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The Jobs Question

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This is by far the most jobless of recent recoveries. Allen Sinai, a man known for describing numbers carefully, already wrote in November 2009:

> "*Never has business shed so many workers so fast, so many people failed to find work who are looking for work, and so many dropped out of the labor force as in the current circumstance*."

By that time, the stock market was already recovering but payrolls were not. Sinai wrote:

> "…it should be no surprise to see "Wall St." do better than "Main St." in the beginning stages of an upturn. This phenomenon is not new… But, at the moment, the juxtaposition of the extraordinary run-up of the U.S. stock market against the extraordinary weakness of the labor market presents an unusual picture of *extreme* 'disconnect.'"

As for what would happen next, Sinai thought that the ARRA and "quantitative easing" together foreshadowed:

> "*sustainability for the recovery in real GDP terms and continuing expansion,* at least through 2010 and into 2011. But beyond 2011, when the effects of the fiscal stimulus fade and the easy monetary policy is being withdrawn, sustainability will be in doubt."

So here we are. And here we sit. The jobs question entails two related but separate issues. The first is whether economic growth will continue. The second is whether, even if it does, new jobs will be created sufficient to restore high employment within any reasonable time.

The Growth Problem

If you ask me if the "growth problem" will be solved, I have to give an honest answer: no. I do not believe it will be. And the fault lies equally with those who upheld what they called the Keynesian position in the recent policy debates, as with those who opposed it.

Within the early Obama administration, it lies equally with Larry Summers, Christina Romer and Jared Bernstein, as it does with Peter Orszag, Timothy Geithner and the other budget and deficit hawks – and with those at the Federal Reserve who presented "quantitative easing" as though it were a solution. There is no need to mention the Republicans; they were momentarily irrelevant and anyway they long ago went over to magical thinking in this area – as Governor Pawlenty's "growth program" has recently shown.

The problem with the "stimulus" solution – as Geithner correctly said in internal debates – is that it is "sugar." It's an energy jolt. It's worth doing only if the problem is a shortfall of energy in an otherwise-healthy system. But that was not the problem. The problem was, and remains, the complete collapse of the financial sector.

By insisting on "stimulus," the administration's self-described Keynesians achieved two disastrous results. First, they blocked out anyone with a deeper diagnosis of the meltdown. These included some who grasped what had really happened to the banks. They included some who understood what had happened to homeowners. And it included some who were wrestling with how new technologies were transforming the conditions of demand for labor.

By pushing sugar-shock measures alone, the False Keynesians (as I shall now call them) also set condemned themselves to political failure, a problem aggravated by over-optimistic forecasts. In the short run there was the infamous Romer-Bernstein eight percent maximum unemployment memo, derived by surveying the incurable optimists who pretend to do economics for banks. In the longer run, there was the CBO/OMB habit of building a "natural rate of unemployment" into their budget models, so that *no matter what is done* five percent unemployment returns over about five years. If you accepted this forecast, as the administration did, the whole framework for useful policy intervention was limited to a maximum of two or three years.

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This in turn caused the second disaster: it conceded the long-term to the deficit hysterics. That other camp comprised the Rubinite "Hamilton Project" with their absurd worries that the United States government, which has never defaulted and never will, might someday be unable to pay public debts in dollars it can freely issue itself. This group is allied with the Peterson Foundation campaign to destroy Social Security and Medicare ("Concord Coalition," "Committee for a Responsible Federal Budget," "Fiscal Times" and other front groups.) A compromise could be reached, satisfying all: we'll stimulate now (up to a point) but "fix the long-term deficit" later. Of course "fixing the long-term deficit" is a euphemism for cutting Social Security and Medicare, since apart from net interest these are the only major components of federal spending that are legislated long in advance.[1]

It is a mark of Geithner's skill that both parts of this "compromise" served his purposes. He could oppose taking a long-term view on the financial meltdown – the view that financial fraud, bank insolvency, and unpayable mortgage debts and foreclosures had to be dealt with – on the ground that this would have interfered with early recovery. Having won that battle, he could then wait for the stimulus to fall short, discrediting the judgment of the False Keynesians and in the end forcing them all out of government. Game, set, match.

And so the bankers' friends retained control of government, while the Social Security and Medicare-cutters are in full charge of the charade that now passes for economic policy debate. Indeed the Petersonite position is so strong that it has opened the door to the ultimate crack-pottery of a strategic default on United States Treasury debt, justified by the supposed need to *force* cuts in Social Security and Medicare. As I write, only the direct popularity of these two programs protects them, alongside the stubbornness and good political instincts of a very few leading figures, notably former Speaker Nancy Pelosi and Senator Harry Reid, both of whom have (alas) made fatal compromises with the deficit hysterics in the past.

Why Doesn't Business Create Jobs?

In this climate, why doesn't business create jobs? A first good reason is pessimism: there is no basis for belief that the jobs would be supported by new sales. With the ARRA winding down, with states and localities in ever-deeper budget crisis, with more federal cuts clearly ahead, who can blame them? The entire foundation of the False-Keynesian program was that by now the private sector would be taking up the baton from the emergency public effort – as it did in 1994. But in 1994 the financial system hadn't melted down![2] Instead, as Sinai foresaw, withdrawal of federal stimulus would be followed by a slowdown, not an increase, in private activity.

And there is a second reason. If businesses do feel any need to change or expand, new technology is so cheap and tax-favored these days that they will always have a hard look at that first. Computers don't require training, health care, wages or pensions. And while new demand for machines is a good thing, the tech sector is small, and many of its jobs are overseas. Face it: going forward there will not be many new private-sector for-profit jobs in America. Tax incentives – the first refuge of those who prefer window-dressing to policy – will not change this.

Then there is the fact that the brunt of long-term unemployment falls on the trailing edge of the Baby Boom – the demographic bulge of workers fifty and older but not quite yet ready to retire. These workers have obsolete skills, homes, families, health issues; they are accustomed to high wages and they won't stay around long. Who would want them? So by the millions they file futile job applications, while those who have jobs hold on for dear life, blocking the way for the younger workers that employers (for good reasons) would greatly prefer to have.

What can be done, at this stage in the game? For the moment, nothing. The stimulus camp no longer exists. So far as the broad public has a notion of what his name means the spirit of John Maynard Keynes has been killed off for the last time. The financial system is a predatory shell, so that even if business sought to expand the banks no longer have the capacity to underwrite the loans. (That is why they now lobby to return to fraudulent mortgage finance, a cheap and easy numbers game, requiring only dupes to buy the paper.) The best immediate outcome would be a last-ditch defense of Social Security and Medicare and Medicaid on their merits, to limit the damage done. Win or lose on that, we are condemned to an austerity that will destroy the present Democratic Party -- if not in this election, then in the next one.

A New Alternative

And then there will be a choice. On one side, the Republicans will offer their version of Nirvana: flat taxes, deregulation, the final demolition of the welfare state. On the other, those who seek a new alternative will have to present a strategic program – not another short-term stimulus but a plan for national reconstruction and employment. This will include a new financial system, a new and supportive federalism for vital state and local services, an infrastructure and transportation program and an actual policy to deal with energy and climate change. It should include a strong program to relieve the miseries and frustrations of the near-elderly by allowing them to retire out of the labor force early, without the reduction of benefits that they presently endure. Let them turn to other pursuits, in the civic and social arenas, if they choose.

A strategic program must also include a new jobs model. The for-profit job-creation model – the "Great American Jobs Machine" which was predicated on bank credit and venture capital – is moribund. Yes, there will be some new technology jobs in the future – but not many; the sector is tiny and likely to shrink. Manufacturing, like agriculture, will also continue to shrink whatever happens. The private residential construction sector is gone. A program to support small business with credits would help create jobs in restaurants, shops, and small service companies, which is fine but not likely to run at a scale sufficient to absorb the unemployed.

On the other hand, as a political matter the federal jobs-program model is also dead; it never had a chance even in 2009 and certainly has none now. Nor (as most people conceive of it) would it work particularly well. The New Deal employed many young men (and some women) who were just off the farm on roads and conservation projects, but they were a far cry from the pampered and educated children of today's middle classes, who would not take the work and would not do it well if they did. There will also be public infrastructure jobs in the future, of course, and jobs to transform energy and perhaps to save the environment. But they will go largely to trained and skilled workers and – as with the ARRA – there will not be large numbers of them even if the program is substantial.

What's left? One important area is state and local government public service: teachers, police, fire, sanitation and other local services. It is far better to have more of these than fewer. Perhaps growth in these sectors can offset declines in the military and, one hopes, in the prison population. But that would require stable funding for state and local governments: revenue sharing or federalization of Medicaid to end, once for all, the rolling budget crises at those levels of government.

Apart from that, the non-profit sector, funded indirectly by the public, is the obvious way forward for future jobs. This sector largely covers higher education, health care, and other human services, including especially for the vast elderly population that we will have, for better or worse, whether we continue to support them through Social Security, Medicare and Medicaid or not. It is in these sectors that today's few new jobs are already being created, thanks to the fact that the public programs are in place, for now, to pay for them. So the model we need, in fact, already exists; the problem is to recognize it for what it is, and to expand it to meet the needs that are there.

And that is why "entitlement reform" is an attack on the one viable jobs sector that we have. And that is why a new jobs program must build upon, and not undermine, this one remaining foundation of economic and social stability. While we wait for a better day.

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Notes

[1] The Republican role in the charade is to "take tax increases off the table," so that the Democratic mind is concentrated on "compromises" to be made in this area.

[2] That this hope was an illusion was something I (for one) wrote clearly and prominently in March, 2009.

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