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POLICY BRIEF

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The Severe Crisis of Jobs in the United States and California

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Introduction

The economy needs jobs, jobs, jobs and more jobs—this is not news to the 25 million unemployed and underemployed workers who continue to bear the hardships of the Great Recession. Workers have grown weary and families once bending are now breaking under the strain. The severe crisis of jobs in the United States and, particularly, in California seems to be lost as austerity dominates the policy dialogue in Washington, DC. In California, another round of cuts and anti-stimulus measures are underway and they will move the state further away from recovery. The downturn has hit the state especially hard and given its size and importance in the U.S. economy it is hard to imagine a robust recovery without the Golden State.

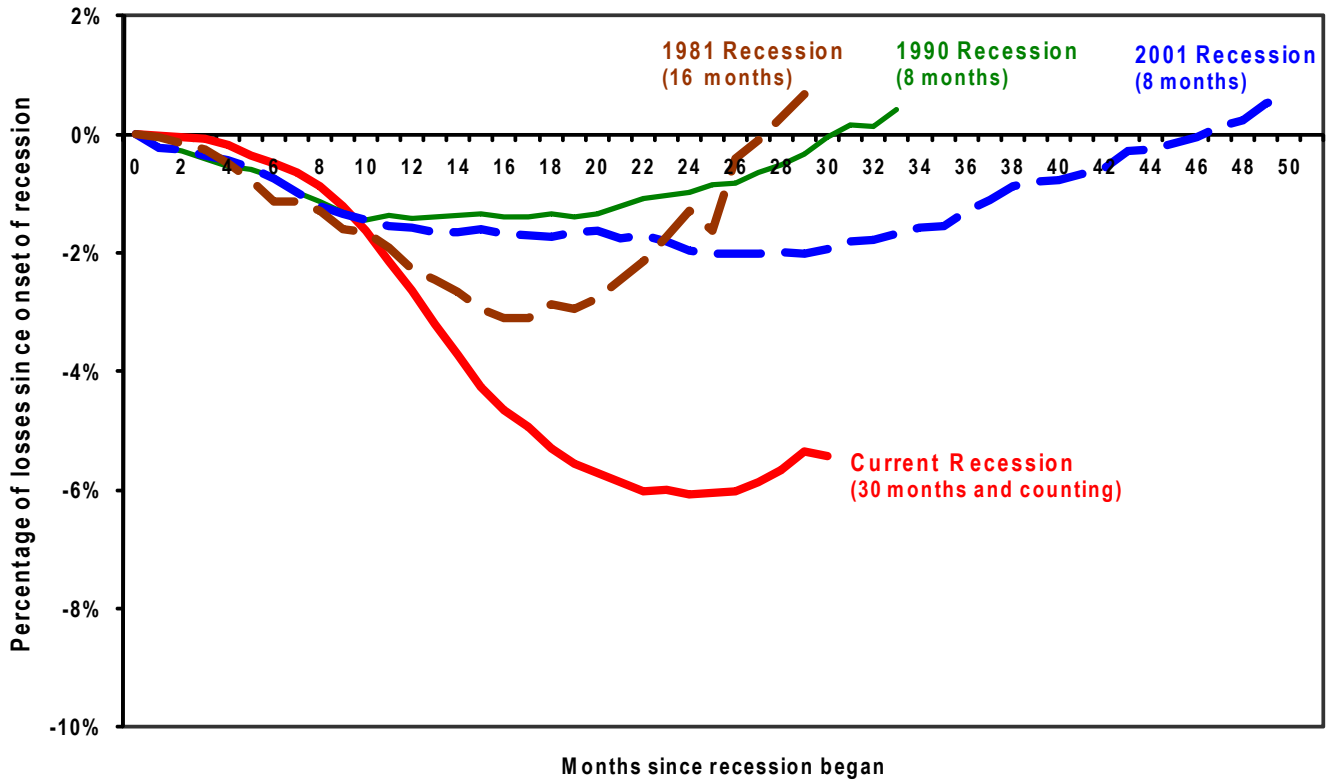
The onset of what was to become the Great Recession started in December 2007. Job losses were at first mild but then fell off a cliff the latter half of 2008 coinciding with the bursting of the housing bubble and the resultant implosion of many financial institutions. Situating this labor market in a historical context provides important insights and perspective into the current situation and what we may expect. This paper documents the fallout from the Great Recession by detailing key labor market statistics—the realities are harsh and should give pause to those advocating for economic austerity. A massive jobs bill and aid to struggling states should be top priority.

A Staggering Loss of Jobs

A most striking facet of the Great Recession is the massive deficit in jobs. Job losses have been enormous and recent job growth has done little to fill the gap. The progression of job losses for the current downturn as well as the previous three is illustrated in Chart 1. The chart measures job growth for the United

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Chart 1. Recessionary job losses in the United States: Currently a huge gap
(Length of recession in parentheses)



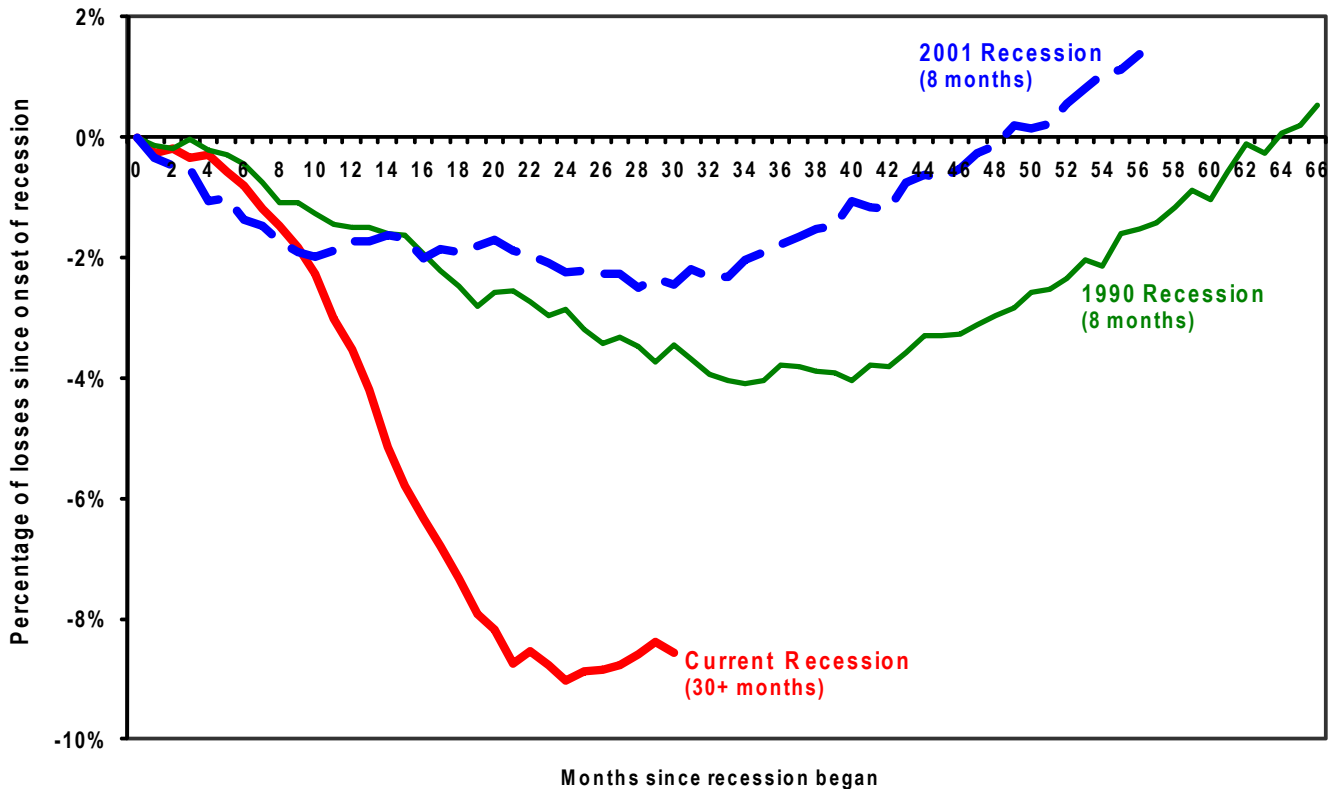
Source: Current Employment Statistics for the United States.

States at the start of each recession. At its worst, jobs losses for the current recession were down six percent (or 8.32 million)—a much greater percentage compared to any other post-depression era losses. Previously, the deepest loss of jobs was during the 1981 recession which was about three percent at its worst. Today, job losses are still down 5.4% which represents 7.48 million jobs less than what we had at the end of 2007.

The lack of jobs in the U.S. is severe; the situation in California is catastrophic. Chart 2 shows job losses in California for the current recession and the two previous (state data prior to 1990 are not available). Again, the massive loss of jobs is unmistakable and enormous. At its worst, job losses in California were down 9% in the current downturn. As of June 2010, losses tallied 8.6% or 1.3 million.

A strong recovery must be upheld by robust private sector hiring especially now that American Recovery and Reinvestment Act funds and programs will soon be winding down. The good news is that the U.S. has had six straight months of positive employment growth in the private sector. The bad news is that the private sector does not seem poised to step in and resume hiring at the levels needed to alleviate unemployment woes. Thus far in 2010, this sector has been averaging just 99,000 per month—less than what is needed to keep up with a growing workforce. There is much ground to be made up as the U.S. private sector is currently down 6.8% or 7.87 million jobs. One in ten or 1.28 million private sector jobs

Chart 2. Job losses in California have been catastrophic
(Length of recession in parenthesis)



Source: Current Employment Statistics for California.

have been lost in California. The dearth in private hiring along with the continued slashing of public sector jobs especially at state and local levels may be disastrous for this fragile economy.

Charts 1 and 2 also illustrate how long it took to recoup job losses—denoted by when the trend lines cross the zero percent horizontal line.¹ After the 1981 recession it took approximately 27 months to regain recessionary job losses in the U.S. This time frame is close to the 21 months it took, on average, to regain lost jobs for all pre-1990 recessions. The time to recoup jobs was drawn out following the 1990 recession and further following the 2001 recession. These two recoveries were deemed ‘jobless’ as the economy was officially in recovery and expanding but job losses continued as if in recession. The time it took to regain jobs following the 2001 recession was similar for the overall U.S. and California; 46 and 48 months, respectively. But, the story was quite different following the early 1990s recovery. It took California twice the time to recoup lost jobs compared to the nation as a whole—about 2 ½ years for the U.S. and over five years for California. As in the early 1990s recession, economic conditions in California are much worse today than the overall situation in the U.S. We cannot afford another jobless recovery on the heels of this deep and much prolonged recession.

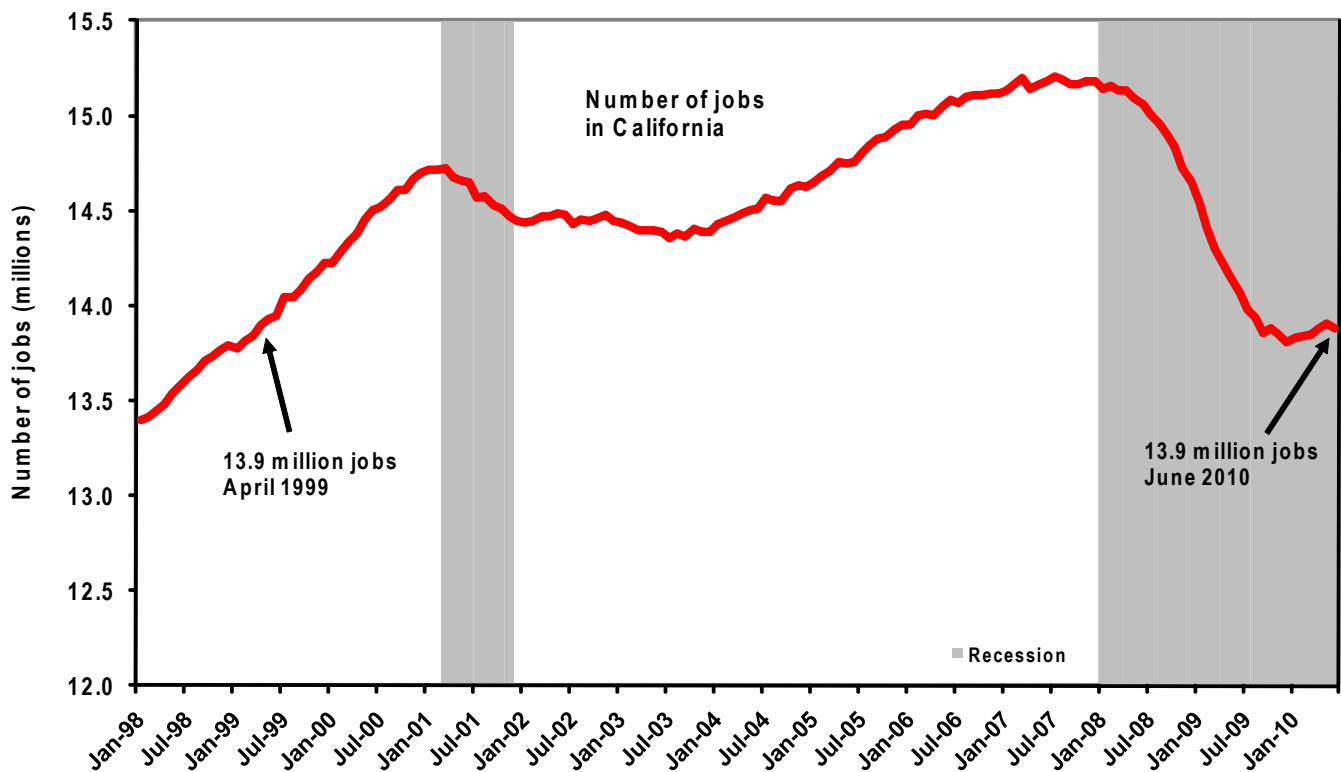
When May We Expect to Get All the Jobs Back?

The prospect for job growth remains weak given the lack of policy initiatives such as further stimulus in the form of a major jobs bill and/or Federal aid to the states. The latest projection from the Congressional Budget Office (CBO) is that it will be the latter half of 2015 by the time the economy creates enough jobs to recoup those that were lost and to account for those needed to cover the growth in the labor force.²

The situation may be even worse according to the Center for Economic and Policy Research (CEPR). CEPR sketched out several possible recovery paths under varying job creation scenarios based on past expansionary job growth. CEPR determined if “job growth from July 2010 forward proceeds at the same pace as the fastest four years of the 2000s expansion, the economy will not return to the December 2007 employment level until March 2014...and the economy will not catch up to the intervening increase in the labor force until early in the next decade (April 2021).”³

The prospect for returning California’s employment to pre-recessionary levels is even worse—given the percentage decline in jobs. Just how bad is it in California? As is depicted in Chart 3, the state has lost

Chart 3. Back to 1999: A staggering loss of jobs



Source: Current Employment Statistics for California.

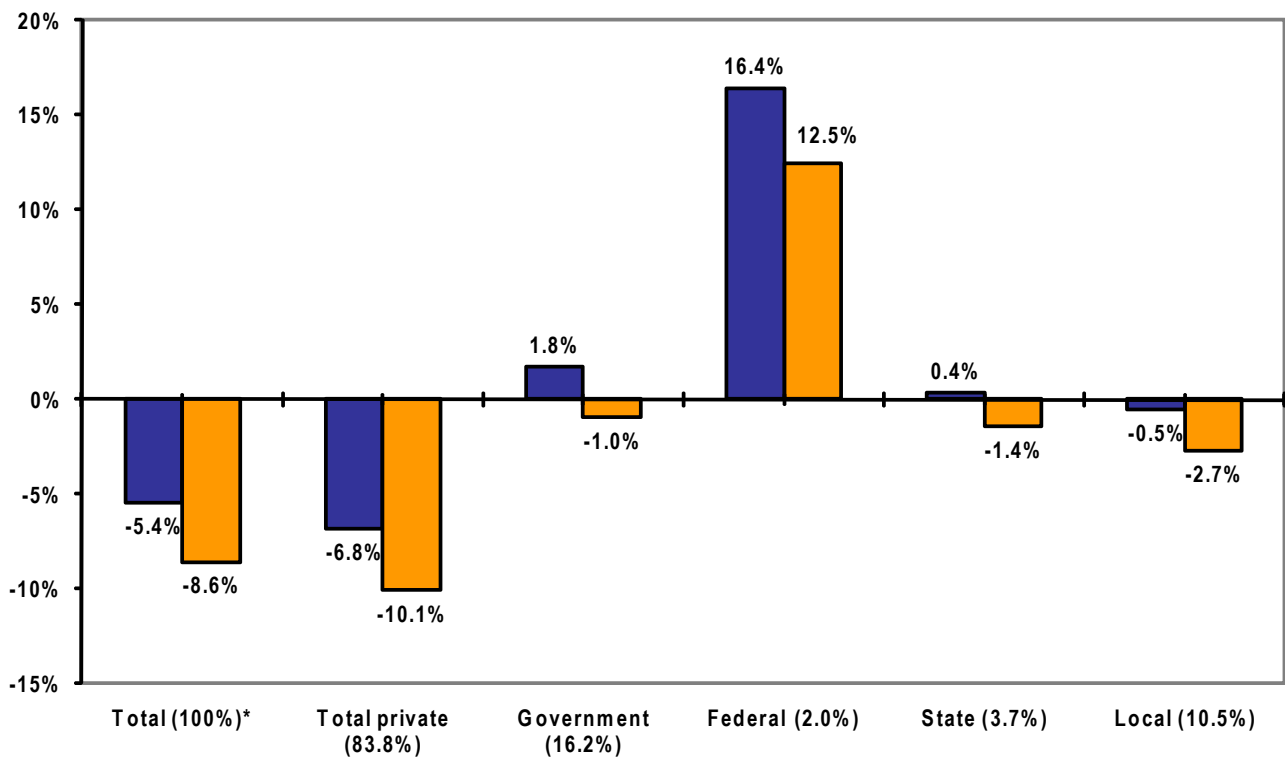
an entire business cycle of jobs and then some.⁴ The 13.9 million jobs in California as of June 2010 is exactly the same as it was in April 1999 (see Chart 3). Eleven years ago the labor force was much smaller and unemployment was 5.4% compared to today's 12.3%.⁵

California has a long way to go and the underlying conditions in the state remain a deep concern. The bursting of the housing bubble was acutely felt and is still being played out in the state. The intensity of the burst was directly proportional to the size of the bubble—and it was way over inflated in the state. California continues to struggle with a huge budget deficit—much of it due to the recession—as it implements yet another round of cuts that act as further anti-stimulus and advances another round of the vicious downward cycle. It may be that the recovery in California will significantly lag that of the nation such as it did in the 1990s.

What Jobs Have Been Lost?

As already discussed, the percentage of job declines in California has been greater than in the U.S. as a whole—for total job losses, as well as, in the private sector (see Chart 4). The recession was predicated

Chart 4. Job growth since the onset of recession: ■ UNITED STATES ■ CALIFORNIA



Note: *Share of total employment for the United States as of December 2007.
 Source: Bureau of Labor Statics, Current Employment Statistics, growth calculated from December 2007 to June 2010.

on a housing bust—so it is not surprising that the Construction sector has been hardest hit—as one in four construction jobs disappeared across the nation. California’s construction sector has been gutted as employment in that sector is down a stunning 36.4%.

Manufacturing, long in decline, ratcheted up losses over the recession. The sector is down 15.0% and 13.9%, in the U.S. and California, respectively. Manufacturing and Construction together accounted for four million job losses in the nation—of which over a half of a million were in California. The only major industrial sectors where job losses in California were below average U.S. losses were in the Information and Manufacturing sectors. The private sectors to buck the recessionary job loss trend were Education and Health Services—which together expanded by 5.2% in the U.S., but just 3.7% in California.

The biggest disparities between overall U.S. and California employment growth were in the public sector. In general, employment in the U.S. grew by 1.8% in the Government sector, but declined by 1.0% in California—reflecting budget cuts at the state and local levels. This too can be seen in Chart 4 as the Federal, State, and Local sub-sectors of Government are broken out. To give a gauge of the size of each sector, the share of each as a percentage of total U.S. employment, is in parentheses next to each sector name.

On average, state employment grew by a modest 0.4% in the U.S., but it declined by 1.4% in California. Government employment at the local level dropped by 0.5% in the U.S. but it fell by 2.7% in California. Public sector employment at the local level comprises just over 10% of all employment in the country and a bit more in California—so, these cuts were significant.

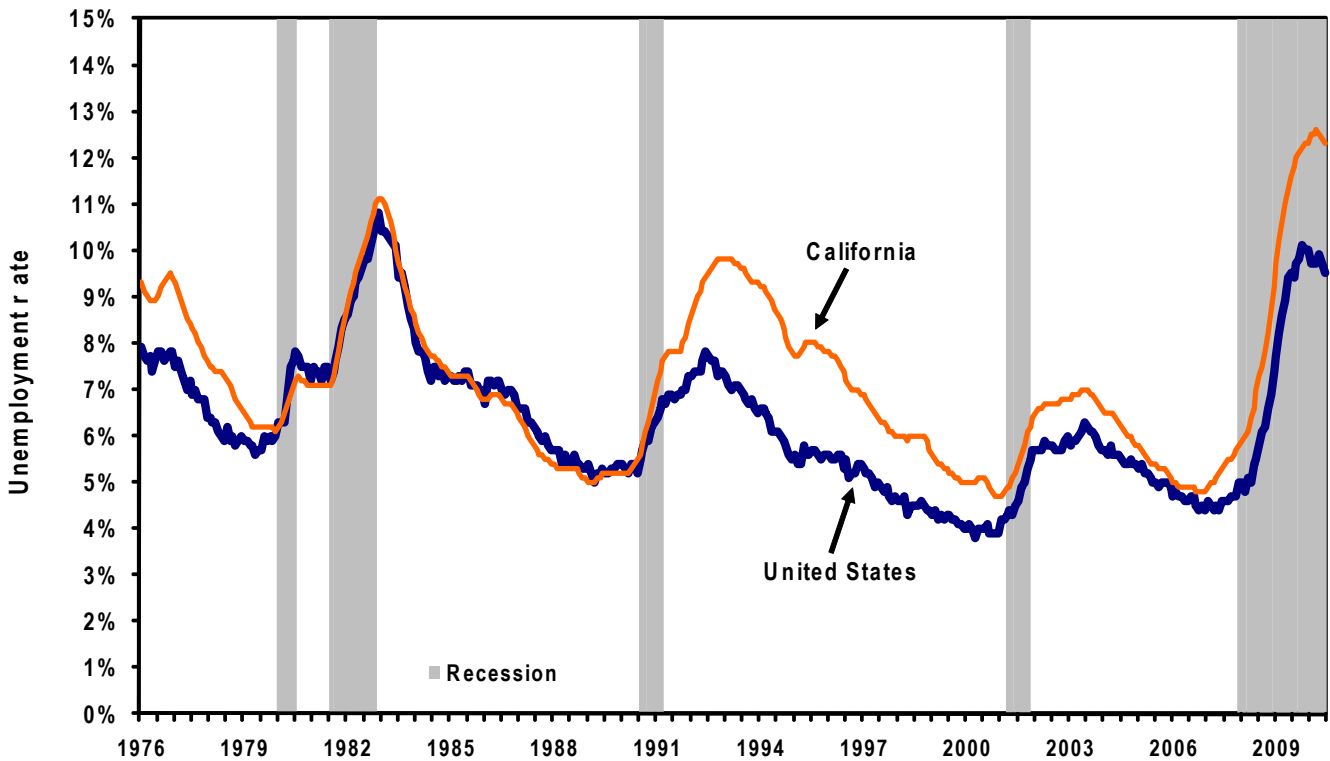
Unemployment Rates Remain High Even as They Understate the Situation

The enormous amount of job losses resulted in the highest unemployment rates seen in almost three decades. Unemployment rates for the U.S. and California are depicted in Chart 5—the gray bars denote recessions. The overall rate for the nation has been above 9% for the last 14 months and is now at 9.5%.⁶ California’s 12.3% unemployment rate has been in double digits for over a year and a half. The unemployment rate hit an all time high of 12.6% in the Golden State in March 2010.

Unemployment rates translate into idle workers and economic hardship. There are 14.6 million unemployed workers in the U.S. and more than one out of every seven is in California. This recession is now two and a half years in the making. The length and depth of job losses have made it very difficult for unemployed workers to find work. Thus, this recession has had unprecedented levels of long-term unemployment. The long-term unemployed are those who have been so for at least a half of a year. Chart 6 illustrates the problem of long-term unemployment as the share of the unemployed who were long-termers for the U.S. and for California.

Prior to the official onset of recession in 2007, long-term unemployment was 17.2% for the U.S. and for California.^{7,8} The rates increased each year but more so for California. Of the unemployed in California, about half have been so for at least six months in the second quarter of 2010. The share was a bit less for the U.S. overall but still very high at 45.7%. The pervasiveness of long bouts of unemployment is debilitating for workers, their families and society.⁹ Extensions in unemployment benefits have been

Chart 5. Unemployment rates for the United States and California
(January 1976 to June 2010)



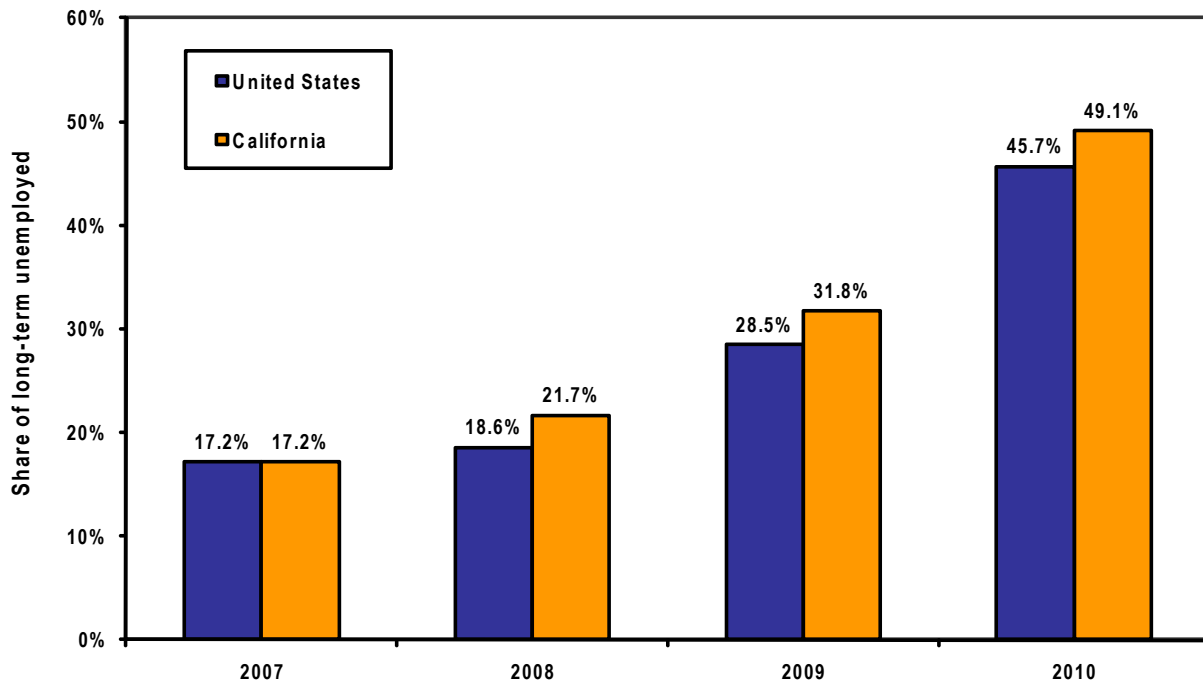
Source: Current Population Survey, seasonally adjusted.

helpful—both to workers and to the larger economy. But, benefits are running out for many workers still unable to find jobs and some may never regain employment or pay to what they had prior to this recession.

Troubling unemployment rates and high shares of long-termers, though revealing, do not account for the workers who have simply dropped out of the workforce due to discouragement, or workers who cannot find full-time employment. The Bureau of Labor Statistics reports on an alternative measure of labor underutilization or underemployment.¹⁰ Underemployment includes the unemployed as well as marginally attached and discouraged persons and those working part-time who would rather have a full-time job.

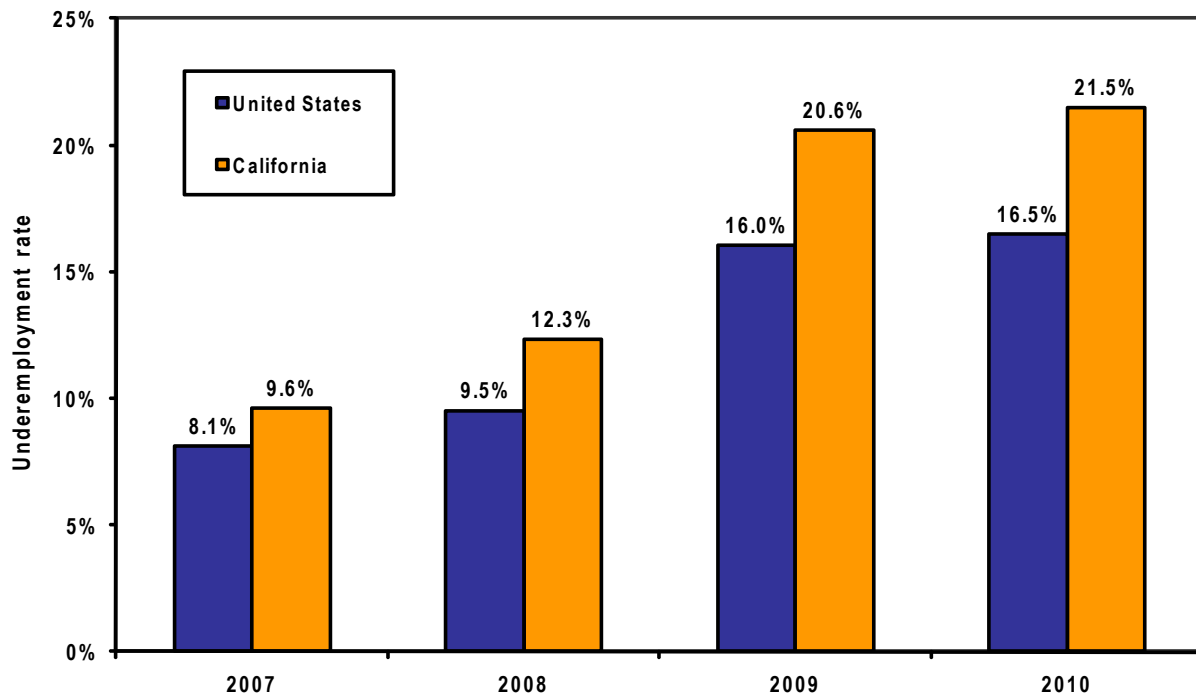
Underemployment has increased significantly since 2007 especially in California (see Chart 7). In 2010 (second quarter), one in six were either unemployed or underemployed in the country and that figure was more than one in five in California. This represents over 25 million underemployed persons in the U.S. with four million of them residing in California. With so many unemployed and underemployed workers it will take robust and sustained *monthly* job growth in the upper hundreds of thousands to make a dent in these figures.

Chart 6. Record breaking long-term unemployment
(As a share of total unemployed)



Source: Author's calculations of BLS Current Population Survey, data are not seasonally adjusted and are for the second quarter of each year.

Chart 7. Underemployment rates: A better measure of labor market stress



Source: Author's calculations of BLS Current Population Survey U6 rates, data are not seasonally adjusted and are for the second quarter of each year.

What Should Be Done?

The reality of current labor conditions and the fallout from the Great Recession facing workers as documented in this brief belies the notion that now is the time for austere economic policies at the Federal level. In this light, it is more than disheartening that the deficit hawks are defining and winning this policy debate. This economy is suffering from *a lack of demand* and underutilized capacity. Economic austerity will further *restrict demand*. It is far too premature to abandon this fragile recovery in favor of the false pretense of reigning in the deficit. Without additional intervention, we are assured this long, slow and painful recovery will persist and the possibility of a dreaded double-dip will remain. Either way the economic scarring has already been significant.¹¹

The government can attack this problem on many fronts—as they already have—and should continue to do. Much of the recent growth in the deficit was due to necessary spending to get us through this mess and to avert another Depression—countercyclical spending is what is expected from a responsive and responsible government. Even though the stimulus was too small, according to the Congressional Budget Office it prevented the unemployment rate from rising as much as 1.5 percentage points higher.¹² Recent research by Alan Blinder and Mark Zandi yielded even stronger conclusions in that they assert it was spending and interventionist policies of the government that helped avert a second Depression.¹³

Anti-stimulus activity is already in our midst and includes: a winding down federal stimulus, 46 states and localities that are implementing further budgets cuts to address the steepest decline of tax revenues on record, and other countries pursuing austerity. Growth has slowed—output was just 2.4% the second quarter of 2010—and is not expected to pick up for some time to come. We need more government intervention, not less. Additional stimulus should be targeted to getting workers back to work and providing work supports for those who can't find work.

The bang-for-the-buck is not equal across policy options. It is clear in Table 1 that much touted tax cuts are not as effective as spending increases. Federal aid to the states is imperative as states, like California, once again enact cuts that act to further depress their economies. The multipliers in Table 1 clearly point out that this would be an effective measure in what has become a crisis for the Golden State and many others. Many public workers have lost their jobs: including teachers, fire fighters and police—and more are slated for pink slips. Public sector cuts seep into the private sector as confidence, demand and spending retrench. Public services from the DMV to public parks to libraries have been scaled back. School class sizes are on the increase. The mantra of no-new-taxes persists as prices from parking rates to college tuition have increased.

Many policies already enacted in California have been inefficient or ineffective in their intended consequences. For instance, the California state worker furlough plan was found to be “a particularly inefficient method of addressing the budget deficit”.¹⁴ California has many options to close its budget gap and some fixes are better than others. Some cuts, such as those to Medi-Cal or Healthy Families leave Federal matching funds on the table. These cuts also have an especially severe economic impact because low-income families who benefit from the programs spend a greater share of their earnings and spend more locally than do higher-income residents. The Center for Labor Research and Education at UC

Berkeley detailed the consequences of the Governor’s proposed budget cuts compared to the impact of budget alternatives.¹⁵ The brief found that cuts to health and human services programs would result in fifteen times the number of jobs lost compared to enacting an equivalent set of revenue increases. Policies must be smart and fair.

Table 1. Bang for the Buck

Tax cuts	
Nonrefundable Lump-Sum Tax Rebate	1.01
Refundable Lump-Sum Tax Rebate	1.22
<i>Temporary Tax Cuts</i>	
Payroll Tax Holiday	1.24
Job Tax Credit	1.30
Across-the-Board Tax Cut	1.02
Accelerated Depreciation	0.25
Loss Carryback	0.22
Housing Tax Credit	0.90
<i>Permanent Tax Cuts</i>	
Extend Alternative Minimum Tax Patch	0.51
Make Bush Income Tax Cuts Permanent	0.32
Make Dividend and Capital Gains Tax Cuts Permanent	0.37
Cut in Corporate Tax Rate	0.32
Spending Increases	
Extending Unemployment Insurance Benefits	1.61
Temporary Federal Financing of Work-Share Programs	1.69
Temporary Increase in Food Stamps	1.74
General Aid to State Governments	1.41
Increased Infrastructure Spending	1.57
Low-Income Home Energy Assistance Program	1.13

Note: The bang for the buck is estimated by the one-year dollar change in GDP for a given dollar reduction in federal tax revenue or increase in spending.

Source: Moody's Economy.com

Conclusion

There may not be much talk of a public works type of jobs bill but there should be. Our infrastructure is still crumbling, states continue to be greatly stressed, education is being defunded, foreclosures continue to mount, and the sick are going without care.

The pain felt by millions of workers who can not find jobs and the needy should not be increased by misinformed or politically motivated deficit hawks. Aiding those who are suffering will help them and also help the long term budget problems as people shift from being recipients of government outlays to taxpayers. Investing in our country by updating our infrastructure, modernizing the electrical grid, research and development of green technologies and funding our schools will pay off in countless ways

far into the future. We simply cannot cut our way out of this mess; we need to invest now to grow the economy both now and in the future—this too decreases the debt to GDP ratio.

The legacy of the Great Recession is at a cross roads. When those in the future look back to this time, will they be in awe of all that was accomplished at such a perilous time, like many today are in awe of all that was achieved in the post-Great Depression era? Or, will our actions be ridiculed and marked as blight on this trying period in our history? Much more than historic accountability is at stake.

Endnotes

- ¹ This denotes regarding the number of jobs lost without regard to a growing workforce.
- ² Congressional Budget Office 2010. “The Budget and Economic Outlook: Fiscal Years 2010 to 2020.” Washington, DC: Congressional Budget Office, January. <http://www.cbo.gov/ftpdocs/108xx/doc10871/01-26-Outlook.pdf>.
- ³ Schmitt, John and Tessa Conroy 2010. “The Urgent Need for Job Creation.” Washington, DC: Center for Economic and Policy Research, July, p. 8. <http://www.cepr.net/documents/publications/urgent-need-2010-07.pdf>.
- ⁴ In reference to peak-to-peak job growth from March 2001 to December 2007.
- ⁵ The labor force in California grew by about 12% even as the employment rate fell by 5.7 percentage-points—from 62.5% to 56.8%—from the first-half of 1999 to the first-half of 2010.
- ⁶ The age-adjusted unemployment rate did reach a post-war high, see: Rosnick, David 2010. “The Adult Recession: Age-Adjusted Unemployment at Post-War Highs.” Washington, DC: Center for Economic and Policy Research, July.
- ⁷ The shares are for the second quarter of each year and are not seasonally adjusted.
- ⁸ Rates of long-term unemployment have been increasing in good times and bad; see Allegretto, Sylvia and Devon Lynch 2010. “The Changing Face of the U.S. Labor Force: The Composition of the Unemployed and Long-term Unemployed in Tough Labor Markets.” IRLE UC Berkeley, Working Paper 221-10. Institute for Research on Labor and Employment, July. Berkeley, California.
- ⁹ On what may be done about unemployment see: Reich, Michael 2010. “High Unemployment After the Great Recession: Why? What Can We Do? Policy Brief, UC Berkeley, Center on Wage and Employment Dynamics, June. Berkeley, California.
- ¹⁰ The BLS refers to this measure as the U6.
- ¹¹ Irons, John 2009. “Economic Scarring: The Long-term Impacts of the Recession.” EPI, Briefing Paper #243. Washington, DC: Economic Policy Institute, September.
- ¹² Congressional Budget Office 2010. “Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output from January 2010 Through March 2010. Washington, DC: Congressional Budget Office, May.
- ¹³ See Blinder and Zandi 2010. “How the Great Recession Was Brought to an End.” July 27. <http://www.economy.com/mark-zandi/documents/End-of-Great-Recession.pdf>.
- ¹⁴ Jacobs, Ken 2009. “The High Cost of Furloughs.” Policy Brief, UC Berkeley, Center for Labor Research and Education, October, p. 1. Berkeley, California.
- ¹⁵ Jacobs, Ken, Laurel Lucia and T. William Lester 2010. “The Economic Consequences of Proposed California Budget Cuts.” Policy Brief, UC Berkeley, Center for Labor Research and Education, May. Berkeley, California.

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