New America Foundation

Part 1 of 6

Overview: The Great Recession Exposes Weaknesses in the American Social Contract

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Valuable research assistance for this series provided by Benjamin Kolansky

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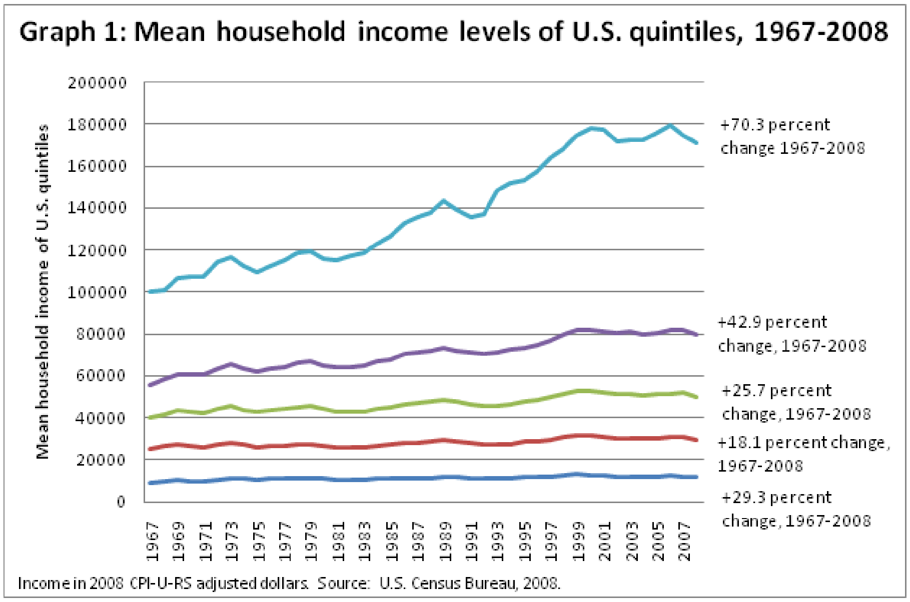
The Great Recession has exposed numerous flaws in our social contract – weaknesses that existed prior to the economic downturn – highlighting the need for changes in our system. This series of policy briefs explores the stresses on our social contract, and the policy changes that must be made to mend it. The six-part series includes:

- Overview: The Great Recession exposes weaknesses in the American Social Contract
- Economic security policies are too closely tied to employment
- The safety net for unemployed Americans is inadequate
- Problems with a state-based social welfare system
- The regressive delivery of social welfare benefits in the U.S.
- The ownership society is vulnerable during downturns: Pensions and home ownership

Growing Inequality

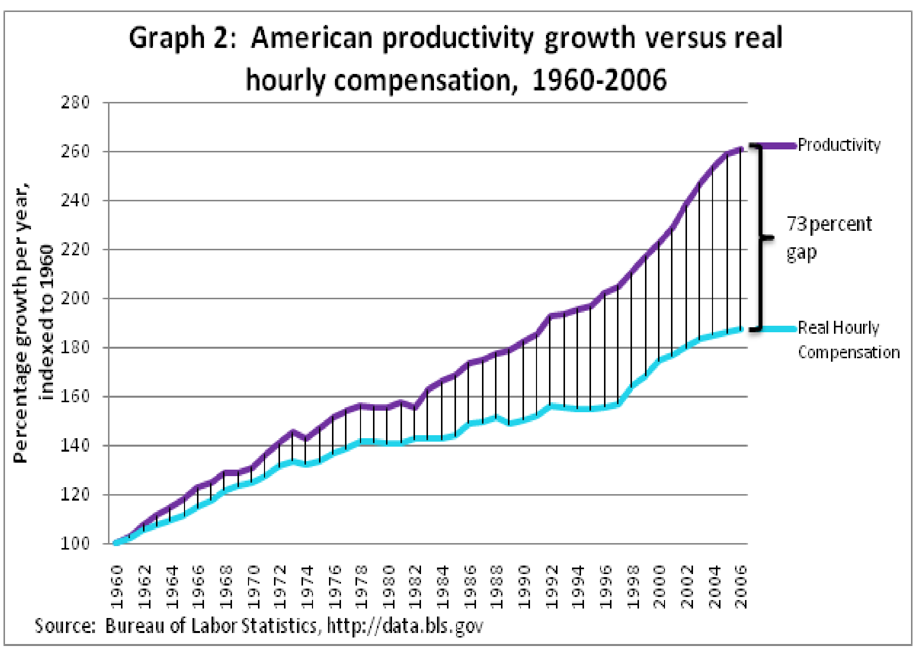
The Great Recession has exacerbated long-standing structural problems in the American social contract, one indicator of which is the growing level of inequality in the U.S.

The middle classes have been left behind by an increasingly rich top quartile of the U.S. This is partially due to the fact that American workers have not seen compensation increase at the same rate as productivity levels, as shown below.



Wage Stagnation

At the same time, wage stagnation is a problem faced by Americans: pay has not increased with inflation. Some workers are actually earning less today than they did forty years ago. For example, the real average weekly earnings of production and non-supervisory employees in 1964 were $313, but in 2010 are only $294.[1]

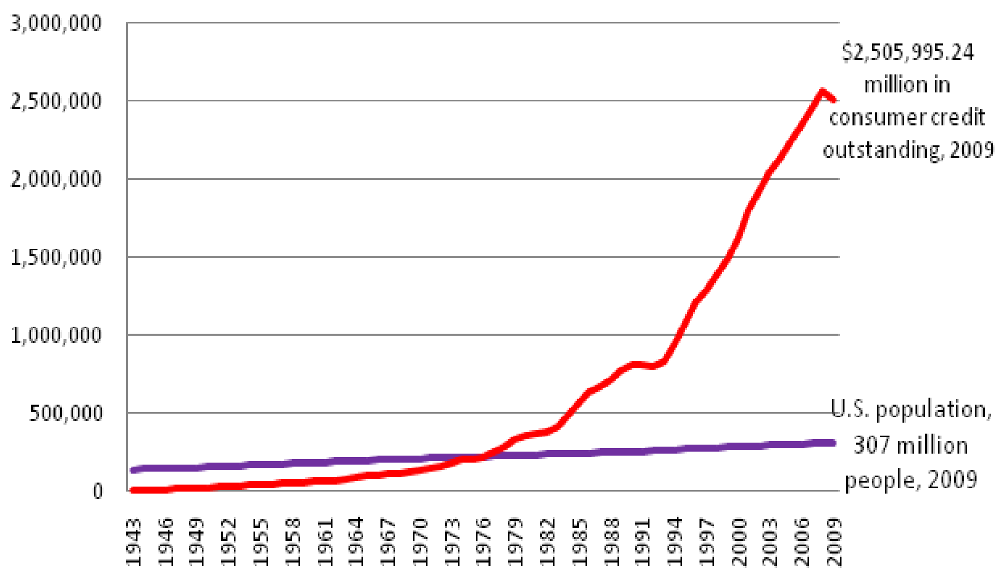


Increasing Household Debt

As a result, many Americans leveraged their home values to maintain their standard of living as actual wages fell. Over the past two decades, household debt has skyrocketed.

Homeowners who tapped their rising household value to supplement their cost of living have been hit hard by the recession. The Federal Reserve has estimated that homeowners lost $7.15 trillion in home equity from the beginning of 2006 to the end of 2009, a 53 percent drop.[2] Deutsche Bank predicts that the collapse of the housing bubble will lead to 25 million homeowners – almost half of all homeowners with mortgages – in negative equity, or with underwater mortgages, before 2011.[3]

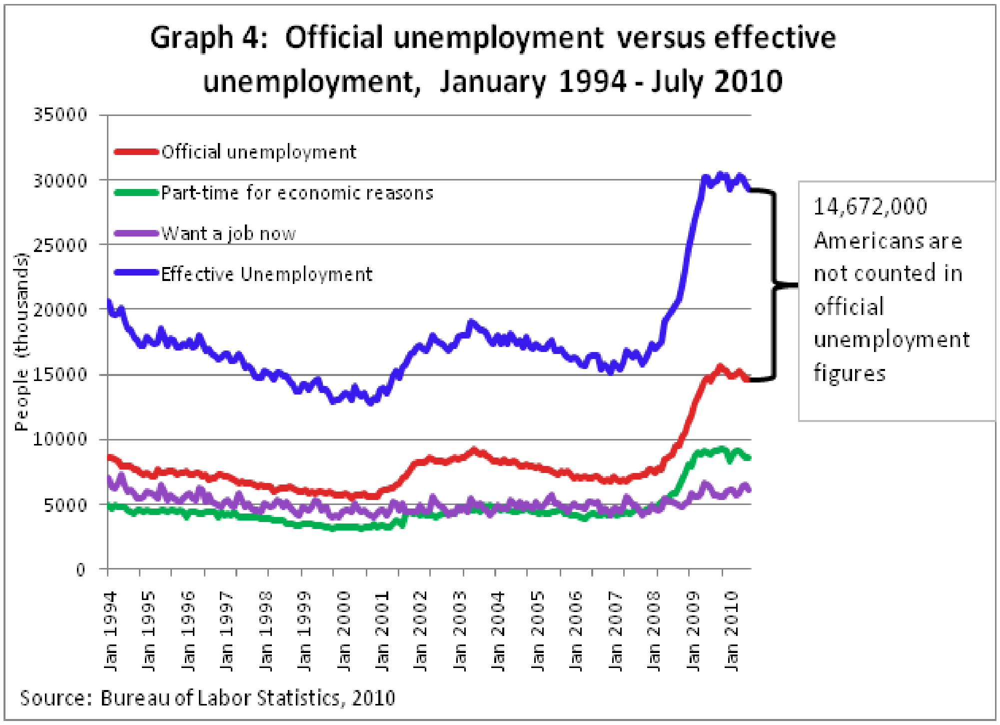
Graph 3: Household debt skyrockets in the past two decades



Sources: Debt: Federal Reserve Statistical Release, 2010. Population: Census.gov, 2010

Effects on Unemployment

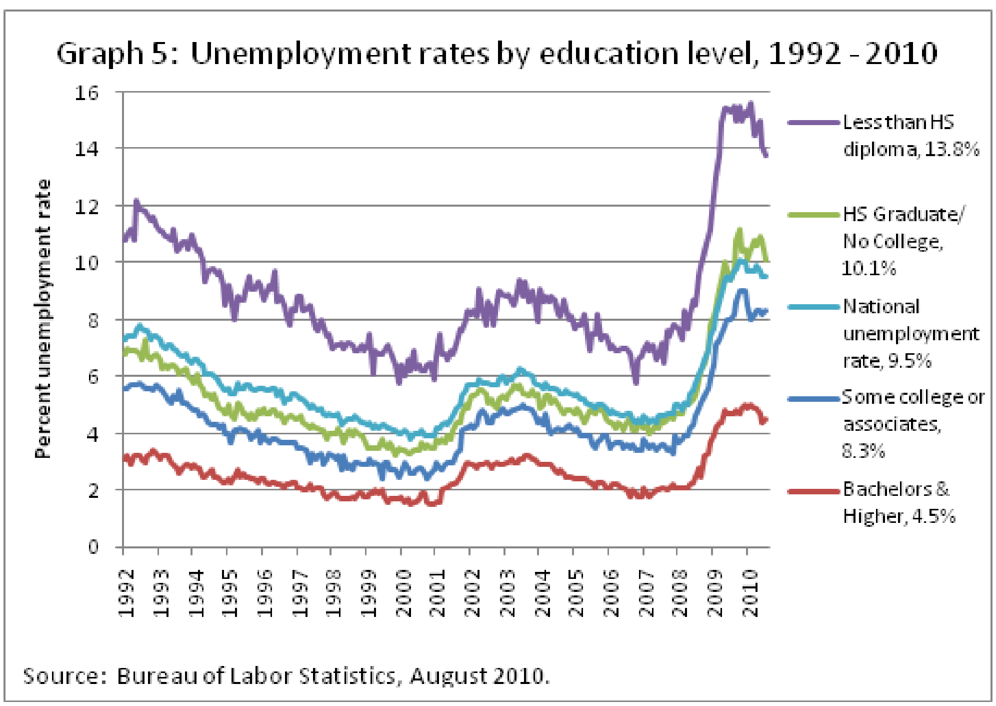
The private sector has lost almost eight million jobs since the start of recession.[4] However, official unemployment figures count only a narrow range of workers, and do not include those who work part time but would like full-time work (part-time for economic reasons), discouraged workers, or workers marginally attached to employment. While the official unemployment rate (U-3) was 9.6 percent in September 2010, the Bureau of Labor Statistic's broader measure of unemployment, U-6, which includes the officially unemployed, the marginally attached to the labor force, and those working part-time for economic reasons, was 17.1 percent.[5] When this broader measure of under- and unemployment is used, almost 15 million additional Americans would be considered unemployed, as shown in Graph 4.[6]



Unequal Employment

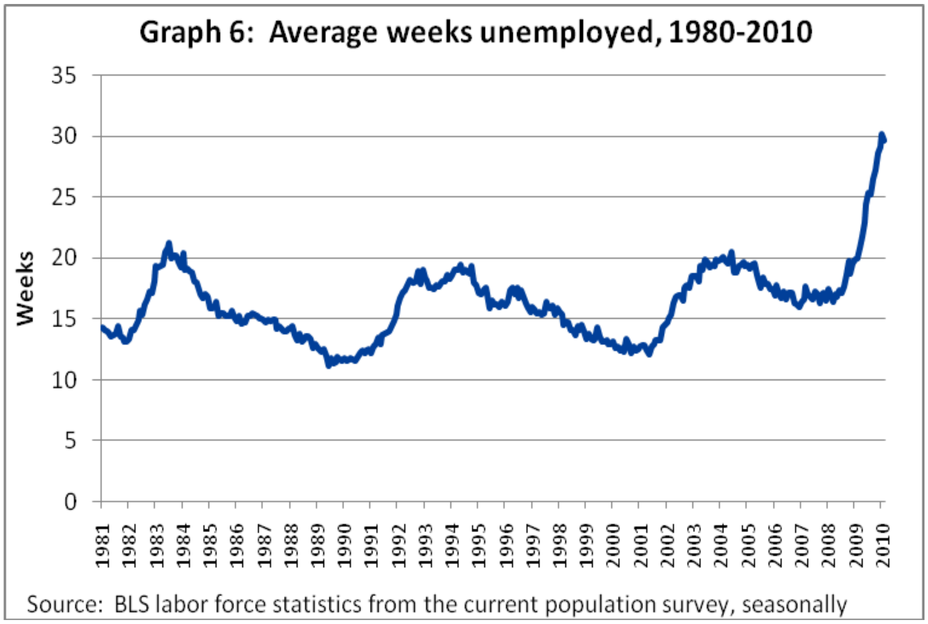
Low-skill workers have been hit especially hard by the Great Recession. Using education level as a rough correlation to skill level, Graph 5 shows that lower-skilled workers have a 10 percentage point higher unemployment rate than college graduates.

As of August 2010, African American unemployment is six percentage points above national unemployment at 15.6 percent. Hispanic unemployment, which in 2007 hovered around the 5 percent mark along with national unemployment, is now at 12.1 percent versus the national average of 9.5 percent.[7]



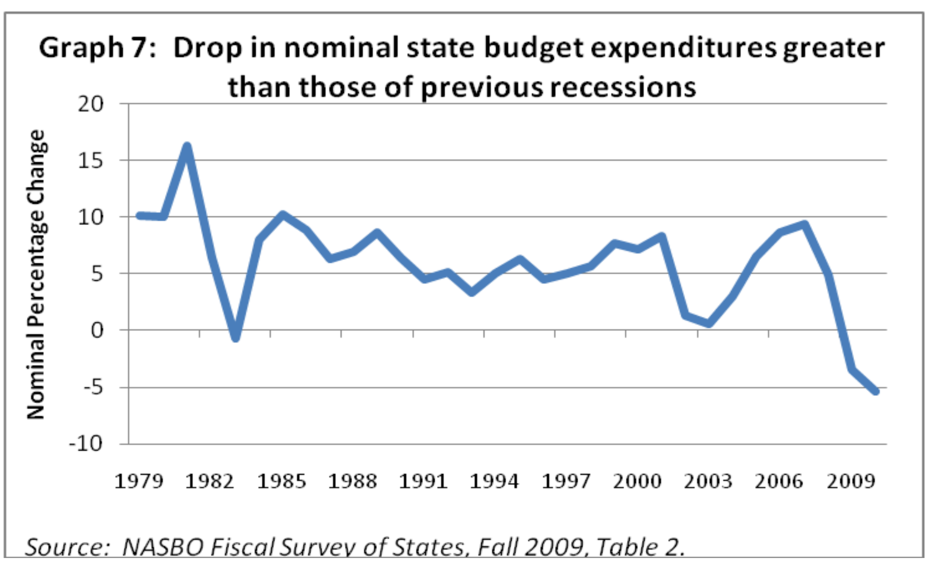
Long-term Unemployment

Unfortunately, the unemployed are staying jobless for longer and longer periods. Over 6.8 million Americans are considered to be 'long-term unemployed' – unemployed for over 27 weeks – as of June 2010.[8] As Graph 6 shows, these massive periods without work are unprecedented when compared to the average number of weeks unemployed in the recessions of 1981, 1990, and 2001.



Increase in Poverty

Lack of income and the narrow coverage and brief duration of unemployment insurance benefits has led to increases in poverty. Over 13 percent of Americans now live in poverty.[9] Child poverty has hit 19 percent, and the Foundation for Child Development believes that this recession will erase "virtually all" progress achieved in American families' economic well being since 1975.[10] States are responsible for many of the social welfare support programs that should keep Americans from falling into poverty. However, states are being forced to make draconian cutbacks in services when Americans most need them due to shrinking revenues and balanced budget requirements. The Great Recession has had a greater impact on state budget expenditures than previous recessions, as shown below.



Conclusion

Many of the current problems highlighted in this brief are the result of longstanding structural flaws in our economic and social welfare system. The Great Recession has simply exacerbated these issues.

This series will continue to explore the weaknesses in our social contract in our next brief, entitled 'Economic Security Policies are Too Closely Tied to Employment.'

[1] Bureau of Labor Statistics. March 2010. 1982-1984 dollars, seasonally adjusted.

[2] Federal Reserve. *Flow of Funds Accounts of the United States, Z.1.* March 11, 2010. Available at: <http://www.federalreserve.gov>

[3] Weaver, K. & Y. Shen. Drowning in Debt – A Look at "Underwater" Homeowners. Deutchse Bank. Securitization Reports. 5 August 2009.

[4] Bureau of Labor Statistics. Commissioner's Statement on the Employment Situation. July 2, 2010. Available at: <http://www.bls.gov/news.release/jec.nr0.htm>

[5] Bureau of Labor Statistics. Alternative Measures of Labor Underutilization, Table A-15. October 2010.

[6] "Effective Unemployment" measurement originally constructed by Leo Hindery.

[7] Bureau of Labor Statistics, January 2010.

[8] http://www.bls.gov/news.release/empsit.nr0.htm

[9] http://www.census.gov/prod/2009pubs/p60-236.pdf

[10] The 2009 Foundation for Child Development Child and Youth Well-Being Index (CWI) Report. Duke University. 2009.

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