



Getting Back to Full Employment

Chapter Summary

When the breadwinner in a household is out of work, or can't find full-time work, it puts everyone living under the same roof at risk of hunger. Child hunger is directly related to the poverty that results from parents being unemployed or underemployed. Safety net programs do not fully compensate for the loss of income. Presently, hunger rates in the United States remain tremendously high in part because of a weak recovery since the end of the Great Recession. Without a deliberate attempt to reduce it, unemployment is likely to remain high for a long time. Getting back to full employment must become a higher priority for the White House, Congress and the Federal Reserve. They have tools to spur faster rates of job creation and put millions of more people back to work.

MAIN RECOMMENDATIONS IN THIS CHAPTER

- The Federal Reserve Board should maintain its pro-jobs monetary policy as long as unemployment remains high and inflation low.
- Congress should manage its work on the national budget differently—economic stimulus rather than job-killing cuts.
- Congress and the president should invest in infrastructure and emerging industries.
- Congress and the president should support entrepreneurship in low-income communities.

It may sound simple, but it's still true: the best defense against poverty and hunger is a steady, well-paying job. It is true not only at the household level, but for the nation as a whole. When jobs are plentiful, poverty and hunger rates plunge.

The late 1990s was a period of exceptionally low unemployment. Low-wage workers, whose unemployment rate is highest in good times and in bad, saw their best job prospects in decades. Between 1996 and 2000, the annual poverty rate fell to its lowest level in decades, and just 2

percent of the U.S. population lived in poverty for this entire period.¹

Poverty is a complex problem that is measured very simply—by household income. Consider a family with one wage earner. Every member of this family is more vulnerable to poverty and hunger than people in households with more than one worker. Poverty rates are highest in families headed by single mothers, mainly because women earn just 77 cents for every dollar earned by men.² Women make up 85 percent of households headed by a single parent. In 2011, 40.9 percent of families headed by a single mother were living in poverty.³ In families where a single mother

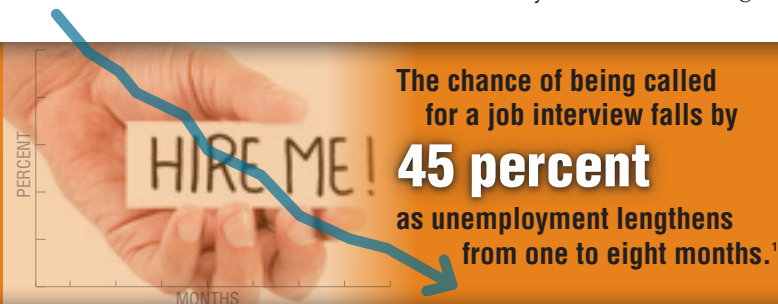


Richard Lord

In 2013, more than four years into recovery from the Great Recession, long-term unemployment (six months or more) remained at record high levels.

worked full-time, year-round, the poverty rate fell to 13.4 percent.⁴ While it's not great news that 13.4 percent of these full-time, year-round workers and their children were living in poverty, it's a much lower rate than 40.9 percent and illustrates the importance of a stable job.

Jeannette Wicks-Lim and Jeffrey Thompson, economists based at the University of Massachusetts, analyzed employment patterns in low-income families using U.S. Census data from 2005 to 2007. They define low-income as up to 200 percent of the poverty threshold, because their research and that of others shows that families with incomes as high as 200 percent of the poverty level—\$48,000 per year for a family of four—struggle to afford basic necessities such as food and shelter.⁵ The period covered in the study predates the worst stretch of the Great Recession. From 2005 to 2007, the unemployment rate averaged less than 5 percent. They write, “The average household head of a low-income working family worked about 1,420 hours annually from 2005-07—significantly less than full-time, year-round (2,080



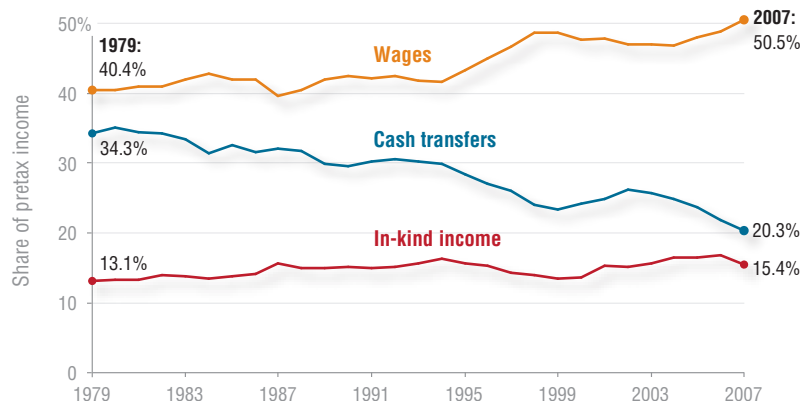
Workers who lost a job from 2007–2009, but who found new full-time work, faced an average wage cut of **10.5 percent**.²

hours). If all household heads and their spouses (if present) in low-income households worked full-time, year-round, the percent of low-income households would fall from 26 percent to 11 percent.⁶ The bottom line: the number of low-income families could be cut by more than half if a full-time job were available for everyone who wanted one.

What does this mean for ending hunger in America? Well, it is simply not possible unless there are more full-time jobs. Nutrition programs and other anti-poverty programs can help compensate for a shortfall in income, but they cannot replace it. There's a lot of overheated rhetoric about government assistance causing dependency, but the truth is that low-income households rely on work for most of their livelihood. From 1979 to 2007, government assistance to low-income families (cash transfers and in-kind income such as food stamps, free or reduced-price school meals, and housing and energy subsidies) actually *declined* as a share of their overall income.⁷ See Figure 1.1. Hourly wages when adjusted for inflation over this period increased by a mere 27 cents.⁸ Household income increased for most families by working more hours.

Jobs need to pay better (a subject we turn to in Chapter 2), but the first order of business must be to make sure that everyone who is able to work can find a job. Those who stand to gain the most from a full-employment economy are low-wage workers, but the benefits would extend to everyone. The lost productivity from high unemployment is like a tax on all of us, because high unemployment means the economy is operating at less than full capacity, both reducing tax revenues and necessitating additional government spending to make up for the lower private sector demand. The Congressional Budget Office (CBO) projects that the unemployment rate will remain above 6 percent through 2017.⁹ But a much better outcome is possible, and policymakers have the tools to improve the forecast.

Figure 1.1 **Share of Bottom-Fifth Household Income Accounted for by Wages, Cash Transfers, and In-Kind Income, 1979-2007**



Note: Wages, cash transfers, and in-kind income comprise, on average, 88 percent of all pretax income for the bottom fifth. The other 12 percent is made up of capital gains, proprietors' income, other business income, interest and dividends, pensions, imputed taxes, and other income.

Source: Economic Policy Institute (2012), *State of Working America*, 12th Edition.

Nearly
5 million college graduates
are in jobs now that require less
than a high-school education.³

Between 2010 and 2020, there will be nearly
3 new college graduates for every 1 job
created that requires a bachelor's degree.⁴

Reaching Full Employment

There is always churn in the economy as various employers eliminate jobs somewhere and create them somewhere else. An unemployment rate below 5 percent is generally considered full employment.¹⁰ Basically, this means that anyone who is able to work and wants to can find a job, and those who have had to settle for part-time work have better prospects of moving into

a full-time job. In April 2000, and again in September that same year, the unemployment rate fell to 3.9 percent, its lowest level since 1970.¹¹ Tight labor markets such as this have become a rarity in the United States—but that is not inevitable.

At full employment, the wages of the lowest-income workers rise fastest. From 1995 to 2000, the hourly wages of workers earning at the 10th percentile (in other words, 90 percent of workers earned more) increased 2.1 percent annually, after shrinking by 0.9 percent annually between 1979 and 1995.¹² Between 1979 and 1995, unemployment rates had fluctuated but never fell to the levels reached from 1995 to 2000, showing that the progress of low-income families

depends not only on having a job themselves but on everyone else having one as well. Normally, the unemployment rate is highest in low-wage sectors of the economy. With an ample supply of workers to choose from, employers see little reason to increase wages. But in a tight labor market, employers are more inclined to raise wages (and/or increase benefits) to retain the best workers.

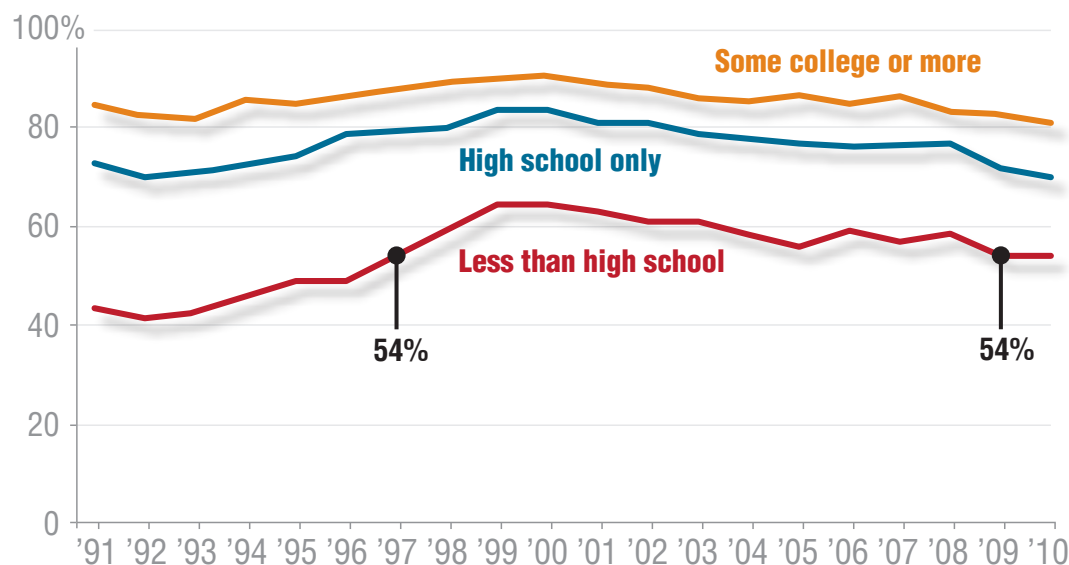
After welfare reform in 1996, the unemployment rate of families headed by single mothers plummeted. The welfare reform legislation still receives an enormous amount of credit for this. But the sudden decline in poverty among households headed by single mothers had more to do with the strong economy and the expansion of work supports, such as the Earned Income Tax Credit (EITC) and child care subsidies, than the new work requirements for cash assistance. We know this because after 2000, the unemployment rate for single mothers began rising again. Welfare's work requirements had not changed, but the economy had. See Figure 1.2. By 2007, single-mother families (and single-father families) had lost most of the gains they'd achieved against poverty and hunger in the late 1990s. Poverty increased and so did hunger. Welfare reform legislation may well have contributed to some reductions in poverty in the strong labor market of the 1990s, but it did not prevent the shrinkage of those gains in the weak labor market of the 2000s.



Todd Warnock

The majority of jobs added since the end of the Great Recession have been in low-wage occupations.

Figure 1.2 **Employment Among Single Mothers Increased Substantially During the Early Years of Welfare Reform, But Many of Those Early Gains Have Been Lost**



Source: Center on Budget and Policy Priorities (2012).

Another reason low-income single mothers did well in the late 1990s is that full employment mitigates the effects of discrimination in the labor market. Anecdotal evidence indicates that employers who admitted they would be hesitant to hire welfare recipients in a labor market that was not as tight hired them anyway—and found them to be just as capable as other workers.¹³ Full employment, with its pressure not to discriminate, meant large gains for African Americans as well. During the late 1990s, the median income of African American families grew faster than at any other point, including during the Civil Rights era.¹⁴

The extraordinary progress that low-income families achieved during the late 1990s did not last when the economy slid into a recession from March 2001 until November of that same year. This recession was mild compared to the Great Recession that lasted from December 2007 through June 2009. However, the recovery following the 2001 recession did not produce another period of low unemployment. It was nearly two years into the recovery before the economy achieved drops in unemployment for two months in a row.¹⁵

The economy posted virtually identical rates of productivity growth from 1995-2000 and 2001-2006.¹⁶ During the earlier period, productivity gains were reflected in everyone's pay-check. The later period was marked by the erosion of wages for everyone except the top earners. *The late 1990s were a period of broadly shared prosperity because there was full employment.*

“Those who stand to gain the most from a full-employment economy are low-wage workers, but the benefits would extend to everyone.”

“THERE ARE A LOT OF PEOPLE OUT THERE LIKE ME.”

In 2010, Sary Dobhran was unemployed and struggling to get by in Portland, Oregon, on \$400 a month in public assistance. She and her three-year old son were living in a one-room apartment and things were looking desperate.

Sary's life had been plunged into turmoil when the father of her son died while she was still pregnant. Sary has a college degree in environmental studies and speaks four languages, but that wasn't enough to help land her a job in the worst economy since the Great Depression.

A turning point came when she enrolled in a pre-apprenticeship program at Oregon Tradeswomen, Inc., gaining marketable skills in the burgeoning fields of energy efficiency and sustain-

able construction. She

was eventually hired by a contractor, received

on-the-job training, and then advanced training in air and duct sealing and building performance. Sary's particular path was funded by a series of grants tied to putting people back to work and providing savings to consumers on energy costs.

Today, Sary is earning a living wage by performing energy audits for homeowners who want to save money on their utility bills and reduce their energy consumption. “Sary's triumph over adversity could be replicated thousands of times over around the nation,” says Kelly Haines, a workforce specialist with Clean Energy Works Oregon, a nonprofit committed to building a clean energy economy in Oregon and one of the organizations that helped Sary pull herself and her son out of poverty. Sary's training program was funded in part by Clean Energy Works Oregon with a grant from the U.S. Department of Energy.

“My story is a testament to the demographics of the unemployed,” says Sary. “We're often educated. We're often hard-working. We simply need the tools to get into a market like this.”

“Sary's triumph over adversity could be replicated thousands of times over around the nation.”

— Kelly Haines



Clean Energy Works Oregon

Sary Dobhran and her son at home in Portland, Oregon.

The Fed's Power to Reduce Unemployment and Poverty

In the late 1960s, U.S. economist Milton Friedman published an academic paper describing an interlocking relationship between inflation and low unemployment. At the time, the paper had limited influence on policymaking. The War on Poverty had been launched a few years earlier, and low unemployment was understood to be essential to achieving rapid reductions in poverty.

Between 1959 and 1973, the poverty rate was cut from 22 percent to 11 percent; if the economy had continued to grow at the same rate, poverty was projected to be a thing of the past by the early 1980s.¹⁷ But in the mid-1970s the economy stalled. A global increase in oil prices contributed to rising inflation. Rising unemployment combined with rising inflation was called “stagflation”—otherwise known as the Misery Index. Rising inflation hurts people on fixed incomes and people who have lent money at fixed interest rates. It also makes planning difficult and can slow economic growth.

The Federal Reserve Board is this nation’s central bank and manages U.S. “monetary policy,” by increasing or decreasing the supply of money in the economy. In 1979, the annual inflation rate had soared to 13.3 percent, its highest rate in 33 years.¹⁸ Paul Volcker, then Chair of the Federal Reserve, suddenly and dramatically raised interest rates. Raising interest rates causes unemployment to rise. By 1981, unemployment had soared to nearly 11 percent, the highest level since the Great Depression. But inflation was under control.

“The Federal Reserve has kept interest rates low since the end of the Great Recession to try to stimulate the economy and encourage lower unemployment.”

many economists believe that inflation doesn’t harm economic growth unless it is significantly higher than 2 percent.²⁰

The Full Employment and Balanced Growth Act of 1978—also known as the Humphrey-Hawkins Act—handed the Federal Reserve a dual mandate of promoting maximum employment and price stability, i.e., low inflation. Since Paul Volcker’s tenure as Chair, the Fed



Federal Reserve

A Federal Reserve Board meeting held in December 2012. The Fed is the nation’s central bank.

Construction workers experienced the highest percentage point increase in long-term unemployment during the recession.

has given higher priority to low inflation rather than maximum employment. According to Daniel L. Thornton, current vice president of the Federal Reserve Bank of St. Louis, despite its dual mandate, the Fed has been “cautious not to state its policy objectives in terms of either full employment or the unemployment rate, preferring instead to state its mandate in terms of price stability and *economic growth* [emphasis Thornton].”²¹ The problem is economic growth can take place without full employment or rising wages. And in fact, with the exception of the late 1990s, most workers in the United States have experienced “economic growth” that way, and as a result, have not shared in the benefits of that growth.

“The most important lesson from the 1990s,” wrote Jared Bernstein and Dean Baker in their book *The Benefits of Full*

“Elected officials—and the public—have to make clear that monetary policy should put more emphasis on full employment than it has in recent decades.”

Employment: When Markets

Work for People, “is that the economy can sustain a 4 percent unemployment rate without accelerating inflation.”²² As the unemployment rate fell, Federal Reserve Chairman Alan Greenspan decided not to raise interest rates as Fed watchers might have expected. Not everyone on the Federal Reserve’s Open Market Committee (FOMC), the body within the Fed responsible for setting interest rates, agreed with his decision. There were external pressures that Greenspan had to consider. For one thing, a wave of financial crises in Asia, Latin America, and Russia made it prudent to hold down U.S. interest rates to try to stabilize global capital markets.²³ In 2001, the U.S. boom ended when the stock market bubble that was fueling much of the growth of the late 1990s burst. A stock bubble is not a sustainable model for achieving full employment—so the late 1990s economic situation could not have lasted forever. But the point here is not how we got to low unemployment—it’s showing that low unemployment does not automatically lead to soaring inflation.

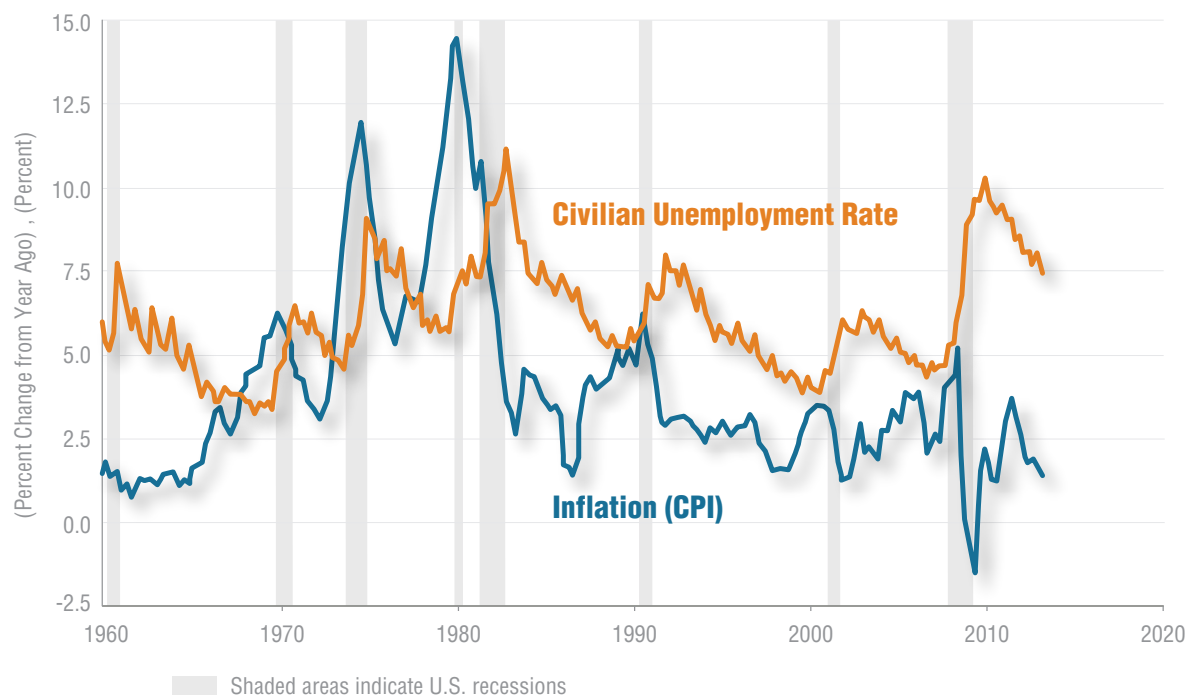
No one benefits when inflation is out of control. But some groups benefit much more than others from low inflation. The banking sector is a prime example—because when inflation rises, the loans held by banks are less valuable than they were before. The Federal Reserve is composed mainly of representatives of the banking sector, so it makes sense for them to view the economy through an anti-inflation lens.

The Fed is an independent government agency, so the president and Congress have limited influence over



Savannah River Site

Figure 1.3 As the Unemployment Rate Rises, the Inflation Rate Falls



Source: Federal Reserve Economic Data (2013).

it. Yet the chair and the board of governors are appointed by the president and approved by the Senate, so members of the Fed are not oblivious to what elected officials think about the economy. Elected officials—and the public—have to make clear that monetary policy should put more emphasis on full employment than it has in recent decades.

To its credit, the Federal Reserve has kept interest rates low since the end of the Great Recession to try to stimulate the economy and encourage lower unemployment. Low interest rates have had some effect on reducing unemployment, but not enough to turn the economy around and lead to a surge in hiring. At the time of this writing, the Fed has indicated a willingness to pull back on its use of expansionary monetary policy. But there is no reason to pull back as long as the unemployment rate remains high and the inflation rate is below 2 percent. Persistently high unemployment through the recovery shows that monetary policy alone has limited power to reduce unemployment. It must be matched by more aggressive fiscal policy.

The Deficit Debate and Job Creation

Hyper-partisanship and brinksmanship, especially among Tea Party Republicans, has turned negotiations about the federal budget into a series of political crises. The uncertainty in Washington has slowed economic recovery and contributed to the persistence of high unemployment. The negotiations have also resulted in decisions that depressed the recovery—for example, the reinstatement of the payroll tax in 2012 and the sequester in 2013. See Box 1.2.

The unemployment rate is not expected to fall as low as 5.5 percent until the fourth quarter of 2018.²⁴ The public sector could make up for the slow pace of job growth, but that means

SEQUESTRATION: WHAT IS IT AND WHAT IS BREAD FOR THE WORLD DOING ABOUT IT?

Amelia Kegan, Bread for the World

In August of 2011, Congress passed the Budget Control Act, a large deficit reduction bill. It included large, multi-year cuts to discretionary spending (yearly appropriated spending). It also included a provision designed to induce a deal on mandatory spending cuts and tax increases. The stick inserted in the Budget Control Act to achieve this budget deal was sequestration, a set of automatic spending cuts over nine years that affect most federal programs. On March 1, 2013, the sequestration's automatic cuts began to take effect.

In 2013 alone, an estimated 70,000 low-income children have been forced off of Head Start, the federal government's early education program. About 140,000 low-income individuals and families are expected to lose rental assistance, forcing many to become homeless. Low-income

“Bread for the World continues to press Congress to replace sequestration with a balanced and responsible plan that protects poor and vulnerable populations.”

seniors in need of food assistance will go without an estimated 4 million meals. One third of the federal government's discretionary spending (annual appropriated spending) goes to state and local governments. Cuts at the federal level translate into teacher layoffs at the local level. Around the world, over 570,000 children in developing countries will be put at greater risk of malnutrition and hunger, and 1.1 million small farmers will lose support they were receiving through U.S. agricultural assistance.

Over the past few years, \$2.5 trillion has been shaved off the deficit. Bread for the World has tirelessly fought to protect funding for programs that alleviate hunger and help people move out of poverty. Despite many efforts to defund these critical programs, most have been spared from major cuts. For example, the proposed House budget for the 2014 fiscal year cut non-defense spending by \$5 trillion, 66 percent of which were to programs for people of limited means. That budget also cut SNAP (formerly food stamps) by \$134 billion over ten years. Every congregation in the United States would have to raise \$40,000 per year over the next ten years to make up the difference. In another example, the House farm bill originally cut SNAP by over \$20 billion. That bill failed to pass the House in part because many members felt those cuts were not deep enough. But these proposals have also failed to become law because people of faith spoke out strongly against them.

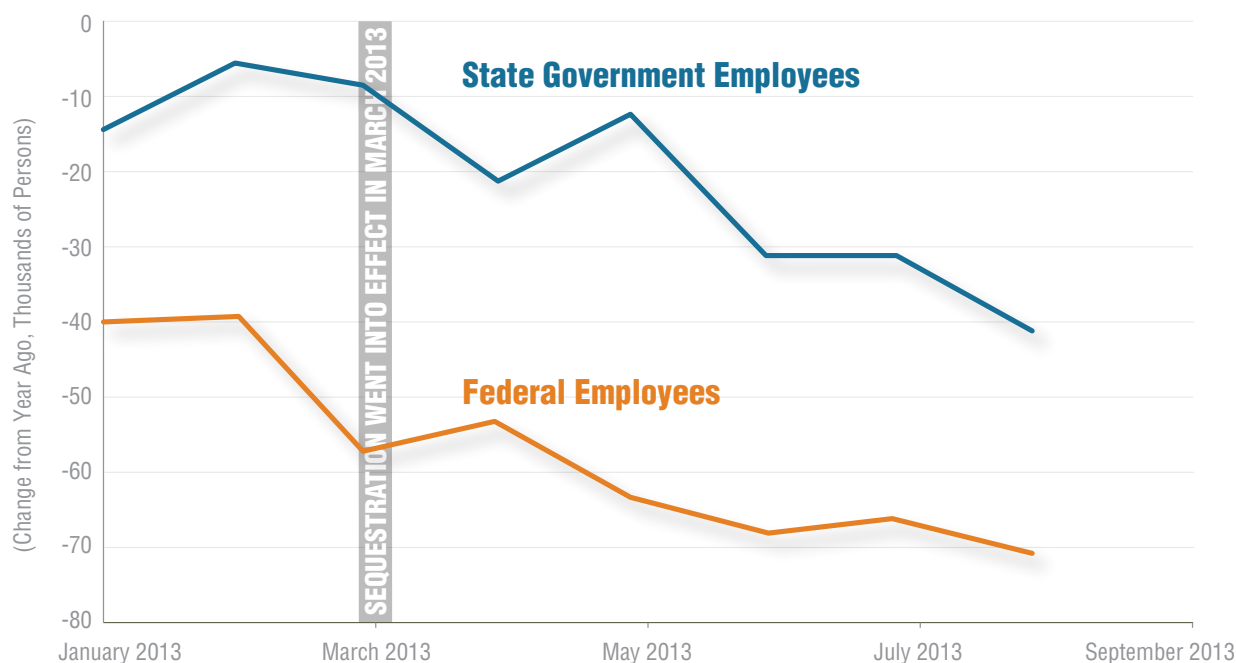
Bread for the World continues to press Congress to replace sequestration with a balanced and responsible plan that protects poor and vulnerable populations. Through repeated phone

calls, in-district visits, emails, and letters, Bread for the World members have voiced their frustration to their senators and representatives about the consequences of sequestration and the need for a budget deal that honors the values and commitments of our country.

At Bread for the World, we believe it is imperative that Congress fix sequestration with something more sensible: a combination of revenue increases and responsible spending cuts while protecting programs that effectively combat hunger and help people move out of poverty. If we can succeed in replacing sequestration with a responsible and balanced plan that protects vulnerable populations, perhaps then we will be able to convince our elected leaders to turn their attention finally to helping all people in America and around the world achieve economic security and freedom from hunger.

Amelia Kegan is a senior policy analyst in the government relations department at Bread for the World.

Figure 1.4 **Sequestration and Government Job Losses**



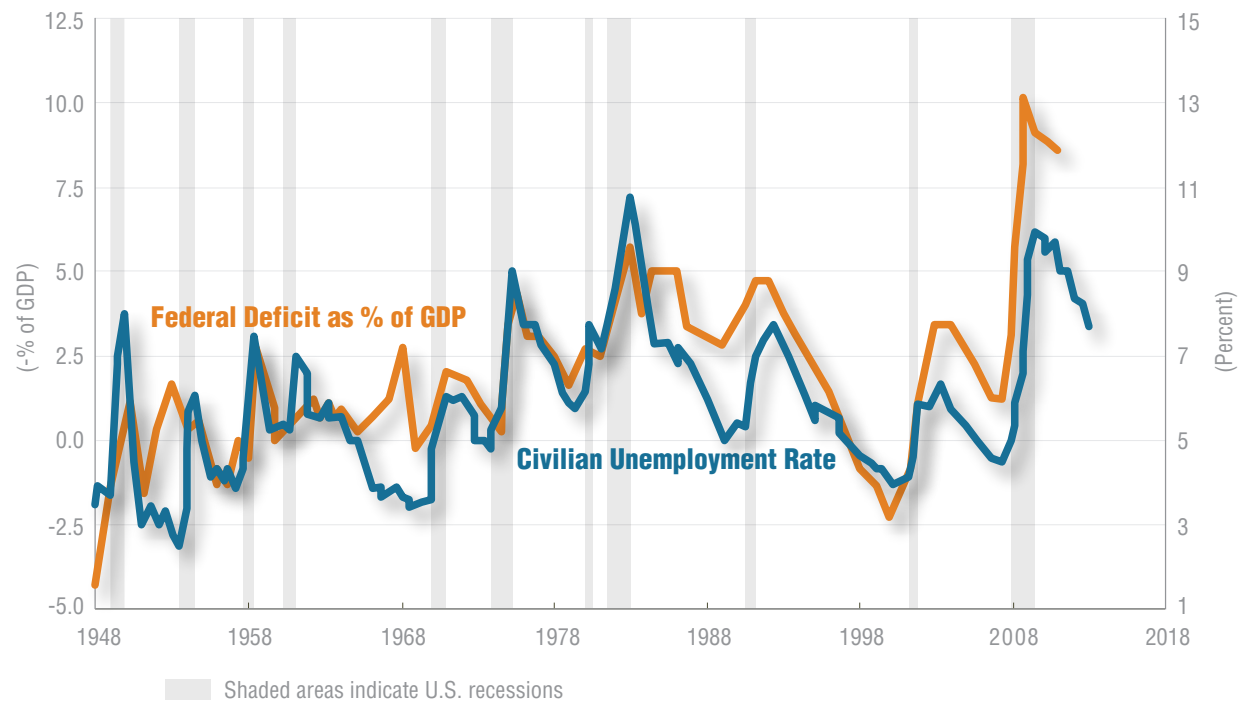
Source: Federal Reserve Economic Data (September 2013)

policymakers would have to agree on additional fiscal stimulus measures. In 2009, the federal government filled part of the vacuum in private sector demand with the American Recovery and Reinvestment Act (Recovery Act), which added 3 million jobs between 2009 and 2010 and kept the unemployment rate from rising by an additional 1.5 percent.²⁵ But it was still not enough to compensate for the worst economic downturn since the Great Depression. In negotiating the terms of the Recovery Act, the White House and Congress clearly underestimated the severity of the recession.

Since the Recovery Act, Congress has been reluctant to pump more fiscal stimulus into the economy, raising concerns about the size of the federal deficit. Yet deficit reduction at the expense of stimulus policies is shortsighted. In a weak economy, when public spending does not crowd out private sector investment, job creation policies ultimately pay for themselves.²⁶ As the unemployment rate falls, so does the federal budget deficit as a percentage of Gross Domestic Product (GDP). As we see in Figure 1.5, unemployment rates and the federal deficit have been closely joined since World War II.²⁷

In 2011, President Obama proposed spending \$447 billion on a stimulus plan that, according to independent analysis, could create nearly 2 million jobs.²⁸ He and most Democrats argued that deficits should be reduced by changes that would affect taxes and spending for years to come, thus allowing for job-creating investments now. But Congress rejected the proposal.²⁹ Republicans argued that keeping taxes low gives incentives to employers to invest and expand businesses. They also argued that by borrowing to finance job creation, the government was

Figure 1.5 The Close Relationship Between Unemployment Rates and Federal Deficits



Source: Federal Reserve Economic Data (2013).

passing on debt to future generations of Americans who would pay for it in higher taxes.³⁰

In fact, both political parties are more preoccupied with the deficit than they need to be. From 1946 to 1976, the national debt actually doubled in size.³¹ But because the economy was growing faster than the debt, the debt shrank to 33 percent of GDP.³² In the meantime, an entire generation of Americans enjoyed rapidly improving living standards. Between 1947 and 1973, the economy's annual productivity growth averaged 2.9 percent,³³ and because low unemployment was the norm, it was a period of broadly shared growth. That changed beginning in 1980, when the gains from productivity growth started to go increasingly to the wealthiest Americans.

Productivity is still on the increase; it has grown an average of 2.3 percent annually since 1995.³⁴ If this well-established trend continues for the next 25 years, and if productivity gains are broadly shared again, the real value of wages (the value once adjusted for inflation) will be on average 75 percent higher. That's quite a jump in disposable income. There is little reason to doubt that this rate of productivity growth can continue. But even in an unlikely, far less optimistic scenario, with productivity growth shrinking to 1.3 percent, wages would rise by 38 percent in real value.³⁵ Here again, the catch is that productivity gains must be fairly shared in order for these wage increases to actually happen. The last time workers received a fair share of the nation's productivity growth was in the late 1990s, when the economy was at full employment. If we are truly concerned about the next generation, *getting to full employment should be the government's preeminent concern.*

Senior analyst Mijin Cha of the public policy organization Demos began a December 2012 briefing paper with the question "Why Is Washington Reducing the Deficit Instead of Creating Jobs?" It's a question that confounds many observers. We've just made the analytical case for job creation as the top priority. The public supports it too. Exit polls after the 2012 election indicated voters wanted the White House and Congress to focus on job creation once they got back to work.³⁶ In 2011 and 2012, polls indicated consistently that the public favored job creation over deficit reduction by two to one margins.^{37, 38} See Table 1.1.

However, the same polls found that wealthy people were much more likely to favor deficit reduction over job creation.³⁹ "One reason that the affluent may be less concerned about job creation," Cha wrote, "is that they have generally been less affected by high unemployment rates and the economic downturn than other groups."⁴⁰ Because wealthy people make up the largest share of the political donor class, they have a disproportionate say in American politics.⁴¹ Cha's point is that in order to focus policymakers' attention on the issues that matter to non-wealthy Americans, there must be a way to compensate for or otherwise respond to the disproportionate influence of money on national policies.

Table 1.1 Jobs and Income Policy Preferences of Affluent vs. General Public

Policy	% Wealthy in Favor	% General public in Favor
The government in Washington ought to see to it that everyone who wants to work can find a job	19%	68%
The federal government should provide jobs for everyone able and willing to work who cannot find a job in private employment	8%	53%

Source: Demos. Table 2 in Mijin Cha (December 7, 2012), "Why is Washington Reducing the Deficit Instead of Creating Jobs?"

Invest in Infrastructure and Emerging Industries

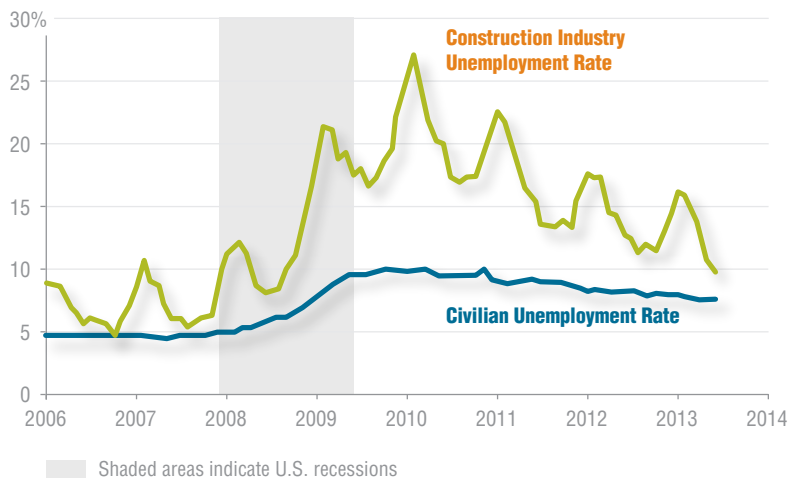
Public investments in infrastructure hold the key to rapid job creation. Economists agree that investments in infrastructure are one of the most effective fiscal tactics to stimulate a sluggish economy and reduce unemployment.⁴² Every dollar spent on infrastructure generates \$1.44 of economic activity. This makes it one of the largest multipliers per investment dollar, topped only by a temporary increase in food stamps/SNAP and an extension of unemployment insurance.⁴³

Infrastructure is a broad term. The kind of infrastructure investment with the potential to

create millions of jobs is public works—for example, building roads, repairing bridges and dams, and renovating schools and office buildings. According to the Federal Highway Administration, a \$1 billion expenditure on highway construction can support 30,000 jobs.⁴⁴ The construction sector stands to benefit more than other sectors from investments in infrastructure. Construction suffered the highest rate of job loss when the housing bubble burst⁴⁵ and continues to face one of the toughest job markets. By mid-2013, unemployment rates were still nearly 10 percent.⁴⁶ See Figure 1.6.

In 2009, the American Society of Civil Engineers estimated that the United States would need \$2.2 trillion in infrastructure

Figure 1.6 Unemployment in the Construction Industry is Falling But Continues to Exceed the Overall Unemployment Rate



Source: Federal Reserve Economic Data (2013).

investment to repair damage caused by longstanding neglect.⁴⁷ The consequences of decades of putting off upgrades to the country's physical infrastructure became glaringly obvious during Hurricane Katrina in 2005 and Super Storm Sandy in 2012. And they were just the biggest consequences: from 2011 to 2012, 25 extreme weather events—floods, storms, and wildfires—cost more than \$1 billion each, adding up to an estimated total of \$188 billion in damage.⁴⁸

The Recovery Act included \$93 billion of new investments in infrastructure, but this barely begins to meet the needs.⁴⁹ The United States is ranked 25th in the world in infrastructure quality. In inflation-adjusted terms, the country now spends less on transportation infrastructure than it did in 1968.⁵⁰ Investments in infrastructure not only produce more efficient transportation services, but also cleaner air and water, healthier food, cheaper electricity, and faster Internet service. Over the long term, improvements in the country's infrastructure will make the United States more competitive. Private sector productivity gains have been estimated at anywhere from 15 percent to 45 percent.⁵¹

Although the Recovery Act provided a much needed boost in funding for infrastructure, the country needs a different mechanism to finance infrastructure projects, one that goes beyond a

one-shot piece of legislation. A National Infrastructure Bank could provide a steady stream of capital to split the cost with private sector partners. It is crucial to partner with the private sector and build on its talent for innovation. Several states have established infrastructure banks of their own, but states can't independently address major national or regional challenges, such

“The kind of infrastructure investment with the potential to create millions of jobs is public works—for example, building roads, repairing bridges and dams, and renovating schools and office buildings.”

as modernizing the energy grid or repairing extensive areas of coastal erosion. A National Infrastructure Bank would also play a significant role in revitalizing the U.S. manufacturing sector and providing many more well-paying jobs.

Manufacturing can still offer good jobs to American workers with some postsecondary education but not necessarily a four-year degree. Workers with less than a college degree often end up in lower paid service-sector jobs. The average wage of a retail salesperson is \$10.10 per hour, while the average wage of a nonsupervisory manufacturing worker is \$19.23.⁵² As a share of the U.S. economy, the

The unemployment rate for African Americans follows the ups and downs of the overall rate, except that it is usually twice as high.

manufacturing sector is much smaller than it was a half-century ago, when one in four jobs was in manufacturing.⁵³ Today, retail workers outnumber manufacturing workers by almost two to one.⁵⁴ From 1979 to 2009, 41 percent of *all* U.S. manufacturing jobs (low-, middle-, and high-skill) disappeared.⁵⁵ The pace of job loss grew faster with each passing decade. By the end of 2009, manufacturing's share of total U.S. employment had fallen to less than 9 percent.⁵⁶

Any job loss is painful for the person and family who suffer it. But for the economy as a whole, the loss of manufacturing jobs is worse than other losses because manufacturing has one of the largest multiplier effects. For every job created in manufacturing, there are at least 2.5 jobs created in other sectors.⁵⁷ Policymakers may be willing to let low-skill manufacturing jobs disappear, but the loss of middle- and high-skill jobs should be of serious concern. Manufacturing is still a key driver of innovation.

Revitalizing the manufacturing sector is not only necessary to spur innovation and maintain productivity growth, but also to capitalize on the emerging market for clean energy technologies. Studies show that a major factor in determining which countries lead in emerging technologies is where the production is located.⁵⁸ In the early 2000s, for example, U.S. firms began to relocate high-tech battery production



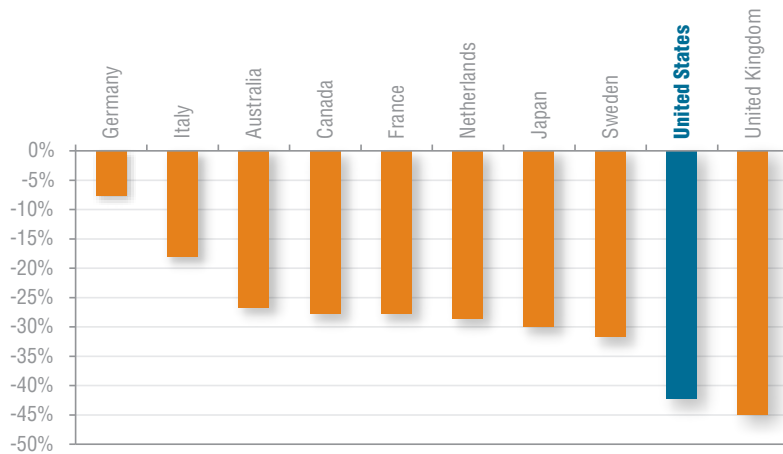
Brand X Pictures

overseas, mostly to East Asian countries. Subsequently, these countries surged ahead of the United States in the race to develop vehicles with rechargeable batteries.⁵⁹ Thin-film solar cells used in making solar panels rely on semiconductor production. U.S. firms moved much of their semiconductor production to Asia, and the United States has fallen behind in the rapidly developing solar industry.⁶⁰

The United States needs to scale up its investments in strengthening domestic manu-

facturing capacity or risk losing more jobs in the industries of the future. Other high-income countries, such as Germany and Japan, have lost low-skill manufacturing jobs (see Figure 1.7), but unlike the United States, they are aggressively trying to prevent the loss of high-skill manufacturing jobs.⁶¹ They do this through industrial policies designed to build the capacity of their manufacturing workers to compete in international markets. As a result, Germany and Japan have actually increased their number of high-skill manufacturing jobs.⁶² The U.S. Bureau of Labor Statistics collects data on manufacturing employment in 10 peer countries. Between

Figure 1.7 Percent Change in Manufacturing Jobs in Select Countries, Adjusted for Population Growth, 1997-2010



Source: Robert D. Atkinson, Luke A. Stewart, Scott M. Andes, and Stephen J. Ezell (March 2012), *Worse Than the Great Depression: What Experts Are Missing About American Manufacturing Decline*, The Information Technology & Innovation Foundation.

2000 and 2010, six of the 10 paid higher wages than the United States and yet still lost a smaller share of manufacturing jobs.⁶³

The Manufacturing Extension Partnership (MEP) is a successful, low-cost program designed to assist manufacturers in becoming more competitive in international markets. MEP funding levels are tiny: 0.0014 percent of U.S. GDP.⁶⁴ In comparison, Japan spends 23 times more on a similar program. “If U.S. spending on the MEP program were to rise to the Japanese level,” explains the Economic Policy Institute, “it would require a budget allocation of approximately \$5 billion per year, not large in the context of overall government spending, but a huge, roughly 40-fold increase of the program.”⁶⁵ To compete on an even playing field with Germany, total funding would have to rise to \$10 billion per year.⁶⁶

One way to raise the funds needed to help U.S. high-skill manufacturing compete is to stop rewarding companies that move production overseas. Through a variety of loop-

“The United States needs to scale up its investments in strengthening domestic manufacturing capacity or risk losing more jobs in the industries of the future.”

holes in the tax code, U.S. companies are able to defer taxes on foreign income. Closing all of these loopholes would raise \$168 billion,⁶⁷ according to the Joint Committee on Taxation, a nonpartisan group serving Congress.⁶⁸ The loopholes mean lost tax revenue that would otherwise help fund government programs. It seems reasonable to redirect \$5 billion to \$10 billion of the savings from closing these loopholes to strengthening MEP's capacity-building work.

Support Entrepreneurship in Low-income Communities

The rate of small business growth in the United States is falling. This is not a recent phenomenon, but a decades-long trend. Compared to other nations with advanced economies, the United States creates many fewer small businesses each year.⁷¹ See Figure 1.9.

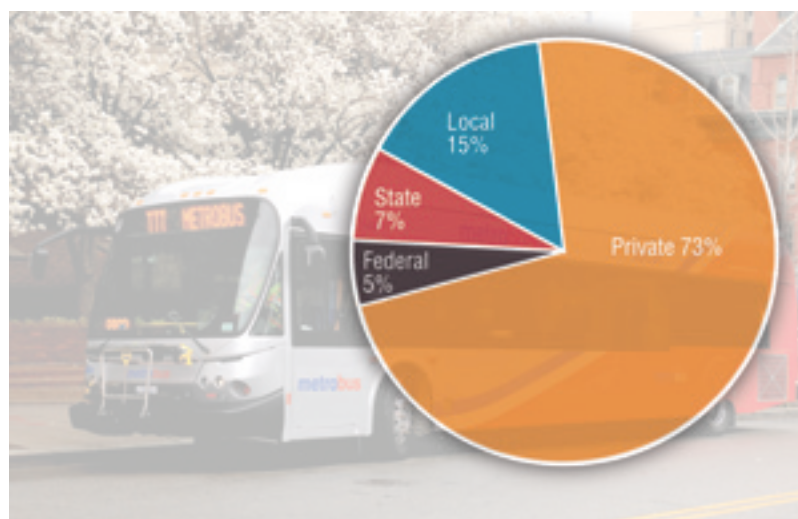
BOX 1.3

ON THE BUS TO A SUSTAINABLE FUTURE

"The revival of manufacturing in the U.S. will entail a wave of innovations that raise competitiveness, expand job opportunities, and advance the construction of a clean energy economy," says economist Robert Pollin, who has studied the effects of clean energy investments for the U.S. Department of Energy and the International Labor Organization.⁶⁹

In a 2010 article, "Industrial Policy and the Revival of U.S. Manufacturing," Pollin argues that technically it would be easy for the federal government to expand the market for clean public transportation and renewable energy systems. "For example, the federal government commits to doubling the number of buses now operating throughout the country, and requires that all the new buses operate at high energy efficiency levels.... Government orders for clean-energy buses would establish a guaranteed market for manufacturers."⁷⁰

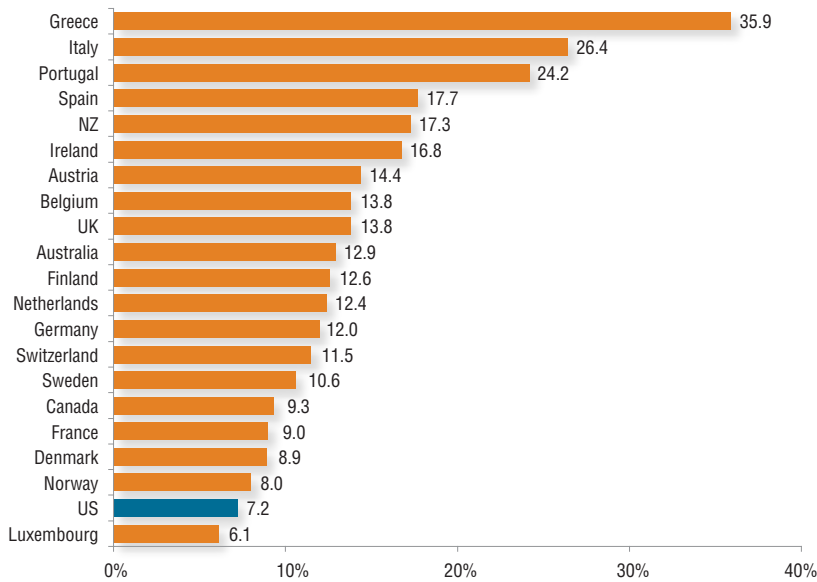
Figure 1.8 Private- and Public-Sector Share of Total Green Jobs, 2010



Source: Ethan Pollack (October 10, 2012), "Counting up to green: Assessing the green economy and its implications for growth and equity," Economic Policy Institute. Author's analysis of Bureau of Labor Statistics data.

Elected officials wax eloquent about small business owners. And if they rise from rags to riches, then the stories are all the more inspiring. Star athletes and glamorous entertainers are talented in ways the average person is not. But small business owners could be any of us; they are the quintessential every man (and woman). Whether they achieve fame and fortune in the global marketplace, or remain true to their roots and never get off Main Street, successful

Figure 1.9 Self-Employment Rate, Total Civilian Employment, 2007



Source: John Schmitt and Nathan Lane, "An International Comparison of Small Business Employment," Center for Economic and Policy Analysis. Authors' analysis of Organization for Economic Cooperation and Development (OECD) data.

small business owners are beating the odds. That's because most small businesses in America fail.⁷²

People who were not born in the United States are more likely than U.S.-born residents to start and own businesses. Immigrants are 13 percent of the national population, but 18 percent of small business owners.⁷³ Baltimore has one of the highest ratios of foreign-born to U.S.-born entrepreneurs of any major U.S. city. Foreign-born residents are 9 percent of Baltimore's population and make up 21 percent of its entrepreneurs.⁷⁴ The businesses tend to be small and are often started out of necessity. "This is how immigrants survive," says Betty Symington, executive director of Baltimore's Episcopal Refugee and Immigrant Coalition. "You can't survive on \$9 an hour

as a cafeteria worker so a lot of them start businesses on the side."

As executive director of the Mission Asset Fund, which serves the Latino immigrant community in the Mission District of San Francisco, José Quiñonez works with Latino immigrants who start small businesses with very little money. You couldn't find better examples of the kinds of heroes elected officials love to talk about. But Quiñonez doesn't advise his clients who want to start a business to look to the Small Business Administration, a U.S. government agency, for support, mainly because he knows the agency has no programs to help them.

"This isn't about being an immigrant," he says. "It's about the threshold where a small business qualifies for recognition, and where support structures begin to become available to you." The government's perspective on what constitutes a small business owner doesn't include someone who is a sole proprietor or employs maybe one or two family members and generates revenue of less than \$100,000. In the Mission District, however, this description fits most of the small enterprises. "The reality is," says Quiñonez, "people in this situation can't look to the government for help."

The biggest problem facing any new small business is obtaining start-up capital. "Large banks control 60 percent of U.S. bank assets, but provide only 27 percent of small business

loans,” writes Stacy Mitchell with the Institute for Local Self-Reliance. Small and mid-sized banks provide more than half of all small business loans.⁷⁵ But for the past three years, lending to small businesses has been on the decline for any size bank. “If someone walks into a bank of any size and says they need a loan of \$10,000 or \$20,000 to start a business,” says Quiñonez, “they are going to be handed an application for a credit card rather than handed over to a loan officer.”

Most enterprises of this size are started using the owner’s personal wealth; borrowing against a home mortgage is a common strategy. The loss of wealth in communities of color after the housing bubble burst has made it more difficult for small businesses to get started or finance growth. Entire communities of color suffer as a result because these are where entrepreneurs of color tend to operate. Not only does it result in fewer businesses providing goods and services in the communities, but also it means fewer jobs will be created there.

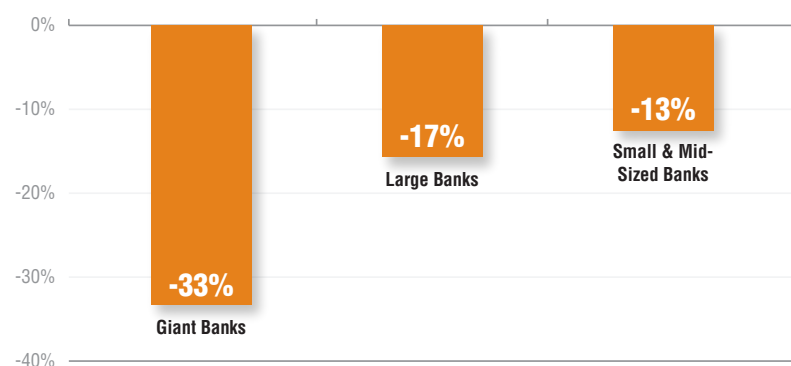
The Mission Asset Fund uses lending circles to help people get the loans they need to start businesses. Lending circles, or savings clubs, are a form of social loan. Participants in the circle all contribute to providing a loan for one member. By taking turns, they eventually are able to make a loan to every member. Lending circles are common in developing countries, where low-income entrepreneurs are also excluded from main-

“It doesn’t matter what political stripe you are, if you understand that \$1 of public money can be used to leverage \$10 to \$20 in private money, there’s a lot of bang for your buck.”

— Mark Pinsky

CDFI that provides support to small start-ups. For example, the Neighborhood Development Center helped the Payans, a Latino immigrant family, expand their small tortilla business, Tortilleria la Perla, into a \$3 million operation employing 50 full-time workers.⁷⁶ The Center has helped African American, Latino, Hmong, Native American, Oromo, and Somali businesses secure low-interest loans and technical assistance. The enterprises that are its clients

Figure 1.10 Small Businesses Struggle to Find Lenders Who Will Make a Deal, 2009-2012



Note: Small banks are defined as those with \$1 billion in assets or less; mid-sized banks as those between \$1 and \$10 billion in assets; large banks as those with \$10 to \$100 billion in assets; and giant banks as those with more than \$100 billion in assets. (All size categories in 2009 dollars.)

Source: Institute for Local Self-Reliance (2012). Federal Deposit Insurance Corporation data.

stream financial services. Lending circles help people get to the first rung of the ladder, explains Quiñonez, but when they are ready to start growing the business and hiring employees—that second or third rung—there’s not much support in a lending circle either.

Community development financial institutions (CDFIs) are another way for small businesses excluded from the mainstream financial system to get support. CDFIs work in communities that are traditionally underserved by larger lending agencies. The Neighborhood Development Center in St. Paul, Minnesota, is a

have created 2,200 jobs and returned \$64 million annually to their communities in payroll, taxes, and rent.⁷⁷

People who were not born in the United States are more likely than U.S.-born residents to start and own businesses.

Nationwide, there are more than 900 CDFIs managing more than \$50 billion in assets.⁷⁸ In 1994, Congress established the CDFI Fund to provide financial support to CDFIs. Federally approved CDFIs must make at least 60 percent of their loans in low- and moderate-income communities. CDFIs specialize in loans to borrowers who need a great deal of technical assistance. Mark Pinsky, head of the Opportunity Finance Network, the nation's largest network of CDFIs, describes them as "profitable but not profit-maximizing,"

and calls them "responsible high-risk lenders." They are the antithesis of subprime lenders that have done so much to undermine the stability of low- and moderate-income communities. CDFIs have been viewed positively by both Democrats and Republicans, according to Pinsky. "It doesn't matter what political stripe you are, if you understand that \$1 of public money can be used to leverage \$10 to \$20 in private money, there's a lot of bang for your buck."⁷⁹

A CDFI Bond Guarantee Program, established under the Small Business Jobs Act of 2010, authorized the CDFI Fund to issue up to \$1 billion annually in long-term bonds at low-interest rates. Application materials were released finally in June 2013. The program was supposed to operate from 2011 to 2014. It was held up in Congress for more than two years pending approval on how the program should be run as part of the CDFI Fund. The delays resulted in \$2 billion less in loans to support entrepreneurs in low-income communities.⁸⁰ Congress should have moved more quickly and the administration should have been a stronger advocate for the program to overcome the delays. The lack of urgency in both branches of government underscores how removed they are from the reality in low-income communities.



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A “Skills Gap” or a “Demand Gap”?

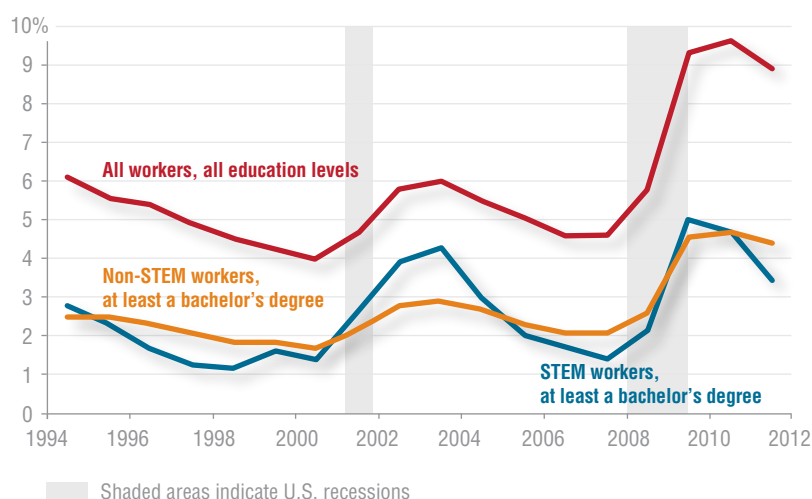
Not everyone is convinced the U.S. economy can achieve full employment. In fact, many appear convinced that it cannot. Newspaper stories quote employers who struggle to find skilled workers to fill jobs, as in this Associated Press story from July 2011: “...the president of Ultra Scientific Analytical Solutions (John Russo) has found himself in a vexing spot, struggling to fill openings that require specialized training in a state where the jobless rate is close to 11 percent, the third-highest in the nation. ‘It’s very difficult to find the right person. I honestly think there’s a large swath of unemployable,’ said Russo, whose firm manufactures and supplies analytical standards.”⁸¹

“They don’t have the skills,” goes the refrain. Frustrated employers such as Russo appear regularly in these articles to provide a touch of empirical evidence and lend an air of credibility to the skills-gap theory. Many top officials and industry executives add their voice to the skills gap theory. In 2011, according to a report by the National Association of Manufacturers, there were 600,000 manufacturing jobs that could not be filled because workers lacked the right set of advanced skills.⁸² President Obama, during the 2012 campaign, often invoked the skills gap to describe the challenges facing the U.S. economy in coming decades.⁸³

The skills gap theory is basically about supply and demand: there is an inadequate supply of workers available to meet employers’ demand for labor. And supply and demand is precisely why the skills gap theory shouldn’t be taken seriously.

Today, the United States has more college graduates than ever before—30 percent of the population, up from 26 percent a decade ago.⁸⁴ Yet unemployment rates for most college graduates in the STEM fields (Science, Technology, Engineering, and Math)—the crème de la crème of the country’s skilled workers—are still higher than they were before the recession began in 2007.⁸⁵ See Figure 1.11. If employers were having trouble meeting customer demand, we’d expect to see them schedule more hours for their current workers. No evidence exists for longer workweeks, according to the Department of Labor’s Bureau of Labor Statistics.⁸⁶

Figure 1.11 Unemployment Rates of All Workers, and Workers in STEM and Non-STEM Occupations with at Least a Bachelor’s Degree, 1994-2012



Source: Economic Policy Institute (2012), “STEM Labor Shortages? Microsoft report distorts reality about computing occupations.” Analysis of Current Population Survey data.

Moreover, if there were a labor shortage, it's not being reflected in wage rates. Economics teaches us that if the supply of qualified workers were limited, those few workers who had the desired skills would be able to command higher wages. There is no evidence of rising wages in any sector of the economy.⁸⁷

Mark Price, a labor economist at the Keystone Research Center, dismisses manufacturers' complaints about the shortage of skilled workers. "If there's a skill shortage, there has to be rises in wages," he says. "It's basic economics."⁸⁸ Employers don't want to pay higher wages, or more likely they are not willing to fill jobs in a weak economy.

Let's recall what caused the Great Recession and the high unemployment that appears to be its legacy. A housing bubble in the 2000s was driving household consumption. When this \$8 trillion bubble burst, it created a demand gap estimated to be between \$1.2 and \$1.5 trillion.⁸⁹ The bursting of the bubble and the financial crisis that ensued pushed the country into the deepest recession in 75 years. It is the significant contraction in household spending that is the main reason the economy continues to struggle. In 2012, the gap between what the economy produced and what it could produce at full capacity or full employment was \$995 billion.⁹⁰ Given this yawning output gap, employers are not likely to rush into rehiring workers they let go during the recession, much less think about hiring workers to fill new positions.

The skills-gap hypothesis is troubling because policymakers can use it as a convenient excuse for government not to take the lead in job creation. After all, if high unemployment is due to significant skills deficits among U.S. workers, the solution must be education and training. Once workers get the skills they need, unemployment will basically solve itself. But although education and training are generally good things, this is not a workable solution. Policymakers need to help get people back to work *as soon as possible*. Unemployed and underemployed people can't wait until some other, vaguely defined group of workers upgrades its skills, and the country doesn't need to. In the late 1990s, the economy was at full employment—but

it was not because large numbers of workers suddenly became more educated and better trained.

The Congressional Budget Office estimates that the economy must add approximately 90,000 new jobs a month just to keep up with population growth.⁹¹ The last two cycles of growth beyond what's needed to keep up with the population have been fueled by asset bubbles—stocks in the late 1990s, housing in the mid-2000s. The economy now needs to move forward driven by something more sustainable than bubbles. Policymakers should be asking what that something is and starting to invest there.

There is little hard evidence to support claims of too few workers with the skills needed to meet employer demand for labor.



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AMERICA NEEDS REVENUE-RAISING, PROGRESSIVE TAX REFORM

CHAPTER 1

Steve Wamhoff, Citizens for Tax Justice

America needs tax reform that both raises revenue to support investments in our future and makes our tax system more progressive.

Tax reform should raise revenue to support public investments. Lawmakers often claim that tax cuts are the best way to help individuals or businesses, but the truth is that public investments are often the best way to move Americans ahead. Investments in education programs such as Head Start, research institutions such as the National Institutes of Health (NIH), and infrastructure projects such as roads, ports, and bridges are just a few examples of federal spending that makes our economy thrive in the long term.

Even in the short term, public investments do more to boost our economy than tax cuts. While many lawmakers claim that lower taxes for businesses will increase hiring and reduce unemployment, any business owner will tell you that hiring will commence only when there are customers to buy their goods and services. And the federal government can provide such customers—for example, by expanding infrastructure projects that employ many middle-income people, who consequently will have more money to spend.

Yet today, the budget deficit is used by lawmakers as a reason to allow automatic cuts (known as sequestration) in programs such as Head Start and the NIH and to refuse to make badly needed infrastructure investments.

There is no reasonable way to address this without significantly increasing tax revenue. If Congress makes no change to our tax laws, a decade from now, federal revenue will be 19.1 percent of the U.S. Gross Domestic Product (GDP), while federal spending is projected to reach 22.6 percent of GDP. Congress cannot reduce spending dramatically enough to match the projected revenue level without the type of deep cuts in vital investments that have only just begun. Even during the Reagan administration, federal spending ranged from 21.3 percent to 23.5 percent of GDP.

Tax reform should make our tax system more progressive. Many people mistakenly believe that our tax system is already extremely progressive. When you account for all the different types of taxes that Americans pay, it turns out that essentially everyone is paying taxes, and the share of *total taxes* paid by each income group is roughly equal to the share of *total income* received by that group.

My organization, Citizens for Tax Justice, estimates that the richest 1 percent of Americans will pay 24 percent of the total taxes (all federal, state, and local taxes) in 2013. This does not mean this group is overtaxed; the same group, the richest 1 percent, will receive about 22

“When you account for all the different types of taxes that Americans pay, it turns out that essentially everyone is paying taxes, and the share of total taxes paid by each income group is roughly equal to the share of total income received by that group.”

AMERICA NEEDS REVENUE-RAISING, PROGRESSIVE TAX REFORM

percent of the total income. On the other hand, the poorest fifth of Americans will pay about 2 percent of the total taxes this year and will receive only about 3 percent of the total income. In other words, our tax system is not extremely progressive, and there is plenty of room to make it more progressive.

Some proposals for “reform” would make the tax system *less* progressive. For example, an influential conservative organization, the Tax Foundation, has recently issued reports suggesting that the Earned Income Tax Credit (EITC) for low-wage workers should be eliminated while the special low tax rates for capital gains should be preserved.

This is exactly wrong. The EITC helps offset taxes that hit poor people hard, such as federal payroll taxes and state and local sales taxes, and has been shown to encourage holding a job. Meanwhile, the special low tax rates for capital gains primarily benefit the richest 1 percent. These low rates are the reason wealthy investors such as Mitt Romney and Warren Buffett can pay a lower effective tax rate than many middle-income Americans.

“Citizens for Tax Justice has documented how several Fortune 500 corporations earned profits over a three-year period, or even a five-year period, but had so many tax breaks that they completely avoided corporate income taxes during that time.”

Other proposals that would make our tax system *less* progressive involve expanding corporate tax breaks. While the corporate income tax is directly paid by corporations, in the long run it's borne by the owners of corporate stocks and other business assets, which are concentrated in the hands of wealthy people. For this reason, corporate tax breaks help wealthy Americans, not low- and middle-income people. Citizens for Tax Justice has documented how several Fortune 500 corporations earned profits over a three-year period, or even a five-year period, but had so many tax breaks that they completely avoided corporate income taxes during that time.

Simplifying our tax system can be another goal, but it's not nearly as important as raising revenue and making the system more progressive. Rep. Dave Camp (R-MI) and Senator Max Baucus (D-MT), who chair the tax-writing committees in the House and Senate respectively, believe that Congress needs to enact tax reform that has the main purpose of simplifying our tax code.

In fact, Camp says that tax reform should be “revenue-neutral.” This approach might repeal or reduce “tax expenditures” (special breaks and subsidies paid for through the tax code), but the revenue saved would all be used to offset the cost of steep reductions in tax rates. The tax code might be simpler in the end, but there would be no additional revenue raised.

Baucus says he believes tax reform should be “revenue-positive” to some degree, but he has been vague and noncommittal. Many Democratic leaders have joined President Obama

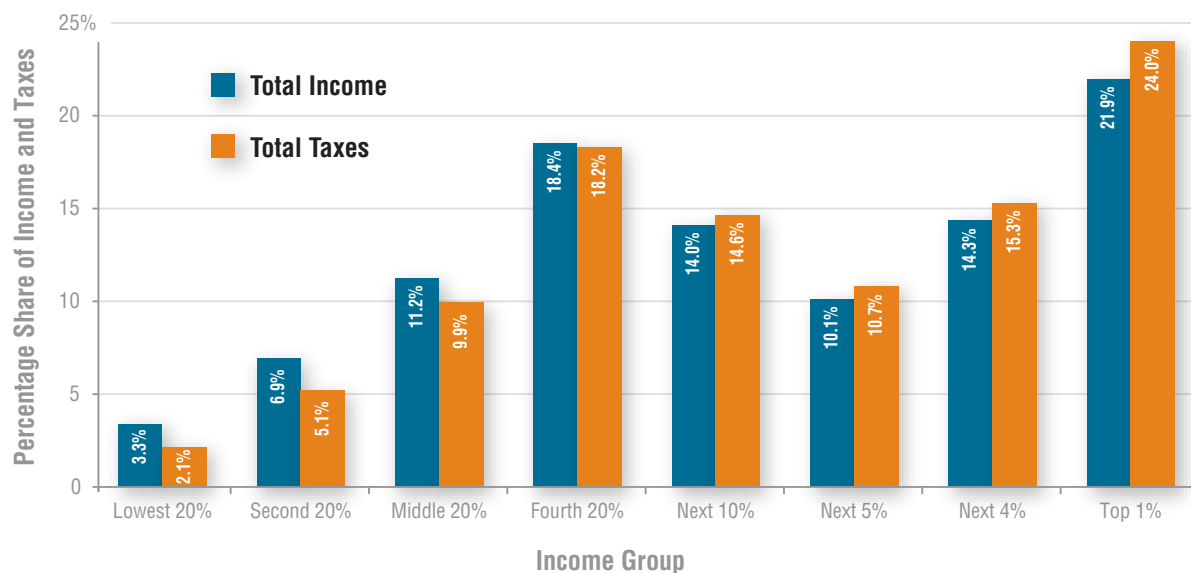
in saying that reform of the corporate income tax, if not the personal income tax, should be revenue-neutral.

But what would be so great about enacting a “simpler” tax code that raises no additional revenue to fix crumbling bridges and other shoddy infrastructure and no additional revenue to protect Medicare and nutrition assistance from the budget ax? What good is “simplification” if it means reducing the EITC for working poor families?

A tax reform that simplifies taxes and makes April 15 a little easier is certainly welcome. But if it does nothing to expand the public investments that our livelihoods and our futures depend on, then it will be a huge wasted opportunity.

Steve Wamhoff is the legislative director for Citizens for Tax Justice.

Figure 1.12 Shares of Total Taxes Paid by Each Income Group Will Be Similar to Their Shares of Income in 2013



Source: Institute on Taxation and Economic Policy (ITEP) Tax Model, April 2013. Citizens for Tax Justice, April 2013.