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Weaker Links, Stronger Links: States and the Economy

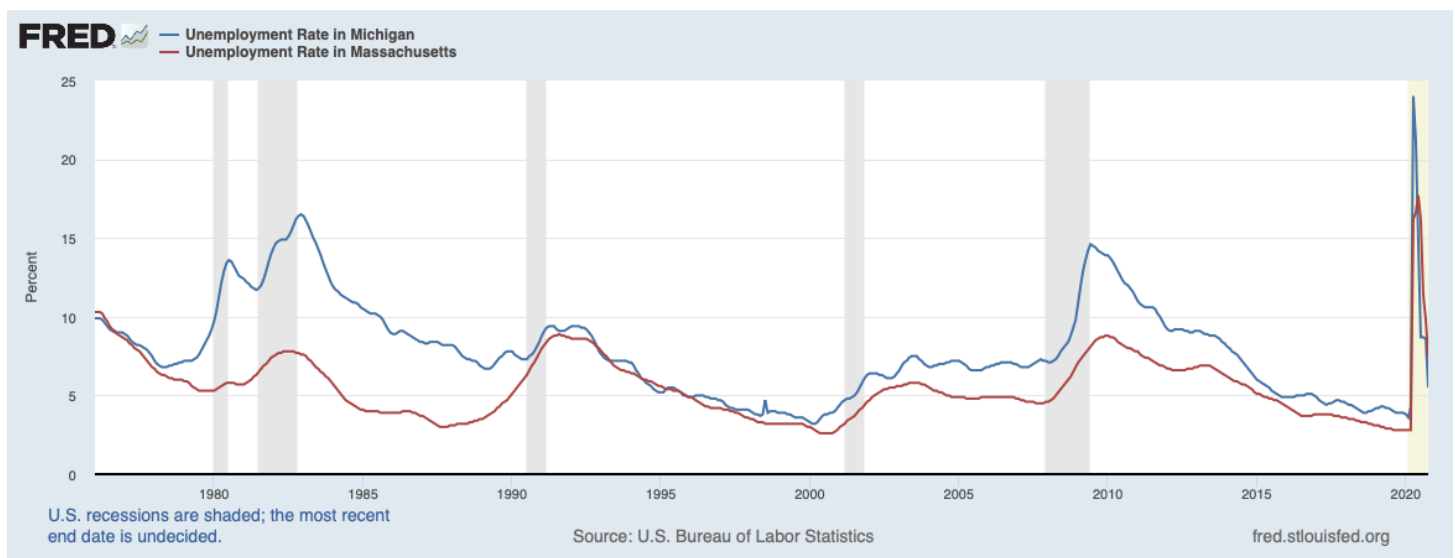
There is a cause for concern arising from one of the United States' notable features: its large size, which explains the differences between states in industries, education level, average annual income, and more. The differences, in turn, impact how successfully each state battles the same crisis, such as a recession. They also impact how well the country, as a whole, functions. After all, a country is only as strong as its weakest "link." How, then, does the weakest link impact the whole? To understand where vulnerabilities lie, the government should understand the underlying differences between states. By doing so, it can discover which are more at risk for specific crises. To illustrate this hypothesis, this paper will compare the unemployment rates between two states--Michigan and Massachusetts--in relation to recessions.

The unemployment rate is found by dividing the number employed by the number in the labor force (those employed and those seeking employment). People who are unemployed and *not* seeking employment, like students and retirees, are not included. States that lower both numbers in the equation, such as by emphasizing education or incentivizing retirement, achieve lower unemployment rates. There are also illegal (dependent on state laws) and informal (e.g., babysitters) workers unaccounted for in this model. States with a significant portion of such workers may have lower unemployment rates, not necessarily due to a greater number of formal, legal work, but due to more opportunities for substantive, "under the table" jobs.

"Extra," *cyclical* unemployment occurs during recessions, which are "slowdowns in economic growth." Recessions are characterized by fewer jobs and chances of wage increases for individuals, and lower profits and more bankruptcies for firms; this results in "significant reductions in GDP" (Frank 377). Confidence in the economy's health stems from this measure of productivity. When the GDP drops, so does confidence and the number of transactions. With fewer transactions, employers will require fewer workers. Thus, people may be let go, which starts a potentially dangerous cycle. Without a job, there is no disposable income. Without disposable income, there is little consumption. With little consumption, there

is another reduction in GDP, which leads to a need for fewer workers. The cycle then begins again. If a country wishes to survive a recession by stimulating the economy, one option is to tackle this cyclical unemployment rate. (Another is to cut interest rates, but interest rates are currently near zero--there is no more room to cut.) However, before doing so, it should understand the *natural* unemployment rate; it must examine structural (mismatch between available skills and jobs) and frictional (time spent transferring from one job to another) unemployment. At what number does the natural rate start? By seeing how the overall rate of unemployment changes over time, a country can understand how its economy is impacted during a recession. In addition, by comparing “weak” and “strong links,” the government can determine which factors help state economies thrive, and apply those principles to the “weak links.”

To illustrate, one can examine two states: Michigan and Massachusetts. While the former has the esteemed University of Michigan, the latter can boast of elite colleges such as Harvard University and Massachusetts Institute of Technology. Nearby “feeder schools” for college-bound students provide jobs and incentives to pursue higher education (thus shrinking the unemployment rate). Such graduates are skilled (thus harder to replace) and in high demand, which may stabilize the lower unemployment rate as well. On the other hand, the biggest industries in Michigan, such as agriculture and tourism, are among the first to take a hit during a recession (Sawe). Factors such as these impact each state’s unemployment rate and thus the extent of a recession’s impacts, which can be seen in the graph below.



In the long run, Michigan's unemployment rate is higher than that of Massachusetts, and largely stays above four percent and below fifteen percent. Overall, it is decreasing: in 1976, it was ten percent. Before the current recession, it was down to four percent. Meanwhile, the unemployment rate for Massachusetts tends to lie above three or four percent and below ten percent. It also follows a decreasing trend. In 1976, it was ten percent. Before the current recession, it was down to around three percent. The aforementioned colleges and feeder schools are two of many factors that boost the unemployment rate. More importantly, the graph shows that even in non-recession times, the "weaker link" is not supporting the country as much as the "stronger link." The economy has room to improve.

In the short run, the picture becomes more complicated; there is now *cyclical fluctuation*. Take, for example, the unemployment rate during the 2008 Great Recession. Contrary to the overall trend, both states' rates increased; Michigan's rose by around eight percent while Massachusetts' rose by around four percent. After the recession, both adopted the overall trend once more and began to decrease, taking nearly five years to reach the pre-recession level. During that period, Michigan was greatly harmed by "extra," *cyclical* unemployment, and had an unemployment rate higher than that of Massachusetts, which "[was] buoyed by its higher education, technology, and health sectors" (Sacchetti). These foundations prepared the "stronger" state for the uncertainty and chain reactions associated with a recession. Massachusetts thus had a healthier state economy, which in turn supported the national economy.

The graph additionally shows that the "weaker link" is continually harmed by recessions. Just when Michigan's unemployment rate improves and takes one step forward, a cyclical fluctuation takes it two steps backwards. The extent its rate soars compounds the negative effects. If the country is indeed only as strong as its "weakest link," then recessions are harmful to the *entire* country, not only the state. Therefore, it is important to understand underlying differences. By doing so, the government can spot vulnerabilities and pinpoint crises most damaging to each state. This action opens discussion for how best to direct resources and guard against vulnerabilities. In time, the "weaker link" may improve and even rival the "stronger link," thus creating a resilient and thriving country.

Works Cited

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