TIME TO GET REAL ABOUT THE ECONOMY

A Check-Up on the Nation's Economic Health at the Mid-Point of the Bush Presidency

Jan. 27, 2003

DURING HIS STATE OF THE UNION ADDRESS Tuesday evening, the president no doubt will paint a picture of an economy that is basically sound and on the mend but that will be even better with tax code restructuring to richly reward the very rich.

It's an entertaining picture, but one that is completely out of touch with economic realities for most Americans. It's out of focus with their widespread concerns about where the economy is heading. And the president's economic proposals—multi-trillion dollar tax breaks that mostly benefit corporations and the wealthy, while forcing large cuts in programs we all rely on and robbing us of the opportunity to protect Social Security and invest in health care, education and job training, homeland defense and public safety—are sadly out of step with what most Americans want and need.

When most Americans look at the economy, this is what they see: Days before Christmas, Verizon Communications laid off 3,500 workers in the Northeast and Mid-Atlantic regions. Shortly thereafter, K-Mart Corporation said it would come out of bankruptcy earlier than planned by closing 326 stores and cutting the jobs of 37,000 employees over the next few months, on top of its 22,000 layoffs and 283 store-closings in 2002. A few days later, supermarket giant Food Lion announced it will close 41 stores, eliminating jobs for 1,500 workers. And just last week, Eastman Kodak responded to the economic slump with an announcement that it will cut as many as 2,200 jobs.

Retailers reported the worst holiday sales season in decades. The nation's manufacturing sector, which for two years has been the main punching bag in a badly battered economy, slid further: Industrial production fell in December, 65,000 more manufacturing workers lost their jobs and the nation's trade deficit swelled.

There is more: The absolute crisis in state and local economies has forced drastic cuts with consequences that may never be reversed. Budget shortfalls have required school districts in Oregon to cut school weeks by a day. Many states have cut Medicaid, eliminating health care for as many as 1 million low-income Americans. And many cities are closing fire stations and laying off police officers and firefighters, our first responders in case of terrorist attacks.

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It is small wonder that Americans' confidence in the economy has eroded even more and that in survey after survey, Americans say their number one concern is the economy—and their number one priority for the government is to get the economy working again.

After all, only two years ago, the unemployment rate was 4 percent—not 6 percent, as it is now. The ranks of the uninsured and the poor were falling—not rising, as they are now. Workers were building retirement nest eggs and planning for the future—not fretting over whether their jobs are secure or how to restore lost savings, as they are now. And the states, which had built record-setting surpluses, were cutting taxes while also making important and long-neglected investments in education, health care and public safety—not cutting basic services and raising taxes, as they are now.

Yet the president's only answer to the sustained economic crisis and the deep concerns of America's families is another flawed and unfair trillion-dollar trickle-down tax plan that will *not* create jobs, will *not* improve schools or public safety or homeland defense, will *not* restore health care coverage or retirement savings for workers and their families, will *not* help the states and will *not* strengthen and protect Social Security. President Bush's proposed $674 billion tax code restructuring—with a price tag of more than $925 billion when debt payments are included—*will* provide lots of benefits for the very wealthy—the same folks who will reap most of the rewards from the 2001 tax cut—but it will *not* reverse the breathtaking turnaround in the economy that has occurred on the president's watch or restore economic security for ordinary Americans.

It is time to get real about the economy. America needs a real plan for creating jobs, improving health care, education and homeland security, reining in corporate abuse, restoring retirement security and strengthening and protecting basic programs such as Social Security and Medicare. Instead of moving ahead with another unfair tax plan that gives away more tax dollars to corporations and the well-to-do, Congress and the president must put in place an economic program that helps the American economy and America's families right now while building long-term economic strength and the capacity to respond to the challenges that lie ahead. For this, America needs:

1. Tax cuts that broadly benefit most families, such as tax credits for all workers along with a fully refundable $1,000 child tax credit and elimination of the marriage penalty;
2. Financial help for the states, so they can restore critical services—such as education, health care and public safety—and avert further damage;
3. Investments in schools, transportation and transit systems, clean water and our industrial base to create jobs and spur growth;
4. Meaningful health care reform that will make high quality, affordable care available to all Americans and include prescription drug coverage under Medicare for the elderly and people with disabilities;
5. Real retirement security that will strengthen and protect Social Security for all Americans, safeguard workers' guaranteed pension benefits and protect savings in 401(k) plans; and
6. An increase in the minimum wage to correct the gross underpayment of low-wage workers, many of whom remain poor despite working full time.

Putting this agenda in place will create real jobs and provide real economic security to America's families today, tomorrow and in the years ahead. The president's budget-busting tax plans will not.

A SUMMARY OF ECONOMIC MARKERS

The economy has changed significantly under the leadership of President Bush. For working families, the change is for the worse:

- The nation has lost 1.7 million jobs over the past two years after adding 5 million jobs in 1999 and 2000. According to the U.S. Department of Labor, there are 2.5 job seekers for every job opening.
- Unemployment is at an eight-year high and expected to grow. Ten million unemployed workers want jobs but cannot find them. More than 4 million work only part time because they cannot get full-time positions.
- More than 2 million unemployed workers have run out of their regular state-provided unemployment benefits and the emergency unemployment benefits they received under the temporary federal program. Many of these workers now have no jobs—and no means of support.
- Reversing real progress at the end of the 1990s, the ranks of the uninsured rose to more than 41 million in 2001. An estimated 300,000 individuals lost health coverage during the first six months of 2002. Most Americans without insurance—80 percent—are in working families.
- Workers who still have health insurance are paying substantially more for it. Workers' premium payments rose 27 percent for single coverage and 16 percent for family coverage in 2002. Most employers are passing along more costs to workers in 2003 and plan to do so next year.
- For workers who have lost billions in retirement savings, the 2002 year-end investment reports brought more bad news: The stock market declined for the third consecutive year, marking the first three-year losing streak in 60 years. Losses in the major indices in 2002 were roughly double those of 2001, and the Dow's losses almost tripled those of 2000.
- Bankruptcy filings continue at a record-setting pace. Filings for the fiscal year ending Sept. 30, 2002—more than 1.5 million cases—were almost 8 percent greater than the 2001 fiscal year. And the total number of cases filed in the three-month period ending last September set the national record for any three-month period in U.S. history.
- States are experiencing their worst financial crisis since World War II, with cumulative three-year budget shortfalls that exceed $180 billion. States are laying off workers and making deep cuts in health care, education and public safety funding. For the first time in eight years, they are raising taxes—ironically, a step they are forced to take in part because of tax cuts and other cutbacks at the federal level.

The following discussion explores these economic markers in more detail.

No Let-Up in Job Loss and Joblessness

After several years of steady job growth throughout the late 1990s and 2000, the nation has lost 1.7 million jobs in the past two years. In December 2002, we lost 101,000 jobs, the largest number of losses in 10 months. Sixty percent of the CEOs responding to a November survey by the Business Roundtable said they expect further cuts in 2003, while only 11 percent said they plan to hire more workers.

This discussion updates summaries of economic markers published by the AFL-CIO in August and September 2002.

The nation's unemployment rate was 6 percent at the end of 2002, compared with 5.8 percent in December 2001 and 4 percent in December 2000. Ten million unemployed workers want jobs but cannot find them. According to Department of Labor data, at least 2.5 unemployed workers are actively looking for jobs for every opening.

Unemployment has climbed among all workers since 2000, but the increases are much steeper for African Americans than for white or Hispanic workers. African American women were particularly hard hit. Between December 2000 and December 2002, their unemployment nearly doubled, rising from 5.7 percent in December 2000 to 10.1 percent in December 2002. Among white women, the increase was from 3.1 percent to 4.4 percent. Unemployment among African American men rose more modestly than among African American women, but the increase was still considerably greater than for white men. Overall, unemployment rose 1.6 percentage points for whites (from 3.5 percent to 5.1 percent) and 2.2 percentage points for Hispanic workers (from 5.7 percent to 7.9 percent), but 3.9 percentage points for African Americans (from 7.6 percent to 11.5 percent). (See Table 1.)

Table I
Unemployment Rates by Gender, Race and National Origin, 2000—2002

	12/2000	12/2001	12/2002
Total	4.0	5.8	6.0
White	3.5	5.1	5.1
African American	7.6	10.2	11.5
Hispanic	5.7	7.9	7.9
All adult men	3.4	5.2	5.6
White men	2.9	4.6	4.9
African American men	7.3	9.1	10.7
All adult women	3.4	5.2	5.3
White women	3.1	4.5	4.4
African American women	5.7	8.7	10.1
All teens	13.1	16.2	16.1
White teens	11.5	13.7	13.6
African American teens	26.7	33.4	33.1

Source: U.S. Department of Labor
Note: Adults are 20 or older; teens are 16-19.

Unemployment grew in every state except Montana between November 2000 and November 2002 (the latest month for which state data are available). In 16 states, the increase was 2 percentage points or more. During the one-year period from November 2001 to November 2002, unemployment rose in 28 states. Eleven states had unemployment rates above the national rate of 6 percent in November 2002. Oregon's was the highest at 7.1 percent, followed by Alaska at 6.8 percent and Illinois and Mississippi at 6.7 percent. (See Table 2.)

Long-Term Unemployment is Up, and Workers are Running Out of Benefits

The unemployed are enduring longer periods off the job than during comparable times in 2000 and 2001. Today, almost 1.9 million have been unemployed for at least six months—66 percent more than in December 2001 and nearly triple the number in December 2000. Another 1.4 million workers have been looking for work for three and one-half to six months.

Record numbers of unemployed workers are exhausting their regular, state-provided unemployment benefits and their emergency federal benefits under the Temporary Emergency Unemployment Compensation (TEUC) program before finding new jobs. Over the three months between September and November 2002, more than 1 million unemployed workers exhausted regular state benefits, a 30 percent increase over the same three-month period in 2001 and 115 percent more than between September and November 2000. In 41 states (including the District of Columbia), September through November 2002 exhaustions were up by 20 percent or more over the same period last year. (See Table 2.)

Among the jobless who are receiving federal TEUC benefits, more than 230,000 exhausted these benefits in November 2002. According to the Center on Budget and Policy Priorities, an estimated 2.2 million

Table 2
Unemployment Rates and Exhaustions of Regular Unemployment and TEUC Benefits

	Unemployment Rates			Exhaustions of Regular State UI Benefits			Exhaustions of TEUC Benefits
State	Nov. 2000	Nov. 2001	Nov. 2002	Total Sept.-Nov. 2002	% Change Relative to Last Year	% Change Relative to Two Years Ago	Nov. 2002
Alabama	4.5	5.9	5.8	11,290	20%	70%	2,228
Alaska	5.8	6.1	6.8	4,297	31%	25%	546
Arizona	3.4	5.6	5.8	14,256	48%	131%	1,938
Arkansas	3.6	5.4	5.0	9,496	22%	88%	1,248
California	4.7	6.1	6.4	165,287	38%	105%	67,109
Colorado	2.6	4.9	5.2	14,409	57%	219%	2,922
Connecticut	1.6	3.9	4.4	14,317	55%	164%	2,773
Delaware	3.4	3.3	4.0	1,933	23%	50%	474
Dist. of Col.	5.6	6.8	6.0	3,038	39%	59%	670
Florida	3.6	5.6	5.0	44,388	24%	73%	9,676
Georgia	3.0	4.5	4.6	25,639	17%	169%	5,724
Hawaii	3.7	5.7	3.9	2,359	20%	55%	54
Idaho	4.4	5.3	5.8	3,749	20%	102%	719
Illinois	4.1	5.9	6.7	50,673	33%	135%	10,496
Indiana	2.4	5.1	4.9	17,640	17%	122%	3,147
Iowa	2.3	3.7	3.9	6,704	33%	94%	1,532
Kansas	3.5	4.5	4.6	7,816	61%	92%	1,632
Kentucky	3.7	6.1	5.1	9,361	25%	120%	1,914
Louisiana	5.4	6.5	6.1	9,502	48%	71%	1,588
Maine	2.6	4.3	4.3	2,442	9%	87%	469
Maryland	3.5	4.4	4.0	11,705	34%	101%	2,234
Massachusetts	2.3	4.4	5	33,215	52%	171%	7,138
Michigan	3.5	6.1	5.7	40,113	26%	144%	7,927
Minnesota	2.7	3.9	3.9	14,471	33%	155%	3,140
Mississippi	5.0	6.3	6.7	6,857	10%	71%	1,480
Missouri	2.9	5.0	5.1	17,050	30%	180%	3,033
Montana	4.9	4.6	4.4	1,635	-2%	30%	343
Nebraska	2.5	3.3	3.3	4,598	64%	135%	652
Nevada	4.0	6.7	4.6	7,840	16%	61%	1,169
New Hampshire	1.9	4.0	4.7	1,754	53%	NA	300
New Jersey	3.7	4.8	5.6	46,959	32%	91%	11,155
New Mexico	5.2	5.1	5.9	3,567	51%	106%	693
New York	4.3	5.6	6.0	83,293	31%	119%	23,875
North Carolina	3.7	6.5	6.1	32,728	50%	238%	4,759
North Dakota	2.7	2.9	3.4	738	63%	35%	190
Ohio	3.7	4.7	5.4	30,396	31%	165%	
Oklahoma	2.8	4.4	4.2	7,276	17%	179%	1,559
Oregon	4.0	7.7	7.1	18,055	26%	130%	2,516
Pennsylvania	4.1	5.0	5.6	48,768	32%	110%	11,151
Rhode Island	3.1	4.9	5.1	3,946	12%	44%	800
South Carolina	2.6	5.9	6.3	13,760	23%	137%	3,068
South Dakota	2.2	3.6	2.7	457	69%	269%	76
Tennessee	4.0	4.8	4.3	19,216	4%	70%	4,246
Texas	4.0	5.6	6.2	66,071	5%	71%	12,515
Utah	2.9	5.2	5.4	6,308	52%	132%	
Vermont	2.6	4.2	4.0	1,599	89%	203%	313
Virginia	2.0	4.5	3.9	16,538	91%	263%	3,019
Washington	5.0	7.2	6.6	26,346	36%	125%	5,124
West Virginia	5.5	4.6	6.2	3,410	36%	79%	580
Wisconsin	2.7	4.9	5.1	18,325	24%	119%	3,582
Wyoming	3.6	4.1	4.2	771	77%	73%	315

Source: U.S. Department of Labor

unemployed workers exhausted their TEUC benefits during the program's initial nine months of operation (March-December 2002), and about 1 million of these remain unemployed. In contrast, far fewer unemployed workers—1.4 million—exhausted similar federal benefits over a longer period—roughly 12 months—under the more generous emergency unemployment benefits program former President George Bush signed off on during the recession of the early 1990s.

Unemployment is Fueling Personal Bankruptcies

For families trying to weather hard economic times, bankruptcy is sometimes the only way to manage debt without losing everything. In November, the American Bankruptcy Institute reported that bankruptcies continue to run at all-time highs. More than 1.5 million bankruptcies were filed in the 2002 fiscal year (the 12-month period that ended on Sept. 30, 2002); most were personal bankruptcies. This is the highest 12-month level in history and represents an increase of 7.7 percent over the 2001 fiscal year.

Bankruptcy filings during the third quarter of 2002 (July-September) also took the record for total quarterly filings. Altogether, 401,306 bankruptcies were filed during the quarter, and most—391,873—were personal bankruptcies. (See Table 3.)

The unparalleled number of bankruptcies is not surprising, given how much household debt has increased in the past two years. In 2000, household debt was 99.3 percent of disposable personal income. By the third quarter of 2001, household debt had risen to 100 percent of disposable personal income, and by the end of the third quarter of 2002 (the latest available data) it hit a whopping 104.2 percent of disposable personal income. These unsustainable debt loads are a direct byproduct of the flailing economy.

Table 3
401(k) Losses and Personal Bankruptcy Filings

State	401(k) Losses Dec. 2000-2001 (in $ billions)	Personal Bankruptcy Filings 3rd Quarter 2002
Alabama	2.69	10,472
Alaska	0.37	352
Arizona	2.42	7,680
Arkansas	1.35	6,029
California	18.20	35,760
Colorado	2.65	5,656
Connecticut	2.52	2,853
Delaware	0.55	787
District of Columbia	----	639
Florida	7.17	23,145
Georgia	5.25	20,166
Hawaii	0.77	1,123
Idaho	0.74	2,195
Illinois	8.66	20,224
Indiana	4.49	13,632
Iowa	2.18	2,942
Kansas	1.93	3,998
Kentucky	2.56	6,851
Louisiana	2.23	7,115
Maine	0.93	1,126
Maryland	3.80	8,462
Massachusetts	4.27	4,176
Michigan	7.67	13,243
Minnesota	4.12	4,665
Mississippi	1.48	5,604
Missouri	4.17	8,832
Montana	0.52	958
Nebraska	1.24	1,835
Nevada	1.08	4,923
New Hampshire	0.94	949
New Jersey	5.56	9,707
New Mexico	0.91	2,247
New York	10.78	17,046
North Carolina	5.02	9,247
North Dakota	0.46	504
Ohio	8.27	20,127
Oklahoma	1.79	6,184
Oregon	2.19	5,911
Pennsylvania	8.65	13,617
Rhode Island	0.70	1,178
South Carolina	2.52	3,796
South Dakota	0.52	646
Tennessee	3.37	16,031
Texas	11.47	20,793
Utah	1.24	5,592
Vermont	0.43	455
Virginia	4.87	10,342
Washington	3.90	9,523
West Virginia	0.97	2,518
Wisconsin	4.40	6,070
Wyoming	0.32	585

Sources: Institute for America's Future, American Bankruptcy Institute

Wages are Stagnant and Lag Behind Worker Productivity

Over the past year, worker productivity rose but real (inflation-adjusted) weekly wages fell. For the year that ended in the third quarter of 2002, worker productivity grew by almost 6 percent, but inflation-adjusted hourly wages rose by only 2 percent. Hourly wages have been essentially stagnant since December 2001, and weekly earnings actually declined 0.5 percent in 2002. Nor does 2003 look any better for workers' wallets: According to the BNA Wage Trend Indicator, wage increases are not likely to exceed 3 percent this year.

Income inequality has increased steadily since the 1970s. In the late 1970s, the richest 20 percent of families had average incomes 7.4 times greater than the poorest 20 percent, according to the Economic Policy Institute. By the late 1980s, that ratio had increased to 9.3. Although strong wage growth in the 1990s for low-income workers had helped narrow the gap, the ratio increased further to 10 at the end of the decade. With wages now stagnant for most workers, no progress on narrowing the income gap is likely.

Retirement Security Has Been Destroyed for Millions

Last May, the Economic Policy Institute issued a disturbing report about future retirement security prospects for working families. Among other things, the report found that more than 40 percent of families with mid-life workers would be unable to replace half of their pre-retirement income when they retire, and that 20 percent would be in poverty.

While workers should—and some could—save more for retirement, the retirement security of many of today's workers has been compromised by the long-term trend away from employer-provided, guaranteed pension plans ("defined-benefit" plans) in favor of defined-contribution savings plans, funded by workers and their employers or by workers alone. In 1979, 37 percent of all private-sector workers had guaranteed pension plans and 7 percent had only defined-contribution plans. By 1998 (the most recent year for which data are available), these numbers had changed substantially: 27 percent had only defined-contribution plans, while the share with defined-benefit plans had fallen to 21 percent.

The shift away from guaranteed pensions to defined-contribution retirement savings plans has made many workers' retirement security completely vulnerable to the perils of the market and to the chicanery of corporate executives who put personal interests above those of their employees and stockholders. At the end of June 2002, nearly two-thirds of all 401(k) assets were invested in stocks. The Institute for America's Future has estimated that Americans lost $175 billion in 401(k) savings in 2001, including $18 billion in California, $11 billion in New York and $11 billion in Texas. (See Table 3.)

Between 1999 and 2001, the average 401(k) account balance fell 20 percent, from $45,681 to $36,390. Last year, the broad-market S&P 500 index fell 23.4 percent, a worrisome trend for Americans who are counting on 401(k) savings to help them in retirement. The severe downturn in the stock market and low bond interest rates are creating tremendous retirement insecurity for older workers, who have seen the values of their retirement nest eggs plummet. A $10,000 investment in a Dow Jones Industrial Average index fund on Dec. 31, 1999, was worth only $7,260 at the close on Dec. 31, 2002. Even if the markets were to produce average historical returns, an investor would not recover the full value of the initial investment until sometime in 2009. The same investment in an S&P 500 fund closed at $5,990 at the end of 2002 and would not recover its value until sometime in 2012. And a $10,000 investment in a NASDAQ index fund was worth only $3,280 on Dec. 31 and would not recover until sometime in 2021.

Health Care is Slipping Away From America's Families

The nation made progress in 1999 and 2000 toward reducing the shameful number of Americans without health insurance, but those strides were erased in 2001. According to Census Bureau data released last September, 41.2 million Americans were uninsured in 2001, an increase of 1.4 million over 2000. These ranks have grown as the downturn has deepened. According to the National Center for Health Statistics of the federal Centers for Disease Control, 300,000 more people were uninsured between January and June 2002 than at the end of 2001. The overwhelming majority of those without insurance—roughly 80 percent—are in families with at least one worker.

Americans are losing their health coverage because they are losing their jobs and because enormous state budget shortfalls are forcing cutbacks in public health care for the poor and low-wage working families. An estimated 1 million low-income individuals will lose health coverage as the result of Medicaid cuts.

Rising health care costs is another reason health care coverage has declined.

Overall health care costs for employers increased an average of 13 percent to 15 percent in 2002 and are expected to grow by the same amount or more this year. Most employers are responding to these increases by passing along a share of them to their employees. One Hewitt Associates survey found that many employers are likely to pass along at least 25 percent to 30 percent of these price hikes to their employees. A Kaiser Family Foundation survey of employer-provided health benefits similarly found that employers dealt with cost increases by passing along premiums hikes to their employees. On average, worker premium costs increased by 27 percent for single coverage and 16 percent for family coverage in 2002. Three-quarters of the employers the foundation surveyed said they are likely to pass along even more costs to workers in 2003.

Health care cost-shifting inevitably adds to the ranks of the uninsured: An earlier AFL-CIO study found that between 1989 and 1996, premium cost-shifting accounted for 75 percent of the decline in employment-based coverage.

Prescription drug costs are rising even faster than overall health care costs, between 16.4 and 19.5 percent this year. About 11 million seniors and 26 million non-elderly adults have no prescription drug coverage. For many of them, needed medications—especially newer, more costly treatments—are completely out of reach or force wrenching choices between basic life necessities.

Rising drug costs are also likely to lead to deep cuts in or elimination of retiree health coverage. Drug costs constitute 40 to 60 percent of employers' retiree health care costs, and steep price hikes are prompting employers to eliminate drug benefits, cap their contributions or drop retiree coverage altogether. The Kaiser Family Foundation survey found the share of large employers offering retiree coverage declined from 66 percent in 1988 to 34 percent in 2002. (Only 5 percent of small firms offer retiree coverage.) A significant share of employers that continue to provide retiree coverage has passed along substantial cost increases to retirees.

The Pummeling of Manufacturing Continues

The manufacturing crisis has continued, with the loss of an additional 65,000 jobs in December, for a total of about 600,000 jobs lost in 2002. Manufacturing employment (16.5 million in December) is down by 2.4 million since April 1998, the pre-recession manufacturing peak. In a little more than four years, the United States has lost about one in nine manufacturing jobs.

All but three states lost manufacturing jobs last year. Losses ranged from lows of 200 and 400 jobs in Montana and the District of Columbia, respectively, to 33,900 in Texas,

Table 4
Change in Manufacturing Jobs
November 2001—November 2002

State	Nov. 2001	Nov. 2002	Difference
Alabama	333,700	326,700	- 7,000
Alaska	9,000	9,300	300
Arizona	203,200	190,200	- 13,000
Arkansas	235,200	225,700	- 9,500
California	1,845,300	1,782,200	- 63,100
Colorado	193,400	183,600	- 9,800
Connecticut	248,200	237,800	- 10,400
Delaware	55,300	52,500	- 2,800
Dist. of Col.	11,300	10,900	- 400
Florida	455,900	442,000	- 13,900
Georgia	534,100	532,100	- 2,000
Hawaii	17,700	17,100	- 600
Idaho	73,400	71,000	- 2,400
Illinois	893,400	875,700	- 17,700
Indiana	625,200	618,900	- 6,300
Iowa	247,300	245,000	- 2,300
Kansas	203,600	198,900	- 4,700
Kentucky	302,100	300,000	- 2,100
Louisiana	180,600	176,500	- 4,100
Maine	79,200	74,700	- 4,500
Maryland	176,500	170,500	- 6,000
Massachusetts	413,400	396,800	- 16,600
Michigan	911,100	907,400	- 3,700
Minnesota	412,800	401,900	- 10,900
Mississippi	210,100	206,400	- 3,700
Missouri	369,300	360,100	- 9,200
Montana	23,900	23,700	- 200
Nebraska	115,100	113,100	- 2,000
Nevada	45,500	46,200	700
New Hampshire	101,500	98,200	- 3,300
New Jersey	440,300	421,700	-18,600
New Mexico	41,900	39,000	-2,900
New York	826,200	790,500	- 35,700
North Carolina	714,400	698,500	-15,900
North Dakota	25,600	24,900	- 700
Ohio	1,009,400	996,300	- 13,100
Oklahoma	177,100	173,900	- 3,200
Oregon	228,500	229,000	500
Pennsylvania	866,300	842,300	-24,000
Rhode Island	68,800	68,200	- 600
South Carolina	324,700	308,200	-16,500
South Dakota	44,400	43,800	- 600
Tennessee	469,700	460,300	- 9,400
Texas	1,030,400	996,500	- 33,900
Utah	124,700	118,400	- 6,300
Vermont	46,700	44,000	- 2,700
Virginia	363,600	357,500	- 6,100
Washington	329,000	300,900	- 28,100
West Virginia	75,800	72,600	- 3,200
Wisconsin	576,100	567,300	- 8,800
Wyoming	11,500	11,000	- 500

Source: U.S. Department of Labor

35,700 in New York and 63,100 in California. Tens of thousands more manufacturing jobs were lost in each of the following: Arizona, Connecticut, Florida, Illinois, Massachusetts, Minnesota, New Jersey, North Carolina, Ohio, South Carolina and Washington. Arkansas, Colorado, Missouri and Tennessee each lost just less than 10,000 manufacturing jobs. (See Table 4.)

On the heels of these alarming job loss numbers, the Commerce Department reported in early January that factory orders had slipped in November by 0.8 percent. Two weeks later, the Federal Reserve reported that industrial production had declined unexpectedly by 0.2 percent in December.

The loss of manufacturing jobs is a major blow for working families and their communities. Traditionally, manufacturing jobs pay better and provide benefits superior to jobs in other sectors; many industrial workers, often long-term employees of a single manufacturer, cannot find comparable replacement jobs. In addition, every manufacturing job supports creation of roughly four additional jobs. The nation's manufacturing crisis thus not only reduces the standard of living for workers in that sector but also has a spillover effect on workers in the jobs supported by manufacturing. Not surprisingly, whole communities suffer when their local manufacturers are in decline.

The Trade Deficit is Up While U.S. Foreign Debt Threatens Economic Stability

The trade deficit in goods and services—the difference between what we buy from vendors in other nations and what we sell to them—totaled $40.1 billion for November and $390.5 billion for the January through November period, well ahead of comparable figures for 2000 and 2001, years of record trade deficits. At this rate, the full-year trade deficit will hit a mammoth $426 billion in 2002, up from $358 billion in 2001.

Between year-end 2000 and 2001 (the latest available data), the U.S. net foreign debt soared by 45 percent, to $2.31 trillion, or 23 percent of the nation's Gross Domestic Product. The trade deficit is a major factor in this huge increase, as foreigners have used dollars from the sale of goods and services in the United States to buy U.S. stocks, bonds, real estate and businesses. At a minimum, mounting foreign debt imposes a growing burden on Americans to service this debt—by paying dividends, interest and rents to foreign investors—in the years ahead. But it also puts U.S. economic stability at the mercy of foreign investors and their willingness to remain invested in the United States. If foreigners were to lose confidence in American markets and sell these assets abruptly, the dollar—instead of declining gradually as it has in recent months—would plummet and interest rates skyrocket. A steep recession and serious economic dislocations would be almost inevitable.

The nation's trade deficit is largely a product of our flawed trade policies. These policies cost American jobs, put downward pressure on U.S. wages and working conditions and erode the ability of governments to protect public health and the environment. Instead of fast-tracking trade agreements that do more harm than good, Congress and the president should put radical reform of our trade policies on a fast track to family-supporting jobs for America's workers.

States Face Greater Budget Crisis in FY 2003 Than in 2002

States are experiencing their worst financial crisis since World War II, as they wrestle with budget shortfalls that, over a three-year period, exceed $180 billion. Only two years ago, at the end of 2000, states were in their best financial shape in decades and many projected large surpluses that enabled them to answer long unmet needs while also cutting taxes. By fiscal year 2002, however, surpluses had evaporated and 43 states faced budget gaps. The Center on Budget and Policy Priorities reports that these gaps are twice as large as during the recession of the early 1990s.

The states' dire fiscal crisis is largely the product of the national economic downturn, which has reduced revenues flowing to the states at the same time it has increased demands on the states for publicly funded health care and other services. The 2001 federal tax cuts also have exacerbated the states' crisis—and the president's proposals for further tax code restructuring would do so even more—since state tax requirements typically are linked to federal rules governing the same income sources (such as estate taxes, dividends and capital gains and business write-offs).

The states' shortfalls are huge: As a share of their overall budgets, the shortfalls average between 13 percent and 18 percent. States closed gaps of nearly $40 billion in fiscal year 2002. Those gaps rose to almost $50 billion by the beginning of the fiscal year 2003 budget-planning cycle, and new gaps of $17.5 billion subsequently emerged. New shortfalls of $60 billion to $85 billion are projected for fiscal year 2004.

States have employed a variety of cost-cutting, revenue-raising techniques to eliminate their budget gaps. In fiscal year 2002, 29 states cut spending and 26 did so in fiscal year 2003. Roughly half have tapped various state funds, including rainy day and tobacco settlement funds, to fill the gaps. At least 15 states have implemented or plan to implement layoffs to reduce spending. And several have raised taxes.

Budget cuts will have both immediate and long-term effects. Nineteen states have cut higher education spending, forcing cancellation of classes and tuition hikes of about 10 percent. Eleven states are spending less on K-12 education, delaying much-needed renovation and construction, eliminating after-school programs and, in some places, shortening the school week.

Temporary Assistance for Needy Families (TANF) rolls have risen for the first time since passage of the 1996 welfare reform law, but because of budget gaps, 18 states have made TANF cuts. In three states alone—Indiana, Tennessee and Washington—the cuts exceed $110 million. The number of states with waiting lists for child care assistance has grown, and the waits are longer. In seven states, eligibility for child care aid has been tightened significantly and five states have hiked parent fees. Twelve states are cutting Medicaid, putting at risk health care protections for about 1 million people, many in working poor families.

A hodgepodge of additional cuts—corrections systems funding cuts in 18 states, youth violence programs in Colorado, jury trials in Alabama, flu vaccines in Massachusetts and payments for foster parents in South Carolina—are indicative of the depth and breadth of the states' crisis. And, as states have cut back on funds for local governments, the pain is spreading to counties and cities, forcing them to lay off workers, slice programs and raise revenues through higher taxes and fees.

Many states are considering tax hikes—ironically, a step made necessary by federal tax cuts. Sixteen states raised taxes in 2002, generating $6.7 billion in revenue. These tax hikes are a 180-degree turnaround since the seven years between 1995 and 2001, when states passed along $35 billion in tax cuts. But, with two-thirds of the states reporting that they remain concerned or pessimistic about future revenues, more tax hikes are likely.

CONCLUSION

More workers are losing jobs and fewer employers are adding jobs. Health care coverage is eroding and costs are rising. Retirement security is evaporating. Productivity is up but workers' wages are flat. Manufacturing is reeling. And the states are wrestling with the worst fiscal crisis in more than half a century. This is the real economy for America's families, one in which the economic tailspin that began in March 2001 has not slowed or reversed.

The president's answer to these problems is a plan that dishes out nearly $1 trillion more in huge tax breaks for the very rich. The plan is unfair, unbalanced and irresponsible. It will not kick-start the economy now, but it will weaken the economy in the long term and deprive the nation of the resources we need to improve education and health care and strengthen homeland security. Simply put: The president's plan is wrong for the economy—and wrong for America.

Congress and the president must get real about the economy's problems and solutions. We will not boost the economy in the short term or build it in the long term unless we have a plan that invests in what matters most: education, health care, good jobs, secure retirements and homeland security. That is what America and Americans need—and that is what the president and Congress should give them.

Sources:

AFSCME; American Bankruptcy Institute; BNA *Daily Labor Report*; Brookings Institution; Bureau of Economic Analysis; Bureau of Labor Statistics; *Business Week*; Center for Law and Social Policy; Center for Studying Health System Changes; Center on Budget and Policy Priorities; Centers for Disease Control and Prevention; Citizens for Tax Justice; Economic Policy Institute; Federal Reserve Board; *Financial Times*; Hewitt Associates; Institute for America's Future; Institute for Supply Management; Kaiser Commission on Medicaid and the Uninsured; Kaiser Family Foundation; National Association of State Budget Officers; National Conference of State Legislatures; National Governors Associations; *The New York Times*; *The Washington Post*; U.S. Commerce Department; U.S. Department of Labor.

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