

**Mitchell's Musings Blog for the
Employment Policy Research Network**

EPRN

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April 2, 2012 – June 25, 2012

Originals appear at <http://www.employmentpolicy.org/>

Mitchell's Musings 6-25-12: The Write Stuff

Daniel J.B. Mitchell

A recent *Wall Street Journal* article lamented the poor grammar and general written English usage of new hires. You can find the story - "This Embarrasses You and I" - at <http://online.wsj.com/article/SB10001424052702303410404577466662919275448.html>. The complaint of the article's author will be familiar to any undergraduate instructor even though it is drawn from the workplace rather than the classroom:

"...Managers are fighting an epidemic of grammar gaffes in the workplace. Many of them attribute slipping skills to the informality of email, texting and Twitter where slang and shortcuts are common. Such looseness with language can create bad impressions with clients, ruin marketing materials and cause communications errors, many managers say..."

"Most participants in the Society for Human Resource Management-AARP survey blame younger workers for the skills gap. Tamara Erickson, an author and consultant on generational issues, says the problem isn't a lack of skill among 20- and 30-somethings. Accustomed to texting and social networking, 'they've developed a new norm,' Ms. Erickson says..."

Actually, if I had to guess, the problem is not just social media norms vs. workplace/good writing requirements but is more significantly an issue of poor high school and – to be sure – college preparation. Reading a lot early is a necessary, but not a sufficient, form of training for effective professional writing. Writing a lot – combined with reading a lot - completes the picture. Neither is happening as much as it should at the K-12 level. And there is good reason to believe, as public budgets are being cut at the local and school district levels, that the trend in K-12 is currently tilted in the wrong direction.

My UCLA colleague William Ouchi – who has studied K-12 school management and performance – emphasizes a concept he calls "total student load" (TSL). Essentially, TSL is the number of students a teacher deals with in a given day. It is related to some extent to class size but also to the number of classes. With a lower TSL, more individualized contact time with the teacher is possible and so is more homework. If a teacher assigns an essay for students to research and write, the more students he/she has, the more assignments that must be read, graded, and returned. A high total student load means that few essays will be assigned.

"TSL stands for Total Student Load, which is the number of papers a teacher has to grade and the number of students - human beings - a teacher has to get to know. It is a measure of the degree of intimacy of contact that's possible between teacher and student. ...In Los Angeles, teachers have forty-five students per class; that's a Total Student Load of 225. In Boston, it's 140; New York City, it's 170.

Should your child be lucky enough to attend an elite private school, TSL can range from 60 to 65 students per teacher.”¹

Of course, some students will be self starters and compensate for any lack of formal school assignments. But even in Lake Wobegon – where all children are above average – the number of such self starters will be limited. And most students, whether residents of Lake Wobegon or not, won't have attended “an elite private school.”

If students don't have much chance for learning writing skills, they are even less likely to develop oral presentation skills – although such skills are important in business careers and in fact in almost any setting. So what to do? A common approach in higher education - when students arrive on campus without the necessary skills - is to provide some kind of remedial course (“bonehead English”). In reality, these courses tend to suffer from the same flaw as the K-12 education they are supposed to remediate. That is, they are of limited duration (so there will not be much reading and writing) and their TSL levels are typically high.

In addition, some students who can't write at a satisfactory level – and are made aware of their deficiencies - learn what they think of as coping skills, essentially cutting and pasting text from the web. Coping in that manner – if subsequent instructors use anti-plagiarism online services such as Turnitin.com - can lead to very unhappy results. Unless the remedial courses deal with that issue overtly and don't accept cut-and-paste papers as legit, students may develop what is essentially a dangerous habit; they may not even think that what they are doing is a problem until, suddenly, when they are caught, it becomes a big one.

Readers of this musing may have guessed by this point that the observations above come from personal experience. I co-teach a course every winter at UCLA with Michael Dukakis – who visits each winter from Northeastern University - on the topic of *California Policy Issues* (Public Policy 10b). The course enrolls about 60 undergraduates and a few graduate students. Each year upwards of a quarter of the undergraduate students in the class have notable writing deficiencies. Some of these deficiencies are in research and organizational skills, i.e., where do you find source material and, once you have it, how do you put it together in a persuasive essay. Similar problems arise with the oral presentations students are assigned to make in the course.

Unfortunately, some of the deficiencies go much deeper than just research and organization and involve basic spelling, grammar, and sentence construction. Almost every year, despite increasingly dire warnings by the instructors, one or two students are sent to the Dean of Students office due to plagiarism issues. In some cases, suspensions from the university have resulted.

¹ An interview with Ouchi can be found at <http://www.anderson.ucla.edu/x30960.xml>. The interview took place in 2009 so the TSL levels may well have risen since then in the cities cited.

Because of the ongoing problems with writing, we have developed our own coping skills in *California Policy Issues* and these may be of use to instructors elsewhere. Student essays are submitted in three versions at two-week intervals: as an outline, as a draft, and as a final product. Only the last is graded. The outlines and drafts receive detailed comments, mainly by email, within a few days after submission. Students who early on exhibit writing problems that are detected from weekly assignments or other materials are directed to the course TA who then acts as a writing coach. All grading is done by the instructors, however, not the TA. In the second week of the course, there is a roughly one-hour presentation on writing and on making oral presentations. You can find the PowerPoint slides in pdf format for that presentation at <http://issuu.com/danieljbmitchell/docs/10breportguide2013?mode=window&backgroundColor=%23222222>. (The pdf version obviously omits embedded videos and the oral discussion that goes with the slides.)

Although the Wall Street Journal article did not go into oral communication, we find that some students are afflicted with “uptalk,” a malady not well suited to job interviews or the workplace that seemed to arise in the 1980s. It is more unkindly known as the moronic interrogative:

*Moronic interrogative: Raising your voice at the end of a statement to turn it into a question as typified by valley girls but has spread far beyond to both sexes and even beyond the U.S.*²

That definition is reasonably accurate but true practitioners of uptalk actually insert the questioning tone in the *middle* of their statements as well as the end. A good start in alerting students to avoid uptalk is to play the YouTube video I have embedded on the subject on the EPRN website. Click on <http://www.employmentpolicy.org/topic/403/blog/avoiding-uptalk>.³ None of the remedial efforts described above are cure-alls. But they help and may be of use to other college and university instructors. They might even help, like, your students? find, you know, a job? in today’s difficult labor market?

² <http://www.urbandictionary.com/define.php?term=moronic%20interrogative>.

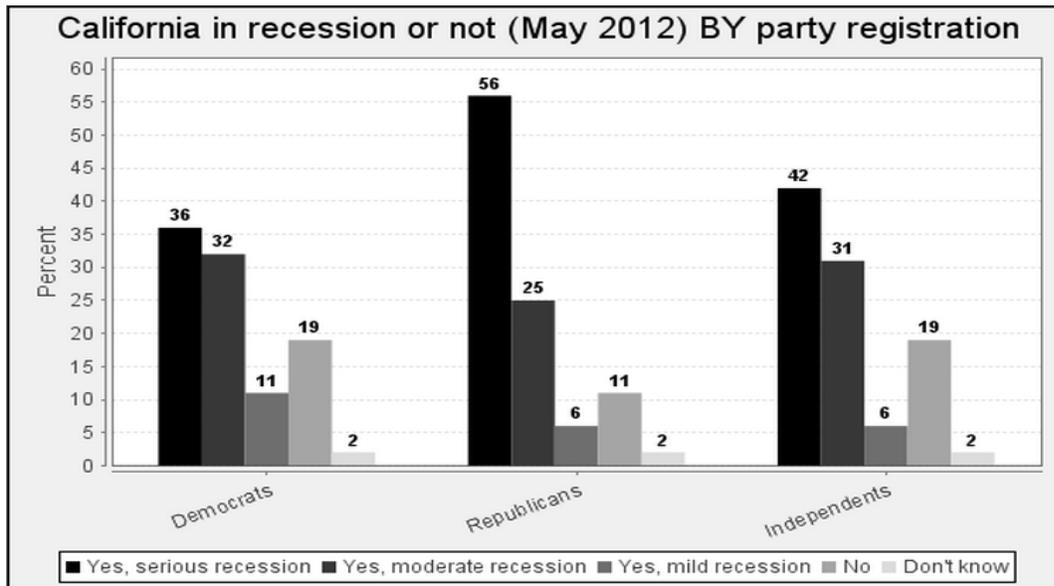
³ If you enjoy that video, you might also enjoy <http://www.youtube.com/watch?v=if5XbL2I1Ic>.

Mitchell's Musings 6-18-12: Central Tendency

Daniel J.B. Mitchell

Current folk wisdom among politicians is that swing/centrist voters – independents who are neither Republicans nor Democrats – cast the deciding votes in presidential elections and that perceptions of where the labor market is going are key variables that matter.⁴ There is less known about state and local elections but presumably such voters have an outsized influence there, too, given that folk wisdom. In this musing, I look at who those voter/swingers are, what their perceptions of the economy and labor market might be, and whether an electoral system change might produce a greater influence for them. I use information from California – not considered to be a swing state at the national level, admittedly - because that's what I have handy. The information comes from the Field Poll (<http://www.field.com>) which tracks California issues and elections and a poll taken regularly by the Public Policy Institute of California - PPIC (<http://www.ppic.org>).

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Source: Public Policy Institute of California at <http://173.203.69.22/quicktables/quickoptions.do> and http://www.ppic.org/main/publication_show.asp?i=526. PPIC data refer to "likely voters," a subset of registered voters. Independents include those registered with minor parties.

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⁴ There seems to be a tendency by those academics who use economic models to forecast elections to neglect the fact that regressions have error terms for a reason. There is also a tendency to forget that the ability of such models to predict behavior precisely and to capture the structure of economic influence when the economy is in an outlier position (as it is now) where there are few observations degrades. But that is another story.

The chart on the previous page indicates that Republicans in California have a more pessimistic view of the direction of the California economy than do Democrats and that independents fall in between. California – measured by the unemployment rate – has in absolute terms the third highest rate among the 50 states so one could be pessimistic on that score. Republicans have tended to be concentrated in inland areas of the state where in absolute terms unemployment has been especially high. On the other hand, the California unemployment rate has been gradually coming down, as in the rest of the U.S., so there is ongoing (but slow) improvement statewide.

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Field Poll: Direction of Job Opportunities in California (Release 2392; publication 9/27/11)

	Worsen	No Change	Get Better
Democrats	18%	42%	36%
Republicans	37	48	11
Independent*	29	48	20

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* In California-speak, “independent” is generally not used as a descriptor because there is a minor party known as American Independent. Those voters that do not register for a party are called “decline to state” voters or nonpartisans. In the chart above and other Field references in the text, registered voters are the database and independents include nonpartisans and those registered with minor parties.

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When put in labor-market terms, rather than just economic, in qualitative terms the response ranking remains the same, as seen in the chart above.⁵ Republicans are most pessimistic, independents are in the middle, and Democrats are more optimistic than the others (but in absolute terms they cannot be termed optimistic). However, what is striking is that almost half of the independents don’t perceive an improvement in the job market (even though one has been occurring). That perception could be unique to California – perhaps the high absolute unemployment rate clouds any vision of the gradual recover. If I were a political pollster, however, I would be checking out whether that perception of a job market going nowhere among California’s independents carries over to their counterparts in swing states.

Who are the independents (in California)? They seem centrist in economic and labor-market perceptions, i.e., in between the two major parties. When asked if they identify with the “Occupy” movement, they also fall in the middle. Sixty-four percent of Democrats said they identify a lot or

⁵ Field Poll data refer to registered voters. The various releases are all at the Field Internet address on page 1 of this musing and available under the link to “archives” at the bottom/left of that webpage.

somewhat with the movement, 45% of independents, and 23% of Republicans.⁶ But what about social issues?

On such issues, the independents also generally fall in the middle. Fifty-seven percent of Democrats said they favor keeping the California death penalty compared to 70% of independents and 81% of Republicans.⁷ Eighty-two percent of Democrats said they favor the current California “medical” marijuana law, compared to 76% of independents and 61% of Republicans.⁸ Eighty-two percent of Democrats said they agree with the U.S. Supreme Court’s *Roe v. Wade* abortion decision of 1973, compared with 71% of independents and 54% of Republicans.⁹ On gay marriage, the independents seem to be moving toward the Democrats. In 2010, approval of gay marriage among Democrats, independents, and Republicans was, respectively, 68%-52%-26%. Two years later it was 69%-67%-39%.¹⁰

Independents were in the middle in “communitarian” values. When asked if the “community” should be involved in reducing obesity, the responses favoring that view came out 86%-71%-56%.¹¹ Similarly on environmental issues; when voters were asked if they favored more offshore oil and gas well drilling, the responses were 27%-41%-65%. And when asked if they favored phasing out nuclear power plants, the responses were 47%-42%-26%.¹²

What about “labor” issues, other than the direction of the labor market? Asked if they thought public pensions were too generous in 2011, the Democratic-independent-Republican responses agreeing with that view were 32%-40%-59%. Asked if they favored a law that would combine state deficit reduction with reduced collective bargaining rights for public workers, the voter responses were 28%-35%-66%.¹³ At around the time the Obama health plan was under discussion nationally and in Congress, 42% of independents were concerned that employers were cutting back on firm contributions to health insurance. Among Democrats, the concern was 56% versus 32% for Republicans.¹⁴

Where do independents obtain their political information? The most important source independents identified when considering the issues on the California ballot was the Internet. Fifty-six percent of independents made that choice compared to 42% of Democrats and 37% of Republicans. Use of the Internet as a primary news source is inversely correlated with age.¹⁵ And as the Appendix shows, a typical independent – compared with the average likely voter – is younger, more likely to be male, more

⁶ Field release 2395, November 29, 2011.

⁷ Field release 2393, September 29, 2011.

⁸ Field California Opinion Index, September 2010.

⁹ Field release 2350, July 21, 2010.

¹⁰ Field release 2406, February 29, 2012.

¹¹ Field release 2408, April 4, 2012.

¹² Field release 2380, June 21, 2011.

¹³ Field release 2369, March 17, 2011.

¹⁴ Field special report, October 22, 2009.

¹⁵ Field California Opinion Index, October 2011.

educated, and more likely to be a white/Anglo or Asian than Latino or black. If you believe that such voters' perceptions of the labor-market are especially important for election outcomes, you should find out what Internet tools will convince them that voting for your candidate will improve their job outlook.

Okay. Up to this point, we have examined how the (macro) labor-market (or perceptions thereof) might influence swing/centrist voters. Now let's ask if what we know about (micro) labor-market practices might teach us something about election processes, particularly as they affect swing voters.

California voters approved two recent electoral reforms that were designed to incentivize candidates for the state legislature and for Congress to appeal to swing voters. One was an elaborate redistricting plan implemented after the 2010 Census which took drawing district lines away from the legislature (dominated by Democrats) and gave that power to a complicated citizens' commission. The notion was that this shift would avoid gerrymandering (by the Democratic majority in the legislature). Minority Republicans, not surprisingly, had pushed for variants of this concept for years – but when it actually happened, they didn't particularly like the results.¹⁶ In any event, the idea was to create more swing (balanced) districts (which presumably would give the edge to swing voters in such districts). It turned out to be hard to create such swing districts because the political polarization in California tends also to be geographic.

Of greater significance was a change in the primary system from partisan to non-partisan or "top-2." This switch appealed to the longstanding progressive strand in California politics where the word progressive refers to its early 20th century definition, i.e., a movement aimed at weakening political parties. In fact, such primaries have been used locally in California for years. (For example, the mayor of Los Angeles is selected through such a process.) In a top-2 primary, while candidates list their party affiliation (or independent status) on the ballot, *all* candidates regardless of party run in the *same* initial election. Unless one candidate receives a majority, only the top two in the primary run against each other in the general election. (If one candidate receives a majority, there is no general election; that person is elected.) And it is possible that both candidates in the general election will come from the same party.

What was the theory of the top-2 primary? Under a conventional partisan system, each party holds its own primary among its party members. The winners all compete in the subsequent general election. It was argued that in Democratic-leaning districts, only Democratic primary voters really mattered. Similarly, in Republican-leaning districts, only those voters mattered. The outcomes were determined effectively in the primary and reflected the political tastes of the median voter of the dominant party, not the median voter in the district, thus – it was argued - producing partisan extremists, not centrists. Under top-2, in both the primary and general election, everyone votes and so candidates in principle should try and appeal to as many district (not just party) voters they need to win. In short, the top-2

¹⁶ The November ballot will include an initiative pushed by the state GOP which would repeal the new boundaries but only for the state senate. It seems unlikely to pass since the voters are being asked to undo what they recently did.

primary can be viewed as analogous to an incentive plan that an employer might implement to induce a desired behavior – in this case to be a centrist-appealing candidate.

California had its first primary under this system in early June. Did the incentive work? There was a rush to negative judgment, particularly among those who for one reason or another did not like the new system. This quick verdict is odd and silly because the top-2 system is really a two-election sequence and the November general election has yet to be held. So we don't know what kind of candidate will eventually win or whether there will be the intended result of more centrists emerging as members of the state legislature or the California congressional delegation. That result – if it happens – will be the test of success of the new electoral incentive.

If we view the process as analogous to an employer incentive plan, what can we say at this preliminary stage? When a new incentive plan is put in place in a work setting, it takes time for those workers being given the incentive to figure out what they need to do to come out ahead under the system. As human resources managers will attest, efforts must be made in communicating to employees how the new system works. It takes time and practice to learn. And there may be unanticipated consequences. No new incentive system has outcomes that can be 100% foreseen.

For example, in one Democratic-leaning district, the top-2 candidates who emerged were Republicans (because the various Democrats who ran split the partisan vote and thus didn't come in first or second). In a sense that outcome is anomalous but it doesn't tell us how the two Republicans - who now must compete for Democratic and independent voters in November - will behave. The incentive/goal of the top-2 process was to produce more centrists, not more members of one party or the other. More specifically – it was designed not to ensure that the top-2 primary winners in a Democratic-leaning district would be Democrats.

Over time, however, it is likely that the lesson political parties will learn is that there will need to be some form of party discipline so that the dominant party does not end up splitting the vote to the point where it has no final candidate(s). For the disappointed Democrats who emerged with no candidate in “their” district, one can only point to the old Will Rogers quote: “I don't belong to any organized party; I'm a Democrat.” The lesson for them should be that if you are not organized, what happened in June 2012 will happen again in future primaries. Ironically, a non-partisan primary turns out to create an incentive for greater party discipline.

In short, even after the November 2012 elections under the top-2 system, definitive verdicts should be avoided. The process will mature as experience with it develops. After all, even if the process results in more candidates who made centrist appeals, the ultimate intent of the system is that they should then go forth to the state legislature and to Congress and there behave in a less-polarized fashion than those folks who were elected under the old system. As academics are fond of saying, that is an empirical matter. And as they are even fonder of saying, more research is needed.

Appendix

California voter and party profiles

		Likely voters	Likely voter party registration			
			Dem	Rep	Ind	Other
All likely voters		–	44%	35%	17%	4%
Ideology	Liberal	32	52	8	28	41
	Middle-of-the-road	29	30	21	40	32
	Conservative	40	18	71	32	27
Strength of affiliation among major party voters	Strong	–	59	57	–	–
	Not very strong	–	38	39	–	–
	Don't know	–	3	4	–	–
Major party leanings among independent voters	Democratic Party	–	–	–	36	–
	Republican Party	–	–	–	29	–
	Neither/Don't know	–	–	–	35	–
Race/Ethnicity	Whites	65	55	80	62	71
	Latinos	17	23	10	17	14
	Asians	9	10	7	11	3
	Blacks	6	10	1	5	3
	Others	3	2	3	5	8
Gender	Men	48	42	50	57	55
	Women	52	58	50	43	45
Education	No college	19	21	19	15	15
	Some college	37	35	41	33	30
	College graduate	44	43	40	52	55
Income	Under \$40,000	27	32	21	26	32
	\$40,000 to under \$80,000	31	30	34	30	28
	\$80,000 or more	41	38	45	44	40
Age	18 to 34	19	20	14	27	28
	35 to 54	39	38	39	39	46
	55 and older	42	41	47	34	26
Region	Los Angeles	24	29	19	22	20
	SF Bay Area	22	27	14	27	30
	Orange/San Diego	18	13	22	20	15
	Central Valley	17	14	21	13	21
	Inland Empire	10	8	13	9	4
	Other	10	9	10	9	9

Notes: Likely voters are registered voters meeting criteria on interest in politics, attention to issues, voting behavior, and intention to vote. For a full description of this criteria, visit <http://www.ppic.org/content/other/SurveyMethodology.pdf>. We gratefully acknowledge the research support of Elisa Baeza.

Source: Ten PPIC Statewide Surveys, September 2010 to July 2011, including 11,322 likely voters.

From: Just the Facts: California Voter and Party Profiles, PPIC, 2011.

Source:

http://www.ppic.org/main/popup.asp?u=../content/images/Table_PartyProfiles.png&t=Table%20-%20Voter%20and%20Party%20Profiles

Mitchell's Musings 6-11-12: The Coming Labor Shortage? Let's Not Get Too Excited

Daniel J.B. Mitchell

Pretty much everyone knows that a key demographic trend is that the population and the workforce are getting older. Most notable in that regard is the bulge in the population called the baby boom, roughly those individuals born after World War II and into the early 1960s. As the table below shows, the initial effect of the boomers was to drop the median age of the labor force during the 1970s.¹⁷ Thereafter, the workforce began to age. By 2011, the first of the boomers reached 65. Some persons in that first wave had already retired; others had yet to retire. By around 2030 (the precise date depends on what year in the early 1960s you want to cut off the definition of the boomers), the last wave will reach 65. Some of them will have retired; others will continue working.

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Median Age of the Labor Force (Years)					
1962	40.5		1990	36.4	2020* 42.8
1970	39.0		2000	39.3	
1980	34.6		2010	41.7	*Projection

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Source: See footnote 1.

The aging of the boomer bulge in population is obviously a significant force, particularly with regard to health care costs, retirement income mechanisms, and politics. But how much significance will it have for the labor market at the macro level? The first thing to note is that the aging of the baby boom is predictable to a far greater degree than, say, the ups and downs of the business cycle, oil prices, or wars and conflicts. In particular, employers at the micro level are as aware as anyone else that aging is occurring within the workforce. If they see a need to do so, they can adapt their workplace practices to encourage aging boomers to stay or to leave. They can create arrangements for phased retirement (or not). No single employer has to follow any particular policy and no single employer's workforce will exactly mirror the overall labor force. However, the key point is that what is happening is slow, steady, and predictable.

There is, nonetheless, a tendency to seek some shock value out of this predictable process in the popular media. What better way to do so – in an era of high unemployment – than to predict that as boomers age out of the labor force, a labor shortage is on the horizon? Sure enough, a few days ago an item entitled “Get Ready for the Labor Shortage” popped into view as I was perusing some news stories.¹⁸ The theme in part is that the boomers will be exiting the labor market and employers won't be able to replace them.

¹⁷ <http://www.bls/mlr/1995/11/art3full.pdf> (p. 40); <http://www.bls.gov/opub/mlr/2002/05/aart2full.pdf> (p. 26); <http://www.bls.gov/opub/mlr/2012/01/art3full.pdf> (p. 61).

¹⁸ <http://business-news.thestreet.com/daily-news/story/get-ready-for-the-labor-shortage/11569255>.

We've actually been there before with this story, albeit in mirror image format. During the 1970s, an era known for episodes of "stagflation" (slow growth, unemployment, and inflation), there was speculation as to whether the flood of boomers into the labor market had led to a labor surplus. During those years, there were in fact wide swings in unemployment including a sharp recession in the middle of that decade. Various studies looked at the degree to which the youthful surge of boomers into the market might be causing the unemployment rate to rise.

One study, which examined that issue in retrospect from the vantage point of the early 1990s, standardized the age composition of the labor force and then looked at how the youth bulge might have raised the unemployment rate. Youths tend to have higher rates than older workers for a variety of reasons. They have fewer dependents to support and so don't have as strong a labor force attachment as others. And they are engaged in a process of trying to find the right job "match" that works for them and their employer which inevitably entails a degree of turnover. But how much did the age composition matter?

During the 1970s, the entering boomers appeared to raise the unemployment rate by a little over 0.6 percentage points. During the 1980s, as the boomers matured into careers of greater stability, their impact swung in the other direction to a little under -0.5 percentage points in absolute terms.¹⁹ So the overall swing in the unemployment rate of baby boom entrance and maturation was a little over one percentage point, as the table below illustrates. And the swing was gradual, occurring first as unemployment-raising and then as unemployment-lowering over a two-decade period. In the era of boomer entrance and then maturation, there were periods of labor shortage (late 1960s, late 1980s) and labor surplus (mid 1970s, early 1980s). The shift between surplus and shortage was mainly a business cycle phenomenon, not a matter of demographics.

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**Impact of Changing Demographic Weights on the Unemployment Rate
Relative to 1959 Weights (Percentage Points)**

1959	0.00		1979	0.62
1969	0.35		1989	-0.46

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Source: See footnote 3.

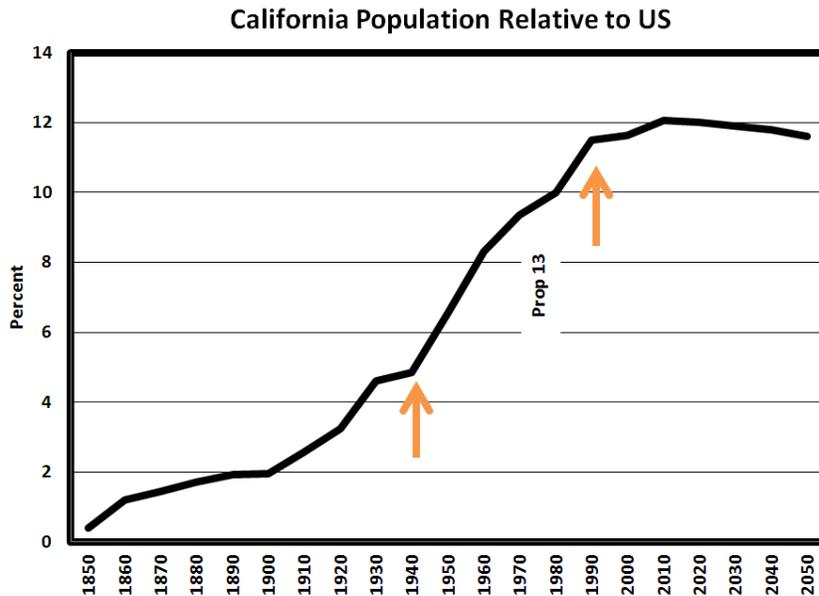
That pattern will be true going forward as the baby boom departs from the labor force, just as it was when it entered and matured. To predict that at *some point* in the future, there will be a labor shortage is not saying much at all, unless you believe the economy will never recover from its current doldrums and that there will never be another period of economic prosperity. To say that the cause of that labor shortage, whenever it comes, will be the aging of the baby boom contradicts the history of the boomers.

¹⁹ <http://stat.bls.gov/mlr/1990/08/art1full.pdf> (pp. 4, 6).

Mitchell’s Musings 6-4-12: The Golden Mean – Part 2

Daniel J.B. Mitchell

In my musing of May 21, 2012 entitled “The Golden Mean,” I suggested that demographic trends could be an explanation of why California seemed to have chronic problems with its state budget, particularly since the 1990s. I showed that California, from World War II to the end of the Cold War, had enjoyed super-normal population growth. With the end of the Cold War (circa 1990), the federal military spending that had fueled the super-normal growth in the state’s economy – which in turn created a pull of in-migration and immigration – dropped off. California then became a normal state in terms of population growth relative to the overall U.S. Indeed, long-term forecasts of population suggest that population growth in California will fall below the U.S. average in the decades to come as the chart below reproduced from that earlier musing indicates.²⁰

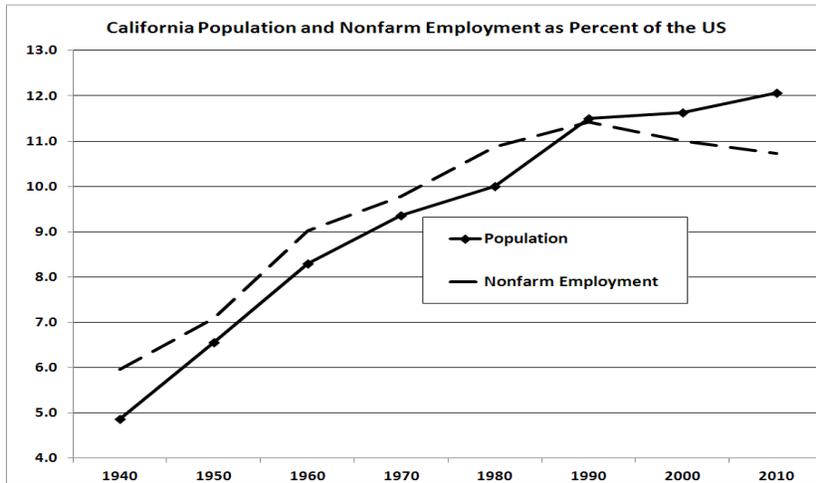


The missing piece in that musing was an explicit labor market component. Although it is not possible to go back to 1850 with regard to the labor market, it is possible to go back to 1940 – the initial inflection point on the chart above - and compare the population trend in California relative to the U.S. with the employment trend. Unfortunately, we cannot go back that far using total employment including self employment, family employment, and farm employment

²⁰ All charts shown in this musing use only decennial Census years as their data points, e.g., 1990, 2000, 2010, except where otherwise specified.

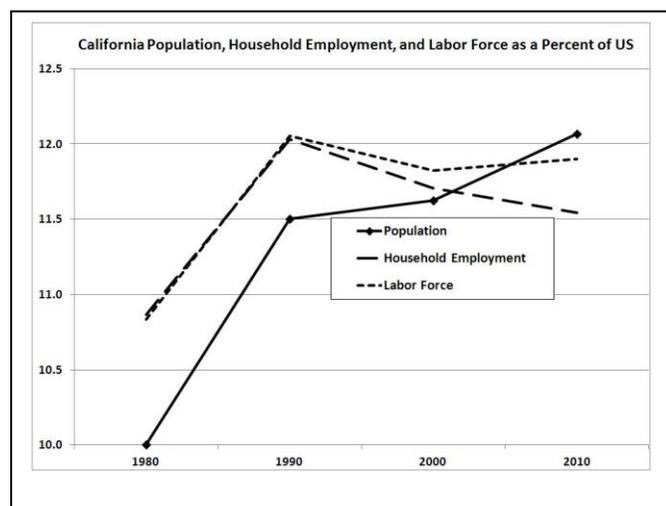
of the type now reported in the monthly household survey. That survey goes back to 1940 but state-level data from it are not available until the mid-1970s.

We do, however, have the establishment survey of nonfarm payroll employment. That survey counts only jobs in which there is an explicit employer (a boss and a payroll) and omits agriculture, somewhat distorting the results. But the payroll employment story, shown on the next page, tells the same general tale as the population story with regard to an inflection in 1990 – with an important difference.

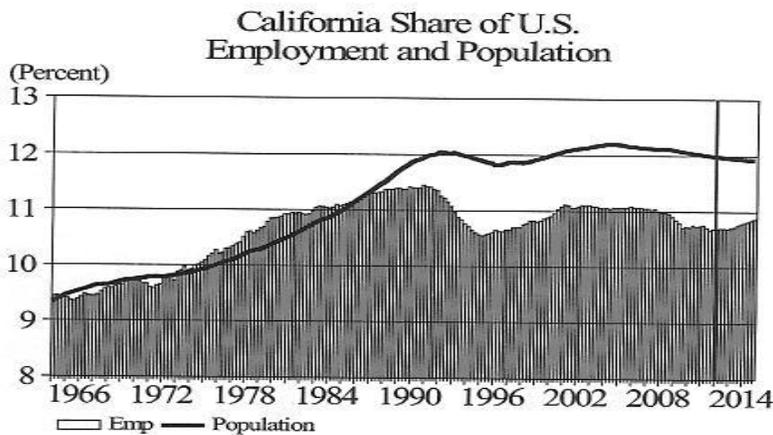


There is a break in both series in the chart above at 1990. But while population rises more slowly than before in California relative to the U.S. post-1990, nonfarm employment falls in relative terms over the entire period. So California today seems to have fewer active workers available to provide support to the rest of the state’s population than it once did.

As noted earlier, data from the household survey at the state level do not go back to 1940. To the extent that California has a disproportionate share of farm workers and self employed and family workers, its household survey of employment or labor force (which includes the unemployed as well as the employed) might show a higher ratio relative to the U.S. As the chart on the right – which covers only the post-1980 period – shows, there is indeed a higher ratio but household employment and labor force both begin a drop after 1990.



Again, the data indicate fewer active workers today in California to support the non-workers than was once the case. A more detailed view of the employment-versus-population trends in California relative to the U.S. can be seen below. It shows that the beginnings of the separation of the employment and population trends comes a few years before Census year 1990, a period in which major layoffs in California’s big aerospace industry began to proliferate.



Source: UCLA Anderson Forecast, “The UCLA Anderson Forecast for the Nation and California: March 2012,” p. California-67.

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Since the charts shown so far include the entire population, not just the working-age population that is typically used to calculate the standard employment-to-population ratio, the non-workers include children. Active workers thus provide support to non-workers in a variety of ways including intra-family transfers (parents to children) and tax-supported programs such as Medi-Cal (California-speak for Medicaid). (Apart from “welfare” type programs, most children also receive K-12 schooling at taxpayer expense.) Since California is nested in the larger U.S. economy, however, some of the transfers to non-workers in California come from external federal programs. On the other hand, Californians pay federal taxes, thus supporting non-workers in other states. The net of inflows and outflows to the federal government are probably a rough wash.

During California’s golden age of super-normal growth (before 1990), its rate of expansion allowed for a certain level of generosity with regard to transfer programs. Significant shares of the California state and local budgets go to direct transfers to individuals or to services provided to individuals by non-government employees, e.g., medical providers who accept

Medi-Cal payments. Although California had a little over 12% of the U.S. population in 2010, full-time equivalent state and local employment in California accounted for a little over 10% of such employment nationwide.²¹ Much of what many public workers do in California is pass money along to individuals and to providers of services to individuals.

Thirty-two percent of all U.S. recipients of the federal-state TANF program (Temporary Assistance for Needy Families – traditional “welfare”) were residents of California in 2009 as were 38% of the expenditures on the program. Those figures are up from 21% and 26%, respectively, in 2000. Sixteen percent of workers’ compensation recipients were residents of California in 2008. That figure is down from 20% in 2000, due to major changes enacted in the program designed to bring down costs. But at 20%, the percentage remains disproportionate. Interestingly, while more generous with aid through government than average, Californians are *not* notably more generous with their own money; they accounted for about 12% of private charitable donations in 2008 in keeping with their 12% share of the population.²²

In 2009, a family of three living in Los Angeles would have paid 10-11% of its income in state and local taxes combined, a rate somewhat higher than the average in other urban areas around the U.S.²³ Nonetheless, the state budget has a structural deficit which - through the interconnections between state and local governments in California - shows up also in local fiscal stress. What seems to have occurred is that the public generosity of the golden era has carried on after the circa 1990 inflection point.

The result is an impasse between voter expectations and willingness to pay. With the shift in the non-worker/worker ratio post-1990, voters tend to feel burdened, both with taxes they must pay and with the intra-family transfers they must make. Thus, there has been only a limited willingness to raise taxes or to relax the constitutional constraint that there must be a two-thirds vote in the legislature to raise taxes. In fact, in 2008, voters tightened the definition of “fees” (which are not subject to the two-thirds requirement) to prevent the legislature from substituting fees for taxes. They also rejected an \$18 per car hike in motor vehicle fees that would have prevented state parks from closing or other service cuts (although the \$18 would have made park admission to California cars free). To the extent that Californians are willing to raise taxes, it is often on others.

²¹ <http://www.census.gov/govs/apes/>

²² U.S. Bureau of the Census, *Statistical Abstract of the United States: 2012* (Washington: GPO, 2011), pp. 363, 365, 372

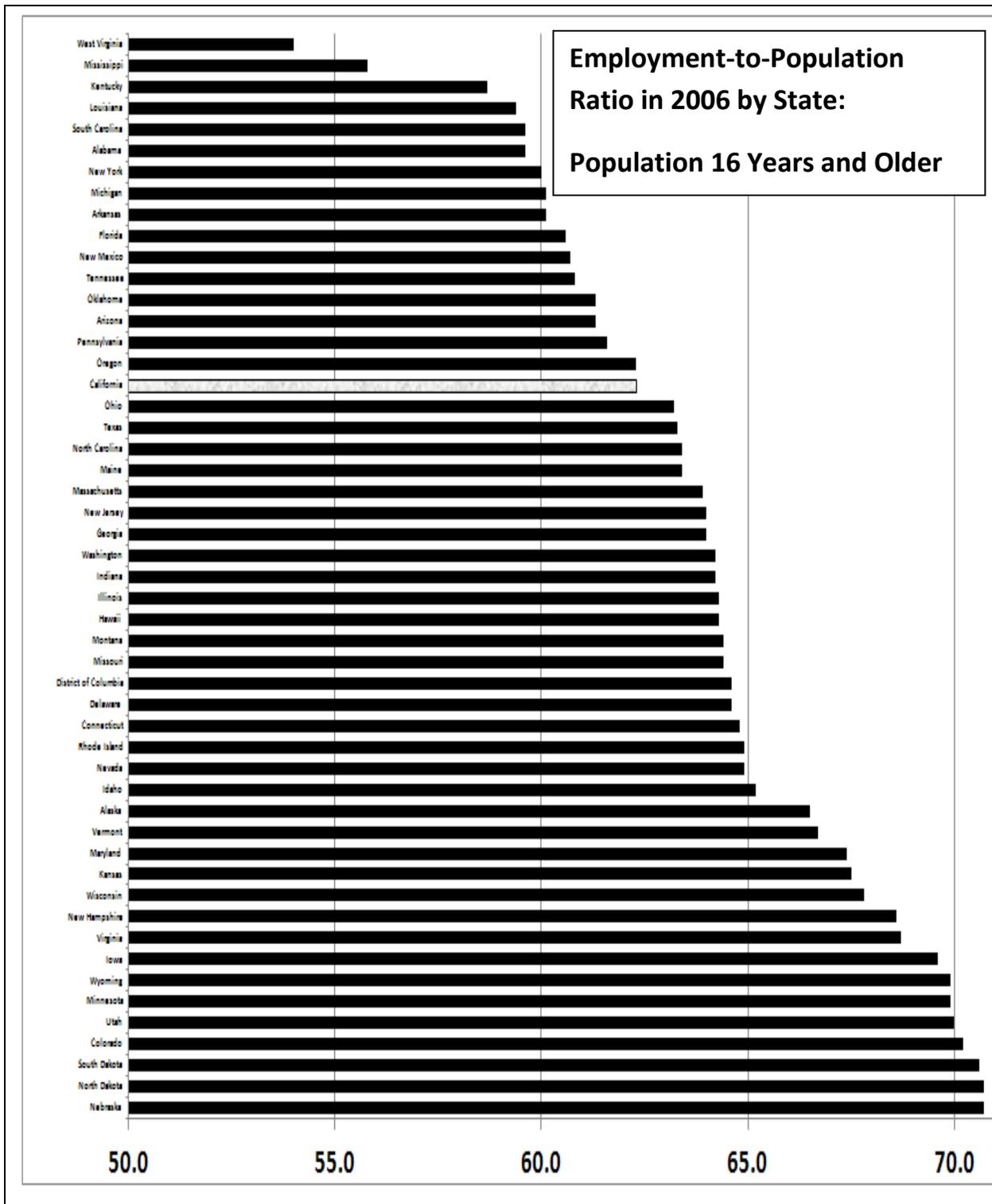
²³ U.S. Bureau of the Census, *Statistical Abstract of the United States: 2012* (Washington: GPO, 2011), p. 284.

For example, in 2004, voters approved an added 1% surcharge on millionaires with the funds earmarked for mental health. Most voters, of course, had incomes nowhere near \$1 million. This week, a tobacco tax is on the California ballot with the funds earmarked for cancer research. Tobacco companies have mounted a major TV blitz against this initiative and recent polls suggest public support for it is dropping. Nonetheless, the measure is thought to have a chance at passage precisely because most voters don't smoke.

In short, when viewed in a labor-market context, underlying the fiscal problem in California is a gap that has opened after 1990 between voter expectations for public services and the revenue they are willing to provide to support such services. Voter expectations are based on the golden era in California pre-1990. But voters tend to feel they pay enough taxes and have their own family burdens with which to cope. Polls suggest they are not keen to cut services – with the exception of prisons which are viewed as spending money on criminals. (As a result of prison fiscal problems, however, federal courts have mandated increased spending and/or prisoner releases to relieve overcrowding.)

As the Appendix chart on the next page shows, the conventional employment-to-population ratio was not particularly high in California relative to other states in 2006, the peak of the business cycle *before* the impact of the Great Recession. A boost in that ratio would go a long way toward injecting additional revenue into the public sector and relieving the structural gap between voter expectations and fiscal reality. California, as a subnational region, cannot adjust monetary policy and thus has very limited fiscal discretion. Undoing the aftermath of the Great Recession is a national challenge, not something a single state, even the largest state, can handle on its own. Nonetheless, California could take positive steps to foster long-term growth and job creation through a focus on its priorities for physical and educational infrastructure maintenance and improvement. Political polarization, aggravated by the difficult post-1990 shift to a more normal growth path, has so far prevented rational discussion of such issues.

Appendix



Source: <http://www.bls.gov/lau/staadata.txt>

Mitchell's Musings 5-28-12: What Exactly Do You Mean?

Daniel J.B. Mitchell

Writing about the ups, downs, and trends in the economy for a general audience is tough. Readers want explanations for why things happen. Commentators on the daily scene are under pressure to come up with a story that seems to explain ongoing events. The stock market is a prime illustration, particularly when there are notable price gyrations.



While there may be news, positive or negative, about a particular stock that might account for its price movements, it is harder to come up with stories about the entire market. One simple story when the market goes up is that everyone was buying. (And the reverse when the general market declines; everyone was selling.) It sounds so sensible.

But wait! Who was everyone buying *from* when the market went up? (Or who was everyone selling *to* when the market declined?) Isn't every stock that is bought also one that is sold? So wouldn't it be equally correct to say that the market went up because everyone was selling? Note the image in the box above where the market is said to have gone up because "investors are still in a buying mood."²⁴ Didn't the investors who bought stock do so from investors who sold stock – and who therefore must have been in a selling mood?

The problem here is that there is no clear model behind statements such as everyone is buying or everyone is in a buying mood. Of course, there is a simple demand/supply model that one could use in describing the market of the type learned in Econ 1. In a simple demand=supply model of the stock market, the market price at a point in time represents a balance between those who think buying is the right decision and those who think selling is the right decision. The resulting price represents a kind of consensus but it is a consensus of matched but *conflicting* opinions, not a view held by "everyone." If the price goes up from Day 1 to Day 2, what has happened is that the consensus price of matched but conflicting opinions was higher on Day 2 than it was on Day 1. Of course, once you say all that, you are not saying much more than the price went up because it did, presumably not a satisfying explanation for stock market journalists to offer their readers.

Perhaps there is little harm in telling "everyone-is-buying" stories. But the language literally suggests to naïve investors who read such stories that there are no conflicting opinions in the market. From personal experience, I can tell you that when I have pointed out to folks that every stock that is bought

²⁴ Source of the image: http://www.laobserved.com/biz/2012/05/tuesday_morning_head_273.php.

is also one that is sold, this simple fact is sometimes received as a revelation. And once you understand that there are always conflicting opinions in the market, the incentive for momentum trading (buying because the price is going up) is reduced. That is, once the idea of conflict producing the market outcome is clear, you are no longer under the illusion that “everyone” is doing it. I have no doubt that those who write stories about everyone buying or selling would say that it’s just a shorthand way for describing the more complex reality. But such shorthand tales can have consequences.

Those consequences are not confined to amateurs or to the stock market. Some time ago, my colleague Chris Erickson and I did a study of how the Federal Reserve’s Open Market Committee – which sets U.S. monetary policy - viewed developments in the labor market.²⁵ We used transcripts of the Committee’s meetings (which appear in detail after a lag of about 6 years) and other sources. It appeared that the members of the Committee had a bargaining model of the labor market in their heads that was perhaps suitable for an earlier period when unions represented a substantial fraction (but never a majority) of private-sector employees.

Committee members – this was back in the 1990s – had largely developed their ideas about the economy in that earlier powerful-union era. Their discussions went on about what workers would “demand” and what workers would “accept” for pay. When in interviews we pointed to the language as unrealistic in a heavily nonunion labor market, the tendency was to dismiss it as shorthand. But the implicit model of militant workers dictating wages led the Committee to fret about incipient inflation from what was once called wage-push, when the danger was minimal. Workers were in no position aggressively to push up wages. Loose language, in short, can have consequences, whether for amateurs or for professional policy makers.



The topic *de jour* nowadays is problems in the euro-zone and fears that a possible result of those problems could be a European recession or financial crisis with adverse consequences for the U.S. In earlier musings, I noted that those problems could have been foreseen in the period before the euro was created; they result from countries giving up their monetary systems and becoming like state and local governments in the U.S. Absent an independent monetary system, countries, like sub-federal governments in the

²⁵ Christopher L. Erickson and Daniel J.B. Mitchell (October 2005), “Not yet dead at the fed: Unions, worker bargaining, and economy-wide wage determination,” *Industrial Relations*, Vol. 44, No. 4, pp. 565-606. Available at http://www.anderson.ucla.edu/documents/areas/fac/hrob/mitchell_notyet.pdf.

U.S., are under tight fiscal constraint and essentially have little scope for anti-recession macro policy. During recessions, they are forced to cut spending and/or raise taxes – austerity actions which worsen the recession.

Greece has been seen as the center of the euro-related turmoil. Articles regularly appear that suggest Greece may have to abandon the euro and go back to the drachma. A recent article in the *New York Times*, for example, tells us that “economists say the drachma would be devalued by an estimated 50 to 70 percent compared with the euro.”²⁶ But what exactly does that statement mean? Does it mean anything? Note that it sounds plausible superficially: Greece is in trouble so of course it will have drop or be kicked out of the euro-zone and experience devaluation.



One assumption of that statement is that it is really feasible for a country that has no national currency (such as Greece) to produce one. In fact, currencies are much easier to abolish than to create. Going into the euro was like going into a Roach Motel. Once you check in, you can't check out.

How exactly is Greece supposed to create a new drachma? Print them up and throw them on the street in the hopes someone will pick them up? And what does it mean to say that the new drachma – if such a currency were somehow created – would be devalued 50-70% below the euro?

value from one exchange rate to another so that it is worth less after than before in terms of some other currency. But if you don't know the initial euro/new drachma exchange rate, how can you predict a devaluation or what its magnitude would be? Perhaps the statement is intended to mean that compared to the euro/old drachma exchange rate, the new drachma would be worth 50-70% less. But the former exchange rate had something to do with prices and wages in Greece measured in old drachmas. What would those prices and wages be initially in the new drachma before it was devalued?

The more questions you ask, the less clear the statement that unnamed “economists” allegedly are saying becomes. And, as noted above, the statement – whatever it means – assumes that creating a new drachma – which can then be devalued - is feasible. Loose language is suggesting that an option exists which in fact are not readily available. Loose language is also suggesting magnitudes that have no obvious basis can be estimated.

There is one thing that the article does get right. There is already the potential for panic in Greece because of the discussion of how Greece might have to create a new drachma. As correctly pointed out

²⁶ Liz Alderman, “Greek Businesses Fear Possible Return to the Euro,” *New York Times*, May 22-23, 2012, <http://www.nytimes.com/2012/05/23/world/europe/greek-businesses-fear-switch-from-euro-to-drachma.html>.

in the article, such speculation could create bank runs (as Greek depositors rush to withdraw euro deposits) and is itself recession-inducing. Loose lips can sink economies, as the Europeans are learning. On this side of the Atlantic, it is also a good lesson for journalists, a good lesson for policy makers, and a good lesson for politicians in a contentious election year.

I am tempted to say that if you can't say anything sensible about economic developments, don't say anything at all. But, of course, that is a less feasible option than creating a new drachma and foretelling its devaluation.

Mitchell's Musings 5-21-12: The Golden Mean

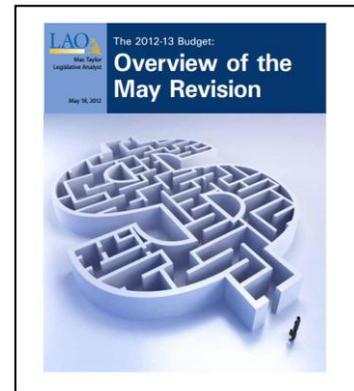
Daniel J.B. Mitchell

California, the Golden State, has had well-publicized budget problems for years. Its formal budget process consists of the governor proposing a budget in January for the upcoming fiscal year which begins July 1. The legislature is supposed to enact a budget by June 15 and the governor is supposed to sign it, possibly with line-item vetoes, by June 30. In fact, although budget hearings begin in the legislature shortly after the January proposal, there is a tradition that the governor comes back with a revised proposal in mid-May known as the "May Revise." Before the May Revise, not much is done.



The May Revise is based on updated information on state revenues and spending, economic trends, and the political reactions to the earlier proposal. At the beginning of last week, as shown in the photo above, California Governor Jerry Brown presented his May Revise. California's fiscal institutions include the state's Legislative Analyst Office (LAO) which prepares critiques of budgetary proposal from the governor for the legislature. The LAO points to policy issues, to disagreements over forecasts, and to legal constraints. At the end of last week, the LAO issued its report on the governor's May Revise. And now, the real work on the budget will begin.

This musing is not the place to go into the detailed numbers of the latest budget proposal or the immediate politics of it. The background, however, is that California had a major budget crisis in the early 1990s, when what was a mild recession in the rest of the U.S. – but a severe downturn in California - adversely affected state tax revenues. Efforts over several years, which included spending cuts and tax increases, brought the budget back into seeming balance by the mid-1990s. At around that time, however, there were warnings that over the long run the state had a "structural deficit," i.e., a tendency for spending to rise relative to revenue.



For several years thereafter, the dot-com boom of the late 1990s brought in substantial tax revenue from capital gains and masked the structural problem. Spending rose rapidly so that just as the economy peaked in 2000-2001, and as the dot-com boom turned to bust, the state found itself running a small deficit. The deficit quickly widened as another recession - again mild in the U.S. but severe in California – chopped state tax revenue. In political terms, the resultant budget crisis led to the recall in 2003 of Governor Gray Davis and his replacement by Arnold Schwarzenegger. As governor, Schwarzenegger implemented an enlarged and modified version of a plan to borrow his way out of the state's accumulated fiscal problems that had been in the works under Davis.

The housing/mortgage boom, as had the dot-com boom before it, masked California's underlying fiscal challenges during the mid-2000s. But even before the financial crisis of 2008, it was evident to budget aficionados that problems were accruing. The recession that was linked to the financial crisis, unlike the recessions of the early 1990s and early 2000s, was severe at the national level. But it was more severe

in California than elsewhere and the state staggered along with spending cuts, tax increases, and even the issuance of IOUs in lieu of state tax refunds and vendor payments at one point in 2009. Thanks to the renewed budget crisis, when Governor Schwarzenegger left office in January 2011, his poll ratings were as unfavorable as Davis' had been at the time of the 2003 recall. Since that time, the task of dealing with the California budget crisis has fallen to Jerry Brown.

California's fiscal problems tend to receive national attention. For example, Brown was interviewed last week at length by Charlie Rose on CBS news about his May Revise.²⁷ As part of his budget plan, Governor Brown has placed an initiative on the November 2012 ballot that would provide temporary tax increases. If it doesn't pass – and passage is not a sure thing – automatic trigger cuts would take effect. You can count on more headlines from California, either way.

Since I write an annual chapter on the California budget, these current events are of special interest to me. But there were other items in the news last week that caught my eye. In particular, there were longer-term demographic developments reported in the news media, both for the U.S. and California. There was national news about a Census report that minority births have exceeded those of non-Latino whites.

Infant data show a historic shift in U.S. demographics

Children born to minority parents now majority of all births, census report says.

By REBECCA TROUNSON

The United States has reached a historic tipping point, with children born to Latino, Asian, African American and mixed-race parents now constituting a majority of all births, the Census Bureau reported Thursday.

The long-expected demographic shift is considered a milestone for the nation, though one that California has reached first.

50.4%
Share of U.S. children who were born to minorities in the year ending in July 2011

1985
The year minority births first exceeded those of whites in California

37
The median age for the nation in July 2011, up slightly from 2010

LA Times 5-18-12

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May 17, 2012

Latinos will soon be California's largest ethnic group, Census says

Latinos will become California's largest ethnic group very soon, a new Census Bureau report indicates.

The bureau issued its first post-2010 census estimates of population growth, birth rates, age cohorts, and racial and ethnic characteristics.

It pegs California's Latino population (it uses the term "Hispanic") at 14.4 million, 38.2 percent of the state's 37.7 million residents, while the non-Hispanic white population is just under 15 million or 39.7 percent, dropping below the 40 percent mark for the first time.

California is ahead of that trend. A related Census projection indicated that in a few years, the Latino population of California would be larger than the white "Anglo" (non-Latino) population. In effect, no ethnic group in the state will be a majority. Not surprisingly, much of the discussion around these issues has focused on political consequences. But there are other ways of looking at demographic trends besides changes in ethnic composition and the voting propensities of various groups. These alternatives may provide some insight into the underlying fiscal problems of California and into issues it may face in the future. They may also explain why California seems to have a harder time than other states in making fiscal adjustments.

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Saturday, May 19, 2012

104 Comments | Print

California's budget problems linger while many other states shape up

By David Siders dsiders@sacbee.com

Published: Saturday, May 19, 2012 - 12:00 am | Page 1A

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California's budget problems linger while many other states shape up

The pile-on was in full effect within hours of Gov. Jerry Brown's announcement this week that California's budget deficit had grown to \$15.7 billion, with The Week giving its national audience a summary of the Golden State's financial affairs.

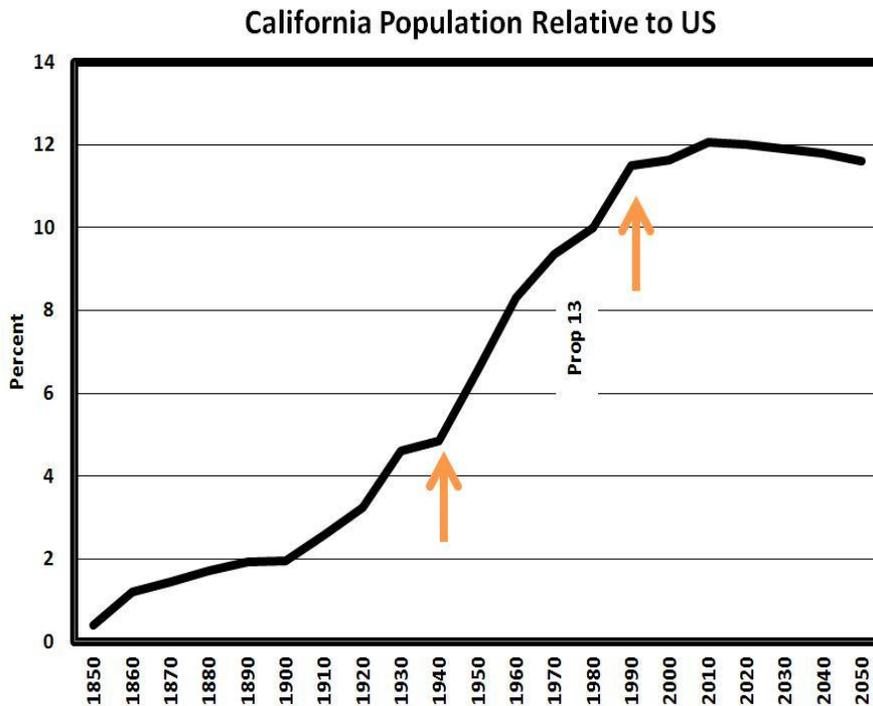
Gov. Jerry Brown

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²⁷ http://www.cbsnews.com/8301-505267_162-57436905/gov-jerry-brown-says-california-is-not-a-tired-european-country

Since California became a state in the mid-19th century, its population has tended to grow faster than the U.S. population as a whole through a combination of natural increase (births over deaths), net immigration from the rest of the U.S., and immigration. However, some periods have exhibited more rapid growth than others. The chart on the next page shows California's population as a percentage of the U.S. total. Census of Population data are used through 2010. Thereafter, the figures are based on projections through 2050 by the California Department of Finance and the U.S. Bureau of the Census.²⁸ The chart may provide a clue as to why California seemed to have a rougher time adjusting its budget during and after the Great Recession when compared to other states.



Two notable inflection points appear on the chart: 1940 and 1990. Growth after 1940 represents the inflow of federal military funding for World War II, the Korean War, the Vietnam War, and the Cold War. After 1990, the Cold War ends. Within that 1940-1990 super-normal growth period, there is a slowdown in relative growth in the 1970s reflecting the end of the Vietnam War. However, taxes continue to rise thanks to a housing bubble (which raises property taxes) and inflation (which raised income taxes due to that tax's nominal rate progressivity). In the late 1970s, California thus became the home of the "taxpayer revolt" with the passage of Proposition 13, which drastically cut and capped local property taxes. Prop 13 was an omen of what might happen in California when voter expectations were frustrated by a growth slowdown.

²⁸ A cautionary note: The projections used by each agency are not necessarily based on the same assumptions. The Census has not yet released projections based on the 2010 decennial survey and recommends use of its 2008 estimates. U.S. figures used on the chart are from <http://www.census.gov/prod/2010pubs/p25-1138.pdf>. California figures are from http://www.dof.ca.gov/research/demographic/reports/projections/interim/documents/Final_2012_Interim_Proj_Web.xls

Projections after 2010, particularly in the out-years, are at best forecasts with the chance for error increasing as we move into the more distant future. But loosely, the numbers suggest that California will grow henceforth at roughly the same rate as the U.S. population. The state completes its transition from the super-normal growth before 1990 to being an average growth state after 2010.

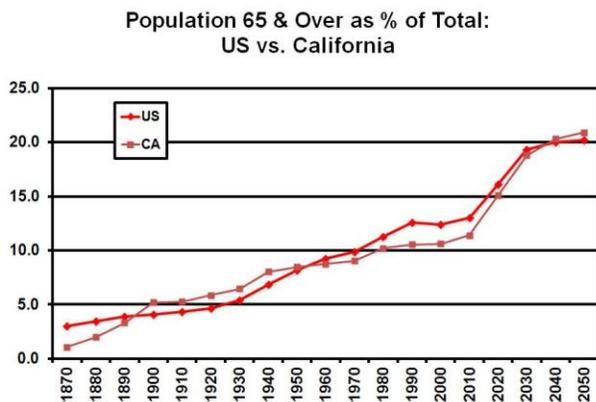
Being average in growth may not seem to be a major burden. But if you’ve had decades of super-normal growth, you have expectations based on an every-enlarging “pie” of economic resources including taxes to pay for roads, schools, universities, water projects, and other infrastructure along with social programs. Providing public services in such an environment avoids nasty trade-offs. An extra dollar for program X does not mean one dollar less for program Y, since the widening pie keeps adding to the available dollars. During super-normal growth, even if taxes have to be raised, the tax base is also growing.

At the root of California’s seemingly endless fiscal problems is the gap between voter expectations, formed in the old pre-1990 super-normal regime, and the current (and future) period of being in the average range. Other states - which have been average for a long time - are better equipped to make unpleasant adjustments. Their voters don’t have California-size expectations. They are used to trade-offs.

The future holds another burden for California. Ethnic mix projections of the type that caused the recent stir in the news media are interesting. But the dominant demographic shift at the national level is the aging of the population as the baby boom reaches traditional retirement age, not ethnic mix.

Prior to 1940 and the era of super-normal growth, California was an elderly state, much as Florida is today – a place to retire in the sunshine. And during that period when California was relatively old, its internal politics were roiled by various “pensionite” movements that appealed to older voters. But in the super-normal growth era after 1940, there was an influx of younger people that turned California into a relative youth state.

First came the wartime (young) workers into the budding aerospace and other related industries. Then came the returning (young) GIs after World War II. After them came young people to work in Cold War aerospace and other sectors. And those folks were joined by immigrants from outside the U.S. as immigration restrictions eased in the 1960s and as internal pressures in Mexico and elsewhere in the world brought in young populations, legally and illegally.



As the chart on the previous page shows, as California becomes an average growth state in the future, it also becomes an average age state. Its elderly population as a proportion of the total population converges with the U.S. national average.²⁹ California, the chart suggests, will not escape the fiscal pressures of an aging population experienced by the average state because it will be an average state. The difference is that – as in the case of growth rates – long-time average states are accustomed to being average. Perhaps after an extended period of being average, California will adapt to that reality. But right now the Golden State is not used to the Golden Mean.

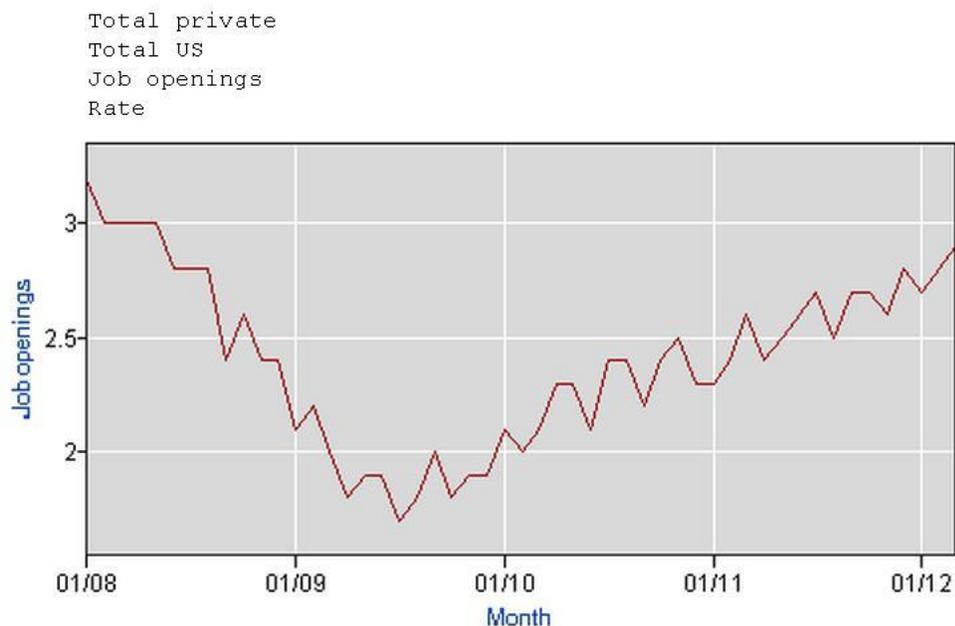
²⁹ The same cautions noted in the prior footnote apply to this chart.

Mitchell’s Musings 5-14-12: Quantum Unemployment

Daniel J.B. Mitchell

I claim no expertise in advanced physics. But I am under the impression that in the world of quantum mechanics, things can be in more than one state, depending on observation. In that sense, there may a quantum aspect to unemployment in the contemporary labor market.

The U.S. Bureau of Labor Statistics (BLS) recently released its monthly JOLTS report³⁰ which includes a measure of the private-sector vacancy or “job openings” rate:³¹



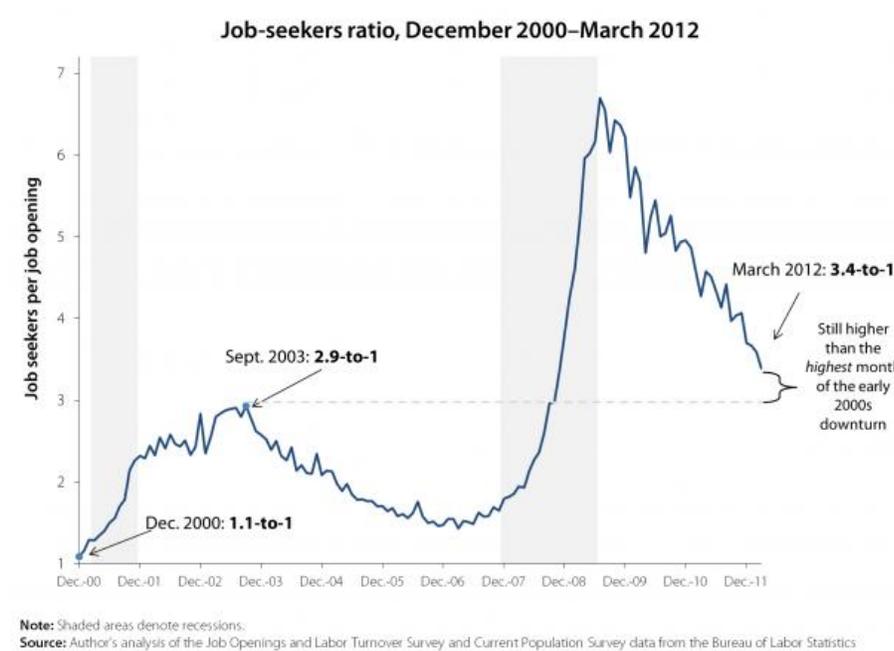
As the chart above shows, the vacancy rate plunged during the Great Recession of 2008 but – as recovery got underway – began to climb. A report last week from the Employment Policy Institute (EPI) looked at the ratio of unemployed job seekers to available vacancies and found

³⁰ JOLTS stands for Job Openings and Labor Turnover Survey. The latest BLS release is at <http://www.bls.gov/news.release/pdf/jolts.pdf>. The chart above was produced from the BLS JOLTS database.

³¹ A job opening requires that: 1) a specific position exists and there is work available for that position, 2) work could start within 30 days regardless of whether a suitable candidate is found, and 3) the employer is actively recruiting from outside the establishment to fill the position. Included are full-time, part-time, permanent, short-term, and seasonal openings. Active recruiting means that the establishment is taking steps to fill a position by advertising in newspapers or on the Internet, posting help-wanted signs, accepting applications, or using other similar methods. The job openings rate is the number of job openings on the last business day of the month as a percent of total employment plus job openings.

that while the number of job seekers per available job remained high, it has been coming down, as the chart below from that report indicates. When you eyeball the chart, it seems apparent that the cause of the current problem in the labor market was the fall off in demand during the Great Recession. And the recovery – with its rising demand – is slowly undoing the damage.

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Source: Heidi Shierholz, “The Odds of Finding a Job are Improving, but are Still Stacked Against Job Seekers,” Employment Policy Institute (EPI), May 8, 2012. Available at <http://www.epi.org/publication/job-seekers-ratio-may-2012/>.

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Despite what appears to be a demand (or lack of demand) phenomenon, there has been a persistent view that the unemployment problem today has become “structural,” i.e., not curable by demand expansion because the skill set of job seekers does not match the skill needs of employers. In a recent blog post, columnist and Nobelist Paul Krugman cited a similar development in thinking during the Great Depression of the 1930s when structural stories became widespread until the demand expansion of World War II came along.³² At that point, the unemployment rate rapidly fell to historically low levels and structuralism disappeared.

³² Paul Krugman, “A Structural Blast From the Past,” May 9, 2012. Available at <http://krugman.blogs.nytimes.com/2012/05/09/a-structural-blast-from-the-past/>

However, you don't need to go back as far as the Great Depression to find the tendency to interpret periods of labor market slack as being structural. After the Korean War ended, a series of recessions and a soft economy produced the "Automation Scare," basically a story that computers and other technical advances had made many workers obsolete. But the demand expansion that accompanied the Vietnam War in the late 1960s led to a sharp drop in unemployment. Talk about structural unemployment then disappeared until the mid-1970s when a severe recession raised the unemployment rate.

History tells us, therefore, that whenever abnormally high unemployment persists after a negative demand shock, the structural explanation will (re)appear. But can it be true simultaneously that there is both structural unemployment present in the labor market and also that a positive demand shock would get rid of it? In other words, can there be a quantum state of unemployment so that two seemingly different states can exist, depending on who is doing the observing and interpreting?

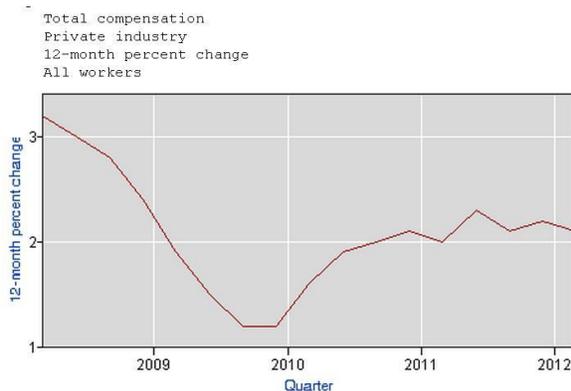
Each era of structural unemployment explanations has its own unique underlying stories, depending on the technology and on the changes in industry mix of the period. The current story notes that the U.S. had a housing boom in the mid-2000s associated with flaky mortgages and a home price bubble. So while it lasted, many workers were engaged in construction and related activities. Given the post-bubble overhang in excess housing, however, these jobs will not be needed for a long time and so the displaced workers now need job skills which they don't have. The skills they need, so the story goes, are associated with other occupations and industries, including those in the high-tech world. It seems plausible. And if one were looking for statistical evidence of a structural problem, such evidence can be found, depending on how you look at the data.

The same survey that gave us the charts shown above can be reinterpreted in a structural fashion. For example, in the first quarter of 2012, the vacancy rate (job openings rate) stood at 2.8%. The last time it stood at that level was in the last quarter of 2001. But in the last quarter of 2001, the unemployment rate was only 5.5%, compared to 8.3% in the first quarter of 2012. Indeed, it is that shift in the relation between those two rates that caused the higher ratio of job seekers to available jobs in the later period compared to the earlier. If there are so many more job seekers out there today than there were in 2001, how can the vacancy rate be the same in the two periods? Why don't employers just fill their vacancies quickly with all the

surplus labor in the market? The answer must be structural, i.e., there really isn't a surplus of labor with the right skills. Or so it may seem.³³

The problem with the structural skill-mismatch story, plausible though it may seem, is that *there is nothing in that story that tells you how readily employers would adapt if demand were notably higher and they had to make do with the available labor supply.* When we have had periods in which chronic unemployment has melted away, what happened was that employers provided training, relaxed hiring standards, and did what they needed to do to get product out the door.³⁴ A high-pressure economy, when it developed, eliminated the skill mismatch.³⁵

Usually, proponents of structuralism cite the danger of inflation if attempts are made to bring down unemployment via demand stimulus. The notion is that even though the unemployment rate is high, because of the lack of needed skills among the unemployed, there is really a potential labor shortage. If demand is pushed up, employers will start bidding up the wages of the relative few workers with the needed skills. It is true that pay, on a total compensation basis, is now rising somewhat faster than at the bottom of the recession. But we are looking at an annual rise in pay of a little over 2% with no signs of a sustained upward trend over the past year.



³³ In technical terms, if at the same vacancy rate, the unemployment rate is now higher than it was in 2001, that development suggests a rightward shift in the Beveridge Curve, the inverse statistical relation expected between the two rates. A rightward shift suggests a greater mismatch between worker skills and employer skill needs.

³⁴ In the technical terminology of the previous footnote, the Beveridge curve readily shifts back to the left in the face of a positive demand shock.

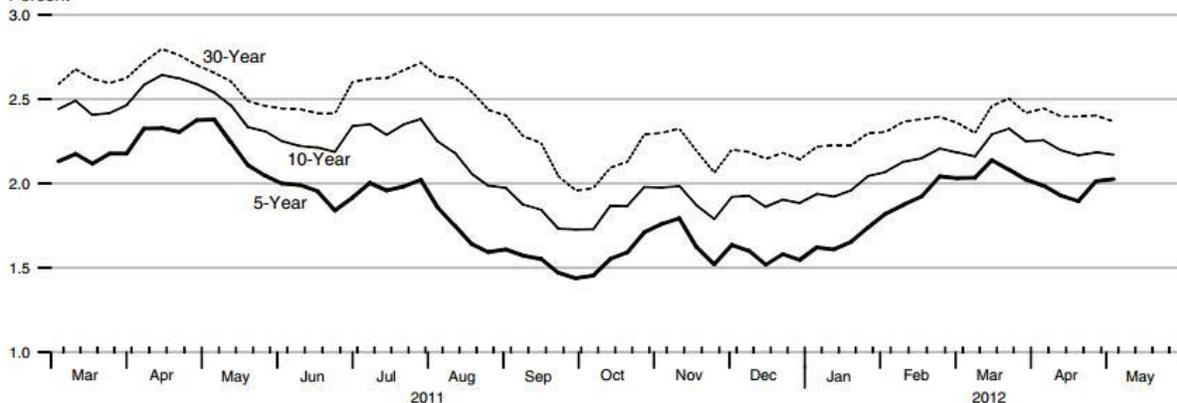
³⁵ The phrase “high-pressure economy” was coined by the late Arthur Okun in his analysis of the sharp fall in unemployment in the late 1960s. Arthur M. Okun, “Upward Mobility in a High-Pressure Economy,” *Brookings Papers on Economic Activity*, 1973:1, pp. 207-252.

Financial markets do not seem to be anticipating a burst of inflation despite the gradually declining unemployment rate. One index of such anticipation is the spread in yields between U.S. Treasury securities which are not adjusted for inflation and those which are so adjusted. As the chart below shows, despite the vagaries of such markets, the expected inflation rate as measured by the Consumer Price Index over various period lengths seems to be in the 2.0 to 2.5% range. Apparently, financial markets are not expecting an inflation problem, despite the talk about structuralism in the labor market (and all of the worries that have floated about concerning budget deficits and monetary expansion).

Inflation-Indexed Treasury Yield Spreads

Averages of Daily Figures

Percent



Research Division
Federal Reserve Bank of St. Louis

The lesson is that we are in a period of quantum unemployment and we have been there before. Someone who defines structuralism in the labor market in terms of a skills mismatch can find it anecdotally (the workers who used to be in house construction that are no longer needed). He or she can find structuralism by using BLS data on vacancy rates vs. unemployment rates. But someone else can see demand insufficiency in the same data and can assert that - based on earlier episodes going back to the Great Depression - the mismatches would melt away in the face of sufficient demand. At present, financial markets are not projecting a burst of inflation of the type that would be expected if the declining unemployment rate were bumping up against some severe structural barrier. Those markets are literally betting on low inflation.

Mitchell's Musings 5-7-12: Told You So

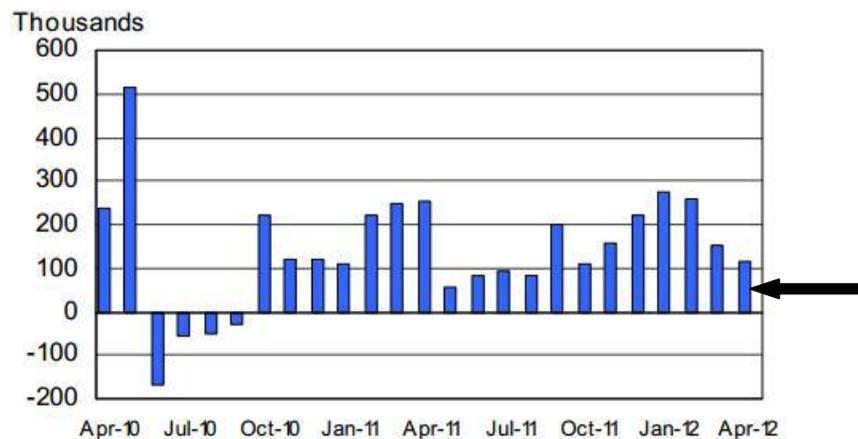
Daniel J.B. Mitchell



The Mitchell's Musings of 4-16-12 noted that the good winter weather which didn't match the seasonal adjustments made by the U.S. Bureau of Labor Statistics (BLS) could be exaggerating winter employment growth.³⁶ In turn, subsequent employment growth might appear weak. It was also noted that entirely too much is commonly made of short-term blips in economic data. As the news headline above illustrates, my cautions had no effect on anyone's behavior.

Now the April job report anticipated in the headline above has been released by BLS. Below is a chart from that release which shows – no surprise – that April's employment growth, seasonally adjusted, looks weak.

Nonfarm payroll employment over-the-month change, seasonally adjusted, April 2010 – April 2012



³⁶ <http://www.employmentpolicy.org/sites/www.employmentpolicy.org/files/field-content-file/pdf/Daniel%20J.B.%20Mitchell/MitchellMusings%204-16-12.pdf>

So let's take a look at what the seasonal adjustment factors do to the actual employment numbers (all reported below in thousands of jobs):

000s	Not Seasonally Adjusted	Seasonally Adjusted	Effect of Adjustment
Dec	132965	132186	-779
Jan	130297	132461	2164
Feb	131210	132720	1510
Mar (p)	132071	132874	803
Apr (p)	132967	132989	22

(p) = preliminary

The purpose of seasonal adjustment is to take out the transient impact of weather and other timing within a given year of economic activity. Since there are Christmas sales in December, the seasonal factor "expects" that activity will be high relative to the underlying norm and so pulls down the actual figure by 779,000. Winter is expected to discourage various activities such as construction and, of course, the Christmas sales are gone. So the factor pushed up the actual numbers in January, February, and March by 2,164,000, 1,510,000, and 803,000 respectively. April is expected to be a relatively neutral month relative to some underlying norm so there is little adjustment (22,000 which is essentially zero).

Let's even put aside the fact that the data for the last two months shown on the table above are preliminary and could be revised. Prediction: The seeming job slowdown will be used to explain stock market gyrations and pundits will evaluate its impact on the November presidential election. I actually typed the words in the previous sentence *before* looking at the stock market – which had dropped on the "news" when I did look. I then looked at the New York Times account of the numbers and found:

*The recent trajectory in the jobs numbers has not worked in the president's favor. "We had a run of great numbers earlier in the year, and then we get a clear softening in the last couple of months," said Ian Shepherdson, chief United States economist at High Frequency Economics.*³⁷

The title of my earlier Mitchell's Musing was "Too Much Information." Now do you see what I mean?

³⁷ <http://www.nytimes.com/2012/05/05/business/economy/us-added-only-115000-jobs-in-april-rate-is-8-1.html>.
The Musing you are now reading was written in the morning of 5-3-12, and posted then, despite its official date of 5-7-12.

Mitchell's Musings 4-30-12: The Real Pepper-Flavored Lessons of Hindsight

Daniel J.B. Mitchell

By now, the world has become aware of the University of California-Davis' "pepper-spray cop," thanks to YouTube videos and even a song by radio comedian Harry Shearer.³⁸ The cop became an Internet "meme,"³⁹ appearing in photo-shopped format in famous paintings and photos.⁴⁰ Just in case you are not of this world, here is a brief rundown of what occurred. UC-Davis is located near Sacramento, California and is part of the University of California (UC) system. Various campuses in the UC system had "Occupy" type demonstrations in the fall quarter of 2011, partly linked to the national Occupy movement and partly connected more locally to protests against UC tuition hikes that resulted from California's state budget crisis. In particular, a student demonstration was broken up by UC-Davis police on November 18, 2011 which included an incident in which demonstrators - who appeared to be at most passively resisting - were pepper sprayed.

There was general public outrage at the YouTube videos and at the related news photos and there were calls for the chancellor of UC-Davis to resign. She didn't. As is often done to defuse such situations, a commission was set up to study the event with the benefit of hindsight and make an evaluation and recommendations. There was some delay in releasing the resulting commission report because of objections by the police union to the naming specific officers (other than the pepper-spray cop whose name was already public). In the end, after some litigation, the report was recently released with police officer names removed.⁴¹

The study commission was chaired by a former justice of the California state supreme court and had representation from university administration officials and from students. Much of the actual investigation was undertaken by Kroll, a consulting company specializing in police and security matters. The supplementary Kroll report was quite lengthy and includes a very detailed chronicling of the events and of who said what to whom in university and police leadership circles prior to, during, and after the pepper-spray incident.

I will provide a few highlights of the commission's report but like all reports that benefit from hindsight, it also has the drawbacks of hindsight. The logical progression of events recounted and the failings described were much clearer after the events than they were to the people involved in real time.

³⁸ <http://www.youtube.com/watch?v=6AdDLhPwpp4> and http://harryshearer.com/news/le_show/player/?id=865&start=47:25.

³⁹ <http://www.urbandictionary.com/define.php?term=meme>.

⁴⁰ <http://www.youtube.com/watch?v=iU7y81FBxu4> and http://abcnews.go.com/meta/search/imageDetail?format=plain&source=http://abcnews.go.com/images/Technology/ht_pepper_spray_meme_11_wm_nt_111121.

⁴¹ <http://reynosoreport.ucdavis.edu/reynoso-report.pdf>.

Although the report says the chancellor is ultimately responsible, much of the blame is laid on the police chief (who unlike the chancellor did resign subsequently). Officers under the chief did not seem to respond to her commands and in any case exactly what she wanted from them was not always clear. She also is portrayed as not making higher-ups in the UC-Davis administration aware of her concerns about how the demonstrators should be handled. No one, including the police, could identify what law demonstrators were violating, if any.

The higher-ups above the police, including the chancellor, were concerned that non-students had, or soon would, infiltrate the student demonstrators who had set up tents on campus and provoke violence. At some point, the higher-ups became deaf to suggestions that there might not be such outsiders present among the demonstrators. Apparently, top university administrators were concerned that violent events such as had occurred in Occupy demonstrations in nearby Oakland could occur on their campus. Should that situation arise, they would be held accountable to parents of students who might be injured. They also did not want to have a repeat of an incident that occurred at UC-Berkeley in which campus police batons were used on demonstrators. A form of groupthink appeared to characterize the deliberations of the higher-ups at UC-Davis whose consultations with each other were *ad hoc* and informal.

The upshot was that the chancellor – apparently fearing outside infiltration and Oakland/Berkeley-style violence – ordered that the demonstrators be cleared in mid-afternoon rather than in the wee hours of the morning as the police chief had advised (but not very forcefully). In that context, the pepper-spray cop seemingly made up his own rules of crowd control and utilized a form of pepper spray he was not authorized to have and for which he was not trained to use. Since the report is available on line, I won't go further with the description of its findings. But I will make the following observations.

The report does not go into why there might be a police chief on a university campus who in the commission's view was evidently not competent. How did a person who is portrayed not up to the job obtain the position initially and then remain in it until something untoward happened? On the other hand, the report refers to the various UC-Davis administrators repeatedly as a "Leadership Team" dealing with how to handle the demonstration. Given the report's description of what occurred, "Leadership Team" seems to be an overly-formal appellation for a group of individuals who were only in loose contact and probably did not think of themselves as a "team" that had been formed to deal with a potential incident.

There is repeated reference in the commission's report to NIMS and SEMs which stand for National Incident Management System and (California) Standardized Emergency Management System. NIMS and SEMS are protocols for government and police officials handling "incidents." The commission report suggests that university officials – particularly the non-police officials – should a) have been aware of these protocols (in part because they are available on the web) and b) followed the formal steps contained within the protocols.

As readers may by now have guessed, I read the commission's report somewhat differently from the way the commission intended. At the level at which the commission focused – what went wrong at UC-Davis on November 18, 2011 – an alternative view is that you had a bunch of well-meaning administrative people with academic (not police) orientations who did not follow protocols of behavior with which they were unfamiliar and probably unaware – whether or not the protocols were on the web. (Almost everything official is on the web nowadays, but if you don't know about something, you are unlikely to go looking for it or find it.) Much of the blame, again at the level at which the report was focused, lies with the police chief who could not communicate effectively with her officers or with her superiors.

In the real world, police chiefs are more likely to be familiar with NIMS and SEMS than the UC-Davis Chancellor whose background is research “in electronic circuit design (that) has led to numerous national and international awards..., 19 U.S. patents, and an additional five U.S. patent applications (and who) is the author or co-author of 10 book chapters and about 650 refereed publications in journals and symposia proceedings.”⁴² University chancellors and presidents are not hired based on their familiarity with NIMS and SEMS. So what the report suggests to me is that there needs to be a rethink about top university management. Who should run universities? What qualities in university managers should be sought? How do you integrate the academics in high-level managerial positions with non-academic managers who have (or are supposed to have) technical knowledge about their functions?

Although many in academia are not happy with the idea, the outside world increasingly views colleges and universities as the route to better jobs. Public universities in particular are seen as paths to upward social mobility. They are subsidized in various ways to accomplish that objective but those subsidies have been declining – particularly since the Great Recession - and university management is expected to do more with less. Efficiency has taken on increased importance.

University and college campuses have aspects of small cities. Note that UC-Davis, for example, has its own police department. There are folks employed on university campuses repairing sewers and pipes, maintaining roads, and providing park-like landscaping. Campus presidents or chancellors are expected to engage in fundraising, be it charitable giving or extracting money from recalcitrant legislators and governors. They set “policy” and make “strategy” but in fact rely on others to carry out day-to-day operations. In effect, there is likely to be a top official – a president or chancellor - who corresponds to a company CEO and a second-tier person corresponding to a COO (chief operating officer).

If both the CEO and COO are academics, the third tier of officials (other than deans and department chairs) is likely to be composed of individuals such as police chiefs and those looking after capital projects, campus enterprises, and maintaining the plumbing. The third tier of non-academics can easily be unmoored from university norms such as academic freedom. It is a structure that invites empire-building (which is costly and unsuited to the current distressed economic environment). There is also a likelihood that the top academic officials will assume that the third tier of non-academic officials is

⁴² <http://chancellor.ucdavis.edu/about/index.html>.

competent and will operate with them on a call-me-if-you-have-a-problem basis. Of course, subordinates are not keen on telling superiors they have created a problem. So the system can generate problems that don't receive the attention of top academic administrators until they evolve into crises such as the UC-Davis pepper spray affair. That organizational design flaw (i.e., the call-me-if-you-have-a-problem management approach) is the underlying reason for what happened at UC-Davis although the pepper-spray commission report does not say so.

No managerial structure is perfect and none can be designed that will avert all crises. But improvements are both possible and necessary in the current era of economic stringency in academia. Autonomous fiefdoms are expensive when in a period in which money is scarce. For example, new buildings - which are the *raison d'être* of autonomous university construction empires - are put up, even when their long-term costs of maintenance and use are not covered.⁴³ Physical capital is favored over the human capital on which universities are based.

So who would be the ideal COO of a university? Academics are not the obvious candidates, even though they are commonly appointed. Some folks would suggest recruiting university COOs from the business world. The appeal of putting universities on a "business-like" basis has a certain appeal (although probably not to most faculty!). Unfortunately, someone coming into academia from for-profit organizations that are ultimately command-and-control in style will find universities, and particularly public universities, to be alien environments. Faculty cannot be fired and insist on having a voice - as do students. Political realities impinge on decisions. External interests, such as alumni and neighbors, constrain available choices.

The requirements of the university COO job - if one is looking to the outside labor market for model candidates - most resemble those of city managers. A good city manager is used to working in a constrained, political environment in which the ability to fire is limited. And an experienced city manager would be knowledgeable about running the small cities that universities campuses are. He or she would know, for example, something about hiring and evaluating police chiefs. It's fine to think about increasing university efficiency through technical fixes such as online courses. But until good management is in place in universities, the other fixes will have only minor impacts.

⁴³ <http://californiawatch.org/node/15273>.

Mitchell's Musing: 4-23-12: U-What? U-Which?

Daniel J.B. Mitchell

In the past, it has been mainly those on the left of the political spectrum who liked to point out that the unemployment rate would be higher if you counted "discouraged workers." Now the right has joined in:

Item from Congressman Duncan Hunter (Republican - 52nd District - East and Northern County San Diego) - excerpt

...In its monthly report, BLS calculates a total of six unemployment figures, U-1 to U-6, but only the U-3 rate, now at 8.2 percent, is reported as the "official" rate. Who is not included in the U-3 rate? Americans who are considered too discouraged and who have given up looking for work. Factor in these individuals, and the U-3 rate of 8.2 percent for the month of March increases to 9.6 percent. That's quite a difference. Some estimates suggest as many as 2.6 million unemployed Americans are overlooked by the U-3 statistic.

Federal law only requires that BLS complete a monthly unemployment report. Within that context, there are no specific requirements for BLS to follow. Indeed, the official U-3 rate does a decent job of capturing the number of Americans it specifically aims to count. The problem is that it is not the best indicator of the national unemployment rate and in turn misleads taxpayers, policy makers and others on the real condition of the American economy. And in order to effectively address an issue of such importance, it's necessary to know the full extent of the problem...

To add clarity to this process, I recently introduced H.R. 4128, the Real Unemployment Calculation Act, in the U.S. House of Representatives. This one-page bill states that for purposes of the federal government, the official unemployment rate that is reported each month must take into account people who have given up looking for work—as currently represented by the U-5 statistic...

Full article at <http://www.flashreport.org/featured-columns-library0b.php?faID=2012041810432572>

So let's review the issue. As the excerpt above indicates, the U.S. Bureau of Labor Statistics (BLS) puts out several monthly employment rates as shown on the table reproduced from the latest (March 2012) release on the next page. Some of the alternative measures vary in the stringency by which the status of someone without a job (or without a full-time job) is tested to determine if he/she is "unemployed" or not in the labor force at all. The less stringent the test, the higher the unemployment rate at any point in time. Thus, while the official (U-3) rate was 8.2% in March, the alternatives vary from 4.5% to 14.5%.

HOUSEHOLD DATA

Table A-15. Alternative measures of labor underutilization

[Percent]

Measure	Not seasonally adjusted			Seasonally adjusted					
	Mar. 2011	Feb. 2012	Mar. 2012	Mar. 2011	Nov. 2011	Dec. 2011	Jan. 2012	Feb. 2012	Mar. 2012
U-1 Persons unemployed 15 weeks or longer, as a percent of the civilian labor force.....	5.7	4.9	4.9	5.3	5.0	5.0	4.9	4.8	4.6
U-2 Job losers and persons who completed temporary jobs, as a percent of the civilian labor force.....	5.8	5.1	4.8	5.4	4.9	4.9	4.7	4.7	4.5
U-3 Total unemployed, as a percent of the civilian labor force (official unemployment rate).....	9.2	8.7	8.4	8.9	8.7	8.5	8.3	8.3	8.2
U-4 Total unemployed plus discouraged workers, as a percent of the civilian labor force plus discouraged workers.....	9.7	9.3	8.9	9.4	9.3	9.1	8.9	8.9	8.7
U-5 Total unemployed, plus discouraged workers, plus all other persons marginally attached to the labor force, as a percent of the civilian labor force plus all persons marginally attached to the labor force.....	10.6	10.2	9.7	10.3	10.2	10.0	9.9	9.8	9.6
U-6 Total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force.....	16.2	15.6	14.8	15.7	15.6	15.2	15.1	14.9	14.5

NOTE: Persons marginally attached to the labor force are those who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the past 12 months. Discouraged workers, a subset of the marginally attached, have given a job-market related reason for not currently looking for work. Persons employed part time for economic reasons are those who want and are available for full-time work but have had to settle for a part-time schedule. Updated population controls are introduced annually with the release of January data.

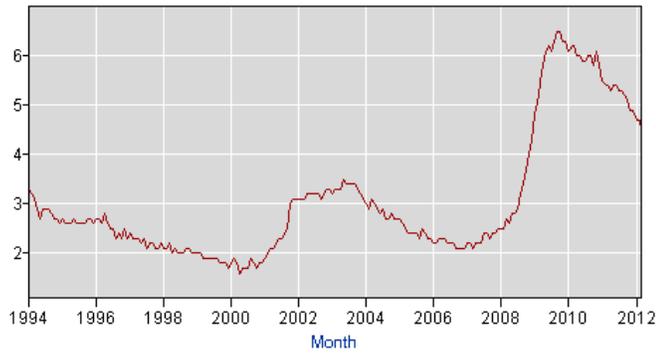
Source: U.S. Bureau of Labor Statistics, press release *USDL-12-0614*, available at <http://www.bls.gov/news.release/pdf/empst.pdf>.

Let's look at these six unemployment rates from a time-series perspective. All are available on a seasonally-adjusted basis since 1994. Below is a graph of each U rate beginning in that year through March 2012.

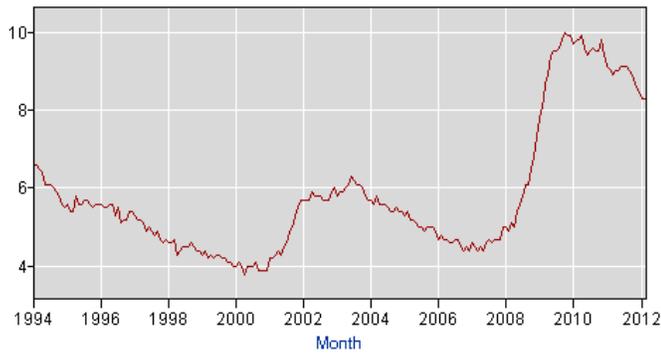
U-1: Percent of civilian labor force unemployed 15 weeks & over



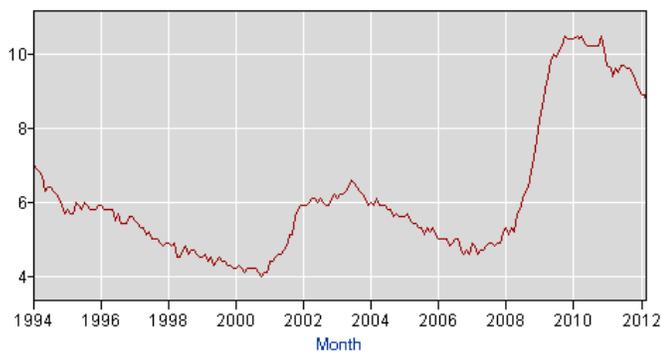
U-2: Job Losers unemployment rate



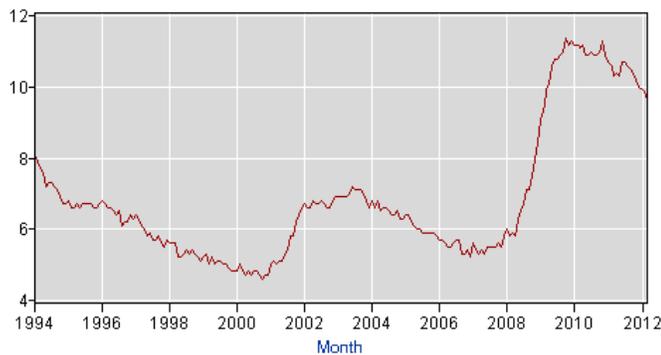
U-3: Official unemployment rate



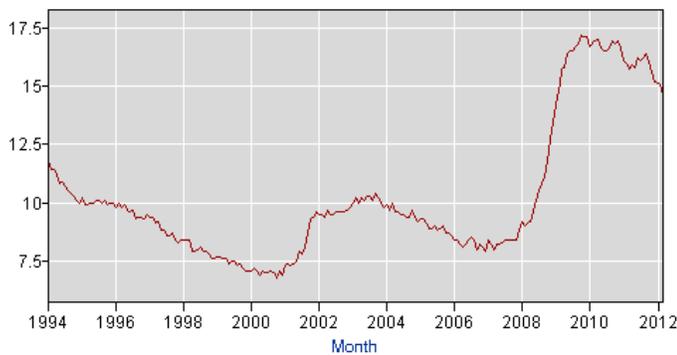
U-4: Unemployed and discouraged workers as a percent of the labor force and discouraged workers



U-5: Unemployed and marginally attached workers as a percent of the labor force and marginally attached (rate favored by Congressman Duncan Hunter)



U-6: Unemployed and marginally attached and part-time for economic reasons as percent of labor force plus marginally attached



The charts make it clear that if you are interested in looking at the ups and downs of the business cycle as reflected in labor-market data, all the definitions of unemployment move pretty much together. Thus, for example, all charts tell you that boom times in the labor market occurred in 2000 and 2006. So is there any point in presenting the six alternatives as opposed to presenting just U-3 as THE unemployment rate?

There is a political advantage in doing so, since otherwise BLS is open to criticism that it is hiding the “true” unemployment rate. Undoubtedly, that advantage is part of the motivation behind presenting the alternatives. But there is another reason as well, one more analytic. There is no precise definition of unemployment. Many people who don’t have a job are not interested in having one so unemployment cannot be defined as just not being employed. There has to be some testing of whether someone wants a job and the pragmatic approach

followed by BLS is to determine if the person has been actively looking for work. Inherently, such a definition requires determining what “actively” means through survey questions. Different plausible questions will produce different results. The U-3 test is reasonable but nonetheless it can be useful over time to track alternatives, particularly if the relation between the alternatives changes over time.⁴⁴ Such changes might suggest a need for revising the official definition.

Below is a crude test as to whether the relationships between the various U definitions have changed in a notable way in recent years. Let’s start by noting (arbitrarily) that in July 1994, the official U-3 unemployment rate was 6.1%. It was again 6.1% in May 2003 and in once again in August 2008. The table below shows each of the U rates at those three dates:

	July 1994	May 2003	August 2008
U-1	2.2%	2.3%	2.2%
U-2	2.9%	3.5%	3.2%
U-3	6.1%	6.1%	6.1%
U-4	6.4%	6.4%	6.3%
U-5	7.3%	7.0%	7.1%
U-6	10.7%	10.1%	10.8%

A more formal analysis would factor in such variables as the direction in which the unemployment rate was trending on those dates (up or down) or other factors that might affect the various relationships differentially. Even so, the table suggests that over a period of fourteen years (1994-2008), there was a pretty stable relation between the alternative U rates and U-3, the official rate. Put another way, once you know what the relationships are, there is

⁴⁴In the household survey from which the unemployment data are derived, people are classified as unemployed if they meet all of the following criteria: they had no employment during the reference week; they were available for work at that time; and they made specific efforts to find employment sometime during the 4-week period ending with the reference week. Persons laid off from a job and expecting recall need not be looking for work to be counted as unemployed. The unemployment data derived from the household survey in no way depend upon the eligibility for or receipt of unemployment insurance benefits. (Source: The March press release cited on page 2 of this musing.)

little economic information to be gained by departing from the official rate and its definition of unemployment.

While it turns out that there would be nothing gained from switching from the official U-3 unemployment definition to some alternative, the practice of showing alternative measures might be informative for other economic indexes put out by BLS. For example, there are three versions of the Consumer Price Index (CPI) routinely made available but these differ in weighting of the many price series that go into the overall index or the formula through which the prices series are combined. Of greater interest and concern is the quality adjustment made to the individual price series that comprise the CPI as the nature of products changes over time. “Aggressive” adjustments for quality will reduce the measured inflation rate and - especially with the advent of computers and computer-related devices whose characteristics are in flux - BLS has become more aggressive in adjusting for quality.

The official CPI is used for such purposes as indexing Social Security and other government papers as well as union-sector wage escalator clauses. What measure is used for indexing thus matters to many Americans directly, perhaps more so than the official definition of the unemployment rate.⁴⁵ Unfortunately, BLS does not make available alternative CPIs that would show the impact of alternative degrees of quality adjustment.

Bottom line for this musing: What BLS does for unemployment is a model for what it ought to be doing for the CPI and other price indexes. We don’t need a law to compel such a change. It should just be done.

⁴⁵ Quality adjustments for pricing also affect such other important economic measures used for judging macroeconomic policy and trends such as real wages, real output, and productivity.

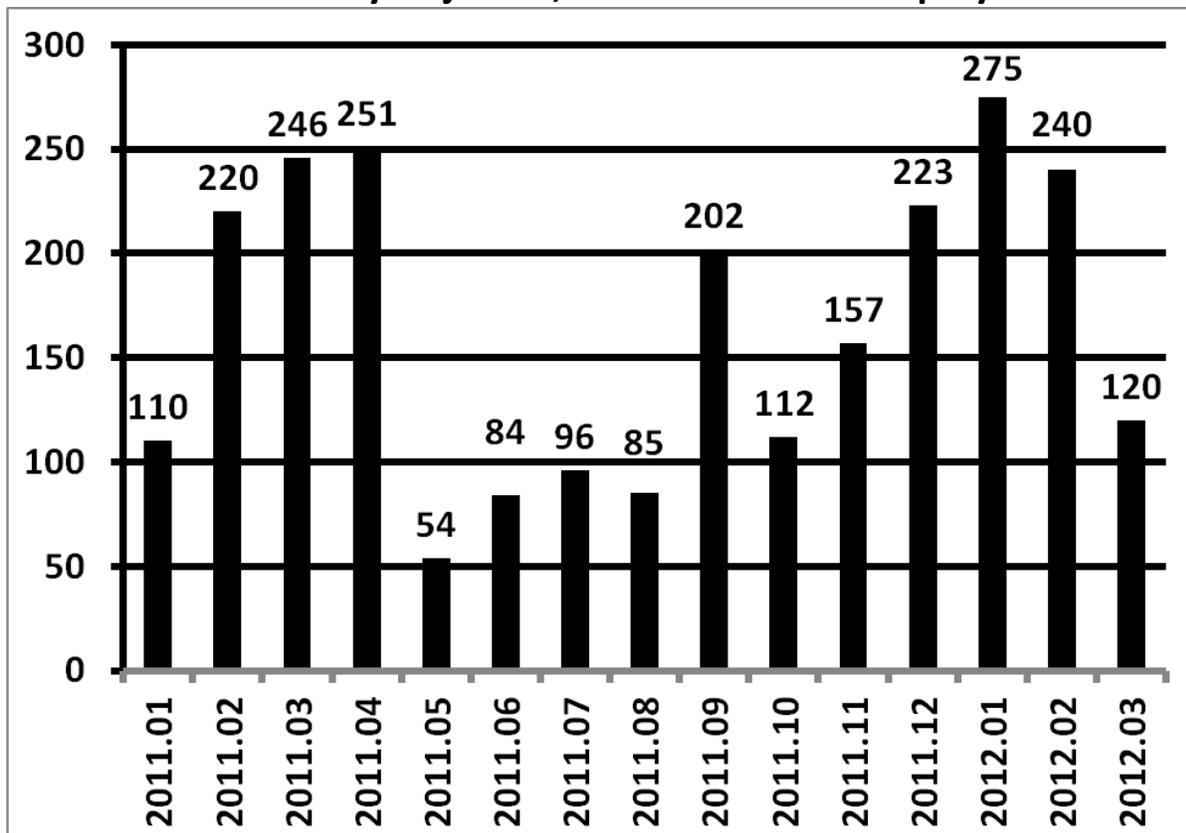
Mitchell's Musings 4-16-12: Too Much Information

Daniel J.B. Mitchell

UCLA's Anderson School of Management has long had an economic forecasting project (going back to the 1950s) that presents quarterly public programs on the outlook for the U.S. and California economies. The most recent forecast took place in late March which was before the most recent labor-market press release for March was issued by the U.S. Bureau of Labor Statistics (BLS). It presented an interesting hypothesis about recent employment data.

Up to that time, analysts had noted a relatively strong trend in monthly growth in nonfarm payroll employment. However, in a presentation entitled "Curb Your Enthusiasm," senior economist David Shulman suggested that the data in the months ahead might not be as strong. Since that time, BLS has released its report through March and, indeed, job growth – while positive – fell back substantially in the most recent month. See the chart below:

**Monthly Change in Nonfarm Payroll Employment,
Seasonally Adjusted, in Thousands of Employees**

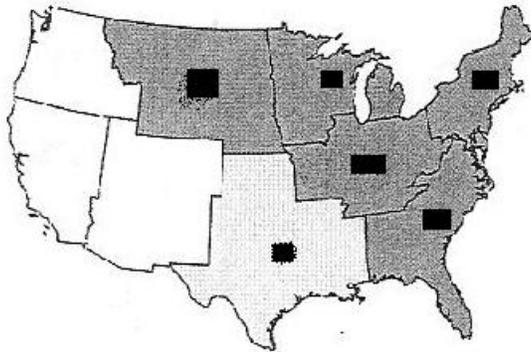


As can be seen on the chart, the March results were well below the previous three months. So what was the basis of the UCLA Anderson Forecast that appeared to come true? It was weather. The (modified) chart from the Forecast on the next page shows areas of the country by temperature where

the areas with the black rectangles had above-normal warm winters. Below that one is a chart showing areas of the country with abnormally dry weather (again, with black rectangles).

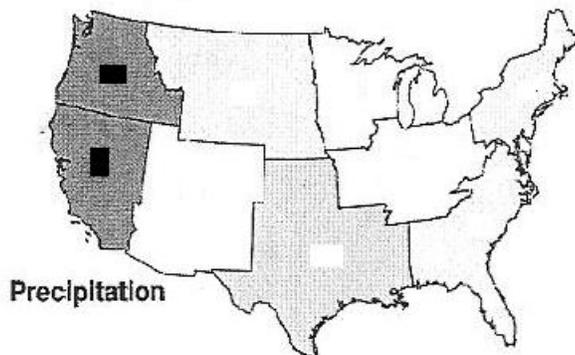
Warm Winter Weather a Big Factor

Dec 2011-Feb 2012 Regional Ranks
National Climatic Data Center/NESDIS/NOAA



Along with Dry Weather in the West

Dec 2011-Feb 2012 Regional Ranks
National Climatic Data Center/NESDIS/NOAA



Unusually warm winter weather would tend to stimulate economic activities such as construction that are normally constrained by cold and snow. It also is conducive to shopping.⁴⁶ In the otherwise winter rainy West Coast, unusually dry weather would have the same effect. The seasonal adjustment factors

⁴⁶ The UCLA Forecast noted that the impact in the rise in fuel prices that had occurred, which would normally have had a negative impact on consumers, was partly offset by lower fuel needs for heating. Note that *some* activity is stimulated by cold weather, e.g., heating fuel delivery, ski resorts. Net, however, cold winter weather is an economic depressant.

used by BLS, however, reflect an average of seasons. BLS boosts up actual activity by the amount such activity is typically depressed by winter weather. If the activity was not so depressed because temperatures were higher and precipitation was lower than typical, the seasonal factors may exaggerate the underlying pace of economic activity and net job creation.⁴⁷ With what is typically the worst months of winter passed, the UCLA Forecast projected a measured slowdown as winter wore off – which turned out to be what happened (at least in March). In effect, the Forecast was suggesting that the pre-March winter advance was a statistical artifact.

Time will tell if the March measured slowdown continues in subsequent months. It is also worth noting that both the March and February figures are still preliminary and may be revised (up or down), apart from the seasonal adjustments. But whatever happens, there is a lesson to be learned.

Economists, stock market analysts, and media pundits examine the month-to-month changes in employment on the assumption that critical information is being revealed. Even the prospects for the upcoming presidential election are being evaluated based on every blip in the employment data. I imagine some observers would therefore argue that BLS should refine its seasonal adjustment figures to factor in current temperature and precipitation and should not just rely on past weather history.

I draw a different lesson or rather a question. It may be that we should not focus on the monthly blips in job reports given the vagaries of seasonal adjustments and eventual revisions. Dare one ask whether - if we seem to get by fine with quarterly GDP numbers - quarterly employment numbers would also be adequate? Note that a less frequent schedule of employment data collection and data release might allow more detail in the numbers that were collected for the same expenditure.

I suspect we do the employment numbers monthly and the GDP numbers quarterly simply because that is the way it has always been done. If you really believe that monthly data on employment - as opposed to quarterly - is much better for analysis, then do you think we should collect weekly data on employment? Daily data? Hourly? There must be diminishing returns to the information. And if that is so, how do you know that those returns justify twelve releases each time the Earth goes around the Sun as opposed to four? At a time when government budgets for data collection are under strain (whether that should be so or not), it might be appropriate to ask such questions.

⁴⁷ Note that the seasonal adjustment is applied to the absolute monthly employment figures, not the change in employment. So while we would expect exaggerated underlying measured performance to result from good weather, exactly how that effect would play out month-to-month (i.e., January-to-February as opposed to fall-to-winter) is not clear.

Mitchell's Musings 4-9-12: Pareto Not Optimal for Higher Ed?

Daniel J.B. Mitchell



Students in economics courses, early in their studies, learn about the concept of “Pareto optimality,” a concept developed by the Italian economist pictured above, Vilfredo Pareto (1848-1923). In essence, the idea is that if you can find an action that makes nobody worse off and at least somebody better off, you should clearly do it. No one is harmed and someone is helped, so why not? It seems so obvious (to economists).

Sadly, in the real world, almost any policy change is likely to benefit some folks and harm others. Reduce greenhouse gases because you think it's good for the world at large? It's probably bad for coal miners, however. Usually the economist's comeback is that in theory the winners could compensate the losers. That may be true. But it isn't Pareto optimal for the winners to do so *if* they can get the policy enacted without paying the cost of the income transfer! And most policy changes are not made by unanimous consent but rather by majorities in legislatures (so there are minorities against) or through other non-unanimous political processes. Getting the ear of the king before your opponents did was once the usual route to policy success. Nowadays, it might be lobbying some regulatory agency more effectively than the opposition. You win; someone else loses.

So are there any examples of Pareto optimal choices and are they automatically accepted if they present themselves? Recently, I found one quite locally in my home town of Santa Monica. The interesting thing is that it produced violent opposition – although the police and other authorities are still sorting out what actually happened. I suspect there is a larger lesson for economists – something about perceptions of fairness which outweigh Pareto logic. And that lesson may have implications in particular for public higher education in a period of fiscal distress and of tight state and local budgets.

California in the Cold War prosperity of the 1950s found itself with three systems of public higher education that had evolved independently. There was the University of California which was transforming itself from a single land-grant campus at Berkeley into a multi-campus enterprise. There were four-year colleges scattered around the state. And there were junior colleges that were two-year institutions offering a route into four-year institutions, a terminal AA degree, and various forms of voc ed. Under the proctorship of then-Governor Pat Brown (father of the current governor) and Clark Kerr, president of the University of California (UC), a “Master Plan for Higher Education” was developed in

1960 outlining distinct functions for each of the three systems. The plan was ratified by the state legislature and seemed to promise tuition-free higher education for every California high school grad.

The idea of free higher ed actually didn't last long and the original Master Plan expired in 1975. But the Plan is still considered to be at least an aspirational document. Under its provisions, the top one-eighth of California high school grads was to be eligible for admission to a UC campus. The top third was eligible for a state college campus. (The state colleges are now called the California State University or CSU system.) Junior colleges – now termed community colleges – were to be the higher ed institutions of last resort. If you had a high school degree, you could go to a community college and, if you did well enough, you could eventually transfer to a UC or CSU campus.

California has long had a system of diffused authority. Community colleges are run by elected members of community college districts. They receive a complicated mix of state and local funding. However, certain statewide policies, notably tuition levels, are set by the legislature and the California Community College Board of Trustees.

As might be expected, California – which had a disproportionate share of the housing bubble and flaky mortgage practices – was especially hard hit by the Great Recession. Among the consequences were sharp cuts in funding for higher ed generally and for community colleges in particular as state and local tax revenue dropped. For UC and CSU, the partial offset to state funding was hiking tuition. However, there was great pressure to hold down community college fees. Local community college districts cannot on their own initiative raise fees. As a result, course offerings have been rationed as dollars were rationed. Students might enroll in the community colleges but there is no guarantee they will get the courses they need to graduate on a timely basis or to move on to a four-year institution.

Faced with this predicament, the president of Santa Monica College came up with a Pareto optimal solution.⁴⁸ His college would continue to offer the courses that state funding plus fee revenue could provide. But it would then create a quasi-independent entity that would offer additional sections of required courses *at cost*, i.e., at a cost significantly higher than the fees charge for state-provided courses.⁴⁹ Some students would presumably be willing voluntarily to pay more to have a guaranteed place in the higher-price sections and the ability to graduate on time. Those students who could not or

⁴⁸ Full disclosure: In 2007, long before the events described below or the plan described below, the president of Santa Monica College was a guest speaker in a class I teach at UCLA.

⁴⁹ There apparently are some legal issues as to whether the creation of a separate entity would allow the College to charge more for courses the entity offered than the official state rate. If the plan is ever implemented, presumably there will be litigation challenges. The California Community College Board takes the position that the plan is illegal. A somewhat similar plan at CSU is under consideration but apparently does not raise the same legal issues. See http://www.nctimes.com/news/state-and-regional/csu-exploring-two-tiered-course-pricing/article_8b74a228-7258-58d1-907e-2c5adc3146e2.html. A radio interview with the president of Santa Monica College can be heard at http://www.kcrw.com/news/programs/ww/ww120404tensions_with_law_en/#. (It is at the beginning of the broadcast.)

those not to enroll in the higher-cost sections would have less competition for seats in the state-provided courses since they would not compete with the students who paid to enroll in the incremental sections. Those students who chose to pay extra presumably would be better off or else they would not make the choice to pay extra. Those students who chose not to pay extra would have a better chance at landing a seat in the cheaper state-provided courses at the official state tuition. No one was worse off and some – indeed, it could be argued, all – were better off under the proposal.

So what was the upshot of this seeming win-win solution? A major student protest against the plan erupted at a recent session of the College's Board of Trustees which led to disruption of the meeting and protesters and others being pepper-sprayed by police.⁵⁰ The original plan's outline and rationale was then submerged by a debate over police tactics and who did what at the meeting. The shorthand description in the news media was that students were protesting against a fee increase. That the fee increase was one that no one was forced to pay tended to be lost. The idea that whether you paid the higher fee or not, you would be a net gainer was also obscured. How the controversy will ultimately be resolved is unknown at this writing.

Nonetheless, it is obvious that the Pareto logic that so appeals to economists did not find favor with student protestors. It is possible, of course, that they did not understand the plan, but that explanation is dubious. The plan had been publicized well in advance of the meeting. What the opponents didn't like was that some subset of students would be able to buy their way into the extra course sections even though such purchases would make the non-buyers better off. I suspect that economists, confronted by this apparent aversion to Pareto logic, would end up with some explanation about interdependent utility functions. I am offended that you are better off.

Whatever rational is applied, however, the events at Santa Monica College suggest a major challenge for public higher education. Most solutions to the state and local funding squeeze that has afflicted public higher ed involve clear gains and losses; they are not Pareto optimal. For example, at the University of California, a certain amount of tuition collected at the sticker price is recycled back as student aid. So there is a redistribution going on when tuition rises; everyone is not better off. Another approach at public institutions in California and elsewhere is to take in more out-of-state students who pay much higher tuition than in-state residents. But it is hard to recruit more out-of-staters without reducing the number of slots available for state residents. If the Santa Monica College approach cannot succeed, there will be still more resistance down the road to these alternative solutions for public higher ed that are much more zero-sum in outcome.

⁵⁰ The use of pepper spray was particularly controversial in California because of the pepper-spraying of "Occupy" demonstrators at UC-Davis in the fall of 2011. Photos and YouTube videos of the pepper-spraying cop became a viral Internet sensation. On the Santa Monica event, see <http://www.latimes.com/news/local/la-me-0405-pepper-spray-20120405,0,6834089.story>; <http://www.smmirror.com/#mode=single&view=34411>. Video of the incident was posted at <http://www.youtube.com/watch?v=eNJtYcPaiw>.

Of course, one can argue that the issue is ultimately a matter of fiscal policy and spending priorities and that legislators should one way or another find more dollars for higher ed. In that case, however, the demonstrators at Santa Monica College and, for that matter, at other campuses and systemwide meetings, should be protesting at the state capitol.

Mitchell's Musings 4-2-12: Losing Face

Daniel J.B. Mitchell

A recent news item that some employers were asking job applicants for their Facebook passwords so they could explore the applicants' private files provoked an outcry.⁵¹ One reaction seemed to be that there must be something inherently illegal about such requests. I'm not a lawyer but that reaction seemed to me to be a symptom of a tendency of the public to believe that there are more protections in American labor law than there really are. Note that potential hires are not even employees. In any event, unless there is some specific statutory limit, e.g., race, sex, age discrimination, protections are quite limited. What may seem to be invasions of privacy – unless such invasions especially affect some protected groups – are likely to be legal, even if seen as objectionable by the job applicant.

Of course, there is no requirement that a job applicant provide his/her Facebook password. But then again, there is no requirement that the employer should not take account of such a refusal in the hiring decision. And in a soft labor market with lots of job seekers, refusing to cooperate would likely mean no job offer.

At first, it appeared job seekers had an ally in Facebook. The social networking firm seemed prepared to undertake some kind of legal action – not clear what – against employers who wanted its passwords. But then Facebook appeared to step back from the threat, perhaps because it wasn't clear what legal action it could take or perhaps because it didn't want to annoy the employer community.⁵² That reversal left the field open to editorials that just denounced the idea of demanding passwords even if legal and to legislators who wanted to make such demands illegal.⁵³

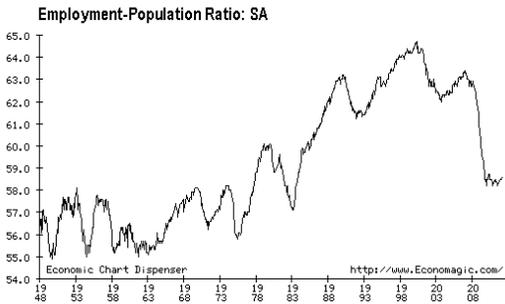
In the aftermath of the Great Recession, there have been other complaints about employer hiring practices that are legal but distasteful. Employers who indicated in help-wanted ads that they did not want to consider unemployed job seekers were similarly castigated and new laws were proposed. In an atmosphere of job rationing, cities that were paying for construction projects imposed requirements for contractors to hire local residents, a zero-sum game since the gains of a worker on one side of the city

⁵¹ Manual Valdes, "Job seekers getting asked for Facebook passwords," *Associate Press*, March 20, 2012, available at <http://finance.yahoo.com/news/job-seekers-getting-asked-facebook-080920368.html>.

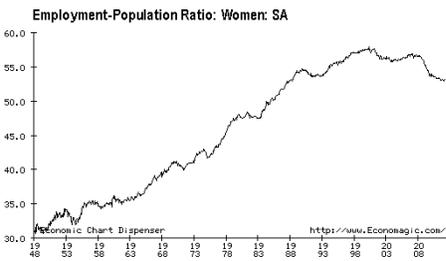
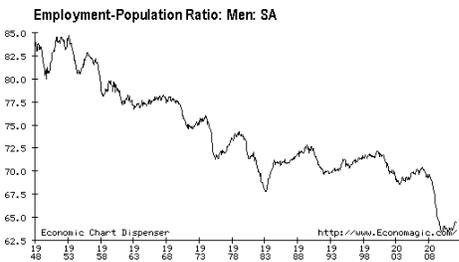
⁵² Michelle Maltais, "Facebook softens its stand on bosses violating applicant privacy," *Los Angeles Times*, March 23, 2012, available at <http://www.latimes.com/business/technology/la-fi-tn-facebook-softens-its-stand-20120323,0,650705.story>.

⁵³ Mary Ann Milbourn, "Calif. bill would ban employers from asking Facebook passwords," *Orange County Register*, March 28, 2012, available at <http://economy.ocregister.com/2012/03/28/calif-bill-would-ban-employers-from-asking-facebook-passwords/106522/>; "Employers asking for passwords is just wrong," *San Jose Mercury-News*, March 26, 2012 (editorial), available at http://www.mercurynews.com/opinion/ci_20260551/mercury-news-editorial-employers-asking-passwords-is-just .

line were offset by the loss of a job opportunity of someone on the other side.⁵⁴ Underlying these stories is the unpleasant fact of a labor market where there are more job seekers than jobs. So in that environment, is there anything special about the Facebook story?



As the chart above suggests, the employment-to-population ratio began rising in the early 1960s, a trend (with cyclical interruptions) that began in the early 1960s and ended at the peak of the dot-com boom of the late 1990s.⁵⁵ The general rise was the project of a long-term decline in the ratio for males and a long-term rise for females, as shown below.



⁵⁴ John Coté, "S.F. local-hire law passes 1st 'test,' backers say," *San Francisco Chronicle*, March 28, 2012, available at <http://www.sfgate.com/cgi-bin/article.cgi?f=c/a/2012/03/27/BALA1NPK9N.DTL>.

⁵⁵ The employment-to-population ratio is obviously affected by the business cycle. But unlike concepts such as being unemployed, it does not require arbitrary lines to be drawn that are affected by the cycle. To be counted as unemployed, there are various job seeking tests applied and when the labor market is soft, there are varying degrees of discouragement that can keep some people who might otherwise want work from meeting the unemployment definition.

There are many factors might cite to explain the reverse trends for males and females. But let's put those aside and look for factors that might make the Facebook story an especially volatile issue, i.e., that would make it "go viral."

One guesses that there is an inverse correlation between heavy use of social networking tools such as Facebook and age. If we add a tendency to have items on Facebook that one might not want prospective employers to see, the inverse correlation might well be stronger. After all, how many fifty year olds are going to rummage through old photos of themselves behaving badly as teenagers or young adults, scan them into digital files, and then post them on Facebook? For younger folks with smartphone cameras, such pictures are readily available.

If we use the employment-to-population ratio as an indicator of the state of the labor market for different age groups, what do we find? A series of charts in the Appendix to this musing breaks down the employment-to-population ratio by age group. The youngest age group, 16-19 year olds, seems to be most adversely affected by the Great Recession and its aftermath according to that metric. The ratio for that age bracket is at its lowest recorded historical level. For the next group, 20-24 year olds, the ratio is at historic lows for males and seems to have undone four decades of progress for increased presence of women in employment.

In the intermediate group, 25-54 years, males are at an historic low although arguably in keeping with their long-term downward trend (with some cyclical adjustment). Women seem to have held up pretty well in that prime age group. For the oldest group, 55 years and over, the ratio is on a rising trend, after a temporary plateau in the 1980s. For men in that group, the ratio has been rising since the early 1990s and, after a brief Great Recession hiatus, seems to be rising again.

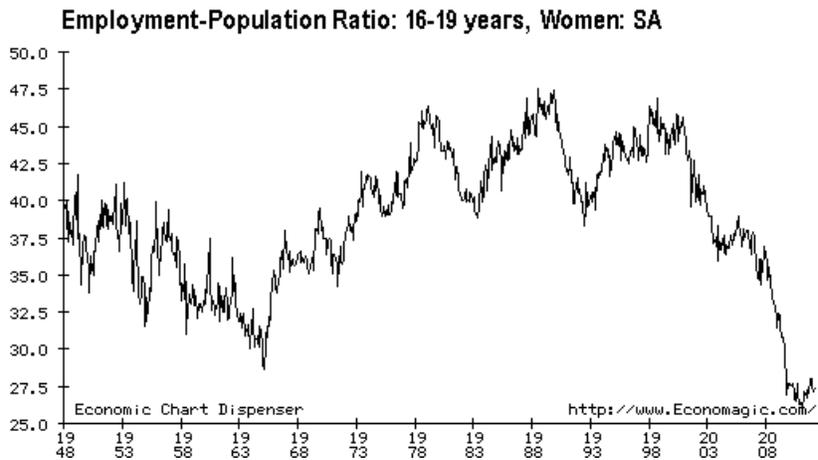
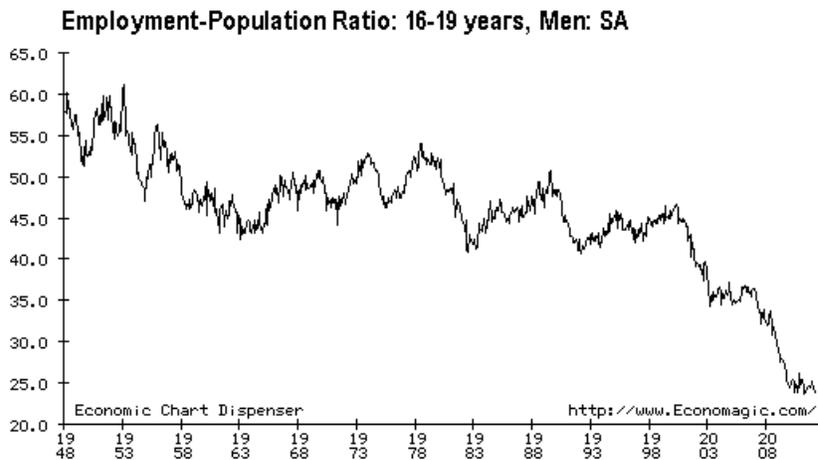
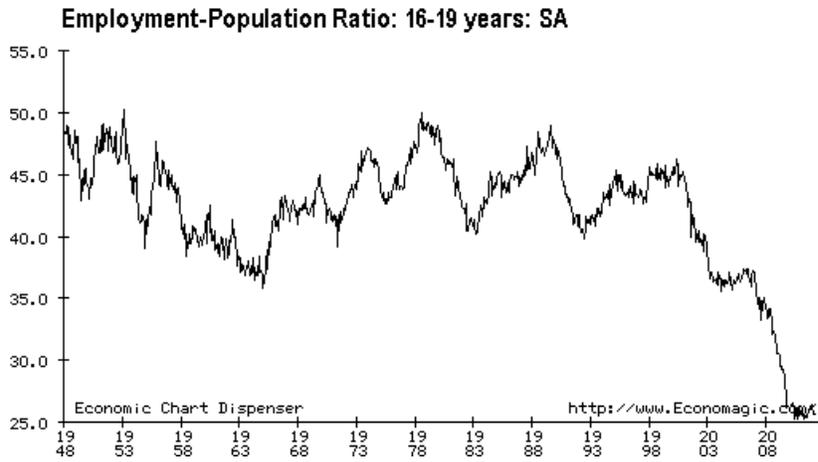
What makes a story go viral is presumably something that especially interests younger persons. Perhaps that is why the Facebook story received so much attention. It particularly hit the group most likely to be sensitive to a) problems in finding jobs and b) the Internet/social media angle. If you are desperately seeking work and have some things on Facebook you might not want prospective employers to access, the story must have carried a double wallop.

Is there anything positive that comes out of the Facebook/password episode? Perhaps it is that a new generation has learned first that U.S. labor law is not all that protective and second that when jobs are rationed, even social niceties (such as privacy) tend to erode.

Appendix

Employment-to-Population Ratios: 16-19 (All, Male, Female)

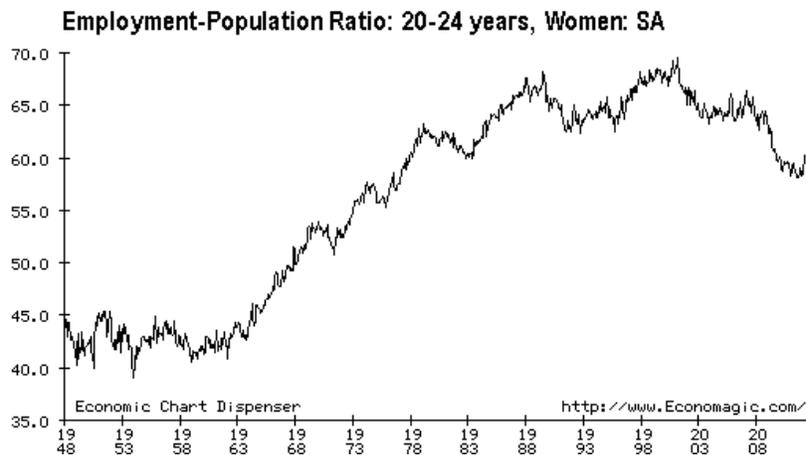
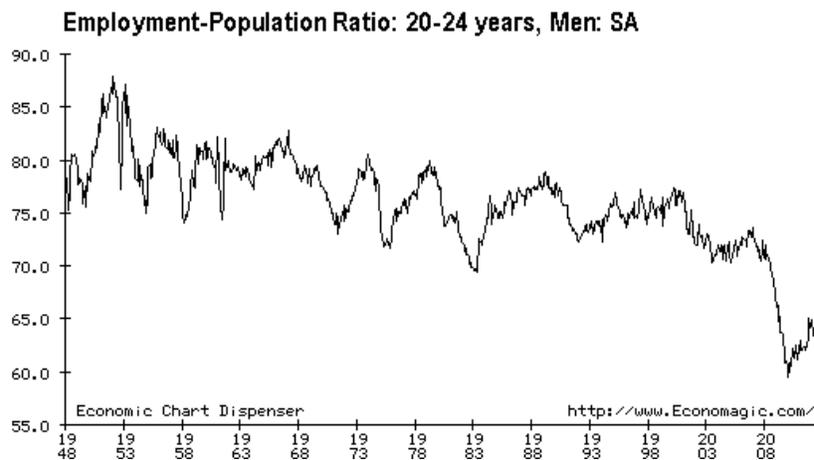
Note: The employment-to-population ratio is currently at its lowest recorded level for the youngest age group.



Employment-to-Population Ratios: 20-24 (All, Male, Female)



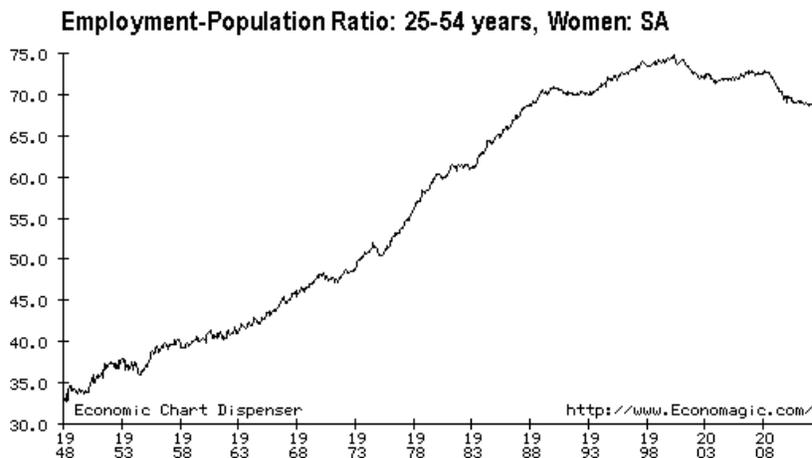
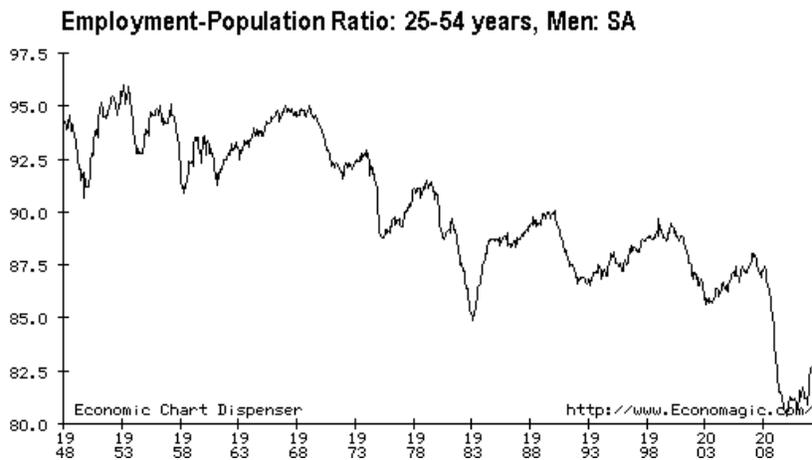
Note: The employment-to-population ratio for the second-youngest age group (both sexes) is back to the level of the mid-1960s. For males, it is at the lowest-ever recorded level. For females, it's back to mid-1970s levels.



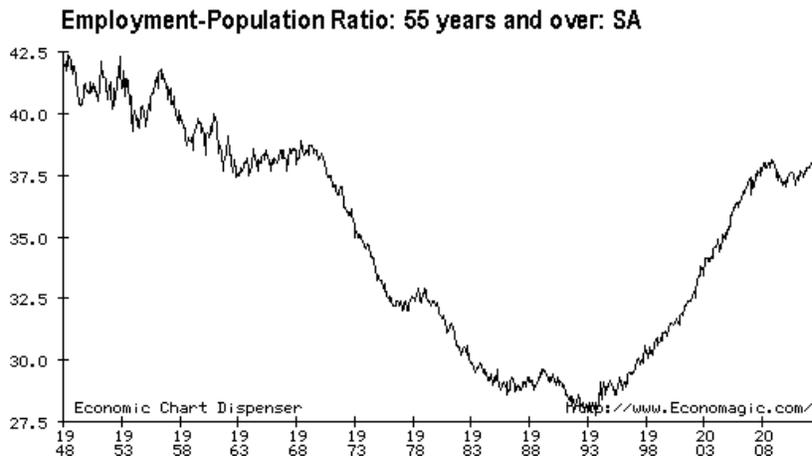
Employment-to-Population Ratios: 25-54 (All, Male, Female)



Note: The employment-to-population ratio for the prime age group (both sexes) is back to mid-1980s levels. For males, it is at a recorded historic low. For women, it is at late-1980s/early-1990s levels.



Employment-to-Population Ratios: 55 and over (All, Male, Female)



Note: The employment-to-population ratio for the oldest age group (both sexes and males-only) is rebounding from the low reached in the early 1990s. For females, it is rebounding from the lows of the mid-1980s.

