

3-6-2012

Where Are the Jobs? Employment Stagnation after the Great Recession

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Burtless, G. (2012). Where Are the Jobs? Employment Stagnation after the Great Recession.
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Where Are the Jobs?

Employment Stagnation after the Great Recession

by **Gary Burtless**

The Brookings Institution

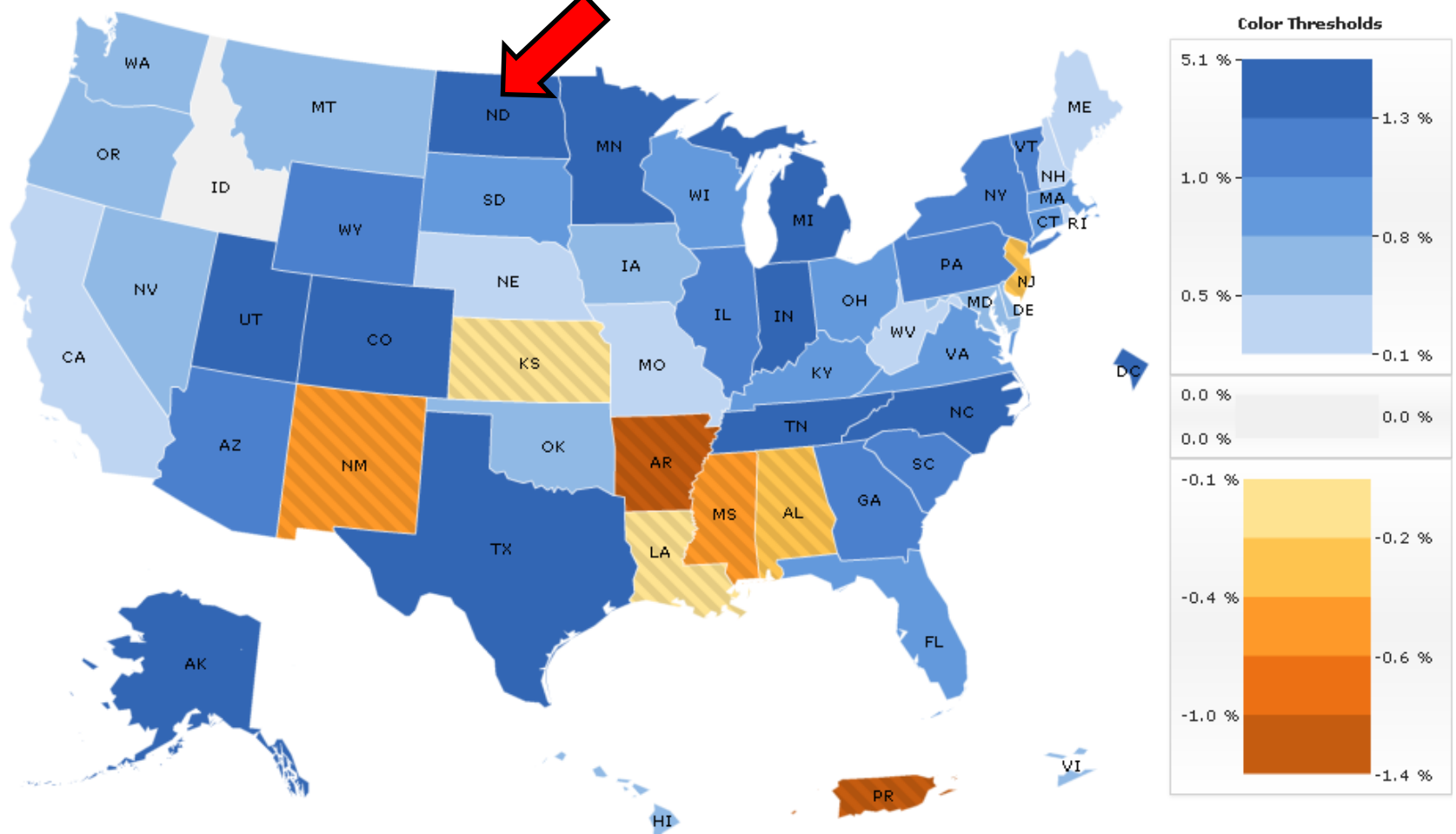
Washington, DC USA

March 6, 2012

Answer: North Dakota

Employment growth, June 2010 to June 2011 = +5.1%

12 month percent change in employment, Total, all industries, Total Covered Jun 2010-Jun 2011 (p)



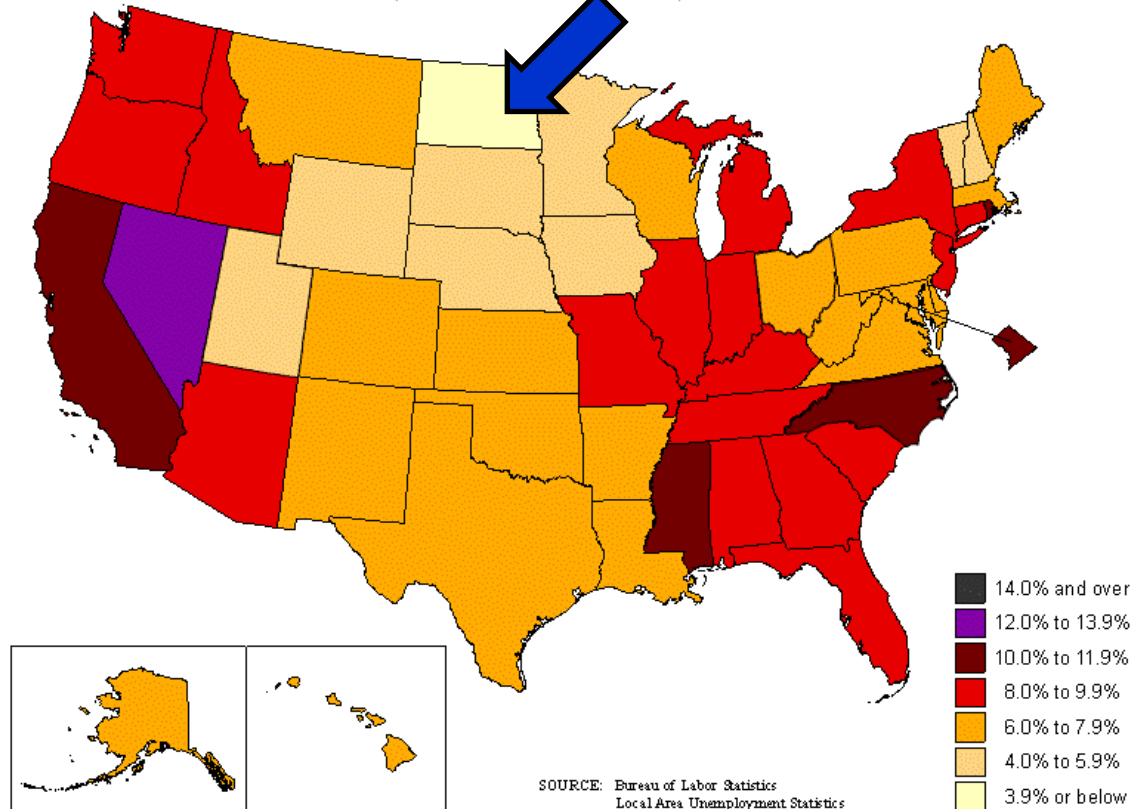
Source: U.S. Bureau of Labor Statistics (www.bls.gov)

Answer: North Dakota

Unemployment rate, December 2011 = 3.3%

**Unemployment rates by state,
seasonally adjusted, December 2011**

(U.S. rate = 8.5 percent)



Scope of the crisis: Impact and aftermath

- The Great Recession ranks as worst since World War II
 - But it was not the Great *Depression*
- The jump in unemployment was biggest in post-war era
- The persistence of high unemployment was uncommonly severe
- The consequences for job losers and new job entrants have been uncommonly harsh

Economic crisis:

Government responses

- Most special government actions were familiar:
 - Temporary tax reductions
 - Extensions of unemployment benefits
 - Increased government investment in buildings, roads, technology
 - Unusual federal actions:
 - Generous health insurance subsidies for laid-off workers
 - Massive grants to state governments
 - Emphasis on protecting education & training
-

Economic crisis:

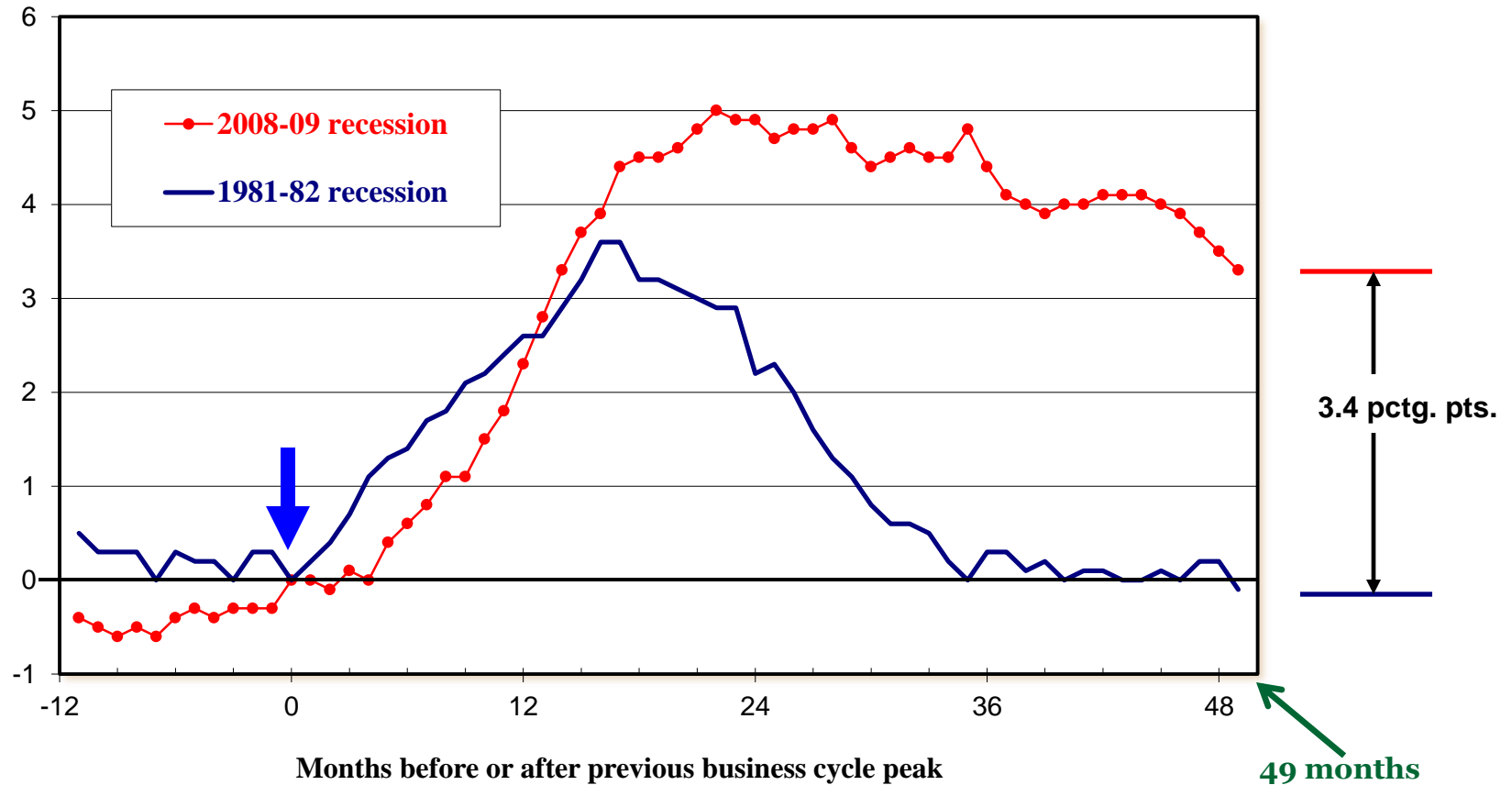
Political reaction to government response

- The average voter:
“Why aren’t things better already?”
 - The average opposition politician:
“The other guys’ program made things worse.
And look what’s happened to the deficit!”
 - The average political supporter of the stimulus:
{Embarrassed silence.}
-

Scale of the employment challenge

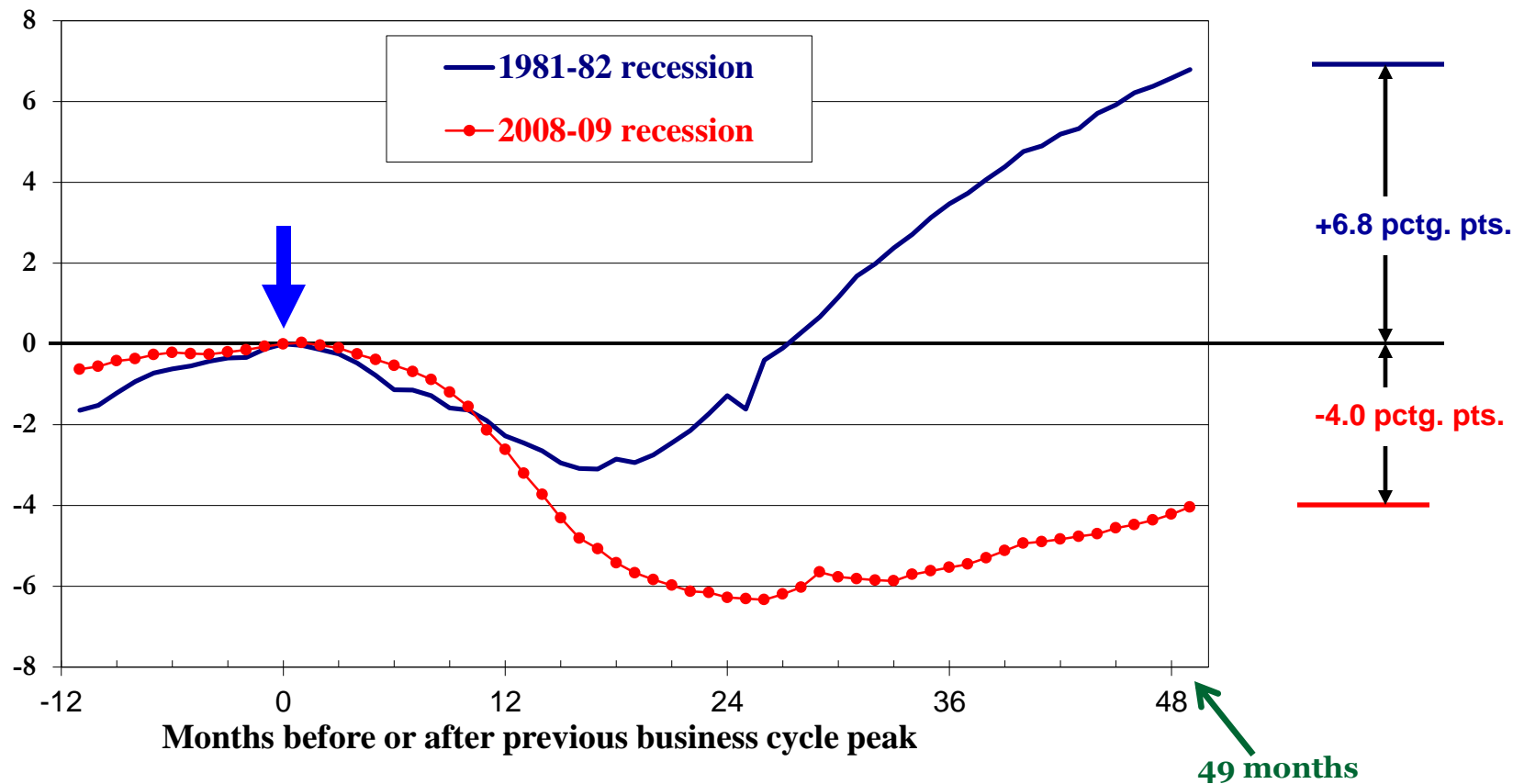
Rise in Unemployment Rate after the End of Two Economic Expansions

Change in Unemployment Rate
(Percentage Points)



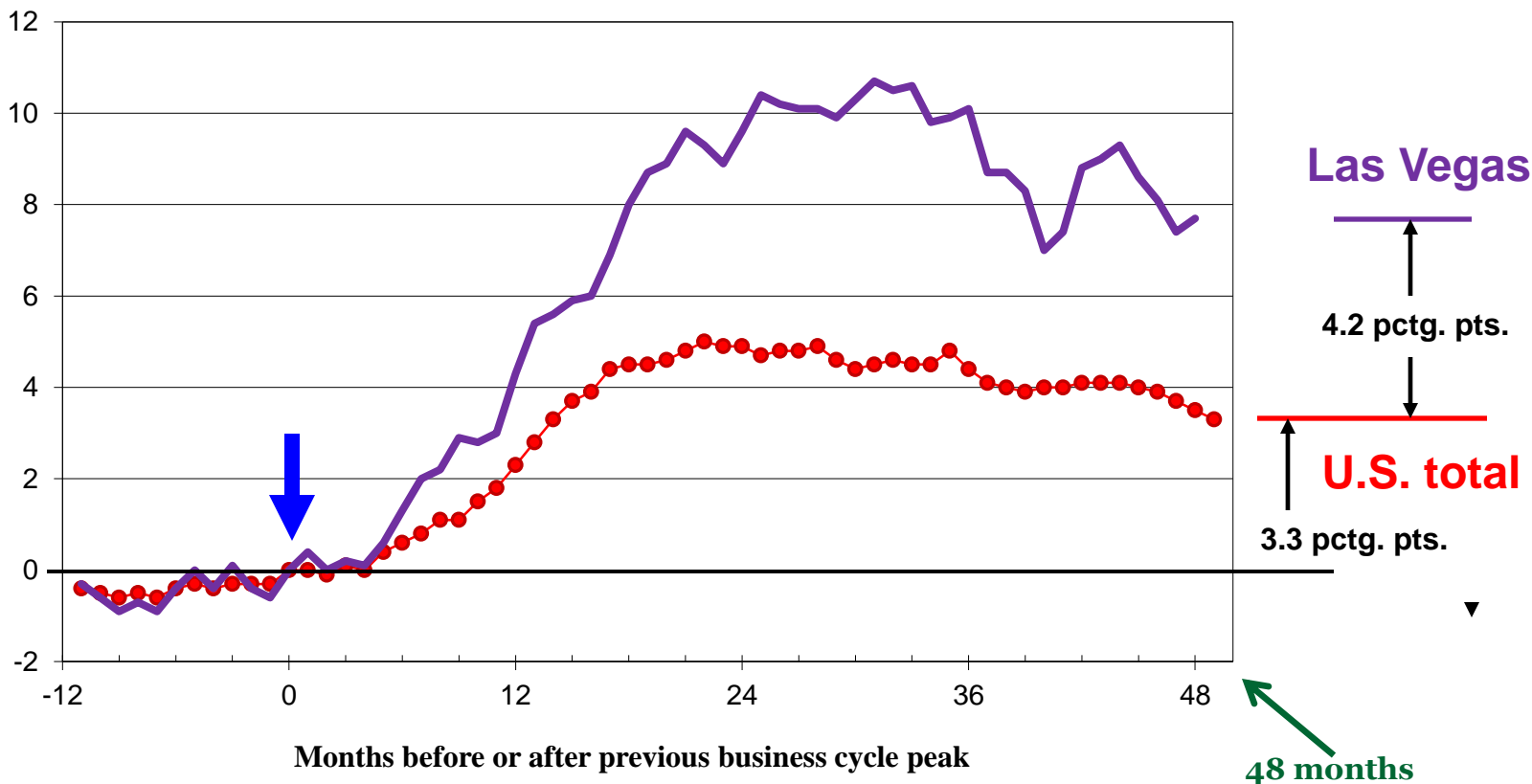
Fall in Payroll Employment after the End of Two Economic Expansions

Percent Change from Business-Cycle Peak
of Payroll Employment

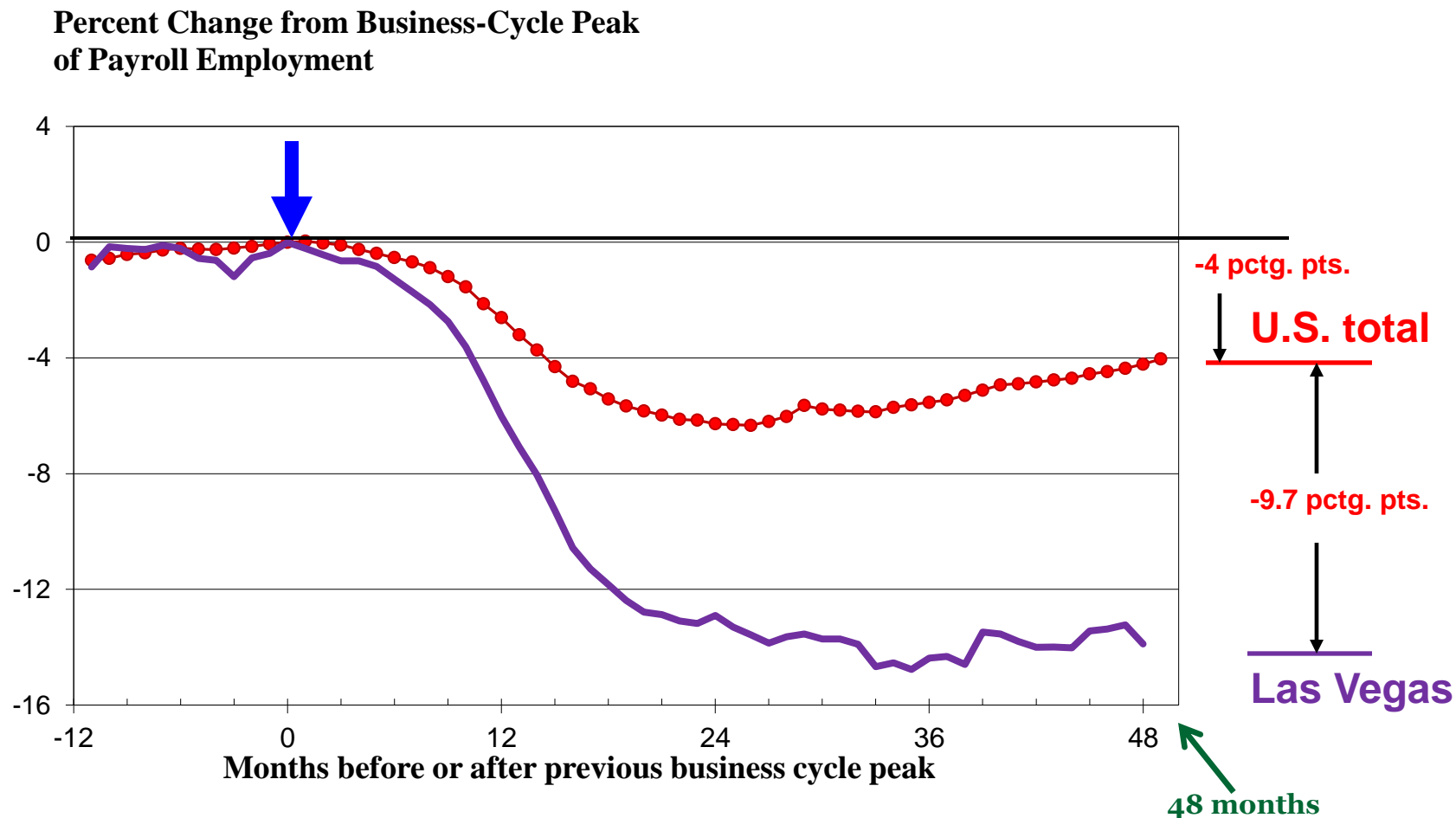


Rise in Unemployment Rate in 2008-2009 Recession & Recovery

Change in Unemployment Rate in 2008-09 Recession and Recovery
(Percentage Points)



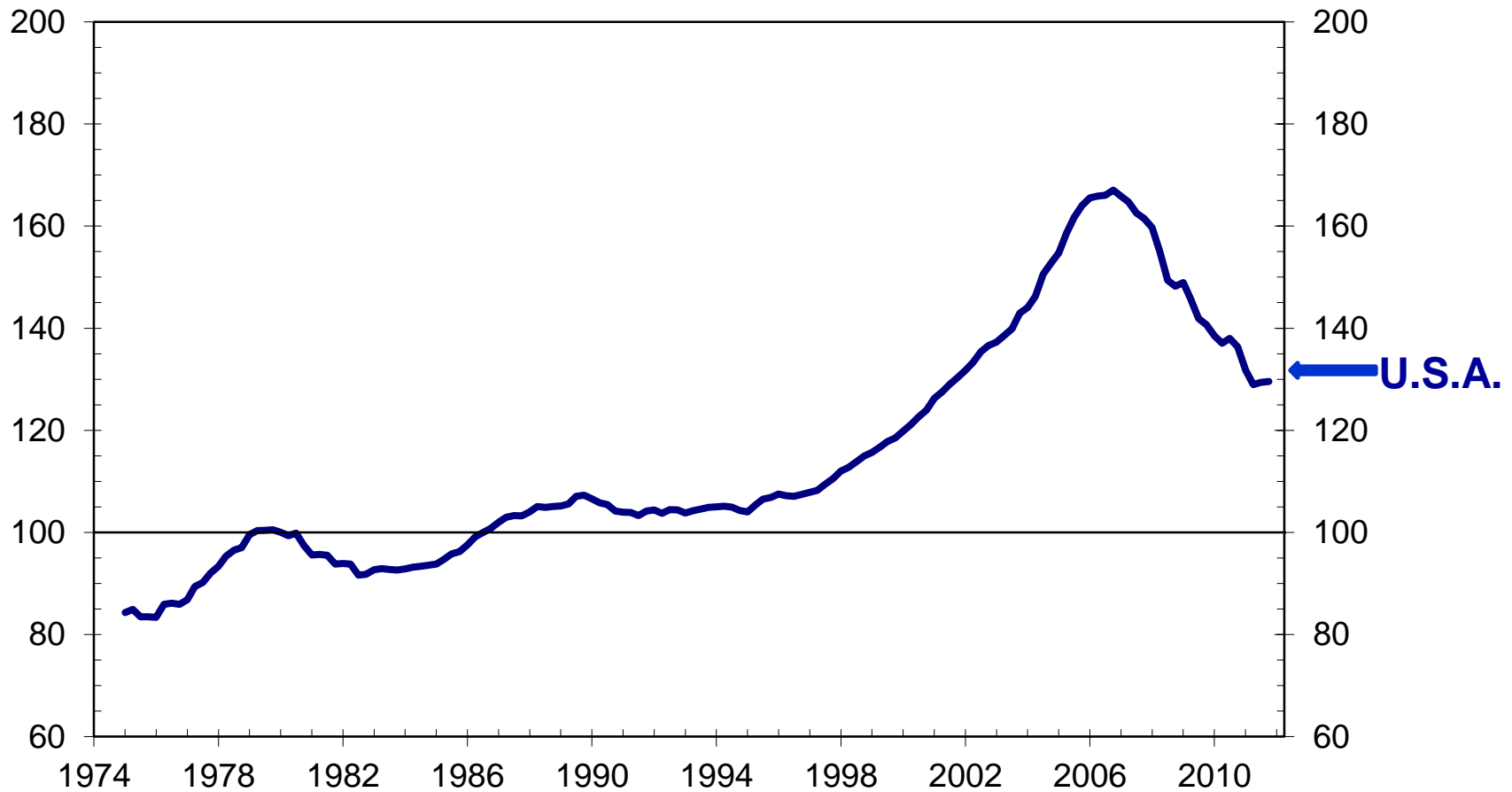
Fall in Payroll Employment after the End of Two Economic Expansions



Loss of household wealth

Index of Real U.S. House Prices, 1975-2011

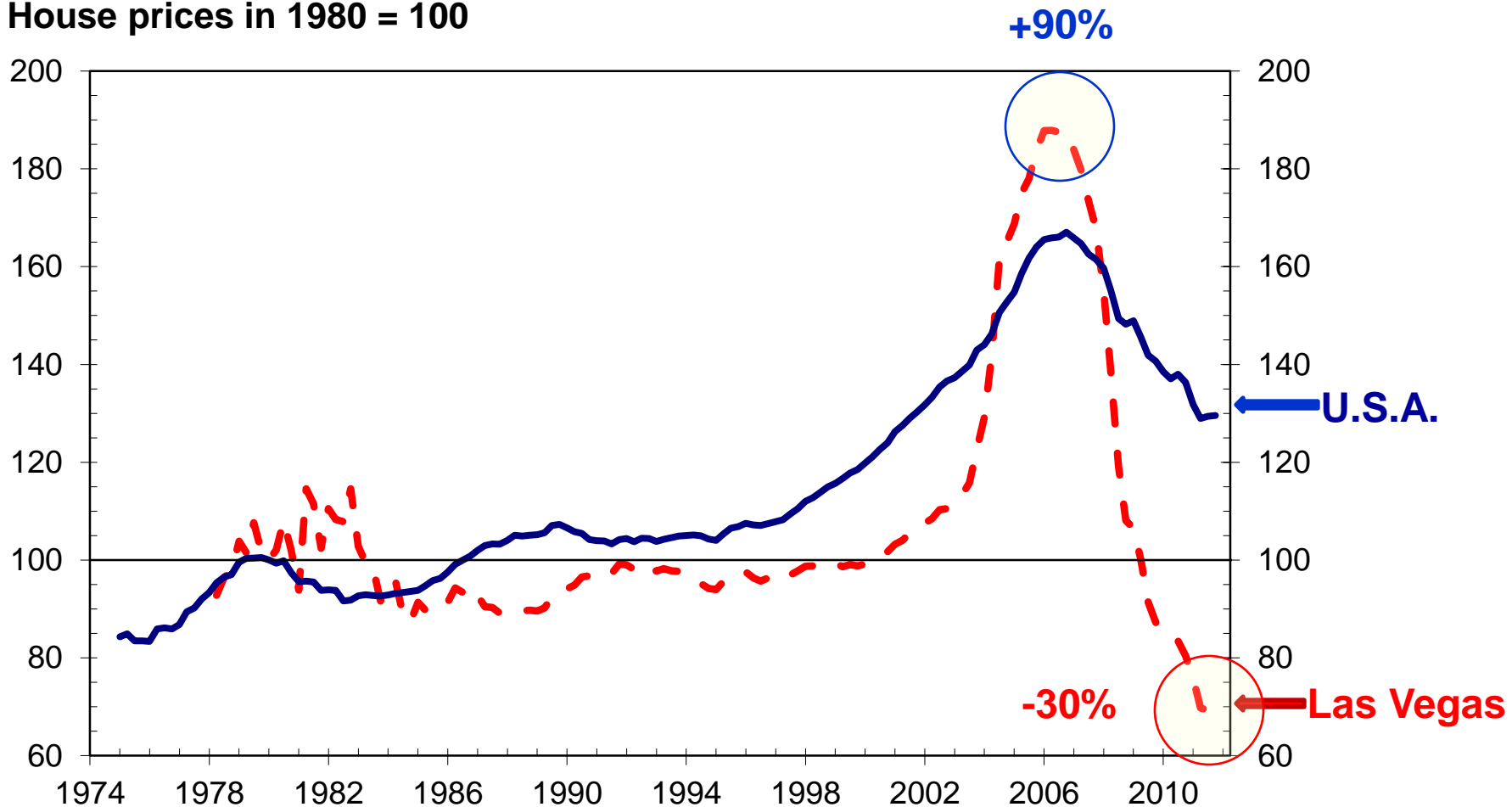
House prices in 1980 = 100



Sources: Federal Housing Finance Agency and U.S. Department of Commerce, Bureau of Economic Analysis.

Index of Real U.S. House Prices, 1975-2011

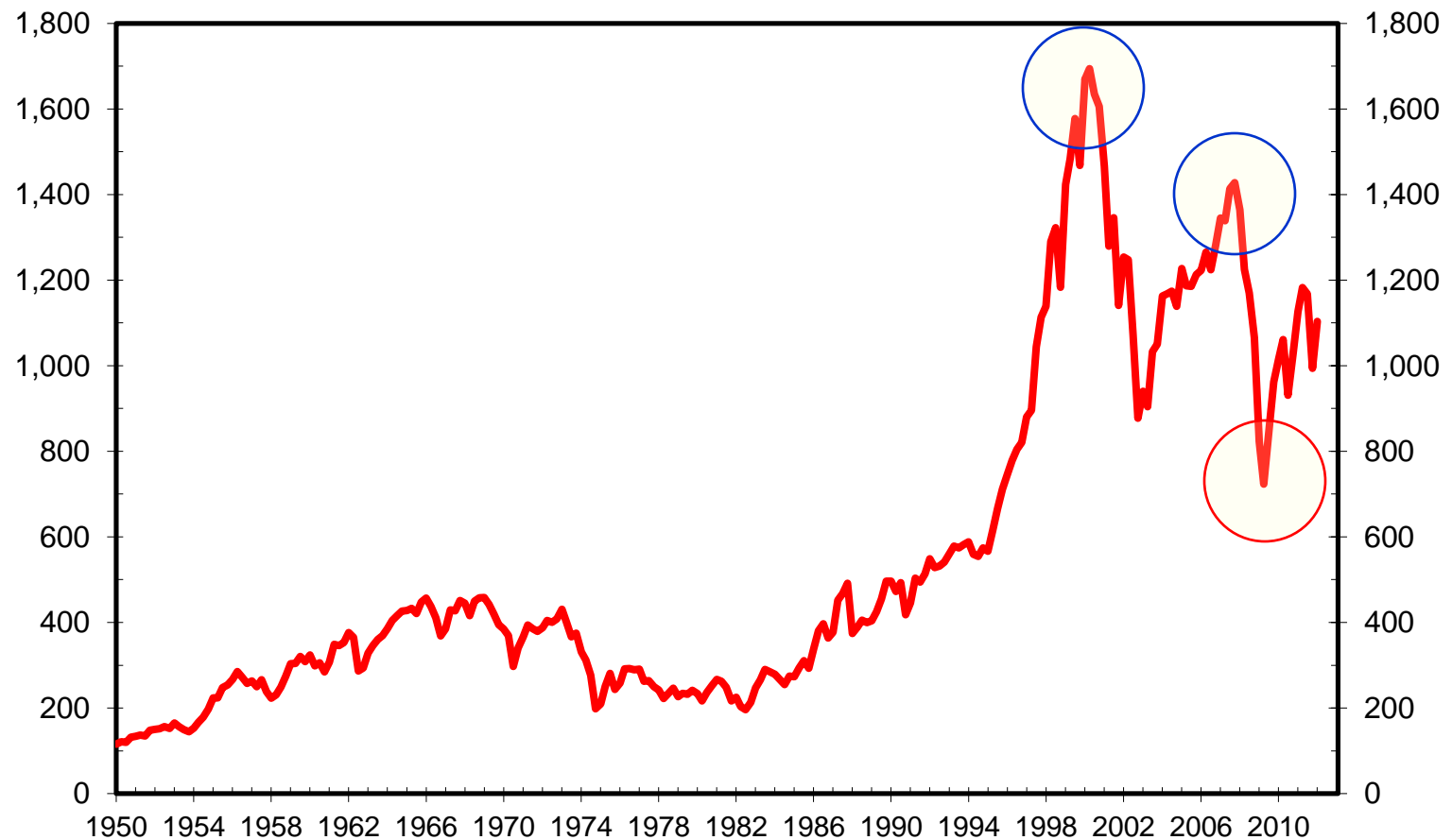
House prices in 1980 = 100



Sources: Federal Housing Finance Agency and U.S. Department of Commerce, Bureau of Economic Analysis.

U.S. Stock Market Prices, 1950-2011

S&P stock index (deflated using 2005 prices)



Source: Standard and Poors composite stock index.

Ratio of Net Household Wealth to Household Disposable Income, 1952-2011

Net wealth / Income ratio



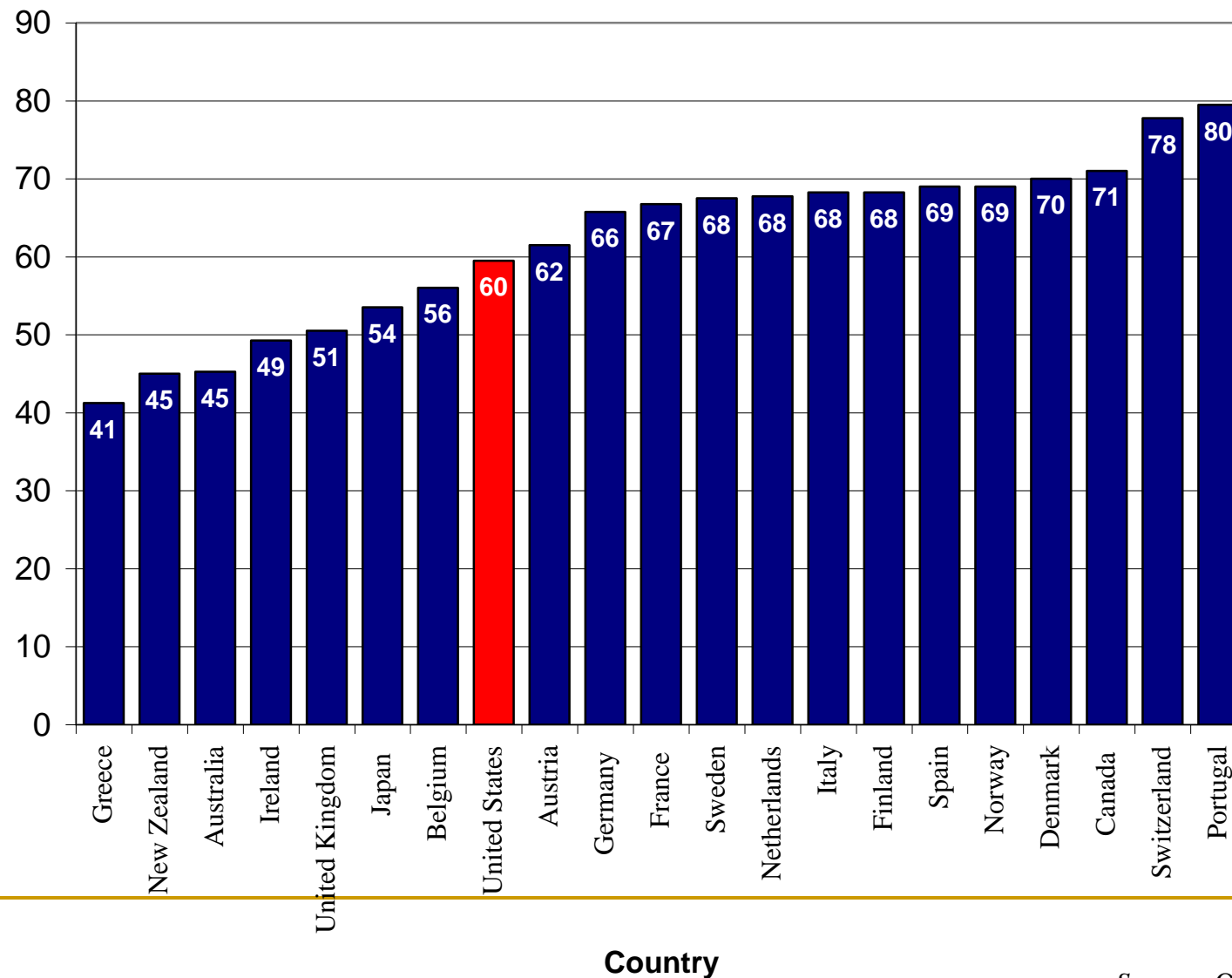
Source: Board of Governors of the Federal Reserve System, Flow of Funds Accounts.

Automatic social protection

With cross-national comparisons

Net Income Replacement in the Initial Period after Job Loss in 21 OECD Countries, 2005

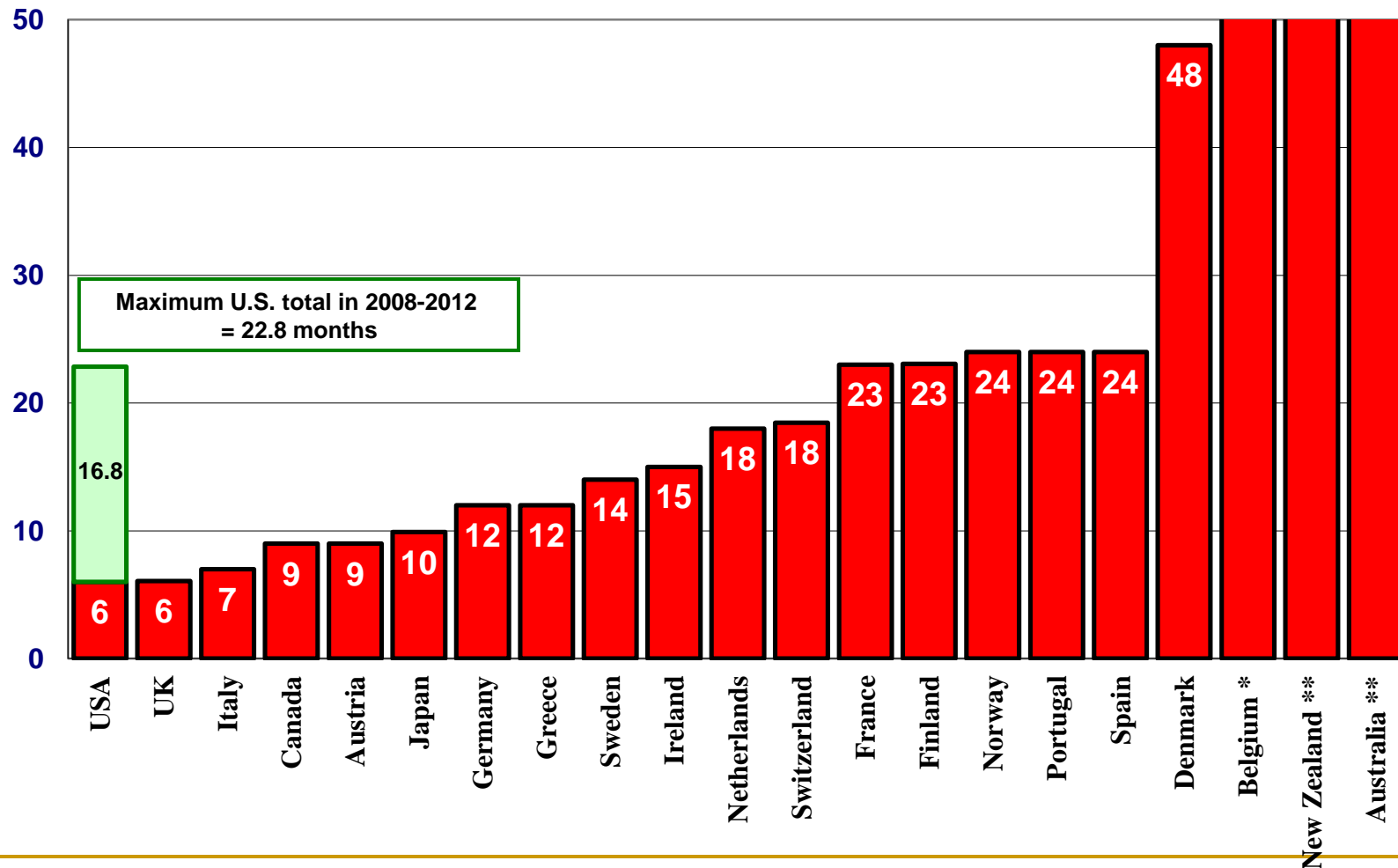
Net benefit / Net earnings in employment (%)



Source: OECD.

Maximum Duration of Unemployment Insurance Benefits in 21 Countries, 2007

Duration of unemployment benefits (in months)



Stimulus programs

Special programs for the hard hit

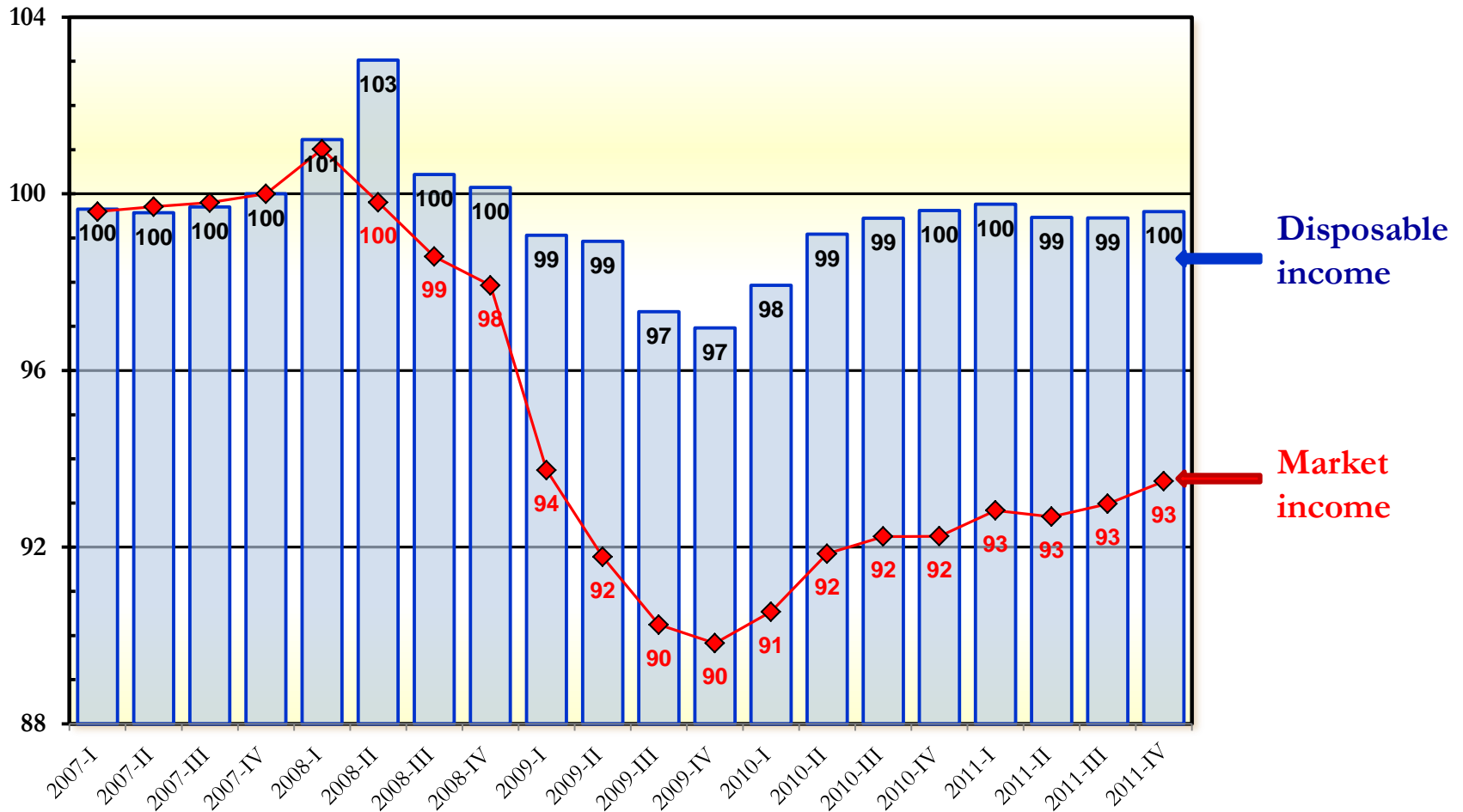
- Unemployment benefit extensions of up to 73 weeks - - giving a total of 99 weeks protection
 - Length of extension tied to state unemployment rate
- Increases in monthly food stamp allotments
- Aid to the states for social assistance to children
- Doubling of budget for training the unemployed and hard-to-employ
- Increases in EITC and Child Tax Credit

Special programs for the not-so-afflicted

- Federal income tax cuts, phased out for folks with high income
- Payroll tax cut: 2-percentage-point reduction in Social Security tax
- Special grants to Social Security recipients & VA recipients who do not pay income taxes

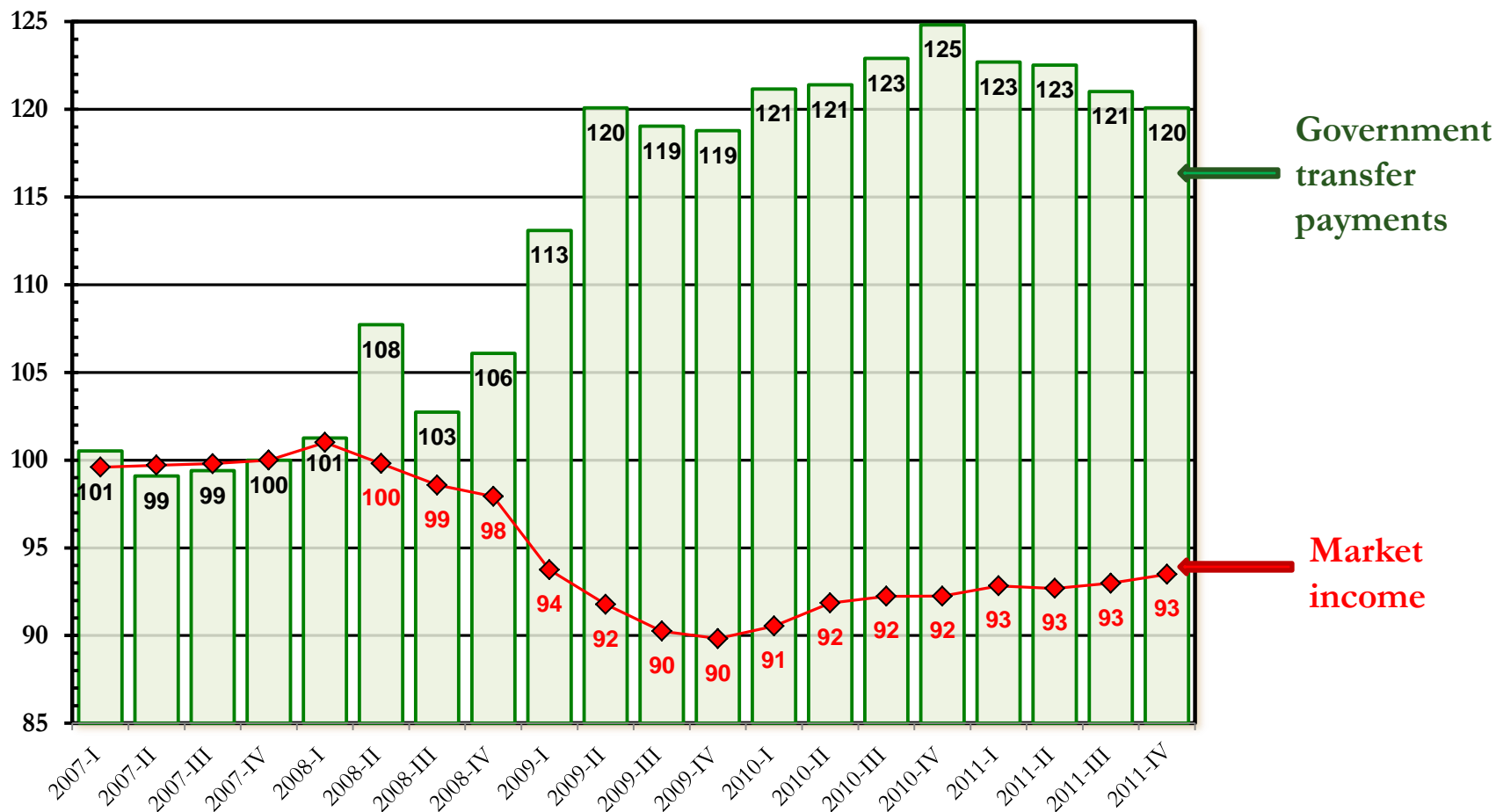
Impact of the Recession on Disposable and Before-Tax Market Income (per person), 1997 – 2011

2007-IV = 100



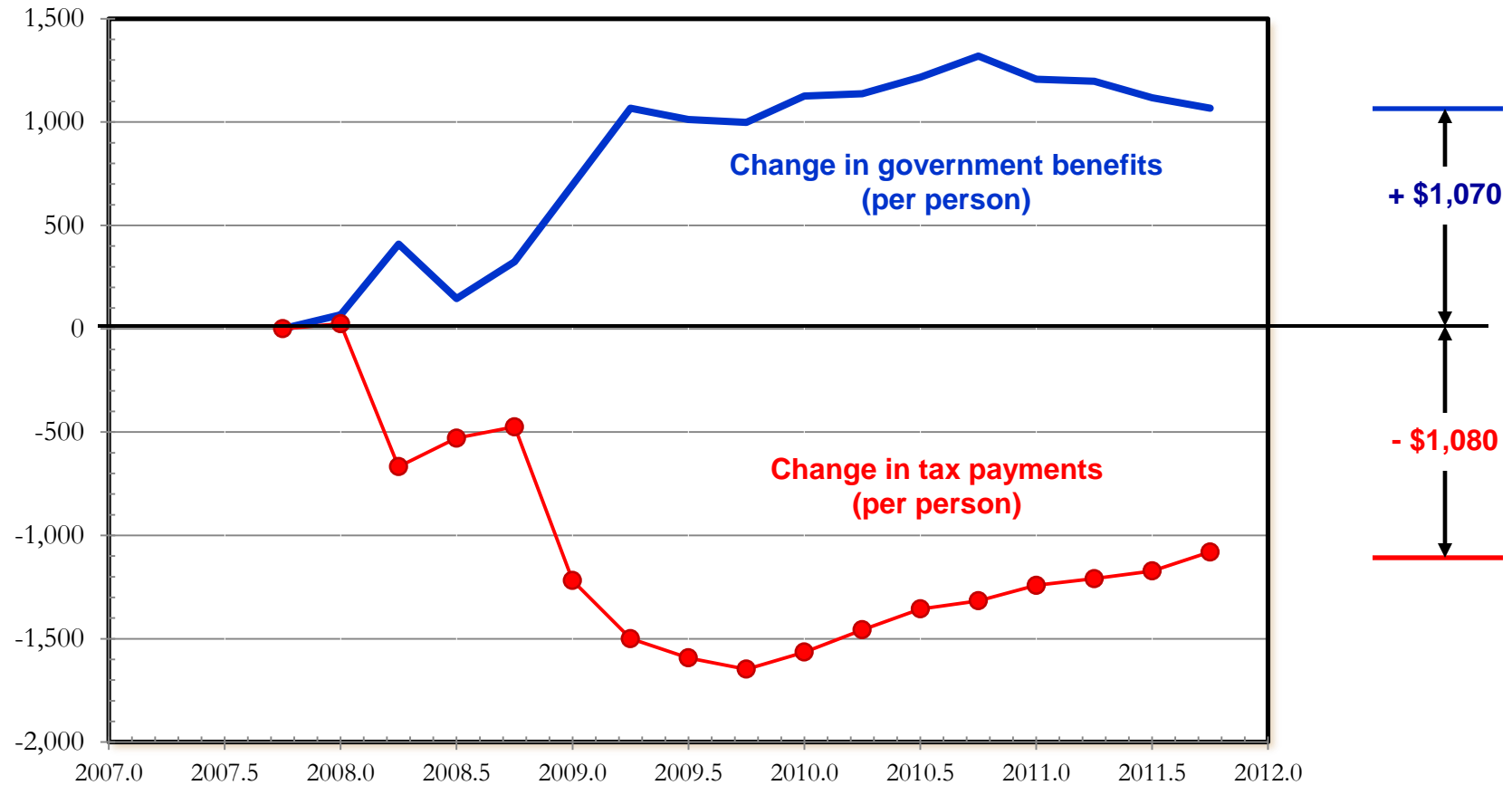
Impact of the Recession and Stimulus Package on Government Transfer Payments (per person), 1997 – 2011

2007-IV = 100



Combined Impact of the Recession and Stimulus Package on Net Transfers from the Government, 1997:IV – 2011:IV

Dollars per person
(2005 \$)



Payroll Employment in Las-Vegas-area Construction Industry, 1980-2011

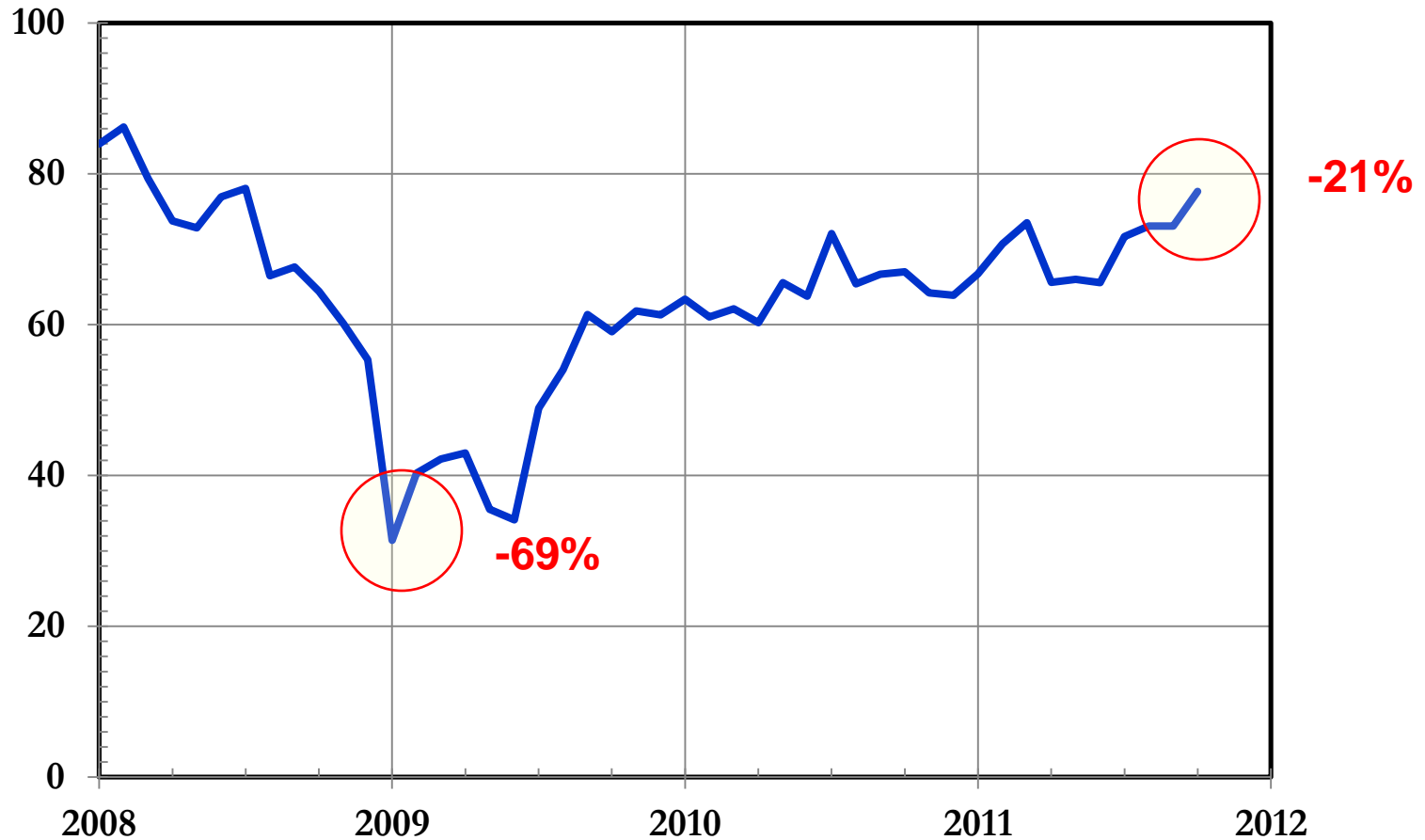
Las Vegas construction employment

(Employment in 2000 = 100)



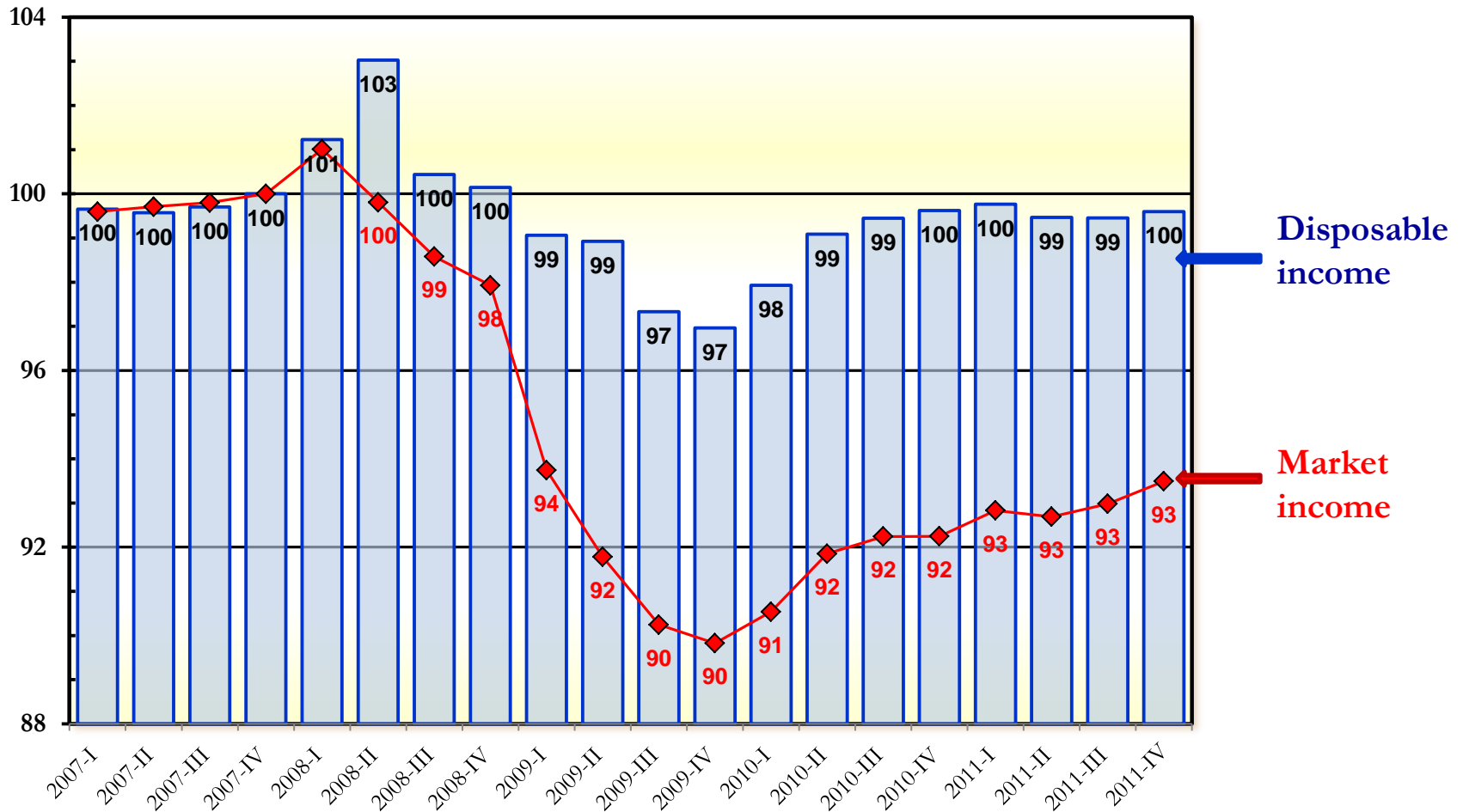
U.S. Assembly of Motor Vehicles, 2008-2011

Percent of average vehicle assemblies in 1994-2007



Impact of the Recession on Disposable and Before-Tax Market Income (per person), 1997 – 2011

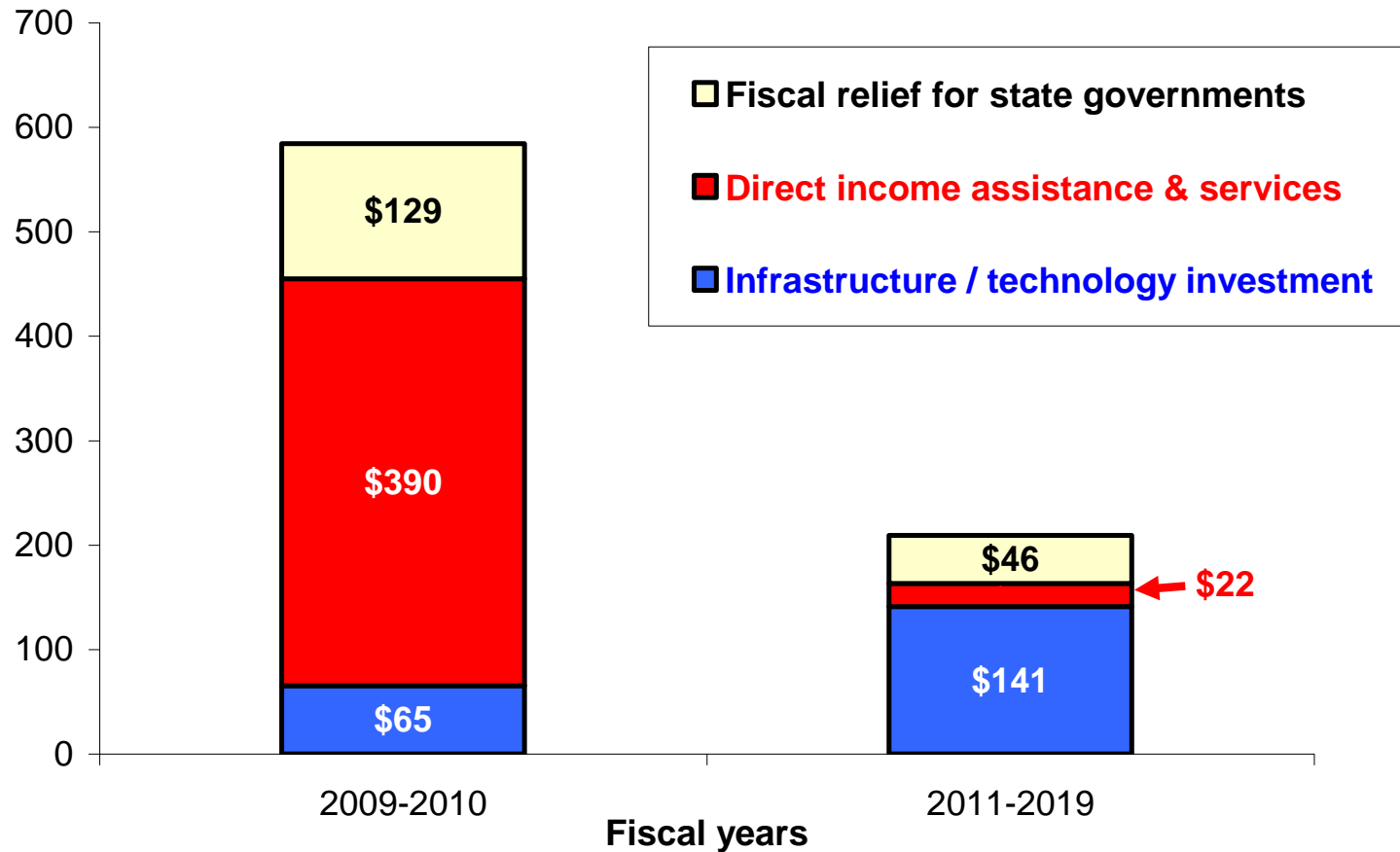
2007-IV = 100



Composition & timing of the stimulus

Expected Stimulus Spending under the American Recovery and Reinvestment Act of 2009, 2009-2015

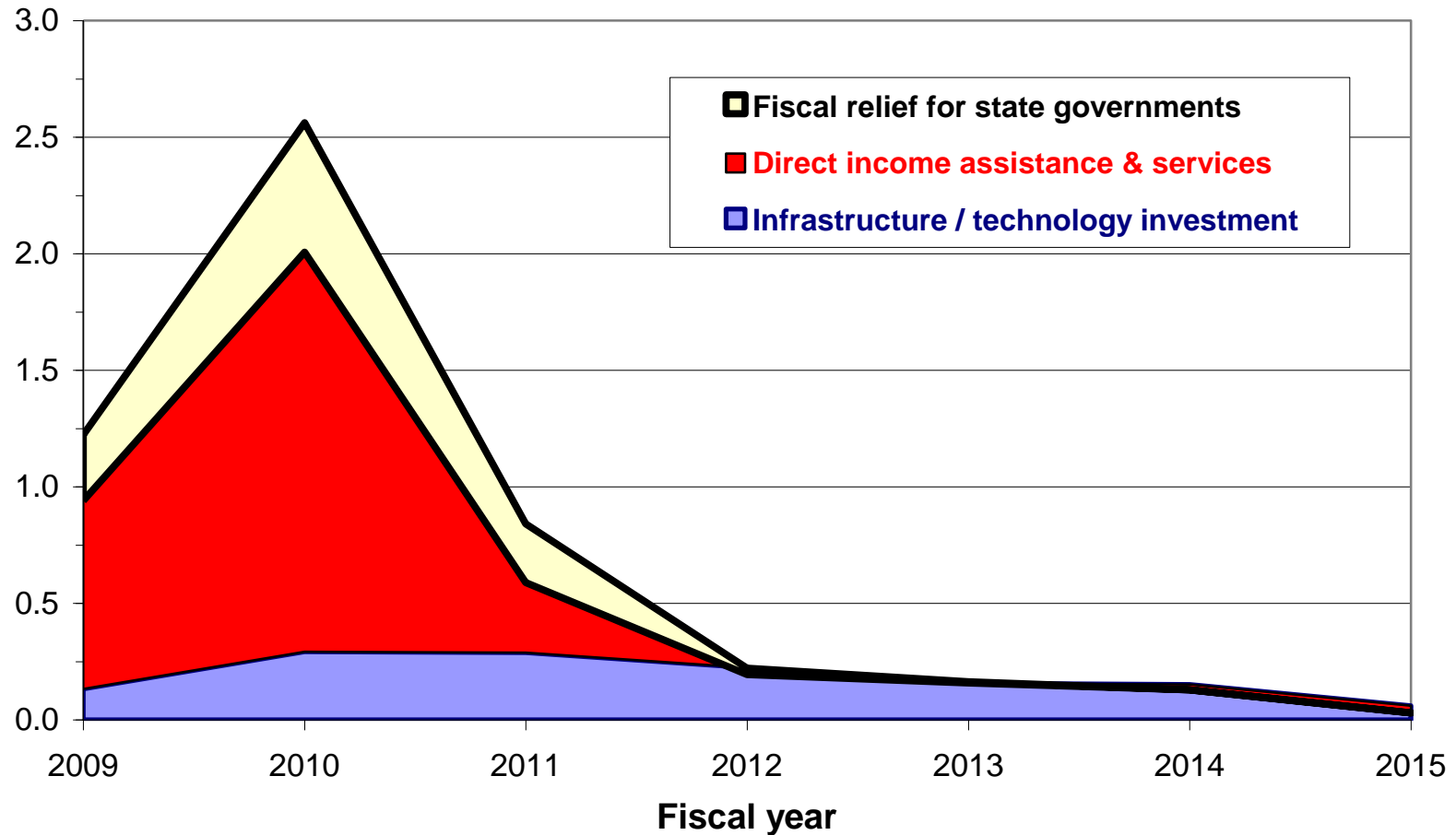
Billions of current dollars



Sources: Congressional Budget Office and Joint Committee on Taxation.

Expected Stimulus Spending under the American Recovery and Reinvestment Act of 2009, Fiscal Years 2009-2015

Stimulus Spending as % of Potential GDP



Sources: Congressional Budget Office and Joint Committee on Taxation.

Economic Crisis & Social Protection

Impact and remedies

- What is old:
 - Automatic stabilization
 - Standard gov't reactions –
 - Tax cuts / UI benefit extensions / Gov't capital projects
 - What is new:
 - Massive federal aid for state governments
 - Unusual focus on protecting education & training
 - What Congress avoided:
 - Huge investment in public works
 - **Congress worried the spending would be too slow**
-