Testimony Before the National Commission on Fiscal Responsibility and Reform June 30, 2010

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Mr. Chairman and Members of the Commission, thank you for allowing me to testify today before the National Commission on Fiscal Responsibility and Reform. I am Michael Fisher, Jr., Public Policy Advocate in Justice and Witness Ministries of the United Church of Christ. The UCC is a 1.1 million-member Protestant denomination based in Cleveland, Ohio. Edith Rasell and I also prepared a written testimony and I hope you have it.

As in any traditional sermon, we bring a three-point message.

First, as long as the economy remains weak, the recovery uncertain, and unemployment high, the federal deficit must be maintained at its current level. When the economy is once again on a sound footing, we will need to substantially reduce the deficit. But at this time, a large deficit is necessary to promote a strong economic recovery and reduce the unacceptably high and destructive level of unemployment. Moreover, a strong economy is a prerequisite for deficit reduction.

Second, over the longer term, additional revenues must be found. The 2001 and 2003 “Bush” tax cuts must be allowed to sunset at the end of this year. In the very short term, this additional revenue should be used to stimulate the economy. Once the downturn is behind us, the added revenues will contribute to deficit reduction.

Third, the long term deficit is largely driven by the cost of health care. These high and rising costs threaten both the physical health of every individual and the fiscal health of our nation. Some small steps toward cost containment were taken in the health insurance reform bill enacted in March, but much more needs to be done. I hope this Commission will make the cost of health care a major focus of its work.

Maintain the Deficit until the Economy is Strong

As we are all very aware, unemployment is at record highs. Officially, about one in ten workers is unemployed. But in addition to the 15 million officially unemployed, we must include the folks without jobs and who want to work, but who fall outside the official count. We also must include those who work part time but want full-time work. Added together, the total number of unemployed and underemployed people approaches *one in every five potential workers*, nearly double the official count.[1]

In addition to unemployment, other workers have seen their hours reduced or their pay cut. Approximately 44% of households experienced either job loss or a reduction in hours.[2] One in eight people is on food stamps including one in four children.[3] One in nine families cannot make the minimum payments on their credit cards.[4] One in seven mortgages is in default or foreclosure[5] and over one-quarter of the unemployed are facing foreclosure or eviction.[6] The American people are hurting. Addressing the needs of these suffering people must be our nation's priority.

People of Color. Bad as they are, these grim numbers fail to fully describe the weight of the burden. Joblessness is not distributed equally across demographic groups but falls most heavily on people of color, young workers, and those without a college degree.

In May, official unemployment stood at 9.7%.[7] Among non-Hispanic whites, the official level (8.0%) is lower than the national average. But for African Americans, unemployment is roughly twice the rate for whites (15.5%) and among Hispanics it is about 50% higher than for whites (12.4%). While these are the official statistics, more inclusive and accurate rates of un- and underemployment are about twice these numbers. Thus, about one-third of African Americans and one-quarter of Hispanics are either un- or underemployed. These statistics disturbingly remind us of the Great Depression.

Young Workers. Especially hard hit are young workers. Among youth age 16-19, more than one-quarter (26.4%) are officially unemployed as are 14.7% of 20-24 year olds. Among workers age 25 and above, 8.7% are unemployed. Remember, the "actual" figures for un- and underemployment are roughly double these.

Workers under age 30 have borne nearly one-half of the net employment losses since the recession began.[8] Someone who graduates at a time of high unemployment faces significantly reduced earnings for *at least the next 15 years* and is more likely to work in a lower level occupation than his or her counterpart who graduated during better economic times.[9]

Long-term Unemployment. Nearly half of the officially unemployed have been out of work for six months or more, the highest share of long-term unemployment on record.[10] Among the out-of-work individuals who are no longer looking for work and therefore no longer counted among the officially unemployed, an even larger share would probably be among the long-term unemployed.

When unemployment persists for weeks and months, it is particularly devastating. In addition to the financial effects, the social and emotional impacts of unemployment are creating a mental health epidemic.[11] While some of the unemployed feel hopeful and eager for a new start, the majority is stressed, depressed, anxious, angry, and feeling hopeless.[12] For some people and communities recovery will take many years; for others, the effects will last a lifetime. For millions of people of all ages, the whole and holy life that is God's dream for each of us has, at least for a while, been lost.

Workers laid off during a recession who eventually find employment, on average, do not regain their old wage levels *even 15 to 20 years later*.[13] Their future earnings remain 15 to 20% below those of their peers who were not laid off.

Until the economy has regained strength and job creation is strong, our nation's primary concern must be to create jobs and put people back to work. This must take precedence over deficit reduction. Given the fragility and uncertainty of the economic recovery, at this time it is impossible to predict when the economy will be strong enough to withstand a reduction in the deficit. Without additional intervention, many experts expect high levels of unemployment to persist for the next few years. For example, the Congressional Budget Office does not expect unemployment to fall below 9% until 2012 and to reach 5% (the pre-recession level) only in 2016.[14] We applaud President Obama's firm refusal to call for immediate deficit reduction at the G-20 Summit.[15] At the same time, we regret his promise to halve the deficit by 2013. It is impossible to foresee when deficit reduction will be appropriate and serve to strengthen, and not harm, the economy and families in the U.S. and around the world.

Additional Revenue. Our large deficit is primarily due to the economic downturn: reduced tax revenues, increased spending on social safety net programs, and the costs of the Stimulus Bill and bank bailout. When the downturn ends, tax revenues will rise as more people work and spend, expenditures on safety net programs will fall, and the deficit will shrink markedly. *A strong economy is a prerequisite for deficit reduction.*

However there is also a need for additional revenue. Congress must allow the 2001 and 2003 tax cuts to sunset at the end of this year, as scheduled. In the short run, these enhanced revenues should be used for fiscal stimulus. As the economy returns to normal levels of activity, this revenue, nearly 2% of GDP, will significantly reduce the deficit.[16]

Health Costs Key to Deficit Reduction. In the longer term, the deficit is largely driven by high and rapidly rising health care costs. It is not the federal programs – Medicare, Medicaid, veterans' health care, and federal employees' health plans – that are driving up costs. Per person costs in Medicare have risen more slowly than costs in private health insurance. But it will be impossible to contain government health expenditures without also reining in costs in the health care system as a whole. The health care bill passed earlier this year was a small beginning. But much more is necessary. We urge the National Commission on Fiscal Responsibility and Reform to make health costs a primary focus of its work.

Endnotes

[1] Bureau of Labor Statistic, U.S. Department of Labor. 2010. "*Employment Situation – May 2010.*" June 4. Table A-1.http://stats.bls.gov/news.release/pdf/empsit.pdf

[2] Mishel, Lawrence. 2010. "Prospects for Employment Growth: Is Additional Stimulus Needed?" Testimony before the U.S. House of Representatives Committee on Financial Services, Feb 23, 2010, p.3. http://epi.3cdn.net/35f0af0ea5ced556dc_dbm6be4xr.pdf, p 3

[3] DeParle, Jason and Robert Gebeloff. 2009. "Food Stamp Use Soars Across U.S., and Stigma Fades." *New York Times.* November 29, A1.

[4] Lagorio, Juan. 2009. "U.S. credit card defaults up, signal consumer stress." Reuters, Sept 15. http://www.reuters.com/article/idUSTRE58E6LH20090915

[5] Mortgage Bankers Association. 2010. Press Release February 19. http://www.mortgagebankers.org/NewsandMedia/PressCenter/71891.htm

[6] Luo, Michael and Megan Thee-Brenan. 2009. "Poll Reveals Depth and Trauma of Joblessness in U.S." *New York Times*, December 15, A1.

[7] Bureau of Labor Statistic, U.S. Department of Labor. 2010. "*Employment Situation – May 2010.*" June 4. Tables A-2 and A-3, and author's calculations. http://stats.bls.gov/news.release/pdf/empsit.pdf

[8] Between November 2007 and April 2009, the last month analyzed. Sum, Andrew, Ishwar Khatiwada, et al. 2009. "The Great Recession of 2007-2009," Center for Labor Market Studies, Northeastern University, June, p. 19. http://www.clms.neu.edu/publication/documents/Great_Recession_of_20072009.pdf

[9] Researchers believe this is probably because people who graduate during a weak economy face a job market with fewer good options and take less preferred jobs, those with lower pay or outside the field for they were trained. Later after the economy improves, they are unable to fully shift into better jobs with repercussions that can last for years and even decades. Wage loss ranges from 1%-20% each year, relative to the cohorts with the minimum state and national unemployment rates. Kahn, Lisa B. 2009."The Long-Term Labor Market Consequences of Graduating from College in a Bad Economy" http://mba.yale.edu/faculty/pdf/kahn_longtermlabor.pdf Also see Murray, Sara. 2009. "The Curse of the Class of 2009," *Wall Street Journal* May 9. http://online.wsj.com/article/SB124181970915002009.html and Grandel, Stephen. 2010. "In a Tough Job Market, Teens Are Suffering Most", *Time*. Jan. 18. http://www.time.com/time/magazine/article/0,9171,1952331-2,00.html#ixzz0g1Mtl77f

[10] U.S. Department of Labor U.S. Bureau of Labor Statistics, "Long-term unemployment experience of the jobless." June 2010. http://www.bls.gov/opub/ils/pdf/opbils82.pdf

[11] Deprez, Esmé E. "Study Shows Psychological Impact of Unemployment" *Business Week* . September 3, 2009 http://www.businessweek.com/bwdaily/dnflash/content/sep2009/db2009092_648686.htm. Van Horn, Carl. "Recession, Recovery, and Regeneration: Workforce Development in the 21st Century" PowerPoint presentation http://www.heldrich.rutgers.edu/uploadedFiles/Publications/Van_Horn_NGA_Presentation.pdf

[12] Marsh, Bill. 2009. "Jobless, Sleepless, Hopeless." *New York Times* September 6.

[13] Luo, Michael. 2009. "Years After Layoffs, Many Still Struggle to Match Old Salaries." *New York Times* August 4, A1.

[14] Congressional Budget Office. *The Budget and Economic Outlook: Fiscal Years 2010 to 2020*, January 2010. Table E.1 pg 122. http://www.cbo.gov/ftpdocs/108xx/doc10871/01-26-Outlook.pdf

[15] Chan, Sewell and Jackie Calmes. "G-20 Countries Agree to Halve Budget Deficits." *New York Times*, p. A-1, June 28, 2010.

[16] Kathy Ruffing, Kris Cox and James R. Horney, "The Right Target: Stabilize the Federal Debt." Washington DC: Center on Budget and Policy, January 12, 2010. http://www.cbpp.org/cms/index.cfm?fa=view&id=3049