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New and Old in New Macroeconomics

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New and Old in New Macroeconomics

By

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NEW AND OLD (WAR ON HYPOTHESIS).

Old Hypothesis

The old theory of macroeconomics, which have been taught more than a half century is that if **spending** increases, then production increases; thus, *workers are hired* and their income increases. In summary, **an increase in spending is equal to an increase in income**: this process of an increase in spending and an increase in income, which, in turn, increase the spending-the increase in spending is less than an increase in income based on the fact that MPC is less than one- is repeated until its effect disappears.

New Hypothesis

The new theory, which Paul Kim is presenting today is that an increase **in spending does not generate income** *in equal amount*, because workers are not hired even if spending increases. Even there is a need to hire new worker (and

CEO orders to hire new workers in massive scale in high paying jobs), new workers are not hired in high paying jobs because hiring managers are unwilling to hire new workers in massive scale, although they might be pretending to hire new workers. There is disconnect in the firms when a nation reaches to the mature stage (or become very rich). Such activities of pretending hiring workers, but not hiring new workers are called, "activities of redistribution of power and income." Thus, labor immobility is created. Under the new theory, even if there is a need to hire workers on a massive scale, hiring managers in large corporations are unwilling to hire new workers in massive scale, thus creating "immobility of labor." This is a new discovery which was revealed in 2015. This new concept of Labor immobility explains why the GDP does not expand continuously today even there is an enough shock is created to expand the output, but GDP kept fluctuating.

Labor Immobility Definition

This labor immobility concept was discovered originally by case studies which critically illustrate why hiring managers do not hire new workers[1]. Then later the alternative explanation was given by what I called, "Direct Approach[2]." New macroeconomics concept was clearly outlined. Here is an excerpt from the most recent publication (New Macroeconomics by Paul Kim—Google).

In the past, macroeconomics was built for all stages of economic growth as if the nation's stages of economy growth are homogeneous in terms of labor mobility. One must come up with a new model as a nation enters a mature stage like the U.S. During the prosperity period in the U.S. (such as 1995-2006) where labor was highly mobile, the traditional macroeconomics might be applied to

[1] Paul Kim: (See Google), "Right Perspective for U.S. Growth Rate."
[2] Paul Kim: (See Google), "New Macroeconomics."

investigate conditions of an economy. However, during the stagnant period (like 2007-2018), we have to come up with a different model in order to address labor immobility issues; thus, the traditional economic policy cannot be used. Failing to distinguish these two differences between the prosperity period and the stagnant period and applying one traditional macroeconomics to create one kind of economic policy results in failure of the policy.

NEW MACROECONOMICS

Introduction

Growth of the GDP is the central focus of macroeconomics both in the short-run and long run. The most important factor that contributes, to the growth of the GDP is **labor mobility**. This is most obvious for rapidly developing nations partly because of W.A. Lewis' theory of mobilization of labor from rural areas into industrial sectors. When a nation moves into an advanced nation status, labor mobility still plays the major role in achieving rapid economic growth rate such as 3% (to 4%), but many economists were not aware of the importance of high labor mobility issues for an advanced nation because of overemphasis on technological advancement and capital accumulation theory. (Many economists have taken the importance of high labor mobility for an advanced nation for granted: this led to misunderstanding of the issue of economic growth in an advanced nation.) But, once *an advanced nation* reaches a mature stage, labor mobility will no longer be granted status but i*mmobility of labor will become*

major stumbling block to maintain the rapid economic growth rate such as 3 to 4 %. Economists have been slow to understand the issue of labor immobility in advanced nations but kept insisting to have 3 % growth rate in recommending economic policy especially monetary policy.

New Macroeconomics Model

The following new model illustrate the national income determination model with labor mobility factor expressed expressively:

$\Delta y = \Delta D1 \times M (1 - r)$ ...... (1)

Note M = 1/(1-MPC) which is called multiplier. r represents labor immobility factor (or resistance rate) where $0 < r < 1$. When r = 0, labor is highly mobile or labor immobility does not exist; thus, $\Delta y = \Delta D1 \times M$. This is the original Keynesian theory which assumes that there is no labor immobility issue.

In a mature stage of an advanced nation, which is the case for U.S. economy today, labor immobility should be the central issue, although the vast majority of economists are not aware of it today. For example, if r = 0.5 (or ½), the multiplier figure will be reduced to half, thus the effect of an increase in spending on Income or GDP will be cut only to half. In extreme case, if r = 0.9, the effect of an increase in spending on income or GDP will be only 10% (or 0.1) of the change in spending.

NEW THOERY: HISTORY OF DEVIEW

Labor Mobility

Labor mobility is the major factor which impact the productivity of a nation for all stage of economic growth: (a) rapidly developing economy, (b) Advanced

economy (rich nation), and (c) Mature economy. This classification appeared recently in the Climax of Long-Run Economic Growth[3]: the major discovery was that range c called which appears the during the mature stage for an advanced nation, where labor immobility plays the major role causing the economic growth to deteriorate.

Labor immobility issue appears first time when a nation grows successfully through above three stages. The existence of range "c" has been discovered recently and clearly announced in 2016 (The Climax of Long-Run Economic Growth,) although its concept was published in 2015 originally (Right Perspective for the U.S. Economic Growth Rate: Google).

Labor Productivity Curve.

Labor immobility issue was summarized by the equation in the context of Keynesian: $\Delta Y = \Delta D1 \times M\ (1\text{-}r)$. We will show graphical illustration of the above equation below. Note that (1-r) is the key component added to Keynesian theory: r represents the degree of labor immobility or resistance rate, where r is between 0 and 0.9.

When r = 0, workers are hired in full when a firm needs to hire workers in massive scale. If r is near 0.9, rarely any workers are hired even if a firm needs to hire workers in massive scale. The productivity of a nation depends on the labor mobility, which is influenced by activities of redistribution of power and income.[4]

THE THEORY OF LABOR IMMOBILITY

[3] See Paul Kim, " The Climax of Long-Run Economic Growth."

[4] Paul Kim: (See Google), "Right Perspective for U.S. Growth Rate." See also, "Labor Mobility Causes U.S. GDP to Fluctuate."

Now a theory is presented to show the relationship between Labor immobility and labor productivity. This is demonstrated in Figure 1 below: the vertical axis shows labor productivity and the horizontal axis indicates the labor immobility.

The Figure 1 shows that the productivity of a nation depends on the labor mobility. Note that r indicates labor immobility rate (or resistance rate); if r = 0.2, it means the low labor immobility rate, thus labor is highly mobile. On the other hand, if r = 0.8, high labor immobility rate, thus labor is not mobile. Stated alternatively, the low value of r (such as r = 0.2) shows high labor mobility, while the high value of r (such as r = 0.8) indicates low labor mobility.

Figure 1 shows that at point (1) where labor immobility is low indicated by r1, which means labor mobility is high, labor productivity is great (shown as 2.5 %). Then the nation moves to point (2) which shows that labor immobility is high indicated by r2, which means labor mobility is low, labor productivity is low (shown as 1.5 %). In conclusion, labor mobility determines the labor productivity

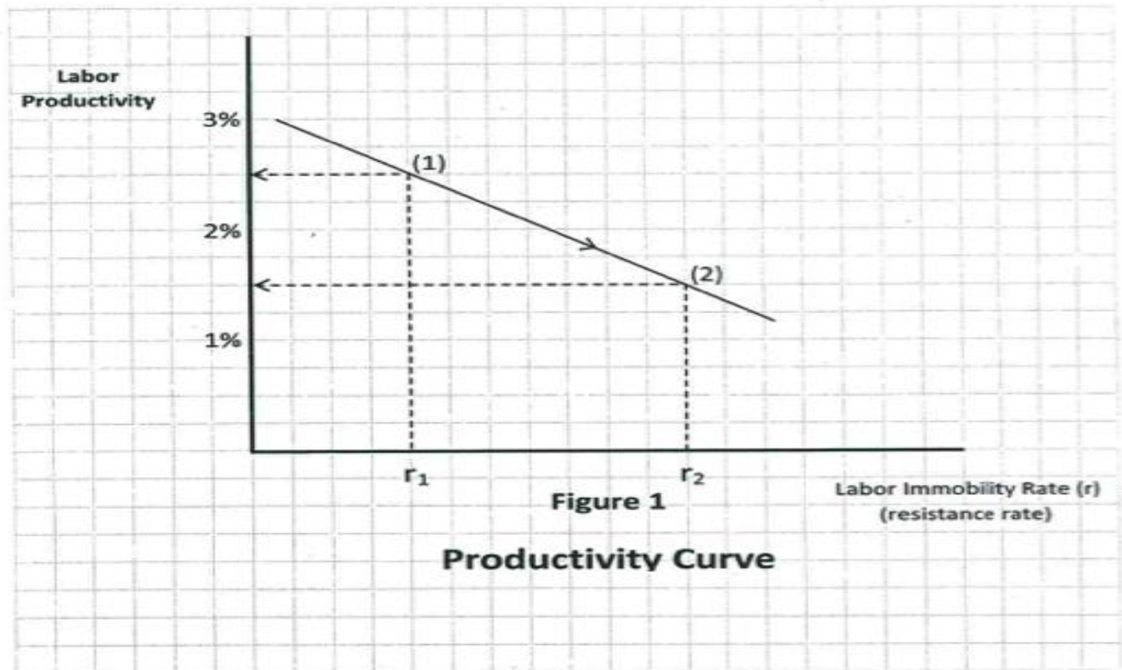

Figure 1

Productivity Curve

Note:

Figure 1 shows the relationship between labor productivity of a nation and labor immobility rate. The labor immobility rate is indicated by r: r_1 indicates low labor immobility rate, which means labor mobility is high. On the other hand, r_2 indicates a higher labor immobility rate, which means a lower labor mobility. Thus, r_1 shows the situation when labor mobility is very high. And r_2 shows labor mobility is very low, meaning that workers are not hired, even if there is a need for hiring workers or a strong demand for workers.

of a nation. Note that during the stagnant period, labor mobility is low or labor immobility is high, while during the prosperity period, labor mobility is high or labor immobility is low.

Next, we will look at the relationship between labor mobility and the productivity of a nation.

Economic Research on Labor Mobility and labor productivity.

The economic research has proven that labor mobility is an extremely important factor that determines the productivity of a nation. For example, Professor Hubbard (Columbia University) and Professor O'Brien (Lehigh University) rigorously demonstrate that the major reason why the U.S. *productivity growth* has been more rapid than that of in most other industrial countries especially that of European nations, was *labor mobility*. Many other economists agree also that the greater flexibility of the U.S. labor market or labor mobility made U.S. labor productivity grew faster than the others from 1996-2007[5].

The high rate of job mobility ensures a better match between workers' skills and preferences and the characteristics of jobs, which *increase the productivity of labor*.[6] Amazingly, one-third of the improvement in the labor productivity (and wage increase) from job change or labor mobility in the U.S. was caused by the labor mobility. Workers in the U.S. may acquire as much as half of their skills through job mobility, because workers can build skills through being exposed to a variety of different jobs.

Immobility of labor not only describes hiring of workers (which lowers the growth of income) but also indicates laying off workers, which would have a profound impact on the productivity of workers. The lack of threat of being laid off, (which occurs when a nation enters a mature stage or a nation become very rich), will have the profound negative impact on the quality or the standard of

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5. R. Hubbard and Anthony Patrick, Macroeconomics, 2nd edition (Updated edition). See also Paul Kim: (Google), "Right Perspective for U.S. Growth Rate." See, "Labor Mobility Causes U.S. GDP to Fluctuate.
6. This portion of the articled is taken from *Macroeconomics*, 2nd edition (Updated edition) by R. Hubbard and Anthony Patrick.

work, but no one would notice it, especially in the service industry. Cases studies are abundant in those area: workers would become careless (doing sloppy job) in the service industry without fear of being laid off. As a result, the quality of work will get deteriorated, but no one know why the productivity of a nation declines.

All these reasons clearly reveal that labor mobility in an advanced nation is the major determinant of labor productivity. This is particularly true although it is hidden or unnoticed, when an advanced nation reaches a mature stage or becomes a mature nation. Off course, we all know that the most important factor that determines labor productivity in a rapidly developing nation is labor mobility as noted earlier.

Activities Which Hinder Labor Mobility.

Government regulations and laws hinder labor mobility. This is well known in Europe. In many European countries, government regulations make it difficult for firms to fire workers. Thus, government regulations make firms reluctant to hire workers-labor immobility does exist.

What we are interested in here is how labor mobility is hindered in private sectors, having a little or no government regulations. This is a tough topic to learn concerning how labor mobility is hindered in private sectors. Professor Paul Kim of Johnson Country Community College introduced in 2016[7] how U.S. labor mobility was hindered in private sectors.

Immobility of labor means that hiring-managers are not hiring workers when a firm needs to hire workers on a massive scale. It is difficult to identify how labor mobility is hindered in private sectors because there is no one single behavior of any individual or individuals that cause managers not to hiring

[7] See Paul Kim, "Right Perspective for U.S. Economic Growth Rate," (Google).

workers. The causes of not hiring workers, when a firm needs to hire workers on a massive scale, is unlimited and many of them are unknown. That does not mean that we should ignore the problem. Case studies in private sectors have inspired Professor Paul Kim to creates an economic theory to prove that labor immobility is created in the U.S., especially what he calls-during the stagnant period (1973-1995 and 2007-2018) as opposed to the prosperity period (1995-2006), during which time labor mobility became flexible or mobile.

Evidences of Labor Mobility: Does Managers Really Refuse to Hire Workers?

Why workers are not hired are evidenced by case studies. Explored below. Here are some examples. It is clearly revealed in my case studies that reasons exist why hiring managers are not hiring new workers in high paying jobs during massive hiring period in large corporations such as Fortune 500 corporations. This is a known fact among CEOs or top executive officers, or even HR officers of large corporations, but economists were not aware of such facts. Therefore, unless CEOs take drastic actions[8] to intervene in the actions of district managers or hiring managers who are in charge of operations of the firms, new workers are not hired in massive scale among large corporations. Normally, this will not happen during the stagnant period, because it drastically shakes up the life style of managers. In rich countries, where specialization is extensive (which mean many layers of management) the life style in the work place is very important; CEOs will shy away from inferring district managers' way of work or hiring new workers.

[8] Such a drastic action did take place during the prosperity period of 1995-2006. For example, the CEO of Sharing Corporation hired 1500 workers by utilizing workers from a consulting firm as additional workers to what it had. These new 1500 workers worked side by side with Sharing Corporation's worker.

Now we will show some case studies published previously to demonstrate evidence of hiring practices of district managers, which indicates hiring new workers in massive scale is almost impossible for a large corporation.

Evidence #1: Oxford Corporation.

We should pay attention to the meaning of an innovation of creating a new firm when we learn about Oxford Corporation in this section, because it is unique in that it does not look like a traditional sense of innovation, but it is an innovation. Such kind of innovation must take place extensively for the business cycle to expand.

We also should understand that when a hiring manager refusing to hire an aggressive and productive worker, it is not just simply a greedy issue of the mangers. This is the life and death issue for the manager to retain his income and his power (or his existence); it is almost essential to act the way he does for his survival when he refuses to hire workers in massive scale. This is almost an unavoidable conflict living in a rich country. The only hope to deal with such an issue in a rich country is that such life is openly revealed to the public, not keeping it as a hidden topic and behavior (not keeping it as a forbidden topic to discuss), so that an innovative solution might or could be conceived in the future. This is the reason why this topic is extensively covered in this text book.

This section shows very clearly that CEOs or the HR officer know quite clearly that district managers are unwilling to hire new workers: this knowledge is clearly understood, but unable or unwilling to inform the public that such secret behavior does exist in real life. This article reveals to the public the kind of thing which is in private or a kind of thing which man is not supposed to speak of because of its private nature. It gives an impression that such a hidden and

private thing is trivial and that nobody would think that such little activities will hinder the growth of huge GDP. But I reveal this to public because it is the major cause of hidden illness that inhibits a giant GDP growth in the U.S.

Now we will present the case study done to investigate Oxford Corporation.

Oxford Corporation[9]

Oxford is a start-up company, which hires and provides or supplies IT personals to other corporations such as a pharmaceutical company. For example, if a pharmaceutical company is involved with a lawsuit from the Federal Government, it needs a defending lawyer. Instead of having their legal department with defending lawyer, they look for help from outside such as Oxford. It is one of the fastest growing companies in the U.S. in recent years, although it is one of the smallest Fortune 500 corporations. It was a big hit when it started a new company as a subsidiary of a large Fortune 500 corporation. It was such a great success that it needed a massive number of new workers to expand its operation, but it could not hire additional new workers.

Here is an example. One of the branches of Oxford located in Forth Worth, Texas advertised for workers at the Carrier Fair in August 24 (TR), 2015. "Rich" was the hiring manager, who met a lady, name "Jenny," who used to work a pharmaceutical company. It was a good match, and Rich and others were willing to interview her some time soon. Rich left the message next day on August 25(F) to Jenny to have a formal interview on the following Monday morning 11 am.

Early in the Monday morning, next week, Jenny had to send some application form to the main office (H.R. office in California) before the interview. Here, Jenny while she was sending the application, encountered an unusual circumstance; she found some message from the main office to call H.R. office lady; an H.R. office lady. During their phone conversation, the lady from the H.R. office said to Jenny, "This position has been vacant for a long time," and she told Jenny that she wanted Jenny to get this job. She also gave a hint to Jenny what kinds of questions Jenny ask Rich, so that she could get the job. Of course, this was secretly done between the home office H.R. personal and a new applicant.

The above conversation between Jenny and the H.R. office, which is done behind the local hiring managers, reveals very critical information that hiring new workers in a large corporation involve highly complicated power struggles between two agencies. Increasing number of workers is not a smooth or easy process. It could become a major stumbling block to hinder or block the rapid expansion of the operation, which often comes to reality when new ideas or technology is developed.

There is a "disconnect" between the H.R. (or the firm) and the hiring manager, which economists were not aware of it. In real life, there is serious disconnect between the goal of the firm (or H.R. office) and of local managers, but economists were ignorant of this unique feature and ignored this critical issue in developing an economic theory. This disconnect become very serious, especially during the stagnant periods like 1973- 1994 or 1906-2015,

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[9] This portion of the article is taken from "Labor Mobility Causes U.S. GDP to fluctuate," by Paul Kim (Google).

during which activities of redistribution of power and income are intensified, and labor mobility was reduced. It may be a less serious issue during a prosperous period like 1953-1973 or 1995-1906.

In the above story, the home office wants to expand its operation, hiring more or new workers like Rich who was one of their successes. (By the way, Rich was the highest paid worker in that firm with yearly earning of $240,000; his yearly salary was $35,000, but the bonus made his earning exceptional).

The firm wanted to replicate Rich with new workers, but Rich wanted to retain his territory, or he did not want to give away his territory to new workers. Rich was one of the first groups of new workers hired when the new corporation started. There was no resistance in hiring Rich during the first round of hiring, but during secondary hiring and subsequent hiring to accommodate the secondary expansion of the operation there was serious resistance, and the immobility of labor become a serious issue.

Hiring of new workers depends purely on whether or not unemployed workers are available. This is an unsophisticated understanding of labor mobility, which has been foolishly accepted in the theory in economics. Whether or not a firm can hire on timely manner new workers not necessarily depends on the availability of unemployed workers, but depend on the degree of activities of redistribution of power and income within a firm or its willingness of hiring managers. Economic theories have ignored this aspect of life in business in the past.

Here is the detailed story of the interview, which reveals why "disconnect" mentioned above exists, or why the local manager seeks his own goal or why the local manger is occupied with activities of redistribution of power and income. The local hiring a manager who is away physically from the main office, has an opportunity to seek to retain his power and his high income, thus act on his own behalf not for the benefit of the firm when their goal is in conflict. (Most Fortune 500 corporations have nationwide distribution of local offices, and each local office acts independently under a local manager, often called a district manager. Some or many larger corporations also have regional managers (who are close to the main office who supervise the district mangers.)

Rich does not want to be replicated by new workers, or Rich wants to maintain his territory by himself. Yet, Rich as a hiring manager, is required to hire new workers as a hiring manager. So Rich had to find a way to deter many new applicants from applying for a job. Rich's efforts lasted quite some time and he was under pressure to hire new workers. Meanwhile, Oxford expansion of their operation was cut back.

On Monday, Rich interviewed Jenny. Rich told Jenny that a worker must make 150 phone calls every day and offered a salary of $35,000 plus bonus. (We do not know if 150 calls per day rule is true or not; he night have made up to discourage any new applicant from working for the firm.) The major reason Jenny did not accept the offer was the 150 calls per day she had to make (like a slave) was not conducive to her life style. Beside the wage was too low. Jenny asked Rick to look at market salaries for a hospital specialist (which had been her profession with 8 years of experience and make some wage adjustment.

The next day Rich called Jenny and told her, "My boss and I had serious discussion and we now offer $45,000, since today the hospital specialist get paid $95,000." Jenny asked him to raise her salary to $50,0000 to $55,000). Rich said that he had to propose to the home office

of that amount. Then Jenny said that she would take $45,000. But Rich insisted that he would send the request to the home office, and Jenny could not settle with $45,000.

After the above conversation, Rich never called Jenny for one month. At the end 40 days of silence, Rich sent the message to Jenny informing she was not hired, and it was the end of the story. Oxford corporation continued to struggled not be able to hire new workers.

Evidence #2: Aventis Corporation

I present this case study to demonstrate how real it is that the district managers are unwilling to support a massive number of hiring new workers and how they deter the hiring of a massive number of new workers. The story shows that the main corporate office knows about it.

Aventis Corporation

Aventis is a large pharmaceutical corporation, which is one of the Fortune 500 corporations. It invented a new drug and put it in the market in the summer of 2015. It needed a large sales force to visit hospitals and meet with doctors to introduce their new drug. So, Aventis began an aggressive campaign to hire a massive number of new workers for their sales force. Knowing that timing is crucial and they need to hire a large number of new workers quickly in its nationwide campaign.

However, they were aware from past experience that its district managers would not support such massive hiring of new workers but would pretend to hire new workers. So, the home office took an aggressive approach; the home office itself advertised nationwide for new sale force positions bypassing the district managers.

Here is an example. The Dallas area advertised and new applicants were informed to call a lady, "Kate," from the home office. A young lady, "Betty," who had ten years of experience in the pharmaceutical industry called from her apartment in Dallas. Kate told Betty that she would select 3 candidates and give these 3 candidates to the local district managers who would choose new applicants. So, Betty sent her resume and application papers to Kate. Betty never got a reply to her application. She had no idea whether Kate nor the district manager chose Betty. It is very likely that the district managers did not choose Betty. In other words, the method of partially bypassing the district mangers did not work.

In January 2016, Aventis was still advertising the same position which was advertised in July 2015. So labor immobility continued at Aventis. This story

shows how hard it is to hire new workers in massive numbers in a short period. It is not easy to hire so quickly and in a short period as long as the district managers are unwilling to hire, which is the case for the most of the Fortune 500 corporations or large corporations in the U.S.

Evidence #3: Sears.

Sears is one of one of the Fortune 100 corporations. Sears realized that there is a strong potential in home remodeling activities. They aggressively began a program for home remodeling. Realizing that they could not hire a massive number of new workers, it instituted a unique program to oversee the district manager's activities in hiring new workers. So it instituted new program in hiring new workers, called "national recruiter." Here is the story:

Sears

Sears is one of Fortune 100 corporations. Yet it became a leading progressive corporation which has understood the labor mobility issue very well and has taken bold action in hiring massive number of new workers. One of its divisions instituted a system, under which once a new applicant applies for a job at the carrier fair for example, the company or the home office-appointed national recruiter must interview the applicant. (In the past, the district mangers or hiring managers of most large corporations either did not reply to new applicant or just gave large numbers of tests.) Once the national recruiter sends selected applicants, after the interview, to district managers, the district managers are required interview with the new applicants. (In the past, the district managers seldom interview the highly qualified new job applicants.) In case the district managers delay interview, the national recruiter would send the message to begin the interview and hire the workers if they agree. (In the past, the district managers used to delay the interview or even not interview at all, especially new applicants were highly qualified one.) What an incredibly progressive approach to carry out the massive number of hiring new workers! Sears learned from the experience how the district mangers acted when it came to massive hiring of workers and took a brave action to carry out their plan, a practice which immensely impacted the mobility of labor.

At this time, an action of Sears is an exception or rare case among the large corporations or and many people were not aware of this fact. The issue of

immobility of labor among Fortune 500 corporations is still a mystery to many corporations and of course to the public in general it is mysterious or unthinkable.

American Institution.

This paper is a part of the Asian Studies Program, which has had audiences from 99 countries (and 199 institutions) according to Google report (Readership Report). Thus, it might be helpful to those readers if I provide some insight about the nature of American institutions, especially about Fortune 500 corporations which have national scale operations.

At each city, the firm appoints a district manager who is in charge of the operation of each city. A district manager is just like a head of a small corporation, and he or she carries out business, including hiring and firing workers. (A Fortune 500 corporation is a big corporation. But it acts or operates like a small corporation under a district manager thus it operates in highly efficient manner.) How each city works depends on the district manager, and he is in charge of everything in that city. The main office at the home office cannot control each city's operation, but relies on the district manage, except they put a regional director to oversea each district manager (or sometimes called the vice president). However, a regional director does not step into the daily operation of the each city. The district manger is the boss or the head of the corporation at each city and carries out its daily operation.

An American management system in Fortune 500 corporation is operated under a system called a "gentleman's system" in that upper management such as a regional director or the home office staff does not step into the district manager's daily operation, although the regional manager's job is to oversee the district managers' work. Thus, the district manager is the boss or head of the corporation at each city. This is a highly efficient system in corporate management and that is one of the reasons why American corporations have been successful in carrying out its operation. However, this highly efficient management system becomes a problem (as the nation gets wealthier and wealthier) when an issue of activities of redistribution of income and power become the center of the problem, which has appeared in the U.S. especially during the stagnant period such as the period of 2007-2016 (or 1973-1995).

A massive hiring of new workers in a short time is not conducive to carry out activities of redistribution of power and income from a district manager's point of view. Hiring is one area where a district manager plays a crucial role; he or she can make this to be a good portion of his or her important work. (Note

that sometimes a manager has nothing important to do in his daily work.) Or during hiring time, a district manager can exercise his or her power and have a fun time. Or a hiring manager can earn a credit from other managers if he hires a new worker of their choice. But a massive hiring of new workers could bypass these processes and opportunity to carry out the activities of redistribution of power and income will be taken away.

During a prosperous period like 1995 through 2006 for example, a massive hiring of new workers were carried out by outside hiring agents appointed by the main office, by passing the role of the district managers. This kind of hiring practice was carried out during the prosperity period because almost all other firms were hiring new workers and competition for getting new workers became visible. However, during the stagnant period (or even if the firm uses outside hiring agents, a district manager can reject their recommendation easily), the above kind of hiring practice (using outside agent) is difficult to justify, so there are abundant opportunities for the district manager to carry out activities of redistribution of power and income, thus micro management by the district manager becomes common. Here economists use the term, “Moral Hazard,” a principal-agent problem, to theorize the above issue of activities of redistribution of income and power.

Therefore, during the stagnant stage, the district manager has a abundance of room to carry out the activities of redistribution of power and income, while doing his or her job to maximize the profit for its firm. And this is the stage where the firms would face the difficulty in hiring a massive number of new workers, which would cause the expansion of production to be short lived. This is the reason why GDP fluctuates, or cannot expand continuously or the expansion is short lived. I will investigate this critical issue next using a case study to highlight the mechanism of labor mobility. In another words, I will present case studies to show specific examples of how the district mangers acted to delay or hinder hiring of the massive numbers of workers when corporations began the expansion of their operation, thus creating immobility of labor.

After the publication of my article in April, 2015[10], “Test Taking Requirements” for new workers mostly vanished in 2015, so the type of the activities of redistribution of power and income has changed. Therefore, I will uncover the development of new type of activities of redistribution of power and

[10] See Paul Kim, “Right Perspective for U.S. Economic Growth Rate,” p.11-15. http://scholarspace.jccc.edu/econpapers/8 or see Google.

income next. Those case studies are given so that we may understand the mechanism through labor immobility is created.

The New Concept of Labor Mobility

There are two kinds of the concept of labor mobility: one is the one that cause labor immobility visibly and other one is that cause labor immobility invisibly. The visible factors that cause labor immobility are well known and everybody would accept them: they are

The invisible factors that cause labor immobility is relatively unknown. It is hard to identify its existence since it is invisible. Only way to know such invisible factors is to communicate and interact with the ones who exercise the power and authority to impact labor mobility. In 2015, first time, Professor Paul Kim of Johnson County Community College ventured this work: the efforts are made to reveal or uncover the secrete of hidden efforts to control labor mobility by hiring managers. Those work was published as noted in this paper. It seems that invisible factors that cause labor immobility are more harmful and more extensive as far as its impact on the economy than the visible factors.

Summary[11]

I have presented three case studies. First the Oxford Corporation. Its main office did not interfere directly with the hiring practice of the district (or hiring) manager, although they recognized labor immobility or knew the district manager's activities of redistribution of power and income. Consequently, their operation slowed down because of the labor immobility or it failure to create labor mobility. At the second, the Aventis Corporation, the main office partially

[11] P.15-18: Paul Kim, "A New Economic Growth Theory #2."

intervened in hiring practice of the district managers, yet failed to create labor mobility. In the third, surely Sears, at the main office aggressively intervened in hiring practice of the district managers, an act which immensely facilitated the labor mobility.

All three cases studies had proven that all of them were aware of the disconnect between the district managers (or hiring managers) and the home office. They were all aware of the fact that district managers' activities of redistribution of power and income and such activities had caused the serious labor immobility. The above proof of this awareness of the home offices of major large corporations was one of the major accomplishments of the above case studies. But economists were not aware that such activities of the district manager had caused labor immobility problem, which prevented the U.S. economy from having continuous expansion of GDP. This awareness of the home office of the large corporations had been kept secret and public were unaware of the above fact. Meanwhile, new job applicants were discouraged from getting any response from employers and constantly migrating into the non-labor force category.

Thus, a growing number of large corporations such Fortune 500 corporations are instituting the program under which participating corporations are required to have their national recruiter appointed by the home office (in a rare case like Sears) or their local district managers to interview with the new job applicants. In the past, hiring managers of corporations did not respond to new job applicants, gave them many tests, or seldom responded to the new job applicants when they applied for a job.

Now, many large corporations are beginning to institute the program which requires them to interview new job applicants once they apply for a job. It is beginning of hope of creating labor mobility, but it does not means that it would be end of the labor immobility issues. The battle of creating labor mobility still continues. For example, Cintas, a uniform company replied to a new job applicant one month after a new job applicant applied for a job. Texas Utility had sent a message to a new applicant for a job interview two months after the new job applicant applied for a job. The worst case, Wage War corporation contacted the new job applicant for a job interview. When the new applicant went to interview, the hiring manager who was supposed to interview never showed up, and two secretarial staffs interviewed the new applicant, giving the job description which was totally different from what she was told at the beginning when she met them at the carrier fair. Sears' case is rare and exceptional; the national recruiter of Sears sent interview message immediately within a few days after a new job applicant applied for a job, and the new applicant interviewed immediately with the national recruiter, and arrangement was made on the spot to interview with the local district manager. (Yet, at the end, after the local officer hired her, they caused the new applicant to resign during the training period (probational period) by numerous harsh and unprofessional treatment.) All these examples clearly show that labor immobility does exist in the U.S.: hiring managers in large corporations refuse to hire workers during massive hiring time.

VOICE OF OLD THOERY

I. SPENDING = INCOME

The felony of Keynesian theory is that **total spending is equal to income** or production. Almost all the leading authors of macroeconomics textbooks make this assumption. Examples are countless, but here are some examples:

A) Krugman

"One person's spending is another person's income" (**Krugman-p.17**): If some group in the economy decides to spend the money, the income of other groups will rise.[12]

B) Mankiw

"For an economy as a whole, economy's income must be equal to expenditure" (**Mankiw-p. 204**). An economy's income is the same as its expenditure because every transaction has two parties: a buyer and a seller. For every dollar of spending by some buyer is a dollar of income for some seller. Another way to see the equality of income and expenditure is the circular flow diagram.[13]

C) McConnell

"The initial $5 billion increase in investment (spending) generates an equal amount wages, rent, interest, and profit income because *spending and receiving income are two sides of the same transaction*[14]."

II. WHY MAKE MISTAKES OF CREATING SUCH HYPOTHESIS?

1. Commonsense Hypothesis

Old macroeconomists believe that business typically responds to the condition of spending or demand. If there is strong demand compared to the

[12] Paul Krugman & Robin Wells, "Microeconomics," 2nd edition, Worth Publishers.
[13] N. Gregory Mankiw, "Macroeconomics," 8th edition, Cengage Learning.
[14] Campbell R. McConnel, Stanley L. Brue, and Sean M. Flynn, "Macroeconomics," McGraw-Hill.

production, the business is encouraged to produce more, while weaker demand cause the business to cut back its output. This is what I call "common sense hypothesis." Many traditional economic theories are created based on common sense hypothesis. However, that is not the way business always behaves: some do behave that way but others might not, especially those business who are aggressive and innovative which often play the major role of business cycle force. Business cycles, especially expansion of business cycles, are often created by innovative and creative businesses. Those innovative businesses do not just behave to respond to excessive spending of a nation in order to expand their business just like a normal business does. They innovate new products to expand their business: this is typical of creative and innovative businesses. Furthermore, they create their own demand to sell their products. In fact, the major tactic of any innovative business is to create demand, not just waiting for the demand to pick up. We will cover this topic later.

Any economic theory, especially mathematical economic theory, is created by establishing common sense hypothesis. (Such a theory is well received because it makes sense.) For example, demand function is created based on the hypothesis which says that when the price decreases, consumers will buy more. The hypothesis, which says spending is equal to income, makes sense or it fits with the common sense. That hypothesis which is interpreted by Professor Mankiw and Professor Krugman makes sense and it is *well- fitted* to our common sense. That is, nobody questioned their theory or interpretation. But the truth of the fact is that business, especially innovative and aggressive business, does not always act according to the common sense. Those aggressive businesses act in a unique way or act according to business sense, not the way normal businesses try to behave. So, if we need to create an economic theory that represents a business model, we

must have knowledge of business sense concept, not just common sense concept. Unfortunately, most economists who create an economic theory do not have special understanding about the way in which an aggressive business behaves, which is kept as a secret in real life.

2. Business Cycle Hypothesis

When we create a hypothesis about an economic theory such as national income determination: $\Delta Y = \Delta D1 \times M$, we also have to create an economic theory in the context of business cycle such as the one shown in Figure 2 below. We should not build a model in a pure picture or in vacuum. Thus, an economic theory such as multiplier effect should be built by asking a question saying, "Why do the darkened bars (which show the percentage changes in real GDP) gets shorter instead of getting longer or remain the same?" Those darkened bars get shorter after getting longer for a while, because workers are not hired, thus income is not increased after spending increase due to labor immobility.

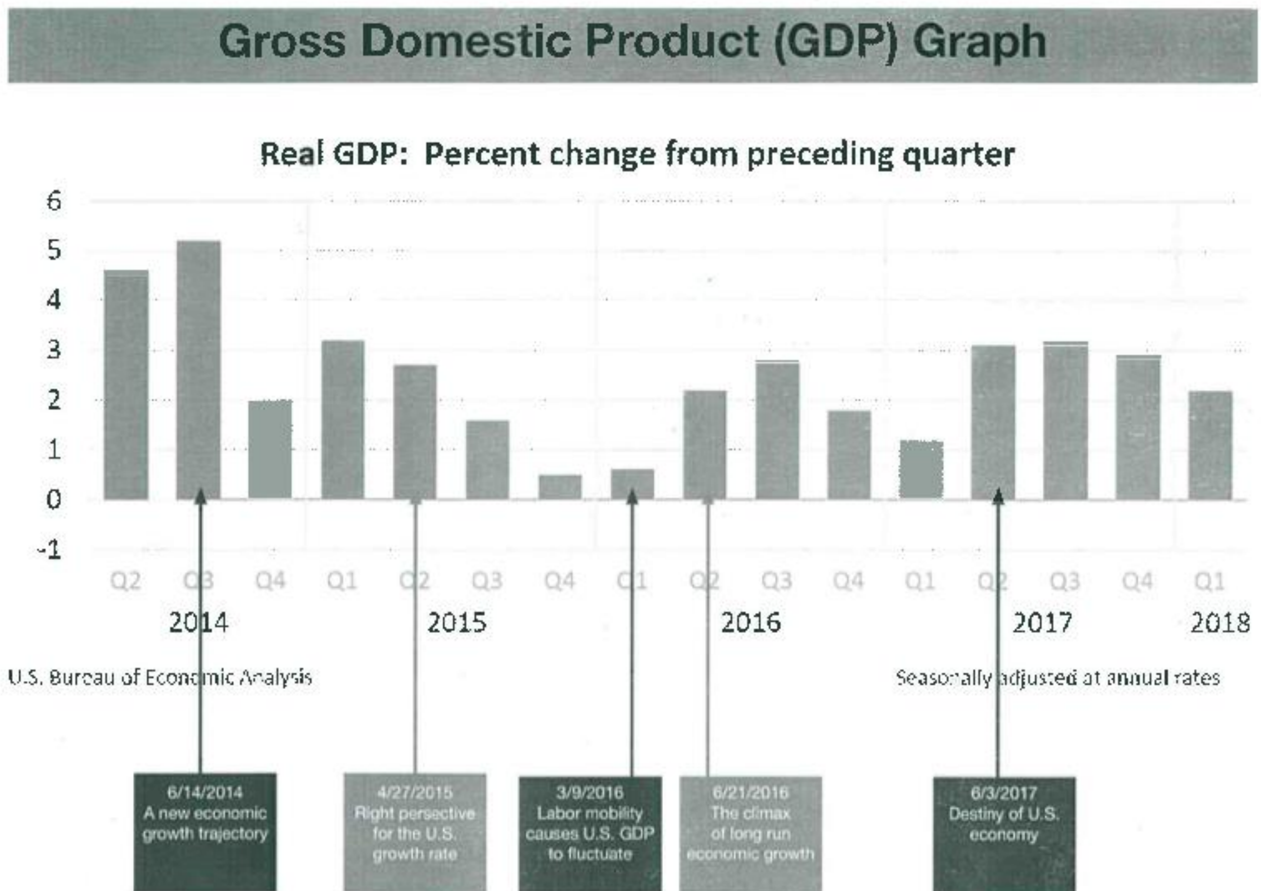
For example, we say, "Based on the circular flow diagram, the equality of income and expenditure exist."[15] When we say, the circular diagram, it means that some days or at the end of the period, spending and income will become equal. If we look at the Figure 2, in order for business cycle to continue to grow, sometimes, expenditure becoming equal to income is not enough. Within a reasonable time, income must be generated after the spending occurs, say within one quarter or two quarter in order for business cycles to expand continuously. For example, when spending becomes equal to income later in a few years, we should not count this as the equality of spending and income because by that time, even if income is generated, it would not help GDP to expand or the business cycle to

[15] N. Gregory Mankiw, "Macroeconomics," 8th edition, Cengage Learning.

expand continuously (which should have been 9 months or 10 month ago, for example.) Professor Mankiw made the statement without looking at a business cycle, but on based purely on common sense approach. That is why his statement is faulty in view of the business cycle when he said, "expenditure is equal to income."

Figure 2

Business Cycle Model



This explanation is mathematically summarized as $\Delta Y=\Delta D1xM$, provided that $M= 1/(1-MPC)$. By this time, the readers should be aware of how wrong this explanation, which is based on the hypothesis that spending = income, is. However, this is how macroeconomics is taught widely even today.

3. **Supply Creates Its Own Demand**.

An aggressive and innovative business goes beyond the normal to make one's business unique and successful. Successful businesses are the ones who innovate new products and new methods of production, and produce large quantity of the products, often ending up have surplus of products. Having surplus is nothing unusual for aggressive and innovative business. Then it finds a way to sell its products (surplus products) by creative campaigns such as advertising or other methods to sell surplus products. The successful or **innovative businesses typically are driven by production** of new products or improved products, not necessarily driven by excessive spending just like normal businesses would do (as Keynesian theory points out). They are driven by producing and supplying new products, and **demand follows**. The innovative and successful business creates its own demand. Selling activities which is interpreted as creating demand follows, or, sometimes, selling activities proceed the production or concurrently done. If we use the language of a classic economist which is known as Say's law: **Supply creates its own demand**. (During the great recession, Intel is only firm which continuously expanded its production.)

This is the method of successful businesses which display the leadership in the industry and often become often major forces of business expansion within the business cycle. And other normal or ordinary businesses will follow the leaders with common sense business ideas reacting or by looking at demand only:

Normal business is driven by demand by looking at the spending level of the industry or nation.

4. **The Expansion and Contraction of Spending Have the Same Effect**

Many economists, if not all, believe that the effect of an increase in spending and decrease in spending has the same result, except the direction of the effect is opposite. This is not totally true. When contraction begins, especially a big one, firms can lay off workers in massive numbers: labor mobility is high for contraction because the firm can easily justify its action of laying off workers without depending on the hiring managers. But when the expansion of spending comes, the firms have to still rely on hiring managers to hire new workers: labor immobility does exist seriously.

NEW VOICE SPOKEN: BUSINESS CYCLES

1,Introduction

The purpose of this section is to explain how true the above hypothesis is from a single nation's perspective using the U.S. economy as a case study. Stated differently, the purpose of this section is to discover how an economic system operates in the U.S. in terms of labor mobility when an expansion of the GDP begins; At an initial expansion of the GDP, labor employment may be accommodated easily or labor is mobile, but the second and subsequent expansion of the GDP may not be accommodated by fluent labor mobility or be encountered with serious immobility issue of labor, which I will elaborate in this paper.

In this paper I will prove that labor immobility was the major factor which hindered the continuous expansion of GDP in the U.S. during the post the Great

Recession period. Then what caused the labor to become immobile as the economy began to expand? I will answer this question in this paper.

2 WHY HAS RECOVERIES (after the Great recession) HAD A SHORT LIFE?

After the Great Recession of 2007-2009, the U.S. economy many times showed signs of powerful recovery. However, such powerful recoveries were short lived. What was the force which prevented the recovery? This force was the immobility of labor. I will prove this hypothesis in this paper.

Figure 3 below shows the fluctuation of GDP. As shown in Figure 3, every attempt to have rapid expansion lived a short life followed by contraction of GDP growth or slower growth rate of GDP. For example, a great expansion of GDP appeared at the forth quarter of 2011. Then GDP growth rate contracted from the forth quarter of 2011 into the forth quarter of 2012, or the whole 2012 growth rate was contracted. Why did this contraction occur? This was because the district managers (or hiring managers) refused to accommodate the massive hiring of new workers. I claimed this was largely due to the activities of redistribution of power and income, an example of which was cited already as "Test taking requirements for new job applicants," which created labor immobility[16].

[16] See Paul Kim, "Right Perspective for the U.S. Economic Growth Rate." p.11-15. http://scholarspace.jccc.edu/econpapers/8 or see Google.

U.S. Bureau of Economic Analysis

FIGURE 3

The next expansion began from the first quarter of 2013 until the second quarter of 2014 (with the first quarter of 2014 as an exception). Then contraction began the third quarter of 2014 into the first quarter of_2015, which was a short contraction. Why have these contractions occurred? Again, this was due to the fact that the district (hiring) managers were unwilling to carry out the hiring of the massive number of new workers in a short time, although they would pretend to be hiring a massive number of workers using "Test Taking Requirements" for new job applicants[17]. This created the immobility of labor.

[17] See Paul Kim, "Right Perspective for U.S. Economic Growth Rate," p.11-15. http://scholarspace.jccc.edu/econpapers/8 or see Google.

3.EXPANSION OF GDP

Every expansion of GDP (either due to technological advancement or innovation or an economic boom) must be facilitated by the highly efficient mobility of labor. Any expansion of GDP can be hindered, restrained, or stopped by restriction of labor mobility (or also mobility of some other resources such lack of raw material such as oil or other raw materials).

An initial expansion of GDP can be accommodated by the existing working force with some minor new work force, particularly in the service industry, and the mobility of labor is not an issue at the initial stage. In particular in the service industry, some or many existing workers are not working at maximum capacity. These workers can be transferred to needed areas (often as a promotion) or they can stretch their work to full capacity, covering a bigger territory if it is sale area when their operation is expanded. For example, when a pharmaceutical company puts a new drug into a market, their operation would expand, requiring a large number of sales forces in the market. At the initial stage, some of their needs can be met with the existing work force, as noted above. However, eventually continuous expansion of their operation requires hiring a massive number of new workers.

The immobility of labor, however, would appear or become an issue when the secondary expansion or the continuous expansion of the operation is called, where a large number of new workers are needed. A massive hiring of new workers must facilitate the secondary expansion of the operation. However, district (hiring) managers were unwilling to accommodate a massive number of hiring new workers, thus creating immobility of labor.

Because a massive hiring of new workers could bypass the district managers to carry out the opportunity to carry out the activities of redistribution of power and income, the district managers would be reluctant to support such a plan. They would fear that the massive hiring of new workers in short time would take their power and would not be conducive to carry out activities of redistribution of power and income. This is the reason why the immobility of labor would become a reality. Stated alternatively, hiring a massive number of new workers in a short time would hinder the way in which the district managers normally carry out the activities redistribution of power and income. (We will discuss this issue in the next section.) The unwillingness to hire massive number of new workers by district managers becomes a critical issue especially during the stagnant period of the economy such as 2007 - 2015 (or 1973 - 1994). So district manager devised various schemes, such as pretending to be hiring but not hiring new workers. This was the reason why "test taking requirements" for new job applicants were implemented to deter rapid hiring of new workers[18]. Thus, "the test taking requirement" at large or Fortune 500 corporations was an example of the activities which district managers were utilizing. They successfully utilized such instrument in 2011 through 2014 even into early part of 2015. It was extremely successful in 2011 and 2012, and even in 2013 not hiring massive numbers of new workers which prevented the continuous expansion of GDP but led to the fluctuation of GDP.

In order to have the continuous expansion of GDP, we must not only have the continuous expansion of the operation of firms, but also must have massive hiring of new workers, especially in high wage industries. The increase in

[18] See Paul Kim, "Right Perspective for U.S. Economic Growth Rate," p.11-15. http://scholarspace.jccc.edu/econpapers/8 or see Google.

spending of the money which new workers have earned could have facilitated an economic boom. This is the area where, during post great recession, the U.S. failed to provide extra spending by hiring massive numbers of workers to facilitate an economic boom.

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