Mitchell's Musings 1-31-11: What's Missing. What Could Be Missing.

I had less time than usual to muse this week owing to a course I do on California Policy Issues which dumped a pile of student papers on me. Nonetheless, I did catch the President's State of the Union address. And, of course, the text of the speech is on the White House website, readily downloadable for some word counts.

Presidents have to decide what to talk about in such speeches. They can be future oriented. Or they can dwell on current issues. This speech was clearly future oriented. "Invest" (or investment) came up 13 times. But there are some current problems linked to the labor market and the economy that might have received more attention.

"Jobs" came up in the speech 25 times. "Unemployment" came up zero times. "Deficit" came up eleven times with regard to the federal budget. But it came up zero times with regard to the fiscal condition of state and local governments. And it came up zero times with regard to international trade, i.e., the trade deficit. Exports came up 4 times. But imports came up zero times.

I understand the political logic of putting one's best foot forward and offering a grand future vision. But I am concerned about current conditions and what can happen in the near term. As is well known, the original economic forecast of the Administration underestimated the degree to which the unemployment rate would shoot up as a result of the Great Recession. Just a year ago, the *Economic Report of the President* (released in February 2010), somewhat overcorrected for past over-optimism by assuming the 2010 unemployment rate would average 10%. It appears, however, that the average was about 9.6%. However, thereafter, last February's official forecast was for notable – but not dramatic – drops in the unemployment rate to an average of 8.2% in 2012 and a continuing decline to below 6% by 2015. Real GDP would be growing over 4% per annum in 2011-13. The table on the next page summarizes the official February 2010 forecast.

I also show on that table the UCLA Anderson Forecast which was published in December 2010. Not surprisingly, UCLA was closer to the mark on unemployment and real GDP growth (since it could make use of actual data for most of the year). UCLA does not forecast all the way to 2015. But its outlook for 2011 and 2012 is decidedly less optimistic than where the Administration was last February.

We will soon see what the official Administration forecast is when the budget proposal and new *Economic Report* are released. Even the old February 2010 forecast was not very cheerful when the labor market perspective is considered. If the official forecast is now revised in the direction of UCLA's, that would make the labor market prognosis look even worse.

If the official focus in Washington is on the deficit, there will not be much action on jobs. And there seems little prospect in any event for action directed toward unemployment. The state and local sector could well be a source of more layoffs in 2011-12. State and local governments have ways of delaying their responses to an economic downturn and its resulting loss of tax revenue. But it appears that most of these responses have been played out and now – absent aid from Washington – the adjustment will occur.

The trade deficit continues to be adding to U.S. debt to the world. But more importantly, it is a drain on jobs – particularly in manufacturing – in the short term. The trade deficit is a balance of exports against imports. Thus, talking about exports is talking about only half the story.

As I have previously written, cajoling other countries about their exchange rates has little or no effect. If direct stimulus from Washington is now not feasible, dealing with the trade imbalance is all that is left. But we are not dealing with it.

	Economic Report of the President, February 2010		UCLA Anderson Forecast, December 2010	
	Unemployment Rate [%]	**Real GDP Growth [%]**	**Unemployment Rate [%}**	**Real GDP Growth**
2010	10.0 [9.6]	3.0 [2.9]	9.7 [9.6]	2.8 [2.9]
2011	9.2	4.3	9.6	2.1
2012	8.2	4.3	9.1	2.8
2013	7.3	4.2	n.a.	n.a.
2014	6.5	3.9	n.a.	n.a.
2015	5.9	3.4	n.a.	n.a.

Note: [ ] = latest estimate of actual value.

Data Concerns

Discussion of the international sector should remind us of the need for having data relating to economic conditions (pay, unemployment, etc.) abroad. It appeared last year that the U.S. Department of Labor was going to cut off funding for just such data collection. But a fuss was made and, for a time, the international data program appeared to have been saved. Now, again, the threat of a cutoff seems to have arisen. I reproduce below a recent email from Bob Bednarzik for whatever action you may deem appropriate.

Dear supporters of BLS International Labor Comparisons,

Here is an update on the budget situation for the BLS Division of International Labor Comparisons (ILC) *which was slated for termination in the President's 2011 budget.*

We had some fleeting good news during the lame duck session of the Congress when the Senate drafted a budget that included funding for ILC. I am sure that your support was a major factor in this outcome. However, the lame duck omnibus appropriations bill did not come up for a vote; instead the Congress passed a Continuing Resolution (CR) that expires March 4 to keep the Federal Government funded. Thus, ILC lives on, but is still in danger in the current budget-cutting atmosphere.

Just yesterday, it came to my attention that Paul Krugman (Princeton Professor, Nobel Prize winning Economist, and New York Times columnist and blogger) posted a blog in praise of the St. Louis Fed's new international data base named FRED that draws most of its data from ILC. Professor Krugman was apparently unaware of the ILC budget situation, so I posted a comment (see comment # 25) about ILC's proposed termination and I referenced the petition you signed. Currently, the link I included to the petition does not work, but another friend of the program has just submitted a comment to include the correct link. You may wish to add a comment of your own. Shorter postings are preferred. You can read Krugman's blog at: http://krugman.blogs.nytimes.com/2011/01/28/fred-goes-global/

To post your comment you must first register: first click on "post a comment" at the end of Krugman's blog. And from there go to the end of the comments and click on "register," set up your password, and you're up and running in a few minutes.

FYI: Here is the link to the petition which currently has 265 signers: http://www.ipetitions.com/petition/saveilc

Anything you can do to get more petition signers and/or add to the Krugman blog will be important to the survival of ILC.

Thanks again for your support,

Bob Bednarzik, Ph. D.
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