

Mitchell's Musings: First Half 2014

Note: Due to illness, there were no weekly musings after mid-February until the beginning of June 2014

These musings are written for www.employmentpolicy.org - EPRN = Employment Policy Research Network. Format may vary from original. Page and footnote numbering is continuous.

Mitchell's Musings 1-6-14: Just Say "Yes"

Daniel J.B. Mitchell

From time to time, we have noted that "freedom of the press" includes the right to exercise editorial judgment and the right not to publish something. In particular, we have noted that while courts have allowed newspapers to obtain and publish wholesale the salaries of public employees on their websites, newspapers don't have to do so since such publication a) invades privacy, b) encourages ID theft, and c) creates opportunities for employee raiding. The last point is particularly important for my home university, since, although it is public, it competes for faculty with private universities which have no corresponding obligation to publish their faculty salaries – and don't.¹



I have noted in the past that to the extent that the public has an interest in public employee salaries – and we are talking top-to-bottom, not just high level executives and elected officials – newspapers could provide salaries and job titles but leave out the names. Of course, some titles – such as city manager – might only apply to a single, easily identified official. But the bulk of occupations would have multiple occupants and would be anonymous. The titles could be compared, say, with similar private sector occupations if the intent is to look at the issue of overpayment or underpayment in the public sector. In fact, the California state controller provides just such name-withheld information for local jurisdictions on his website.² So it is easily done.

¹ Two California newspapers that publish public payrolls with names included are the *Sacramento Bee* and the *San Francisco Chronicle*.

² <http://publicpay.ca.gov/Reports/Cities/Cities.aspx> and <http://publicpay.ca.gov/Reports/Counties/Counties.aspx>

Of course, freedom of the press by itself is not the true reason for wholesale publication of public payrolls with names included. What we actually have is the flip side of the reader who says he (it's very likely to be a "he") reads *Playboy* just for the articles. No one believes that statement. The reason for publication of name-included public payrolls is a kind of peeping Tom-ism that newspaper editors know will attract eyeballs to their websites. It is sometimes said defensively by those editors that many of those attracted eyeballs turn out to be those of other public employees. I'm not sure what that observation is supposed to mean, however. Public employees are presumably as equally likely to be peeping Toms as anyone else. (And they are equally as unlikely as anyone else to read *Playboy* for the articles.)

In past musings, I have challenged newspapers that publish public payrolls with names included also to publish their own payrolls in the same way. Wouldn't you be curious to know what a newspaper pays the reporter who wrote an article you read? What your favorite columnist is paid? So the publication would attract eyeballs. But, of course, there would be the downsides mentioned above of invasion of privacy, ID theft, and raiding. As a result, no newspaper has taken up my challenge, even though newspapers clearly have access to their own payroll data.

Given the sad state of the newspaper business thanks to the advent of the internet, it's not surprising that the attraction of eyeballs has motivated newspapers to publish public payrolls. The fact that they don't also publish their payrolls means that they are convinced that the downsides outweigh the attractions. But what if it turned out that one of those hot new internet companies DID publish its own payroll (with names)? Wouldn't that change the calculation?

It turns out that there is such a firm!

Salary can be a touchy subject. Asking how much someone makes is usually off limits. Entire businesses are dedicated to projecting how much money a particular position might command. At least one company has made a move to squash the taboo all together. Buffer, an app that manages social network accounts, posted the salaries for its employees online last week. CEO Joel Gascoigne tops the list (\$158,800) which runs to Andrew Yates, a senior iOS engineer (\$107,900), on down to recently-onboarded customer service team member Mary Jantsch (\$70,000), who is still in her trial period for employment. "Transparency breeds trust, and that's one of the key reasons for us to place such a high importance on it,"

Gascoigne wrote, even including the internal formula for calculating paychecks...³

In short, newspaper editors, the very internet that is undermining your old business model is the home of a trendy private firm that likes to put its own payroll on the web. So I renew my challenge. Editors, publish your own payrolls with names included! You have the freedom of the press to do it. You have the data. As Buffer's CEO points out, it's "transparent" (which is always a Good Thing – right?) Publication will attract eyeballs. It will get you lots of PR, just like Buffer got. That can't be bad – can it?

So, editors, just say "yes." I'll be waiting. But if your answer is still "no," maybe you could rethink the public payroll thing.

³ <http://blog.sfgate.com/techchron/2013/12/24/buffer-salaries/>. This item appeared on the website of the *San Francisco Chronicle* which, as the previous footnote indicated, likes to publish public payrolls with names included.

Mitchell's Musings 1-13-14: News Reporting Deficit

Daniel J.B. Mitchell

Every once in awhile, there is a news story about a woman who goes into labor sooner than expected and her husband puts her quickly into the family car and drives to the hospital, exceeding the speed limit. So let's consider that decision. The husband could have called 911 and hoped the paramedics would arrive quickly. But that decision might be risky; they might not arrive in time. He could have driven his wife to the hospital but obeyed the speed limit on the way. But that approach might have led to the baby being born in the car, possibly endangering his wife and the baby. Or he could speed to the hospital, risking a car accident along the way or maybe just being stopped by the police, thus delaying the ride to the hospital.



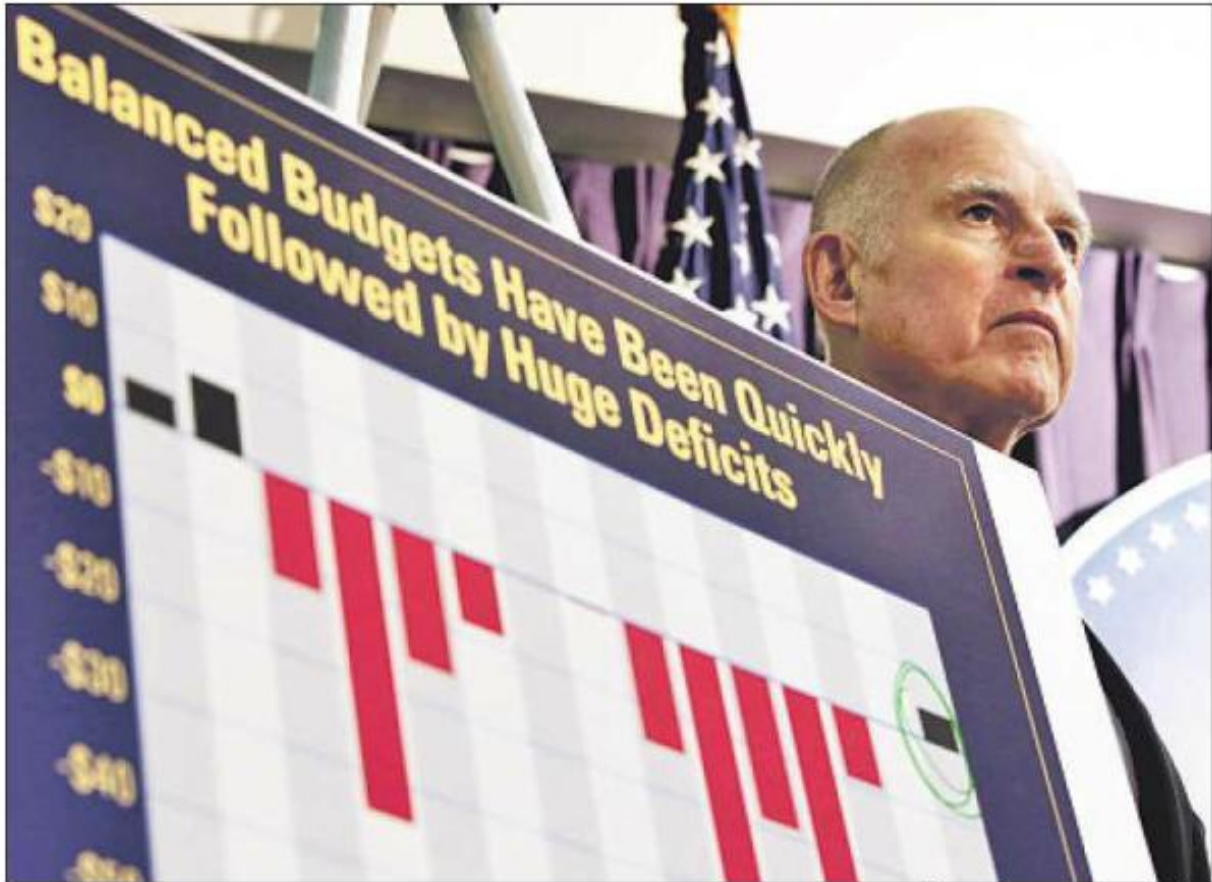
There are pros and cons to each decision. But here is a decision that would not make sense. The husband could decide to speed to the hospital, but also to adjust the speedometer in his car to prevent it from showing he was exceeding the speed limit. That decision makes no sense, since fiddling with the speedometer won't affect the actual speed of the car. Indeed, fiddling with the speedometer could make it difficult for the husband to determine by what margin he was exceeding the speed limit, creating some additional and unnecessary danger. Lack of reliable measurement can be a hazard. And there is a lesson in this allegory for public budgeting. In particular, there is a lesson that might have been applied to the recent unveiling of a budget proposal by California Governor Jerry Brown, which by and large was heralded in the news media without much attention to measurement.

California has had periodic budget crises that mirrored the ups and downs in its economy. In the early 1990s, the state was hard hit by the end of the Cold War and the decline of aerospace. It was argued by the mid-1990s that the state had developed a "structural" deficit which could not be cured in the long term by just ongoing economic growth. But then – for a time – the dot-com boom masked the problem. When that boom turned to bust, the crisis was renewed – this time reflected politically in the recall of then-Governor Gray Davis and his replacement by Arnold Schwarzenegger.

Schwarzenegger borrowed his way out of the immediate problem and, with the help of the housing bubble of the early-to-mid-2000s, he achieved a temporary budgetary quiescence. But the subsequent housing bust and the resulting Great Recession renewed the California state budget crisis. Ultimately, Schwarzenegger left office equally as unpopular as Davis had been at the time of the recall. Schwarzenegger was replaced in the 2010 election by Jerry Brown.

I won't rehash the struggles Brown had with the budget crisis after taking office, but ultimately he persuaded voters to approve tax increases under Proposition 30 in 2012. His recent budget proposal reflects the added tax revenue under Prop 30 plus the tax revenue brought in by the general economic expansion – sluggish though it has been – and by developments in financial markets that bring in capital gains tax revenues.

Brown has positioned himself as the prudent adult in the room who will guard the state treasury against raids by spendthrift legislators. The official budget documentation that was released by his office picks up the themes he has sounded about saving for economic uncertainties through a “rainy day fund,” having the state live within its means, paying down debt, etc. News reports generally have reflected positively on his stance. Even statements from the currently marginalized Republican opposition, with some exceptions, have been grudgingly supportive.



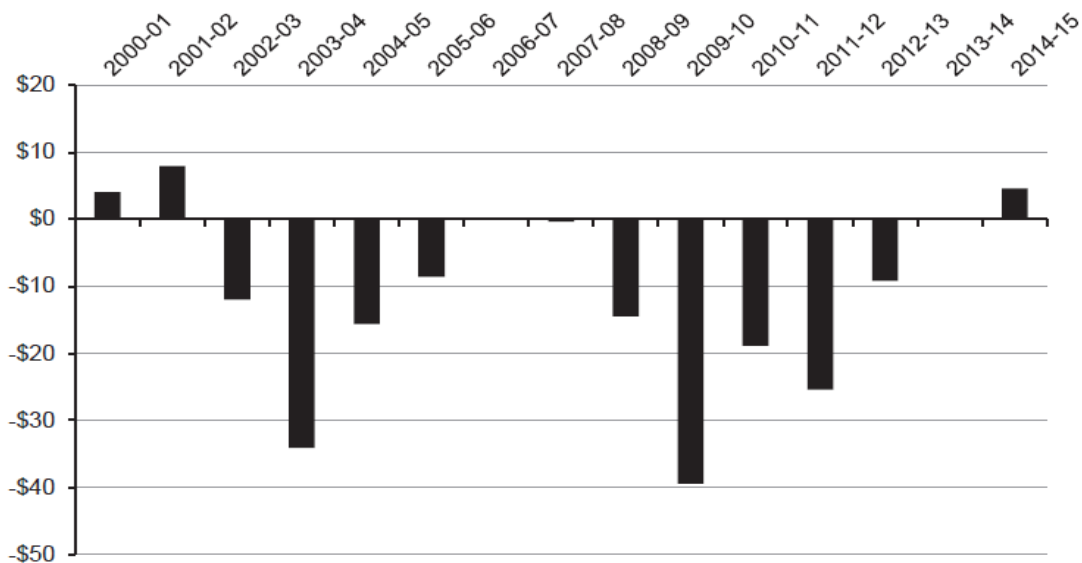
ROBERT GAUTHIER Los Angeles Times

GOV. JERRY BROWN discusses his proposed 2014-15 state budget at a news conference in Los Angeles. The \$155-billion blueprint includes increased spending, but Brown said the state still needs to live within its means.

The picture above – taken at the media event during which the governor unveiled his new budget plan – appeared on the front page of the *Los Angeles Times*. The chart the governor is showing in the photo is taken directly from his budget summary document (page 8).⁴ On the next page is the actual table reproduced from that document. Note that the title refers to “deficits,” but the footnote on the table refers to “shortfalls.” You may think you know what a deficit is, but what exactly is a shortfall? It’s not a term you are likely to find defined in any accounting textbook.

⁴ <http://www.ebudget.ca.gov/2014-15/pdf/BudgetSummary/FullBudgetSummary.pdf>

Figure INT-05
**Balanced Budgets Have Been Quickly
 Followed by Huge Deficits^{1/}**
 (Dollars in Billions)



^{1/} Budget shortfalls or surplus, measured by the annual Governor's Budget.

You probably think that a deficit means that less money came into the state's General Fund in a given year than was spent. And, indeed, when folks talk about the federal budget deficit, that concept is what they mean. Now, loosely, you can think of the state spending something like \$100 billion or less per year during the period shown on the chart. But look at the deficits – using the common meaning that most people apply to that term (less in than out). If the state actually had really run deficits in that sense of the word, it could not have survived. You can't fix deficits of \$30+ billion in a \$10 billion budget – which are shown twice on the chart – as a practical matter. Yet we know that the state, with difficulty and even with some IOUs, did make it through the worst of its budget crisis.

Note that the governor's chart ends hopefully in what appears to be a "surplus" at the end of the 2014-15 fiscal year. But since it is apparent that "deficit" on the chart doesn't mean what it seems to mean, isn't it likely that surplus doesn't mean what you might think it does?

We started off with a story about a car speeding to the hospital. We'll come back to that story below but let's consider another story. Imagine you have a checking account and at the beginning of the year you had \$1,000 in that account. During the course of the year, you put your paycheck and other sources of income into the account. And you pay your daily expenses out of the account. Suppose you discover that at the end of the year, there was only \$600 in the account. That result can only mean that during the year you spent \$400 more than you took in. ($\$1,000 - \$600 = \$400$.) You thus could be said to have run a deficit – in the common English meaning of that term – of \$400. (Whether you had a "shortfall" is unclear, since – as noted - you won't find any definition of shortfall in accounting textbooks.)

The General Fund of California is like the state's checking account. So let's go further into the official budget summary released by the governor and see (page 14) what he expects to be the balance or

reserve in the account on July 1, 2014 when the fiscal year 2014-15 begins. *Note that I am not for purposes here questioning the projection; I am using only numbers found in the official document.* According to the document, on July 1, 2014, there will be \$4.2 billion in the account. What does the projection say will be there at the *end* of the year, i.e., July 1, 2015? The governor says there will be \$1.9 billion there. But he proposes to divert some money into a supplemental rainy day fund to the tune of \$1.6 billion. So, in effect, there will be \$1.9 billion + \$1.6 billion = \$3.5 billion in the account at the end of the year. Since the reserve drops from \$4.2 billion to \$3.5 billion, there must be a deficit projected of \$0.7 billion.

Did no reporter at the news conference or afterwards notice that the seeming surplus shown on the chart the governor displayed at the event did not square with the implicit deficit in his official budget summary? Apparently not.

What about paying down the debt? According to the official document, the governor proposes to reduce what he termed the “Wall of Debt” of \$25 billion by around \$11 billion in 2014-15. So you might think that the \$0.7 billion deficit is in some way offset by the reduction in debt. But there is a problem here. If you want to net liabilities against assets – some kind of net worth concept – you have to be consistent and do it at the beginning of the year as well as at the end. And if you do it that way, *prepaying debt leaves your net worth unchanged but does make you less liquid than you would have been*, since you have less cash on hand after the prepayment. Put simply, if you reduce your debt by, say, \$11 billion, you will have \$11 billion less cash on hand than you would have had by not paying off your debt. In an uncertain world – something the governor emphasizes we live in – you might argue that reducing state liquidity is just what you *don’t* want to do. You might suddenly need the cash that you used to prepay debt - and then not have it.

Now let’s return to my speeding-to-the-hospital story. The husband was not necessarily wrong to exceed the speed limit to get to the hospital, all things considered. It could have been the best available alternative, exactly what needed to be done. But it would have been foolish to diddle with the speedometer to make it seem cosmetically as if no speeding was occurring. It could even be dangerous. Similarly, we can’t say that the budget proposed by Governor Brown is a bad proposal because it runs down reserves in the General Fund. According to the proposal, there are big real expenditure increases in education and transportation. Given the big cuts during the Great Recession and its aftermath, maybe those choices are what should be done by California. But fiddling with the accounting – deficits termed surpluses, reference to vague past “shortfalls” – is not a good choice. When you obscure proper measurement, not knowing what you are doing can be dangerous.

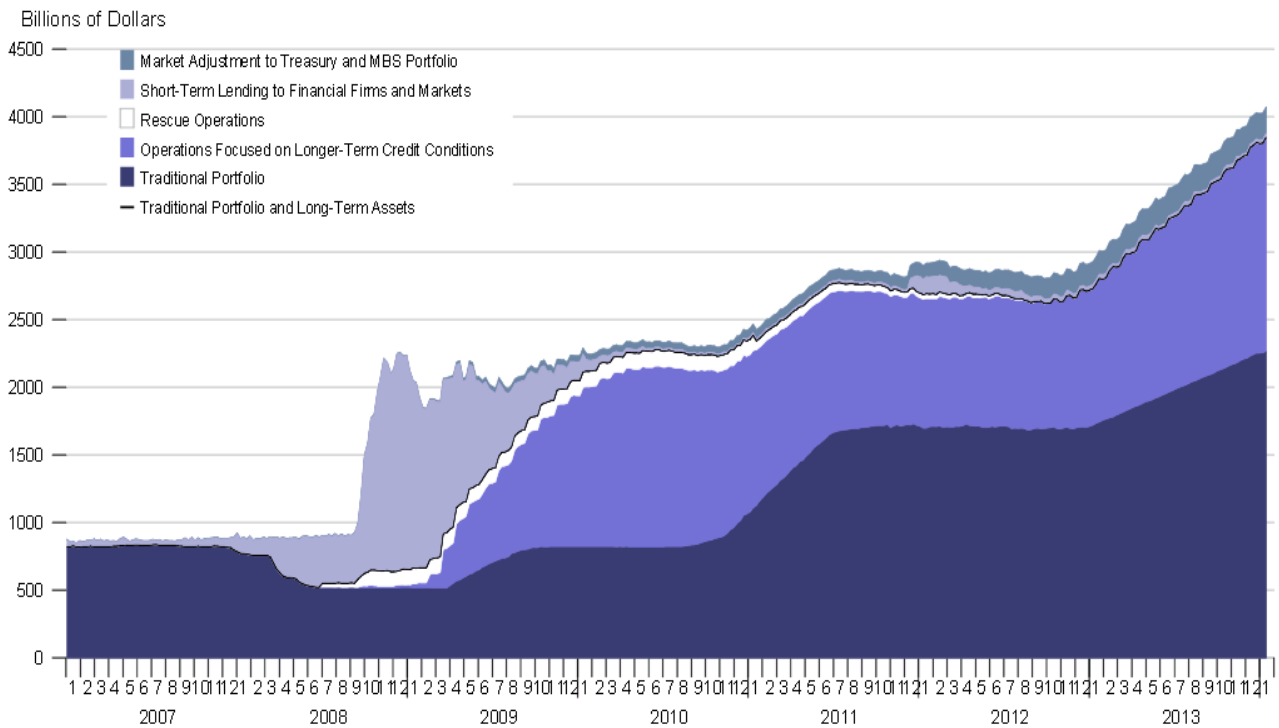
Mitchell's Musings 1-20-14: Big Ben

Daniel J.B. Mitchell

Now that Ben Bernanke is stepping down as chair of the Fed – and Janet Yellen is taking over as his replacement – it is appropriate to take note of his contributions in that role. The fact is that absent leadership at the Fed, the mortgage/financial crisis could have turned into something very much worse than it did. A different Fed chair might not have taken action. There were failures of policy, but these were primarily within the political system which, in its current polarized state, does not do well with emergencies. Because the Fed is partly insulated from the political system, it was able to do what needed to be done.

Composition of Federal Reserve Assets

End of Period Wednesday Figures



It is apparent from the chart above, that unusual steps were taken by the Fed. There were (very) large asset purchases that kept enough liquidity in the financial system to prevent a collapse. And there was a willingness to experiment so long as the overall economy remained weak.

So what about the standard complaints. One complaint is that the Fed bailed out financial institutions that were culpable in the crisis and did not directly help, say, homeowners with under-water mortgages (mortgages which exceeded the value of the home after home prices dropped). The fact is that there was no way (legally) that the Fed could have extended aid directly to homeowners. Such a step could

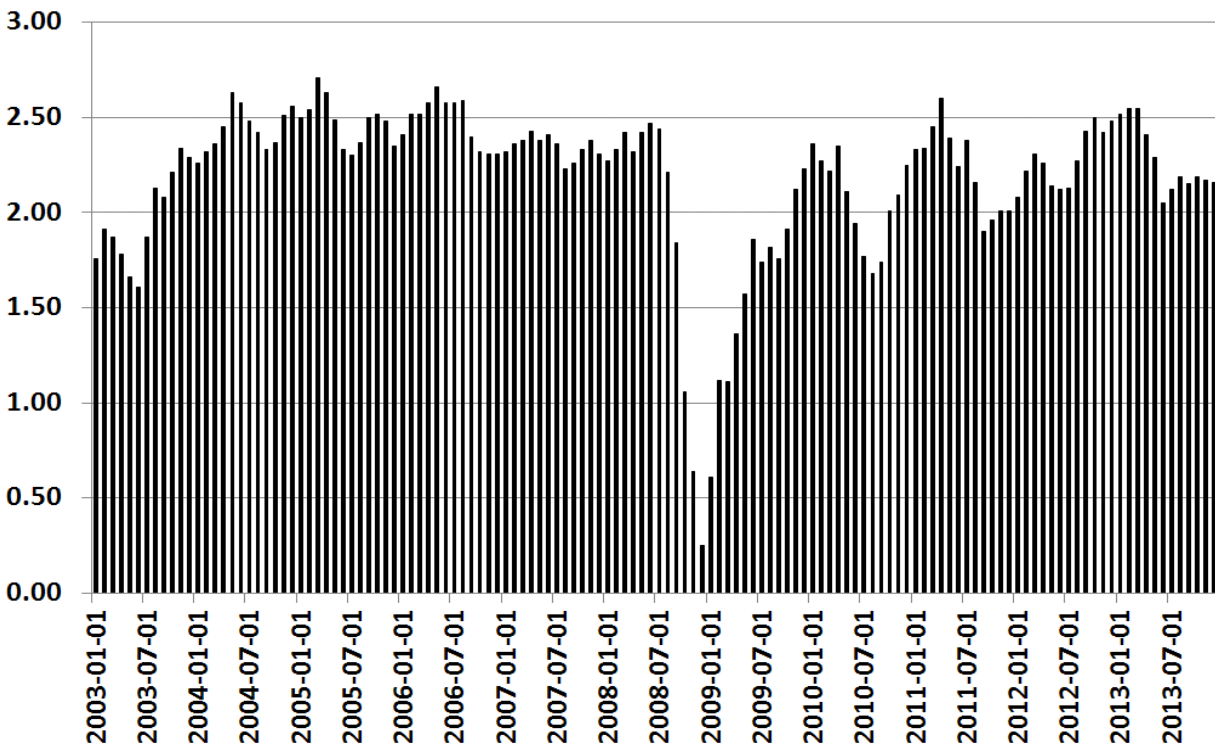
have been taken by Congress and, to a limited extent, there was such aid. But arguably the homeowner programs were not sufficient. That was a political failure.

Similarly, there really was no direct way the Fed could punish institutions. In the end, institutions don't take actions; those that manage them do. It is legitimate to complain that there should have been prosecutions of such managers. But that complaint ultimately needs to go to the Department of Justice where prosecutions originate.

In the end, letting large financial institutions fail would have invited a cascade of such failures with the kinds of consequences that emerged in the Great Depression. However bad the Great Recession was, the Great Depression was orders of magnitude worse. Bernanke, as a student of the Great Depression, avoided repeating the errors of the 1930s.

A second complaint is that the Fed, by buying up assets and increasing the money supply (by whatever definition you think captures "money"), will let loose a wave of inflation. But so far there has been no Great Inflation. The odd thing is that those who seem most worried about inflation due to Fed actions are the same people who "believe" in markets. And we know that financial markets are not expecting a Great Inflation. The yield spread between conventional Treasury securities and inflation-adjusted Treasuries (TIPs) is a proxy for financial market expectations. And, as the chart below shows, market forecasts of inflation are about where they were before the Great Recession developed, maybe a little lower.

Yield Spread: 10-Year Conventional Treasuries vs. 10-Year TIPs



The current expectation, and explicit policy of the Fed, is that now that unemployment rates have fallen, it will begin to taper off its unusual asset purchases. Those who fear inflation believe that the Fed will eventually have to undo all its extraordinary purchases. But that isn't clear. Maybe financial markets are projecting the Fed will completely unwind what it did. Or maybe they just think that under Janet Yellen, the Fed will continue its pragmatic policy of trying to adjust to economic conditions. You may have learned that inflation is caused by "too much money chasing too few goods." Nowadays, however, exactly what is meant by "money" is unclear.

In any event, what it appears Bernanke did – beyond the specific policies adopted – was to embed the idea that the Fed wasn't just another bank. Yes, the Fed is a "central bank." But central banks, since they create reserve money to buy assets, are not just anointed commercial banks (although in some countries, they started out that way). So the concerns about the "quality" of Fed asset purchases and whether the Fed could go "bankrupt" if it bought poor quality assets were simply based on a lack of understanding. Similarly, demands in Congress to "audit" the Fed – to look for what, exactly? – in the same way you might audit a commercial bank, are also misplaced. I suspect that a better understanding – at least by some in Congress – was ultimately behind the relatively smooth confirmation of Yellen, who was billed as a protégé of Bernanke.

Future historians will ultimately decide whether Bernanke was the hero of the Great Recession. But it's unclear who else would be in the running for that title if it isn't him.

Mitchell's Musings 1-27-2014: Learning from History

Daniel J.B. Mitchell

Each winter quarter at UCLA, I co-teach a course on *California Policy Issues* with Michael Dukakis. The course, which is mainly for undergraduates, covers a broad range of California topics, essentially skimming the surface of each topic via readings, videos, and guest speakers.⁵ Although most of the course focuses on contemporary or recent events and issues, there is a notable history element, too. One of the individuals who figures in that history is Earl Warren.



Earl Warren is mainly known today as the chief justice of the U.S. Supreme Court at the time of the *Brown vs. Board of Education* decision, the decision which required desegregation of the public schools. Later desegregation decisions followed. Other important Warren decisions required redistricting on a “one-man/one vote” basis and the Miranda warning to criminal defendants. Given these major decisions, it is easy to forget that Warren started his career as a California politician and eventually as governor of California, first elected to that office in 1942.

Warren was the only California governor to be elected to three *consecutive* terms and under current rules, there can't be another governor with that record.⁶ Although a Republican, he followed a practice – common at the time he served – of “cross-filing” in both the Republican and Democratic primaries. He always did well in the Democratic primaries and in 1946 when he ran for a second term, won both parties' primaries. As a result, apart from minor party candidates, he was essentially unopposed and won by a landslide in the 1946 general election.

Although being chief justice might seem to be an end in itself, Warren in fact wanted to be president. He failed in 1948 in that endeavor, but he was Tom Dewey's VP running mate in 1948, the slate that lost to Truman.⁷ In 1952, he was a favorite son California presidential

⁵ The latest syllabus is at <http://www.anderson.ucla.edu/documents/areas/fac/hrob/10brd14.pdf>.

⁶ California's current governor, Jerry Brown, is in his third term but it is not consecutive with his first two. Term limits were imposed by voters in 1990, so governors can now serve only two terms. Brown's first two terms, however, came before the 1990 limit, so he was allowed a third term and, assuming he runs, is likely to be re-elected to a fourth term this year.

⁷ You can hear a radio broadcast he made as a presidential candidate in 1948 at: https://archive.org/details/car_000038. Another radio interview at the time of Warren's 1952 presidential campaign can be heard at: <https://archive.org/details/CaliforniaGov.EarlWarrenRadioInterviewOnHis1952PresidentialCampaign>.

candidate at the 1952 GOP convention. Warren had some hopes that Eisenhower and Taft would be unable to secure a majority of delegates at the convention and that he would become the nominee after a deadlock. However, his strategy was undermined by another Californian, Richard Nixon, who wound up being Eisenhower's VP. As part of a murky convention deal, Warren was apparently promised that he would be named to the Supreme Court by Eisenhower - should a vacancy arise - in exchange for California support for Eisenhower's candidacy.⁸

Warren's name first comes up in the course in the first class as part of a general background presentation about California. A 1946-47 California court case comes up via some video clips, the case of Mendez vs. Westminster.⁹ Mr. Mendez was a Mexican American living in Orange County with his family. In 1942, as the U.S. entered World War II, the West Coast Japanese-origin population was deported to inland internment camps. Mendez leased land belonging to a Japanese family and took over operating their farm. When he moved his family to the farm and tried to enroll his children in the local school district, Mendez was told they would be segregated in the Mexican school.

Mendez appealed to the state courts and eventually won a decision indicating the separate could not be equal several years before the Brown vs. Board of Education case. The NAACP, seeing the Mendez case as a precedent for challenging segregation in the south, intervened in the Mendez case and Thurgood Marshall, attorney for the NAACP, became involved. (Marshall later argued the plaintiff's case in Brown vs. Board of Education before the U.S. Supreme Court.) After Mendez won, Governor Warren signed an order ending segregation in California schools. So two participants in the later Brown vs. Board of Education case, Marshall and Warren, were connected to the California Mendez case. The video mentions the Japanese internment episode as background to the Mendez case, but gives no details.

In the second week of the class, we take up infrastructure issues. One of the readings deals with Governor Warren's role in establishing the California freeway system. You may not think of Warren as the father of the freeways but in 1947, after his landslide re-election the year

⁸ How ironclad the promise was is unclear. A vacancy arose when the incumbent chief justice died. Warren insisted on being named to chief justice. Eisenhower, in principle, could have named Warren to the court as an associate justice and named one of the other justices as the chief.

⁹ Last year's course introduction (Winter 2013, not 2014) with the video clips mentioned in the text can be seen at the links below:

Part 1 <https://archive.org/details/CaliforniaIntroduction-publicPolicy10b-winter2013-part1>

Part 2 <https://archive.org/details/CaliforniaIntroduction-publicPolicy10b-winter2013-part2>

[The video clips on the Mendez case begin around minute 13:28.]

Part 3 <https://archive.org/details/CaliforniaIntroduction-publicPolicy10b-winter2013-part3>

before, he pushed through a bill in the state legislature - over very strong opposition - to begin extensive freeway construction.¹⁰ The Warren model, an earmarked gas tax in a highway trust fund, ultimately was arguably the model for the interstate system established during the Eisenhower administration in 1956 at the federal level.

Our third week deals with fiscal affairs. We try to combine both state and local government finance in that unit with nonprofit finance, since nonprofit organizations often provide public services and must have funding, budgets, etc., just as governments do. As it happened, our nonprofit guest speaker this year was the head of the Japanese-American National Museum in downtown Los Angeles. That museum devotes significant exhibition space to the World War II internment episode. So that episode, which was mentioned only in passing in week 1, again arose in the course.

The fourth week deals in part with health care. Students learn about a second major effort by Earl Warren as governor to establish a universal health plan for the state in 1945 and again – after that effort failed in the legislature due to strong doctor opposition – in 1947. The 1947 episode also led to a failure in the legislature.¹¹ Thus, despite Warren’s evident popularity (winning both parties’ primaries in 1946), he was able to achieve only one of his top goals: freeways but not health care. Students learn something about the constraints that even popular politicians can face by learning about Warren’s ability to get only one out of two key pieces of legislation enacted. The health care story also features some misjudgments by Warren in promoting his agenda. So students also learn that even skilled political figures can make mistakes.

In the fifth week of the course, we take up a variety of demographic issues related to California. At this point, the internment of the Japanese-origin population comes up explicitly and, in particular, Earl Warren’s role in it. Warren was running for governor the first time in 1942 and interning the Japanese was a major element in his campaign which featured charged racist language.¹² So now the students learn of a side of Warren that had not previously been mentioned. Many biographies of Warren have been written, but the internment episode

¹⁰ See http://www.anderson.ucla.edu/documents/areas/fac/hrob/mitchell_freeway.pdf.

¹¹ See http://www.anderson.ucla.edu/documents/areas/fac/hrob/mitchell_earl_warren.pdf.

¹² See <http://escholarship.org/uc/item/1bm189vk>. Warren defeated incumbent governor Culbert Olson. You can hear Olson charging Warren with making a political issue of state defense during a candidate’s debate on Jan. 11, 1942 at the tail end of part 2 at https://archive.org/details/car_000043 (a compilation of audio recordings). The crowd laughs when Warren denies using the defense issue for his political campaign.

tended to be glossed over, in part because Warren later didn't want to talk about it.¹³ It is sometimes said that Warren apologized for the internment in his own autobiography. But his very brief statement there isn't a full apology and is more an explanation that bad things sometimes happen in wartime.¹⁴

At this point in the class, we run a video clip from the one-man play, *Thurgood*, starring Laurence Fishburne.¹⁵ There is a segment in the play devoted to the Brown vs. Board of Education decision. The case was first heard by the U.S. Supreme Court in 1953 and apparently there was no consensus among the justices. In 1896, the Court had upheld segregation on the separate-but-equal theory. Thus, to decide against segregation would involve overturning a major precedent, something the Court likes to avoid. But then the chief justice died and the case had to be reheard with Warren as the chief. Thurgood/Fishburne notes his concern about Warren, because of the internment episode.

As it turns out, Warren not only voted to end school desegregation but got the other eight justices to make the decision unanimous, although he was the junior appointee to the Court and had never been a judge. Even more, they all were convinced to sign one decision. There were no separate viewpoints. Warren, as a past governor and politician, understood that such a major social decision had to be unanimous and he convinced the other justices of that political truth. Thurgood/Fishburne notes Warren's surprisingly accomplishment.

This history raises an interesting question. Was Warren's performance in Brown vs. Board of Education a kind of penance for his earlier role in the Japanese internment? Warren was not an introspective person. So his autobiography provides no insight into that question. But there is a lesson for the students to consider, nonetheless.

There are few perfect saints in public life, maybe none. People change, and for all kinds of reasons. While it is sometimes said that we don't learn from history, in fact sometimes political leaders do learn - from their own histories.

¹³ An exception is the most recent biography: Jim Newton, *Justice for all: Earl Warren and the Nation He Made* (Riverhead Books, 2006).

¹⁴ Earl Warren, *The Memoirs of Earl Warren* (Doubleday, 1977). Warren died in 1974 before completing the book so conceivably a final version – had he lived – might have been more forthright.

¹⁵ A video of the entire play is readily available as a DVD or streamed. A summary is at: <http://www.imdb.com/title/tt1844811/>.

Mitchell’s Musings 2-3-2014: A Small Part

Daniel J.B. Mitchell

*“We are a **small part** of the 150 million Americans who work for a living.”*

AFL-CIO President Richard Trumka¹⁶

California’s Field Poll has long sampled public opinion in the state on a wide range of issues. Prior musings have been critical about polls – not just Field – that purport to provide detailed attitudes on complicated issues about which the public in fact knows little. Usually, the pollster provides an interpretation of the issue – perhaps a proposed ballot proposition – so that issue framing makes the response reported problematic. However, such concerns are less bothersome when it comes to general attitudes on broad issues such as, say, gay marriage.



A recent Field Poll asked some general questions about labor unions. Of course, the responses reported apply only to California; Field doesn’t do out-of-state polling. But there may be some national implication in the findings.

California Union Representation Rates: 1983–2013

	All Sectors	Private	Public	Public as Percent of Total
1983	25.9%	19.7%	57.2%	36.5%
1993	20.4	12.7	56.6	48.4
2003	18.4	10.7	58.1	51.7
2013	17.4	9.6	57.7	53.6
Note: U.S. in 2013	12.4	7.5	38.7	49.3

Source: www.unionstats.com

Note: “Representation” includes union members and non-members covered by union agreements.

¹⁶ Quoted in “AFL-CIO Convention finds labor in need of new friends, new blood,” *The Postal Record*, October 2013, p. 4.

As the table on the previous page indicates, the overall (all sector) union representation rate has been falling for many years in California (as it has in the U.S.), although the state has a higher rate than the U.S. as a whole. This difference between the U.S. and California rates is largely a reflection of the much higher public unionization rate in California than in the U.S. That rate has not shown a downward trend, unlike the private rate. As a result, the 21st century union image in California is no longer that of a manufacturing or construction blue collar worker, but rather a public sector employee.

By and large, the labor law surrounding the public sector in California has been union-friendly. Current statutes vary by sector within state and local government. But all are largely cribbed from the federal Wagner/Taft-Hartley framework. Public workers in California, with some exceptions for public safety employees, have the right to strike. Public sector unions have become important sources of campaign contributions for state and local politicians, essentially all Democrats. California has become a “blue” state. At the state level, Republicans currently hold no major statewide offices. They represent under a third of the seats in the legislature, which means Democrats hold a two-thirds “supermajority” that is important for certain political actions such as putting propositions on the state ballot.

Field Poll: Do Unions Do More Good than Harm or More Harm than Good?*

	Good>Harm	Harm>Good	Neutral	No Opinion
Dec. 2013	40%	45%	3%	11%
Mar. 2011	46	35	9	10
Apr. 1984	45	45	5	5
Oct. 1977	51	34	7	8

*Asked of registered voters.

Source: www.field.com. Click on archives. Polls of Dec. 13, 2013 and Mar. 17, 2011.

As can be seen on the table above, voters in California have not see unions as a majority net good since the 1970s. During the conservative 1980s – when unions were sometimes blamed for “stagflation” – voters were essentially split over net good vs. net harm. In 2011, while less than half tilted toward net good, that group was a plurality. But by 2013, the balance had shifted so that the plurality now tilted toward net harm.

During that two-year period, there was essentially no shift in the net good view of voters in union households (64% down to 62%). But the net harm group among union households rose from 18% to 31%. Net good among nonunion households dropped from 41% to 35% and net harm rose from 41% to 49%. It does appear that something happened to the image of unions in those two years. But what was the cause?

One possible answer was some strikes and on-and-off strike threats during 2013 among workers and unions on the San Francisco Bay Area Rapid Transit system (BART). There is some support for this view if questions are asked specifically about strikes. The Field Poll asked whether public transit workers should be allowed to strike. In the San Francisco Bay Area – with its generally liberal politics, 52%

avored banning such strikes while 41% would allow them. In the also-generally liberal Los Angeles County area, 37% favored a ban while 55% opposed it. (There were no transit strikes in the Los Angeles area in 2013.) So there was more anti-transit strike settlement in the area served by BART.

However, when the general issue of whether unions do more good than harm or more harm than good was raised, attitudes in the two areas were about the same and showed about the same shift (toward net harm) during 2011-2013:

Los Angeles, Net Good: 45% down from 53%.

San Francisco, Net Good: 45% down from 50%

Los Angeles, Net Harm: 39% up from 29%

San Francisco, Net Harm: 41% up from 30%

In short, it seems likely that between 2011 and 2013, there was more to the attitudinal shift than just the BART labor dispute. If that view is correct, then the settlement of the BART dispute may not make a difference in the opinion of voters regarding unions in the future. That is, the more negative image of unions in 2013 may not be a one-time blip.

What may have occurred was not just one event, but a series of developments, combined with the shift in union coverage toward the public sector and away from the private. These developments may have created a more general view of unions as a special interest that is focused on the welfare of government employees. In California, as elsewhere, there has been considerable publicity around the issue of unfunded liabilities of public sector retirement programs. At present, it appears there may be a ballot initiative on the subject in November or possibly later. The legislature passed a pension bill, largely focused on new hires at the behest of (Democratic) Governor Jerry Brown. These efforts have generally been resisted by public sector unions.

Similarly, there has been publicity over K-12 “teacher tenure” and the difficulty in firing teachers despite publicized cases of egregious conduct. At present, there is a court case challenging teacher seniority systems on civil rights grounds. It is being argued by the plaintiffs that poor and minority children bear the brunt of teacher layoffs by reverse order of seniority. The merits of all of these campaigns and efforts can be debated. But unions typically come off as resisting reforms. While the Field Poll is exclusive to California, California is a more union-friendly state than average, as noted earlier. So it is likely similar results are occurring in other parts of the U.S., even if pollsters there are not looking at the issue.

One of the paradoxes of the union movement is that while it is based on the idea that effective worker representation must be *collective* rather than individual, unions are linked together – to the extent they are linked – in rather loose federations. The national AFL-CIO cannot tell individual member unions what to do. It can only consolidate resources for use in lobbying and public relations. The same is true for union federations at the state and local level.

Thus, to the extent that the activities of a particular union in bargaining or otherwise may compromise the image of other unions, there is little restraint. Each union ultimately does what it thinks is in the interest of its own members. In that sense, collective action is downplayed relative to individual action.

A decade and a half ago, I wrote a piece on what the labor movement might do differently, since many of the trends discussed above were already evident. I suggested more use of financial participation to stabilize employment and reduce layoffs and more use of interest arbitration to settle disputes.¹⁷ Basically, I noted that large-scale layoffs and strikes, if nothing else, create image problems for unions. At one time, union workers were seen as more secure in the private sector than their nonunion counterparts. But that is not so now in the public mind. Most employees (and voters) are in the private sector. A sense that unions are not able to avoid layoffs and disruption except in the public sector tends to undermine general support for unions.

This musing started with a quote by Richard Trumka made at the 2013 AFL-CIO convention. At that convention, he spoke about a need for organized labor to present itself as working for the employee-interest in general, not just for those workers who are union-represented. I also wrote about that approach in the earlier piece. But it is difficult in the end to make that image real in a system in which every union does its own thing. As noted, it is unclear whether the BART strike in fact was the cause of the attitudinal change reflected in the Field Poll. But were other unions outside BART part of the decision process that led to the strike? Do unions that are not representing teachers have any voice when legislative or bargaining issues come up regarding “teacher tenure” or teacher discipline? There is always the possibility that such actions might have some (negative) impact on larger public and voter perceptions. So there is a collective interest.

There is the old adage about the choice between hanging together and hanging separately. Changing the institutional arrangements of organized labor to more collective control from the center would be difficult, maybe impossible. But I will close with another remark of Trumka’s that he made during an interview at the convention:

“The crisis for labor has deepened. It’s at a point where we really must do something differently. We really have to experiment.”¹⁸

¹⁷ Daniel J.B. Mitchell, “Ensuring a Future for the American Labor Movement” in J.A. Auerbach, ed., *Through a Glass Darkly: Building the New Workplace for the 21st Century* (National Planning Association, 1998). Available at: http://www.anderson.ucla.edu/documents/areas/fac/hrob/mitchell_future_labor.pdf.

¹⁸ Quoted in “AFL-CIO Convention finds labor in need of new friends, new blood,” *The Postal Record*, October 2013, p. 4.

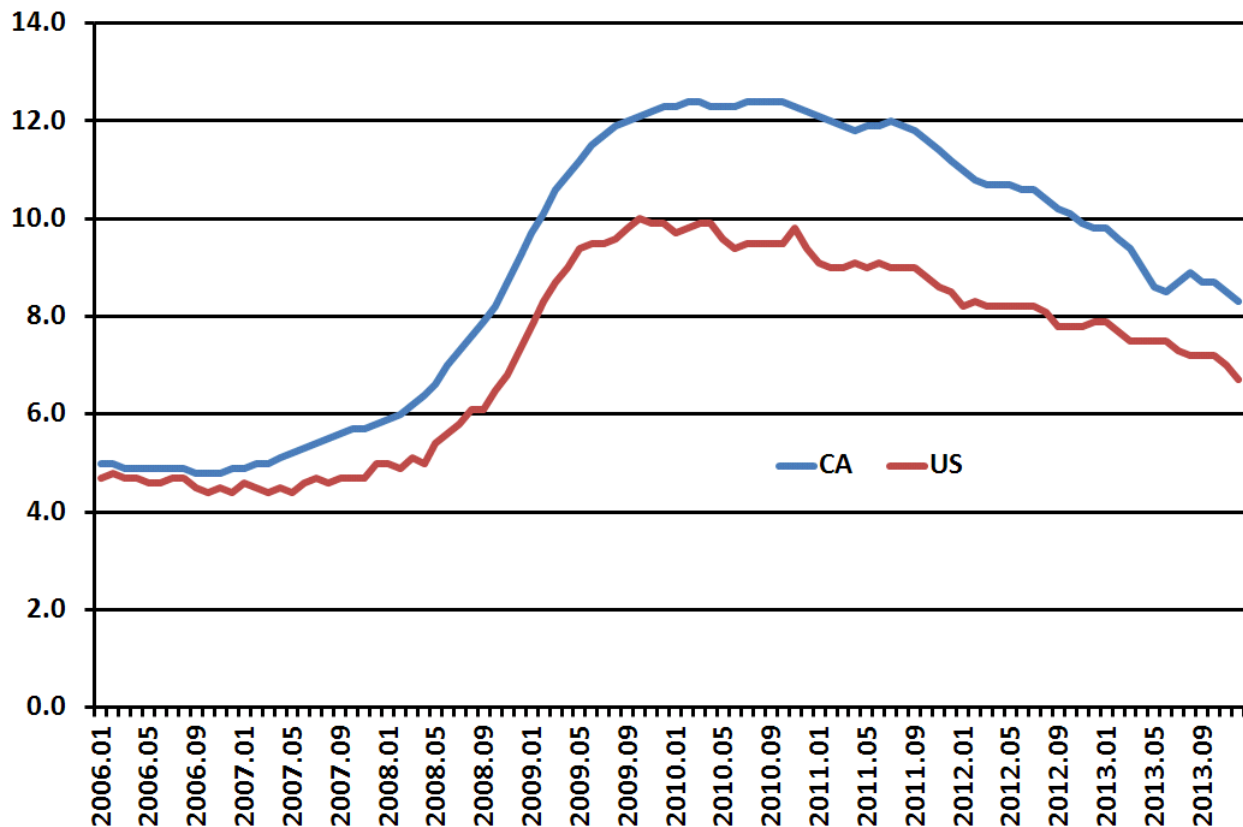
Mitchell's Musings 2-10-2014: Business Climate: Not Open and Shut

Daniel J.B. Mitchell

An ongoing issue in California has been the business climate. Specifically, there is a charge that businesses are leaving or shutting down because of a poor business climate. Similarly, it is argued that new businesses are deterred from opening due to that poor climate.

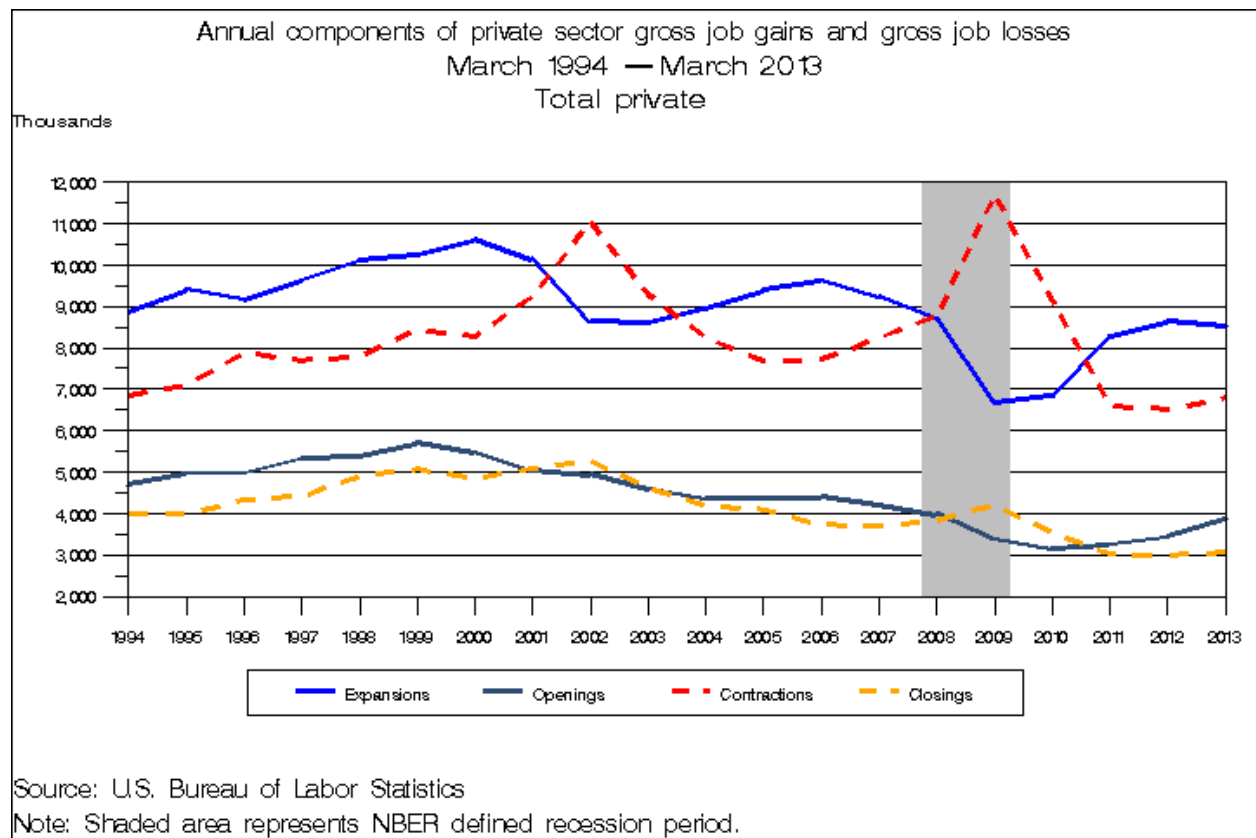
It is true that California's unemployment rate – one measure of the job market – has been higher in California during and since the Great Recession than in the U.S. as a whole. But in 2006, before the contraction began, the U.S. and California rates were about the same as can be seen on the chart below. Could the business climate have shifted dramatically at the start of the Great Recession in late 2007? No major laws or regulations in California went into effect in that period, making a sudden climate shift implausible. A more plausible story has to do with the fact that a disproportionate share of the housing bubble/bust and flaky mortgage/financial fiasco was located in California. During the boom, housing and funny mortgages helped power the economy. But during the bust there were big layoffs in the construction and financial sectors. The decline in house values also produced a negative wealth effects on homeowners, reducing consumption/retail, and other sectors.

California and US Unemployment Rates: 2006-2013



In fact, it could be argued that, when the impact of the Great Recession is factored in, *lack of* appropriate regulation by the state of its real estate and financial sectors harmed the state. Perhaps the boom/bust in housing would have been less severe. Perhaps some of those flaky mortgages would not have been written.¹⁹

The U.S. Bureau of Labor Statistics makes available series on inflow to - and outflows from - employment. As can be seen on the chart below for private employment in the U.S. as a whole, the inflows come from existing establishments that add job and new establishments that open and hire. The outflows come from existing establishments that reduce jobs and establishments that close and lay off. Let's focus on the lower lines on the chart that refer to job changes in establishments opening (crudely, new businesses) and establishments closing (crudely, businesses failing).²⁰

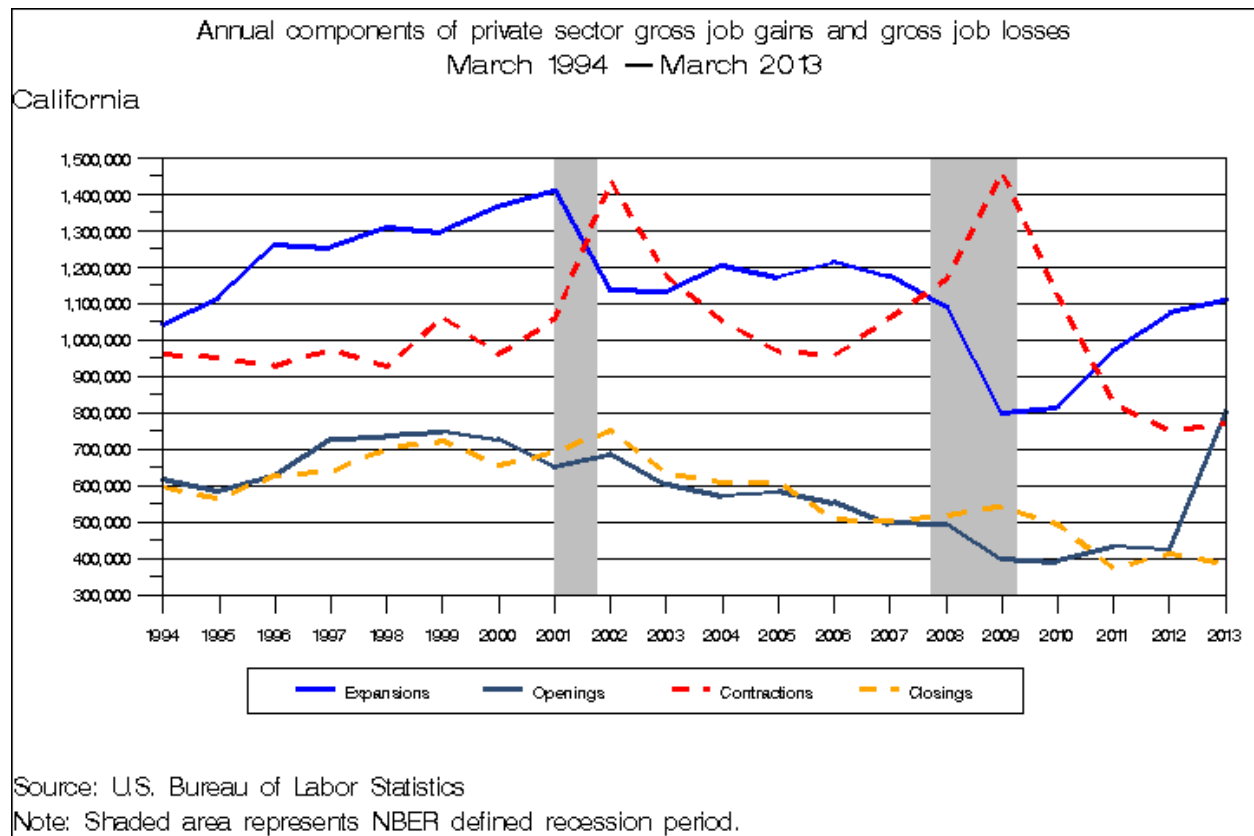


Source: <http://www.bls.gov/bdm/bdmann.htm>

¹⁹ The sad tale of Countrywide Financial Corporation, a mortgage firm headquartered in California, can be found in Connie Bruck, "Angelo's Ashes: The man who became the face of the financial crisis," *New Yorker*, June 29, 2009. <http://www.ritholtz.com/blog/wp-content/uploads/2009/06/man-with-a-tan-6-29-09.pdf>

²⁰ An establishment can be part of a larger business. It is difficult to define exactly what a "business" is, since some businesses are subsidiaries of others, some are franchises, and some are wholly independent enterprises. But the two series come as close as possible to the idea of businesses coming into existence and businesses folding.

If we focus on the lower two lines on the chart on the previous page, we see that during good times, new jobs at opening businesses exceed job loss at closing businesses. During bad times (early 2000s, Great Recession), the reverse occurs.



In general terms, California shows the same pattern on its lower two lines, as might be expected. (See the chart above.) But between 2012 and 2013, there is a big uptick in jobs in new businesses opening and hiring. The jump could be a fluke, of course. But the timing is surprising. In that period, California’s governor, Jerry Brown, engaged in a long and ultimately successful campaign to raise state taxes via a ballot initiative. Both sales and income taxes were to be raised on a temporary basis in response to an ongoing state budget crisis he inherited from his predecessor, Arnold Schwarzenegger, who inherited it in turn from Governor Gray Davis after a recall election in 2003.

Noteworthy is the fact that although the increase in the sales tax was small, the income tax increase was concentrated at the highest brackets. Much of the added revenue came from the income tax. In short, it was the kind of increase that is supposed to be bad for business climate. Of course, there is a lot more to be said here. As noted, the uptick could be some kind of statistical fluke. But you can be sure that if a downtick had occurred, you would be hearing about how it proved that tax increases worsened the business climate and caused the business closures.

During the campaign, it might be noted, the business community was not the major source of opposition. Some business organizations supported the governor, in fact. Perhaps they felt that having

the state in an ongoing fiscal crisis, period after period, was more upsetting to the business climate than providing more revenue to move away from the kinds of instability that regular budget crises produced.

California is not out of the woods. While currently, the “structural” budget deficit is now said to be a thing of the past, such projections are based on continuous, linear growth. No downturns in the economy are predicted. But if past history is any guide, there will someday be another downturn. The state’s heavy reliance on the income tax (roughly six out of ten dollars flowing into the state’s general fund), and the income tax’s heavy reliance on its top brackets, makes the California revenue base volatile. Those in the upper brackets receive (or don’t receive) taxable capital gains which reflect the ups and downs of financial markets. A downturn could easily return the state budget to crisis.

There are many issues on the policy menu for California that could help or hinder the state’s long-term economic health. For example, states with major energy sectors relative to their economies are the ones tending to do well in the post-Great Recession era. In absolute terms, California has a significant oil sector. The state’s decision on so-called “fracking” technology could enlarge that sector but with environmental costs. Housing costs are high in much of California but the state’s transportation infrastructure is overloaded with its current population. Commuting from lower cost areas to higher cost areas is difficult. An employment boom, to the extent it relied on increased population, is limited ultimately by that capacity constraint.

It is unclear at this point how the state will respond to such challenges. The one thing that can be said is that the relation between taxes and business climate is not an open and shut matter. If that’s true in California, it is likely to be so elsewhere.

Mitchell's Musings: 2-17-14: Bush's Remark May Be Right on Target

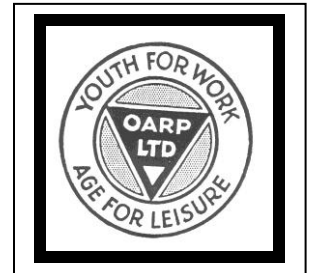
Daniel J.B. Mitchell

President George H.W. Bush (Bush, Sr.) was known for his fumbles in language. He is reported to have said, *"I want to be sure that everyone who has a job, wants a job."*²¹ Whether he really said it is uncertain. But the remark –whether he made it or not – may in its literal form be applicable to current economic policy issues in health care.

Recently, the Congressional Budget Office (CBO) was widely reported (inaccurately) to have come with a projection about "Obamacare" indicating that something like 2 million folks might be hanging on to jobs they really don't want because the jobs provided health insurance, something they could not obtain – probably because of an existing medical condition – in the individual marketplace. With Obamacare providing a system under which individuals could buy insurance even if they had pre-existing conditions, such persons might quit their jobs and buy policies on their own, so it was said. In short, there were folks who had a job but really didn't want it, the Bush case. Presumably, if these hypothetical folks quit their jobs and bought policies as individuals (or maybe were newly-covered by Medicaid), they would be better off.

In actual fact, the CBO explained the results of its report more in terms of traditional income and substitution effects and talked about hours of work rather than jobs. But the news media had trouble with reporting such nuanced aspects of economic analysis and so the story was put more as someone quitting a job because he/she no longer needed their employment-based policy.²²

CBO's report was first spun by those who don't like Obamacare as proof that the program would cause job loss.²³ Defenders promptly responded with a version of President Bush's possibly apocryphal remark. Why should people who don't want to work - and would be better off personally by not working - be constrained to work?



The only surprising thing about the response of Obamacare defenders was the lack of historical context, particularly in a period in which unemployment is relatively high. Back during the Great Depression of the 1930s, proponents of the Townsend Plan pushed for government-provided old age pensions on the

²¹ See the second quote in <http://geobeck.tripod.com/jokehold/qbush1.html>.

²² <http://www.cbo.gov/publication/45096>

²³ <http://www.usnews.com/news/business/articles/2014/02/06/fact-check-anti-obamacare-chorus-is-off-key>;
http://www.washingtonpost.com/national/health-science/they-quit-their-jobs-thanks-to-the-health-law/2014/02/08/7b10df46-901a-11e3-84e1-27626c5ef5fb_story.html ;

<http://blog.metrotrends.org/2014/02/urban-institute-experts-cbos-aca-report/>

grounds that moving the elderly out of the workforce would open jobs for the young.²⁴ (See the Townsend movement's emblem in the box.) In the end, they got Social Security. In short, the CBO estimate could have been spun – following the old Townsend logic – as job creating.

Apart from spin, the question seems to be (once it is recognized that we are not talking about a job “loss” in the sense of a layoff) whether the various elements of Obamacare that produce a net voluntary reduction in hours are causing an economic distortion of some type. Once you put the question that way, you then have to recognize the need to ask what a non-distorted labor market would look like. Note first that Obamacare is an overlay upon a pre-existing system of indirect government-subsidies via the tax system to private employers providing health insurance.

One dollar of cash paid to workers as a wage is subject to the personal income tax. One dollar of health insurance provided to those workers escapes taxation. So there is a powerful incentive for job-linked health insurance – a tax subsidy – as part of longstanding federal policy. (State income taxes provide similar treatment.) Indeed, the tax treatment of health insurance can be viewed as a major federal (and state) health program.

Grafted on to the tax subsidy is the provision of Medicare to the elderly and disabled, Medicaid to those on welfare, more recent programs subsidizing health insurance for children of the working poor, the requirement that emergency rooms take all comers regardless of ability to pay, health programs for veterans, etc. All of these programs affect labor market behavior in some way.

The idea that health insurance should be job linked is largely a post-World War II concept, although there were some embryonic employer programs before that time. Apart from the tax subsidy, insuring workers in large firms overcomes a market failure in health insurance, adverse selection. In a purely individual market in which everyone buys his/her own individual policy voluntarily, those most at risk of high medical costs will be the ones most likely to buy insurance. The problem is asymmetric information; potential insurance customers know their risks whereas insurance providers do not.

Insurance works only when risks are spread. It can't work if only those at risk by insurance. So a purely voluntary and individual market starts with a major problem. It can be overcome to some extent by exclusions of pre-existing conditions by insurance carriers and other such requirements. But any pure market system will tend to leave gaping holes in coverage. Essentially, you would need an individual mandate *at birth* - and regulations even in that case - to fill in the holes completely.

If an individual mandate at birth begins to sound like a single payer plan with universal coverage, that similarity is no accident. A labor market operating in the presence of such a universal system would spread risk and create no odd incentives and disincentives to work.²⁵ It would not hinder labor mobility

²⁴ Individuals age 60 and over would be eligible for \$200/month, a very large sum in that era, if they promised a) not to work and b) promised to spend the entire sum each month. See http://www.anderson.ucla.edu/Documents/areas/fac/hrob/mitchell_townsend_roosevelt.pdf

²⁵ This statement looks only at the insurance side and would have to be qualified depending on the tax system used to finance the insurance.

between jobs. However, Obamacare is not single payer. It is a patchwork designed to build on an existing system with myriad health plans operated by myriad employers and other entities. Obamacare is an attempt to make those myriad plans work as an approximation to single payer. But in the end, it has to rely on complex rules and incentives to achieve a rough approximation. Each of those rules can affect labor market behavior.

In short, if your goal is to have the least impact on labor market behavior, single payer is the approach you want. But single payer doesn't seem to be politically feasible. If your goal is to build on the existing patchwork system and extend coverage in lieu of single payer, you have to accept a variety of behavioral consequences. It's anyone's guess whether those consequences represent a distortion relative to the pre-Obamacare system which was already full of distortions. Finally, if you don't like Obamacare or single payer and you want to maintain what we had before Obamacare began, keep in mind that the old system was full of distortions.

Due to illness of the author, the weekly musings were discontinued until June.

Mitchell's Musings: 6-2-14 Portland via Tech

Daniel J.B. Mitchell

Mitchell's Musings postings were abruptly discontinued in mid-February 2014 when the author developed a major medical problem.²⁶ At the May 2014 LERA meetings, I was supposed to be on two panels, one session on employee ownership (commenting on a video on that topic) and the other session on labor journalism. A recurrence of my health problem and a hospitalization just before the meetings led to cancellation of the trip, but I was able to participate through the use of technology, nonetheless. For the employee ownership panel, I was the designated "film critic" and sent the panel chair a video of my comments (essentially PowerPoint slides with narration) which he played. You can see or download those comments at the link below: <https://archive.org/details/CommentsOnWeTheOwners>. For the other panel, the panel chair kept his iPhone open while the main presentation was given. I was then able to discuss the presentation – based on what I heard – using the iPhone.

I want to focus this first-resumed Musing on the labor journalism topic and what I say here is largely based on my comments via long distance at the LERA panel. All aspects of print journalism are under severe pressure due to the Internet. Labor journalism, as a subsector of the larger news endeavor, is no exception. In addition, traditional labor journalism (as practiced in the 1950s through 1970s) was mainly focused on the world of collective bargaining. Such reporters as Abe Raskin of the *New York Times* and Harry Bernstein of the *Los Angeles Times* were intimately familiar with the union-management sector, its institutions, and the key personalities therein.

Recently, a panel at the National Labor Relations Board (NLRB) ruled that football players at Northwestern University were *de facto* employees under the relevant statutory language because they received various payments (in kind) for their athletic work. This decision – which is being appealed – was widely reported as saying that the players could form a union. In the heyday of traditional labor journalism, the reporting might have been more accurate. Nothing prevents any group of individuals – whether employees or not – from forming a "union" or bargaining group and trying to negotiate. You don't need the blessing of the NLRB to do so.

What the NLRB recognition would do, if ultimately upheld, would be to give such a players' union certain legal protections. Essentially, the university could not retaliate against players for organizing or joining such a group or for engaging in any other "concerted activity." If an NLRB election among the players produced a majority vote for having collective representation, the university would have to recognize the union and negotiate with it in "good faith." But it would not necessarily have to reach an agreement

²⁶ Not surprisingly, I have some observations on the health care industry as a result of three hospitalizations. But I will save those comments for some later Musing.

with the union. Assuming there were good faith negotiations but the result was an “impasse” and no agreement, the players could strike. However, the university would not have to provide its in-kind pay (scholarships or whatever) during such a strike. And it could attempt to replace the strikers with other recruited players.

One could go on with explanations about the meaning of such phrases as “concerted activity,” “good faith,” and “impasse.” But the point is that had the Northwestern football case arisen during the seeming Golden Age of labor journalism, the meaning of the NLRB’s decision would have been better explained. That’s the positive side. But there was a downside, too.

The heavy focus on unions and collective bargaining during the Golden Age occurred in a period when - at the peak - a little over a third of the workforce was unionized. So labor news coverage tended to neglect the other two thirds. It’s understandable why such union-focused journalism was featured back then. At the time, major firms in “key” industries were unionized. Strikes were much more common than is the case today and were capable of producing an economic impact. Union wage settlements were often seen as potentially aggravating inflation and were the focus of various federal government programs ranging from wage-price guidelines to mandatory controls. Moreover, the nonunion sector was often seen as largely following a pattern set in the union sector. So a union focus in journalism did not seem to be too narrow during the Golden Age to newspaper editors.²⁷

We can debate the wisdom of that focus during that era, particularly with hindsight. Many aspects of employment trends that we now consider important were at least in embryonic stages during the Golden Age. For example, the trend toward growing income inequality – which was discussed at the LERA journalism panel – is usually dated as beginning in the mid-1970s. But it was outside the purview of labor journalists.

Nowadays, issues other than collective bargaining – and sometimes still bargaining itself (now often in the public sector) – are discussed by journalists. But here the Internet takes its toll, as it does on other topics outside the employment sphere. There is a tendency for reporters to be spread too thin to develop expertise and for them to be rotated from topic to topic and story to story. What then develops is what was once called rotary file journalism (back when there were rotary files). Seeming experts known to have differing views are asked their opinions. What emerges is a neutral-sounding mix of viewpoints: Some say the world is round (with quotes from experts) but others say it is flat (with quotes). Other than that there is disagreement, not much enlightenment results from such ostensibly balanced reports.

Let me provide some concrete examples:

- There is currently debate over the viability of certain defined-benefit public pension programs. Pension accounting is a technical issue involving the computations of unfunded liability and

²⁷ Prior musings have included references to, and links to, recorded presidential conversations focused on union matters.

normal costs. But what is generally reported is a series of opinions ranging from catastrophe-is-looming to the view that problem is readily fixable over time.

- When employment issues arise in the public sector, the condition of state and local budgets is often involved. Yet state and local governments commonly use terms such as “surplus” and “deficit” in inconsistent and confusing (and sometimes self-serving) ways. To report adequately on such matters, journalists need to see such inconsistencies for what they are. Otherwise, we again end up with some-say-this while others-say-that.
- One of the most widely-reported official federal statistics is the Consumer Price Index (CPI). The CPI affects large numbers of people because Social Security and other government benefits are pegged to it. Policy makers also see it is a key indicator of inflation. However, the methodology underlying the CPI has changed over time and has become increasingly complex. Yet despite the widespread impact and importance of the CPI, its figures are often reported without question. And when the Social Security issue comes up, the reporting tends to fall into quoting diverse opinions.
- A final example is the host of recent reports that “manufacturing is coming back” to the U.S. A typical story focuses on anecdotes about what some particular firm is doing. Or some government program aimed at assisting manufacturing is cited. Or some decision at the WTO which seems to favor U.S. manufacturing might be recounted. The problem with such reports is that they are very small parts of a much bigger story. A simple awareness that currency exchange rates are a key element in the manufacturing story and that WTO decisions and the like are only minor components is necessary for useful reporting.

The bottom line is that the Golden Age of labor reporting had notable deficiencies because of its narrow focus on collective bargaining. And reporting on employment in the current period suffers from the general problems afflicting journalism in the Internet age. There is no simple cure for those problems. However, academics can help by providing simple explanations to journalists who seek their assistance concerning the technical issues.

Mitchell's Musings 6-9-14: Tinkering with Taylor

Daniel J.B. Mitchell

In the early 1990s, soon after the collapse of the Soviet Union, a group of Russian factory managers from the chemical industry came to the UCLA Anderson School of Management for lessons in western business practices. They were managers of state-owned companies in the chemical sector and had been in that role for some time. So they were raised and trained under the former communist system but were now beginning to face the problems of operating in markets.

Back in those days, we still used overhead transparency projectors and I put a slide on the screen with the face of the man you see in the photo, but without his name. Interestingly, they seemed all to know who he was, just from the nameless photo. In fact, they all had a title for him. It was something like “the father of scientific production.”



You might not recognize American efficiency expert Frederick W. Taylor just from his photo above. But *they* did. Under communist/Marxist theory, history – if left to its own devices – would evolve from capitalism to socialism to “pure” communism inevitably. But once understood the process could be speeded up according to the doctrines of Soviet communists. Capitalism would develop major scientific advances but would inexorably collapse from various “contradictions.” Thus, after the Russian revolution which was intended to speed up history, the place to look for modern production techniques was in the capitalist world. In the 1920s in particular, ideas and technologies from western countries were sought. Taylorism from the U.S. was one of those imports.

Taylor’s theory of “scientific management” fit into the late 19th and early 20th centuries’ awe of the wonders of modern science. Such innovations as the telephone, the light bulb, the phonograph, and the airplane were appearing. The question became whether “science” – a word back then which had all the positive connotations of “technology” today – could be applied to human endeavors. Management of firms could not be left to amateur trial-and-error learning on the job. The best way of managing should be studied and learned. Of course, business schools began to develop in that era.

Similarly, cities should not be allowed just to develop. Urban planning should be studied and taught. Crime control should be in the hands of trained criminologists. School curriculums should be divided into age-related grades and a central authority of education experts should determine what should be appropriately taught in each grade. Government itself should be run by non-partisan experts – city managers - not politicians who were amateurs and potentially corrupt. City managers could be trained

and put in charge. Ultimately, higher education was the beneficiary of such “progressive” thinking as programs and degrees were established to teach what was once learned on the job.²⁸

Taylorism – essentially a kind of industrial engineering typically linked to time-and-motion studies – tended to be derided later in the 20th century as inhumane and as treating workers as cogs in a machine. But if you stand back look at what its essence was, Taylorism amounted to developing systems of required behaviors. As such, virtually all organizations of any size today are Tayloristic. Work is assigned; measurements of performance are developed, etc. In its strict form, Taylorism was very hierarchical along a command-and-control model. Nowadays, however, employees might be given more discretion than under the original Taylor model. We **tinker with Taylor’s approach** and soften its edges. But Taylorism is still very much with us even if – unlike those Soviet executives – most managers today would not know who Taylor was - much less be able to identify him from a photograph.²⁹

At one time, Taylorism was seen as a doctrine of management in factory settings. Henry Ford’s system of management and control was often seen as an outgrowth of Taylorism with the addition of assembly lines.³⁰ Ford Motor Company came to be seen by the 1920s as the world’s most advanced manufacturing firm and was emulated – not just in the nascent Soviet Union – but in other countries as well.³¹ At the same time, Taylorism spread outside manufacturing. I can recall my mother – a social worker who had earned an MSW – describe coursework she took as part of her degree in the late 1940s on management of a social work agency. Taylorism was alive and well at that time, both inside and outside the factory setting.

But you don’t have to look backwards in time to see Taylorism at work in the general sense of application of systems and standards. I had an “opportunity” recently to reflect on all of this after three hospitalizations to deal with a heart defect and then various complications. When you are in a hospital, you don’t have much to do. But you soon realize that you are the object of many systems that can be seen as modified Taylorism. At the lowest level, there were workers who entered the room on a regular basis to empty trash and clean the floors. It was a clockwork system with a schedule and a quota of tasks to be accomplished. But nurses had standardized routines, too. Procedures were set forth and followed including such simple steps as hand washing and the use of rubber gloves. And there were definite hierarchies within nursing and among the physicians.

The use of systems today seems so natural that it may seem odd to attribute their use to anyone in particular. Surely, these things just happen naturally. Of course, there were systems before Taylor came along. Ideas rarely start from just one person. Still, the spread of ideas is often linked to

²⁸ Such thinking led some progressives to be attracted by pseudo-science such as eugenics.

²⁹ See <https://www.youtube.com/watch?v=slfJXVAepE>.

³⁰ See <https://www.youtube.com/watch?v=PvbG9Sjp97o> and https://www.youtube.com/watch?v=kFsBC0_Uglg.

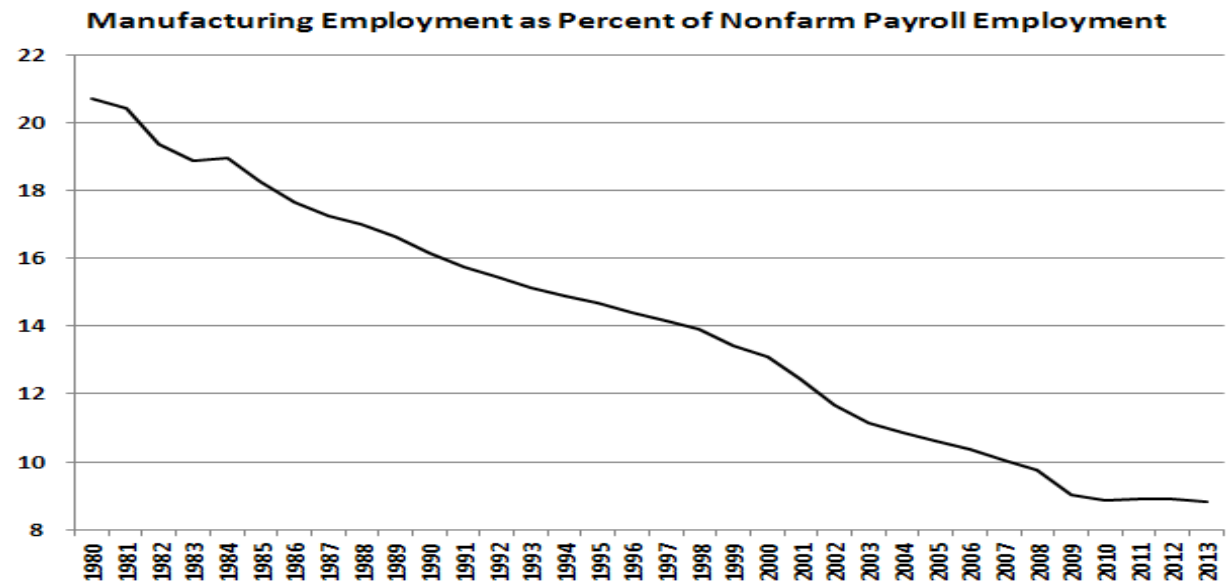
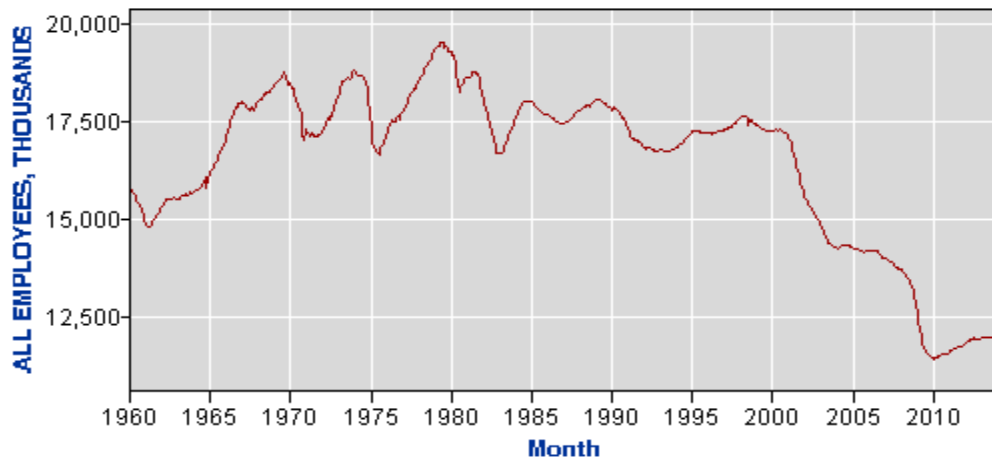
³¹ See <https://www.youtube.com/watch?v=SnEJvuvfBQo>.

particular persons. Doing what appears to come naturally in organizations, if you want to put a name on it, is more linked to Taylor than to anyone else.

Mitchell's Musings 6-16-14: Manufactured Stories

Daniel J.B. Mitchell

The chart below shows seasonally-adjusted manufacturing employment through May 2014. Manufacturing is highly sensitive to the overall business cycle. So, yes, there is some growth in manufacturing jobs since the bottom of the Great Recession. But what about those news articles which appear from time to time with tales of “in-sourcing” of manufacturing?³² Clearly, the U.S. Bureau of Labor Statistics (BLS) numbers on the charts below tell a very different story.



³² Example: <http://triblive.com/news/editorspicks/5272464-74/china-chinese-money>

Manufacturing employment in absolute terms was basically stagnant during 1980-2000 and then went into steep decline. As a percentage of total employment, it has been falling without interruption.³³ When you look at the absolute numbers, there is no “coming back” of manufacturing *abstracting from the business cycle*. Even with the cyclical “recovery,” over 5 million manufacturing jobs have disappeared from 2000 to the present. With the relative numbers, at best there is a leveling off of the decline.

I imagine the next line of defense for the coming-back story is that the 5+ million jobs that disappeared did so because of a rise in manufacturing productivity. But when we look up manufacturing productivity growth as estimated by the U.S. Bureau of Labor Statistics (BLS), we find that measured productivity growth slowed from approximately 4% per annum during 1990-2000 to 2½% per annum during 2000-2014.³⁴ Moreover, productivity by itself is not the sole determinate employment; in fact productivity growth – other things equal – could actually increase jobs by increasing international competitiveness and net exports.

In fact, the coming-back stories are largely anecdotal – this or that company decides to “in-source” some product – or are based on some policy designed to encourage manufacturing or on an occasional WTO decision that there was unfair treatment of U.S. products abroad. Anecdotes are just that and there is at any one time a mix of in-sourcing and out-sourcing going on. Minor policy shifts favoring some industry and WTO litigation are really whack-a-mole efforts.

Currently, the U.S. net export deficit (goods and services) is around 3% of GDP and the net goods export deficit is around 4%. That’s better than it was at the peak of the real estate bubble just before the Great Recession. But it’s about where things stood at the peak of the dollar exchange rate bubble of the mid-1980s. A good chunk of either measure – net exports or net goods exports - involves manufacturing exports and imports. A shift to a net export balance of zero would simply stop U.S. net liabilities (debt) to the world from getting bigger. To begin to pay off that debt, you would need to run a surplus, not simply a balance of zero.

The only way to address overall exports and imports is to address exchange rates and specifically countries that manipulate those rates. Such a policy would have to go beyond raising “concerns” about exchange rates, mainly with China and Japan. In earlier musings, I have pointed to the Warren Buffett plan – a kind of cap and trade program for exports and imports.³⁵ But if not that, than some other

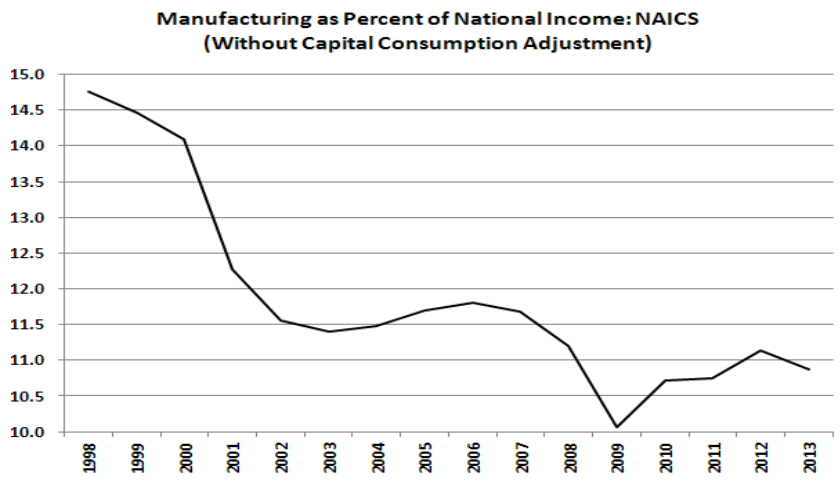
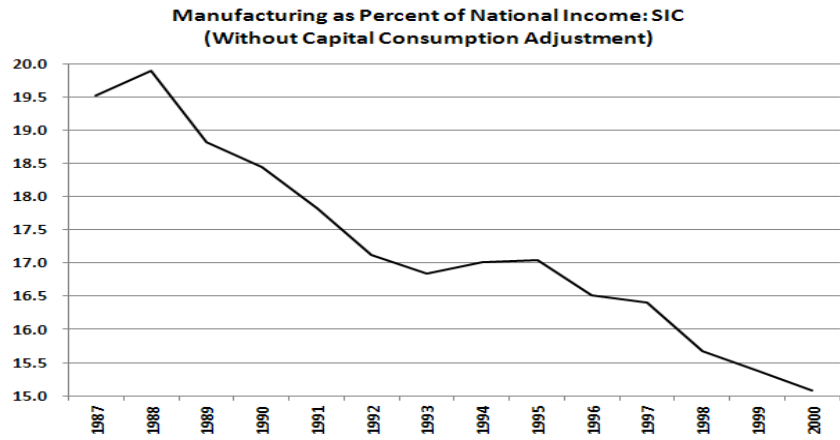
³³ As the top two Appendix tables show, manufacturing as a percent of national income has also generally declined. Because manufacturing is more cyclically sensitive than national income, there was a drop and then some recovery in and after the Great Recession although the decline resumed last year.

³⁴ There are issues about how productivity is measured in manufacturing by BLS. However, these are the numbers available to those who have a productivity explanation.

³⁵ Buffett’s op ed from 1987 can be found at https://docs.google.com/document/d/1SFilSDsdphrQS0Q_x0mREd7kHuliVbKNSrni1MRBCwE/edit

overall, and probably unilateral, approach would be needed. Otherwise, beyond anecdotes and whack-a-mole efforts, manufacturing won't come back in any real sense.

Appendix



Mitchell's Musings 6-23-14: Leland, We Hardly Knew Yee

Daniel J.B. Mitchell

California adopted a new non-partisan primary system in 2010 via ballot proposition for state administrative and legislative offices which has become known as “top-2.” Under this system, all candidates for an office *regardless of party* run in one primary and the top 2 then compete in the general election. There is a top-2 runoff even if one of the candidates achieved a majority of votes in the primary. For example, in the gubernatorial primary of June 2014, incumbent Governor Jerry Brown received 54% of the vote. Yet in the fall, Brown will run against the second highest vote getter, Neel Kashkari (with 19%). Under top-2, the candidates in the runoff can be in the same party (although they won't be in the Brown-Kashkari contest). Since the primary is non-partisan, if two Democrats or two Republicans come in first and second, they will be in the runoff.

I have previously mused about the intended behavioral consequences of the top-2 system.³⁶ In essence, under the former partisan primary system, legislative districts that were heavily Democratic or Republican essentially decided their races in the primary. In a heavily Republican district, for example, the votes of Democrats, third party members, and independents were essentially irrelevant. The system was seen, therefore, as promoting extremism rather than centrism in the legislature since elected Democrats would be chosen by the median Democratic voter and elected Republicans would be chosen by the median Republican voter.

Under top-2, *all* voters are relevant and candidates have an incentive – so the theory goes – to compete for their votes. Just appealing to your party's base may not be a winning strategy. The first time a statewide election under top-2 was held, Democrats tended to understand the new logic better than Republicans and so enough swing districts tilted toward Democrats so that Democrats achieved a tenuous two-thirds majority in the legislature.³⁷ Having two-thirds is important for certain kinds of legislative decisions such as raising taxes or putting constitutional amendments on the ballot.

However, top-2 is more complicated than it first appears. It is non-partisan and yet has potential rewards for party control or at least discipline. If a district is heavily Democratic and there are many Democratic candidates but few Republicans, the Democratic candidates may dilute the votes of their party to the point where a Republican gets the most votes. If a party has a mechanism for discouraging myriad candidates, its odds of getting into the general election improve. With enough dilution, the top 2 winning candidates in the primary might both be Republicans so that the general election would provide only a Republican choice in an otherwise Democratic district.

Like all incentive systems, the institutions of primaries affect behavior (of candidates and parties). The rules matter. But when you change the system, there can be a learning process before the optimum

³⁶ <http://www.employmentpolicy.org/sites/www.employmentpolicy.org/files/field-content-file/pdf/Daniel%20J.B.%20Mitchell/MitchellMusings%206-18-12.pdf>

³⁷ Because of a scandal involving three state senators – all Democrats – there is no longer a two-thirds majority.

behavior becomes evident. It will take several rounds of top-2 elections in California before its full ramifications become clear, both to outside observers and to candidates. In that respect, political incentive structures are similar to workplace incentive structures. And like all workplace incentive systems, political incentives are capable of producing anomalies and what might seem to be perverse results at times.

There is often a decrying of low turnout in primary elections and the June 2014 California primary was no exception. Early estimates suggest a turnout of registered voters of under one fourth.³⁸ Note, however, that low turnouts mean that those who *do* vote are presumably those who are most interested in politics and political outcomes. Presumably, they are more knowledgeable about the issues and candidates than other voters. So what can we learn from the June 2014 California primary results about voter knowledge of the candidates and issues? Again, a low-turnout primary should have a disproportionate number of politically-interested voters. If such primary voters have little knowledge, the larger electorate that votes in general elections must have even *less* information.

What attracted considerable attention in this regard was the race for secretary of state. It's not clear how many voters know what the California secretary of state actually does. In fact, the secretary of state's main task is administering elections. But there are other duties, too, such as looking after the state archives, a state museum, and dealing with certain business records and filings.³⁹ In the June 2014 primary, the top two candidates that emerged were Democrat Alex Padilla (30.2%) and Republican Pete Peterson (29.7%). So roughly three out of ten voters went for the top Democrat and three out of ten voters went for the top Republican, i.e., they both did equally well. How did that equal result occur in a state which tilts heavily toward Democrats?

Essentially, there was Democratic dilution which divided the vote. There were only two Republicans in the primary and Peterson was the only serious candidate among the two. There were four Democrats on the ballot. Two were not serious candidates. The third was state senator Leland Yee who before the primary, had been arrested on various charges of corruption, had been suspended from the senate as a result, and who had then withdrawn from the race. Thus, Yee wasn't really a candidate at all but because of the timing, his name remained on the ballot and he came in third with 9.5% of the vote. One out of ten voters (well over 300,000) selected a candidate who was tainted and wasn't running. Presumably, Yee had a kind of name recognition. Even if those voters had seen his name in the context of scandal, however, it made no difference. When they got into the voting booth, they recognized Yee's

³⁸ At this writing, some absentee and challenged ballots are still being counted.

³⁹ Duties from the official website of the secretary of state: www.sos.ca.gov:

- *Serving as the state's Chief Elections Officer*
- *Implementing electronic filing and Internet disclosure of campaign and lobbyist financial information*
- *Maintaining business filings*
- *Commissioning notaries public*
- *Operating the Safe at Home confidential address program*
- *Maintaining the Domestic Partners and Advance Health Care Directive Registries*
- *Safeguarding the State Archives*
- *Serving as a trustee of the California Museum*

name, although they didn't recall the context in which they had seen it. Alternatively, they knew Yee's name as a long-time San Francisco area political figure and didn't know of the scandal despite major media attention to it.

As you might imagine, there was much handwringing after the primary about the Yee vote. You can say it was only one out of ten voters but that margin is enough in many cases to swing an election. And there were other signs of voter lack of knowledge in the margins by which two ballot propositions passed. One was for veterans' housing (passed by 65.4%) and the other was a requirement that local governments have "Freedom of Information Act" type procedures for their public documents (61.9%). The margins by which these two propositions passed were quite high relative to most ballot propositions. You would not know that both propositions had controversial elements to them that – if the electorate had been aware of them – might well have driven down the percentages.

California has a veteran's housing program that in the past had been self-financing (no direct cost to the state). Essentially, rents paid by veterans paid off bonds that were floated to construct their housing. Thus, voters were accustomed to approving expansions of the program since it was seen as costless. In this case, however, even though proponents developed confusing language to hide the fact, the expansion was based on bonds to be paid off by the state's general fund. The new expansion was not costless. Would almost two thirds of the electorate have approved the expansion if they had understood that fiscal shift? Probably not.

The public documents proposition also had a hidden element. In fact, local governments had been mandated by the state to provide public document access. Under the state constitution, however, state mandates to local governments had to be paid for by the state. During the most recent state budget crisis, the legislature dropped various mandates to reduce state expenditures, particularly those mandates which were viewed as likely to be carried out at local expense anyway. Public document access was one of these dropped they'll-do-it-anyway obligations.

Unlike the response to other "un-mandated" duties, however, there was a public outcry about local document access. How could you be *sure* local governments would continue to provide access? What if they didn't? To dampen the protests, the legislature put a proposition on the ballot that re-mandated the public access requirement *but said the state wouldn't pay for it*. So the proposition deviated from past practice and imposed a mandate without state reimbursement. Would over 60% of voters have supported such a deviation? Would they have done so if they knew that prior to the proposition, the requirement for access was already in place but with the state paying for it. Probably not.

In past musings, I have noted the fallacy in polling results that pose complicated policy questions to the general population or to registered voters. In many cases, the issues posed are matters with which the respondents are unfamiliar but the reported "don't know" or "no opinion" responses are way too low to be credible. The responses that are reported rely on the summary of the issues providing (framed) by the pollster; absent such summaries, the "don't know" or "no opinion" responses would be much higher. The June 2014 California primary is yet another confirmation of limited voter knowledge.

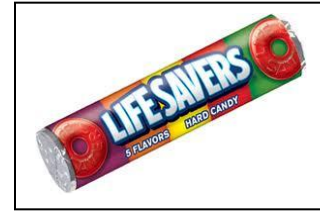
California political processes are dominated by institutions that developed in the early 20th century during the Progressive Era. Progressives viewed politicians as corrupt. They thought it was better to have government functions administered by technical experts. The progressive view that you can't trust politicians leads to such developments as top-2 *non-partisan* primary elections that weaken political parties. But there is an inherent contradiction in such progressivism. Giving more power to voters through direct democracy (ballot propositions, recalls, weakened political parties) as a solution to political corruption puts authority in the hands of decidedly non-experts. It puts power in the hands of folks who voted for non-candidate Yee or who did not understand the controversial elements of the two primary ballot propositions.

It would be nice to offer a simple solution that would somehow enable California – and the U.S. as a whole – to deal with the pressing problems of the day. One consequence of political polarization in California is the development of one-party rule. In the state, Republican legislators have become largely irrelevant to key policy decisions such as budgets. In that context, the only check and balance choice becomes direct democracy and the voice of those non-expert voters. A better solution would be an effective opposition party and to have competition for median voters, not median party voters.⁴⁰ The top-2 primary system may turn out to be a (partial) remedy. But it will take a few more rounds of its use before we know.

⁴⁰ There was some move in the June 2014 primary – partly from out-of-state – to try and move statewide Republican politics away from “Tea Party” candidates. Earlier, we mentioned Neel Kashkari who will run against Gov. Brown in the November 2014 election. Kashkari was heavily supported by establishment Republicans against a Tea Party legislator whose candidacy against Brown, had he won the second spot, threatened to embarrass other Republican candidates, even outside California.

Mitchell's Musings 6-30-14: The Hole in the Middle

Daniel J.B. Mitchell



When I was growing up, there was an ad on the radio for Life Savers (candy) about the hole in the middle.⁴¹ Nowadays there seems to be a hole in the middle of the attitudinal spectrum on how things are going in the U.S. The Field Poll, which measures such things in California, shows a hole in the middle, despite all the political talk for doing good deeds for the middle class. In prior musings, I have been critical of poll results when they refer to detailed questions of public policy. But when it comes to general attitudes, the critique doesn't apply. Presumably, most respondents have views – misinformed, uninformed or not – about how “things” are going.

So let's look at the latest Field Poll below which asks California registered voters whether the U.S. is going on the right track or on the wrong track (whatever that might mean) and about attitudes towards President Obama.⁴² Folks seem to see the President as in charge of the country and thus presumably responsible for whether things are going well or not. (We'll come back to the italicized figures later.)

	<\$20K	\$20-39K	\$40-59K	\$60-79K	\$80-99K	\$100+K

US Right						
Direction	32.6%	31.3%	40.8%	27.6%	31.0%	37.4%
<i>Calif better</i>	<i>36.4</i>	<i>38.7</i>	<i>30.1</i>	<i>44.0</i>	<i>42.0</i>	<i>47.3</i>

US Wrong						
Track	45.6	51.9	45.8	65.8	54.9	52.9
<i>Calif worse</i>	<i>5.7</i>	<i>12.5</i>	<i>12.5</i>	<i>7.9</i>	<i>11.1</i>	<i>9.8</i>

	Less Than High School	Just High School	Some College/Trade School	College Grad	Post-Grad	

US Right						
Direction	32.6%	31.9	27.4	35.9	41.8	
<i>Calif better</i>	<i>31.4</i>	<i>42.4</i>	<i>36.4</i>	<i>40.2</i>	<i>46.2</i>	

US Wrong						
Track	42.6	53.4	59.8	52.2	41.7	
<i>Calif worse</i>	<i>3.7</i>	<i>11.6</i>	<i>11.2</i>	<i>11.7</i>	<i>8.5</i>	

Note: Figures do not sum to 100. Balance – not shown – is “don't know” or “refused.”

⁴¹ I found someone else's memory of the ad on the web which I have modified with my own memory: “Why do they call 'em Life Savers? Because of the hole in the middle. And why put the hole in the middle? Because they call 'em Life Savers. You're going around in circles! So do Life Savers! Oh, nonsense. No, five cents.” I found this reference at <http://www.freerepublic.com/focus/news/816903/posts?page=533> in the comment section.

⁴² The questions are 1) “Thinking about the country overall, do you think things in the U.S. are generally going in the right direction, or do you feel things are seriously off on the wrong track?”

2) “Overall, do you approve or disapprove of the way Barack Obama is handling his job as President?” Source via the *Sacramento Bee*: <http://media.sacbee.com/smedia/2014/06/23/18/09/O8Dal.So.4.pdf> and <http://media.sacbee.com/smedia/2014/06/23/18/11/1ibDgv.So.4.pdf>

Measured by income, there seems to be angst about the U.S. direction that starts at about a household income of \$60,000 (roughly the California median household income⁴³) and ends at \$100,000+ for on the right track and somewhat lower measured by wrong track. When we look at educational attainment – the median attainment is some college (but not a 4-year degree) or trade school – the hole in the middle falls in the high school-to-some college/trade school range. The same hole is seen in the Obama approval-disapproval ratings. In short, some of the folks in the middle – or at least those who vote – are especially unhappy.

	<\$20K	\$20-39K	\$40-59K	\$60-79K	\$80-99K	\$100+K
Obama Approve	51.7%	51.8%	46.9%	43.6%	47.8%	52.5%
Obama Disapprove	29.9	35.9	40.6	50.2	45.4	38.1
	Less Than High School	Just High School	Some College/Trade School	College Grad	Post-Grad	
Obama Approve	62.1%	40.6	44.0	50.8	61.7	
Obama Disapprove	28.2	44.2	44.9	37.3	29.4	

Note: Figures do not sum to 100. Balance – not shown – is “don’t know” or “refused.”

An interesting question is whether their unhappiness is just a projection of their own immediate expected experience or whether there is some kind of longer-run concern about the more abstract state of the nation, now and in the future. The Field Poll asks respondents about their personal immediate expectations: *Looking ahead, do you think that a year from now you will be better off financially, worse off, or just about the same as now?*⁴⁴ Their responses to that question are shown in italics on the previous page.

The hole-in-the-middle phenomenon does not show up in the short-term personal projections. In fact, registered voters in all groups show a striking *lower* propensity to think that they will be worse off a year from now than think the U.S. is going in the wrong direction. So whatever it is that is bugging the middle class seems to be more general than personal economics. It seems more akin to President Carter’s famous (or infamous) “malaise” than to something that can be addressed by some contemporary policy shift (such as the Affordable Care Act or raising the minimum wage).⁴⁵

⁴³ The California median household income was \$58,328 in 2012 and so should be nominally somewhat higher in 2014, particularly among voters. See <http://www.census.gov/prod/2013pubs/acsbr12-02.pdf>.

⁴⁴ <http://media.sacbee.com/smedia/2014/06/25/17/17/CUBOB.S0.4.pdf>.

⁴⁵ <http://www.npr.org/templates/story/story.php?storyId=106508243>.

One suspects that what has developed is a perception that key institutions are not functional. A gridlocked Congress, a war in Iraq that did not work out as planned, a sluggish recovery from the Great Recession, the Great Recession itself, the 2001 terrorist attacks, etc., all have contributed to a sense that something is wrong. The sense of dysfunction may go back all the way to Watergate and the Vietnam War. There seem to be no great national projects that are succeeding. As an example, unlike the Kennedy administration's put-a-man-on-the-Moon space program, the U.S. now depends on Russian(!) rockets to take astronauts into space. It seems more likely that the next person on the Moon will be a Chinese "taikonaut" rather than an American astronaut. Closer to home, the major interstate highway construction program of the 1950s and 1960s stands in contrast to the aging infrastructure in need of maintenance and repair that exists as a legacy of that program today.

Conventional wisdom has it that political candidates should talk about social programs (either for or against) and divisive social issues. Such issues are seen as the way to attract voters who fall in the hole in the middle. But maybe what is needed instead is a challenging (and successful) Grand Project. Will there be a presidential aspirant in 2016 who will sound more like Kennedy and less like the typical contemporary candidate? We're waiting for him or her to appear.