Written by Bob Adelmann on June 24, 2011

McKinsey Report: Unemployment to Stay High for Ten Years

Even under the “high-job-growth” scenario offered by the McKinsey Global Institute (MGI), it will take ten years for the U.S. economy to generate the 21 million new jobs necessary to rehire the current unemployed as well as new entrants to the workforce. And the unemployment rate would still be at 5 percent.

MGI is an offshoot of McKinsey & Company’s business and economics research firm and offers its study of long-term macroeconomic trends to help senior business managers in the decision-making process. The study’s results are grim, its conclusions are valid, and its recommendations are wide of the mark.

MGI estimates that 7 million jobs were lost since the start of the Great Recession in December, 2007, that one in five men are not working today, that 1.8 million jobs weren’t created due to the huge drop in new business creation, and that the present “jobless recovery” is likely to last at least another five years, if not longer.

The primary problem, according to MGI, is that the jobs that were lost during the recession aren’t going to come back, and that any jobs that will be created in the future will require skills that the current out-of-work population cannot provide. Those actively looking for work, furthermore, may have college degrees in fields of study that are irrelevant to the needs of business today. The authors note that “too few Americans who attend college and vocational schools choose fields of study that will give them the specific skills that employers are seeking. ” They added:

> Many are not obtaining the skills that will be most in demand…In this decade, the United States will produce twice as many graduates in social sciences and business as in science, technology, engineering and mathematics — the STEM jobs — [thus] exacerbating the shortage of qualified candidates for the technical jobs [that will become available].
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> In our survey, 64 percent of companies reported having positions [open now] for which they often cannot find qualified applicants, with management, scientists and computer engineers topping the list.

So far, so good. What appears to be needed is a huge supply of workers with skill sets devoted to and focused on the needs of growing high-tech companies. MGI loses its way, however, when it suggests that the best thing to do would be for the government to focus more of its financial efforts (student loans, scholarships and other incentives) toward those needs. MGI, in its high-job-growth scenario, says that “health care is pivotal, with the potential to create more than 5 million new jobs [over the next ten years]. This would stem from rising demand from the aging population and the addition of millions of newly insured Americans [under Obamacare] to the health care system. " The government should "slow the rate of manufacturing losses" by supporting efforts to bring back jobs that were outsourced overseas. This could result in adding another 6 million jobs. And a rebound in housing and consumer demand "could add a total of 3 million jobs in construction and retail. "

In other words, MGI is persuaded that the best thing for growing jobs would be more government incentives more narrowly focused at the perceived needs of business in the years to come. According to MGI, without such additional incentives and guidance, there is no way that the economy can grow fast enough to put those 21 million people to work.

Lew Rockwell, writing for his website LewRockwell.com, offers a very different approach:

> All this talk of unemployment is preposterous. Think of it. We live in a world with lots of imperfections, things that need to be done. It has always been so and always will be so. That means that there is work to be done, and therefore, always jobs.
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> The problem of unemployment is a problem of [the] disconnect between those who would work and those who would hire.

This disconnect is "affordability. " It is simply too costly for businesses to hire in today's environment. Consider these barriers that government has erected which impede hiring:

1. Minimum wage laws
2. Payroll taxes
3. Laws that threaten sanctions if a worker is ever fired
4. Unemployment insurance premiums
5. Costs involved in starting up and running a business, including licenses, educational requirements, labor law enforcement, government-required disclosures, health insurance premiums and other mandates.

For example, a closer look at minimum wage laws illustrates the impossibility of being able to hire all those who may be looking for work. As explained by economist Murray Rothbard:

> In truth, there is only one way to regard a minimum wage law: it is *compulsory unemployment*, period. The law says: it is illegal, and therefore criminal, for anyone to hire anyone else below the level of X dollars an hour. This means, plainly and simply, that a large number of free and voluntary wage contracts are now outlawed and hence that there will be a large amount of unemployment.

The missing ingredient in the recommendations offered by MGI in its study is any belief that the free market would solve employment problems without "assistance" from government. If a worker is seeking work but isn't qualified for a particular position, he has at least two options open to him: get qualified, or look elsewhere. If an employer wants to hire, but can't find anyone qualified, he can offer to train the job seeker, or look elsewhere for someone who is qualified. The free market would respond to those needs if it is simply left alone. As Rockwell notes, "Read any account of economic history from the late Middle Ages through the 19th century and try to find any evidence of the existence of unemployment. You won't find it. Why is that? Because long-term unemployment is a fixture of the modern world created by the interventionist state. " He concludes:

> So it is hard for me to take seriously all the…plans for ramping up intervention in the name of curing unemployment. There is no involuntary unemployment in a free market, because there is always work to be done in this world.

The MGI study has performed a useful service nevertheless by illustrating the impact of years of statist intervention into the free market. The last thing that is needed to cure the problem is more of what caused it in the first place.