Forget the Deficits!

"Fair, Not Balanced" by James K. Galbraith, in *Mother Jones* (July–Aug. 2005), 222 Sutter St., Ste. 600, San Francisco, Calif. 94108.

It's been quite a spectacle to see leading Democrats such as New York senator Hillary Clinton take up the cause of the deficit hawks. It's not only bad politics for the Democrats but bad economics, argues Galbraith, an economist at the University of Texas at Austin.

"Franklin Roosevelt cured his urge to balance budgets during the early New Deal and spent his way out of the Depression and to victory during World War II," he writes. And many Republicans threw out their green eyeshades long ago. Ronald Reagan's deficits, for example, caused by his large tax cuts in the early 1980s, delivered "a stable recovery and his landslide in 1984." Like Reagan, George W. Bush came into office facing a recession, and his tax cuts and military spending increases followed Reagan's pattern.

The reality, contends Galbraith, is that the budget deficits of recent years could not have been avoided. With the collapse of the 1990s boom, "any president would have cut taxes and raised spending." Deficit spending provided a needed economic stimulus. The problem is that "Bush's tax cuts were skewed to the rich—Republican tax cuts always are."

In principle, however, it's hard to find the downside of running a federal budget deficit, Galbraith maintains. In the early 1960s, many economists said that inflation would be the result—"but there was none then, and apart from oil prices there's little now. Today's experts say 'high interest rates'—yet a recent *New York Times* editorial pronounced long-term rates to be 'abnormally low.' Alongside many economists, Senator Clinton says that deficits crowd out private capital investment. But the investment share of [gross domestic product] is currently a full percentage point above its 60-year average."

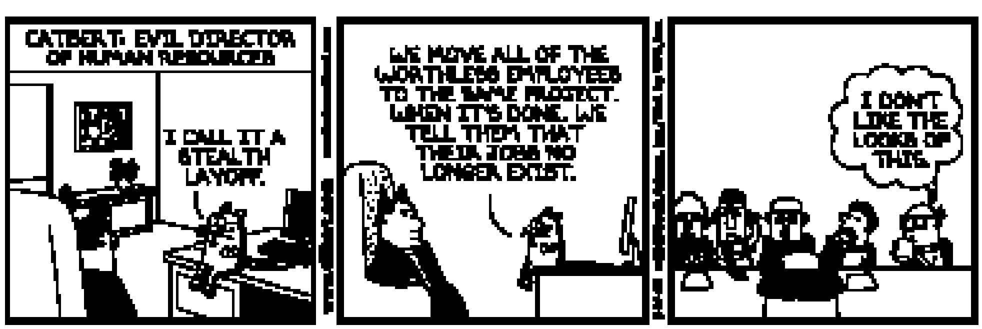
In contrast, Galbraith argues, there's no concealing the downside of immediate tax hikes and spending cuts: "falling living standards, rising poverty, reduced medical care, and perhaps a new recession."

Roll back the Bush tax cuts, Galbraith urges, but don't be afraid to spend more money to deal with the country's urgent problems, such as energy dependence, health care, and homeland security.

The Limits of People Power

"Why We Hate HR" by Keith H. Hammonds, in *Fast Company* (Aug. 2005), 375 Lexington Ave., New York, N.Y. 10017.

In a knowledge economy, smart, creative employees are the key to success, and everybody in corporate America loves to talk about the importance of talent and "human capital." There's only one problem: the human resources department.



"The human-resources trade long ago proved itself, at best, a necessary evil—and, at worst, a dark bureaucratic force that blindly enforces nonsensical rules, resists creativity, and impedes constructive change," argues Hammonds, deputy editor of *Fast Company*.

One reason is that "HR" isn't seen as a promising career path by many ambitious executives. Another is that it attracts those who say they "like to work with people." "Good, go be a social worker," says Arnold Kanarick, former head of HR at The Limited and Bear Stearns: "HR isn't about being a do-gooder. It's about how do you get the best and brightest people and raise the value of the firm."

Creating value ought to be HR's highest goal, contends Hammonds. But "HR pursues efficiency in lieu of value," and it does so chiefly because it's easier to measure. Dave Ulrich, a University of Michigan professor who has become the "best-known guru" in HR, according to Hammonds, complains that corporate HR departments focus on readily quantifiable things such as the number of hours of training employees receive rather than the results of that training. According to Ulrich, the real question is not "What are you doing?" but "What are you delivering?"

HR also forces people into boxes. Its overlords "pursue standardization and uniformity in the face of a workforce that is heterogeneous and complex," charges Hammonds. But "employers keep their best people by acknowledging and rewarding their distinctive performance, not by treating them the same as everyone else."

For years, there's been talk of giving HR a place in the councils of top management. That has happened at some big corporations—including Yahoo, Procter & Gamble, and General Electric—but it's rare. Corporate leaders are partly to blame, but the problem is often a failure of imagination among HR executives themselves, Hammonds believes. They have plenty of technical expertise, but they need to think more creatively about ways to mesh their work with the corporation's larger business strategy and to bring fresh ideas to the table. That's hard to do in itself, notes Lynda Grafton of London Business School, and even harder to execute "because business strategy changes very fast, and it's hard to fiddle around with a compensation strategy or benefits to keep up."

If they don't adapt, Hammonds warns, many HR executives may find themselves writing their own pink slips. HR's technical administrative functions are among the easiest activities for a company to outsource—and 94 percent of large employers say they already consign at least one HR activity to outside contractors.

No Teens Wanted

"The Age Twist in Employment Rates, 2000–2004" by Andrew Sum and Ishwar Khatiwada, with Sheila Palma, in *Challenge* (July–Aug. 2005), M.E. Sharpe, Inc., 80 Business Park Dr., Armonk, N.Y. 10504.

The U.S. economy's lackluster job creation after the Internet bubble popped five years ago has often been noted and bemoaned. What's been missed, though, is the impact the recent rate of job creation has had on one group in particular: teenagers. Between 2000 and 2004, the teen employment rate fell from 45 percent to 36 percent, a record low. The number of employed teenagers was reduced by nearly 1.3 million.

No other age group experienced such a large decline, report Sum, director of Northeastern University's Center for Labor Market Studies, and two colleagues. Hardest hit, after teens, were the twentysomethings, whose employment rate fell by about four percentage points—to 68 percent for those under 25, and to 77 percent for those over 25. Even as America's young disappeared from the workplace, the employment rate rose among people 55 and older. About 27 percent of Americans aged 65 to 69 were drawing paychecks last year, a three-point hike from the level four years earlier. For workers of all ages, the overall employment rate fell only about two points.

Who was filling the jobs that might have gone to teens? Young college gradu-