Mitchell’s Musings: Second Quarter 2015

Daniel J.B. Mitchell

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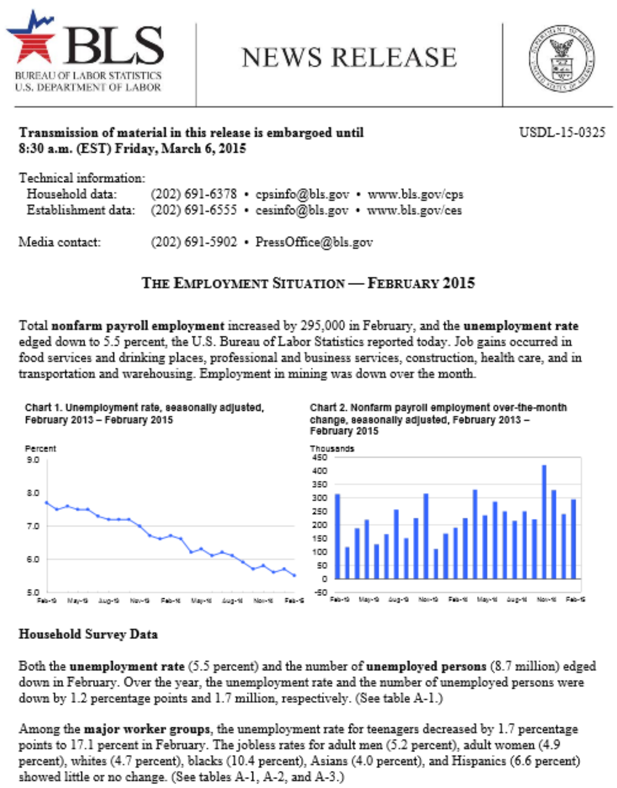
Mitchell's Musings 4-6-15: What's Upfront?

Daniel J.B. Mitchell

Statistics are in principle "neutral." They are just facts. In theory, it's up to the user of the statistics to interpret the numbers. But nice as that theory is, it is not quite true. How you *display* statistics or *which* statistics you choose to display can influence users' perceptions. To take an example, consider the monthly "Employment Situation" release of the U.S. Bureau of Labor Statistics shown below. There is much information in the body of the release. But someone has determined for you that the two most important pieces of data you want to see first are the official unemployment rate and its trend and the monthly change in nonfarm payroll employment over the past two years. In effect, those two items are the cover story to the rest of the information. They are often the headline stories in the news media.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Media contact: (202) 691-5902 • PressOffice@bls.gov

THE EMPLOYMENT SITUATION — FEBRUARY 2015

Total **nonfarm payroll employment** increased by 295,000 in February, and the **unemployment rate** edged down to 5.5 percent, the U.S. Bureau of Labor Statistics reported today. Job gains occurred in food services and drinking places, professional and business services, construction, health care, and in transportation and warehousing. Employment in mining was down over the month.

Household Survey Data

Both the **unemployment rate** (5.5 percent) and the number of **unemployed persons** (8.7 million) edged down in February. Over the year, the unemployment rate and the number of unemployed persons were down by 1.2 percentage points and 1.7 million, respectively. (See table A-1.)

Among the **major worker groups**, the unemployment rate for teenagers decreased by 1.7 percentage points to 17.1 percent in February. The jobless rates for adult men (5.2 percent), adult women (4.9 percent), whites (4.7 percent), blacks (10.4 percent), Asians (4.0 percent), and Hispanics (6.6 percent) showed little or no change. (See tables A-1, A-2, and A-3.)

As noted, it's not that those two items are the only pieces of information contained within the release. But they are prominently displayed. For example, someone might alternatively have chosen average weekly hours or the median duration of unemployment to display, data that are also part of the release. There are alternative unemployment rates in the release based on definitions differently from those used for the official rate. But you have to know about these other data series and look for them.

How you display data has long been known to be important. When I taught a course in labor markets and we arrived at the unit on productivity, I would note that in a broad context, productivity can refer to management and effective decision making. Your decision making is in part a function of the facts at hand. In that context, I would bring up the name of Florence Nightingale who at least some students would identify as "the first nurse." Less known about her is her use of statistics and her presentation of statistics to persuade the powers-that-be in Britain on appropriate treatment of wounded and ill Crimean War soldiers. Nightingale developed a circular bar chart form of display to make her points.[1] Indeed, she said that "To understand God's thoughts we must study statistics, for these are the measure of his purpose."[2] She didn't add that the choice of which statistics to study is a human choice.

The display of data may not necessarily tell you about God's thoughts, but they do tell you something about the thoughts of whoever arranged the display. Which brings me to the Mitchell's Musings of March 23, 2015.[3] In a footnote in that musing, I noted that the St. Louis Fed's database system "Fred" indicated that a statistical series on the holdings of U.S. Treasury securities holdings of foreign official monetary institutions (central banks and similar institutions) had been discontinued.[4] This series, which has been produced by the Bureau of Economic Analysis (BEA) in the Dept. of Commerce, may seem obscure to you. But it previously could be found on Table 1 of the quarterly "balance of payments" releases of the BEA. Putting it on Table 1 – and therefore among the first information you see - was a decision someone had made that the information was important. I agree with whoever that was that the series was important, and still is, but let me delay getting into why.

When you go to that release now, the series has indeed vanished from Table 1 as can be seen on the latest posting.[5] A year earlier, the same release had the series.[6] So I emailed BEA to find out why the change was made. The response I got back was essentially in two parts. Basically, there was an effort by BEA to simplify the release and put it in a format similar to that said to be used by other countries. Second, it was noted that because users might want to see the information that had previously been displayed, you could go *on the web* and find it on another table (a table not included in, or mentioned in the latest release). So the data are available (FRED was wrong), but surely not displayed in a way that Florence Nightingale would have used if she thought there was importance in the series. (You go to http://www.bea.gov/iTable/iTable.cfm?ReqID=62&step=1#reqid=62&step=6&isuri=1&6210=1&6200=74 and then click on "Addendum Table 9.1")

OK. Who cares? Why is the series important? To answer that question, you have to know something about the international monetary system. From the end of World War II and until the early 1970s, the U.S. and other major currencies used a fixed exchange rate system. All countries defined the price of their currencies relative to the U.S. dollar. To make the market price the same as the official price, central banks committed themselves to buy and sell their currencies in unlimited amounts at that dollar exchange rate. The system suffered a major shock in 1971 and essentially fell apart in 1973. Thereafter, with some exceptions, the U.S. took a relatively passive position with regard to the dollar. However, other countries in varying degrees

[1] http://www.uh.edu/engines/epi1712.htm

[2] http://www.goodreads.com/quotes/330822-to-understand-god-s-thoughts-we-must-study-statistics-for-these

[3] http://employmentpolicy.org/page-1775968/3264258#sthash.WIap5LMs.dpbs

[4] http://research.stlouisfed.org/fred2/series/BOPIOGT

[5] http://www.bea.gov/newsreleases/international/transactions/2015/pdf/trans414.pdf

[6] http://www.bea.gov/newsreleases/international/transactions/2014/pdf/trans413.pdf. Go to line 58 and the more comprehensive line 56 of Table 1.

bought and sold their currencies to achieve a target exchange rate with the dollar, or at least to stay within an exchange rate range around the dollar.

When we look at the change in U.S. dollar holdings of foreign central banks and official monetary institutions, particularly U.S. Treasury securities, we can determine whether they were acquiring more dollars (a "capital inflow" aimed essentially at preventing their currencies from rising in value relative to the dollar) or doing the opposite (a "capital outflow"). The series on the change in foreign official dollar holdings (flow data) is paralleled by a series showing the absolute amount of the holdings at the end of each quarter (stock data). As in the case of the flow data, BEA no longer includes this information on its basic table and leaves it to the user to find it in a supplementary table.[7]

The question of exchange rates and what other countries are doing to control the movement of their exchange rates relative to the dollar is crucial to the debate over the unprecedented growth of U.S. liabilities to the world, the imbalance of trade (imports far in excess of exports), and the shrinkage of American manufacturing due to that imbalance. A decision to reduce the prominence of a data series that relates to that debate (whether deliberate or not) is equivalent to a decision that the debate over those issues isn't of much importance. Florence Nightingale would have understood the significance of the change in data presentation. Whether the decision maker at BEA understood is unknown.

[7]You go to http://www.bea.gov/iTable/iTable.cfm?ReqID=62&step=1#reqid=62&step=5&isuri=1&6210=5 and then click on Table 3.1.

Mitchell's Musings 4-13-15: Must There Be a Story?

Daniel J.B. Mitchell

My UCLA office is located in a building constructed in the 1960s that contains four elevators. At least one elevator seems always to be out of service. Although the building now houses the School of Public Affairs, when I first came to UCLA in 1968, it was the home of the business school (where I had my office, too). Even then, the elevators never seemed to behave properly.

Elevator misbehavior gave rise to a kind of mythology. Some in the building believed that if you jumped up and down in an elevator that seemed not to want to go, it would start to move. Others believed that some sequence of button pushing would do the trick. I would sometimes suggest to annoyed riders that if the authorities would only feed the donkey pulling the rope better, service would improve. But that suggestion was always taken as a joke. Actually, it was as good a story as any of the others. There is a human need, apparently, to have explanations for events and situations, even if there aren't any explanations.

I was reminded of that phenomenon in reading a news account interpreting the April 7 release by the U.S. Bureau of Labor Statistics JOLTS (Job Openings and Labor Turnover Survey) data through February:[8]

> *A new Labor Department report Tuesday showed that job openings surged 3.4 percent to 5.1 million in February — a 14-year high. That's a clear sign that companies are willing to boost their staffs… To be sure, there were some negative signs in Tuesday's report. Total hiring* ***slipped*** *1.6 percent in February to 4.9 million, the second straight decline. At the same time, layoffs fell sharply. The declines in hiring and layoffs suggest that employers were* ***cautious*** *in the face of a faltering economy but weren't* ***spooked*** *enough to cut jobs...*[9]

When you look at the actual media release, it's just a couple of charts, data tables, and text describing the data. There is nothing in the release itself about caution or being insufficiently spooked. In any case, if employers were being cautious, perhaps they would hire at a lower rate. But why would they also reduce separations? Wouldn't they want to let workers leave their employment voluntarily who wanted to leave if there were reasons for caution about a slowing economy? That is, might they not cut back on efforts at worker retention out of caution? And might they not want to step up their involuntary layoffs?

Perhaps, more pointedly, we are talking about a one-month change in the various rates being tracked and discussed. And the data we are talking about are seasonally-adjusted. So there could be any number of explanations for the one-month changes. Perhaps the seasonal factor – which is based on the past history of seasonality – was wrong for the particular weather that occurred in January-February 2015? Maybe the especially bad weather this winter led to delayed decision making on both separations and hiring. Or maybe the underlying (unadjusted) data were simply

[8] http://www.bls.gov/news.release/archives/jolts_04072015.htm

[9] http://www.nytimes.com/2015/04/08/business/report-shows-job-openings-are-up-but-hiring-slows.html

affected by some statistical noise since we are talking about figures from a sample survey. The release footnotes the latest data as "preliminary" so they might well be revised. In short, maybe there is no story here to tell at all.

Let's put in perspective the data that the news account describes. The job openings rate (job vacancies rate) during January-to-February went from 3.3% to 3.4%.[10] I am not sure that move (if it was more than noise) qualifies as a "surge." The "slippage" in hiring was in fact so miniscule that it left the hiring rate unchanged at 3.5%.[11] For separations, the supposed slippage was a drop from 3.4% to 3.3%.[12]

If you are looking for a "story" on the job openings rate, you need to focus on long-term trends and not one-month blips. The chart below tells you that story, but it isn't one that you didn't already know. Labor markets are generally recovering since the bottom of the Great Recession in 2009. Maybe that isn't news at all. But as they say, no news is good news. Would you rather have a reverse story of no recovery?

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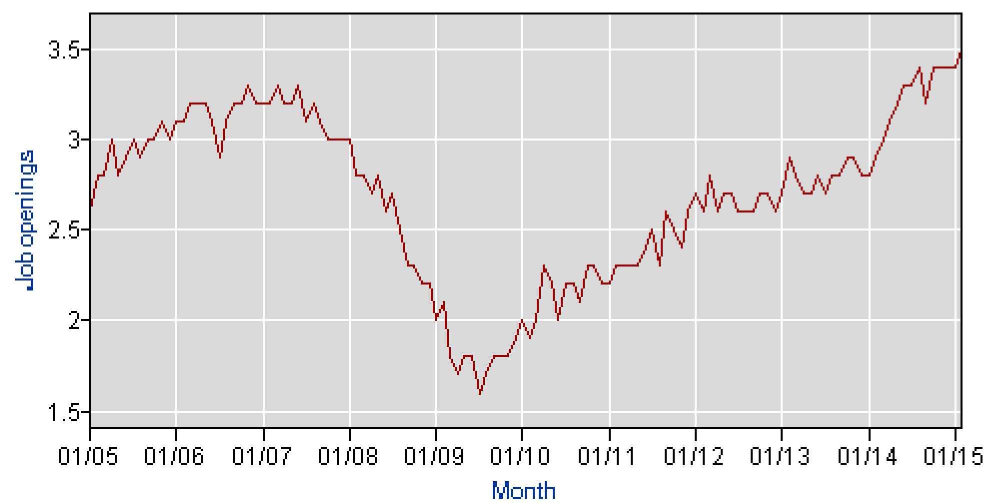
Job Openings Rate, seasonally adjusted, 2005-2015



Source: U.S. Bureau of Labor Statistics.

[10]The job openings rate is computed by dividing the number of job openings by the sum of employment and job openings and multiplying that quotient by 100. (Description taken directly from release.)

[11]The hires rate is computed by dividing the number of hires by employment and multiplying that quotient by 100.

[12]The separations rate is computed by dividing the number of separations by employment and multiplying that quotient by 100.

Mitchell's Musings 4-20-15: Moynihan's Fear

Daniel J.B. Mitchell

The Age Discrimination in Employment Act, as amended, generally prohibits mandatory retirement ages except in a few occupations such as airline pilots. Yet at one time, such practices were commonplace with the mandatory age often set at 65 or 70. For tenured university faculty, mandatory retirement was permitted later than for other occupations, but it, too, was ended in 1993. New York Senator Daniel Patrick Moynihan – who had come out of the university setting with a PhD - expressed concerns about ending mandatory retirement in academia:

> *I must note, however, that I am troubled by the application of this change to the unique situation of tenured faculty members at colleges and universities. In order for these institutions to remain effective centers of teaching and scholarship, they must have a balance of old and new faculty. Hence, universities must ensure that older faculty members retire at an appropriate age, not simply to "make room" for younger faculty, but to maintain a contemporary, innovative and creative atmosphere where students can obtain the fullest education. . .*[13]

However, despite Moynihan's concerns, Congressional policy was to delay the end of mandatory retirement for tenured faculty while a study was being prepared but then – based on the study – ended authority for universities to impose it.

Starting in the 1970s, the labor economics literature began looking at practices such as mandatory retirement ages under the rubric of the "new economics of personnel." Mandatory retirement was seen as a component of "implicit contracting" in the labor market. The rationale was that career employees – seen as having long-term relationships with employers – worked for less than their value early in their careers in exchange for an overpayment later. The early period was seen as a form of posting a bond for good performance, given imperfect information at the time of hiring and

[13] http://www.nap.edu/openbook.php?record_id=1795&page=9

as an incentive against "shirking." Mandatory retirement was seen as a way of terminating the overpayment period.

Similarly, defined-benefit pensions were depicted as having a similar function (by making it advantageous to retire after a given age). Under a defined-benefit pension plan, the monthly annuity is typically a function of age, length of service, and the level of recent (pre-retirement) earnings. The expected value of the future stream of pension payments begins to fall beyond a certain age since each year of continued work means one year less of pension receipt. Eventually, someone who continued working would be effectively working for nothing due to the continued pension loss which has to be subtracted from the pay expected from continuing to work.

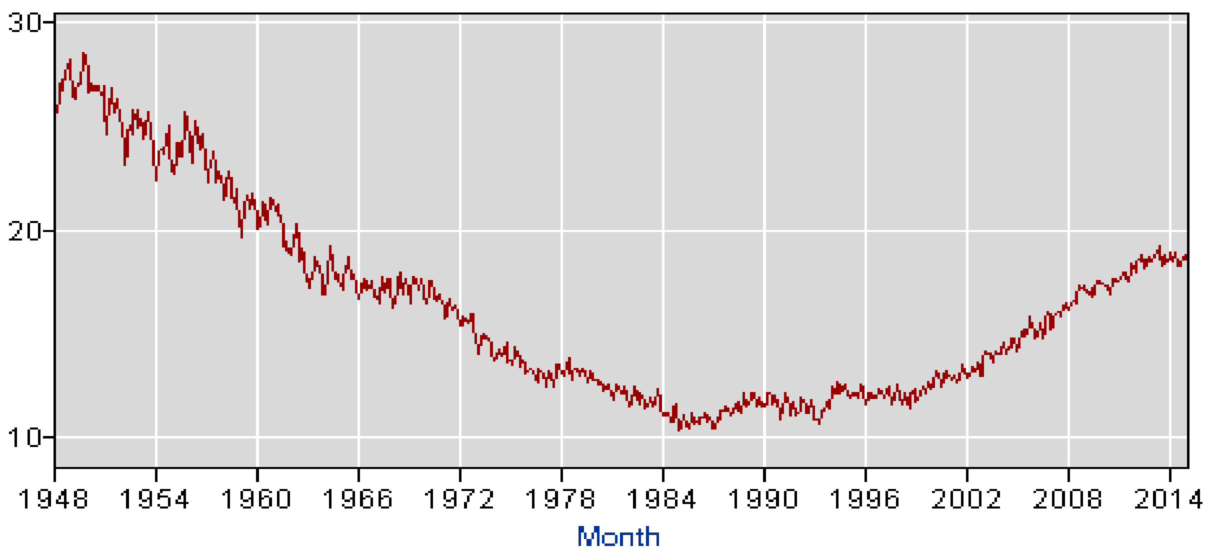
All of this history and economics literature came to mind recently when I participated as a panelist on a program at UCLA developed for faculty who were thinking of retiring but who were uncertain as to whether to do so. You can hear my presentation at the program at https://archive.org/details/MitchellRetirementWorkshop41015Edited. One thing to note about UCLA (as part of the entire University of California system) is that it has a defined-benefit pension. In that respect, it is unlike most universities that have defined-contribution plans (such as TIAA-CREF) which provide no particular incentive to retire. My impression – based on anecdotal evidence – is that, as a result, there has been *less* of an issue regarding tenured faculty retirement decisions at UCLA than has developed at many other universities.

Nonetheless, some elderly faculty do have a problem in making the retirement decision, even at UCLA. One factor is that the defined-benefit incentive to retire – while self-evident to economists – is not necessarily fully appreciated by others. (Having *understandable* incentives is always an issue in designing personnel systems and retirement programs are no exception.) Thus, some faculty may think that the point of "working of nothing" arrives only when the pension is equal to the rate of final pay, which at UCLA occurs only after 40 years of credited service.[14] Or they may think that the optimum decision is to wait until you are working for nothing.

[14]The system multiplies an age factor of 2.5 times years of service and then multiplies that product by what for most faculty is final base pay for the last three years. (The age factor rises with age but peaks at 2.5.) For many faculty, it might be noted, the base rate of pay on which the pension is calculated excludes pay beyond the official salary rate.

It was clear from the program at which I spoke that there is a subset of folks who have a problem in letting go of their long-time activities despite economic incentives to do so. What about folks in sectors outside academia? We do know that labor-force participation rates for those 65 years and over have been increasing since the late 1990s, as the charts below show. Participation rates fell from the end of World War II until they leveled out in the 1980s (particularly for men). Clearly, there were various underlying factors in this pattern, notably the availability of Social Security, private pensions, and improved elder health.[15]

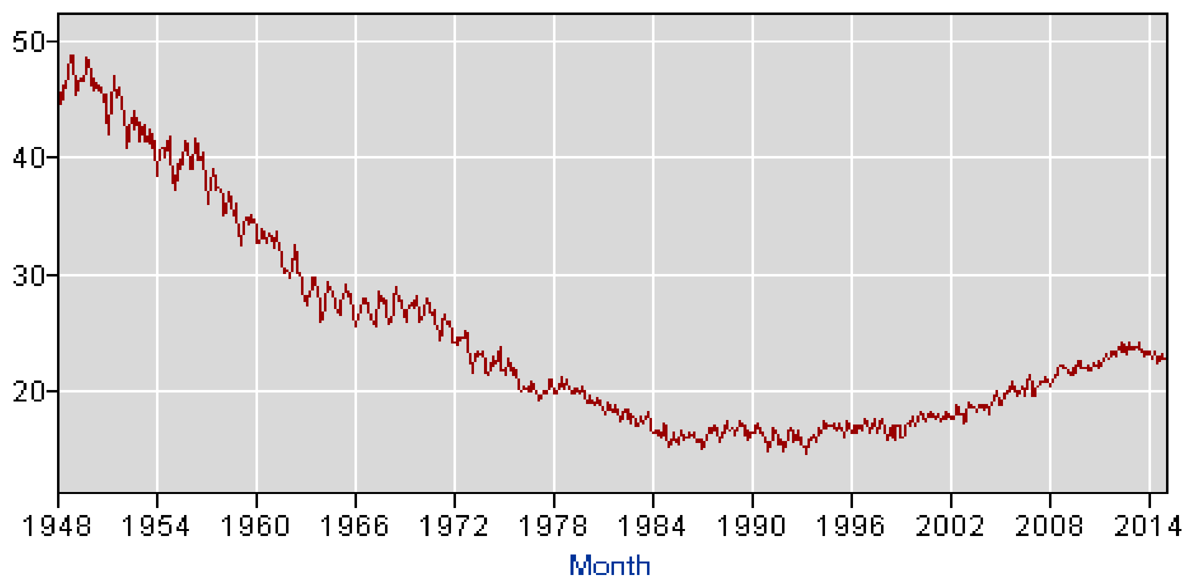
Civilian Labor Force Participation Rate: Both Sexes, Age 65 and Over



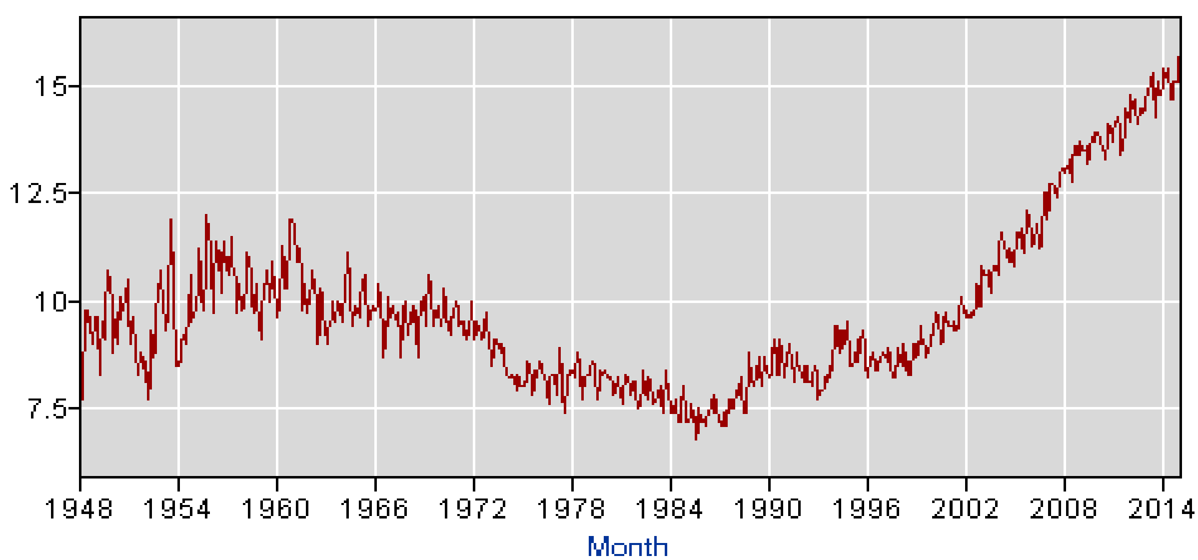
Such extra pay may be a considerable fraction of total pay – especially in medicine. Pay received during the summer months for teaching, research, or other reasons is also excluded from the pension to avoid “spiking.” So, in such cases, i.e., cases in which non-base pay is significant, the idea that you are working for nothing only if your pension equals your pay means that such a condition is perceived never to arrive.

[15] Data for the charts are from the U.S. Bureau of Labor Statistics website. The charts were created on the website.

Civilian Labor Force Participation Rate, Males, Age 65 and Over



Civilian Labor Force Participation Rate, Females, Age 65 and Over



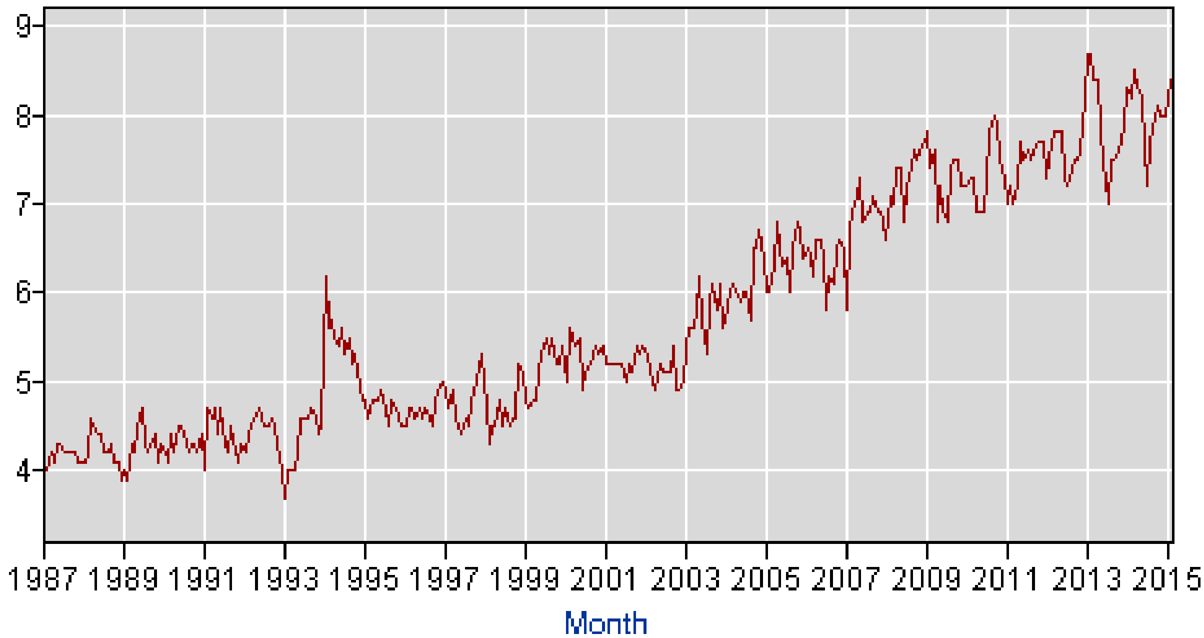
Now it's easy to say that the experience of university faculty is vastly different from those of other employees in other sectors and occupations. Other employees may not be committed to their careers to the same extent as faculty and they rarely have anything like tenure. They may have work histories in physically demanding occupations that produce health issues which make job continuance difficult beyond a given age. Nonetheless, for whatever reasons, the overall participation rates for those 65 and over throughout the labor market have been rising as a long-term trend.

Note, too, that the stories that were especially in vogue about stock market losses in 401k plans due to the Great Recession don't fit the timing of the trend. Such stories tied continuation of working to depleted retirement accounts. The rise in participation for older women seems to start in the late 1980s. For older men, it seems to occur in early the 2000s, *halting* – not beginning - in the Great Recession.

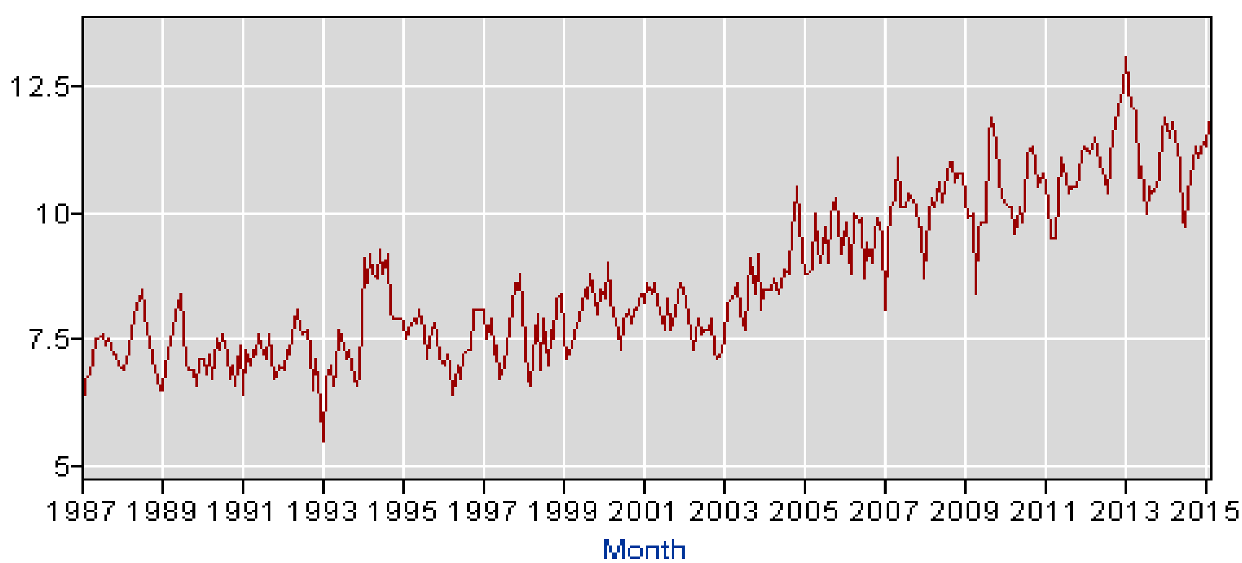
When we move to a still older age bracket – 75 years and over – the same pattern emerges, as the charts below illustrate. The male participation rate heads up after the late 1990s; the female rate goes up from the late 1980s.[16] Using the older age cutoff likely filters out individuals with physically difficult job histories. But it can be assumed that most remaining workforce participants still are not tenured faculty.

[16]Data from U.S. Bureau of Labor Statistics for ages 75 and over are not available before 1987.

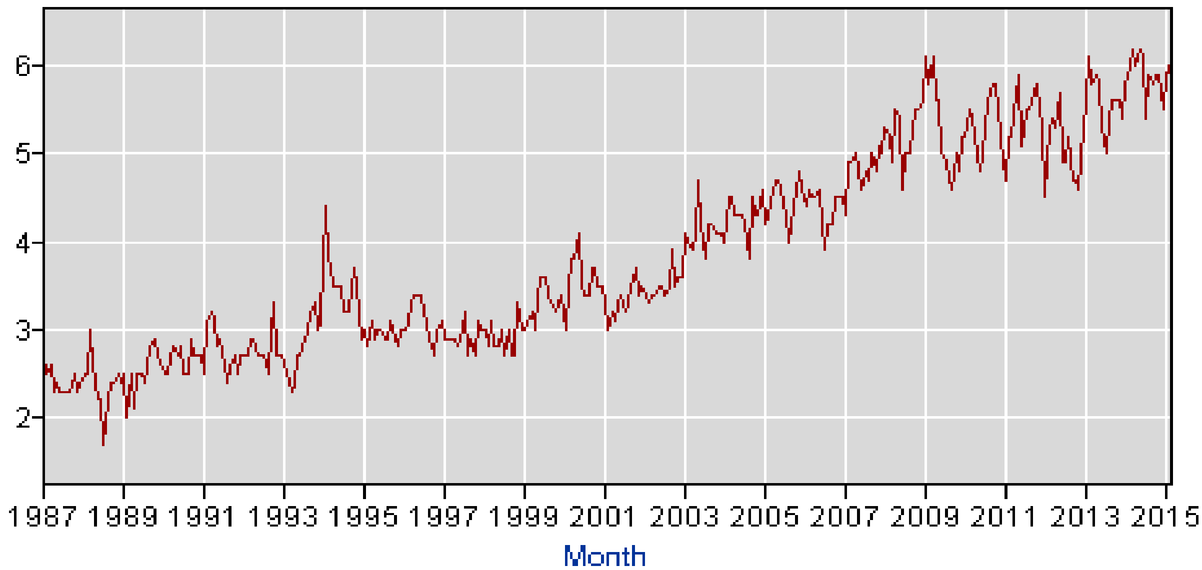
Civilian labor force participation rate: Both Sexes, 75 years and older



Civilian labor force participation rate: Males 75 years and older



Civilian labor force participation rate: Females 75 years and older



In short, the faculty reluctance-to-retire phenomenon may be part of a larger set of forces that are not unique to academia. Economic incentive devices such as defined-benefit pensions may mitigate the phenomenon for many individuals.[17] But they don't entirely eliminate it. Thus, universities may need to consider other types of programs - such as phased retirement - to encourage turnover.

[17]Universities with defined-contribution pension systems sometimes create *ad hoc* incentives – essentially retirement bonuses – from time to time. But such practices can have perverse effects; faculty may delay retirement waiting for the next special deal to come around.

Mitchell's Musings 4-27-15: A Problem with a Solution

Daniel J.B. Mitchell

American's tend to believe that all problems have solutions – if only folks would just get together and work things out. Thus, they are annoyed when ideological differences cause gridlock in Congress. Americans tend to think simplistically about the Middle East. Why can't the people there just sit down and settle their conflicts? But there is one problem which seems to escape the notion that all-problems-have-solutions and that is exchange rates. There are calls from time to time for someone to do something about exchange rate manipulation but the calls include no real solutions for the U.S. Someone should do something – but what?[18]

As we have pointed out many times in prior musings, the U.S. has become the world's champion debtor as the result of continuous net export deficits. The effect of such deficits falls disproportionately on U.S. manufacturing which was once the provider of those good jobs that politicians, policy wonks, and just about everyone else pine for when such topics as income inequality are raised. So if you want to do something for manufacturing, before you start proposing such remedies as more community college, you would want to focus on the trade side.

First, let's put the issue of manufacturing in perspective. Manufacturing as a proportion of total economic activity has been in decline since the end of World War II. Although we keep changing the measurement of that sector via changes in industrial classification systems, manufacturing in relative terms compared to overall GDP is about one third of what it was at that time.[19]

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Manufacturing as Percent of GDP

1950	31%	1960	29%	1970	25%
1980	23%	1990	18%	2000	15%
2010	11%	2014	11%		

- -

Given its rate of shrinkage, it is unlikely that any "remedy" – trade deals, community colleges – would restore manufacturing to its 1950s' importance. On the other hand, since the sector is only 11% of total economic activity, even a modest trade-related boost could have a notable impact on the manufacturing sector.

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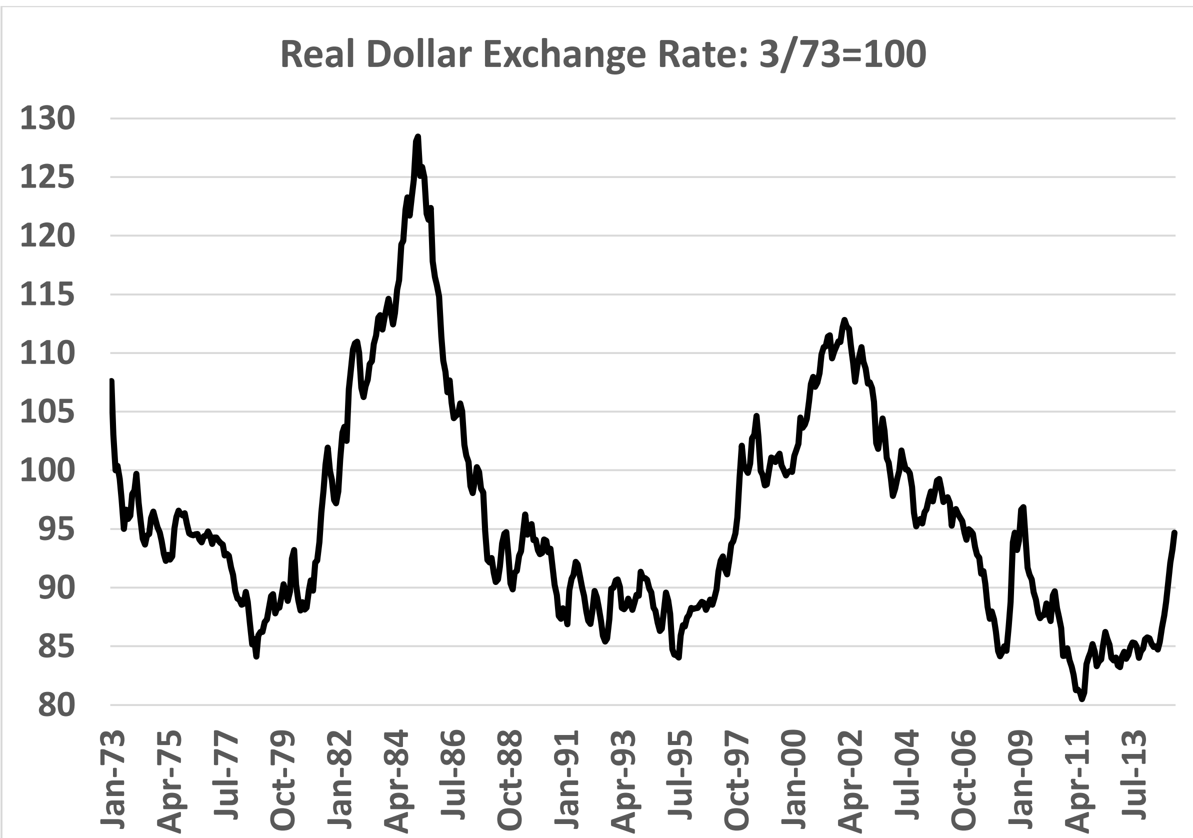
[18]For examples, see http://www.latimes.com/opinion/op-ed/la-oe-0408-baker-currency-20150408-story.html, http://www.cepr.net/index.php/blogs/beat-the-press/the-end-of-china-bashing-toward-a-serious-discussion-of-the-trade-deficit, http://www.iie.com/publications/pb/pb12-19.pdf,

[19]The chart uses the SIC code for 1972 through 1980, the SIC code for 1987 for 1990 and 2000 and the NAICS 2002 for 2010 and 2014. The two SICs showed no appreciable difference in 1987. NAICS measurement showed a slightly smaller manufacturing sector in 2000 compared with SIC.

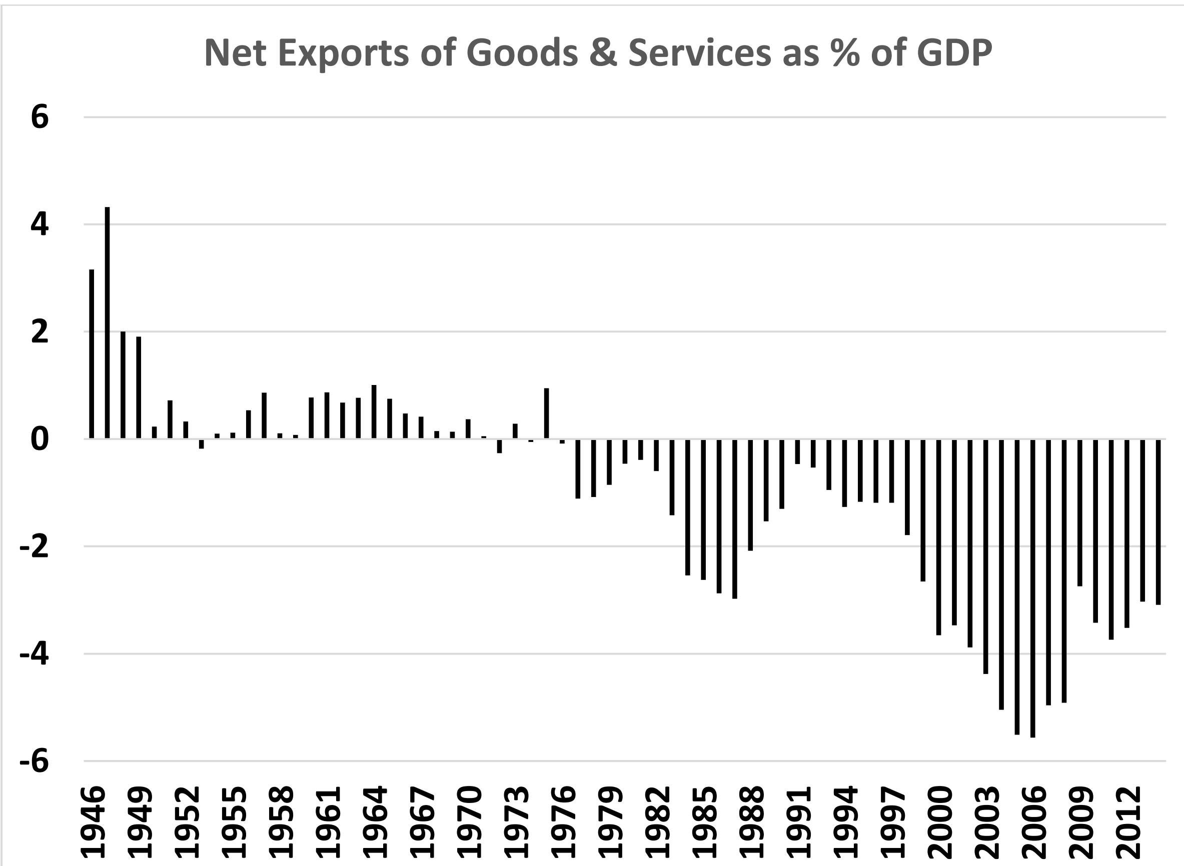
Exchange rates can change the relative costs of production between countries. The Federal Reserve has an index of the U.S. dollar exchange rate compared to a large array of other countries' currencies, all adjusted for inflation. Attempts by the U.S. to retain a fixed exchange rate system relative to other currencies ended in the early 1970s. Since that time, the dollar has been subjected to substantial swings in value. It's hard to look at the chart below and interpret these swings as having some "fundamental" causes. How much can "fundamentals" change in the course of a few years? In fact, the history suggests both speculative volatility (a characteristic of other financial markets) and opportunities for countries to set their exchange rates at arbitrary levels (including arbitrarily low levels).

Although countries are not supposed to "manipulate" their exchange rates, it is hard to define that concept in practical terms. Given the kind of volatility exhibited in exchange markets, surely countries have the right to intervene in currency markets to try to smooth out the swings. And if they hold their exchange rates at levels that generate net export surpluses (so that official reserves accumulate), who is to say what the appropriate reserve levels should be? In short, unlike negotiations over tariffs and other trade barriers, no one has come up with a workable way of regulating exchange rate manipulation.



However, because exchange rate manipulation cannot be regulated easily through international negotiations and trade treaties, that doesn't mean there are no solutions. It just means that the solution won't be found in trade treaties and negotiations. We have noted in prior musings that a solution was suggested many years ago and was ignored at that time and after. Below we will (again) repeat it for the record. But let's first go back to U.S. manufacturing and the net export deficit.

The chart below shows the U.S. net export surplus or deficit from the end of World War II through 2014. Immediately after the War, the U.S. had large surpluses reflecting both foreign aid to war-damaged countries and attempts by various countries to hold their currency values relative to the dollar at unsustainably high levels. But by the 1950s and until the end of fixed exchange rates in the early 1970s, the U.S. ran modest trade surpluses – typically in the range of 0-1% of GDP.[20] But once the fixed exchange regime ended, the U.S. ran chronic deficits. These deficits fluctuated in amount but at times ran over 5% of GDP. At present, they seem to have stabilized at around 3% of GDP.



Suppose the dollar were now to be maintained at an exchange rate consistent with a zero deficit. While that wouldn't begin to pay back the U.S. debt to the world, it would stop adding to the debt. Trade treaties, for reasons already explained, are unlikely to produce such a result. Negotiations with particular countries – China and Japan would be prime candidates – would also be unlikely to produce changes in behavior and would lead to charges of China-bashing or Japan-bashing. The U.S. shrinks from such charges officially because it wants cooperation from these countries in other matters of foreign policy. Politicians don't

[20]The ongoing "balance of payments problem" of the U.S. before the end of fixed exchange rates had to do with the financial side of the accounts. Low interest rates in the U.S. (maintained for domestic reasons) encouraged borrowing in the U.S. by foreigners and U.S. direct investment abroad. In effect, that accumulation of claims on the world by the U.S. was financed by increased dollar reserves held by foreign central banks under the fixed exchange rate system that had been established by the 1944 Bretton Woods agreement.

necessarily shrink from such bashing – indeed they may be attracted to it around election time – but, as noted, their bashing doesn't come with solutions.

If the exchange rate were reset so that net exports were zero ("balanced" trade), perhaps half of the increased activity (more U.S. exports; more U.S.-made import substitutes) would be in manufacturing. At present, that would be about 1.5% of GDP (half of 3%). With manufacturing at about a tenth of total activity, the employment gains in that sector would be about 15%. No trade treaty or negotiation is likely to produce such an effect. Similarly, long term remedies such as more technical training in community college seem unlikely to produce that impact.

But wait! What could bring about such an exchange rate effect and do it without singling out any particular country for bashing. As we have noted many times, back in 1987 (when Japan was seen as THE trade villain), financier Warren Buffett wrote an op ed in the Washington Post outlining a specific plan.[21] It was basically a cap-and-trade plan for trade similar to the plans more commonly applied to air pollutants. Under the Buffet plan, U.S. exporters would receive a $1 voucher for each $1 of their exports of goods and services. The voucher would be a license to import $1 of goods and services. The voucher could be exercised directly by the exporter or sold in an open market to some importer. By definition under the system, value of exports = value of imports. The market cost of the voucher plus the prevailing exchange rate would be the equivalent of the exchnage consistent with net exports = zero.

The Buffett cap-and-trade exchange rate plan singles out no country or countries. There is no bashing. There is no negotiating with any particular country about its exchange rate relative to the U.S. dollar. It is not protectionist. It simply achieves the result of the exchange rate consistent with net exports = zero. Under the Buffett plan, U.S. debt to the world stops rising.[22]

Would there be administrative problems? Any system has costs. There would need to be verification of export value in issuing vouchers and verification of import value when they were exercised. We do have customs inspectors in place but there would need to be more of them to implement the system. Perhaps one might oppose the Buffett plan on the basis of administrative cost but to do so, one would have first to recognize and evaluation the possibility of the plan.

How can those commentators who lament exchange rate manipulation without even mentioning the Buffett plan be interpreted? Do they just want to pose a problem without offering any solution? Are they unaware of a plan that would provide a solution to the problem they pose even though the plan was published in a prominent daily newspaper and written by a well-known financier? You can chose between those two answers. I can't think of any others.

[21]https://drive.google.com/file/d/0BzVLYPK7QI_4NmYyOGQzYzQtMWU1MC00MDEwLWI0ZGUtMzYxYmM2OTY5NjMz/view?usp=sharing. Warren E. Buffett, "How to Solve Our Trade Mess Without Ruining Our Economy," May 3, 1987, page B1.

[22]The voucher entitlement could be set so that the U.S. ran a surplus and began paying off its debt. For example, each $1 of exports could produce an entitlement equal to, say, 90 cents worth of imports.

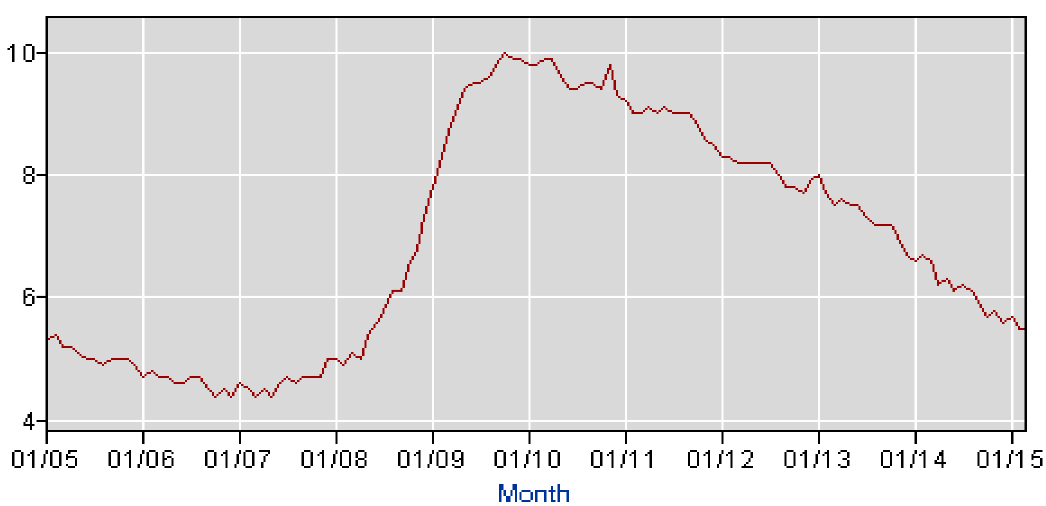
Mitchell's Musings 5-4-15: Phillips is Back

Daniel J.B. Mitchell

Back in the day, economists used to debate about the "Phillips Curve," essentially a prediction that nominal wages would rise more quickly as the unemployment rate fell. There were debates, starting in the late 1960s, over the stability of the relationship and about its lack of theoretical underpinnings. But in some form or other, early empirical forecasting models contained a version of the relationship. It was one of those things that, to paraphrase former Fed chair Ben Bernanke in another context, worked in practice even if not in theory. Today's forecasters still have some kind of Phillips curve – perhaps much embellished – in their modeling apparatus.

In the years after the Great Recession, however, there developed doubt as to whether we would see a rise in nominal wage growth despite the fall in the unemployment rate. It was noted that other elements of labor market activity measurement, notably the participation rate, seemed to suggest that there was a good deal of hidden or discouraged unemployment. From that perspective, the official unemployment rate was misleadingly low. Even though the official rate had fallen below 6% during 2014, perhaps the labor market wasn't as tight as that number would suggest.

Official Unemployment Rate, Seasonally Adjusted



However, when we now look back over the last year or so, the Phillips Curve seems to be in operation. The chart below shows the 12-month change in the Employment Cost Index for the private sector on a total compensation (wages and benefits) basis.[23] Total annual compensation growth settled into a 2 percentage-ish range until 2014. But as of early 2015, it was getting up toward 3 percent.

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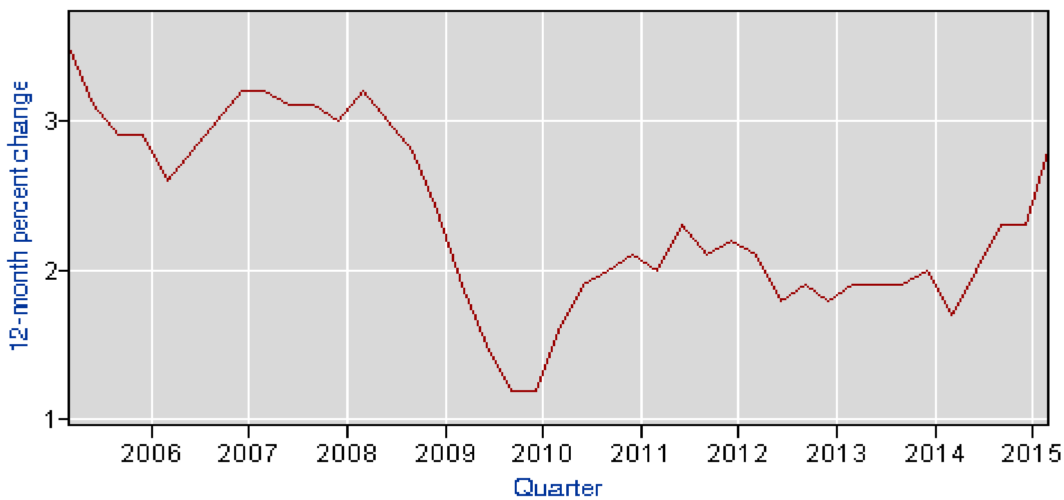
Employment Cost Index, Private Sector, Total Compensation: 12-Month Percent Change



Sometimes, on a short-term basis, benefit costs within the Employment Cost Index can exhibit erratic behavior. In theory, benefit cost growth should largely be offset by reduced wage growth, but in the short-term at least that result may not occur. Nonetheless, on a wage-only basis, more or less the same story emerges as with total comp, as can be seen in the next chart.

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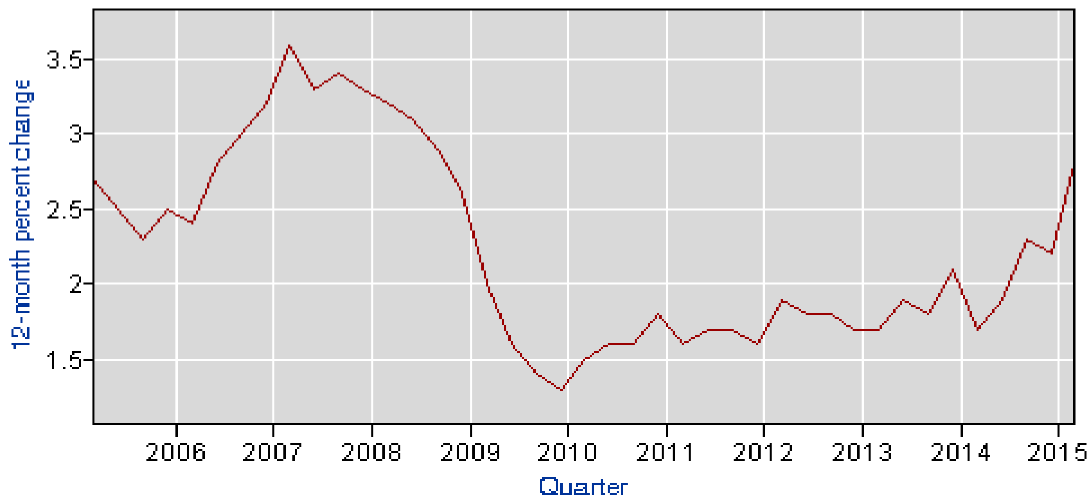
[23]The Bureau of Labor Statistics released the latest data for the Employment Cost Index (through March 2015) on April 30, 2015.

Employment Cost Index, Private Sector, Wage-Only: 12-Month Change



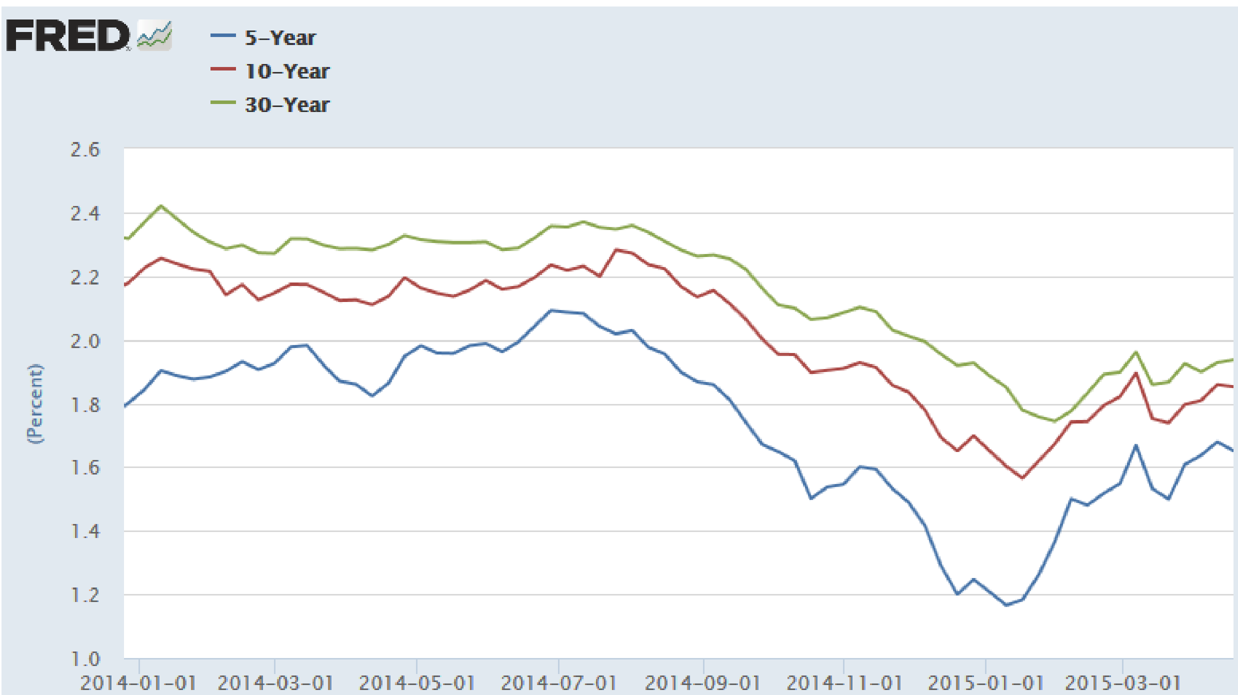
Of course, an average pay increase is just that – an average within a distribution. Some employees receive more and some less than the average. At present, some of the above-average increase seems to be concentrated in employees receiving pay in the form of incentives. And the charts above refer just to the private sector. Pay in the public sector tends to react more sluggishly for a variety of reasons including bureaucratic inertia. Also significant was that fact that the state and local sector had a prolonged budget crisis in the aftermath of the Great Recession resulting in layoffs and limited pay gains.

Although the Phillips Curve pay prediction is typically expressed in nominal terms, the recent jump in nominal terms was also mirrored in real (inflation-adjusted) terms. The official Consumer Price Index (CPI-U) growth rate on a 12-month basis ending March 2015 (the latest date available at this writing) was actually slightly negative due to the downturn in oil prices. However, the "core" CPI-U (excluding volatile food and energy) has been running below 2% for the past three years. So, at least as officially measured, pay purchasing power has increased as nominal pay has risen.

What about macro policy? Does the rise in pay mean the Federal Reserve should start raising interest rates? Once upon a time, as we have noted in prior musings, there was much worrying among macroeconomists about "wage-push" inflation. But with unions in the private sector now representing only a small minority of the workforce, the notion of some kind of autonomous push of wages independent from a more general inflation process seems farfetched. That approach is old economics.

Also under the label old economics has been the continuous warning from monetarists that due to Fed credit expansion in response to the Great Recession, rapid inflation is an imminent threat. But our favorite measure, the spread between inflation-adjusted Treasury securities and conventional (unadjusted) securities – while sometimes volatile – has never been consistent with that forecast. It remains consistent with a multiyear inflation prediction of around 2% per annum as the chart below indicates.[24]

Core CPI-U inflation is currently below the 2% per annum rate often said to be the Fed's target. Watchful waiting would seem more prudent as a course of action than an over-hasty reaction to something that has not yet happened and, at least as seen by financial markets, is not expected to happen.



[24]The chart is derived from the St. Louis Federal Reserve's FRED database.

Mitchell's Musings 5-13-15: Micro on Campus and Macro Everywhere Else

Daniel J.B. Mitchell

Once upon a time, you could write a letter to the editor of a newspaper and, after a review process, it might be published. Most such letters, of course, ended up in the waste basket and never appeared in print. But when the web came along, newspapers started allowing comments to be posted on articles and what appeared in those comments was to put it politely – unfiltered. While some comments were thoughtful, what often appeared (and still often does appear) were (are) rants exhibiting poor grammar and spelling and a sense of paranoia.

Some newspapers tried to provide a level of filtering in response. Recently, for example, the *Sacramento Bee* has developed a system which attempts to deal with the rant problem. The *Bee*'s guidelines for commenting are an attempt to reduce offensive ranting without having to employ editors to pre-screen every comment.[25] But there is one element in the guidelines that illustrates the problem: *"We do not screen comments before they post."* So even if offensive comments are deleted eventually, they may appear on the *Bee* website for at least a time.

There are similar issues regarding other popular social media sites such as Twitter, YouTube, or Facebook. Eventually, items that don't meet whatever guidelines those sites have will be (or might be) deleted. But they will be posted for a period before the deletion occurs and persistent commenters may simply repost them repeatedly. Beyond reposting, web users can also create their own websites and blogs where even token filtering is absent. In short, the world of communication – while more accessible than ever before – has become a nasty place. Read what is there at your own risk.

While the norms of the outside world have become nastier, there seems to have been an opposing reaction on university campuses. Universities have increasingly attempted to prevent "micro-aggressions" that might offend someone at a time when the norms of the Internet rarely block far more insensitive macro-aggressions. You may recall the brouhaha in the past year or so when there was agitation for inclusion of "trigger warnings" on university syllabi just in case there were topics or readings that might offend.

More controversially, various commencement and other invited speakers have been effectively barred from campuses because of complaints that their views might be objectionable to somebody. These complaints came with threats of disruption. At a time when anyone could increasingly say anything on the Internet, in the university anyone could be a *de facto* censor.

All around the university there are external web services that carry far more offensive messages than anything likely to be found on a college syllabus or in a graduation speech. Indeed, some of these web services are specifically directed at universities – particularly students - and their very appeal is that they don't do much filtering and allow anonymous commentary. For example, there is a popular service called "Yik Yak" in which students can say just about anything using made-up names. As a result, Yik Yak tends to feature sexual references, racial and ethnic references, and whatever else flickers through the heads of young adults who are bored with doing their homework. And, of course, there are various outside professor-rating services with even less filtering than Yelp.

[25] http://www.sacbee.com/site-services/article2583731.html.

Note that when everyone is speaking loudly, the only way to be heard is to shout. Presumably, that principle is why restaurants have become progressively noisier. Similarly, if everyone is speaking offensively, the only way to be noticed is to be yet more offensive. University administrators can try to encourage everyone to play nice when untoward behavior strikes – a recent occurrence on my own UCLA campus.[26] But the ability of university officials to change the norms that are imported from the outside is limited.

Indeed, the recent UCLA event is in fact a repeat of an earlier episode four years ago.[27] But there one big difference; in the earlier case the offender didn't act anonymously and ended up having to withdraw from the university. So the lesson really learned was that if you want to deliver an offensive missive, you should take care not to put your real name on it. Behave anonymously as is so often the case on the Internet.

Universities tend to display their problems publically so that the tensions that arise between outside norms and inside exhortations not to follow those outside norms receive publicity. However, students who are exposed to such conflicts will eventually graduate and go into the workplace where issues of norms and acceptable behaviors are handled more privately. Workplaces have rules about behavior on the job (and sometimes off the job) that do not accord with the *anything-goes* approach of the Internet.

A key difference between private workplaces and universities is that the former don't necessarily feature all of the due process procedures and other legal protections that university students are provided. And private sector employees seldom have the equivalent of the tenure protections that university faculty members enjoy. As more and more students flow from colleges and universities into employment, it will be interesting to see how the widening gap between internal workplace norms and external Internet norms plays out.

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[26]In the UCLA episode, someone anonymously pasted stickers with offensive messages in university buildings. The result was a plea in the student newspaper from a senior administrator to avoid such behavior [see http://dailybruin.com/2015/05/06/letter-to-the-editor-bruins-should-debate-complex-issues-with-empathy-sensitivity/] which was followed by an email from the chancellor saying that "regardless of our politics or backgrounds, we are at our best when we acknowledge the humanity of others, appreciate diverse viewpoints and respond with empathy."

[27]https://www.youtube.com/watch?v=6feGp0GQVJ8.

Mitchell's Musings 5-18-15: Two (Unrelated) Lessons That Seem Hard to Learn

Daniel J.B. Mitchell

Two recent events suggest to me that there are certain lessons which – despite repeated experience – seem hard to learn. One such lesson or non-lesson involves a micro issue: employer-based incentive systems. The other involves a macro issue: international trade policy.

Incentives

During the past couple of weeks, there have been headlines about litigation against Wells Fargo Bank because employees engaged in marketing the bank's services apparently opened accounts for customers which they hadn't ordered.[28] But Wells Fargo is not unique in such activities. Readers may be familiar with the practice of "cramming," the putting of charges on phone bills that weren't ordered.[29]

If you reward employees for undertaking certain actions – or penalize them if they don't reach certain goals – such practices are inevitable. Recently, for example, school teachers in Atlanta were put on trial for faking student test scores (the results of which affected their careers).[30] From time to time, there are complaints involving traffic ticket quotas within police departments.[31] I recently attended a presentation on the use of forbidden drugs by athletes at the Olympics and other contests.[32] The list is endless.

Usually, explicit incentive systems are promoted in human resources circles as "pay for performance." The abstract concept seems so enticing. Employers have an "agency" problem, which in non-economics jargon terms comes down to saying they need to find ways to get the help to do what they want. So why not just pay the help on the basis of what they accomplish for the employer rather than just for time spent on the job? Align the interests of the help with those of the employer, etc., etc., etc., blah, blah, blah.

You don't have to be a true believer in rational economics to be attracted to the idea of pay for performance. Research in behavioral economics – the intersection of economics and psychology – in no way contradicts that idea that you can influence behavior through systems of reward and penalty. The key word, however, is "behavior." Behavior can definitely be altered. But it is unlikely that any reward system can fully align interests of the agent and – to continue the jargon – the "principal," i.e., the employer. You will induce a behavioral change by altering the surrounding set of rewards and penalties. Whether you get the *desired* behavior is entirely another issue.

So when you read…

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[28] http://www.latimes.com/business/la-fi-wells-fargo-class-action-20150515-story.html. Full disclosure: The author is a Wells Fargo customer and has not had the problem described in the article.

[29] https://www.consumer.ftc.gov/articles/0183-mystery-phone-charges; http://www.cleveland.com/consumeraffairs/index.ssf/2015/05/does_sprint_or_verizon_owe_you.html

[30] http://www.usatoday.com/story/news/nation/2015/04/30/atlanta-educators-resentenced/26643997/

[31] http://www.latimes.com/local/lanow/la-me-ln-whittier-ticket-quotas-20150304-story.html

[32] https://ia800309.us.archive.org/33/items/EmeritiReceptionAwards51315/Emeriti%20meeting%20Catlin%20presentation%205-13-15.mp3

"*Wells Fargo officials said they make ethical conduct a priority and punish or fire employees who don't serve customers properly. They acknowledged the bank's strong focus on selling, but said it is intended to benefit customers by identifying their needs*."[33]

…just take it as a symptom of a lesson that seems hard to learn. Pay for performance is a great slogan, but tough in practice to implement effectively. The fact is that you can never do it right, if by "right" you mean perfect. At best there are some arrangements that may work better than others and all systems will produce some degree of perverse behavior. But "may work better than others" is not a catchy slogan, particularly if you are in the business of trying to pitch a particular system.

Trade Policy

President Obama is trying to obtain "fast track" authority from Congress on an international trade agreement known as the Trans-Pacific Partnership (TPP) and is running into resistance, especially within his own party.[34] Under fast track, the Congress can't amend the proposed deal but essentially can only accept or reject it as a whole. One of the sticking points in Congress is a demand that the deal include a mechanism for dealing with foreign currency manipulations. Such manipulations occur when exchange rates relative to the dollar are kept at levels that make foreign production costs artificially cheap. The result has been a chronic negative trade imbalance – about which past Mitchell's Musings have repeatedly dealt - that ends up particularly hurting manufacturing in the U.S.

It's a Good Thing that the currency manipulation problem is being raised in the context of TPP although, as we have long noted, the problem much pre-dates TPP and has been an issue since at least the 1980s. However, as those folks now emphasizing the issue concede, in theory currency manipulation is already against the formal international rules that are supposed to govern trade. Their approach, however, is to improve the enforcement mechanisms.[35]

The fact is, however, that negotiated bureaucratic enforcement mechanisms are ill-suited to deal with the issue. They are slow moving and a form of political litigation. A complaint – to be successful – must prove manipulation and inherently must single out countries doing it. But singling out villains is a problem since the same countries that would be singled out are those from which the U.S. wants cooperation in other matters. To be blunt, China would be named in any such complaint mechanism. But the U.S. wants cooperation from China in dealing with Iran and North Korea, to take two current examples. Japan would surely be named in a complaint. But the U.S. seeks Japanese cooperation in dealing with China.

What would be the likely result were complaints made against offending nations? A probable outcome would be that the offender would make a relatively minor currency adjustment for some period and the result would be heralded as a sign that the problem would be addressed over time. Villains reluctantly named, complaints, and assurances of corrections over time has in fact been the history of the currency

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[33] http://www.latimes.com/business/la-fi-wells-fargo-sale-pressure-20131222-story.html

[34] http://www.huffingtonpost.com/2015/04/24/obama-tears-into-elizabet_n_7137854.html

[35] http://s2.epi.org/files/2015/stop-currency-manipulation-in-the-trans-pacific-partnership.pdf

manipulation issue. It hasn't fixed the problem in the past. New bureaucratic procedures are not likely to make much difference in the future.

We have noted in past musings – in fact a musing as recent as April 27 - that there is a remedy that was proposed in the 1980s and that involves no tribunals and no villains. It relies instead on a market mechanism.[36] It was proposed by financier Warren Buffett in an op ed in the *Washington Post*, received its 15 minutes of fame, and then was promptly forgotten.[37] In essence, Buffett's proposal was a variation on what we now call the cap-and-trade approach that is used for air pollution control purposes in order to substitute a market mechanism for bureaucratic regulations and procedures.

Under the Buffett plan, U.S. exporters would receive vouchers allowing imports of the same value as their exports. They could exercise them directly (for imports) or sell them in the market to other importers. Imports could only occur with the requisite vouchers. The result would be balanced trade, i.e., value of U.S. exports = value of U.S. imports with beneficial effects on U.S. manufacturing in particular, both on the export side and for those sectors facing import competition. The *de facto* exchange rate – the combination of the actual exchange rate and the cost of the voucher – would be the exchange rate consistent with a zero trade balance. And, yes, there would be some administrative costs and complications. But there would be no villains, no tribunals, and no token adjustments to smooth international relationships.

What is the actual prospect of our learning lessons from the history of the currency manipulation issue and adopting some variant of the Buffett plan? The odds, unfortunately, are about the same as the prospect that there won't be periodic waves of excitement in the future over the concept of pay for performance. The only thing we learn from history is… well, you know the rest.

[36] http://employmentpolicy.org/page-1775968/3318550#sthash.WuKmYVo9.dpbs

[37] https://drive.google.com/file/d/0BzVLYPK7QI_4NmYyOGQzYzQtMWU1MC00MDEwLWI0ZGUtMzYxYmM2OTY5NjMz/view?usp=sharing. Warren E. Buffett, "How to Solve Our Trade Mess Without Ruining Our Economy," May 3, 1987, *Washington Post*, page B1.

Mitchell's Musings 5-25-15: A Necessary But Not Sufficient Explanation

Daniel J.B. Mitchell

You have probably seen the headlines about the Los Angeles city council adopting a minimum wage ordinance that would raise the minimum in steps to $15/hour by 2020.[38] There has been the usual debate about the impact of the minimum, i.e., would it cause job loss or reduced hours or how well does it target low-income families as opposed to low-wage workers? Raising the wage in the City of Los Angeles is more complicated than doing it at the state or federal level. The City is part of a larger metropolitan area in Los Angeles County with over 80 other cities and unincorporated areas and so the impact of raising the wage in one city depends partly on what the other areas do.

However, much of the attention has been focused on the political side. The standard view is that the minimum wage increase in LA is a sign of the increased influence of organized labor which backed the wage hike. And it comes in the context of other political events in California, not just in LA, in which union political influence has been at issue.

It should be noted that the notion that all politics are local comes into play in such discussions. For example, there was recently a city council election in LA in which an "outsider" candidate up-ended another candidate said to be favored by the political establishment. But if you look at that race, you find that both the outsider and the insider had union support, albeit support from different unions. And the issue on which the outsider ran was a local concern about excessive development in the council district.[39]

It is certainly the case that even when unions side with just one candidate, their pick does not automatically win. In the San Francisco Bay Area recently, two Democrats ran against each other as part of the state's "top-2" non-partisan electoral system.[40] One of them, however, was the target of union enmity, apparently due to his earlier opposition to a transit strike and certain other activities. But he nonetheless won the race for a seat in the California state senate despite heavy union support for his opponent. The result has been debate on whether union influence is now on the wane in California.[41] A more accurate view, however, is that influence ebbs and flows and nothing is a sure thing in close political contests.

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[38]http://www.latimes.com/local/lanow/la-me-ln-minimum-wage-hike-20150518-story.html

[39]Details of the race are at: http://www.latimes.com/local/lanow/la-me-ln-polls-close-20150519-story.html; http://www.latimes.com/local/lanow/la-me-ln-strong-support-in-koreatown-propels-david-ryu-to-la-city-council-victory-20150520-story.html; http://www.latimes.com/local/lanow/la-me-ln-strong-support-in-koreatown-propels-david-ryu-to-la-city-council-victory-20150520-story.html.

[40]Voters by ballot proposition created the top-2 system. There is first a primary in which all candidates, regardless of party, run against one another. The top-2 vote getters then oppose each other in the general election. Because the primary is non-partisan, the top-2 candidates may both be from the same political party.

[41]For details, see http://www.sacbee.com/news/politics-government/article21331569.html; http://www.sacbee.com/news/politics-government/capitol-alert/article21451875.html; http://www.latimes.com/local/political/la-me-pc-labor-state-senate-democrats-20150520-story.html; http://www.foxandhoundsdaily.com/2015/05/steve-glazer-won/.

Coming back to the LA area, but this time in the school district, there was a recent race for two seats on the district board. The teachers' union backed a candidate in both races. One won and the other – opposed by a candidate linked to the charter school movement – lost.[42] As in the Bay Area case, the outcome led to political analyses concerning union influence in elections and whether the election signaled a rise or fall of such influence.

It is stating the obvious to note that unions can influence elections through monetary contributions and direct get-out-the-vote actions. Apart from elections, unions can lobby and mobilize support for legislative actions at the local, state, and federal levels. But is there more than that which can be said and which the current political debates are missing?

If we go back to the public policies that emerged from the Great Depression of the 1930s, there was a mix of public regulation combined with an assumed role that unions would play in the labor market. In essence, certain minimums and safety nets were established by law, e.g., the federal minimum wage, unemployment insurance, and Social Security. But it was widely assumed that workplace standards above the minimums would be set through collective bargaining once the federal government, through the Wagner Act of 1935, set the ground rules for union representation elections and for bargaining.

As is well known with hindsight, unions certainly became more influential over time in setting workplace standards. But they never achieved significant penetration in some sectors of the economy and in the southern states. And after the 1950s, their position in the private sector began to erode, a process of decline that accelerated in the 1980s and continues. Public sector unionization, which grew in the 1960s and beyond, initially tended to mask the private decline. But nowadays, the image of a union worker is more likely to be a teacher or police officer than a factory operative.

The upshot is that as the realities of the labor market depart more and more from the Great Depression-era assumptions underlying public policy, i.e., that unions would be the primary instrument of private employment regulation. A vacuum has developed. Unions regulate only a small fraction of private employment and so there is latent pressure for governmental regulation to fill the vacuum. I use the word "latent" because absent an organizing force, the ability to express those pressures is lacking.

What has occurred in California is that although private sector union decline has followed the national trend, public sector union coverage has exceeded the national average. Private unions have only a limited direct influence in the workplace in California, but they are linked to public sector unions which provide a base for developing political influence. Indeed, one of the largest and most influential unions in California is the Service Employees International Union (SEIU), which has both public and private membership.

In short, to some extent the bargaining role of unions and the political approach to labor market regulation are substitutes. As the former has declined in the private sector, there is latent pressure for the latter. And in California, in part because of union strength in the public sector, unions provide a mechanism for activating that latent pressure. In short, unions are necessary to activate the latent pressures for workplace regulation. But they tend to do so when they have limited influence in affecting conditions in private

[42]For details, see http://www.latimes.com/local/education/la-me-lausd-election-money-20150515-story.html and http://www.latimes.com/local/lanow/la-me-ln-first-for-la-charters-20150520-story.html.

employment via bargaining. Overall strength but private weakness are the necessary and sufficient conditions for the kind of political activity seen in LA and California.

At least in states which have a significant public sector union base, you are likely to see more emphasis on legislative labor market regulation. The line between what is a floor minimum standard and what is something more will tend to blur. For example, at the state level in California, there is a bill pending in the legislature at this writing requiring that fast-food restaurants give employees two weeks advance notice of their work schedules.[43] More broadly, there is a current push to create requirements for paid sick leave nationally.[44]

Under the old Great Depression model, such conditions of work were expected to be left to collective bargaining. Now they find their way to legislatures and city councils.[45] Under the old model, there was an element of imitation in union-management settlements, i.e., features negotiated in one contract might be adopted in another. The same thing now tends to happen in regards to political regulation. All politics are local but they tend to spread from one locality to another.

[43]http://www.leginfo.ca.gov/pub/15-16/bill/asm/ab_0351-0400/ab_357_bill_20150501_amended_asm_v93.pdf

[44]http://www.sfgate.com/nation/article/Paid-sick-leave-emerging-as-next-front-in-6273938.php

[45]At one point in the enactment of the Los Angeles minimum wage, there was also going to be some form of paid leave. It was dropped from the recently enacted law but may return as a supplement.

Mitchell's Musings 6-1-2015: The Morning After in California

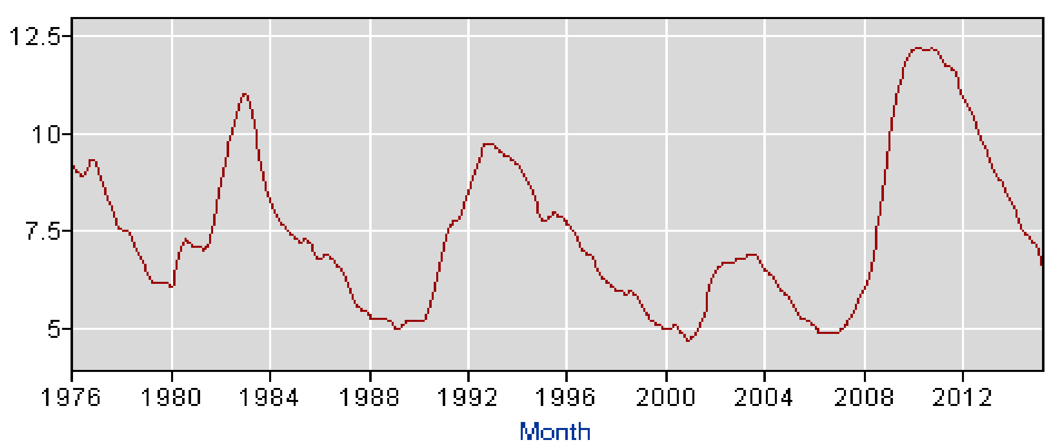
Daniel J.B. Mitchell

In past musings, I have noted problems in interpreting opinion polls taken about complex public policy issues in which the pollster has to explain to (and frame for) respondents what the issue is. Such polls tend to produce opinions about issues on which the respondent didn't have a real opinion since the explanation (framing) was needed to produce answers.

On the other hand, it is interesting to look at public sentiments on general circumstances in which respondents are likely to have knowledge or, at least, opinions. One such circumstance is the condition of the labor market. Another is personal economic well-being. Respondents are likely to have some perception of the labor market, either from personal experience or from observations based on family, friends, and what is happening at their own employer. Such opinions may or may not be accurate for the labor market as a whole, of course. Respondents are likely in addition to have knowledge of their own personal circumstances.

California was harder hit by the Great Recession than average in the U.S., in part because the housing bubble/bust and shaky mortgage problem was disproportionately located in the state. Nonetheless, as the chart below indicates, the unemployment rate has been falling steadily and its latest reading on a seasonally adjusted basis was 6.3%. That level is higher than the U.S. average of 5.4% but during the recovery the California-U.S. gap has been narrowing. Say what you want, things are better now than they were and have been improving.

California unemployment rate, seasonally adjusted



The California Field Poll regularly asks respondents about their labor market and general economic perceptions and whether they are better off than a year before. So what did Californians think about the unemployment situation and the general economy in prior periods when the unemployment rate was about 6.3% and trending down?[46] Such earlier periods turn out to be 1987 (the era of "Morning in America"), 1997 (the dot-com boom), and 2004 (the housing boom). What were respondents to the Field Poll saying then and now?

Let's start with the labor market. Respondents – registered voters - were asked *"How serious a problem do you think unemployment is in California at this time?"* Below are their answers:

	Very Serious	Somewhat Serious	Not Serious
May 2015	39%	46%	14%
Morning 1987	22	45	25
Dot-com 1997	na	na	na
Housing 2004	35	43	19

Although we don't have poll data for the corresponding dot-com year, it appears that respondents during the Morning in America period were more blasé about unemployment than are current respondents. Housing boom respondents were somewhere in between the two perceptions. The perception that the labor market has problems carries over into the characterization of the general economy. When asked to characterize the current state of the California economy, registered voters responded as shown below:

	Bad Times	In-between/ Not Sure	Good Times
May 2015	50%	17%	33%
Morning 1987	22	24	51
Dot-com 1997	42	23	33
Housing 2004	53	22	24

Again, the Morning in America respondents were less likely than those in subsequent corresponding period to perceive conditions as bad. Respondents in the later periods seem to have experienced a lag in recognizing the recovery. An interesting question is whether the respondents were reacting to their personal circumstances. Did they have a perception that their own situations had not improved? Registered voters were asked if their personal financial conditions or those of their family had improved (Better Off) or worsened (Worse Off) over the past twelve months.

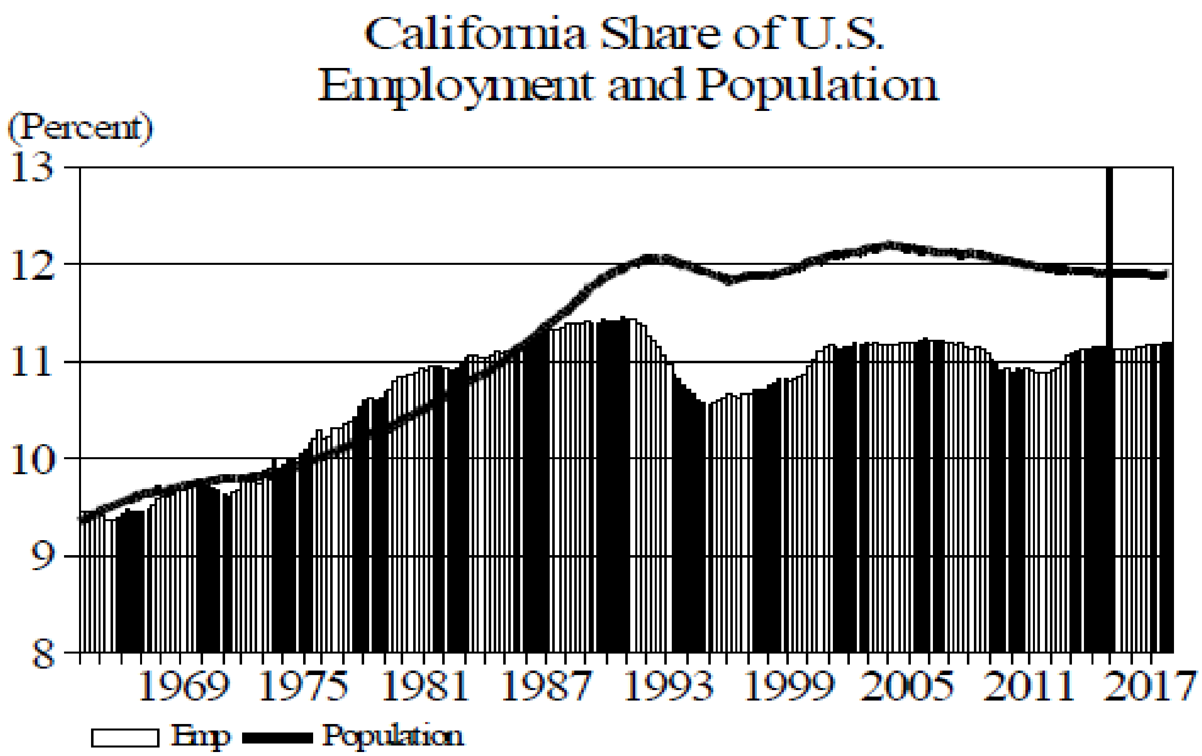
	Better Off	No Change	Worse Off
May 2015	48%	25%	27%
Morning 1987	49	26	25
Dot-com 1997	42	31	27
Housing 2004	41	32	27

As the table indicates, a strong plurality of registered voters report an improvement at present, about the same proportions found during the Morning in America era. In fact, none of the periods show much

[46] Data cited from the Field Poll can be found at http://www.field.com/fieldpollonline/subscribers/Rls2508.pdf

difference from current perceptions of personal circumstances. So what accounts for the post-Morning perceptions of fewer problems in the labor market and in the general economy in California than we found now? The poll data themselves don't answer that question so only a guess can be ventured. But it does appear that a structural shift occurred after the 1980s.

There was indeed a structural shift around 1990 that corresponded to the end of the Cold War and thus the stimulus that had been provided to the California economy through federal military spending. As the chart below shows, whether measured by population or employment, California grew faster than the U.S. until the 1990s.[47] Thereafter, it grew in population only at around the U.S. national rate. And its employment level fell relative to the state's population. Until the late 1980s, California population and employment more or less tracked each other. Now California's population share is around 12% of the U.S. level but its employment share is around 11%. So state growth slowed with the end of the Cold War and there are also fewer workers in relative terms available to provide income support to the population.



In short, the end of the era of super-normal Cold War growth seems to have left a permanent scar on the California psyche. You can point to falling unemployment. You can point to the current respite from the state budget crises that afflicted California during the first half of the 1990s and much of the period after 2000. But Californians – or at least those who are registered to vote – still have a sense that things are not

[47]The chart is taken from the UCLA Anderson forecast of March 2015.

what they should be. It’s no longer Morning in California and hasn’t been for a quarter of a century. Day is supposed to follow night but how long we will have to wait in California for a new dawn is unclear.

Mitchell's Musings 6-8-15: Buy Low/Sell High and Bet on the Winning Horse

Daniel J.B. Mitchell

An item in the news caught my eye dealing with the Federal Reserve and "transparency." Specifically, a column appeared in the *Los Angeles Times* – apparently reflecting a similar column in the *Wall Street Journal* – indicating that you shouldn't rely on Federal Reserve chairs for stock market advice.[48] The column noted that after former Fed chair Alan Greenspan made his famous "irrational exuberance" warning, you could have lost a lot of money if you had pulled your investments at that time from the stock market, even taking account of subsequent events. One such event was the dot-com bust and another was the later housing bust. Nonetheless, timing is everything; if you sold at the bottom you might have lost but if you held on to your shares you would have come out ahead.

The column goes on to note that current Fed chair Janet Yellen has noted high valuations of some techy sectors of the stock market but those shares also went up after she sounded a cautionary note. Pay no attention to the Fed chair seems to be the lesson to be drawn. But is that so?

There is the old bit of (useless) advice that you should "buy low" and "sell high" to make money. Indeed, a quick Google search failed to reveal even an attribution of that quote – because it is so commonly used to illustrate how it really tells you nothing. The advice is useless since it fails to tell you about timing – when exactly is the market low and when is it high? By itself, it is as unhelpful as advising you that when betting on a horse race, you should always bet on the winning horse.

Useless though they are, both buy low/sell high and bet-on-the-winning horse are bits of *micro* advice. They may be useless but they are aimed at individual investors or betters. Fed chairs don't purport to be micro advisors who are competing with stock brokers or race track tip sheets. They do have *macro* concerns, however. Sometimes bubbles and the bursting of those bubbles can be costly to the overall economy. The dot-com/boom/bust provoked a mild recession. On a regional basis in my home state of California, its impact was greater than in the U.S. as a whole, leading to – among other effects – a state budget crisis and the recalling of a governor.

[48] http://www.latimes.com/business/hiltzik/la-fi-mh-want-to-make-money-in-the-stock-market-dont-listen-to-the-fed-chair-20150602-column.html

The housing bubble/burst, on the other hand, produced the Great Recession. By many measures, particularly in the labor market, we are still not fully recovered from that recession. So surely, Fed chairs have legitimate concerns about such episodes. Their concerns are not whether you as an individual could make money by a long-term buy-and-hold stock strategy but what happens to the general economy when there are panics and market collapses.

It may well be that making statements about irrational exuberance is not especially effective at avoiding such exuberance and that it has no effect on financial busts. It may be – in fact it likely is – the case that statements by Fed chairs are no more useful at telling you at the micro level how to time investments than telling you to buy low/sell high. But it seems wrong to imply that Fed chairs shouldn't openly share their macro policy concerns in public forums. Surely, those folks who call for more "transparency" at the Fed would be unhappy with such a position. What could be more transparent than a Fed chair sharing her policy concerns?

If Janet Yellen is expressing nervousness about stock market valuations, she could be telling you that she is leaning toward raising interest rates to cool things down. It's likely that she is not alone in such leanings among Fed policy makers. She might be wrong in her evaluation about the market. But now you know how she – a significant player in monetary policy – feels. Whether you want to sell your stocks on hearing what she has to say is your business. Whether your investment choices should be made on that basis is your affair. But whether the Fed raises interest rates is everyone's business because of the macro effects, even the business of those who have no stock market investments and are just doing such real world things as seeking employment.

Mitchell's Musings 6-15-15: Did Anything Really Happen?

Daniel J.B. Mitchell

Much was made of a "slowdown" of the economy in the first quarter of 2015. According to the latest release from the U.S. Bureau of Economic Analysis – which is the second estimate for that period – in the first quarter real GDP *declined* at an annual rate of 0.7% in contrast to an initial report of an annualized *increase* of 0.2%.[49] The estimate of a decline brought headlines which didn't always reflect the fact that these are annualized numbers, i.e., the actual decline (if there was one) was only about one fourth of 0.7% per quarter.[50] CEOs are said to have revised down their growth estimates, perhaps after hearing from their corporate economists about the decline.[51] (Question: Are CEOs fully conversant with BEA methodology for producing real estimates from nominal data and then seasonally-adjusting the results? It is likely that most economists who use the BEA data would have to look up the technical details.)

Real GDP data are typically presented in seasonally-adjusted form so the fact that the winter is a slow period generally shouldn't affect the numbers. However, the winter was especially severe and therefore the seasonal factors – which are based on historical patterns – possibly understated the effects of bad weather.[52] Then again, as we have noted in prior musings, the methodology for calculating real GDP from the nominal figures is arcane. So we are talking about questionable seasonal factors imposed on arcane and preliminary estimates.

Given the uncertainties, let's look at the labor market and see if anything really exciting has occurred in early 2015. Below is a chart of twelve-month percentage nonfarm payroll employment

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[49]http://www.bea.gov/newsreleases/national/gdp/2015/pdf/gdp1q15_2nd.pdf.

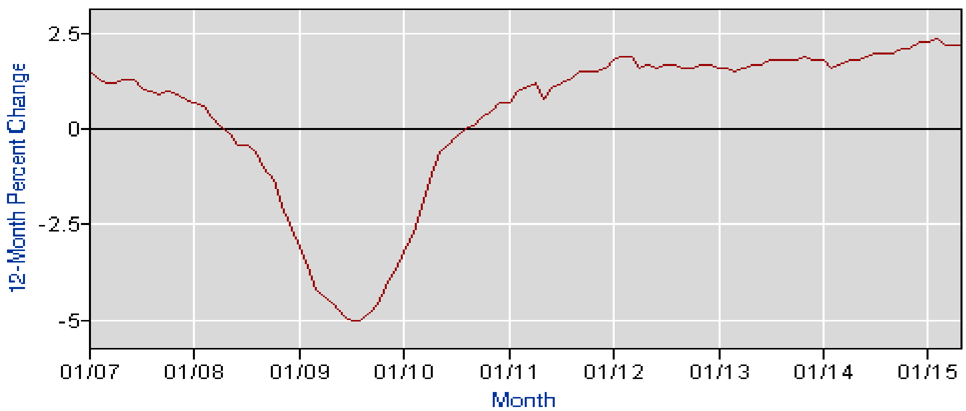
[50]The headline in the *New York Times* was "U.S. Economy Contracted 0.7% in First Quarter." See http://www.nytimes.com/2015/05/30/business/economy/us-economy-gdp-q1-revision.html. The article's text noted that the estimates were annualized.

[51]http://www.reuters.com/article/2015/06/08/us-usa-economy-ceo-survey-idUSKBN0OO24I20150608.

[52]It has been argued that there are other problems with the winter seasonal adjustment. See http://www.frbsf.org/economic-research/publications/economic-letter/2015/may/weak-first-quarter-gdp-residual-seasonality-adjustment/

growth. It is based on actual employment levels (<u>not</u> seasonally-adjusted levels) compared with the same month a year earlier.[53] So if winter was extra-severe in 2015 (which it undoubtedly was), this method of dealing with the seasonal effect will understate the impact of weather.

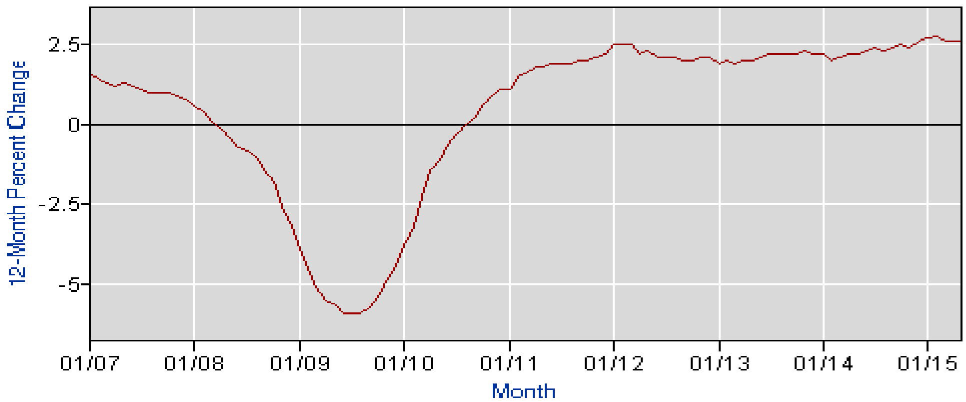
Twelve-Month Percent Change in Nonfarm Employment



When you look at the chart, you see a slight slippage in the employment growth rate in early 2015. But even with the slippage – which may be entirely a weather-related event – the growth in employment was <u>above</u> the level we have seen earlier in the recovery. If we look only at the private sector, growth rates on a 12-month basis are a bit higher than when government is included. Nonetheless, except for a brief period back in early 2012, growth rates were generally below those so far in 2015.

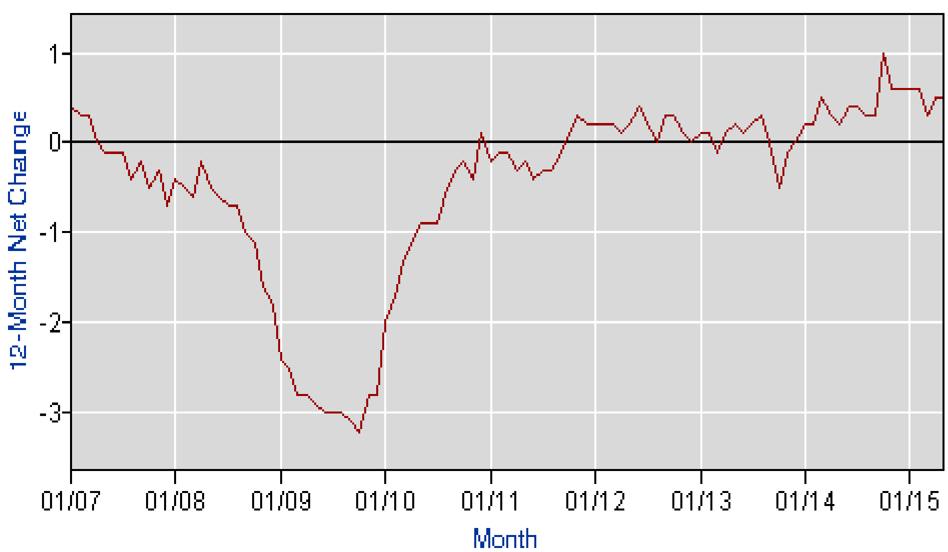
Twelve-Month Percent Change in Private Payroll Employment

[53]All employment data cited are from the U.S. Bureau of Labor Statistics.

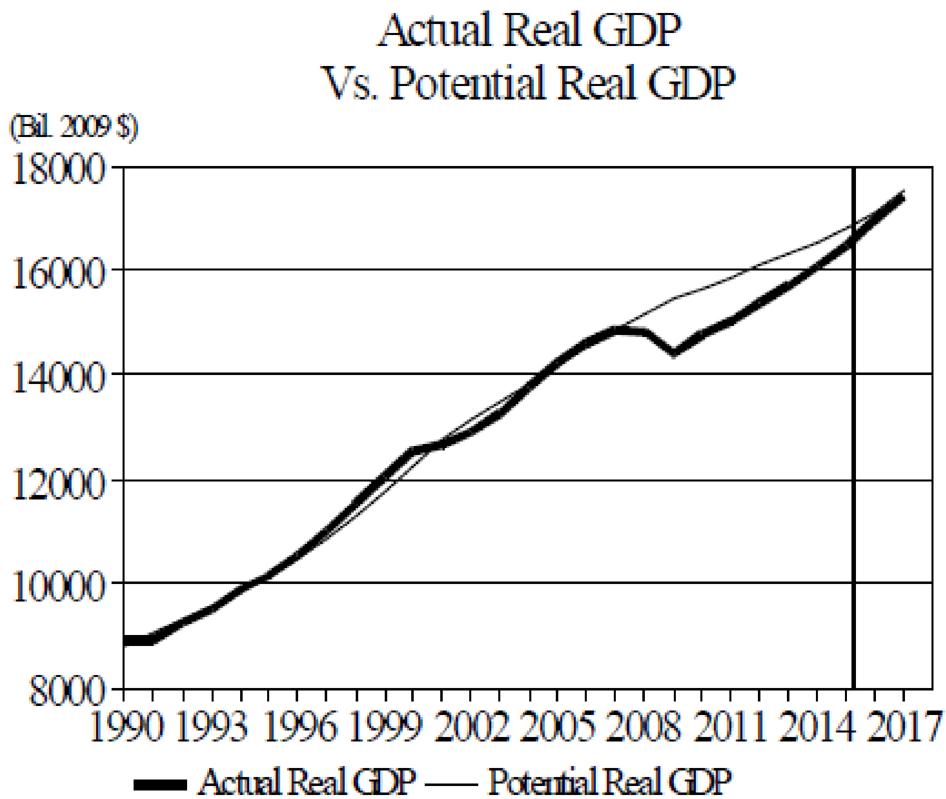


If we look at the employment-to-population ratio from the Current Population Survey (Household Survey), the results are similar. The improving trend continued into early 2015 and in fact was stronger in that period than in much of the earlier recovery. In short, when you look at the labor market and put the numbers into perspective, it appears that there really wasn't a meaningful slowdown. At most there was a snow-down, CEO pessimism notwithstanding.

Twelve-Month Percentage Point Change in the Employment-to-Population Ratio



What matters in terms of employment and the general direction of the economy is the underlying trend, not short-term noise. Blips up and down are often just statistical aberrations and should not be heralded as a structural shift. The most recent UCLA Anderson Forecast for the U.S. economy as an example tells a story of a long and painful deviation from capacity due to the Great Recession and a slow recovery thereafter. As the chart below from that Forecast indicates, at current rates of (projected) growth, it will take another couple of years to get back to where we should be. Of course, it is possible that some unforeseen events could intervene before we get there. But nothing fundamental happened in the first quarter of 2015 that should change that perception.



Source: UCLA Anderson Forecast, June 2015.

Mitchell's Musings 6-22-15: Can We All Get Along?

Daniel J.B. Mitchell

Rodney King asked the title's question after the Los Angeles Riots of 1992. Actually, he said a lot more than that.[54] But the question now seems more applicable to academia than to urban riots.

These days, academia is seemingly beset with controversies that can loosely be described as having something to do with "diversity" and/or academic freedom. Because of concerns about sexual harassment and assault on U.S. campuses, there has been increased "Title IX" activity.[55] (Title IX generally bans sex discrimination in higher education as a condition for federal funding.) Two issues have been raised. One is how well university bureaucracies are equipped to adjudicate matters that may in some cases be criminal in nature. More specifically, the question has been whether what they do in response to complaints charging harassment or assault meets standards of due process that would be applied in the outside legal system.[56]

A second concern has to do with issues of free speech and academic freedom. A faculty member – Laura Kipnis of Northwestern University - who wrote a piece for the *Chronicle of Higher Education* was the subject of a complaint under Title IX by students which led to an Orwellian investigation.[57] Various rationales have been offered for what occurred at Northwestern, but none pass the sniff test. (The charges were eventually dropped.)

Apart from Title IX issues, there have been more general controversies about such matters as a push for mandatory "trigger" warnings on course syllabi (alerts that readings or class topics that might offend someone were contained in a course).[58] Related to such triggers is a supposed justification for misbehavior on the grounds that the perpetrator was "triggered" and therefore somehow not responsible for his/her actions.[59] In addition, various campaigns have developed to discourage particular speakers, viewed as having

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[54] https://www.youtube.com/watch?v=tgiR04ey7-M

[55] https://nces.ed.gov/fastfacts/display.asp?id=93

[56] http://www.thecrimson.com/article/2015/2/18/law-profs-academic-freedom/

[57] http://www.huffingtonpost.com/2015/05/31/laura-kipnis-essay-northwestern-title-ix_n_7470046.html

[58] http://www.latimes.com/opinion/editorials/la-ed-trigger-warnings-20140331-story.html

[59] http://articles.latimes.com/2014/mar/26/news/la-ol-ucsb-professor-pro-life-demonstrator-trauma-trigger-censorship-20140325

expressed incorrect opinions or having supported incorrect actions, from giving graduation addresses.[60] Boycotts of Israeli universities and academics have been promoted and any possible tension with academic freedom by such actions has been denied.[61]

Now it would be nice to sort these varied developments and discover a unified theory of their underlying cause. It would be nice to be able to say that campuses undergo waves of "activism" and these events are just the return of the 1960s or the 1930s. But I wasn't around in the 1930s and, although I was around in the 1960s, I don't remember anyone campaigning for trigger warnings back then. In any event, I don't have a theory of "waves" and why they arise. If you really push me, I would guess that external political polarization has something to do with these campus problems this time around. The fact that in the Internet age norms of good behavior have been loosened may also be connected.

I would say, however, that hard-and-fast administrative rules of appropriate conduct are unlikely to resolve such issues. Let's take "triggers." I don't think it would be a good idea to mandate course trigger warnings because it is impossible for instructors to know for sure all the topics that might cause offense or distress. What would happen if something I considered innocuous turns out to offend you? Do you sue me? Am I subject to university sanction? On the other hand, if instructors want to include warnings voluntarily because they have a sense that prospective students should know about a particular sensitive course topic, that approach is fine with me. It's a bit like the warnings about graphic content sometimes given before radio or TV news reports or like the rating system used for movies.

On the other hand, an absolute right that you can say anything in class or elsewhere won't work, either. There is the old qualification about not being free – despite free speech guarantees – to shout fire in a theater when there is no fire. But it is interesting to note that the fire example comes from an old U.S. Supreme Court decision against the exercise of speech in opposing military recruitment during World War I. You might not feel that the two activities – a false cry of fire and pacifism - are equivalent.[62]

Thus, the only rules available are fuzzy ones involving common sense, introspection, empathy, and purpose. If you have some goal – whether it is furthering or opposing some policy or simply conveying information to

[60] http://time.com/104142/haverford-commencement-speaker/ and https://www.insidehighered.com/news/2014/10/30/berkeley-chancellor-blocks-attempt-rescind-invitation-bill-maher

[61] https://www.insidehighered.com/news/2014/11/10/american-studies-association-seeks-broaden-public-image-after-boycott

[62] https://www.law.cornell.edu/supremecourt/text/249/47

students or others – giving offense to your audience is unlikely to be effective and may in fact backfire. Telling them that they have no right to an opinion or that you don't care what their opinion is probably won't help further your objective.

Let's take an example from the debate over gay marriage in California. In 2000, state voters passed Proposition 22 banning gay marriage. The then-mayor of San Francisco Gavin Newsom, in a test of Prop 22, permitted gay marriages in that city until an injunction brought a halt to the process. During that episode, Newsom proclaimed, "*It's going to happen, whether you like it or not!*" Eventually, the California Supreme Court voided Prop 22 and opponents of gay marriage put Proposition 8 on the 2008 ballot with a seemingly tighter marriage ban. Those promoting Prop 8 and its ban on gay marriage placed an ad on TV featuring Newsom and his "whether-you-like-it-or-not" remark as both the lead-in and ending statement of the ad.[63] Prop 8 passed, reinstating the ban, but its margin of victory was much narrower than that of Prop 22: 52% in favor for Prop 8 in contrast to 61% for Prop 22. The state Supreme Court then flipped and upheld the Prop 8 marriage ban.

Now we know with hindsight that public opinion was indeed shifting away from favoring a ban on gay marriage.[64] I can't tell you that the TV ad provided the narrow margin of victory for opponents of gay marriage despite the trend, but my suspicion is that voters did not like being told that what they did or thought had no value. (Click on the ad and see if you don't think it was effective.) In short, it would have been better for the opponents of Prop 8 if Newsom hadn't said what he said. But, of course, he had the free speech right to make the statement. The issue is not freedom but prudence.

Or let's take it down to a more local academic event. (I am going to disguise the persons involved or the topic of this event by not giving details for reasons that are evident.) I recently attended a presentation by a student team that had developed a consulting report for a group that was promoting a program which the general public opposed in the particular region involved (not in California). In their presentation, the students analyzed and proposed various strategies for establishing the program despite the lack of local public support. One of the faculty members in attendance (not yours truly) in the question and answer period that followed the presentation asked whether, given the popular opposition, the team had considered an approach aimed at changing public opinion. There was a long pause after the question was

[63] https://www.youtube.com/watch?v=4kKn5LNhNto

[64] http://www.washingtonpost.com/politics/courts_law/poll-gay-marriage-support-at-record-high/2015/04/22/f6548332-e92a-11e4-aae1-d642717d8afa_story.html

posed until one student on the team essentially said that since public opinion on the issue was immoral, they hadn't considered such an option.

From a purely pragmatic view, wouldn't you want at least to *consider* trying to persuade rather than override or repress? Possibly, you might decide that persuasion was not feasible but it's hard to rationalize not weighing the option. Of course, some people might feel a need to be the tellers of truth and morality, regardless of whether it helped or hindered whatever they were seeking. You have the right to think that way, but it borders on fanaticism or just self-centered ego satisfaction. It may also represent a failing to understand how others may react to what you are doing or saying.

Finally, there is the messy outside world. In the Middle East, for example, it turns out that removing nasty dictators can unleash far worse mayhem and massacre. Yet I continue to hear very firm views on what should be done there. Given recent history there, it's hard to see how anyone can be a True Believer in a particular course of action, but there is no shortage of them. Going back in time, despite the army of supposed Soviet experts that the U.S. maintained during the Cold War, none foresaw the collapse of the Soviet Union. Generally, the lesson to be drawn is that when it comes to foreign policy and domestic policy, there is no mechanical certainty. Yes, some opinions are more informed than others and ultimately someone has to make decisions even when outcomes are not certain. Debate is fine, but a bit of humility is often advisable.

Generally, the critique of political correctness on campuses nowadays has come from the right side of the political spectrum, mainly because such correctness tends to tilt left. But universities cannot assume, therefore, that only right wingers will be put off by excesses. A popular topic in campus diversity training programs is "microaggressions" which are statements or actions deemed potentially offensive to minorities or women. The generally libertarian Volokh Conspiracy blog – which is carried on the *Washington Post* website – reproduced a list of examples of microaggressions from the University of California system. The "microaggressions" listed included such statements as "America is a melting pot" and "America is the land of opportunity."[65]

I suspect that many voters – not just those on the right - in California and the nation might well view the inclusion of such statements on the list as "microaggressions" *aimed at them and their beliefs*. Did anyone

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[65]http://www.washingtonpost.com/news/volokh-conspiracy/wp/2015/06/16/uc-teaching-faculty-members-not-to-criticize-race-based-affirmative-action-call-america-melting-pot-and-more/ and http://www.ucop.edu/academic-personnel-programs/_files/seminars/Tool_Recognizing_Microaggressions.pdf

consider that possibility when the list was put together? It seems doubtful despite the fact that, particularly for public universities, the views of those voters matter.

In short, if the answer to this musings' title question is that on contemporary campuses we *can't* all get along, then what is lacking is prudence, humility, and common sense. It's hard to create rules that will fix that lack.

Mitchell's Musings 6-29-15: Can We All Get Along? – Part 2

Daniel J.B. Mitchell

In last week's musing, I discussed the issue of academia's struggles with such matters as "micro-aggressions" and "triggers."[66] Basically, the message was that university policies around such matters have the tendency either to provoke external ridicule – political correctness gone wild – or abuse by university administrators. Those are the downsides.

What I did not provide in that musing was what university administrators should do – as opposed to what they shouldn't do. Of course, sometimes it is enough just to point out what shouldn't be done. However, university administrators do receive complaints about alleged micro-aggressions and apparently do feel compelled to do something. Furthermore, what got me to thinking further about this matter was a public radio broadcast here in the Los Angeles area which was triggered (pun absolutely intended) by an op ed in the *Los Angeles Times* by libertarian-leaning UCLA law Prof. Eugene Volokh. His op ed was basically taken from a blog he wrote called the *Volokh Conspiracy* which is carried by the *Washington Post* website.[67] As you might expect, Volokh's op ed and the earlier blog post opposed the micro-aggression training program at the University of California that was mentioned in last week's musing. Subsequently, the *Los Angeles Times* published an editorial essentially endorsing the Volokh position.

The broadcast featured as guests Prof. Volokh and Prof. Derald W. Sue of Teachers College at Columbia University. Volokh essentially repeated the stance taken in his op ed; Prof. Sue took the position that micro-aggressions were real. But he went off track in two ways. First, accepting Sue's point – it remains unclear that universities should take steps that suggest to students and faculty that individuals who say things that seem innocent on their face ("Where were you born?"), or even controversial or provocative things about public policy ("Affirmative action is racist"), should be threatened with penalties.

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[66] http://employmentpolicy.org/page-1775968/3400944#sthash.gMa9n9EC.dpbs

[67] The broadcast ("Airtalk" on KPCC) can be heard at http://media.scpr.org/audio/upload/2015/06/24/Microaggressions_-_Should_they_be_censored_on_college_campuses-d855f9ab.mp3. The original Volokh blog posting is at http://www.washingtonpost.com/news/volokh-conspiracy/wp/2015/06/16/uc-teaching-faculty-members-not-to-criticize-race-based-affirmative-action-call-america-melting-pot-and-more/ and his op ed is at http://www.latimes.com/opinion/op-ed/la-oe-0623-volokh-uc-microaggressions-20150623-story.html. The *LA Times* editorial is at http://www.latimes.com/opinion/editorials/la-ed-microaggression-what-not-to-say-at-uc-20150624-story.html.

Second, when asked about such statements that are said to be micro-aggressions such as “America is the land of opportunity,” Prof. Sue said that particular statement wasn’t true because not everyone who comes to America has *equal* opportunity. But there is nothing in the statement “America is the land of opportunity” that requires the interpretation that “America is the land of *equal* opportunity.” The statement presumably can simply mean that there is more opportunity in America than in some other places (which is presumably a major reason why folks immigrate to the U.S.).

In effect, the conversation veered off from the topic of whether a specific statement might be taken as a “micro-aggression” and whether something should be done to repress it, if so, to whether the statement was true under Prof. Sue’s interpretation. There are statements that are true – “you’ve gained a lot of weight” – but that might not be the best thing to say to someone. We all know that there are statements in everyday conversation that aren’t necessarily true, but sometimes can be the best thing to say. “You look great” said to someone returning after a long illness may not be strictly true, but it can be encouraging to the recipient.

The micro-aggression idea is really a subcategory of a large body of work in psychology and other fields – nowadays even in economics – that involves framing and subtle “nudges” that can influence behavior. My favorite example is a presentation I heard a few years ago by a colleague at UCLA describing an experiment. As I recall it, Asian female student volunteers were randomly divided into three groups and given a math test. Before the test was administered, some students were asked a question about what language their parents spoke at home – a reminder of race/ethnic background. Another group was asked if their dorm was co-ed, a reminder of being female. The third control group was asked a neutral question: something about phone access in their dorm.

The purpose of the experiment was to see what impact the stereotypes of Asians being good at math, but women being poor at math, would have on the results of the math test given to students who fell into both categories (Asian and female). Those students reminded of being Asians scored best. The neutral group came out in the middle. And the group reminded of being female scored the lowest. Apparently, a seemingly-irrelevant question to math produced a behavioral response in math performance.

The math experiment is only one of many such cases. In fact, there is a substantial literature documenting these types of results. There are behavioral labs in universities devoted to research in this area. But note that the behavioral response to what was done in the math experiment could have positive, as well as negative, outcomes. Doing better than the control group on a math test was surely a positive outcome. Put another way, the students reminded indirectly of being Asian were “triggered” to perform better. Perhaps the students in the group who were indirectly reminded of being female by a seemingly-neutral question could be viewed as being the victims of a “micro-aggression.”

Clearly, advertising and marketing are longstanding fields entirely devoted to the notion that what is said – even if irrelevant to a rational choice by consumers - can influence behavioral responses. And there has been no secret about that fact for decades. In the 1950s, for example, there was a popular book – *The Hidden Persuaders* – devoted to informing the public that it was being manipulated in subtle ways that were seen as positive by advertisers but perhaps negatively by the consumers of those advertisements.

Some forms of insurance are denoted by the bad thing they insure against: fire insurance, collision insurance, flood insurance, earthquake insurance. However, there is a reason why what is called “life insurance” is not called “death insurance” even though such insurance is taken out against the risk of dying. In principle, whether you should buy life/death insurance should have nothing to do with its label. But obviously those who sell insurance think that the label matters and that death is not a popular subject. Similarly, there is a reason why opponents of the estate tax call it the death tax instead. Presumably, the label put on a tax should not affect appropriate choices of fiscal policy. But someone evidently thinks that having a tax with “death” in its name it will influence legislative outcomes.

So if you are a university administrator, what can you do to improve “campus climate” without getting yourself into situations where you are held up to ridicule or find yourself defending the indefensible? The fact that condemnation of campus anti-micro-aggression/trigger policy excesses is now moving from libertarian blogs to mainstream news sources (such as the *LA Times* editorial page) should be a warning to university administrators. Mandatory training sessions that resemble authoritarian re-education camps are definitely NOT the way to go. Orwellian investigations without reasonable due process are not the way to go. So what <u>is</u> the way to go?

Academics like research; that’s what they do. The kinds of behavioral studies such as the math experiment noted above *if presented as just that* – interesting research studies – would attract the attention of many academics. So why not start by making such research widely available? Such an effort might well attract an audience – even among the more socially-challenged members of the community. It might even influence their behavior. But the emphasis should not be only on the negative – which is the focus of the “micro-aggression” approach - since the research in fact points to a range of responses, positive and negative, to subtle cues and framing. There are micro-encouragements – the research suggests – as well as micro-aggressions.

Beyond the circulation of research information, administrative interventions should focus on situations of explicit exclusion. Recently, for example, a high-profile scientist mused in public that women in scientific laboratories were trouble because they caused romantic relationships to develop that diverted lab attention from research.[68] That statement was more than a micro-aggression. A university would be remiss in having a person who made public exclusionary remarks of that type as a director of a research center, a department chair, a dean of a school, or heading some other program. Remarks of someone in charge of a university program that he/she doesn't care to deal with members of group X (race, sex, religion, national origin, etc.) should disqualify that person from a leadership position.

You don't need elaborate experiments to see that targeted individuals might well feel unwelcome in a research program, department, or school led by someone making such exclusionary remarks. Universities are bound by law and acceptance of federal funding to ban discrimination on the basis of race, sex, religion, national origin, etc. So administrative action might well be warranted when someone in charge of a university program makes exclusionary remarks of that type since they violate university policy and legal obligation.

Exclusionary remarks might also work to discourage students from enrolling in someone's classes. If you say you don't want to deal with group X or that group X is trouble, surely someone in group X would have to worry about being in your class. But positions on sensitive public policy issues such as affirmative action cannot be taken as exclusionary by themselves *unless there is firm evidence that alternative viewpoints are not presented or tolerated in the classroom*.

There has to be a rule of reason applied and, if you are a university administrator, you are going to have to determine what is reasonable, particularly in the light of traditional values of academic freedom. (Sorry, but if you are an administrator, that is what you are paid for – reasonable judgments.) If you need a more definite rule than that, consider this one: As a university administrator, when you move away from explicit statements of exclusion and get into the realm of micro-aggressions, you would be well advised to avoid actions that make yourself the subject of editorial derision.

[68]http://www.dailymail.co.uk/news/article-3117648/Ban-women-male-labs-distracting-cry-criticised-says-Nobel-prize-winner-Sir-Tim-Hunt.html