HELP WANTED:
AMERICA NEEDS A BETTER JOBS PLAN

A Response to the Obama Jobs Speech

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OVERVIEW

President Obama's plan to address America's job crisis contains many positive elements. If fully enacted, White House proposals would modestly stimulate economic growth, lead to new hiring, reduce hardship among the millions of Americans who are now unemployed, and boost long-term prosperity by strengthening the nation's infrastructure and education system.

Yet the President's plan does not go nearly far enough given the magnitude of the jobs crisis, with 25 million Americans unemployed or underemployed – many for over two years now. Total proposed spending of around $447 billion, while higher than expected, is still too low to make up for today's shortage of demand in a $15 trillion economy. In addition, our elected leaders need to go much further to not just address unemployment, but to also rebuild the middle class. Additional needed steps include: raising labor standards to ensure that jobs pay a middle class wage, making it easier for workers to join unions, doing more to aid small businesses, and directly creating public jobs.

THE PRESIDENT'S PROPOSALS

EXTENDING THE PAYROLL TAX HOLIDAY

The President's proposal to extend and expand the payroll tax holiday is the costliest and most ambitious elements of his plan. Payroll taxes were reduced by 2 percent for all workers last year and this tax cut now delivers benefits to 121 million workers averaging about $934 this year. Under the terms of the debt ceiling deal, however, the holiday is set to expire at the end of December – an expiration that would be a "self-inflicted wound to the economy" and "shrink the paychecks of nearly all Americans," according to a study by the Center for Budget and Policy Priorities.

President Obama proposes to not just extend this tax cut for another year, but expand it – cutting this tax in half for all workers and employers up to the first $5 million of payroll. (The holiday rate would be 3.1 percent for employees and 3.1 percent for employers, as opposed to the normal 6.2 percent for each or the existing holiday rate of 4.2 percent just for workers.) Employers who add workers or increase wages would not have to pay any payroll tax at all. The White House estimates that its payroll tax holiday proposal would benefit 160 million workers and raise household incomes by $1,500 next year for an average family. The measure is expected to cost $240 billion in lost revenue.

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The payroll tax cut is not as effective as direct government spending in stimulating economic activity. Nor has it been as effective as tax cuts more sharply focused on low-income Americans, like the Making Work Pay tax credit. Still, a payroll tax cut is highly effective at stimulating growth because it increases the size of ordinary people's paychecks and most of this money gets immediately spent. In addition, given Republican opposition to new spending, and the fact that its benefits are spread so widely across the work force, the payroll tax holiday is more likely to win congressional support than any other stimulus measure in the president's jobs plan.

Given the potential political viability of the payroll tax holiday, expanding this temporary tax break makes sense and Congress should consider going even further than what the President proposes. As part of Dēmos' Labor Day series, the Cornell economist and Dēmos senior fellow Robert Frank advocated suspending this tax altogether for workers, which would increase most workers' paychecks by 4.2 percent immediately. The University of Delaware economist Larry Seidman has estimated that suspending the employee's share of the payroll tax would cause the national unemployment rate to decline by a full percentage point by the end of 2012 relative to what it would have been otherwise.

Frank also embraces payroll tax relief for employers, but suggests that the 6.2 percent employer side of this levy should be left in place for existing workers while there should be a full holiday for the tax on all new hires until the economy recovers from the current downturn. This proposal is similar to what the federal government did last year through the HIRE ACT which, according to Treasury, exempted "employers from paying their share of the Social Security payroll tax for the remainder of 2010 for eligible new hires, and provides a $1,000 tax credit to employers if they retain eligible workers for 52 weeks." In 2010, the Congressional Budget Office rated this as an effective form of stimulus. A more far-reaching proposal, put forth last year by the Domenici-Rivlin Commission of the Bipartisan Policy Center, would suspend the entire payroll tax for both workers and employers for one year – a move the commission estimated would create between 2.5 million and 7 million jobs. The commission proposed reimbursing the Social Security Trust Fund for lost revenues to ensure its long term solvency.

Overall, we commend the President for thinking boldly in this area, but believe that elected leaders need to take even more dramatic action to temporarily reduce payroll taxes.

EXTENDING UNEMPLOYMENT BENEFITS

The President's proposal to extend unemployment benefits is among the most urgent elements of his plan. Congress has extended such benefits on several occasions since the economic crisis began, reflecting the dire needs of millions of Americans who are staying jobless for long periods of time. (The average duration of unemployment is now 10 months, a postwar record.) But the debt ceiling deal reached in early August did not include an extension of unemployment benefits, which are due to expire at the end of this year. By further extending these benefits, the President's plan would not only sustain a lifeline for unemployed workers, but continue one of the most powerful forms of stimulus available to policymakers.

A 2010 study of stimulus spending by economists Alan Blinder and Mark Zandi found that each dollar spent on unemployment benefits creates $1.61 in economic activity – making such spending far more effective than most tax cuts. The reasons for this big bang for the buck are obvious enough: unemployed people use their benefits immediately. Letting extended benefits expire in December as a result of the debt ceiling deal would deal a major blow to growth. According to a study by the Economic Policy Institute, this step would take $70 billion out of the economy in 2012, reduce GDP by 0.4 percent, and result in 528,000 fewer jobs. Extending unemployment benefits should be an urgent priority for Congress.

At the same time, the President took a bold step in the right direction by proposing new and better ways to help the unemployed. As part of a special set of Dēmos reports around Labor Day, Rakim Brooks recently explained that one option that deserves more attention is work-sharing programs that compensate employers who reduce hours for workers, but don't fire them. The President's plan embraces such programs. Work-sharing payments allow employers to retain workers and avoid the disruption of lay-offs even as they lower their labor costs during a downturn. They also deliver even more stimulus bang for the buck than traditional unemployment benefits. Twenty-three states now have work-sharing programs, with five adopting these programs since 2009. The federal government did provide some assistance to states with work-share programs as part of the initial stimulus.

The President also proposes providing a $4,000 tax credit to businesses the hire workers who have been unemployed for at least six month. This incentive could be useful, but care must be taken to ensure that employers are not pocketing funds for hires they would have made anyway.

We are less enthusiastic about new government spending that ties unemployment insurance to job training, which Obama also proposed. This idea, modeled on the "Georgia Works" program, offers unemployment benefits to employers (in the form of a stipend) who hire the unemployed as trainees. But data from the Georgia Department of Labor shows that just 16.4 percent of workers who participated in this program between 2003 when the program started and 2010 got hired by the company where they were placed, and only 24 percent got jobs at all. There are better ways to help the unemployed than emulating this program.

INVESTING IN INFRASTRUCTURE

Rebuilding the nation's crumbling infrastructure is another crucial way to stimulate economic growth, and the President's plan calls for the creation of a National Infrastructure Bank and billions in new spending in this area, much of it designed to leverage additional private funds. In addition to improve infrastructure, the plan would help modernize at least 35,000 public schools. This investment would help employ some of the 1.5 million construction workers who are now jobless and leave a lasting legacy of new bridges, mass transit systems, and roads.

We strongly support new spending in this area. Studies show that investments in infrastructure are among the best ways to use public dollars to produce both short and long term growth. The Blinder/Zandi study found that each dollar spent on infrastructure stimulus has produce $1.57 in economic activity – again, a far more effective use of federal monies than tax cuts. But infrastructure also provides a lasting boost to growth. As a report last year by the Treasury and Council of Economic Advisors stated: "Many studies have found evidence of large private sector productivity gains from public infrastructure investments, in many cases with higher returns than private capital investment. Research has shown that well designed infrastructure investments can raise economic growth, productivity, and land values, while also providing significant positive spillovers to areas such as economic development, energy efficiency, public health and manufacturing."

Unfortunately, the President's proposed spending on infrastructure does not go nearly far enough. Last year, a bipartisan group of transportation experts estimated that the United States needs to spend an extra "$134 billion to $262 billion per year for roughly the next quarter century" to meet its transportation infrastructure needs and ensure future prosperity. As well, the President's proposed spending on public schools falls far short given the needs of America's schools. As a joint report by the 21st Century School Fund and the Economic Policy Institute states: "By conservative estimates the accumulated backlog of deferred maintenance and repair amounts to at least $270 billion." The report estimates that eliminating "even half of the entire backlog and improvements could eventually create more than two million jobs, over a period of years."

AIDING STATE GOVERNMENTS

The President also proposed some aid to state governments to help prevent layoffs of teachers and other public sector workers. Such assistance is crucial, given that some 600,000 public sector workers have been laid off by states and local government since the economic crisis began. Such layoffs are continuing every month at a steady pace, contributing to persistent high unemployment rates. For instance, the Bureau of Labor statistics reported last week that 17,000 public workers were fired in August – on top of 37,000 public workers fired in July, 39,000 fired in June, and so on. Many of those fired are school teachers or other education workers. Such layoffs are totally antithetical to the urgent need to shore up the labor market and keep people working, spending, and paying taxes.

These layoffs are also preventable through more generous federal aid to state governments. The White House says that its plan would help keep 280,000 teachers on the job and also reduce layoffs of police officers and fire fighters. But the plan still doesn't go far enough. The Center for Budget and Policy Priorities reports that "For 2012, states are reporting shortfalls that total $103 billion with only $6 billion in federal Recovery Act dollars remaining available." Even if the President's full request for additional assistance is approved, state budget cuts to reduce shortfalls guarantee that thousands of public workers will lose their jobs every month over the coming year, with devastating effects on local economies, schools, and other vital government functions. Washington must do more to prevent this needless weakening of our economy and communities.

OTHER NEEDED POLICIES

RAISING LABOR STANDARD TO IMPROVE WAGES AND BENEFITS

Beyond creating new jobs, an urgent effort is needed to ensure better jobs – a challenge the President didn't address in his speech. Writing last week for Dēmos, the MIT labor economist Paul Osterman pointed out that far too many jobs fall below the standard that most Americans would consider decent work. Last year 19.7 percent of working adults held jobs that would put a family of four below the poverty line even if they worked full time and full year. Why are there so many bad jobs? The key explanation is that working Americans have not shared in the benefits of economic growth. In 2000 the median wage of adult workers was (in 2010 dollars) $17.41 and by 2010 it had barely grown to $17.60. During this same period the annual increase of productivity was over 2.5 percent. Who benefited from this growth? Between 1993 and 2008 the top 1 percent captured 52 percent of all new income in the economy.

In addition, over the past several decades, firms have developed a tool kit of strategies aimed at lowering compensation and benefits. Outsourcing is just one tactic. Another is keeping employees at less than full-time status to avoid paying benefits. Aggressive union avoidance is yet another. Instead of investing in training frontline employees and creating career paths, many companies rely on a high-turnover employment model. Finally, research finds that employers often fail to comply with a host of labor laws that set standards in the workplace, ignoring rules that guarantee a minimum wage and overtime pay, as well as misclassifying workers and, in the most egregious cases, cheating workers out of pay by forcing them to work off the clock or not paying them at all (a practice known as "wage theft.")

While new laws – such as increasing the minimum wage to $10 an hour – can help raise labor standards, more vigorous enforcement of existing laws is equally important. Since 2009, the U.S. Department of Labor has stepped up efforts to enforce rules on how workers are classified, as well as laws governing overtime, the minimum wage, and protections guaranteed by the Family and Medical Leave Act. But DOL still lacks the capacity to fully enforce the nation's labor laws and new resources are needed in this area.

MAKE IT EASIER FOR WORKERS TO JOIN UNIONS

A key reason the U.S. economy is stuck in a downturn is that ordinary Americans don't have disposable income to spend. In turn, this reflects the gross levels of inequality in earnings which channel a growing share of the nation's income to a small sliver of households.

One way to increase earnings and consumption by ordinary Americans is to make it easier for workers to join unions. As Dēmos senior policy analyst Amy Traub wrote earlier this week, organized labor has traditionally played a crucial role in ensuring that working people – who make up most consumers -- receive a larger share of the economy's gains. Unions bargain collectively for better wages and benefits for their members. But unions also raise compensation for workers they don't represent: a recent study by professors Bruce Western and Jake Rosenfeld finds that by scaring non-union employers into raising wages to avoid unionization, promoting norms of fair pay, and lobbying for public policies that raise wages, unions substantially boost compensation for non-union employees in addition to their own members.

Unfortunately, though, unionization rates have been in decline for decades and the share of national income going to the middle class has fallen too. Without unions or any other organized force to fight for workers' share of economic gains, the middle class is dwindling – and so is its purchasing power. This trend was obscured during the early 2000s as Americans tapped credit cards and rising home equity to support their consumer spending.

Polls show that far more American workers would like to be part of a union than is now the case. But one factor that prevents this is a decades-long effort by big business lobbyists to water down the nation's labor regulations so that corporations can, with near impunity, obstruct their employees' efforts to choose a union.

The most important step Congress could take to reverse the decline of unions is to pass the Employee Free Choice Act (EFCA), which would streamline the process of forming unions in the workplace and prohibit some current forms of union-busting by employers. Two years ago, the EFCA was buried in the Senate by the threat of filibuster and its prospects in Congress remain bleak. But, with consumer spending remaining flat and GDP growth anemic, it is time that Congress recognized that stronger unions are one obvious way to put more into the pockets of American workers and get this economy moving again.

MORE HELP FOR SMALL BUSINESSES

The Small Business Administration reports that businesses with under 500 employees have created two out of every three net new jobs over the past 15 years. Even smaller businesses – "microenterprises" of less than 4 employees –account for 88 percent of firms, and could get the country to full employment if just one out of every three was able to hire a single new employee.

Writing this week, Dēmos Washington Director Heather McGhee argued that what small businesses need most are more customers, which means putting more money in the pockets of workers with the bold steps outlined above. Beyond this, she advocated other steps the federal government can take to help small businesses. These include: setting the cap lower on credit and debit card "swipe fees," which could reduce the $16 billion annual swipe fee burden on small businesses; leveling the playing field between local shops and giant Internet retailers like Amazon by passing a law like the Main Street Fairness Act to allow states to require sales tax collection from large e-tailers; help states enact "Main Street Partnership Banks" that move public funds out of the Wall Street banks that have turned their backs on local lending, and capitalize a new public structure with a mission to improve local economies; extend credit card protections to business cards so that America's small businesses are protected from predatory credit card practices; and revive anti-trust laws to help small business compete better against massive corporations and conglomerates.

BUILDING TOMORROW'S MIDDLE CLASS

Investing in young people to ensure tomorrow's middle class is another area where action is needed. Last week, Dēmos vice president Tamara Draut noted that since the Great Recession began, young people have taken it on the chin—whether they're carrying a high school diploma or a costly college degree. The jobless rate among young adults is about double that of other age groups—with unemployment rates at Depression-era levels for young African-American and Latino men without college degrees. No previous recession comes close to this one in terms of the loss of jobs and opportunity among young people.

But things were bad for young people even before the recession, as Dēmos has pointed out in its research in this area. Young people are finding it harder to work their way into the middle class as blue collar jobs and trade apprenticeships disappear, while educating your way up the ladder has also become more daunting amid skyrocketing college tuition costs. Many young people can't get what good paying jobs are available because they don't have the skills they need. And too often their efforts to get these skills are thwarted because of the exorbitant cost of higher education.

America's long-term prosperity depends on investing in its increasingly diverse generations of young people. Among other things, we need to rethink the pipeline into and through post-secondary education. Financial support must be expanded for low-income students and there are hosts of good proposals to provide better support to community colleges and their students. In the longer term, we should consider moving toward a high school education system that provides the equivalent of 2-years post-secondary work—whether it's vocational or liberal arts—and it must be tightly connected to the needs of the labor market.

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