The 2010 Joint Economic Report

The Joint Economic Report, a report of the Joint Economic Committee on the 2010 Economic Report of the President, provides an overview of the state of the economy at the halfway point in 2010, detailing the lasting effects of the Great Recession, pointing to the recovery now underway, and laying out additional actions needed to energize that recovery.

The report is mandated by the requirements of the Employment Act of 1946. Because the Chair of the JEC, Rep. Carolyn Maloney (D-NY), is a member of the House of Representatives, the report was filed in the House on Thursday, July 15, 2010.

Report Overview

While the economy is recovering, the recovery remains fragile. It is clear from the JEC report that job creation must remain the top economic priority for policymakers.

Bolstered by actions taken by Congress and the Administration, there has been steady improvement in the economy in the past 18 months.

But, six months into 2010, we are at critical moment. Policymakers need to resist the political siren call of short term cuts that imperil our fragile recovery and instead heed the economic imperative of job creation, the core component of a robust economic recovery. Simply put, we need to stay focused on creating jobs.

Actions taken by Congress and the Administration to create jobs and lay the groundwork for economic expansion are working.

- The Recovery Act and other actions taken by Congress in 2010, including extensions of unemployment insurance and COBRA subsidies, a payroll tax credit for hiring unemployed workers, and extensions of loan guarantees for small businesses, staved off economic disaster and have gotten the economy moving again.
- The economy has recorded three straight quarters of positive GDP growth and six straight months of private sector job growth.
- Key sectors, such as manufacturing and professional and business services, have gone from dramatic job losses during the recession to job gains in 2010.
- Manufacturing employment, for example, shrank by 16 percent from December 2007 to 2009, but has increased by 1.2 percent from December through June of this year.
- There are also employment gains at the state level: sixteen states have added private sector jobs for three straight months (March, April and May); six states have added private sector jobs for four straight months; and three states (Massachusetts, Tennessee and Texas) saw private job growth in each of the first five months of 2010.

But, the recovery remains fragile.

- While the economy is adding almost 100,000 private sector jobs per month – significant progress from 2009 – it's not enough to bring about a sustained reduction in the unemployment rate.
- Hiring by small businesses remains sluggish, well below pre-recession levels.
- Budget problems at the state and local level may lead to additional employment losses and service cuts, threatening the nascent recovery.

This recession – the deepest, longest since the Great Depression – took a punishing toll on the labor force and it will take patience and perseverance to dig out.

- 8.4 million jobs were lost from December 2007 – December 2009.
- Net payroll expansion of almost 15 million jobs is required to get back to pre-recession unemployment levels by January 2014.
- The Great Recession has been characterized by record long-term unemployment – in June 2010, 43 percent of unemployed workers had been out of work for six months or more and 29 percent of unemployed workers had been jobless for more than a year.
- The number of unemployed workers per job opening spiked from 1.76 in December 2007 to more than six unemployed workers per opening at the end of 2009, before dropping to almost five unemployed workers per job opening in May 2010.
- Historically low rate at which workers exit unemployment – the unemployment outflow rate plunged to historic low of 24 percent in third quarter of 2009.

The fragile state of the economy and the significant job loss during the recession require targeted actions to accelerate the pace of recovery.

- Extending unemployment insurance, in addition to providing a lifeline to struggling jobless workers, would have ripple effects across the economy, helping to boost growth.
- Federal aid to state and local governments would prevent further layoffs and service cuts as cash-strapped states scramble to balance their budgets.
- Increasing access to credit for small businesses would help spark job growth in this critical segment of the economy, which employs three out of every four workers.

A long-term strategy on the nation's deficit is essential to a strong economy for generations to come. Efforts to translate this need into cuts in spending in the near term, however, would imperil our fragile economy.

- Cutting targeted government spending – especially spending focused on job creation and ensuring that the economy does not slip back into recession – could slow the economic recovery and increase the deficit in the near term.

- The vast majority of our nation's projected federal deficits over the next 10 years results from policies that pre-date the Obama Administration. Bush-era tax cuts and the wars in Iraq and Afghanistan account for almost $7 trillion in deficits between 2009 and 2019. By contrast, the recovery policies put in place by Congress and the Administration account for $1.1 trillion in deficits over the 2009 to 2019 period.

- Congress and the Administration have acted to address long-term fiscal challenges.

    - Statutory Pay-As-You-Go legislation enacted in 2010 requires legislators to offset spending increases and tax cuts with savings elsewhere in the budget.

    - President Obama established the bipartisan National Commission on Fiscal Responsibility and Reform that will submit by December 1, 2010 its recommendations for balancing the budget by 2015, excluding interest on the debt.

The effects of unemployment are lasting and severe.

- Drop in long-term earnings: Even 15-20 years after job loss, displaced workers earn up to 20 percent less than similar workers who did not face unemployment.

- Deterioration in health: job loss leads to an increase in stress-related health problems in the short-term and can reduce life expectancy in the long-term, according to research from Dr. Till von Wachter, an economist at Columbia University.

- Next generation harmed by this generation's unemployment. Unemployment can also reduce the earnings of the children of unemployed workers – through reductions in school achievement – and may lead to a higher divorce rate for laid off workers.

The impacts of unemployment are not uniform – certain communities have suffered serious setbacks.

African Americans

- Though African Americans comprised 11.6 percent of the labor force in June 2010, they accounted for 18.8 percent of the unemployed and 20.8 percent of the long-term unemployed.
- Almost 4 in 10 African American teenagers were unemployed in June 2010.
- A college education provides less protection from unemployment for African Americans than it does for the overall labor force – in June 2010, college-educated African Americans faced an unemployment rate of 7.6 percent compared to 4.5 percent for all college graduates.

Hispanics

- The unemployment rate for Hispanic workers rose more quickly than the overall unemployment rate during the recession and now stands at 12.4 percent compared to the overall unemployment rate of 9.5 percent.
- Hispanic workers were concentrated in sectors of the economy, such as construction, that contracted severely during the recession and were less concentrated in sectors that expanded, such as education and health services.
- Hispanic workers were also heavily represented in states hit hard by the housing bubble collapse – Nevada, Arizona, California and Florida.

Young workers (ages 16-24)

- Young workers comprised 14 percent of the labor force in June 2010, but made up 30 percent of the unemployed and 19 percent of the long-term unemployed.
- Education reduces the probability of a young person being unemployed. Young workers without a high school diploma have an unemployment rate of 30.9 percent compared to 11.2 percent for young workers with at least a bachelor's degree.
- Young workers who enter the labor market during a recession can take between 10 and 15 years to catch up to their peers who entered the workforce during an economic expansion.

States hit hardest by housing collapse experienced large increases in unemployment.

- Nevada, Florida, and California, all states with a significant collapse in the housing market, were among the five states with the largest increase in unemployment during the recession. From December 2007 to May 2010, the unemployment rate climbed 8.8 percentage points in Nevada, 7.0 points in Florida and 6.6 points in California.

- The unemployment rate has tracked closely with mortgage delinquency rates since January 2005 -- pointing to a linkage between the housing bubble and unemployment.

- A weak housing market may contribute to a mismatch between workers and jobs as an unemployed worker may be unable to move to faster-growing regions because it is impossible to sell his home.

State and local governments continue to be hit hard, putting at risk the nascent recovery.

- Forty-eight states are contending with budget shortfalls in the current fiscal year – shortfalls that will have to be closed through some combination of spending cuts, withdrawals from reserve funds, revenue increases, and the use of federal stimulus dollars.

- State and local government have been forced to lay off employees (95,000 in the first six months of 2010) and make cuts to education. At least 30 states have slashed funding for K-12 education. Higher education has also been hit, with the University of California increasing tuition by 32 percent and reducing its incoming freshman class by 2,300.

- Federal aid to state governments has stimulative impact, creating jobs, preventing layoffs and helping to fund critical safety net programs such as Medicaid.

Unemployment benefits play critical role in both helping workers make ends meet and boosting the economy.

- Unemployed workers spend their benefits quickly, generating a multiplier for the economy as a whole, where a dollar of unemployment benefits sets off a cascade of spending by others.

- The non-partisan Congressional Budget Office estimates that increased aid to the unemployed is the most cost-effective policy tool, among those analyzed, for boosting growth and employment.

- Unemployment benefits also keep unemployed workers attached to the labor force, preventing some workers from shifting to other more costly government programs, such as Social Security Disability Insurance.

Unemployed workers need education and training to rebuild skills that atrophied during long periods of unemployment.

- Innovative new approaches are needed to strengthen job training programs and ensure that they reach those who need them most.
- There must be rigorous, comprehensive evaluation of programs. Those programs that boost long-term employment prospects and earnings of participants should be expanded while those that don't must be improved or ended.
- Sectoral training programs, which build skills in demand by private-sector employers in a community, have shown positive outcomes, though the programs are not easily replicated. Identifying how to scale these programs could pay large dividends.

Though not a panacea, education remains a critical driver of employment and the Congress made significant investments in our nation's students.

- Increased educational attainment reduces the likelihood of unemployment – workers without a high school diploma face an unemployment rate three times higher than those workers with a bachelor's degree or more.
- The Bureau of Labor Statistics recently reported that the United States has attained a record rate of college enrollment among 2009 high school graduates - 70.1 percent.
- In 2010, Congress and the Administration made the largest investment in student aid in the nation's history, increasing the maximum Pell Grant to $5,550 in 2010 and indexing it to inflation.

Small business hiring lags that of larger businesses and poses a threat to the recovery.

- The tough credit standards put in place by banks in the wake of the financial crisis have limited the ability of small businesses to access credit and expand their operations.
- Small business hiring in 2009 remained 20.0 percent below its 2001-2007 average.
- The House of Representatives passed legislation in 2010 that would establish a $30 billion lending fund designed to expand access to credit for small businesses.

Government-funded basic research plays key role in driving innovation and boosting economic growth and job creation.

- Basic research plants the seeds for new industries, new businesses and a more dynamic economy.
- Businesses cannot capture the full economy-wide returns from basic research since the results usually cannot be patented and are free for everyone to use without compensation. This creates a significant role for the federal government. In fact, the federal government funds more than half of all basic research in the United States.
- As Dr. Samuel L. Stanley, President of Stony Brook University, testified at a recent JEC hearing: "Federal investment in basic research makes the innovation frontier endless. Precisely because basic research is inquiry-driven, not objectives-driven, we can't tell in advance what the results will be. But sixty years of federal investment has proven its value, from lasers to the MRI to the Internet."
- Companies that have their origins in university-based research often locate close to the university, creating jobs and helping to support an ecosystem of innovation and growth.

Support for clean energy innovation can help the U.S. reduce the likelihood of future economic downturns.

- Without a strong clean energy infrastructure, the U.S. has remained dependent on oil.
- This dependence on oil contributed to the Great Recession, by leaving consumers vulnerable to the spikes in oil and gas prices in 2007-2008. As a result, consumers were forced to cut back spending on other goods and services, which hurt businesses. Additionally, many businesses had to pay more to transport their products, cutting into profit margins and reducing hiring.
- Research on clean energy and investments in new transportation choices will reduce the nation's reliance on petroleum, leaving the economy less susceptible to large swings in oil and gas prices.

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