

Jobs Now, Jobs in the Future
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This fascinating conference was sponsored by the Stanford Institute for Economic Policy Research and held on the Stanford campus. You can find a detailed agenda and biographies of all the speakers at http://siepr.stanford.edu/policyforum_jobs_agenda. But, don't let the title of the event mislead you; it was more than just jobs, it was about how America is going to respond to the deepest economic crisis we are facing since The Great Depression, thanks to eight years of clueless leadership in Washington.

Alice Rivlin¹ noted we are in deep depression, and high unemployment will continue through 2009 and into mid-2010. The economy will turn around before unemployment does. Downsides caused by financial disasters are always longer and deeper. Americans, always used to spending more than they earn, for a change, have become thrifty. Can we unlearn our bad habits? Catastrophes change our habits and consumers aren't buying. (Folks are shopping at Wal-Mart, Costco, and Target, and not at Bloomingdale, Nordstrom, and Tiffany's.) Do we want higher consumer spending and zero savings? We won't see full employment for many years. However, America is a resilient economy and has a flexible labor market, unlike Europe, where even capital markets are inflexible.

What led us to this economic mess? "There are lots of blame to go around—the Federal Reserve, Office of Thrift Supervision...I blame Alan Greenspan, who said 'Derivatives help us manage risk.'" Yeah, right! We had collective delusions that security markets can only go up, assumed that Wall Street and the financial institutions are basically honest, and lax lending standards are good enough. However, ingenious people (MBAs, PhDs...) with creative ways to make money with other peoples' money, credit crunch, credit extension, bad loans...did manage to get rich by shuffling paper and creating no real wealth.

What led Wall Street to where it is now? Was it greed or stupidity? Both. The real worry now is deflation that Japan is facing. The Obama administration did the right thing in getting money out to spend. America is underinvested in infrastructure, healthcare, and education. Our deficit will be 12% to 13% of GDP, but our national debt will double in the coming years. As for jobs in the future: Forget the auto and financial-services industries, they are either dead or tainted. Greentech and cleantech look good.

Healthcare will continue to be a mess. We should increase coverage and slow down the rate of growth of costs. (For the past 35+ years, every President since Tricky Dick has promised healthcare reforms; yet, healthcare costs have risen an average of three to four times the inflation over that period—thanks to lobbying by the AMA, pharmaceutical industries, HMOs, PPOs, PBMs...)

T. N. Srinivasan² discussed the emerging economies of China and India. Seventy-five percent of Indian banks' assets are owned by the government. In China it is 90%. Contrary to the popular prediction, Indian and Chinese economies *have* been affected by the recession/depression in the U. S. Long-term outlook for both China and India is good, despite the fact that India's infrastructure is a disaster. (As an economic stimulus, the Chinese are spending over \$500 billion on infrastructure, building new roads and bridges. However, exports from China have dropped precipitously; so, God knows what the highways are moving!) Also, capitalism is **not** in danger, despite what leftists tell you.

¹ http://siepr.stanford.edu/policyforum_jobs_agenda#anc_A.Rivlin

² http://siepr.stanford.edu/policyforum_jobs_agenda#anc_TN.Srinivasan

George Eads³ quoted well-known auto-industry analyst Mary Ann Keller, “GM has been dying since the 1970s.” The lobbying by the auto industry during the past few months has been shameful—telling Congress and the American public that over 4.7 million U. S. are in jeopardy if we let the Big Three (actually, it is Detroit 3—D3) fail. In reality, the D3 together employ a little over 200,000 workers. The rest are employed by German, Japanese, and Korean auto manufacturers, parts manufacturers (Delphi, Visteon), dealers, distributors, repair shops, tire manufacturers...you get the point. They will survive supporting the 200+ million vehicles on the road in America even if the D3 die. America was here long before the D3 came along and will be here long after they die. (‘Engine’ Charley Wilson’s famous statement “What’s good for General Motors is good for the country”⁴ is a falsehood.) Auto manufacturers in the U. S. employed 1,313,600 workers in 2000 and 877,000 in 2008. The unit market share of D3 in 2008 was 58%, while that of foreign manufacturers was 42%. (Remember, GM’s market share alone at one time was over 60%!) What is killing Detroit is retiree benefits: On average, every active GM employee supports 4.61 GM retiree and his/her dependents! Even American-car dealerships are inefficient: In 2006 an average Toyota/Lexus dealer sold 1,760 vehicles, whereas a GM dealer sold 293 vehicles.

So, can the D3 survive? They can, if:

- They survive the liquidity crisis
- They eliminate brands (e. g., GM getting rid of Pontiac, Hummer, Saab)
- GM realizes that Chevy can’t save the company
- They can control legacy (read retirees) costs

“It’s doubtful Chrysler will survive in any form, D3 is shrinking anyway.” **Fix It Again Tony** won’t help Chrysler. Look, if the Germans (Daimler) couldn’t help Chrysler, do you think the Italians (Fiat) can?

John Pencavel⁵ reported labor union membership in the U. S. in 1930 was 12.7%, 33% in 1936, and 12.4% in 2008. Unlike in the past, today’s membership is dominated by white-collar workers—school teachers, firemen/women, law-enforcement personnel...so, today only 14% of coalmine workers are unionized vis-à-vis 70% of secondary-school teachers. Are unions bad? Over 80% of the labor force in France is unionized.

Cecilia Rouse⁶ said this recession is more egalitarian—affecting everyone; however, some more than others. Although the U. S. unemployment is ~8.5%, it is highest among high-school graduates (13%) and lowest among college grads (4%). Yet, these figures are misleading. If you include the underemployed—those that have given up looking for jobs and those that no longer appear in the unemployment roll (unemployed for longer than six months)—the figure is more like 15% to 18%, still better than the 25% during The Great Depression, if that provides you any solace.

There are three types of unemployment:

- Cyclical Unemployment—there is a demand deficiency
- Frictional Unemployment—people moving between jobs, careers, and locations
- Structural Unemployment—real skills mismatch

The just-passed American Recovery and Reinvestment Act of 2009 (ARRA) is supposed to create 3.5 million jobs by 2012.

David Duncan, popular National Public Radio host, spoke eloquently on the future of public health, especially in the U. S. We spend 16% of our GDP on healthcare; yet, over 48 million Americans have no healthcare. Healthcare premiums continue to grow at three top four times the inflation rate. You can capture his thoughts in an excellent book, *Experimental Man*⁷, he just published.

³ http://siepr.stanford.edu/policyforum_jobs_agenda#anc_G.Eads

⁴ http://en.wikipedia.org/wiki/What%27s_good_for_General_Motors_is_good_for_the_country

⁵ http://siepr.stanford.edu/policyforum_jobs_agenda#anc_J.Pencavel

⁶ http://siepr.stanford.edu/policyforum_jobs_agenda#anc_C.Rouse

⁷ <http://www.experimentalman.com/>

Miscellaneous

There were lots of debate among brilliant economists, policymakers, and politicians from eminent schools about the Keynesian Multiplier⁸, President Obama's stimulus plan, and the ARRA. Liberals (Berkeley, Harvard, MIT) agree with the President's moves, whereas conservatives (Chicago, Stanford) claim ARRA is going to create only ½ million jobs by 2012, and not 3.5 million as claimed by the current Administration. Who does one believe? I believe in the late Walter Reuther, former chief of the United Auto Workers, who is quoted as saying, and I'm paraphrasing, *Economics is the only field where you can gain eminence by never being right.*

P. S.

If you are looking for a job and want to know what you should be earning, visit <http://www.jobnob.com/>.

⁸ [http://en.wikipedia.org/wiki/Keynesian#22Multiplier effect.22 and interest rates](http://en.wikipedia.org/wiki/Keynesian#22Multiplier_effect.22_and_interest_rates)