NIGHTLY BUSINESS REPORT

THE PROGRAM

Transcripts

Print This Story Email This Story

Help Wanted-Professor Ken Rogoff of Harvard University and Anthony Chan of JP Morgan

Monday, September 06, 2010

SUSIE GHARIB: As Suzanne mentioned, some economists think unemployment could stay stubbornly high for another two years or so. To get a better picture on the labor market and what can be done to fix it, I spoke with economics Professor Ken Rogoff of Harvard University and Anthony Chan, chief economist at JPMorgan's private bank. I began by asking Anthony, how long will it take for the job market to recover?

ANTHONY CHAN, CHIEF ECONOMIST, J.P. MORGAN'S PRIVATE BANKING: I think it's going to take quite a while for the unemployment rate to come down. The real secret to bringing this unemployment rate down is to grow the economy faster than the speed limit and the speed limit is to find of course the potential growth. And if you believe that potential growth is somewhere in the neighborhood of 2.5 to 3 percent, and the economy is growing below that, then we're not going to make much progress perhaps until next year when we may see the economy growing in that neighborhood of 2.5 to 3 percent. Even that is somewhat questionable at this point when we're just coming off an economic calendar quarter of only 1 .6 percent growth.

GHARIB: Ken, what do you think? When do you think the economy is going to recover and what is your reaction to what Anthony is saying about potential growth?

KENNETH ROGOFF, ECONOMICS PROF., HARVARD UNIVERSITY: I think he's spot on. I think we're looking at sort of at best, normal or a bit of above normal growth, but that just covers the new entrants to the labor force. Normally after a recession, you go down like we did, you go up really fast and people pick up their jobs again. It's not happening. I think it's going to take many, many years. We have a credit (INAUDIBLE) that we have to absorb and frankly, there are major transformations in the economy across different sectors that are just going to take time.

GHARIB: What are the options available to whether it's the government or the Federal Reserve to stimulate growth? Anthony, you first. CHAN: I think that there are still some options. The problem with the options are that they are losing some of their potency. The Federal Reserve certainly has outlined some possibilities of more quantitative easing of course on the fiscal policy front, more fiscal stimulus. The problem, however, is that monetary policy still hasn't gotten the job done and neither has fiscal policy. And so the hope is that by doing more of it, we make some progress, but if the past is any indication, what we can expect in the future, we would at least have to expect that the potency of future policy is quite limited at this point.

GHARIB: Certainly Ken, we have heard from the Fed Chairman Bernanke about the options available to him. But we also know that we're coming into the mid-term elections and there's not much appetite in Congress for any new spending plans or any kind of big bold job creation plans. So what do you see as options that would be available to pick up some job hiring?

ROGOFF: Well, there's certainly a gridlock in Congress. And I think the job situation for the November election is baked in the cake at this point. We're really thinking, what's going to happen after this? What's going to happen in the next couple of years? I don't think there's that much that can be done with fiscal policy, although they can invest in infrastructure projects. We need them. They can transfer money to state and local governments that can't borrow. They can extend unemployment insurance. I'm afraid the Fed is going to end up carrying a lot more of the weight than they wish they would. They wish they didn't have to, but I think as Anthony said, they're going to end up intervening in credit markets, making more loans than they'd like to and they're going to probably, I think, end up with a much more aggressive interest rate policy, even trying to raise inflation at some point. Bernanke outlined it. Some missed it, but I bet he's going to be coming back to it next year.

GHARIB: Let's look ahead to next year at this time. Where do you see the unemployment rate on Labor Day 2011? Anthony?

CHAN: Well, I actually -- I'm somewhat optimistic, even though I would say cautiously optimistic. I think the unemployment rate will be heading towards 10 percent in the not too distant future and then by next Labor Day, I think if economic growth picks up even just slightly above that potential growth barrier, then we may see the unemployment rate coming back down to say 9.3 to 9.5 percent. So even though it seems cautiously optimistic relative to where we are today, it's not a great story.

GHARIB: Ken, where do you see the unemployment rate in 2011?

ROGOFF: Well, not over 9 percent. We had 4 percent when this started. That's grim and I'm afraid it's realistic. I don't think we're going to be much better than that. I think we'll come down maybe a half, three quarters of a percent a year, gradually inching down, but land at a higher level than we started, more like 6.5 or 7 percent.

GHARIB: As both of you said, it's a long road to recovery. Thank you so much for coming on the program and I hope you have a great holiday weekend.

ROGOFF: Thank you, same to you.