

## Job Creation-Let's Try Reality

*Once upon a time, long ago and far away-*

*A strong, wiry man walked with resolve along the dusty, winding road. His back pack was large and stuffed to its limits. He was pulling a makeshift, two-wheeled cart that was also laden with, well, stuff. His dog, clearly a product of canine love where you can find it over the years, conducted constant surveillance ahead and behind his master. The dog's mission was to protect his master from attack rabbits, ferrets and any other potential threats less than five pounds in body weight.*

*The man came to a fork in the road. On the left branch the road was- "disheveled" works. Potholes and various types of weeds took up part of the road while rocks and pieces of wood filled other parts. The road to the right could easily be mistaken for the driveway to one of the King's mansions. Smooth as silk with rows of trimmed trees lining each side and several feet of manicured grass extending out from the trees.*

*The wiry man stopped at the fork, not knowing which way to go. His dog looked to the left and then to the right and then at his master for a decision. Before long, a man walked toward him from the left fork. Shortly thereafter, a man appeared coming down the right fork. The wiry man greeted the man from the left and said, "Hello, sir. I am a stranger from a distant land. I am traveling to Hopewell where a blacksmith is starting a business and I have a job as an assistant blacksmith. Would you please be so kind as to tell me which road to take to get there?"*

*By then, the man from the right fork arrived, impeccably dressed in expensive tailoring and interrupted the man from the left fork just as he was about to answer the question. "And, good day to you. Assistant blacksmith, eh? Well, the best way is to take the road I was walking over here on the right."*

*"Oh, no, no, no," chuckled the man from the left fork who was sloppily dressed and had long, unruly hair. Nodding back over his shoulder at the left road, he continued, "this is by far the better way. It may not look as nice as the other side, but this is the better way, for sure."*

*“Unbelievable!” said the well-dressed man. “There is no way going through that mess makes sense. Not only is my way better, but there are beautiful gardens along the way that you will enjoy looking at.”*

*The man who came from the left fork was no longer talking to the wiry stranger but had turned to confront the well-dressed man from the right. “Just because that road looks nice hardly means it is the best overall choice. You don’t know what you are talking about!”*

*The two continued arguing and the dog’s head jerked from side to side as if he was watching birds on each side streaking across the sky in sequence to attack the birds on the opposite side. The wiry stranger tried to interrupt a couple of times but to no avail. He turned away from them to see an old woman coming up a narrow path that ended at the road. She was sweeping the ground in front of her with a long stick.*

*“Hello, she said,” squinting to make him out. “Are you lost?”*

*“I suppose I am,” concluded the wiry stranger. “I need to get to Hopewell so I can start my job as an assistant blacksmith in the new business. I am a stranger from a distant land and did not know which fork in the road to take. I thought one of them would help me but all they do is argue.”*

*“Oh, they do that all the time. I could hear them from way down the path. I’ll be happy to find you a way to get to Hopewell. I cannot see much anymore, so please help me walk up the hill over there. The main road is on the other side. I’ll flag down a wagon driver- they’re all friends of mine- and one of them will give you a ride.”*

*“Thank you very much. Just grab hold of my back pack and I’ll follow the path up the hill,” said the wiry stranger.*

*Six months later, the wiry stranger was driving the blacksmith’s wagon delivering horse shoes and some repaired implements to the local farmers when he came upon the nearly blind old woman.*

*“Hello. How are you? Thanks again for getting me a ride to Hopewell.”*

*“Oh, hello. I recognize your voice. How is the job?” The assistant blacksmith helped the woman into the wagon.*

*“Very well. The work is steady and the blacksmith is a fine person. And, his business is growing. After I make the deliveries, I pick up another assistant blacksmith. Say, whatever happened to those two guys who were doing all that arguing?”*

*“Well, they kept on arguing for the rest of the day, even when it turned cold and the rain and the sleet soaked them,” she said. “Not surprisingly, they both came down with heavy colds that turned into pneumonia. They died within 15 minutes of each other.”*

*“Died? They ignored the obvious danger and paid a dear price! And, for what?” The assistant blacksmith was somewhere between incredulity and anger.*

*“Yes, and for what,” the old lady repeated. “Only those are blind who cannot see.”*

## **From fable to Reality---Reality?**

Progress towards creating jobs is the victim when those who could make it happen are intractable.

“Jobs! We need to create more jobs to get the economy moving again!” “The government cannot create jobs... It has to be the private sector.”... “The 1% create the jobs and increasing their taxes would stifle job creation!”... “We need to eliminate regulations because they block job creation!”... “No, small businesses are the job creators.”

Confused? You are not alone. Here, at [www.TMSwriters.com](http://www.TMSwriters.com), there are some doubts about who really wants to create jobs and what is said versus what is the underlying thinking. To set the record straight, just how are those new jobs actually created these days?

Now, up front, at the philosophical level, everyone is for job creation. It is essential, an absolute if the economy is to grow.

The President and the Democrats in Congress certainly want to create jobs. As we have heard for years, the most productive near term job opportunities would be to repair and refurbish the country’s crumbling infrastructure. The need aligns squarely with the benefits and should be non-political. Alas, it is not. Funding infrastructure the Democrats way would mean a huge, multi-billion commitment of money that would have to be borrowed increasing the deficit and handing the Republicans another economy-based issue. They would insist

on finding the needed funds by cutting programs such as entitlements- or anything but defense. That is unacceptable to the Dems, it would be political suicide and they would lose a campaign issue- Republicans really don't want to create jobs after all.

Republicans are committed to reducing the size of government, cutting entitlements, reducing the deficit, eliminating departments such as education and energy and overall gutting everything except defense. As stated, any new funding has to come from reductions in other parts of the budget. And, since any form of job creation would be giving a 'win' to the President, there is no way that will happen in the Republican House.

In the private sector, banks are not lending to small businesses which would enable expansion and create jobs. In 2011, banks rejected 60% of small business loan applications. However, Credit Unions increased lending to smalls by 40% but are constrained by law to limit it to 12.5% of assets. (*Steve Pociask, The American Consumer Institute Center for Citizen Research, The Hill, April 27, 2012*) On the opposite pole, however, syndicated loan volume in 2011 was up 56% over 2010. Syndicated loans are used by large corporations for long term financing and are usually provided by groups of Wall St investment banks. (*Jeff Cox, CNBC Senior Writer, 12/20/2011, [www.cnbc.com](http://www.cnbc.com)*) It would not be illegal to conjecture that these borrowers are not using the money to create jobs this year.

**“Everybody talks about the weather, but nobody does anything about it.”**

Now, you can feel Mark Twain turn over in his grave here; “everybody talks about creating jobs, but nobody does anything about it.” That, to be sure, is not completely accurate as the Obama PR machine would make sure you see and hear- some jobs are being created but far, far, fewer than the economy needs to really get going. Agriculture, automotive, oil and natural gas are segments of the economy showing growth. These are, generally, large corporations, but, as stated May 19, on NPR's “Weekend Edition”, of the 115,000 jobs created in April, just 4,000 were in large corporations.

Yet, the Republicans continue to insist that keeping taxes low on the top 1% will insure job creation. The implication is that the top 1% would invest in large companies which, in turn, would create jobs. In the words of House Speaker John Boehner, “A tax hike would wreak havoc not only on our economy's ability to create private sector jobs, but also on our ability

to tackle the national debt.” ([www.americanprogress.org/michaellindin6/27/11](http://www.americanprogress.org/michaellindin6/27/11)) The Speaker’s contention, however, is at odds with the facts. From 1950-2010, according to the Bureau of Labor Statistics Tax Policy Center, average annual employment growth is higher when the top marginal tax rate is higher. By way of comparison, when the top marginal tax rate was 75-80%, employment growth was 2.5%, but it was 1.1% when the rate was 28-31%. (It is currently 35%.) “In fact, if you ranked each year since 1950 by overall job growth, the top five years would all boast marginal tax rates at 70 percent or higher.” ([www.americanprogress.org/issues/2011/06/marginal\\_tax\\_employment\\_charticle.html](http://www.americanprogress.org/issues/2011/06/marginal_tax_employment_charticle.html))

## **Job Creation in Real Life**

So, how are jobs really created? According to the National Bureau of Economic Research, new and young companies create jobs. The younger the company, the more jobs are created irrespective of taxes, regulations and the politics of the day. “Firm startups account for only 3% of employment but almost 20% of gross job creation. The fastest growing continuing firms are young firms under the age of five.”

([Http://nber.org/digest/feb11/w163000html](http://nber.org/digest/feb11/w163000html))

Startup and young companies create jobs and hire to fill existing jobs in response to demand- in Manhattan, Europe, Toronto, Las Vegas or wherever it exists or is created. It can come in the form of a disruptive technology (cell phone), filling a market void (Gatorade), creating a new market (Google, Facebook), improving existing products (ABS brakes) to name a few. And, these are not stratified, overlaps occur. New jobs are also created where and when oil or natural gas is discovered and drilling starts.

New businesses need large infusions of capital on their growth trajectories to hire the people they need to keep growing, whereas large businesses use capital to acquire raw materials, further mechanize, retire workers, etc. This would seem to make the Republicans’ point of keeping taxes low for the wealthy so they could invest in growth and by extension, create jobs. However, a recent survey of wealthy Americans indicates that they are investing outside the United States. The survey found that 64% of the wealthy planned, in 2011, to add money to global stocks. The New York Times found that the wealthy are investing as much as 40% of their portfolios in global stocks.

*Contrary to conventional wisdom, the government can create jobs and cause jobs to be created. It did with NASA beginning in the 1960s through 2011. It did with the creation of the Interstate Highway System under President Eisenhower in the 1950s. During the Great Depression, the Tennessee Valley Authority brought electric power to many parts of the southeast. During the George W Bush Presidency, there was, under Secretary of Defense Donald Rumsfeld, major outsourcing of military functions and services to private companies. But, times change, and most of the projects have been, or will be, significantly downsized.*

## **Intellectual Property & Job Creation**

There should be no doubt, no question about one of our great strengths- Intellectual Property- as demonstrated in patents, trademarks and copyrights. From television to the transistor to fiber optics to prescription drugs to personal computers to mobile devices to the Internet- the list goes on and on. And, add to this list those essential inventions that do not live in the public eye but make our lives better.

Rock solid, undeniable proof of the powerful role IP plays is found in the results of a recent study by the USCOC's Global Intellectual Property Center study, [IP Creates Jobs for America](#). There are roughly 125 million non-farm jobs in the US and the study showed that 44%, or 55 million, can be attributed to IP. Fortune 500 companies such as IBM, Apple, Microsoft, AT&T and DuPont generate thousands and thousands of patent applications each year. However, since their infrastructures have been in place for years and largely able to manage new product introductions, there is far less need to hire.

In contrast, however, when a startup enters a market segment or creates a new one- and, yes, Google was once a startup- with patent and trademark protection, new jobs are created to sell, provide customer service, manage inventory and the supply train, and calculate revenues and expenses. In a typical market adoption cycle, the "Innovators" are the first to buy followed quickly by the "Early Adopters" and the "Early Majority" consuming the first few years in a high level of activity. Jobs are created-here.

So, it is crystal clear that we must continue to enable startups to invent from the time-honored "better mousetrap" to the stunningly clever software to the remarkable business method patent if we are to create new jobs. IP should not be downsized nor outsourced for the sake of a few dollars. We have enough trouble protecting our IP in our homeland to risk having it pirated on the other side of the globe.

## The Curse of Uncertainty

It is a familiar refrain by now- large companies are not hiring because the future is so uncertain. That has a hollow ring to it. When was it that the future was not uncertain. Recall what Yogi Berra said, "Forecasting is very hard, especially when it is about the future." Or, what Charles L. Carter, Director of Forecasting at AT&T in the early 1970s decreed, "Give them a number, give them a date- but, never both at the same time." Wry humor notwithstanding, it is certain that the future is uncertain. It was during the Cold War, the Cuban Missile Crisis, Watergate and at noon on 9/11. How about when Lehman Brothers collapsed and the banking system hung by a thread? What must it have been like the day after Lincoln died?

Large companies used to take risks. Risk was the introduction of the first refrigerator to replace the ice box and the ice man. Clearly, a disruptive product. Risk was the first fire truck to replace the horse drawn fire wagons. Risk was the personal computer to replace the electric typewriter. Risk was the Apollo project. Risk was lite beer. The long list goes on from here. So, today's corporations are suspended in place because the future is uncertain? Jobs are not being created because of uncertainty about the future? Uncertainty about regulation has replaced R&D, product development, market research and market entry. If corporations have become so fearful and, apparently, lack confidence in their new products, why invest in them?

## Then- And Now

To circle back to the opening fantasy, it tells us a lot about the way job creation is incorrectly presented by the left and the right. The two opposites do so much arguing with each other that the real story never becomes known. This is because it doesn't fit either side's narrative, either side's advantage. The facts about job creation are not hard to find. The evidence is clear and consistent. What is much harder to find is the rationale that both sides use to deliberately promulgate misleading information to pander to the base and encourage others to become believers. It is a wrong turn in our politics that intentionally not telling the truth is acceptable.

