

## **Creating sustainable jobs**

*Bill George*

*Wall Street may have stabilized, but the crisis on Main Street is deepening. The jobs crisis is going to get worse before it gets better.*

The stock market is booming again after months of sharp decline. Leading economic indicators are turning positive. Prominent economists, the Federal Reserve Bank, and the White House are proclaiming the U.S. is on its way to recovery.

If you're one of 7.5 million Americans who lost your job in the recession, don't buy into this optimism for a minute. Wall Street may have stabilized, but the crisis on Main Street is deepening. Get ready for the long haul: The jobs crisis is going to get worse before it gets better.

This recession is the deepest and longest of the past 60 years. By the end of 2009, 9 million to 10 million people will have lost their jobs, triple the number of any period since the Depression. Those jobs aren't coming back soon. The true unemployment rate, counting former full-time employees doing low-paying, part-time jobs and those who have given up looking, is running 16% and looks like it is heading to 20%.

Stimulus won't solve the problem

The situation is dramatically worse among racial minorities and the young. The only sectors gaining employment are government, education, and health care, all of which are largely funded by taxpayers, not private investment. The U.S. cannot look indefinitely to deficit financing to offset private-sector losses.

Last winter's \$787 billion stimulus package isn't going to solve these problems. These funds are going for tax cuts, extended unemployment compensation, fiscal relief for states, and federal spending. The stimulus package is providing temporary relief that is helping to stabilize the economy but it won't get the economy growing steadily again, nor will it provide steady new jobs for the unemployed.

The government's claim that the stimulus will "create or retain 3.5 million jobs" by the end of 2010 is misleading. Saved jobs are generally not sustainable. For example, look at General Motors, which emerged quickly from bankruptcy, thanks to prompt action by the Obama Administration. Its employment trend is clear: non-competitive U.S. factories will be shuttered and thousands of people laid off as GM shifts to more competitive plants overseas. Other traditional manufacturing industries are experiencing similar shifts.

Heading for a jobless recovery

We have structural problems in the economy that can only be resolved with a new growth strategy. The post-recession economy of 2010-2012 won't resemble the boom economy of 2007-08. The latter was driven by overheated consumer spending and depleted savings, which created nonsustainable jobs that were quickly shed when the financial crisis hit. Consumers who are out of work—or fear that they might be—aren't going deeper in debt to buy new cars or houses, no matter how attractive the incentives.

It is highly unlikely that traditional companies will be the ones to add employees. No CEOs I know are hiring these days, other than replacement workers, nor do they have plans to ramp up hiring. At many companies, workers who leave aren't being replaced at all. Companies continue to look to technology for efficiency instead of their employees. When large numbers of employees are needed, jobs are often moved outside the U.S., usually to Asia.

Unless immediate action is taken, we're headed for a jobless recovery, which will be a drag on the economy for years to come. There is only one way out of the jobs crisis that will create sustainable new jobs: Revive the entrepreneurial economy based on innovation and creativity.

### Seven ways to create jobs

From 1982-2000, the U.S. went 18 years without a recession, but not because old-line companies were adding employees. Rather, new companies like Intel (INTC), Microsoft (MSFT), Apple (AAPL), Wal-Mart (WMT), Starbucks (SBUX), Target (TGT), and Google (GOOG) emerged as dynamic growth engines, driven by creativity. Thousands of new companies were jump-started by ingenuity and entrepreneurship. They stimulated U.S. demand and became leading global competitors.

What can the U.S. government do to stimulate another boom in innovation and entrepreneurship? It shouldn't be by subsidizing preferred industries or funding startups. Instead, the government needs to facilitate innovation and new company formation. Here are seven things that would release the U.S. from a jobless recovery and create sustainable jobs:

1. Base capital gains taxes on the time an asset is held, with assets held for seven years or more taxed at only 10%. Investment tax credits should be dramatically increased and made permanent. These moves will stimulate company formation and capital spending.
2. Incentivize investment in research by increasing R&D tax credits and making them permanent.
3. Actively negotiate free trade agreements to open up export markets for U.S. companies to compete aggressively.
4. Accelerate federal investments in science and technology. To stimulate basic research in renewable energy sources, create a National Institute of Energy, like the National Institutes of Health.
5. Enforce patent and intellectual property rights around the world to enable American companies to realize global benefits from their research investments.
6. Expand educational grants for math and science, to encourage more young people to enter these fields.
7. Liberalize H1B visas to keep talented and entrepreneurial foreign nationals with U.S. graduate degrees in the U.S.

These actions will take time, but now is not the time to look for quick fixes. These steps will provide for sustainable gains in employment and healthy growth for the U.S. economy. It's time to get started.

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