

## **The Silver Lining to Today's High Unemployment**

**by John Caslione**

Sometimes a cure can seem worse than an illness, particularly when one of the side effects is a 9.5 percent unemployment rate. For the past 10 months the ailing economy has been pumped with every type of medicine the Federal Reserve and the U.S. government could prescribe to get the financial world back on her legs, and yet people are still out of work—14.7 million according to the U.S. Bureau of Labor Statistics.

The U.S. jobless rate has already passed the Eurozone's and while their second-quarter GDP won't be released until August 13, 2009 reports and economists are predicting it will be negative.

Yet despite the proclamations the “Recession is Over”, the fat lady still hasn't belted out her solo, and probably won't for some time. In fact Ben Bernanke projected just a couple of weeks ago the unemployment rate will likely top 10 percent, even as the U.S. begins its road to recovery.

And while those without work are discouragingly shaking their heads, there is a silver lining. Recessions and downturns are great for culling out weak companies that only add to the pain of job losses. These weak companies also tie up much needed capital that stronger companies require to grow and expand, and which will ultimately lead to more solid and sustainable job creation and greater employment for more people.

We've seen this play out many times in other nations' economies and most recently in the U.S. with technology and housing booms that led to economic bubbles. Low interest rates remain low for too long and result in excessive credit creation. Speculative investors jump on the bandwagon causing bubbles to burst, creating a credit crunch.

We saw this in the 1990s in Korea and Taiwan when both experienced a downturn in the tech industry, leaving stronger companies like Samsung and Acer positioned to invest in new ideas and hire talent to help. From a market perspective, both countries adhered to a corporate Darwinism theory where survival of the fittest and who could adapt the fastest left the strong companies stronger and beleaguered businesses dying on the roadside.

Japan, on the other hand, made the mistake in the 1990s of trying to save its “boom companies” pumping them with stimulus dollars and government-backed guarantees, when many of these businesses really only existed because of the tech bubble that caused the financial woes in the first place. Yet these were precisely the companies Japan should have allowed to fail to free up capital. And as a result, Japan still has never fully recovered from its almost 20-year long recession.

The U.S. is also witnessing the effects of corporate Darwinism. This past July, Goldman Sachs posted a profit exceeding analysts' with Johnson & Johnson also beating Wall Street's estimates. There is reason to be happy. Both of these companies will eventually

invest in themselves, which will equate to new jobs and more hiring and do so on a more solid base.

But even with this silver lining, moving forward, frictional unemployment—people in the midst of transitioning between jobs and searching for new ones—may need redefining to include those workers whose skill sets don't match the current job vacancies. Under this new unemployment umbrella the new frictional unemployment level may be higher than the traditional 4% figure due to companies' need to restructure their business models and operations in a future of almost certain heightened turbulence. The upside of a stable 8% unemployment, for example, is 92% of the workforce would be working for stronger companies and in sustainable good-paying jobs bolstering the 8%, and solidly holding up the U.S. economy.

Higher unemployment numbers should not undermine overall confidence. As job losses slow, unemployment may even rise, but this will ultimately help the economy stabilize and move our nation toward a sustainable recovery.

That said, it will still be a slow process. Recessions aren't made overnight and no economist with the exception of very few like Nouriel Roubini came even close to predicting our current global meltdown. But as our economic system becomes increasingly interconnected, our governments, corporations and communities as a whole will have to approach recovery with a broader mindset as we define our new normal.

John Caslione speaks on many global business topics, see: [www.meetcaslione.com](http://www.meetcaslione.com)

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