



# Slow-Motion Recession

## What Congress Can Do to Help

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## Executive Summary

Last winter, Congress responded quickly to concerns that we and other economists raised over the rate at which the economy was slipping into a recession. The stimulus checks sent out over the last three months have clearly helped to sustain consumption demand during a period of job loss, falling real wages, and plunging house prices. However, the benefits from these checks are likely to prove temporary as the loss of housing wealth continues to be a major brake on economic growth.

This paper outlines several proposals for addressing the turmoil in financial markets and the country's ongoing economic problems. Some of these proposals are in the form of stimulus measures intended to provide a short-term boost to the economy. Other measures are designed primarily to ameliorate the impact of what may become the most severe economic crisis since the Great Depression.

The Fed has intervened to restore confidence in financial markets, but the crisis is far from over. Failures of both internal company governance and external oversight by regulators need to be addressed. Bailouts should include strict rules limiting leverage, requiring cash reserves against riskier assets, increasing transparency, and severely restricting executive compensation.

While it is difficult to identify movements in commodity prices that are due to unwarranted speculation, rather than to fundamentals, a modest tax on financial transactions would substantially raise the cost of this type of speculation while having very little impact on traders seeking to hedge in commodity markets or investors engaged in long-term investing.

Increasing the energy efficiency of the economy must also be a top policy priority. As we try to guide the economy through the downturn and onto a sustainable recovery path, it is important that this path be environmentally sound. The green stimulus and green public investment measures in this package can help set the economy on a more energy efficient growth path, creating jobs through energy conservation.

We propose several immediate steps Congress can take to provide an economic stimulus of about \$100 billion to help the country address what may prove to be a long period of stagnation.

The proposals for stimulus include:

1. An expanded tax credit for homes and businesses to make energy conserving renovations (\$15 billion);
2. Subsidies for state and local governments to reduce fares on public transportation (\$7 billion);
3. Matching grants to state and local governments to invest in energy conserving renovations (\$5 billion);
4. Grants to state and local governments so that they will not be forced to raise taxes and/or layoff workers and cut services in the middle of a downturn (\$35 billion).

5. Additional payments to low- and moderate-income households through programs such as Food Stamps (\$7 billion), School Lunches (\$3 billion), and the Low Income Heating and Energy Assistance Program (\$3 billion) to make it easier for families to cope with rising food and energy prices (total, \$13 billion)
6. Modernization of the unemployment insurance system and further extension of the benefit period (\$25 billion)

The most important proposal designed to ameliorate the suffering from the downturn is the [Saving Family Homes Act](#), introduced in the House by Representative Raúl Grijalva. This measure would provide moderate-income homeowners facing foreclosure with the option to remain in their home as renters for up to 20 years. This measure would both provide housing security to these families and also give lenders a strong incentive to renegotiate mortgage terms to allow homeowners to remain in their homes as owners.

The paper also proposes a modernization of unemployment insurance and a further extension of unemployment benefits, which will both help the people most severely affected by the downturn and also provide an additional source of stimulus.

Finally, the paper suggests moving forward with measures, such as Family Leave Insurance and the Healthy Families Act, that would guarantee workers some amount of paid time off in case of illness. The United States lags badly behind other wealthy nations in ensuring its workers some amount of time off from their jobs to deal with family and medical needs. It is especially important in these challenging economic times that workers should not have to choose between a paycheck, or even keeping a job, and caring for their families.

Even with the best of policies, the country will undoubtedly face difficult economic times going forward. However, if we see this crisis as an opportunity to initiate important changes to the economy and the structure of work, as we did with the New Deal during the Great Depression, we can ensure that the economy comes out of this downturn stronger than it has ever been.

## Introduction

The U.S. economy has entered a slow-motion recession, with the collapse of the housing bubble slowly sinking more and more sectors of the economy. Since November 2007, as home prices plummeted, foreclosures increased, and credit tightened, private-sector jobs in residential and (more recently) commercial construction, manufacturing, financial services, wholesale and retail trade, and even business services have disappeared.

The first indisputable evidence of trouble in the labor market was the loss of 14,000 private-sector jobs in December 2007. By January 2008, overall employment, including government jobs, began to decline. From its peak in December 2007 through June 2008, private-sector employment contracted by 564,000 jobs. During the last quarter, the economy was losing jobs at a rate of 91,000 a month. Only health care and food and beverage services places among private-sector industries experienced notable job growth in June 2008, and even here at only half the rate of a year earlier. Government jobs continued to increase, adding 29,000 jobs in June and 126,000 since December, mainly at the state and local levels. This held overall job loss in the non-farm economy to 438,000 since December's peak. But public sector job growth is almost certainly about to reverse. Most states and municipalities have been operating on budgets adopted a year ago, before the economic downturn began. Now states must adjust to declining tax revenues due to the faltering economy and the decrease in property values and home sales. In many states, budgets adopted for the new fiscal year that began on July 1, 2008 contain sharp cuts in spending that will affect both public payrolls and employment in health care and other services that rely on state government expenditures. Whether or not the economy experiences two or more quarters of negative growth, economic growth will continue to be anemic well into 2009 and employment will continue to contract.<sup>1</sup>

## Fiscal Stimulus Checks Have Kept the Economy Afloat

Nearly \$80 billion of the \$107 billion in stimulus checks that Congress authorized were mailed out through June, and while economists won't be able to analyze the effects on consumption until more data are available, there is little doubt that they have been effective. As we urged in our January report, the stimulus package was doubled from the level originally proposed and checks were distributed to everyone under an income cap who either worked or received Social Security. Speaker of the House Nancy Pelosi shepherded a stimulus package that included these key points through Congress and President Bush signed the legislation. Despite the obvious difficulties the economy still faces, the fiscal stimulus functioned exactly as advertised, blunting the worst effects of the economic downturn. The Commerce Department reported on June 28 that, not counting the stimulus checks, after tax income grew 0.4% in May after adjusting for inflation. Wage and salary income actually fell in inflation-adjusted terms over this period. Once the stimulus checks are included, however, real income grew 1.9% and after-tax income jumped 5.3%. Consumer spending in dollar terms rose 0.8% in May, surprising some observers and registering its biggest gain since last November when private-sector employment was still growing. In real terms, after adjusting for the effects of rising gasoline and other prices, consumer spending rose 0.4%. Together with strong action by the Fed at the beginning of 2008, the fiscal stimulus has taken the worst edge off the recession so far. The economy would be in far worse shape in the absence of these checks.

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<sup>1</sup> For discussions of the labor-market impact of a recession in 2008, see John Schmitt and Dean Baker (2008) and Bivens and Irons (2008). Schmitt, John and Dean Baker. "What We're In For: Projected Economic Impact of the Next Recession." Washington, D.C.: Center for Economic and Policy Research, January 2008.; Bivens, L. Josh and John Irons. "A Feeble Recovery: The Fundamental Economic Weaknesses of the 2001-07 Expansion." Washington, D.C.: Economic Policy Institute, May 1, 2008.

## Averting the Worst of the Recession

In retrospect, the economic stimulus should have been substantially larger than it was. The economic stimulus checks, however, did buy Congress and the administration some breathing room to adopt policies that can place the economy squarely on the path to economic recovery and employment growth. Our elected officials must not squander this opportunity. If the worst of the recession is to be averted, Congress will need to act again and act quickly. Quick action now can help working people weather the perfect storm caused by falling house prices, reduced access to credit, rising energy prices, and declining real weekly earnings. It can also put the U.S. economy firmly on a path of sustainable growth and rising incomes for working families. Here is what Congress needs to do:

### Homeowner Security: A Better Plan for Housing

The economy's problems began with a housing bubble that was not only allowed to get out of control, but whose growth was actively encouraged by unscrupulous mortgage brokers and greedy financial institutions and facilitated by deniers and market fundamentalists, including the Greenspan Fed, who professed to believe that markets are rational and there was no housing bubble, only rising property values. The current malaise on Wall Street and Main Street will not end until house prices stabilize at levels consistent with their trend value. Unfortunately, the bill currently under consideration in the Senate (a similar bill has already passed in the House) will not accomplish this goal.

The key provisions of both the House and Senate bills would allow homeowners to refinance into more affordable mortgages with lower-cost government-insured loans, thus relieving financial institutions of sub-prime mortgages and other troubled housing loans. Unfortunately, there are two important flaws in the Senate bill. First, it is the lenders, not the homeowners, that get to decide which loans get into the program. Lenders have an incentive to bring only their worst loans into the system, since they will have to take a substantial write-down compared with the original value of the mortgage. In many cases, banks and mortgage lenders will be able to do better by pursuing foreclosure than by participating in the current Congressional plan. In these cases, homeowners will have no recourse and will lose their homes despite the proposed program. Second, there is no restriction on the government guaranteed price of the new mortgage. In markets like those in Atlanta, Cleveland and Detroit that are not experiencing a housing bubble, the government guaranteed price may help keep some homeowners in their houses. But, in still frothy housing markets, where house prices continue to plummet, homeowners will soon owe more than the house is worth even with a newly refinanced and guaranteed mortgage. The government and taxpayers, and not the banks and mortgage lenders, will be on the hook when homeowners mail in the keys and walk away from their homes. The bill under consideration in Congress lets banks and other lenders get their worst housing loans off of their books, but does little to enable large numbers of families to continue to live in their homes and to help communities avoid the blight and expense of vacant homes. (CBO projects that only 400,000 homeowners will enter the program, and of these 140,000 will face a second foreclosure.)<sup>2</sup>

Homeowners who have been the victim of predatory lending practices need real housing security that will enable them to remain in their homes. Representative Raúl Grijalva has proposed the

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<sup>2</sup> Chad Chirico, *et al.* "Congressional Budget Office Cost Estimate: Federal Housing Finance Regulatory Reform Act of 2008." Washington, DC: Congressional Budget Office, June 9, 2008.

Saving Family Homes Act for this end.<sup>3</sup> This bill, which is modeled on the [Subprime Borrower Protection Plan](#), would temporarily change the rules on foreclosure to allow the judge overseeing the foreclosure procedure to permit moderate-income homeowners to stay in their homes as renters, paying the fair market rent as determined by a court-appointed appraiser.<sup>4</sup>

Unlike the bills currently working their way through Congress, the housing security proposal does not bail out lenders who issued predatory mortgage loans or made risky gambles in mortgage-backed securities. There are no windfalls for homeowners and no temptations to abuse the program. Homeowners will have the right to stay in their house, but will no longer own the house. Homeowners who have kept up with mortgage payments will not feel disadvantaged or aggrieved. There are no government guarantees and no taxpayer dollars are involved. By allowing homeowners to stay in their houses as renters, this proposal helps prevent the blight that afflicts neighborhoods with large numbers of foreclosures and should help to sustain property values for their neighbors. In addition, since lenders no longer have the option to simply throw families out on the street through foreclosure, they have a real incentive to try to negotiate terms that allow homeowners to remain in their homes as owners, which will undoubtedly happen in many cases under current proposals.

## **Financial Markets and the Credit Crisis: Transparency, Accountability, and Reserve Adequacy Required to Restore Confidence**

Financial institutions acted as enablers of the unsustainable run-up in house prices and willingly bought mortgage-backed securities (and other securitized debt obligations) in which loans of increasingly poor quality were bundled into opaque combinations and sliced into “tranches” to produce securities that defied both common sense and the ability of even sophisticated investors to know what they were buying. While house prices rose, these securities – often purchased using short-term financing that increased returns, but also risk – produced outsized profits for financial institutions and super-sized bonuses for the brokers, hedge fund managers, and banking executives willing to play this fool’s game.

When house prices began to fall back to more realistic levels, many financial institutions found themselves resting on a house of cards, writing off huge losses and unable to value the mortgage-backed securities they held (although true believers in market fundamentalism might have been expected to value securities for which there is no market at zero). The turmoil in U.S. financial markets and in other major financial centers is unprecedented in the post-WWII period. In the wake of the meltdown at Bear Sterns, the Bernanke Fed engaged in innovative operations to make liquidity available, rescue lenders, and stabilize U.S. financial markets.

The Fed’s actions restored confidence, but the crisis is far from over. The plunge in house prices guarantees that there will be hundreds of billions of dollars more of losses in mortgages and mortgage-backed securities. These losses will be aggravated by losses on construction loans for both residential and non-residential housing. In addition, the loss of home equity as a fallback is also leading to increased defaults on credit cards, student loans, car loans, and other forms of consumer debt. The continuing flood of bad debt makes it virtually certain that the financial sector will see further crises.

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<sup>3</sup> “Rep. Grijalva Introduces Saving Family Homes Act.” Press release from the office of Congressman Grijalva, May 22, 2008. [<http://grijalva.house.gov/index.cfm?sectionid=13&parentid=5&sectiontree=5,13&itemid=225>]

<sup>4</sup> Baker, Dean. 2007, “The Subprime Borrower Protection Plan,” Washington, D.C.: Center for Economic and Policy Research. [<http://www.cepr.net/index.php/op-eds-columns/op-eds-columns/the-subprime-borrower-protection-plan/>]

While the Fed should act to prevent a cascade of financial collapse, it should also make its bailouts conditional on steps that address the fundamental problems that led to the crisis. It is important to recognize that the Fed's most important bailout, in the wake of the Bear Stearns collapse, was the guarantee to the creditors of the major investment banks that it would honor the obligations of the banks. This was an enormously valuable form of insurance to these investment banks, provided completely free of charge.

The turmoil in U.S. financial markets is the result of serious failures of both internal company governance and external oversight by regulators. Bailouts should include strict rules limiting leverage, increasing transparency, and severely restricting executive compensation. It is worth noting that most of the profits of the Wall Street banks over the last four years have now been erased by write-downs of bad debt. Clearly, management was not acting in the interest of shareholders. Rather it was exploiting its ability to book fees and collect high salaries and bonuses based on ephemeral profits. This is symptomatic of a larger failure of corporate governance in the United States that allows top management to tap corporate coffers for their own enrichment. Congress will have to address this problem with new legislative measures, but the Fed's rescue of failing financial institutions provides an opportunity to rein in some of the worst abusers.

It will also be necessary over the longer term to put in place rules that ensure greater transparency. In this vein, the efforts by Bush appointees at the Securities and Exchange Commission toward even more lax oversight of financial institutions are clearly a major step in the wrong direction.<sup>5</sup>

## **Rising Commodity Prices: Here's Something Congress Can Do**

The run-up in oil prices, currently about \$130 a barrel, is due at least in part to "fundamentals": The declining dollar, so essential to restoring America's manufacturing base, means that oil, like other imported products, must increase in price. Much-needed economic growth in emerging nations has greatly raised the demand for oil and other commodities. But the accelerated rate at which commodity prices, and oil in particular, are rising now suggest that speculation by commodity traders may also be at work. While speculation can, in some circumstances, play a positive role in stabilizing commodity markets and reducing volatility, this is not always or necessarily the case. When commodity traders' views respond to the direction of prices in the market, rather than to an independent assessment of market fundamentals, speculation can be destabilizing. Traders, for example, may view higher prices in commodities like oil as evidence that the price of oil should be even higher. This can cause them to bid the price up further, thus destabilizing commodity markets.

While there is no easy way to identify traders who respond to price movements rather than to fundamentals, a modest tax on financial transactions (e.g., 0.02% on the sale of a standard futures contract, 0.25% on the sale of a share of stock) would substantially raise the cost of this type of speculation while having very little impact on traders seeking to hedge in commodity markets or investors engaged in long-term investing.<sup>6</sup> Congress can reduce unhealthy speculation that drives up the price of oil and other commodities by enacting financial transactions taxes. As a side benefit, such taxes would raise about \$150 billion a year in new revenue.

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<sup>5</sup> Labation, Stephen. "Accounting Plan Would Allow Use of Foreign Rules." *New York Times*, July 5, 2008.

<sup>6</sup> Pollin, Robert, Dean Baker and Mark Schaberg. "Securities Transaction Taxes for U.S. Financial Markets." Amherst, MA: Political Economy Research Institute, University of Massachusetts, September 30, 2002.

## **Inflation: The Fed Should Resist Calls to Tighten Monetary Policy**

U.S. and world financial markets would be in much better shape today if the Greenspan Fed had acted aggressively to counter the stock market and housing bubbles. Instead, Greenspan adopted the policy of letting these massive financial bubbles just run their course with the idea that the Fed would pick up the pieces after the fact. This approach was incredibly foolhardy, which should now be apparent to everyone, at least in retrospect. These bubbles have done far more damage than could possibly have resulted from the modest fluctuations in the inflation rate, which were the Fed's main concern over this period.

But this history cannot be rewritten. Tightening up on monetary policy now can only make a bad economic situation worse. Higher interest rates would exacerbate the housing crisis by raising the cost of borrowing for a mortgage and making it more difficult for buyers to qualify. Higher interest rates would also extend the time needed to work off the backlog of unsold homes even if home prices continue to fall. And, higher interest rates would also pinch consumers by making it more difficult for them to borrow to purchase automobiles or other durables, or to service their existing debts.

Most importantly, higher interest rates would hurt manufacturing by increasing the exchange value of the dollar. While some might welcome a stronger dollar, the effect would be to choke off the incipient recovery in manufacturing exports just getting underway, fueling the unsustainable trade deficit, and setting up an even harder landing for the dollar in the future. The inflation from a falling dollar is inevitably the price to be paid for the short-sighted high-dollar policy begun in the late '90s. Just as large tax cuts unmatched by spending cuts will inevitably require large tax increases at some point in the future, an over-valued dollar inevitably requires that the dollar falls at some future point in time. We do ourselves no favor by delaying this adjustment process. Maintaining the over-valued dollar will slow the correction in the trade deficit, leading in the future to an even deeper and longer recession than the downturn that is currently underway.

Working- and middle-class Americans, their economic fortunes already threatened by falling house prices, tight credit, declining real earnings, and waning job opportunities would again be the foot soldiers in any war on inflation fought with tighter monetary policy and an increase in interest rates. The collateral damage to working families from the higher food, fuel and import prices can best be addressed by expanding programs such as school lunches, food stamps, and the low-income heating and energy assistance program (LIHEAP). In a similar vein, Senator Obama has proposed another round of tax rebates directed at low- and moderate-income families to help them deal with rising food and energy costs.

## **Fiscal Relief for the States**

Hospitals and healthcare and state and local government are virtually the only remaining bright spots in the national employment picture. But employment growth in these jobs so far this year has depended almost entirely on state expenditure levels set out in last year's state budgets, before the economic downturn began to play havoc with state tax revenues. A new fiscal year began in most states and localities on July 1, 2008. This fiscal year, 29 states and the District of Columbia face a combined shortfall of \$48 billion in tax revenues to meet state and local needs. States are closing this gap by cutting spending and public payrolls. States are targeting budget cuts to public spending on health (13 states), elderly and disabled services (6 states), K-12 education (10 states), colleges and

universities (16 states), and state workforce reductions (13 states).<sup>7</sup> In addition to reducing vital services, these cuts will result in losses in both public- and private-sector jobs. In the absence of federal assistance to the states, these job losses will continue this year and next, as rainy day funds are exhausted and state revenues only slowly recover from the downturn.

As states take steps to balance their budgets, jobs in health, social assistance, and state and local government will be axed – jobs overwhelmingly held by women. Budget rules force states to take these actions despite the fact that this will only deepen the recession. Congress can provide help to the states to avoid some of these cuts by enacting a state fiscal relief package that provides targeted, temporary assistance to states in which employment is stagnant or declining, or in which property values are declining precipitously. This will lessen states' need to cut services and increase job losses. Fiscal relief could be divided between a temporary increase in the federal share of health programs such as Medicaid and SCHIP, and general grants to states to enable them to maintain other critical programs. Such a package would lessen the need for states to take actions that only exacerbate the recession and make economic recovery more difficult.

In the last recession, Congress passed a \$20 billion state fiscal relief package. That legislation provided states with \$10 billion for Medicaid and \$10 billion for other programs. While it was passed towards the end of the downturn, the package nevertheless averted an even worse impact on service cuts and job losses as states exhausted their rainy day funds. Similar legislation today, passed in a timely manner and targeted to states that are feeling the effects of the economic downturn, would cover about two-fifths the projected state shortfall for the 2008-2009 fiscal year; a \$35 billion package would cover over half of the expected shortfall and a \$48 billion package would cover the entire expected gap. Such action would not only benefit women and families by reducing cuts in services and employment on which they depend, but would help the economy by shortening the recession and preventing it from becoming even deeper.

## **Green Stimulus: Invest Now in Both the Economy and the Environment**

Climate change poses huge challenges for the United States, but also presents unique opportunities to create a modern infrastructure and strengthen the economy. Green strategies such as retrofitting buildings to improve energy efficiency, expanding mass transit, and increasing reliance on renewable energy will provide jobs in a wide range of familiar occupations, from sheet metal workers and building inspectors to machinists and truck drivers.<sup>8</sup> These occupations, employing mostly men, have suffered major job losses in the current labor-market downturn. A green stimulus could be the silver – or is it green – lining in an otherwise dismal economic picture.

A one-time grant from the federal government to mass transit agencies to reduce fares would quickly put money in the pockets of mass transit riders – stimulating consumer spending while, at the same time, stimulating increased use of public transportation. Transit riders take approximately 10 billion trips a year on buses, light rail, commuter trains or other forms of mass transit. If these fares can be cut by an average of 70 cents per ride, this would directly put money in the pockets of mass transit users. For someone who takes mass transit to and from work each day, this would amount to an annual savings of about \$350.

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<sup>7</sup> Lav, Iris J. and Elizabeth Hudgins. "Facing Deficits, Many States Are Imposing Cuts That Hurt Vulnerable Residents." Washington, DC: Center on Budget and Policy Priorities, April 15, 2008, updated July 2, 2008; McNichol, Elizabeth C. and Iris J. Lav. "25 States Face Total Budget Shortfall Of At Least \$40 Billion In 2009; 6 Others Expect Budget Problems." Washington, DC: Center on Budget and Policy Priorities, April 29, 2008, updated July 2, 2008.

<sup>8</sup> Pollin, Robert and Jeannette Wicks-Lim. "Job Opportunities for the Green Economy." Amherst, MA: Political Economy Research Institute, University of Massachusetts, June 2008.

**TABLE 1**  
**Breakdown of \$100 Billion Stimulus Package** (billions of dollars)

Modernization of Unemployment Insurance (UI)	25
Food Stamps	7
School lunches	3
LIHEAP	3
Green stimulus	
<i>Public Transportation</i>	7
<i>Energy Conservation</i>	15
Green public investment	5
Aid to states	35
<b><i>Total stimulus</i></b>	<b><i>100</i></b>

Source: Authors' calculations

Extending and expanding the 2005 tax credits to homeowners and businesses for renovation and improvements that increase energy efficiency can reduce greenhouse gases and provide jobs that would re-employ many of the laid-off workers in construction and building contractors – electricians, heating and air conditioning installers, carpenters, construction equipment operators, roofers, insulation workers, carpenter helpers, industrial truck drivers, construction managers, and building inspectors.<sup>9</sup> The 2004-2006 tax credit for installing energy efficient improvements to homes or businesses unfortunately had only a limited impact because the credit was too small and the home building boom was in full swing. A more generous 30 to 40 percent tax credit up to a maximum, perhaps \$5,000, should be an incentive to homeowners and companies to retrofit their homes and companies, and should prove to be an attractive business opportunity to contractors in the current economic environment.<sup>10</sup>

## Green Public Investment

Just as there are many low-cost opportunities for the private sector to achieve substantial energy savings, there is much low-hanging fruit in the public sector as well. Many public buildings – offices, schools, and airports – can achieve substantial reductions in energy use with limited investments in increased insulation, energy-efficient lighting, and other measures.

Congress can accelerate this process as part of a stimulus package, for example, by establishing a \$5 billion matching fund for spending on energy-conserving projects that take place prior to the end of 2009. In order to maximize the extent to which the funding provides a real stimulus in the period through the end of 2009, the grants can be structured so that they only match actual outlays for repairs and improvements. Establishing a rule that the federal matching funds would only apply to work actually completed by the end of 2009 would minimize the risk that money appropriated as part of a stimulus package would not be used for this purpose.

<sup>9</sup> Ibid

<sup>10</sup> The Green Jobs Act, which will provide \$125 million for training workers for jobs associated with reducing energy use, is a helpful measure towards creating jobs in the process of conserving energy. This measure is tied in with the FHA mortgage bill that is likely to be approved this month. The Clean Energy Tax Stimulus Package, which would extend the 2004-06 tax credits, is also included in the FHA bill.

## Working Family Policies: Helping Families Cope

Today's heightened risks of unemployment or reductions in hours and earnings is occurring at a time when working families have less wealth and resources to draw on and more difficulty obtaining access to credit and loans to tide them over.<sup>11</sup> The result is an increase in economic insecurity even among families that have not personally suffered a job loss. Women and other workers with care-giving responsibilities know they are only an illness or accident away from facing a critical situation at home that requires urgent attention and can cost them their paychecks or even their jobs. For them, the current downturn is especially threatening. In this economic environment, workers who lose their jobs, even for compelling family reasons, face a daunting task finding employment again when the family crisis passes. Moreover, such career breaks have a devastating effect on subsequent lifetime earnings – for men as well as women, although it is mostly women who take time off when a child or parent falls seriously ill, and only women that need to take time off for childbirth.<sup>12</sup>

It is thus critically important that Congress pursue policy options that reduce the likelihood that women and other workers will lose their incomes or their jobs because of sickness or care-giving responsibilities. Most families rely on the earnings of every available adult to make ends meet; for two-earner families, the downturn in the labor market poses twice the risk. Yet, workers must also be responsible family members. Many important bills are before Congress that can reduce the financial insecurity of working families.

The Unemployment Insurance Modernization Act would enable workers who leave their jobs for compelling family reasons to qualify for unemployment insurance benefits and would provide such benefits to workers only available for part-time employment. Modernization of unemployment insurance would extend benefits to about half a million low-wage or part-time workers.<sup>13</sup>

The Healthy Families Act would provide workers with a minimum number of paid sick days. Nearly half of private-sector workers in the United States currently have no paid sick days, and 94 million working people lack paid sick days to care for a sick child or family member.<sup>14</sup> The Healthy Families Act would guarantee seven paid sick days per year for full-time employees, and a pro-rata number for part-time employees. It would guarantee paid sick days to recover from an illness, to care for a sick family member or to attend doctor visits.

The Family and Medical Leave Act (FMLA), which became law in 1993, has helped working families meet the demands and fulfill the responsibilities of both work and family. Eligible employees can take up to 12 weeks of unpaid leave to care for a new child, care for a seriously ill family member, or to recover from a serious illness or medical condition, and have the right to return to their previous or an equivalent job. The leave, however, is unpaid, making it difficult for many workers to afford to take it, and creating serious financial difficulties for those that do use it. The Family Leave Insurance Act would enable workers to draw partial wage replacement from an insurance fund jointly funded by employers and employees for up to eight weeks while on an FMLA leave.

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<sup>11</sup> Baker, Dean and David Rosnick. "The Impact of the Housing Crash on Family Wealth." Washington, DC: Center for Economic and Policy Research, July 2008.

<sup>12</sup> Hartmann, Heidi and Stephen Rose. "Still a Man's Labor Market: The Long Term Earnings Gap." Washington, DC: Institute for Women's Policy Research, July 2004.

<sup>13</sup> Emsellem, Maurice and Omar Semidey. "Federal Jobless Benefits Will Stimulate the Economy While Helping Over Three Million Jobless Families Who Will Run Out of State Benefits This Year." Washington, DC: NELP, February 12, 2008.

<sup>14</sup> Lovell, Vicki. "No Time to Be Sick: Why Everyone Suffers When Workers Don't Have Paid Sick Leave." Washington, DC: Institute for Women's Policy Research, May 2004.

The Federal Employees Paid Parental Leave Act, which recently passed in the House, would provide federal workers with up to 4 weeks of paid leave to care for a new or seriously ill child.

All of these are important initiatives currently before the Congress. Prompt passage can relieve some of the economic anxiety that is worrying working families and undermining consumer confidence. This legislation can help workers sustain a continuous attachment to a job rather than confront unemployment in these uncertain times. Workers should not have to choose, as so many still do, between a paycheck and their families. They should not have to come to work sick, endangering the health of customers, clients, and co-workers in order to keep their jobs. Passage of the Healthy Families Act and the Family Leave Insurance Act would reduce working families' economic insecurities and make it easier for women and others with family responsibilities to sustain continuous employment when illness strikes.

## Long-Term Unemployment

One of the key distinguishing features of the current downturn is the severity of long-term unemployment. In June 2008, the average duration of unemployment was 17.5 weeks compared with 12.8 weeks in March 2001, when the last recession began. Nearly 1.6 million unemployed workers were out of work and looking for jobs for more than 26 weeks in June compared with 696,000 in March 2001. An estimated 1.7 million more workers,<sup>15</sup> for a total of 3.3 million, will exhaust state jobless benefits between July and December of this year. Congress is to be congratulated for passing a 13-week expansion of unemployment insurance benefits on June 27. This will provide a further stimulus to the economy, help to sustain consumer confidence and spending, and help the unemployed keep up with mortgage payments and avoid foreclosure of their homes.

In light of the extended period of dislocation in the labor market currently anticipated, this is, unfortunately, likely to prove insufficient. Another round of extension of UI benefits, with additional help for states suffering from high unemployment, will be necessary. Moreover, the unemployment-insurance system needs to be modernized. Low-wage workers are twice as likely to lose their jobs, but only a third as likely to collect UI benefits, as higher paid workers.<sup>16</sup> The House recently passed legislation to provide incentive grants to states to modernize UI. If this bill became law and was adopted by the states, 500,000 low-wage and part-time workers would become eligible to receive UI benefits.<sup>17</sup>

## Conclusion

The current downturn was caused by serious failures of public policy, which allowed a massive housing bubble to grow unchecked. This bubble propelled the economy through most of this decade, providing the fuel for the recovery from the last recession.

Unfortunately, the gains were ephemeral. The wealth was not real. The collapse of the bubble has sent house prices tumbling. The process has devastated the construction sector and has already destroyed more than \$5 trillion in housing wealth. This vast sum of lost wealth will force a pullback in consumption as households struggle to rebuild their savings before retirement. The cascade of bad debts resulting from this loss of wealth is the root cause of the financial turmoil – the subprime

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<sup>15</sup> Emsellem and Semidey, op. cit.

<sup>16</sup> Ibid

<sup>17</sup> Ibid

crisis and the credit crunch – that has already brought down Bear Stearns and IndyMac, and threatens to bring down many other major financial institutions.

The economy will need many years to fully recover from the bursting of the housing bubble. It will almost certainly be impossible to avoid a recession, and there is nothing that can be done to restore the wealth lost in the collapse of the bubble. However, if Congress moves quickly, as it did last winter, it can pass measures that will reduce the pain and hasten the recovery.