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ECONOMIC VIEWPOINT

By Jeffrey E. Garten

Will All Those Jobs Ever Come Back?

Without big efforts from the feds, the debacle may never be reversed

Most everyone knows we're in a jobless recovery, with a 6.1% rate of unemployment and nearly 3 million people losing their jobs in the past two years. There is also a consensus among mainstream economists that conventional government policies, especially the kind of massive tax cuts and big deficit spending instituted by President George W. Bush, will usher in a standard business recovery that will eventually generate lots of jobs and lower the unemployment rate. We'd better be prepared for that consensus to be wrong. There is a good chance that many of the jobs will never come back.

GOING EAST. One reason is the growing labor efficiency that allows American companies to accomplish more with fewer people. Such productivity growth averaged 2.6% in 1996-2002, compared with 1.4% in 1980-95. Moreover, it soared to nearly 7% in the second quarter this year. Looking ahead, even more labor-saving techniques will be embedded in every sector of the economy, spurred by advances in information technology and by continuous pressure for cost-cutting.

A second megatrend is the explosive growth of outsourcing to China, India, and elsewhere. The problem involves not just the transfer abroad of traditional manufacturing by companies such as Ford (F) and Intel but also the relocation of such operations as software design, tax analyses, and financial research by the likes of Microsoft and Citigroup.

Third, financially strapped state governments are cutting back on education and job training. This is happening just as retiring baby boomers are about to leave big gaps in the numbers of workers with important technical skills.

Not everyone is alarmed. Stephen Roche, Morgan Stanley (MWD)'s chief economist, says that productivity growth in services is not as high as economists allege. Harvard Business School's Michael Porter told me that companies' enthusiasm for outsourcing could wane once they understand the full costs of lower productivity and loss of control over crucial aspects of their business. Meanwhile, Glenn Hubbard, former chairman of the Council of Economic Advisors, has recently written that we are experiencing nothing more than the historic process of shedding old jobs and creating new ones.

I hope Hubbard is right. But even if he is, I fear that America could be heading for an employment debacle that won't be overcome -- at least at tolerable social cost -- if everything is left to the market or to current government programs that are scattered and underfunded. To me, the big risks are in doing too little rather than too much.

What steps should be taken? Washington should start by rationalizing the spaghetti bowl of federal, state, and local job training programs and put someone with exceptional clout in charge. It should ensure its education goals and training programs are well-funded, even if that means measures as politically difficult as imposing a gasoline tax.

The government should create more effective partnerships with the business community to equip workers for specific industries that are likely to expand in the years ahead. These include health care, where millions of nurses for our aging population will be needed; education, where highly qualified K-12 teachers will be in severely short supply; and new industries, such as homeland security.

Washington should also focus heavily on helping small and medium-size companies by reducing regulatory red tape and the cost of litigation. It's in this part of the economy, and not in footloose multinational companies, where there's the highest potential for more good jobs.

The Administration is right to be tough on countries that subsidize their exports or violate intellectual property rights. But the big problems are homegrown, and the government should strongly resist protectionist pressures. This includes a proposal to raise tariffs on Chinese imports in order to pressure Beijing to revalue the yuan. Ditto for attempts by state governments, such as New Jersey, to ban all outsourcing on state contracts. Equally misguided are proposals from some Democratic Presidential aspirants under which companies that refrain from moving operations abroad would be awarded tax breaks.

Admittedly, I don't see anything on the near-term horizon showing that our political or business leaders see the problem in its proper dimensions. But if my concerns are only half right, it won't be too long before they'll have to.

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