



Those who cannot remember the past are condemned to repeat it. Santayana

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WINTER WARNING



The Scourge of Unemployment

Whether the world is enduring a period of full-blown economic depression, or a single country is just experiencing a national recession, nothing punishes an economy, or oppresses a work force more severely, than the scourge of unemployment. For many years, the Long Wave Analyst has forecast that during the next global economic depression, such as in the present, the unemployment rates of major western economies would climb to double-digit levels. Indeed, with the unemployment rates of seven western countries currently above 8%, notably, the United States and the Euro zone at 9.5%; Brazil at 8.8%; France at 8.7%; Canada at 8.6%; Argentina at 8.4% and Germany at 8.3%; with the United

Kingdom not far behind at 7.6% and Italy at 7.2%, double-digit unemployment rates are not far away.

In his book, *"The Ascent of Money"* author Niall Ferguson recounts the effects of the Great Depression on the middle class of the day: *"the abject misery of ubiquitous unemployment, the wretchedness of the soup kitchens and the desperate, nomadic search for non-existent work. On March 7, 1932, five thousand unemployed workers, laid off by the Ford Motor Company, marched through central Detroit to demand (financial) relief. As the unarmed crowd reached Gate 4 of the company's River Rouge plant in Dearborn, scuffles broke out. Suddenly, the factory gates opened and a group of armed police and security men rushed out and fired into the crowd. Five workers were killed."* While no comparable event has occurred during the current depression; as unemployment rates continue to climb, the odds increase for dangerous situations to develop. Witness last week's ultimatum from former Nortel Networks employees in France who, demanding better job layoff terms, threatened to blow up their factory in the Yvelines area near Paris.

In her book, *"The Forgotten Man"* author Amity Shlaes notes that the policies and New Deal legislation of President Roosevelt mandated high wages which *"helped those workers who earned them. But the inflexibility of those wages also prevented companies from hiring additional workers, hence the persistent shortage of jobs in the latter part of the 1930s. New Deal laws themselves contributed to the sense of lost opportunity. This sense is what led to the famous description of the period that – the Depression was not so bad if you had a job."* Indeed, in the spring of 1938, one in five American men were still unemployed, because the unemployment rate didn't return to pre-crash levels until the early 1940s, after America entered the Second World War.

In the context of today's global economy, there has been unending commentary by the media about the outsourcing of North American jobs to foreign countries. However, author David Smick, in his book *"The World Is Curved"* cites economists who argue that *"modern market economies regularly destroy and create tens of millions of jobs just from their own internal dynamics. (International) trade plays a very small role in this job churning. By far, the largest source of job loss remains domestic competition. This is why America needs to maintain policies that continue to make it an attractive destination for*



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investment. America also needs to correct its fiscal imbalances. The challenge, however, is to devise policies that will correct imbalances without jeopardizing the wealth and jobs created by the entrepreneurial capitalist system. Policies to promote a climate of entrepreneurial creativity must be complemented by policies that promote the broadly based nurturing of human capital. Ultimately, in the twenty-first century global economy, it is human capital that matters the most”.

Currently, the official U.S. jobless rate of 9.5% is the highest since 1982, when the rate peaked at 10.8%; but it excludes both those who have stopped looking for jobs and those obliged to accept part-time employment. According to the *New York Times*, if those unemployed and underemployed were included, the real jobless rate in California would be 20.3%, in Oregon 23.5%, in Michigan 21.5% and in South Carolina 20.5%. The rate would be close to 20% in Tennessee and Nevada and in several “states that have relied heavily upon manufacturing and housing.” As alarming as these jobless rates are, they exclude the economic effects of wage cuts, reduced working hours and diminishing health care benefits. *Business Week* reports that “cuts in pay and hours are rippling throughout the economy in businesses large and small; from mining to retail”. Further, the *Wall Street Journal* comments that “full-time workers are being downgraded to part-time as businesses slash labor costs to remain above water, and factories are operating at only 65% of capacity”.

At the same time, a decline in American labour mobility explains some of the failure of workers to find jobs even after they’ve been unemployed for months. In previous economic downturns, some regions of the country remained relatively strong and attracted workers from other areas. In the current depression, the credit crisis has damaged job prospects almost everywhere, as plunging home prices has meant that people were unable to move because their mortgage debt is greater than the value of their house. Another factor is the permanency of certain job layoffs in financial services, residential construction, durable goods manufacturing and the wholesale and retail sectors. The destruction of millions of full-time jobs has enormous implications for the living standards of the middle class.

Canada’s jobless rate climbed to 8.6% in June, underscoring the fact that 1.6 million people are now unemployed. Sebastien Lavoie, a Laurentian Bank economist, commented that “businesses are cutting jobs at a much more moderate pace than last winter, but the negatives still outweigh the positives. If you’re unemployed for many months, that’s where the problems pop up – delays in credit payments which could lead to personal bankruptcies.” Behind the headline numbers, however, a marked shift is taking place as more people are either forced into part-time work, or create their own jobs through self-employment. According to Statistics Canada, since October’s labour market peak, the Canadian economy has shed almost half a million full-time jobs, while adding 84,000 part-time positions. In that same period, self-employment increased by 1.5% in contrast to a 3.3% decline in private sector employment. Overwhelmingly, it’s people in their fifties and older who are turning to self-employment through this period.

In the future, author David Smick reasons that American political and policy leaders “need to internalize the fact that only the United States is capable of mustering the leadership and courage to defend the free-trading system and the international system of freely moving capital. Today, like never before, a courageous body of policy leaders needs to step forward with an effective agenda to avoid disaster. With



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good leadership, we can continue to build on the amazing prosperity of the past twenty five years, (but) without it, we risk a new era of economic heartache.” According to the minutes of its most recent meeting released last week, the Federal Reserve Open Market Committee (FOMC) raised its forecast for the unemployment rate to reach between 9.8% and 10.1% in the last quarter of this year. The FOMC envisages that the jobless rate will remain at about 9.6% next year and 8.6% in 2011. “Labour market conditions were of particular concern to meeting participants,” the minutes stated, adding that “most participants anticipated that the employment situation was likely to be downbeat for some time.”

Prolonged double-digit unemployment rates literally, tear at the very social fabric of free market economies. Regrettably, major social problems in America today are aplenty. Firstly, there is the debt problem, well documented by the national debt level, currently soaring past the \$11.6 trillion (U.S.) mark. Then, there is the drug war challenge, the gang and the crime problems, with overcrowded prisons from coast to coast. In addition, there is the gun problem with more handguns and rifles in private hands than ever before. Moreover, there is the problem of illegal immigration, the health care challenge and the perpetual race issue. Finally, there is the costly ‘War On Terror’ in Iraq and Afghanistan and the costly the entitlement programs of Medicare, Medicaid and Social Security looming on the horizon. Accordingly, we are inclined to disagree with the unemployment optimism recently voiced by the FOMC, rather we foresee the American jobless rate reaching the 12 – 13% range in the coming months and remaining a definite American socio-economic problem for many years. Also, we lack confidence in the leadership of the socialist Obama administration, suffice to say, that we perceive the incumbent to be a one-term President.

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