

Looking at the Economy through a New Lens Or The Big Price of Bad Jobs

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There are a lot of places to point fingers when trying to assign responsibility for recent failures of major corporations and the perceived need for a “bailout” of other institutions.

Among those who deserve some of the blame are employers, particularly those who pay low-wages and don't offer employment benefits like health care and paid sick days. One in three jobs – over 40 million in our economy – pay low-wages, and most of these are without benefits.

In recent years, wages for these jobs, like too many middle income jobs as well, have been flat or even declining. At the same time, costs for gas, food, and other everyday expenses have continued to rise.

Workers were forced to go into debt to cover this loss in purchasing power. People at all income levels borrowed against the home equity that they had accumulated within the housing bubble in order to pay for cost increases. This debt, over time, artificially inflated the economy to levels sustained only by consumers' willingness, and need, to assume more debt. Workers across the country have found themselves spending on credit to survive while saddled in a spiral of ever decreasing net worth – and for it, everyone has suffered.

My colleague Dean Baker, at the Center for Economic Policy Research, put it [this way](#):

The main cause of the economy's weakness is not insolvent banks and lack of credit; it's the loss of \$4 trillion to \$5 trillion in housing equity as a result of the bubble's partial deflation. Families used their equity to support their consumption in the years from 2002 to 2007, as the savings rate fell to almost zero.

With much of this equity now eliminated by the collapse of the bubble, many families can no longer sustain their levels of consumption. The main reason that banks won't lend to these families is that they no longer have home equity to serve as collateral. It wouldn't matter how much money the banks had, they are not going to make mortgage loans to people who have no equity.

And house prices are not going to come back. This is like Pets.com. We are not going to get the price of \$200,000 homes in central California back up to \$500,000.

The main problem in recovering from the recession will be finding ways to boost demand other than household consumption.... In the short-run, we will have to rely on government stimulus to help spur growth and reduce unemployment.... demands for stimulus were not extraneous to the legitimate goal of a bank bailout bill. Fiscal stimulus must be central to any serious effort to boost the economy.

With workers stuck in bad jobs and prices soaring, no one's debt is going to disappear. It will take bold policy changes, to effect the kind of change we need.

To strengthen the labor market, policymakers could 1) make changes and extensions to unemployment insurance options, 2) invest in good jobs created to strengthen our infrastructure, build green, and improve transit options, and 3) guarantee paid sick days for all workers. Any of these improvements would strengthen our economy for all of us.