Jobs & Economy Fact Sheet

Face the Facts USA

The Great Recession brought the highest unemployment rates since 1982. From 2009 to 2011, the official jobless rate remained at or above nine percent for 28 of 29 consecutive months, and the "unofficial" rate was thought to be far higher.

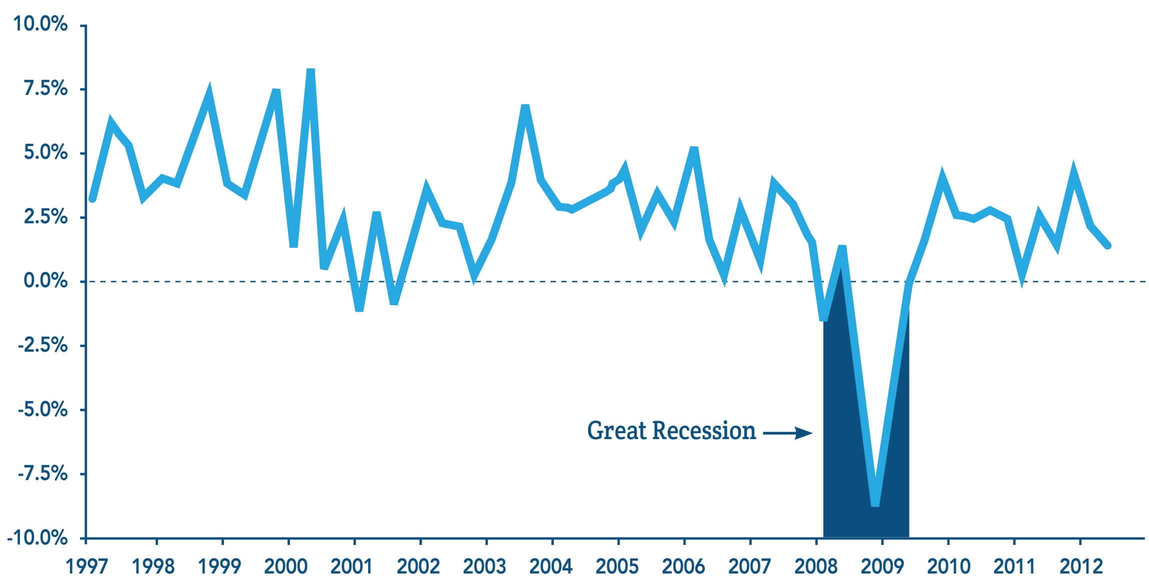
The American economy is largely propelled forward by consumer spending. Employers hire when they're optimistic about the future, but not if they don't see consumers ready to spend. Consumers don't spend if they're worried about their jobs.

What can the government do to stimulate the economy and create more jobs?

That is one of the great debates of our time. But to even consider the question, it helps to have a basic understanding of the economy.

Gross Domestic Product (GDP) is the sum of our national economic output – the combined value of everything we make, from cars to scented candles. When talking about the economy we often discuss growth in GPD, which is measured every 3 months. Growth of 3% per year is considered healthy. When GDP shrinks for six consecutive months, we are officially in a recession. Depression is a prolonged recession.

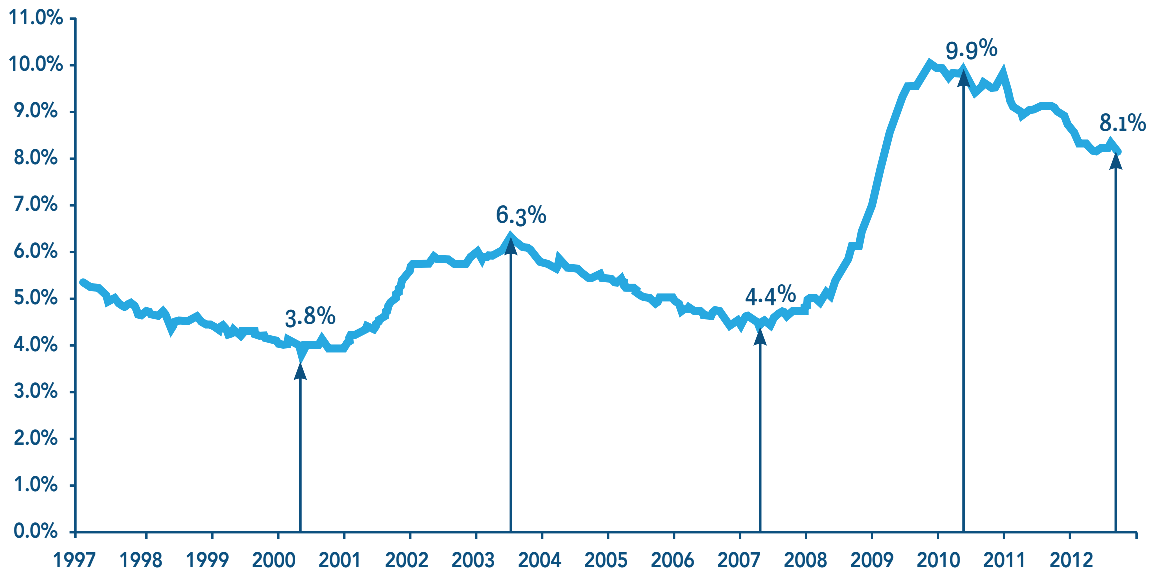
Quarterly Growth of GPD,
1997-2012



Inflation is a measure of how much the value of money depreciates over time. The inflation rate can be affected by the amount of money printed – more dollars in the system tends to dilute their worth and the value of our currency measured against others.

The **unemployment rate** is the percentage of the total workforce that is actively looking for work. The official unemployment rate does not include those who have stopped looking for work or are "underemployed," having traded a lucrative job for a low-paying one.

Unemployment Rate, 1997-2012



FACT: The longer you are unemployed, the harder it is to find work. The percentage of unemployed workers who were jobless for six months or more was 43.8% in 2011.

To help you understand how we landed in an era of sluggish growth and high long-term unemployment, here's a list of some of the factors that affect economic growth – or contraction. It's not exhaustive, but it hits the main points.

Factors that Lead to Downturns

- When people feel their personal economic futures are uncertain, they may save more and spend less. You're less likely to take on four years of new-car payments if your workplace is laying people off, even if you're still working. If the house next door sells for less than you expected, it may wound your confidence even if you weren't planning to put yours on the market.
- Big financial crises discourage investment, reduce profits from investments, and make banks more reluctant to risk lending money.
- Consumers take on too much debt and they pay it down instead of making new purchases.
- Unforeseen economic shocks, such as the debt and banking crises affecting many European countries, which affect investor behavior around the world.
- When the usual ways to jump-start growth don't work, the Federal Reserve traditionally lowers interest rates to promote borrowing and investment, but in the current era it hasn't produced much action: mortgage rates are at record lows, but home buyers haven't responded.

Factors that Promote Growth

- Rising consumer confidence, demand, and purchasing power.
- Rising demand for goods can lead to increased production, more hiring, and higher wages – which means yet more demand.
- Better availability of credit to finance both business expansion and consumerpurchases. Credit is the oil that lubricates our economic engine.
- Increased foreign investment in the US can enhance the value of the dollar.
- Technological developments and innovation that lead to higher productivity, although in our time, this has not always led to a hiring boom; fewer workers are responsible for more output.
- More exports of American goods.

Why do we have good and bad economic cycles?

For all the science behind economics, a lot of things depend on confidence, or the lack of it.

Good times can lead to better times. When people have a positive outlook, they spend more. When businesses have a positive outlook, they hire people and increase production because they expect higher demand. This hiring spurs more optimism, spending, job security, and growth. Boom times follow.

Bad times can lead to even worse times. When people are concerned about the future, they reduce spending. Businesses slow production, stop hiring, or let people go. This leads to more pessimism, even less spending, and a bust like the recent Great Recession.

FACT: U.S. manufacturing output has risen significantly since 2009, with a 20% growth rate over 3 years. However, only 4% more manufacturing jobs were added during the same period. Improvements in technology and automation have increased productivity and reduced the number of workers needed in many industries.

What led to our current economic crisis?

A perfect storm of negative factors converging all at once including:

- A long season of irresponsible lending and banking behavior. For example, banks giving mortgages and other credit to people who couldn't repay them. Some financiers bundled these bad loans together and sold them to unwary buyers, then made money betting they would fail. When everything unraveled in 2008-2009, some big banks collapsed. Others teetered on the brink of failure and the government provided capital to keep them afloat.
- Inadequate government regulations that allowed private banks to drive themselves into crisis, requiring rescue.
- When banks began to fail, investors lost faith in the markets, negative emotions took hold, and the impact of the crisis spread. Credit availability tightened, even for responsible borrowers. Businesses failed or couldn't expand. Layoffs followed and consumer confidence plummeted.
- Real estate values plummeted too as the "bubble" created by easy credit burst. Millions of homeowners found themselves owing more than their homes were worth, a situation that cripples consumer confidence and persists for many today.

FACT: Small businesses, often cited as the "engine of growth" for the economy, have actually lost 1.2 million jobs over the past decade. While small businesses employ many people, they are generally less stable than larger companies. Due to their size, larger businesses are more able to withstand short-term economic fluctuations, such as a downturn in demand.

What is the government's role in relation to the economy?

The government is pro-growth, of course, but has limited tools at its command. The two main ones are fiscal policy and monetary policy.

- **Fiscal policy** is made by Congress, including tax rates and spending choices. Temporary tax cuts and the stimulus injections that supported General Motors and Chrysler are examples of fiscal policy.
- **Monetary policy** is made by the Federal Reserve, or Fed. The Fed sets targets for short-term interest rates, auctions the Treasury bills that finance the nation's debt, and manages the amount of dollars in circulation.

The government also tries to strike a balance between growth and inflation. When the Fed increases the money supply to make credit more available, inflation often follows, which diminishes the value of everyone's dollars. The United States has enjoyed a long period of low inflation. Mortgage and car-loan rates well above 10 percent are a distant memory. But in a cyclical economy they could return with higher inflation.

Approaches to the Issue

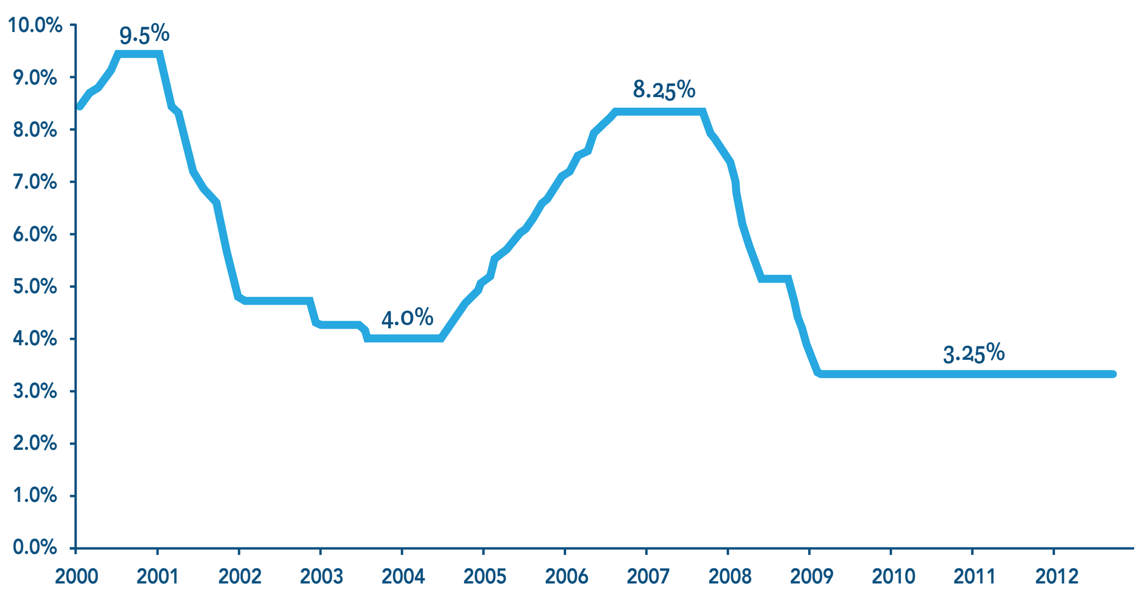
What can the government do to help stimulate job growth?

One approach is that government should provide tax breaks to companies and "job creators" to encourage investment, and reduce regulations that can obstruct business growth. If government makes it easier to start and grow businesses, goes the argument, the private sector will hire more rapidly.

Others believe the government should try to stimulate consumer confidence by spending tax dollars on infrastructure projects and other programsto employ a lot of people. The New Deal-era programs of the 1930s, following the Great Depression, exemplify this approach. Then as now, the United States has plenty of infrastructure that needs fixing – but today we have massive budget deficits that prompt concern about more spending.

As for monetary policy, there is general agreement that in bad economic times, the Fed should work to keep interest rates low. The concern now is that interest rates have remained near rock-bottom levels for years with little result. It appears it will take more than "cheap money" to restore a positive economic cycle.

Bank Prime Loan Rate, 2000-2012



What do you think of these ideas?

What else do you think the government should be doing – or should it do anything at all?

How much regulatory power should the government use over private banks?

What should the private sector be doing on its own? What can individuals do?