

Davis Testimony to CBC on Chronic Unemployment

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Testimony to the Congressional Black Caucus Hearing on the "Chronically Unemployed";

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That we are facing the greatest increase in unemployment and the sharpest loss of jobs since the great depression is well known. Fully grasping the reality of our current circumstances is quite another thing.

Job losses have spread throughout the economy: construction, manufacturing, professional and business services, transportation and temporary help services. The high unemployment rate has impacted wages which are barely growing, less than 1.4% per year, while weekly earnings are actually falling because of shorter work hours. Reports of wage cuts and unpaid furloughs are everyday news in the private and public sectors.

In the nine recessions since 1948, by seven quarters after the official start of the recession the economy had grown by an average of 4% compared to pre-recession levels. Seven quarters after the start of the current recession the economy is still 3.2% smaller than the pre-recession peak. It is clear that it will be years before incomes return to the already weak pre-recession levels. Those levels had already been stagnating for years for middle America as the share of the national income which went to the wealthiest 1% of Americans soared during the Bush administration.

American families have lost something on the order of \$14 trillion, from the bursting of the housing bubble and the collapse of the stock market. Though the stock market has made a partial recovery, the pain has not let up for poor and working families. Economists have calculated that this unimaginable sudden loss of wealth in our economy has resulted in a loss of demand of \$2.6 trillion over 2009 and 2010. Given that consumers account for some two-thirds of the economy it is clear that this is no ordinary crisis which grips our economy.

The impact on state and local government has been particularly severe with states facing a two-year (FY2010 and FY2011) budget shortfall of \$357 billion and another \$80 billion for local governments. The ARRA cushioned the blow with \$106 billion to state and local government but left \$331 billion to be made up either by cuts or tax increases. Spending cuts in state and local government result in reduced health care, education, safety and transportation services and fall disproportionately on low-income families who themselves are then forced to cut spending. Each dollar of reduced spending by state and local government reduces economic activity by \$1.41.

Since the beginning of the recession the economy has lost 8.4 million payroll jobs. Just to accommodate the growth in the population we should have added some 2.7 million jobs. This means that the United States needs 11.1 million jobs just to return the number of jobs to pre-recession levels. To replace the jobs lost we would have to create 415,000 jobs every month for the next three years. The hours of "lost work" due to shortened work weeks amount to another 2.8 million full time jobs - an underemployment rate of 17%. Therefore, we now need to create 13.9 million jobs to put America back to work at pre-recession levels. The median time for a laid off worker to find a job is now almost five months, longer than any other time on record since the BLS began keeping records in 1967.

A closer look at the unemployment numbers reveals some glaring inequities. While the unemployment rate for White workers stood at 8.8%, it was 12.4% for Hispanics and 15.8% for Black workers. The gap between White and Black

unemployment six months before the start of the recession was 4.3%. Two years after the official start of the recession the gap has grown to 7%. For Native Americans the unemployment rate stands at 13.6%. The unemployment rate for college educated African Americans has grown to almost twice that of White college educated.

The underemployment rate for Hispanic workers is 25.1% and for African American workers it is 23.8% compared to 14.2% for White workers. Since the start of the recession the underemployment rate for Black workers has increased 9.3%, for Hispanic workers 14% and for White workers 7.1%. From the first quarter of 2007 to the first quarter of 2009 African American workers age 25 to 54 saw a 3.7% decline in inflation adjusted median weekly wages, no other racial or ethnic group showed a decline over this period.

For Black youth 16 to 19 years of age the unemployment rate now stands at 42%. According to a report by the Economic Policy Institute, the unemployment rate for African Americans is projected to reach a 25 year high of (not-seasonally adjusted rate) of 17.2 percent in the third quarter of this year.

To put the African American unemployment rates in perspective the annual report by United for a Fair Economy. "State of the Dream," issued in connection with the Rev. Martin Luther King Jr.'s birthday, revealed that African Americans and Hispanics are three times as likely to be poor as Whites; that African Americans earn 62 cents for every dollar Whites earn; and that the family median net worth of Whites in 2007 was \$170,400, compared with \$27,800 for African Americans and Hispanics.

Two out of every three African American children born between 1985 and 2000 were raised in a neighborhood of at least 20% poverty compared with 6% for White children according to a study by the Pew Foundation. According to the report these numbers are virtually unchanged from thirty years ago. For children born between 1955 and 1970 the number of African American children raised in communities with 20% or more poverty was 62% compared to 4% for White children. Even when the very poorest children are excluded the gap persists. For Black children from the three highest income quintiles, 49% lived in communities with at least 20% poverty. Only 1% of White children from the upper three quintiles lived in high poverty neighborhoods.

Given the crisis in employment outlined above how are we to respond? We know economic growth can come from several sources including consumption by the public, business investment, increased exports, or government spending. Public consumption, business investment and exports are all shrinking, not growing, and there is no engine in sight to put them on track for growth other than public (government) spending.

As we learned in the aftermath of the Great Depression, only government spending can jump start the economy and expand production, consumption and employment. Government spending is not just an option, it is our only realistic option if we are serious about putting all of America back to work.

The ARRA replaced about a third of the loss in demand from the bursting of the housing bubble and the sharp drop in the stock market. We need more, not less, assistance to state and local government, expanded infrastructure spending to replace crumbling transportation, communication, and energy systems, water and sewage systems, increased social security benefits, foreclosure relief, loans or grants to industry to jumpstart a green jobs program, training programs, increased college grants and affordable college loans, and direct government employment in economically impacted communities. We need targeted spending to remedy the deeply ingrained inequities present in the job market.

Will this increase the deficit? Yes, to a limited extent in the short run. The ARRA accounted for about one-eighth of the increase deficit. But doing nothing will also increase the deficit as the economy shrinks, so will revenues . . . and additional cuts will result in additional reductions in economic activity.

Every quarter without investment in the economy will result in slower growth in the future and loss of competitiveness in the world market. Every quarter of mass unemployment will lead to deeper debts for America's families, continuing foreclosures, postponed or lost opportunities for education, less healthcare, more chronic illness and excess deaths. Every quarter without investment will lead to greater and greater inequities and inequalities, with the by far greatest burden being placed on African Americans, Hispanics, and Native Americans.

Should we address the deficit in the long term? Absolutely. For those who are serious about cutting the deficit there are three real options, getting the economy growing vigorously, significantly reducing the military budget and reforming health care. We should do all three.

The millions of unemployed are overwhelmingly not unemployed by their choice but as a result of mismanagement of our economy over the past decade. Failure to recognize and address the housing bubble, restructuring of the tax code to benefit the richest 1%, failure to invest in critical research and infrastructure to keep our economy competitive, trade agreements which encouraged manufacturing to move to countries with the lowest wages, worst working conditions and least environmental and consumer protections, gutting the regulation of the financial industry and the rights of workers to organize, a voracious health care system more focused on profit than health, and a continued refusal to recognize that every child is an irreplaceable part of our future and that a mind is a terrible thing to waste have all contributed to creating the conditions which led to this crisis.

Now it is up to us to make the government work for the people once again. And the centerpiece of that effort must be to put America, all of America back to work.