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Mitchell’s Musings 1-7-13: It Was Different Back Then

Daniel J.B. Mitchell

In the aftermath of the fiscal cliff negotiations, it is useful to go back in time to look at a time when relations between Congress and the President were quite different than in recent years. As prior musings have noted, after the Watergate scandal revealed the Nixon White House tapes, it was learned that earlier presidents had also made recordings. Gradually, these recordings have become available.

In 1965, President Lyndon Johnson was pushing his Great Society social programs and other legislation through Congress. At the time, organized labor was a much larger fraction of the workforce than today and a bigger political player. Johnson engaged AFL-CIO President George Meany in helping him push his social agenda through Congress. There was some *quid pro quo*, not all of which was delivered. In three phone conversations I have posted on YouTube at http://www.youtube.com/watch?v=l-jNWt6veaw, Meany asks that a USIA official be reappointed and his wish is granted. Johnson strokes Meany, saying he (LBJ) knows who really runs organized labor (Meany) but also that Meany is an American patriot before he is a labor leader. Not surprisingly, Meany agrees. In the other two phone calls (one of which was only partly recorded), Johnson asks Meany for lobbying help, naming specific senators who need prodding on education and other bills.

Notably, Johnson suggests to Meany that if these other bills are enacted, he (LBJ) can then make progress in repeal of Sec. 14B of the 1947 Taft-Hartley Act. Section 14B provides federal authorization for states to enact “right to work” laws which ban union shops provisions that seemingly require union membership by new hires. (Under court decisions, however, actual membership cannot be required, even if the union-management contract says so. Instead, non-members can pay the portion of dues that pays for direct representation services provided by the union.) When Taft-Hartley was first enacted over President Truman’s veto, unions sought complete repeal. Over time, however, it became apparent that complete repeal was not going to happen and the attention of unions became focused on 14B.

We know in fact that 14B was not repealed under Johnson or any subsequent president. Indeed, the recent enactment of a right to work law in Michigan was pursuant to Sec. 14B. So Meany did not receive what he may have been expecting. How serious Johnson might have been about promising repeal of 14B is not clear.

Apart from his connection to organized labor, President Johnson (who came from Congress and the Senate after a long career) reveals substantial knowledge of the legislative process and the propensities of various legislators. He was clearly a hands-on president in pushing through his agenda. Johnson famously observed that in signing the 1964 Civil Rights Act, he was ultimately killing the grip of the Democrats on the “solid south.” But there was still a substantial overlap of the two political parties in 1965 and the congressional distribution along a liberal-conservative spectrum was bell shaped rather than today’s bi-modal pattern with little overlap. That fact made possible the kind of Johnsonian wheeling and dealing that the phone calls reveal.
If there is one thing that is evident from the calls and from recent events, it is that if LBJ were president today, his mode of operation would not be possible. The one piece of legislation under President Obama that could be viewed as a major expansion of Great Society-type programs was his “Obamacare” health plan. But that plan was ultimately a product of only one party in Congress. It was not bipartisan. And the political operator who eventually allowed its passage was House Democratic leader Nancy Pelosi.
Economists sometimes define their field as the science of choice. Why do people, firms, etc., make the choices they do? Of course, there is the old joke that economics is the science of choice and sociology is the science of why you don’t have a choice. One can get into grand philosophy about freewill going down this path. The brain, after all, ultimately is a kind of biological machine. And in recent years, at least some economists have been taken up with behavioral/psychological research which often shows that decisions are made that depart from classical economic notions of rationality.

The popular *Freakonomics* books, radio program, and blog sometimes explain real world phenomena in terms of classical rationality. But there is also recognition of notions of non-rational behavior. However, there is a type of detachment and aloofness in social science that focuses attention on what other people do, not what researchers do.

I was struck recently by an excerpt from the *Freakonomics* radio show in which Steven Levitt, co-author of the books, makes an observation about biases in business. The particular show dealt largely with confirmation bias, i.e., the idea that people start with an opinion and then look for evidence that supports the opinion and reject contrary evidence. But a related area discussed was confessing ignorance.

Levitt comments that there is a temptation for individuals to answer questions even though the respondent actually doesn’t know the answer, i.e., there is an aversion to admit ignorance. He even admits that he sometimes answers questions about which he doesn’t really know the answer. But Levitt then goes on to say that in his consulting with business, he finds that there is great resistance to testing of alternatives. As a result, he says, the main thing MBAs learn is how to fake knowledge. When he (Levitt) suggests randomized testing of business alternatives, the suggestion is rejected since it would suggest that company executives who are supposed to know the answer really don’t know. As a result, Levitt says, businesses don’t learn anything. Academics, in contrast, start out with an acknowledgment that they don’t know and then spend years neutrally researching the true answer.

I have posted this brief excerpt from the program at [http://www.youtube.com/watch?v=vsJFGDoJYm0](http://www.youtube.com/watch?v=vsJFGDoJYm0).

Particularly in fields of social science, including economics, I think it would be hard to establish that there is always a neutral starting point for academic researchers. There are respected economists, for example, who are routinely described as liberal or conservative. So even using the same data sets, they tend to come to different (predictable) conclusions.

To take a recent example, a National Bureau of Economic Research (NBER) working paper recently appeared on the subject of “Okun’s law.” [http://www.nber.org/papers/w18668.pdf](http://www.nber.org/papers/w18668.pdf) It provided various statistical tests which indicated that the law had held through the Great Recession, i.e., that the Great Recession – while deeper than most – did not involve a wholesale break in economic
relationships. Okun’s law, named after the late Brookings Institution economist Arthur Okun, refers to an empirical regularity rather than a logical deduction. Basically, it involves how much of a real GDP advance is needed to produce a given drop in the unemployment rate. The usual rule of them is that shoving up the real GDP by an extra 1% cuts the unemployment rate by something like half a percentage point.

Note that real GDP and unemployment – while linked – involve a variety of employer decisions. A GDP positive shock creates more product demand and hence more labor demand by employers. But labor productivity can vary so some of the added demand can be dissipated by added productivity growth. And adding more labor can involve adding hours to the existing workforce (not hiring) or adding more workers. To the extent that any additional workers come from the pool of the unemployed, the unemployment rate will decline. But some additional workers come from outside the labor force, i.e., they are drawn in by the availability of more job opportunities and were not previously officially unemployed. You can think of the connection between real GDP and the unemployment rate as involving a set of gears which can slip. Okun suggested, however, that despite potential slippage, there was in the end a relative constancy in the real GDP/unemployment rate relationship.

A finding that the Great Recession, while deep, did not fundamentally change economic relationships such as Okun’s Law has policy implications. It suggests that the traditional remedy for recession – demand stimulus – is as appropriate now as it was in the past. It suggests that the alternative idea – that somehow things changed at around the time of the Great Recession - so that traditional remedies are not appropriate – is incorrect. (The alternatives are typically stories that there was a structural mismatch that arose in the workforce between the kinds of skills needed by employers and the skills possessed by workers so that unemployment is high due to mismatch, not inadequate demand.)

If you look at the NBER paper on Okun’s Law cited above, you will find that the authors view themselves as refuting other empirical studies suggesting that the Law broke down recently. That is, other researchers looking at the same real GDP and unemployment rate find that there has been a change. It is likely that those with liberal views favoring stimulus will see virtue in the new study and will be skeptical of the others. For conservatives, who generally don’t like government intervention in the economy, the rival studies will seem more credible.

Personally, I find it unlikely that some technological shift happened to occur in 2008 coincident with, but unrelated to, the Great Recession. So the idea of there being no change in Okun’s Law seems quite plausible. But obviously, there are those with alternative viewpoints. Maybe the academic world is not quite as different from the business world as Levitt suggested.
Mitchell’s Musings 1-21-13: GE Whiz

Daniel J.B. Mitchell

From time to time in these musings, we have looked back at past presidents and their relations to organized labor. Generally, we have relied on recordings of presidential conversations to provide an audio perspective on those relations.

Two recent developments – totally unrelated – turned my attention to Ronald Reagan, the only union president (Screen Actors Guild) to become a U.S. President. One of these developments was a three day stay starting January 14 at the UCLA Ronald Reagan Hospital. The other development was an off-hand remark by California Governor Jerry Brown at a media conference called to present his budget proposal for 2013-14.¹ In the course of that conference, Brown invoked the name of Lemuel Ricketts Boulware, a name I am sure few reporters would have recognized.

Boulware was a General Electric VP in charge of labor relations (although his background was in marketing) in the late 1940s and 1950s who developed a bargaining technique that became known as Boulwarism. Essentially, it was a take-it-or-leave it approach with an employer offer seen by the company as generous and appropriate. Once formulated, the offer would be “sold” to workers through advertisements (the marketing background) over the heads of union leaders.² Brown essentially said at his news conference that in dealing with state unions, he would not engage in Boulwarism. You can hear him make this statement at http://www.youtube.com/watch?v=sOZ28d-z7Hw.

In a 1958 (very friendly) radio interview, Reagan – then a spokesperson for GE – spoke about his attitude towards collective bargaining. I obtained a recording of the broadcast from the Reagan library. You can hear it in two parts at http://www.youtube.com/watch?v=TrWC0234d_E and http://www.youtube.com/watch?v=zf2SSrz7gs. Reagan says that GE considers itself a good corporate citizen that voluntarily does right by its workers. That approach is a formidable challenge to organized labor which is based on adversarialism with management. Unions arose because management was not enlightened and workers needed fighting machines to deal with employers. That fact, however, means that unions are not really democratic because in war there must be unity. But now, at least at GE, things have changed and labor and management should be partners. Reagan was GE’s spokesperson and he visited manufacturing plants on behalf of the firm, pushing this message.

Reagan generally looked at the sunny side of situations. So you don’t hear in the interview about the turmoil surrounding the change in GE’s unions as the leftwing United Electrical Workers (UE) was

¹ Brown followed Reagan as governor of California during his (Brown’s) first iteration as governor. Brown also wanted to become President but unlike Reagan never succeeded.

² Brown was governor in the mid-to-late 1970s and early 1980s and was involved in the various state laws regarding public sector unionization and farm labor unionization. The concept of Boulwarism probably became known to him in that era.
ejected from the CIO and partially replaced by the International Union of Electrical Workers (IUE). Rival unions led to labor disunity in bargaining, an advantage for GE. When Reagan discusses his days with the Screen Actors Guild, the Hollywood blacklist is not mentioned nor are the tumultuous labor disputes in the film industry after World War II.

At the time Reagan became President of the U.S. many years later, his attitudes from the 1950s were reflected in his administration’s labor-relations policies. By that time, at least in the private sector, unions had declined significantly from what they were when the broadcast was recorded. So it can’t be said that the decline was caused by the Reagan administration. It can be said, however, that Reagan era policies reinforced the already-notable decline. And it can also be said that Boulware had much to do with Reagan’s change in viewpoint from a liberal Democrat.³

³ You can hear Reagan campaigning for President Truman in 1948 at http://www.youtube.com/watch?v=uJDhS4oUm0M.
Mitchell’s Musings 1-28-13: Playing Games or Serious Business?

Daniel J.B. Mitchell

The recent news that the firm Atari is declaring bankruptcy is a reminder that “the latest thing” can turn out to disappoint expectations. In the 1980s, Atari – a computer game manufacturer – was seen as the latest thing. It was prominently featured in the 1982 futuristic film *Blade Runner* which envisions a technologically advance, but very polluted, Los Angeles of 2019, shown in the pictures on this page. The year 2019 is now only six years away and it is safe to say that we won’t be doing routine interplanetary travel by then or have the bio-tech knowledge to produce “replicants” who will work on other planets (except when they escape to Earth and have to be hunted down).

Not only was the name Atari prominent in *Blade Runner*, it also became prominent as a political appellation. There were “Atari Democrats,” a group of Democrats who were regarded as somehow tech-savvy and modern in contrast to old, New Deal-style Democrats.

All of this old history came to mind during a debate which is taking place at the University of California, in part thanks to California Governor Jerry Brown who has been pushing online higher education in his role as an *ex officio* Regent of the university. Brown never was considered an Atari Democrat; he served too soon when he was governor the first time in the late 1970s and early 1980s. And by the time he was back as governor in 2011, no one used that term any more.

In essence, there has been much excitement about the use of online education but varied different reasons. And, like their earlier dot-com counterparts, private firms have gotten into the online higher ed business but have yet to figure out how to make money from it. Online courses are nowadays called MOOCs for “massive open online courses,” because potentially tens of thousands of Internet users could take a course.
Many details remain unresolved, however, ranging from logistics – how do you establish identity so that the person taking the course is who he/she purports to be? – to grading – exactly who will grade tens of thousands of exams? There are issues as to how much learning occurs in a purely Internet-based course.

In short, it may be early to get excited about MOOCs or variants as solutions to the rising costs of higher education or creating greater access to higher ed. One is reminded of the radio parody by comedian Harry Shearer about “Zilch dot-com” from the height of the dot-com boom in which an entrepreneur is peddling the idea of a dot-com that does nothing but raise money for the day when it figures out something to do. (To hear about Zilch dot-com, go to https://www.youtube.com/watch?v=e7xilzcYRpA.)

One of the issues about MOOCs is that the idea actually has a long history, a history pre-dating the Internet. When I was growing up in the 1950s, if you got up early in the morning, you could tune your black-and-white TV to “Sunrise Semester,” a program that came on around 6 AM in the morning. There you would find a professor giving a learned lecture as part of a college course. There were mechanisms to register for the course, buy the textbook, and take a final exam at the end. If you passed the exam, you received college credit.

Now it’s true that TV signals don’t reach around the world the way the Internet does. But such signals in the 1950s could reach millions of potential viewers. And even before video tape became available to TV stations, kinescopes of the programs could in principle have allowed the programs to be broadcast in different regions by different stations. Never heard of Sunrise Semester? Take a look and learn about Proust: http://www.youtube.com/watch?v=5_QMw6qH9k And, oh yes, when radio came along in the early 1920s, a station at Tufts broadcast college courses.4

Over the years, the notion of video recording classes has come and gone and then returned again. In the 1970s at the UCLA management school, I can remember an effort to videotape certain classes with the idea that MBA students could just watch the tapes by checking them out of the library and then pass exams. At the time, video tape technology was becoming available and economical for business and home use – it was the latest thing. My recollection is that a good deal of money was spent on this effort. I have a dim memory that there may have been outside grants to make the tapes. (Ford Foundation?) Anyway, the tapes ended up in a draw somewhere. Students weren’t interested.

When video conferencing became more feasible in the 1990s, there was a push for “distance learning.” And, yes, UC put money into that approach, too. Students on one UC campus would be able via video conferencing to enroll in courses at another campus. But even the phrase “distance learning” seems to have vanished. Where are all of those courses now?

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4 http://www.bostonradio.org/essays/wpi
So is online ed – now the seeming latest thing – really going to do what *Sunrise Semester* and course video taping and course video conferencing didn’t do? Or will the firms touting such online efforts end up like the many dot-coms that seemed exciting in the 1990s, i.e., defunct in the 2000s?

If there is any lesson from the dot-com era, it is that before universities jump into MOOCs and related course delivery systems, caution, patience, and limited experimentation should be the guidelines. Many dot-coms disappeared after the rush was over. But some survived. Amazon hemorrhaged money in the boom period but eventually established a viable business model. In the meantime, universities might ask themselves whether if online education is the answer, what the question is. Is it to reach people all around the world? Is it to make money by selling courses? Is it to cut the need for instructors and save money? Is it to make taking courses more convenient for students? What?

The impetus at the University of California seems to be about saving money. But exactly how much money might be saved seems not even to have been guestimated at this point. It has been said that rising tuition and increased student debt loads are on an unsustainable trajectory nationally and that there is a higher ed “bubble” developing which will eventually burst. It would be ironic – if that view turns out to be true – that what might well be another bubble is seen as the solution.

Obscured by the excitement about MOOCs and such is the fact that universities and university faculty have not shied away from use of technology for courses and other purposes. Faculty members have websites, communicate with each other and with students by email, show videos and PowerPoint slides in class, etc. Students register for course online and have electronic records. And all of these developments have occurred as tuition and student debt loads rose, in part to pay for the new technology.

It’s time to take a deep breath and let the online delivery of courses evolve.
Mitchell’s Musings 2-4-13: Collective Bargaining Suggests That Everything is on the Table

Daniel J.B. Mitchell

Younger readers may not believe it but in ancient times when I went to grad school, there used to be courses in collective bargaining. Yes, really! Even in the business school! Not only that, but the coursework got into legal issues related to collective bargaining such as mandatory vs. permissive subjects of bargaining. Under the Wagner Act of 1935, and carried through within subsequent legislation, unions and employers were required to bargain in “good faith” over wages, hours, and working conditions. Much attention was paid to what bargaining in good faith meant. But there was also a literature on what you had to bargain about as opposed to what you could bargain about (but didn’t have to).

The ambiguity arose in part due to the phrase “working conditions.” Eventually, “fringe” benefits such as pensions and health insurance were included under working conditions, even though these benefits were not explicitly described in the statute. Under the Wagner Act, neither side is compelled to concede to the other over demands on wages, hours, and working conditions. So the bargaining obligation translated into the notion that you negotiated in good faith but could legitimately bargain to an impasse (no agreement) and then you could take economic action, e.g., the union could strike to try to pressure the employer. Anything that could be construed as wages, hours, and working conditions was considered a mandatory subject, bargainable to an impasse.

There were still other issues classified as permissible. These issues were items that were otherwise legal to discuss but were not considered as wages, hours, and working conditions. An example could be a pension benefit improvement for workers already retired. Since they were not active workers, retirees’ pensions could not be considered working conditions. Still, there was nothing illegal about a pension improvement for the already-retired. And so a union could ask an employer to make such improvements but could not bargain to an impasse over that topic.

Now economists reading about this distinction – mandatory vs. permissible – might well be puzzled. If there is a package being negotiated involving a variety of mandatory and permissible subjects, couldn’t a union ask for something permissible but then strike ostensibly over a mandatory issue? Couldn’t it, by winking and nodding, let the employer know that conceding on the permissible issue would lead to a settlement? I have a dim recollection of some literature indicating that despite the seeming fungibility of demands, the legal distinction between mandatory and permissible had some effect on bargaining outcomes. But the basic point to keep in mind is that there is some fungibility. And back in ancient times at least, unions did sometimes get pension improvements for their already-retired members even though technically they couldn’t use their bargaining power to obtain them. We know that such improvements occurred. So apparently employers were willing to make retiree pension concessions in the face of union bargaining power.

In past musings, I have noted that the world of collective bargaining provides some insights into the kind of negotiations going on in Washington over fiscal cliffs, debt ceilings, and sequesters. So far, we have
had a confrontation on the fiscal cliff which was resolved around New Years. In a sense, it was a classic of collective bargaining and the timing was predictable. As we have noted in earlier musings, the logic of such bargaining leads to midnight settlements at the deadline – which essentially is what occurred. And the deal gave both sides some talking points to allow them to say they had not backed away from past assertions of what was acceptable. The deal preserved most of the Bush tax cuts but although the President had said he wanted the cuts for those with incomes above $250,000 to be terminated, the figure was pushed to $400,000. However, certain elements of a phase out starting at $250,000 were included. So in the end the President could point to retaining the $250,000 figure (in some fashion) while the Republicans could say they preserved more of the Bush tax cuts than the President wanted.

Beyond the cliff, however, was the debt ceiling. On the debt ceiling, the President took the position that the ceiling was essentially non-negotiable. It was not acceptable for the U.S. to be unable to pay its bills, etc. One lesson from collective bargaining is that once you declare something to be non-negotiable – which translates into saying that there will be no concession on that item, never, ever – you had better stick to that position. As we have noted, collective bargaining is a repeat game. If you say “never” about some item but later concede it, your credibility the next time you say “never” will be much eroded.

But even if you stick to the never position, the fungibility of items on the bargaining menu comes into play, as it does with the mandatory/permissible distinction. Saying never when there is a package on the table may insulate the one item about which never is being proclaimed. But you are nonetheless negotiating a package and there is a relative balance of bargaining power. So saying never on one item may mean more concessions on something else. In that sense, everything is being negotiated, even non-negotiable items.

At this point in time, the debt ceiling issue was put off until mid-May in a House-Senate deal, so the President was not tested on his “never” concerning that issue. But the issue is hardly settled and in the larger sense the debt ceiling is within the negotiations package even if it is somehow non-negotiable. Indeed, there is a wider negotiation going on that goes beyond fiscal and debt issues. The House remains in Republican hands. And the Senate – since the 60 vote for cloture rule remains largely untouched – remains a hurdle for the President even though it has a Democratic majority.

A recent court ruling has declared certain presidential recess appointments, including those involving members of the NLRB, to be invalid. The Obama administration has said it will appeal to the Supreme Court, which might decide not to take the case or might decide to uphold the lower court ruling. Since key presidential appointments must be approved by the Senate, overall Presidential bargaining power was essentially reduced by the court ruling for now.

In short, even if the debt ceiling is off the table, it remains part of the package of items in play. In the end, every item is on the table, even when one or more are ostensibly off. However, there is a key difference between collective bargaining and the kind of negotiations going on in the political world. Even though collective bargaining is a repeat game, it typically comes in intervals. Once a contract is
signed, bargaining ends until the date of the contract’s expiration approaches. Often the contract duration is multiyear, 2 or 3 years or more. In the political world, there is no hiatus corresponding to the typical union-management contract duration. Negotiations are almost continuous and maintaining credibility from moment to moment is therefore important. Any slippage from a proclaimed “never” will have negative repercussions almost immediately. The lesson from collective bargaining is don’t say never unless you mean it.

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A nice thought from a stamp...

But be careful about what you concede.
Mitchell’s Musings 2-11-13: It Depends on How You Look at Things

Daniel J.B. Mitchell

Shortly after World War II, a children’s record was released called “The Churkendoose.” The story involved a chicken egg which was sat on by a chicken, turkey, duck, and goose, producing an odd bird that was a mix of all four. (Never mind the genetics!) The lesson for kids was supposed to be tolerance. The bird was different from the other birds as a hybrid and initially was rejected but was eventually accepted by the others after doing some heroics. On and off throughout the recording, the narrator, Ray Bolger (who played the Scarecrow in the Wizard of Oz movie), returns to the song-refrain, “It depends on how you look at things.”

That theme came to mind when I came upon a survey conducted by the California Business Roundtable about the business climate in the state. You can guess the result. Lots of grumbling. The survey is a little vague on methodology. We are told:

• 1,142 California Business Leaders completed the survey from November 7 through December 26 of 2012.

• For this study, “Business Leaders” are defined as chief executive officers, chief operating officers, chief financial officers, business owners, and partner-level management.

• Qualified participants were invited to participate in a survey on “helping to shape the future of our state.” The survey was conducted online.

• The participant sample was weighted by industry, geography, business size, and minority ownership to reflect the California business community.

There is no indication of the universe that was sampled (just members of the Business Round Table?) or what the response rate was. There was a degree of framing, a push-poll. Since the survey was designed to help “shape the future of our state,” the implication was that you want to point to faults that should be fixed. The weighting statement is unclear. Does it mean that the weights relate to the number of respondents by industry, etc.? Or does it mean that the responses were somehow weighted by the size (number of employees? sales?) in each division? (Are big firms given more weight than small firms?)

Now don’t get me wrong. Business leaders have legitimate gripes about the policy climate in California. It is an objective fact that the Great Recession hit California harder than most other states – in large part because the state was a center of the housing bubble and related mortgage shenanigans. It has had the third highest unemployment rate of all the states (behind Nevada and Rhode Island). So when the 62%

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5 You can hear it on the web at various locations including http://www.mp3chief.com/music/ray-bolger-the-churkendoose/

of the respondents – whoever they are and however they are weighted – say that things are worse in California than the rest of the U.S., one wonders why only 62% are willing to state something that is evident in official statistics. It would have been nice if the Roundtable had produced a separate subset of responses from respondents who had actual operations outside California. Maybe they would have had a clearer idea of what is going on outside the state.

But here is where things get dicey. When asked about their activities in 2012 (the poll was taken in late 2012), the respondents report net job contraction:
The problem is that this result does not square with employment figures for the state. Somebody must be hiring in California because nonfarm payroll was up on a December-to-December basis by 225,900 according to the latest Bureau of Labor Statistics release.\(^7\)

States with statistically significant employment changes from December 2011 to December 2012, seasonally adjusted

<table>
<thead>
<tr>
<th>State</th>
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<th>December 2012</th>
<th>Over-the-year change (p)</th>
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<td>1,619,500</td>
<td>1,639,000</td>
<td>19,500</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>5,712,800</td>
<td>5,751,500</td>
<td>38,700</td>
</tr>
<tr>
<td>South Carolina</td>
<td>1,840,400</td>
<td>1,879,100</td>
<td>38,700</td>
</tr>
<tr>
<td>Tennessee</td>
<td>2,673,500</td>
<td>2,709,900</td>
<td>36,400</td>
</tr>
<tr>
<td>Texas</td>
<td>10,643,200</td>
<td>10,904,000</td>
<td>260,800</td>
</tr>
<tr>
<td>Utah</td>
<td>1,223,000</td>
<td>1,260,100</td>
<td>37,100</td>
</tr>
<tr>
<td>Virginia</td>
<td>3,702,700</td>
<td>3,734,000</td>
<td>31,300</td>
</tr>
<tr>
<td>Washington</td>
<td>2,834,000</td>
<td>2,885,700</td>
<td>51,700</td>
</tr>
<tr>
<td>West Virginia</td>
<td>760,800</td>
<td>746,900</td>
<td>-13,900</td>
</tr>
</tbody>
</table>

p = preliminary.

Unless there was a rash of new businesses formed in California or new businesses from elsewhere entering the state, the folks who answered the survey – if they were indeed representative of state

\(^7\) [http://www.bls.gov/news.release/laus.nr0.htm](http://www.bls.gov/news.release/laus.nr0.htm)
employers — must have been doing net hiring, not net contracting.\(^8\) It is very unlikely that most of the California employment increase came from new businesses or new business entrannts to the state. Much of what occurs when employment expands is that existing employers create more jobs.

Of course, the figures above are in absolute terms, not percentage rates of job growth. But when we look at the data in relative terms, California in 2012 expanded pretty much at the national average rate:

<table>
<thead>
<tr>
<th>Percent Nonfarm Payroll Employment Change, December 2011 to December 2012: All States With Statistically-Significant Change</th>
<th>Percent Change 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Dakota</td>
<td>3.6</td>
</tr>
<tr>
<td>Utah</td>
<td>3.0</td>
</tr>
<tr>
<td>Arizona</td>
<td>2.7</td>
</tr>
<tr>
<td>Montana</td>
<td>2.6</td>
</tr>
<tr>
<td>Texas</td>
<td>2.5</td>
</tr>
<tr>
<td>Colorado</td>
<td>2.3</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>2.2</td>
</tr>
<tr>
<td>Idaho</td>
<td>2.2</td>
</tr>
<tr>
<td>South Carolina</td>
<td>2.1</td>
</tr>
<tr>
<td>Indiana</td>
<td>2.0</td>
</tr>
<tr>
<td>Hawaii</td>
<td>2.0</td>
</tr>
<tr>
<td>Minnesota</td>
<td>1.9</td>
</tr>
<tr>
<td>Georgia</td>
<td>1.9</td>
</tr>
<tr>
<td>North Carolina</td>
<td>1.8</td>
</tr>
<tr>
<td>Washington</td>
<td>1.8</td>
</tr>
<tr>
<td>Ohio</td>
<td>1.8</td>
</tr>
<tr>
<td>Kentucky</td>
<td>1.6</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>1.6</td>
</tr>
<tr>
<td>California</td>
<td>1.6</td>
</tr>
<tr>
<td>Missouri</td>
<td>1.5</td>
</tr>
<tr>
<td>New York</td>
<td>1.4</td>
</tr>
<tr>
<td>Tennessee</td>
<td>1.4</td>
</tr>
<tr>
<td>New Jersey</td>
<td>1.2</td>
</tr>
<tr>
<td>Louisiana</td>
<td>1.2</td>
</tr>
<tr>
<td>Oregon</td>
<td>1.2</td>
</tr>
<tr>
<td>Virginia</td>
<td>0.8</td>
</tr>
<tr>
<td>Florida</td>
<td>0.7</td>
</tr>
<tr>
<td>Illinois</td>
<td>0.7</td>
</tr>
</tbody>
</table>

\(^8\) The figures on the table include government as well as the private sector. But in California, as in many other states, government employment was shrinking during 2012.
Pennsylvania..................|  0.7
West Virginia..................| -1.8
Total                      |  1.6

So the worst you can say about California in 2012 is that it did about average for the nation – which as is well known was not all that good. The U.S. expansion after the Great Recession bottomed out has been anemic.

Survey respondents were asked about the November 2012 election and its impact on whether they would expand or contract jobs in the future. It is ambiguous whether the question refers to the national election as well as to the state results or whether just the state results are being referenced. Since the survey is aimed at California, probably the intent was a reference to the state results. And what were those results?

Voters raised taxes, especially at the top bracket of the income tax under an initiative put on the ballot by Democratic Governor Jerry Brown. And the minority Republicans in the legislature lost enough seats so that the Democrats now have a two-thirds “supermajority.” That result means that in theory, Republicans can no longer block Democrats from raising taxes or taking other actions that require a two-thirds vote. In short, the result of the election doesn’t seem to be the kind of outcome business folks would like.

However, survey respondents are split roughly 50-50 on whether the election will have a negative effect on their job creation in the future or whether it would have no impact or a positive impact. Of those in
the no impact or positive impact camp, they are also roughly evenly split. So, indeed, even with what was likely intended to be a push-poll on the business climate, “it depends on how you look at things.”

Now the Churkendoose didn’t exactly come out of nowhere. It started as a chicken egg but then others took part in the hatching process. So who hatched the egg that produced the state election outcome for Republicans in California? Republicans in California, as elsewhere, were once seen as a business-oriented party. And California, like any polity, needs effective competition in elections. But in California, there is not one major statewide Republican office holder. The governor, the lieutenant governor, the treasurer, the controller, and the secretary of state are all Democrats. If the California Business Roundtable is unhappy with the economic and political direction of the state, its members might ask themselves how they let “their” party develop in ways that no longer allow much influence on state policy. Maybe next time a survey on that question would be useful.
Irving Fisher (1867-1947), the famed Yale economist, is usually viewed as the man who coined (pun intended) the phrase “money illusion.” In his case, the phrase referred to the stickiness of the nominal currency unit (such as the dollar) in the face of inflation. That is, even when general price changes cause the purchasing power of the currency unit to change, people tend to “think in” the currency unit. One result is that in the face of inflation, wages or government benefits may be eroded since they are set in nominal dollars, not purchasing power.

There are some exceptions, for example Social Security payments are indexed to the Consumer Price Index (CPI). But the fundamental point remains. The fact that there is nominal stickiness ultimately is why changes in exchange rates have effects on the volume of exports and imports. If money were simply a veil over a world of barter, changing the value of the dollar against, say, the euro or the yen, would have no real effects on international trade. But we know that such changes do have effects. I point to this fact because of a recent item about the lower house in the Virginia legislature voting to study issuing state gold coins, just in case the U.S. monetary system collapses into hyperinflation.

The fact that people “think in” their own currency is a reflection of a reality – something that has long characterized modern economies – which Americans in particular have long had a problem in understanding. I am at this moment looking at a dollar bill I pulled from my wallet. Why do I accept that piece of paper has special value? There is a statement on it that “this note is legal tender for all debts, public and private.” Is that why I accept it? It has the signature of Timothy Geithner on it. Should I continue to accept it? Didn’t he resign as Treasury Secretary? It also has the signature of the

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9 Behavioral economic evidence suggests that people think nominal wage cuts are unfair, but if the same de facto cuts arise from inflation, they are more likely to view them as fair. If I cut your nominal wage by 10%, it is unfair. If prices rise by 10% but your nominal wage is unchanged, that is fair.


11 An earlier musing – A Lesson from Mr. 880 – made many of these points in 2011. Apparently, they need repeating, at least in Virginia. See [http://www.employmentpolicy.org/topic/10/blog/mitchell%E2%80%99s-musings-6-20-11-lesson-learned-mr-880](http://www.employmentpolicy.org/topic/10/blog/mitchell%E2%80%99s-musings-6-20-11-lesson-learned-mr-880)
“Treasurer of the United States.” Did you know we had a Treasurer (as opposed to the Secretary of the Treasury)? What exactly does the Treasurer do? Do you need both signatures to make the bill valid? This particular bill has an H on it inside a set of two circles. The writing within these circles says the H means it is from the Federal Reserve Bank of St. Louis, Mo. But I don’t live anywhere near St. Louis and in fact am in the Federal Reserve district overseen by the Federal Reserve Bank of San Francisco. So is this bill worth the same as one that came from the San Francisco Fed?

The fact is that I accepted this bill without really looking closely at it and certainly without asking any of these questions. Basically, I accepted it because I knew that if I wanted to pay somebody else with it, that person would accept it. On the other hand, if I went to my local grocery and attempted to pay in euros, the clerk probably wouldn’t accept them, even though the euro is as valid a currency as the dollar.

People work hard for their dollars. Some steal and murder to get dollars. It is hard to accept the fact that the dollar is a social convention, akin to shaking hands, given these life experiences. When I greet someone, I extend my right hand. The other party reciprocates. We don’t typically rub noses to show affection as Eskimos reportedly do. In business settings, I am likely to wear a jacket and tie. In other settings, I probably won’t. If I didn’t wear a jacket and tie in a setting where I am expected to do so, I would stand out – because I am not doing something that is expected. Yet shaking hands, rubbing noses, or wearing ties are all arbitrary social conventions. Somehow, however, it is harder to deal with the concept of the dollar as a convention than it is a tie.

There may be an historical explanation. Currencies emerged as a way of easing transactions which otherwise would have to be done entirely through barter. Gold and silver – which had value because of their physical properties which appeal to humans – were widely used. The gold standard evolved from this long history. Bank notes issued by private banks represented units of gold or silver. Eventually, central banks evolved and were given special powers. Gradually, the nominal currency unit came to have significance independent of the gold or silver quantity it was supposed to represent. Through an historical process that varied from country to country, the “backing” of currencies with metals disappeared.

Despite the common thread of this story among various countries, Americans in particular – or at least some subset of them - seem hung up on the idea that money should be “real.” It’s not clear exactly what makes gold or silver real, however. I suspect a chimpanzee would prefer a banana to a gold coin. Human beings like to appearance of gold or silver (and more recently such characteristics as being good electrical conductors). There is an arbitrary element even to what is meant by “real” or valuable. Some survivalists seem to think that when society collapses from (pick your favorite explanation/cause), gold will have value. If society collapsed – presumably triggering mass starvation – would survivors have a special interest in making jewelry? Or would they, like the chimpanzee, prefer the banana?

Over the years, the U.S. has had various monetary movements (some based on conspiracy theories) that ultimately are linked to disquiet over the concept of money as a social convention. Central banks that
create money are seen as suspicious because if money has to be “real,” how can it be just created? During the era of the Great Recession, the Fed has been under attack because it appears to be “bailing out” the financial system – unpopular in itself for obvious reasons – and doing so by creating money out of nothing.

The Fed has vastly increased its holding of various securities simply by writing checks. (Figure 1) Some folks see that activity as deviant because, unlike the Fed, as individuals we are not allowed to write checks unless there are “dollars” (what are those, again?) in our account to cover those checks. And when the Fed buys securities, it also increases the money supply. Let’s put aside the conundrum of exactly what is meant by “money supply” in a world in which there are many liquid assets that can easily be converted into dollars. Whatever it means, someone in a college economics course probably said that increasing the money supply could cause inflation and used some neat phrase such as “too much money chasing too few goods” to make the point. (Figure 2 shows the monetary base.)

Figure 1

![Composition of Federal Reserve Assets](image1)

Figure 2

![St. Louis Adjusted Monetary Base (AMBSL)](image2)
If you are schooled in the idea that there inevitably will be hyperinflation, then you will likely assume that some kind of monetary collapse or crisis is coming. But, as we have noted in prior musings, when you look at what the financial markets are predicting (as measured by the difference in yields between conventional Treasury securities and CPI-inflation adjusted Treasury securities), the expectation remains well below 3% per annum, even over 30 years. Part of the reason for this view that a crisis is not coming is due to the short run fact of a soft economy and high unemployment – conditions not conducive to wild price raising. Part of the reason is the assumption is that what the Fed has wrought in terms of security purchases, it can undo by security sales.

Figure 3

Nonetheless, what about gold – to be coined by the State of Virginia – as an alternative currency? Note that it is perfectly legal right now to hold, purchase or sell gold coins. You can buy South African Krugerrands, Canadian Maple Leafs, American Gold Eagles, etc. You can mint your own coins, if you have the equipment, and sell them, based on their weight. (You probably can’t call them “dollars” but you could make up some other name or simply put the weight on the coin.) So if Virginia wants to get into the act and issue a coin with some name on it – Virgins or maybe Virginia Reels? - it can do so. But why would a gold buyer/holder – other things equal – prefer Virginia coins to any of the others?

Let’s assume that Virginia issued its Virgins and defined them in terms of weight. Let’s suppose further than somehow people stopped using the dollar, took the Virgins to heart, and began to “think in” Virgins the way they currently think in dollars. In effect, the new currency would bounce up and down relative to other currencies depending on the price of gold in world markets.

That price is quite volatile as Figure 4 shows. Since 2000, the price of gold in dollars has risen over five fold. During the past year or so, the price has varied from close to $1,800 per ounce to well below $1,600 per ounce. The new currency would be rising and falling relative to other currencies with these fluctuations. In fact, what is being proposed is not the old 19\textsuperscript{th} century gold standard since other currencies would not be defined in terms of gold. The essence of the old gold standard was fixed
exchange rates derived from “backing” major world currencies by gold. A unilateral gold currency is not a return to the past – even if you think that the past was some kind of (pun intended) Golden Age. Figure 5 shows how a hypothetical gold currency would have performed relative to the euro. Would anyone think that a tripling of the Virgin relative to the euro since 2000 would be good for exports that were priced in Virgins?

**Figure 4**

![Gold Fixing Price 3:00 P.M. (London time) in London Bullion Market, based in U.S. Dollars (GOLDPMGSD228NLDM)](source: London Bullion Market Association)

**Figure 5**

![Gold Fixing Price 3:00 P.M. (London time) in London Bullion Market, based in Euros (GOLDPMGSD230NLDM)](source: London Bullion Market Association)

Of course, there isn’t going to be any conversion from the dollar to the Virgin, whatever the State of Virginia decides to do. So is there any harm to Virginia issuing its own gold coins? The main harm is that
it fosters ignorance, ignorance of how a modern economy works and how a modern central bank works. It fosters erroneous understandings about the economy and monetary policy which are already widespread. Back in the early 1980s, President Reagan was facing demands from his party for some kind of return to gold. He formed a Gold Commission ostensibly to consider the idea. But he stacked it with folks who recognized the foolishness of the idea but who went through the motions of studying the issue to placate those who longed, then as now, for a gold-based currency. The Commission then issued a report saying it wasn’t a good idea. It’s not clear the Virginia legislature will be that wise.
Mitchell’s Musings 2-25-13: JFK’s Striking Intervention

Daniel J.B. Mitchell

From time to time in these musings, we have gone back in time – often via secret White House recordings – and examined the past relationship between presidents and organized labor. Presidents are apt to become interested in labor disputes only when they have potentially far-reaching economic effects. Nowadays, with unions in a diminished condition, the only industries in which a strike might provoke presidential interest are railroads and longshoring. Readers may recall that President George W. Bush intervened in a West Coast longshore lockout/dispute – using the Taft-Hartley’s National Emergency Disputes provisions – in the early 2000s. That intervention was really the most recent presidential episode of intense interest in union affairs.

In earlier periods, when unions represented a much larger fraction of the private workforce than they do today, it was still the case the big disputes with economic ripple effects were the ones likely to be the target of presidential interest. Strikes or potential strikes in “key” industries such as steel or autos – as well as railroads and longshore – were seen as damaging to the economy. The damage might be from the halt in production and its direct and indirect impacts on other sectors. Or presidential interest might be triggered by fears that a union settlement might contribute to inflation.

One strike, however, deviates from these concerns. In 1962-63, there was a 114-day strike in the New York City newspaper industry. At that time, New York had five daily papers: The New York Times, the Daily Mirror, the Daily News, the New York Post, and the Herald-Tribune. The dispute involved money but also fears of what was then termed “automation.” In the newspaper industry, the fear of workers was the appearance of computerized typesetting on the horizon. The main union in this dispute was Local 6 of the International Typographical Union (ITU). The parent ITU had a very long history; in the 19th century, printers had a skill that was very helpful in organization and coordination: literacy. Local 6 by the 1960s had developed a tight grip on the newspaper industry in New York.

However annoying the prolonged strike was to newspaper readers in New York, it would be hard to view that local work stoppage as a national emergency. Nonetheless, 75 days into the strike, President Kennedy devoted a portion of a press conference to a strong statement urging some kind of third-party intervention in the dispute. In principle, President Kennedy could have been concerned about the eventual settlement of the strike as violating his voluntary anti-inflation wage-price guideposts program. But it does not appear that inflation was the reason for his interest, even though the settlement soon raised the cost of a paper from five cents to a dime.
Although the strike was local, it did affect the flagship newspaper in the country, the New York Times. So the dispute was more visible than it might otherwise have been. One can only speculate on the cause of Kennedy’s interest. But by 1963, he surely was thinking ahead to 1964 and the re-election campaign that was impending. (Of course, he never got to run in that election because of his assassination.) The Democratic Party, as is still the case today, derived significant union support in election campaigns.

Kennedy had, in 1962, issued executive order 10988 granting limited collective bargaining rights to federal employees. The newspaper strike was bad press (pun intended!) for unions and bargaining, in part because of the personality of the key union leader involved, Bertram Powers, the president of ITU Local 6. Powers came across as intransigent and resisted pressures to settle, even from Elmer Brown, the president of his parent ITU. It may be that Kennedy feared that being seen in the 1964 election as being pro-union if unions were viewed by voters as misbehaving. The Kennedy people and other Democrats involved in the dispute – including New York City mayor Robert Wagner – were anxious to keep New York’s Republican governor, Nelson Rockefeller, out of the dispute. Rockefeller might plausibly have been seen as a possible 1964 Republican presidential candidate. At that point, it was not evident that Republicans would shift sharply to the right with the Goldwater candidacy.

In any event, a recording is available of the Kennedy press conference of February 21, 1963 at which he called for some unspecified third-party intervention in the newspaper dispute. There are also recordings of phone calls between Kennedy and mediator Theodore (Ted) Kheel on March 2, Willard Wirtz (Secretary of Labor) on March 6, and Mayor Robert Wagner on March 8 (reporting a tentative settlement of the strike). I have posted these recordings on YouTube at https://www.youtube.com/watch?v=qW9ssApaxXg. Apart from the presidential press conference, the recordings are from Dictabelts which produce background noise but are nonetheless audible. The individuals to whom Kennedy was speaking were unaware their conversations were being recorded.

Names of individuals referenced in the recordings - apart from President Kennedy and those mentioned earlier - are Harry Van Arsdale, President, New York City Central Labor Council, AFL-CIO; Phil Graham, publisher of Washington Post (who inserted himself into the process); William Haddad, Peace Corps official (it is unclear why he was involved); Jacob Javitz, Republican Senator from New York; Dorothy Schiff, publisher of the New York Post (who broke away from the other publishers during the strike and resumed publishing under a side deal with Powers); and Walter Thayer, publisher of the Herald-Tribune.

There is no deep lesson from this episode, other than the one noted in earlier musings on presidents and unions: When unions represented a much larger fraction of the workforce than they do today, their affairs and impacts were seen as important enough to warrant ongoing presidential attention. In 1963, while in retrospect it is now apparent that the erosion of private-sector union representation can be seen, it was not so evident then. Some academics were beginning to raise that question but even to the extent it was being raised, the issue was more whether unions had reached some kind of saturation point rather than whether they were on a long-term decline. If there is a deeper lesson, it may be that there are surely trends today that we have yet to recognize but which will have long-run consequences.
Mitchell’s Musings 3-4-13: Agent! Agent!

Daniel J.B. Mitchell

The title of this musing has a dual role. Most readers will be familiar with the frustration of calling an automated answering system of, say, a credit card company, and not finding a way to resolve the problem from the programmed menu. You then yell Agent!, Agent! until a person comes on the line and (maybe) deals with your issue. Of course, the agent who eventually responds is not your agent, but rather an agent of the company you are calling. That person – presumably – is doing what the company wants, not necessarily what you want.

Agency, in law and economics, refers to someone – often an employee – who represents and works for someone else. The issue is how to induce the agent to do what the employer wishes. Often the choice is simplified to supervision vs. incentive pay. But that is overly simple. In many cases, supervision is not technically feasible. A truck driver, for example, is difficult to supervise when on the road. If you paid by the hour, the driver might “shirk” and take too long to make the trip. You can alternatively pay by mile – a fixed amount since you know the mileage entailed in a given trip – for the delivery. However, if you take that approach, the driver may speed, possibly causing an accident. We could go on thinking of clever ways to solve the agency problem and try and specify just the right incentive. But, in the end, there will be trade-offs. No approach to solving the agency problem works “perfectly,” however that ideal might be defined.

Much of the focus of management revolves around getting the help to do the right thing. In the late 19th and early 20th century, Taylorism and scientific management was applied to factory workers. Time-and-motion studies were supposed to prescribe the exact body motions needed to complete a task. So a supervisory element was involved (at a cost). Piece rates were used to provide an incentive to complete the task quickly in the specified manner with an extra reward for exceeding some norm. Although Taylorism went out of fashion in academia, the approach - under whatever name - persists:

Part 1: http://www.youtube.com/watch?v=EftYWQOs_cU
Part 2: http://www.youtube.com/watch?v=H8gioKjrFwk

In the World War I era, Ford famously applied the time-and-motion element of Taylorism with what is now called an “efficiency wage,” i.e., a pay premium above the market norm for the kind of work involved. With an efficiency wage, workers will know that if they fail to meet standards, they will lose their job and thus the premium:

Part 1: http://www.youtube.com/watch?v=PvbG9Sjp97o
Part 2: http://www.youtube.com/watch?v=kFsBCO_Uglg

Once you move beyond factory work, these approaches become less feasible, even for relatively unskilled jobs. As you might suspect, the videos listed above are all from a course I used to teach on
labor markets. Below is a link to another video I used to use, this one depicting a fast food restaurant in Britain. The video is an excerpt of a program in which the CEO of the fast food chain – who happens to be French - works in the restaurant to see how the service is actually delivered on the front line.

The chain uses “mystery shoppers” (at a cost) to visit the local restaurants in its network to see if quality/service standards are being met and also to reward employees who provide those service standards.  http://www.youtube.com/watch?v=EfdW6mgBEG0 In this case, the standard is met by the CEO/worker who gets a bonus reward (at a cost). But he is in reality part of a team that made his timely service possible and the other workers on the team resent the fact that only one team member received the award. It also turns out that there is also group reward provided by the chain in the form of a night out at a (presumably higher class) restaurant. But the store management did not disclose the reason for the outing to the team. Apparently, better training of store managers is needed (yet another cost) to make the team reward program operate as designed.

OK. You get the point. The agency concept is easy to state in the abstract but hard to implement in practice. There will inevitably be costs and trade-offs. But the fact that perfection is never on offer doesn’t mean that in any organization improvements aren’t possible.

All of this introduction is inspired by the recent news that at Yahoo a memo leaked out telling employees that working from home would no longer be an option and that work in the office would soon be required. The memo doesn’t cite direct supervision as the rationale; instead, it refers to better coordination. But it can be inferred that the memo from the head of HR a) had to be approved from the top – the CEO - and b) was at least in part based on the idea that if people are at home, how do you know how intensely they are working? I reproduce the memo below:

YAHOO! PROPRIETARY AND CONFIDENTIAL INFORMATION — DO NOT FORWARD

Yahoos,

Over the past few months, we have introduced a number of great benefits and tools to make us more productive, efficient and fun. With the introduction of initiatives like FYI, Goals and PB&J, we want everyone to participate in our culture and contribute to the positive momentum. From Sunnyvale to Santa Monica, Bangalore to Beijing — I think we can all feel the energy and buzz in our offices.

To become the absolute best place to work, communication and collaboration will be important, so we need to be working side-by-side. That is why it is critical that we are all present in our offices. Some of the best decisions and insights come from hallway and cafeteria discussions, meeting new people, and impromptu team meetings. Speed and quality are often sacrificed when we work from home. We need to be one Yahoo!, and that starts with physically being together.

Beginning in June, we’re asking all employees with work-from-home arrangements to work in Yahoo! offices. If this impacts you, your management has already been in touch with next steps. And, for the rest of us who occasionally have to stay home for the cable guy, please use your
best judgment in the spirit of collaboration. Being a Yahoo isn’t just about your day-to-day job, it is about the interactions and experiences that are only possible in our offices.

Thanks to all of you, we’ve already made remarkable progress as a company — and the best is yet to come.

Jackie [Jackie Reses, HR head]


The leak of the memo left the Silicon Valley (if I may pun!) all a-Twitter. It is often said that one of the virtues of the Internet is that you can work from anywhere. And the memo seems to go against that idea. It seems to say that if you work from home, you will likely shirk and that work monitoring is only to be had at the office. Even the New York Times on the other coast had to take notice.

So will the new policy solve the agency problem for Yahoo? Will it solve the larger problem Yahoo seems to have in competing with rival Google? Note that just having workers in an office by itself doesn’t resolve the agency problem, as Dilbert pointed out some time back:

Is there in fact a system in place that is supposed to do the monitoring that Yahoo’s top management seems to have in mind? The fact that a memo is sent out with “Confidential - Do not forward” on top – at an Internet firm! – suggests a lack of deep foresight into the consequences. Did no one foresee the bad PR that would result as news stories picked up on the difficulties the shift from home to office would pose for working moms? Or did these apparently unforeseen problems arise merely because of the lack of monitoring and coordination that the memo and the new policy are supposed to address?

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Here is a concrete problem that caused me to switch from Yahoo email to Google (Gmail). I used to have a Yahoo email account and in fact paid extra for larger storage. But one day it didn’t work and I receive a notice that the account was temporarily unavailable. This problem persisted on and off for several weeks. Contacts with the techies at Yahoo produced useless suggestions such as maybe I should change my password. (I did change it and the change did not resolve the problem.) So I switched to Gmail and have had no such problems since. My wife had a Yahoo account and ran into the same non-availability issue – so my technical problem was not a fluke. She also switched to Gmail.

Google does have a policy of having people working in proximity rather than at home and the new CEO of Yahoo came from Google. But is worker proximity why my Gmail account hasn’t developed a mysterious malady? Would my Yahoo mail problem have been fixed if all the Yahoo technical people had been at the office? Maybe they would have discovered a pattern of complaints about non-working email accounts in the coffee room. Or maybe not. But when an Internet company sends out a message saying “do not forward,” it doesn’t appear that anyone worked through alternative scenarios before a major policy change was announced.
Mitchell’s Musings 3-11-13: What Someone Forgot to Mention

Daniel J.B. Mitchell

Let’s think about pensions. I’m talking about traditional defined-benefit pensions, the kinds that are disappearing in the private sector and are the subject of controversy in state and local government. And let’s start in southern California. Below is an excerpt from an item (in italics) from the February 27 Orange County Register:

COSTA MESA – An outside expert on public employee pensions told the City Council Tuesday that it should take "drastic" actions to lower its retirement fund debt, which he said was slightly worse than neighboring cities. Joe Nation, a Stanford University professor and former state assemblyman, offered a bleak picture of some Orange County governments’ pension finances. While some California cities have declared bankruptcy or slashed public safety spending as retirement costs rose, nothing of the sort is imminent in Costa Mesa. But Nation told officials they should be more realistic about future risks.

"If you don’t deal with this, you won’t have anything that you care about," said Nation, a professor of public policy...¹⁴

In Nation’s report, the city with the highest unfunded liability – the difference between what it has promised current and future retirees and what it has set aside to pay them – is Newport Beach, when calculated on a per capita basis. It owes nearly $3,000 per resident, while Costa Mesa comes in second at just under $2,000...

Nation is actually what is called Professor of the Practice of Public Policy, what at many universities would be called an adjunct position. Such positions are often occupied by someone – in the case of public policy – who comes from a political background (as opposed to a tenure-track faculty member). But that background doesn’t mean Professor Nation has the wrong numbers. In fact, let us assume he is right about the $3,000 and $2,000 estimates, figures which apparently scared the civic authorities in Costa Mesa.

Nation in the past has gone along with the idea that since public pension obligations are legally ironclad, you should use the riskless long-term Treasury rate as a discount factor in calculating liability. In the past when such claims were made, the long-term rate was around 4%/annum but now it is around 3%. I don’t know for sure which rate was used to calculate the $3,000 and $2,000 figures. But it won’t matter much for our purposes.

Typically, unfunded pension liabilities are not paid off at once but over an extended amortization period. That is, the one thing that certainly won’t happen is that the city council of Costa Mesa will send a bill to each household of $2,000 per resident. Let’s suppose the payoff period is 20 years. And let’s then figure out what the annual payment would be if the

residents were charged a level nominal amount for 20 years. Turns out that for Newport Beach, the figure would be under $215/year whether we assume a discount factor of 3% or 4%. For Costa Mesa, the amount would be under $145/year. Both municipalities are above-average income cities so it is not quite accurate to say that they won’t have anything left that they care about.

For the average Newport Beach resident, we are talking about something like 0.3% of annual personal income to begin, an amount that would presumably decline as the flat nominal dollar amount was eroded by inflation. Costa Mesa is not so well off as Newport Beach, but its liability is less. So we are talking about something like 0.5% of personal income to start in that city.

These estimates do not mean that either jurisdiction should administer its pension obligations poorly. But they do provide a bit of perspective which someone forgot to mention, both at the city council and in the Orange County Register article.

Let’s move from local pensions to pensions at the national level. Below is another excerpt from a news article. I spotted this one in the Los Angeles Daily News – also on February 27 - although it appeared in various other newspapers around the country.15

Vast Majority Wants a U.S. Pension

NEW YORK (The Street) -- Here's an intriguing concept: Every American should have a pension. Far-fetched? Maybe not. A study shows the vast majority of U.S. adults (especially millennials, the generation of U.S. adults born after 1976) say the current retirement system is in major disrepair and needs an overhaul. To many Americans, a national pension plan is the way to go. Certainly, Americans are anxious yet underachieving toward their own retirements. A recent report out from HSBC (HBC) says Americans will spend 21 years in retirement but have enough only savings to get through 14 years. Thus, (there is a) relatively quiet but firm push for some sort of national pension plan.

According to the Washington, D.C-based National Institute on Retirement Security, 84% of Americans say they are in favor of a pension "for all Americans" and that Congress should act on the problem...

85% of Americans say they are "highly anxious" about their retirement prospects.

95% of millennials say the current retirement system is "under stress and needs repair."

90% of Americans support "a new pension plan that is available to all Americans, is portable from job to job and provides a monthly check throughout retirement for those who contribute."

67% of Americans say "it is a mistake to cut government spending in such a way as to reduce Social Security benefits for current retirees." ...

For younger Americans, the preference is for the retirements of their grandparents and definitely not of their parents, which appears to millennials to be in disarray, if not jeopardy...

So let’s see. Folks want a national pension plan. They want it to be available for all Americans. And they want it to be portable from job to job. I thought we already had such a plan and it was called Social Security, the very plan respondents don’t want to see cut. Social Security is a national defined-benefit pension plan for virtually all Americans. Indeed, what poll respondents seem to be saying is that they want Social Security to be enhanced, not just exempted from cuts. However, the article doesn’t make that (obvious?) point. We seem to have found yet another implication that someone forgot to mention.
Everyone likes to complain about the switch to Daylight Savings Time in the spring and the reversion to Standard Time in the fall. There are debates about the merits of the switch and histories of why the practice developed. But even if you don’t think there is a good reason to switch, the chances are that you changed your clocks to Daylight Time on March 10. Why? Because you knew everyone else would. You have to do what everyone else does if you are to coordinate with them for appointments, phone calls, or social engagements.

Indeed, just about everything that has to do with time involves a coordination element. It is arbitrary that the world standard time, Greenwich Mean Time or Universal Standard Time, is based in London – an artifact of the British colonial era. It is arbitrary that the International Dateline is where it is. The positioning of time zones is arbitrary. The same basic calendar is used around the world by countries that otherwise don’t get along with one another - even if they use different calendars for religious or other purposes. And the reason is always the same; everyone else does it. So you have to do it.

We divide the day into A.M. and P.M, Ante Meridiem and Post Meridiem, where Meridiem means midday or noon. When I have asked students to tell me what is “noon,” I typically get blank stares or answers such as 12 o’clock. But that is a symptom of how time is nowadays a matter of convention and coordination. Once upon a time, the answer would have been that noon is when the Sun is highest in the sky. Folks would figure out what time it was by using a sundial which was positioned so that it would point to 12 o’clock at observed noon. We have forgotten even the basic fact that it is the position of the Sun that is the traditional key time indicator – or at least that it was.

The story of how the U.S. got its time zones is pretty well known. Once there were long-distance railroads that went east-west, maintaining train schedules was difficult if every town along the way kept time by the observed position of the Sun and when someone thought it was noon. You don’t have to go very far east or west to find notable differences in observed noon.
My local newspaper, the *Los Angeles Times*, reports daily on sunrises and sunsets by county in its marketing area. Ventura County is both north and west of Los Angeles County. Because it is west, the Sun there rises and sets four minutes after it does in Los Angeles County, according to the *Times*. But both counties are in the same Pacific time zone and therefore both agree that on March 10, the day we converted to Daylight Time, sunrise was at 7:10 AM in Los Angeles County and 7:14 AM in Ventura County. Similarly, both counties would agree when noon on the clock was - even though it actually (by solar time) comes four minutes later in Ventura than in Los Angeles.

The classic film *High Noon* had a plot that depended on everyone in the town agreeing that railroad time, not solar time, was the standard. In the film, the bad guy is coming to kill the sheriff and will be arriving on the noon (railroad time) train. All of the clocks in the town agree that railroad time is the standard or a central element in the movie’s plot wouldn’t have worked. In the film, the sheriff goes from location to location – always with a clock shown in the background – trying unsuccessfully to round up a posse to confront the bad guy. We know what time it is and how much time the sheriff has left because clocks in the town are all synchronized to railroad time: https://www.youtube.com/watch?v=b6ne4uRTo-E. Everyone in town knows when noon officially is and therefore when the train will arrive.

The switch to and from Daylight Time and the fact that everyone goes along with it is – as prior musings have noted – a great teaching moment about money as a standard. Similarly, the fact that everyone within a time zone agrees on what time it is – and has forgotten that “real” time is solar time which differs from place to place – is a lesson about money that is always available. Only a month ago in a musing, I wrote about the old idea that money is only “real” when it is “backed” by gold. So you can regard this musing as a timely (pun intended!) continuation of that musing.

Money is always of interest and monetary policy is particularly relevant when the Federal Reserve is actively trying to steer the economy. At present, the Fed has been holding interest rates down to stimulate the economy, reduce unemployment, and support a rather sluggish recovery from the Great Recession. As part of its policy since the Great Recession developed, the Fed has been creating money and buying assets in very large volume and value. That action seems to be very bothersome to some people. How can money just be created? If it can just be created, maybe it isn’t “real.” But in fact money is as real a human creation as are Standard Time and Daylight Time.

Now there are certain standards that are arguably objective and don’t involve coordination. If you think it is too hot or too cold today, it doesn’t matter whether I tell you the temperature in centigrade or Fahrenheit. It will still be too hot or too cold. The distance between New York and Chicago is the same whether I use miles or kilometers to describe it. The only coordination

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element is that if we are in the U.S., I am more likely to describe temperature as Fahrenheit and distance as miles because you are more likely to be familiar with those measurements.

But you really can’t say the same thing about money. Ultimately, values – unlike temperatures or distances - are subjective. Even gold – whose value fluctuates from day to day, not just in dollars but in terms of what it will buy of other commodities – has a subjective value.

On March 10, when we switched to Daylight Time, we did so because Congress said we should and because we all assumed that everyone else would go along with the standard. We did not do it because the Sun suddenly changed its position in the sky and shifted “true” noon. That is, there is an official authority in charge of time standards and the time system works because we believe it. It is also Congress that determines that our national currency is the “dollar.” It is Congress that established the Federal Reserve and authorized it to be a central bank and have the power of money creation.

Now I know there will be some who will find this exposition very upsetting. In one camp are those who believe that the Fed’s monetary creation in response to the Great Recession and the sluggish recovery will inevitably lead to a Great Inflation. I can’t tell you for sure it couldn’t happen. But I can tell you that financial markets aren’t predicting a Great Inflation. If a Great Inflation were predicted by the markets, long-term bonds would be at a Great Discount compared to their current pricing. A 30-year conventional Treasury bond at present will give you a yield of around 3%/annum. The market would not price those bonds consistent with that low yield if the consensus was that a hyperinflation was coming that would substantially erode the bond’s maturity value. But if you think you know better, by all means find some clever financial strategy to short those bonds.

A second camp is less concerned with inflation and more concerned with the gut feeling that it just isn’t right that money should be based on something as intangible as I have been describing. For those folks, all I can say is that I wish I could help you feel better. And I sincerely hope you can get over it. But if not, by all means put all your assets into gold. Or maybe that should be zinc? Or crude oil? Or pencils? Come to think of it, if it is really a gut feeling that drives you, maybe you should put your assets into pork bellies. Anyway, good luck, whatever you do.
Earlier this month, the UCLA Anderson Forecast held its quarterly conference. A day before the public event, there was a special private seminar for selected Forecast supporters which dealt in part with the California state budget. I was a panelist in one session and an interesting point was made. The state budget projections that have been made by the relevant state agencies assume continued economic recovery over the next few years, albeit not a stellar recovery by past standards. However, the post-World War II record of the U.S. business cycle suggests that there is a recession at least every ten years or so and often more frequently. The Great Recession officially bottomed out (ended) in 2008 and we are now in 2013, i.e., we are getting to the midpoint of the ten-year period.

The UCLA Forecast did not project a recession in the next few years and there is nothing sacred about the ten-year limit. On the other hand, one can easily tell stories about conditions currently present or on the horizon that could conceivably evolve into a recession. There is the ongoing euro austerity and periodic crises in the EU. Negative shocks could thus come from abroad, not only through the export channel but also possibly affecting financial institutions. There is the ongoing political gridlock in Washington that could block an adequate response to such a shock, even if it were initially mild. The Federal Reserve will also come under new management when Ben Bernanke’s term expires; under the next regime, we may not see Bernanke’s aggressive willingness at the Fed to try and offset negative shocks.

Roughly coincident with the UCLA Forecast, the National Center for Employee Ownership (NCEO) recently released a study indicating that layoff rates seem to be lower in firms characterized by employee share ownership compared with other firms: [http://www.nceo.org/assets/pdf/articles/EQ_Costs_of_Unemployment.pdf](http://www.nceo.org/assets/pdf/articles/EQ_Costs_of_Unemployment.pdf). It is unclear what the cause of the difference is between share firms and others. NCEO would naturally like to attribute lower layoffs to the institution of share ownership. Its study provides a bit of control by looking just at layoff rates among employees with more than one year of tenure and finds the same difference, i.e., lower layoff rates among share ownership firms. However, the study does not break down the degree of share ownership or the type of ownership plan. For example, lower layoffs might well be a feature of 100% employee-owned firms since employee-owners might well not want to lay themselves off. But the same behavior might not occur in firms with only minor portions of outstanding shares in employee hands.

However, the NCEO study is a reminder of the 1980s literature and debate over whether alternative pay systems might act as shock absorbers, reducing the tendency to lay off workers when demand falls. That literature is identified with Martin Weitzman whose book, *The Share Economy*, presented an argument the profit sharing – particularly on a large scale – could be a shock absorber. In the

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Weitzman model, profit sharing firms operate in a labor shortage mode compared with conventional firms with fixed pay. A negative demand shock, therefore, tended to result in a layoff of vacancies rather than of real people.

Simpler versions of the story involved pay systems with some kind of bonus related to firm performance. Conventional firms (without such bonuses) react to a negative demand shock by reducing labor, first overtime and weekly hours and then employees. Bonus-type firms could respond by shrinking the bonus to reduce costs and leaving hours and employees as they are, at least in the face of mild shocks that did not drive the bonus to zero.18 With 100% employee-owned firms, pay is a mix of wage plus dividend or share value so it is possible that such firms would also be less layoff-prone than others. As noted above, however, a small proportion of shares in the hands of workers might not have the same effect.

In a later literature, Chris Erickson and I noted that the 1990s literature on labor market monopsony had a macro implication.19 There would be a tendency, particularly in the largely non-union labor market that existed by that time, for employers to operate under monopsonistic conditions which implied they would often function in a labor shortage environment similar to Weitzman’s profit sharers. So there would be a shock absorbing feature even without profit sharing. Even so, it could be the case that particular pay systems, be they of the profit sharing or share ownership variety, could enhance the shock absorber effect.

It needs to be emphasized that with a large enough negative shock, there will be layoffs and a recession regardless of the pay system. If your car hits a deep enough pothole, you will feel it as a driver or passenger, no matter how well your shock absorber works. But that fact doesn’t mean that shock absorbers are useless. Even if there is a recession in the next few years, it might not be as severe as the Great Recession of 2008. It might be of the relatively mild type seen in the early 1990s or the early 2000s. Or there might simply be a growth pause not sharp enough to be formerly classified as a recession but sufficient to provoke increased layoffs.

The NCEO report purports to calculate the saving to the federal government of reduced layoffs which are attributed to share ownership. Again, since there is insufficient control in the study to imply causation – and no formal modeling – one can be skeptical of those particular results. But the larger message remains. The interest in pay systems – and in public policies that encouraged particular systems which could act as shock absorbers – seems to have largely died. Understandably, much of the

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18 The case of Lincoln Electric is often cited. See http://www.youtube.com/watch?v=EftYWQOs_cU and http://www.youtube.com/watch?v=H8gioKjrFwk.

19 Monopoly power involves price setting discretion on the part of the seller. Monopsony involves price setting discretion on the part of the buyer. In the labor market, the buyer of labor is the employer and the price being set is the wage. There were several Erickson-Mitchell articles. See, for example, http://www.anderson.ucla.edu/documents/areas/fac/hrob/mitchell_erickson_monopsony.pdf
discussion remains focused on what to do about the still-widespread unemployment problem that lingers after the Great Recession.

Unfortunately, the historical record suggests that it’s time to think about how the economy might react to the next recession which will increasingly become overdue compared with past norms. And it’s time to revive discussion about whether there are alternative pay systems that could moderate the impact of the coming recession. The road ahead could be bumpy so checking our shock absorbers would be smart. If you don’t think so, keep in mind the fate of those commentators who, in the rush of the dot-com boom of the late 1990s, proclaimed there was a new economy to which the business cycle no longer applied. Those folks don’t look so good now.