The Bad Job Numbers and the Secret Second Stimulus

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The Labor Department reports that 85,000 jobs were lost in December. The official rate of unemployment (which measures how many people are looking for jobs) held steady at 10 percent nonetheless. That's because so many more people have stopped looking. Reportedly, 661,000 Americans dropped out of the labor force last month, deciding there was no hope of finding a job. Had they continued to look, the official unemployment rate would have been 10.4 percent.

These statistics mask an even more troubling reality. Since the start of the recession in December 2007, around 8 million jobs have been lost. But this doesn't include all the people who, in a growing national population, would have entered the labor market had there been jobs for them. These "never entereds" amount to an estimated 2.5 million. So, in truth, the national economy is down by 10.6 million jobs overall. There's no way to make this up for years.

The most painful political truth for Democrats is the nation won't possibly be out of this jobs hole by the presidential election of 2012, even if the recovery is vigorous. Do the math. In order to get out of the hole, we'd need an average monthly increase of 400,000 jobs between now and then. But even at the peak of the 1990s jobs boom, the highest we ever got was 280,000 jobs a month. At the peak of the last recovery, in 2005, we got no higher than 212,000 jobs a month. Bottom line: Obama will be going into an election year with a higher total level of unemployment than before the Great Recession. He will have to argue that, were it not for his policies, things would be even worse. Counter-factuals like this do not sit well on bumper stickers.

Almost 40 percent of the jobless have been without work for over six months. That's a record. People who have been out of the labor force for more than six months have a particularly hard time getting back in. Many never do.

What worries me most about all this is the trend line. If we were coming out of a recession with any potential strength in the job market, we'd at least see growth in the length of the average workweek. But there's no sign of any growth. The average workweek held steady in December at 33.2 hours. Employers aren't even giving their own workers more hours.

Big American companies are more profitable, to be sure. But there's a massive disconnect between profitability and employment. Companies are increasing profits by cutting their costs (including payrolls), outsourcing more jobs abroad, and selling more abroad. But American workers -- and, therefore, American consumers -- are still stuck in a deep recession.

Only two things are keeping unemployment from rising more: The stimulus package, which is approaching its peak spending; and the Fed, which continues to keep a loose rein on the money supply and buy up mortgage-backed securities. After December's discouraging job's report, don't expect the Fed to tighten any time soon -- probably not until after the middle of 2010, at the earliest.

What about fiscal policy? A second stimulus? Yes, to this extent: Democrats are looking into the cross-hairs of a mid-term election that won't be pretty, to say the least. Pelosi has to hold on to 40 seats. In the Senate, Dodd's and Dorgan's departures pose a huge problem. Without 60 reliable votes, the Senate Democrats won't be able to do much of anything. Rarely in history have the Republicans in both chambers been so relentlessly united. The dismal jobs picture makes Republicans salivate over 2010 and 2012. Democrats know they have to do something to show voters they're focused on jobs. A victory on health care won't cut it.

So expect the Democrats to move toward more spending -- more unemployment benefits, more cash for clunkers, more help for small businesses, maybe a new jobs tax credit. A larger defense budget will also be part of the stimulus. But don't expect any of this to be dressed up as a "second stimulus package." That would give Republicans too much ammunition to attack Dems as big spenders and try to focus the public's attention on the widening deficit and growing federal debt.

The truth, of course, is that the most important fiscal indicator is the ratio of the debt to the GDP. And the most important issue there is how quickly America can get jobs back and the GDP growing again. More spending in the short term is the only way to accelerate a jobs recovery, and reduce the debt-GDP ratio over the longer term. In other words, more deficit spending is a good thing to do now, a but a bad thing three or four or five years from now when the economy is back to normal. (I should admit at this point that I don't think we'll ever get back to "normal" because I believe "normal" got us into the pickle we're now in, but I'll save this for another time.) Yet Republicans will demagogue the deficit and debt like mad in coming months.

I hope the President doesn't take the bait and begin talking about deficits and debts, when he should be talking only about creating more jobs. How issues are framed for the public makes all the difference.

Cross-posted from RobertReich.org