

StagNation

Restoring Fluidity
to the
American Job Economy

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Chapter One

New Challenges Post the
Great Recession

Why Today is Different

For generations, people have come to this country for opportunity. Both of my maternal grandparents came to this country on a ship. It was treacherous and, in fact, my grandmother had siblings die on the ship. Diseases were rampant and healthcare non-existent. Consider for a moment the drive it took to make that potentially fatal trip to a new world. And yet they came, our ancestors. They came for opportunity, something greater than what they had, be it freedom from oppression, a chance at a new life, or a new government. In short, as recently as my grandparents, they were looking for a New World and a land that had a reputation for one thing: Opportunity.

What started at Plymouth Rock soon grew to encompass 13 fully functioning colonies complete with government, industry and rapidly growing populations — both from births as well as explosive immigration. At the turn of the nineteenth-century, more than 25 million immigrants came through Ellis Island alone. Many stayed on the eastern seaboard. Others, not satisfied with their prospects, continued to expand westward, reaching the Midwest, and eventually California, finally slowing down only when they literally ran out of land.

As Americans, I believe we are genetically predisposed to relocate for the “next good thing.” For many,

that means moving for a better job with a more substantial rate of pay. However, it can also include a better cost of living, better schools, or simply, a nicer place to live. Mobility is American.

While there are many horrible consequences of the bursting of the housing bubble, perhaps the most insidious has been the impact on our ability to be mobile. The factors that have driven this downturn in our economy is stunting our ability to move to seek a better way of life. And now, rather than one single problem, the recession has created a cascade of multiple, simultaneous problems that are not only individually daunting but, when combined, create a troubling and self-perpetuating vortex of issues.

I wasn't around for the Great Depression, but I was brought up by those who had lived through it. Similarly, those facing the greatest challenges have no history of the Great Depression and what was wrought by it. So by and large, for those struggling, there are more problems today than we've faced at any single other time in what is our history. Solving these issues requires an understanding of how they interrelate. We've not been good at understanding the relationship between these problems. In the recent election there was very little dialogue about the issues and no dialogue about their relationships; rather broad strokes about taxing, spending and "the jobs are coming."

So What Happened?

There are numerous theories regarding the cause of the Great Recession and debates will continue for many years. What's not debatable, however, is that the trouble most certainly began in the financial markets. When people were allowed to borrow money they shouldn't have been able to borrow, they purchased real estate they couldn't afford, and when mortgages came due, everything started to unravel. And like successes, failures are also a team effort, so, while lax lending practices were primarily at fault, there ended up being plenty of other places to point the finger. In fact, poor lending practices led to such extreme over-lending that credit markets seized up and our country was actually close to a point where money wasn't going to pop out of that ATM when a card was put in. It's hard to imagine, but eerily true.

Compounding the initial problems were credit default swaps and collateralized debt obligations (CDOs) that allowed mortgage lenders and financial institutions to lay off tremendous portfolios of loans to even bigger insurers and financial institutions. With rating agencies slapping a "AAA" on bundles of bad mortgages and underwriters not underwriting, I think you can pretty much throw in everyone involved in the process. The result was cities and states in which substantial bundles of loans went into default and foreclosure.

But this book is not a whodunit. Rather, it is a discussion about the impact of this dilemma — given that it is a financial and real estate crisis — on job creation and other issues lurking on the horizon that will impede and are continuing to impede recovery.

Challenges for Employers — Uncertainty

If you were to ask me what the most damaging impact on employers is today, I would say uncertainty. At first it was the recession, then it was awaiting the decision of the Supreme Court on Affordable Health Care, then it was the election and now it is the “Fiscal Cliff.” I always smile when I hear the President tell businesses to start hiring. It leads me to believe that he doesn’t have a clue about economics or how business works. Does he really think it is just a desire?

Hiring isn’t the result of tax cuts, so in the recent election I couldn’t get excited about the Republican approach either. Hiring is about sales growth — that is where the money comes from to pay for the new employee. What can stimulate sales is credit. And the Fed has been working to make money free. But free money is not available money. With credit being rationed on an unprecedented basis, employers, regardless of size, have found themselves unable to get capital. Whether to expand, relocate, invest in new projects or new employees, employers continue to be hog-tied without access to funding sources, which would

enable much needed growth in sales. Lacking funding to move their companies forward, many employers are simply maintaining the status quo — treading water, as it were — waiting to see if and when things will sort themselves out. This level of uncertainty, this lack of access to the tools of growth can only lead to StagNation, purloining industry’s ability to sustain itself; it’s preventing growth, and without growth there will be no hiring.

Today’s employers face unprecedented levels of uncertainty. Let’s face it, running a business has never been an easy task, but today’s challenges are even more unique as the majority of employers have found it impossible to predict what it is the future holds. This “culture of uncertainty” is an incredibly daunting and difficult situation for an employer because it leaves her wondering whether or not to hire people and expand, to hold steady, or even, to throw in the towel altogether.

In briefly looking at possible solutions to this cascade of issues — the financial crisis, which led to the real estate crisis and the job crisis — a functional government tops the list of options. Regardless of party affiliation, it’s not hard to see that each side is thoroughly entrenched in its thinking, unable to see or even bend toward the other side’s view. No matter who leads our country — be they Democrat or Republican — this level of uncertainty will undoubtedly continue to exist because of this ideological

entrenchment. For American employers, especially small- and middle-market companies, it's most likely the first time that these events have combined to cause so much uncertainty in terms of hiring in the U.S.

Challenges for Employees – A Changing Landscape

Today's employees, especially older ones, face bigger challenges than ever before. Unemployed workers ranging from those just out of school to seasoned employees in their 50s and 60s seem to have it the hardest, with some being offered internships rather than jobs to see if and where they fit into an organization. Regardless of age, many people's unemployment benefits have been extended far beyond the 99-week limit due to a continued lack of employment. And a new but distinct kind of discrimination against the unemployed seems to be taking hold. In fact, I am increasingly seeing job advertisements that say, "Must be currently employed" become more prevalent as time goes by, making it even more difficult for the currently unemployed to make the leap back to gainful employment. The new protected class is not about race or gender or religion — it is employment status.

If you're one of the many unemployed in this country, you are indeed facing tough challenges. At one end of the age spectrum, this problem affects the young — those graduating from high school and looking for a trade, and

those graduating from college seeking a career — while at the other end, it is affecting those over 50 years old. As we will see, this should not have been a surprise — these are the boomers and echo boomers.

Rampant unemployment has left employees with little to no bargaining power. Losing a job in today's uncertain economic climate is a daunting prospect. Subsequently, employees have become less likely to complain or make themselves conspicuous. In fact, in some industries, worker's compensation claims have dropped dramatically because employees are fearful of being terminated for making a claim. Traditionally, employees who are afraid to make waves are also employees who are less likely to volunteer an idea or champion a new project. This example of "flying under the corporate radar" can stifle innovation and fosters an environment in which employees stay in their cubicles and do only the work assigned to them for fear of retribution. It is exactly this type of situation that can result in a culture of "learned-helplessness" where employees feel they've lost bargaining power, opportunities are non-existent, and upward mobility is ultimately stymied. The image of employees hunkered down in their cubicles or work spaces, not making waves, not contributing and indeed not moving — this is a physical reflection of StagNation.

Imbalances — Jobs Are Like Water

When looking at today's job marketplace, there are three imbalances in labor that are in need of repair: talent, demographics and geography. Talent means having the right skills in the work force as they are needed. Geography means having the right skills in the right place. Demographics means planning for population shifts that we absolutely know are coming. Where you live and how old you are has a lot to do with your job prospects, i.e., what opportunities are realistically available to you; and, conversely, your skills often dictate where you live. If you can't move from where you live, that is a geographic imbalance. If you are 60, you won't be considered for entry level positions. And if you are a political science major, you can't get a position as a chemical engineer.

Most experts agree that, as a country, we face an opportunity with natural gas — it is clean and we have a lot of it. Bloomberg estimates that the extraction of natural gas from shale could create millions of jobs in the U.S. over the course of the next few years. Those jobs would be focused primarily in Texas, North Dakota, Louisiana, and Pennsylvania. Unless you live in one of those states, the current real estate freeze means that it will be nearly impossible for people to apply for those jobs because, if hired, they can't sell their homes and relocate. If they can't sell, they can't relocate. If they can't relocate, they can't accept

that new job offer. It's that simple. And yet, as you will see, the unemployment in those areas is extremely low. But we can't get the people there to fill the available jobs. Another example exists inside the automotive industry. There are automotive jobs in the south. But if you can't sell your home in Detroit, you can't get to where your skills are needed.¹

Countless articles and news outlets have discussed the issues in the labor market and separately, the challenges of real estate. While there is very little concrete information there is a growing dialogue about the retirement issues coming. It would appear as if the labor, demographics and real estate issues are unrelated — but in fact they are related, and the solutions lie in understanding the connection. I believe it is, in fact, the inter-relationship between these problems that needs to be thoroughly analyzed and examined. I am firmly of the opinion that solving our issues that cascaded on each other and the demographics issue lurking on the horizon will require us to work backwards. A return to the beginning of the crisis will enable us to see the need for multidisciplinary solutions.

One thing is certain, solving the imbalance and lack of fluidity and mobility is critical to escaping StagNation. You can't solve the geographic imbalance without examining the talent imbalance as well. And solving those problems is temporary if you don't prepare now for the teeth of demographics. There's a fairly wide disparity among

states and cities in terms of unemployment rates. This is a phenomenon that has to do with population, location, and specific industries. For instance, the energy and technology industries have been largely unaffected, while others, like the automotive industry, have been hit hard. When looking at technology, we see that Apple Computer has purchased a 38-acre parcel in land in Austin, Texas, on which they will build an operational headquarters that will employ upwards of 3,600 people. There are pockets where prosperity and upward mobility exist, but the challenge of getting employees to those places is not only a concern but also a hallmark of StagNation.

No discussion of these topics would be complete without a discussion of overseas jobs and the impact of outsourcing. I recently watched a movie called *Outsourced*, Dir. John Jeffcoat. ShadowCatcher Entertainment, 2006. Film which paints a great picture of what happens when jobs move overseas. More specifically, it is about a call center in San Francisco that is outsourced to India. After a short period involving great teamwork and success, the call center is outsourced from India to China. While the movie ends there, one can imagine the call center would move next to Vietnam, the Philippines and so on. The lesson the film offers is that there will always be someone willing to do a job cheaper and jobs are like water — always flowing to the lowest level. In effect, then, when it comes to jobs, it appears that everything is a race to the bottom, which, in the case

of this call center, could well be anywhere in the world. Regardless of industry or country, one can rest assured that there will always be a bottom. And as we will see, there are ways to deal with outsourcing other than politicians begging U.S. companies not to do it.

I believe that many Americans would like to see a return of manufacturing to our country. In fact, it is possible to bring manufacturing back to the U.S., and there are currently some great companies that are doing it extremely well. Unfortunately, many times, government works against those companies. I have had the pleasure of working with what I consider to be one of the greatest companies in the world as well as our largest exporter, Boeing. Boeing, one of the largest manufacturers in the United States, has traditionally manufactured in Washington state. They looked to move to the Carolinas — as many other manufacturers have — to open a second major assembly line in a less expensive setting. Before the ink was even dry on the deal, Boeing was subsequently hit with a National Labor Relations Board (NLRB) lawsuit taking them to task for relocating a portion of their business to a place where they could afford to pay lower wages. No one took into account the fact that they were creating job opportunities in a new state here in the United States, just that they were planning on paying employees the going wage rate in that state; in other words, less. Unfortunately, in cities like Detroit, where union wages are higher, it's almost impossible for

manufacturing to recover without substantial government involvement. Regardless of which side of the debate you fall with regards to unions, I think it's fairly obvious that wages need to be structured so that a company can be competitive in order to allow manufacturing to remain in this country. Like the examples described above, in more than a few instances and locations, our country is literally stunting its own efforts to recover and grow.

A Changing Work Force

Looking a number of years down the proverbial road, there are two predominate segments that will undeniably have an enormous impact on the American work force. The first segment has been largely nicknamed the “grey tsunami” — which will lead to many more elderly in the workplace and an unprecedented burden on entitlements and those still working. On the whole, our country will see huge numbers of Baby Boomers — those born between 1946 and 1964 — retire. This wave of retirement will bring about employment issues for young people as well as enormous pension and health care repercussions for business. These are the issues that are on the table in many union negotiations and bankruptcy discussions right now — this absolute development will further stifle job creation and lead to greater StagNation.

The second challenge is what is known as the Y Generation or the “Millennial generation.” Millennials follow Generation X — those born between 1963 and 1980 — in the birth order and, by many observations possess a greater sense of entitlement than their predecessors. For example, when showing up for their first forays into the workplace, they tend to have delusions of grandeur with regards to work and earned rewards. Apparently society did these individuals a disservice when they were driven to each and every soccer game instead of riding their bikes, or when they received medals just for showing up. Whatever the cause for spoilage, data shows that this is a generation that was raised to expect certain luxuries in life, yet they are walking into the teeth of a very different work environment. If nothing else, as a generation, the Millennials could most certainly benefit from pre-workplace counseling that would help usher them into their first jobs with some added knowledge about what to expect and what is expected of them.

Regardless of what we think about Generations X or Y, versus the Baby Boomers, what we are lacking with all of these populations is one centralized place to engage in conversation about what the future might hold, and that is a conversation that needs to start with businesses. If businesses lead these conversations, hopefully the government will become engaged in the process and follow, too. As I said earlier, due to our two party system,

all discussion devolves quickly into a civil, or should I say uncivil, ideologue. And once a few successful examples are available, maybe the government can begin to work and create programs that will help move these concepts and ideas forward.