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Moment of truth is at hand: Raise the debt ceiling limit

By Mark Zandi

Most times, the questions I'm asked as an economist are as wide-ranging as the groups I speak to. But these days, everyone asks the same questions: When will we get more jobs? Why aren't businesses hiring more? Where are the jobs going to come from? Can policymakers do anything to help?

Beneath these questions, of course, is the fear that more jobs aren't coming, ever. This is understandable. The recovery is two years old and the U.S. economy has added back fewer than 2 million of the almost 9 million jobs lost in the Great Recession. Even more worrisome, the number of people working today is about where it was in the late 1990s, though the working-age population and labor force have grown.

The result is painfully high unemployment and underemployment. The jobless rate is down from its double-digit peak, but it remains above 9 percent. The underemployment rate, which includes those who aren't working as much as they want to, is stuck at 16 percent. This represents an astounding 24 million Americans.

Nervousness about the job market runs even deeper than that. Among those who have jobs, more and more are unhappy with their employment situation but are afraid to act to change it. In a good labor market, lots of people quit jobs in hopes of finding a better one. That's not happening now. And of course, few who have jobs are seeing their pay grow very fast.

It may be difficult therefore to see how the job market will gain traction in the foreseeable future. Yet it will, most fundamentally because U.S. companies are in great financial shape. To be sure, big and midsize companies are doing a lot better than smaller ones, but as a group firms are profitable and have little debt. There is no longer a question that businesses can expand their operations and hire more, only a question of confidence.

The lack of confidence is in part a hangover from the Great Recession, which brought our biggest banks and businesses literally to their knees. The only salve for that nightmare is time.

The other weight on the collective psyche comes from the government's fiscal challenges. While Washington's response to the Great Recession saved us from a

much worse fate, there is no such thing as a free lunch. Unless policymakers make major changes to government spending and tax policy soon, another major financial crisis is inevitable.

This is the crux of the matter. Given our seemingly dysfunctional political process, business executives can't see how the Obama administration and House Republicans will come to terms. Businesses won't cut workers because they don't know how this is going to play out, but they also won't hire more until the picture clears. Breaking the budget impasse is thus key to getting more jobs.

The moment of truth is at hand. Some form of budget agreement must be achieved to raise the debt ceiling by late July, or financial markets will unravel and take the economy with them. While some policymakers may not believe this, most do, and odds are we will get an agreement and the debt ceiling will be increased. Policymakers will only outline a route to fiscal sustainability, but that should be enough, at least until after the presidential election.

I expect this will prompt businesses to hire more soon, and that confidence will start to improve soon thereafter, but I could be wrong. We will know more by the fall; if the economy does not pick up, policymakers should consider doing more.

Most important, and doable politically, Washington can extend the current payroll tax holiday another year. This tax cut likely saved us from a double-dip recession this spring when gasoline prices spiked to near \$4 a gallon. Extending the payroll tax cut through 2010 won't be cheap, but it will be a big help, particularly to hard-pressed working lower-income households.

Washington should also cut state governments a break on their busted unemployment insurance funds. States have borrowed from the feds to pay their share of UI benefits; unless they see some relief, they will have no choice but to raise taxes on businesses to pay Washington back. This burden will fall most heavily on firms that went through serious layoffs and are probably the most shaky.

Providing a bit more financial help to state and local governments would also help curtail their severe job cutting. Well over half a million teachers, firefighters, police, and other public employees have lost jobs over the last three years; without help another quarter-million will lose jobs over the coming year. Ending this job loss would go a long way to lifting the job market.

My expectations about our economic future are based on our historical experience. Our history strongly argues that when push comes to shove, we always find a way to do the right thing. I see no reason to expect otherwise now, as we debate the debt ceiling and how to create more jobs.

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