



## US Job Growth and the Turmoil in Markets and in Europe

*Michael Mussa assesses the latest US employment numbers and the potential effects of the chaos surrounding Europe and Greece.*

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Steve Weisman: The financial markets have been in some turmoil but the job picture seems to be improving in the United States. Yet there is a shadow from Europe cast by the confusion and chaos over Greece. What better time to talk to Michael Mussa, senior fellow at the Peterson Institute for International Economics? This is Steve Weisman at the Institute. Mike, thanks for joining me.

Michael Mussa: My pleasure again.

Steve Weisman: Let's start with employment information, which has come out on Friday, May 7. What do we make of it?

Michael Mussa: It's a very positive monthly report on the labor market and the first very positive report we've had since well before the recession started. We knew before the announcement that it would be quite positive because they announced around 6:00 this morning that President Obama personally would discuss the employment report. And that's always a sign, when the president is going upfront, that it's good news.

Steve Weisman: It's a leading indicator.

Michael Mussa: Exactly. So the monthly report for April indicated a total payroll jobs gain of 290,000, with only about 66,000 of that [being] the temporary census workers. The rest of it came mainly from a gain in private sector employment. And the employment numbers for both February and March were revised up another 120,000. So according to that measure, job gains since the beginning of the year are now over half a million. And according to the other survey, the household survey, there are more in the order of 1.5 million. So this is the first indication we've had, particularly in the establishment survey, that job creation is beginning again on a significant scale.

Steve Weisman: And the only downside has been that the unemployment number upticked a little bit because more people are looking for jobs.

Michael Mussa: Yes, people leave the labor force when they're not only unemployed but when they don't think they can really find a job. They may go back to school or they're just housewives and what have you. And in a deep recession, there are a lot of people who leave the labor force. When the unemployment rate goes down because a lot of people leave the labor force, that's a bad sign. Correspondingly, when the unemployment rate goes up because a lot of people think, "ah, more jobs are available," and they begin looking for work again, that is on the whole a positive sign.

Steve Weisman: But all is not well in the rest of the world. The American financial markets—or stock market—have been responding with considerable volatility. Let's look at Europe. How worried should we be in the United States that this uncertain situation over Greece is going to affect the economies of the rest of the world?

Michael Mussa: Greece is clearly in a very tough economic situation. The government effectively cannot borrow any more from private markets. They're going to need to rely on the official financing to roll over their existing debt and for any new borrowing that they will undertake. And they need to cut back sharply on government spending and raise taxes in order to put their fiscal situation into a more sustainable position over the next year or two. And that's going to be negative for economic growth this year and probably next year. Obviously, people are not unhappy about the implied reduction in real living standards that these adjustments will necessitate.

Steve Weisman: You mean they are unhappy.

Michael Mussa: They are unhappy. Yes, indeed. And then on top of that, you get the usual soccer hoodlums and so forth and anarchists who just like to create trouble. So it's almost always in these things that there's a group of peaceful demonstrators who are expressing their displeasure with their government, which is an important democratic right and ritual, and then there are a few crazies who just want to cause trouble.

Steve Weisman: But in spite of the violence in Greece this week, it does appear that the Greek parliament and the Greek citizens are going to go down this road.

Michael Mussa: Well, they really have—

Steve Weisman: —no choice.

Michael Mussa: No choice. I mean nobody is going to lend them any more money to maintain their present level of spending. So the international support package can help them roll over what they've already borrowed but the people, the Europeans and the IMF, are not going to make them a gift. These are loans they're going to have to repay. And so there's really no alternative but to cut back.

Steve Weisman: But even if they cut back and lower their standard of living, there's a question about whether their debts are so high that they're unsustainable and there has to be a debt restructuring. Is that what the markets are reacting to?

Michael Mussa: I think the markets are reacting probably to three things. One, the worry that the Greek government may not actually be able to implement the measures, even though it's now passed them through the parliament. Second is the concern that even if implemented, what's feasible is not going to be enough to avoid a significant debt restructuring a couple of years down the road. And so the creditors who hold those bonds are understandably nervous about that. And third, and perhaps most important in terms of the more general financial market reaction, the worry that this is going to spread to some other European countries—Portugal and Spain and Ireland, perhaps Italy—which are much bigger than Greece [and are] in fundamentally better condition.

But if these problems were to spread to these other countries and they, too, had to adopt very aggressive fiscal consolidation plans, then that would be a much more important economic problem. And if they couldn't maintain market confidence by the adoption of these programs, then the situation could be even worse involving big problems, particularly for European banks. So it's the worry the crisis will spread that is, I think, probably the most important reason why global financial markets have reacted as they have. Greece alone is not enough.

Steve Weisman: What should we do to avert that prospect of it spreading? Should we just watch and wait for a while or as some advocate, maybe somehow negotiating or bringing about that debt restructuring now rather than waiting six months or a year?

Michael Mussa: I think doing a debt restructuring for Greece now is really not the right answer. How much of a restructuring will be needed, if one is needed at all—and I don't exclude it by any means—depends upon how much they can really achieve on the fiscal side. We just don't know the answer to that. What you do not want to do is to have a debt restructuring now and then have people think that in another year or two, you're going to have to come back and do another one.

Steve Weisman: Will the markets be patient enough to wait for things to settle down and for Greece to embark on this new path?

Michael Mussa: As far as Greece is concerned, they don't really have any alternative if the Greek debt, which is maturing this year and next year, is going to be paid out of the official money. And the Greek debt that matures after that, well, it's out there. I mean they can trade it amongst themselves but the Greek government isn't obligated to buy it back until the maturity date comes. So they'll have to pay the interest on the debt that's still outstanding and they'll have to roll over into this official borrowing line, the debt that is coming due. But the rest of it, the market price will decline and the market yield based on the secondary market price will be high, but it's not having any direct effect on the Greek budget because that debt has already been issued and its interest rate at par value is fixed.

As far as the other countries are concerned, there is the worry. But probably if you did a restructuring now, the worry would then be, well, restructuring is imminent for the others, too, so I think it'll probably make that situation worse rather than better. Better to wait if a restructuring is ultimately needed and do it at a time when the situation hopefully is more calm elsewhere in Europe—Europe has recovered, the banks are in better shape to deal with the effects of a restructuring, and you have a better idea of how much of a restructuring is really going to be needed.

Steve Weisman: What would you guess, having been inside government for many years, is the attitude that policymakers in the United States have right now watching this situation in Europe? Either Bernanke, the Fed chairman, or Treasury Secretary Geithner—they're looking at a recovery in the United States, what advice, if any, are they giving to Europe?

Michael Mussa: I think it's pretty clear that Secretary Geithner, and probably Chairman Bernanke—though he's been less vocal about this—wish the Europeans had acted more forcefully at an earlier stage to confront the Greek problem, arranged the support package and so forth; that the delay in getting that done and the doubts about it have allowed the thing to snowball.

That said, I mean in virtually any country, you don't act until the last minute. You may recall that the first time they put up the Troubled Asset Relief Program (TARP) for congressional vote, it got voted down because people really didn't like the notion of a bailout even if it was necessary. Well, the Europeans have even worse problems because you've got 16 different governments—including the Greeks of course, they have to do their part of it—to get on board. There's no sort of prearranged way of doing that in Europe. And it has appeared a bit disorganized and that has not been reassuring.

Steve Weisman: So to conclude, do you think crossing your fingers that the US recovery is on course at least for the next year or so?

Michael Mussa: That continues to be my view. I think that the recent behavior in the markets is an overreaction to the situation in Greece and the worries about it spreading. But there currently is something to worry about but financial markets have a very long history of overreacting—

Steve Weisman: It's in their nature.

Michael Mussa: Yes, and sometimes it's their function. But when it's recognized that it's not all smoke, there is some fire there and if those flames get stimulated sufficiently, we could have a larger problem that will affect the United States. Now of course some US firms are affected because our multinationals operate in Europe and they export to Europe and so forth, so the big multinational firms are more affected by developments in Europe than the US economy as a whole is.

Steve Weisman: Mike, thanks.

Michael Mussa: You're welcome.

