When Will Hiring Improve?

By Harlan Green

All eyes are focused on the jobs market as September's unemployment report showed progress in private hiring, but a loss of 50,000 education jobs, as states and local governments sliced more than 159,000 jobs off their payrolls. On the positive side, national private nonfarm employment continued to rise, advancing 64,000 in September, following a revised increase of 93,000 the prior month.

Private service-providing jobs gained 86,000 after an 83,000 increase in August. The rise was led by a 38,000 boost in leisure & hospitality jobs. Other increases were scattered by category. Temp help services advanced another 17,000 after gaining 18,000 in August. This category typically is a leading indicator for permanent job hires or layoffs but companies are still more skittish than usual about adding permanent positions.

The jobs deficit from this recession is much larger than those in previous recessions. The economy would have to create an average of over 300,000 jobs a month for two years just to return to the December 2007 level of employment — and even more to restore full employment, since the population and potential labor force are now larger. Most forecasters expect the economy to grow much more slowly than that, especially as the stimulus from the Recovery Act winds down.

Why is job formation so slow, when record corporate profits and a stock market rally pushing the DOW above 11,000? It has to do with the so-called "output gap" between potential and actual economic growth (measured as Gross Domestic Product, or GDP), which can be self-perpetuating without fiscal or monetary stimulus. The Great Recession has the greatest output gap since the 1930s, in part because of the busted asset bubbles, which reduced asset values without reducing debt.

In the second quarter of 2010, the demand for goods and services (actual GDP) was about $890 billion (7 percent) less than what the economy was capable of supplying (potential GDP) said the nonpartisan Center on Budget and Policy Priorities. This large output gap, which is manifested in a high rate of unemployment and substantial idle productive capacity among businesses, is the legacy of the Great Recession. Congressional Budget Office projections show the gap closing slowly over the next several years as actual GDP grows only moderately faster than potential GDP.

The real issue is how to stimulate that demand, which is the sum of consumer spending, private and public investments and net exports, as we have said in past columns. Since many consumers are tapped out, and businesses are waiting to see if there is any demand for their goods and services, government has to step in with investments—either by hiring more people, or investing in infrastructure, or in education and research.

And stimulus spending does work. The problem is there isn't enough of it to bridge the $trillions in lost output since 2008. Paul Krugman once estimated that up to $6 trillion in stimulus spending was needed. Government has maybe $3 trillion to date in direct spending, including ARRA and TARP programs, along with total Federal Reserve Treasury Bonds and mortgage backed securities purchases to keep interest rates at record lows. The Congressional Budget Office estimates the stimulus has created or saved up to 3 million jobs to date.

It is not possible to rerun history to know for sure what would have happened if policymakers had not responded to the economy's problems with significant financial stabilization and fiscal stimulus measures. However, Former Federal Reserve Vice Chairman Alan Blinder and Mark Zandi of Moody's Economy.com have done an econometric analysis which finds things would have been far worse with no policy response.

Blinder and Zandi say, the government's policy response "probably averted what could have been called Great Depression 2.0." They estimate that without TARP and the Recovery Act, GDP would have been nearly $1.4 trillion (in 2005 dollars) lower in the second quarter of 2010 than it actually was.

__Harlan Green__ is a syndicated columnist and the owner of Bankers Pacific Mortgage, Inc. Questions and comments are welcome, please email Editor@populareconomics.com

Around Town

Patterson Self-Storage and Santa Barbara Wine Storage

Mary Thomas has joined Patterson Self-Storage and Santa Barbara Wine Storage as an Assistant Manager. Mary is a native of California and is currently attending UCSB majoring in French. Previously she worked for Pacifica Suites in Goleta as a front desk Service Manager. Patterson Self-Storage and Santa Barbara Wine Storage are locally owned and operated by The Carey Group, Inc.

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Bankruptcy...

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is a liquidation bankruptcy in which assets like the actual home, bank accounts, stocks, tax refunds, cars and personal property may be collected and sold by a court-appointed trustee. The proceeds from these sales are used to pay creditors; if there isn't enough to pay off debts in full, any outstanding debts are wiped clean. If homeowners don't have a steady source of income, retain few assets and can't afford to keep the home, Chapter 7 may be the best choice, says Jason Biro, a former mortgage consultant and author of the book "Saving Your American Dream." To qualify, however, you must make less than the median income in your state.

Chapter 13, however, is a reorganization bankruptcy in which the court evaluates your income, assets, debts and financial records to determine a plan for repayment. All your income for the next three to five years goes toward basic living expenses and paying off your debt. Monthly payments are made to a court-appointed trustee who distributes the funds to creditors. After the initial three- to five-year period concludes, your remaining debt could be wiped clean, depending on state law, your creditors and the judge. Chapter 13 is often for those with a steady, reliable source of income who desire to keep their home. With this option, homeowners need to receive credit counseling in advance; determine what chapter they're eligible to file under based on a means test; file a petition, schedules and statement of financial affairs; and meet with a bankruptcy trustee. It's strongly advised to enlist a lawyer.

Before taking a drastic step toward bankruptcy, homeowners should first attempt a loan modification with their lender. Additionally, consult to a credit counseling agency that is rated highly by the Better Business Bureau and your state's Department of Consumer Affairs.

However, many industry experts, unfortunately, don't see rising bankruptcy numbers declining in the near future, says Howard S. Dvorkin, a CPA with Consolidated Credit Counseling Services, Inc., Fort Lauderdale, Fla.

"I foresee the level of bankruptcies increasing over the next 12 to 24 months," says Dvorkin. "The unemployment rate has not gone down, and without jobs people don't have money to pay their bills. Until the job sector can support Americans, people will continue to struggle."