John J. Heldrich Center for Workforce Development

working paper

Future Work 2.0: Life After the Great Recession

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Introduction

Just over 12 years ago, President Clinton's Labor Department issued the report *Future Work: Trends and Challenges for the 21st Century*. One of the report's key phrases was: "where we work, how we work, and when we work has changed."[1] Future Work cited three factors that contributed to the change: technology, globalization, and diversity. Workplace use of computers and the Internet redefined production processes and labor and employment relations. Globalization created greater competition, affecting the type of work done in the U.S., placing greater emphasis on the need for more education and stronger skills. The U.S. population was also becoming more diverse. By 2050, led by immigration, minorities will comprise nearly half of the population. Over this same period, the retiree population is expected to more than double. *Future Work* concluded that the U.S. can harness these structural changes such that their benefits exceed their economic, social, and political costs. To do so, Americans must choose polices that enhance worker productivity and allow workers to keep a greater share of the gains.

Future Work provided policy makers and analysts with a comprehensive framework for harnessing these structural changes. It has been over 10 years since the report's publication. Are Americans better off and what does the future hold? To answer these questions, this paper is structured as follows. First, I describe the macroeconomic context in which Americans live and the type of labor market they will experience over the next five years. I then talk about the greatest challenges Americans will face: a slow recovery from the "Great Recession" and dangerous levels of income inequality. Finally, I discuss how the U.S. is responding to the challenges.[2]

One preliminary conclusion is that Americans must do a better job responding to these challenges. To support this claim, I present preliminary research on the link between a city's local economic conditions and the local presence of Occupy Wall Street (OWS). These results confirm President Clinton's 1992 campaign message that "It's the economy, stupid," but they also confirm my view that "All economics is local".[3] The paper concludes with the start of a conversation about what must change in order for the U.S. economy to return to broad-based prosperity.

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Simply put, the U.S. is at a fork in the road. The central question in today's debate over how to re-ignite economic growth is whether Americans want a 1980s or 1990s economic expansion. During the 1980s, national income grew, while during the 1990s, national income not only grew, but the growth was broadly shared. Public policy played a key role in generating these two outcomes. During the 1980s, policy placed less emphasis on expanding the middle class and protecting America's most vulnerable citizens. Policy also began to shift the risks of job loss and social dislocation and place them squarely on the backs of individuals and their families.[4] Today there is less pooling of systemic risk, and this may explain why recent natural disasters, regional and sector-specific shocks seem to be having greater impacts.[5]

Current Republican economic policy is an attempt to recreate this 1980s policy environment. A return to these policies and adding draconian "human priority" (e.g., human and social capital) budget cuts on the heels of "The Great Recession" and "Jobless Recovery" will have devastating immediate and long-term impacts on economic growth and social cohesion. A move to re-create the 1980s will jeopardize the ability of Americans and their families to compete in today and tomorrow's 21st century global economy. The 2012 Presidential and Congressional Elections will play a key role in determining the Nation's fate.

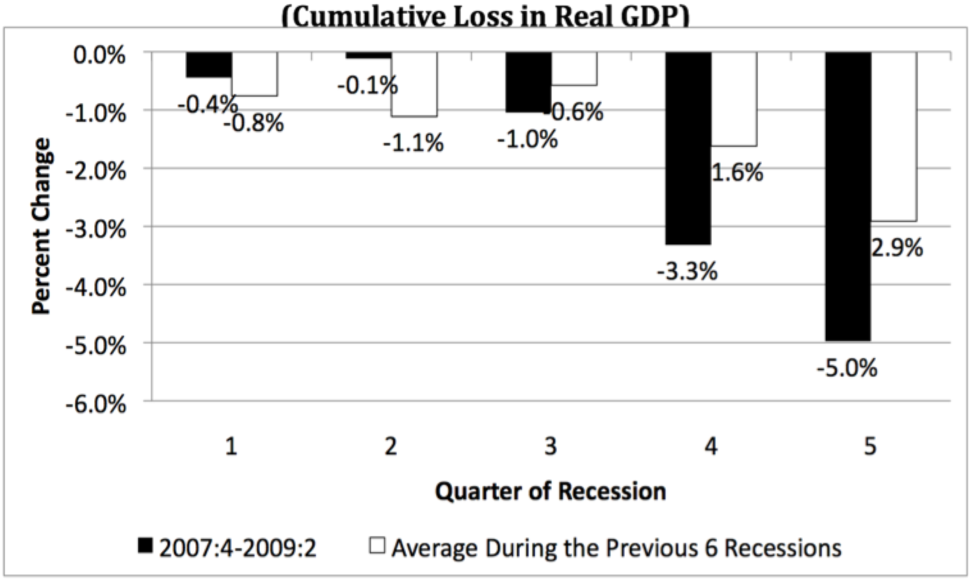
The Macroeconomic Context

The National Bureau of Economic Research (NBER) defined the "Great Recession" as lasting from December 2007 to June 2009. Real Gross Domestic Product contracted by 5.0 percent from the fourth quarter of 2007 to the second quarter of 2009.[6] Figure 1 compares this contraction to an average of the contractions that occurred during the 6 previous recessions. The recession started off in quite similar fashion to the typical recession, but the losses accelerated in the third quarter. This corresponds with the collapse of the financial system. Figures 2A and 2B show that private sector payroll employment fell by 7.7 million (6.6 percent) and the losses are more than double the average during the last 6 recessions. The difference emerged in the 7th to 9th months of the recession, which coincides with the freezing of the financial markets.

As a result, the "official" U.S. unemployment rate almost doubled, increasing from 5.0 to 9.5 percent. A new feature of the recession was the doubling in the number of Americans that were working part-time but wanted full-time work, and those that dropped out of the labor force but if offered a job would take it. When these individuals are added, the "real" unemployment rate started at 8.8 percent and ended the recession at 16.6 percent.

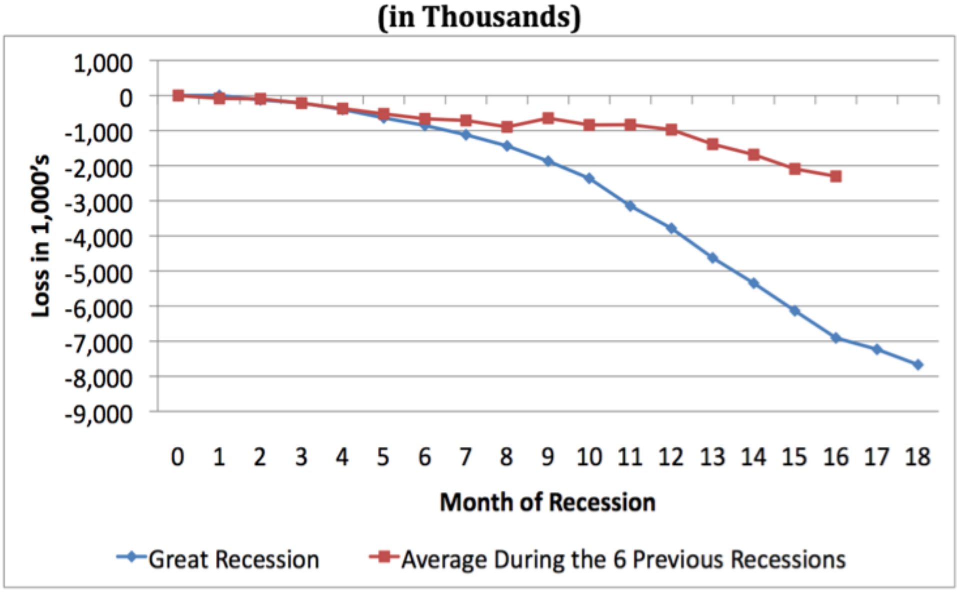
The recession rewrote the rules for its disparate impact on Americans. Men bore the brunt of the recession. Some analysts call the "Great Recession" a "Mancession". For example, white men and women had similar pre-recession unemployment rates of 4.5 and 4.4 percent. Men's unemployment rate jumped to 9.8 percent, while the unemployment rate of women only rose to 7.5 percent. Americans with the most education were not immune to joblessness. The unemployment rate for college graduates doubled.

Figure 1: During the "Great Recession" the contraction in Real GDP accelerated in the third quarter.
(Cumulative Loss in Real GDP)



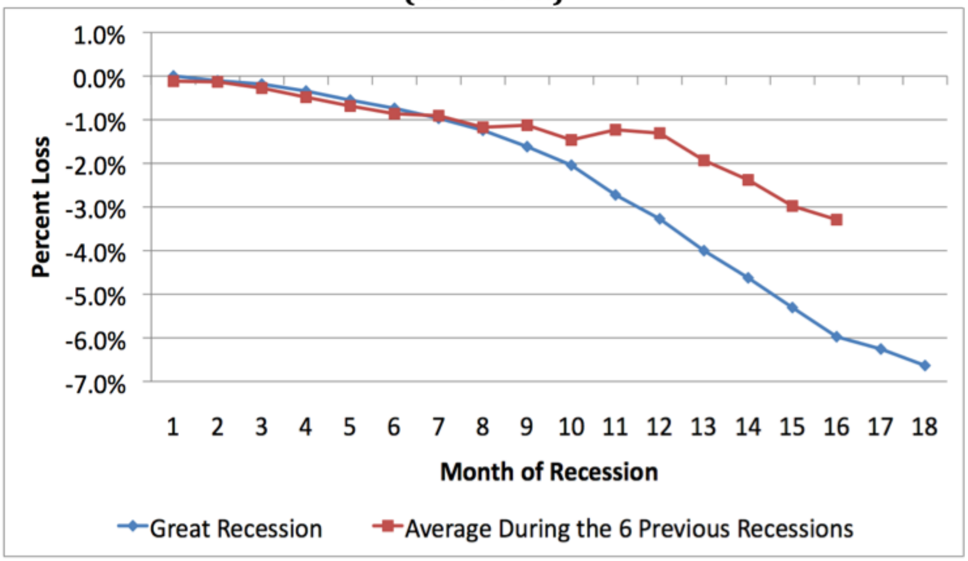
Notes: Author's calculations from BEA data on real Gross Domestic Product.

Figure 2a: The cumulative loss in private sector employment surpasses losses during previous recessions.
(in Thousands)



Notes: Author's calculations from BEA data on real Gross Domestic Product. The Current Recovery spans from the second quarter of 2009 to the third quarter of 2011. "Average " corresponds to the average of the growth during the 6 prior recoveries.

Figure 2b: The cumulative loss in private sector employment surpasses losses during previous recessions.
(in Percent)



Notes: Author's calculations from BEA data on real Gross Domestic Product. The Current Recovery spans from the second quarter of 2009 to the third quarter of 2011. "Average " corresponds to the average of the growth during the 6 prior recoveries.

Much of this "new" joblessness can be attributed to the sectors that were hit, and the fact that more Americans were already vulnerable to an economic downturn. The largest job losses occurred in construction (19.8%) and manufacturing (14.6%). The only broad industrial sector that added jobs was the education and health services sector which expanded by 3.3 percent. Meanwhile, at the start of the 2007-2009 recession, household debt levels were at all time highs. Further, the share of Americans that were employed just prior to the recession (December 2007) was similar to its level six years before at the beginning of the November 2001 recovery. Real earnings and income were also stagnant over this pre-recession period. In short, Americans had little cushion to withstand the recession. The conditions for a perfect storm had developed.

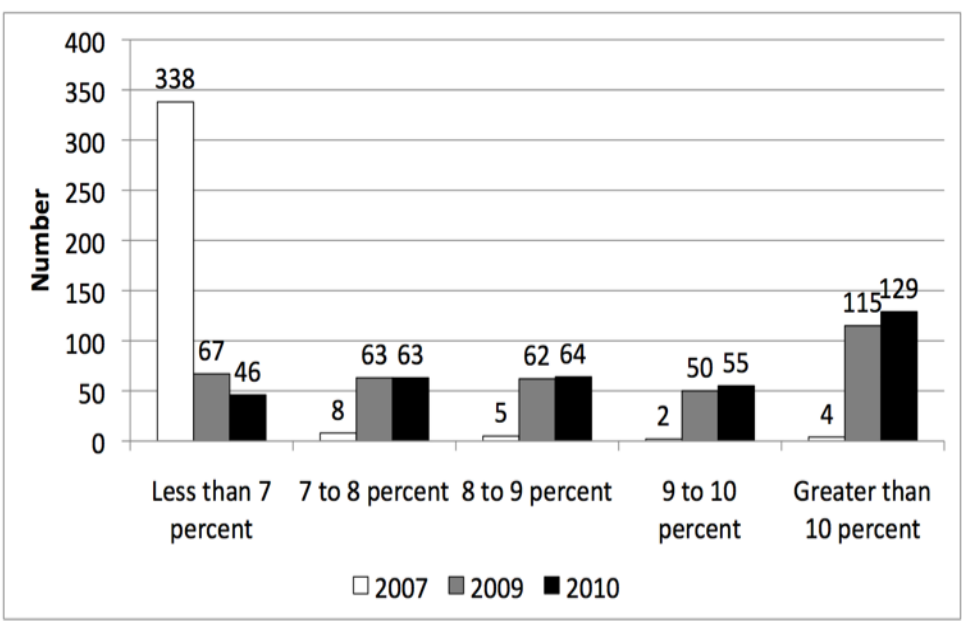
One basic recession rule that remained unchanged was the outcome that minorities (African Americans and Latinos) and immigrants bore a disproportionate burden of the downturn. The unemployment rates of African Americans and Latinos were already close to 10 percent at the recession's start. By the recession's 8th month, when the crisis had moved beyond the finance and construction sectors and into the services, the African American unemployment rate crossed the 10 percent threshold. In the 12th month, the Latino unemployment rate surpassed 10 percent.

Immigrants are widely thought to be more vulnerable to recessions than native workers for a range of reasons, including the fact that they share demographic characteristics with the workers who are most likely to bear the brunt of a recession's job losses.[7] For example, from 2008 to 2009, the recession's worst period, native-born household income fell 0.7 percent, naturalized citizen household income increased 1.3 percent, and non-citizen median household income fell 4.5 percent. At the recession's end, the median household income of naturalized citizens was near parity to native born ($51,975 versus $50,503) while non-citizen household income was $36,089. During the recession, income fell most rapidly for immigrants, especially for non-citizens.[8] The more rapid decrease in immigrant employment and increase in involuntary part-time employment, and faster declines in their working hours are the large drivers of these trends.

The recession had differential impacts across the nation's metropolitan areas. A tremendous shift in the distribution of metropolitan area unemployment rates occurred. To illustrate the shift, I tracked the unemployment rates of 357 Core Business Statistical Areas (CBSA) over this period. Figure 3 shows that in 2007, 338 areas had unemployment rates that were less than 7 percent. Most were well below the Non-Accelerating Inflation Rate of Unemployment (NAIRU) that ranges from 6 to 7 percent. Only 4 areas had unemployment rates in excess of 10 percent. By the end of the recession, 67 areas had unemployment rates below 7 percent, compared to 115 with rates that exceeded 10 percent. Figure 3 also illustrates the weak recovery. There has been little improvement from 2009 to 2010.[9] In fact, the number of areas with unemployment rates that exceed 10 percent increased from 115 to 129 and the number of areas with jobless rates below 7 percent fell to 46.

Table 1 reports a more informative way of illustrating the distributional shifts. Using 5 discrete categories, the table presents transition matrices (movement of areas from 2007 to 2009, and 2009 to 2010, and August 2010 to August 2011) for the 357 metropolitan areas. Panel A's matrix for 2007 to 2009 is upper triangular, indicating a distinct rightward shift in the distribution. Most of the nonzero entries are above the main diagonal. However, during the recession, 67 areas had unemployment rates that started and remained below 7 percent and four areas had unemployment rates that started and remained above 10 percent. This reflects the fact that during the recession no area moved from a category with a higher unemployment rate to one with a lower unemployment rate. Panel B transforms the frequencies into transition probabilities. For example, an area that had a jobless rate below 7 percent in 2007 had only a 20 percent chance of having an unemployment rate below 7 percent in 2009. In fact, they had a higher probability of having an unemployment rate that exceeded 10 percent.

Figure 3: Metropolitan Area Frequency Distribution of Unemployment Rates



Notes: Author's calculations of Bureau of Labor Statistics data.

Table 1: Metropolitan Frequency Distributions of Unemployment Rates Movement of Metropolitan Area Unemployment Rates During the Great Recession and Recovery

Panel A: Frequencies			**2009**			
2007	**Less than 7 percent**	**7 to 8 percent**	**8 to 9 percent**	**9 to 10 percent**	**Greater than 10 percent**	**Total**
Less than 7 percent	67	63	62	49	97	338
7 to 8 percent	0	0	0	1	7	8
8 to 9 percent	0	0	0	0	5	5
9 to 10 percent	0	0	0	0	2	2
Greater than 10 percent	0	0	0	0	4	4
Total	67	63	62	50	115	357
			2010			
2009	**Less than 7 percent**	**7 to 8 percent**	**8 to 9 percent**	**9 to 10 percent**	**Greater than 10 percent**	**Total**
Less than 7 percent	45	19	3	0	0	67
7 to 8 percent	1	39	21	2	0	63
8 to 9 percent	0	5	31	24	2	62
9 to 10 percent	0	0	9	23	18	50
Greater than 10 percent	0	0	0	6	109	115
Total	46	63	64	55	129	357
			August 2011			
August 2010	**Less than 7 percent**	**7 to 8 percent**	**8 to 9 percent**	**9 to 10 percent**	**Greater than 10 percent**	**Total**
Less than 7 percent	49	2	0	0	0	51
7 to 8 percent	20	41	7	0	0	68
8 to 9 percent	1	22	31	6	1	61
9 to 10 percent	0	4	21	31	8	64
Greater than 10 percent	0	1	4	23	85	113
Total	70	70	63	60	94	357

Notes: Author's calculations using published Bureau of Labor Statistics data.

Table 1: Metropolitan Frequency Distributions of Unemployment Rates Movement of Metropolitan Area Unemployment Rates During the Great Recession and Recovery (continued)

Panel B: Transition Probabilities			**2009**			
2007	**Less than 7 percent**	**7 to 8 percent**	**8 to 9 percent**	**9 to 10 percent**	**Greater than 10 percent**	**Total**
Less than 7 percent	0.20	0.19	0.18	0.14	0.29	1.00
7 to 8 percent	0.00	0.00	0.00	0.13	0.88	1.00
8 to 9 percent	0.00	0.00	0.00	0.00	1.00	1.00
9 to 10 percent	0.00	0.00	0.00	0.00	1.00	1.00
Greater than 10 percent	0.00	0.00	0.00	0.00	1.00	1.00
Total	0.19	0.18	0.17	0.14	0.32	1.00
			2010			
2009	**Less than 7 percent**	**7 to 8 percent**	**8 to 9 percent**	**9 to 10 percent**	**Greater than 10 percent**	**Total**
Less than 7 percent	0.67	0.28	0.04	0.00	0.00	1.00
7 to 8 percent	0.02	0.62	0.33	0.03	0.00	1.00
8 to 9 percent	0.00	0.08	0.50	0.39	0.03	1.00
9 to 10 percent	0.00	0.00	0.18	0.46	0.36	1.00
Greater than 10 percent	0.00	0.00	0.00	0.05	0.95	1.00
Total	0.13	0.18	0.18	0.15	0.36	1.00
			Aug-11			
Aug-10	**Less than 7 percent**	**7 to 8 percent**	**8 to 9 percent**	**9 to 10 percent**	**Greater than 10 percent**	**Total**
Less than 7 percent	0.96	0.04	0.00	0.00	0.00	1.00
7 to 8 percent	0.29	0.60	0.10	0.00	0.00	1.00
8 to 9 percent	0.02	0.36	0.51	0.10	0.02	1.00
9 to 10 percent	0.00	0.06	0.33	0.48	0.13	1.00
Greater than 10 percent	0.00	0.01	0.04	0.20	0.75	1.00
Total	0.20	0.20	0.18	0.17	0.26	1.00

Notes: Author’s calculations using published Bureau of Labor Statistics data.

Where is the macroeconomy and labor market headed? The National Bureau of Economic Research (NBER) designated June 2009 as the start of the recovery. The recovery can be divided into two segments: jobless and "pothole" recoveries. The problem facing the economy over these two periods has been the slow pace of economic growth. Real GDP growth has not been consistent with robust job creation (e.g., at least 200,000 per month). All of real GDP growth's major components have been slow to recover, but growth in personal consumption -- which comprises 70 percent of real GDP -- seems to be the primary culprit that is inhibiting job creation.

More specifically, from June 2009 to February 2010, real GDP grew at a tepid rate of 2.3 percent. During this segment of the recovery, private sector employment continued to fall (1.1 percent decline). With real GDP growth having crossed the 3.0 percent threshold since February 2010, albeit modest, private sector job creation grew at an anemic 2.6 percent clip. Most private sector forecasters think that this will be the pattern of growth for the next few years.

What do these macro trends mean for U.S. unemployment? In order for the unemployment rate to begin to fall, average monthly job creation must exceed 130,000 to 150,000. This threshold corresponds to the growth needed to accommodate for natural increases in the population and immigration. Clearly during the "jobless recovery", the unemployment rate continued to rise because private sector employment was still contracting at an average monthly loss of 145,000. It continued to rise, peaking at 10.1 percent in October 2009. Since February 2010, the unemployment rate has neither risen nor fallen because average monthly growth equals 138,000, right in the middle of the breakeven point. Consequently, the unemployment rate has remained in the range of 9.0 to 9.7 percent. It is important to note that once robust job creation returns, we may see an increase in the unemployment rate for a period of time as millions of Americans re-enter the labor force.

The middle transition matrix in Table 1 illustrates the lack of improvement in the recovery's first year. The matrix sets the start and endpoints as 2009 and 2010. The recovery matrix clearly demonstrates that since 2009, there has been very little improvement in metropolitan unemployment rates. The number of areas with unemployment rates that exceed 10 percent in 2010 is 129, compared to 115 in 2009. This slight increase seems to be connected to worsening conditions of areas with unemployment rates between 8 and 10 percent. Twenty areas went from unemployment rates between 8 and 10 percent in 2009 to having jobless rates that exceeded 10 percent in 2010. This shift more than off-set the improvement of 6 areas where the unemployment rate dropped from over 10 percent to between 9 and 10 percent. The panel shows growth at all entries just below the main diagonal, indicating a slight improvement (leftward shift) in the unemployment rate distribution. These shifts are consistent with the modest private sector job creation that started early 2010, February 2010 to be exact. However, we must be careful interpreting these drops as significant improvement in the job market. The national statistics on labor force participation indicate that the downward shift in unemployment rates may be due to falling labor force participation (continued discouragement with finding a job).

What are the U.S.'s Greatest Challenges?

Simply put, the absence of robust job creation is the U.S.'s greatest immediate challenge. Prior to the Great Recession, most analysts thought jobless recoveries were associated with mild recessions (July 1990 to March 1991 and March 2001 to November 2001). Economic growth quickly returned after these recessions, but the growth was not large enough to reignite the job machine and significantly lower the Nation's jobless rate. For example, it took 30 months before private sector job growth reemerged after the March 2001 to November 2001 recession, and 18 months before private sector employment growth reemerged after the July 1990 to March 1991 recession.[10] Freeman and Rodgers (2004) concluded that for the 8 month recession from March 2001 to November 2001, a slowdown in the inflows of foreign direct investment to the U.S., acceleration in the outflows of U.S. foreign direct investment, and a growth in the budget deficit were the primary reasons for the jobless recovery during this period. A slow return to pre-recession levels of personal consumption which now seems to be the case was not a factor in this and the first jobless recovery. The dramatic differences in the patterns of pre-recession employment, debt, income and income inequality distinguish this jobless recovery from the previous jobless recoveries.

Today, the job deficit currently stands at just over 11 million jobs. These are the jobs that were lost during the recession, jobless and pothole recoveries in addition to the new jobs needed to keep pace with the population growth that occurred over this period. As a result, the recoveries for most Americans continue to be stalled, especially for youth, minorities, and the less educated. Since February 2010, unemployment rates have fallen, but not because Americans are getting employed. For many, the decline in unemployment rates is due to departure from the labor force.

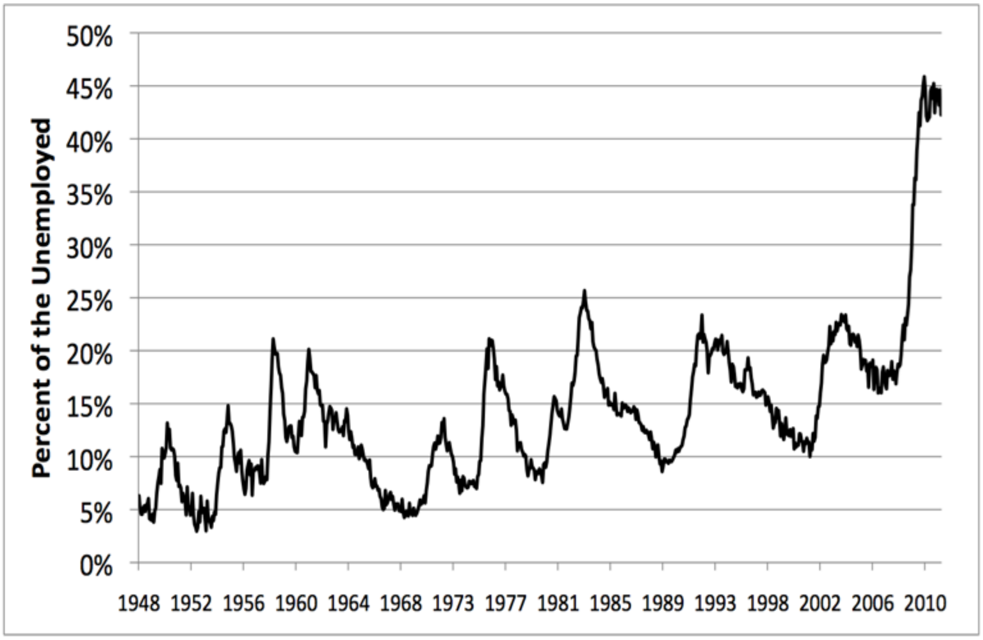
African Americans and teenagers have faced a double whammy. Their employment-population ratios have fallen because their unemployment rates have risen and their labor force participation rates have fallen.[11] The lumpy or "pothole" recovery is also seen when the data is cut by educational attainment. High school and college graduate unemployment rates have ticked downward, but primarily due to declining labor force attachment.

Yet, one of the most distressing problems facing the U.S. is that over 40 percent of the unemployed have been out of work for 27 weeks or more, a threshold that has been exceeded since December 2009, 6 months after the end of the recession. Prior to this downturn and slow recovery, 25 percent was the highest long-term unemployment had reached in the past 60 years (Figure 4). If robust job creation does not return soon, many who lost their jobs due to cyclical reasons will become structurally unemployed, making it more challenging and costly to reconnect them to work.

For Americans that have been fortunate enough to obtain one of the 2.7 million jobs that have been created since February 2010, many are of poor quality. In the first few months of the recovery, approximately one-fifth of these jobs were in the temporary help services sector. A large portion of these jobs are in industries with below average earnings. The National Employment Law Project (NELP) finds that from the first quarter of 2010 through the first quarter of 2011, low-wage occupations, such as retail sales and office clerks, grew by 3.2 percent, while mid-wage occupations grew by only 1.2 percent. At the same time, growth in high-wage occupations declined by 1.2 percent.[12] The issue of quality will take on greater importance once robust job creation returns. Right now, policy makers and the public seem willing to settle for most types of jobs, regardless of quality.

The other major challenge facing the U.S. is income inequality. Since the mid-1970s, income inequality has grown in general, but also between groups (e.g., education and race) and within groups (e.g. among college graduates). No single cause explains the growth. The increased return to educational attainment and skill explains a portion. The erosion in institutions such as the decline in union membership explains a portion. Currently, the Occupy Wall Street Movement is shining a light on the U.S. economic struc-

Figure 4: U.S. Long-term unemployment has become a crisis.



Notes: Author's calculations of Bureau of Labor Statistics data.

ture and American values toward capitalism, such as the government's preferential treatment of Wall Street, the financial sector, and the wealthy.

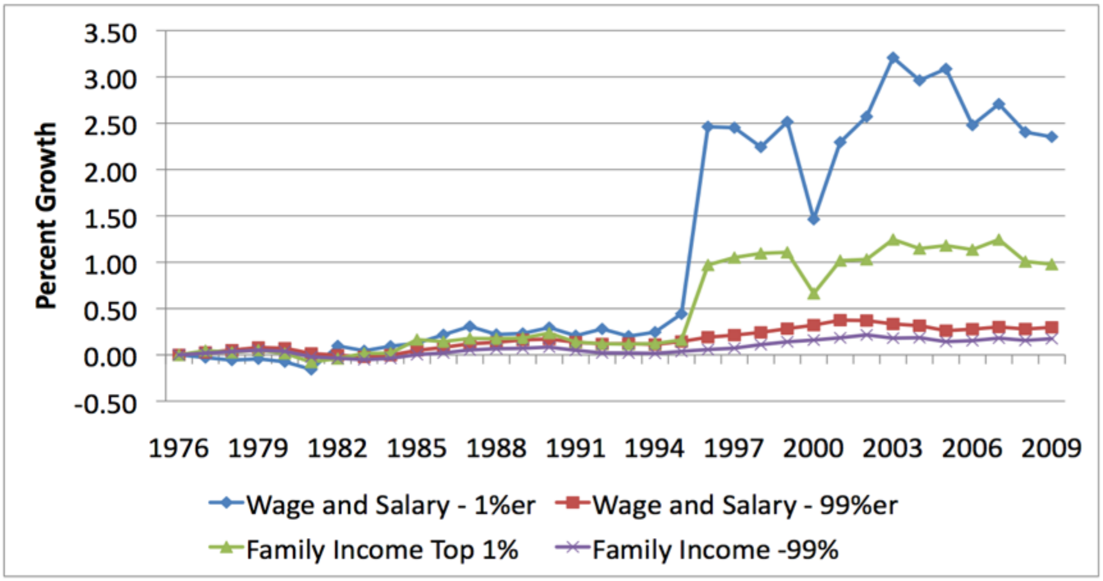
Figure 5 compares the cumulative growth in average inflation-adjusted before-tax incomes (earnings and wages for individuals and family income) for the 99 percent and top 1 percent. Although there is significant sampling variability and changes in top coding by the U.S. Census Bureau, an expansion in income inequality is evident. Starting after the 1991-92 recession, the income growth of the top 1 percent (individual and family) accelerates while the income growth of the lower 99 percent is pretty stagnant. Who comprise the top 1 percent? The Top 1 percent tends to be older white men that are either employed in the private sector or are self employed. They tend not to be members of unions and public sector workers.

Figures 6a and 6b plot the median and the 90th to 99th percentiles of real personal income from wages and salary and real family income from 1976 to 2009. The purpose is to illustrate where the cut off really exist between the "99%ers" and "1%ers". Are these designations symbolic or do they have economic significance? The figure shows that other percentiles experienced growth, but not as strong as at the 99th percentile, but clearly much stronger than at the median. Even if those from the 90th to 98th percentiles did not experience the large increases similar to the Top 1 percent, their consumption patterns are more like the Top 1 percent than the median. So, some of the inequality debate's framing is all about political and social messaging.

How are Americans Responding to These Challenges?

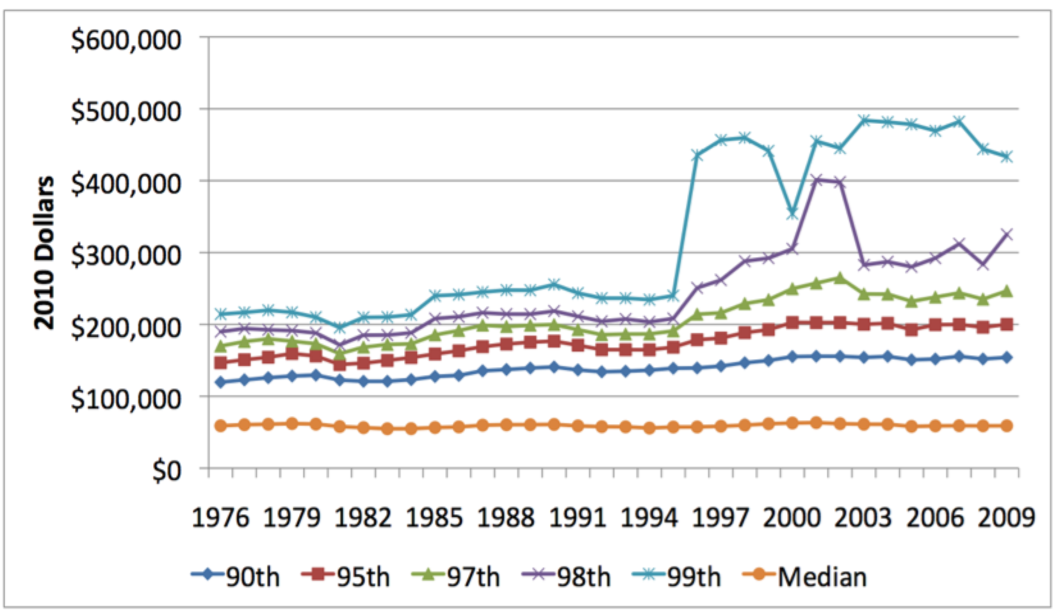
The United Nations defines human priorities as a country, state, and municipality's public investments in 1) government social benefits to persons, 2) social insurance funds, 3) housing and community services, 4) health

Figure 5: Cumulative Income Growth of the Top 1 Percent (Base Year = 1976)

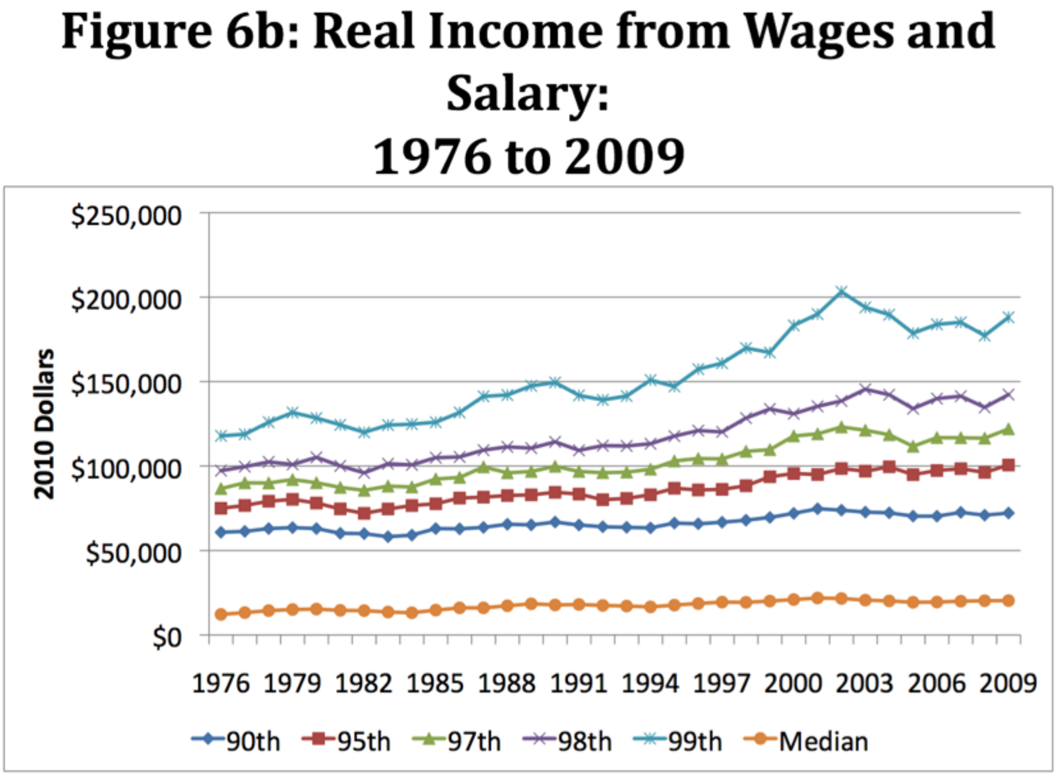


Notes: Author's calculations from the March 1976 to March 2009 Current Population Surveys.

Figure 6a: Real Family Income (1976 to 2009)



Notes: Author's calculations from the March 1976 to March 2009 Current Population Surveys.



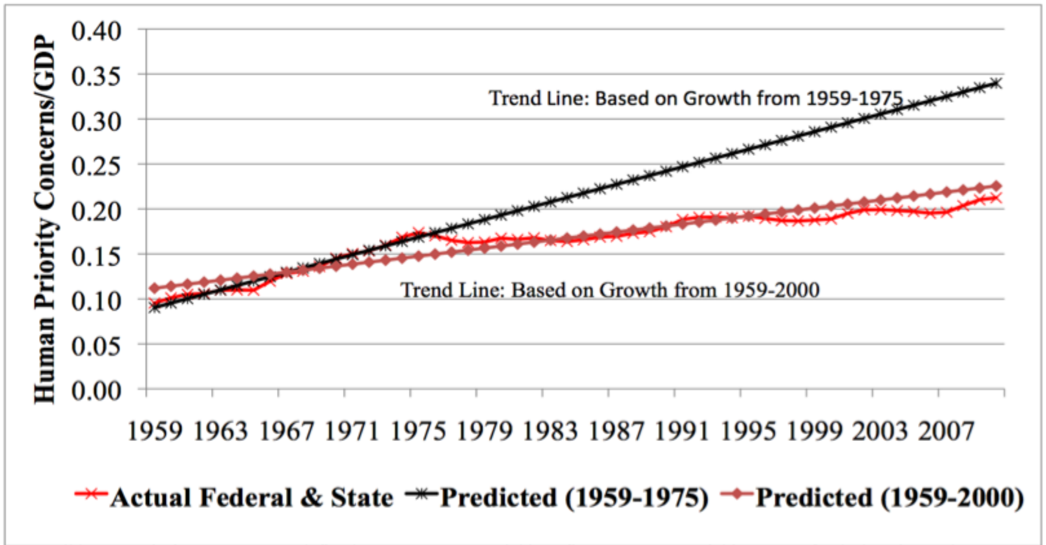
Notes: Author's calculations from the March 1976 to March 2009 Current Population Surveys.

recreation and culture, 5) elementary and secondary schools, 6) higher education, 7) libraries, and 8) income security. A feature that distinguishes human priority spending from say military spending is that the former have immediate, short-term and long-term benefits. They help to raise future productivity growth, one of the key ingredients to improving living standards.[13]

The two stimulus packages contained significant investments in human priorities. Figure 7 shows the uptick in human priority investments during the recession. There is no doubt that some of the increase is due to the contraction in GDP. The first stimulus' $787 billion had three components: 1) safety nets, 2) infrastructure, and 3) tax cuts. Its impact is not without controversy. Liberals felt that the $787 billion was too small. Republicans felt it was too big, misdirected and would lead to an institutionalization of the support. Part of the problem was that the Administration overstated the potential benefits of the stimulus by predicting that the unemployment rate would fall to 8 percent, which it clearly did not. It is reasonable to argue that the stimulus prevented a deeper and prolonged recession. In fact, independent studies estimate that the first stimulus generated 2 to 3 million jobs, helping to stabilize the economy. It is hard to convince the public what would have happened in the absence of the stimulus (e.g. a counter factual), especially since many were skeptical about government's ability in the first place. This inability to convince the public of the stimulus' positive impact partially explains why the President's current $445 billion jobs proposal has met major resistance in Congress.

In recent months, the President has done a good job of shifting and keeping the debate on the jobs deficit as opposed to the budget deficit. After receiving a hostile initial response, he broke his current $445 billion package into smaller pieces (e.g., a "hire returning veterans" initiative) for which many Republicans and conservative Democrats had already expressed support. But with the recent failure of Congress' Super Committee to agree on $1.2 trillion in cuts over the next

Figure 7: U.S. Public investment in people has stalled, coinciding with the growth in income inequality.
(US Human Expenditure Ratios: 1959 to 2009)



Notes: All human priority concerns are defined as government social benefits to persons, social insurance funds, housing and community services, health recreation and culture, elementary and secondary schools, higher education, libraries and other, and income security. 9

10 years, my fear is at the Federal level we will see a slowdown in human priority investment -- a slowdown in spending on education, human and community services, recreation and culture, social benefits and social insurance. In fact, we have already begun to see slowdowns at the state and local levels. Public employers, particularly school districts are cutting teachers and support staff. State and local governments are cutting services to their most vulnerable residents. Many of these jobs pay living wages and provide benefits.

If Federal austerity proposals are implemented and state and local governments continue to implement their own austerity measures, income inequality will surge. There is past history to support this claim. Figure 7 shows that during the 1980s and the six years prior to the Great Recession, as a percent of GDP, human priority investments slowed. Shortly after these slowdowns started, income inequality growth accelerated. Just as during the two previous slowdowns, today's Republican and conservative Democratic budget priorities and the use of personal responsibility to argue why people are not successful undervalues the middle class' contributions to economic growth and social cohesion. If implemented, their proposed policy framework and cuts will make it difficult for many Americans to recover from today's pothole recovery. In fact, their cuts will have jarring effects that will be felt well into the future.

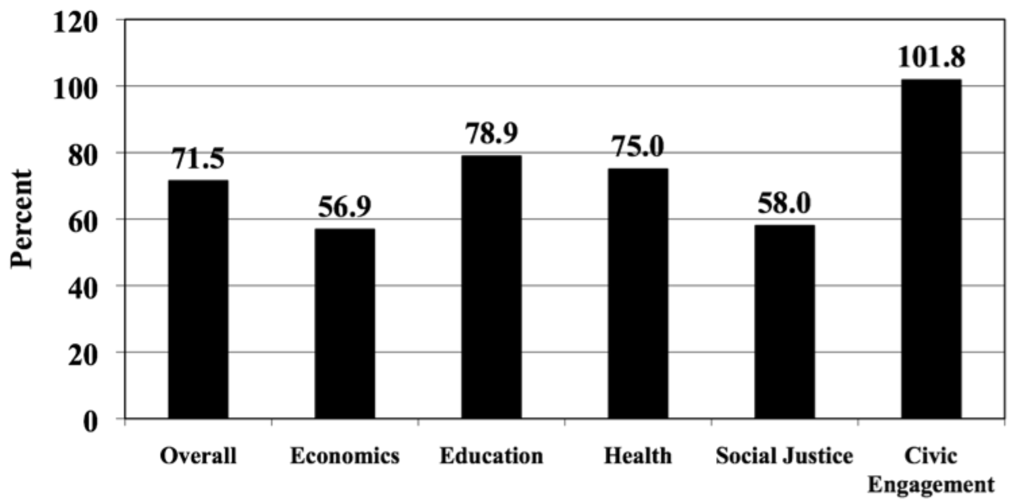
For example, the reauthorization of the Workforce Investment Act (WIA), which was created in 1998, has been up for reauthorization for eight years. This Act provides the framework for the nation's workforce development and employment system. WIA needs to be re-authorized because as mentioned earlier, globalization and IT expansion continue to change how Americans work, when they work, with whom they work, and where they work. The "Great Recession" and our current pothole recovery have permanently altered the workplace. Reauthorization of the 13-year-old act would enable the Labor Department to update, make innovations, and respond to these changes. Simply put, WIA reauthorization is good governance. Since everything is on the budget negotiations table, WIA reauthorization should be a part of the jobs legislation, debt ceiling, and budget agreements.

Public sector workers are another casualty in the budget and job deficit debate. State and local public employment has contracted for the last 12 to 16 months. Once the 2010 decennial census was concluded, federal employment also began to decline. In addition to austerity cuts in employment, several governors and their legislatures (e.g., Ohio and New Jersey) are working to renegotiate retirement and health care benefits and end the right of these workers to collectively bargain. This is important because the public sector is the last sector of employment in which organized labor comprises a large segment of the workforce, thus being able to exert considerable power and influence.

Minorities will face a double whammy from the cuts in public employment. The public sector helped many African Americans grab a toe hold in the middle class. I anticipate that in the next one to two years, the Civic Engagement component of the National Urban League's Equality Index will move from parity (101.8) to an African American disadvantage (Figure 8). Once this happens, all of the indices will contain a black-white gap. Cuts in education and other programs will have a disproportionate impact on low and moderate income Americans, especially African Americans because they utilize many of the services that face cuts.

To summarize, U.S. policy makers are creating a third deficit: a human priorities deficit. They are not investing at levels needed to sustain and grow U.S. labor productivity. They are also pulling back on policy mechanisms that enable workers to maintain and grow labor's share. These choices are jeopardizing the U.S.'s global competitiveness.

Figure 8: Cuts in state and local public employment will cause the National Urban League's Civic Engagement Index to fall from parity. (Black-White Equality Index)



Source: State of Black America 2011 National Urban League.

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What are the Consequences of a Third Slowdown in Human Priority Investment?

The combination of slow job creation and cuts in human priorities has raised the odds that unemployment rates will remain elevated over the next few years. Specifically, minority youth, newly minted high school and college graduates, the central cities of metropolitan areas, and rural areas such as Appalachia will lag the overall recovery. Underemployment and long-term unemployment (27 weeks or more) will persist and become a national crisis. Long-term unemployment which had its cyclical origins will become structural. The percent of Americans that are long-term unemployed has exceeded 40 percent since June 2009, the end of the recession. Some speculate that the U.S. has created a generation of youth whose employment and earnings will never reach their pre-recession potential.

Poverty rates and the percent living below their community's "living wage" or "self-sufficiency" budget will be slow to fall, and real income growth will continue to stagnate. Welfare reform created time limits. This purged the roles of families that utilized the system. The "Great Recession" created a new population of TANF recipients. The recession also created a new class of "fragile" families. These are families that prior to the recession were above the poverty line or above their community's living wage, but the direct and indirect effects of job loss knocked them below the poverty line or living wage. A slowdown in human priority expenditures will make it harder for these families to recover. If they are able to recover, the reduced investment will slow the recovery's pace. Finally, the headwinds of globalization (e.g., European debt crisis, global threats of a recession, an Asian slowdown) and slow employment growth will continue to exert downward pressure on the income of most Americans. Collectively, these consequences are creating a U.S. human priorities deficit.

Evidence that the Economy's Structural Stresses have Reached a Tipping Point

Are Americans accepting the emergence of this third deficit? Fortunately, no. Occupy Wall Street (OWS) is challenging the choices that policy makers and society have made over the past 2 to 3 decades. In fact, if dots from the past three U.S. Presidential elections are connected, Americans became increasingly concerned with the growing gap between "the haves and have nots." An increasing number of Americans feel that they have less control over their lives. They lack the necessary sense of agency and empowerment (support and tools) to compete in today's global economy.

When John Kerry ran for President in 2004 and tried to discuss inequality, Republicans charged him with being divisive and stoking class warfare. Subsequently, he backed down, due in large part to Republican swift boat attacks. When John Edwards sought the position in 2008, he was able to develop a "two realities" narrative that gained some traction. Candidate Obama's "Hope and Change" message tapped the growing public sentiment about the need to address the Nation's surge in income inequality. The new Administration was poised to address these issues, but the "Great Recession" hit and many of the agendas that had been developed were put on the back burner.[14]

Today, the OWS movement provides the best example of how U.S. inequality has surpassed a key threshold or tipping point, such that people have become engaged. OWS is a direct repudiation of the policies that sowed the seeds of income inequality and fostered its growth. They are:

- Weak oversight of the financial services sector served as a catalyst to the "Great Recession"
- Stagnating earnings, which continued in the 3rd quarter of this year
- Decades of income inequality growth that have shattered the hopes of many that they can achieve the American Dream, especially
- Parents who fear that when their children become adults, their "standard of living" will not surpass their parents, and
- The record high unemployment and underemployment spawned by the "Great Recession", the jobless recovery, and today's "pot hole" recovery.

All of the above have been documented at the national level, but when we look at the spread of the OWS movement, it is quite reasonable to hypothesize that local economic, social and political conditions must be driving the demands for change. This section explores the role that current and recent local economic conditions contribute to the Movement's emergence and spread. Was the recession worse in cities where formal protests have emerged? If an area's recovery is slower than the national average, has that contributed to the movement's spread? What is the role of local income inequality in predicting the presence of an OWS protest movement?

As of October 17, 2011, there were 470 Occupy Protest locations in the U.S. Of these, 389 were in identifiable metropolitan areas. From this group, I was able to link this information to current and recent labor market data (e.g., unemployment rates) of 357 of the metropolitan areas.[15] The metropolitan area unemployment rates come from the Bureau of Labor Statistics' Local Area Unemployment Statistics (BLS-LAUS).[16] I have the metropolitan area unemployment rates for 372 Core Based Statistical Areas (CBSA).[17] When combined with the OWS list, data on income inequality, poverty, median family income, public sector workers, union membership and whether the area is in a "Blue" (Liberal or Democrat) or "Red" (Conservative or Republican) state, the sample used in the analysis falls to 357 metropolitan areas.

My preliminary analysis indicates that the movement has spread to 90 percent (population weighted) and two-thirds (unweighted) of these metropolitan areas. At first glance, it may appear that local economic conditions do not play a role in the movement's spread. Median family income tends to be higher in cities where the movement has spread, and the contraction of payroll employment during the recession and the weak recovery is not related to the movement's presence in a city.

What matters is the local unemployment rate.[18] Table 2 reports the coefficients from a linear probability model and shows that a city's growth in its jobless rate during the "Great Recession" is a decent predictor of the arrival of "Occupy Wall Street". Areas where the unemployment rate increased by more than 5.0 percentage points during the recession has a 5 to 6 percentage point higher likelihood of having a protest. The continued increase in a city's unemployment rate since 2009 also does a good job of predicting the Movement's presence. Areas where the jobless rate has stagnated or continued to increase have a 6.6 to 7.5 percentage point higher likelihood of having a formal protest movement.[19] Local income inequality is measured by the difference between an area's top 5 percent of households and its lowest fifth.

Another way to summarize the relationship between local economic conditions and the presence of an OWS protest is as follows (Table 3):

Table 2: Linear Probability Model of Occupation Wall Street Movement

	Severe Recession = 1		Weak Recovery = 1		Inequality Measure #1		Inequality Measure #2		Inequality Measure #3	
	Unadj.	Adj.	Unadj.	Adj.	Unadj.	Adj.	Unadj.	Adj.	Unadj.	Adj.
Local Conditions	0.051	0.045	0.070	0.062	0.401	0.535	0.334	0.379	0.333	0.377
	(0.029)	(0.027)	(0.038)	(0.037)	(0.129)	(0.206)	(0.087)	(0.117)	(0.086)	(0.116)
Poverty Rate		-0.877		-0.734		-1.900		-1.581		-1.573
		(0.525)		(0.538)		(0.838)		(0.695)		(0.692)
Public Sector		-0.197		-0.149		-0.018		-0.021		-0.014
		(0.415)		(0.425)		(0.456)		(0.453)		(0.452)
Union Membership		0.585		0.535		0.167		0.187		0.195
		(0.259)		(0.270)		(0.310)		(0.313)		(0.313)
Blue State = 1		-0.017		0.004		-0.007		-0.001		-0.001
		(0.045)		(0.046)		(0.042)		(0.042)		(0.042)
Constant	0.882	0.964	0.847	0.898	0.067	0.014	-0.168	-0.133	0.297	0.394
	-0.022	-0.114	-0.035	-0.118	-0.272	-0.350	-0.280	-0.341	-0.159	-0.200

Notes: All regressions weighted by 2005-2007 Metropolitan Area population. Standard Errors have been corrected for heteoroscedasticity. Inequality measure #1 corresponds to the income difference between the top 5 percent of households and the lowest fifth. Inequality Measure #2 corresponds to the difference between the average of the top 5 percent of households and the average of the lowest fifth. Inequality Measure #3 measures the difference between the share of the top 5 percent of households and the share of the lowest fifth.

- 78 areas experienced a recession where the unemployment rate increased by more than 5 percentage points and the unemployment rate increased during the recovery. 95 percent of these areas have a formal protest movement.

- 181 areas experienced a recession where the unemployment rate increased by less than five percentage points and the jobless rate increased during the recovery. 89 percent of these areas have a protest movement.

- 52 areas experienced a recession where the unemployment rate increased by at least 5 points and the unemployment rate fell during the recovery. 85 percent have a protest movement.

- Finally, 46 areas experienced a recession where the unemployment rate increased by less than 5 percentage points and the unemployment rate fell during the recovery. 84 percent of these areas have a movement.

A third way to "identify" areas is to use the regression coefficients in Table 2 to generate predictions of the presence of a movement, conditional on not having a movement as of October 17, 2011. Table 4 reports five "watch lists". The first reports metropolitan areas with the highest predicted probability of having a movement. Atlantic City-Hammonton, New Jersey tops the list. Watch List #2 captures areas with the worst recessions and El Centro and Yuba City, California are ranked 1 and 2. Watch List #3 focuses on areas that are at risk of a movement because they are experiencing weak recoveries, as measured

Table 3: Sample Statistics by Type of Changes in the Unemployment Rate During the Recession and Recovery

	Change in Metro Area Unemployment Rate			
Variable	Recession Increase Less than or equal to 5 points and Recovery Decrease	Recession Increase Less than or equal to 5 points and Recovery Increase	Recession Increase Greater than 5 points and Recovery Decrease	Recession Increase Greater than 5 points and Recovery Increase
Occupy Wall Street (1 - Yes, 0 - No)	0.841	0.889	0.852	0.952
Poverty Rate	0.122	0.127	0.142	0.122
Public Sector Workforce in %	0.148	0.151	0.146	0.160
Union Workforce in %	0.129	0.117	0.112	0.139
Blue vs. Red State (1 – Blue State, 0 – Red State)	0.885	0.590	0.702	0.829
Log (Median Family Income)	11.030	11.054	10.963	11.124
Log (Jan. to Aug 2011 Emp)	5.816	6.469	5.718	7.349
Log (Aug 2011 Employment)	5.817	6.471	5.721	7.349
August 2011 Unemployment Rate	8.261	8.967	10.509	9.404
August 2011 Unemployment Rate above 10%	0.226	0.248	0.561	0.404
2007 Unemployment Rate	4.280	4.350	5.823	5.533
2009 Unemployment Rate	7.850	7.910	12.288	11.344
2010 Unemployment Rate	7.468	8.388	11.512	11.889
Unemployment Rate Increase from 2007 to 2009	3.570	3.560	6.466	5.811
Unemployment Rate Decline from 2009 to 2010	-0.382	0.478	-0.776	0.545
Number of Areas	46	181	52	78

Notes: Weighted by each MSA 2005-2007 American Community Survey Population Estimates.

Table 4: Occupy Wall Street Predictions

WATCH LIST #1: METRO AREAS WITH HIGHEST ODDS OF MOVEMENT

1. Atlantic City-Hammonton, NJ Metropolitan Statistical Area
2. St. Cloud, MN Metropolitan Statistical Area
3. Racine, WI Metropolitan Statistical Area
4. Yuba City, CA Metropolitan Statistical Area
5. Bridgeport-Stamford-Norwalk, CT Metropolitan NECTA
6. Mount Vernon-Anacortes, WA Metropolitan Statistical Area
7. Barnstable Town, MA Metropolitan NECTA
8. Canton-Massillon, OH Metropolitan Statistical Area
9. Fairbanks, AK Metropolitan Statistical Area
10. Sheboygan, WI Metropolitan Statistical Area

List is based on a combination of the area's severity of recession (change in unemployment rate from 2007 to 2009) and weakness of recovery (change in recovery from 2009 to 2010):

WATCH LIST #2: AREAS WITH BAD RECESSIONS
(Increase in unemployment rate in parentheses)

1. El Centro, CA Metropolitan Statistical Area (9.9)
2. Yuba City, CA Metropolitan Statistical Area (8.7)
3. Hickory-Lenoir-Morganton, NC Metropolitan Statistical Area (8.5)
4. Palm Bay-Melbourne-Titusville, FL Metropolitan Statistical Area (8.0)
5. Dalton, GA Metropolitan Statistical Area (7.9)

WATCH LIST #3: AREAS WITH WEAK RECOVERIES
(Increase in unemployment rate from 2009 to 2010)

1. Yuba City, CA Metropolitan Statistical Area (2.8)
2. Farmington, NM Metropolitan Statistical Area (2.2)
3. Hanford-Corcoran, CA Metropolitan Statistical Area (1.9)
4. El Centro, CA Metropolitan Statistical Area (1.8)
5. State College, PA Metropolitan Statistical Area (1.8)
6. Pittsfield, MA Metropolitan NECTA (1.7)

WATCH LIST #4: AREAS WITH AUGUST 2011 JOBLESS RATES ABOVE 10%
(Rate in parentheses)

1. El Centro, CA Metropolitan Statistical Area (32.4)
2. Yuba City, CA Metropolitan Statistical Area (17.0)
3. Hanford-Corcoran, CA Metropolitan Statistical Area (15.3)
4. Palm Coast, FL Metropolitan Statistical Area (14.9)
5. Sebastian-Vero Beach, FL Metropolitan Statistical Area (13.9)
6. Rocky Mount, NC Metropolitan Statistical Area (13.6)
7. Port St. Lucie, FL Metropolitan Statistical Area (12.8)
8. Vineland-Millville-Bridgeton, NJ Metropolitan Statistical Area (12.7)
9. Hickory-Lenoir-Morganton, NC Metropolitan Statistical Area (12.5)
10. Lakeland-Winter Haven, FL Metropolitan Statistical Area (12.1)

Table 4: Occupy Wall Street Predictions (continued)

WATCH LIST #5: AREAS WITH HIGH LEVELS OF INCOME INEQUALITY
(Based on spread of income between the area's top 5% of households and its lowest fifth)

1. Bridgeport-Stamford-Norwalk, CT Metropolitan NECTA
2. Greenville, NC Metropolitan Statistical Area
3. Monroe, LA Metropolitan Statistical Area
4. Bloomington, IN Metropolitan Statistical Area
5. Sebastian-Vero Beach, FL Metropolitan Statistical Area
6. El Centro, CA Metropolitan Statistical Area
7. Pine Bluff, AR Metropolitan Statistical Area
8. Hattiesburg, MS Metropolitan Statistical Area
9. Rocky Mount, NC Metropolitan Statistical Area
10. Jackson, TN Metropolitan Statistical Area

Notes: There are more cities that have movements. This analysis focuses solely on the Metropolitan Statistical Areas identified by the federal government and for which unemployment rates and income inequality data are available. The predictions are based on a list of 257 metropolitan areas. As of October 17th, 2011, two-thirds had formal protest movements.

by increase in their unemployment rate from 2009 to 2010. Yuba City, California also leads this list. Watch List #4 rates areas on the basis of having a persistently high unemployment rate in excess of 10 percent. Three California areas lead the list: El Centro (32.4), Yuba City (17.0) and Hanford-Corcoran (15.3). Finally, Watch List #5 is based on local area income inequality (the spread between the area's top 5% of households and its lowest fifth). Bridgeport-Stamford-Norwalk, Connecticut, Greenville, North Carolina, and Monroe, Louisiana lead this list.

As the movement grows and evolves -- causing the composition of the metropolitan areas to change -- these estimated relations may change, but today they are consistent with the messages coming from the protestors in the nearly 500 U.S. cities. Even when the U.S. jobs machine returns, if human priority investments slow due to budget cuts, the stagnation in the earnings and income of most Americans and income inequality growth will continue to grow. Institutions such as unions and social service non-profits, and public policy will play a vital role in helping to generate and allocate gains more fairly and equitably.

What has to Change for Broad-Based Prosperity to Return?

The U.S. economy is at a fork in the road. Today's debate about how to re-ignite economic growth and lessen income inequality is basically about whether Americans want a 1980s or 1990s economic expansion. During the 1980s, national income grew, while during the 1990s, national income not only grew, but the growth was broadly shared. Policy played a key role in generating these two outcomes. During the 1980s, policy placed less emphasis on growing the middle class and protecting America's most vulnerable citizens. Policy also began to shift the risks of job loss and social dislocation squarely to individuals and their families. Current Republican economic policy is an attempt to recreate this policy environment. A return to these policies and adding draconian budget cuts on the heels of "The Great Recession" and "Jobless Recovery" will have devastating immediate and long-term impacts on economic growth and social cohesion. A move to re-create the 1980s will jeopardize the ability of Americans and their families to compete in today and tomorrow's 21st century global economy.

To improve the chances of broad-based prosperity returning, Americans must reinvigorate their investment in education and training, especially for low-income and minority children. Americans must update their cities` infrastructures, parks, and community centers, and strengthen their social safety nets. The latter was highly successful at reducing child and retiree poverty. Congress and the Administration need to extend emergency funds to Unemployment Insurance benefits in to 2012. They will also need to help state and local governments minimize cuts in education and key services. The remainder of this section presents several additional ideas for discussion that could help create broad-based prosperity. This is not an exhaustive list, just some of my priority ideas. Several are new.

Jump Starting Aggregate Demand

Policy makers and analysts continue to be perplexed as to when robust real GDP and job growth will return. It is well known that a causal link exist between real GDP growth and job creation, but the connection appears to have weakened. Stimulating growth in the five major GDP components has and continues to be the primary focus of policymakers. The first stimulus effort of $1.5 billion in 2008 by the Bush Administration provided tax cuts to families. The American Recovery and Reinvestment Act (2009) of $787 billion consisted of three approaches to stimulate aggregate demand. One-third attempted to minimize the drop in personal consumption by funding social safety nets. Another third, focused on funding infrastructure projects. The balance of the $787 billion provided tax cuts to families with the goal of spurring private consumption. The third stimulus package (December 2010), which cost $150 billion contained approaches that promote personal consumption and private sector investment. The legislation extended the 2001 Bush tax cuts and lowered the employee's portion of the payroll tax by 2 percentage points. These efforts without a doubt prevented the economy from falling into a depression. Unfortunately, the policy responses have not created wide-spread and robust job creation and most important, a reduction in the nation's jobless rate.

Currently, the President is negotiating with Congress to extend the payroll tax cut that is scheduled to expire at year's end. Republicans are balking at these short-term efforts in favor of longer-term structural changes in the nation's tax structure. As mentioned earlier, the approaches represent different philosophies on economic and social policy.

Active Labor Market Policy

The U.S. needs to increase its investments in "Active" labor market policies. Active labor market policies that would help are in the areas of training, employment incentives, supported employment and rehabilitation, direct job creation, and start-up incentives. Three rationales exist for investing more in active policies. Although ARRA Act of 2009 represented increases in active labor market initiatives, U.S. expenditures as a percentage of GDP severely lag OECD countries in all categories. In 2006, the latest data available indicates that OECD countries spent 1.5 percent of GDP on labor market policies; compared to 0.38 percent of GDP in the U.S. OECD countries invested 0.62 percent of their GDP on active policies, while the US invested only 0.14 percent of GDP. Both spent a slightly larger share of GDP on passive programs. Even in this area, OECD countries spent more than the U.S. (0.87 percent versus the 0.24 percent). Job training is the OECD and US's largest component of active policy investments, with OECD countries spending 3 times the U.S. (0.17 percent versus. 0.05 percent). Both spend very little on direct job creation (OECD: 0.06 percent and U.S.: 0.01 percent). Finally, it is important to note that over time, investment in active policy programs trended down. So, relative to their peers, the U.S. must do better, especially since the macro economy and job situations are worse.

A variety of macro indicators (long-term unemployment, teen unemployment, young college graduate unemployment), now provide economic and political support for increased investment in active initiatives, such as the President's $445 billion jobs package. The national unemployment rate is forecast to rise well into next year. Sitting at 9.0 percent, many forecast an increase before it starts to decline. In fact, if the 9.0 million Americans that are working part-time for economic reasons and the 2.0 million that have stopped searching but want a job are included in the unemployment rate's calculation, the jobless rate rises to over 16.0 percent.

Long-term unemployment has surpassed its record high that was achieved during the 1981-82 recession. America's untapped and underutilized pools of potential exceed 24 million, with almost 9 million working part-time for economic reasons. Men, especially African American and Latino men are bearing the brunt of the recession. Teen unemployment rate almost exceeds 22%, even higher for African American teens. Out of school youth have an unemployment rate that exceeds 14%, with over 1 in 5 African American out of school youth not employed. Even young college graduates have experienced tremendous difficulty finding employment. At the start of the recession, male and female college graduates had unemployment rates of 7.4% and 5.4%. These unemployment rates sat at 8.7% and 6.6%. Without a doubt, they are higher now. Finally, the need for the new jobs package that contains Active policies hinges on international economic activity: Euro debt crisis and recession and a potential Asian slowdown. Nobel Economist and *New York Times* columnist Paul Krugman and the National Urban League support an expansion in direct job creation.[20]

For sure, debt hawks will squawk about more spending, but the political costs of long-term unemployment, particularly concentrated among certain demographic groups and geographic areas could serve as a catalyst for increasing active labor market expenditures in absolute and relative terms.

Insurance Policy against a Slow Return of Job Creation: Investing in Non-profits

There is very little appetite to implement much of either group's initiatives, raising the risk of further stagnant growth. As a hedge to economic growth and job creation not accelerating, I would like to see President Obama and Congress provide non profits with incentives to make short-term "capacity building" hires in the areas of fund raising, marketing, grant writing, and strategic planning. These could be in the form of wage subsidies. Non-profits are in a great position to serve as a bridge to renewed broad-based prosperity, acting as short-term employers and providing continued support to the over 6 million Americans that are long-term unemployed, the 8.5 million Americans that are working part-time, but want full-time employment, and to the millions of families in communities with chronically high jobless and poverty rates.

Why? The nonprofit sector experienced an increase in demand for its services. Yet, the sector suffered major job cuts during the recession, severely eroding its capacity to meet the local needs of families. Further, many analysts forecast that it will take approximately 4 years before the jobless rate returns to a normal level. The 24 million that are unemployed -- or working part-time, but want full-time employment -- possess a wealth of underutilized talent, which will atrophy with continued idleness. Many that lost their jobs are considering new careers: careers with missions that seek to advance the common good. Like any investment, it too requires a financial commitment, but the personal, family, and community benefits will exceed their costs.

Economic Literacy

Efforts to reduce the chances of a future financial crisis have focused on rescuing the economy and strengthening the oversight of financial markets. But greater emphasis needs to be placed on the economic literacy of children. All states have curriculum requirements and a wealth of resources, such as websites. Rutgers University has a site called econkids.rutgers.edu. The concept behind the site is simple. It is a living catalog of children's literature that teaches a wide range of economic concepts that are linked to established curriculum standards. Viewers can click on a concept and obtain a list of the site's top five choices for acclaimed children's books that use enjoyable stories to teach economics. The site profiles a new book each month, reviews new children's books and identifies their economic content. For sure, econkids.rutgers.edu will not solve the U.S.'s debt problems, nor will it solve the sub-prime lending mess. But, econkids will help children become savvier and smarter consumers, helping to ensure the nation's future economic security and competitiveness.

Divided Government

Last January, many Americans cheered the return of "divided" government (e.g., one party controls the White House and another party controls one or both houses of Congress). "Divided" government is not new. Since 1901, there have been nine periods of divided government, but elected officials were typically able to function.[21] But if one goes by current public opinion polls, the American public is frustrated and fed up with Congress' inability to address the nation's immediate and long-term challenges.

With respect to economic policy, what has "divided" government" gotten Americans in this round?

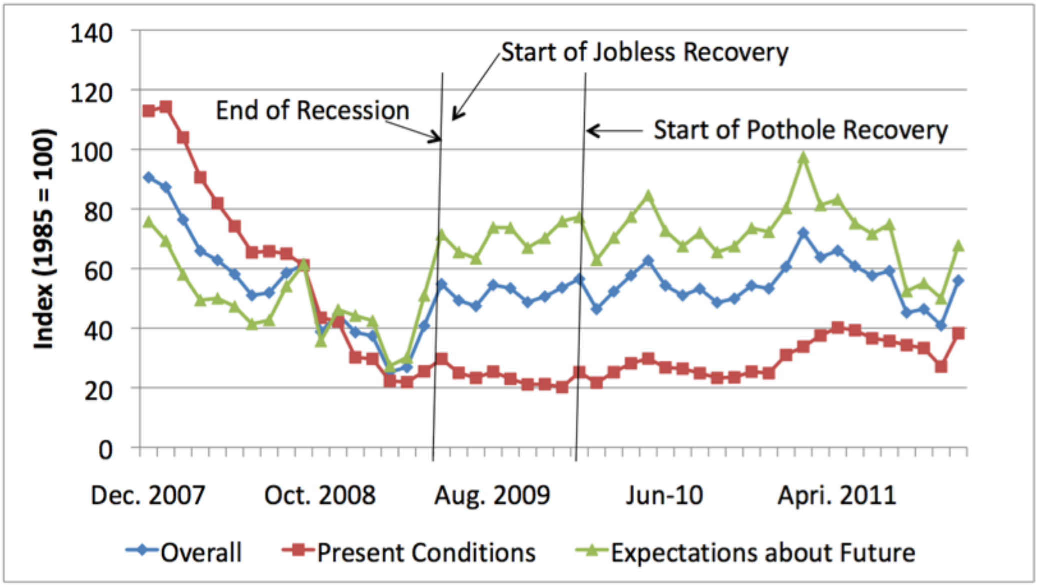
- Too small a stimulus package, and
- The package's composition failed to maximize its impact.
- Now, we are struggling to implement a badly needed jobs bill, and
- We are quietly heading toward a fiscal train wreck.

For sure, as previously discussed, there is no single approach to revitalizing the U.S. economy and addressing its long-term needs, but if the goal is to create an economy that doesn't leave any family behind, the Administration's policy menu comes closest to providing the chance of achieving this goal. The problem facing the nation is that many stakeholders have lost the desire to "advance the common good", negotiate, and compromise, thus exacerbating uncertainty on Wall Street and Main Street.

Clinging to one's ideological self truths and practicing corner solution politics might extend one's personal political career for awhile, but using it to conduct economic policy is wrong. Based on a variety of U.S. public opinion polls, most Americans agree. The application of corner solution politics to economic policy deepened the Great Recession's impacts and is now prolonging the Nation's return to broad-based prosperity. If Americans can't solve the paralysis around divided government, they jeopardize not only nation's economic competitiveness, but also its position as a global leader.

The nation is truly at a fork in the road. The 2012 Presidential and Congressional Elections will play a key role in determining the Nation's path. A key indicator to watch is the Conference Board's Consumer Confidence Index (Figure 9), especially whether the indexes' expectations component starts to permanently trend upward by early spring.

Figure 9: Another key will be re-election of President Obama. Prospects depend on the expectations component of the Consumer Confidence Index.



Notes: PollingReport.com and the Conference Board

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Endnotes

1. I have added to the phrase the "with whom we work" has changed.

2. Susan Fleck, John Glaser and Shawn Sprage. 2001. "The Compensation-Productivity Gap: A Visual Essay," *Monthly Labor Review* show that since the early 1970s real hourly compensation has grown more slowly than productivity. Most of the growing gap is due to a decrease in labor's share (See Figure 5 of their paper). The decline in labor share occurred mostly in the 1980s and early part of the 1990s. The strong boom from 1995 to 2000 recovered much of what was lost during the period. Another major drop in labor share occurred from 2001 to 2007. The slide has continued from 2007 to present.

3. This is a variant of former Speak of the House Tip O'Neill who coined the phrase "All politics is local."

4. See for example, Jacob Hacker. *The Great Risk Shift: The New Economic Insecurity and the Decline of the American Dream*. Oxford University Press. 2008. Also see, William M. Rodgers III, "What do Hurricane Katrina, Corporate Accounting Scandals, the Wars in Iraq and Afghanistan, and the Current U.S. Recession have in Common?" The National School of Government Lecture, Glamorgan University (Wales, UK). Unpublished Manuscript, Heldrich Center for Workforce Development, Bloustein School of Planning and Public Policy, Rutgers, The State University of New Jersey.

5. See William M. Rodgers III, "What do Hurricane Katrina, Corporate Accounting Scandals, the Wars in Iraq and Afghanistan, and the Current U.S. Recession have in Common?" The National School of Government Lecture, Glamorgan University (Wales, UK). Unpublished Manuscript, Heldrich Center for Workforce Development, Bloustein School of Planning and Public Policy, Rutgers, The State University of New Jersey.

6. Industrial Production fell by 17.0 percent.

7. See, for example, Papademetriou, Demetrios G. and Aaron Terrazas, January 2009. "Immigrants and the Current Economic Crisis: Research Evidence, Policy Challenges and Implications," Migration Policy Institute.

8. According to the U.S. Bureau of the Census, in 2007, 29.6 percent of native's family income was less than $40,000. Similar percentages for naturalized citizens and non-U.S. citizens were 31.3 and 55.4 percent, respectively. During the recession, this percentage only grew by 0.2 percent of natives, but grew by 1.1 and 2.2 percent for naturalized and non-citizens.

9. Monthly data for August 2010 to August 2011 show a similar result.

10. Analysts began to talk about an elongated u-shaped recovery. Sharp recessions were associated with v-shaped recoveries.

11. The employment-population ratio equals the labor force participation ratio multiplied by 1 minus the unemployment rate.

12. NELP defines low-wage occupations as those that pay a median hourly wage between $7.51 to $13.52, mid-wage as those that pay between $13.53 and $20.66 per hour, and high-wage as those that pay between $20.67 and $53.32 hourly.

13. I suppose that one could argue that the military has productivity effects. Current spending might make the future markets more secure. Some of the military's technologies and innovations may have civilian applications. Many of the training and skills acquired while in the military are portable to the civilian workplace. In fact, this argument is being used by the President to incentivize the private sector to hire returning veterans.

14. The statement among the Department of Labor Transition Team was to "stop the bleeding of the 8 previous years."

15. Future updates to this work will either collect data for these areas at the sub metro area or apply the state average to the 81 cities for which I could not obtain data.

16. We also estimate the descriptive statistics and models at the state level. The results, which are available upon request are qualitatively similar to the metropolitan analysis.

17. Starting in May 2004, the Census 'Bureau switched to these codes to identify metropolitan areas.

18. I sort metropolitan areas in to two types of recessions (moderate and severe). An area with a severe recession is defined as having an unemployment rate that increased by at least 5.0 percentage points from 2007 to 2009. An area with a modest recession is defined as having an unemployment rate that increased by less than 5.0 percentage points from 2007 to 2009. For the one year of recovery, I label areas with an increase in the unemployment rate from 2009 to 2010 as having a very weak recovery and an area whose jobless rate fell as having a modest recovery.

19. Along with containing a dramatic reversal of fortune in local area unemployment rates, the shift in the distribution contains several paths of erosion or types of recessions. Some areas experienced severe recessions. Some experienced moderate recessions. As a simple way of capturing the two paths, we sort the metropolitan areas into two distinct groups: "moderate recession" and "severe recession". The first category, "severe recession" is characterized by CBSA unemployment rates increasing by at least 5.0 percentage points and a moderate recession is characterized by a less than 5.0 point increase in the jobless rate. year, and includes 36 areas. Midwestern areas comprise a disproportionate share of these local labor markets. The second category, "severe recession" is characterized by unemployment rates above the median area unemployment rate in all years of the recession and greater than 11 percent in each year, and includes 28 areas. Michigan and California CBSAs which are well known for the severity of their recessions are well represented in this cluster of CBSAs. The third category, a "rapid deterioration recession" is defined as an area whose increase in the unemployment rate from 2007 to 2009 exceeds the median area increase and the increase exceeded 7 percentage points. Las Vegas and Elkart, IN show up in this category. The appendix contains a detailed list of the three groupings.

20. Corporate Cash Con, Paul Krugman, *The New York Times*, July 3, 2011. *http://www.nytimes.com/2011/07/04/opinion/04krugman.html?scp=1&sq=direct%20job%20creation&st=Search*

21. The previous periods of divide government are 2007 to 2009, 1995-2001, 1981 to 1993, 1969 to 1977, 1955 to 1961, 1947 to 1949, 1931 to 1933, 1919 to 1921, and 1911 to 1913. I exclude 2001 to 2003 because in January, Democrats controlled the Senate for 17 days. Al Gore was still Vice President and President of the Senate. On January 20th, the Republicans took control of the Senate with their new tie-breaking vote of Vice President Cheney. However, this Republican Majority would only last until May 24, 2001. Vermont Republican Senator Jim Jeffords quit the Republican Party. He became an Independent and caucused with the Democrats.

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