



Policy Memorandum

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THE PLAN TO END THE JOBS CRISIS

The economy requires a comprehensive response for a full recovery

BY ROSS EISENBREY

The United States faces the worst unemployment crisis of the last 70 years, with 15.7 million people unemployed, one-third of whom have been jobless for over six months. The lack of full-time jobs is especially severe: another 9.3 million Americans are working part time because they can't find the full-time jobs they want and need. This is in spite of a bold and effective recovery package that has been creating or saving 200,000 jobs each month since April 2009. The jobs shortage is so severe that there are now six unemployed for every job vacancy—double the ratio in the prior recession of the early 2000s. The employment situation is an economic and moral crisis for the nation and requires an adequate, comprehensive response by the federal government. By itself, the private sector is unable to create jobs in the numbers the United States needs to obtain a robust, full economic recovery.

The Economic Policy Institute supports a five-pronged approach to creating jobs and ending the unemployment crisis.

1. We need to strengthen the safety net and provide relief for those directly impacted by the recession. There is a direct boost to gross domestic product (and therefore to employment) from increases in unemployment compensation, COBRA continuation, and nutrition assistance. This is among the most effective ways to boost demand and create jobs, and it is a moral imperative. The Recovery Act provisions to improve and extend benefits to the unemployed, which expire on December 31, 2009, should be renewed for another year.

In addition, recognizing that millions of the long-term unemployed are beginning to exhaust all of their benefits and will soon have no income at all, Congress recently extended benefits by up to 20 weeks. This extension will help keep families out of bankruptcy, in their homes, and able to survive until job creation returns.

2. We need to provide fiscal relief to the states. Helping state and local governments avoid job and service cuts is as effective as creating new jobs. Nothing is more clearly an obstacle to recovery than another round of public employee job losses and cutbacks in state spending on goods and services contracted out to the private sector. As Paul Krugman puts

it so well, we can not afford to have the states become 50 little Herbert Hoovers, cutting back spending and raising taxes as the economy struggles to recover.

With budget gaps expected to exceed \$160 billion in the year ahead, the states need federal revenue sharing as never before. Goldman-Sachs has estimated that state adjustments to their budgets will slow national GDP growth by 0.6% to 0.7% over the next 12 months. This alone would cost the nation roughly 700,000 jobs and erode needed public services. This can and must be avoided. The first round of fiscal assistance saved 300,000 jobs in public schools around the nation. A second round to close the \$160 billion gap should be enacted immediately to allow state and local governments to plan for the coming year.

3. *We need direct creation of public service jobs.* It is time to put people to work in the public- and nonprofit-sector jobs that benefit local communities and make good use of human capital. This is a direct and cost-effective way to create jobs. Congress funded jobs for 750,000 people in communities across the nation in 1978, but a much bigger program is needed now, given that unemployment is more severe. Any unemployed worker should be eligible; the jobs should pay prevailing wages; and great care should be taken to prevent displacement of public employees. Such a program can be targeted at distressed communities and will be needed for many years to come as unemployment will remain high. We recommend first-year funding of at least \$40 billion.

The kind of work that can be done is as varied as the nation's hundreds of thousands of communities and their needs. Environmental clean-up, stream restoration, community policing, before- and after-school care of children, demolition or boarding up of abandoned houses and buildings, parks improvements, home health care, and preservation of historic buildings are just a few examples.

4. *Congress should enact a new job tax credit to spur job creation in both the private and nonprofit sectors.* Given the current stage of the economy, a burst of hiring can be encouraged by providing refundable tax credits of 10-15% of wages for each new hire over the next two years. Employers who are uncertain about the near future could overcome their doubts and reluctance to hire if offered a substantial incentive.

In a newly published EPI Briefing Paper, *The Job Creation Tax Credit*, Timothy Bartik and John Bishop argue that a well-designed tax credit could spur the creation of more than 2 million jobs within the first year of enactment. Though the gross revenue costs might be as high as \$80 billion, the net costs of the credit should be relatively low thanks to increased tax revenues from the newly employed and the businesses that get the credit, and reduced unemployment compensation and other supports for the unemployed.

5. *There is a tremendous unmet need for investments on infrastructure, especially school construction, maintenance, and repair.* The \$13 billion of Recovery Act highway and transit funds under contract have created 122,000 job months already, a number that is doubling each month. The nation's schools could quickly and effectively spend \$10 billion on repairs and maintenance alone, putting to work some of the million and a half construction workers who remain jobless. Jobs in supplier industries will also be generated, as will jobs throughout the economy when those employed spend their salaries. In addition, Congress should quickly complete action on the stalled reauthorizations of transportation and Clean Water Act funding, which will support hundreds of thousands of jobs in construction, manufacturing, design, and engineering.