# Jobless figures point to deepening problems for US economy

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A recent note published by the Economic Policy Institute (EPI) has highlighted growing problems in the US economy and, by implication, the rest of the world. Commenting on the March jobs figures, which showed payrolls had contracted by 108,000 following a fall of 357,000 in February, the EPI pointed out that since the recession began in March 2001 the total number of jobs is down by 2.1 million, with a fall in the private sector of 2.6 million.

Significant as these figures are, they are overshadowed by another statistic to which the note drew attention. Two years since the start of the recession, the fall in private sector employment is the largest on record.

For example, two years after the beginning of the early 1960s recession, private sector employment had increased by 0.2 percent. Two years after the commencement of the 1973 recession it was down by 1.7 percent, two years into the 1981 recession by 1.2 percent and for the early 1990s recession the figure was 1.5 percent.

However the two-year decline for the current recession is 2.3 percent.

As the EPI commented: “Although the current recession/jobless recovery has been called mild based on the fact that gross domestic product [GDP] fell for only a few quarters, by another critical measure—the loss of private sector employment—this has been an especially deep recession. ... The current jobless period stands out as the weakest on record.”

Furthermore, there is no sign of a turnaround. “Two years since the recession began, the nation’s jobless recovery persists, as weak demand continues to depress hiring throughout the job market. Few sectors show any signs of significant activity, and government hiring, which had been one consistent source of growth, appears to be reversing with signs of state-level budget cuts.”

The two-year jobs downturn appears to be part of a longer-term process. According to an article in the January-February edition of the *Atlantic Monthly,* in the 10-year period 1993-2002, the US economy “created barely more jobs than in the previous ten years, when the working-age population was smaller” and, since 1998, the US has shed 11 percent of manufacturing industry jobs, the “second worst rate of job loss in the past 50 years.”

For the past two years, commentary in the mass media has been aimed at trying to obscure the implications of the worsening economic situation. First it was claimed that a “recovery” would take place when the effects of the “bubble economy” and corporate fraud had worn off, then when the shock of September 11 had passed, and finally an upturn would be seen when uncertainty over Iraq ended.

But none of these scenarios has come to pass. According to a former Federal Reserve governor, Larry Meyer, while the Fed would like to see “renewed optimism” following the war on Iraq, with rises in consumer confidence and equity prices, there is “still a sense of embedded pessimism.”

An article by former Secretary of Labor Robert Reich, published in the *Financial Times* on Monday, drew attention to some of the peculiarities of the present recession. Recessions, according to Reich, have lasted for about a year and a half. Given that the current downturn began in March 2001, the US economy should now be starting an upswing. But that is far from the case.

As Reich points out, “the US economy continues to lose jobs at a remarkable rate” with the last two monthly reports for February and March showing a combined loss of almost half a million jobs. "So far, this recession has spawned the longest continuous decline in jobs in half a century."

Significantly, as Reich and many others have noted, the current recession is not like others in the post-war period. It did not begin with an increase in interest rates by the Federal Reserve Board, leading to a cut in consumer spending followed by cuts in investment. Rather, the recession began when corporations reduced investment spending as the share market bubble burst.

The Fed had since cut interest rates to a 40-year low of just 1.25 percent in a bid to sustain spending. While the Fed's moves have failed to stimulate investment, the interest rate cuts have enabled homeowners to acquire additional cash by refinancing their home loans. Last year, home equity borrowing was $130 billion nearly double the level in 2001.

"But," as Reich noted, "there is a limit to how much consumers can spend when their jobs are disappearing and their pay cheques are under stress." Many consumers were "already in a hole when the recession started, but that hole is now so deep that many cannot climb out."

It is not just US consumers that are in a debt hole but the entire US economy. The US federal budget is expected to have a deficit of more than $300 billion this year and $300 billion next year and will top $1,500 billion over the next 10 years. At the same time, the balance of payments deficit is running at around $500 billion a year, with total foreign debt approaching $3,000 billion. This means that if foreign investors and foreign banks, whose capital is used to finance US debt, fear that the dollar could fall, they may start withdrawing funds and precipitate a financial crisis.

The worsening financial position of the US was also commented on in recent remarks given at a press conference by International Monetary Fund chief economist Kenneth Rogoff.

Asked about the impact of the Bush administration's proposed tax cuts, he replied: "Let's suppose for a minute that we were talking about a developing country that had gaping current account deficits year after year, as far as the eye can see of 5 percent or more, with budget ink spinning from black into red, with the likely deficit to GDP ratio for general government debt exceeding 5 percent this year, open-ended security costs, and a real exchange rate that had been inflated by capital inflows, with all that, I think it's fair to say we would be pretty concerned."

While Rogoff hastened to reassure his audience that the US was not an "emerging market" but "the greatest engine of economic growth in the history of the modern world," he nevertheless added that "it's fair to say that at least a little bit of that calculus still applies."

The fact that such concerns are being voiced, even in such a guarded manner, indicates that behind the scenes there are fears in official circles that, in the absence of any real growth in the rest of the world economy, the financial imbalances in the US are going to create major problems in the not too distant future.