

## **The New Economic Reality and the Unemployment Rate: Will It Ever Get Below 5% Again?**

**Robert L. Howard**  
North Carolina A&T State University

**Belinda P. Shipps**  
North Carolina A&T State University

*The unemployment rate has been at 8% or higher during most months since June 2009, when the last recession ended. In the past, the unemployment rate rose during recessions, continued to rise after the official end of the recession, but then declined substantially. Some changes have occurred in the current economy, however, which may prevent the normal decline in the unemployment rate after our most recent recession. We evaluate these and make a conclusion of their impact on the unemployment rate and society.*

### **INTRODUCTION**

The unemployment rate has been at 8% or higher during most months since June 2009, when the last recession ended. According to the National Bureau of Economic Research, the U.S. experienced a recession beginning in 2007 (Isidore, 2008). This recession has been a leading cause of unemployment, which has continued to rise. During the first ten months of 2008, employers reduced jobs by 1.2 million (Isidore, 2008).

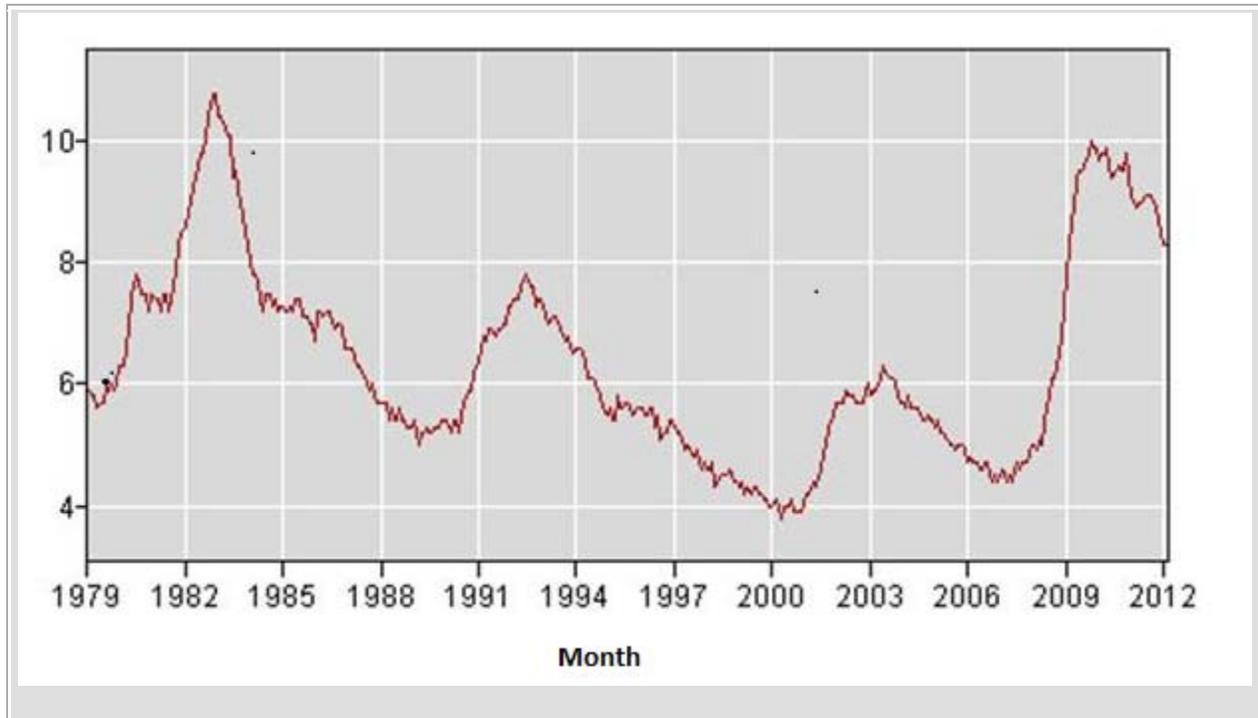
In the past, the unemployment rate rose during recessions, continued to rise after the official end of the recession, but then declined substantially. According to the Bureau of Economic Research, a recession starts at the peak of a business cycle and ends at the bottom of a cycle (Business Cycle, 2012). Figure 1 shows the unemployment rate for persons aged 16 and over for 1979 – 2012. The unemployment rate at the end of the July 1981 – November 1982 recession was 10.8%. It remained at 10.8 % in December 1982, and then declined during the 1980s, reaching a low of 5.0% in March 1989 (US Business Cycle, 2012; Unemployment Rates, 2012).

The unemployment rate at the end of the July 1990 – March 1991 recession was 6.8%. It then rose to a high of 7.8% in June 1992, and declined during the 1990s, reaching a low of 3.9% in September 2000. Our next recession was the period March 2001 through November 2001, which ended with an unemployment rate of 5.5%. The rate then rose to a high of 6.3% in June 2003, and declined, reaching a low of 4.4% in May 2007.

Our most recent recession was the period December 2007 through June 2009, which ended with an unemployment rate of 9.5%. The rate reached a high of 10.0% in October 2009, but has declined very slowly since that time (Databases, 2012). On Labor Day, 2011 the unemployment rate was 9.0% and there were approximately 14 million unemployed persons in the country; of that number 6 million were

unemployed for at least 27 weeks, and 4 million of those were jobless for over a year (Jobs in America, 2011; Nearly 1 in 3, 2011).

**FIGURE 1**  
**UNEMPLOYMENT RATE OVER TIME, PERSONS 16 YEARS AND OVER**



Economists have identified four types of unemployment: frictional, seasonal, structural, and cyclical (Bade and Parkin, 2011). Frictional unemployment arises from individuals changing jobs and new workers entering the labor force. Seasonal unemployment arises because of persons not being able to work because of changes in the season. Persons who work outside and those who work in seasonal industries are affected by seasonal unemployment. Structural unemployment arises from workers' lack of skills needed to perform jobs that are available. Cyclical unemployment arises because of changes in the business cycle; this unemployment rises during recessions and declines during expansionary periods.

Unemployment rates differ significantly by industry and class of worker. Figure 2 shows the number of unemployed persons and the unemployment rates for several industries and class of workers for February 2011 and February 2012 (Unemployed Persons, 2012). The highest unemployment rates were for construction and agricultural workers, while the lowest unemployment rates were for government workers and employees in financial services, education, and health services.

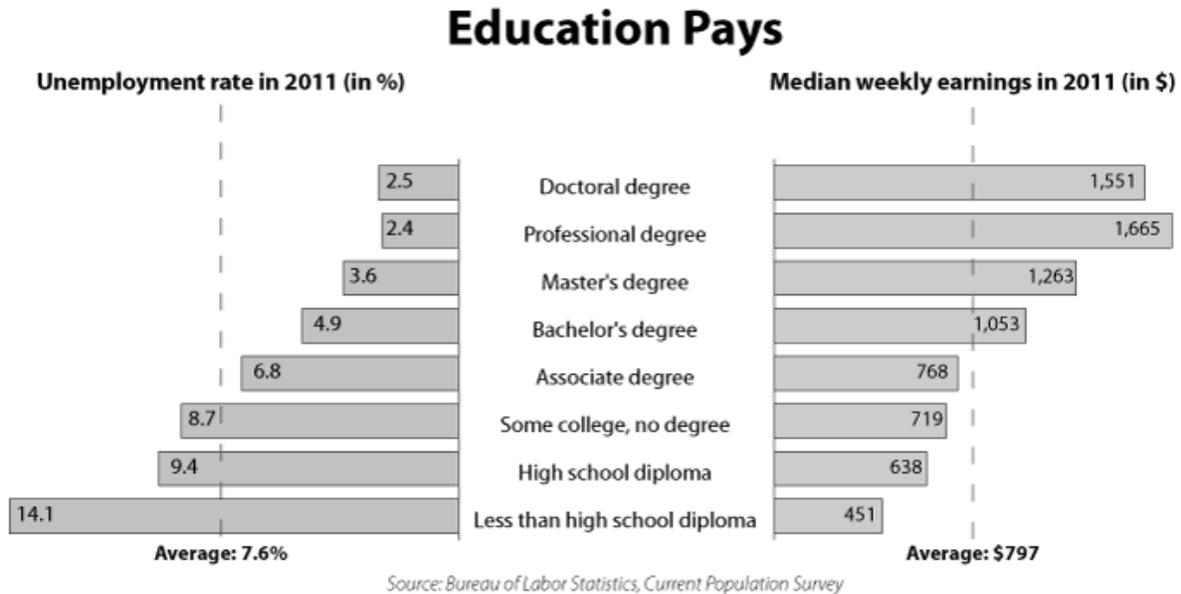
**FIGURE 2**  
**UNEMPLOYED PERSONS BY INDUSTRY AND CLASS OF WORKER**

Industry and class of worker	Number of unemployed persons (in thousands)		Unemployment rates	
	Feb. 2011	Feb. 2012	Feb. 2011	Feb. 2012
Total, 16 years and over <sup>(1)</sup>	14,542	13,430	9.5	8.7
Nonagricultural private wage and salary workers	11,641	10,517	9.9	8.8
Mining, quarrying, and oil and gas extraction	41	66	5.6	7.2
Construction	1,883	1,404	21.8	17.1
Manufacturing	1,492	1,294	9.9	8.4
Durable goods	989	787	10.5	8.1
Non durable goods	503	506	8.9	9.0
Wholesale and retail trade	1,889	1,824	9.2	8.9
Transportation and utilities	499	440	9.0	7.6
Information	205	247	6.7	8.4
Financial activities	636	498	6.9	5.3
Professional and business services	1,469	1,590	10.1	10.3
Education and health services	1,198	1,197	5.6	5.4
Leisure and hospitality	1,783	1,496	13.8	11.6
Other services	546	461	8.9	7.1
Agriculture and related private wage and salary workers	270	290	18.4	19.5
Government workers	927	848	4.2	3.9
Self-employed workers, unincorporated, and unpaid family workers	601	579	5.9	5.9
<b>Footnotes</b>				
<sup>(1)</sup> Persons with no previous work experience and persons whose last job was in the U.S. Armed Forces are included in the unemployed total.				
NOTE: Updated population controls are introduced annually with the release of January data.				

Educational achievement is also highly correlated with unemployment rates. Figure 3 shows, for 2011, the unemployment rate and the median weekly earnings by highest level of education obtained, from less than high school to professional and doctoral degrees (Education Pays, 2012). As might be expected, the unemployment rate decreased and the median weekly earnings increased as more education was obtained.

There was much discussion during the 2012 presidential campaign about what measures should be taken to decrease the number of jobless workers. Several changes have occurred in our economy, however, which may prevent the normal decline in the unemployment rate after our most recent recession; it appears likely that we will see high levels of unemployment for many months into the future. Our research addresses the question of what measures should be taken to decrease the number of jobless workers. We address this question by first identifying and evaluating some of the changes that are contributing to unemployment. We then provide conclusions and suggestions for future research.

**FIGURE 3  
UNEMPLOYMENT RATE AND MEDIAN WEEKLY EARNINGS  
BY EDUCATION OBTAINED**



This discussion is valuable to researchers as well as practitioners. In order for the country to continue to grow and prosper, there is a need for people to be employed. Prolonged high unemployment has the potential to impact many people and industries and to hamper the ability of the economy to provide products, services and jobs. There is a need to study the factors involved in the current unemployment environment as well as possible alternatives and solutions which may lower unemployment. This research is unique in addressing the new and changing nature of unemployment and the need for creative solutions to the new jobless economy. In this paper we discuss some causes of unemployment that cannot be neatly classified into the categories of frictional, seasonal, structural, or cyclical unemployment. There has not been much discussion of these issues in the literature.

### **FACTORS KEEPING UNEMPLOYMENT HIGH**

Over the years, the rise in unemployment has been attributed to many factors and has been associated with short and long term effects on individuals, businesses and economies of one or many countries. In earlier times, severe recessions with high unemployment have shown similar patterns of unemployment recovery: after a recession ended, unemployment rates steadily dropped to more pre-recession rates and the average time frame for job recovery was ten months (Knotek and Terry, 2009). In reviewing more recent time periods and industries, the job recovery patterns for unemployment may be changing.

#### **Companies Still Struggling from the Recession**

Although the Great Recession officially ended in June 2009, many firms have not fully recovered from the effects of the recession. In December 2011, Texas Instruments and Altera Corporation reduced their forecasts for the fourth quarter because of weaker demand from their customers who were concerned about the broader economy (Tibken, 2011). A survey of small businesses by American Express revealed that many firms, because of cash-flow problems and concern about the economy, reduced their year-end raises and eliminated the traditional holiday party (Maltby, 2011). CEOs of large companies are stepping

gingerly because of uncertainty about the economy. The Business Roundtable, an association of CEOs of the largest U.S. corporations, reported that two-thirds of its members planned to keep their staffs steady or reduce employees during the first six months of 2012; only 1/3 were planning to add additional workers (Rugaber, 2011). The group expected a 2% growth in the economy for 2012, a rate not large enough to increase hiring substantially.

### **Large Firms Announcing Job Cuts**

The lingering effects of the recession have prompted many large firms to announce substantial job cuts for 2012 and beyond. Many of the planned cuts are at finance related firms. HSBC Holdings, a London based financial organization, is planning to cut 30,000 jobs from its international work force; some of those cuts will be in this country (Muñoz and Patrick, 2011). Bank of America also plans to eliminate 30,000 positions in a company-wide cost cutting program (BofA Layoffs, 2011). Citigroup eliminated thousands of jobs during the financial crisis, and has announced a cut of an additional 3000 jobs (Kapner, Citi Poised, 2011). Credit Suisse, Wells Fargo, Goldman Sachs, and Morgan Stanley have announced job cuts of 2,000, 1,900, 1,000, and 580, respectively (Muñoz and Patrick, 2011; Morgan Stanley, 2011). MF Global, the New York securities firm that filed for bankruptcy, recently fired all of its 1,066 employees, although some of the former employees were rehired to assist with the legal aspects of the bankruptcy (Failed Trading Company, 2011).

Small banks have not been immune from the recent job cutting. In the third quarter of 2011, small and midsize banks (defined as banks with assets of \$10 billion or less) eliminated 2,714 jobs; 605 more of these banks cut jobs than added jobs (Fitzpatrick and Barry, 2011).

Disappointing 2011 holiday sales led Sears Holdings Corporation, which owns Sears and K-Mart, to announce that it would close as many as 120 stores in the near future. The company did not indicate the number of employees that would lose their jobs, but the number will probably be in the thousands. The number of store closings represents about 5% of its full-size stores, and there are approximately 250,000 employees (Bustillo and Zimmerman, 2011).

Another firm announcing the closing of stores is Lowes, the home improvement giant. It is closing 20 stores and will open only half of the new stores it had planned for the coming years. There will be approximately 1,950 job terminations (Lowe's Closing, 2011).

Gap, Inc., the large specialty retail chain, will close 189 of its 889 stores by the end of 2013; the number of job losses was not announced (Mattioli and Hudson; 2011).

Whirlpool, the world's largest appliance manufacturer, is closing two factories and eliminating 5,000 jobs. The move is expected to reduce annual costs by about \$400 million. Electrolux, the world's second largest appliance manufacturer, is also reducing production capacity. Both firms have suffered from weak consumer demand as individuals are reluctant to spend on big-ticket items (Hagerty and Tita, 2011).

To save more than \$200 million in operating costs in 2012, Advanced Micro Devices announced that it would cut about 1,400 jobs and place the savings in new business areas. High-level managers as well as lower level employees were affected (Tibken and Clark, 2011).

Altria, the country's largest cigarette maker, announced that it would cut 15% of its cigarette-related salaried work force, although it did not specify the number of jobs that would be lost. The job cuts are in response to a steady decline in cigarette sales which followed an increase in April 2009 of the federal excise tax (Companies Flourish, 2011).

Other large manufacturers that have announced job cuts include Novartis, the Swiss pharmaceutical company (2,000 jobs), Nokia Siemens, the Finnish-German wireless equipment maker (17,000 jobs), and Gannett, which publishes USA Today (700 jobs) (Mijuk and Whalen, 2011; Nokia, 2011; Adams, 2011).

In contrast to the grim statistics on job cuts, there is one major area that is experiencing significant expansion: the automobile industry. Ford, General Motors, and Chrysler are all profitable, auto sales have been increasing annually since 2009, and additional employees have been added to meet the increased demand. The government bailouts of General Motors and Chrysler in 2009 saved the domestic automobile industry, and it is now outperforming most other areas of the economy (Auto Industry, 2011).

### **Low Rate of Job Creation**

There must be a high level of job creation if the unemployment rate is to be reduced substantially. The economy lost more than 5 million jobs in 2009. In 2010, 940,000 jobs were created, and there were 1.6 million new jobs in 2011 (Wiseman and Rugaber, 2012). Figures from the Bureau of Labor Statistics at the end of 2011 indicated that there were approximately 14 million unemployed workers, but only 3.3 million job openings. Thus, the number of unemployed workers to job openings was greater than 4-to-1, indicating that there were no jobs available for more than three out of four unemployed workers. This ratio has remained over 4-to-1 for almost three years (Shierholz and Finio, 2011); before the recession it was only 3-to-2 (Wessel, 2011). It has been estimated that, considering the growth in the working age population, it will require adding 275,000 new jobs each month for 5 years to bring the unemployment rate down to where it was when the Great recession began (Shierholz, 2011). Considering the issues discussed in this paper, this level of job growth is not likely.

### **Companies with Cash, but Not Expanding**

There is an assumption among many politicians that a drop in the corporate tax rate would spur employment: a tax reduction would give firms more money to spend, they could expand their operations, and then hire more workers to produce more products. The reality today is that many firms already have excess cash and rising profits, but are not spending that cash to expand operations and increase hiring. Citigroup, for example, reported earnings of \$3.8 billion in the third quarter of 2011, a rise of 73% from the \$2.2 billion reported in the third quarter of 2010 (Kapner, Citi Shines, 2011). This large profit increase, however, has not increased Citigroup's hiring. Actually, Citigroup announced plans to cut 4,500 jobs over the next few quarters because of concerns about worldwide financial markets and new regulations (Kapner and Matthias, 2011).

Honeywell International also had outstanding third quarter, 2011, results: its profits increased from \$596 million in the third quarter of 2010 to \$863 million in the third quarter of 2011, a 45% increase. However, in an interview with *The Wall Street Journal*, Honeywell's CEO David Cote indicated that although the company is generating cash, he is cautious about bringing on additional employees in the prevailing economic atmosphere (Linebaugh, 2011).

What do firms do with their excess cash when it is not used to expand capacity? They can use it to increase dividends to stockholders and buy back shares of the firm's common stock. Pfizer, Inc., the large pharmaceutical firm, had about \$3.7 billion in cash and cash equivalents plus \$25.3 billion in short-term investments, which can readily be converted into cash, in October, 2011. It was announced that this excess cash would be used to finance a 10% dividend increase to stockholders and a stock repurchase plan of up to \$10 billion. This new repurchase program is in addition to the \$6.5 billion of shares repurchased in 2011 (Loftus, 2011). But Pfizer also announced plans to lay off 16,500 employees because of an expected drop in sales of its best-selling cholesterol product, Lipitor (Edwards, 2011) because the patent for Lipitor expired on November 30, 2011 (Countdown, 2011).

McGraw-Hill Companies, Inc. also announced that it will use some of its excess cash to implement a share buyback program, and it will cut jobs. About 550 positions, including both executive and lower level personnel, will be cut, and \$1.5 billion will be used to repurchase shares of the firm's outstanding common stock (McGraw-Hill, 2011). Campbell Soup Company and Best Buy Company, Inc. are two other well-known companies that have recently announced share repurchase programs (\$1 billion and \$5 billion, respectively) (Rougemont, 2011).

Using excess cash to repurchase outstanding shares, rather than expanding operations, has become a common practice for companies today. Companies in the SandP 500 Index spent a total of \$109.2 billion on stock buybacks during the second quarter of 2011 and \$118.4 billion during the third quarter; the expectation is that over \$120 will be spent during the fourth quarter (SandP Indices, 2011).

It is apparent that companies are skeptical of putting additional funds into productive facilities in the current economic climate. Until their perception of the economic outlook changes, excess cash will not lead to additional hiring.

### Companies Expanding But Not Hiring

Some companies have found it profitable to expand operations in the current economy but many of them have not hired additional workers. The wireless industry, for example, has shown rapid growth over the past 5 years as more consumers use smartphones, wireless applications, and network technology. Revenue in the industry has grown 28% since 2006 when employment in the industry peaked at 207,000 employees, but productivity gains, consolidation, and outsourcing have led to a decline of 20% of workers in the industry over the past 5 years. Sprint Nextel Corporation has decreased its number of call centers from 74 in 2007 to 44 in 2010, with a corresponding drop in workers from 60,000 to 40,000. ATandT, Inc. and Verizon Communications, Inc. have kept their number of employees relatively constant over the past few years, but their revenues increased from \$100 billion in 2008 to \$122 billion in 2010 Troianovski, (2011). Some jobs have been created in other industries as a result of the wireless expansion, but those numbers do not match wireless job losses.

Exxon Mobil Corporation, the world's most profitable company, reported third quarter income of \$10.33 billion in 2011, an increase of 41% from 2010; revenue increased by 32% (Ordonez, 2011). The firm has reported huge profits in other quarters as shown in Figure 4 (Why Tax Cuts, 2009):

**FIGURE 4**  
**TOP 10 QUARTERLY EARNINGS OF ALL TIME (PRIOR TO 2011)**

1. Exxon Mobil Corp: 2008, 2Q \$11.68 billion
2. Exxon Mobil Corp: 2007, 4Q \$11.66 billion
3. Exxon Mobil Corp: 2008, 1Q \$10.89 billion
4. Exxon Mobil Corp: 2005, 4Q \$10.71 billion
5. Exxon Mobil Corp: 2006, 3Q \$10.49 billion
6. Exxon Mobil Corp: 2006, 2Q \$10.36 billion
7. Exxon Mobil Corp: 2007, 2Q \$10.26 billion
8. Exxon Mobil Corp: 2006, 4Q \$10.25 billion
9. Exxon Mobil Corp: 2005, 3Q \$9.92 billion
10. Exxon Mobil Corp: 2007, 3Q \$9.41 billion

However, job growth over the years has not accompanied these profits, as shown in Figure 5:

**FIGURE 5**  
**NUMBER OF EMPLOYEES AT EXXON MOBIL**

<u>Year</u>	<u>Employees at Exxon Mobil</u>
1999	106,900
2000	99,600
2001	97,900
2002	92,500
2003	88,300
2004	85,900
2005	83,700
2006	82,100
2007	80,800

Thus, Exxon has been able to expand with fewer workers. There are many other exceptions to the notion that increased expansion lead to increased hiring in this economy. In North Carolina there is a new toll road in the Raleigh-Durham-Research Triangle Park area. However, there are no toll booths on this

road and thus no toll collectors and minimal job creation; tolls are collected electronically (Free Rides, 2012). Drivers can set up an account with the North Carolina Turnpike Authority and install on the car windshields a N.C. Quick Pass electronic transponder that has a customer ID number. Overhead frequency readers communicate with the transponders and deduct tolls from a prepaid account. Overhead cameras will take photos of the license plates of cars that do not have the transponders, and the owners will be sent a monthly bill (Toll Operations, 2012).

In a speech in Kansas, President Obama noted the disconnect between production and employment: “Steel mills that needed 1,000 employees are now able to do the same work with 100 employees, so layoffs too often became permanent, not just a temporary part of the business cycle” (Friedman, 2011). Economists refer to this situation as a jobless recovery: companies are able to expand without hiring additional workers (Knotek and Terry, 2009).

### **Fundamental Change in Labor Markets**

Economists have noticed a fundamental change in labor markets since the early 1980’s. In the recession of July 1981 – November 1982, layoffs tended to be temporary – employees who were laid off generally returned to their old jobs when economic conditions improved. Also, in the early stages of the recovery, companies hired permanent workers to meet the expected need for increased production (Knotek and Terry, 2009). In the recession of December 2007 – June 2009, layoffs tended to be permanent in nature – workers were forced to look for new jobs at other companies, a process that resulted in longer periods of unemployment and contributed to long-term unemployment experienced by many workers. Also, during the recovery following the most recent recession, companies that needed more labor tended to hire fewer permanent employees; they met their needs by having their current employees work overtime and hiring part-time and contract workers.

### **Unemployment Compensation**

Some economists argue that extending unemployment benefits, which are given to unemployed workers to help them to survive temporarily from loss of income, can prolong unemployment. The argument suggests that people receiving government assistance from unemployment pay are less willing to work as long as the benefits continue (Bade and Parkin, 2011).

## **ADDITIONAL FACTORS KEEPING UNEMPLOYMENT HIGH**

There are several other factors that have changed since the recession of July 1981 – November 1982 that are contributing to a high unemployment rate.

### **Business Shifted Abroad**

To take advantage of lower labor costs, companies have been shifting production to Mexico, China, and other low wage countries. Because of weak demand for its appliances, Whirlpool is cutting 5000 jobs and closing a plant in Arkansas, which manufactures refrigerators. Whirlpool is shifting the production of refrigerators to its plant in Mexico (Hagerty and Tita, 2011; Smith, 2011). In recent years, other companies, including Ford, General Motors, General Electric, Coca Cola, and RCA have opened plants in Mexico. General Electric employs 30,000 employees in its 35 Mexican plants. These moves, of course, have cost thousands of American jobs (Ensinger, 2010).

Companies do not have to open plants abroad to transfer American jobs. Many companies outsource services such as payroll, call centers, and information technology to other countries. President Obama noted in his Kansas speech that, “Today, even higher-skilled jobs, like accountants and middle management, can be outsourced to countries like China and India” (Friedman, 2011).

When our economy improves to the point where firms decide to expand and hire additional workers, many of those new jobs will be located in foreign countries and will have minimal impact on our unemployment rate.

### **Decline in New Business Formation**

It has often been noted that major job growth in the economy comes from small firms and new business startups. According to the Small Business Administration, small businesses – firms with fewer than 500 employees – provide jobs for over half of the nation’s workforce. They create more than 50% of the private, non-farm gross domestic product, and they create between 60% and 80% of the nation’s net new jobs (Longley, 2012).

A study at the Federal Reserve Bank of Cleveland evaluated several measures of entrepreneurship over the past few years. It found that the number of businesses in the country reached a peak in early 2005 and then began to decline. After the recession began in December 2007, the decline was magnified. Some of the decline was due to business failures, but a larger portion of the decline was because of a decrease in new business formations. It was noted that “68,490 more businesses closed in 2009 than in 2007, an 11.6% increase in the business closure rate. But by 2009, 115,795 fewer employer businesses were founded than in 2007, a 17.3% decline in firm formation” (Rampell, 2011).

Since most new businesses are small, and since small business drives job formation, one can conclude that hiring will remain depressed until the rate of new business formation improves.

### **Accelerated Pace of Automation**

The history of capitalism has been to use new technologies to improve productivity and replace workers. Farm machines have eliminated thousands of farm jobs, automatic teller machines have reduced the need for bank tellers, and self-service gas stations have reduced the need for service station attendants. In the past, new technologies, new products, and new ideas combined to create new jobs that replaced those that were lost. In recent years, however, the pace of automation has accelerated to the point where the number of new jobs created is less than the number of jobs eliminated. In their book *Race Against the Machine*, the authors Erik Brynjolfsson and Andrew P. McAfee argue that workers are losing the battle against machines because the pace of automation has increased in recent years. Clever software, faster computers, robotics, voice recognition technologies, computerized inventory control, and online commerce have enabled corporations to substitute technology for workers at a faster pace (Lohr, 2011). The result has been more spending on equipment (since the end of the recession in June 2009, spending on equipment increased 26%), increasing profits (corporate profits as a share of the economy is at a 50-year high), and flat payrolls. The capability of machines will certainly improve in the future, decreasing further the need for workers.

### **Companies' Unwillingness to Hire Those Already Unemployed**

A disturbing trend has developed concerning unemployed workers: many firms that are hiring are refusing to consider applications from persons that are currently unemployed. A survey by the National Employment Law project found over 150 postings on employment web sites requiring that applicants must be currently employed. Job applicants from around the country have been told that they have been out of work too long, and would not be considered for a position that they would otherwise be qualified for (Unemployed Seek Help, 2011). This issue has become particularly important because of the rise in the number of persons who have been unemployed for longer than one year. The number of persons unemployed for over a year rose from 645,000 in the second quarter of 2007 (9.5% of the total unemployed) to 4.5 million in the second quarter of 2010 (30.9% of the total unemployed) (Office of Publications, 2010). It is possible that firms’ preference for hiring persons already employed or with a short duration of unemployment may have contributed to this increase. If this trend becomes more widespread, it will become more difficult to bring down the unemployment rate.

### **Stalemate in the Present U.S. Congress**

There is massive political gridlock in the current U.S. Congress; the two sides have very different views on what should be done to improve the economy, and they find it difficult to compromise (Austerity, 2011; Von Drehle, 2012). One side believes that taxes should be reduced, government spending should be decreased, health care reform should be repealed, government regulations should be

reduced, entitlement programs (social security, medicare, and Medicaid) should be substantially modified to reduce costs, and the Recovery and Reinvestment Act of 2009 (the stimulus package) did not work since there was no boom in employment.

The other side believes that taxes should be increased on the wealthy, a decrease in government spending would hamper economic growth and shrink the safety net the government provides, health care reform should be modified and improved, government regulations should be kept in place to protect consumers and prevent another financial crisis, entitlement programs should be evaluated and revised in a manner that protects their long-term solvency, and the stimulus package was not large enough considering the slump we were in.

In the summer of 2011 there was a need to increase the national debt limit so that the government could continue to borrow funds needed to meet its financial obligations. In previous years, under the Bush, Clinton, Reagan, and other administrations, the debt ceiling was lifted with little or no partisan debate. On this occasion, however, there was passionate debate on the national debt, with each side unwilling to yield on what it considered to be fundamental principles. An agreement was reached just hours before the nation would have defaulted on its debt. Because of the difficulty in reaching an agreement, the outstanding debt of the U.S. government was downgraded by the credit rating agency Standard and Poor's (White House, 2011). One of the terms of the debt agreement was to reduce Medicare payments to health care providers by \$3.87 billion, a move likely to result in job losses and poorer care for the nation's seniors (Korn and Kamp, 2011).

Business leaders are concerned about the gridlock in Washington and its potential impact on credit markets. Many of them are uncertain about the desirability of committing investment funds until there is a clearer picture of the direction of government policy. A cutback in government spending will reduce aggregate demand, and it will reduce the revenue of firms that had anticipated selling products or services to the government. These firms will probably curtail their hiring or reduce their staffs.

### **Expenditure Cutbacks at the Federal, State, and Local Levels**

According to a survey released by the National League of Cities, 2011 was the fifth consecutive year of declining revenues at cities around the country (More Cities, 2011). Second quarter revenues at the state level were higher than those during the same period in 2010, but still lower than state revenues collected in the second quarter of 2008 (Dougherty, 2011). In most cases, these revenues have dropped because the main sources of revenue for states and local governments, income taxes, sales taxes, and property taxes, have fallen. Income taxes are lower because of the high unemployment rate, sales taxes are lower because of the drop in consumer spending, and property taxes are lower because of the drop in housing prices. In other cases, revenues are down because state and local legislatures have deliberately cut taxes. Many state and local governments around the country have adopted the "cut taxes, cut spending" policy.

The result has been significant job losses and cuts in programs and services that had previously been considered desirable. Almost a third of cities in the country laid off workers in 2011 and more than half cancelled or postponed infrastructure projects (More Cities, 2011). Persons who would have taken jobs to work in these projects were not hired. At the state level, over 200,000 state employees lost their jobs in 2011 (Dougherty, 2011).

In the state of North Carolina, a temporary sales tax increase was scheduled to expire in 2011. It had been implemented during the Great Recession and it had produced more than \$1 billion annually during each of the previous two years. The state legislature could have extended the tax, but it chose to let it expire. Instead, it passed a budget that required state agencies to cut their budgets by \$1.3 billion from levels the agencies considered necessary to continue their operations at current levels (Democrats Begin, 2011). According to the state Department of Commerce, these budget cuts resulted in a loss of 11,200 government jobs in 2011 (Behind on Jobs, 2011). According to the state Department of Public Instruction the school systems in North Carolina cut more than 2,400 positions (Binker, 2011). At the university level, the budget of the University of North Carolina system was cut by \$414 million, resulting in a loss of 3,000 jobs (Davis, 2011).

These job losses at the state and local levels are likely to continue and will hamper the nation's ability to decrease its unemployment rate.

### **Defense Cutbacks and Returning Veterans from Iraq and Afghanistan**

The U.S. has withdrawn its troops from Iraq and is decreasing its presence in Afghanistan. Secretary of the Navy Ray Mabus recently indicated that the Navy and Marine Corps will reduce their numbers as these wars end. He did not specify an exact number of the reductions, but as these returning veterans enter the labor force, they will add to the number of persons looking for work in the civilian marketplace and may increase the unemployment rate (Official Says, 2011).

Much more ominous are proposals being considered by a Congress that is predisposed to budget cuts rather than revenue increases or debt increases. The largest component of the federal budget is national defense and is a prime target for budget cutting. Throughout the years our number one priority has been to maintain a military presence capable of protecting our interests around the world. Some feel that this mission will be seriously compromised if substantial military cutbacks take place (McKeon, 2011). A bipartisan subcommittee (consisting of three Senate Democrats, three Senate Republicans, three House Democrats, and three House Republicans) was appointed to evaluate the growing federal deficit. The subcommittee failed to reach an agreement on how to reduce the government deficit by at least \$1.2 trillion over the next decade. As a result automatic across the board spending cuts were scheduled to take place beginning in 2013 (Bendavid and Hook, 2011). The plan was to cut \$500 - \$600 billion from the defense budget and \$500 - \$600 billion from other areas of the federal government over the next decade. It has been estimated that these budget cuts and their secondary effect would destroy up to 800,000 active duty, civilian, and industrial jobs (McKeon, 2011).

Actually, the job cutting has already begun, since the cuts will have to take place gradually over a period of time. The Army recently announced plans to cut about 8,700 positions from its civilian workforce by the end of September 2012. It hopes to meet its goal through a combination of early retirement offers, job buyouts, and attrition; however, layoffs will be used if necessary (O'Keefe, 2011).

To implement the congressionally mandated cuts, it is the responsibility of the administration to draw up the specific plans. President Obama recently announced the initial components of the plan, which call for a delay in the Pentagon's most expensive weapons, a 14% reduction in the Army's troops, a reduction in our nuclear arsenal, and a total cut in military spending of \$487 billion over 10 years. Full details of the reductions were presented in the Pentagon's annual budget (Barnes and Hodge, 2012).

### **Spillover from Europe's Financial Problems**

The European Union (EU) is the largest trading partner of the United States. The U.S. and Europe exchanged \$475 billion in goods during the first nine months of 2011 (Rugaber et al., 2011). Revenue for the 500 largest U.S. companies, totaling approximately 14% (1.3 trillion) comes from Europe. Therefore, the financial crisis in Europe is closely linked to the U.S. The U.S. is watching Europe very cautiously because Europe's high level of government debt and collapsing financial institutions can impact the decision making and the profit and resources of U.S. firms, government, consumers and individual investors (Rugaber, 2011).

The European Crisis is affecting the U.S. in the following ways (Rugaber, 2011):

- Stock-market fluctuations affect consumer spending
- Exports to Europe impact sales, prices and profits
- U.S. Banks worldwide are reducing lending; many have outstanding loans with Europe
- Financial crisis uncertainty in Europe leads to cautious reductions in hiring and investing

Many companies such as General Motors are feeling the pain of the crisis in Europe. The general manager for General Motors stated that the European financial crisis was a more serious problem for General Motors than the financial crisis of 2007 (Trudell, 2011).

### **General Motors' Challenges Relating to the European Financial Crisis (Trudell, 2011):**

- No annual profits in Europe for more than ten years
- Decline in New York trading
- European operations lost \$292 million before interest and taxes in the quarter ending 9/30/2011
- 2.5 percent drop in third-quarter, 2011, net income
- GM had \$900 million in restructuring and early-retirement costs in Europe and cut 5,800 jobs in 2010
- Additional layoffs took place in 2011 in Europe

Other American companies are having similar types of problems in terms of higher operational costs and lower sales and profits. The impact of the European financial crisis is causing American firms to resist hiring new workers and to cut their current labor supply by laying workers off. This impact on the US economy contributes to the jobless recovery from the recession.

### **Banking Crisis**

The banking crisis of 2007 has contributed significantly to unemployment in the U.S (Uchitelli et al, 2008). There are many factors that have been linked to the financial crisis and unemployment such as excessive and risky consumer and corporate lending and borrowing, and excessive sub-prime mortgage lending.

Morgan Stanley, Citigroup Inc., and Bank of America Corporation are good examples of lending institutions that financed large numbers of risky loans before 2007. By 2008, when the housing bubble burst, these same companies took billions of dollars in emergency funds from the U.S. Federal Reserve to get them out of financial trouble (Keoun, 2011; Trudell, 2011). Other companies that received federal help to save their companies and alleviate unemployment were Chrysler and General Motors.

In many situations, the result of bad debt and unhealthy consumer and corporate spending led to increased bankruptcies and massive job layoffs. The relation between banking crises, recession, and unemployment were evaluated in a study by the Federal Reserve Bank of Kansas City (Knotek and Terry, 2009). The conclusion was that recessions coupled with banking crises are associated with high levels of unemployment and slow declines in the unemployment rate following the recessions.

### **Real Estate Bubble**

The unprecedented real estate bubble has had a major impact on unemployment. Falling housing prices and mortgage foreclosures have made it impossible for many families to sell one property and purchase another, resulting in a drop in existing home sales and new home sales. Many individuals employed in the housing industry have lost their jobs as a result of the drop in sales and drop in new construction. There are millions of individuals who work in the housing industry; occupations include real estate agent, appraiser, mortgage lender, property insurance agent, title insurance agent, mortgage lender, pest inspector, home inspector, contractor, builder, carpenter, brick layer, plumber, air conditioning installer, painter, drywall installer, carpet and tile installer, graders, and landscape architect. The employment of persons in these occupations is dependent on a vibrant housing market.

One indication of the severity of the problem is the number of housing starts during and following the recession. The number of housing starts during and following the July 1981-November 1982 recession was: 1981 – 1,084,200; 1982 – 1,062,200; 1983 – 1,703,000; 1984 – 1,749,500. In contrast, the number of housing starts during and following the December 2007 – June 2009 recession were: 2007 – 1,355,000; 2008 – 905,500; 2009 – 554,000; 2010 – 586,900; 2011 – 609,200.

### **Job Losses Because of the Internet**

Perhaps the greatest factor keeping the unemployment rate high is job losses because of the Internet. As the Internet continues to grow, it provides many e-business opportunities for startups as well as existing businesses. However, it also provides many opportunities for job loss as the Internet becomes a

more robust player in job loss and unemployment. In the following sections we present evidence of several instances of job loss because of the Internet.

#### *U. S. Postal Service*

The U.S. Postal Service is an agency in financial disarray; it has had large losses in recent years primarily because of drops in revenue. The Internet is primarily to blame: individuals pay bills on line, taxes are largely paid on line, individuals send email and text messages rather than send letters, social security checks and other payroll checks not sent by mail - direct deposit is used. It has been estimated that the amount of first class mail declined by 19% over the last decade, and it is expected to fall by another 37% over the next ten years (Garvin, 2011). Even those who use the mail can purchase their stamps online. Since about 80% of the postal service's budget goes to employees in the form of salaries and benefits, any cost cutting to reduce the agency's losses will require significant job cuts (Garvin, 2011). Over the last four years 110,000 jobs have been cut, 7,500 administrative staff positions have been eliminated, and the agency is seeking congressional approval to cut an additional 120,000 positions and close 3,653 post offices (Schmid, 2011; Levitz, 2011).

#### *Book Stores*

Borders, the second largest bookstore in the nation, filed for bankruptcy and closed 237 of their 642 stores, and 11,000 jobs were lost in February 2011 (Barror, 2011). All of their stores were closed by the end of 2011. One factor blamed on their closing is the increased use of downloadable e-books (Barror, 2011). Bookstores are experiencing major challenges as Internet downloading of digital books to e-readers and electronic books (E-books) continue to increase in popularity.

According to the Association of American Publishers, e-book sales have doubled since 2010 and make up 9% of total consumer book sales. E-readers, such as the Apple Ipad; Sony Reader; Amazon Kindle and Barnes and Noble Nook, are devices that allow Internet access to e-books and other reading materials quickly and easily. With e-readers, customers do not need to go to the bookstores to purchase their books or get help from the sales staff. In many cases, they are buying at reduced costs by cutting out the middleman.

The use of the e-reader and the Internet to access digital books is eliminating the need for many employees working in the bookstores (Barror, 2011). As the number of e-book downloads are increasing, disintermediation is leading to job losses for employees.

#### *Record Stores*

The Internet and the use of digitized music have had a major impact on the basic operating principles of the record industry. Increased use of the Internet for digital music has contributed to online music piracy, the decline of purchasing music CDs and DVDs and the decline of the traditional record label business. As digital music downloads to digital electronic devices continue to escalate, CD in-store sales continue to decline (Bachman, 2007). According to the U.S. census data there was a net loss of 1,900 record stores from 2002 to 2005. In other words, for every four record stores, one record store closed (Tozzi, 2008).

As music devices and digitized music increased, the Internet provided easy access to the music through downloads. Since 1996 when illegal downloading of music gained major attention, the retail music industry has been steadily declining (Ryan and Hadida, 2010). Users were able to use different websites such as Napster to access music for free. The music was accessed and delivered directly over the Internet, which eliminated the need for the intermediaries in the physical record stores. Customers were able to select which music they wanted rather than being limited by the selections on the shelf. Thus, convenience, cost and accessibility helped to diminish the value of the record store employees. Physical distribution of CDs dropped to 21 percent in 2009 (Ryan and Hadida, 2010). Many employees in the music industry are no longer needed when customers are able to obtain their music without the help of music employees. This is another case of disintermediation leading to job loss.

### *Attorneys*

Attorneys are also in danger of losing some of their business because of the Internet. Attorneys answer legal questions for their clients, provide legal advice, prepare documents, negotiate settlements, and represent their clients in court. Some of these functions can be performed online, without a face-to-face meeting with an attorney. Legal questions can be answered, advice can be given, and simple forms can be completed and sent by email to the client. There is a website, [www.justanswer.com](http://www.justanswer.com), which provides experts to answer legal questions that one might have. For a nominal fee, one can ask a legal question; an expert (an attorney with several years experience) will obtain as much information from the client as possible concerning the issue, and provide an answer and give advice when needed. The experts are rated by individuals who submit questions, and the ratings generally range from 95% to 100% satisfaction. There will still need for attorneys to negotiate, prepare complex documents, and represent their clients in court, although there is a company that provides a “Complete Case-Winning 24-hour Self-Help Course” that promises to teach one how to win in court without a lawyer (Graves, 2011). Access to the course is delivered by email for a cost of \$249.00. There will be some persons who will use this course to avoid hiring a lawyer, and others who will get their questions answered through the Internet. Legalzoom.com also provides some services previously provided only by attorneys. Thus, there will likely be some decrease in the need for attorneys in the future because of the Internet.

### *Banking*

The Internet is having a substantial impact on employment in the commercial banking industry. The need for bank branches at traditional banks will be decreased because more and more deposits are being made online, payments are being made online, and cash can be obtained from automated teller machines. Brokerage firms Charles Schwab and E\*Trade offer online banking services without brick and mortar banking locations, and there are several Internet only banks; ING Direct, Ally Bank, FNBO Direct, and HSBC Advance are several examples. As branch banking declines, there will be declines in the need for tellers, head tellers, branch managers, janitors, security guards, and other branch related personnel.

### *College and University Faculty Positions*

There is a cost squeeze in college education today, and the public anxiety is becoming more evident. David Shi, a former president of Furman University, noted that college costs have increased 50% over the last decade, whereas family incomes actually fell between 2000 and 2009 (Fischer, 2011). In a survey conducted by the Pew Research Center, 75% of those polled felt that college education was out of reach of most families because of the cost. In this year of cost cutting, state legislatures around the country have not been much help; they have been cutting higher education budgets at a time when enrollments are increasing.

The Internet has an answer to this problem: cut costs by eliminating faculty positions. A continuation of events occurring today will lead to a reduction of thousands of faculty positions. What are some of these events?

An online course on artificial intelligence is being offered by the computer science department at Stanford University by two leading experts in artificial intelligence. There is no cost for the course, and over 58,000 students from around the world have registered for it. This course is one of three that Stanford is offering on an experimental basis (Markoff, 2011). Technical assistance from Google and Amazon will provide for grading and online chat sessions related to the course (Chu, 2011).

Consider the cost savings (and job reductions) if other courses in the computer science department were prepared by experts and offered in a similar fashion; video tutorials could be prepared and students could review them at their leisure. Students from other universities around the country could be directed by their schools to take the courses and thus eliminate the need for those schools to offer them. Courses in other disciplines could also be prepared by experts in those fields for online delivery, and thousands of faculty positions could be eliminated. Of course some faculty members in each department at each university would be retained to teach those courses that are not amenable to the online process and to

answer questions raised from the online courses. The loss of faculty positions would also likely result in the loss of ancillary positions and consolidation of some departments.

Education online is rapidly growing field; most universities offer some courses online, entire degrees at some traditional universities can be earned online, and there are several online universities. Students can order, pay for, and track transcript requests online, and at least one university, the University of Hawaii, has held a virtual graduation (Gutierrez, 2011). Job losses will be huge as the use of the Internet increases on the college campus. The quality of course offerings may decline, but state governments will save billions of dollars.

### *Secondary School Teachers*

At the secondary school level, use of the Internet will also lead to job losses. A forecast of things to come occurred in Guilford County, North Carolina during the summer of 2011. Most school districts offer summer school classes for students who failed a course during the regular school year and wish to make it up, or who wish to get ahead. For the first time ever, no summer school classes were offered in the typical classroom setting with a teacher; instead, all of the classes were offered on-line. Thus students could complete their work at home, at the library, or anywhere else where they could access the Internet. This Internet-only approach enabled the schools to reduce the summer school budget by over \$350,000; of course this savings meant fewer jobs for classroom teachers and other school personnel who might be needed to assist the students (Glover, 2011).

Online learning has been expanded substantially beyond summer school offerings. In an article in *The Wall Street Journal*, it was noted that 39 states have established virtual schools that allow students statewide to enroll, providing advanced placement, remedial, and other courses that might not be available at the local level (Moe, 2011). The Florida Virtual School offers a full academic curriculum, with more than 220,000 annual course enrollments, and virtual charter schools operate in 27 states with a full-time enrollment of over 200,000 students (Moe, 2011). Online teaching will certainly increase, thus reducing teaching jobs.

In each case mentioned above, the direct use of the Internet by an individual eliminated the need for a middle person. Organizations are looking for ways to reduce costs and improve efficiencies and allow customers more direct, 24/7 access to information. As illustrated, the Internet provides many opportunities to perform this task. New ways of cutting out the middle man and using the Internet are rapidly emerging where more jobs will be eliminated. This form of unemployment can be devastating but it also provides an opportunity for employees to re-tool and re-skill for other positions that may be in demand and are not obsolete.

There has been much discussion and debate about the causes of unemployment. Different views place different levels of importance on the various factors. Some factors associated with unemployment include: stock market crashes, monetary policy; housing and real estate bubbles; labor market changes, and the European financial crisis. This next section discusses some of the factors and solution strategies that have been associated with unemployment.

## **REMEDIES FOR UNEMPLOYMENT**

Over the years many different approaches have been adopted to help reduce unemployment. As the length of long-term unemployment continues to rise, there will be a need to address the jobless recovery after a recession.

The approaches vary based upon the economic situations of the time. For example, during the mid-1800s when land was undeveloped and there were a huge number of farmers and a great deal of undeveloped land, the government instituted the Homestead Act of 1862. Any person would receive up to 160 acres of public land if they agreed to farm and cultivate the land for five years (Fitzpatrick, 2009). This Act helped to stimulate the economy by providing work opportunities for any person willing and able to take advantage of the potential that farming offered.

In the 1900's, economists from the **monetarist school** of thought argued that a more rapid growth in the nation's money supply would bring down unemployment. The expanded money supply would be spent in acquiring goods and services, leading to an increase in the demand for labor and a decrease in unemployment (Rose, 2000).

Economists from the **Keynesian school** of thought argued that both fiscal and monetary policies were needed to combat unemployment. On the fiscal policy side, taxes should be reduced and government spending should be increased; these would increase aggregate demand and increase the need for more employees. On the monetary policy side, interest rates should be reduced, thus making credit cheaper and investing by businesses more desirable.

Keynesian economists claim that when there is not adequate demand in relation to supply, this situation can lead to high unemployment (Blinder, 2002). Furthermore, during times of high unemployment, government policies can be used to help increase demand and stimulate the economy by encouraging investment and reducing unemployment.

The Keynesian approach was used extensively in the New Deal programs that were initiated under President Franklin Roosevelt. These programs were instituted in the 1930's during the period of the Great depression when the unemployment rate reached a high of 25%. Programs relating to wages, social security and farmer relief helped improve the economy and reduce unemployment, but a complete recovery did not take place until the 1940's (Isidore, 2008; Delaney, 2011).

Monetarists and Keynesians attack the unemployment from the demand side; **supply side economists** argue that the problem should be attacked from the supply side. They argue that changes should be made to increase supply by making it easier for businesses to produce: reduce taxes, reduce regulations, and reduce government spending. A smaller government would give more room for private sector to innovate, create jobs, and reduce unemployment (Rose, 2000).

Monetarists, Keynesians, and supply side economists provide approaches to fighting cyclical unemployment; these approaches do not help much with frictional, seasonal, or structural unemployment. Drucker (1994) recognized the changing nature of society and the economy in the 1980's and 1990's. He introduced the idea of the importance of the knowledge worker, skill obsolescence, and the need for continuous learning. He argued that as the economy changed and we become more global there is a need for individuals and firms to continually re-evaluate their strategies, skills and knowledge with new knowledge and skills in order to stay employed and marketable. More widespread knowledge about job openings and requirements can reduce frictional unemployment, while additional training and re-training can reduce structural unemployment. Georgia's Works Jobs Training Program, Mississippi's Subsidized Transitional Employment Program and Services, and Minnesota's Emergency Employment Development program are examples of programs that are designed to provide workers with the skills necessary for current job openings (Georgia Works, 2011; Mississippi's STEPS2, 2011; Kane and Smith, 2011).

The problem still remains, however; the traditional remedies to fight unemployment will have minimal impact on the factors keeping unemployment high discussed in this paper. There is a need for policymakers to consider new approaches to bring these new types of unemployment under control.

## **CONSEQUENCES AND CONCLUSIONS**

There are a number of consequences of the high unemployment rate and expenditure cutbacks, both for society and for the unemployed individuals. According to the Census Bureau, 46.2 million Americans (15.1% of the population) were living in poverty in 2010, and 146.4 million (48% of the population) were classified as low income or in poverty. The poverty level was the highest since 1993. The head of the Census Bureau Poverty Statistics Branch indicated that the single most important factor leading to the increase in poverty was the increase in the number of people who did not work. Many middle-class Americans have dropped into the low income or poverty levels because of pay cuts, reduced hours, or loss of a job (1 in 2 People, 2011; Stanglin, 2011; Yen, 2011).

Joblessness also leads to foreclosures, homelessness, and personal bankruptcies. Unemployed homeowners are doing all they can to hold on to their homes. Some measures include using unemploy-

ment benefits, exhausting savings and retirement accounts, borrowing from credit cards and insurance policies, pawning valuables, and renting part of the home to others. If unemployment lasts long enough and these measures don't work, the home is lost to foreclosure.

Homelessness is another consequence of joblessness. Unemployed homeowners and renters who can no longer pay the mortgage or the rent will be foreclosed upon or evicted, and will be forced to live with relatives or friends, in homeless shelters, or on the streets. Schools have seen an increase in children from homeless families, and programs have been established by the Salvation Army and others to provide some assistance to these families (Program Guides, 2012).

Each year over a million individuals file for personal bankruptcy. In many cases unemployment is a major cause of the problem. To cover living expenses, unemployed individuals will often exhaust their savings and retirement plan accounts. When they begin working again, often at jobs that pay less than what they were earning before, every penny will be spent on current expenses and bills that mounted during the period of joblessness. Thus, for many years, there will be nothing available for retirement savings, and many of these persons will enter their retirement years with little or no retirement savings.

Unemployed persons need money; one source that many have found is the Social Security system. Older unemployed persons may file for early Social Security benefits. One can receive a reduced benefit as early as age 62, rather than waiting until the normal Social Security retirement age of 66. Payment of these early benefits, however, will have a negative impact on the financial health of the Social Security system.

Another part of the Social Security system, the disability fund, has been misused by some unemployed individuals. Two studies have shown a correlation between when persons' unemployment compensation is exhausted and when they file for unemployment benefits. Of course disability benefits are designed for persons who are truly disabled. There may have been some persons who were disabled who had not applied for disability benefits while they were receiving unemployment compensation, and then decided to apply when those benefits ended. But it is likely that many individuals were not really disabled, and saw the disability fund as another potential source of cash. The fragile health of the Social Security system is worsened by payments made to persons illegally (Paletta and Searcey, 2011).

Underemployment is rising due to long-term unemployment. After a period of unemployment many individuals will take any job that comes along (Fleck, 2011). This problem is especially acute among many recent college graduates who have not been able to find employment related their major course of study. They have resorted to jobs such as taxi drivers, waiters, and pizza delivery drivers (Vennoch, 2011).

The high unemployment rate is certainly a major problem facing our country today. It is our conclusion that a high rate of unemployment will be with us for a long time; we are not likely to see unemployment in the 5% - 6% range. Progress cannot be stopped; jobs will continue to be lost because of technology and the Internet. Jobs are also lost when politicians cut expenditures but are not willing to entertain tax increases or the usage of additional debt to allow for spending increases. The proposed drop in government spending will have a negative impact on economic growth, and other sectors of the economy are not growing fast enough to create the jobs necessary to decrease the unemployment rate.

Many politicians argue that taxes were decreased early in the administration of President Ronald Reagan, and the economy expanded substantially thereafter. But they do not point out that spending also increased, not decreased, during the Reagan years. In fact, during each of the eight years of the Reagan administration, spending was greater than tax revenues, producing annual deficits, and this increased spending helped spur economic growth. The government had to borrow to cover the deficits; the total amount of debt taken on during the 8 years of the Reagan administration was greater than the entire national debt that existed when President Reagan took office.

Similarly, during the administration of President George W. Bush, taxes were decreased and the economy expanded. But again government expenditures also increased (producing annual deficits), which helped economic expansion. There was no hesitancy to use borrowed funds to finance the wars in Iraq and Afghanistan, and to initiate a prescription drug benefit for seniors, and this spending contributed to

the economic expansion that took place during the Bush years. Leaders in Congress today, however, are not willing to pursue similar borrowing strategies, and thus expenditures will be cut.

There are three questions that we pose for further discussion:

1. How do we as a society handle the situation when, on a permanent basis, the economy is not producing enough job growth to provide employment to all of its citizens who want to work? It appears that there are not enough jobs available today for our unemployed workers, and the imbalance is likely to get worse.
2. When agencies are forced to cut their budgets, the cuts can take place in one of two ways: the number of workers can be reduced or the salaries of each worker can be cut to achieve the total amount of reduction needed. Should one approach be encouraged over the other? Managers are often told to “do more with less.” It may be possible to do more with less when the less money is distributed among the same number of workers, with each getting somewhat less. But it is difficult to do more with less money when less money means fewer workers to perform the needed work. The unemployment rate will certainly be higher if the number of workers is reduced.
3. Is it the responsibility of firms to create jobs? Is there any responsibility by businesses to help reduce unemployment? In finance and management classes, students are taught that the goal of the firm is to maximize shareholder wealth or stock prices. If share price maximization means substituting machines for workers or moving production facilities to Mexico, then those actions must be taken. But is there any moral obligation to consider the welfare of employees?

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