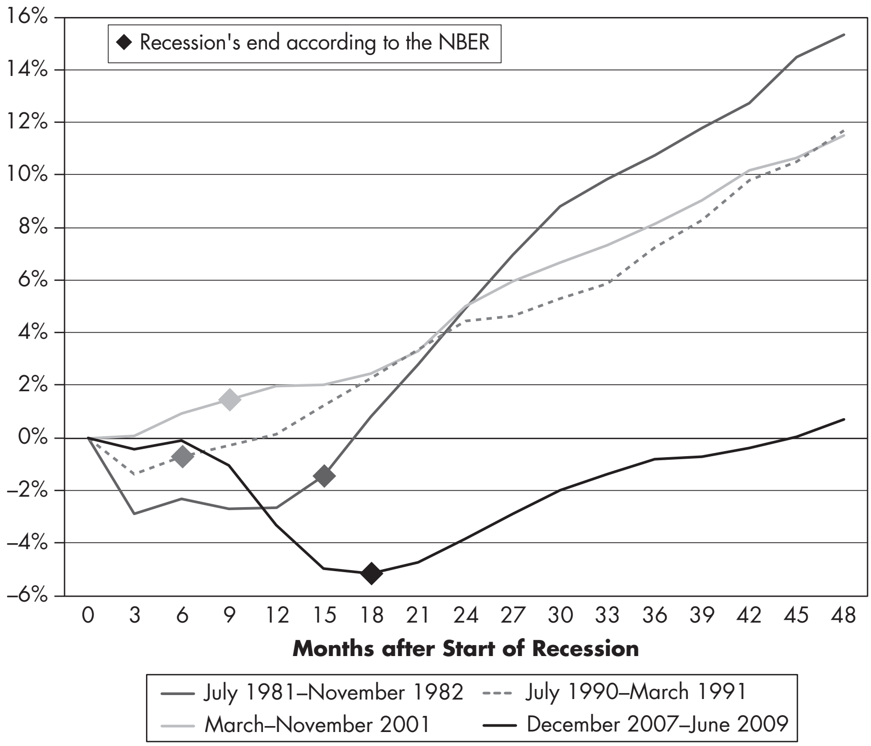

Figure 1.4 Cumulative Change in GDP from Start of Recession
SOURCE: Commerce Department; National Bureau of Economic Research.

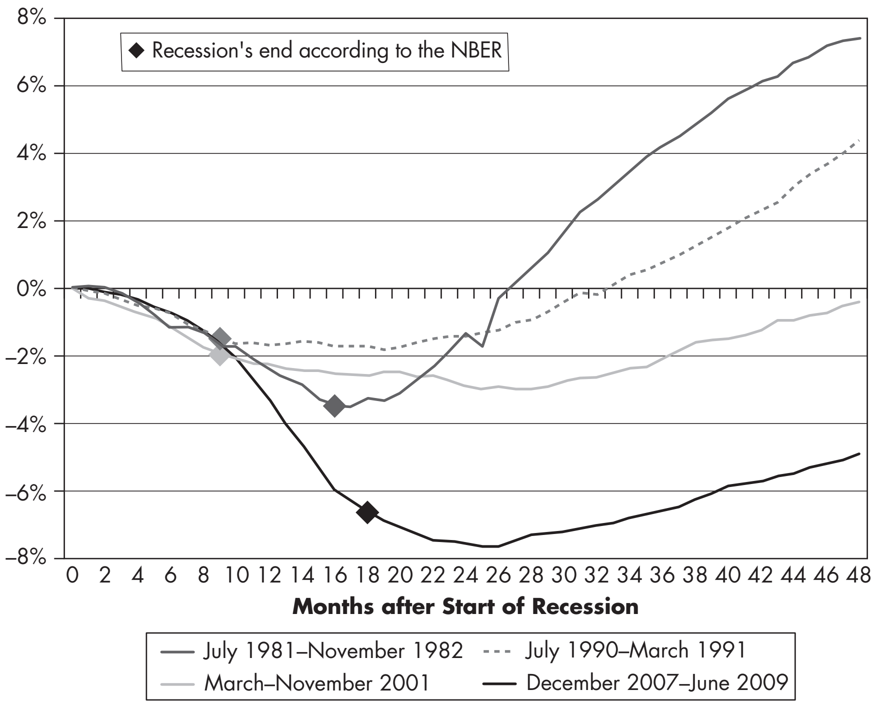

Figure 1.5 Cumulative Change in Private Sector Jobs from Start of Recession
SOURCE: Bureau of Labor Statistics; National Bureau of Economic Research.

with the depth of the downturn. Given the severity of the Great Recession, the historical pattern would predict a roaring recovery. But over the three years following the recession, the economy expanded by just 6.8 percent. Over the eight other post-war recoveries that lasted three years, the economy expanded an average of 15.5 percent.[9]

Had the current recovery followed typical patterns of post-recession growth and job creation, growth would have been more than double what it has been and, according to some estimates, as many as 14 million more Americans would be working.[10]

Identifying likely reasons for the economy's stunted recovery has preoccupied economists and other observers. Some have argued that the government's fiscal response, while unprecedented in magnitude, was nevertheless too small given the severity of the recession.

Economist Paul Krugman, a Nobel laureate and *New York Times* columnist, argued even before President Obama was inaugurated that his proposed $775 billion fiscal stimulus package "is unlikely to close more than half of the looming output gap"—estimated at the time by the CBO to be more than $2 trillion in lost production—"and could easily end up doing less than a third of the job."[11] Christina Romer, former chairwoman of President Obama's Council of Economic Advisers and one of the principal architects of the stimulus has since written about the plan: "[O]bviously, it was too small."[12]

Conservatives have countered that, on the contrary, the extraordinary fiscal and monetary policy measures taken to date have, in fact, hamstrung the economic recovery by contributing to business and consumer uncertainty and anxiety, weakening the value of the dollar, and by fueling increases in food and energy prices, which cut into consumers' capacity to spend.[13]

Other explanations have been offered. For example, as the economy emerged from recession in late 2009, spending by U.S. companies on equipment and technology surged, growing nearly 9 percent in 2010 and 11 percent in 2011. Such purchases—encouraged by historically low costs of capital and temporary tax breaks—enabled companies struggling to maintain profitability to enhance productivity while putting off more expensive hiring.[14]

Technology may also be causing some companies actually looking to hire to become overly picky—passing over applicants who just a few years ago would likely have been hired to fill the same or a similar job, according to Peter Capelli, director of the Center for Human Resources at the University of Pennsylvania's Wharton School and author of the recent book *Why Good People Can't Get Jobs*. Overwhelmed by the number of job applicants and under pressure to cut costs, many companies have replaced recruiters and other human resources personnel with on-line applications. In addition, eager to reduce or eliminate the costs of training new employees, companies are increasingly using screening software to sift through submitted applications, looking for candidates with *precisely* the right mix of skills.[15] The software incorporates what Cappelli calls employers' often "ridiculous hiring requirements," then weeds out as unacceptable any candidate who doesn't meet the overly specific parameters.[16] The practice, contends Cappelli, is contributing to a growing disconnect between employers who claim to have open positions but can't find suitable candidates, and a bounty of available candidates who could successfully fill those positions with a modest amount of on-the-job training.[17]

Also undermining the recovery is the inability of millions of would-be borrowers and spenders to take advantage of historically low interest rates engineered by the Federal Reserve because their credit scores have been significantly damaged by plunging home prices, foreclosures, lost jobs, reduced wages, late bill payments, or bankruptcy. African-American households have been particularly hard hit, losing on average half their wealth due to the recession,[18] with some reportedly experiencing what has been called a kind of "financial segregation."[19] Many banks, having survived a financial crisis stemming largely from poor underwriting standards, remain reluctant to lend to households with blemished credit histories.[20] According to Moody's Analytics and the credit monitoring service Equifax Inc., nearly 90 percent of all new mortgages in 2011 went to borrowers with high credit scores. Before the recent crisis, mortgages were evenly divided between high-score borrowers and those with lower scores.[21]

The unusually weak recovery may also have much to do with the nature of the recent recession. Rather than a contraction caused by high interest rates or sharp increases in supply prices, as is more typical, the recent recession was the result of a severe financial crisis sparked by the bursting of a historic housing bubble.

In their 2009 book *This Time Is Different*, economists Kenneth Rogoff and Carmen Reinhart point out that deleveraging and other balance sheet adjustments made by consumers and businesses—painful adjustments that follow debt-driven financial crises—take time and, therefore, delay and subdue subsequent economic recovery.[22] Following financial crises, economies have historically required more than four years to re-achieve pre-crisis levels of output.[23] Ms. Reinhart and her husband, economist Vincent Reinhart, have further demonstrated that economic growth rates tend to be lower for as much as a decade following financial crises.[24] In half of the 15 most severe post–World War II financial crises they studied, unemployment had not returned to pre-crisis levels within a decade following the crisis.

Whatever the nature of, or reasons for, the subpar recovery—and while the net effects of the extraordinary fiscal and monetary responses to the recent downturn continue to be debated—statistics make two realities undeniably clear: The economic recovery remains weak and fragile, and labor market conditions remain poor. Prior to dipping below 8 percent in September of 2012, the unemployment rate had remained above 8 percent for 43 consecutive months. Over the 60 years prior to the Great Recession, the unemployment rate topped 8 percent only 39 times *in total.*

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The extraordinary jobs crisis has affected Americans of all categories and age groups. As of May of 2013, 6.7 percent of white Americans were unemployed, with Hispanic and African-American unemployment at 9.1 and 13.5 percent, respectively.[25]

Unemployment among young Americans 16 to 19 years of age, at 25 percent, remains near post-war highs,[26] with 22 percent of white youth, 29 percent of Hispanic youth, and an astounding 43 percent of African-American youth out of work.[27] A recent study estimates the aggregate economic cost to society of "disconnected youth"—the nearly 7 million young people who are neither in school nor working—to be $4.75 trillion.[28] High youth unemployment has led to a "dramatic increase" in the rate of homelessness among those 18 to 24 years old, according to the U.S. Interagency Council on Homelessness.[29]

Half of recent college graduates cannot find jobs or are underemployed,[30] and half of those who are employed report that their jobs don't require the degrees they earned.[31] A growing number of college graduates are resorting to unpaid internships to acquire experience and build relationships that might eventually lead to gainful employment.[32] Because unused skills atrophy, and because reduced salaries lower earnings trajectories, the damage to underemployed graduates' careers and lifetime earnings could be permanent.[33]

Older Americans have not been spared. As of May of 2013, unemployment among those 25 to 34 years of age was 7.2 percent, 6.2 percent for those between 35 and 44, and 5.3 percent for those 55 and older. The proportion of Americans in their prime working years, between 25 and 54, who currently have jobs remains at or near the lowest level in 30 years, with 6.5 million Americans in the age group still unemployed.[34] The drop has been particularly severe for men, with the percentage of prime-age men with jobs falling to a 60-year low in the spring of 2012, and recovering only slightly since.[35] In addition, 3.5 million Americans in their prime *earning* years, between 45 and 65, during which people build careers and wealth in preparation for retirement, are out of work. Many of these Americans, their skills eroded or outdated, may never work again.[36] As Figure 1.6 shows, while rates of unemployment are lower for older age groups, government statistics show that, once unemployed, older workers have greater difficulty finding new jobs and endure unemployment for much longer periods.[37]

Long-term unemployment is an especially pernicious aspect of the nation's current job crisis. As Figure 1.7 shows, more than 4 million Americans, almost 40 percent of those unemployed—more than twice the rate during the severe 1981–1982 recession—have been out of work for more than six months, a third for more than a year. As of May of 2013, the average unemployed American had been out of work for 37 weeks, up from 17 weeks in 2007.

Long-term unemployment entails severe and far-reaching implications for the economy, and for society. For example, the skills and knowledge base of idle workers deteriorate over time, making finding work even less likely. Extended unemployment also reduces the

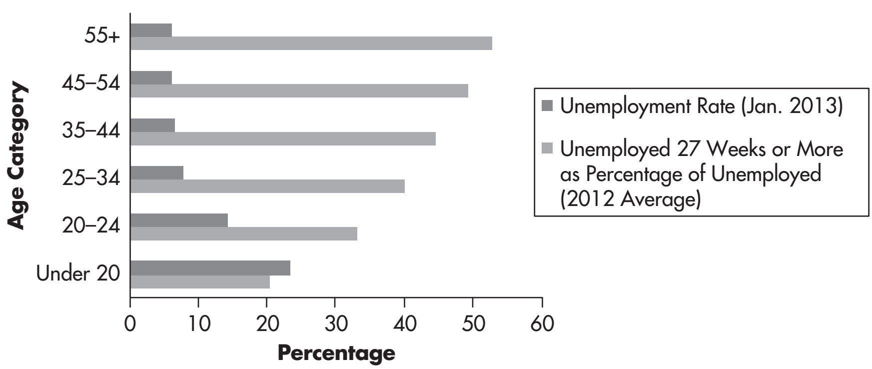

Figure 1.6 Unemployment Rate and Long-Term Unemployment by Age Group
SOURCE: Bureau of Labor Statistics.

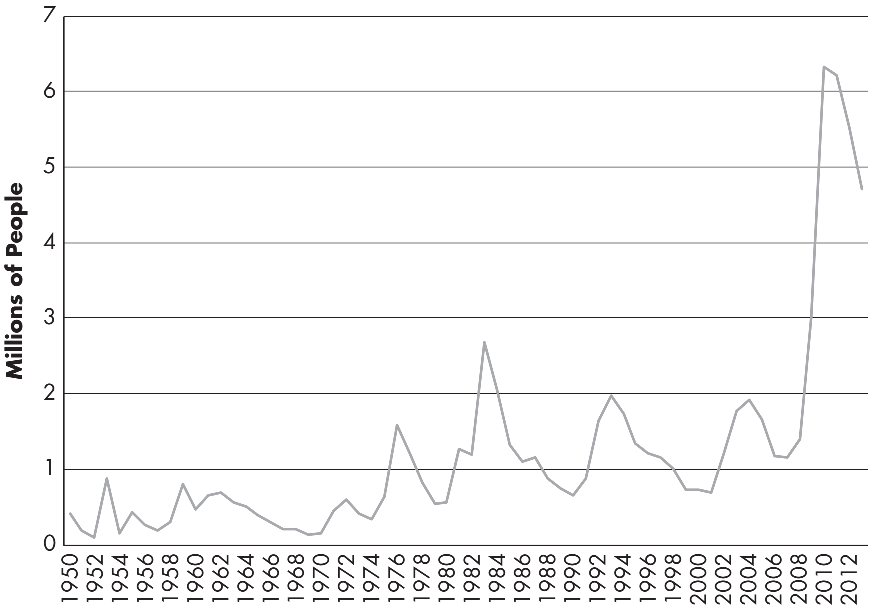

Figure 1.7 Civilians Unemployed for 27 Weeks or More
SOURCE: Bureau of Labor Statistics.

economy's long-term growth potential as the extra production, consumption, and wealth creation that unemployed workers would have contributed is lost.[38]

Even more serious, from a national and sociological standpoint, those who endure long-term unemployment suffer from higher rates of anxiety and depression,[39] substance abuse, divorce, domestic violence,[40] and even premature death.[41] A Rutgers University study of the long-term unemployed found that 60 percent said their economic situation has had a "major impact" on their family, and half reported that they had avoided friends and former associates—a kind of self-imposed isolation that further undermines their ability to network and find work.[42] Cruelly, many Americans struggling with long-term unemployment cannot afford to seek professional counseling or other kinds of treatment because they lost their employer-provided health insurance with their jobs.[43] Federal Reserve Chairman Ben Bernanke has called current levels of long-term unemployment "a national crisis."[44]

In addition to the unemployed, nearly eight million *employed* Americans are "underemployed"—working less than full-time involuntarily because their hours have been cut back or because they could only find temporary work. Together, those without work and the underemployed account for 11 percent of white Americans, 15 percent of Hispanics, and 20 percent of African-Americans.[45] Though fortunate enough to have jobs, the underemployed suffer hardships and anxieties similar to those endured by the unemployed, as earnings are often insufficient to meet expenses. According to the Census Bureau, one-third of adults living in poverty work but do not earn enough to support themselves and their families.[46] The frustration and pain of underemployment is worsened by the fact that median hourly wages were lower in 2011 than a decade earlier,[47] and because most temporary jobs offer no benefits.[48]

Perhaps most alarming, since the onset of the recent recession an estimated 4 million unemployed Americans have simply left the labor force.[49] Were these discouraged workers included in the government's calculation, the unemployment rate would be nearly 10 percent.[50] As Figure 1.8 shows, in March of 2013 the labor force participation rate—the share of Americans who are working or actively looking for jobs—declined to a 35-year low.[51]

More than four years into the recovery from the Great Recession, America's total jobs deficit—jobs lost but not yet recovered, plus

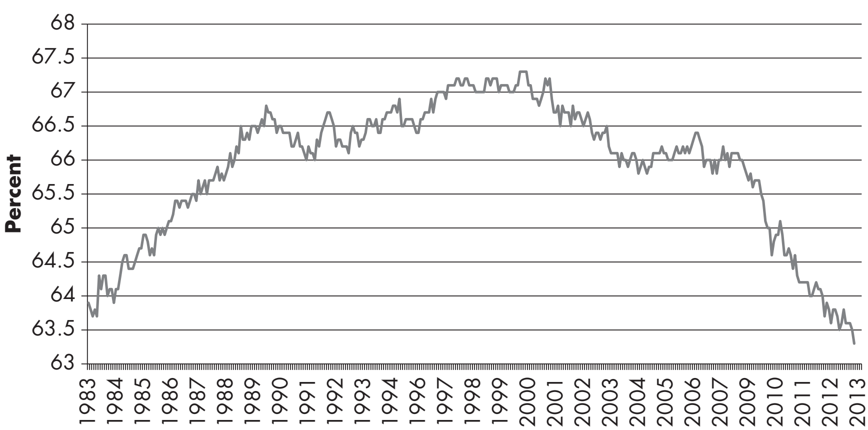

Figure 1.8 Labor Force Participation Rate
SOURCE: Bureau of Labor Statistics.

the jobs that should have been created to keep up with population growth—has been estimated to be more than 11 million jobs.[52] Private sector payrolls, currently about 135 million working Americans, are only slightly higher than the 132.5 million employed in late 2000, despite population growth over the period of more than 30 million.

Alarmingly, if not entirely surprisingly, given the surplus of idle workers, a recent study shows that American incomes declined by nearly 5 percent over the first three years of the recovery that began in June of 2009—more than they fell during the Great Recession itself.[53] Gordon Green, co-author of the study and former director of the Census Bureau's income and poverty statistics program, told *Bloomberg News*: "Almost every group is worse off than it was three years ago, and some groups had very large declines in income. We're in an unprecedented period of economic stagnation."[54]

Meanwhile, a record 11 million Americans are on federal disability insurance,[55] a record 48 million—up 70 percent since 2008—currently rely on food stamps,[56] and the Census Bureau has reported that the U.S. poverty rate has surged to the highest levels since the administration of Lyndon B. Johnson, with nearly 50 million Americans, one in six, living below the poverty line.[57]

America's jobs crisis remains a national emergency. The Great Recession was atypical in nature and historic in duration and severity. Conventional policy remedies, despite being applied in historic magnitudes, have not achieved the desired results. As many as 24 million Americans remain unemployed, underemployed, or have left the workforce.

Solving America's jobs emergency requires new ideas and new policies, including a sharp and unrelenting focus on the U.S. economy's true engine of job creation—new businesses.