

Where Have All The Jobs Gone?

January 21, 2004

Just as all the flower children in the 1960's protested the Vietnam War with the song "Where Have All The Flowers Gone" we at CPAI protest the near universal belief that the recovery, which began in December 2001, is on track and sustainable. An economically sustainable, self-operating recovery cannot occur without job creation and folks, its nowhere in sight. Oh, there will be some increases. For example over the last 5 months, 278,000 (55,600 per month), however, it takes approximately 150,000 per month to employ new entrants and at least another 150,000 to cut into the backlog of the unemployed.

Where are we now two years and one month after the trough of the mildest recession in history? Private sector jobs remain 1% below the level of that trough. If this recovery were "typical," there would have been 7.7 million more workers employed as of year-end 2003. This equates to a huge amount of lost income – somewhere in the hundreds of billions of dollars. If you might recall the 1991-1 recession was called the "jobless recovery." It cost George the 1st his re-election bid. Back then after 2 years and 1 month off the trough 2.4 million jobs had been created. There is clearly something going on that was not present in previous recoveries and that something is globalization and what Stephen Roach calls "the labor arbitrage." Well you say, wages will begin going up in China and that will make them less competitive. Guess what? There are 260 million Chinese who are either under employed or unemployed. Of course China isn't the only country with hoards of workers – India has hundreds of millions and to top it off, they know English.

Manufacturing jobs are going to China and high tech jobs are going to India. The only thing left for us is jobs that are sheltered from foreign competition i.e. education, healthcare, restaurants, and other service type jobs. Even such occupations as research assistants for lawyers, doctors, accountants, and other professionals are going overseas. Many are encouraged by the increase in employment of temporaries. The thinking is that this is the first step toward full time employment, but we are not so sure. With temporaries, benefits are not needed. These benefits, which were once 15%, are now closer to 25% of wage and salaries. Wage rate increase are close to zero, but fringes keep going up and business cannot stand the increase when they have no pricing power for their products and services.

In a nutshell let us say again – The world has an excess of everything except brains. The world also is lacking in strong demand. Over the last several years the US has accounted for well in excess of 90% of all the worldwide growth. Our normal share is 33%. But in these days without much salary & wage, growth, spending must come from additional borrowing. The Fed is sponsoring this borrowing binge as being the only way to keep the US Economy afloat as well as indirectly the world economy.

As we enter 2004, the following is in place:

1. No personal income growth of consequence
2. Excess capacity in most all industries
3. No business pricing power
4. High debt levels in all sectors – private & public
5. Intense foreign competition

This, my friends, adds up in the long run to deflation and not inflation. The consensus is wrong again just as they were in 1999. Don't let the Wall Street killing machine do it to you again.