

# JOB CREATION

## WHAT REALLY WORKS?

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**T**he headlines are full of promises to create jobs. We're going to look at some of them as ways to step back and see the bigger picture. If they look familiar, there's a reason. In publishing, editors often speak of repurposing articles from past issues of magazines. They will pull them from the archives, dust them off, update some of the words and all of the illustrations and data, and then push them out to the public as if they were the newest thing. That's a lot of what we're seeing now—that plus a lack of the most basic knowledge of economics. It could spell trouble, or one of these proposals may work, or maybe we'll just wait long enough for the economy to fix itself. I suggest that part of our current unemployment is structural, not cyclical, and that the solution is centered in the marketplace, not in Washington.

### **Can Stimulus Money Fix the Problem?**

The role of the government is crucial. Whether you believe the government should add capital into the system to stimulate the economy or remove regulations that may be restricting the market, you can't avoid its importance. Most recently, Congress passed a \$158 billion stimulus bill in 2007 and one for \$787 billion in 2008 and is currently debating the American Jobs Act and other measures.

What does stimulus money really do? If you give a large amount of cash to your cousin who is too much in debt to buy necessities, he will buy some groceries, but mostly he will pay

bills. This may be good for the person he owes, but he still doesn't have an income. If the person he pays doesn't have to pay it forward, he may spend it, but if he has sufficient resources, then the stimulus money will just sit there until some good reason to invest it comes along. Unless there's a good reason to do otherwise, sooner or later, all stimulus money gets piled in a wealthy person's or company's corner. If there were a good reason to do otherwise, you wouldn't need a stimulus.

What is missing from this approach is demand. If you can create demand and need government help to create supply, the tax code, guaranteed loans, and other incentives move the market toward satisfying the demand. What the government can't do is create the demand except in times of national catastrophe. Many scholars argue that World War II and not the New Deal got our economy moving out of the Great Depression. The New Deal is credited with staving off disaster much the way the most recent stimulus programs did. You buy time and possibly create good politics, but you haven't solved the problem.

### **How about Targeted Industries?**

The solution we most hear about in the media is the government providing support for targeted industries. Just like the pure stimulus, targeted support involves the tax code, guaranteed loans, and other incentives. This approach is based on two possibilities.

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**by David Hayes**

■ **First**, there is the possibility that demand already exists that is not being met because one or more of the factors of production are missing. A current advertisement sponsored by the American Petroleum Institute (API) says, “By erasing burdensome regulations, the oil industry could create one million jobs by 2018 and more than 1.4 million by 2030.” In related statements, mostly by politicians, we are led to believe that this increased oil production will lower the cost of gasoline in the U.S. Assuming existing refineries can process some of the oil, it will still take several years to build new refineries (assuming there are places that will let you), and there are no guarantees that the domestically produced oil will remain in this country. It’s a global market, and oil production goes where the highest price is. That’s capitalism. The industry is not asking for the government to lend them money, just permit them to drill new wells and ship the oil. That leaves them free to sell it to the highest bidder. Take a look at the current oil boom in North Dakota and multiply it exponentially. Some people are making money there, as will the developers in the new production envisioned by the API’s “one million jobs by 2018” ad. Problems have already risen from the sudden shift in the location of workers, and the potential for environmental damage will remain behind after the petroleum companies have gone elsewhere. Regardless, that’s too far in the future to be considered a viable solution to a current problem.

■ **A second possibility** is that an undefined demand is represented, for example, by environmentally sensitive or “green” jobs in areas such as solar energy. We have the technology and the skill but not the manufacturing capacity. Building that capacity will take time and a lot of money, and once it’s built, labor costs will be high. We can reduce our dependence on fossil fuels and have cleaner air by increasing the use of green technology, but this does not in itself create jobs. The best way to increase the use of solar panels, for example, is to reduce their cost, and the best way to do that would be to manufacture the components offshore. Clearly, this would not help the unemployed in the U.S. If the panels were manufactured here, we could not afford them. If subsidized by the government, private business will be crowded out, and the result will be inflationary.

While we’re on this topic, let’s look at the globalization of the labor market. After all, we are not only interested in creating jobs so currently unemployed and underemployed people can provide a good standard of living for their families. These jobs translate into increased GDP, and this growth funds a lot of other things, particularly those projects funded with government resources for the benefit of Congressional constituents. It isn’t just a matter of moving to North Dakota. The largest amount of job growth will occur overseas. Much of that

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job growth will be tied to the use of computers. Below are findings from a recent study by the analyst firm International Data Corporation:

*“Spending on public and private IT cloud services will generate nearly 14 million jobs worldwide from 2011 to 2015. The research, commissioned by Microsoft, also found that IT innovation created by cloud computing could produce \$1.1 trillion a year in new business revenues.*

*The highest percentage of new jobs will occur in emerging markets, according to the study, especially China and India, which together are expected to produce nearly 6.8 million cloud-enabled jobs between 2011 and 2015.*

*Nearly 1.2 million new cloud-related jobs will be created in the U.S. and Canada.”*

*—www.microsoft.com/presspass/features/2012/mar12/03-05CloudComputingJobs.msp*

This suggests not only that job growth, fueled in part by lower wages and costs of living, will occur outside our borders but that the growth we are likely to experience will occur in IT-related careers. This directs us to our next question.

## **What about Targeting Specific Jobs?**

When the government targets specific jobs by creating the demand for them, we have a short-lived fix with potentially long-lived inflation. This puts us much in the same situation as with stimulus and targeted-industry programs. However, if private industry were able to create jobs and government helped them find people to fill them, we might have a solution to at least part of our problem. Susan Cowden, administrator, Workforce Development Division, Tennessee Department of Labor & Workforce Development, recently stated that “over 1,000 information technology jobs in the Nashville area” are vacant because qualified applicants are not available. In basic economic terms, this

is structural unemployment, whereby workers’ skills do not match job requirements. In structural, as opposed to cyclical, unemployment, government policies such as stimulus programs and low interest rates have little effect, and, as noted earlier, can lead to inflation. In targeting specific jobs, the government helps by offering training to close the gap between what an unemployed or underemployed worker can do and what is needed in the job market. Using IT skills as a surrogate for the bigger picture, I have extracted the following information from the Technology Hiring Trends Report.

- 1,044 technology related positions were open in Middle Tennessee, up from the third quarter of 2011 (+12%). The figure for the State of Tennessee is 1,410.
- The number of advertised positions in Middle Tennessee is the highest since 2001 with the exception of 2007, immediately before the economic downturn.
- Healthcare continues to lead all industry sectors with education and accounting rounding out the top five.

*—www.technologycouncil.com/wp-content/uploads/2012/01/NTC-Jobs-Report-4Q11.pdf*

Training centers and technical schools provide workers with the skills needed to close this gap not only in IT but also in skills needed in building trades, logistics, and many other areas. Governmental funding is also available at the existing-job level to incentivize employers to train existing employees using on-the-job training (OJT) techniques. Because training facilities and personnel are already in place, the cost of adding value is less than starting a new program that targets an entire industry and especially less than not targeting anything at all. This approach of targeting specific jobs will also be the best way to help returning veterans re-enter the workforce. ■

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