



Chicago Political Economy Group (CPEG) Commentary on September, 2011 BLS Unemployment and Jobs Report

The Numbers: Little Change and Job Seekers' Prospects Dim

With the economy hovering on the brink of a double dip recession official overall unemployment remained stuck at 9.1% in September. Those who have been out of work and looking now make up an astonishing 44% of those unemployed.

The sluggish economy mustered the strength to add only 103,000 jobs, better than last month's new jobs total of zero, but still less than the 115,000 that are needed to absorb all of the young people who join the labor force as a result of population growth each month.

Although the officially unemployed totaled nearly 14 million (13,992,000), that widely cited number is only part of the picture. Over 9 million part time workers actually wanted full time work. Another 2.5 million people want work and are ready to take a job even though they have not been actively looking in the last year.

That adds up to nearly 26 million people who want full time work but have not been able to find it.

If job creation continues at its present anemic rate it will take over 11 years just to bring the unemployment rate down to the pre-recession level of 4.7%, which, itself was a lot of unemployment considering that it came at the end of a six year expansion.

With job seekers facing such bleak prospects (4 workers competing for every single job opening) it is no surprise that record numbers of people are drifting away from the labor force. The labor force participation rate is at its lowest level in a generation, 64.2%.

What's Going On?

The short term problem confronting the economy is that middle and working class households have too little money to spend. With overall demand for goods and services thus weak, businesses, now enjoying record profits, and wealthy investors see little reason to expand production since they doubt that it would be bought.

We have gotten into this situation over the last 40 years, as wages and middle class salaries have stagnated while the income of the richest 10% has increased dramatically. If the rich spent as much of their money as the middle class spends of its much smaller income, there would be plenty of demand for increased production. But the rich spend only a tiny fraction of their

incomes, in contrast with middle and working class households, which spend all of theirs. So overall demand has been weakening.

It's a chicken and egg problem. Investment in expanded hiring and production is low because demand is low. But demand is low because investment in expanded production and hiring is low.

What Needs To Be Done?

How can we break out of this vicious cycle? The answer is straightforward. The federal government needs to put people to work doing jobs that need to be done. That will mean hiring millions of people who now lack work and income and spending money. Once they have a stable income they will start to spend, demand will go up, businesses will see opportunities for expanded production and hiring leading to further increases in demand, etc.

What about the impact on the federal deficit? The government will increase its deficit in the short run, but reduce it in the long run as increased economic activity leads to more revenue. Long term economic stagnation makes it nearly impossible to reduce the deficit, and attempts at deficit reduction through austerity programs during recessionary times just further depress the economy and increase the deficit.

In addition, a large, fair source of new revenues is available in the form of a very small but widely applied financial transactions tax. Such a tax has been in use in Britain for some years, and the European Community is giving serious thought to adopting something similar.

President Obama's jobs proposal is a small step in the right direction, but it should be about 4 times larger than it is. It's only half the size of his original stimulus program, and that was only about half as large as it should have been, even though it did provide a little stimulus to the economy.

In addition, we need a much larger direct employment program. Representative John Conyers has introduced such a bill, H.R. 870. That bill, or something equally ambitious like the recent proposal of Representative Jan Schakowsky, needs to be enacted immediately.