

Seeking to Grow Jobs, Not the Deficit

As U.S. unemployment officially passes 10%, the White House is challenged to create jobs without adding to the \$1.4 trillion federal deficit

By [Maira Herbst](#)

A greater-than-expected rise in the October U.S. unemployment rate, released Nov. 6, makes all the more clear that the U.S. could be facing a [painful jobless recovery](#). At 10.2%, the jobless rate has increased 3.6 percentage points from a year ago. It has doubled since March 2008.

With every uptick in the unemployment rate, Congress and the Obama Administration face more pressure to bolster job growth. They are also under constant criticism for the high level of federal spending and rising federal budget deficit—especially from Republicans, but also from Democrats in conservative districts. (The deficit reached \$1.4 trillion in fiscal 2009 and racked up its highest percentage of U.S. gross domestic product since 1945.) The question from here will be how to balance those competing political pressures, especially in the runup to the 2010 midterm elections.

The White House is keen to show that it is taking steps to stimulate the economy and cushion the blow to jobless Americans. That was made clear Nov. 6, when President Barack Obama signed into law a bill that both provided tax incentives to new home buyers and extended unemployment benefits for an additional 20 weeks. Obama said the \$10.8 billion home buyers' tax credit would be offset by tax revenues raised by delaying a tax break for multinational corporations that pay foreign taxes. The cost of the unemployment benefit extension, about \$2.4 billion, will be covered by extending a federal unemployment tax to employers.

NEW EMPLOYMENT PROPOSALS: EXPENSIVE

In signing the legislation, Obama said: "Now, it's important to note that the bill I signed will not add to our deficit. It is fully paid for and so it is fiscally responsible. I promise I won't rest until America is prosperous once again."

The White House and Congress have floated a number of ideas to spur job growth in recent months. One would offer tax credits for employers that create new jobs, an idea that was also considered for inclusion in the \$787 billion stimulus bill passed last winter. Under one version, an employer would receive a tax credit of \$8,000 in the first year of a new job and \$5,000 in the second year. But these proposals have failed to gain traction, in part because they would be costly to implement.

To some extent, the Administration painted itself into a corner when it estimated that its \$787 billion stimulus package, signed in February, would help cap the unemployment rate at 8.5%. The White House claims stimulus spending has so far saved or created 1 million jobs, but critics say the program isn't delivering nearly enough bang for its considerable bucks.

Policymakers are thus sticking to expansions and extensions of existing programs. Discussions of further job creation have taken on a muted tone.

"MOTHER OF ALL JOBLESS RECOVERIES"

On Nov. 2, the President's Economic Recovery Advisory Board recommended ways to boost job creation but stopped short of detailing how its suggestions might be executed or how much they would cost. It proposed sharply increasing export sales as a percentage of GDP, creating a national infrastructure bank, and boosting the number of workers who help make buildings more energy-efficient. Other ideas were smaller-scale, including expanding the role of the U.S. Export-Import Bank that helps companies finance overseas trade agreements.

As the brainstorm in Washington continues, analysts say it's easier to craft legislation to stimulate spending than it is to create jobs. "While Uncle Sam can try and stimulate spending on autos and housing and even mortgage credit via the myriad of policy measures that have been undertaken, the return to job creation is as elusive as ever," says David Rosenberg, chief economist and strategist for Gluskin Sheff & Associates ([GS.TO](#)), a Toronto wealth management firm. Rosenberg says that if the consensus is correct and the economic recovery is under way, the corresponding job-loss data point to "the mother of all jobless recoveries."

If U.S. policymakers were willing to take a longer view of job growth, they might find promising answers overseas. In Germany, for instance, the government takes a more direct role in the job market, which analysts say is one reason that country's unemployment rate remains steady as U.S. joblessness soars. It's well known that Germany, along with other European countries, has more generous unemployment benefits that act as automatic stabilizers when jobs are cut. The government has also instituted what is known as a "Kurzarbeit," or "short work" program, which provides subsidies to workers [whose hours have been cut](#), which makes work and a steady income available to more people. Analysts say the program has prevented hundreds of thousands of job losses in 2009 alone. Germany—along with Austria, Denmark, and Switzerland—also has well-established [apprenticeship programs for young workers](#).

UNDEREMPLOYED AND DISCOURAGED WORKERS

As the October jobs report revealed, the U.S. job market is facing some intractable problems. More than one-third of all the people out of work—about 5.6 million out of 15.7 million—qualified as "long-term unemployed:" out of work for 27 weeks or more. That's the highest rate for long-term unemployment since statistics were first published in 1948. The average duration of unemployment now is 26.9 weeks, also the highest on record.

Meanwhile, the number of involuntary part-time workers—those working part-time who would prefer to work full-time—has more than doubled since December 2007, to nearly 9.3 million. The expansion of those ranks leaves little incentive for employers to make new hires because they can meet whatever needs they have by simply increasing the hours worked of existing staff. A [broader measure of joblessness](#) that includes the unemployed, those working involuntary part-time, and discouraged workers has now reached 17.5%.

Rising unemployment has fed into debate on whether and how the U.S. can [rebuild its manufacturing sector](#), and what roles technology, education, and health care will play in the future. "We need real direction on where [U.S.] industrial policy is going, not just subsidies in this and that," says Maurice Emsellem, policy director at the National Employment Law Project, an advocacy group for low-wage and unemployed workers. "That requires a lot of work and leadership and it's not happening in the USA."

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