G20 Country Briefs

➡ United States

Argentina
Australia
Brazil
Canada
China
EU
France
Germany
India
Indonesia
Italy
Japan
Korea, Republic of
Mexico
Russian Federation
Saudi Arabia
South Africa
Spain
Turkey
United Kingdom

International Labour Office

G20 Meeting of Labour and Employment Ministers 20–21 April 2010 Washington, DC

THE UNITED STATES' RESPONSE TO THE CRISIS

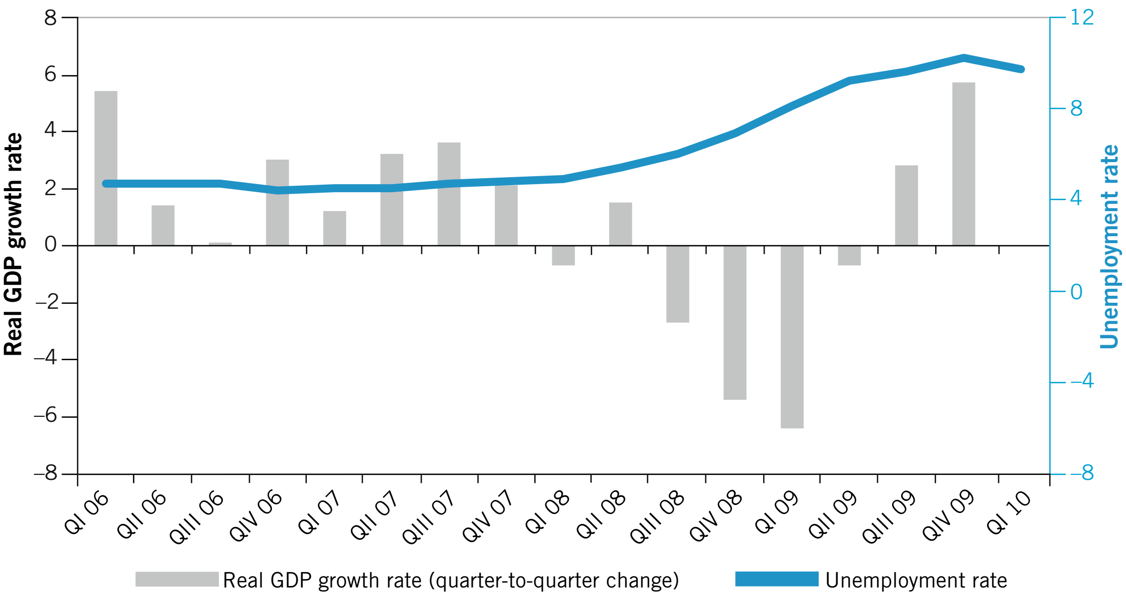
Steep rise in unemployment

The economic recession which began in December 2007 in the United States was followed by negative gross domestic product (GDP) growth during five of the subsequent six quarters (figure 1). Only in the third quarter of 2009 did positive growth return (2.8 per cent). The positive trend continued in the fourth quarter of 2009 (5.7 per cent), which was the best quarterly growth since 2003.

The United States enjoyed low unemployment rates of below 5 per cent in the two years prior to the crisis. The impact of the crisis on the labour market has been very pronounced. In the wake of the economic recession, the unemployment rate grew steeply, reaching a peak of 10.1 per cent in October 2009, the highest rate since 1983. A total of 8.4 million jobs have been lost since December 2007. In November 2009 job growth turned positive (64,000). However, the negative trend returned in December 2009 and January 2010 when the economy shed 150,000 and 20,000 jobs, respectively.

The unemployment rate in February 2010 was 9.7 per cent, a slight decline from 10 per cent in December 2009. In January 2010 the number of long-term unemployed (those jobless for 27 weeks or more) continued to rise, reaching 6.3 million, or 40 per cent of total unemployment. The number of discouraged workers grew to over 1 million in January 2010.

Figure 1. Monthly unemployment rate and quarterly real GDP growth rate, QI 2006 – QI 2010 (percentage)



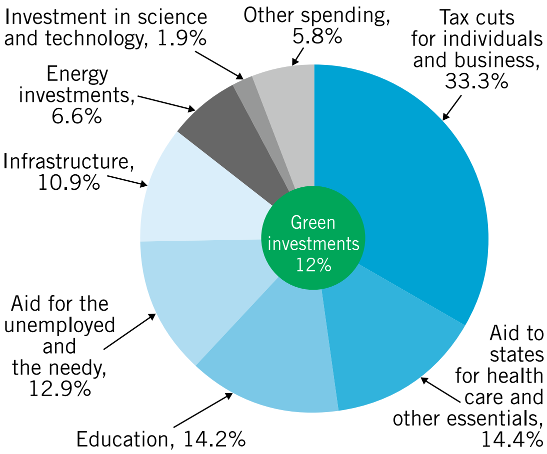
Source: Bureau of Economic Analysis and Bureau of Labor Statistics. Seasonally adjusted data.

THIS IS PART OF THE COUNTRY BRIEF SERIES, PREPARED BY THE ILO FOR THE G20 LABOUR AND EMPLOYMENT MINISTERS. EACH BRIEF PROVIDES AN OVERVIEW OF THE COUNTRY'S EMPLOYMENT SITUATION, DESCRIBES ITS RESPONSE TO THE GLOBAL FINANCIAL CRISIS AND LOOKS AT TWO SIGNIFICANT POLICY INTERVENTIONS.

Stimulus programme

On 17 February 2009, the United States signed into law the American Recovery and Reinvestment Act (ARRA) – a US$787 billion bill to stimulate the economy. The stimulus spending included: roughly US$300 billion in tax breaks for individuals and businesses; more than US$250 billion in direct aid to states and individuals; and almost US$200 billion to modernize and improve infrastructure (figure 2). While many of the components contain "green" investments, these comprise 12 per cent of the total stimulus spending. As of 30 September 2009, US$173 billion of the US$787 billion in Recovery Act funds had been paid out by the federal government.

Figure 2. Components of the American Recovery and Reinvestment Act (US$787 billion)



Source: ILO, based on Congressional Budget Office (United States) and the United Nations Environment Programme (UNEP).

The Recovery Act allocated US$82.5 billion in aid to strengthen social protection and improve employment prospects through labour market programmes. A number of these programmes have been quite effective in addressing the labour market and social challenges associated with the economic crisis, particularly the unemployment insurance programme; SNAP (formerly Food Stamps); COBRA, which continues access to health insurance for the unemployed; training grants for green jobs and emerging industry sectors; and work-sharing programmes.

Strengthening the social safety net

Unemployment Insurance Programme

The Federal-State Unemployment Insurance (UI) Programme provides benefits to eligible unemployed workers. States operate UI programmes under their own laws, which must conform to federal law. By temporarily replacing part of the unemployed worker's lost wages, the UI Programme seeks to minimize financial hardship resulting from job loss and helps to stabilize the economy during economic downturns.

On 17 February 2009, the ARRA authorized a temporary Federal Additional Compensation programme that provided a US$25 supplement to the weekly benefit allowance paid by states to eligible unemployed recipients through 31 December 2009. The estimated cost of the programme is US$8.7 billion.

Initial state benefits cover up to 26 weeks of unemployment, and federal aid is available after that. On 6 November 2009, UI was extended for those who had already exhausted their benefits or would have done so by the end of 2009. This provision extends federal jobless benefits by 14 weeks in all states and by 20 weeks for those living in states where the unemployment rate is 8.5 per cent or higher (for a maximum of 99 weeks).

SNAP

The Recovery Act also allocated an estimated US$48 billion to the Supplemental Nutrition Assistance Programme (SNAP), formerly known as the Food Stamp Programme. SNAP provides assistance to low-income families in the form of food vouchers. Almost all (97 per cent) SNAP benefits are redeemed in grocery stores and at farmer's markets within 30 days, providing a timely and much needed economic stimulus by helping low-income families purchase food. The Recovery Act also allocated nearly US$300 million to states for SNAP administrative expenses in fiscal years 2009 and 2010.

As of April 2009, monthly benefits for the 32.2 million recipients of SNAP increased by US$80. The average SNAP household now receives US$294 in monthly benefits, which is a 19 per cent increase over 2008. According to the Department of Agriculture, every US$5 in new SNAP benefits generates US$9.20 in total community spending.

COBRA

The Recovery Act, as amended on 19 December 2009, provides premium reductions for health benefits under the Consolidated Omnibus Budget Reconciliation Act of 1985, commonly called COBRA.

COBRA gives workers and their families who lose their health benefits the right to purchase group health coverage under certain circumstances. If the employer continues to offer a group health plan, the employee and his or her family can retain their group health coverage for up to 18 months by paying group rates. The COBRA premium may be higher than what the individual was paying while employed but generally the cost is lower when compared to private, individual health insurance coverage.

Eligible individuals pay only 35 per cent of their COBRA premiums and the remaining 65 per cent is reimbursed to the insurance provider through a tax credit. To qualify, individuals must have lost their job involuntarily during the period that began 1 September 2008 and ended on 28 February 2010. The premium reduction lasts for up to 15 months.

Training and job retention

Training grants for green jobs and emerging industry sectors

The ARRA allocated nearly US$4 billion for worker training and placement in green jobs and high-growth and emerging industry sectors, with emphasis on careers in energy efficiency and renewable energy.[1] These include:

- **AmeriCorps State and National Recovery Act Assistance (US$201 million)**: Current AmeriCorps grantees are eligible for additional funding. Among the jobs available to AmeriCorps personnel are job training and counselling activities and construction and rehabilitation of housing and other buildings.
- **Department of Labor Employment and Family Services Job Corps Centers (US$250 million):** Up to 15 per cent of these funds can be allocated to training programmes for careers in renewable energy, energy efficiency and environmental protection.
- **Housing and Urban Development Tribal Governments (US$40 million):** This is aimed at training tribal members in skills associated with the building trades, as well as training in environmental protection and renewable energy.
- **Workforce Investment Act (US$3.95 billion):** Of the US$3.95 billion, US$2.95 billion provides grants to the states for training and employment services. Of the remaining US$1 billion, US$750 million has been set aside for a programme of competitive grants for worker training and placement in high-growth and emerging industry sectors such as green jobs and health care.

Stimulus spending geared at training American workers for green jobs and emerging industries complements the more than US$60 billion spending to green the US economy – central to job creation efforts.

Work-sharing programmes

Seventeen states in the US offer some type of work-sharing programme in which employers can reduce their workers' weekly hours and pay by 20 per cent to 40 per cent, with the states compensating some of the lost wages, usually half, from their unemployment insurance funds.[2] This is particularly helpful for businesses who expect any workforce reductions to be temporary, as it allows firms to avoid severance costs and costs associated with rehiring and training. Workers, meanwhile, avoid financial and other hardships associated with layoffs. It is estimated that about 100,000 jobs have been saved because of this programme (figure 3).

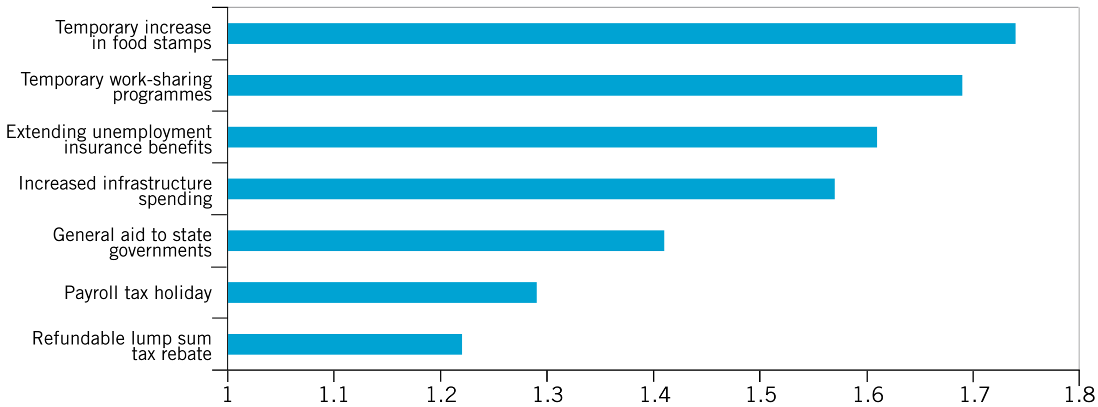
Even though the work-sharing programme has proven quite effective, only a fraction of the businesses and workers in the United States that are eligible are actually benefiting, which may be due in part to lack of awareness of the programme's existence.

Impact – Bolstering employment and growth

In spite of the difficulty in measuring the impact of ARRA on macroeconomic indicators at this juncture, the Congressional Budget Office estimates from September 2009, an additional 600,000 to 1.6 million people were employed in the United States because of the ARRA. Further, inflation-adjusted real GDP was 1.2 per cent to 3.2 per cent higher in 2009 than would have been the case in the absence of the ARRA.

One measure of the programmes' effectiveness is economic activity generated per federal dollar spent. By this measure, several components of the ARRA have yielded a return of more than 1 (figure 3). The most effective social programmes are the temporary increase in food stamps and the extension of unemployment insurance benefits. Likewise, among the labour market measures, the work-sharing programme has proven to be very effective. Infrastructure spending, which has a labour component in terms of job creation, has demonstrated some success in this regard.

Figure 3. The impact of ARRA by programme (dollar change in GDP for a given dollar reduction in federal tax revenue or increase in spending)



Source: ILO, based on Moody's.

Outlook and challenges

The current outlook is characterized by moderate economic growth, although the economy continues to shed jobs and the labour market remains weak. Year-over-year GDP growth in the fourth quarter of 2010 is forecast to be between 2.5 and 3.3 per cent. Meanwhile, the unemployment rate is expected to show a modest decline over the next two years.

As a result, the government has introduced recent initiatives such as a Jobs Bill totalling US$154 billion (approved by the US House of Representatives on 17 December 2009). In his January 2010 State of the Union Address, President Obama proposed new measures to assist small businesses access more credit and receive tax help to create private sector jobs and increased public investments in infrastructure, science, technology and research. He emphasized that it will be important to ensure that adequate and sustained attention is given to job growth, otherwise overall economic recovery prospects may weaken. Additionally, it will be important to bring individuals back into contact with the labour market sooner rather than later or risk future skills and labour mismatches. In this respect, investments in employment measures now could yield better returns than taking action later.

[1] For more details, see *Green Guide to the 2009 Stimulus Package* available at http://greenstimulusguide.com/

[2] The 17 states that currently have work-sharing programmes are: Arizona, Arkansas, California, Connecticut, Florida, Iowa, Kansas, Maryland, Massachusetts, Minnesota, Missouri, New York, Oregon, Rhode Island, Texas, Vermont, and Washington.