Mitchell's Musings:

July-September 2012

for

Employment Policy Research Network

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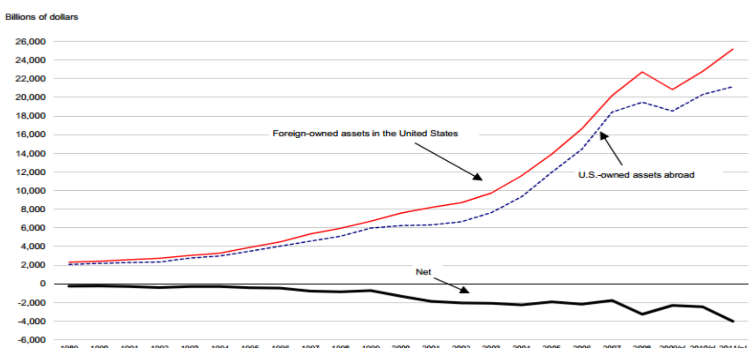
Mitchell's Musings 7-2-12: Made in USA or Not

Daniel J.B. Mitchell

In this election season, we are guaranteed to hear much about the federal budget deficit. Oddly, the other deficit, the "trade" – really net export - deficit, seems to be entirely neglected.[1] I say "oddly" because in a period of high unemployment, there is concern about jobs. In principle, government could take direct action and create jobs – but in fact a combination of political gridlock at the federal level and the fact that state and local governments are ultimately budget-constrained means that there is unlikely to be more public job creation. Indeed, recent trends at the state and local level are in the other direction.

When a household or a country continually spends more buying goods and services than it is earning, eventually its net assets are depleted and net debt piles up. How long a household or a country can go before something brings the process of living off borrowing to a halt varies. But if the net debt is to be repaid at some point, the person or household or country must reverse course and spend less on goods and services than is earned. All of this is arithmetic, not high-powered theory. As the chart below shows, because the U.S. has been running a large net export deficit for many, many years – in effect borrowing from the rest of the world to support its lifestyle - the U.S. has become the world's largest debtor.[2] And as is well known, the U.S. has enjoyed more leeway in that regard because the dollar for historical reasons is an international currency.

Net International Investment Position of the United States at Yearend, 1989 - 2011



p Preliminary
r Revised
Source: Bureau of Economic Analysis

There is some connection between net export deficits, increasing international debt, and the federal budget deficit and debt but it is a loose connection at best. So the two deficits should not be confused or thought to be mechanically related. One of the assets held by foreigners, including official foreigners such as central banks, is U.S. Treasury debt. Official foreigners hold about one fifth of the gross international debt of the U.S. U.S. government liabilities are also about a fifth of gross international liabilities of the U.S. Thus, the federal budget deficit is part of the story behind the growth of America's

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[1] "Trade" technically refers only to goods exports and imports and omits services.

[2] Source of the chart: http://www.bea.gov/newsreleases/international/intinv/2012/pdf/intinv11.pdf.

net international debt – but not most of the story. Federal deficits are a form of negative saving (dissaving) that reduces total national saving from all sectors and contributes to the net export deficit in that way. But again, "contributes to" is not the same as being the sole cause or even the primary cause.

Under current circumstances there is a much more direct jobs link to the international sector than to the federal budget. If we were in a period of full employment, but were running a net export deficit, the impact of the international sector would not be on the *number* of jobs – by assumption already at the level associated with full employment – but on the *composition* of jobs. In broad terms, since a significant proportion of exports and imports is manufactured products, a bigger net export deficit would mean fewer jobs in manufacturing but more jobs in other non-trade sectors such as various services, retail, etc.

With a major departure from full employment, such as we now are actually experiencing, the impact of an *improved* net export balance would be more jobs total – mainly in manufacturing – rather than just a reshuffling of a fixed number of jobs across different sectors. About two-thirds of U.S. good exports and close to three quarters of goods imports are manufactures. Compared to trade in goods *and services*, the manufacturing ratios for exports and imports are on the order of 60% and two thirds.[3] The current net export deficit is about 4% of GDP. So a back-of-the-envelope calculation would suggest that if the net export deficit were brought to zero, labor demand would increase by about 4% and something like 60% of the added demand would go to manufacturing. Such a shift would likely raise manufacturing labor demand by over one fourth – a lot! - since nowadays the employed labor force in manufacturing is roughly a tenth of total employment.[4] You can quibble with this loose estimate and refine it in many ways. But it would be hard to deny that improving the net export balance would have a big positive impact on U.S. manufacturing.

Despite the key issue of jobs in today's economy, there has been great reluctance by policy makers and political leaders to examine the international trade issue in a macro sense. Perhaps there is fear on their part of being branded a protectionist. Perhaps the idea has become prevalent that whenever globalism (whatever that word means) is operating, mere national policy cannot influence outcomes. While there is recognition that exchange rates and an overvalued dollar may be part of the story behind the U.S. net export deficit, it seems to be assumed that there is little to be done on that question. Or it is assumed that somehow the problem will resolve itself.

Indeed, the last assumption seems to be in vogue today. The limited appreciation of the yuan relative to the dollar allowed by Chinese authorities and indications that Chinese wages are rising are seen as forces moving towards solving the problem. But moving towards a solution is not the same as arriving at a solution in a timely manner. Unfortunately, the needed *pace* of those developments that are said to be moving towards a solution and some projected date when the solution will finally arrive are never

[3] I used 2012 export and import data through April for calculating the proportions. Source: http://bea.gov/newsreleases/international/trade/2012/pdf/trad0412.pdf.

[4] On a national income account basis, manufacturing full-equivalent employment was a little over 9% of total in 2010 (the 2011 revisions are not yet available). See http://www.bea.gov/scb/pdf/2011/08%20August/NIPA_Section6.pdf.

specified. The U.S. needs balanced trade simply to stop its net international debt from rising. In fact, it needs a net export surplus to begin paying off its net debt. When these events will occur is never indicated by those who are content with the assumption that things are moving in the right direction.

What happens as a result of avoiding the larger trade issue is that its symptoms are addressed erratically in a micro sense. For example, a recent Commerce Department decision proposes anti-dumping duties on Chinese-made solar panels.[5] But attempting to go product by product to resolve the trade problem is not a solution. Vague export promotion efforts also have little impact. Ratification of this or that trade treaty has little effect. In view of federal inaction, there is temptation for state and local politicians to respond. However, dealing with the national trade problem at the sub-federal level is not practical.[6]

Ultimately, there is no point in stewing about "What's the Matter with Kansas?" if no political leaders are addressing the trade issue effectively. That phrase – the title of a book and movie – has been used to suggest that white working-class voters increasingly and mysteriously are voting against their economic interests, a thesis that has been challenged.[7] Neither political party has focused on the trade imbalance and its impact on the labor market for such workers and on manufacturing. So neither one is particularly focused on the interests of those voters. As a result, they swing back and forth between the parties (determining the outcome of close elections) in the hopes someone someday will respond to their deteriorating job prospects.[8]

In short, trade seems to be a non-topic within both the left and right segments of our polarized political leaders. And Kansas, if you are wondering, is a bit above the national average in its proportion of manufacturing workers in its workforce. No one has focused effectively on the international trade issue for manufacturing there - or anywhere else in the U.S. The real question is, what's the matter with Washington, DC?

[5] http://www.bloomberg.com/news/2012-05-17/u-s-imposes-anti-dumping-duties-for-chinese-solar-imports.html.

[6] One proposed California law, for example, would have provided a tighter state definition for a product to be labeled "Made in USA" than under the federal standard. See http://www.mercurynews.com/opinion/ci_20901680/dan-walters-californias-made-usa-bill-is-no. There have also been periodic controversies in California over purchase of foreign steel for the rebuilt Bay Bridge in the San Francisco area or about the source of light rail cars bought by local authorities.

[7] http://www.princeton.edu/~bartels/kansas.pdf.

[8] http://campaignstops.blogs.nytimes.com/2012/06/17/canaries-in-the-coal-mine/.

Mitchell's Musings 7-9-12: Creating a Train of Thought

Daniel J.B. Mitchell

We all know about "push polls" that appear whenever there is a political campaign. A push poll consists of a phone call to a voter, ostensibly to ask neutral survey questions, but actually composed of questions formatted to point to a particular position or candidate (or – more often – away from a particular position or candidate). The sad fact is, however, that even reputable polls inadvertently are pushers since many voters don't focus on the issues or the candidates until close to Election Day.

Particularly when complex issues are involved, therefore, voters either are unaware of the issues entirely or have only vague notions about them. Almost any question – to prompt respondents to say more than "don't know" or "no opinion" provides information to the respondents about the issue. The presentation of the information to poll respondents who really don't know or who really have no opinion tends to frame an issue. The subtle message is that you should have an opinion.

Here is a recent example. The Field Poll is a longstanding, respected poll on politics and attitudes in California. But, as will be described below, it (inadvertently most probably) became a pusher.

As in many states, California was hard hit by the Great Recession. In addition, in the period just prior to the Great Recession, the state's fiscal affairs were not in order so the recession intensified an already-existing problem. California was also disproportionately a participant in the housing bubble and flaky mortgages that precipitated the Great Recession so it was disproportionately affected by the downturn.

Fast forward to the present. Governor Jerry Brown has placed an initiative on the November 2012 ballot that would provide a temporary increase in the income and sales taxes. There is a long story behind the development of that initiative which is unnecessary to explore here. The key point is that the governor's remedy for California's fiscal distress is voter approval of the tax initiative in the upcoming general election. So it is natural that the Field Poll would be asking questions about voter intentions regarding the initiative. [9]

Another current political development in the state is a proposal for the building of a high-speed rail system that would run from southern to northern California. Voters approved a bond measure to begin the project in 2009, but other fiscal actions must occur before the actual construction can begin. Governor Brown supports the rail proposal and on July 6 managed to

[9] The Field Poll to which this musing refers can be found at http://www.field.com/fieldpollonline/subscribers/Rls2413.pdf.

obtain legislative approval by a very narrow vote. No aspect of the rail proposal, however, will be on the ballot in November.

The rail project has been controversial, hence the narrow legislative vote. Naturally, the Field Poll wanted to examine public attitudes towards the rail proposal. So the latest Field Poll, which was mainly about the governor's tax initiative, nonetheless included the following question:

If the legislature were to approve initial state funding for the high-speed rail project this year, would this make you more likely or less likely to support Governor Brown's tax increase initiative in the November general election or wouldn't this make any difference to you?

Note that the question is overtly neutral.   It raises the possibility that the rail proposal, if enacted, could make voters more or less receptive to the tax initiative or have no effect. The problem is that by asking the question, the poll suggested to respondents that there was a rail-to-tax connection, i.e., voter/respondents should consider a) how they stand on the rail proposal and b) then take that stance and relate it to what they intend to do on the tax initiative. Yes, voter/respondents could entertain the possibility that it would have no effect on their voting yea or nay on taxes. But the question inherently plants the seed of a connection.

What did voters say? The table below from the poll media release summarizes the results:

How legislative approval of funds for the high-speed rail project affects voter support for Governor Brown's tax increase initiative (among likely voters)

Impact on support for the Governor's initiative	Total likely voters	Current voting preference on Governor's initiative	
		Yes voter	No voter
Less likely to support	31%	21%	48%
No effect	54	59	45
More likely to support	11	17	5
No opinion	4	3	2

A majority of likely voters say the rail vote in the legislature would have no effect on their view of the tax proposal. But – with the seed of rail-tax connection planted – somewhat more say the rail enactment would make them less likely to support the tax than more. But the really lopsided tilt toward "less likely" is among those voters who intend already to vote against the tax. Among yes voters, there is a rough balance within the margin of error. And it might be noted that the rail/tax question was only asked of a subsample of the poll's respondents, making the margin of error larger.

What was the result in the news media when the poll was released? The headlines were that the rail decision potentially imperiled the tax initiative. The headline below was typical. But really there is no evidence that there is much of a relation between the legislative action on the tax initiative, other than one created by the poll itself.


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Rail vote potential pitfall for Gov. Jerry Brown's tax initiative, Field Poll finds

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California High-Speed Rail Authority

FIELD POLL: TAX INCREASE INITIATIVES

Gov. Jerry Brown is a big proponent of high-speed rail, but if the Legislature votes this week to fund the project, it could hurt him in the fall.

A survey released today suggests the project

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The California rail-tax poll "results" bring me to health care and the U.S. Supreme Court's 5-4 decision upholding most of the Obama health insurance plan including the controversial individual mandate. The news media, electronic and print, couldn't get enough of the story. How could anyone not know of the decision?


The New York Times

JUSTICES, BY 5-4, UPHOLD HEALTH CARE LAW; ROBERTS IN MAJORITY; VICTORY FOR OBAMA

G.O.P. Vowing To Take Battle Into November

Congress's Taxing Powers Cited — Medicaid Growth Limited

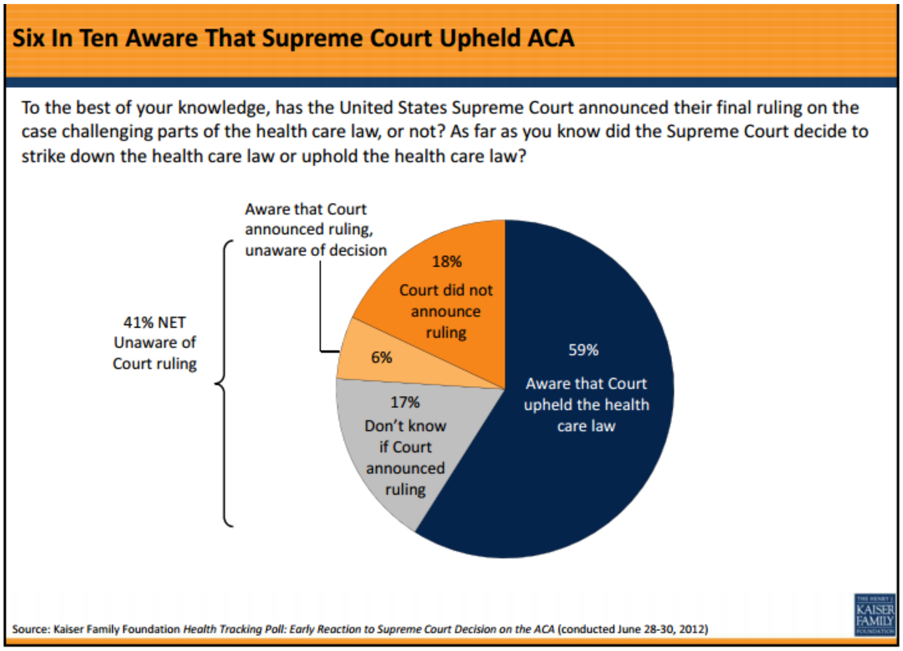
A Vindication, With a Legacy Still Unwritten

Roberts's Delicate Twist

Cartier

But the sad truth is that many people didn't know. Indeed, a poll by the Kaiser Family Foundation found that four out of ten did not know about the Supreme Court decision as of June 28-30.[10] (The decision was on June 28.) See below for the results:

[10] From the poll release: *This Kaiser Health Tracking Poll: Early Reaction to Supreme Court Decision on the ACA is the first of two polls to be released this month looking at public opinion on the Affordable Care Act in the wake of the Supreme Court's decision in the case challenging the law. The poll was designed and analyzed by public opinion researchers at the Kaiser Family Foundation led by Mollyann Brodie, Ph.D., including Claudia Deane, Sarah Cho, and*



If four out of ten did not know, how solid do you suppose was the information possessed by the other six? How strongly do you suppose many of them hold their opinions of the health plan? How much do they know about how the Supreme Court's decision will affect their voting behavior in the general election in November, four months from now?

Keep those questions in mind between now and November when you read about poll results regarding voting intentions and issues of controversy such as health care or jobs. Ignorance may not be bliss but it is widespread. Polls that report opinions may have suggested what opinions are expected, however innocently.

Theresa Boston. The survey was conducted June 28-30, 2012, among a nationally representative random digit dial telephone sample of 1,239 adults ages 18 and older, living in the United States, including Alaska and Hawaii. Interviews conducted by landline (712) and cell phone (527, including 314 who had no landline telephone) were carried out in English and Spanish by Braun Research, Inc. under the direction of Princeton Survey Research Associates International (PSRAI). The combined landline and cell phone sample was weighted to balance the sample demographics to match Census estimates for the national population on sex, age, education, race, Hispanic origin, nativity (for Hispanics only), region, and telephone usage… The release is at http://www.kff.org/kaiserpolls/upload/8329-C.PDF.

Mitchell's Musings 7/16/12: False or Just Misleading?

Daniel J.B. Mitchell

California has experienced four municipal bankruptcies since the Great Recession: Vallejo (population 116,000 and now out of bankruptcy), Stockton (300,000), Mammoth Lakes (7,400),[11] and now San Bernardino (210,000). As news reporters descended on each, tales of unwise decisions by city authorities emerged. But while unwise decisions can lead to bankruptcy, some degree of underlying fiscal distress is often in the background. When there is money flowing into city coffers, past mistakes can often be covered over. There is the old Warren Buffett adage: *"Only when the tide goes out do you discover who's been swimming naked."* San Bernardino is in the heart of southern California's foreclosure belt so the tide definitely ran out for it.

The headlines around the San Bernardino bankruptcy hint at someone fiddling with the municipal accounts and even suggest some kind of criminal behavior, as can be seen on the left. However, so far no specific criminal behavior has been identified.

www.bloomberg.com/news/2012-07-12/california-city-facin

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S&P 500	1,356.78	+22.02	1.65%
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California City Under Investigation Drained Reserve Funds

By James Nash - Jul 13, 2012 6:57 AM PT

9 COMMENTS QUEUE

Law enforcement officials are investigating possible crimes in San Bernardino's city government, which almost drained special funds to prop up its budget.

The near-bankrupt state of the community of 209,000 east of Los Angeles came to light when a new finance director discovered that previous officials shifted money for workers-compensation and liability insurance to the general fund, said Andrea Travis- Miller, interim city manager.

I have no inside information on what happened in San Bernardino. But it wouldn't surprise me if the supposed deceitful accounting turns out to be – at least in part - a natural product of the way in which sub-national public entities keep their books. In other words, the city council may well have been given "honest" reports in the years leading up to the bankruptcy and yet not understood where finances were heading thanks to normal public accounting methodology. It may turn out that San Bernardino's bookkeeping was no worse than that of other cities' but that, at the same time, the bookkeeping was a cause of the bankruptcy. How can that be?

Let's start with some basics of public sector account at the state and local level. Typically, a government entity will have a "general fund" as the operating account. A city will pay for such ongoing services as police and fire from that account. It likely will have other funds earmarked for special purposes outside the general fund, often for capital projects. Usually, when you hear about a state or local budget, it is the general fund that is being discussed.

[11] Mammoth Lakes is a small ski resort and is the one of the four cities whose problems seem to involve factors apart from the general economy.

The various funds are viewed in public accounting – including the general fund – as analogous to a household's checking account. You don't want your checks to bounce and as long as there is enough money in your account to cover the checks, you can pay your bills. So in a sense, as long as checks are not bouncing, things are "all right." But note that you might be able for a time to replenish your checking account if it runs low by tapping your savings account or selling or depleting other assets. You might be able to borrow from some source. These methods will prevent your checks from bouncing but borrowing for current expenditures and/or running down your savings probably means you are in for trouble if you don't take some corrective action. What seems "all right" is not sustainable.

If the account in question was your personal checking account, you probably would spot the problem. But suppose you are a member of a city council or a state legislature and the account in question is the general fund. In normal English parlance, if a government is taking in less in taxes and fees than it is spending on goods and services, we would say it is in "deficit." If the reverse is true, we would say it is in "surplus." And if taxes and fees just match spending, we would say our account is in "balance." In fact, at the federal level, that is what we do.

If you are a council member or a state legislator and you are told by your finance staff that you have a "deficit," therefore, you would probably think that your fiscal condition is problematic and take some corrective action. You might not insist that the corrective action occur entirely in one fiscal year if you have some reserves or ways to borrow to ease the adjustment and the option to resolve the problem through a multi-year solution. But you definitely need to grasp the situation as being unsustainable to determine a) whether a corrective action is needed and b) over what time frame that action should occur.

Suppose, however, that your finance staff told you that you had a "surplus" or that your accounts were "balanced" even though in fact your general fund was being steadily drawn down. You might think your fiscal affairs were under control until you suddenly ran out of money. It would not surprise me if the San Bernardino situation turns out to be something like that scenario rather than criminal obfuscation. News reports suggest that some staff gave the council warnings of problems. But that message could have been lost if the accounting terminology suggested things were ok or under control.

Why might you be told that you were in surplus or at least in balance even though you were in fact in deficit under the common parlance meaning of those terms? Basically, state and local accounting tends to confuse stocks (your reserves or savings or net debt at a moment in time) and flows (taxes, fees, spending over a period such as a fiscal year). And it may treat borrowing or drawing down reserves or sales of assets as a form of revenue. If borrowing is treated as revenue for descriptive purposes, there really can be no deficit. If having any reserve on hand – even if small and dwindling - is called a "surplus," then you will be told you are in surplus until the last penny in your account disappears and you can't pay your bills. Such terminology, unfortunately, is common in public finance at the state and local level and elected officials can easily be confused.

Again, I have no direct knowledge of what went on in San Bernardino. But if the accounting staff treated borrowing as revenue (including borrowing from internal funds outside the general fund) or if staff described have any money in the general fund as a "surplus" or a situation of "balance," elected officials might truly have been surprised when one day there was not enough on hand to meet payroll. Yet because such stock/flow confusions and lack of clear definitions are common practice, there may have been no intent by anyone to deceive, let alone criminal behavior.

We'll see what transpires as audits and post mortems are conducted in San Bernardino. Possibly there was deliberate deception or even misappropriation of funds. But the basic message applies. In periods when - in Buffett's words - the economic tide is low (as will be the case for years in the U.S. if current forecasts are to be believed), elected officials need to have accounting with clear normative terminology. When they hear the word "deficit" it should mean that inflows from true revenue sources (not borrowing or running down reserves or selling assets) are less than spending and that some corrective action is warranted. When they hear the word "surplus," it should mean (and only mean) that true revenues exceed spending. (And it should not mean that there is still some money in the account, even though true revenues are falling short of spending.)

There is no guarantee that elected officials will make good decisions when they are given meaningful information conveyed by common-parlance terminology. But good decisions are hard to make in the face of misleading information.

Mitchell's Musings 7-23-12: No Clock?

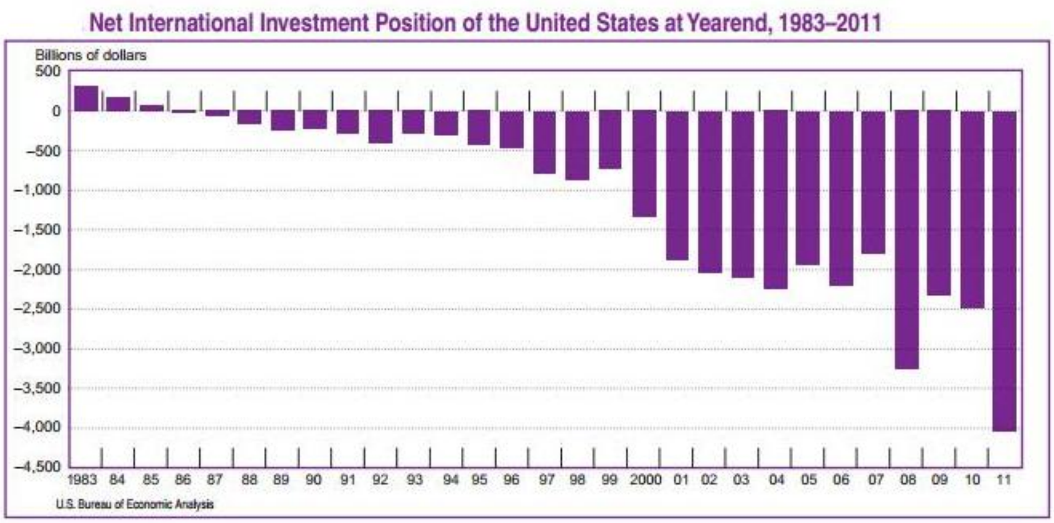
Daniel J.B. Mitchell

One of the devices used by those concerned about the national debt is the debt clock:

Nowadays, of course, you don't have to find one on a wall someplace. Just look on the web at http://www.usdebtclock.org/.

The national debt that the wall version of the clock features is essentially that of the federal government. As is often pointed out in such discussions, one feature of the national debt is that much of it is just that – national, i.e., owed to Americans.

The online debt clock version does include data on the trade deficit but not the net international debt of the U.S. However, the U.S. Bureau of Economic Analysis has now published its estimate for 2011, summarized on the chart below:



Now admittedly, it would be complicated to create a clock that went backwards and forwards as exchange rates and securities prices change, causing fluctuations up and down in the bars. As the chart shows, sometimes – due to such factors – the net international debt of the U.S. falls, although the ongoing trend is clearly in the direction of more net international debt over time.[12] One suspects, however, that the reason there is no international debt clock is that those who put out such clocks want us to worry about the federal debt and presumably are not concerned about the international debt.

However, apart from the price and exchange rate fluctuations, the way in which the international debt grows in the longer term is that the U.S. spends more abroad on goods and services (on imports) than it earns from sales of goods and services (exports). In times of relatively full employment – which have not been seen since 2006-07 – this discrepancy shows up in a displacement of domestic jobs from the "tradable" sector – heavily manufacturing – into non-tradable industries such as retail. In times of high unemployment, the discrepancy shows up as just displacement of jobs – to nowhere. But no one seems to want to post a job loss from trade clock.

On its face, the chart on the previous page seems to suggest that something unsustainable is occurring. But just as bubbles are often rationalized while they are in progress with "this-time-it's-different" explanations, similar stories surround the growing U.S. net international debt. It is said that since the dollar is an international currency, the world will just hold as many dollars as flow abroad. Or it is said that the U.S. is such a desirable place to invest – a safe haven - that the rest of the world just can't get enough U.S. assets. While there is some element of truth in these stories, can we be confident they have no limits?

A run on the dollar would presumably take the form of a big drop in its exchange value relative to other currencies. There could be a salutary effect of such a drop since – *other things equal* – it would tend to improve U.S. competitiveness and reduce or reverse the trade deficit – with a resulting positive job impact. Paying back the international debt ultimately can only be done with a job-creating trade surplus. However, sudden shifts in financial markets can create adverse macro conditions and job loss rather than gain, as the crisis of 2008 amply demonstrated. If major financial institutions have bet that the dollar won't fall and then it suddenly does, cascades of problems and panics can arise.

I'm not sure what the value of debt clocks really is. But if we are to have national debt clocks, surely an international version is in order.

[12] The chart appears as part of an annual summary of the international debt that appears in July issues of the *Survey of Current Business*. The latest edition is at http://www.bea.gov/scb/pdf/2012/07%20July/0712_iip.pdf.

Mitchell's Musings 7-30-12: How Many Polls Does It Take? Four, Apparently

Daniel J.B. Mitchell

In this musing, I want to bring together three topics: First, opinion poll interpretation. Second, the issue of public pensions. Third, attitudes toward public employees.

Let's start with the first two. I have noted in earlier musings that polls seldom get at the *intensity* of feeling of respondents to poll topics. Respondents will answer questions about whatever a pollster asks, but in many cases the issues raised are not something they have been spending sleepless nights worrying about. Some respondents will answer "don't know" or "no opinion" in such cases. But such responses might suggest general ignorance about what must be an important issue. (It must be important; why else would a pollster be asking about it?) And who wants to be seen as ignorant?

The result is that for issues that are not of immediate or pressing concern to respondents, pollsters are likely to obtain answers of first impression with opinions based on the way the question was posed. Some of the opinions, if examined, may be self-contradictory. So let's go to the public pension issue. This musing is not about whether or not that issue is actually important or whether something must be done about public pensions. It is about surveyed attitudes toward that topic and about interpretations thereof.

The California Field Poll is a respected survey organization within the state. In recent years, Field has been asking questions about public pensions. A table from a recent survey can be seen below. *Note that at each date the question has arisen, more respondents (registered voters) have said pensions are either "about right" or "not generous enough" than have said they are "too generous."* But you would never know that basic fact from news accounts that draw on the poll – at least until its latest iteration.

Trend of voter views about the pension benefits received by most state and local government workers (among registered voters)

	Too generous	About right	Not generous enough	No opinion
Late June/early July	**37%**	**36**	**17**	**10**
November 2011	41%	35	14	10
March 2011	42%	34	14	10
October 2009	32%	40	16	12
Party registration				
Democrats	26%	43	20	11
Republicans	59%	23	9	9
No party preference/others	29%	38	19	14
Union affiliation				
Union member in household	26%	45	19	10
Non-union household	39%	34	16	11

Source: http://www.field.com/fieldpollonline/subscribers/Rls2418.pdf

Why is that? In part it is because news reporters tend to pay more attention to ongoing political debate than regular folk and reflect what political figures and proponents of various positions say. Political debate does have some effect on public attitudes, too, but probably more attenuated than for reporters. Thus, when the March 2011 poll (second poll on the pension topic) results came out, they showed an increase in those saying pensions were too generous relative to October 2009 (first poll).

That outcome was not surprising because proponents of pension limitation in California had become much more vocal between 2009 - the first poll - and the second poll in March 2011. Some of this agitation seeped into public awareness. The results were little changed by the third November 2011 poll since California's Governor Jerry Brown had been pitching a pension limitation plan in that interval. But nothing much happened on pensions at the state level thereafter other than some legislative hearings. And most of the attention of the governor and legislature became focused on the budget, not pensions. In that interval, despite some local municipal pension-related campaigns, the issue became quiescent statewide and the percent saying pensions were too generous fell by June/July 2012 (fourth poll).

That drop may have been (should have been) the trigger for news reporters to examine a contradiction in the poll results. As can be seen below, although a majority of respondents thought pensions are either about right or not generous enough, when offered a list of ways to cut pensions, respondents tended to support them. Significant majorities supported pension caps or ending public defined benefit pensions with "401k-style benefits" (defined contribution).

Voter reaction to various proposals aimed at dealing with the state's long-term financial obligations of public employee pension and health benefits (among registered voters)

	Approve	Disapprove	No opinion
Establish an upper limit or salary cap when calculating pension benefits of public employees			
Late June/early July 2012	**67%**	**25**	**8**
March 2011	73%	20	7
Increase the minimum age at which public employees can receive pension benefits			
Late June/early July 2012	**60%**	**32**	**8**
March 2011	60%	32	8
Replace the current pension system for public employees with a new system that would combine 401k-style benefits with reduced guaranteed payments			
Late June/early July 2012	**51%**	**36**	**13**
March 2011	52%	40	8
Give state and local governments the legal authority to modify existing pension agreements with their current workers			
Late June/early July 2012	**52%**	**40**	**8**
March 2011	52%	41	7
Reduce retirement benefits for new employees and for the future unworked years of current employees			
Late June/early July 2012	**49%**	**43**	**8**
March 2011	58%	37	5
Prohibit government pension "double dipping," where state or local government workers take early retirement, begin receiving pension checks and then take another government job			
Late June/early July 2012	**42%**	**52**	**6**
March 2011	N/A	N/A	N/A

N/A: Not asked in march 2011

Why is there such a contradiction? Presumably, as I have also noted in earlier musings, it is because of the inadvertent poll-push discussed above. Now there are phony polls that are truly push-polls. In those cases, someone pretending to be a real pollster calls voters and in the guise of asking questions reveals negative information about some candidate or asks questions deliberately designed to produce a particular response. Pushing was not the intent, however, of the Field Poll.

But again, put yourself in the shoes of a respondent who has not paid much attention to the public pension issue. You are now being offered by the pollster a list of remedies for a problem you didn't know or even think existed. The likely deduction you would make as a respondent is that there must be a real problem with pensions (or else why would remedies be offered by the questioner?). And you would think the remedies must be in some way respectable solutions (or else why would they be listed?).

Pollsters may also try to draw connections between policy issues which respondents have not made on their own. As it happens, in November 2012, Governor Brown is sponsoring a ballot initiative that would raise income and sales taxes temporarily to deal with California's fiscal difficulties. The Field Poll asked how voters would respond to the tax initiative if *the legislature approved some kind of pension reform*.

How legislative approval of pension reform would affect support for Governor Brown's tax increase initiative (among likely voters)

		Current voting preference on Governor's initiative	
	Total likely voters	Yes voter	No voter
More likely to support initiative	17%	21%	11%
No effect	54	58	54
Less likely to support initiative	20	14	29
No opinion	9	7	6

As you can see from the table above, a majority of voters - whether they support or oppose the tax initiative - say explicitly that they don't see a connection between the tax question and the pension issue. But of the remainder, those who already favor the tax plan are somewhat more likely to say would support what they favor if the pension reform passed than to disfavor it. Those who already oppose the tax plan say they are somewhat more likely to disfavor it than to favor it if the legislature passed pension reform.

It seems obvious that there is little connection in the minds of voters between the two issues. But if you are a no voter, you probably have more negative feelings about the legislature than if you are a yes voter. When the pollster brings up the legislature, you either ignore it or tilt slightly toward your preconception. The connection was in the mind of the pollster, not the respondents.

Apart from what pollsters may tell you, your attitude toward public pensions is more likely to be somewhat intertwined with general feelings about public workers and government generally. Note the big gap between Republicans and Democrats on the table shown on the first page of this musing. However, public perceptions of public workers are variable.

Certainly after the 9-11 terrorist attacks, there was much praise for public “first responders.” During political campaigns in California, whether candidates or ballot initiatives are involved, TV ads often have featured police and firefighters. From time to time, incidents occur that reinforce positive public perceptions of such workers or the reverse. A recent example is the theater shootings in Aurora, Colorado in which twelve people were killed and many were injured. One commentator on that event focused on the professionalism of the police dispatcher:

> *She was nowhere near the Century 16 theater in Aurora, Colorado, early Friday morning. She didn’t confront the killer or stanch any wounds or drive any of the injured to the hospital. She didn’t wade through the wave of panicked, fleeing people to enter that gas-filled auditorium and bring order to the chaos. She did none of these things, yet she should be counted among the heroes of that horrible night. She was the calm voice when one was most needed…*
>
> *As the information flowed from the officers to the dispatcher, as the requests for police and rescue personnel to respond to one location and then another and another accumulated with maddening speed, as the anguished voices of the wounded filtered over the radio, this remarkable woman processed it all as calmly and efficiently as if she dealt with this sort of thing every night of her life. She communicated with her officers, with the fire department, and, as the scale of the incident became apparent, with officers from Denver and the other surrounding cities that sent people to help...*[13]

I have posted the 90-minute audio of that dispatcher at:

http://archive.org/details/AuroraColoradoPoliceDispatcherTheaterShootingJuly202012

It’s something worth listening to. The recording is a reminder of public dependence on such workers in emergency situations. With public opinion on public pensions far more fluid than poll interpretations may suggest, forecasting voter actions when confronted with particular pension proposals is more difficult than many pundits seem to think. There is the old saying that all politics is local. One suspects that cutting back on public pensions might not be popular at the moment in Aurora.

[13] Jack Dunphy, “Aurora’s Anonymous Hero,” PJmedia.com, July 22, 2012, available at http://pjmedia.com/blog/auroras-anonymous-hero/.

Mitchell's Musing 8-6-12: Advice and Content – from 1986

Daniel J.B. Mitchell

Back in 1986, the UCLA Institute of Industrial Relations – now known as the Institute for Research on Labor and Employment – celebrated its 40th anniversary. Actually, it was created, along with the twin Institute at Berkeley in 1945, so technically the celebration was a year late. But no one seemed to mind the arithmetical discrepancy.

The audio cassettes from that event disappeared into a backyard shed and also from memory until I had occasion to enter the shed for other reasons and uncovered them. One recording in particular was of special interest. The dinner speaker at the event was Arnold Weber,[14] then president of Northwestern University, past president of the University of Colorado, and - full disclosure – a co-author of yours truly.[15] Weber's topic was generally industrial relations – that term was still in use – and higher education. His talk came at a time in which programs in industrial relations were feeling under threat, in part because of the decline of American unionization. Despite the seriousness of the topic, the remarks were delivered with Weber's usual humor. I have posted a digitized audio of Weber's speech, made from the cassettes, at:

http://archive.org/details/UclaIir40thAnniversaryArnoldWeber10-17-1986Part3 and it is worth listening to.[16]

The erosion of union representation as a percent of the labor force had actually been going on for some time – really since the mid-1950s - when Weber spoke, although, as he noted, the erosion had been masked to a degree by the rise of public-sector unionization. But the early 1980s saw an acceleration of the downward trend, which has continue since that time. Those years also saw a rise of "concession bargaining" in the union sector: union wage and benefit freezes and cuts.

Weber's academic background was in economics and industrial relations and he noted in his remarks that a number of university presidents in that era had similar backgrounds, a fact he regarded as no accident for reasons to which I return below. In his remarks, he provocatively asked whether the study of industrial relations in U.S. higher education would go the way of the study of home economics. Was it doomed, in other words? Weber noted that many of the industrial relations programs then in existence were created in the immediate aftermath of World War II, a period in which union-management conflict and strikes had surged. Creation of such programs – including the one at UCLA –

[14] http://exhibits.library.northwestern.edu/archives/exhibits/presidents/weber.html.

[15] Arnold R. Weber and Daniel J. B. Mitchell, *The Pay Board's Progress: Wage Controls in Phase II* (Washington: Brookings Institution: 1978). I was director of the UCLA Institute of Industrial Relations at the time of the event.

[16] A few words at the beginning of his talk are missing when the end of a cassette was reached and a new recording was started. The audio quality is not great but audible.

was seen as a way of promoting "industrial peace."[17] With unions in decline in the 1980s and with strike incidence way down, the need for programs to promote industrial peace no longer seemed pressing. University presidents, feeling a funding squeeze, might easily see programs in industrial relations as something from an earlier era which no longer had budgetary priority.

The vulnerability of the industrial relations programs in the 1980s also stemmed from other factors. Weber argued that the academic programs had helped legitimatize collective bargaining but unions never understood the value of that contribution. Indeed, they regarded anything regarded as critical from such programs as unwelcome. The legitimization of collective bargaining in postwar America often created a perception of industrial relations programs as being "pro-union." That accusation that may not have mattered in the heyday of unionization, but it worked against the academic programs in a period of union decline.

According to Weber, the rise of business schools as academically respectable components of higher ed, a movement that began in the 1960s, created a competition with the industrial relations programs which, after all, were largely devoted to a study of one function of business. However, despite their focus on collective bargaining, the industrial relations programs did generally offer courses in, and produce research in, personnel management (increasingly being called "human resources"). Weber felt, however, that industrial relations programs had gone astray by offering PhDs – to some extent in competition with business schools – because for the PhD a strict disciplinary-based focus is needed.[18]

One thing that industrial relations programs had going for them was that they featured something that university presidents generally extol, but which is seldom accomplished: interdisciplinary work. That tradition in industrial relations had continued into the 1980s. Weber saw the study of labor markets - as practiced by the programs - as a welcome alternative to neoclassical models of those markets as taught in traditional economics departments, in part because industrial relations scholars did not analyze labor markets from an excessively abstract viewpoint. Indeed, the industrial relations work to some extent had contributed to a rethinking of the analysis of labor markets in economics. At the time Weber spoke, the field of "the new economics of personnel" was taking root.

Weber saw some avenues of redemption and survival for the industrial relations programs. He wanted their teaching and research to reflect the changing mix of jobs and industries in the U.S. economy – which were becoming increasingly nonunion. He saw business schools of that era becoming excessively finance-oriented and losing a grip on management strategy. Industrial relations programs, he advised, should orient their analysis of the labor function to overall management strategy, particularly strategy at the level at which a CEO operates. Weber saw business schools as failing in that regard. Industrial

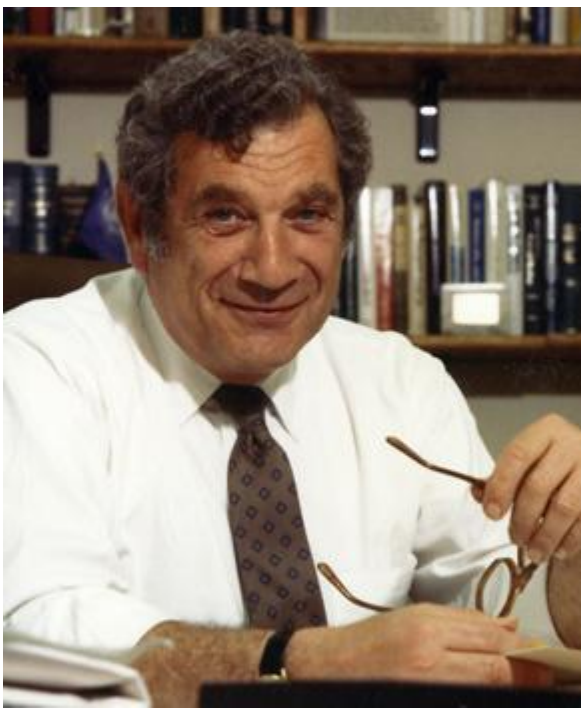
[17] Weber also noted the earlier precedent at Princeton in which a program was created in the early 1920s in the aftermath of such events as the Ludlow Massacre: http://www.pbs.org/wgbh/amex/rockefellers/sfeature/sf_8.html

[18] It may seem odd to praise the interdisciplinary approach of industrial relations programs and then criticize their PhD programs as lacking a disciplinary center. My interpretation of Weber's view is that it is best to have doctorates grounded in a particular discipline and then have scholars with those disciplinary doctorates collaborate in research and teaching.

relations programs should avoid what he termed “ideological entanglements,” i.e., they should not be either pro-labor (pro-union) or be so pro-management that they ended up offering course in how to be “union free.”

Finally, Weber thought that the study of industrial relations produced general skills that were transferable to other fields. Conflict resolution and decision processes taught from an industrial relations perspective were valuable elsewhere. That is why, as noted earlier, university presidents disproportionately at that time came from industrial relations backgrounds.

Twenty-six years after Weber’s remarks, we know that industrial relations programs – now often operating under other names (as at UCLA) – have remained under pressure from the forces Weber identified. Not all have survived intact. You can quibble with this or that aspect of the views he expressed. I suspect his observations on the PhD will raise some hackles. But overall, the speech was both thought-provoking and prescient.



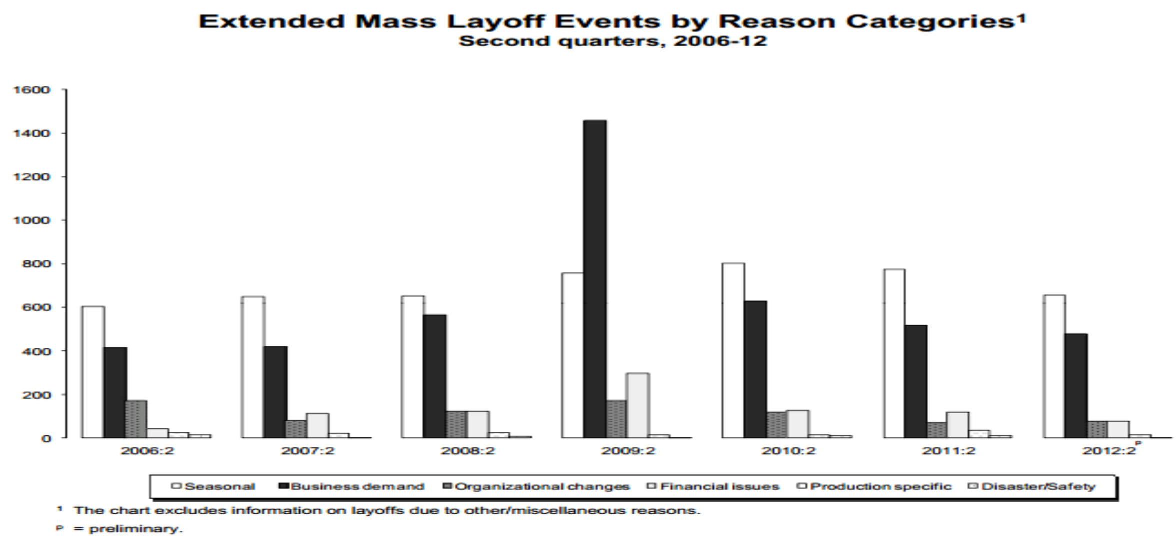
Arnold Weber

Mitchell's Musings 8-13-12: Mass Neglect

Daniel J.B. Mitchell

The U.S. Bureau of Labor Statistics (BLS) turns out a large volume of data on the labor market. Undoubtedly, the monthly unemployment rate is the most watched index that the Bureau produces. At the other end of the public attention spectrum – that of neglect - is a series on "mass layoff events" – reported monthly and quarterly - which is developed from unemployment insurance records. Basically, such events involve 50 or more workers from an employer filing unemployment insurance claims within a five-week period.[19]

When such mass layoff events are identified, employers are asked to categorize the reason for the layoffs. The chart below, from the most recent (Aug. 9) quarterly release through 2012-second quarter shows the basic categories. Although there may be some interrelationship between the categories, the one that stands out as particularly a reflection of the business cycle is labeled "business demand."[20]



[19] The definition from BLS: *The Mass Layoff Statistics (MLS) program is a federal-state program which identifies, describes, and tracks the effects of major job cutbacks, using data from each state's unemployment insurance database. Employers which have at least 50 initial claims filed against them during a consecutive 5-week period are contacted by the state agency to determine whether these separations are of at least 31 days duration, and, if so, information is obtained on the total number of persons separated and the reasons for these separations. Employers are identified according to industry classification and location, and unemployment insurance claimants are identified by such demographic factors as age, race, gender, ethnic group, and place of residence. The program yields information on an individual's entire spell of unemployment, to the point when regular unemployment insurance benefits are exhausted.* (See next footnote for source.)

[20] Employers' responses falling into this category are *contract cancellation, contract completion, domestic competition, excess inventory/saturated, import competition, slack work/insufficient demand/non-seasonal business slowdown.* The media releases are posted at http://www.bls.gov/schedule/archives/mslo_nr.htm.

It is not just public attention that is lacking when it comes to the mass layoff data; a quick search using Google-scholar produced few academic references, particular recent references. To the extent that references appeared, most came from the BLS' own publication, the *Monthly Labor Review*. I won't claim to have paid much attention to this data series personally, but a quick eyeballing of charts such as the one on the previous page or those that can be found in the Appendix suggest there is information in the series to be had by forecasters and academics.

The chart shown on the previous page and the three in the Appendix each represent a particular quarter. Since the chart data are not seasonally adjusted, comparisons across time using the same quarter are necessary. For example, fourth quarters will normally have layoffs that represent the end of the Christmas/retail boost in hiring.

Impact of the Great Recession is clearly shown on the charts in 2008 and 2009, depending on which quarter is being compared. However, although the beginning of the Great Recession is officially tagged by the National Bureau of Economic Research as occurring at the tail end of 2007, the charts make it evident that a weakening in labor demand occurred as early as the third quarter of 2006. The shock of the financial crisis becomes evident in the third quarter of 2007. That observation suggests that absent the financial crisis that became severe just before that quarter, the economy might have had at most a mild recession or perhaps just a growth slowdown. Apart from the business demand category, as might be expected, "financial issues" as a cause of mass layoff events pop up during the period of the financial crisis.[21]

A final observation is that on the most recent chart (previous page) going through the second quarter of this year, the business demand cause of mass layoff events has fallen back – not all the way – toward where it was before the demand weakening episode began to occur.[22] Yet unemployment remains substantially higher. That observation suggests that at present, the unemployment problem is more related to a reluctance of employers to hire than it is due to abnormal rates of worker displacement.

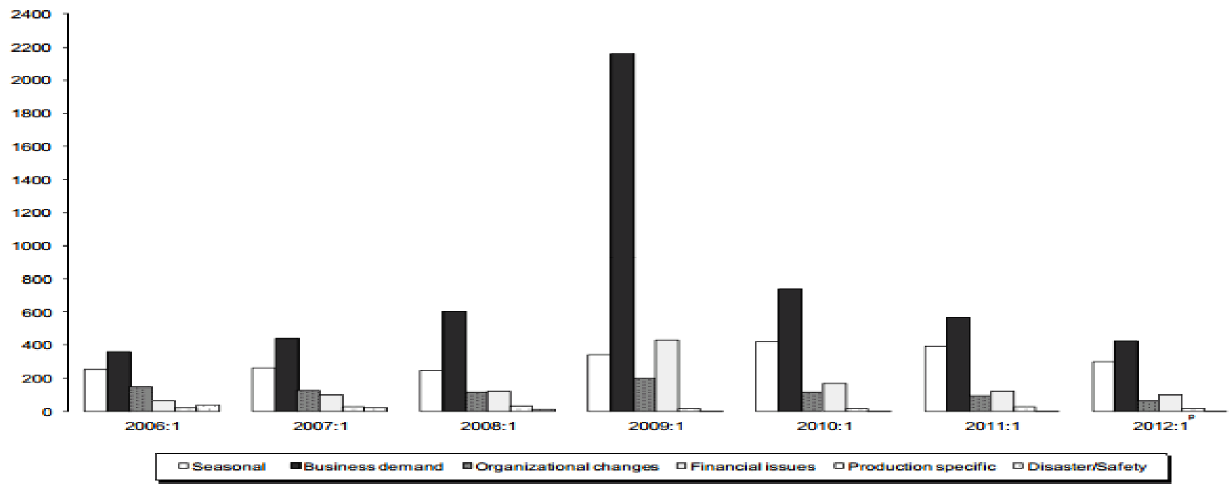
The bottom line of this musing is that the mass layoff series potentially contains more information than is generally recognized. It was implemented in the mid-1990s at a time when BLS was under pressure from Congress to report on layoffs. At the time, mainly as a result of the recession of the early 1990s, layoffs were much in the news – particularly those layoffs which had extended into white collar and managerial occupations. Plant closings and deindustrialization were also popular topics. The mass layoff series may well have been developed as a quick response to that pressure. But its history should not be taken to mean that it doesn't provide useful information.

[21] Financial issues are defined as *bankruptcy, cost control/cost cutting/increase profitability, financial difficulty*. As the definition indicates, the broad definition only partly relates to external financial issues. However, in the mass layoff database, it is possible to examine each of the components separately.

[22] In 2012-II, there were 477 mass layoff events related to business demand (and 71.095 workers involved in those events. In 2006-II, there were 413 mass layoff events (and 73,626 workers involved in those events).

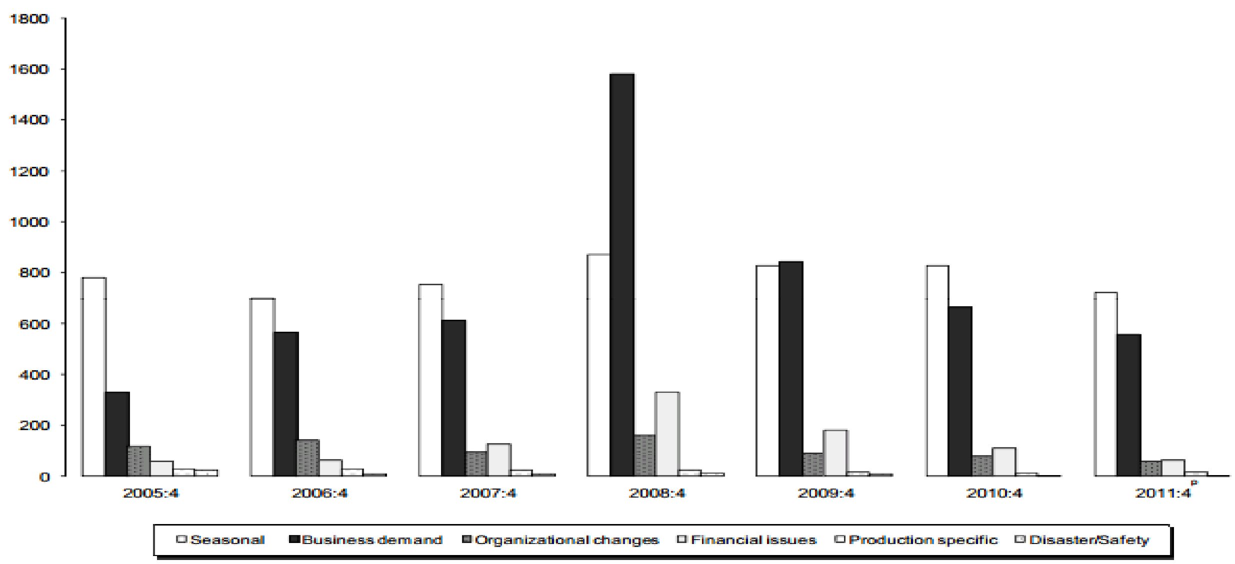
Appendix

Extended Mass Layoff Events by Reason Categories[1]
First quarters, 2006-12



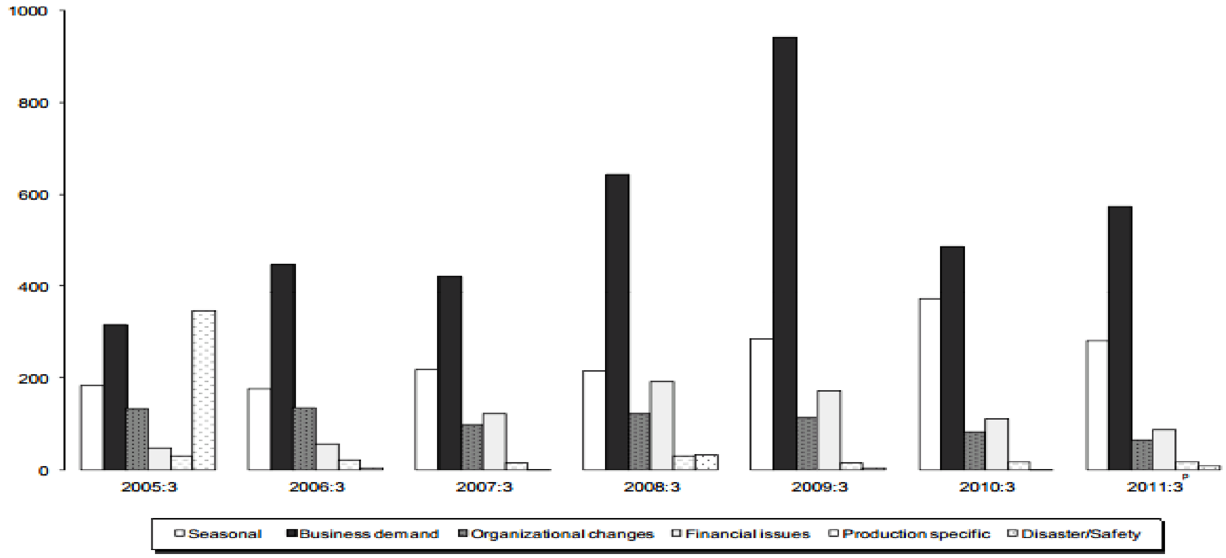
[1] The chart excludes information on layoffs due to other/miscellaneous reasons.
p = preliminary.

Extended Mass Layoff Events by Reason Categories[1]
Fourth quarters, 2005-11



[1] The chart excludes information on layoffs due to other/miscellaneous reasons.
p = preliminary.

Extended Mass Layoff Events by Reason Categories[1]
Third quarters, 2005-11



[1] The chart excludes information on layoffs due to other/miscellaneous reasons.

p = preliminary.

Mitchell's Musings 8-20-12: Forgotten Anniversary

Daniel J.B. Mitchell

An anniversary occurred last week that no one recalled. On August 15, 1971, President Nixon made a televised speech to announce two major changes in economic policy. On the domestic side, he imposed wage-price controls. [http://www.youtube.com/watch?v=Wv4gpyfLF3s] On the international side, he ended the Bretton Woods fixed exchange rate system. [http://www.youtube.com/watch?v=iRzr1QU6K1o] This musing focuses on the domestic component. My purpose is historical; the world is very different today. Sometimes it is useful to look back and appreciate the contrast.

Wage-price interventions by the federal government of the type implemented forty-one years ago were not a new idea back then. They had been imposed during World War II and the Korean War and, of course, in 1971, the Vietnam War was still ongoing. However, the mandatory controls imposed by Nixon were more closely related to the Kennedy-Johnson voluntary wage-price guidelines and to European "incomes policies" than to the earlier wartime programs. The idea was that inflation could be seen – at least in part – as an administered wage-price setting process rather than as the textbook tale of "too much money chasing too few goods." Wages were pushed up by "Big Labor" (labor unions in "key" industries) and then oligopolistic firms would pass through the increases to consumers. The price increases would set in motion another round of wage increases.

A more nuanced version of this "wage-push" story is that even if Big Labor had not set inflation going initially, i.e., if inflation started as a "demand-pull" story, the administered wage-price mechanism would impede reducing that inflation because of long-term union contracts with built in inflation expectations. Inflation could eventually be reduced by reducing aggregate demand and producing a recession. But that road would be long and painful unless there was some form of direct intervention in union contract setting and price markups.

After the Korean War ended, the Eisenhower administration dismantled the wartime wage-price controls it had inherited and eschewed further direct intervention. But it did sometimes issue vague statements about the need for wage increases to be limited to productivity increases for price stability. The incoming Kennedy administration was more interventionist and, over time, formulated a program based on the wage-productivity nexus, albeit a voluntary one. However, although the program was voluntary, the fact that the President was pushing it publicly made it difficult to ignore. There was a famous confrontation in which Kennedy denounced the steel industry for raising prices, and won a temporary price rollback, after his administration had achieved what it viewed as a modest wage settlement by the Steelworkers union. [http://www.youtube.com/watch?v=aAVAJ6mwBVE]

The focus on administered wage-price setting and Big Labor seems odd now when private sector unionization is around 7%. But at the time, that ratio was about one fourth (although declining) and much higher in certain sectors such as heavy manufacturing and transportation seen as vital to the economy. The wage-price controls program - which ran from 1971 until 1974 in various phases - became intertwined in the political relationship between the Nixon administration and organized labor.

Nixon's initial TV announcement imposed a 90-day wage-price freeze – "Phase I" - during which a more elaborate and flexible program was to be set up. What emerged in mid-November was Phase II: a Pay Board (for wages), a Price Commission, and an umbrella Cost of Living Council headed by the Secretary of the Treasury, first John Connally and then George Shultz. The Pay Board was tripartite and consisted originally of five union, five management, and five neutral representatives.[23] Eventually, the AFL-CIO unions on the Pay Board walked out in protest but the then-unaffiliated Teamsters remained and the Board was reconfigured to have the one union representative and one management representative plus the neutrals. Phase II continued as the most extensive period of the Nixon controls.[24]

The Teamsters generally supported the Nixon administration. The union's titular head, Jimmy Hoffa, was in prison on corruption charges until pardoned by Nixon with the stipulation that he could not become re-involved with the union. That stipulation allowed the acting union president, Frank Fitzsimmons, to become the formal head of the Teamsters.

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Fitzsimmons of the Teamsters and Nixon in 1973

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Although the AFL-CIO had walked out of the Pay Board as the 1972 presidential election approached, the federation had an unusually-strained relationship with the Democrats at the time, largely because of disagreements concerning the Vietnam War. The Democrats had increasingly been taken over at the national level by anti-war elements and ultimately nominated anti-war Senator George McGovern as their presidential candidate in 1972. As a result, the AFL-CIO executive board did not endorse McGovern (or Nixon), although individual unions did back McGovern. Some union officials within the

[23] Full disclosure: The author was chief economist of the Pay Board.

[24] Although the emphasis of the Pay Board was on the large "key" wage settlements, even the very small ones fell under the controls. My favorite illustration of the smaller "Tier III" wage cases is one of a group of Kosher slaughterers in a Midwest meatpacking plant posted at
http://issuu.com/danieljbmitchell/docs/pay_bd_case_dubuque_packing?mode=window&backgroundColor=%23222222

AFL-CIO went for Nixon, notably Peter Brennan who came out of New York City's building trades - and who was appointed by Nixon as Secretary of Labor in 1973.[25]

Despite the Nixon administration's relationship with the Teamsters, there was one area in which the two were at odds. At the time, well before deregulation of the trucking industry, major trucking firms were unionized and under a master contract with the Teamsters. Other major transportation sectors – rail, longshore, and to some degree airlines – were also seen as particularly vulnerable to labor disputes that could have a major negative effect on the economy. Indeed, there were two longshore disputes which triggered presidential intervention during the Nixon years.

Existing labor law under the Taft-Hartley Act and the Railway Labor Act (railroads and airlines) gave only limited authority for federal intervention in major labor disputes. Limited, one-time "cooling off" periods could be imposed. But it was argued that such *de facto* extensions of the time for bargaining had little effect on reaching a settlement since the parties simply built the intervention period into their negotiating timetable. One solution to this problem that was advocated at the time was the "choice-of-procedures" approach, an approach about which George Shultz, in his earlier academic days, had written.[26] Shultz was influential in Nixon labor policy; he had been Secretary of Labor before moving to Treasury and maintained a good relationship with AFL-CIO president George Meany.[27] The choice-of-procedures approach had been written into the proposed "Crippling Strikes Prevention Act," a bill carried by Republican Senator Robert Packwood for the Nixon administration that applied to transportation.

Under choice-of-procedures, the President would be given alternative forms of intervention to select in emergency transportation disputes. The idea was that the parties could not be sure which approach would be chosen and so could not build any one approach into their bargaining timetable or expectations. In the proposed bill, the President could extend the cooling off period, could mandate partial operation of the industry for health and safety reasons, or could impose compulsory arbitration of the "final-offer" variety. Final-offer arbitration, found today in arbitration decisions on individual Major League Baseball salaries, requires the arbitrator to pick either the labor or the management offer and not some in-between compromise. The theory is that the parties under final offer will compete to be the most "reasonable" in the eyes of the arbitrator and may thus converge to a settlement on their own.

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[25] Nixon was not averse to having some high-profile Democrats in his administration. Among them were former Texas governor John Connally – mentioned earlier in the text - as Secretary of the Treasury (before Shultz) and domestic advisor Daniel Patrick Moynihan (later Ambassador to India). It might be noted that the Eisenhower administration at one point had a union head as Secretary of Labor.

[26] George P. Schultz, "The Massachusetts Choice-of-Procedures Approach to Emergency Disputes," *Industrial and Labor Relations Review*, Volume 10, issue 3, 1957, pp. 359-374.

[27] Between the Labor and Treasury posts, Shultz headed the Office of Management and Budget.

The Teamsters were adamantly opposed to the Packwood bill, a political complication for the Nixon administration which valued the union's support. Other unions were also opposed to the bill. During the summer of 1972, the Nixon administration dropped its support for the bill, apparently without conferring with Packwood in advance. Packwood then complained publicly about the sudden reversal, embarrassing the administration which wanted to portray the reversal as simply the result of not having sufficient votes to pass the bill.

Which brings me to the Nixon tapes. President Nixon secretly taped his White House conversations (and, as it turned out, earlier presidents did, too). The Nixon tapes came out as part of the Watergate scandal that ultimately forced his resignation in 1974. Tapes that have been released tend to be those involving the Watergate affair or other major policy issues. However, the National Archives has been processing all of the tapes and trying to index them. Most tapes have nothing to do with Watergate.

I have found reference to the Nixon administration's relation with organized labor, the Teamsters, and the Packwood bill in two of the tapes that have been released. The actual tapes record comings and goings and various topics discussed in the course of a day and are quite disjointed. There also are long pauses of silence or background noise and the audio quality is variable. Occasionally certain personal references are edited out (a tone is heard) by the National Archives staff.

To give a sense of the importance in 1972 of unions in the political as well as the economic spheres, I have posted three conversations on YouTube from July 21, 1972. In the first, there is discussion of good economic news that has just been released, low inflation and strong real growth and its political implication. The voice discussing the news with Nixon may be Shultz; the Archives' description is unclear. The conversation moves from the good economic news to the non-endorsement of McGovern by the AFL-CIO hierarchy, Teamsters support of Nixon, and complaints about how the press has reported these developments.

The other two conversations deal with the Packwood bill. There is discussion about the validity of the White House position that the bill was being dropped because of lack of votes in Congress. And the strong opposition of the Teamsters to the Packwood bill is noted. Nixon is frustrated with Packwood going public because the White House version of dropping the bill – not enough votes in Congress – would have allowed the administration to blame the Democrats in Congress for the reversal. [http://www.youtube.com/watch?v=20JVl3TDbRc]

So what should you take away from this musing on the past? Maybe nothing more than that the economic and political scene is very different today from what it was four decades ago. And maybe that's enough of a lesson to learn.

Mitchell's Musings 8-27-12: Park at the Governor's Risk

Daniel J.B. Mitchell

I have mused before on fiscal data practices in state and local government. The public sector since the Great Recession has been under strain, a fact that invites examination of the public budgeting process. My July 16th musing, for example, referenced the bankruptcy of the City of San Bernardino, California, an event that garnered national attention. I suggested in that musing that state and local data practices can contribute to situations in which those responsible for budget policy have only a partial idea of what is happening within their jurisdictions. In the San Bernardino case, although there were originally statements in the news media suggesting criminal conduct, no such allegations have been substantiated. But obviously, something went wrong in that city.

City officials – particularly elected officials - may have made bad decisions in the San Bernardino case. But bad policy by itself is not criminal. And, of course, there is no guarantee that even with good data available to decision-makers, those who receive that information will govern wisely. On the other hand, good data – particularly if presented in consistent and illuminating formats - should increase the odds of making good decisions. I argued in the earlier musing that the widespread use of fuzzy public accounting practices in describing such basic concepts as surpluses and deficits can obscure looming challenges.

The San Bernardino case received national attention because the bankruptcy there along with bankruptcies of some other California municipalities, were viewed as possible harbingers of similar events in other cities - including cities outside California. But we now have another unfortunate fiscal development in California, this time involving the state parks system. The parks problem is more confined to the state in terms of media attention than was San Bernardino. But as in the San Bernardino case, the parks problem may also have lessons for the public sector more generally.

By way of background, California has had well-publicized state budget problems for years. The state has had what analysts term a "structural deficit" going back to the 1990s and to the end of the Cold War's infusion of growth-stimulating federal military spending. The California structural problem has been masked on two occasions, first by the dot-com boom/bubble (late 1990s) and then by the housing boom/bubble (mid-2000s). But it inevitably reappears with a vengeance when the bubbles burst. California was particularly hard hit by the Great Recession and its budget has been in chronic crisis since that time.

Jerry Brown was elected governor of California in 2010 on a pledge of dealing with the budget but not raising taxes without a vote of the people. For his first budget (applying to fiscal year 2011-12 – beginning July 1, 2011), he spent almost six months trying to persuade GOP legislators to give him the two-thirds vote needed to put a temporary tax measure on the November 2011 ballot. His efforts at persuasion failed. Ultimately the legislature simply assumed about $4 billion of phantom extra revenue that produced a state budget balanced on paper – a budget which under California's constitution could be passed with a simple majority – but which was not balanced in reality.

There are two routes to obtaining a vote of the people in California. The legislature can put propositions on the ballot, the route tried unsuccessfully by Brown in 2011. Alternatively, under the state's system of direct democracy, the initiative process (petitions with sufficient voter signatures) can be used. So when it came to proposing a new budget for 2012-13, Brown went the petition route and ignored the GOP legislators. That approach has now resulted in a proposition scheduled for the November 2012 ballot that would raise income and sales taxes on a temporary basis. Details of the state budget and on how that initiative was placed on the ballot are interesting but not relevant to this musing.

The key point now is that the governor needs to persuade voters in November that the state needs more money. So far, polls indicate that a slim majority of the electorate would vote for his tax initiative. But folk wisdom among state politicos is that before a campaign surrounding a controversial initiative gets underway, the initiative should poll 60% or more favorable. Support tends to slip as negative campaigning occurs so a 10% cushion of initial support is needed to ensure a majority by Election Day. In short, absent that cushion, Brown has a sales job ahead of him.

As part of the ongoing California budget crisis, the state has repeatedly threatened to close a list of state parks and even scheduled various closures. As those threats developed, various local public and private interests have raised external funds to keep particular parks open. On the other hand, an initiative on the ballot in 2010 for an added motor vehicle fee – effectively a tax – earmarked for parks was rejected by voters. Thus, it appeared that only external fundraising could save the various parks on the closure list.

Just as the campaigning was beginning for and against the governor's November tax initiative, a newspaper discovered that the California Department of Parks and Recreation had $54 million in funds on reserve that seemed to be "hidden." There are conflicting stories about who knew about the money and when, but so far the head of the Department has resigned and the second in command has been fired. Unlike the San Bernardino case, there may have been some misappropriation of funds involving the parks which could entail criminal charges. Those outsiders who with considerable effort raised money to keep the parks open were obviously incensed to learn that Department money might have been available for that purpose all along.

The fallout from the parks scandal has been fourfold. First, opponents of the governor's tax have seized on the idea that the state has hidden money and therefore additional taxes are unnecessary. The parks scandal is in the millions of dollars while the state's overall budget problem is in the billions. But in the public mind, millions vs. billions is a distinction that is not always made. Second, the news media are now busy investigating the Department of Parks and Recreation looking for other or related misbehavior.

Third, the parks scandal has turned attention to the practice of having funds outside the general fund, typically earmarked for particular purposes, since the hidden money appears to have resided in one such fund. The state has hundreds of such funds, some very small and some quite large. And the practice of having a general fund as an operating budget and then a host of satellite other earmarked funds is a widespread state and local practice. Fourth, the issue of fuzzy accounting in the public sector has re-emerged.

The political embarrassment for the governor caused by the existence of seemingly-hidden parks money is obvious and I won't say more about that matter. But it is the other elements of fallout I want to discuss. There is a mix of investigations about faulty management information and about incentives for perverse managerial behavior.

It is not clear at this point how hidden the $54 million was. As noted, it was sitting in accounts outside the general fund for the Department. Even if the now-resigned department head knew of the money – still uncertain – there were others in the hierarchy all the way up to the governor who evidently didn't know. So there is a problem with the state information system that is obvious. Those who should have known didn't. Having accounts outside the general fund is surely part of the story. But there seems to be still more.

The state controller issues monthly and annual reports on cash flows into and out of the various funds of the state including the general fund. Yet it is not possible – apparently – to reconcile the cash statements with the budget approved by the legislature and estimated as the year progresses by the Department of Finance (which reports to the governor). All that can be found when one searches for a reconciliation are vague footnotes about accrual vs. cash accounting. In principle, if accrual vs. cash was all that was involved, reconciliation should be possible. In theory, accrual accounting is supposed to provide a clearer picture of underlying budget trends than the vagaries of cash flows. But accrual, as it is actually applied by the state, is as fuzzy as the concepts of surpluses and deficits. Given the system in place, managers of departments may not be able to attain a clear understanding of how to connect what the legislature thinks it has given them with what they actually have on hand.

It appears that along with hidden funds outside the general fund, there were also surprise discoveries of extra money left over in the general fund for the Department. Because of "use it or lose it" practices for such monies, there was a perverse incentive for managers to find ways of using up the "excess" before it disappeared at the end of the fiscal year. Apparently, some of the uses may not have been legitimate. However, even if the uses were entirely legal, they clearly were of low priority. There was bound to be trouble in a system in which managers don't have real-time information about what is available and about how what is available relates to what they think they have been allocated by the legislature. And now that trouble has arrived.

Let's put aside the issue of whether some of the uses inspired by "use it or lose it" were legal. It is rational for managers at the departmental level to respond to incentives, even if those incentives are perverse. There isn't a perfect solution for correcting such incentives. In principle, you want managers to use money in ways the legislature intended and you don't want to create incentives to hoard. So just solving the "use it or lose it" problem by saying departments could keep anything they don't spend by the end of the year – one "solution" - would also raise issues.

All incentives in organizations (public or private) – whether those incentives are intended or just built inadvertently into the administrative structure – are imperfect. That is why we have supervisors and supervision. Supervision sometimes must override micro-level (mis)incentives. But effective supervision requires accurate and timely budgetary information presented in consistent and illuminating formats. That is the most basic lesson of California's current parks scandal. I suspect that state and local governments outside California, as well as within the state, could benefit from that lesson.

Mitchell's Musings 9-3-12: Maybe Not a Good Choice

Daniel J.B. Mitchell

One of the axioms of classical economics is that choice can make you better off and certainly can't make you worse off. It seems logical. Imagine you go into a restaurant and there are five choices on the menu. Then the waiter comes along and tells you there is a sixth item as a "special" available. You might prefer the special selection to the other five so you are now better off. If you don't like the special, you don't have to choose it and you can stick to the five on the menu. So you are not worse off even if you don't like the special.

Actually, that may not be the whole story. There is a cost to the restaurant in offering the additional special. The more items that are offered, the more difficult it is to plan to have just enough food on hand so that excesses don't have to be thrown away and that you don't run out of items your customers might want. There may be training costs for the staff as you add more dishes to prepare. So by offering more choice, all prices at the restaurant might have to be a bit higher than would be the case for fewer selections. There is more to be said about having a choice, in short, even in this simple restaurant case.

Choice can be more complicated when it comes to insurance. Much of the debate about alternative universal health insurance proposals turns on choice and adverse selection. If we were simply to mandate that anyone can choose to buy health insurance whenever he/she desired and do so at some community rate, the rational consumer would buy only when illness occurred or threatened. The result would be a disproportionate sample of bad risks buying insurance and, therefore, escalating premiums. That why - in one way or another - something limiting choice is a component of all universal health care proposals.

Everyone needs to be in the pool all the time for such a plan to work. The more you allow the choice of opting out of having insurance, the more the plan is likely to break down. You can mandate that everyone be in the pool (no choice at all). Or you can tilt the game against choosing to opt out, either by penalizing those who make that choice or bribing them sufficiently not to make it. In effect, although there is a choice in either of those two situations, you are making an offer that can't (rationally) be refused.

So far, however, we are analyzing a condition of rationality. Marketers and advertisers have long known, and behavioral economists are increasingly discovering, that human choice is often not rational in the classic economic sense. In particular, people are not very good at appraising risk and they are not good at long-term planning (both of which are elements critical to areas such as retirement saving and insurance). One example is the finding that when employers offer tax-preferred savings plans such as 401ks, the default condition when you are hired matters. If the default is that when you are hired, you automatically go into the 401k unless you check a box that opts you out, you are more likely to go in and stay in than if the default is non-participation and you have to check the box to go in. Since box checking is essentially costless, under simple rationality, the choice should be the same regardless of the default. But empirically it isn't.

All of this background is prelude to something I read in a recent issue of the *Daily Labor Report* about GM and Ford offering already-retired salary workers a choice of continuing to receive their monthly defined-benefit pensions or cashing them out with a lump sum.[28] The apparent rationale for giving pensioners this choice – which they didn't have before – is that if workers take the lump sum, the firms will have less debt. While that is true, they – or their pension plans - will also have less cash, since there must be cash from somewhere - presumably from the pension fund – to make the lump-sum payment.

Let's first start with the classical economic assumption of rationality for the pensioners. Pensioners presumably know something about their health and longevity prospects, probably more than the pension fund managers do. To put it bluntly, given the new choice, you should cash out if you know you are your deathbed. The stream of future monthly pension payments for you will be short. But the lump sum is likely to be based on some average expected longevity of all those in the pension pool, a longevity which you expect to be longer than yours. Under rationality, it is likely that the pensioners – offered the choice – will game the system in a form of adverse selection. Those on their death beds will cash out and leave the lump sum they receive to their heirs. Those who can expect to be Methuselahs – based on their current health condition, the longevity of their parents, etc. – will choose to continue their lifetime pension annuities. Both choices tend to drain the plan.

Given the possibility of adverse selection and gaming, why is the choice being offered? The likely answer – the only rational answer I can think of on the assumption that the pension fund managers are rational (which may not be correct) – is that the managers' expectation is that retirees won't be rational. That is, they must be betting that long-lived retirees will be smitten by the prospect of a large one-time payout. That is, the Methuselahs won't realize that they are making a bad selection relative to the present value of the future annuity payments they would otherwise be owed. If the Methuselahs – with longer-than-average life expectancies – opt out of the plan and those on their deathbeds stay in, the plan clearly comes out ahead – but only because those retirees making the choice are choosing to accept bad deals.

There is still another element to be considered. A pension annuity is an insurance contract. If you simply start retirement with a lump sum, you might live longer than you expect and run out of cash. The contract protects you from that risk since you will receive the payment for as long as you live, even if it turns out to be much longer than you might have thought. It is difficult for individuals to insure inexpensively against that risk. Yes, you can take a lump sum of cash to a private insurance company and buy an annuity as an individual. But the costs of that annuity have to be high, since the insurance company knows you must believe (and perhaps with good reason) that you have a longer-than-average life expectancy. And it knows that you would not be in the market for an annuity if you believed the opposite.

Large pension plans, however, can deal with averages when it comes to longevity because they cover a large population sample. So they can make actuarial projections and count on those who live a long time to be paid for by those who die comparatively young. They can deal with longevity risks much

[28] "GM, Ford offer lump sums to retirees, but some question whether others should," *Daily Labor Report*, August 6, 2012, pp. A7-A8.

better than individuals. However, they can do so only *if* they don't start offering opportunities for adverse selection to appear, as the GM and Ford plans seem to be doing, or if retirees aren't rational.[29]

Simple economic theory – with its assumption that everyone is rational – tends to endorse any market transaction as win-win. Obviously, both parties to the transaction must think they are better off making the deal, else why would they have made it? Both sides had a choice of not transacting. But in the case of the pensioners at GM and Ford, is sure is hard to come up with a win-win story.

GM and Ford are reported by the *Daily Labor Report* to have two of the largest defined-benefit pension plans in the country. But they are in the private sector which is rapidly pulling out of defined benefit pension plans and offering defined contribution plans instead. In the public sector, there is much agitation about defined-benefit pensions which are still common in government, and particularly there is agitation about underfunded plans. Some jurisdictions – the City of San Diego, California is a recent case – are moving to defined contribution for new hires and trying to push existing employees in that direction. If high-profile GM and Ford offer lump-sum cash outs to existing annuitants, you can expect some folks in the public sector to start thinking along those lines, regardless of whether it is good policy. If that happens, remember that you read it here first. And remember how hard it was to provide a win-win rationale for offering retirees that "choice."

[29] The pension experts interviewed by the *Daily Labor Report* seemed puzzled by what GM and Ford were doing. They seemed reluctant to recommend such arrangements to other clients and had difficulty coming up with a rationale for the GM and Ford approach.

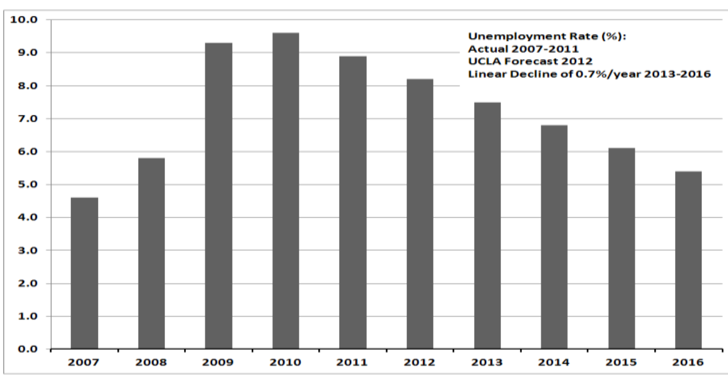
Mitchell's Musings 9-10-12: The Lull Before the Storm?

Daniel J.B. Mitchell

My August 20th musing featured a look back at the decision taken by President Nixon forty-one years ago to impose wage-price controls.[30] I noted in that musing that the economic world of 1971 was a different place from today. But sometimes there are contemporary lessons, even in the distant past. And sometimes history is of interest in and of itself. You can view this musing and its conclusion in that spirit.

The current presidential campaign is shaping up to be about the economy and the labor market. So far, the recovery has been a slow process. Let's put aside the question of whether it could have been otherwise and assume that the current pace of declining unemployment will continue into the future. If that happens, the next presidential term would see a return by its close to something approximating full employment.[31] The chart below represents a simple unemployment projection to 2016.

President Obama is campaigning on a four-more-years-to-finish-the-job platform so the chart can be taken to represent something approximating the projections of his economic advisors. The administration actually had the chart's final unemployment rate somewhat above the rate shown on the chart in its February 2012 *Economic Report of the President*.[32] But it might be assuming a faster recovery now. Candidate Romney is campaigning on the promise that he would do it better - but exactly what he would do is not clear. Neither candidate seems likely to have a free hand in any case to implement drastic changes in policy if elected or re-elected, given Washington's current state of political gridlock.



[30] http://www.employmentpolicy.org/sites/www.employmentpolicy.org/files/field-content-file/pdf/Daniel%20J.B.%20Mitchell/MitchellMusings%208-20-12.pdf.

[31] The 2012 unemployment rate on the chart is from the UCLA Anderson Forecast made in June 2012. There will be a new forecast by UCLA in a few weeks but it should not be much different than what is shown on the chart, given the eight months of 2012 on which we already have data. I then projected the decline from 2011 to 2012 to the remaining years. The actual UCLA June forecast was for a slower pace, ending with a rate a bit over 6%.

[32] The administration gives the projected unemployment rate on a fiscal year basis. For fiscal year 2016, it projected a rate of 6.5%. See page 75 of the *Report.*

That observation takes us back to the Nixon era, a period in which the President had a great deal more authority over economic matters than is the case nowadays. As noted, President Nixon instituted wage-price controls in August 1971. [http://www.youtube.com/watch?v=Wv4gpyfLF3s] At the same time, he ended the Bretton Woods fixed exchange rate system, temporarily going to floating rates. [http://www.youtube.com/watch?v=iRzr1QU6K1o] To push other countries into negotiations on a new exchange rate system, he imposed a 10% tariff on all imports, to be removed when the U.S. obtained a favorable deal. By December 1971, a new system of fixed rates with a devalued dollar was under negotiation and was then put in place. It became known as the Smithsonian system. [http://www.youtube.com/watch?v=8cNGeScxJNw] The import tariff was lifted and the new regime of exchange rates was supposed to last indefinitely.

While the President was busy making international monetary policy, he also ended his initial "Phase I" wage-price freeze and created a more elaborate and flexible set of wage-price controls, Phase II. In January 1973, a process of decontrol was begun with implementation of Phase III, a more relaxed and less extensive controls regime. In short, the President in the Nixon era – given the substantial authority he exercised – could be seen by the electorate as responsible for their economic fate, good or bad. During 1972, unemployment was generally at moderate levels as was inflation. Not surprisingly, the President was handily re-elected.

Thanks to the Watergate affair and the disclosure of the White House tapes, we have an historic record of economic policy making during the Nixon period. So are there lessons to be learned from the tapes? Tapes from the Nixon era are gradually being digitized, indexed, and put online by the National Archives. As yet, the indexing is cumbersome. However, I came across one taped discussion between the President and his advisor John D. Ehrlichman that took place on February 5, 2012. The two men go over matters other than economics in their discussion but economic policy was the topic for about twelve minutes. You can listen to the discussion at http://www.youtube.com/watch?v=GbHpXykXNfM.

Initially, the discussion seems similar to what might occur today. There is grumbling in Congress that economic growth is inadequate and the administration is being blamed for the slow pace. Nixon is looking for a response. But the recording is of interest as much for what isn't discussed as for what is. Shortly before the date of the recording, the President had scrapped Phase II wage-price controls for what was to be the start of a process of decontrol with Phase III. On the recording, however, he seems to be having second thoughts about the wisdom of the change. Ehrlichman is also uncertain as to whether scrapping Phase II was a good idea. He says he had become accustomed to the Phase II controls.

Both Ehrlichman and Nixon believe that business – despite being ideologically in favor of freedom from government regulation – actually liked the controls program which was perceived as helping firms hold down wages. Notions of wage-push inflation were in the air at the time (in an era of strong labor unions) and the wage-push idea is explicitly mentioned on the tape. Business was also said to like keeping taxes down and having expansionary spending on the Vietnam War – a war which was in a temporarily quiescent stage. So budget balancing was not actually a priority of the business community.

What is surprising in hindsight is that the international monetary system is barely mentioned. The only reference is a brief remark that the dollar is under pressure. However, the President characterizes the idea that such international developments are important to the domestic economy as "bullshit," although the chair of the Federal Reserve thinks otherwise. Yet at the time the recording was made, the Smithsonian system was just days away from collapsing. The unforeseen collapse was less dramatic than the end of Bretton Woods and took place over several weeks with the U.S. simply deciding not to support the dollar against other major currencies. Congress seemed also to want to drop any alternative fixed exchange rate regime and leave the dollar to float. In short, what was to be a major shift in U.S. and world economic policy is almost completely absent from the meeting.

When we view the Nixon administration in historical perspective, Watergate – which was already beginning to gather momentum at the time of the recording – comes to mind along with the eventual resulting resignation of the President. But there were a variety of economic events that began to unfold soon after the February meeting, even apart from the unraveling of the Smithsonian agreement. Wage-price decontrol did not go smoothly as it turned out. There was another price freeze to come. And there were shortages of meat and spot shortages of gasoline - a foreshadowing of the much more major gasoline shortages during the Carter administration.[33] There was the Yom Kippur War in the Middle East later in 1973, with its impact on world oil prices. Finally, there was a major recession in 1974-75 during which the word "stagflation" was born.

We know about all of these developments now but there was no inkling of them in the February 1973 discussion of economic policy. One is reminded of the supposed response of former British Prime Minister Harold Macmillan when asked about the greatest challenges that he had faced as UK leader. "Events, dear boy, events," he is said to have replied.[34] So coming back to the chart with which we started, we surely can make one observation based on the past. The nice smooth projection for the future course of the labor market on that chart – and in projections by forecasters and by the administration (whichever administration it turns out to be) – could easily be disrupted by "events."

Harold Macmillan

[33] When economy-wide wage-price controls finally ended in 1974, the controls on oil prices remained.

[34] Like many great and witty quotes, no one is quite sure he actually said it.

Mitchell's Musings 9-17-12: March on Washington

Daniel J.B. Mitchell

Recently, I came across a recording of a 1963 radio broadcast made a day after the August 28, 1963 March on Washington, an event which most people identify with Martin Luther King's "I Had a Dream" speech. Since August 28th of this year has come and gone, you could say that this musing is about three weeks late. But next year on August 28th, there will undoubtedly be commemorations of the fiftieth anniversary of the March. So you could also say this musing is over eleven months early. Either way, when the fiftieth anniversary comes, you will hear or see clips of the "I Had a Dream" speech – probably just the end of the speech - which will be represented as the entire event itself or even the purpose of the event.[35] *Such interpretations will be incorrect.*

I will come back to the broadcast later in this musing, although it explains what I have just asserted, but first some background. The March on Washington took place well before the 1964 Civil Rights Act (and other major civil rights legislation) was enacted including Title 7 banning employment discrimination. At the time, despite the 1954 U.S. Supreme Court's *Brown* school desegregation decision, segregation was still very much in place in the south. You had only to drive south from Washington, DC to encounter Whites Only signs on restaurants in Virginia. Newspaper ads for apartments in Washington newspapers specified the desired race of tenants. The issue of segregation was still in flux, despite the court decisions and sporadic incidents and demonstrations that received national attention.

The Kennedy administration was not thrilled with the prospect of the March on Washington. The March was in fact meant to pressure it and the Congress for legislation and action. At the time, the south had not flipped from being solidly Democratic to solidly Republican.[36] Kennedy, as a Catholic, already had religion problems in the south which were compounded by federal attempts to enforce anti-segregation court orders. And the 1964 presidential election, which Kennedy would not live to see, was looming.

Recall that Kennedy had won very narrowly in 1960 with a plurality (not a majority) of the popular vote and uncertainty on the morning after Election Day as to whether he even had the necessary Electoral College votes.[37] He would need at least some southern votes in 1964. So the administration would have preferred not to have a large demonstration highlighting the race issue on its front lawn.

I happened to be in Washington during the summer of 1963 between my junior and senior years in college, working at the U.S. Bureau of Labor Statistics (BLS). The job was the outcome of a program promoted by the Kennedy administration to encourage college students to consider careers in public service. After a competitive interview and essay process, if selected, you would be randomly selected to

[35] There are copyright issues related to the speech. It comes and goes on YouTube as a result, posted and then taken down. At the moment it can be seen at http://www.youtube.com/watch?v=1UV1fs8lAbg.

[36] President Johnson famously predicted that in signing the 1964 Civil Rights Act, he was losing the south to the Democrats.

[37] A radio newscast from the day after the 1960 election indicates the uncertainty: http://www.youtube.com/watch?v=il8T0y96LXU.

work in this or that government agency; I happened to be assigned as a GS-4 to BLS in a division that produced "wage chronologies." Wage chronologies were BLS bulletins that summarized union wage provisions in major industries, the product of an era in which union wage settlements were considered to be important economic developments that needed to be tracked.

Most government agencies in Washington, including the BLS, were shut down on the day of the March, so I was free to attend. But it has always been a family joke that I left before King's dream speech. I did hear it on the car radio driving back to a boarding house at which I was staying in northern Virginia in the $100 car I had acquired over the summer.[38]

The broadcast to which I referred at the outset was made by Jean Shepherd, a night time humorist and story teller on a New York City radio station.[39] However, Shepherd devoted most of his August 29, 1963 broadcast to a serious recounting his experience as a marcher. Excerpts from that broadcast have appeared elsewhere but the full recording is available.[40] A vast collection of recordings from Shepherd's radio broadcasts have been gathered on archive.org. (You have to search diligently under Jean Shepherd to find them all since the search engine on archive.org isn't great and the recordings are scattered on that site.) Many of the recordings appear to be from tapes made by fans that were recorded live off the air. They are not of broadcast quality and have hums and background noise. The August 29, 1963 broadcast is one of those audios available.

What the Shepherd broadcast makes clear is that the presentations on a platform at the Lincoln Memorial on August 28, 1963 were not the key to what happened or intended to be. The gathering itself was the key because it brought together a vast crowd of people from many parts of the country. The logistics of getting people to and from Washington, and taking care of them while they were in Washington, were complex and much could have gone wrong – but didn't. Given the size of the crowd, most attendees were nowhere near the Lincoln Memorial. Acoustics were not great. And the actual program of speakers and presentations was nowhere near as organized as the logistics just mentioned.

Indeed, my impression is that the presentations were rather disorganized. I don't recall there being an actual schedule of who would speak when, or at least no such schedule was disseminated. Exactly who would talk when was unclear. And there seemed to be confusion and delay on the speakers' platform as

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[38] During most of the summer, I stayed at a fraternity house at George Washington University in a rented room with others who had gotten summer jobs in Washington. But in the last week of August, the fraternity was closed for repairs and I moved to Virginia. Given the price of the car, few of its attributes other than the radio worked as intended. A GS-4 earned a little over $80 per week as I recall, so the car cost a little more than a week's pay for a low-level bureaucrat.

[39] http://www.flicklives.com/; http://bobkaye.com/Shep.html; http://www.keyflux.com/shep/; http://en.wikipedia.org/wiki/Jean_Shepherd.

[40] NPR broadcast excerpts on the 40th anniversary of the March as part of a program which can be heard at http://www.npr.org/templates/story/story.php?storyId=1414581. Excerpts also appeared on a 2-CD tribute to Jean Shepherd issued by NPR under the title "A Voice in the Night" and was sold or offered as a membership perk: http://www.npr.org/about/press/000324.shepherd.html. However, the CDs are apparently no longer available for sale.

the program progressed. There certainly was no document that said "great speech" will be delivered at the end of the day or at such and such a time, in part because the King speech was not in final form on the eve of the March. As one of the organizers has since reported, the logistics – not the speech – were the priority of March planners.[41]

I recall hearing quite recently an interview on public radio – sorry, I don't have the citation – in which it was reported that because the program was running late, King was asked to cut his remarks – whatever they were going to be - short (which he fortunately didn't do). On the radio broadcast, Shepherd does refer to the King speech as brilliant, but that's about all he said about it. He hardly mentions it. That is, from the viewpoint of someone there, as opposed to someone seeing a TV news or newsreel clip afterwards, the King speech was just part of a larger event. To hear that alternative perspective, I suggest you now go the Shepherd broadcast.[42] I have edited out the opening of the broadcast which was unrelated to the March. The March section runs 39 minutes.

Part 1: http://www.facebook.com/photo.php?v=10151238062946522

Part 2: http://www.facebook.com/photo.php?v=10151238086016522

Ultimately, what matters in Washington is political pressure and that was what was accomplished and what was intended. The fact that a vast gathering could be brought together, and peacefully, in the capital city did push what - after the assassination of the President - became the Johnson administration and the Congress to enact the subsequent civil rights legislation. The idea of the March on Washington was the March, not the speeches. Shepherd experienced the March as an indication that the "battle is damn near over," clearly an historical overstatement in hindsight but an expression of his impression.

In any case, on August 28, 1963, when I left before the King speech – and even after hearing it on the radio – I didn't think I had missed out on something. The alternative view came about only after the news media decided that the speech was really what had happened rather than that the March on Washington contained the speech. In the new view, the March on Washington was just to provide an audience for the speech. Once that interpretation became the standard verdict of history, it created the family joke that daddy went to the March on Washington but left before the King speech.

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[41] Clarence B. Jones, "On Martin Luther King Day, remembering the first draft of 'I Have a Dream,'" *Washington Post*, January 11, 2011. "The logistical preparations for the march were so burdensome that the speech was not a priority for us. Early in the summer, Martin asked some trusted colleagues… for their thoughts on his address, and during his weeks in New York, we had discussions about it. But it wasn't until mid-August that Martin had Stanley (Levison) and I (Clarence B. Jones) work up a draft. And though I had that material with me when I arrived at the Willard Hotel in Washington for a meeting on the evening of Tuesday, Aug. 27, Martin still didn't know what he was going to say."

[42] A glossary on the next page provides information on some names and terms used in the broadcast.

Glossary: Since listeners to the 1963 broadcast may not be familiar with names and phrases cited, here is a listing:

V-E Day. Victory in Europe Day, May 8, 1945. Surrender of Nazi Germany ending World War II fighting in Europe but not in the Pacific Theater.

V-J Day. Surrender of Japan, ending World War II. *On August 14, 1945, it was announced that Japan had surrendered unconditionally to the Allies, effectively ending World War II. Since then, both August 14 and August 15 have been known as "Victory over Japan Day," or simply "V-J Day." The term has also been used for September 2, 1945, when Japan's formal surrender took place aboard the U.S.S. Missouri, anchored in Tokyo Bay. Coming several months after the surrender of Nazi Germany, Japan's capitulation in the Pacific brought six years of hostilities to a final and highly anticipated close.* Source: http://www.history.com/topics/v-j-day.

Marion Anderson. Famed black singer. Having her sing at the Lincoln Memorial in 1963 was symbolic because of a 1939 incident: *In 1939 her manager tried to set up a performance for her at Washington, D.C.'s Constitution Hall. But the owners of the hall, the Daughters of the American Revolution (D.A.R.), informed Anderson and her manager that no dates were available. That was far from the truth. The real reason for turning Anderson away lay in a policy put in place by the D.A.R. that committed the hall to being a place strictly for white performers. When word leaked out to the public about what had happened, an uproar ensued, led in part by Eleanor Roosevelt, who invited Anderson to perform instead at the Lincoln Memorial on Easter Sunday. In front of a crowd of more than 75,000, Anderson offered up a riveting performance that was broadcast live for millions of radio listeners.* Source: http://www.biography.com/people/marian-anderson-9184422.

John Wingate: Reporter and interviewer on WOR, the same station that carried Jean Shepherd's program. Wingate was well known at the time, at least in New York, although much later he met an unhappy fate. Source:
http://books.google.com/books?id=1ucCAAAAMBAJ&lpg=PA50&ots=ticeYd6_NU&dq=john%20wingate%20wor&pg=PA50#v=onepage&q=john%20wingate%20wor&f=false

Lester Smith: Another WOR reporter.

Mitchell's Musings 9-24-12: Forget it, Jake; it's Chinatown

Daniel J.B. Mitchell

The quote in the title of today's musing comes from the movie "Chinatown." It occurs at the very end of the film after a web of corruption, incest, and murder has been revealed.[43] The film has nothing to do with China and not much to do with Chinatown, either. But the quote is meant to suggest that there is no point in getting upset about what has happened because it would be futile to do so. Nothing can be done, so just forget about it.


Los Angeles Times

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S. Africa's poor see betrayal by ANC

China's Little Vienna

Occupied, but with less energy

Despite its lack of any connection with China, I am nonetheless reminded of the quote – with its message of total futility - when it comes to trade policy with China. I was further reminded of it on September 20 when I happened to hear a public radio program about whether the U.S. will "get tough" with China, as both presidential candidates seem to be promising.[44] And, of course, there have been recent headlines, as shown at right, regarding a current trade dispute between the U.S. and China that has been sent to the World Trade Organization.

Despite the futility of suggesting a solution - one not original to this author - to our China/trade problem and to other related trade problems, let me first rehash what went on in the September 20 broadcast. I don't mean to single out that program as uniquely missing a key point; missing the key point seems to be an ingrained feature of the debate. But the broadcast was a good example of our inability to address an important trade problem, even in an era when seemingly job creation (and job destruction) is especially important.

[43] The film is ostensibly based on the construction of the Owens Valley Aqueduct, an early 20th century engineering project of great magnitude, and one that permitted the development of modern Los Angeles. But the film is fiction, even though many viewers seem to believe it is a quasi-documentary. As such, it has affected actual California water policy debates. It is now impossible to discuss state water policy without someone bringing up "Chinatown." The story is reset in the film in the 1930s, probably because it was easier to find neighborhoods in Los Angeles that looked like the 1930s than to recreate an earlier horse-and-buggy city. On the Aqueduct itself, see http://www.youtube.com/watch?v=QesBtxLwvWY. The famous movie quote can be seen at http://www.youtube.com/watch?v=9cWnubJ9CEw.

[44] You can hear the program – *To the Point* - at http://www.kcrw.com/media-player/mediaPlayer2.html?type=audio&id=tp120920can_a_us_president_s [It starts at the 7:30 minute mark.]

If you listen to the broadcast you will hear China experts tell you that a) in every presidential election there are promises by candidates to do something about jobs lost to China, b) that the candidates really don't mean what they say because going beyond symbolic gestures would cause a trade war with China, and c) that even beyond the potential negative economic effects of such a trade war, it would harm American political relations with China which we need to keep in reasonably good shape to deal with Iran, North Korea, etc. (The experts don't consider the possibility that China likes to keep the pot simmering with Iran and North Korea so that the U.S. won't be tempted to make more than symbolic moves on trade.)

The experts suggest that China does indeed manipulate its exchange rate, i.e., keep its currency below what a freely-floating rate relative to the U.S. dollar would be in order to stimulate Chinese exports and restrict imports. But China is slowly raising the rate, we are told, although it may be a very long time before its currency is allowed to appreciate to an appropriate rate. In theory, we could impose tariffs on Chinese goods in retaliation for that manipulation as some in Congress advocate. But we won't do anything so provocative, the experts say, because a provocative action would start a trade war.

Expert opinion is that China is keeping its exchange rate artificially low because its rulers see two major benefits. First, it creates jobs which keep China's population content (or at least content enough) so that they won't rebel against the current regime. Second, in a variation of what trade textbooks call the "infant industry" theory, China's rulers are said to want to foster new industries which need protection at first, but in the future will be viable and capable of dealing with world competition. The current currency manipulation is to protect the infants until they grow up. Because of these benefits, it is argued, the Chinese would respond to any serious U.S. pressures with a trade war which the U.S. wants to avoid. (The experts tend not to consider the possibility that the rulers of China - through ownership profits and other connections - themselves benefit from the current system. It is, after all, a system in which the workers of a poor nation make consumer goods for a rich country – the U.S. – in exchange for dollars which pile up in huge amounts in the hands of the Chinese central bank and which thus provide those workers with no immediate benefits.)

Let's put aside the motives which drive Chinese currency manipulation. Let's assume instead that whether their reasons are good or bad, China's rulers would start a trade war if pushed by serious U.S. sanctions such as tariffs. Let's put aside the various reasons given for why the U.S. doesn't want a trade war and whether they are valid. Let's assume instead that the U.S. doesn't want a trade war with China, whether for good or bad reasons. Then the whole matter boils down to a simple premise: The U.S. can do very little because it doesn't want a trade war with China. *Note, therefore, that if it were possible to do something effective that would not provoke a trade war, the entire framework of the current discussion – and of the broadcast cited earlier – falls apart*.

So let's reframe the discussion and then point to an alternative trade policy that avoids singling out China for special sanctions. The U.S. has a trade imbalance problem with the world, not just with China. China may be the current target as the villain but the trade imbalance problem goes back earlier. At one time, the target villain was Japan. Indeed, Japan's trade policy with the U.S. has not changed all that much since it was the villain of choice. It's just that China has become a much bigger target to the point that Japan has been eclipsed.[45]

The U.S. trade imbalance (exports minus imports) in the national income accounts in 2011 was a little under 4% of GDP.[46] Four percent may not sound like much but adding another 4% to GDP through balanced trade would be a major achievement in terms of jobs – particularly in manufacturing, a sector on which both presidential candidates have been focusing. Because we have been running deficits in trade for decades, the U.S. is by far the world's largest debtor. If you continually buy from the world more than you sell to the world, you can either run down your assets and/or take on debt to pay for the imbalance. The U.S. net debt to the world (assets minus liabilities) at the end of 2011 was about $4 trillion.[47]

Where is the U.S. trade imbalance located? In fact, it is located just about everywhere. Look at recent data. We have a negative trade balance with Europe, including with just the EU and with just the euro-zone. We have a negative balance with Canada and with the rest of the Western Hemisphere. We have a negative balance with the Middle East and with Africa. So it's not just Asia and not just China and Japan.[48]

This simple fact suggests that a policy solution to the U.S. trade problem has to be an all-country policy, not just a China policy. And if it is an all-country policy, it doesn't require singling out China and it does not require China bashing. If there is no singling out of China and no China bashing, the policy need not provoke a trade war with China. Indeed, there would be no point in going for advice to China experts – who will always say there is no solution because a solution would involve a trade war with China. Since the policy would not be China-centric, why would we talk only to folks who have expertise in that one country?

Now I haven't said what this seemingly-magic policy solution for the U.S. would be, although if you have read the Mitchell's musings since they began you would know I am referring to the (Warren) Buffett proposal. Assuming you are not such a loyal reader, let me keep you in suspense just a little bit longer while I present additional information. If we closed the 4% of GDP gap in the net export balance, we could roughly expect about half the resulting increase in economic activity (more exports; fewer imports) to be in manufacturing. Only about a tenth of American workers are employed in manufacturing. So if jobs rose by something like 4% (in proportion to GDP) and if half of those went into

[45] You could see how much Japan has been forgotten as the villain after the earthquake/tsunami/nuclear disaster in Japan. American charities began raising dollars to send to the Japan as some kind of aid. But Japan has a trillion dollars in reserve from its trade surplus. The last thing it needed was dollars.

[46] http://www.bea.gov/scb/pdf/2012/09%20September/D%20pages/0912dpg_a.pdf. (Page D-12)

[47] http://www.bea.gov/scb/pdf/2012/09%20September/D%20pages/0912dpg_g.pdf.

[48] http://www.bea.gov/scb/pdf/2012/09%20September/D%20pages/0912dpg_f.pdf. (Pages D-68 - D-70)

manufacturing, we would be talking about an increase in manufacturing employment by something like a fifth. That's a lot! I could be off by a significant magnitude and yet the result would still be big.[49]

OK. So what was the Buffett plan? Warren Buffett – the famed financier/business executive – made his proposal in an op ed in the *Washington Post* back in 1987 at a time when Japan – as noted earlier – was the trade villain and China was just emerging on the international economic scene.[50] Buffett did not want to have a trade war with Japan or even to engage in Japan bashing. His solution was what might now be called a cap-and-trade plan for international commerce. It was a market-based solution which did not involve filing complaints with some international organization about a particular country or a particular product or a particular trade practice.

Basically, under the Buffett proposal, anyone who exported a dollar of anything from the U.S. would get a certificate allowing that exporter, or anyone or any entity who bought the certificate, to import one dollar's worth of goods and services. You would have to have sufficient certificates to import whatever good or service you wanted to bring in. Since the total value of the certificates would equal U.S. export value, the value of imports would automatically equal the value of exports. There would be a market for the certificates so anyone would be free to import anything in any quantity as long as sufficient certificates were obtained. For economists who want instinctively to scream out that the Buffett plan is some kind of disguised tariff or a tariff-and-subsidy plan, my advice is to do the math first. You will find it is equivalent to setting the exchange rate at a price at which the value of exports = the value of imports.

The Buffett plan could be phased in over time. For example, initially, an exporter of one dollar could receive an import certificate allowing $1.20. At some point, the certificates being issued would drop in value to $1.10 and still later to $1.00. A key point is that in describing the plan, I never had to say "China" or "Japan" or name any other country. No country is singled out.

The Buffett plan, by halting the U.S. tendency to buy more abroad than it sells, would stop the rise in net U.S. debt to the world. Since the U.S. import market would be constrained to the value of U.S. exports, all countries that trade with the U.S. and that want to sell in its domestic market would have an interest in seeing that their competitors – including China – play fair and don't manipulate their currency. To the extent that there would be pressure on China, it would come from everyone, not just the U.S. If China "unfairly" exported a dollar to the U.S., it would have taken that dollar of exports from someone else. The collectivity of the someone elses – all other countries - would do the pressuring, not the U.S.

Of course, there are administrative complications in administering the Buffett plan. Exporters might try to claim a greater value than they were actually exporting (particularly since many export transactions are internal, i.e., between different international units of a single firm). Similarly, there would be a

[49] Roughly half of U.S. trade in goods and services involves manufactures.

[50] Warren E. Buffett, "How to Solve Our Trade Mess Without Ruining Our Economy," *Washington Post*, May 3, 1987, p. B1. Available at: https://docs.google.com/file/d/0BzVLYPK7QI_4NmYyOGQzYzQtMWU1MC00MDEwLWI0ZGUtMzYxYmM2OTY5NjMz/edit

temptation to undervalue imports. However, we already have customs agents who are supposed to police such matters, at least on imports.[51] My guess, moreover, is that simply announcing the Buffett plan might well obviate any need to administer it. Such an announcement might well trigger an international conference on exchange rates in which all players, not just the U.S., would be able to say to the currency manipulators that one way or another, the manipulation game was over and they might as well simply allow their currencies to float freely.

Now I said at the outset of this musing that I was reminded of the futility quotation from the final scene of the movie "Chinatown." The Buffett plan created a brief stir when it appeared in the *Washington Post* in 1987; then it was quickly forgotten. Maybe it was forgotten because the suggestion came from outside the Beltway. Maybe only economists are supposed to suggest economic policy. Maybe bashing the trade villain *de jour* is more attractive to politicos than solving the underlying trade problem. Whatever the reason, the discussion on trade relapsed back to interviewing experts who would say that nothing could really be done because anything that might be done would lead to a trade war with (then) Japan and (now) China. The years have advanced but the conversation remains stuck where it was in 1987. How sad. But should we really just "forget it" and go on indefinitely repeating the past?

[51] Service trade, such as tourism, would pose problems. Like all systems, some costs and imperfections are inevitable.