

JULY 18, 2011

Washington, Wall Street, and the business world were astounded and dismayed by the dismal employment statistics put forth by the government. We need 125,000 jobs every month just to account for people entering the work force, but numbers show only 18,000 more jobs in June and 25,000 in May. And the June numbers included the assumption that 131,000 net jobs were created by newly formed companies, a generous assumption that has proven to be consistently overstated by the Bureau of Labor Statistics for the past three years. Equally concerning is that the underlying employment numbers are even worse than Washington's gloss.

Almost ignored by the press is the fact that full-time employment cratered by 435,000 in the last month and over the past three months it is down by a combined total of 868,000 jobs. There has been a three percent increase in the number of people on part-time work, but full-time employment has been down 0.5 percent for the full year. In fact, all of the net job increases since President Obama came into office were part-time employees and not full-time employees, a critical distinction. All of this is in the context of the most stimulative fiscal and monetary policy in the history of this country.

This is scarily abnormal. We are 24 months into a recovery. Normally we'd be enjoying 180,000 more jobs a month. We have only a tenth of that. We have lost over 8.5 million jobs in the Great Recession and only 1.5 million have returned in contrast to a normal recovery where all job losses have been recovered two years into a recovery phase. In fact the total ranks of the unemployed jumped 173,000 and crossed over the 14 million mark for the first time this year.

The scale of the great job famine is exemplified by the number of people 16 years and over who are at work or actively seeking it, the so-called labor participation rate. In 2008, when Obama promised that his stimulus program would prevent unemployment from exceeding eight percent, the labor force participation rate was 66.2 per cent. By that measure the unemployment would now be 12 percent.

JULY 18, 2011

1

EFTA01149876

This June the labor participation rate had fallen to 64.1 percent because over three million people have given up looking. That is reason the unemployment is proclaimed at the ghastly 9.2 percent instead of that even more ghastly, but more real, ghastly 12 percent.

There is another measure of the jobless rate that is perhaps even more shocking. This is U6. It counts the number of people who have applied for a job in the last six months rather than just in the last four weeks. This is the more relevant gauge of unemployment since the average length of unemployment is now 39.9 weeks, an all-time high - the longest since records began in 1948. People who are out of work for 40 weeks do not apply for a job every four weeks. The number for these longer-term seekers has jumped to a five-month high of 16.2 percent. It also includes 8.5 million involuntary part-timers who want to work full-time, which is double the historical norm. A stunning 25 million people are out of work according to the U6 measure of unemployment.

To date 6.2 million have been out of work for over six months and four million have been unemployed for more than 12 months. Lose your job and it will take an average of nine months to find one. Twenty-eight million people are in jobs they would have quit under normal conditions. There are seven people vying for every job opening compared to the normal ratio, which is closer to three applicants for every job opening.

The prospects remain bleak. Since the beginning of February, jobless claims have been above 400,000 every week. Until this weekly figure falls below 400,000, we cannot expect to a dent in the unemployment rate. To make a real difference, the economy needs to crank out 200,000 to 250,000 jobs a month and we are very far from that number. The great American job machine is breaking down.

The economic pain is intensified as more and more of the unemployed are no longer receiving regular jobless benefits. Last month some 43,000 lost them. Add in all the emergency and extended programs that have expired and you have over a million workers who have lost their benefits in the past year.

Nor is this unemployment temporary. About a quarter of those out of work – some 3.5 million – are apparently not qualified for the job that was open. In a recent survey of 2,000 firms by McKinsey Global Institute, 40 percent were found to have positions open at least six months because they couldn't find suitable candidates. This is important because the likelihood of finding a job shrinks as the duration of unemployment rises. The Bureau

of Labor Statistics calculates that a person who is long-term unemployed this month has a one in ten chance of finding a job next month because their networks, skills, and confidence have faded along with the funds for searching or relocation. They are three times less likely to find work than the recently redundant.

It is the young who suffer the most, for they make up more than 25 percent of the current unemployed population. Not to mention the 23 percent who have given up searching. These rates approach levels reached only in the Great Depression and puts an entire generation of workers at risk. Less educated workers are having an especially difficult time. The Household Survey indicates that college graduates have nailed 105,000 jobs over the past two months, while those without a college education have lost over 350,000. There is no scrap of cheer either in the new McKinsey Global Institute study on long-term job prospects. It concludes: "Only in the most optimistic scenario will the United States return to full employment before 2020 and this will require sustained demand growth, rising U.S. competitiveness in a global economy and the better matching of U.S. workers to jobs."

The U.S. Chamber of Commerce has the same glum outlook. Only 19 percent of small business executives indicate they will expand their workforce in the next year, down from 29 percent 12 months ago. Forty-one percent of small business owners see the economic climate worsening in 2012 compared to 29 percent who think things will get better. Go back to 2006-07 for what we hoped would be happening now. In the typically churning job environment we had then, American firms were hiring about 5.5 million workers per month. Now the hiring is down to about four million a month or less.

Instead of the macro economic approach of increasing demand, which a Republican Congress won't enact anyway there are a number of more job-focused ideas – of varying potential. There's the payroll tax holiday for a year for employees and a year's exemption too for employers from making contributions for newly hired workers. This 6.2 percent reduction in taxes would increase take-home pay and make it less expensive to hire additional workers. But even lower salaries today are not sufficient to induce employers to add to their employee base in adequate numbers.

Former President Clinton in *Newsweek* suggested a temporary waiver of environmental regulations so that interstate, large-scale infrastructure programs could be

approved quickly. This idea of a stand-by set of approvals whereby infrastructure programs would be shovel-ready has long been recommended but ignored to date by the administration. Clinton also recommended that the government temporarily suspend the Davis-Bacon Act. It's a political rather than economic measure requiring public work projects to pay the prevailing wage, which in turn boosts labor costs and thus deters new projects. Given the number of people unemployed because of the collapse of housing starts, this may be the fastest way to kick off major new public works projects.

Another proposal would be to provide every city in America with funds to improve their city streets. Washington could agree to add 50 percent from the federal government to the amounts each city has spent on their city streets over the last two years. No regulation or environmental constraint would interfere with the immediate need to get construction jobs going since they are improvements to existing city streets. This increased funding would be the fastest way to get money into the world of construction and to accomplish city improvements everybody knows are needed.

Similarly, we must remove obstacles to start-ups, especially high-tech entrepreneurial start-ups. They are the major source of new employment but all manner of obstacles exist not least patent delays; and the overlapping or conflicting land use regulations. According to the World Economic Forum, America now ranks 27<sup>th</sup> on the ease of getting a construction permit. We are even behind Saudi Arabia. Our environmental regulations are of a "desirable but not vital nature" falling into the category "it was a good idea at the time." That time is not now. A commission should be formed to put forth standardized regulations to help local communities adapt to our predicament.

We can't just keep hoping. We have just experienced the first back-to-back monthly decline in inflation-adjusted consumer spending in the last two years and this makes up 70 percent of our economy. There is a whole raft of headwinds for the jobless millions: anticipated cut-back in federal fiscal support; further cut-backs because of deficits in state and local government budgets; the continuing weakness in the housing market which is off some 75 percent in new construction; the continuation of the debt-reductions by nervous American families as they increase their savings rate; the increase in gasoline and food prices; not to mention a dramatic decline in consumer confidence to the lowest levels since World War II.

Are we looking at a second lost decade in this century, after the first decade saw all the jobs created in that decade wiped out by the Great Recession? In every decade since the end of World War II, we added a net of 10 to 20 million new jobs to our economy. And we still have to worry about a swooning economy and a double-dip recession, since every recession we've had was ushered in by a rise in the unemployment rate of 0.5 percent and we are already up 0.4 percent.

There is a general erosion of confidence in the Obama administration compounded by the deficiencies in our political leadership in deficit contraction and the debt ceiling. The political consequences of the epidemic of uncertainty, and the limits of public policy to cure the jobs crisis quickly, are only too obvious. It echoes the comment that when politicians see a light at the end of the tunnel, they always try and buy a longer tunnel.