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Something to Think About

OAKWORTH CAPITAL BANK

COMMON CENTS

My brother-in-law absolutely loves the movie "***Dr. Strangelove or: How I Learned to Stop Worrying and Love the Bomb.***" I like it too, but not quite as much as he does. Even so, while much of the humor still holds up today, or should, the younger generations probably get a little lost in the whole Cold War aspect of the film.

Really? You were that worried about the Russians?

To people born since 1990, that doesn't really compute. Yeah, I suppose Moscow has been horsing around in the Ukraine, giving the rest of Europe the fits in the process. However, historically, that is what the Russians do: bully the Ukrainians, fight the Turks and Poles from time to time, and impose their will on the poor unfortunates in the Caucasus Mountains region. Couple that with the desire for a warm water port, and you basically have about 400 years of Russian foreign policy right there in a nutshell, save about 70 years last century. It is in their nature.

Now, in the movie, there is this exchange between Gen. Jack D. Ripper and Mandrake:

> General Jack D. Ripper: Mandrake, do you recall what Clemenceau once said about war?
>
> Group Capt. Lionel Mandrake: No, I don't think I do, sir, no.
>
> General Jack D. Ripper: He said war was too important to be left to the generals. When he said that, 50 years ago, he might have been right. But today, war is too important to be left to politicians. They have neither the time, the training, nor the inclination for strategic thought. I can no longer sit back and allow Communist infiltration, Communist indoctrination, Communist subversion and the international Communist conspiracy to sap and impurify all of our precious bodily [humors].

I love that line: "war was too important to be left to the generals." What Georges Clemenceau actually said was: "La guerre! C'est une chose trop grave pour la confier à des militaires." This translates best as: "War is too serious a matter to entrust to military men." However, the meaning remains basically the same, and we should all understand it.

With this in mind, this week a whole host of the supposed greatest economic minds on the planet have descended on Jackson, Wyoming to discuss this years topic: "Re-Evaluating Labor Market Dynamics." Trust me, I think it fair to say the investment markets have been waiting for this with some amount of baited breath for the last fortnight. Just what is Yellen going to say? Or Draghi? What are the monetary policy implications? What does that mean to a stagnating middle class in the developed world? The wringing of hands and gnashing of

Inside this issue:

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Georges Clemenceau

Something to Think About Cont.

teeth! The tension is palpable.

After a welcoming reception and dinner last night, the august group of attendees will sit through the following agenda over the next two days:

The topic for this year's event is "Re-Evaluating Labor Market Dynamics." Here's the rest of this year's agenda (Times in EDT):

Friday, August 22, 2014

10:00 AM Opening Remarks, Janet Yellen, Chair, Federal Reserve Board

10:30 AM Churn and the Functioning of Labor Markets

Authors: Steven Davis, University of Chicago and John Haltiwanger, University of Maryland

Discussant: Richard Rogerson, Princeton University

11:05 AM General Discussion

11:30 AM Job Polarization

Author: David Autor, Professor, MIT

12:15 PM Job Polarization Discussant

Discussant: Lisa Lynch, Professor, Brandeis University

12:30 PM General Discussion

12:55 PM Panel on Demographics

Panelist: Karen Eggleston, Stanford University

Panelist: David Lam, University of Michigan

Panelist: Ronald Lee, University of California, Berkeley

1:55 PM General Discussion

2:30 PM Luncheon Address, Mario Draghi, President, European Central Bank

4:00 PM Adjournment

Saturday, August 23, 2014

10:00 AM Scars from the Crisis

Author: Till Marco Von Wachter, University of California, Los Angeles

10:35 AM General Discussion

11:00 AM Wage Dynamics

Author: Giuseppe Bertola, EDHEC School of Business

11:45 AM Wage Dynamics Discussant

Discussant: Mark Bils, University of Rochester

12:00 PM General Discussion

12:25 PM Overview Panel: Labor Markets and Monetary Policy

Something to Think About Cont.

Panelist: Ben Broadbent, Deputy Governor, Monetary Policy, Bank of England

Panelist: Haruhiko Huroda, Governor, Bank of Japan

Panelist: Alexandre Antonio Tombini, Governor, Central Bank of Brazil

1:25 PM General Discussion

2:15 PM Luncheon

4:00 PM Adjournment

9:00 PM Closing Reception and Dinner

Whew. That is some brainy stuff, and those are some heavy hitters, huh? Suffice it to say, the dissemination of lofty thought will be robust, and I am certain the discussion will tax the cerebral vortex of all in attendance. However, I have noticed something about this agenda, this very important symposium on the health of the global labor markets. I mean that is what this whole meeting is all about: "Re-Evaluating Labor Market Dynamics."

Do you care to guess what I have noticed, and I bet more than one person reading this has as well? That's right, the omission, intentional or not, of….drum roll please….any actual employers! Shoot, any folks from outside of central banking and academia, which are essentially the same thing! From what I can tell, this is a bunch of academics discussing relatively abstract theory, many of whom have the ability and authority to impact the economic lives of literally billions of people. The topic? The labor markets. The rub? No one from the private sector there to discuss such things. Whew.

It is almost like getting the Deans of every business school in the country to set policy on how to improve the quality of football at the collegiate level, and not inviting the athletic directors...let alone the coaches. Shoot, I bet they already do that.

While the conference attendees debate which financial levers to pull to maximize worker productivity and employment, employers throughout the world know what they really need: 1) the rule of law, and it doesn't matter what the law is as long as it doesn't change, and; 2) the development of human capital, if the public sector is charged with developing the workforce, then do it effectively, and; 3) the build out and maintenance, key, of the necessary economic infrastructure. Again, if the public sector is charging with building it, then do it effectively, and; 4) coherent tax policies, and; 5) the effective enforcement of already existing laws and regulations, as opposed to the endless creation of new ones, and; 6) more efficient government, as opposed to just more government, and; 7) robust enforcement of property rights, including those of creditors, which are not subject to the whims of current or contemporary social or political agendas.

Disclosure

Something to Think About Cont.

If you want to do something about the long-term health of the labor markets, tackle those things first. Quantitative easing? Raising the overnight lending target, bank reserves, and margin requirements? Hey, those are all great tools to ensure the "correct" amount of liquidity in the banking system, which fuels economic growth to be sure. However, these are short-term policy machinations which don't really address the core of the matter.

But, that isn't what central banks are supposed to do? Right? How can the Federal Reserve affect such things? Perhaps you have a point there, and consider this from the Chicago Fed:

> On January 25, 2012, the Federal Open Market Committee (FOMC) released the principles (external) regarding its longer-run goals and monetary policy strategy.
>
> "...Communicating this inflation goal clearly to the public helps keep longer-term inflation expectations firmly anchored, thereby fostering price stability and moderate long-term interest rates and enhancing the Committee's ability to promote maximum employment in the face of significant economic disturbances.
>
> The maximum level of employment is largely determined by nonmonetary factors that affect the structure and dynamics of the labor market. These factors may change over time and may not be directly measurable. Consequently, it would not be appropriate to specify a fixed goal for employment; rather, the Committee's policy decisions must be informed by assessments of the maximum level of employment, recognizing that such assessments are necessarily uncertain and subject to revision."

Okay; if "the maximum level of employment is largely determined by nonmonetary factors that affect the structure and dynamics of the labor market," why then does the Fed have the so-called dual mandate to: *"The Board of Governors of the Federal Reserve System and the Federal Open Market Committee shall maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, <u>so as to promote effectively the goals of maximum employment</u>, stable prices and moderate long-term interest rates."*

It doesn't compute. If the Fed is to promote effectively the goals of maximum employment, but, by its own admission, the maximum level of employment is largely determined by nonmonetary factors, why….um...err...just what in the heck are they doing again? Those two lines (that sentence from first paragraph and the first one from the second) pretty much negate each other, just like the old joke about economists does: "one the hand, but, then again, on the other hand." It is doublespeak at its best. Further, why, then, are all the primary monetary authorities from around the planet meeting in Wyoming to discuss: ""Re-Evaluating Labor Market Dynamics," when nonmonetary factors affect the structure and dynamics of the labor market.

Okay, I understand I am pushing at straws, making mountains out of molehills, and arguably misconstruing or otherwise misinterpreting the Fed's mandate to "promote effectively the goals of maximum employment." There is little argument. However, just as Georges Clemenceau said "War is too serious a matter to entrust to military men," and while I am no Clemenceau, I would have to say **<u>"economics is too serious a matter to entrust to economists."</u>**

However, that is what we have seemed to have done, and the investment world's preoccupation with Fed meetings, minutes, speeches, and the like seems to prove this. As an economy, we need to move past this, and start focusing on things that matter longer-term….that is in order to get anything truly meaningful accomplish and produce some actual wealth.