Mass Unemployment and the Current Economic Crisis

Fake Forecasts, Misleading Statistics, Misguided Policies

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On March 17 Congress passed the "Hire Now Tax Cut" giving companies a break from paying Social Security taxes for the remainder of the year on any new workers hired who have been unemployed for at least 60 days.

The legislation is a token response to the emerging consensus in both the mainstream and independent media that the economy's unemployment problem is cumulative, structural and long term. But the prescription is entirely inadequate to the diagnosis. This should come as no surprise, as official sources have offered muddled and confusing accounts of the patient's malaise.

The Official Story: Unrealistic Optimism and Misleading Statistics

The White House and the Fed can't seem to coordinate their stories. In January the president's Council of Economic Advisors reported that the official unemployment rate would remain close to 10 percent for at least 3 years, through 2012. The Council foresees unemployment above 6% through 2015 and above 5% through 2020. But on Feb. 24 Ben Bernanke reported to Congress a projected unemployment rate of 6.5 to 7.5 percent by the end of 2012.

Both estimates almost certainly display the typical overoptimism of official economic forecasts. There are two main reasons for the chronic unrealistic optimism. The official measure of unemployment excludes both those who have given up looking for work because of the lack of jobs, and involuntary part-time workers. If these are taken into account, the more realistic unemployment rate would be at least 16-17 percent.

A second factor distorting unemployment projections is the unrealistic rate of economic growth projected by official sources. The Council assumed real GDP growth of 3.0 percent this year, and 4.3 percent in 2011. Bernanke forecast "a moderate-paced economic recovery, with economic growth of roughly 3 to 3.5 percent in 2010 and 3.5 to 4.5 percent in 2011, consistent with modern economic growth." By "modern economic growth" Bernanke refers to the healthy growth rates of what economists call the "Golden Age", the period from 1949 to 1973. This was the longest period of sustained economic expansion in American history: the economy grew at an average annual rate of 4.3 percent -the growth rate foolishly predicted, recall, for next year by the Council of Economic Advisors- and private-sector jobs increased at a rate of 3.5 percent a year. And in 1973 the real median wage was the highest it's ever been.

The Golden Age is a benchmark for the authorities, and “recovery” is taken to mean a return to growth and employment rates at or close to those of 1949-1973.

It is worth looking at some of the ways the administration and the media suggest the implausible scenario that Golden-Age economic conditions are on the way to resurrection.

Statistical manipulation and half-truths are not uncommon. For example, in January the economy continued to bleed jobs, which is bad; it was also widely reported that the unemployment rate fell, which looks good. Both stats are accurate. How is this possible? The official unemployment rate fell because the number of workers leaving the workforce declined more rapidly than job losses.

For the week ending February 20, first-time jobless claims increased by 20,000. But we were told there was a silver lining: the number of unemployed workers collecting federally sponsored extended benefits dropped by 323,000. But this does not mean that those workers found employment. The decline is almost entirely due to workers having exhausted extended benefits prior to Congress approving another extension.

On February 25 the Commerce Department reported a 3 percent January increase in sales of durable goods. This looks especially promising: increased purchases of consumer durables such as autos, refrigerators and other big-ticket items had been a major factor in reversing most post-Second-World-War recessions. But a closer look reveals that when defense and aircraft purchases are subtracted durable goods sales fell by 2.9 percent. This comes as no surprise: with the number of unemployed continuing to increase, we should expect sales of higher-priced consumer goods to decline accordingly.

The media have claimed a rebound in manufacturing over the last few months, suggesting a corresponding job rebound in the making. In fact, an inventory bounce was in play. Businesses were re-stocking after an extended hiatus on new orders. The evisceration of US manufacturing which began with the “deindustrialization” of the late 1960s persists through the recession, with the reorganized General Motors currently planning the export of more jobs to low-wage countries. There is a telling indicator of the state of US manufacturing: we have no domestic consumer electronics industry.

Wal-Mart’s fortunes are considered a good measure of consumer spending. The company is after all the world’s largest retailer and the country’s single biggest employer. The business press reports that Wal-Mart’s profits continued to climb during the downturn, implying that consumers are managing to hold up in spite of the recession. But we want to know about the company’s domestic sales, a more accurate indicator of consumer purchasing power than total profits, which include overseas sales. In fact, Wal-Mart recently announced its first drop in domestic sales in its history, a decline of 1.6 percent, compared to a 2.4 percent increase for the same period a year ago. The relatively rosy profit picture is due to international sales, especially in Brazil and China. The sales decline is of course yet another indicator of cumulative unemployment.

Finally, there is the statistical sleight-of-hand of the Bureau of Labor Statistics (BLS). BLS performs a “net birth/death adjustment” on its unemployment data. The birth/death model uses business deaths to “impute” employment from business births. Thus, as more businesses fail, more new jobs are imputed to have materialized through business births.

The birth/death model is based on statistics covering 1998-2002. This was a period during which explosive telecom and dot.com startups outumbered business failures. That period bears no resemblance to today's flat economic landscape. While the "surplus" jobs created by start-up firms has been revised lower this year, BLS continues to report from the indefensible assumption that jobs created by start-up companies tend to offset jobs lost by companies going out of business. John Williams of Shadow Government Statistics estimates that at least 50,000 birth/death jobs were conjured up in this way in the most recent BLS report.

The Overall Employment Picture and the Handwriting on the Wall

What's relevant for assessing the health of the economy is that job losses continue to be cumulative. Things continue to get worse at a slower rate, but this should be no comfort in the context of an economy that has lost 8.4 million jobs since December 2007, including more than 4 million in the last 12 months alone. More than 15 million Americans are looking for work, and 6.3 million have been unemployed for 6 months or longer, the largest number since the government began keeping records in 1948 and more than double the number in the next-worst recession, Reagan-Volcker's downturn of the early 1980s. 2.7 million will lose their unemployment benefits before the end of April unless Congress extends payments. On top of all this, the economy must add 100,000 new jobs every month just to absorb first-time entrants to the labor force.

Obama acolytes will point out that while this is a regrettable picture, it does not imply that administration policy has produced no jobs whatsoever. But on examination none of the job additions announced by the administration since the fourth quarter of 2009 is indicative of an economy in recovery or the return of permanent jobs. Most fall under the category of "saved" jobs. Employment improved for a while in sectors that are the direct beneficiaries of monetary or fiscal stimulus: government, healthcare, financial services, education and retail sales. These jobs don't reflect the independent strength of the real economy; they would not have materialized absent the stimulus. Meanwhile, sectors such as manufacturing, the most reliable indicator of an intact real economy, continued to shed jobs at an alarming rate. The stimulus will not persist forever, and when it is withdrawn, the "saved" jobs will be among the first to go. Some have already begun to evaporate: schools, hospitals and state and local governments have been shedding jobs like crazy.

These data point to the atypical nature of the current stream of job losses. We are not witnessing the kind of unemployment that attends a garden-variety recession. That type of unemployment disappears as the economy recovers. Peter S. Goodman points out in a detailed analysis in The New York Times that the recovery, whenever it begins, will not bring sufficient jobs to absorb the record-setting ranks of the long-term unemployed. ("The New Poor: Millions of Unemployed Face Years Without Jobs", February 21, 2010) He describes the new poor as "people long accustomed to the comforts of middle-class life who are now relying on public assistance for the first time in their lives – potentially for years to come."

Goodman fleshes out an emerging consensus among mainstream business observers that he had described this time last year. In "Job Losses Hint at Vast Remaking of Economy" (NYT, March 7, 2009) we were told that "…growing joblessness may reflect a wrenching restructuring of the economy…. In key industries – manufacturing, financial services and retail – layoffs have accelerated so quickly in recent months as to suggest that many companies are abandoning whole areas of business. "These jobs aren't coming back," [said a chief economist at Wachovia] “a lot of production either isn’t going to happen at all, or it’s going to happen somewhere other than in the United States. There are going to be fewer stores, fewer factories… Firms are making strategic decisions that they don’t want to be in their businesses.” The article quotes a Stanford Hoover Institution economist as saying “The decimation of employment in legacy American brands such as General Motors is a trend that’s likely to continue. We have to stimulate the economy to create jobs in other areas.” This was one of the first allusions to what is now referred to as “the new normal.”

The especially intractable unemployment problem is the result of structural and institutional changes in the economy. Institutional investors have come to own an increasing percentage of large companies. The new owners are driven to increase shareholder value by going for quick profits. Cutting payroll is standard procedure. The structure of the labor market has been affected by the decline of union power: employers can reduce costs by relying increasingly on part-time and temporary workers. Exporting manufacturing and even white collar jobs to lower-wage countries further reduces the demand for US labor.

Unless a political movement emerges with the explicit goal of directly reversing these tendencies, none of this will change under current policy.

That these developments have been in the making for decades is evident in employment changes in business cycles -the economy’s inhaling and exhaling, successive periods of expansion and contraction- since the 1950s. During the Golden Age, from the 1950s through the mid-1970s, private-sector jobs increased during economic upturns/expansions at a rate of 3.5 percent a year. During 1980s and 1990s expansions, job growth dropped to 2.4 percent annually. Since 2000, the figure fell to 0.9 percent. The pace of job growth has steadily declined in each post-Golden-Age expansion.

That this is indicative of an unfolding structural deficiency in the economy is also shown by trends in the time it takes for a cyclical upturn to regain the jobs lost in the preceding recession. Between 1950 and 1990 it took the economy an average of 21 months to return employment to its previous peaks. After the 1990 and 2001 recessions the respective durations were 31 and 46 months.

This ongoing deterioriation in the performance of the labor market has led to the notion of the “jobless recovery.” For most of US economic history this term would have been considered self-contradictory. That it is now part of common economic discourse is testimony to a major conceptual revision in the discourse of propaganda: that the economy is recovering is no reason to expect unemployed workers to find work. Economic recovery is now treated as consistent with declining standards of living. Lowered expectations and acquiescence in long term working-class hardship are now built into what we are told to regard as recovery.

The Old Economics as Irrelevant to the Current Crisis

Within the framework of mainstream neoclassical economic theory, there are two outstanding confusions concerning the notion of “recovery.” There is the misconception that once the economy begins its recovery it is on the way to sustained growth. That is not how capitalism works. The standard use of ‘recovery’ connotes a resumption of economic growth out of a cyclical recession. An economy has recovered when it has regained what was lost since the peak of the previous expansion. A new period of expansion is under way only if growth persists beyond the recovery. Restoring the economy to health requires not only a period of successful recovery, but also sustained growth beyond the previous peak. The prevailing talk erroneously assumes that only the first condition is at stake. As things stand now with respect to employment, spending, bank lending, sales of consumer goods, the downward trajectory of wages, and investment in the real economy, there is no policy in place that gives reason for optimism regarding a recovery. A fortiori, there is even less reason to expect renewed expansion.

A second confusion surrounds the very use of the term ‘recovery’. No alternative terminology is at hand, but ‘recovery’ needs to be replaced. For the term suggests a return to a prior state of economic normalcy, a healthy economy. But the state of the economy prior to the onset of the meltdown, prior to the burgeoning of the housing bubble, and even prior to the dot.com bubble, was neither normal nor healthy.

The bubble years began in the early 1990s, around the time Al Gore started nattering about the “information superhighway.” Bubble- and debt-driven growth is neither normal nor healthy. Since the late 1970s the US was well into deindustrialization, depressing net investment in the widget-producing economy and correlatively goosing investment in the financial sector, which began its now-infamous disproportionate growth relative to both total investment and GDP growth. Household debt had also begun racing ahead of the growth of both disposable income and GDP. Since 1973 the median wage has essentially flatlined. Put this all together and what do you get? GDP growth increasingly driven by speculative activity rather than real production, and household spending decreasingly fueled by current income and increasingly driven by debt, the mortgaging of future years’ expected income. “expected” is key here. Bubbles inevitably burst and the connection between the real and the financial economies reasserts itself with a vengeance. Income expectations are not met and debts cannot be repaid. Crisis ensues.

No serious commentator expects a return to anything resembling Golden-Age prosperity. The economy is in the process of reconfiguration. Postwar recessions through the 1970s were typically reversed by means including Fed monetary policy of reducing interest rates. The Fed is now treating the crisis as if it were a standard downturn, only a lot bigger. Accordingly, Bernanke has been releasing a virtually continuous flood of liquidity to no discernible effect.

A greatly expanded stimulus is needed, and one that directly creates jobs. The Obama administration has no such intention.

Obama’s Jobs Policy

The administration wants to get the credit machine running again so that the private sector can resume what is taken to be its natural function as principal creator of jobs. Obama’s advisors reason that since most Americans are employed by small businesses, priority must be given to enticing these operations to start hiring. So Obama proposed $33 billion in new tax credits for small businesses, and on Wednesday the Senate sent the “Hire Now Tax Cut” for Obama’s signature. The administration is pitch blind to the fact that businesses will not invest and hire unless they have reason to believe that they will have customers, consumers ready, willing and able to spend. Consumers would be ready and willing to spend were they able. But they are not. Piss-poor and declining wages, joblessness and record indebtedness are of course the principal obstacles. Commercial establishments hire when they expect customers/buyers, and capitalists invest in production when they expect profits. No rational employer/investor has any such expectations. The circle is vicious: businesses won't hire because workers have no money, and workers have no money because businesses won't hire.

The circle will remain unbroken unless the lead actor in this tragedy, the consumer/worker, is provided with the means of spending from a source outside the circle. This can only be government. As labor militancy forced FDR to acknowledge, government must become a direct provider of employment. Obama has ruled this out. At the December 3, 2009 "jobs summit" he repeated one of his favorite refrains: "I want to be clear: While I believe the government has a critical role in creating the conditions for economic growth, ultimately true economic recovery is only going to come from the private sector." He admonished those who push for a government jobs program "to face the fact that our resources are limited….It's not going to be possible for us to have a huge second stimulus, because frankly, we just don't have the money." He was of course referring to the massive federal budget deficit of $1.4 trillion. He left unnoted that the major reasons for the tripling of last year's deficit and explosive growth of the national debt was the bailout of the banks and the titanic "defense" budget. (The administration plans to spend more on defense in real terms than any administration since 1948 – a period encompassing the entire duration of the Cold War. Recall that this includes two large-scale, protracted regional wars in Korea and Vietnam.) One searched in vain among the newspapers and magazines of the Ministry of Information for any critical suggestion that imperialism and the plutocracy are for Obama a higher priority than rescuing working people from creeping mass destitution.

Wednesday's gesture towards addressing the jobs catastrophe is recognized as play-acting. A February 10 Associated Press report titled "Promises, Promises: Jobs bill won't add many jobs" commented that the Senate bill "has a problem: It won't create many jobs…. Even the Obama administration acknowledges the legislation's centerpiece – a tax cut for businesses that hire unemployed workers – would work only on the margins." The Congressional Budget Office has estimated that the tax break just passed will generate only 18 full-time jobs per $1 million spent.

The ineffectiveness of these policies is crystal clear. The administration either doesn't care, or will not allow itself to grasp the obvious. It's commitment to market fundamentalism requires blindness, and the requirement is met.

The Longstanding Travails of Small Business

The focus of the current legislation on small business is oblivious to finance capital's decades-long disdain of this sector. In December 2009 the Federal Deposit Insurance Corporation (FDIC) released figures showing that the amount of loans outstanding in the nation's banks fell $210.4 billion in the third quarter of 2009. That was the largest quarterly decline since the FDIC began tracking loans in 1984. "We need to see banks making more loans to their business customers," Federal Deposit Insurance Corporation (FDIC) Chairwoman Sheila Bair told reporters. The FDIC figures show that banks have been deemphasizing business lending for many years, long before the current contraction commenced. Since September 2008 the trend has intensified, with business lending contracting at a much faster pace than consumer lending.

The FDIC's tracing of this shift over the past decade underscores banks' increasing preoccupation with financial shenanigans at the expense of investment in the real economy. At the end of the third quarter of 1999, the assets of the nation's banks totaled $5.5 trillion. As of September 30 of 2009, bank assets had grown to $13.2 trillion. But commercial and industrial loans outstanding barely budged, only growing from $947 billion a decade ago to $1.27 trillion by September 30 this year. At the same time, loans secured by real estate increased from $1.43 trillion in the fall of 1999 to $4.5 trillion this fall. And investment in securities doubled, rising from $1.03 trillion to $2.4 trillion. Last month the FDIC reported that bank lending contracted 7.4 percent in 2009, at the fastest pace since 1942, the first year of US involvement in the Second World War

Banks have lent sparingly to businesses for the past 35 years. Businesses report that in each quarter since 1974 -the very beginning of post-Golden-Age austerity-ease of borrowing was either worse or the same as it was the prior quarter. Business loans were increasingly hard to get over this entire period.

The data reveal a secular shift away from productive lending to businesses toward nonproductive lending to consumers and speculative investments.
Here is yet another indication of the structural deficiencies and institutional transformations discussed above that are generating a reconfigured economy. Neither standard monetary pump-priming nor Obama's anemic measures are up to the task of addressing this historic transformation of the US economy. The deindustrialized, financialized, debt-bloated private economy is no longer a feasible basis of economic revitalization. The public sector must shift into gear. How? Well, it's not as if we lack historical precedent.

Two Kinds of Long-Term Public Investment/Employment

The administration's opposition to long-range public investment is adamant. The Washington Post (November 8, 2009) noted that White House officials reject the idea because it "does not produce long-term value". One suspects that "long-term value" means long-term private profit. But why should public investment be expected to produce private profit… unless the administration adheres to the metaphysical premise that all public and private needs can and should be met through the market. We have seen above that Obama is just such a metaphysician. He channels his advisors. Lawrence Summers, the chief economic advisor, asserted on October 19, 2007: "[P]olicy measures to spur growth or achieve other objectives should wherever possible go with, rather than against, the grain of the market….There is no such thing as the success of the American economy that doesn't involve very substantial success for America's entrepreneurs and for American companies." This is the old-time economic religion that is adhered to by the Washington powerful, and which can be defeated only by mass action.

If we are talking seriously about a genuine economic recovery, we advocate what we might call a "national economic project". I mean a large-scale public investment policy that would employ millions of workers in a range of projects and services designed to address immediate and pressing needs. Most advocates of such a plan envisage government-funded public works programs to hire the unemployed. They are right. But more is required, namely public-service employment designed to meet needs not addressed by relying solely on infrastructure projects.

The case for infrastructure rehabilitation is powerful. The most reliable source of information regarding the state of the US infrastructure is the American Society of Civil Engineers, which has released a "2009 Report Card for America's Infrastructure". (Read it here: http://www.asce.org/reportcard/2009/grades.cfm) The Report Card stresses the advanced decay of roads, surface transit and aviation, tunnels, dams, bridges, public parks and recreation, schools, drinking water, levees and sewerage facilities. Accordingly, Uncle Sam earned a grade of "D" . The engineers describe in exacting detail the most urgent problems, and price the investment need in infrastructure repair at $2.2 trillion.

In recent years there has been especially rapid deterioration in an infrastructure already in a state of advanced decay. There were, for example, almost four times as many "high hazard" deficient dams in 2007 (1,826) as there were in 2001 (488). The Report states that "Many state dam safety programs do not have sufficient resources, funding, or staff to conduct dam safety inspections, to take appropriate enforcement actions, or to ensure proper construction by reviewing plans and performing construction inspections."

The $787 billion "stimulus package" monies that might address what is in fact an emergency situation are the $71.76 billion allocated to construction projects, most of which remains unspent. This comes to one thirtieth of the required $2.2 trillion, a shortfall of $1.176 trillion.

It is clear that the relevant project is national in scope and therefore requires the creation of new jobs on a coast-to-coast scale. This task cannot be met by the private sector alone.

In the light of what's been outlined above, Obama's promotion of alternative energy and "green" investment as a cure-all for mass unemployment is ridiculous. We have been told that incentivizing homeowners to weatherize their houses -"cash for caulkers"- would represent a major step in addressing the jobs crisis. Like Obama's other proposals, "cash for caulkers" would have the teensiest impact on unemployment, but it will provide major bucks for special business interests like Home Depot, whose chief executive was the most enthusiastic proponent of this idea at the jobs summit.

The New Deal's public employment projects were on the whole great successes. The 1933 Civilian Conservation Corps (CCC) provided men (no women) work in the national forests and employed 2.5 million through 1942. In the same year the Civil Works Administration was established by executive order and within one year it created jobs for 4.3 million people. The Works Progress Administration (WPA) of 1935 employed millions and oversaw, over the course of 8 years, the construction and repair of 650,000 miles of roads and the building of schools, libraries and recreational centers. It's support of the construction of neighborhood parks employed skilled and unskilled workers, architects and artists. It also established the only federal arts program the US has ever had.

As for the administration's claim that public investment "does not produce long-term value", the CCC and WPA contributed hospitals, schools, auditoriums, museums, city halls, court houses, fire stations, water works, parks, fairgrounds, farmers' markets, and a range of other facilities. Many of these are in use to this day. What was created is astonishing: Hoover Dam, the San Francisco Cow Palace, DC's Reagan National Airport, Houston's City Hall, the San Antonio River walk, Bandelier National Monument in New Mexico, the Mountain Theater on California's Mount Tamalpais and the Eighteenth Precinct police station in New York City. Many of us have forgotten, or never knew, that these were New Deal projects. Most remember the collapse in August 2007 of the I-35W bridge in Minneapolis, opened in 1967. This drives home how impressive it is that a depression-era contribution to the US transportation system like New York’s Triborough Bridge still carries traffic every day.

The notion that government should assist or even take the lead in this kind of investment was not born of the Depression. It’s almost as American as apple pie. Alexander Hamilton, and later the early nineteenth century Whigs, advocated “internal improvements” like canals, turnpikes and, later on, railroads. (Hamilton’s motives were mixed. He intended of course to foster economic expansion westward, but he also had in mind the parallel development of America’s financial markets.) That government needed to be involved in these projects was plain economic good sense: because these undertakings required substantial initial outlays but delivered returns only over time, private investors could not foot the bill by themselves. They thus needed government assistance, either in the form of financing, or, as with the railroads, spectacular gifts of public land, to make them possible.

Investing in physical infrastructure and green energy will give the greatest stimulus to two kinds of jobs, construction and manufacturing. We who urge these types of spending have given insufficient attention to the distributive desiderata of public spending. We have not addressed two essential criteria of an equitable jobs program: public investments should be selected with the aims of maximizing the extent of immediate job creation, and of ensuring that the benefits of job creation are available to the broadest possible category of worker, especially the most vulnerable to job insecurity. The results of a recent study by the Levy Economics Institute of Bard College are helpful in this respect. The Levy research shows that social-sector investment in areas such as early childhood education and home-based care are especially suited to meet the needs identified by these two criteria.

Social care investment generates more than twice the number of jobs as infrastructure spending and 1.5 times the number of jobs as green energy spending. And social care investment is more effective than each of the other types in providing work to those with the least education, low-income households and women. It also creates jobs in occupations identified in a 2006 Bureau of Labor Statistics study as among those most likely to add the greatest number of jobs between 2006 and 2010: teaching, child care and home health care. While most social-care jobs would be suited to the above categories, a significant number of jobs would also require some college education and are geared toward middle- and top-income groups. Even Tim Geithner acknowledged two Januaries ago that “social sector job creation delivers more bang for the buck.”

We have seen that the administration’s predilection for indirect job provision, through financial institutions, will not succeed. Social care expansion consists in direct job-creating investment in social infrastructure, unlike the “welfare reform” welfare-to-work of Bill Clinton or public cash assistance. And mainstream-type arguments support social infrastructure investment: it is more cost effective than hospital or institutional care for certain chronic patients, and home-based care lifts a burden off family members and allows them to be more productive at work. According to a 1999 Metropolitan Life Insurance Company study, this would save the economy more than $33 billion a year in lost productivity. That should water the mouthes of private employers.

Appeals to the more progressive are also at hand. Women provide a treasury of unpaid care to children and the elderly. Social care investment would provide direct payment for these highly valued services.

The employment crisis is as urgent as urgent gets, and intractable under the present economic settlement. The inneffectuality of politics as usual could not be clearer. The stubborn liberal hope, that mainstream politicians – financial investments made flesh- can be talked or voted into repudiating their masters' priorities, persists as if unfalsifiability were a virtue. This delusion cannot be undefeatable. That would mean, by implication, that history has come to its conclusion. But history has no conclusion. America has in hand a workable and desirable middle-term prescription for ordinary folks' mounting afflictions. The task is to get it out.

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