DAGWOOD DOESN'T WORK HERE ANYMORE?: THE DENOMINATOR, UNEMPLOYMENT, AND WAR

Angela Moore Sparkman, Meridian Community College Doh-Kuhl Kim, Mississippi State University Jack E. Tucci, Mississippi State University

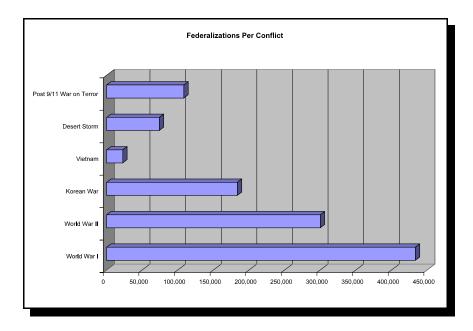
ABSTRACT

In the years leading up to 2001, the United States economy saw an unprecedented level of growth. From all accounts, economists and the general public alike agreed that we had never been here before. During this period, the Dow Jones Industrial Average reached 11,000 and unemployment was at an all time low of 4.0%. So where are we today? In the last year, the DOW reached 10,000 before dropping again, and America's unemployment rate ended the year of 2003 at 5.9%. The United States economy is in its third year of recession. With employment at an unsettling level, could it be worse if it were not for the effects of war? Everyone, including our President, wants to be able to say that we have hit the bottom and that we have begun recovery. Has the time come that we can begin to relax and ride the American dream?

INTRODUCTION

It's Sunday morning. You've gotten out of bed, and with your steaming cup of Java in hand, you've settled in your favorite chair to read the Sunday comics. You notice that the comics just aren't the same as they used to be. Beetle Bailey isn't there; the author has noted that Beetle has been shipped out to Iraq and will not be back for 24 months. You turn to look for Dagwood because you know he will be there. There is a stamp saying, "RESERVE FORCES ACTIVATED FOR NEXT TWELVE MONTHS. DAGWOOD SHIPPED OUT!" Instead of Dagwood going to work, there is a replacement in the comic strip. Twelve months later, when Dagwood returns, his boss and all the readers have really learned to love the new character. What is Dagwood (and Dagwood's boss) to do?

Sure, we are just talking comics here, but this is what is going in today's workforce. In an unprecedented amount, our country has activated the guard and reserve in an effort to fight the war on terror because of the reduction in forces of our permanent military staff (Mazzetti, 2004). In President Bush's remarks on November 8, 2002, he said "Our National Guard and Reserve units comprise 38% of America's military forces" and he continued to say, "Our volunteer National Guardsmen and Reservists rely on their employers for essential support and encouragement that often come at the employer's expense" (National Employer Support of the Guard and Reserve Week, 2002). What does that do to our economy?



How do we measure the effect this has on the employers of all of those members of the National Guard and Reserve who have been full-time employees and now are full-time soldiers? Is it an unfair indicator of our economy to say that unemployment is going down because of new job creation or is it because we need replacement workers for the jobs that are being vacated due to the activation Reservists? In the year since President Bush's comments, the business world has responded. Returning "citizen soldiers" are coming home to find their job is no longer there, and 1,300 have filed complaints with the Department of Labor (Jobs and economic growth, 2003). Economists are asked to think in both costs and benefits and it appears that the

government is thinking of the benefits that they receive from the "citizen soldier" and the employers of these "citizen soldiers" are incurring the costs (Arnold, 2004).

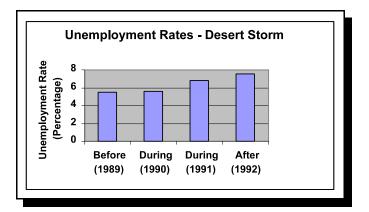
Milton Friedman wrote, "Economics is the science of how a particular society solves its economic problems," and continued his thought with "an economic problem exists whenever scarce means are used to satisfy alternative uses" (Arnold, 2004). How will the United States 2004-2005 be remembered? Did we use our resources to the fullest or did we squander them? How is our government using the "scarce means?" Are they satisfying the correct needs? Friedman also goes on to say "When an executive decides to take action for reasons of social responsibility, he is taking money from someone else" (Twomey, Jennings, & Fox, 2002). How much social responsibility should our employers have? And what will that do to the bottom line of our economy?

Alan Greenspan, our Federal Reserve Chairman, said the following about our involvement in the war front of Iraq, "I would be very doubtful if the impact on the economy is more than modest, largely because this is not Vietnam or Korea. Korea – it had a really monumental effect, basically because the economy was so much smaller than it is today" (Dettmer, 2002). Since the years of the Korean War, our economic indicators have changed, our laws have changed, and where the United States stands in the world is the measure that we will need to judge where we should be as a country. This paper will review the law that has changed employers' rights and our country's use of volunteer soldiers. Concurrently this paper will also look at the United States' balance of trade, inflation, Real GDP, full employment, and unemployment.

THE LAW

"Thousands of reservists and members of the National Guard answered our country's call and now they're starting to come back from their mission" said Secretary of Labor Elain Chao. A law called USERRA guarantees that the jobs they left behind will be waiting for them. Most employers know more about this law, those that don't can call 1-866-4USADOL. As Secretary Chao says, "They did their job – now let's do ours." This was a public service announcement used a social marketing technique to remind employers of their ethical duty to those members of the National Guard and Reserve. This marketing effort was to remind employers that there was now a law that could be enforced against employers if they did not treat the "returning from active duty" employee as if they had never left (Agency Group 08, 2003). Many left their employment to become full-time soldiers and have returned to get back into full-time employment.

According to Scoot Woodham of the National Guard Bureau, the National Guard is made of two divisions: Army and Air. The National Guard's first and primary responsibility has been to state militia, and then the President of the United States has the right to federalize these state militias for active duty in a time of a national crisis. Ms. Renee Hylton, historian for the National Guard Bureau, notes that after Vietnam, the Air National Guard can only be voluntarily activated but that the Army National Guard can be involuntarily activated for a period of 18-24 months. Each military division within the United States has its own reserve units. The reserve units of our armed forces are made up of men and women who have been previous members of the military (now, civilian), and they can be federalized in the event of the national crisis. (Woodham, 20004) (Hylton, 2004) Many laws of the land were implemented because the citizens of the United States had previously been mistreated after coming home from the previous wars or conflicts. When the violators did not voluntarily change their course of action, our legislators felt it was their duty to deal with it and change behavior through laws (Anderson, 2002). This is what occurred after the Persian Gulf War. As the National Guard and Reserve came back after the war, many were left without a job or a demotion with no legal recourse to get what they felt was rightfully theirs. That unethical treatment of our returning veterans prompted the passing of the Uniformed Services Employment and Re-employment Rights Act (USERRA) in 1994 (Leonard, 2003). This law "gives employees who take a leave of absence for active military service certain statutory rights - not only to re-employment but to specific coverage for retirement and wellness benefits" (Lewison, 2004).



"All government has powers that they never possessed before" is certainly one way to express the way that our government has begun to control the United States economic state in the world (Twomey, Jennings, & Fox, 2002). During previous

wartime needs for serviceman, it has been the individual citizen that was involuntarily drafted into the service. Today the National Guard and Reserve made up of men and women that if needed, will defend their country; yet, in the mean time, each is expected to be just part-time soldiers and full-time employees. Not only is this a commitment for the employee to become a full-time soldier if needed but it also has become a commitment for the employer.

There are various support systems for the employers and employees which includes the Employer Support of the Guard and Reserve (ESGR). ESGR was formed in 1972 at the anticipation of the end to the draft. The ESGR calls the members of the National Guard and the Reserve, "Ready Reserve." ESGR reports that the "Ready Reserve" makes up 46% of total military power for the United States and the success of the "total force" is dependent on the success of the support from the employer and community for the "Ready Reserve" (Information about ESGR, 2004). Even with this law, it does not remove the obstacle of unemployment or demotion for many of the guard and reservists as they return home. Employer support offices arranged through our defense department are reporting as many as 100 calls per week of potential violations of the law USERRA (Jobs for returning troops, 2003).

Is anyone concerned about the rights of the employee that was hired to replace the activated member of the National Guard and Reserve? The rights of the returning employee supersede the rights of anyone hired to replace him or her, even if the replacement ends up with no position at all (Lewison, 2004). A replacement employee has no rights to keep the job and the employer has no rights if they want to keep them. According to USERRA, the returning civilian soldier must be returned to their civilian job with "a position of like seniority, status and pay" (Lewison, 2004).

NUMBERS OF EMPLOYERS AND EMPLOYEES AFFECTED

Of 400 U.S. employers that were recently surveyed by Buck Consultants, 85% reported having "military reservists on staff" and 83% had been affected by one or more being called to full-time duty. Twelve percent are doing more that the law requires by continuing full pay for 3-6 months or making up the difference between military pay and civilian pay (54% of the businesses surveyed). Some businesses that cannot do that are at least continuing medical benefits for twelve months (43%) (Leonard, 2003). Nevertheless, the question remains; are the executives making these social responsibility decisions, "taking money from someone else – from the stockholders, in the form of lower dividends; from the employees, in the form of lower wages; or from the consumer, in the form of higher prices?" as economist Milton Friedman questioned

(Twomey, Jennings, & Fox, 2002). President Bush commented on this when he said of the activated members of the National Guard and Reserve, "They rely on their civilian employers to put their national interest above corporate or self-interest" (President thanks employers for support of Guard and Reserve forces, 2003).

How many reservists have been called out of the civilian world to that of active "American citizen soldiers have served in every conflict since the military? Revolutionary War," stated President Bush (President thanks employers for support of Guard and Reserve forces, 2003). There have been 243,000 reservists called to active duty and around 183,000 actively serving (Leonard, 2003). Col. John O'Shea, a representative of the Reserve Officers Association (ROA) states our concerns before this war is over are valid, "The actual pool of reservists is somewhere around 900,000 and most of them do hold full-time jobs. So there are plenty of employers who have reservist on their staffs and could still be affected by another call-up by the military" (Leonard, 2003). President Bush stated "...more than 1.2 million men and women serve in the Guard and the Reserve. That's almost half of America's total strength. These men and women face the difficult challenge of balancing military duty with civilian employment." (President thanks employers for support of Guard and Reserve forces, 2003). Out of 200 American citizens, only one wears a uniform for the armed forces which is comparatively low in recent years and the brunt of this duty is falling on the shoulders of the National Guard and Reserve. "Many of the part-time soldiers mobilized the first days after September 11 have yet to be deactivated. Within months, reservists will make up 40 percent of the total U.S. force in Iraq," says Lt. Gen. Steven Blum, chief of the Army National Guard (Mazzetti, 2004).

President Bush also seems to understand the sacrifice that the businesses across America pay for having member of the guard and reserve work for them. He states, "our Guardsmen and Reservist depend on the understanding of their employers. Across America, where units have been activated, employers at offices and factories and schools, hospitals and other workplaces have been understanding and really supportive" (President thanks employers for support of Guard and Reserve forces, 2003). There are numerous support agencies for both the employers and employees that are affected by the activation of members of the National Guard and Reserve. Egsr.com provides a complete listing of support agencies (Related Sites, 2004).

BALANCE OF TRADE & INFLATION

Would our employers be more willing to be patient with the loss of their workforce if they saw they were reaping the benefits somehow? Is our dollar worth as

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much, what does our balance of trade look like and what do they have to do with one another? As the American economy moved from the local community state to the nation wide state, the individual states were unable to provide effective regulation of business. It was inevitable that regulation would migrate to the central government." (Twomey, Jennings, & Fox, 2002). The United States government has regulated trade well. Trade benefits have increased due to trade agreements like NAFTA (North American Free Trade Agreement) and the Uruguay Round global trade agreement which have provided American consumers with more choice and lower prices on the goods that they consume which total "\$1,300-\$2,000 annually for the typical U.S. family in savings" (Fact sheet: making life better for America's consumers, 2004).

The dollar is finally shrinking in worth. "Since 1982, the United States has run an every growing current account deficit – the gap between what we buy and reap from investment abroad and what foreigners sell to us and garner in returns on their U.S. investments," says Allen and Lim (2004). That should have driven down the US dollars much before now, but only in the last year have we seen a major decrease in the value of the US dollar in terms of other currencies. If we had seen the dollar's value shrink before now, we would not have the \$3 trillion in net debts owed to other countries. The dollar has lost one-forth of its value since February 2003. Perhaps now, we will see the number of exports increase due to the fact that others currencies can buy more American goods and the American domestic population will buy less imports due to the price increases.

Inflation is a measure by the consumer price index (CPI), which is garnered by the Bureau of Labor Statistics. According to the CIA World Factbook, the inflation rate of the United States in 2002 was a mere 1.6% (2004). According to one of Council of Economic Advisers to the president, the public should not be concerned about inflation. "Inflation is primarily a monetary problem and as long as we have a central bank as competent as ours, I don't think inflation will be a problem," said Gregory Mankiw, who is the chair (Allen & Lim, 2004).

REAL GDP AND ECONOMIC STABILITY

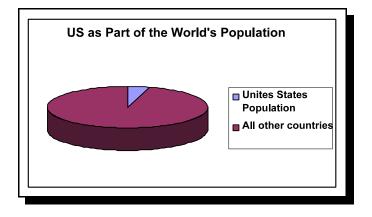
In the past twenty years, the United States has not seen growth in Real GDP like that which was recorded in the second half of 2003. Real GDP grew at an incredible 6.1% (Jobs & Economic Growth, 2004). A growth rate increase of that proportion indicates a significant increase in value of what we are producing within our country's borders. Certainly unemployment would have to have been reduced to have the additional workforce to create such an increase. If the Real GDP growth is any

indicator, "an old-fashioned upswing in the business cycle is finally under way," and increasing our inventories and exports are what is making the difference (Copper & Madigan, 2004).

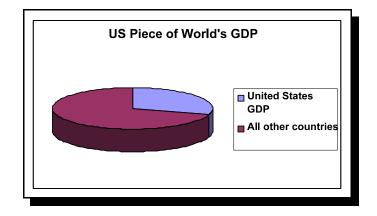
The state of our economy is measured by whether or not our Real GDP is increasing or decreasing from the previous quarter. Our US economy has entered into five periods of recession since 1970: 1973-1975, 1980, 1981-1982, 1990-1991 and the recession which began in 2001 (McConnell & Brue, 2005). Do the current figures that are out for second two quarters of 2003 truly indicate that the last recession is over?

How strong is America's economy? The United States of America accounts for only 4.5% of the world's population. The United States does forty percent of the world's use of the World Wide Web. The spending on military by our military leaders makes up 36% of the world's spending on the military (which is equal to the total of the next nine largest spenders). Our GDP reflects approximately 30% of the world product (Kennedy, 2001). Our economy appears strong on the world front.

The challengers of today's American economy, are tomorrow's China, India, Russia, and Brazil. Zhu Min, general manager and economic advisor to the president of the Bank of China, predicts, "China will be number two by 2020. China's GDP will roughly become \$4-5 trillion. The United States will go to US \$14-16 trillion." Bill Gates commented on China's growth as well, "It's breathtaking. It's capitalism at full speed. The whole world's going to get richer." (India, Brazil Predict Economic Strength, 2004) It has been noted that in the last decade, "China has become the world's workshop...India is becoming the world's back office," (Zuckerman, 2004). These jobs have always traditionally been thought as American, but we are no longer in the world of "tradition." We also do not see the other leading economic competitors are not committing a major portion of their country's resources to stabilize another part of the world.



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FULL EMPLOYMENT

How full employment is determined is still a question of deliberation. However, our current president vows that he "will not be satisfied until every American looking for work has found a job" (Jobs & Economic Growth, 2004). Is President Bush saying that America should have an unemployment rate of 0%? For some that is what "full employment means (Walker, 2003). Still others proclaim that in order to have "a dynamic, changing economy," your unemployment rate will never be zero due to frictional or structural unemployment (Arnold, 2004). "Economists accept the idea that some unemployment - perhaps 5 to 6 percent – is natural" (Walker, 2003). Using the idea of full employment, our most current unemployment rate is 5.6% (Labor Force Statistics from the Current Population Survey, 2004) that would lead to the conclusion that our economy is currently at full-employment.

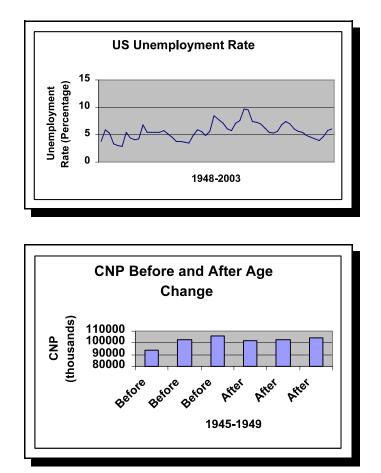
Instead comments like "unemployment remains high by recent standards," leads to reduced citizen confidence in our economy and to the reluctance in the employment of those citizens (The Bush Victory in Iraq, 2002). It appears that even our most basic issue (happiness) is that we place our constraints on how we would feel and respond now if placed in the conditions of the past, not how we as citizens actually were in the past (Easterlin, 2002). Could that not also be true as how we measure how well we were doing as a country?

Is everyone in the United States surveyed to calculate the employment rate? In fact only 60,000 households are surveyed by the Bureau of Labor Statistics (Miller, 2004). Are the 60,000 households surveyed a true representation of the 290 million individuals that live in the United States. A second way to look employment of our

population is to survey business payroll, but the data lag is about 3-4 months for that information to be available that it would be untimely (Miller, 2004). The discrepancy between the two is recorded to be growing to 6-7 million individuals in recent years (Miller, 2004). Do we have a true measurement of employment?

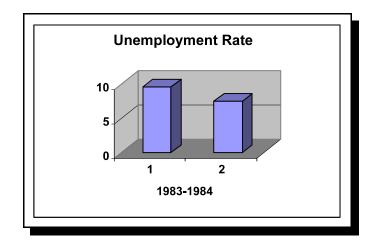
UNEMPLOYMENT

According to the Bureau of Labor Statistics, from 1940 to 1948, all persons that were 14 years of age and older, not institutionalized, and not in the military, were considered to be part of the civilian noninstitutional population. That age changed to 16 in 1947 which resulted in a reduction of the "workforce" according to our government's definition.



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The only other governmental change (other than the change in the legal working age in 1947) occurred to the numerator for the unemployment rate. Who can be counted as unemployed changed with Ronald Reagan in 1983. At this time, Reagan wanted to reexamine structural unemployment. According to Durst 2000, the policy changed occurred to make unemployment rates decrease but with a false sense of security. But was it really? Reagan's idea was that someone that was structurally unemployed, was truly unemployable until they retrained. Maybe this change was for the better. Perhaps, it derived a truer number for the unemployed. If someone is structurally unemployed, there is not a job in the current economy for them. They must drop out of the market, retrain, and become a reentrant with new skills. Maybe Reagan making this policy change was the best for those that continually looking for a job to fit their skills that does not exist to is to force them to retrain and off of unemployment through the label of "unemployable." (Durst, 2000) (Feldstein, 1997) This change did make the unemployment rate decrease. The following illustration depicts the unemployment rates in 1983 and 1984. The data comes from the Bureau of Labor Statistics. There was a significant drop in the unemployment rate after the change was made.



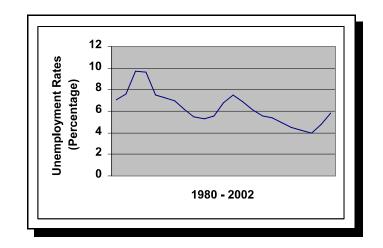
When reflecting on the history of our country, most would say that our economic policies are decided with the reflection of the great depression in our eyes. High unemployment rates could only lead to poverty and a destruction of order – political or social. The conclusion was that unemployment should be avoided at all costs. The decision makers listed economic growth and full employment at the top of the agenda and concerns on inflation were important but took a back seat to

employment issues. This type of economic planning occurred up until the late seventies when our economy proved that rather than low unemployment being the cause of high inflation, that the opposite was true. Could it be true that higher unemployment and higher inflation went hand in hand? Beginning in 1992, it has been noted that unemployment and inflation move in the same direction (lowering unemployment is meaning lowering inflation or at least stable inflation) (Notwotny, 2003).

In April 2000, the unemployment rate of the United States was at a thirty-year low of 3.8 percent. It drifted higher for a few months and went back down to 3.9 for October and December of 2000, and then the unemployment rate began to climb. According to the Bureau of Labor Statistics, the U.S. unemployment rates have hovered between 4.3-6.1 percent since our economic recession began in March 2001 through January 2004 (Labor Force Statistics from the Current Population Survey, 2004). There are approximately nine million people counted as unemployed today with 2.3 million more not working but cannot be counted as unemployed because they have become discourage and have quite the search for employment (Bush's War Economy, 2003).

When defining how much of our 290 million citizens are unemployed, the civilian non-institutional population is considered which removes those that cannot work (those under the age of 16 and those that are institutionalized) along with all of those who are in the armed forces from the total population (Arnold, 2004). When one starts to consider activating the National Guard and Reserve, one must remember the civilian non-institutional population is declining because according to the model, members of the armed forces are not part of the civilian non-institutional population. The individuals were removed but the jobs that those civilian soldiers once did remained. These jobs must be done. So the employer hires someone that is currently unemployed to do the job which make the number of unemployed persons decrease, but not as much as the number of people that have been taken out of our civilian noninstitutional population. Is it only because we removed a person who was previously doing a job? What will the unemployment rate be as the Reserve and Guard return to their civilian posts? Let's look at unemployment rates before and after each conflict that the National Guard and Reserve have been a part in the last two wars.

According to the CIA World Factbook, the unemployment rate of the United States in 2002 was a mere 5.8% with a civilian labor force of 141.8 million of a population of approximately 290 million (2004). Below, one can see what our unemployment rate has done form 1980-2002. Source: Unemployment Rates, by selected countries, 1970-2003 (2004). *World Almanac & Book of Facts*, 2004



Reflecting upon the numbers above, one can see that unemployment increased during the years our economy was affected by the Persian Gulf War in the early nineties in addition to the end of the Cold War, which some say is the reason that our economy slid into a deeper recession (Mollins, 2003). Compounding this were the events of September 11th and the United States entry into its war on terror. Since September 11th, we have seen a steady increase in unemployment than from the pre-war years. Could this be further evidence that we are missing our mark on the calculations of unemployment numbers? More people might not be unemployed, but actually more are employed through the military and the civilian non-institutional population is smaller than in nonmilitary times. We just reduced the denominator by a greater amount than the numerator. The unemployment rate is calculated by taking the number of unemployed and dividing it by the civilian noninstitutional population (Arnold, 2004). If during the activation of the National Guard and Reservists (wartime), the employer chooses to assign those tasks that are vacated to another employee and not hire someone, the numerator would remain the same and the denominator would decrease. Again, this would make the unemployment rate increase without there being any additional people' unemployed and looking for a job.

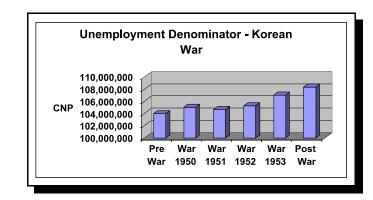
One potential solution to this problem is to increase the number of full-time members of the armed forces and reduce the number of National Guard and Reserve men and women that are being activated. Both parties that represent both sides of Capital Hill are for increasing the size of our military for the first time in over 16 years since the ending of the Cold War, but the Pentagon is not. Everyone but the Pentagon seems to see that the call-ups of the Guard and Reserve have only patched the problem and have been a temporary solution. In 1987, our full-time military was at a peak of 2.2

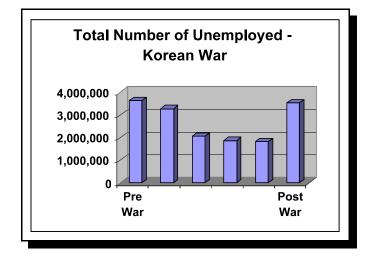
million persons and dropped to 1.5 million in 1988 and has remained at that level (Squiteieri, 2003).

Perhaps the Pentagon is not in favor of this because they currently operate under a budget of \$401 billion which in the largest since the Reagan era. Considering the amount of money the Pentagon is spending, its military force is one-third smaller than in the Reagan era (Mazzetti, 2004). What should our military forces be as Iraq rebuilds? In post-war Germany, the United States "deployed one soldier for every ten citizens," which is what President Bush used as a model. Although in post-war Iraq, there is "one soldier for every 154 citizens." Donald Rumsfeld says the "our goal is not to create a dependency in Iraq by flooding it with Americans." Our current Administration wants to "Iraqify" it. Let the Iraqis handle their rebuilding but with minimal support from the United States. What is the minimal support going to cost our country in the process (Crunch Time, 2003)?

If you are merely measuring how many people are employed or unemployed by looking at the rates, we have shown that the percentages can be misleading. The unemployment rate has been continually dropping since its high of 6.3 in June of 2003 (Labor Force Statistics from the Current Population Survey, 2004). How can this be when we continually hear that the Bush administration is losing jobs? "More than 2 million jobs have been lost since Bush took office," (Kadlec, Carney, Zagorin, Kiviat, & Thottam, 2003). The current administration got a substantial tax cut that they promised would bring an average of 306,000 jobs a month, and give 510,000 American citizens employment before the end of 2003, but it has not. Only one-third of the anticipated job growth has occurred (Zuckerman, 2004). If jobs are not being created, how is unemployment affected? How could the unemployment rate continue to drop one-tenth of one percent every month for the previous seven months? Maybe, just maybe, it has something to do with the denominator for the unemployment rate.

During the Korean War, we saw the denominator actually decrease during the first year of the way. Looking at the following graph, one can see that the denominator (civilian noninstitutional population) decrease. The numerator (number of unemployed) continually decreased in size except in the postwar numbers perhaps due to the fact that the number of soldiers activated came back and found no job waiting. The data was retrieved from the Bureau of Labor Statistics.





CONCLUSION

It is true that there is no country in the world that is an economy of pure capitalism or pure socialism, but is what we require of our business is America pushing our economy more and more toward socialism (Arnold, 2004)? How long can our businesses be supportive of the guard and reserve by continuing their social responsibility to our country? How long will we be required to endure the effects on our economy while trying to provide stability in others?

The United States of America won its independence on July 4, 1776 and it took until September 17, 1787 for our countrymen to put together a document that would outline the relationship of our government and its people (CIA – The World Factbook –United States, 2003). Are our businesses and our economy prepared to endure the

strains for the next eight years until Iraq defines theirs? We still have our economic problems to deal with: raging medical and retirement costs for a rapidly growing senior population, an increasing imbalance of trade, and a potential for a rise in inflation with "stagnation of family income in the lower economic groups" (CIA – The World Factbook –United States, 2003).

The president has growing power and influence in our country more than ever before. With Republican control over both sides of Congress, he is "leader of the lawmaking process" (Twomey, Jennings, & Gox, 2002). In the President's release dated February 2, 2004, he did say that his budget would focus on "winning the war on terror by defeating terrorists and their supporters," and "strengthening our economy" (President Bush's FY 2005 Budget, 2004). President Bush and his policy sent \$100 billion last summer to the citizens and have had enormous increase in military spending which could be the reason for the unprecedented 7.2 percent growth in the third quarter of 2003. Increasing the governmental spending does make our economy grow but it should be noted that it could have a greater multiplying effect if used for improving the infrastructure of the county (schools and roads) than used on defense spending. (Bush's War Economy, 2003)

Have we stretched our military resources too far? Does our military need to be increased to have additional full-time members? "Fifty-four of the 61 members of the House Armed Services Committee...have sent President Bush a letter urging him to expand the U.S. combat force... {asking Bush to} reassess the ratio between active and reserve forces used in long deployments because of concerns that the military is overly reliant on the Guard and Reserve in the war on terrorism." (Squitieri, 2003)

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