



STIMULATING DEBATE: DO LAYOFFS, LAYOFFS, LAYOFFS + WASHINGTON = JOBS, JOBS, JOBS?

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The shouting, hand-wringing, horse trading and partisan catcalls are over. The debate is closed. Congress passed and President Barack Obama signed the American Reinvestment and Recovery Act. Americans will sit back and quietly watch as the stimulus bill starts working its macroeconomic magic. Or will they? As the American sage, Yogi Berra, once said, "It ain't over 'til it's over." The debate has only begun on whether or not the stimulus bill will pull the United States out of its economic doldrums and back on the road to recovery. This article will examine several issues; the devastating toll a ghastly economy has exacted on the American worker, the main pillars of the Obama stimulus, the lessons learned from Japan's 1990s stimulus efforts and the argument over the legislation upon which rests the fates of our coworkers, neighbors and families.

THE TSUNAMI RECESSION

In previous economic downturns, some industries were hit much harder than others. Oil, real estate, manufacturing and other economic sectors had to deal with their own setbacks at various stages of a natural cycle. Today, the economic picture is bleak from one end of the spectrum to the other. A "tsunami recession" has washed over, swallowed and brought down virtually all economic indicators at the same time. No industry is immune. No company is complacent. No worker is safe. Every single U.S. state and 95% of the country's metropolitan areas will end the year with fewer jobs than those currently existing, according to Moody's Economy.com.

"The Die Is Cast"

-- Julius Caesar

Therefore, it is practically impossible, unlike in the past, for a nimble person to move to another state or switch career paths in order to keep working. Add a housing crisis unlike any other to the wintry economic mix and this perfect storm makes it harder for a

quick recovery.

In 2008, 2 million jobs were cut. Moody's Economy.com predicts that employers will shed 2.7 million jobs in 2009. Adding to the unemployment misery is the "underemployment" rate of 13.9%. That figure is the highest since the Labor Department began tracking it in 1994. According to USA Today, Ohio, Missouri, Florida, Connecticut, Hawaii and Michigan will lose the greatest proportion of jobs. Michigan's automotive woes are no secret but it is jarring to note that the state will lose 175,000 jobs this year, a 4.3% decline.

The tsunami recession has been especially brutal in light of the housing crisis. American homeowners are unable to sell their homes and, thus, are prevented from making strategic decisions to move to different markets in order to find jobs where their skills are needed. Mark Vitner, Wachovia Securities senior economist, told USA Today that, "The ability of people to relocate throughout the country has been one of the United States' greatest innovative advantages." This hampering of mobility is one more tidal wave that the American economy must overcome.

Statistics can be numbing when layoffs roll in, one after another. However, when a breadwinner loses his job, when a mother of three is furloughed, when a young professional loses hope of buying her first home, the confidence of a nation suffers as a result. One consumer's setback ripples through many businesses. Franklin Roosevelt reminded a nation, "The only thing we have to fear is fear itself" because he understood that somehow, someday, America would have to get back on its feet. This year's stimulus bill aims to get America back on the right foot. [Text]

THE FOUR LETTER WORD:

JOBS

Obama's stimulus bill may be loved or loathed but everyone agrees; it is audacious. Congress plans to spend the staggering amount of \$787 billion. The bill is filled with as many programs, aid and tax cuts that members of Congress, in their infinite wisdom, could conjure up. The goal is to get capital moving again and putting people back to work.

According to the Congressional Budget Office, the bill will consist of...

- \$116.2 billion in tax cuts for individuals
- \$87.1 billion to help states pay for Medicaid
- \$69.8 billion to patch the AMT (alternative minimum tax)
- \$53.6 billion to help states plug holes in education funding
- \$35.8 billion for unemployment benefits
- \$27.5 billion for highways and bridges
- \$25.1 billion for health coverage under COBRA
- \$20.9 billion in food assistance for individuals
- \$17.2 billion in incentives for Medicaid & Medicare providers to modernize

Needless to say, those provisions are just the tip of the Washingtonian iceberg. There are additional plans to spend billions on Pell Grants, child tax credits, electric grids, public transportation, water projects, environmental initiatives and even a \$3.2 billion tax break for General Motors.

The Obama Administration estimates that the stimulus bill will be a job-creating powerhouse. The White House Council of Economic Advisers released a list of how many jobs will be created in each state over the next two years.

According to the White House, a total of 3.5 million jobs will be created or saved in,

- California: 396,000 jobs
- Texas: 269,000
- New York: 215,000
- Florida: 206,000
- Illinois: 148,000
- Pennsylvania: 143,000
- Ohio: 133,000

Even Delaware and Rhode Island are expected to add 11,000 and 12,000 jobs, respectively.

A LESSON FROM THE FAR EAST:

JAPAN'S STIMULUS TROUBLES

In the late 1980s, Japan suffered from the bursting of its real estate bubble. Japan's economy went into a tailspin. In 1991, the country's government ushered in massive government-run construction projects as a method of spending its way out of an economic morass. Sound familiar? In addition, the failure to address its banking industry's fundamental problems was the backbreaker. Two decades later, Japan's economy is still struggling. According to the Japanese Cabinet Office, the country has spent \$6.3 trillion on construction projects since 1991. This Keynesian policy's legacy left a country deeply mired in debt (consisting of 180 percent of its economy), and neither recovery nor growth to show for the effort.

The New York Times cited a study by Dr. Toshihiro Ihori, of the University of Tokyo, which found that the Japanese government's spending drove out private investors. The stimulus initiatives did not create economic growth. The Times pointed out how the small Japanese fishing town of Hamada (population 61,000) has a soaring bridge, highway, university, prison, art museum, sports center, ski resort and aquarium courtesy of the government's largesse. Hamada is an isolated port in western Japan

but it is not the only municipal recipient of boondoggle projects. Other small Japanese towns have seen roads paved over, dams built and bridges erected as elements of large, ambitious infrastructure projects. These projects make Alaska's bridge-to-nowhere look like the yellow brick road.

American economists, like current Treasury Secretary Timothy Geithner, think they have applied the lessons learned from Japan's stimulus failures to make sure this year's bill does not contain the same mistakes. Geithner believes "spending must come in quick, massive doses, and be continued until recovery takes firm root." Instead of building useless roads and bridges, the Obama team wants to invest in education and social services. While Japanese citizens feel the government's stimulus plan was a "colossal waste", Geithner feels Japan's efforts "did not go far enough."

Creating jobs is one tall order, but rescuing banks is another. The drying up of capital has blocked U.S. employers' plans to hire workers. Japan's troubled experience provides another roadmap on how to arrange bank bailouts. But the Japanese aren't convinced the United States has been paying attention. Hirofumi Gomi said in an interview, "I thought America had studied Japan's failures. Why is it making the same mistakes?"

The stimulus package can only work if banks are rehabilitated. After years of denying the inevitable, Japan resorted to drastic measures; nationalizing banks, knocking out shareholders, and allowing weak banks to crack because of bad debts. What did not work in Japan were attempts to create low interest rates and capital injections – the same policies of the outgoing Bush and incoming Obama administrations. Because of the delay, The Times said "Japanese taxpayers are estimated to have recouped less than half what it cost the government to bail out the banks."

YES WE CAN: SUPPORT FOR THE PRESIDENT'S STIMULUS

Paul Krugman recently won the Nobel Prize for economics. He backs President Obama's plan "to support jobs and output with a large, temporary rise in federal spending,

which is very much the right thing to do." In fact, he considers the \$800 billion in stimulus as "probably just a down payment" in saving the economy. Instead of "destructive" tax cuts, Krugman argues that the plan should be "substantially bigger" but that its present form does "certainly improve our odds." Krugman worries that the American economy is headed towards a deflationary phase in which American workers are subjected to prolonged wage cuts. Krugman recalls that economist Irving Fisher pointed out 80 years ago that, "deflation, once started, tends to feed on itself." A deflationary period would inhibit investment spending.

There are features of the stimulus bill that Krugman thinks do a good job of proper government spending and there are instances where he feels the provisions are counterproductive. Krugman hails aid to struggling state governments as "one of the best features of the plan." He also thinks increased federal spending on school construction, unemployment benefits and food stamps would "do the most to reduce the depth and pain of this slump." Krugman criticized the \$15,000 tax credit for home buyers. He considers it a "bonus" that can be called the "flip your house to your brother" provision that has no beneficial effect on the economy. Subsequently, the tax credit was reduced to \$8,000 and does not have to be repaid.

While Krugman frets that the stimulus bill is "not good enough" and increases the likelihood we are "falling behind the curve," President Obama is gaining support from an unlikely source – Republican governors. California's Arnold Schwarzenegger, Florida's Charlie Crist, Vermont's Jim Douglas and Jodi Rell of Connecticut joined 14 Democratic governors in signing a letter that praises the president's economic agenda.

The state governors face yawning gaps in their budgets. They see aid from the federal government as a "critical" step to maintain services, fund Medicaid and further educational programs. The Republican governor of Utah, Jon Huntsman, fought for his state to get \$14.4 billion for roads, rail and sewer projects. Crist noted that the

stimulus bill “helps plug that hole.” Conversely, every Republican member of Congress, save for three senators, voted against the bill.

OH NO YOU DIDN'T: STRONG OPPOSITION TO OBAMA'S PLAN

A variety of voices have come out against Obama's stimulus plan. The Wall Street Journal editorial board noted that while “everyone agrees that some kind of fiscal stimulus might help the economy” it is worried that Obama believes “any government spending is an economic stimulus.” The Journal is concerned that the “spending will take the U.S. budget deficit up to some 12% of GDP, about double the peak of the 1980s.”

Steven Malanga, senior fellow at the Manhattan Institute, warned that efforts to boost housing prices are a wrong way to lead us out of the recession. Malanga warned that the housing market “often trails in an economic recovery.” He cited economists Carmen Reinhart and Kenneth Rogoff who examined 18 recessions around the world, since the Great Depression, and discovered that housing is “the last major indicator to recover in such sharp downturns.” Malanga believes the stimulus bill is wasting money because the “plan to provide home buyers with a generous tax credit is more likely to be used by people who would be purchasing homes anyway.”

Ed Yardani, an investment analyst, told McClatchy Newspapers that, “I think (doing) nothing would have been better.” Echoing other economists who believe the stimulus must be targeted and timely Yardani argued, “It's unfocused. That is my problem. It is a lot of money for a lot of nickel-and-dime programs.”

Other critics of the bill weighed the differences in automobile tax credits between the House and Senate versions of the bill. Instead of a large tax credit for buying vehicles that would have benefited the manufacturing sector, Congress instead is “letting purchasers of new vehicles deduct from their federal taxes the state and local sales taxes on the car they bought”, according to McClatchy. However, buyers

of plug-in hybrids can get a tax credit of up to \$9,100. Stimulus critics also argue that provisions for Head Start's disadvantaged children and NASA's climate-change research are worthwhile projects but “they aren't aimed at delivering short-term boosts to economic activity.”

There are stimulus critics on the left and right of the political spectrum. Former Clinton White House adviser, William Galston said “we are likely to end up with zombie banks whose balance sheets are riddled with near-worthless investments.” Galston continued, “As the lesson of Japan in the 1990s shows, fiscal stimulus without financial rescue yields stagnation – at best.” Brian Riedl, director of budget analysis for the conservative Heritage Foundation decried the bill as “25 years of government expansion jammed into the bill and sold as stimulus.”

CONCLUSION

William Inboden and Ryan Streeter of the Legatum Institute are authors of the Prosperity Index. The index considers prosperity to consist of both economic growth and quality of life. The United States ranks fourth in the study and is the only country with a population of more than 100 million inhabitants in the top 10. The US “outscores the other top 10 countries on personal income by 40 percent.” In addition, America scores an “impressive 38 percent higher than the average of the top ten countries” in the ability to commercialize innovation.

The study's results highlight how America, despite its economic troubles, has underlying strengths that make it without peer on the world stage. Unemployed Americans are depending on elected officials to find the solutions so that they can go back to work. Now, the United States has chartered a course for itself with a recovery plan consisting of a stimulus bill and a plan to bail out the banks. After Julius Caesar crossed the Rubicon River, knowing full well there was no going back, he said, “The die is cast.” He made a decision and was ultimately, triumphant.

ABOUT THE AUTHOR:

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Prior to joining CBRE, Thomas was an associate with the redeveloper RockWater Partners. Thomas worked directly with the president, analyzed potential transactions and played a key role in business development. Prior to RockWater, Thomas was development manager for Foursite Development. His responsibilities involved the construction management of a state-of-the-art storage facility, C3 Modern Storage.

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