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Wells Fargo Chief Economist Suggests 'Microeconomic Approach' For Job Creation

■ By Tiffany Rider
Staff Writer

A nationally recognized economist stands firm to his belief that the key to job creation is through a microeconomic approach of retraining workers on the skills needed for today's jobs.

John Silvia, chief economist and a managing director for Wells Fargo, told the Business Journal that the challenge our country, state and municipalities face in terms of job growth is the mismatch of skills versus the demand for skills. "I think President Obama talks about everybody going to college. I think that's the wrong approach," he said. "I think there is certainly a role in, first of all, getting people to finish high school, and second, technical education would be really key."

After a significant amount of criticism about the stimulus program, which provided for short-term spending but not much job generation, Silvia said it's time to be honest about what needs to happen. "You've got to get the education. You've got to do the retraining," he said. In California, the majority of the jobs lost were in new construction, which doesn't require much education or computer literacy in today's world. Once those jobs disappeared, so did those employees from the workforce.

"These construction workers were not able to move easily into the more professional categories like information technology or finance or education and health areas," he said. As of June, unemployment is back up to 12.4 percent in Los Angeles County and 11.8 percent statewide. In California, Silvia said the jobs recovery is incredibly patchy.


John Silvia, Chief Economist
Wells Fargo

"There's very little doubt in my mind that, when you look at Long Beach, Los Angeles and San Francisco, you are doing far better than the nation on average," he said. "I think when you're looking at some of our cultural areas like Ventura County, I think you're doing really well. I think the problem is the outlying suburban areas, like Riverside and San Bernardino, Merced, Modesto – where so much of the economic growth in the last five years or 10 years was residential building. Those areas are doing far worse than the national average."

Vocational retraining in highly technical jobs like electrical engineering, carpentry or welding may provide workers that employers need, according to Silvia. Instead of continuing to hand out unemployment checks, Silvia said he would be for providing individuals with education vouchers to access retraining opportunities nationwide because, "It's better off if these people get trained because the jobs they had before are just not the jobs that are necessary today."

Bad Economic Advice On Capitol Hill

Silvia's professional experience is as an economist in the private sector and on Capitol Hill as senior economist for the U.S. Senate Joint Economic Committee and chief economist for the U.S. Senate Banking, Housing and Urban Affairs Committee. He said that President Obama hasn't "done well in terms of his economic advice" for a couple of years now.

On example, Silvia said, is the stimulus forecasts that showed unemployment would be 6 percent if the federal government enacted the stimulus, and 8 percent if he did not. The national unemployment rate peaked at over 10 and currently floats around 9.2 percent. He also noted that enacting free trade agreements with Panama, Colombia and South Korea should have been done earlier, as well as extending the payroll tax cuts, which was being debated in the middle of the national recession.

"I think [Obama] could extend that payroll tax cut a little bit; I would still go with that," Silvia said. "I know some people would say that it wasn't all that effective, but in the world of economics you always have to do things in context. While it's easy to say that it didn't achieve very much, the reality is that there were so many other things going on at the same time. I think it was extremely difficult."

In addition, the political dance around how to meet the nation's debt obligations has turned into the start of members of Congress campaigning for the 2012 election rather than working to come up with a plan that people can agree with and that creates economic certainty. ". . . People are saying the 2012 election is going to be the election about the future of our country, and I think that's probably what people are expecting in Washington," Silvia said. "They're going to do just enough to get us there so that President Obama and whomever his opponent is are going to have a knock-down, drag-out fight to see what is the future of America."

Silvia said some of the choices made by the federal government have created a lot of uncertainty, for good or bad. Citing the Business Journal's Mid-Year Economic Outlook article on the financial reform legislation known as Dodd-Frank, Silvia said, "I would agree with some of the comments in your Dodd-Frank article that uncertainty has its price. Businesspeople and individuals make decisions based upon their expected future, whatever it is. . . . And expectations matter." ■

Wells Fargo Sees Growth In Latest Quarterly Report

Wells Fargo's most recent quarterly report showed loans and earnings were up, its Chief Economist John Silvia said. The bank had a record quarterly net income of $3.9 billion – up 29 percent from the prior year and up 5 percent from the prior quarter. In terms of lending, Wells Fargo made $751.9 billion in total loans as of June 30, which is up $766 million from March 31.

"I was very pleased as a shareholder," Silvia said. "I think it just shows that, as so many California-based institutions, Wells Fargo is doing what it can to move ahead." The financial institution has claimed the top spot for small business lending statewide, which is "key in terms of what goes forward," Silvia said.

In terms of loan growth and credit quality, Silvia said the continuous improvement of the nation's current economic situation has helped the company produce growth, as well as using caution in selecting who is eligible for a loan. "I think the credit quality that was in the report, reported by Michael Laughlin, showed better credit quality overall," he said. In terms of demand, he said business firms that have survived and homes being deleveraged allow for more individuals coming through Wells Fargo's door with better credit quality than they may have had five years ago.

In addition, a normalization of the credit markets in the U.S after an abnormally loose period from 2004 to 2007 is the number-one driving factor in the increase of quality loans, he said. "A lot of money was being lent to people with very unusual histories," he said. "A lot of documentation wasn't there for income, and now I think Americans have learned in general that you really need to have some history behind you in terms of working, saving some money and just planning for the future." ■

– Staff Writer Tiffany Rider