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Towards A New Economic Strategy for America – Steps We Can Take in 2010

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The economy today is finally no longer shedding jobs, but as millions of out-of-work Americans know, businesses are creating new jobs at only an anemic rate. May and June saw very limited private sector job creation, and prospects for robust job creation going forward seem slim. The recent failure by Congress to pass a comprehensive "jobs bill" alongside the extension of unemployment benefits – with modest and economically-necessary provisions such as aid to states and localities to keep teachers and other vital public servants on the job, and the extension of tax provisions targeted to growth and jobs – illustrates two disturbing realities about current politics around the economy:

1) There is no broad consensus that more needs to be done to stimulate job creation, despite all of the disturbing economic data to the contrary; and

2) The U.S. Congress lacks a policy and political framework for doing more.

For years, NDN has argued that the American economy is going through large structural changes that call into question the ability of traditional strategies to drive broad-based prosperity. Economic policy has failed to keep up with these structural changes, and this failure has contributed to both our current, troubling economic conditions and the dire political consequences for the party that presided over the last decade of economic policy.

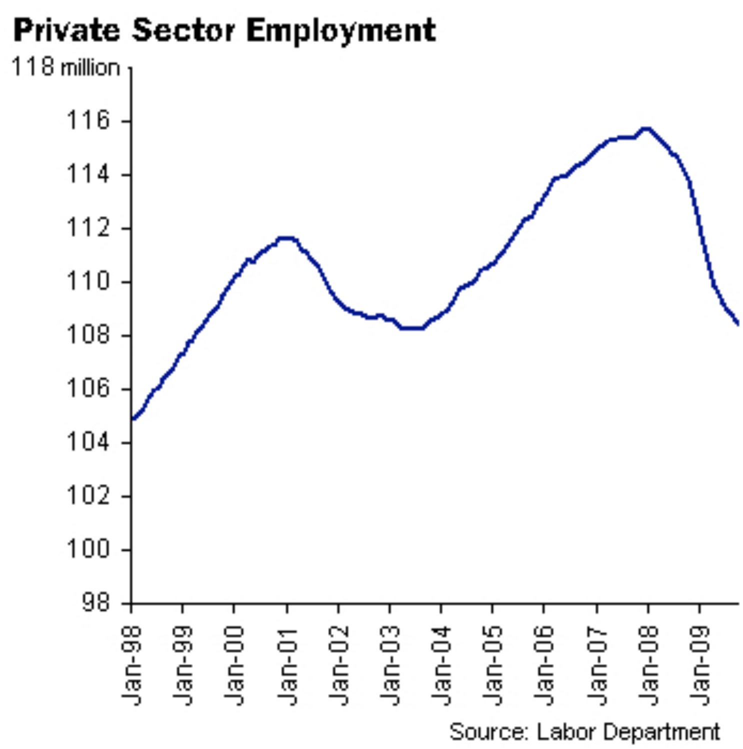
It is now clear that America needs a 21st century economic strategy. The last year and a half has seen some positive movements on this front. The recent passage of broad reforms for healthcare and finance are part of an important "New Foundation," while, as NDN advocated, the American Recovery and Reinvestment Act served as a "stimulus for the long run" by making long-term investments that also promoted near-term economic activity. However, this work is nowhere near complete, and we hope that the nation's elected leaders will devote much of the next year to crafting a new economic strategy for the United States. Moreover, in the midst of what can only be considered a genuine jobs crisis, Congress must not wait until next year to make progress on this front. Instead, Congress should enact smart down-payments on a new economic strategy, to spur growth and job creation now. This memo will review the forces holding down U.S. creation, both structural and cyclical (recession-based), and present a political and policy framework for addressing them in the near term.

Major Problems in Job Creation

While slow growth and close to double-digit unemployment should be a sufficient basis for serious concerns about current employment conditions, the challenge of creating jobs is actually far more serious than current data suggest. Over the last decade, which we have called a "lost decade," the job-creating capacity of the American economy has eroded badly.

- A *Wall Street Journal* analysis of Labor Department statistics reveals that in October of 2009, private sector companies employed 108.401 million U.S. workers, *a million fewer* than in October 1999, when they employed 109.487 million. Not since the Labor Department first began tracking payroll employment in 1939 has there been such a long stretch with no net job gains.

- After the 2001 recession (the mildest and briefest downturn since WWII), it took twice as long to begin to generate net new jobs as it had in previous recoveries. In the 1970s, when almost nothing else went right with the U.S. economy, we created more than 21 million new net jobs. In the expansion of the 1980s, while productivity and income gains remain modest, we still created more than 20 million more new jobs. The expansion of the 1990s added 19.5 million more jobs. This record of steady, strong job creation came to an abrupt end following the 2001 recession, when, during the six-year expansion of 2002-2007, America created fewer than 11 million new jobs. The data show us that American businesses throughout this decade have created new jobs at just about half the rate that they did in the 1980s and 1990s. And while productivity has surged, the average wage and average income didn't increase either.

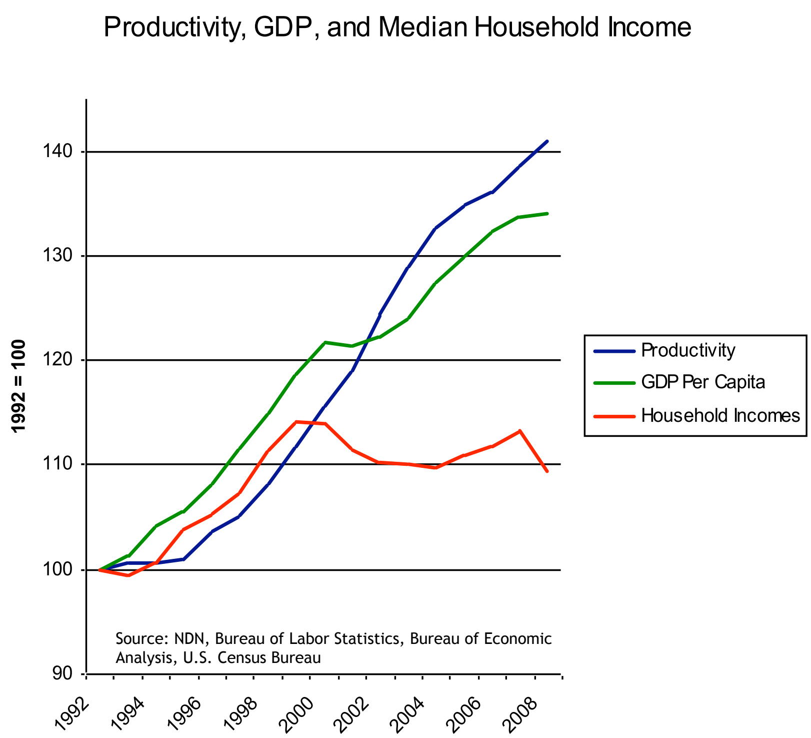


Structural Causes of Anemic Job Creation

One major reason for the anemic job creation rates of the last decade, and which applies to our present economic circumstances, is the collision of rising costs for business, especially in health care, and the intense competition created by globalization. Those intense competitive reduce the "pricing leverage" of our businesses – they find it harder to pass along higher costs to consumers by raising their prices. The other major force at work here is the spread of advanced technologies across the economy. This historic transformation not only has replaced millions of positions with information technologies; it also pushes tens of millions of workers who lack computer and Internet-related skills out of the mainstream job market.

Rising Costs of Doing Business

Over the last decade, not only healthcare costs, but also energy and pension costs all have risen dramatically, raising the costs of doing business. Healthcare premiums doubled, and America's aging workforce increased the burden of pensions. Fast-rising global demand for energy and other commodities also have driven up business costs. Unable to pass along all of these increases in a highly competitive global economy, American employers have cut other costs, starting with jobs and wages. The result is an historic downgrading of Americans' economic prospects and well-being.



Globalization

The rise of new economic players has resulted in an intensely more competitive global economy, a hallmark of which has been the emergence of companies based not just in the United States and other advanced industrialized nations, but emerging markets as well. This sort of globalization had a tremendously positive effect on the American economy in the 1990s. Global competition offered consumers broad choice, kept prices and inflation low, and helped facilitate a decade of unparalleled, exciting innovation. This innovation, particularly in the area of communications along with commercial connectivity contributed to a decade of broad-based prosperity and low unemployment unlike any other.

In the last decade, the same pressures from global competition that held down inflation in the 1990's have left American businesses largely unable to raise their prices and so to create more jobs and pay the higher wages that higher productivity justifies. And their rising costs for healthcare, energy and pensions only further intensified the squeeze on jobs and wages. And when the housing bubble arrived, tens of millions of Americans borrowed against their homes or eagerly refinanced their mortgages to withdraw the equity they had built up, all in order to maintain their standard of living.

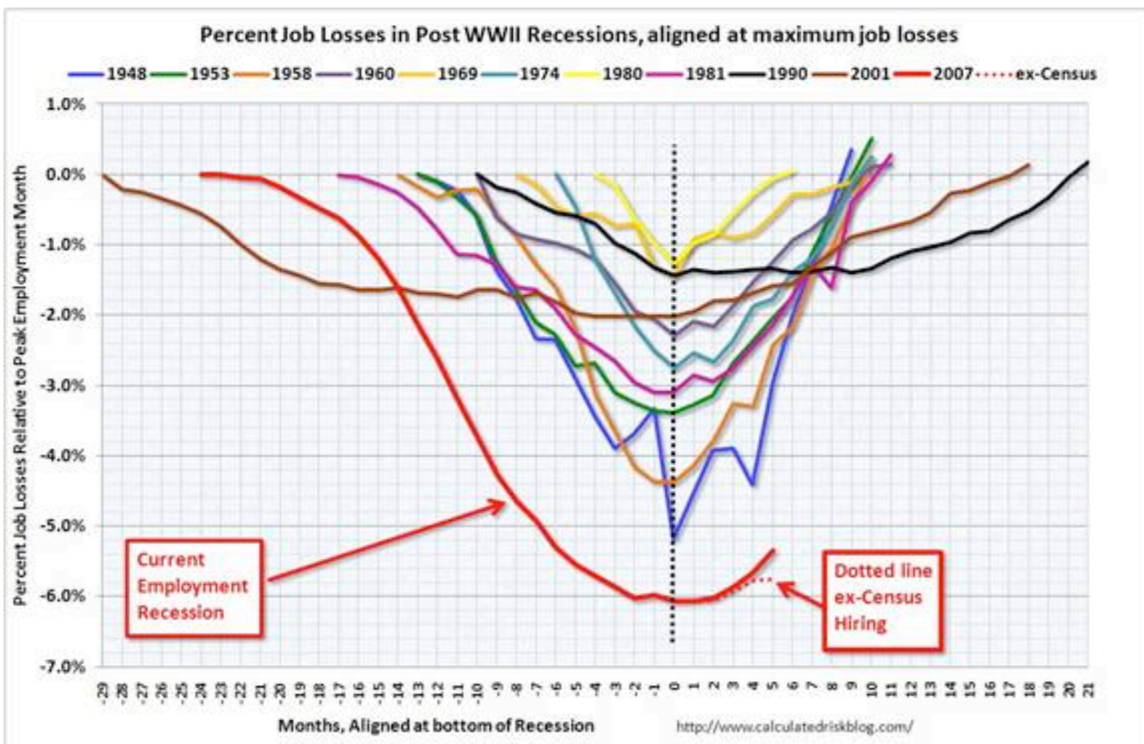
The Power of Technological Advance and the Skills Mismatch

At the same time, the spread of information and Internet technologies across American factories and offices not only made millions of positions redundant. These developments also created a growing mismatch between the skills of millions of American workers and the new abilities required to be productive in jobs throughout the economy. According to the Bureau of Labor Statistics' JOLTS report, during previous contractions, unemployment rose sharply and job vacancy rates fell. During and since the Great Recession of 2008-2009, however, that trend changes: Unemployment soared, but the job vacancy rate remained high. The JOLTS report found that in April 2010, job openings and unemployment both increased, to 2.3% and 9.9%, respectively. That tells us that there are some 3.1 million jobs unfilled – or as *Bloomberg Businessweek* has noted, there are more job openings than the entire population of Mississippi – illustrating a serious mismatch between American workers and job openings. The development of this skills mismatch is also evident in the recent findings of the Business Roundtable's Spring Board Project. That study found that 62 percent of employers surveyed say that it's difficult to find qualified applicants to fill open positions, and 50 percent of see a sizeable gap between their needs and their employees' skills. This mismatch and the continuing displacement of jobs by technology intensify our jobs crisis, and ultimately threaten our competitiveness.

A Dramatic Circumstance – The Great Recession

As if these challenges weren't daunting enough, the Great Recession triggered by the financial crisis of 2008 cost the American economy some 8.5 million jobs – more jobs than were created in a typical four-year period of the 1980s or 1990s expansions. Healthcare costs also continue to rise rapidly, while the housing crisis exacerbates the skills mismatch by making it harder for job seekers to move for new employment. Finally, on top of all of these forces, history tells us that recoveries following financial crises always have slow growth and slow job creation.

Our current economic conditions are fairly typical of a recession triggered by a financial meltdown and the recovery that eventually follows. While the crisis grew out of years of regulatory neglect and economic-policy mistakes, once it arrived, there was never any realistic prospect that $800 billion of new spending and tax cuts alone would produce a big, V-shaped bounce back, as it might have if this were a normal business cycle. The fiscal stimulus, on top of the Fed's even more powerful easy monetary stance, succeeded in halting our slide into a Depression and finally pushed the economy into a slow recovery. But fiscal and monetary policies were simply not capable of doing more than that.



It takes years for an economy to recover fully from the kind of profound financial crisis that America has gone through. To begin, financial meltdowns leave most households genuinely poorer in ways that ordinary business cycles do not – consider home values -- and that makes most people less eager to spend freely for years. As the 2009-2010 stimulus has wound down, retail sales have stumbled in both of the last two months; in fact, the only people spending like most Americans used to are the very wealthy, who retain most of the tremendous gains they enjoyed over the last decade. Most of the rest of us, even if they are inclined to spend, have a hard time getting credit, because a financial meltdown also leaves lending institutions much weaker. This reluctance to lend also extends to most businesses, which is why business investment also remains weak.

The Great Recession highlights the fact that the American economy has changed radically from the time when most of our policymakers came of age. For this new economy, we need a new economic strategy. While a sound economic strategy, by its nature, must focus on the long term, policymakers can make serious down payments on that plan which also address our current economic and political conditions.

Making the Political Case – America Needs an Economic Plan

In the coming months, our economic dialogue should emphasize two major points. First, the economic challenges that Americans face began even before the financial crisis and Great Recession hit, and it will take time to address and resolve our new challenges. The goal of economic policy is not simply to produce a "recovery" that returns Americans to the economy of 2001-2008; rather, America needs to invest in accelerating our transition to a stronger, 21st century economy. This economy is fundamentally different from the old one – it faces more global competition; it is much more technologically intense, and much more universally-wired and connected; and it will have to be rebuilt on a foundation of lower-carbon energy.

So, out political rhetoric has to definitively shift away from simple "recovery" to a new commitment by the entire nation – not just the federal government – to invest our resources and ourselves in navigating the transition we face to a new prosperity. By articulating clearly the structural challenges and transitions that lay ahead – rather than invoking some magical thinking that all we need is a so-called "recovery" – we can help create a public logic for sustained new public and private investment in the years ahead. It's time to describe and explain to Americans what precisely is happening with their economy.

In this context, talk of short-term austerity is an obstacle to progress and prosperity. Moreover, the attitude it represents, if embodied in policy, raises the very real possibility of long-term economic stagnation and even national decline. Explaining this threat to the American people can initiate a public conversation that can promote a new period of national investments in prosperity. Because the vast majority of Americans already have endured a "lost decade" economically, they may well respond more to these arguments than many highly-skilled elites, whose prosperity is insulated from many of these dynamics. Most Americans know how tough the economy has been, and they don't expect an easy way out. What they have been waiting and looking for is a plan with a reasonable chance of improving their lives in the years ahead.

Right now, today, the country needs a plan that embodies a serious economic strategy to deal with for the difficult and complicated challenges our economy now faces. In many ways, the Obama Administration already is operating off such an approach, comprised of stimulus, health care reform, energy development, immigration reform, financial reform, the new emphasis on exports, and the modernization of schools. These disparate parts, along with some additions (below), now need to be harmonized into a national economic strategy, which the President has begun to articulate in as part of the "New Foundation."

New Policies for Job Creation

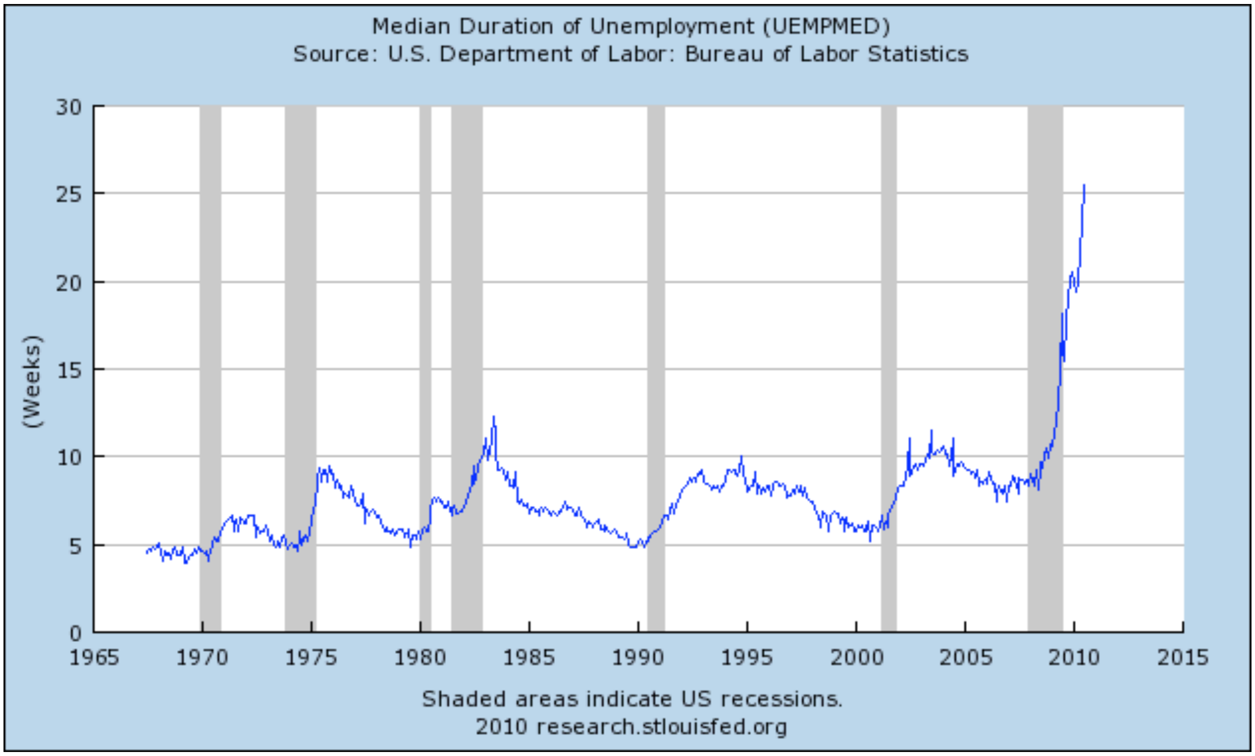
Proposals for jobs legislation must address the forces and factors holding down job creation, by reducing the costs to business of creating new jobs, increasing overall economic activity, and addressing the skills mismatch. While there are no "silver bullets," the following steps can help create jobs, upgrade the skills of American workers, and promote innovation:

Aid States and Localities and Extend Crucial and Expected Benefits

As Education Secretary Duncan has warned, America's students and their parents across the country could find as many as 300,000 fewer teachers in our classrooms this fall. Similar, involuntary downsizing is affecting countless other local and state government funded jobs, including police and others responsible for our public safety. Congress must relieve those pressures by providing more assistance to states and localities. In addition, important benefits, similar to unemployment insurance, must be extended, so long as there is just one job opening for every five unemployed workers. The economic payoff of preserving those jobs and extending those benefits, in terms of both employment and overall demand, will be significant. Moreover, recent polling shows that the American people strongly support these steps.

Cut Payroll Taxes to Stimulate Demand and Create Jobs

While the payroll-tax credit provisions which NDN advocated in the HIRE Act have not been in force for long, we have to do more to ease the current downward pressures on job creation. The CBO has noted that a payroll tax cut is the single most effective way to spur more job creation. A cut in the employer's contribution would directly stimulate job creation by directly reducing the cost of creating a new job; and a cut on the employee's side would stimulate spending. This partial payroll-tax holiday should go unpaid for, for one year, as a stimulus measure. But since very slow job creation has been a persistent feature of the decade, Congress should consider making these cuts permanent. While there are a number of ways to finance this payroll tax reform, a fee on carbon should be at the top of the list. This approach would not only represent the most serious step to address climate change ever undertaken by the country; the price signal provided by a carbon fee also would strongly stimulate the development and adoption of low-carbon fuels and technologies across the economy.



Provide the Existing Workforce with Free IT and Internet Based Skill Training Through our Community College System

A core part of a new economic strategy for America will a much greater national commitment to provide all workers and students with the skills and knowledge required to succeed in the more globally competitive and technology dense "idea-based" economy of the 21st century. In the past two years the Obama Administration has initiated an important conversation about what needs to be done for the future workforce, and now more must be done to ensure that current workers, with many years of work still ahead of them, can upgrade their 20th century skills for the changing and more challenging economy of the 21st century. An important first step in this effort will be to pass and enact S. 1614/H.R. 2060, the Community College Technology Access Act, championed by Senator Chuck Schumer and Representative John Larson, which would create a serious program to rapidly upgrade the skills and knowledge of current workers. The bill would provide grants to community colleges to keep their computer labs open in the evening and on weekends and provide free instruction for any American who walks in and asks for it. The Workforce Investment Act reauthorization can be the vehicle to enact this new program and begin to provide universal access to 21st century skills for our existing workforce. This program will help to address the skills mismatch noted earlier.

Housing Stability Loan Program

It is clear that the American housing market has not yet returned to normal or healthy conditions. Foreclosures continue to run at three-to-four times the normal rate, and the mortgages of tens of millions of Americans remain underwater. So long as these conditions persist, people will feel less well-off, and spending will continue to be stifled. These conditions also impede people's ability to move to where work is available or wages are higher. America needs a plan to address this which everyone can understand – a new loan program for lower- and middle-income people with mortgages in trouble; and like student loans, the government could pick up the interest costs for the first year or two.

Local Jobs and Innovation Centers

The federal government today supports a large catalogue of efforts by the EDA, SBA, DOE, HUD, and other agencies to promote community and clean-economy development. Many of these services can be consolidated through new community centers for jobs and innovation, chartered to promote innovative, public-private job creation clusters and economic development. These "acceleration centers" would connect entrepreneurs to those with the resources to create new enterprises, and then connect these startups to opportunities provided through other Administration initiatives, such as the green economy programs and the National Export Initiative. These new centers also would connect job seekers with employment opportunities and training, and offer information and incentives for companies to locally in-source key components of their supply chains and workforce development efforts. To further accelerate job creation, clean-economy micro-loans can be offered to qualifying high-growth companies and projects, and used to leverage local capital sources such as community foundations and pension plans.

Further Reading

- The Economy is Slowing Down – Alas, Much as We Expected by Dr. Robert Shapiro, 7/15/10
- The Fall Economic Narratives Begin To Take Shape by Simon Rosenberg, 6/15/10
- Memo to the President: Resist a Simpleminded Push to Cut Budget Deficits Now by Dr. Robert Shapiro, 6/10/10

- Rebooting 20th Century Government: New Software Needed by Dan Carol, 5/27/10
- The Rise of the Rest: How New Economic Powers are Reshaping the Globe by Jake Berliner, 4/23/10
- Rediscovering the Obama Narrative by Dan Carol, 4/21/10
- Keeping the Focus on the Struggle of Everyday People: 2010 Edition by Simon Rosenberg, 1/26/2010
- Crafting An American Response to the Rise of the Rest by Simon Rosenberg, 1/21/2010
- The Path to More Jobs and Growth by Dr. Robert Shapiro, 1/20/10
- A Lost Decade for Everyday Americans by Jake Berliner, 12/17/2009
- A Stimulus for the Long Run by Simon Rosenberg and Dr. Robert Shapiro, 11/14/2008
- The New Landscape of Globalization: The Real Foundations of American Prosperity in the 21st Century by Dr. Robert Shapiro, 6/20/2007

NDN Globalization Initiative Intern and Roosevelt Institute Campus Network Fellow Laura White also contributed to this memo.