

## The Tonge Telegraph October 2004

### Jobs, Oil and the Fed

Some of these Telegrams to you evolve from conversations I have had with clients or colleagues. Much recent discussion has been about jobs. In brief: capitalism = jobs. When you have a job you can pay your bills. If you have some money left over, you save it, invest it, or spend it—and the wheels of the capitalist economy turn.

Basic jobs are leaving the United States, a long-standing phenomenon. Some policies--like tax credits--can help stem the flow of jobs, but the leakage is not going to stop. Basic manufacturing is less expensive in less-developed countries because the labor costs are lower.

New England's growth and prosperity were defined by the textile industry, now all but gone. These companies weren't mismanaged or plundered by their executives. It simply became impossible to pay a living wage and still get the product to market at a price that competes with foreign labor. There is no way we can afford to have these jobs in this country. They are gone, and they're not likely to come back.

Still, overall our economy has grown, our standard of living has grown, and we have a different economic scenario in front of us than the one that is behind us. The town that has lost a mill, like the country as a whole, needs to pick itself up and move on. Whole new industries—and the jobs that come with them--have emerged in the last 15 years. This nation has an entrepreneurial spirit second to none, and we will move forward and prosper regardless of the outcome of this presidential election or the next or the one after that. Many of the jobs people will hold 10 years from now will be in industries that we can barely imagine. We are changing, our economy is changing, and the future is ours to invent.

Now: about oil and the Fed. Oil, essential to all industrial economies, just climbed above \$50 per barrel, which is way too high. Demand always rises. And supply problems abound just now for a variety of geopolitical reasons. The pressures on the supply side will moderate and the price should move back towards \$35 per barrel eventually. The effect on the economy will be as strikingly positive as it is now depressingly negative.

The Federal Reserve has raised rates to combat inflation and a potentially excessive growth rate. In short, the Fed is doing its job. Higher interest rates have two especially visible results: negative, in that borrowing is more expensive; positive, because it wouldn't happen if the economy were not on the rise. Six months or so from now, in spite of our hopes, we could see the economy falter again. Nothing on the horizon makes me think this will happen. But I'll keep my eyes peeled—and my ears open in those conversations I mentioned at the outset.