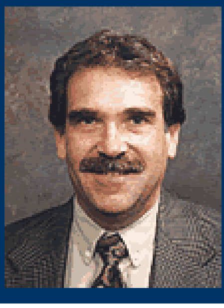
Articles & Commentaries

p-Watch — USA



by Michael Manson, long and closely associated with the APO when he was the Assistant Director of the East-West Center's Institute of Economic Development and Politics in Honolulu. He helped to initiate a number of collaboration programs between the APO and the East-West Center. Manson also served in the Asian Development Bank, and was Director of Communications with the State of Hawaii's Department of Business, Economic Development and Tourism. He is presently an educator, and a regular contributor to this column.

Broken Promises

Although few would admit it, observers of the US economy are worried about the transfer of the Federal Reserve Board chairmanship from the retiring Alan Greenspan to Ben Bernanke. It is not that Bernanke is considered ill-prepared or professionally lacking for the post; the issue is one of faith built up over two decades by the incumbent Greenspan. Americans took great comfort from this fatherly financial guru who had a special ability to soothe a nation troubled by economic turmoil. Greenspan saw economics not only as a matter of complex formulas but also in psychological and philosophical terms. Perhaps that is why he spoke in rather obtuse language, hoping to dull the edges of unwelcome news. For example, his coining of the term “irrational exuberance” for a stock market out of control and use of “froth” for the skyrocketing value of the housing market made us smile at our economic transg ressions. Greenspan himself admitted that, “If I made myself clear, I have misspoken.” Greenspan’s linguistic ambiguity complemented his kindly demeanor. And most importantly, Greenspan could be trusted. He would not break a promise.

An important contribution made by Greenspan during his tenure as Federal Reserve Board chairman was recognizing the power of productivity. He constantly reminded Americans that inflation (the most feared of economic indicators) could be kept in check by rising productivity. Information technology, Greenspan argued, had fundamentally changed the face of productivity, and effective deployment of technology would result in a higher standard of living for Americans. Enhanced productivity could support economic growth without the traditional worries of labor shor tages, higher wages, and inflation. Accordingly, he kept interest rates low, the economy prospered, and unit labor costs rose only modestly.

As a result of Greenspan’s emphasis on the curative impact of productivity, analysts today are sure to include the latest productivity figures in any economic forecast. A consensus has evolved that productivity trends will govern the future prospects of the US economy. So far, so good — from 2002 through 2005 productivity growth averaged 3.4%. Recent productivity figures show a 4.7%

annual rate of increase in the third quarter of 2005 (the highest in two years) and a concomitant 1% drop in unit labor costs.

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Given Greenspan's insightfulness, Americans would be wise to listen to his most recent pronouncements on the country's economic health. Greenspan warns us that if the USA is not mindful of the dangers of soaring budget deficits, Americans will not only witness a decline in their standard of living but may also witness a disruption in the global economy. The dilemma arises, however, that the only way to stop the unprecedented budget shortfalls is to break promises made to American workers by employers and the government. Greenspan proposes that it would be better to break the promise now, thereby minimizing the negative impact of a necessary evil, i.e., significant cuts in government spending on entitlements.

It was once said, "What is good for General Motors is good for America." This was not intended to imply, however, that the government should follow in the footsteps of a troubled General Motors desirous of dismantling its obligations to its workers. But, in fact, there is a realization by both industry and government that current realities preclude remaining true to earlier promises of a social safety net.

But promises to millions of people cannot be broken, or can they? Delta Airlines pilots have agreed to cuts in pay of about 40% because they cannot work for a bankrupt company that will cease to exist. Private-sector pensions have been dumped on the government, and workers have had to settle for one-third of what they expected in retirement. General Motors and Ford Motor Company combined announced in 2005 the closing of 22 factories affecting 60,000 workers, with major cutbacks in healthcare provisions and pensions. General Motors has unfunded pension obligations of some US$31 billion and projected unfunded healthcare obligations of about US$70 billion. General Motors' stock market capitalization is US$15 billion. With the cost of employee health benefits surpassing the cost of steel used to manufacture an automobile, one has to admit that the past is no longer sustainable.

What then looms ahead for the economy and the American worker? Solid productivity growth has kept US companies (outside the old economy of cars, steel, and airlines) in the black with lots of cash on hand for investment and expansion. Workers will protest but will accept reductions in pensions and healthcare benefits. The national deficit is worrisome, but as Nobel Prizewinner in economics Milton Friedman explained, countries earning dollars from balance-of-trade surpluses have no better place to park their excess dollars than in the USA, thereby bankrolling America's penchant for spending.

American workers will need to be independent, aggressive, and technologically savvy or face a poverty-level existence in the low-paying service sector. They will have less job security and will be primarily responsible for their own healthcare and retirement funding. The demand for competent labor beyond what can be trained in-country will be satisfied through outsourcing and immigration. An interesting employment scenario is portrayed in the book *The 2010 Meltdown* by Edwin Gordon. As the baby-boom generation retires in large numbers in 2010, Gordon predicts widespread unemployment while businesses go begging for qualified workers. He describes the American workforce as three tiered: 25% who are educated and have the necessary skills, 25% who lose their jobs to technology and cannot or will not retool, and 50% whom he calls “techno-peasants” who have little chance for success without targeted educational programs.

Greenspan is a strong advocate of free markets and competition. He points to the improvements in the world economy and in people’s lives around the globe since the widespread adoption of competitive free markets. He calculates that since the autumn of 2001, global gross domestic product per capita has grown more than 8%. Greenspan’s optimism coupled with his personal integrity and his belief that free markets are humanity’s best bet for a better life help take the sting out of the disappointment and despair many Americans face today as free markets and global competition diminish the American dream. The bridge over troubled waters which Greenspan provided with his strength of vision is now the shared responsibility of the government, corporate America, and the new Federal Reserve Board Chairman Bernanke.

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