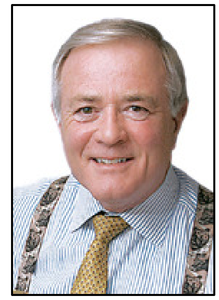
DJC
THE DAILY JOURNAL OF COMMERCE, PORTLAND, OREGON



William Rutherford

Joblessness will be long, severe

POSTED: Friday, March 5, 2010 at 11:59 AM PT
BY: William Rutherford

"…The social legacies of the Great Recession are still being written, but their breadth and depth are immense. …We are living through a slow-motion social catastrophe, one that could strain our culture and weaken our nation for many, many years to come," stated Don Peck, deputy managing editor of The Atlantic Magazine.

"Millions of unemployed face years without jobs" was the headline for a New York Times story by Peter S. Goodman on Feb. 21.

"(Bank) lending falls at an epic pace" headlined another New York Times story, from Feb. 24, in which Michael R. Crittenden and Marshall Eckblad reported that bank lending has posted its steepest decline since Germany invaded Poland and Japan attacked Pearl Harbor.

The Great Recession promises a long period of joblessness in the U.S. Economists estimate that we need to create about 125,000 new jobs per month simply to absorb entrants into the workforce. We have to create 10 million jobs just to get back to a 5-percent unemployment rate. If we were to create jobs at the rate of 600,000 per month, more than double the pace of the mid- to late 1990s, it would take two years to dig out of our hole.

The recession has fallen hardest on men because male dominated industries, construction manufacturing and finance, have been hit particularly hard. In November 2009, 19.4 percent of men in their prime working years, ages 25 to 54, did not have jobs. That was the highest figure since the Bureau of Labor Statistics began tracking the number in 1948. It appears that soon women will have most of the jobs in the U.S. But women ages 45 to 64 have not been spared. Minorities, especially blacks, also have suffered greatly. The unemployment rate of black teens ages 16-19 is nearly 50 percent.

The long-term implications for the social fabric of the United States are enormous. Not only are many people out of work with few prospects, but their unemployment benefits are running out and they have nowhere to turn for relief. Our social welfare system is based on the premise that there are jobs out there to be found, but there aren't enough to meet the demand. Many people are skipping meals. Others are forgoing their medication and turning to prayer for healing.

The impact on families is serious, with long-term implications. When the wage-earning male loses his job, he also loses esteem in his own eyes and perhaps those of his spouse and children. Men's identities are far more defined by their work than are women's, and both men and women become uncomfortable when the man loses his job. Divorce rates rise. Incidence of spouse and child abuse increases. Andrew Oswald, an economist at the University of Warwick in the U.K., says no other circumstance produces a larger decline in mental health and well-being that being involuntarily out of work for six months or more. The loss of self-worth can contribute to a decline of happiness of husbands and wives. Studies have shown that mortality rates rise for men soon after they have lost jobs, and, regardless of age, faced elevated risks of premature death for the rest of their lives.

Single men without jobs become less desirable as mates, leading to a decline in marriage and an increase of single men. A man without a mate is likely to become less of a contributor to the community. Studies show that married men are happier and healthier, and that married men work harder, longer and more strategically. Inner cities with jobless, single men reflect a decline in community; membership in community organizations, churches and service groups decline. If there are children, their nutrition suffers, and they are less likely to attend college.

In a Pew survey in spring 2008, before the Great Recession, people were already responding that their lives had not improved in the previous five years. Pew reported it as the most downbeat assessment that either Pew or Gallup had recorded in more than 50 years of polling. Median household income was the lowest since 1997, when adjusted for inflation. At that time we were 11 years into a decline.

Even though it will be years before we can create jobs in sufficient numbers to employ those looking for work, we must make an effort. Where will those jobs come from? Historically, jobs in a recovery have mostly been created in the automobile, construction and financial sectors. It is unlikely that any of these sectors will be a big contributor to job growth in the short term, which means that our emphasis should be on small business. But as bank lending has fallen in epic proportions, small business has suffered the most.

Banks are still not lending, according to Jon Greenlee, a top official at the Federal Reserve. The amount of lending by banks since 2008 is down by about $700 billion, or roughly equal to the federal stimulus package. Thus, in spite of the massive government bailouts and nearly free money made available to the banks by various government programs, the banks have reduced credit outstanding. Instead, financial firms have paid out massive bonuses, such as the $83.6 million separation package given to former Bank of America CEO Ken Lewis.

Americans are angry, and have formed groups such as the "Tea Party." Politicians are running scared. Bankers also have become targets. Congress and state legislatures have passed or are contemplating legislation that will extend bank regulation and accountability. Even Goldman Sachs has noted in its legal filings that adverse publicity is a business risk. It has been reported that small business is departing banks for credit unions. Community banks, in particular, should be wary of this trend, because small business is the core of the bank's business.

In response to the lending contraction, the banks blame the regulators and soft loan demand. Undoubtedly, soft loan demand plays a role because the economy is weak, but how much of the economy's weakness is due to the contraction in lending? And how will the economy become stronger if lending continues to contract in the face of loan demand?

Banking regulators respond that they are not at fault. Martin Gruenberg, the No. two official at the FDIC, has disputed accusations that the agency has discouraged banks from extending loans to small businesses. The FDIC gives banks "considerable flexibility in decisions to extend loans," Gruenberg said. Elizabeth Duke, a member of the Board of Governors of the Federal Reserve, and financial regulators have called on banks to meet the needs of creditworthy borrowers. For his part, President Obama has directed banks to lend, a call to action largely ignored.

If the banks are not willing to do their part for the economy, we can expect another business contraction; this country cannot face another recession just now.

William Rutherford is the founder and president of the Portland company Rutherford Investment Management, listed in Barron's as one of the leading separate account managers in the country and recipient of a five-star rating from Morningstar. He is also the author of a critical appraisal of Alan Greenspan's term as Fed chief, "Who Shot Goldilocks?" For investment information contact him at 888-755-6546 or wrutherford@rutherfordinvestment.com