Economic Policy Institute

THE UNFINISHED MARCH FOR JOBS

Focus of U.S. Fiscal Policy Must Shift Back to Full Employment

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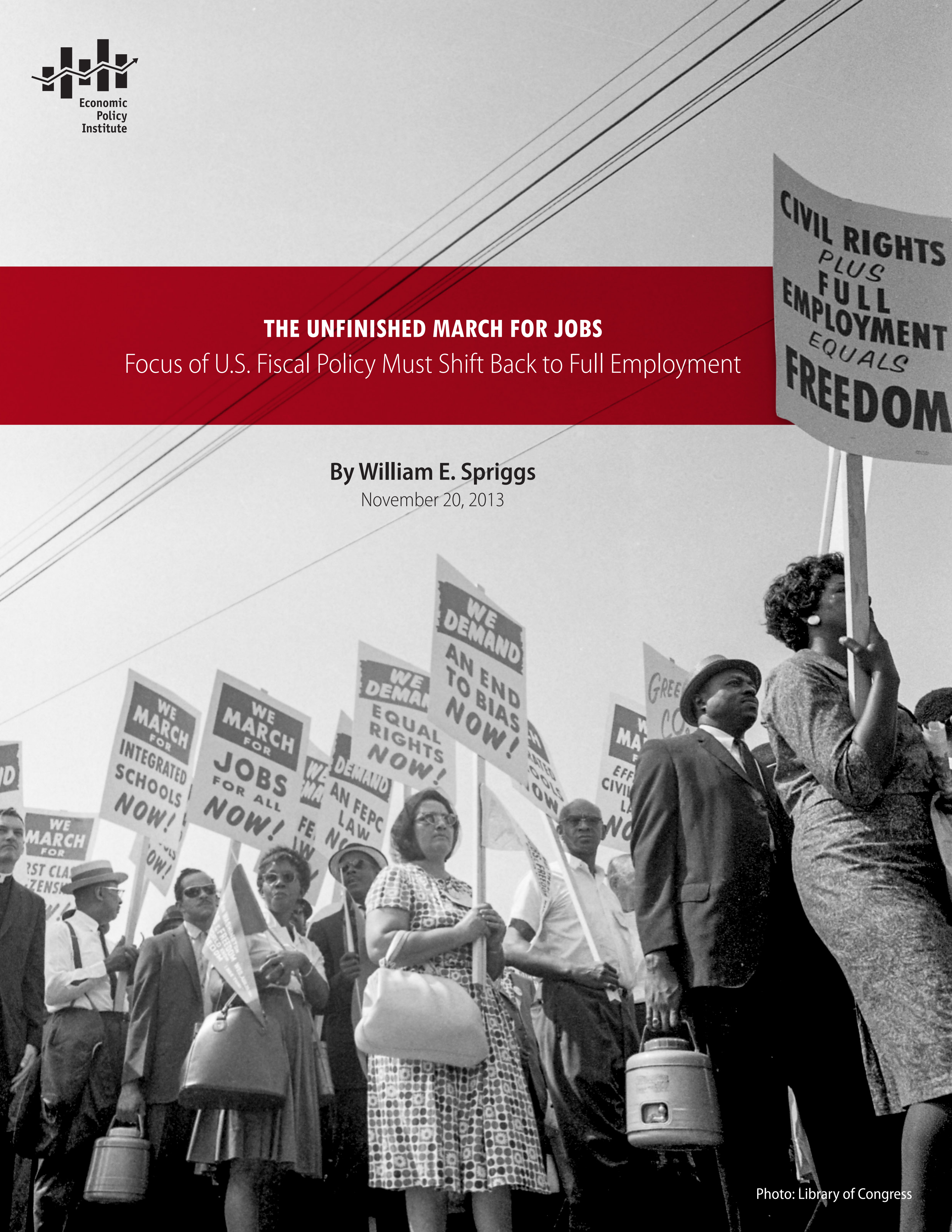

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This paper lays out the historical context for understanding the demand for jobs made by the 1963 March on Washington for Jobs and Freedom. The marchers' demands inarguably led to economic policies and laws that improved the lives of millions of Americans, particularly African Americans. But while many civil rights gains in educational attainment and electoral successes have been sustained through the decades, the economic gains were comparatively short-lived. Today, the economy struggles to reach the levels of black male median income, black child poverty, and black unemployment that were reached less than a decade after the march, in 1969.

As this paper explains, American economic policy from the Employment Act of 1946 to the Volcker "revolution" of October 1979 shifted from prioritizing maximum employment to prioritizing low rates of inflation and high rates of profit. A major result, for example, is that current economic policy planning documents like those from the Congressional Budget Office assume full employment is 6 percent, while President Kennedy's Council of Economic Advisers' stated policy was to get unemployment below 5 percent. The paper calls for the creation of automatic fiscal policies to resuscitate the fiscal policy mandates proposed by the Full Employment Act of 1945. A new "Social Trust Fund" financed by a financial transactions tax would provide financing for these programs as well as others that could ensure society against the high costs of asset depreciation and financial speculation. These proposals would ensure that fiscal policy always leaned hard against disastrous levels of unemployment. In so doing, America would be reordering its fiscal priorities in line with what the marchers called for 50 years ago.

In summary, this paper finds:

- The 1963 March for Jobs and Freedom called for America to clearly make employment and family incomes the primary metric of American public policy.
- It was clearly anchored in a long debate on whether American policy is to serve businesses and elites that might benefit people, or to benefit the people who elect the government.
- The current crisis clearly highlights the difficulty in shifting policies to restore economic health to families and restore full employment in a timely way.
- We need to look at creating stronger automatic policy levers aimed at holes we see now in state and local finance, public pensions, income support, and job creation.
- We cannot privatize the benefits of economic risk-taking without also putting in place policies that better mitigate the costs of economic failures; so if financial gambling can help boost our investment and growth, a financial transactions tax must cover the costs of economic collapse.

This is part of a series of reports from the Economic Policy Institute outlining the steps we need to take as a nation to fully achieve each of the goals of the 1963 March on Washington for Jobs and Freedom. Visit www.unfinishedmarch.com for updates and to join the Unfinished March.

Introduction

The 1963 March for Jobs and Freedom, as its name suggests, placed huge importance on the issue of jobs. Modern observers (having lived through more than five years with unemployment exceeding 5.7 percent during and after the Great Recession) may have some trouble in viewing the 5.7 percent unemployment rate in early 1963 as a crisis calling for action. It may also be hard to understand today why the jobs demand was placed at the very front of the march ahead of civil rights, given that civil rights standards in 1963 were so extraordinarily poor compared with modern civil rights. This paper puts the demand for jobs in its historical context, shows how degraded many people's expectations of what the economy can realistically deliver have become, and proposes a policy to respond to the demand for jobs today.

1963's labor market in historical context

The current "memory" of the 1950s is of an American idyll: prosperity and peace. Real (i.e., inflation-adjusted) median family income grew by 38 percent over the decade for all families. Black median family income rose 41 percent (U.S. Bureau of the Census *Historical Statistics*). In contrast, from 1981 to 2011, median family income rose just 14.8 percent, making the 1950s clearly remarkable (U.S. Bureau of the Census *Historical Income Tables: Families*).

However, while black and white median family incomes in the era of the march grew in line with overall averages, the gap between them remained stubbornly large; by the end of the 1960s, black median family income was a mere 55 percent of white median family income. The black median family income of $21,466 (in 2011 dollars) in 1960 actually sat below the poverty threshold for a family of four (U.S. Bureau of the Census *Historical Income Tables: Families*; U.S. Bureau of the Census *Poverty Data*). So, despite living in an era of prosperity, black Americans saw there was unfulfilled promise. Clearly, the 1950s and 1960s were more complex than the times depicted in "The Adventures of Ozzie and Harriet" television show that came to define the times.

The seeds of this ongoing disparity were sown as World War II wound down and fears grew that reduced demand for war goods would sink the economy back into the Great Depression. Driven by the agreed-upon need to avoid the high unemployment that had scarred the U.S. economy in the decades before the war, Congress debated a change in policy perspective, from using fiscal policy to counter fears of inflation to using fiscal policy to ensure full employment.

The fight began in earnest with the (ultimately failed) effort to pass a Full Employment Act in 1945. Section 2(b) of that proposed legislation read, "All Americans able to work and desiring to work are entitled to an opportunity for useful, remunerative, regular, and full-time employment" (Santoni 1986).

This goal was to be achieved by setting fiscal policy—the tools of federal government tax and spending levels—to reach a national output target sufficient to maintain full employment. If the economy was below full employment, fiscal policy would be expansive (cutting taxes or increasing spending); if the economy was projected to exceed full employment, then fiscal policy would be contractive (increasing taxes or cutting spending). The bill overwhelmingly passed the Senate in September 1945, 71 to 10. But, in December 1945, in the House of Representatives, the bill failed 242 to 136, with Democrats voting strongly against it, 16 for and 195 against (Civic Impulse, LLC).

The passage of the Employment Act of 1946 was a compromise, with the Senate diluting the language, objected to by opponents in the House, that called opportunity for full-time employment an entitlement for all Americans and that required the federal government to spend and invest at levels sufficient to drive the economy toward full employment

(University of Illinois Institute of Labor and Industrial Relations 1947). Accordingly, the name and purpose of the legislation was changed from "Full Employment" to "Employment." The watered-down Employment Act of 1946 reads:

> The Congress declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy, with the assistance and cooperation of industry, agriculture, labor, and State and local governments … for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power.

While the act created enduring economic institutions—the Council of Economic Advisers inside the White House and the Joint Economic Committee in Congress—it did not settle the fundamental debate between those who feared inflation more than unemployment, or reconcile partisan views about the role of the government in the economy. And full employment could only be guaranteed with the resolution of these debates in favor of using fiscal policy to pursue maximum employment.

Despite dramatic gains in family incomes measured over the decade's endpoints, the economy—and particularly the labor market—of the 1950s was a roller coaster. The economy slumped badly in the immediate post–World War II period: With declining output and returning veterans looking for work, the unemployment rate climbed to 7.9 percent in late 1949. To some, it may have looked like a return to the Depression would soon follow. But America's entry into the Korean conflict in 1950 remobilized young men into the military and increased war production, pushing unemployment down to 2.5 percent by the conflict's end in 1953. As the military again demobilized, the economy slumped again, with unemployment climbing back up to 6.1 percent in 1954 (U.S. Bureau of Labor Statistics *Labor Force Statistics*).

A Republican president coupled with Republican control of Congress posed an interesting test of Republican opposition to the New Deal and Keynesian stimulus to the economy. But the newly created Council of Economic Advisers under Arthur Burns advised a mild stimulus package to fight the 1954 slump, and the advice was championed by the Eisenhower administration (Engelbourg 1980). The resulting measures, extending some tax cuts and stepping up the timing of federal spending, helped push the unemployment rate back down to 3.7 percent by March 1957 when the next downturn began.

If the 1954 recession was primarily the result of the drop in federal procurement when the Korean conflict ended, the downturn of 1957 was primarily the result of the Federal Reserve tightening the reins of the financial sector to fend off what it interpreted as growing inflationary pressures. While Raymond Saulnier (the new chair of the Council of Economic Advisers) wanted to respond to the recession with fiscal stimulus (similar to Arthur Burns's approach in the last downturn), the conservatism of Republican Party politics and economic policy made the policy response slow and compounded the contractionary policy stance of the Federal Reserve (Gable 1959). The result was a steep recession, with unemployment peaking at 7.5 percent in July 1958. After fiscal measures finally wound through Congress, there was a heavy reliance on speeding up federal construction projects already underway and accelerating defense procurement already budgeted. Further, federal housing policy encouraged home construction and the Federal Reserve finally changed its policy course (Council of Economic Advisers 1959). The economy started to grow again, and unemployment edged down to 5.1 percent in May 1960. But the recovery was again short-lived; economic growth slowed and unemployment rose to 7.1 percent by May 1961.

Walter Heller, the chair of the Council of Economic Advisers appointed by President John F. Kennedy, pushed for a range of policies to respond to the downturn consistent with a clear change in policy toward full employment (Council of Economic Advisers 1962). The 1962 *Economic Report of the President* read:

> The prospect for 1962 is a continuation of the favorable trend of 1961. Whether the current expansion is sufficiently strong and durable to carry the economy to "maximum employment, production, and purchasing power," no one can now foretell with certainty. Current and proposed government actions will continue to give strong support to economic expansion. If these are coupled with continued strength in the private economy, the current expansion would reduce unemployment to 4 percent of the labor force by mid-1963. But, given the inevitable uncertainties,
>
> government policy must be alert and flexible, ready to promote the achievement of full recovery within the coming fiscal year and to counteract developments which might threaten its attainment. (Council of Economic Advisers 1962, 38–39)

So, in many ways, the demand for jobs of the 1963 March on Washington was a firm call to honor an existing pledge from macroeconomic policymakers to keep fiscal policy oriented firmly toward full employment. It must be viewed in the context of the clear macroeconomic debates of the time—debates characterized by a back-and-forth between prioritizing low rates of unemployment or low rates of inflation, and by insufficient attention to full employment (leading to "recoveries" in the 1950s that were short and ended with rising levels of unemployment—2.5 percent in 1953, 3.7 percent in 1957, and 5.1 percent in 1960).

So, it is possible to see the call for jobs in the context of the ups and downs of the labor market in the 1950s, the optimism that the new Kennedy administration and the Heller-led CEA were going to continue to push to get unemployment lower than 5.7 percent, and the broader fight to push federal policy toward the language of the proposed, but failed, Full Employment Act of 1945.

In their own words, the demands of the March on Washington

A. Philip Randolph opened the march on August 28, 1963, with these words:

> We are the advanced guard of a massive, moral revolution for jobs and freedom. This revolution reverberates throughout the land touching every city, every town, every village where black men are segregated, oppressed and exploited. But this civil rights revolution is not confined to the Negro, nor is it confined to civil rights, for our white allies know that they cannot be free while we are not.
>
> And we know that we have no future in a society in which 6 million black and white people are unemployed and millions more live in poverty. Nor is the goal of our civil rights revolution merely the passage of civil rights legislation. Yes, we want all public accommodations open to all citizens, but those accommodations will mean

> little to those who cannot afford to use them. Yes, we want a Fair Employment Practice Act, but what good will it do if profit-geared automation destroys the jobs of millions of workers black and white?
>
> …It falls to us to demand new forms of social planning, to create full employment, and to put automation at the service of human needs, not at the service of profits—for we are the worst victims of unemployment. (Randolph 1963)

While the unemployment rate in 1963 averaged 5.7 percent nationally, it was lower for whites (5.0 percent) but much higher for African Americans—10.9 percent (U.S. Bureau of Labor Statistics *Labor Force Statistics*). Later in the program that day, Walter Reuther, president of the United Automobile Workers of America (UAW), said:

> And the job question is crucial, because we will not solve education or housing or public accommodations as long as millions of Americans, Negroes, are treated as second-class economic citizens and denied jobs. And as one American I take the position if we can have full employment and full production for the negative ends of war then why can't we have a job for every American in the pursuit of peace?
>
> And so our slogan has got to be, "Fair employment, but fair employment within the framework of full employment, so that every American can have a job." (Reuther 1963)

Reuther and Randolph both described a more fundamental readjustment of economic priorities than a March for Jobs and Freedom might suggest. They argued for a different target to guide economic policy: a decent living for the vast majority of people instead of a hospitable environment for business and profits. Their demand for jobs was implicitly a demand for a new metric of economic success: not business profits or even growth in overall gross domestic product (the measure of all goods and services produced), but growth of jobs and incomes to support families. Too often when these targets conflicted, the interests of the vast majority of working Americans had to give way. The recession of 1957, for example, had been created by the Federal Reserve putting inflation and business profits ahead of jobs and incomes for families.

The march forward

Several key policy changes in the aftermath of the March for Jobs and Freedom in 1963 grew out of the demands for a new economic script. The Civil Rights Act of 1964 included provisions making employment discrimination illegal. Prior to the passage of the act, newspapers openly advertised positions by race, clearly identifying jobs where blacks need not apply (Darity and Mason 1998). The force of the act and President Lyndon B. Johnson's Executive Order 11246 ensuring enforcement of its antidiscrimination sections among federal contractors brought about dramatic changes for black men in Southern industry (Wright 1999; Donahue and Heckman 1991). Integration in schools, another demand of the 1963 march, and the subsequent increases in the quality of education for black workers also contributed to improved earnings for African Americans (Card and Krueger 1992).

And there were additional, often overlooked, changes in labor regulation. In 1966 the Fair Labor Standards Act (FLSA) was amended, extending coverage to some farmworkers and covering state and local public-sector workers. The changes included a boost to the minimum wage from $1.25 an hour to $1.60. The fight against discrimination meant increased access for black workers to local public-sector jobs, though many were low-wage positions (Gardner 2012). The coverage of some farmworkers and public-sector workers meant a boost to many black workers who previously worked outside the protections of the FLSA. And, the boost in the minimum wage to $1.60 in 1968 left it at its highest value ever—equivalent to $10.70 today.

As economic recovery gained steam, the unemployment rate fell rapidly from its 5.4 percent level in August 1963 (U.S. Bureau of Labor Statistics *Labor Force Statistics*). It dipped below 4 percent by December 1965, reached a low of 3.4 percent in September 1968, and stayed below 4 percent until January 1970. Since then, the only period when unemployment remained at 4 percent or below was the single year between December 1999 and December 2000.

The result of actively fighting discrimination, raising the minimum wage and expanding its coverage, and holding the unemployment rate near 4.0 percent for four years was an increase in the median income of black men from $16,052 (in 2011 dollars) in 1963 to $21,064 by the time of Dr. Martin Luther King Jr.'s assassination in 1968 (U.S. Bureau of the Census *Historical Statistics*). Given the 1963 poverty threshold for a family of three with two parents and one child ($18,106 in 2011 dollars), it is little surprise that when the median black male earnings jumped from below to above that line by 1968, the poverty rate for black children fell dramatically (from 65.6 percent in 1965 to 39.6 percent in 1969). To appreciate the magnitude of that achievement in less than a decade, compare it with the 41-year period between 1969 and 2010, when black child poverty fell only from 39.6 percent to 39.0 percent. The income gains for black men continued until 1973, when the median income for black men peaked at $23,135 (in 2011 dollars). Thirty-eight years later, the median income for black men was just nearly the same, at $23,475.

Clearly, the changes that the Civil Rights movement unleashed and the progress that accelerated with the passage of key legislation after the 1963 March for Jobs and Freedom made a difference. It also very much mattered that the Council of Economic Advisers took the unemployment rate target of 4 percent seriously, and issued a clear policy goal to that effect. This real commitment to full employment led to historically good labor market outcomes for blacks. For 1969, the unemployment rate for blacks averaged 6.4 percent. Compare that with its best performance since—its 7.6 percent average in 2000, or its performance in July 2013, when it was 12.6 percent (U.S. Bureau of the Census *Historical Income Tables: People*).

While a lasting legacy of the Civil Rights movement was a dramatic increase in the quality and quantity of education achieved by black Americans, the more progressive hopes for economic change have largely faded. Despite dramatic education gains, black Americans are less likely to have "good jobs" with access to health insurance, pensions, and high wages than in 1979 (Jones and Schmitt 2013), and much of this regress is driven by larger economic policy changes that have degraded job quality for the vast majority of Americans of all races.

Going backward

This policy regress began in the late 1970s and accelerated in the 1980s. The clearest outcome of this policy regress was sharply growing inequality (Mishel et al. 2012, 5–51). The most important policy shift was the clear decision to put price stability and the defeat of (even just anticipated) inflationary pressures ahead of full employment as the guiding principle of economic policy. This shift was driven in part by the experience of the 1970s, when the presumed trade-off between unemployment and inflation seemed to break down, signaling that policymakers perhaps could not buy lower unemployment rates by tolerating higher rates of inflation. The oil embargo by OPEC during 1973 led to spikes in oil prices, the overall price level, and the unemployment rate. Unemployment rose from 4.9 percent in early 1973 to

9.0 percent in 1975, while inflation accelerated from 3.6 percent in early 1973 to 12.1 percent by the end of 1974 (U.S. Bureau of Labor Statistics *Labor Force Statistics*). A new phrase was coined, "stagflation," and a view grew that the traditional economic policies of stimulating the economy to get unemployment down would only exacerbate inflation without lowering unemployment. And, just as the unemployment rate fell to 5.6 percent in June 1979, the Iranian oil crisis prompted another spike in oil prices, sending inflation and unemployment up.

Inflation causes interest rates to rise; lenders need to be compensated for the risk of default on the loan and for the devaluation of future payments because inflation lowers the purchasing power of those payments. High interest rates choke off investment (often financed by debt) by raising the costs of borrowing for new machinery, plants, and equipment. So, the fear of uncertainty around inflation and future interest rates could dampen investment. Some economists believed that the expectation of inflation was being built into the economy and economic decisions, lowering investment and hurting employment. The antidote was to make a strong policy commitment to end inflationary pressures. Oddly, the "medicine" was to raise interest rates, drive investment down, drive unemployment up, and push demand down to erase pressures on firms to raise wages and prices. In October 1979, Paul Volcker, as chairman of the Federal Reserve Board of Governors, shifted the key target of economic policy to "restore price stability" (DeLong 1997).

On October 8, 1979, Volcker raised the federal funds rate from 11.5 percent to 13 percent and then again in late October to 15 percent. The federal funds rate is the interest charged among banks to borrow funds from each other. In 1980 and 1981 Volcker would take the rate higher, to 17, 18, 19, and then 20 percent. Inflation fell from 14.6 percent in 1980 to 2.4 percent by August 1983. But unemployment reached double digits in September 1983 and remained above 10 percent until June 1983 (U.S. Bureau of Labor Statistics *Labor Force Statistics* and *Databases, Tables & Calculators*); the longest sustained period of such high unemployment in the postwar era.

And, the war against inflation became a war against workers' demands for higher wages, as well. The federal minimum wage, which has to be continually increased by law just to keep its real purchasing power from being eroded by inflation, remained unchanged from 1981 to 1990, at $3.35 an hour. This nominal freeze meant that its inflation-adjusted value (expressed in 2011 dollars) declined from $8.61 to $5.99. The Air Traffic Controllers (PATCO) strike in August 1981 was met with a new hostility toward workers and unions by the federal government. President Ronald Reagan's firing of the PATCO workers signaled a turn in labor–management relations from tough bargaining to outright scorched-earth hostility. The share of American workers in unions fell from 24.1 percent in 1979 to 15.8 percent by 1992 (U.S. Bureau of Labor Statistics *Labor Force Statistics: Union Membership*). So, not just high unemployment levels and loose labor markets were used to lower wage demands, but the institutional underpinnings that kept wages in line with overall economic growth and productivity were also dismantled.

With wages stagnant for the vast majority of American workers, the resulting economic growth was increasingly tilted toward profits, interest, and high-end compensation. So, while the economy continued to grow (albeit at a slower rate) the well-being of too many American families lagged further and further behind overall growth. Between 1979 and 1986, the overall economy expanded by 21.5 percent. Yet the median family income for African Americans did not grow at all during this same spell, falling during the Volcker recession (reaching 1968 levels by 1982) and just recovering its 1978 peak in 1986 (U.S. Bureau of Economic Analysis *NIPA Tables*; U.S. Bureau of the Census *Historical Income Tables: Families*).

The 1980 downturn was so severe it bankrupted the state unemployment insurance system, leading to massive borrowing from the federal unemployment insurance trust fund. The result was that to rebuild their trust funds, states adjusted their benefit formulas, lowering both the chances unemployed workers would get unemployment benefits and the value of the benefits they received (Baldwin and McHugh 1992). This cutback in a key plank of American social insurance was replicated across many other income support programs, as conservatives mounted a concerted attack on them. Ronald Reagan famously quipped that the government had "a war on poverty and poverty won" (Lemann 1988). By demonizing "welfare queens" he attacked the New Deal social insurance programs and safety nets of American workers. These attacks bore political fruit for conservatives even far after Reagan left the political spotlight. President Clinton famously eliminated the entitlement of Aid to Families with Dependent Children from the Social Security Act and turned the program into a block grant given to states, with huge (and often disastrous) discretion as to how the funds were to be spent. This shredding of income supports and safety-net programs put more risks of economic downturn on workers and led to a sharp disconnect between overall American growth and progress in reducing poverty. Since 2005, through growing and shrinking economies, the share of American families with children living in poverty has been growing because families are much more vulnerable during downturns and cannot easily right themselves during rough economic storms (U.S. Bureau of the Census *Historical Poverty Tables: Families*).

The need for a new full employment act

The stagnating recovery from the current Great Recession shows how hard it is to marshal the political will to address economic downturns. The president will always want to declare victory over a recession as quickly as possible, and we have now learned that the president's opponents will be too quick to kill attempts at recovery in pursuit of partisan political gain. The proposed Full Employment Act of 1945 aimed to force the president to respond to economic downturns with fiscal policy to address rising unemployment. This recession proves it must be done through greater *automatic* stabilizers that will kick in to prevent excessive rises in unemployment. It also proves that even already-existing automatic stabilizers should have their "triggers" reformed so that their effect will not fade away too quickly.

Since rising unemployment and falling family incomes mean more demands on state and local governments to deliver services to those in need, the most direct way to address downturns is to ensure that these governments (local governments, in particular) promptly receive additional resources, both to maintain their existing employees as well as to hire additional workers for additional needs.

While the demand for private, market-delivered goods may wax and wane with the rise and fall of incomes, the need for quality public education, safe streets, first responders to health and fire emergencies, and waste disposal do not vary with economic expansion or contraction. But, the *revenues* of state and local governments rise and fall with income, meaning that public investments falter when the economy slows. Severe downturns lead to disastrous downward spirals in the provision of public goods and public revenues—for example, cuts in school quality and police on the streets lead to outmigration of high-income families, leading to more cuts in public services that lead to more outmigration of higher-income families and more cuts in public services.

Economic downturns are closely associated with drops in asset prices, and housing construction and business investment fall. The Federal Reserve has become adept at lowering interest rates even in anticipation of downturns, largely to protect financial markets and asset values from this dynamic. These low interest rates, combined with high unemployment in the cyclically sensitive construction sector, make accelerated public investment in construction projects ideal macroeconomic stabilization, even if it does admittedly have more lags—planning both the architectural and engineering aspects and the financing—than simply hiring public-sector workers to provide services.

What a new full employment act could include

The trigger for public investments and aid to state and local governments needs to be something that is measured in as near real-time as possible, so that the fiscal stimulus will be timely. One straightforward, real-time trigger could be a consecutive three-month decline in national payroll employment. It is at that point that an automatic response could be triggered to prevent further erosion of employment, incomes, and aggregate demand.

The first element of the stabilizer could allocate an amount equal to two-thirds the difference between the number of payroll jobs in the last peak month prior to the downturn and the "triggered" month, multiplied by the median total compensation of state and local government employees. This fund would be given to local governments and would first be used to restore all teaching positions to the level in the peak month, then to restore all public safety positions to the level in peak month, then to hire individuals to work at the equivalent wages and benefits for their assigned duties either with the county or city government or with local nonprofit organizations that perform services according to the county or city plan approved by the secretary of labor. While these funds are being used, the county must maintain the employment, wages, and benefits of all county and city employees as of the most recent peak month.

The length of employment for the workers paid by the program would be guaranteed for at least one year, and the program would continue until the total payroll employment of the United States reaches the level reported by the Bureau of Labor Statistics (BLS) in the peak month prior to the downturn. Priority for hiring must go first to those who have been receiving unemployment benefits for six months or longer, or to veterans who have been honorably discharged for more than six months, or to parents of children supported by Temporary Assistance for Needy Families (whether the parent also is a beneficiary or only the child is a beneficiary). Priority then is to hire recent graduates—of college, then community college, and then high school—who have been unable to find a job for more than six months since graduation.

This downturn also showed the great difficulty young workers have when the economy fails to produce jobs. This was the case during the 1980 downturn and again now. The long-term damage done to the work readiness of young people is a huge cost to the economy. A meaningful automatic stabilizer must be in place to guard against the effect being too large.

So, additionally, a youth jobs program for those age 16 to 24 would make money available for summer jobs, for in-school youth, and for full-time work for out-of-school youth age 21 to 24. The funds would be equal to two-thirds the difference between the number of young people age 16 to 24 employed in the last peak month before the downturn and those employed during the "triggered" month, times the median weekly earnings of 16-to 24-year-olds in the quarter of the peak before the labor market downturn. The money would be appropriated at the local (city and county) level in proportion to their share of the nation's 16-to 24-year-old population. The jobs would be through local nonprofit organizations whose work did not replicate any public-sector employment. The program would remain in effect until total national payroll returned to the level reported by the BLS in the peak month prior to the downturn.

The second element of the automatic stabilizer could address the pressures placed on state and local governments by the collapse in asset prices associated with most downturns. The U.S. Department of Labor would be given a fund that allows them to provide one-third of the lost value of state and local pension funds from the previous peak. To be eligible, each public pension must file with the secretary of labor a plan according to regulations the secretary will devise. The plan must demonstrate how the pension fund will demonstrate 75-year solvency after receipt of the funds, and must satisfy such maintenance of effort and benefit level as designated in the secretary's regulation.

The third element could boost *public* construction investment when private demand for construction and borrowing costs are low. The Department of Transportation would be given authority to accelerate federal matching funds and expenditures on all transportation infrastructure projects immediately after the third straight month of job loss in the BLS payroll data. Congress would, in addition to passing annual appropriations for transportation construction, also include in reauthorization of funding for the Department of Transportation, stipulated appropriations that may be accelerated within a four-year horizon of planned projects. This means that both the federal and state partners would have plans ready for accelerating construction should the timing and need arise while remaining within long-run fiscal targets.

The fourth element could address the failure of the unemployment insurance system. It is the best automatic stabilizer currently in the fiscal policy toolbox. But, as the 1980s downturn and the Great Recession highlighted, it is not properly designed for huge spikes in unemployment—particularly those that persist for extended periods of time. The system needs to be fully integrated with the Social Security Act. As it currently operates, it is a hybrid of the act, with a very large state role, leading to great unevenness across state labor markets. Its funding is also troublingly pro-cyclical. As state unemployment trust funds lose money during downturns, and borrow from the federal unemployment trust fund, the state funds must then raise taxes or cut benefits to restore solvency while the nation is beginning recovery. Unemployment on the scale for which the unemployment insurance system is meant to be a stabilizer is a macroeconomic phenomenon, and therefore not a state responsibility or a risk that an individual state can insure against. Further, because state benefit levels are not in sync with federal benefits in Social Security, there is little incentive for older long-term unemployed workers to remain in the labor market if they can be better off seeking disability or retirement benefits under Social Security.

Given all of this, in the event of a three-straight-month decline in payroll employment, the fourth element of the automatic stabilizer would require that all eligible unemployment benefits be paid by the U.S. Department of Labor until the U.S. payroll jobs reported by the Bureau of Labor Statistics returns to its pre-downturn peak. The federal unemployment tax base would be set equal to the Social Security tax base of $113,700, and the tax rate lowered to ensure revenue neutrality. The federal unemployment benefit formula would be calculated based on the benefit formula used for Social Security disability benefits. While payroll employment remains below the level it reached in the peak month prior to the downturn in payroll employment, the maximum duration of benefits would be 18 months. After the payroll level is restored to the peak level before the downturn, the maximum duration would be nine months. And, after the payroll employment level has risen by 10 percent above the peak level before the downturn, the maximum duration would be 26 weeks. At that point, the federal unemployment tax rate would be adjusted until it can provide a substantial buffer against even steep downturns, to be established by regulations from the secretary of labor. While all benefits would be federal, all benefits would be administered by the current state employment services. Employers would have their federal unemployment tax rates lowered by one basis point for each additional net increase of 100 employees. Going forward, states would be allowed to supplement the federal benefits, or add to the federal unemployment tax to support state employment services as approved by regulations established by the secretary of labor. States would be relieved of all existing debt to the Federal Unemployment Tax Trust Fund as of their balance on December 31, 2013. Any states with surpluses would be given their trust fund balance as of December 31, 2013, to use for state employment services as approved by regulations established by the secretary of labor.

The entire Social Security Act was meant to be a strong automatic stabilizer. As such, the safety net program that was Aid to Families with Dependent Children lost its ability to be a counterweight when it was transformed into the state block grant of Temporary Assistance for Needy Families (TANF). During a downturn in the number of jobs available, TANF must take on the role of an automatic stabilizer. So, under new automatic stabilizer legislation, a portion of TANF would once again include automatic eligibility requirements. Given the structure of unemployment insurance, women would be disadvantaged in accessing benefits. To protect the children of mothers who lose jobs, or who are entering the labor force and ineligible for unemployment benefits during downturns, two things must happen. First, a means test must be devised. Second, during economic downturns, single parents receiving TANF would become eligible to receive a benefit equal to the minimum Social Security benefit of survivors with children under age 12, and children receiving TANF benefits would receive the same benefits as children who receive survivor benefits. These benefits would be in place until payroll employment returns to 10 percent above the peak level before the downturn and the benefits will last at least 18 months.

It is equally clear that key elements of the safety net, like Medicaid, are too great a burden for state governments that must balance their budgets and cannot simultaneously respond to drops in revenues and increases in demands for services. So, when there is a three-straight-month decline in employment, the federal government must pick up the costs of the Medicaid program for the states. And, when employment returns to its peak level before the downturn, the federal government would return the funding of the program to the states.

Finally, it is clear that asset depreciation costs the economy a lot. It pushes up unemployment, causes losses to state and local government revenues, and creates untold hardships for too many Americans. The policy response to the Great Recession is, at best, to ignore these costs and, at worst, to push them onto American workers. This cannot be. The financial sector must absorb the cost of the outcome of its recklessness. So, a tax on all financial transactions, including derivatives, equal to 0.01 percent of the value of the financial transaction, would be imposed, and the proceeds would accumulate in a special Social Trust. The balance of the fund would invest in only state and local revenue bonds dedicated to building or maintaining public roads, bridges, highways, schools, libraries, colleges, and universities. And, whenever the payroll employment of the United States declines for three consecutive months, it would trigger automatic disbursements to states and counties according to the provisions for public-sector employment, unemployment insurance, TANF, Medicaid, and the compensation of lost value of public pensions.

Making this program automatic would prevent the gridlock currently penalizing American working families. Taxing the financial sector ensures that the costs of financial recklessness are not borne by America's working families. The Social Trust ensures that the services needed by American workers would not go down when their needs go up, and it would protect their incomes from economic decisions outside their control. It is a reversal of a policy view that all the gains go to those with the most money, while the downside risks are held by those who do the most work. This is the type of economic priority reordering that A. Philip Randolph meant when he called for Americans to be part of a moral revolution for jobs and freedom.

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