

**1:1000**

**By**

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U.S unemployment exceeded the double digit mark for the first time once again since Paul Volcker's disinflation. It currently stands slightly above 10%, meaning for every 100 Americans, 10 are unemployed, provided they reported their state of employment. The Dow Jones Industrial Average (DJIA), upon hearing the news, rose above 10,000. As if the 30 large global companies that make up the stock index cheered in unison because they could hire fewer people. For each percent of American unemployment, the DJIA is worth 1000 points. The ratio of unemployment to DJIA is 1:1000.

Given the rising awareness of energy alternatives, in all time horizons, but for unanticipated exogenous shocks such as natural disasters or terrorist events, as the economy transitions over the course of the next decade to ever lower dependence on energy imports such as oil and gas that are priced globally, inflation is no longer an issue. In fact, if energy self-sufficiency is achieved, the war on inflation that began under Gerald Ford and Alan Greenspan can be considered to have been won for the foreseeable future. Inflation will have been whipped, similar to France but not the French way.

What remains, therefore, is the looming threat of deflation if either the inability or the willingness or both of people to spend rises to a tipping point *in the immediate term* because of the unemployment level, unusual for both the government and the markets in the United States unlike in Europe or elsewhere. A precipitous trend decrease in consumption is hard to recover from and can complicate matters for the longer term.

The specter of a rising, global and outward-looking Dow against falling employment and employability of Americans should be an enormous cause of concern for the government. At stake is not just the fulfillment of the mandate of the Federal Reserve but social stability. The Federal Reserve makes monetary policy and regulatory rules per the Federal Reserve Act (FRA) but not financial regulatory policy, trade policy, exchange rate policy, energy policy or health policy or, simply put, nothing outside monetary policy. This is a job for the elected representatives to make and for the respective government agencies to implement.

Why the banks, which are being nursed back to health by the extraordinary monetary easing, not investing domestically to create jobs should be at the forefront of thinking about how the government is regulating the financial markets. The jobless recovery cannot and should not be positively explained as “hysteresis” or normatively as the need to get used to as a country to a higher level of structural unemployment as in Europe and elsewhere. For the government to literally do nothing besides keeping the monetary spigots open and even those with little regard for what is being done with the money could eventually bring growth back and avert a deflation, following a circuitous global cycle of dollars, with the economy, in the interim, on the life support of the cheap dollar-fueled exports.

The government, however, may not be able to contain social instability and the deterioration of the society into a state of cultural dysfunction. The despondency and malaise of the Carter years will return but without the stagflation, because global energy prices would still be low if Americans do not buy as much, given that the American economy is a quarter to a third of the global economy and close to 70% of the U.S economy is American consumption.

The Fed would have done its job sustaining the global economy by balancing it on the knife’s edge of stagflation and deflation, even though the unwelcome short-run Phillips Curve is at play, containing the rise of inflation with higher unemployment. However, the society will have failed itself. The way out of it could be long and painful on its own, unless the society and its government willingly made that choice due to complacency and an utter lack of political will, lest it unfortunately become a Hobson’s choice in spite of best intentions but poor policy responses.

The wagon of anemic-dollar driven exports that are predicated on the willingness of others to consume more than they ever have, the most uncertain of all the economic variables, cannot pull the American horse.

We cannot expect to keep on changing the world unless we first change ourselves.