



## Navigating the soft spot

**U**ncertainty hurts business and upsets the economy. The economic malaise that confronts the US economy is well documented in the latest figures. Consumer confidence is at a nine-year low; personal bankruptcies set a new record in 2002; mortgage foreclosures are at a 30-year high; fourth-quarter growth last year was under one percent; and the stock market is \$8.4 trillion off its 2000 peak. This is not to mention the international crises that dominate the evening news. So what's the game plan? Steer around the soft spots and aim for an economic recovery.

The path to recovery faces two formidable roadblocks. One is unemployment and the other the health care crisis. Even President Bush's annual address to the nation put the economy before geopolitical concerns. A weak economy, job loss, and rising health care costs were dominant themes in his speech. The despair of unsuccessful, year-long job searches and the burden of skyrocketing health costs have workers clamoring for solutions.

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The unemployment picture is perplexing. How do you explain the collapse of the professional and high-tech employment sectors? Telecommunications and information technology (IT) workers are suffering the most. This defies logic. Are not these the jobs of the future? The same incongruity surfaced in the 1970s when engineers and scientists formed unemployment clubs along the high-tech corridors of America. These clubs are reappearing. WeWantWork-Boston.com reports having 40 unemployed executives on its roster capable of running a global company. The 495 Networking Support Group (reflecting the high-tech corridor along Route 495) started 18 months ago with a handful of people and now has 650 members.

The most eye-catching unemployment story appeared as an eBay ad. The ad read as follows: "Complete staff of ZDNET Tech Update, formerly a vital division of one of the top-ten highest-trafficked sites on the Web, currently available to instantly implement professional Web site or print magazine... asking for a commitment of annual salary and benefits in the high six figures." The highest bid was \$600 before eBay suspended the ad.

Business jargon is hard-pressed to keep up with events. Hence, we have a new lexicon developing: GHOST WORK, the workload taken on by surviving employees without the experience and knowledge of the fired employee; ZOMBIES, high-tech start-ups that are still walking but have no money to operate; and NEGATIVITY BUBBLE, technology companies waiting for the bottom to drop out.

Two plausible explanations for the severe downturn in high-tech employment are price deflation and globalization. Low competitive pricing has reduced company profits to the extent that firms simply cannot sustain a high-salaried workforce. The choice is between bankruptcy and survival. The second explanation is the increasing export of professional and IT jobs overseas. This second round of globalization, as it is being referred to, finds US companies hiring highly qualified overseas talent at one-tenth the cost of its American counterpart. The quality differential does not justify staying with the US employee.

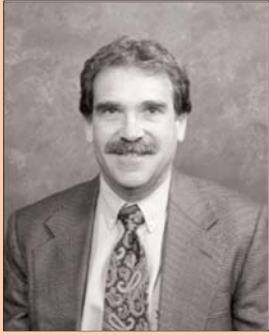
Double-digit increases in health care costs have severely compromised the quality of life of American workers. Health care now consumes 14 percent of the US gross domestic product. With health costs spiraling, workers have expressed concern and disappointment over the erosion of health benefits. Close to 1.4 million Americans lost their health insurance last year, mainly due to unemployment. Currently, 41 million Americans are without health insurance. Thirty million of those uninsured are from working families. Those who are fortunate enough to continue to participate in company-sponsored health plans saw premiums rise 12 percent, the highest increase in more than a decade.

Employers are also struggling to cope with increases imposed on them by insurance carriers. Employer-paid premiums jumped 13 percent last year and are estimated to increase 15 to 18 percent this year. Companies are subsidizing employee health plans to the tune of \$10,000 annually. Large corporations like Ford and GM face yearly charges of \$2.5 and \$5 billion, respectively. It is not surprising that companies are eager to pass on health costs to employees. Seventy-eight percent of large companies plan to charge workers more for their health insurance this year. Many small companies are dropping coverage altogether. In California, 42 percent of 37,000 firms belonging to the National Federation of Independent Business offer no health plan to employees. This trend is not sitting well with American workers. At General Electric a two-day national strike was called (the first since 1969) to protest GE's unilateral decision to increase workers' health insurance co-payments.

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eBay has used the current health insurance crisis as an opportunity. eBay is offering health insurance on its Web site to 30,000 of its most active merchants. eBay is fast becoming a salvation to those snubbed by the establishment. Over 130,000 people buy and sell on eBay. The on-line economy, as represented by eBay, might turn out to be a key survival strategy for Americans adversely affected by today's harsh economy. Entrepreneurship and self-employment, both top choices of the newly unemployed, are well served by the inexpensive and instantaneous reach of the Internet.

In such a sour economic environment, the craving for something sweet is irresistible. Productivity results in the third quarter of 2002 and over the previous 12 months should satisfy even the most insatiable sweet tooth. Productivity grew 5.1 percent in the third quarter and 5.6 percent over the past year,



the strongest showing in 30 years. Some analysts, however, wish to temper the celebration with a warning that even the New Economy's poster child—productivity—will not escape the consequences of the current downturn. They warn that productivity's Cinderella story is about to strike midnight. Greenspan is not wrong about IT's beneficial impact on productivity; business is just too fearful right now to spend, workers are burned out, consumers are broke, and the economy is not growing fast enough.

Executives are avoiding risk and this is undermining innovation and growth. When asked how to overcome the current breakdown in business innovation, Marc Andreessen, the founder of Netscape Communications, replied that innovation always comes from unsocialized, unshowered 19-year-olds living in their parents' basements. Parents should find those words encouraging. The 49 percent of Americans who are reportedly unsatisfied with their jobs now have a good excuse to stay home and clean the basement, hoping their "unconventional" child will be the next Bill Gates. 🌀

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