Testimony of Dr. Lawrence Mishel (President, Economic Policy Institute) Before the Education and the Workforce Committee, U.S House of Representatives

February 12, 2003

I. Introduction

The U.S. economy is growing too weakly to create enough jobs to reduce unemployment and sustain real wage growth. Despite the loss of two million private sector jobs in less than two years, the Bush Administration has refused to propose an effective stimulus program to jump-start the economy and strengthen the labor market. Instead, the president has proposed a massive program of tax cuts for the rich that will damage the economy and lead to more job loss in the long term than if no change were made in current policy.

While numerous stimulus packages have been proposed that would lead to economic growth and substantial job creation at a reasonable cost to the federal budget, the Bush plan would *destroy* 750,000 jobs at a cost of $670 billion, while increasing inequality and wasting resources needed to address critical needs, such as education and health care.

II. The Jobs and Income Challenge

Today's U.S. economy is weak. In fact, the economy's growth in the last quarter of 2002 was so anemic that mainstream forecasters have recently downgraded their predictions for the coming year. The blue chip forecast is for 2.7% growth in gross domestic product—which is a level too low to create jobs, lower unemployment, or sustain consumer buying power. Without a quick stimulus to boost economic growth, the labor market throughout 2003 will be characterized by high unemployment, including high long-term unemployment, no job creation, and wage growth that lags behind inflation.

The full extent of the damage done by the last two years of recession and economic malaise are only now becoming clear. In 2001, the rise in unemployment caused household incomes to fall for the bottom 95% of households. It is almost surely the case that the even higher unemployment in 2002 led to further widespread losses of income as wages eroded and employment and hours deteriorated. Further damage to

living standards will likely occur in 2003 because unemployment is projected to remain high.

The economy's weakness is seen most clearly in the labor market. Recent labor market conditions have been analyzed by EPI economist Jared Bernstein, attached as Attachment A. Bernstein's conclusion is that:

> The jobs picture is so serious that steps to stimulate the economy and generate job growth are urgently needed. Any stimulus proposal should be evaluated primarily on its impact on job creation and its ability to reverse the current trend of weakening wage growth. (Bernstein 2003)

- Despite the fact that the recession is widely believed to have ended last year, unemployment rose throughout 2002, ending the year at 6.0% in December. Since the most recent economic peak, the jobless rolls have expanded by 2.8 million.
- Compared with March 2001, there are now 2.2 million fewer private sector jobs. Payrolls contracted not only over the recessionary year of 2001, but also over the alleged recovery year of 2002.
- The decline in private sector jobs at this point in the recovery is greater than in any of the past three recessions/recoveries.
- The lack of job creation has led to long spells of unemployment. The average unemployment spell has increased by more than five weeks compared with its level in the fourth quarter of 2000. In January, there were 1.7 million people who had been jobless for more than half a year, a million more than in January 2001.
- The lack of employment growth has led to slower growth of the labor force, as fewer people choose to compete for scarce jobs. The labor force is now growing half as fast as it was two years ago, a sure sign of a weak labor market.
- The rise in unemployment has led to slower wage growth, real income losses, and higher poverty rates.
- In 2001, when the unemployment rate climbed to 4.8% from 4.0% in 2000, real household income fell by 3% for the poorest households and 2% for middle-income households, while poverty increased by 0.4 percentage points. Although income and poverty data for 2002 are not yet available, given that unemployment was another point higher in 2002

(5.8%), the incomes of low- and middle-income households very likely fell even more last year.

- According to a new report from the Bureau of Labor Statistics, median weekly earnings fell 0.5% in real terms over the past year (from fourth quarter 2001 to fourth quarter 2002).

Last week there was an additional report on the labor market, from the Bureau of Labor Statistics, detailing jobs and wages as of January 2003. Changes in the survey questions and new information on net migration make it difficult to discern some unemployment trends. The reported unemployment was 5.7%, a drop from the reported December level, but in the range of unemployment seen over the last six months.

There was no change in the payroll survey, so conclusions about recent trends are more reliable. The 143,000 increase in payroll employment in January is a potentially hopeful sign. Unfortunately, this job growth primarily reflects the quirkiness of seasonal adjustments to retail trade jobs: the weak hiring in December reflected in a 100,000 decline in retail jobs led to a comparable increase in such jobs in January as those never hired were not laid off. The bottom line is that, in January, there were 13,000 fewer jobs than in November, and there is no reason to believe that the 'jobless' nature of the current recovery has changed.

Moreover, there was no growth in hourly wages, suggesting that the weakening wage growth at the end of 2002 continues in 2003.

No one should take comfort in an unemployment rate of 5.7%, which seems low relative to the bottom of other recessions. The enormous loss of jobs over the last two years and the decline in real wages are a truer measure of the problem. Besides the fact that unemployment is likely to rise again in the coming months, today's unemployment rate can be misleading because we have also had a slowdown in labor force growth (the number of people coming into the labor market hoping to find work). The stark fact is that we have lost 2.2 million private sector jobs since March 2001 (the official start of the recession). Even more worrisome is that the job losses in this recession exceed those of the prior three recessions, all of which generated unemployment significantly higher than we have now. **Figure 1** shows the percentage loss in private jobs in 28 months into the

current recession—a loss of 1.8%. This is a greater loss in jobs than in the earlier recessions at the same point in the business cycle. A jobless recovery means hardship for millions of Americans.

The fact that wage growth has deteriorated during 2002 indicates that the weak job market is not only affecting those who have lost a job or fear job loss—it is adversely affecting the wages and incomes of those who are employed. This is clearly shown in **Figure 2**. Real weekly wage growth, inflation-adjusted, was strong and positive over the four quarters of 2001. As unemployment continued to rise in 2002, it is not surprising that wage growth faltered (the impact of unemployment on wages occurs with a lag). Over the most recent four quarters, wages have fallen behind inflation nearly across the board. Real weekly wages fell 0.3% for low-wage workers, a sharp drop from the 2.8% gain in the prior year. Similarly, middle-wage workers saw their weekly wages fall by 0.2%, a big turnaround from the 2.2% growth in the prior year. A similar reversal of wage fortunes is evident among upper-middle and higher-wage workers. Few families are escaping the damage of this recession.

II. Job Impact: Weak in the Short Term, Negative in the Long Term

Given the job losses, high unemployment, and the declines in real wages and family income during the current recession, it is appropriate to consider policies to stimulate the economy.

Unfortunately, the Bush Administration "Jobs and Growth" proposal is not effective at creating jobs and growth in either the short- or long-run. This can be seen by examining the administration's own analysis as well as projections of mainstream forecasters.

This view is widely shared in the economic profession. In a joint statement (Attachment B) released this week, 10 Nobel laureates in economics and 450 other economists said that:

> The tax cut plan proposed by President Bush is not the answer to these problems. There is wide agreement that its purpose is a permanent change in the tax structure and not the creation of jobs and growth in the near-term. The permanent dividend tax cut, in particular, is not credible as "short-term stimulus."

The administration claims that their proposal "would provide near-term support for the recovery and have a significant effect on the rate of long-term economic growth" (CEA 2/4/03, p. 4). The administration has chosen to emphasize the importance of raising long-term growth rather than short-term stimulus, so we should examine those claims first.

It is remarkable that the administration's own analysis (Hubbard 2/4/03; CEA 2/4/03) shows that the administration's plan is not effective at creating jobs or growth in the long-term. As **Figure 3** shows, the administration claims its plan will generate more growth in GDP and in jobs in the first two years than over the first five years. This implies that GDP growth and jobs actually decline in 2005, 2006, and 2007 relative to what we would expect *if no plan was implemented at all*. In fact, growth in the 2005-07 period declines 0.8%, and there are 701,000 fewer jobs created as a result of the plan. CEA Chair Hubbard's testimony (see Hubbard Chart 3) shows that the plan has no effect over the four quarters of 2005, suggesting that the Bush plan causes growth to be lower by 0.4% in both 2006 and 2007.

It is not surprising that the CEA analysis shows their plan having a negative long-term impact since other forecasters have reached similar conclusions. Consider the projections of Mark Zandi, president of Economy.com, who was recently referred to in the *Wall Street Journal* as "one of the smartest analysts of today's economic scene." Zandi's analysis of the Bush plan (Economy.com February 2003) shows a positive impact over the first two years (0.8% higher GDP over two years) but an annual GDP decline of 0.25% thereafter. Consequently, GDP is lower by 1.0% in 2013 than it would be with no Bush package. The result is a loss of 750,000 jobs by 2013.

Similarly, a special analysis of the Bush plan by Macroeconomics Advisers, LLC, also shows negative long-term consequences (Macroeconomic Advisers January 10, 2003). Please note that Macroeconomic Advisers is a highly regarded firm that is one of

only two blue chip forecasters to twice win the annual Blue Chip Economic Forecasting Award. They conclude that "the long-run impact of the tax cut is to induce a decline in potential GDP and hence revenues" (p. 6). The forecast shows the Bush plan lowers productivity by 0.6% in 2010 and raises unemployment higher than would otherwise be the case over the 2003-07 period. This reflects the fact, according to Macroeconomic Advisers, that although the Bush plan has a positive short-term impact on growth and jobs in 2003 and 2004, the cumulative impact over the next five years is to have no impact on GDP and a cumulative employment gain of 105,000 jobs. The implied impact over the 2005-07 period is a 0.5% annual decline in GDP and the loss of 343,000 jobs per year. The fact that productivity declines and employment begins to decline in 2005 directly contradicts the administration's claim that their plan produces jobs and growth in the long run.

There are negative long-term job and growth impacts of the Bush plan for two reasons. One is that the tax cuts lead to sustained budget deficits into the foreseeable future. These deficits, in turn, raise long-term interest rates, thereby suppressing investment and productivity growth. The second reason is that the items included in the administration's proposal are rather ineffective at raising long-term growth. Much of the package involves items already scheduled to be implemented. Therefore, these items do not have a long-term effect. Plus, the dividend tax cut has little stimulative impact in either the short or long run. Many economists believe that the dividend exclusion will actually depress investment

One can see how ineffective the elements of the Bush plan are by examining **Figure 4**, which lists Economy.com's evaluation of how stimulative a proposal is per dollar spent—the higher the number, the greater the stimulative impact. The least stimulative proposal is the dividend tax exclusion, which generates just 20 cents of stimulus in 10 years per dollar spent (the short-term impact is even less). The Bush income tax proposals have little effect because, as noted above, they would have occurred anyway. As short-term stimulus, the most effective items in the Bush plan are those that benefit low- and middle-income taxpayers. As should be well known, accelerating the income tax rate cuts benefits the best-off families exclusively, with 94% of the benefits accruing to the upper 20% and 54% of the benefits accruing to the top 1% of taxpayers.

As a result, it should not be surprising that accelerating the tax rate reductions is less effective at stimulating spending.

In contrast, Economy.com identifies extending unemployment benefits, providing state fiscal relief, and providing a broad-based one-time tax cut (the wage bonus-type relief in the House Democratic plan or the Senate proposal) as very effective short-term stimuli.

As mentioned earlier, there is reason to believe the administration's proposal will have a short-term effect on jobs, although very few would be created in 2003. In fact, the administration's claim is that 510,000 extra jobs will be created in the second half of 2003.

It is clear that the administration's proposal is poorly designed to produce near-term stimulus.

One can certainly create many more jobs with a $674 billion expenditure. In fact, the competing plans offered by Democrats in the House and Senate create more jobs over the next year than the Bush plan, yet do not create long-term chronic deficits. This is because these plans rely on immediate, temporary, and effective measures.

It is easy to understand why the Bush proposal is so ineffective at creating jobs in the near-term. First, very little of the package actually stimulates the economy in 2003 when jobs are most needed—just $31 billion, or 4.6% of the $674 billion tax cut. In contrast, all of the Democratic proposals call for much larger stimulus in 2003. Second, the administration's tax cuts are ineffective at stimulating consumption because they are so heavily targeted at high-income groups. Third, there is little reason for making permanent tax cuts in order to generate jobs in 2003 and 2004—the tax code in 2010 has little to do with the spending habits of consumers this year. Thus, large permanent tax cuts are unnecessarily expensive and the wrong tool for generating a stronger recovery and creating jobs this year.

This is affirmed in the statement by the 10 Nobel Laureates and 450 economists that states:

> To be effective, a stimulus plan should rely on immediate but temporary spending and tax measures to expand demand, and it should also rely on immediate but temporary incentives for investment. Such a stimulus would spur growth and jobs

in the short-term without exacerbating the long-term budget outlook. (Attachment B)

III. Personal Reemployment Accounts

Let me turn now to the Department of Labor's budget, and its major legislative proposals.

Having presided over the loss of more than two million private sector jobs since the recession began in March 2001, the Bush Administration should be very sensitive to the needs of the unemployed. Surprisingly, however, the president's budget virtually ignores the long-term unemployed, proposes an ill-timed experiment in delivering reemployment services to the rest of the unemployed, and shifts the costs of administering the unemployment insurance program to the states during a time of fiscal crisis.

As we have seen, the long-term unemployed—those who have been unemployed for more than six months—have grown in total numbers and as a share of all the unemployed over the past two years. In March 2001, 690,000 people had searched for work for at least 27 weeks; last month there were 1, 683,000—nearly a million more. Those searching for work for more than six months make up 20% of all the unemployed.

Despite all the talk of job creation, the Department of Labor's statistics reveal that, as of November 2002, there were only 2.826 million job openings in the U.S. That is, firms were looking to hire 2.8 million workers. Meanwhile, during the same month there were 8.637 million people searching for work. These labor market conditions leave 5.8 million workers with no way to find a job, no matter how diligently they search.

The most urgent problem for the Labor Department today is *protecting* the millions of workers who cannot find a job. This is especially true for the one million workers who lost their jobs last year, exhausted all of their state and federal unemployment benefits, and remain unemployed. They are facing economic disaster for themselves and their families. Even while still receiving unemployment compensation, about 40% of the long-term unemployed fall into poverty. Congressman Rangel introduced legislation to make those who have exhausted benefits eligible for the federal

extended benefits (TEUC) program, but Congress left them out when it extended the program in January.

In the recession of the early 1990s, Congress provided 26 weeks of federal unemployment benefits to all workers who exhausted their state benefits, and an additional seven weeks of benefits in high unemployment states. The TEUC program that was extended in January provides only 13 weeks of federal benefits to most of those who have exhausted benefits. The first priority of Congress, therefore, should be to correct this gaping hole in the safety net.

Instead, the president has proposed an experimental program targeted on a selected group of workers whom the states identify as likely to exhaust unemployment benefits in the future. The proposed funding, over a two-year period, would allow 1.2 million workers to take part in the experiment and would provide *"up to"* $3,000 for workers in individual accounts. (The actual amount would be subject to appropriations, would be reduced by the administrative costs of the program, and could be further reduced by state and law policy.)

Apart from the inadequate funding and lack of coverage, there are many potential problems with the Personal Reemployment Account experiment. In the best of times it is unclear that this program is cost-effective, but in bad times, like the current labor market, the program is particularly ill-conceived. As discussed previously, the U.S. job market is characterized by too few jobs, for too many workers. In November 2002, when last measured, there were three workers looking to fill each job vacancy. To give a reemployment bonus to a few for finding a job more quickly does nothing for overall economic growth or employment—it simply plays musical chairs with the unemployed, rewarding the luckier job seekers who need help the least. This is an unaffordable waste of scarce resources.

The Personal Re-employment Account experiment may also be a bad deal for many of the workers who would receive them. Under the Workforce Investment Act, unemployed workers are eligible for Individual Training Accounts (ITAs) worth as much as $10,000 in some states. The maximum Personal Re-employment Account amount would be only $3,000, too little in many areas to purchase worthwhile training for a new

job. (Some states cap ITAs at a much lower amount, but they would be permitted to cap the PRA below $3,000, too.) Workers who receive a Personal Re-employment Account would be prohibited from using WIA services for a year, so some would be trading $10,000 worth of services for $3,000. Many workers would be tempted to make the trade in order to obtain a reemployment bonus, but if they are correctly profiled, they are unlikely to find a job by the 26th week, let alone the 13th, and will end up with no reemployment bonus and a further diminished chance of finding a job.

Rather than experiment on the unemployed during a period of economic hardship, it would make more sense (after dealing with the needs of the long-term unemployed) to increase funding for ITAs. The U.S. General Accounting Office has found that the states are stretched thin, spending nearly 100% of the money allotted to them under the WIA. Increasing WIA funding would leave states the choice of providing more money for ITAs to upgrade the skills of the unemployed, providing reemployment bonuses if they were appropriate, or increasing the intensive reemployment services provided by one-stop centers.

The administration's proposals put all of the additional administrative costs of these experimental accounts on to the states. Compounding this problem, the president's budget has proposed eliminating the federal role in funding the administration of the unemployment insurance system by shifting this burden onto the states. This "devolution" proposal will make the states responsible for raising taxes to fund the administration of the unemployment insurance system. The competitive business climate between the states is likely to mean that there will be a race to the bottom—further eroding the protections of the unemployed.

As I said at the outset, the economy has stagnated and needs an immediate stimulus. Compared to the stimulative effect of extending unemployment benefits, which generates more than $2.00 of new GDP for every dollar spent, PRAs would be grossly ineffective. First, they will take months to implement, both because the states and the Department of Labor will have to issue regulations and implementation guidelines, following legislative enactment, and because an appropriation will have to be passed by both Houses and signed by the President before allotments to the states can be determined. And then, before the first dollar can be spent, the states will have to devise

and submit implementation plans to the Labor Department for review. The state plans, must be developed "in consultation with local boards and chief elected officials" and must include, among other things, "safeguards, developed in consultation with such boards and officials, to ensure that funds from the personal reemployment accounts are used for purposes authorized under this chapter and are not used for services or providers that are wholly unreasonable or egregious." Second, the effect of this experimental program is unknown: given the current labor market of scarce jobs, this experiment is unlikely to result in anyone finding work faster as a result of the bonus. Those lucky enough to find work will get a bonus, while those out of work for long periods of time will exhaust their regular UI benefits. Third, this experiment is poorly timed. Finally, the programs are woefully under-funded at the proposed level and do not in any way address the real problem, a lack of jobs.

There is also no certainty that the money from Personal Re-employment Accounts would be spent quickly after it is received, making the PRAs even less effective as stimulus. They seem designed, in fact, to work primarily as a re-employment bonus and to be paid in full only six months *after* the worker is re-employed. At that point, paid as a lump sum to a worker with a salary, the bonus might be saved, rather than spent on pressing needs.

# # #

Figure 1. Private employment change 28 months into a recession

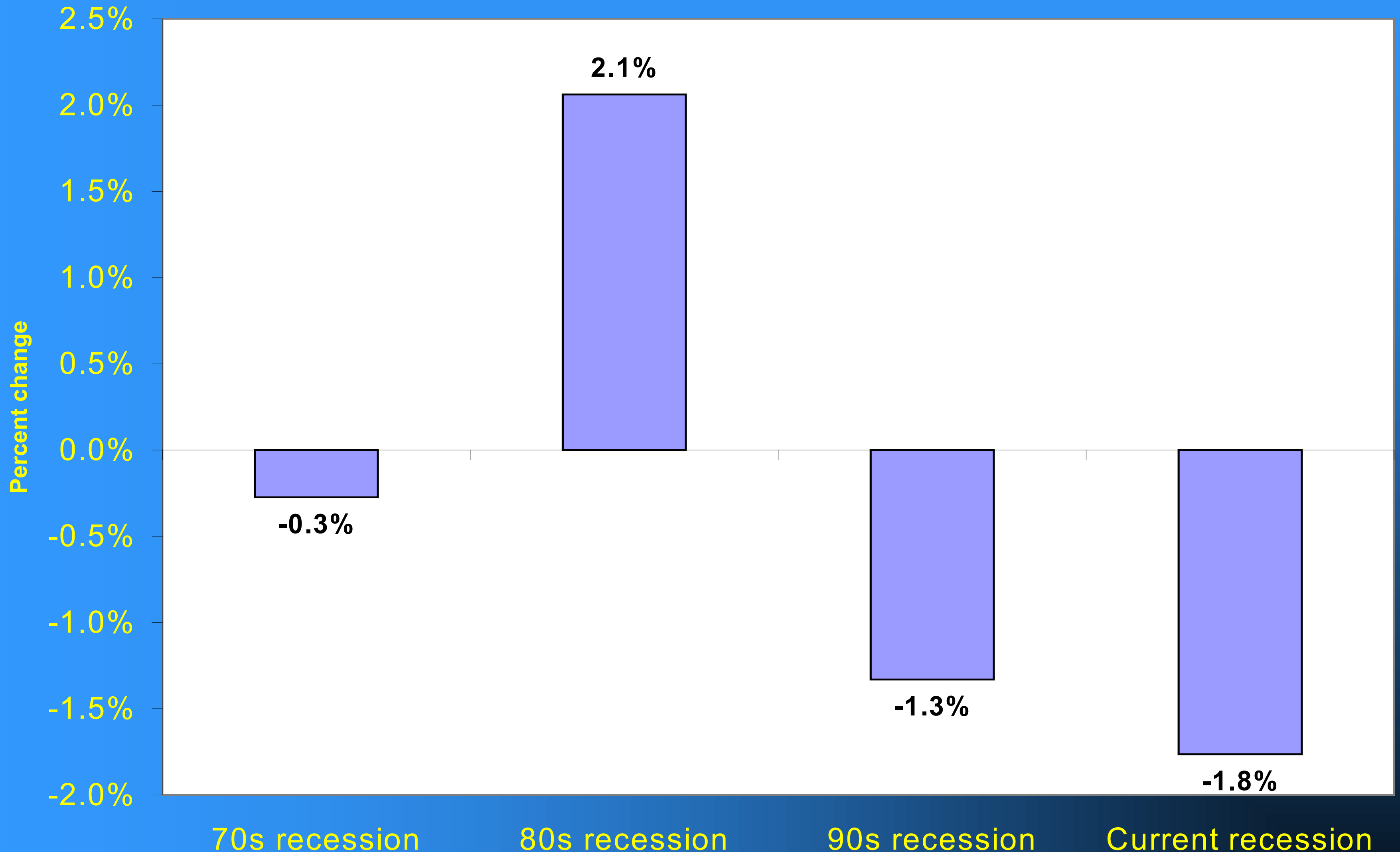

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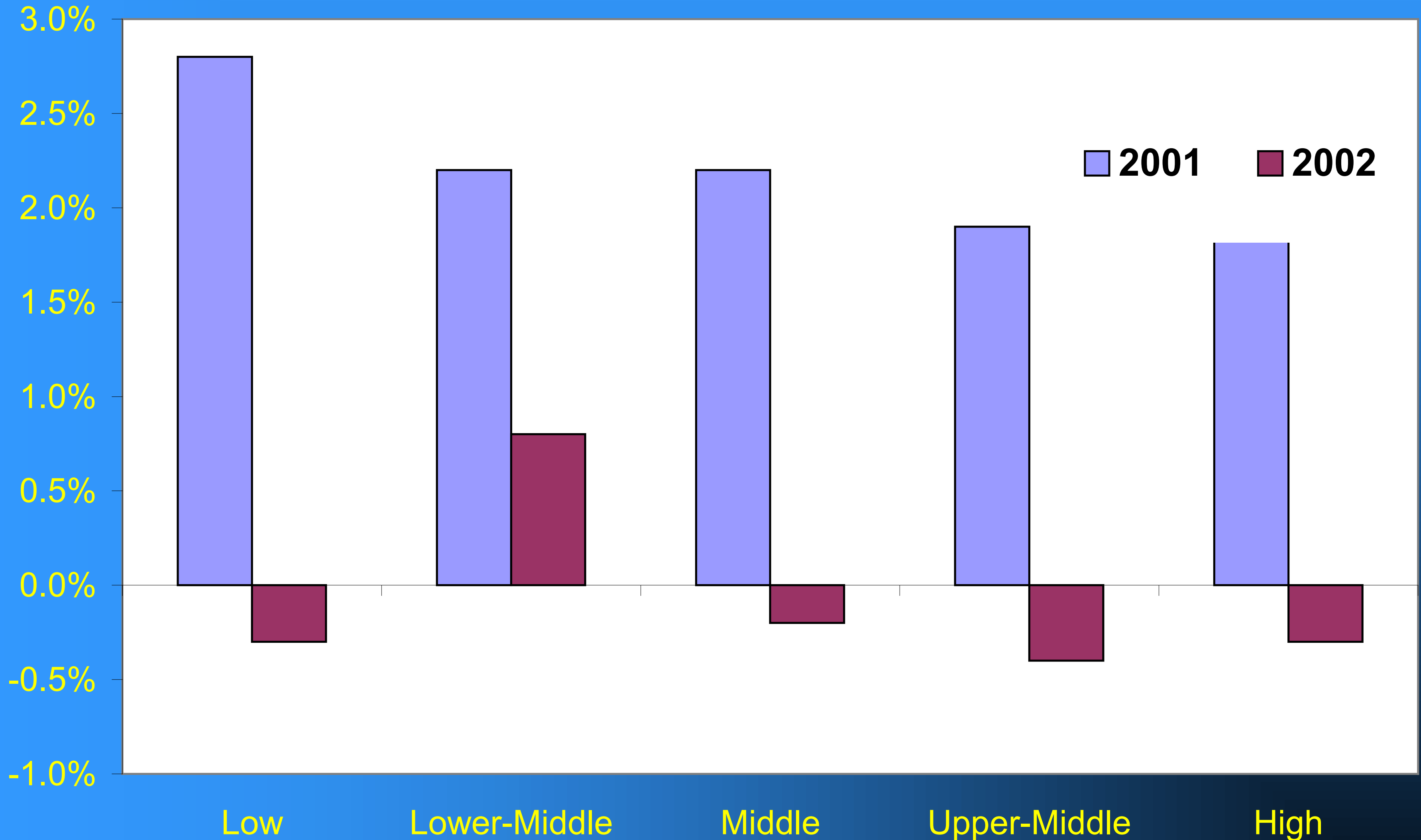
Figure 2. Growth of inflation-adjusted weekly wages, 2000-02*



* Fourth quarter over fourth quarter.

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Figure 3. Impact of Bush plan on jobs and growth, 2003-07

Impact of Bush Tax Plan
As Reported by the CEA*

Indicator	2003	2004	2005-2007	2003-07 Annual	2003-07 Total	Implied 2005-07 Annual	Implied 2005-07 Total
GDP (percentage points)							
Q4/Q4	1.0%	0.8%	?	0.2%	1.0%	-0.3%	-0.8%
Yr/Yr	0.4%	1.1%	?	0.2%	1.0%	-0.2%	-0.5%
Employment							
Q4/Q4	510,000	891,000	?	140,000	700,000	-233,667	-701,000
Yr/Yr	192,000	900,000	?	170,000	850,000	-80,667	-242,000

* Impact relative to the baseline

Source: Analysis of Council of Economic Advisers (2/4/03)

Figure 4. Stimulative impact of proposals

Elements	Impact per Dollar	
	1-year	10-year
Bush Plan		
Accelerate 10% bracket	1.34	0.00
Accelerate Rate Cuts	0.59	0.02
Marriage Tax penalty	0.74	0.07
Child Tax Credit	1.04	0.10
Dividend Exclusion	0.09	0.20
Democratic Plan		
Extend UI Benefits	1.73	2.05
Family tax cut/Rebate	1.19	0.00
State Fiscal Relief	1.24	2.01

Source: Economy.com, February 2003.

ATTACHMENT A

EPI Issue Brief

Issue Brief #186 Economic Policy Institute January 24, 2003

THE JOBLESS RECOVERY

Suffering from the recession's aftershocks, labor market conditions continue to worsen

by Jared Bernstein

Though the recession that began in March 2001 has not yet been declared officially over, most economists believe it ended early in 2002. However, the labor market downturn is far from behind us. Today's labor market is much weaker than it was one or even two years ago, and the "jobless recovery" grinds on.

The jobs picture is so serious that steps to stimulate the economy and generate job growth are urgently needed. Any stimulus proposal should be evaluated primarily on its impact on job creation and its ability to reverse the current trend of weakening wage growth.

An examination of the trends in key labor market indicators between the end of 2000 and the end of 2002 shows widespread and persistent weakening in the labor market. Key findings are:

- Despite the fact that the recession is widely believed to have ended last year, unemployment rose throughout 2002, ending the year at 6.0% in December. Since the most recent economic peak, the jobless rolls have expanded by 2.8 million.
- Compared with the end of 2000, there are now 2.1 million fewer private sector jobs. Payrolls contracted not only over the recessionary year of 2001, but also over the alleged recovery year of 2002.
- The decline in private sector jobs at this point in the recovery is greater than in any of the past three recessions/recoveries.
- The lack of job creation also has led to long spells of unemployment. The average unemployment spell has increased by more than five weeks compared with its level in the fourth quarter of 2000. There are now 1.7 million people who have been jobless for more than half a year.
- The lack of employment growth has led to slower growth of the labor force, as fewer people choose to

compete for scarce jobs. The labor force is now growing half as fast as it was two years ago, a sure sign of a weak labor market.

- The rise in unemployment has led to slower wage growth, real income losses, and higher poverty rates.
- In 2001, when the unemployment rate climbed to 4.8% from 4.0% in 2000, real household income fell by 3% for the poorest households and 2% for middle-income households, while poverty increased by 0.4 percentage points. Although income and poverty data for 2002 are not yet available, given that unemployment was another point higher in 2002 (5.8%), the incomes of low- and middle-income households very likely fell even more last year.
- According to a new report from the Bureau of Labor Statistics, median weekly earnings fell 0.5% in real terms over the past year (from fourth quarter 2001 to fourth quarter 2002).

The jobless recovery

The tables below compare the recent trends in key labor market indicators over three time periods: the last quarters of 2000, 2001, and 2002. These periods span the time from the labor market peak of the last business cycle through the most recently completed quarter. If the alleged recovery had reached the labor market, we would expect to see trends worsening during 2001 but then improving in 2002. Instead, we see a steady worsening. Some negative trends, such as long-term unemployment, even accelerated.

Table 1 shows one of the primary indicators of labor market weakness: the unemployment rate, which is the share of the workforce unsuccessfully looking for work. At the end of 2000, the unemployment rate stood at 4.0%. With the onset of recession in early 2001, the rate began to climb, reaching 5.6% by the last quarter of that year. Since then, joblessness has continued to rise, reaching 5.9% in the most recent quarter. As the second panel shows, the ranks of the unemployed grew over this two-year period from 5.6 million to 8.4 million, an increase of 2.8 million unemployed people.

Table 1 also shows unemployment rates by gender and race. Note that the African American rate has risen the most, reaching double digits by the last quarter of 2002, at 10.8%. This represents an increase of 582,000 in the number of black unemployed persons.

Table 2 shows one reason why unemployment keeps rising: the absence of job growth. After growing by 1.6% in 2000, the nation's payrolls contracted by 0.8% in 2001 (1.4% in the private sector), and continued to decline, though less quickly, through 2002. Job losses over this period amounted to 1.4 million overall and 2.1 million in the private sector (since government hiring is less sensitive to the business cycle, private sector employment growth is more indicative of economic conditions).

The manufacturing sector has been particularly damaged, falling by 6.7% (1.2 million jobs) in 2001 and 3.7% (another 642,000) last year. Job losses in retail trade actually accelerated in 2002, driven partly by particularly weak holiday hiring.

Figure A compares private sector employment losses over four different recessionary periods. In each case, we measure employment growth from the low point of unemployment through the subsequent 27 months (since we are now 27 months beyond the unemployment low of 3.9% in October 2000). Even though other recessions were deeper and lasted longer than the most recent one, payrolls have fallen persistently throughout

TABLE 1
Unemployment rates and levels

	All	Men	Women	African Americans	Hispanics
Rates					
2000:q4	4.0%	4.0%	4.0%	7.4%	5.4%
2001:q4	5.6%	5.7%	5.5%	9.9%	7.3%
2002:q4	5.9%	6.1%	5.7%	10.8%	7.7%
Change *(in percentage points)*	1.9	2.1	1.7	3.4	2.3
Levels (in thousands)					
2000:q4	5,609	3,010	2,599	1,239	869
2001:q4	7,983	4,336	3,647	1,654	1,191
2002:q4	8,436	4,624	3,812	1,821	1,273
Change	2,827	1,614	1,213	582	404

Source: U.S. Bureau of the Census.

TABLE 2
Employment growth/losses (percent changes, year-over-year)

	All	Private sector	Manufacturing	Retail trade	Services
2000:q4	1.6%	1.6%	-0.6%	1.7%	3.0%
2001:q4	-0.8	-1.4	-6.7	-0.1	0.1
2002:q4	-0.2	-0.5	-3.7	-0.8	1.3
Change in employment, 2000:q4-2002:q4 *(in thousands)*	-1,379	-2,109	-1,867	-216	577

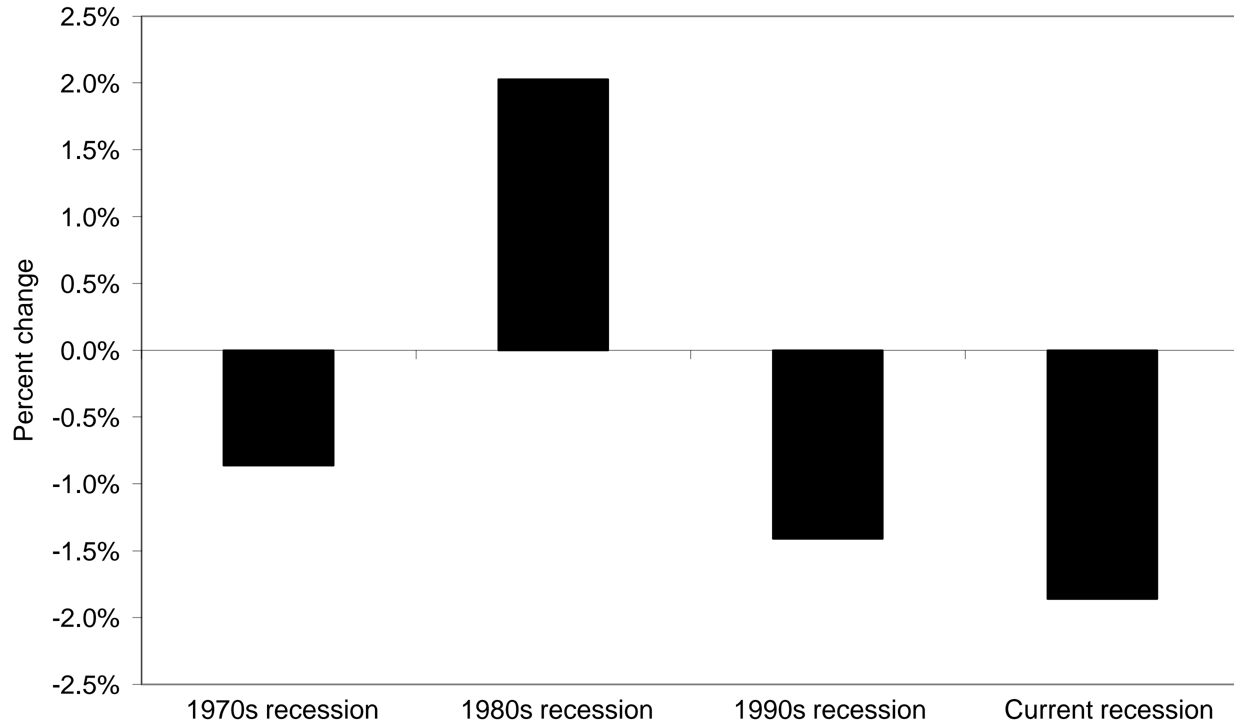
Source: U.S. Bureau of the Census.

this 27-month period. Thus, as shown in the figure, employment losses in the most recent recession and subsequent jobless recovery have been greater than in any of the other three recessions and recoveries. Other recessions may have led to greater losses initially, but by this point in those recoveries, the economy had bounced back and payrolls were again expanding.

Table 3, meanwhile, shows that the decline in employment has meant not only more unemployment, but also much longer spells of joblessness. The table shows the trend both in average weeks spent unemployed and in the share of the unemployed who have been out of work for at least half a year. Both series show that the problem of long-term joblessness worsened in 2002, as the jobless recovery took hold. Since the final quarter of 2000, the average time spent unemployed has grown from about three months (12.4 weeks) to about four and a

FIGURE A

Private sector employment change 27 months from the peak



Source: U.S. Bureau of the Census.

TABLE 3
Uneployment durations

	Average weeks	Share unemployed at least half a year
2000:q4	12.4	11.1%
2001:q4	14.0	13.1%
2002:q4	17.9	20.9%
Change	5.5	9.8 percentage points

Source: U.S. Bureau of the Census.

half months (17.9 weeks), an increase of well over a month. At the same time, the share of the unemployed who have been without work for at least 27 weeks has almost doubled, from 11.1% to 20.9%. Thus, by the last quarter of 2002, 1.7 million job seekers had been without work for at least half a year.

Some commentators have argued that, since unemployment has yet to surpass 6%, this period of recession and slow recovery has been more benign than previous ones. Such analysis overlooks two countervailing factors,

TABLE 4
Labor force growth

	Civilian labor force*	Growth in levels (thusands)
2000:q4	0.9%	1,221
2001:q4	0.7%	1,034
2002:q4	0.4%	508

* Percent change, fourth quarter over fourth quarter.

Source: U.S. Bureau of the Census.

TABLE 5
Overall nominal wage growth and inflation

	Low wages	Median wages	High wages	Inflation
2000:q3	5.3%	3.8%	7.1%	3.5%
2001:q3	3.8%	4.4%	3.7%	2.7%
2002:q3	1.4%	1.8%	2.7%	1.6%
Change *(percentage points)*	-3.9	-2.0	-4.4	-1.9

Source: U.S. Bureau of the Census.

however. First, the pain of recession is experienced not only in the *level* of unemployment but in its *trend.* In this regard, the two percentage-point increase in unemployment over this downturn is not far behind the increase over a comparable time period in the last recession (which was 2.3 points). Second, in the current recession, the lack of job creation has led to a marked decline in the growth of the labor force. Since fewer workers are competing for scarce jobs, this has the effect of preventing the unemployment rate from rising more quickly, masking the full extent of the underlying hardship.

Table 4 presents the percentage changes in the labor force over the fourth quarters of the past three years, showing a clear deceleration from 0.9% in 2000 to 0.4% in 2002. The second column of the table shows the net growth in the number of persons in the labor force over the past few years. Between the fourth quarters of 1999 and 2000, the labor force grew by 1.2 million. It grew slightly less in 2001. Then, in 2002, growth dropped dramatically, with only 508,000 people joining the labor force that year: a clear symptom of weak job creation.

Table 5 shows that the loosening of what had been a very tight labor market has meant slower growth in wages. It shows the annual changes in hourly wages over three years (comparing data from the third quarters of each year, since data are not yet available for the most recent fourth quarter). Wage changes are shown by gender for low-, middle-, and high-wage workers, and are based on nominal wages – not adjusted for inflation – with the rate of inflation shown in the last column.

Nominal wage growth has slowed considerably. By the third quarter of 2002, nominal hourly wages for low-wage workers grew 1.4%, compared to 5.3% in 2000. Middle and high wages have similarly decelerated.

TABLE 6
Changes in household income, 2000-01, when unemployment rose from 4.0% to 4.8%

	Lowest fifth	2nd fifth	Middle fifth	4th fifth	Top 80-95%	Top 5%
Percent	-2.9%	-2.3%	-1.8%	-1.0%	-0.6%	0.4%
2001 dollars	-$304	-$601	-$783	-$646	-$700	$1,019

Source: U.S. Bureau of the Census.

Inflation also slowed over this period, so these smaller nominal wage increases do yield more buying power than they would have a few years ago. However, a new report by the Bureau of Labor Statistics with data through the end of last year finds that the nominal median weekly earnings of full-time workers grew 1.7% between the fourth quarters of 2001 and 2002, which is below the rate of inflation for that period (2.2%).[1]

Even if the labor market were to improve soon, nominal wage growth would likely be slow to revive. This is because there is a considerable lag time between rising unemployment and its negative impact on wage growth (wage growth this year may be just beginning to suffer from last year's rise in unemployment).

Table 6 shows the resulting impact on living standards as reflected in the Census Bureau's annual income data. Although such data only go up to 2001, the impact of the recession is quite clear. The contracting economy, particularly the weakening labor market, helped drive real household incomes lower, with the largest losses occurring at the bottom of the income scale. Income fell 2.9% in real terms for the poorest households, and 1.8% for middle-income households. It grew slightly only for those at the top of the income scale. (Poverty also rose by 0.4 percentage points in 2001.)

It is important to note that these losses occurred simultaneously with the rise in the average annual unemployment rate from 4.0% in 2000 to 4.8% in 2001. Unemployment rose another point in 2002, on average, to 5.8%, and it is highly likely that the incomes of middle- and low-income households contracted further last year.

These wage and income trends reveal that the weak economy is not simply a problem for the unemployed. Many of those who have kept their jobs are facing less job security and are considerably less likely to see the type of wage increases that prevailed a few years ago. In 2000, when unemployment was hovering around 4.0%, the tight labor market ensured that the gains of economic growth were broadly shared and that wages and incomes rose for most working families. These conditions are now unlikely to return until growth accelerates and unemployment falls below 5%.

In short, these tables help reveal the current weakness in the labor market, and its consequences. High unemployment rates relative to a few years ago are beginning to lower the living standards of many working families. The persistent lack of job growth is leading to lengthening spells of unemployment and slower wage and income growth. The primary goal of domestic economic policy at this point should be to target and reverse these negative trends.

Endnote

1. See "Usual Weekly Earnings of Wage and Salary Workers: Fourth Quarter 2002." U.S. Bureau of Labor Statistics. < http://stats.bls.gov/news.release/wkyeng.nr0.htm. >

ATTACHMENT B

ECONOMISTS' STATEMENT OPPOSING THE BUSH TAX CUTS

Economic growth, though positive, has not been sufficient to generate jobs and prevent unemployment from rising. In fact, there are now more than two million fewer private sector jobs than at the start of the current recession. Overcapacity, corporate scandals, and uncertainty have and will continue to weigh down the economy.

The tax cut plan proposed by President Bush is not the answer to these problems. Regardless of how one views the specifics of the Bush plan, there is wide agreement that its purpose is a permanent change in the tax structure and not the creation of jobs and growth in the near-term. The permanent dividend tax cut, in particular, is not credible as a short-term stimulus. As tax reform, the dividend tax cut is misdirected in that it targets individuals rather than corporations, is overly complex, and could be, but is not, part of a revenue-neutral tax reform effort.

Passing these tax cuts will worsen the long-term budget outlook, adding to the nation's projected chronic deficits. This fiscal deterioration will reduce the capacity of the government to finance Social Security and Medicare benefits as well as investments in schools, health, infrastructure, and basic research. Moreover, the proposed tax cuts will generate further inequalities in after-tax income.

To be effective, a stimulus plan should rely on immediate but temporary spending and tax measures to expand demand, and it should also rely on immediate but temporary incentives for investment. Such a stimulus plan would spur growth and jobs in the short term without exacerbating the long-term budget outlook.

George Akerlof*
UNIVERSITY OF CALIFORNIA-BERKELEY

Kenneth J. Arrow*
STANFORD UNIVERSITY

Peter Diamond
MASSACHUSETTS INSTITUTE OF TECHNOLOGY

Lawrence R. Klein*
UNIVERSITY OF PENNSYLVANIA

Daniel L. McFadden*
UNIVERSITY OF CALIFORNIA-BERKELEY

Lawrence Mishel
ECONOMIC POLICY INSTITUTE

Franco Modigliani*
MASSACHUSETTS INSTITUTE OF TECHNOLOGY

Paul A. Samuelson*
MASSACHUSETTS INSTITUTE OF TECHNOLOGY

Robert M. Solow*
MASSACHUSETTS INSTITUTE OF TECHNOLOGY

Joseph Stiglitz*
COLUMBIA UNIVERSITY

Laura D'Andrea Tyson
LONDON BUSINESS SCHOOL

Janet Yellen
UNIVERSITY OF CALIFORNIA-BERKELEY

Douglass C. North*
WASHINGTON UNIVERSITY

William F. Sharpe*
STANFORD UNIVERSITY

* Nobel laureate