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# The Urgent Need for Job Creation

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# Introduction

The substantial political obstacles facing another round of economic stimulus and the Senate's recent decision not to extend long-term unemployment insurance benefits suggests that economic decision-makers might not understand the depth of the economic hole in the labor market.

Between December 2007 – the official first month of the recession – and December 2009, the U.S. economy lost more than eight million jobs. Even if the economy creates jobs from now on at a pace equal to the fastest four years of the early 2000s expansion, we will not return to the December 2007 level of employment until March 2014. And, by the time we return to the number of jobs we had in December 2007, population growth will have increased the potential labor force by about 6.5 million jobs. If job growth matched the fastest four years in the most recent economic expansion, the economy would not catch up to the expanded labor force until April 2021. Even if job creation rates were as high as the fastest four years of the 1990s recovery, we would not return to pre-recession employment levels until September 2012, and we would not cover the increase in the potential labor force until September 2014.

Using the highest job creation rate in recent historical experience – the job growth rate achieved in the fastest two years of the economic expansions in the mid-1970s and the early 1980s – the economy would return to its December 2007 employment rate much sooner – by November 2011 – and would catch up to the expanded labor force by September or October 2012.

Unfortunately, according to the Congressional Budget Office's (CBO) most recent projections,[1] the path that the economy appears to be on now looks more like the mid-2000s expansion than earlier, more rapid periods of growth. Absent policy changes such as a major jobs bill, the CBO's labor force and unemployment projections suggest that the economy will not return to December 2007 employment levels until June 2013, and will not cover the intervening growth in the potential labor force until August 2015.

The series of graphs below illustrate the depth of the current labor-market recession and sketch the possible recovery path under several historically based job creation scenarios.

# The Hole We're In

**Figure 1** shows the monthly change in total employment in the U.S. economy, using the Bureau of Labor Statistics' monthly establishment survey, from the peak of the 2000s business cycle (December 2007) through the most recent month available (June 2010). Job losses peaked at about 700,000 per month between November 2008 and March 2009. From spring 2009 through the end of that year, the economy continued to shed jobs at a slower and slower pace. In 2010, the economy started to create jobs (on net) for the first time since 2007. Job growth was particularly fast in May 2010, but about 411,000 of the 431,000 net jobs created that month were temporary jobs with the

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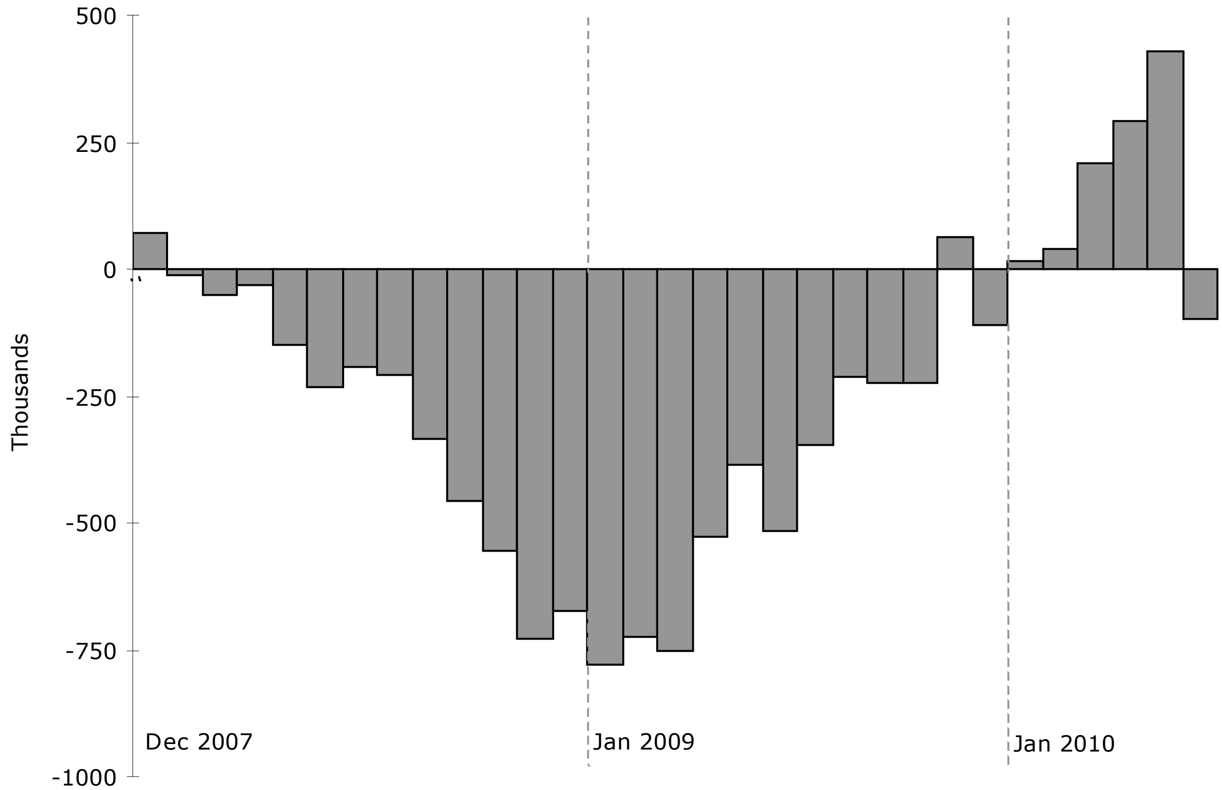
1 Congressional Budget Office. 2010. "The Budget and Economic Outlook: Fiscal Years 2010 to 2020." Washington, DC: Congressional Budget Office, January. http://cbo.gov/doc.cfm?index=10871&type=1, especially Table 2-2.

decennial census. The economy shed 100,000 jobs in June 2010, in part reflecting the loss of temporary census jobs.

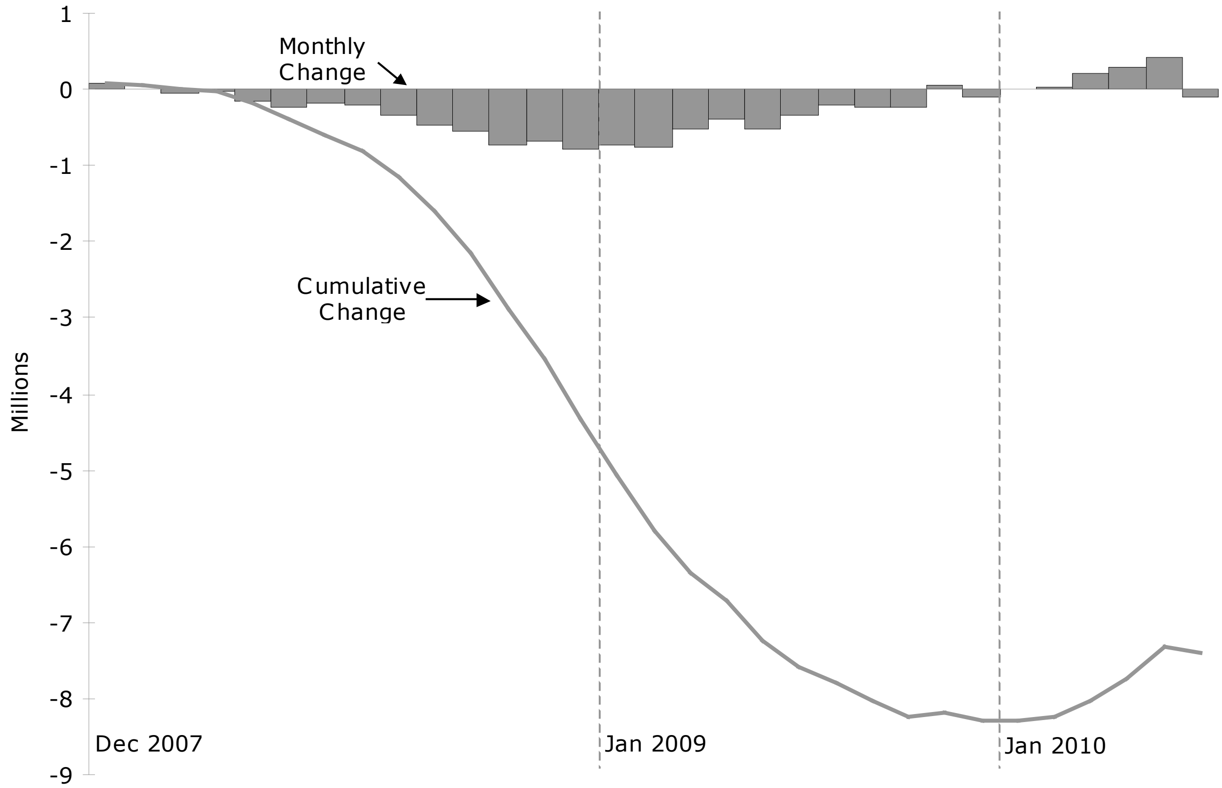
**FIGURE 1**
**Monthly Change in Employment, December 2007-June 2010**




Source: Authors' analysis of BLS data.

The monthly job loss figures, however, don't give a clear picture of the depth of the problems facing the labor market. **Figure 2** reproduces the net monthly job loss data from Figure 1, but also displays the *cumulative* change in employment, relative to the total employment level in December 2007. The main difficulty facing the labor market is not the employment losses in any given month, but rather the cumulative effect of two years of almost continual job losses. For seven months beginning in September 2009, the economy was over eight million jobs below its December 2007 level. Even with the jobs created so far in 2010, the economy remains almost 7.5 million jobs short of its pre-recession level.

**FIGURE 2**
**Monthly and Cumulative Change in Employment, December 2007-June 2010**



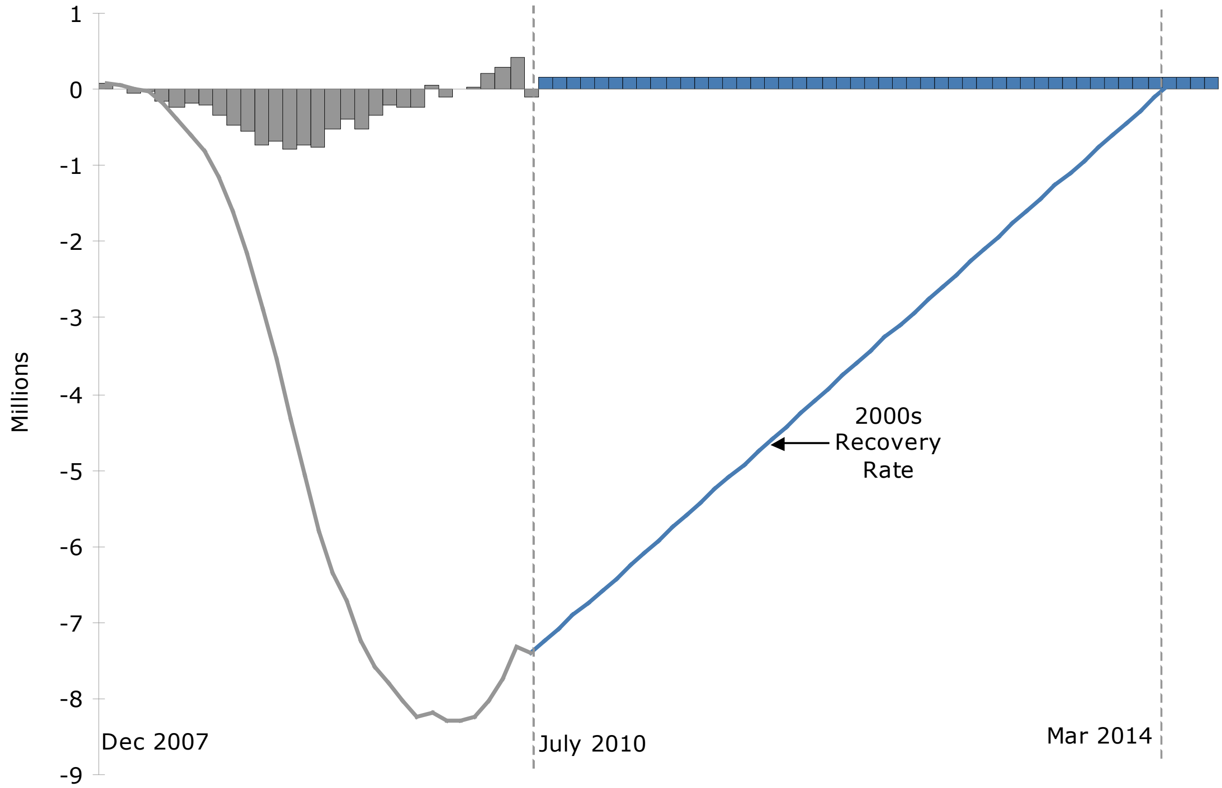

Source: Authors' analysis of BLS data.

# Paths Up and Out

**Figure 3** shows the results of projecting future job creation assuming that, from July 2010 forward, the economy creates jobs at the same pace as the fastest four calendar years in the most recent economic expansion.[2] The point where the projected cumulative job loss line crosses zero marks the year and month when overall employment will have returned to its December 2007 level. So, if job creation from here on proceeds at the same rate as it did in the 2000s expansion, the economy will not restore December 2007 employment levels until March 2014.

2 The period covers January 2004 through December 2007; job creation rates were about 0.12 percent per month, or about 166,000 jobs per month given the size of the current workforce.

**FIGURE 3**
**Projected Path of Recovery at 2000s Job Creation Rate**




Source: Authors' analysis of BLS data.

# Labor Force Growth

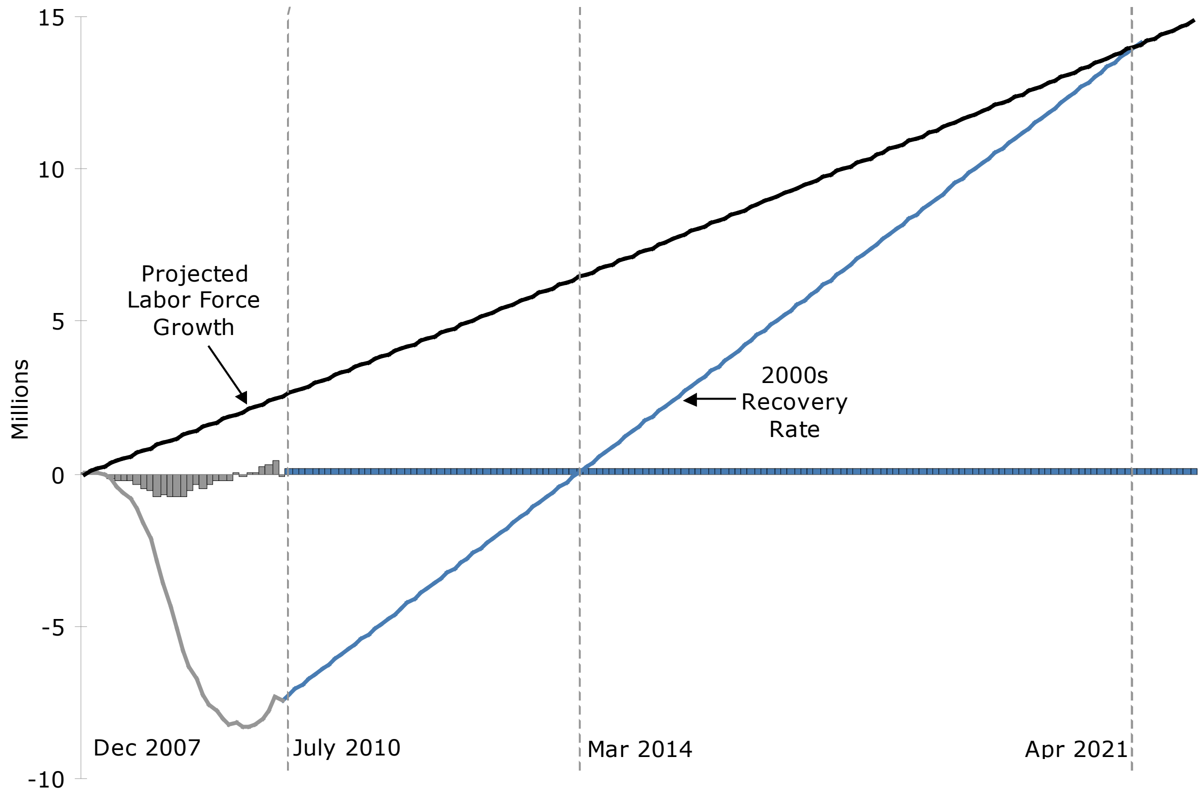
Meanwhile, the working-age population of the United States will be growing, as a steady stream of potential new workers enters the labor force each month. Returning to the December 2007 level of employment many years after that level was first achieved will still leave the economy in a jobs deficit relative to this expanded labor force.

**Figure 4** incorporates the effects of this labor force growth into the analysis. The top line in the figure shows the cumulative change in the labor force, assuming that labor force growth follows CBO projections.[3] In this figure, the point where the line for the cumulative job change crosses the line tracing the cumulative growth in the labor force marks the year and month where the economy will have made up for both the jobs lost during the recession and the intervening growth in the labor

3 Based on CBO (2010), Table 2-2. This is analogous to the cumulative change in employment in the bottom half of Figures 2, 3, and 4. The CBO does not publish monthly projected increases in the labor supply, but these rates are implicit in their labor-market projections. Based on CBO projections, we assume a monthly growth in the labor force of just over 90,000 workers per month from January 2008 forward. Our projections assume that five percent of this increase will be unemployed at any given time, consistent with long-term CBO projections that the labor market will eventually return to a five percent unemployment rate.

force.[4] If we assume job creation from July 2010 forward occurs at the pace set in the 2000s expansion, the economy will not catch up with the expanded labor force until April 2021.

**FIGURE 4**
**Projected Path of Recovery at 2000s Job Creation Rate, Including Labor Force Growth**




Source: Authors' analysis of BLS and CBO data.

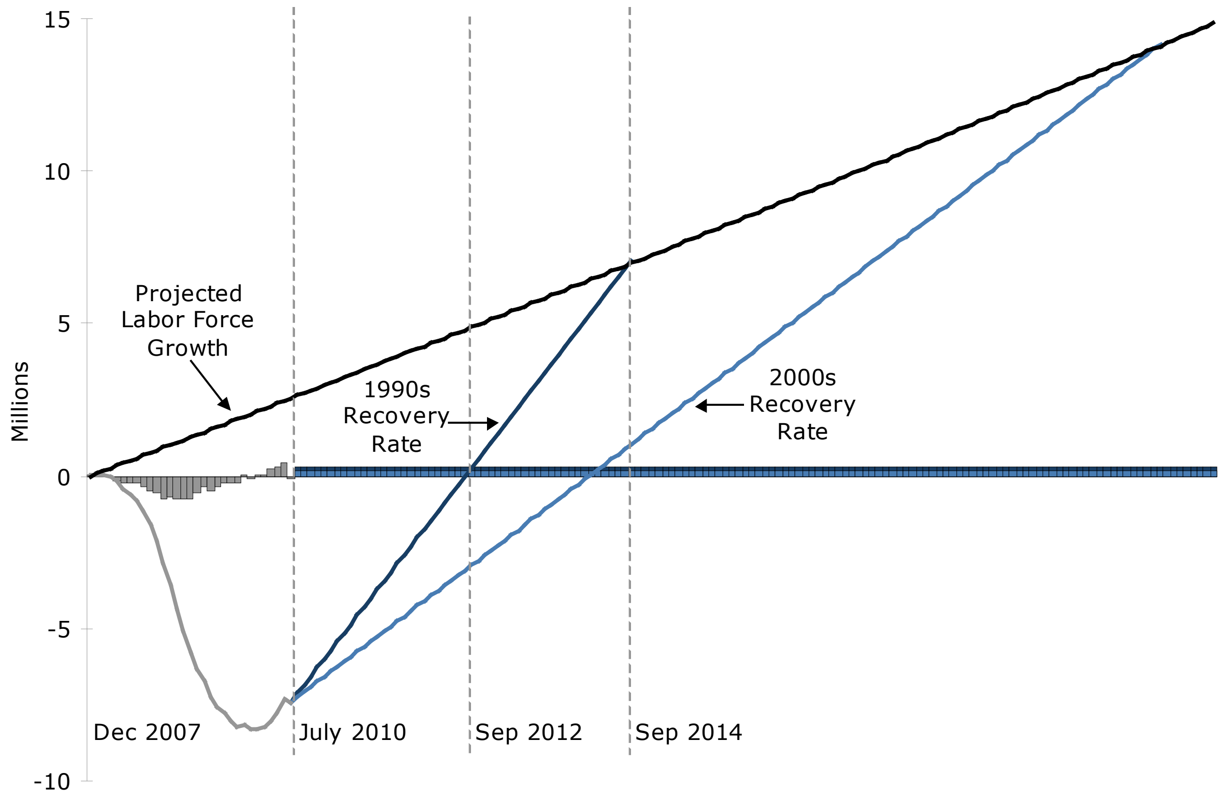
# Some Other Scenarios

If job growth going forward proceeds at the same pace as the fastest four years of the 2000s expansion, the economy will not return to pre-recession employment levels until well into the next presidential term (March 2014); the economy will not cover the intervening increase in the labor force until early in the next decade (April 2021). Is there any room for optimism? **Figure 5** displays the results of an identical analysis under the assumption that job growth follows the faster pace

4 Another way of looking at Figure 4 is to note that the line for cumulative job change crosses the cumulative change in the labor force at the point where the employment-to-population rate returns to what it was in December 2007. The figure assumes that the economy only needs to create jobs for 95 percent of the increase in the labor force, because CBO assumes that the economy will eventually reach and maintain a five percent unemployment rate. In 2007, the employment-to-population rate for the population 16 and over was 63.0 percent, almost 1.5 percentage points below the employment-to-population rate in 2000. Our projections, therefore, set a low bar for total employment relative to a standard that would require returning to the 2000 employment rate.

achieved during the fastest four calendar years of the 1990s expansion.[5] Even at these faster rates, the economy does not restore the December 2007 employment level until September 2012, and does not generate enough new jobs to match labor force growth until September 2014.

**FIGURE 5**
**Projected Path of Recovery at 1990s Job Creation Rate, Including Labor Force Growth**




Source: Authors' analysis of BLS and CBO data.

History, however, suggests that the economy does have the capacity to create jobs at a pace that could address the jobs deficit much more quickly. **Figure 6** shows the projected effects of a recovery that created jobs at a rate that matched the fastest two years of the mid-1970s and the early-1980s expansions.[6] At these much faster rates, the economy returns to its December 2007 employment level in November 2011, and makes up for the expanded labor force by September or October 2012.

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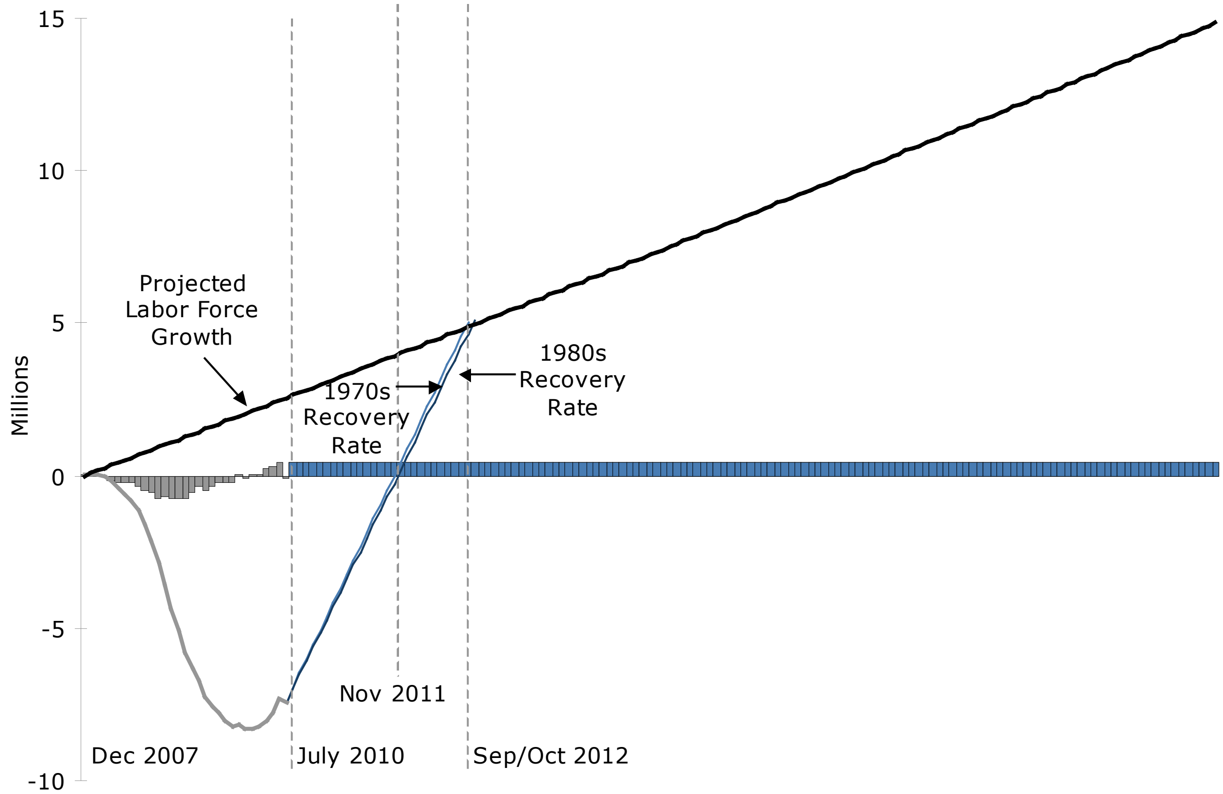
5 The period covers January 1996 through December 1999; job creation rates were about 0.22 percent per month, or about 284,000 jobs per month given the size of the current workforce.

6 The first two-year period covers March 1975 through March 1977; job creation rates were about 0.33 percent per month, or about 461,000 jobs per month given the size of the current workforce. The second two-year period covers November 1982 through November 1984; job creation rates were about 0.32 percent per month, or about 447,000 jobs per month given the size of the current workforce.

**FIGURE 6**
**Projected Paths of Recovery at 1970s and 1980s Job Creation Rate, Including Labor Force Growth**




Source: Authors' analysis of BLS and CBO data.

Unfortunately, the CBO's projections for future job growth fall somewhere in between the historical experience of the two most recent expansions (Figures 4 and 5). **Figure 7** presents the identical analysis using the job creation numbers implicit in the CBO's most recent set of economic projections.[7] Assuming no new jobs creation program, the CBO's baseline suggests that the economy will not return to December 2007 employment levels until June 2013 and will not cover the intervening increase in the labor force until August 2015. Note that the CBO's long-term projections assume that the economy will level off at a 5.0 percent unemployment rate, not the 4.6 percent average rate in 2007. As a result, Figure 7 shows a small, persistent gap from August 2015 forward between the projected growth in the labor force and the projected growth in employment. This small gap is equal to about 0.4 percent of the labor force.

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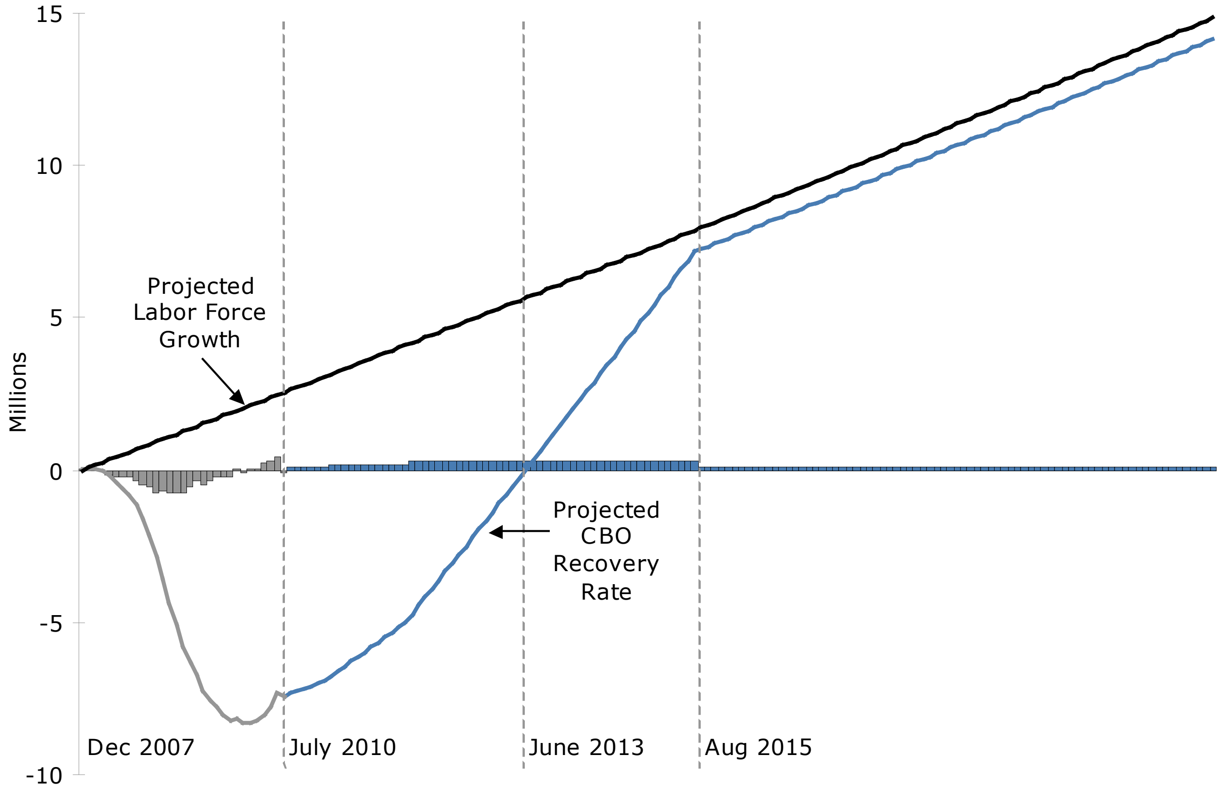
7 The CBO does not publish monthly employment growth numbers, but their published annual projections for the unemployment rate and potential labor force growth imply approximate levels for monthly employment creation. Based on CBO unemployment and labor force projections our analysis assumes monthly job growth of about 81,000 in the remainder of 2010; 160,000 in 2011; 280,000 in 2012; 283,000 in 2013; 286,000 in 2014; and 89,000, thereafter (with slow adjustments upward to factor in rising population.

**FIGURE 7**
**Projected Path of Recovery at CBO Job Creation Rate, Including Labor Force Growth**




Source: Authors' analysis of BLS and CBO data. The CBO projects that the unemployment rate will stabilize at 5.0 percent, 0.4 percentage points above the 2007 rate.

# Conclusion

Many lawmakers, policymakers, and economic commentators do not appear to recognize the depth of the current labor-market recession. If job growth from July 2010 forward proceeds at the same pace as the fastest four years of the 2000s expansion, the economy will not return to the December 2007 employment level until March 2014, well after the next presidential election; and the economy will not catch up to the intervening increase in the labor force until early in the next decade (April 2021). Even at the somewhat faster job creation rates currently projected by the CBO, we will not return to pre-recession employment levels until after the 2012 election (June 2013), and not make up for the expanded labor force until the second half of the next presidential term (August 2015).