Lagging Economic Indicator Sets Up 2010 GOP Rhetoric

GOP See Opportunity, Despite Economists Agreement That Job Losses Hit Expected Rates

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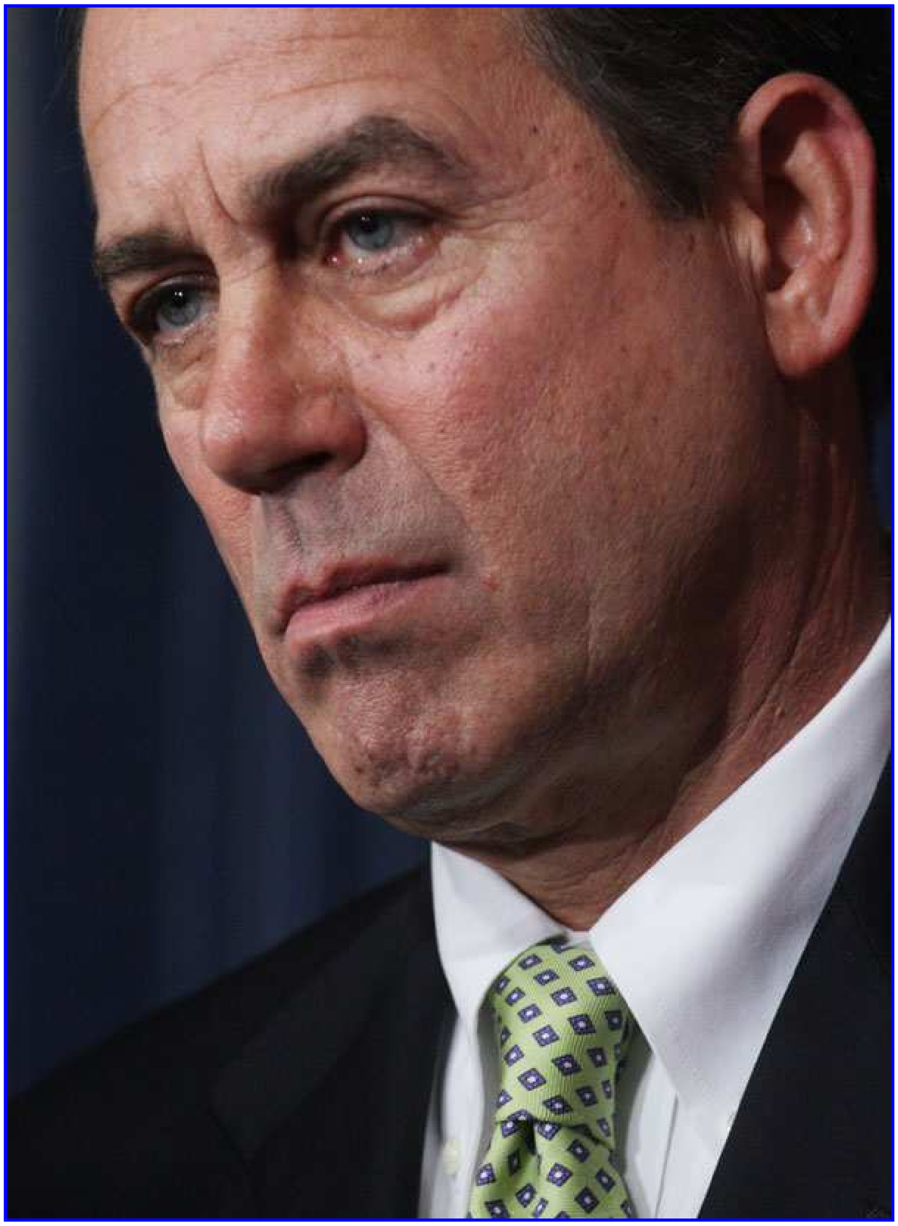

House Minority Leader John Boehner

When the Labor Department last week revealed that the economy shed more than 260,000 jobs in September, Republicans knew exactly where to place the blame.

House Minority Leader John Boehner (R-Ohio) said the figures indicate that the “tax-and-spend policies” of the Democrats “are completely out-of-step” with the country’s challenges. Minority Whip Eric Cantor (R-Va.) blasted the White House for “a massive disconnect” between Americans’ struggles “and the president’s claims of success.” And Rep. Tom Price (R-Ga.), chairman of the Republican Study Committee, claimed the “failed economic policy” of the Obama administration is directly “crippling” more and more families with each passing month.

Illustration by: Matt Mahurin

“All we have to show for the president’s archaic policies is rising unemployment and skyrocketing debt,” Price said.

The accusations lend a glimpse at what voters can expect to hear during next year’s campaign season. But, many experts say, they also ignore the simple economic reality that job creation has trailed almost every other indicator of economic recovery in the wake of recessions going back at least 20 years. The reasons are varied — ranging from employers’ fears of hiring before the downturn ends, to the reemergence of idle workers who had stopped looking for jobs altogether. But the result, in each case, has been to delay the post-recession recovery of the labor market. And this time around, economists are warning, will be no different.

“Unemployment is typically a real lagger,” said Chad Stone, chief economist at the Center on Budget and Policy Priorities, a liberal policy analysis group. “No one expected there to be job growth at this point.”

Desmond Lachman, economist at the conservative American Enterprise Institute, echoed that sentiment, arguing that the labor market recoveries of recent decades haven’t occurred before “a quarter or two after the economy has bottomed.”

“That’s the normal pattern,” Lachman said.

The comments arrive in the wake of government figures revealing that the nation’s employers let go of 263,000 more folks last month than they hired, hiking the unemployment rate from 9.7 percent to 9.8 percent — the highest level in 26 years. And, despite some indication that production is slowly on the rise, experts expect unemployment to get worse before it gets better. Indeed, economists of all stripes are predicting jobless rates to flirt with 10.5 percent in 2010, and remain elevated through the entire year — a trend that threatens Democrats in the next election.

It wasn’t supposed to happen this way. When the Democrats passed their $787 billion economic stimulus bill in February, White House officials said the bill would keep unemployment below 8 percent. In the House, not one Republican voted for the measure, leaving GOP leaders plenty of room to exploit the issue straight into next year’s mid-term elections. All signs indicate that they’re set to do just that.

“With roughly three million private sector jobs lost since the ‘stimulus’ was enacted, Americans can’t be blamed for asking, ‘Where are the jobs?’” Boehner said in a statement last week.

Yet many economists say the jobs are right were they should be considering the degree to which the economy sank in the past 21 months. Heidi Shierholz, economist at the liberal Economic Policy Institute, estimates that the stimulus bill is saving or creating between 200,000 and 250,000 jobs each month. “This is exactly what we would expect given the magnitude of the losses,” Shierholz said of the recent unemployment figures.

There are a number of reasons that job creation is slow to take hold in the wake of a recession. For one, despite the assurances of Federal Reserve Chairman Ben Bernanke, employers are still wary that the recession might not be over. Rather than jumping the gun on new hires, “they’d rather squeeze extra time out of their existing workforce,” said John Schmitt, senior economist at the liberal Center for Economic and Policy Research.

Also, employers have cut back hours, leaving plenty of room to meet an increased demand for production without bringing on new employees. Indeed, though the unemployment rate is 9.8 percent, that number jumps to nearly 17 percent when the Labor Department includes part-time workers who wish to work full time.

Additionally, a number of people typically quit searching for jobs in down economies, effectively dropping out of the labor market, which means they’re not counted in the government’s jobless tallies. When the economy begins to recover, many of those folks will likely reenter the labor pool, thereby swelling unemployment figures even though their individual employment situation remains unchanged.

Jagadeesh Gokhale, economist at the libertarian Cato Institute, described another trend delaying the labor market recovery. In normal economic times, Gokhale said, companies tend to hold on to even unproductive workers because the cost to hire and train new employees exceeds that to keep the others. But when demand drops in a recession, and profits fall along with it, then it becomes more cost-effective for employers to shed those ineffective workers. The practice bumps up unemployment numbers without reducing production significantly. “That’s pretty much the standard pattern,” Gokhale said.

The consequences of these trends speak for themselves. Following the 1990 recession, for example, it took 15 months after the economy hit bottom before employment figures moved into positive territory. In 2001 the labor market recovery was even slower, requiring 19 months before job creation began to nibble away at unemployment rates.

That economic reality, however, has not prevented some liberals from going after the White House for doing too little to control the rising tide of unemployment. New York Times columnist Bob Herbert, for example, argued this week that if the economy doesn’t generate jobs on its own, “then the government needs to step in.”

“Faced with the relentless monthly costs of housing, transportation, food, clothing, education and so forth,” Herbert wrote, “[the unemployed] have precious little time to wait for this lagging indicator to come creeping across the finish line.”

Many experts on the left had argued in February that the $787 billion package was too small to address a problem so large — and they feel vindicated in that position today. “The stimulus is the thing that brought us back from the abyss,” Shierholz said Tuesday. “But it wasn’t big enough. We have an enormous hole to fill.”

Lachman pointed to another flaw in the original bill: It was designed, he said, so that too much of the spending won’t occur until 2010 and beyond. Indeed, since the bill passed, the government has spent less than $200 billion on projects and tax cuts designed to stimulate job creation. “The size was right,” Lachman said, “but they back-loaded it, which allowed unemployment to go up at a much faster rate than was necessary.”

Economists on both sides of the divide are arguing for more stimulus spending, including funding to help states survive severe budget crunches. Increases in federal dollars for Medicaid and COBRA, for example, were included in the first stimulus bill, but those increases in funds expire at the end of the year.

Another stimulus bill, though, won't be an easy sell on Capitol Hill, where Republicans and even many Democrats have grown wary of enormous deficits — even before the debate over a $900 billion health reform proposal began.

Cato's Gokhale, who didn't support even the original bill, points out that the slow-spending of the stimulus money means that there's plenty left over for 2010 — a situation precluding the need for another influx of cash.

And will that funding help stem the continued rise in unemployment?

"It all depends," Gokhale said, "on the rate at which they can spend the money."