The **economy** is an organism, not a machine

Confounding the concepts of crisis and transformation as a single phenomenon or "package of thought" creates confusion, inconsistency, and a sense of guessing, fumbling and generally not knowing. The two ideas are related, but quite distinct.

BY MILAN ZELENÝ

The triggers that induce the catharsis of a crisis are often the same triggers that launch qualitative transformation of the economy, business and society at large. A crisis is a cyclical recession or slowdown within the same paradigm—most activities can resume along the same lines after its passing— transformation represents a paradigmatic change in the "way of doing business." With a transformation, things can never return to where they ended, but move toward new standards and quality in a unique and nonrecursive way.

The unrecognized confluence of crisis and transformation is at the core of the old tools not working, old fools making fools of themselves, new tools not being developed yet and new fools—the ones needed most—not being visible or consequential enough to make fools of themselves. In short, we are "in a pickle" and we might not even know it. We have forgotten Thomas Kuhn's theory of scientific revolutions, Schumpeter's "creative destruction," and mostly the enlightened, nonmechanistic microeconomics of Friedrich von Hayek, Oskar Morgenstern and Ludwig von Mises. None of them provides the answers, but they do provide valuable clues to our predicament.

An example of a paradigmatic transformation would be the shift from a geocentric to heliocentric view of the world. Within both views there can be any number of crises, cyclical failures of old and searches for new theories and practices. But there was only one transformation (from geo- to helio-) and there was nothing cyclical about it. It was resisted with all the might of the mighty: remember Galileo Galilei and Giordano Bruno?

While crises are cyclical corrections and adjustments, transformations are evolutionary jumps or revolutions toward new and different levels of existence.

Where are the jobs?

The arena of employment and jobs, especially in the U.S., provides clues to the transformational qualities of the current global crisis. This crisis is intertwined with a transformation, and as a result it displays untypical dynamics and presents new challenges to conventional economic thought and business practice.

Sometimes the clue comes from uninformed and unlearned circles, from new and powerful intuition rather than from well-reasoned, but old and tired arguments. U.S. President Barack Obama started with the promise of "creating" new jobs. After inauguration he corrected that promise to "creating and saving" jobs. After some experience, he proposed "saving and creating." Finally, his promise has morphed into "saving" valuable jobs, thus fighting mightily for all of those who still have one.

There is a reason for this vaguely idiotic politicking. We do not know where the new jobs are, but we do remember where the old ones come from. So Obama ended up with a perfect tautology: What are the valuable jobs we saved? Those that still remain. A tautology can never go wrong; it is a politician's dream. Such job-saving policies can never fail. They also, being just employment bubbles, do not mean much. Any ending of the crisis will be declared to be the result of the U.S. spending billions of dollars of other people's money; and the U.S. can never fail. So goes the conventional governmental wisdom, except it does not apply to the transformation. Obama's tautology rivals the famous tautology of Darwin: only the best adapted species survive. Which are the best adapted species? Those that have survived.

There is a very good reason for such hopeless tautologies: nobody knows how or mainly where to create new jobs. The key lies in exploring the sectoral dynamics of the U.S. economy. Economic sectors evolve, albeit through fluctuations, in one general direction (the so called S-curve): they emerge, expand, plateau, contract and exit—just like any self-organizing system or living organism. We are naturally interested in the percentage of total work force employed in a given sector. The dynamics of this percentage provides a clue where the new jobs might be.

A sector's percentage share of employment changes depends on the sector's productivity growth rate. Agriculture has emerged and disappeared as a source of new employment. Today only a half percent of the work force is employed in U.S. agriculture—the most productive sector of the economy. Not even Obama would propose creating jobs in agriculture. Then industry had emerged, peaked and contracted. Services have emerged and started contracting—all due to incessant productivity growth rates.

A new sector is emerging: government, welfare and unemployment (GWU), based on tax-financed consumption rather than added-value production; it is sheltered from market forces, producing very little.

Can we create jobs in this GWU sector? Of course we can, artificially, at the expense of productive sectors—this is to say, only at our own risk, in an unsustainable way and with low added value. Creating artificial employment bubbles is not a stimulus but a temporary patchwork. Only hyperinflation will bring us down to earth—if we do not do the work of the crisis voluntarily and by ourselves.

The four things humans do

The U.S. economy has now become the most mature in terms of sectoral evolution. It has entered the stage—perhaps as the first economy ever—of declining employment in the service sector. Productivity growth rates are now accelerating in U.S. services and its employment creation or absorption potential is declining rapidly. Accelerating productivity growth rates are dictated by global competition and human striving for better standards of living—they cannot be stopped at will. In the U.S. there are only three areas where new jobs are still being created: education, health care and government. The first two are subject to market forces and will undergo accelerating productivity growth rates and declining employment levels in the near future. The third one, GWU, is sheltered from competition, can expand its share substantially, but it does not produce anything, depends on taxes from other sectors, and its employment growth is unsustainable.

Slowly and imperceptibly, the U.S. economy has shifted toward sectors with lower added value, leading to lower income and increasing reliance on the bubbles of debt. That is a systemic condition that no amount of half-baked regulations and Keynesian or monetarist stimuli—i.e.,