

The Jobs Deficit

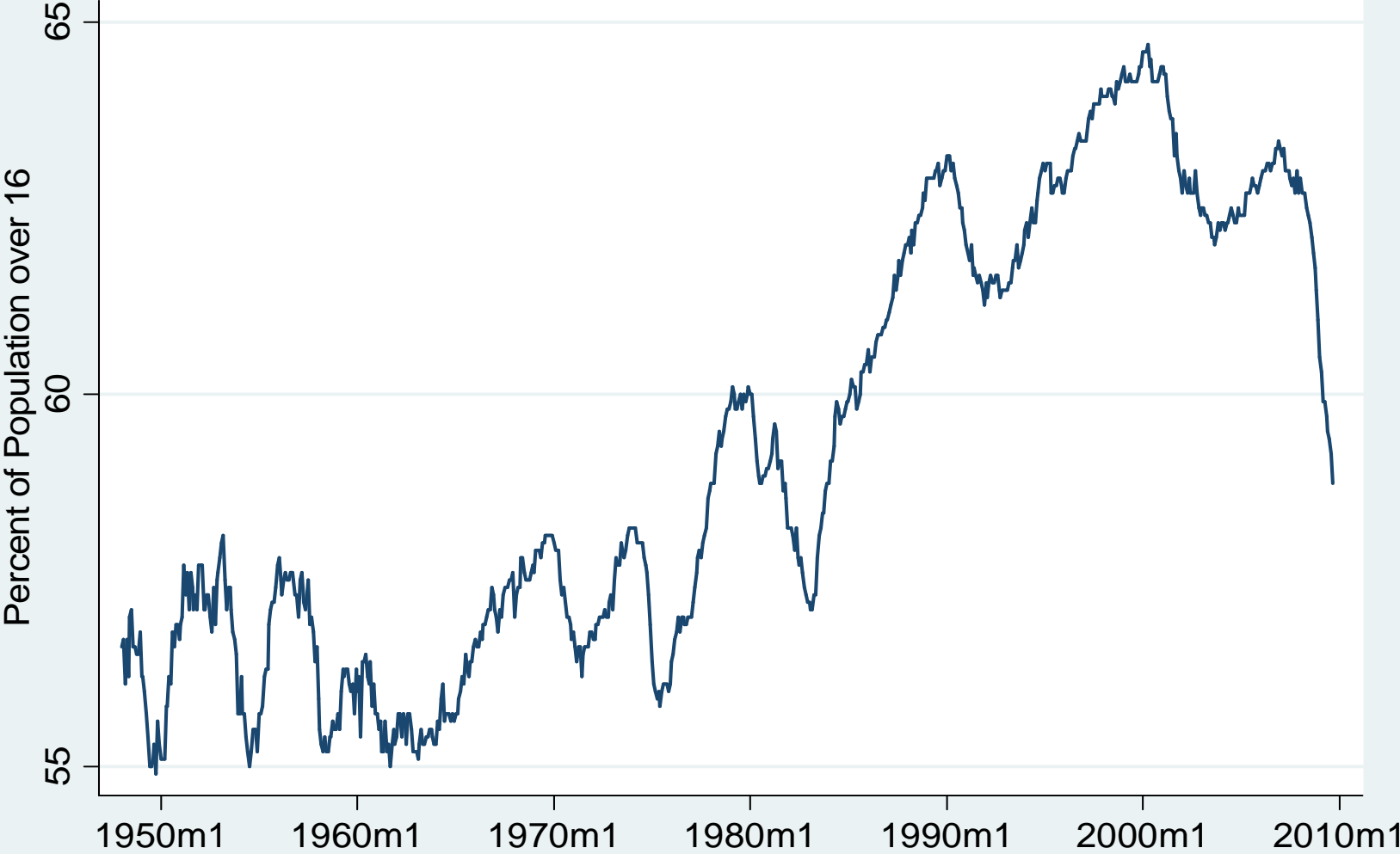
Macroeconomic Policy Must Do More

Joseph Gagnon

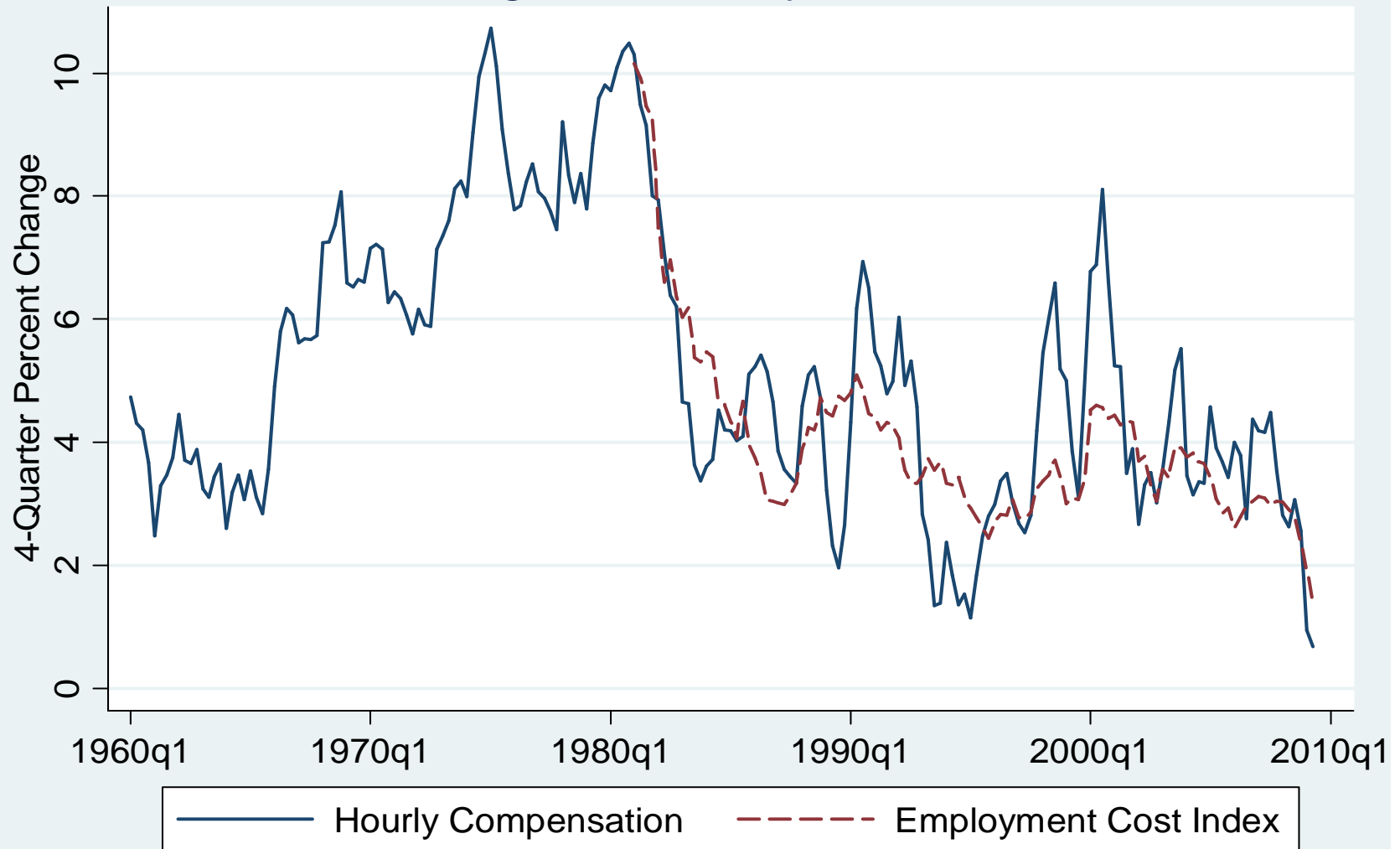
Peterson Institute for International Economics

October 20, 2009

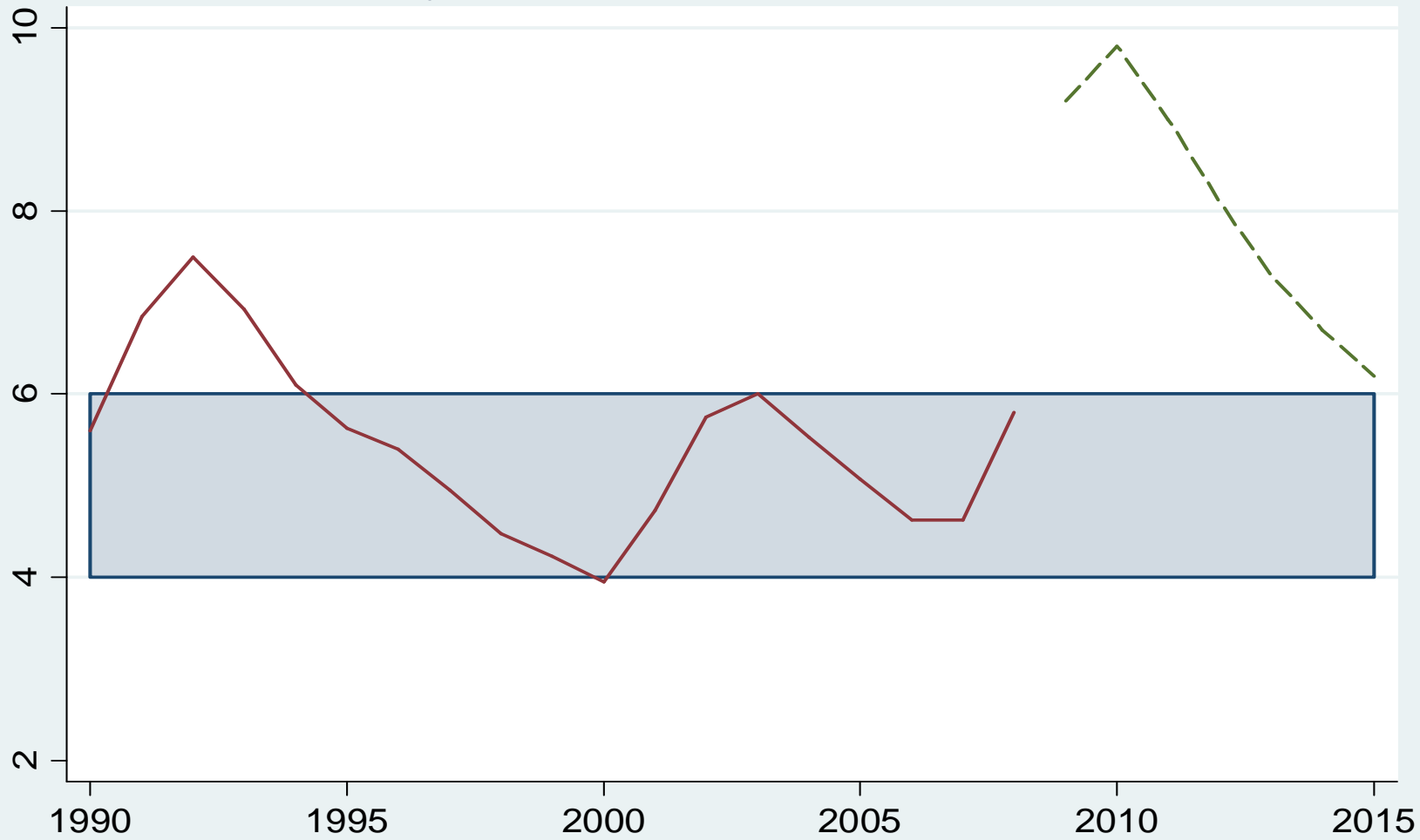
Ratio of Employment to Population



Wage and Salary Increases



Unemployment Rate and Blue Chip Forecast



The High Cost of Unemployment

- Unemployment means lost production and lost income that can never be regained.
 - Each year of unemployment erodes a worker's job skills and reduces his/her future earnings potential and chance of ever being employed again.
 - Each year of excess unemployment (over about 5%) permanently reduces the capacity of our economy.
- (Blanchard and Summers, 1986)

Fiscal Policy

This year's stimulus package is too small.

When unemployment is above 6% and interest rates are near zero, fiscal policy is cheap and powerful.

- Unused capacity means no “crowding out”
- Maximum benefit to economy at minimum cost to future generations (DeLong, 2009)

Fiscal Policy Options

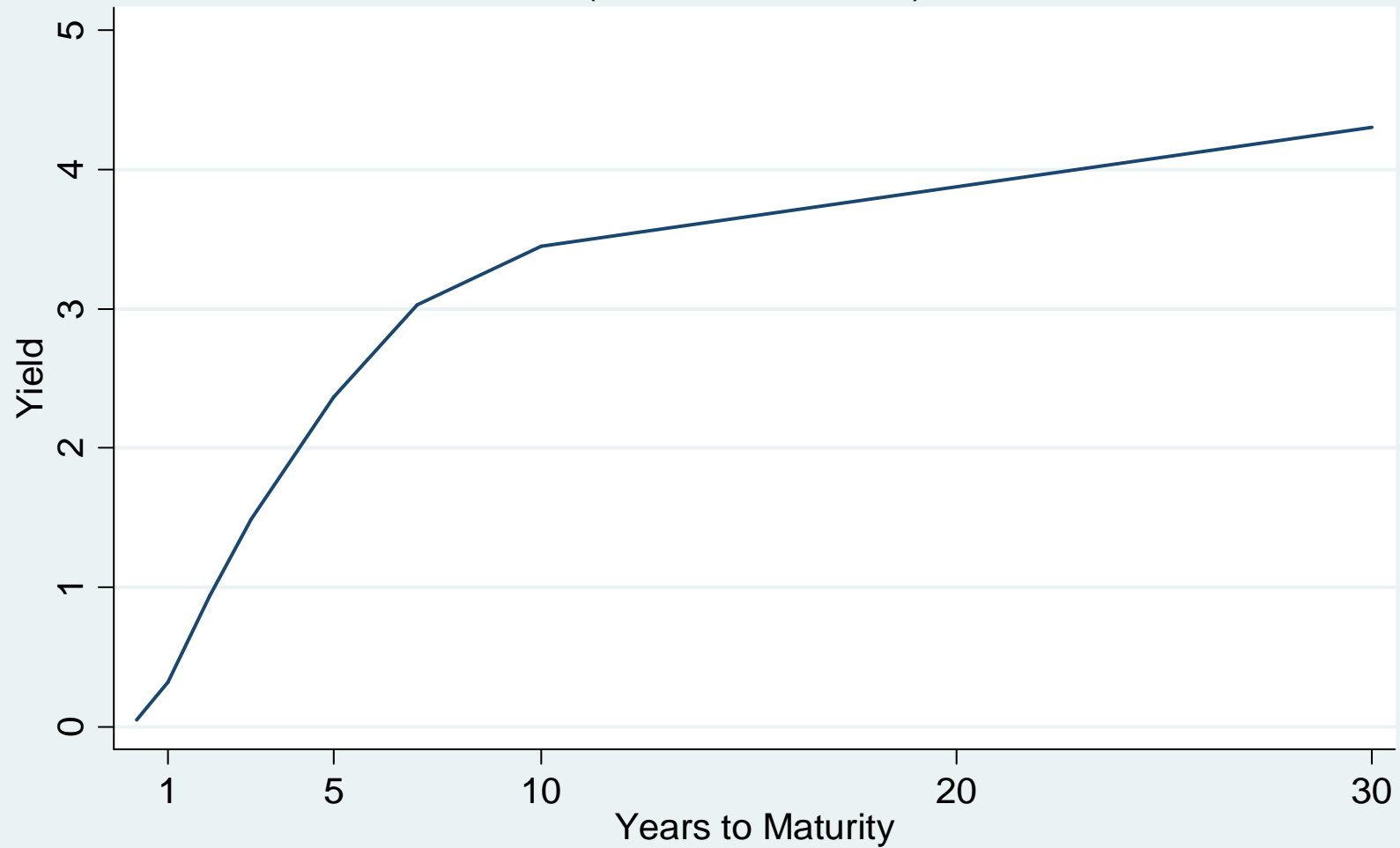
1. Increase aid to states.
 - No government layoffs during a recession!
2. More infrastructure projects.
 - Projects that can be started in 2010 and completed by 2012.
3. Payroll tax holiday.
 - Temporary moratorium on employee and employer payroll taxes.

Monetary Policy

Zero bound on short-term interest rate is not a bound on what monetary policy can do.

Bernanke (2002) says Federal Reserve can lower longer-term interest rates by “announcing explicit ceilings for yields on longer-maturity Treasury debt ... The Fed could enforce these interest-rate ceilings by committing to make unlimited purchases of [such] securities.”

Treasury Term Structure (October 15, 2009)



Bottom Line

- Macroeconomic policy is our first line of defense in stabilizing employment.
- There is plenty of scope for additional monetary and fiscal stimulus.
- The current and future benefits of macro stimulus greatly outweigh the costs.