

GORDON REPORT, July 2016 Future Shock Becomes Job Shock

Part I: The U.S. Employment and Talent Situation

As the current state of the U.S. job market is a central focus of the Gordon Report, below is our extrapolation of figures from the U3 Unemployment Report from the Bureau Labor Statistics (BLS) and the A38” Not in the Labor Force” data from Current Population Survey of the Census Bureau.

I. U3 Unemployment Report (Bureau of Labor Statistics)	(Numbers in Thousands)
1. Available Workforce	158.8
2. Number Unemployed	7.8
3. Unemployment Rate	4.9%
II. A38 Not in the Labor Force (Census Bureau)	
A. Age Levels	
1. Retirees (+55)	53,721
2. Aged 16-55)	<u>39,541</u>
TOTAL	93,262
B. Potential Labor Pool	
1. Do Not Want a Job (16-54)	34,982
2. Wants a Job (16-55+)	6,101
3. Discouraged Workers (15-55+)	<u>502</u>
TOTAL	41,585
C. Low Skilled, Weak Work Ethic & Poorly Educated (Estimated)	
	21,000
D. Potential Trainable Workers (B – C)	
	20,000
E. BLS-U3 Officially Unemployed	
	7,800
F. Total Unemployed (D+E)	
	27,800
III. Gordon Unemployment Rate	
Unemployed 27.8 ÷ Available Workforce 158.8 = 17.5%	

Our estimate of “Low Skilled, Weak Work Ethic, and Poorly Educated” people is derived from reports issued by the Organization for Economic Co-operation and Development, and data from the National Assessment of Adult Literacy and the National Assessment of Educational Progress, both conducted by the U.S. Department of Education, and other sources.

In short, the official June U.S. unemployment rate (U3) is 4.9 percent and shows 7.8 million Americans looking for a job. The broadest BLS measure of unemployment (U6) that includes persons marginally attached to the labor force raises the rate to 9.6 percent. However, by combining the U3 and A38 which gives us a broader view of the U.S. labor market, we conclude that about 27.8 million Americans could potentially join the labor force, which would then yield a 17.5 percent unemployment rate.

In June 2016 the U3 Official Unemployment Rate rose from 4.7 percent to 4.9 percent largely because 400,000 more people were unemployed. The average number of weeks people remained unemployed rose from 26.7 to 27.7. The proportion of those unemployed for over 6 months rose to 25.8 percent; 94.5 million people have given up looking for work and are classified as “Not in the Workforce”. In a correction from the previously reported figure, the BLS indicated that businesses added only 11,000 jobs in May, the weakest level of hiring since September 2010.

Yet many of the district reports in the Federal Reserve Beige Book issued on July 13 stated that businesses are reporting having difficulty filling job openings and that wages are increasing modestly in areas where the labor market is tight. The May “Small Business Trends Report” issued by the National Federation of Independent Businesses found that 48 percent of the companies surveyed reported finding few or no qualified applicants.

Part II: “Job Shock” Adds to “Future Shock”

Alvin Toffler, the celebrated author of *Future Shock* (1970) died recently. His best-selling books also included *The Third Wave* (1980) and *Powershift* (1990). They all contended that people and institutions would suffer from “information overload” as the growth of science, the internet, and communication technologies would lead to an overwhelming pace of change. Toffler’s basic message was knowledge, not just “clicking for brains”, would become the most important economic resource of advanced societies.

Today “Job Shock” is taking its place alongside “Future Shock”. A June press release from the outplacement company, Challenger, Gray, and Christmas, has the headline, “Is the Labor Force Running out of Labor?” A *Bloomberg Businessweek* article asks “Has America Run Out of Workers to Fill Its Open Jobs?” (June 8, 2016).

Our estimated unemployment rate of 17.5 percent indicates that over 27 million people are available for the U.S. workforce. Today’s “Job Shock” is the gap between the demand for skilled labor and the available supply of skilled workers. It is a prime mover of the populist revolt in the current Presidential campaign.

“Job Shock” is among the factors moving some of the heads of America’s largest public corporations and investment firms to openly advocate for change in corporate governance principles stating that this “is critical to economic growth and a better financial future for American workers, retirees, and investors.” In a full-page advertisement in the *Wall Street Journal*, *New York Times* and *Financial Times* (July 21, 2016), Warren Buffet, Jeff Immelt, Jamie Dimon and other prominent senior executives subscribed to the contention that financial markets “have become too obsessed with quarterly earnings forecasts.” The website that further

explicates their stance states, “Making short-term decisions to beat guidance (or any performance benchmark) is likely to be value destructive in the long run.”

Investment for the long-term would help curtail the on-going negative behaviors of continuing stock buybacks, huge executive bonuses, perpetual cost-cutting, and merger and acquisition activity that only benefits a few. It has the potential of encouraging businesses to refocus on investing in plants, equipment, research, and the training/development and education of employees as knowledge workers.

The Gordon Report has long argued that global/U.S. business strategic workforce planning requires a balance between short-term and long-term investment. We continue to propose that the business community join us in urging the Financial Standards Accounting Board to revise its accounting standards to give publicly-held U.S. companies the option of capitalizing rather than expensing their investments in training and development, education, internships and apprenticeships.

Business participation in partnerships encompassing educational institutions, economic development agencies, and community non-profits is vital for successful initiatives that build an American knowledge-based economy. Toffler believed that such knowledge creation was mandatory for expanding the pool of appropriately skilled people across the United States. He warned that people and institutions that failed to keep pace with knowledge growth faced ruin.

Edward E. Gordon is the president of Imperial Consulting Corporation (www.imperialcorp.com). His latest book is *Future Jobs: Solving the Employment and Skills Crisis* (Praeger, 2013) which is a 2015 Independent Publishers Book Award winner.