Armchair Economics

Perspectives from an everyman for the everyman

The Infrastructural Correction

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Let me stick my neck out…**We are not headed into a double dip recession.** Can't happen. No way, Jose! It is impossible, totally impossible. Why? Because we are still in the recession that started in 2001. That's right, we're nine years into an economic correction. Now there is finally good reason to call something…"The Great Recession"!

First we were partying like it was 1999. Then in 2000 we ran out of economic libation. Wall Street and Washington showed up with a few billion cases of economic tequila and we were back in business. How many houses would we have built, retail centers developed, restaurant and hotel chains expanded, cars and flat panel TV's sold and people hired if it hadn't been for this period's binge economics? The party just got more out of control. And the longer the party lasts, the worse the hangover.

Whose financial situation is better today than it was in 2000? Certainly not the majority of people. Certainly not the Federal or local governments. So how can you call 2002-2007 a recovery? That was not a recovery. That was an illusion, a façade, a head fake, Methadone for a heroin addict. We are still in the same economic malaise that began after the bust of 2000, only now we have even higher fixed costs, higher debt, higher unemployment, stagnant personal income and the value of most people's largest asset, their home, is deflating.

So let's get this elephant out of the room. We are not headed for a double dip. We are not even headed for a triple dip. We are still in the The Big Dip...nine years later. 2002-2007 was not a recovery. It only made the Big Dip deeper. And 2009-2010 wasn't a recovery either. It was just a little hair of the dog to soothe the hangover. Now we're looking to order up "the next round"…of stimulus measures.

Expect most everyone can agree this is not your garden-variety cyclical correction where production capacity briefly gets ahead of demand. If not cyclical then the alternatives would seem to be we are either in a debt-deleveraging or structural correction. A lot of people seem to think we're in a debt-deleveraging correction. I would suggest our debt problem is a symptom, not a cause. Debt-deleveraging corrections are easily inspired by significant structural change. Why? Because any major structural economic change, by its nature, will alter the asset values supporting debt.

So what structural change might we be dealing with? There isn't just one. There are many. Today's technology is dramatically changing many infrastructures that support our daily lives.

The clue to this infrastructural correction can be seen in employment. Thirty years ago when I began my executive search career there were very few temporary personnel agencies. Back then literally everyone was in the "permanent placement" business. Now there are more temp and outsourcing firms than permanent placement agencies. And thirty years ago who even heard of a temp? Now there are millions. As reported by the Bureau of Labor Statistics (BLS), a significant number of jobs created today are temp jobs.

Just a few weeks ago the CEO of one of the world's largest personnel service companies suggested, "Today, we are all temps". And a couple of years ago, in their annual college ranking issue, Newsweek suggested that over their professional life today's graduates should expect to have not just several employers but also several different careers!

This is a monstrous structural change in the nature of employment. A lot of employment is no longer permanent. This change collides head on with our legacy union labor, health care and retirement infrastructures. Those infrastructures were created and supported for decades by a much different type of employment environment.

This structural employment change also doesn't match well with our historical home ownership and mortgage infrastructure. How can you lend even 15-year money with so much uncertainty over a borrower's next 15 years of employment?

It would seem natural that if employment is growing more temporary and transitory then housing may need to do the same. Given the structural change in employment, per capita home ownership rates should likely be below, not above historical averages. Less security shouldn't inspire more home mortgages.

Now consider the production of goods. According to BLS data, Goods Production employment as a percentage of Total Employment in the U.S. was cut in half over the last thirty years. Whoa! But of course we all know this from reading or watching the news. Goods production has either become much more efficient in the U.S. or has moved to more cost effective production markets. What though of those workers in the U.S. who were trained in goods production jobs?

The answer would also seem obvious given what we've been fed in the news. We're now more of a service oriented economy. That certainly proves up in the BLS data. Over the last thirty years the number of Service Related jobs as a percentage of Total Employment is up almost fifty percent. Goods Production cut in half…Service Related up by half…this seems pretty darn material.

I have always been uncomfortable with this transition to a service oriented economy. In order to serve, one needs a master…a client…a customer. Goods Production would seem the top of the food chain client for Service. What would top that? According to the BLS data, thirty years ago we had 3.78 Service Related jobs for every Goods Producing job. Today it is 9.47. Obviously we now have a whole bunch of people providing service to...err…service. How sustainable is that?

It is obvious U.S. employment is going through a significant structural change. This is the canary in the coal mine. This is the clue that infrastructures all around us are going through massive transformation. It's not just the music and book delivery systems that are being turned upside down by today's technology. It is all kinds of infrastructures that support our livelihoods and our daily lives.

Workers support infrastructures. If the structure of work is changing then it is because the infrastructures workers support are changing. This structural change affects people's income stream as well as the value of legacy infrastructure supported assets, which support debt. And because of technology, today's new infrastructures are much more productive. They can achieve the same or greater output with less man-hour input.

The whole nature of how labor contributes to everything from production to service to even government is in the midst of transformation because the infrastructures of production, service and government themselves are in the midst of technological transformation. And we can't go back. We can't bring back the good ole days when people went to work for one company for an entire career.

That was our economic circumstance post WWII, when the U.S. was the dominant goods producer of the world, when we were building a monstrous middle class of Leave it to Beaver households.

Contemplating this infrastructural correction begs many more questions. To begin with, are we trying to fix a problem with the wrong tools? Keynesian stimulus, money supply/interest rate management and Quantitative Easing were all inspired by the last Great Depression. But they were tools designed for a production-based economy with a huge runway to grow a middle class. We don't have that anymore. This suggests even our economic policy infrastructure is going through its own transformation.

Much like the Great Depression experience, the tools needed to fix our current situation may not be known until after the situation has already been fixed. And given that a great deal of our current government infrastructure is an extension of that created in response to the Great Depression, government itself is likely in store for momentous change.

What are the right government policies for our significantly transformed economic and employment infrastructures? Can we, should we, be trying to apply policy that was created under an entirely different economic and social order? How should we address commitments made under a different economic order that no longer fit with today's order, which is still in the midst of transformation?

Of course we are always living through some type of change, but today we are likely going through a massive sea change, not some incremental step change. And the velocity of change seems to be increasing. We can't really see all this because we're living it. It's hard to see the forest for the trees.

Alive and well, the Big Dip that started after 2000, likely has many more years to run. The infrastructures of a goods producing, middle class growing economy, are losing relevance because that is no longer our economy. Technology is building a new world order; obvious by the recent news that China has over taken Japan as the world's second largest economy.

Double dip talk is focused on today's symptoms, not the overall disease. But is this a disease we can cure or one we just have to endure? This doesn't look like something we can fix by reviewing the history books. This seems more like something significant to add to the history books.

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