

Mitchell's Musings

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Mitchell's Musings 10-5-15: A Tolerable Solution

Daniel J.B. Mitchell

Universities have been trying to reconcile notions of academic freedom with various versions of speech codes, meant essentially to protect students from statements varying from deliberately aggressive and intolerant to so-called “microaggressions,” statements not meant to be intolerant that might nonetheless be offensive to somebody. Often these attempts at non-offensiveness degenerate into ludicrous examples that are widely mocked, particularly in conservative media, but also in mainstream outlets.¹ Closely related are efforts to place “trigger warnings” into course syllabi, warning students that some reading material might be offensive.

Grafted on to this ongoing brouhaha in recent months was an effort by the Regents of the University of California (UC) to deal with complaints of anti-Semitic behavior related to criticisms of Israel, particularly as it is linked to the “BDS” (Boycott, Divest, Sanction) movement. Various student groups at UC campuses and a union representing UC teaching assistants adopted BDS-related resolutions.² Jewish student groups complained of incidents of intimidation ranging from anti-Semitic graffiti to asking a Jewish student who was up for a student government office whether she could be unbiased due to her religion. There was a counter-push to have the Regents adopt the “State Department” definition of anti-Semitism which connects the concept to an excessive concentration on Israel to the exclusion of other nations.³

At one point on an NPR broadcast, UC president Janet Napolitano indicated she favored the definition personally.⁴ The UC Regents – who meet every two months – originally put the issue on their July 2015 agenda but then deferred the matter to their September meeting. Somehow, in the interval between these two meetings, university administrators took up the issue – anti-Semitism – and produced a general resolution against intolerance which did not deal specifically with anti-Semitism and was essentially feel-good Pablum.⁵ Meanwhile, the California state legislature came out with a resolution condemning anti-Semitism (but not using the State Department definition).⁶

¹<http://www.scpr.org/programs/airtalk/2015/06/24/43412/microaggressions-should-they-be-censored-on-colleg/> and <http://www.latimes.com/opinion/editorials/la-ed-microaggression-what-not-to-say-at-uc-20150624-story.html>.

²In this musing, we don't take up the issue of financial divestment from the UC portfolio (including the pension plan). However, the university issued a statement in 2010 setting extremely stringent conditions for divestment from a particular country: http://issuu.com/danieljbmitchell/docs/israel_divestment_2010. It might be noted that calls for BDS as it relates to UC often point to UC's actions regarding South Africa during the era of apartheid. There was financial divestment in that case, in part owing to a deal between then-Governor George Deukmejian and state assembly leader Willie Brown. (Both were *ex officio* UC regents. In addition, the governor – who initially opposed divestment - needed the cooperation of Brown on state budget matters.) But there was never an *academic* boycott of South Africa in that period. There was no regental ban on South African faculty, etc. I can recall visitors from South Africa coming to UCLA; the library continued to subscribe to South African academic journals, etc. Indeed, it would be hard to imagine American academic heart surgeons, for example, ignoring the early transplant work that took place in South Africa starting in the 1960s:

<http://www.nytimes.com/2001/09/03/world/christiaan-barnard-78-surgeon-for-first-heart-transplant-dies.html>.

³<http://www.state.gov/j/drl/rls/fs/2010/122352.htm>.

⁴<http://hereandnow.wbur.org/2015/05/21/janet-napolitano-anti-semitism-definition>.

⁵<http://regents.universityofcalifornia.edu/regmeet/sept15/e4.pdf>.

⁶https://leginfo.ca.gov/faces/billTextClient.xhtml?bill_id=201120120HR35.

At the September 2015 Regents meeting, various Regents condemned the Pablum resolution, essentially for saying nothing and omitting anti-Semitism as a specific topic. The Regents sent the university administration back to the drawing board to come up with something more specific – although it appeared from the discussion that the State Department definition was not what was wanted because of the potential conflict with academic freedom. Regent John Pérez, a former legislative leader, noted in particular that when he asked to speak to Jewish groups on one unnamed UC campus, he was told that he would have to “balance” such a discussion with a discussion with other groups. But he encountered no such balancing requests when he asked to speak with other students.⁷ In any event, no time table was specified for a new resolution to be drawn up. What the Regents will eventually do is uncertain.

Although Jewish groups took the Regents’ action as a victory – since it rejected the Pablum approach and pushed for something more specific to their complaints – the State Department wording was off the table. Even if the Regents had adopted the State Department definition, it was not clear what such an adoption would have accomplished. Any group that made statements that fit the definition could have disputed allegations that it was anti-Semitic. It could simply have argued that the definition was incorrect, whatever the Regents might have thought or said. And no particular penalty was entailed.

So – is there any solution to reconciling the conflict between free speech/academic freedom with voicing a view that might be viewed (or even defined) as anti-Semitic? The problem lies in trying to define a motivation or thought process for a specific behavior or statement. Clearly, physical intimidation, property damage, and the like are illegal and violate various university standards of behavior. But when it comes to pure speech and advocacy, the motivational approach runs into a dead end. It’s hard to prove what someone was really thinking or what really motivated a statement when the individual could deny it.

There is, however, an alternative that avoids assessing motivation and thought. The alternative is to focus on behaviors, not thoughts or motivations. Such an alternative focus won’t solve all problems in this area of controversy, but it will help. The B in BDS stands for a boycott based on national origin – Israeli in this case. And the simple fact is that when it comes to anything to do with employment (hiring, evaluation, selection for a promotion or a particular role, etc.) or admissions to university programs, such a boycott would be illegal. It is banned by federal laws – such as the Civil Rights Act of 1964 – related state-level laws, and university policy. Of course, anyone is free to advocate repealing or changing such laws and policy. But absent such repeal or change, the laws and policy are what they are.

It really doesn’t matter what nationality is the target, so trying to prove an anti-Semitic motivation is not involved in the behavioral approach. A boycott related to employment or admissions would be illegal whether it involved the Israeli-Palestinian conflict, or Japanese whaling practices, or China’s policy toward Tibet, or Russia’s policy toward Ukraine, or Turkish denial of the Armenian genocide, or women’s

⁷You can hear excerpts from the Regents’ session at <https://www.youtube.com/watch?v=WUC07I-CikM>. It might be noted that the Regents themselves have engaged in such “balancing.” A student regent is selected each year for a one-year term. Usually, recommendations as to who would be the student regent come from student government. In one year, the name chosen was a Muslim woman who favored BDS: <https://www.youtube.com/watch?v=3LxXT8ocax4>. The next year, the regents somehow selected – among all possible candidates – a pro-Israel Jewish student: <https://www.youtube.com/watch?v=5I-e3rRDZxE>. The balancing approach seems to exist at the campus level, too. For example, UCLA has a Center for Near East Studies which has elicited complaints of being anti-Israel: <http://www.international.ucla.edu/cnes/>. But UCLA also has a Nazarian Center for Israel Studies which goes in the opposite direction: <http://www.international.ucla.edu/israel/home>.

rights in Saudi Arabia. If UC or any other university were to engage in a boycott aimed at Israelis, Japanese, Chinese, Turks, or Saudis, it could be sued. If agents of UC or any other university who have major roles in employment or admissions decisions were to advocate such boycotts (say, deans, department chairs, heads of research units, etc.), they could expose their university employer to damages.

While faculty have a right as individuals to espouse whatever causes they like, there is no right to be selected for key managerial and administrative roles. Anyone appointed to such roles is expected to carry out university policy and legal duties appropriately. Universities as employers can pick managers and administrators who are most likely to carry out university policy appropriately (and to avoid actions and statements that have the potential to expose their employer to legal liability). Indeed, in a more general context, employers typically screen potential candidates for managerial and administrative roles through interviews, examination of credentials and past employment records, etc., in the hopes of finding individuals who will likely best do the expected job. Someone who publically opposes university policy and federal and state legal requirements would not seem to be a suitable candidate.

What about student groups that favor boycotts based on national origin? The problem here is that such groups are seen externally as having an official status within the university. It might be best to make it clear that such groups are independent entities and that they speak and act for themselves only. As such, the Regents might want to reconsider policies that mandate student fees to support such student groups or provide some kind of readily available opt-out arrangements for those students who don't support the political positions of these groups. Absent such distancing, the public perceptions that there is an official status and that student groups do speak for the university have some grounding in fact.

And what about labor unions such as the TA union mentioned above? Under California labor law as it applies to the public sector, and to higher education in particular, UC must recognize and bargain in good faith with unions that attain a majority vote in a bargaining unit.⁸ Typically, however, union contracts include language more or less taken from federal and state laws that forbid discrimination including national origin discrimination. Such clauses can be made more specific to representation of members of the bargaining unit who fall into the national-origin category that the union wants to boycott. Unions advocating national origin boycotts should at a minimum have such non-discrimination clauses in their contracts and employers can insist on insertion of such provisions in the contract. There are also various opt-out arrangements in place under federal and state law for those in the bargaining unit who do not support the political positions of the union.

In short, a refocus of the debate away from thought and motivation (anti-Semitism) and toward behavior (advocacy of boycotts and the legal problems that such advocacy entails) would be a better outcome than continued debate along the lines of what has so far occurred at the UC Regents. Clearly, however, all controversy will not vanish if the behavioral approach is adopted. Nonetheless, UC is the largest public university system in the U.S. If it moves toward a focus on boycott behavior, other universities – public and private - are likely to follow.

⁸The relevant statute is similar to federal labor law. See <http://www.perb.ca.gov/laws/heera.aspx>.

Mitchell's Musings 10-12-15: Climate Problems

Daniel J.B. Mitchell

No, this musing is not about global warming but rather about "climate" as it has been used in the context of universities to characterize the atmosphere for women and minorities. And, yes, I am well aware of the abuses that have occurred in the name of climate used that way in the form of excesses regarding "microaggressions" and "trigger warnings" on syllabi.

Two items appeared recently in the Los Angeles Times regarding climate in the sense above at UCLA. One involved a fraternity and sorority party in which party goers allegedly appeared in blackface. (Exactly what happened is not completely clear at this writing.) The second involved a survey undertaken by the consulting firm Korn Ferry regarding problems in the climate for women faculty at the Anderson Graduate School of Management (at which I had a full-time, and then a half-time, appointment before I retired in 2008). I want to focus on the latter case but both stories connect climate to students, a fact which led to this musing.

In the case of the Anderson School, the Korn Ferry report has circulated to faculty members, but is not supposed to be a public document. However, it is evident that the LA Times has seen the report. It has been distributed to faculty by email and thus is an easy "leak." I will nonetheless not reproduce it here since it is not supposed to circulate. But in general terms the Korn Ferry report largely discusses intra-faculty relations at the School. In addition, as noted above, there is material concerning the atmosphere in MBA classes emanating from students.

In essence, the report describes a macho atmosphere in classes which can make life difficult, especially for junior female instructors. Management schools tend to take student ratings of instructors seriously. So classroom problems can pose an obstacle for advancement of junior faculty. Time spent by them dealing with such problems is time that is not available for research and journal publication, career elements which are critical for academic advancement.

It is interesting to note that back in 2013, the New York Times featured a report on the Harvard Business School that had similar revelations – and which largely focused on (male) student behavior. One suspects that you could investigate prestigious graduate business schools around the country and come up with comparable findings (just as there have been undergraduate fraternity-related incidents around the country comparable to the recent UCLA event). It is worth noting, however, that when the Harvard B-School report came out, Harvard in response raised the proportion of women in its MBA program to over 40%.

Which brings me to what might be done at UCLA. Faculty inherently turn over slowly; students turn over fast. A new crop of students is admitted annually. Even if there are major issues in intra-faculty relations (peer evaluations, promotions, etc.), it is hard for a dean or other school administrator to make rapid changes such matters. Hiring and advancement of faculty are handled through a complicated process involving committees, departmental meetings, and external reviews. In contrast, student admissions policy can change quickly. Faculty have little direct involvement in MBA admissions; the process is handled by internal School staff. Admission policy is a lever a dean can pull.

One suspects that a jump in the proportion women – currently the percent female at UCLA Anderson is 30% - would limit the kind of frat house behavior in core MBA courses that apparently went on at

Harvard. One suspects that an increase in the proportion of non-traditional students (for example, those who want to work for nonprofits or the public sector or who have done so in the past) would also improve the climate for junior female faculty in particular.

My personal recollection – which may be faulty – is that the proportion of women in the 1970s at the UCLA management school was higher, perhaps 40% or so – and then fell back. When I arrived in the late 1960s, the proportion of women was very low so the change in the 1970s was dramatic. But the 1970s and 1980s also saw an effort to change the curriculum to be more like Harvard. In the mid-1970s and before, the UCLA program was much more individualized than it became. The Harvard model – a fixed MBA curriculum with an emphasis on case studies – was implemented. The School imitated Harvard and thus became more like Harvard including, so it seems, the deficiencies found there and identified by the New York Times.

In an effort to promote the Harvard case method at Anderson – part of the general effort to be more like Harvard - there were classes for instructors on how to do it. Not surprisingly, the classes involved cases. One of these cases told the story of an instructor who walks into his class (the instructors in the stories were male) and finds his MBA students engaged in a food fight, literally tossing their lunches around the room at each other and making a mess. It then describes how the instructor took charge and began the day's lesson.

What was remarkable about the story is that it treated such junior high behavior as if it were something that might be expected from a group of graduate students in their late 20s. When I suggested that the remedy for such behavior was not taking charge but rather discharge (dismissal), this idea was quickly put down. The theme of the case was in essence that boys will be boys and that instructors should expect to deal with that fact.

In short, the Harvard B-school revelation in the New York Times in 2013 should not have been a surprise. It was the accrual of a long history. Imitating that program at other institutions (such as UCLA) could be expected to produce similar results, even if the dark side of those results was unintended. But if imitation is to be the policy, then why not start by imitating what Harvard did after the story came out in the New York Times? Raise the female/male ratio in MBA admissions substantially. And since it's likely that it's not just Anderson that has a problem, all other major B-schools should take notice. Admissions policy is not the only fix that's needed. But it is a quick one.

Mitchell's Musings: 10-19-15: Now and Then

Daniel J.B. Mitchell

Recently, California governor Jerry Brown signed a bill banning the word “Redskins” from being used as a public school team name or mascot. The name and variants were once commonly used for sports teams. Indeed, the name is still used by the Washington, DC professional football team despite its offensiveness to Native Americans. On the other hand, Brown vetoed a bill that would have banned confederate names from being used for parks and public buildings. (Various prominent figures in California history were confederate supporters.) It was up to local authorities, Brown indicated, to determine whose names were commemorated on public facilities.⁹

So was the governor just inconsistent in his decisions on what to sign and what to veto? Plainly, the impetus behind both bills was a change in present-day sensibilities relative to the past when the names were first applied. But there is a difference between the use of a term such as “Redskins” which is offensive and the naming of a building after a person who may have played a prominent role in some aspect of local history deemed positive even though that person may have also had negative qualities.

The line between one and the other can be hazy, however. After the recent shooting in North Carolina, there was a significant drop in the display of confederate flags in public spaces even though supporters of such displays came up with rationales as to why there were positive elements. But symbols and names are nonetheless different from persons. George Washington was a slave owner, but he has both a state and the national capital named after him. It's hard to say that, as a person, he played an insignificant role in U.S. independence and history.

There is now resistance to celebrating Columbus Day due to the eventual impact of his voyages on Native Americans. But when Columbus set out he was not looking to create mass murder. After all, he did not know that the continents of the western hemisphere even existed, let alone that they had inhabitants. That he got to North America at all, given the limits of sailing and navigation technology, is surely a fact worth noting.

The fact is that people who played a major role in history were all flawed – they were human and products of their societies – especially when viewed with modern sensibilities. And you don't have to look back centuries. Martin Luther King had extra-marital affairs – not a Good Thing. And he was hardly alone in that department among major political figures of his time (and later). But we have Martin Luther King Day as a national holiday.

Most biographers of Earl Warren – and Warren himself ultimately – had trouble reconciling his desegregation and other major decisions as Chief Justice of the U.S. Supreme Court with his role as a gubernatorial candidate in California in incarcerating the West Coast Japanese-origin population during World War II. But there are today California public schools named after him as well as a state office building. What can you say other than what he did happen? He did what he did. And in the case of the Japanese internment, it is worth noting, there was virtually no opposition at the time.

⁹<http://www.latimes.com/politics/la-me-pc-redskins-mascot-banned-20151011-story.html>

After the Watergate affair, when the White House tapes were discovered, it was also revealed that previous presidents had recording devices in use. On a wholesale basis, the practice really started with Kennedy. But there were some limited recordings going back to Franklin Roosevelt.

In the Roosevelt era, magnetic recording (tape and wire recorders) had not been perfected and office recording devices were basically phonographs that could record for only short durations. Roosevelt had a machine installed that used film and recorded the way movie soundtracks of that period were made. It thus could record for an extended period. He apparently wanted to use the machine for press conferences held in the Oval Office so that misquotes in the newspapers could be corrected. But the device picked up some other conversations.

I came across one such conversation between Roosevelt, black union chief A. Philip Randolph, and Secretary of the Navy Frank Knox concerning the role blacks (“Negroes” on the recording) were going to play in the then-segregated military shortly after the draft was enacted in 1940.¹⁰ Randolph was president of the Brotherhood of Sleeping Car Porters and his union’s membership reflected the occupational segregation on the railroads.¹¹ He was viewed as a black leader, not just a union leader, by Roosevelt.

In the conversation, Randolph is looking for assurances that blacks would play a significant role in the military. While he hints at integration as a goal, it appears that he will settle for a role in the military for blacks that is more than menial. Roosevelt assures him there would be a combat role for blacks. But there are no promises of integration. When it comes to the Navy, it is pointed out to Randolph, you couldn’t have northern ships (where integration might be accepted) and southern ships (where segregation would be the rule). Roosevelt comes up with the suggestion that since musicians are being recruited by the Navy, you could have “colored” ships’ bands.

OK. By modern standards, there is a lot wrong with this conversation about the draft and blacks in the military. So how should we think about it? At the time of the conversation, the U.S. had not yet entered World War II, but the War had already been going on for some time in Europe. It was evident to Roosevelt that the U.S. would be in the War eventually. (Why push through a draft law, if not?) Troops would thus be drawn from the general population with all of its social attitudes.

The south had been segregated for decades in 1940 and the Democrats – and thus Roosevelt – counted on the electoral votes of the “solid south.” (The solid south referred to the domination of the segregated south by the Democratic Party; Republicans – the party of Lincoln – had little chance there.) Even in the north and west, while there was no southern-style legal segregation, there was plenty of prejudice and *de facto* segregation. The conversation took place shortly before the 1940 presidential election in which Roosevelt was running for an unprecedented, and thus controversial, third term. Can you really judge the conversation without taking account of the world and domestic context of 1940?

Perhaps even more problematic in hindsight is Roosevelt’s role in the internment of the West Coast Japanese-origin population in 1942 after Pearl Harbor. Yes, the internment was very much a product of agitation by Earl Warren and others. But it was Roosevelt who signed the executive order making it

¹⁰<https://www.youtube.com/watch?v=M5D3A12LKjw>. The recording is only partially audible. I tried to reduce the background noise present in the original.

¹¹http://www.pbs.org/wnet/jimcrow/stories_org_brother.html.

possible. In 1997, a memorial to Roosevelt was dedicated in Washington (there's that name again!) D.C. And long before that Roosevelt was placed on the dime (because of his "March of Dimes" fundraising against polio). Should we now tear down the memorial and put someone else on the dime, given the negatives?

Unless you think such actions are the obvious and required way to go, you will want to be careful about what is sometimes termed "presentism," i.e., judging historical figures based on modern attitudes. And, even if you think various historical figures might have done better than they did, you might want to contemplate the flaws of some more contemporary figures you admire. There is one thing of which you can be sure; in the future your own beliefs and behaviors are likely to seem odd, outdated, and - with hindsight - even wrong!¹²

¹²This musing started with discussion of a California state law banning a particular Native American-related word for public usage. Such words and symbols were common until quite recently. The first car I owned was a 1954 Pontiac bought in 1963 for \$100. You can see the "Indian chief" hood ornament used on that model at <http://fineartamerica.com/featured/hood-ornament-on-1954-pontiac-robert-jensen.html>. Confession: I didn't think anything of it at the time.

Mitchell's Musings 10-26-15: A New Plateau?

Daniel J.B. Mitchell

Economics has always had a divide between theory and empirical research. There are empirical regularities of which researchers who are data-focused are aware, but which don't follow from any economic theory. There is no theoretical reason, for example, why the unemployment rate might not fall to 2%. But anyone familiar with the unemployment data would be very surprised if that happened. Why? Because except during extreme wartime conditions, it hasn't happened in the past.

To take another example, if I were to forecast that in two years, California would have 14% of the U.S. population, there is no theoretical reason to say that such a prediction is implausible. But suppose you know that the current proportion is 12%, that California's share of the U.S. population more or less stagnated at that level with the end of the Cold War, and that it would take an implausible in-migration to raise the share by 2 percentage points in two years. You would surely reject that forecast.

So let's look at another proportion, the ratio in percentage terms of female-to-male wages. You probably know (empirically) that the ratio is less than 100%. For much of the post-World War II period, the ratio bounced around 60%. The range on the chart below runs from 57% to 64% through 1979. Presumably, that ratio can be "explained" by such factors as variation in hours worked (there is variation even when only full-time workers are used), occupational composition, education, discrimination, etc. But through the 1970s, as the chart shows, the ratio showed no trend. Indeed, the constancy of the ratio around 60% was likely one of the sparks that ignited the "comparable worth" movement of the 1970s which looked for legal remedies to raise the ratio.

At the time as I recall, commentators on the issue would sometimes even point to Leviticus 27:

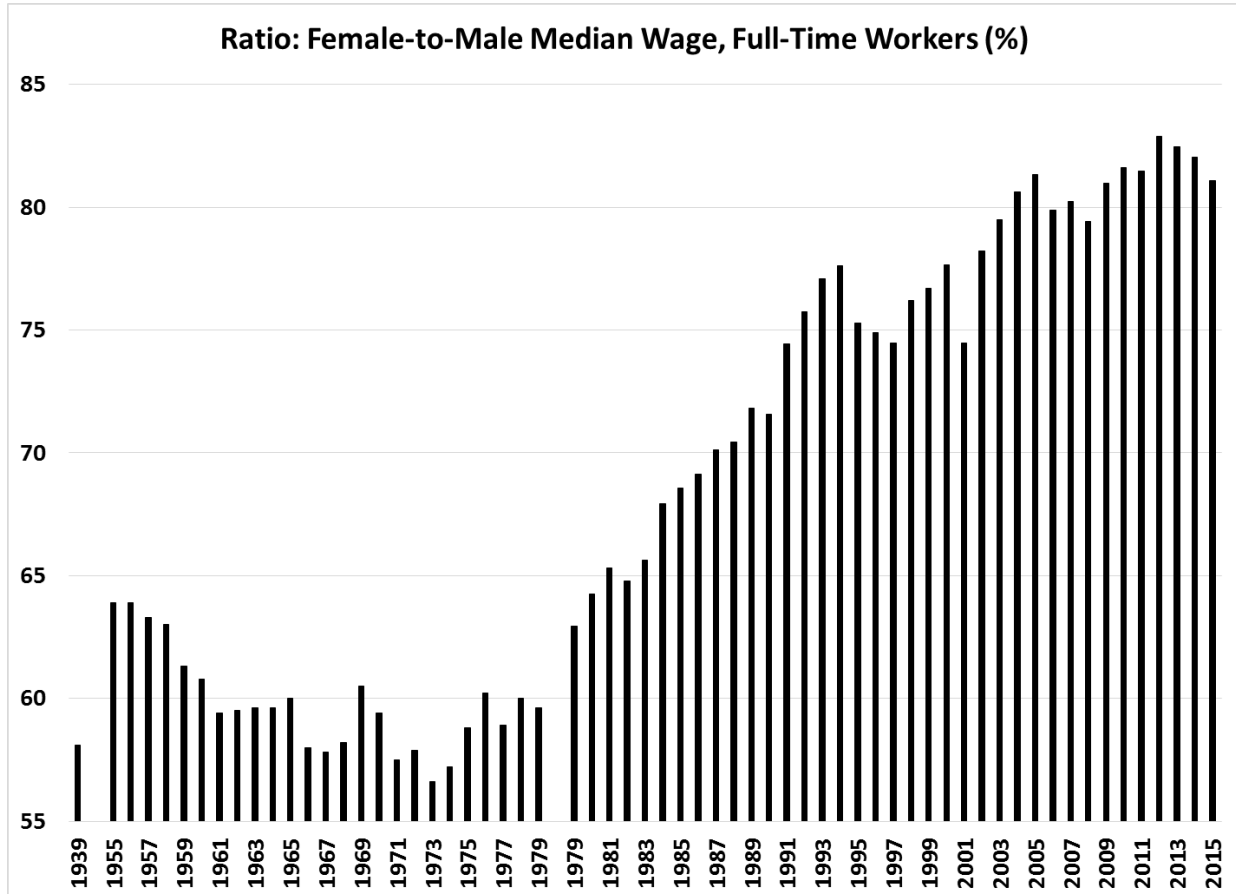
"If it is a male from twenty to sixty years, the equivalent is fifty shekels by the sanctuary weight; if it is a female, the equivalent is thirty shekels."

So it appeared, at least if you were a commentator on comparable worth in the late 1970s and early 1980s, that the 60% ratio (30 shekels/50 shekels) was – if not exactly God-given – at least a very longstanding empirical tendency.¹³ However, as sometimes happens when there is no theory explaining

¹³There is some uncertainty as to the application of the passage, but it does not appear to refer to wages. It appears instead to refer to temple dues. Women seemed to increase in relative valuation (dues assessment) with age *after* age 5. From one month to five years, the shekel ratio was 3/5 (60%). From age 5-20, however, the ratio

an empirical regularity, the ratio started to change in the 1980s, just as the Biblical reference was being invoked.

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Note: Data for 1939-1979 are from June O’Neill, “The Trend in the Male-Female Wage Gap in the United States,” Journal of Labor Economics, Part 2, January 1985, p. S94, and refer to median annual earnings of year-round, full-time workers. The data for 1979-2015 are third quarter ratios of median usual weekly earnings of full-time workers from the U.S. Bureau of Labor Statistics usual weekly earnings series. As can be seen from the overlap at 1979, the two series give differing results with the series for the later series generally above the earlier series.

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Did the agitation around comparable worth – an approach that didn’t get much legal traction – play some role in the rising ratio in the 1980s?¹⁴ Maybe firms in making pay decisions responded to the

drops to 10/20 (50%). For ages above 60, the ratio is 10/15 (66.7%). There is an escape clause for those who cannot afford the assessment allowing payment of whatever could be afforded.

¹⁴Apart from any legal issues, U.S. courts may have been fearful of becoming wage tribunals with the caseload that would have implied.

agitation without legal compulsion. Alternatively, the author of the early 1980s article from which the 1939-1979 data in the chart above were drawn suggests that the ratio could be expected to rise due to increased workforce experience, education, and expectations of women.¹⁵ And it did.

What we do know is that the general upward trend, although hardly even from year to year, continued into the 1990s. Somewhere in the early 2000s, however, the female/male wage ratio seems to have stopped increasing, stalling at around 80% (with a range running from 79% to 83%). There seems to be a perception again – as there was when comparable worth became a topic of concern in the 1970s - that the overall ratio has become stuck, albeit at a higher level than the old 60%.¹⁶ That perception may account, for example, for recent agitation about the lack of women in Silicon Valley/high-tech type jobs (which are generally well paid).¹⁷ In any case, the plateau raises the question of whether 80% has become the new normal.

¹⁵ June O’Neill, “The Trend in the Male-Female Wage Gap in the United States,” *Journal of Labor Economics*, Part 2, January 1985, p. S115. Data in the article go up to 1983, presumably around the time the article was written.

¹⁶<http://www.aauw.org/files/2015/09/The-Simple-Truth-Fall-2015.pdf>.

¹⁷<http://www.motherjones.com/mixed-media/2015/06/evidence-silicon-valley-really-sexist>.

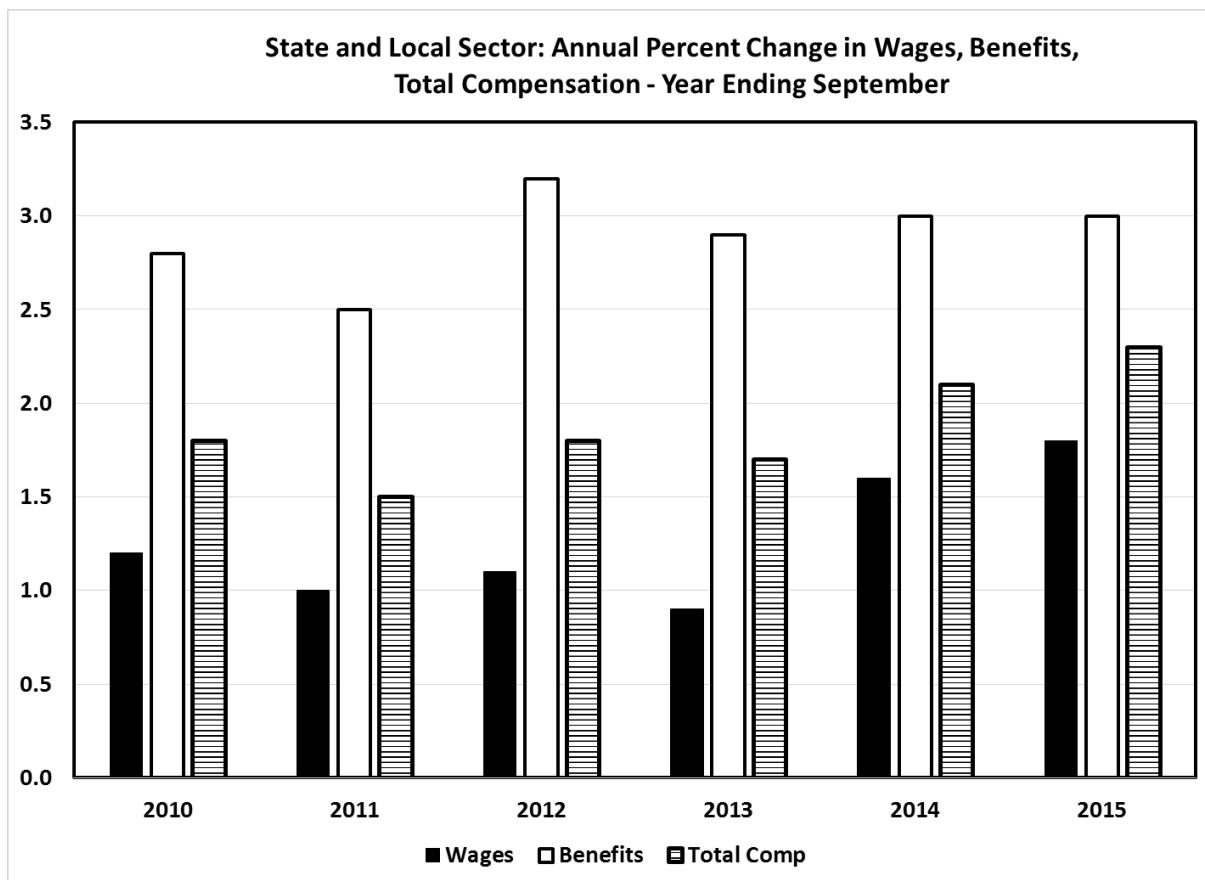
Mitchell's Musings 11-2-15: The Ghost of Benefits Past

Daniel J.B. Mitchell

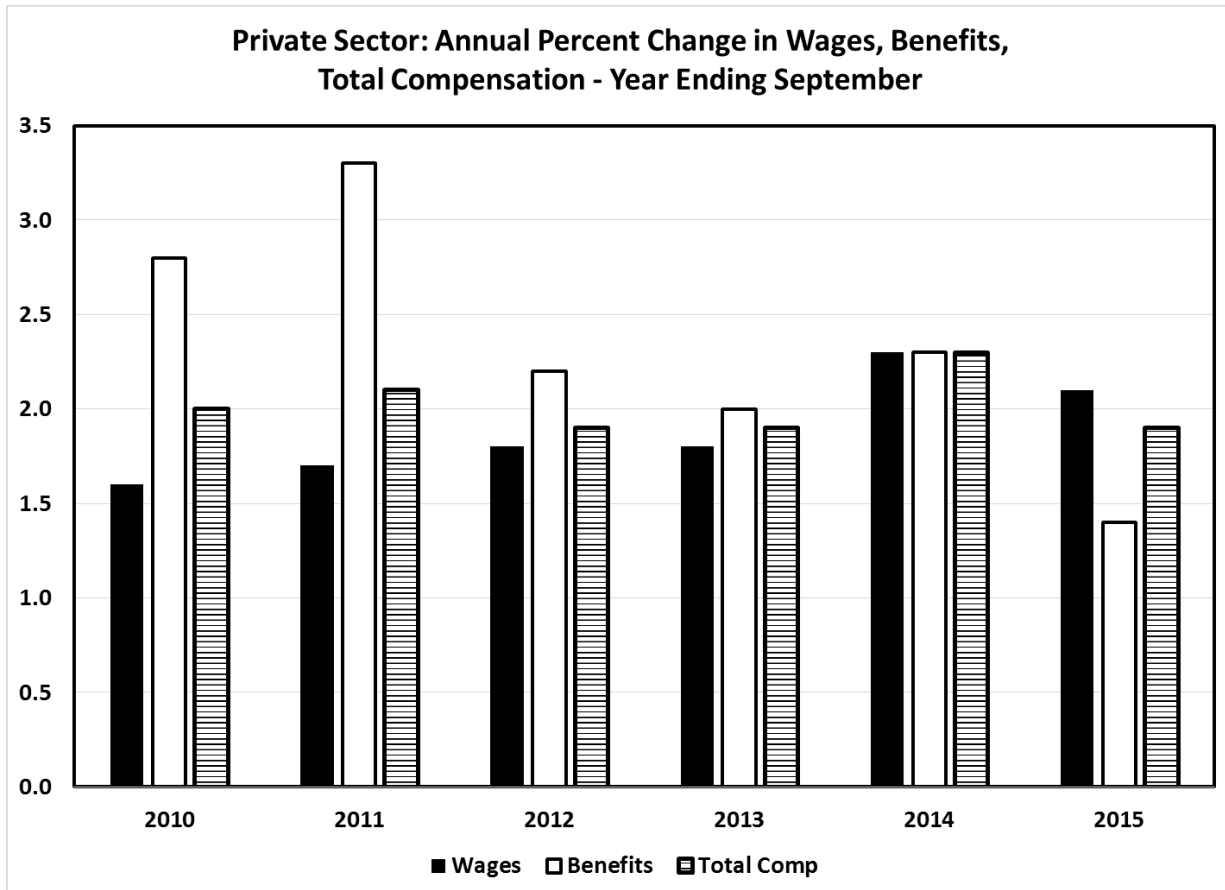
The Great Recession and the accompanying stock market crash substantially worsened the funded status of most defined-benefit (DB) pension plans. And nowadays, you typically find such DB plans in the public sector. Private sector plans of the defined-benefit type in the past were heavily associated with the much-reduced union sector. Generally, such plans were either not offered by private nonunion employers or, more recently, were terminated and replaced by defined-contribution (DC) plans, which are essentially tax-favored savings accounts.

At the bottom of the Great Recession in June 2009, according to the U.S. Bureau of Labor Statistics (BLS), expenditures of private employers for DB-type pensions averaged 41 cents per hour. That average figure included the many employers who had no such plans and thus were paying zero. Private employers paid 53 cents per hour into DC-type plans. In contrast, state and local governments were paying \$2.85/hour into DB plans and 31 cents per hour into DC plans. So the difference between the sectors as to plan coverage and cost is striking.

What has happened since the end of the Great Recession in 2009? As the chart below shows, nominal wages rose at a very moderate pace in the state and local government sector through September 2015. On an annual basis, the pace ranged from a little below 1% per annum to a little under 2%. In contrast, the annual nominal increase in state and local benefit costs per hour ranged from 2.5% to a bit over 3%.



The Employment Cost Index on which the chart is based doesn't break down the composition of benefit costs. It's likely, however, that an effort to catch up with the post-Great Recession unfunded liability in DB pensions was a major factor in the gap between wage inflation and benefit inflation in the state and local public sector. It's true that health care costs probably played some role, too. The Affordable Care Act ("Obamacare") took effect during this period and may have added some mandated costs. But in the public sector, health plans tend to be generous and they probably were not much affected. A significant element in Obamacare was expanding coverage which was already wide in the public sector.

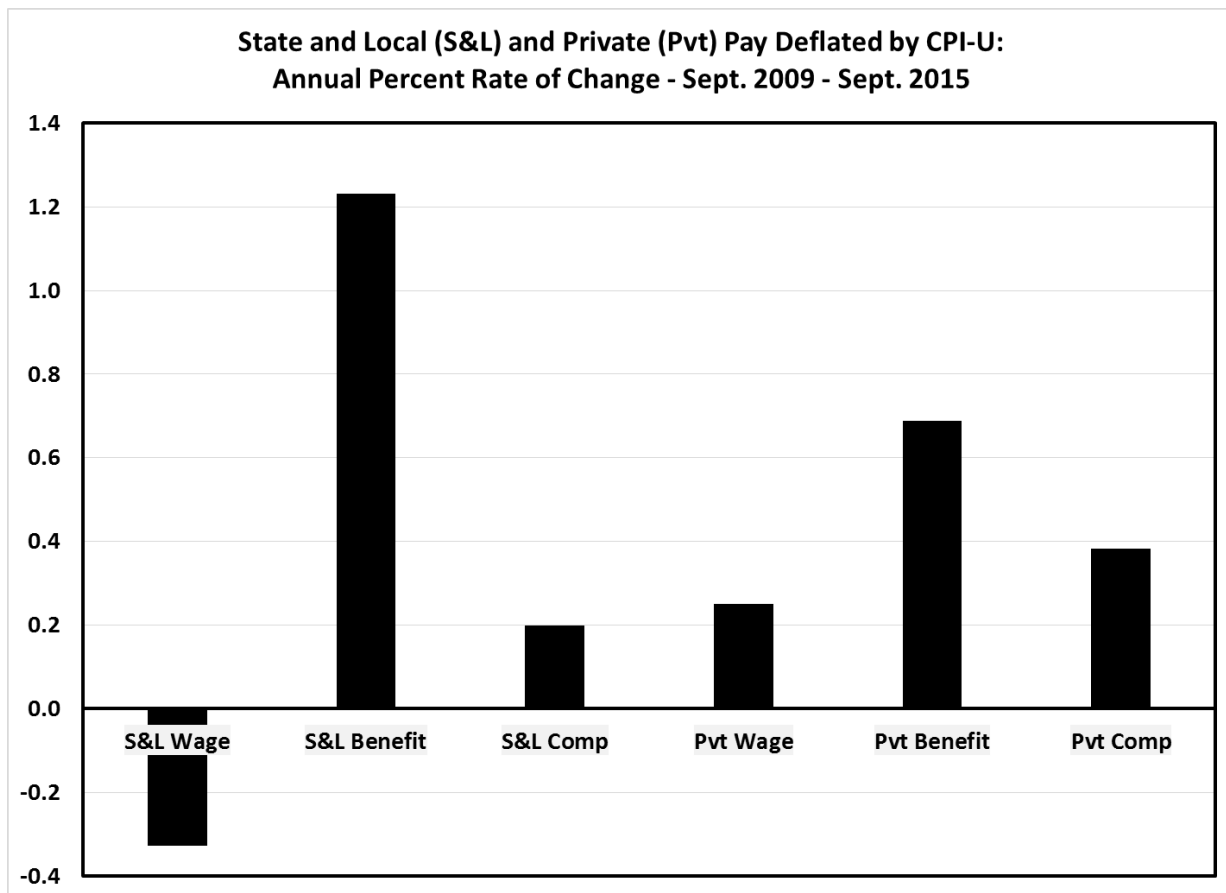


In the private sector, the faster pace of benefit inflation relative to wage inflation is marked only in the first couple of years of the 2010-2015 period. Private DB plans, like their public counterparts, experienced an increase in unfunded liability due to the Great Recession. But since DB pensions play a minor role in costs in the private sector, it is more likely that health expenses were the major factor to the extent that benefit inflation exceeded wage inflation.¹⁸

¹⁸BLS has a quarterly data series on Employer Costs for Employee Compensation. Unlike the quarterly Employment Cost Index on which the charts are based, the series does not have fixed weights and so changes in occupation and industry affect the time trends. Private employers spent \$1.99/hour on health insurance in June 2009 which rose to \$2.42/hour in June 2015 (the latest date for available data). The nominal increase was an annualized rate of 3.3%. (Figures include zeros for employers and employees without health insurance.) State and local government employers spent \$4.34/hour on health insurance in the earlier period and \$5.15/hour in the later period (a lesser annualized rate of increase of 2.9%).

When a given level (quality and quantity) of benefits simply costs more – pure inflation – workers get no benefit from the added expenditure. So if a DB pension plan becomes more underfunded and payments to it are increased, there is no immediate benefit to workers. They have the same pension promise as before, but there are more costs (to someone) to maintain that promise. Similarly, if the costs of health care procedures rise and premiums are raised as a result, workers have the same benefit as before, but someone is paying more for it.

As noted, with the coming of Obamacare, it is more likely that private-sector workers received some actual benefit improvement than did public-sector workers. Private workers were more likely to become covered by insurance and to experience improved coverage. However, for state and local government workers, the impact of DB pension underfunding is more likely to be the cause of benefit cost inflation. There was more cost - but no improvement in quality or quantity of the pension promise.



When we look at wage changes in real terms (using the Consumer Price Index – CPI-U) for deflation), we find that in the post-Great Recession period, real wages for state and local public workers actually *declined* by about 0.3%/annum. (See the chart above.) Benefits in real cost terms rose by over 1.2%/annum – but, as noted, it is likely that the increase simply reflected catch-up funding for underfunded plans, not an improvement in promised retirement benefits. Private-sector workers since the Great Recession ended experienced a wage *gain* of +0.3%/annum. And some of their benefit gain of around 0.7%/annum may have reflected actual benefit improvements.

In short, the data available suggest that the cost of added catch-up funding for underfunded public pensions fell at least partially on state and local government workers in the form of lower real take-home pay, even apart from any explicit increase in employee contributions. Today's public workers are helping to fund a pension payment that someone neglected to make in the past. And that fact is something that is often neglected today in the debates over public pensions.

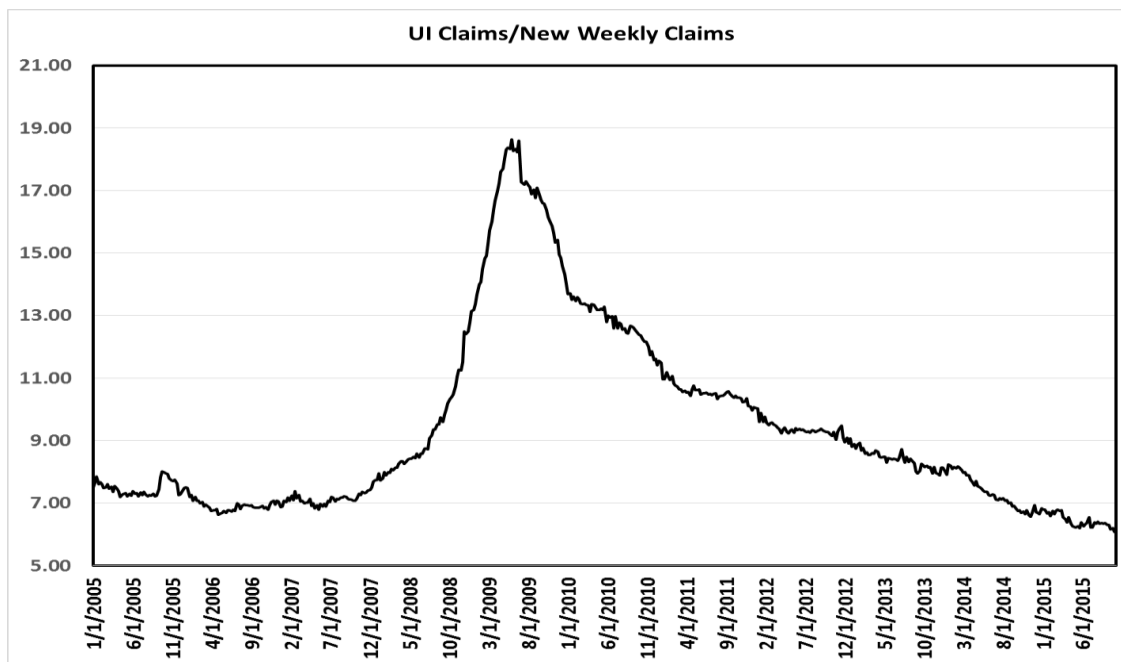
Mitchell's Musings 11-9-15: The New Abnormal?

Daniel J.B. Mitchell

We are again at a point where there is speculation about whether the Federal Reserve will raise interest rates. This time, the speculation is for December. As usual, the news media and – to some extent – the stock market, carefully parse every word of Fed chair Janet Yellen.¹⁹ And, of course, she carefully chooses her words to be ambiguous. (Some would say she chooses her words to be clear that no decision has been made.)

There continues to be a focus on the state of the labor market. Is the la market reaching a level of tightness where wages will be bid up and thus push up prices? The most recent data release on unemployment and payroll employment suggests a strong labor market. Unemployment is down to 5%. That level is still somewhat higher than at the prior pre-Great Recession peak when the rate was as low as 4.4%. Added monthly payroll jobs reported in the latest release show a strong number after some (supposed) prior softness. (I say “supposed” because we are talking about seasonally-adjusted monthly data subject to revisions.)

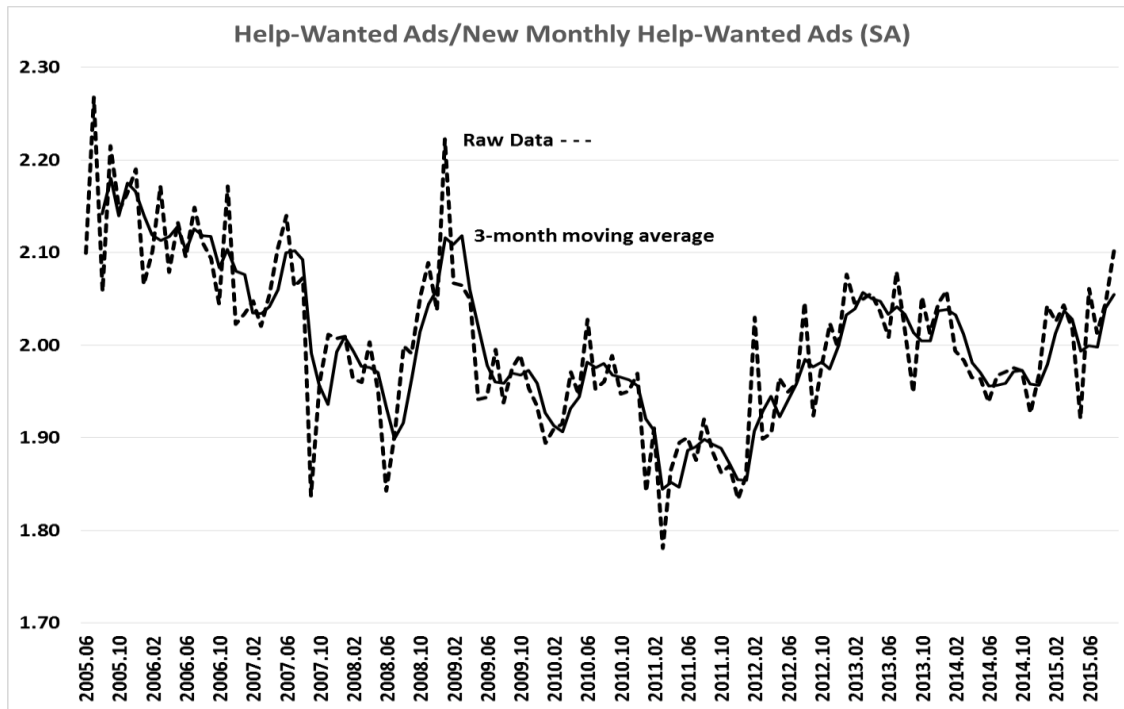
Let me throw some other numbers into the decision pot. The chart below shows outstanding claims for unemployment insurance (UI) divided by new weekly claims. That ratio is suggestive of how long benefit claimants are receiving payments.²⁰ Not surprisingly, the ratio shot up during the Great Recession when jobs were hard to find. But it is now lower than it was at the pre-Great Recession peak. So by that measure, you might say that the labor market is tighter now than then.



¹⁹<http://www.nytimes.com/2015/11/05/business/economy/fed-yellen-congress-interest-rates.html>

²⁰In a steady state with, say, 100 claimants at any point in time and 20 new claimants each week, the ratio is 5. If each claimant on average stays 5 weeks, the number of claimants at any point in time remains 100. Each week 20 new claimants come into the system and 20 old claimants depart. Of course, the number of claimants at any point in time is not constant in practice, nor is the number of new weekly claimants.

On the other hand, if you look at help-wanted advertising – a series maintained by the Conference Board measuring the number of online ads – you get a somewhat different picture. The chart below shows the ratio of continuing ads to new monthly ads. So the ratio is related to how long an ad stays in place. We might expect available new jobs to be snapped up relative fast when the labor market is soft (as in a recession and its aftermath) but more slowly when the labor market is tight. (Ads should stay around longer during tight markets as suitable workers are hard to find.) Because the data are quite noisy, we present the raw data (the dashed line) and a three-month moving average (the solid line). The numbers suggest that we are not yet quite back to the prior peak of labor market tightness.



We could go on this way pointing to indicators that give conflicting signals of the degree of labor market tightness. And one suspects the Fed's decision makers will be looking at such data. But there is a problem with a focus on the state of the labor market.

What the Fed is interested in is avoiding excessive PRICE inflation. Up to now, there hasn't been much price inflation. So the Fed is really looking ahead and trying to find indicators that might forecast accelerating inflation. At best, labor market indicators tell you something about the outlook for WAGE inflation, not price. At one time, when unions were strong – say in the period from the end of World War II through the 1970s – one might plausibly tell a tale of tight labor markets empowering unions to push up wages through collective bargaining. But unions are no longer a factor for the vast majority of private-sector workers who are nonunion. So at most you can tell a tale of employers competitively bidding against each other for scarce labor. And then you might argue that if labor costs rise, prices would go up as firms try to maintain their markups.

There is a problem, however, with that approach. As a recent study from the San Francisco Fed indicates, there is scant current evidence that knowing something about wages helps you forecast prices

*when you have other measures that directly are pricing indicators.*²¹ That is, if you have a forecasting model for price inflation, throwing in wages doesn't add information. You can forecast just as well omitting wage data. If that is the case, looking at the state of the labor market to give you information on likely wage behavior may not be a useful approach for the Fed even if, at some point in the past, it was.

There is no doubt that wage and price data are highly correlated. And there is no doubt that labor market measures of macro-level economic activity are highly correlated with product market measures. (Ups and downs of employment are correlated with ups and downs of real GDP.) It may well have been the case in the past that labor market information and wage information added to the ability to forecast inflation as part of a larger forecasting model. But institutions and economic processes change over time.

In short, the fact that the unemployment rate is down and that last month's payroll job gains were strong may well influence what decision the Fed makes in December on interest rates. But if so, the decision will be based in part on prior assumptions about a labor-market-to-wage-to-price linkage. What has been normal in the past, however, may not be relevant in the present and future.

There has been much talk in the post-Great Recession period of a "new normal" in various economic contexts. *But what is meant by that phrase is that the current circumstance is really a new abnormal when compared with the past.* Yes, in the past, interest rates have not been held so low by the Fed at this point in the business cycle. But maybe, given the way the economy works now, that's what it takes to sustain the current rate of (non-inflationary) economic advance. We do know that up to now, price inflation has not been a problem. Even though unemployment fell last month and there were strong job gains, is that really a signal that interest rates should rise?

²¹<http://www.frbsf.org/economic-research/files/el2015-33.pdf>

Mitchell's Musings 11-16-15: Currency Matters

Daniel J.B. Mitchell

From time to time, I am asked what I think about the "TPP," the recently-concluded Trans-Pacific Partnership deal that President Obama hopes to sell to Congress. Let's note first that the deal is a lengthy agreement that virtually no one, certainly no one in Congress, is likely to read in its entirety in any detail. The Canadian Financial Post recently provided a link to the entire text, but it appeared to be something of a we-dare-you-to-try-and-read-it stunt.²² TPP, like the Keystone Pipeline (recently rejected by the President), has become a symbol and not something opponents and proponents carefully subject to some sort of dispassionate cost/benefit analysis.

There is, however, an empirical test that will soon be available for judging one piece of the TPP debate, the piece dealing with currency valuation. In the view of this author, much of the problem of the modern international trade regime for the U.S. is not protectionism (trade barriers) but mercantilism. Mercantilism in its contemporary form is the following of economic policies that lead to the accumulation of large dollar reserves through the running of perpetual export surpluses. Essentially, these policies seek to create an artificial exchange rate advantage in the U.S. market for net exports of the country undertaking contemporary mercantilism. So how does TPP address the currency issue? A summary from The Hill:

Three years ago, (Fred) Bergsten (and) Joseph Gagnon... wrote (an) oft-noted currency research report that became the bedrock of the congressional argument that deliberate exchange rate intervention was the reason for trade deficits and had cost the United States between 1 million to 5 million jobs — a rallying cry for trade detractors. Their plan quickly gained traction on Capitol Hill, attracting the support of a bipartisan majority of lawmakers and even business and labor groups, resulting in the currency issue becoming a key negotiating objective in trade promotion, or "fast-track" authority.

But President Obama argued that adding currency rules into the TPP would be too complicated and could torpedo a final deal.

Bergsten and (Jeffrey) Schott noted that TPP negotiators opted for what they consider an early warning system that requires enhanced reporting and frequent monitoring and consultations instead of the "hard deterrence" approach preferred by some lawmakers in Congress who wanted a system that could impose trade sanctions on violators. "In

²²<http://business.financialpost.com/news/economy/trans-pacific-partnership-trade-deal-unveiled-heres-your-chance-to-read-the-mysterious-trade-agreement-everybody-is-talking-about> and <http://www.mfat.govt.nz/Treaties-and-International-Law/01-Treaties-for-which-NZ-is-Depositary/0-Trans-Pacific-Partnership-Text.php> (The link in the Financial Post was provided by a New Zealand government agency.)

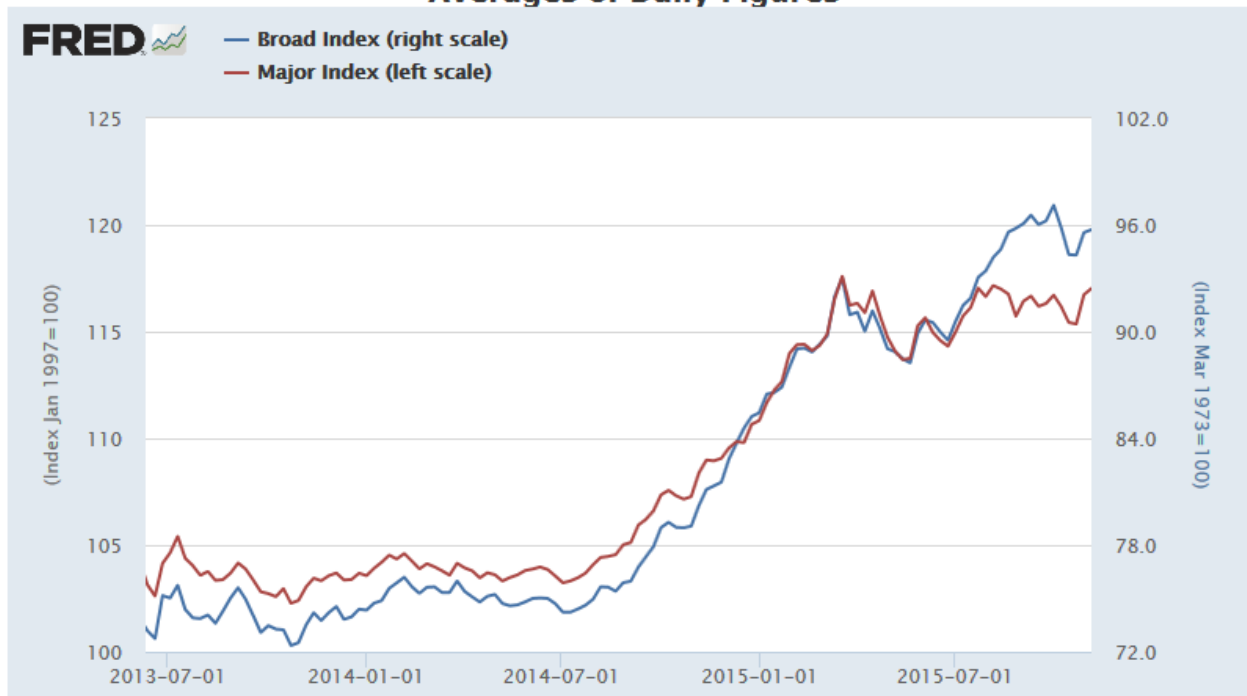
addition, the requirements for more transparency and public disclosure of data on exchange rate policies, including currency intervention, should make the 'naming and shaming' of manipulators more effective," they wrote.²³

Now "naming and shaming" may not seem to you to be a particularly effective policy instrument. A country that is named may not be shamed and it may simply deny that what it is doing is aimed at creating an artificial currency advantage. But perhaps naming and shaming could work. In any event, there will be a handy empirical test available soon to see how effective naming and shaming actually is.

Currency exchange markets are like markets for other financial assets. If market participants expect the value of an asset to fall in the future, they are likely to bring down that value today. Why hold an asset today that you expect to fall in value in the future? So if currency market participants think that the TPP mechanism will in the future reverse policies that cause under-valuation of foreign currencies relative to the U.S. dollar, presumably the dollar should fall in value relative to those currencies now that the naming and shaming regime is public knowledge.

Trade-Weighted Exchange Rate Indexes

Averages of Daily Figures



²³<http://thehill.com/policy/finance/259756-tpa-currency-side-deal-gets-key-endorsement>. (Bergsten, Gagnon, and Schott are all connected with the Peterson Institute for International Economics.)

Above is a chart of two indexes of the U.S. dollar's value relative to other currencies in recent history.²⁴ Its time series run just up to the period in which the new TPP naming and shaming regime became known. Going forward beyond the final date of the chart, with the new policy now known, we should have an indication of the impact of that policy. If the dollar declines significantly relative to such currencies as the Yuan (which was recently explicitly devalued by China relative to the dollar), the Yen, and the Euro, that decline can be taken as an indication that the new regime is having the desired effect of discouraging policies abroad that lead to over-valuation of the dollar. If the dollar's value doesn't decline (a lot and soon), you can take that lack of decline as an indication that currency market specialists think the new regime will have little impact.

The chart could also provide another empirical test. If the dollar doesn't decline (a lot and soon), and if Congress endorses TPP anyway, you can assume that despite the public rhetoric on the subject, the complaints about currency valuation were not actually major Congressional concerns.

²⁴The chart is from the FRED database of the St. Louis Federal Reserve Bank. The final date shown is November 4, 2015. The broad index is a weighted average of the foreign exchange values of the U.S. dollar against the currencies of a large group of major U.S. trading partners. The index weights, which change over time, are derived from U.S. export shares and from U.S. and foreign import shares. The major currencies index is a weighted average of the foreign exchange values of the U.S. dollar against a subset of currencies in the broad index that circulate widely outside the country of issue. The weights are derived from those in the broad index. Seven of the twenty-six currencies in the broad index—the euro, Canadian dollar, Japanese yen, British pound, Swiss franc, Australian dollar, and Swedish krona—trade widely in currency markets outside their respective home areas, and these currencies (along with the U.S. dollar) are referred to as “major” currencies. Source: http://www.federalreserve.gov/pubs/bulletin/2005/winter05_index.pdf.

Mitchell’s Musings 11-23-15: Currency Matters (with Regard to Wages)

Daniel J.B. Mitchell

Whenever someone references the “global economy,” it tends to be a preface to advocating something unpleasant domestically. We need to do something or not do something at home because otherwise we will be rendered uncompetitive in world markets. Last week’s musing was entitled “Currency Matters” and referred to issues of exchange rates. Exchange rates create a vehicle for international commerce to occur by allowing conversion of prices in one country’s currency into that of another’s. Put another way, currency exchange rates are important in determining the degree of global competitiveness.

Wage and salary workers paid hourly rates with earnings at or below the prevailing federal minimum wage, by industry, 2014 annual averages

Industry	Number of workers (in thousands)				Percent distribution			
	Total paid hourly rates	At or below minimum wage			Total paid hourly rates	At or below minimum wage		
		Total	At minimum wage	Below minimum wage		Total	At minimum wage	Below minimum wage
Total, 16 years and older.....	77,207	2,992	1,255	1,737	100.0	100.0	100.0	100.0
Private sector.....	67,956	2,843	1,178	1,665	88.0	95.0	93.9	95.9
Agriculture and related industries.....	767	19	9	10	1.0	0.6	0.7	0.6
Nonagricultural industries.....	67,189	2,825	1,170	1,655	87.0	94.4	93.2	95.3
Mining.....	601	3	–	3	0.8	0.1	–	0.2
Construction.....	4,796	19	7	12	6.2	0.6	0.6	0.7
Manufacturing.....	9,205	83	48	35	11.9	2.8	3.8	2.0
Durable goods.....	5,621	33	21	12	7.3	1.1	1.7	0.7
Nondurable goods.....	3,585	50	28	22	4.6	1.7	2.2	1.3
Wholesale and retail trade.....	12,697	417	298	119	16.4	13.9	23.7	6.9
Wholesale trade.....	1,605	19	13	6	2.1	0.6	1.0	0.3
Retail trade.....	11,091	398	285	113	14.4	13.3	22.7	6.5
Transportation and utilities.....	3,405	43	21	22	4.4	1.4	1.7	1.3
Information.....	1,175	28	19	9	1.5	0.9	1.5	0.5
Financial activities.....	3,281	28	12	16	4.2	0.9	1.0	0.9
Professional and business services.....	6,220	111	63	48	8.1	3.7	5.0	2.8
Education and health services.....	13,123	243	130	113	17.0	8.1	10.4	6.5
Leisure and hospitality.....	9,525	1,710	515	1,195	12.3	57.2	41.0	68.8
Other services.....	3,162	136	54	82	4.1	4.5	4.3	4.7
Public sector.....	9,251	149	77	72	12.0	5.0	6.1	4.1
Federal.....	1,677	12	4	8	2.2	0.4	0.3	0.5
State.....	2,596	46	23	23	3.4	1.5	1.8	1.3
Local.....	4,977	92	50	42	6.4	3.1	4.0	2.4

Note: Data exclude all self-employed persons whether or not their businesses are incorporated. Dash indicates no data.

Source: U.S. Bureau of Labor Statistics.

<http://www.bls.gov/opub/reports/cps/characteristics-of-minimum-wage-workers-2014.pdf>

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However, costs with regard to world competitiveness are of concern mainly for products and services that are bought and sold in international markets. So it was surprising to see the issue of raising the federal minimum wage – currently \$7.25/hour – arise in that context. At a recent Republican presidential candidates’ debate, Donald Trump received considerable media attention when he said that he opposed raising the minimum wage because of international competitiveness concerns.²⁵ Yet, as the table above shows, the vast majority of workers earning at or below the minimum wage are in sectors that are largely outside of international commerce. The effects of the minimum wage domestically can be debated (and often are), but the minimum has little to do with global competition.

The largest grouping of minimum wage workers on the table is in leisure and hospitality. Relatively few are in manufacturing where wage costs might actually matter for international competition. In short, unless you think there are strong ripple (imitation) effects of a minimum wage increase across industries, it’s hard to connect the minimum wage to global competition. You would have to believe that a hike in wages in fast food would somehow lead, say, auto or aircraft manufacturers (whose wages are well above the minimum) to enact similar pay increases.

At one time, the U.S. Bureau of Labor Statistics (BLS) had a robust international data program that included wage comparisons with other countries. Despite all of the interest in the global economy, however, the BLS program was discontinued for budgetary reasons and taken over by the private Conference Board. So we don’t have up-to-date data. The Conference Board chart below provides U.S. vs. foreign data on hourly compensation (wages, payroll taxes, and benefits) in manufacturing in 2010 and 2013.²⁶ The first thing to note is that compared to other developed countries, the U.S. is not an especially high wage country. The second thing to note is that all of the pay comparisons involve a conversion of foreign wages to U.S. dollars using prevailing exchange rates.

The exchange rate effect is apparent, particularly for Japan, on the chart. The chart indicates that Japanese manufacturing wages were higher in 2010 than they were in 2013. But the drop doesn’t mean that Japanese employers cut nominal wages measured in yen between those two years. It simply reflects the fact that in 2013, the yen was generally cheaper in U.S. dollar terms than it was in 2010.²⁷ So Japanese yen-denominated wages *in dollar terms* declined. In the cases of other countries where it

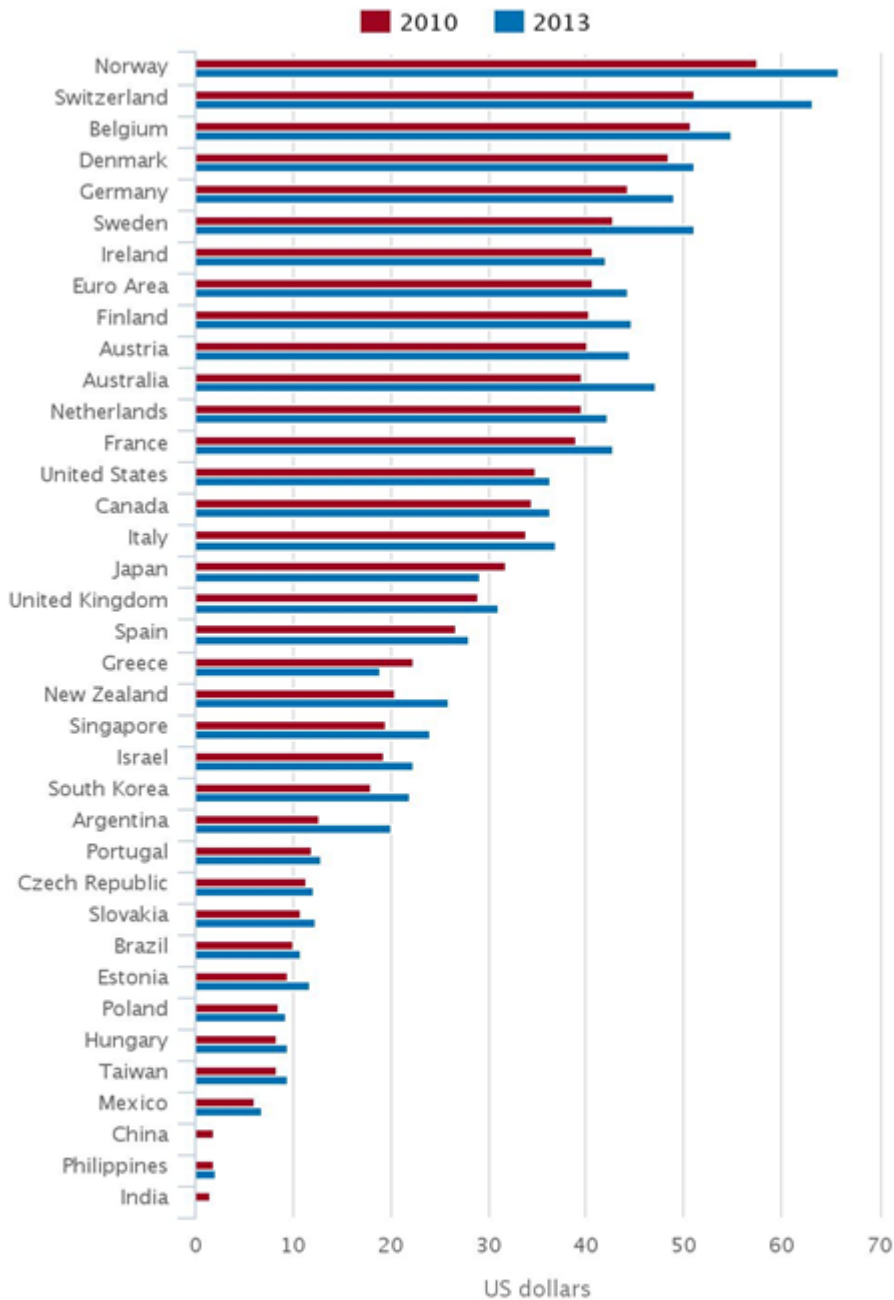
²⁵<http://www.politico.com/story/2015/11/donald-trump-minimum-wage-215787>. Other Republican candidates also opposed an increase in the minimum. But Trump tied his opposition to international competitiveness.

²⁶<https://www.conference-board.org/ilcprogram/index.cfm?id=28269>

²⁷During 2010, the yen/US\$ ratio fluctuated in the 70-94 range. In 2013, it fluctuated in the 90-105 range.

appears the foreign wage rose in substantially, there may simply have been an appreciation of those countries' currencies.

Hourly compensation costs in manufacturing, US Dollars, 2010 and 2013



Note: Compensation costs include direct pay, social insurance expenditures, and labor-related taxes. Data for China and India are not strictly comparable with each other or with data for other countries.

Source: The Conference Board, International Labor Comparisons program

The issue of the role of global competition in affecting U.S. wages is actually a complicated one, albeit largely unrelated to the minimum wage. Some theoretical economic models predict that wages across countries would tend to equalize. The chart suggests that there is hardly anything resembling equality, however. But it could nonetheless be the case that the addition of China, India, and other very low-wage economies into world markets is a drag on U.S. wages.

Perhaps that is the case. But most models assume more or less balanced trade, i.e., value of exports = value of imports. The U.S., however, has gone for decades with imbalanced trade, imports well above exports. That imbalance tends to push employment out of higher-paying international trading sectors and into such lower-wage areas as non-trading retail. Ultimately, the imbalance is a monetary and currency phenomenon and exchange rates have much to do with it. So before focusing on the minimum wage, or – indeed – on wages at all, it would be best to start with changes in exchange rate policy that would produce trade balance.

Mitchell's Musings 11-30-15: Watching an Impending Train Wreck from Aside the Track

Daniel J.B. Mitchell

Academia has long been called an “ivory tower,” presumably implying isolation from reality. Perhaps the notion of being inside a bubble might be a better representation of the concept; the view from a tower, after all, is wide. But apart from the analogy, the key question is how realistic these representation are at present?

Unless you have been in a very small bubble, you must be aware of the campus unrest going on at many universities. Some of it seems linked to a slice of outside reality, particularly the “black lives matter” protests. But other elements do seem divorced from the external world. There has been much written about “micro-aggressions,” “trigger” warnings, and “safe spaces,” all notions that invite parody. In some cases, demands related to all of these concerns have led to resignation of university leaders.

That trend – the demand for top-level resignations - seems to have started at the University of Missouri, perhaps largely reflecting local issues there.²⁸ (All politics are local, etc.) But the idea of demanding resignations has spread. Undoubtedly, university leadership around the country was particularly thankful for the Thanksgiving holiday which sent students away from their campuses before too much job loss had occurred. And, undoubtedly, when the students return university leaders will be awaiting the Christmas break just as eagerly.

But it isn't just administrators that find their jobs in peril. The resignation calls have moved to demands to get rid of faculty.²⁹ And some faculty seem bent on going along with the idea of self-criticism and confession, perhaps hoping that speech codes and a *mea culpa* will make the issue go away.³⁰ But not all faculty are convinced that such steps are the appropriate response. To the contrary.³¹

Some of what has occurred of late is simply bizarre, e.g., the suspension of Yoga lessons at a Canadian university based on some ill-defined cultural objections.³² Some of what has occurred may affect university funding, particularly at schools that depend on alumni funding. One wonders, for example, whether the demand to rid Princeton of the name of its past president Woodrow Wilson for his racial attitudes and actions may play out (even though the august *New York Times* seems now to favor the erasure).³³ Thomas Jefferson (slave owner) is reported to be the next target.³⁴

Moreover, apart from big buck donors, one wonders how current events at universities will affect the external political scene. There are a lot of parents out there paying tuitions or contemplating doing so in the future. In California in the mid-1960s, the interplay of the Watts Riots and student demonstrations

²⁸<http://chronicle.com/article/How-Three-Bad-Decisions/234278>

²⁹<https://www.insidehighered.com/news/2015/11/23/u-kansas-professor-leave-after-comments-race-result-5-complaints>

³⁰<http://chronicle.com/blogs/ticker/occidental-faculty-weighs-system-for-reports-of-microaggressions/106939>

³¹<https://www.facebook.com/glenn.loury1/posts/768490419930039>

³²<http://chronicle.com/blogs/ticker/yoga-class-is-suspended-after-students-deem-it-culturally-inappropriate/106911> and <http://www.ottawasun.com/2015/11/20/free-ottawa-yoga-class-scrapped-over-cultural-issues>

³³<http://www.nytimes.com/2015/11/25/opinion/the-case-against-woodrow-wilson-at-princeton.html>

³⁴<http://chronicle.com/blogs/ticker/why-is-dartmouth-still-boiling-over-a-protest-that-happened-2-weeks-ago/106928>

at Berkeley played an important role in unseating incumbent liberal Democratic Governor Pat Brown and in his replacement by the conservative Republican Ronald Reagan. There were then repercussions at Berkeley and the rest of the University of California UC). UC President Clark Kerr was fired, tuition rose, and the impact was felt in the university's budget. And there are other precedents for the notion that the appearance of disorder pushes politics to the right. Law and order as a campaign element appealing to the "silent majority" helped elect Richard Nixon in 1968.

Are we going to see a repeat of history today? Of course, there are differences between then and now. California, for example, is much more firmly in the hands of Democrats than it was in the 1960s and its demographics are quite different, too. But even in California, you can see symptoms of establishment concerns about university developments. The generally liberal *Sacramento Bee's* editorial board, for example, seems to be exasperated with recent campus events.³⁵ Members of the dominant (Democratic) political class are uneasy.³⁶ Indeed, even the editors of the UC-Berkeley student paper seem annoyed.³⁷ And there are reports of a student backlash elsewhere where demonstrations have occurred.³⁸

It's easy (at least in the bubble) to dismiss the (counter) reaction as just that, reactionary. White supremacists, for example, have jumped into the fray by creating "white student union" Facebook pages at various universities.³⁹ (Facebook seems to take some of them down after complaints, but not others.) But as you move away from the extremes, you come to more conventional types. Thus, a conservative online publication asks why, at UC-Merced, after an incident in which a Muslim student stabbed others on campus before being shot and killed by campus police, there was a "teach-in" event which seemed dedicated to "understanding" the stabber.⁴⁰ That may not have been an accurate description of what occurred, but it seems unlikely that the event's organizers considered how what they were doing might be interpreted externally. Or perhaps they didn't care what someone might say.

The external reality, however, *should* make one care, at least in the view of this author. Basically, in the last two presidential elections, the popular vote has more or less split between the major candidates. We live in a divided country. The midterm election of 2014 moved the U.S. Senate into conservative hands (along with a variety of state and local contests). There are now a lot of politicians out there with no strong love for academia and its values.

Recent terroristic attacks in Paris are making ordinary folks nervous. Could what happened in Paris happen in the U.S.? Disorder and threat to security can drive a lot of votes, as it did in the 1960s. Do I

³⁵<http://www.sacbee.com/opinion/editorials/article46108175.html>

³⁶<http://www.latimes.com/local/political/la-me-pc-former-assembly-leader-urges-dialogue-caution-at-california-colleges-20151117-story.html>

³⁷<http://www.dailycal.org/2015/11/24/bamn-protests-dont-do-students-justice/>

³⁸<http://chronicle.com/blogs/ticker/why-is-dartmouth-still-boiling-over-a-protest-that-happened-2-weeks-ago/106928>

³⁹<http://sanfrancisco.cbslocal.com/2015/11/23/white-student-union-uc-berkeley-facebook-page-down/> and <http://www.sfgate.com/education/article/Facebook-yanks-White-Student-Union-page-at-6653063.php>. Of course, it can't be proved that there was no local student involvement in these pages. At this writing, my own university, UCLA, has such a page which continues to operate although there have been complaints.

⁴⁰<http://www.thecollegefix.com/post/25127/>

really have to point to the rise of Donald Trump in contemporary times to make this point? Or to the fact that he has driven other GOP presidential candidates toward his positions?

One of the nice things about being a retired faculty member who, nonetheless, does the blogging for the UCLA Faculty Association is that I can point to impending academic train wrecks coming without being on the train. I watch the train go by from aside the tracks. So if you are a current faculty member reading this musing on the train who thinks everything is going well, I wish you good luck in your journey. But if you are a current faculty member who thinks there is something worth considering in this musing, at least in the probabilistic sense that it might have validity, you might want to pull the emergency brake cord (soon).

Mitchell's Musings 12-7-15: Profiles in Confusion

Daniel J.B. Mitchell

Concerns about “profiling” seem to rise and fall as a result of incidents that receive substantial public attention. Police shootings of blacks in various confrontations around the country are examples. Terrorist incidents such as the recent Paris and San Bernardino events are another. Unfortunately, the popular discussion of profiling is often muddled.

In a sense, profiling involves the use of *perceived* probability. For example, now that we are in our seventies, my wife and I are often directed to the faster “pre-check” line for airport security. People with pre-check status have been determined by TSA to be less at risk for causing a terrorist incident than others. Normally, if you want such status, you have to pay for it and then be willing to be “profiled.” That is, TSA examines whatever personal characteristics you have that someone thinks makes you more or less likely to engage in terrorism. If you seem to be at low risk for being a terrorist, you get pre-check status.

Apparently, the same someone has decided that folks in their seventies are low risk for terrorism so, although we don't pay for the privilege, we often get pre-check status anyway. Note, however, that *low risk* is not the same thing as *no risk*, paid or unpaid. And one could ask whether by revealing that older folks are considered less suspicious, TSA is not raising the risk that a terrorist group might use elderly people in an attack. (But that is another conversation.)

It is hard, in fact, to make decisions without their being some perceived probability in the background. A whole field of behavioral economics has developed showing how choices that people make can be influenced by such perceptions. I am told that there is evidence that the more adjectives which are used to describe a product (even if you have no knowledge suggesting that the adjectives carry real information), the more the product seems appealing. I recall a journal article from a marketing colleague in which retail lumber sold better if it was described as originating in a “northern forest,” or some such meaningless descriptor. Presumably, customers have a belief that if an adjective is used, it must have meaning and thus the perceived probability of obtaining a higher quality product rises with the number of adjectives.

Workplaces and their decisions are filled with such assumed probabilities. Interviews of job candidates are ultimately based on the subjective probabilities of the interviewers as to what will make a successful employee. Even seemingly objective data such as educational attainment (receiving a degree, receiving a degree from a prestigious school) when used in recruitment are based on subjective probabilities in most cases. And, of course, the subjective probabilities may be incorrect.

Some profiling is based on hard data, notably in insurance. It is profiling when an insurance company charges a lower premium to a 25 year old than to a 65 year old for life insurance. But the profiling is based on actuarial tables. At age 25, the probability you will die in the next year is under 0.1%. At age 65, the probability is about 1.3%.⁴¹ So the cause of the higher premium for the latter is evident. But, of

⁴¹http://www.cdc.gov/nchs/data/nvsr/nvsr64/nvsr64_11.pdf. This source is also used for the table below in the text.

course, a 25 year old might be killed in a traffic accident before reaching 26. And a 65 year old might live to be 100. The future cannot be known with certainty, even with evidence-based profiling.

Actuarial tables, because they are based on hard numbers, are not subjective unlike, say, personal factors that might persuade you as a recruiter to hire someone. The tables can show you things that you think are so, but are not. Suppose I asked you to rank non-Hispanic whites, non-Hispanic blacks, and Hispanics by life expectancy at birth (by descending order of expectancy, i.e., longest first). Without looking it up, i.e., based on your pre-existing knowledge, what would your ranking be? Would you have selected Hispanics as having the longest life expectancy of the three groups? Unless you were an expert in demographics, you likely instead would have picked non-Hispanic whites. (White privilege?) But here are the numbers in years of life (for the year 2011 based from 2015 Centers for Disease Control and Prevention data):

Life expectancy at birth

Group	Both sexes	Male	Female
Non-Hispanic white	78.8	76.4	81.1
Hispanic	81.6	79.0	83.3
Non-Hispanic black	74.9	71.7	77.9
All	78.7	76.3	81.1

So it turns out that Hispanics have longer life expectancies than the other two groups, perhaps contrary to your expectations. In terms of life expectancy, your best bet in the U.S. is to be an Hispanic female.

Even though there may be hard statistical evidence of some tendencies, we sometimes choose not to profile. For example, if you obtain life insurance through your employer (as opposed to the external retail insurance market), you will pay the same for given coverage (or get the same coverage at no difference in cost) regardless of your sex. Because we outlaw discrimination in employment by sex, employers will charge the same and/or offer the same coverage. In effect, however, the equality in this case amounts to a transfer from females to males. (Females have lower death rates so are cheaper to insure.)

On the other hand, in the case of job-based defined-benefit pensions (or annuities obtained through employers based on defined-contribution pensions), since the same terms are offered to males and females, there is an implicit transfer from males to females. (Males on average will collect pensions for fewer years and thus are cheaper.) By law, we choose to ignore statistical profiling by sex (and race and national origin) when it comes to employment.⁴²

⁴²The pension area is in fact more complex. First, survivor/dependent benefits tend to even out the male/female differential, since survivors/dependents are likely to be of the opposite sex. Second, defined-benefit pensions tend to involve implicit subsidies from short-term, higher turnover workers to long-term career employees. So if women have shorter careers, they may be subsidizing males with longer careers.

In short, profiling by itself is a neutral term based on using perceived probability for decisions. Sometimes that perception, however, is incorrect and not based on hard evidence. Sometimes – as with ignoring sex and other characteristics for job-based insurance purposes – we choose through public policy not to use available information. And sometimes, for reasons of civil liberties, we make a special effort not to use it. Profiling is a neutral concept. What you do with it, however, has consequences.

Mitchell's Musings 12-14-15: The Outrageous Market for Outrage

Daniel J.B. Mitchell

Organizations nowadays have business plans for the lines of activity in which they hope to succeed. The business plans for terrorist groups – even if not formalized as such - involve recruitment by commission of the most outrageous atrocities they can conceive. For example, the attacks in Paris seemed to be mainly a recruitment tool for those attracted to such behavior, thus perpetuating the organization. The new recruits join the organization and follow its coordinated plans or, without formally joining, they commit similar atrocities that they choose on their own (as appears to be the case in San Bernardino). Thus, even though such attacks are often suicidal, enough new recruits are attracted to replace those who perish.

Of course, the leaders of organizations such as ISIS and al-Qaeda don't themselves commit suicide or die in such acts. Osama Bin Laden did not crash a plane into a building. Instead, leaders like Bin Laden induce others to commit suicidal acts for them. It's a viable, working business model that has so far been a success.

The terrorism marketplace seems to operate within a kind of circular "Say's Law" framework in which supply creates its own demand.⁴³ Supply (of new atrocities) creates demand for more among a subset of external witnesses for whom the Internet and conventional news media make the images available. A sufficient number of those individuals (it doesn't have to be a large percentage) who are attracted to such events are induced to supply more of them. The process gives the phrase "vicious cycle" an entirely new meaning.

I'm no expert on terrorism but I do think that official statements by government authorities indicating that terrorists are being defeated miss the point. Individual terrorists may be defeated. But the overall terror enterprise has developed a successful business plan, in part dependent on social media. Like "crime," it probably can't be defeated if defeat is defined as no attacks anywhere, or even just not in the U.S. But like crime, it can be suppressed and discouraged. The sad fact is that terrorism as a problem can be managed, but not solved.

⁴³Say's Law is the 19th century economic proposition that supply creates demand (because the income paid out to those who produce the supply becomes their demand for products). You can find numerous expositions on the web, e.g., <http://www.economicshelp.org/blog/glossary/says-law/>.

Terrorism is the extreme example of the phenomenon of outrageous behavior as a successful business strategy. However, there seems to be a related development in less extreme circumstances. The recent statements by GOP candidate Donald Trump – banning Muslims from entering the U.S., etc. – fall into that category. It's not that other GOP candidates are induced to say exactly the same thing or to say even wilder things. But making outrageous statements attracts both media coverage and supporters. From the news media perspective, even if there are angry editorial denunciations of the remarks, the coverage of them attracts readers, listeners, and viewers. The denunciations, in fact, seem to reinforce the enthusiasm of Trump supporters. So the supply of outrageous statements seems to create a demand for more of them.

Say's Law applied to public discourse seems to invoke yet another 19th century economic law: Gresham's proposition that bad money drives out good.⁴⁴ Gresham's Law was a product of the U.S. bimetallic (gold vs. silver) monetary standard of that era. Under Gresham's law, the metal which is of relatively high value disappears from circulation as a currency and is replaced through market forces by the low-value metal. The contemporary version is that bad discourse drives out good. Outrageous statements are a successful business strategy.

As the Gresham effect has operated in recent days, economic concerns seemed to have totally disappeared from the presidential campaign. Remember the debate about the proposed TPP (Trans-Pacific Partnership) accord and its potential effects on the domestic economy? Whatever you may think about that issue, you haven't seen much about it of late. Similarly, the Pew Research Center a few days ago released a report documenting the relative decline of the American middle class.⁴⁵ Not much discussion was to be found about that development, either.

That lack of attention is especially of interest since declining economic opportunity seems to be an underlying influence animating the most enthusiastic Trump Republican supporters: individuals with less than a college degree. In fact, neither political party can claim to have done much for them in that area. Telling them to get their degrees and even promising subsidies to do so – the Democrats' response – is not all that helpful.

In fact, the days of presidential campaigns based on "it's-the-economy-stupid" seem to have evaporated in the market for outrage. Undoubtedly, another recession would refocus the public discussion on the

⁴⁴<http://www.britannica.com/topic/Greshams-law>.

⁴⁵<http://www.pewsocialtrends.org/2015/12/09/the-american-middle-class-is-losing-ground/>.

economy, but a recession is hardly a result to be desired. And there is an interesting question of whether, if a recession did occur, public policies could be mounted – as they were in 2008 – to prevent a disastrous downward spiral.

We now, post-2008, have banks supposedly too large to fail and political gridlock and polarization that might let them fail. That possibility alone should be of concern to presidential candidates and the electorate. But you haven't heard much about it, have you? In the marketplace for outrage, you probably won't. Still, the odds that you will be adversely affected by a recession in the future are much greater than the odds you will be the victim of a terrorist.

Happy Holidays.

Mitchell’s Musings 12-21-15: Exactly Who Are We Talking About?

Daniel J.B. Mitchell

I went to a play entitled “Straight White Men” at the Kirk Douglas Theater in Culver City, California recently. The play, written by an Asian female, tells the story of a retired father and his three adult sons who are home for Christmas. Mom has died earlier and there are no wives or other women in the cast. It wasn’t exactly clear what Dad had done for a living in the past but all appeared to be middle class, college educated men. One son was a banker (divorced). Another was some kind of academic or teacher who was in therapy. The third, around whom the play revolves, is a Harvard grad who seems to be clinically depressed. He bursts out crying at one point without an obvious cause, to the dismay of the other characters.

The Harvard son was apparently expected to do great things in the world of do-good nonprofits, but he has apparently drifted from job to job taking on only menial roles. At present, he seems to be running a copying machine for some nonprofit organization. He has moved back in with Dad due to his monetary problems: low earnings and unpaid college debt. Dad offers to pay off the debt, academic son recommends therapy, and banker son and Dad try to teach the Harvard son how to interview for better jobs (look the interviewer in the eye, etc.). However, the depressed son won’t cooperate and, at the end, Dad gives him some money and tells him to leave the house. Interspersed in the play were occasional references to white privilege.

I can’t tell you what this drama was supposed to mean. After the play ended, there was an organized session of audience discussion which wasn’t very enlightening. But there is an interesting question, apart from the family drama. Assuming the characters in the play were supposed to represent straight white men, how representative were they? Again, forget the “social significance” element. I am just talking demographics.

The characters come from what appears to be a well off middle class family with college educations. (Harvard, no less, for the depressed son!) What fraction of the group they are supposed to represent fit that model? Let’s look at Census data on educational attainment by race for men. What percent of various racial groups had a BA (or more) in 2014? The table below gives the numbers.⁴⁶ I list the results for all men 25 years old and older, 45-49 years (maybe the sons’ age group), and 65-69 (maybe Dad’s age).

	Non-Hispanic White	Asian	Black	Hispanic*
All 25+	35.9%	54.7%	20.4%	14.2%
45-49	37.7	56.4	20.9	16.2
65-69	37.2	50.9	19.3	20.3

*Any race

Now the Census does not give a further breakdown by sexual orientation. But as best we can determine, well over 60% of adult white non-Hispanics of whatever orientation don’t have a college degree.

⁴⁶Source: <http://www.census.gov/hhes/socdemo/education/data/cps/2014/tables.html>

Ironically for a play written by an Asian female, the only demographic group where at least a majority of adult men have a college degree is Asians. The biggest contrasts in college degree attainment are Asian vs. black and Asian vs. Hispanic.

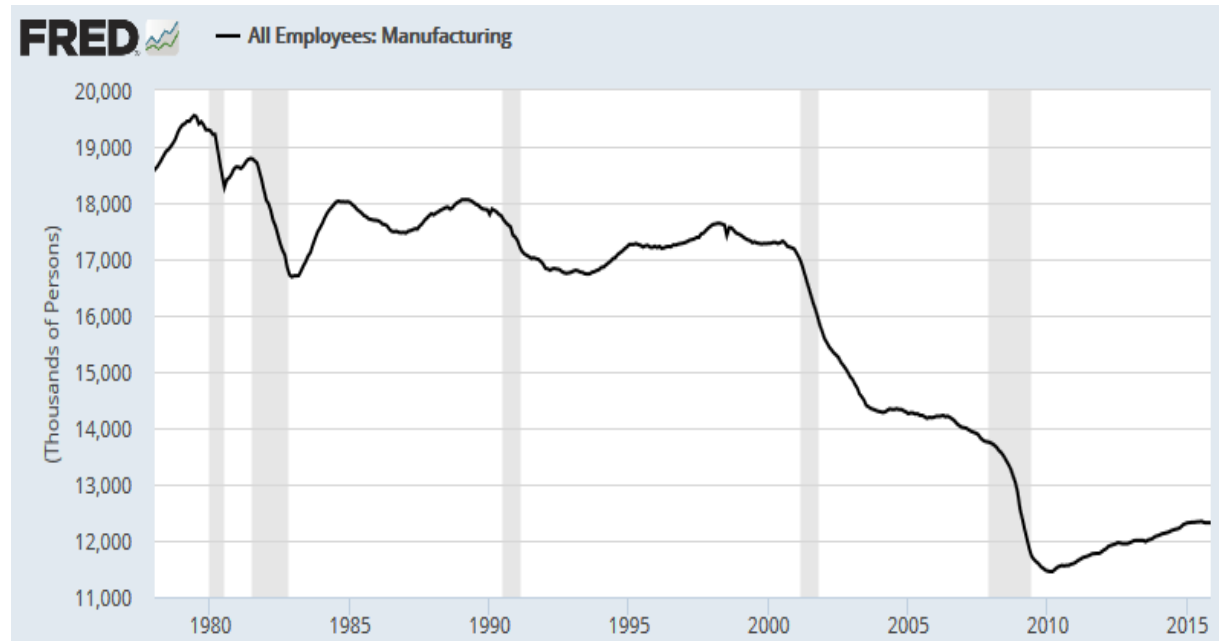
It's unlikely that the 60-plus percent of non-college degree white males are having conversations about white privilege. (For that matter, it's unlikely that they are the typical of patrons of the Kirk Douglas Theater.) Again, numbers tell the story.

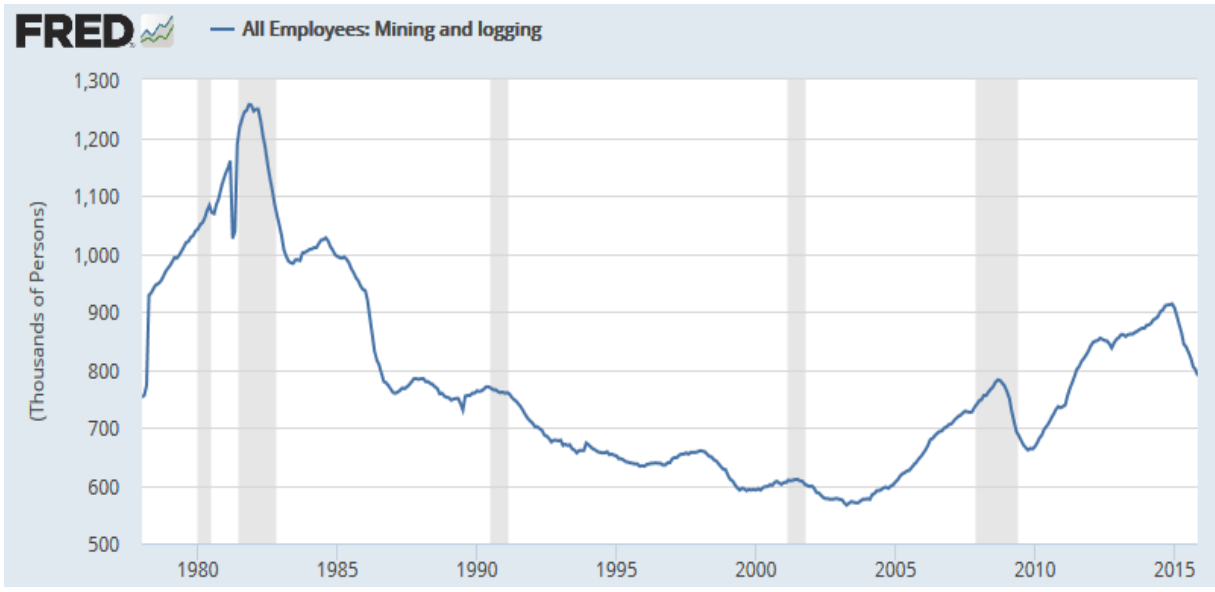
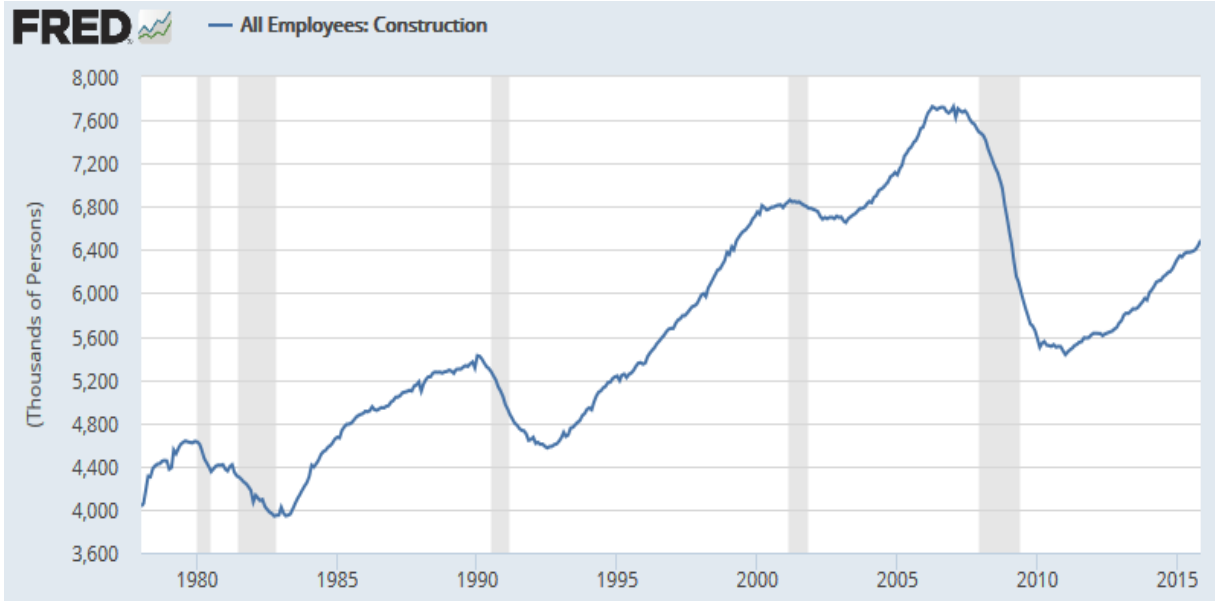
The Appendix to this musing has some data on trends of three sectors of the economy that are heavily male in employment and heavily using of folks with less than a college degree. I also pulled some recent data together that suggest that the three sectors would collectively have a workforce that would be well over half non-Hispanic white male. Manufacturing, the biggest, has been in a long term decline since the 1980s. In contrast, construction was doing OK until the Great Recession. But, while it's now improving since the bottom of that recession, construction employment is still at the absolute levels of the late 1990s. The smallest of the three sectors, mining and logging, is heavily affected by the ups and downs of oil prices (oil extraction is classified as "mining"), but that sector is essentially trendless over the long period shown. Moreover, the recent decline in oil prices has now adversely affected this sector.

In short, the job market doesn't look so hot for those non-college degree white males, straight or otherwise. And those males comprise the core of the disaffected group that some recent opinion polls suggest is behind the Trump phenomena in the Republican presidential race. So perhaps thinking about the job prospects for this group was what was depressing the play's socially-minded Harvard son. Perhaps the Harvard son, unlike the playwright apparently, had cared to look up the numbers.

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Appendix





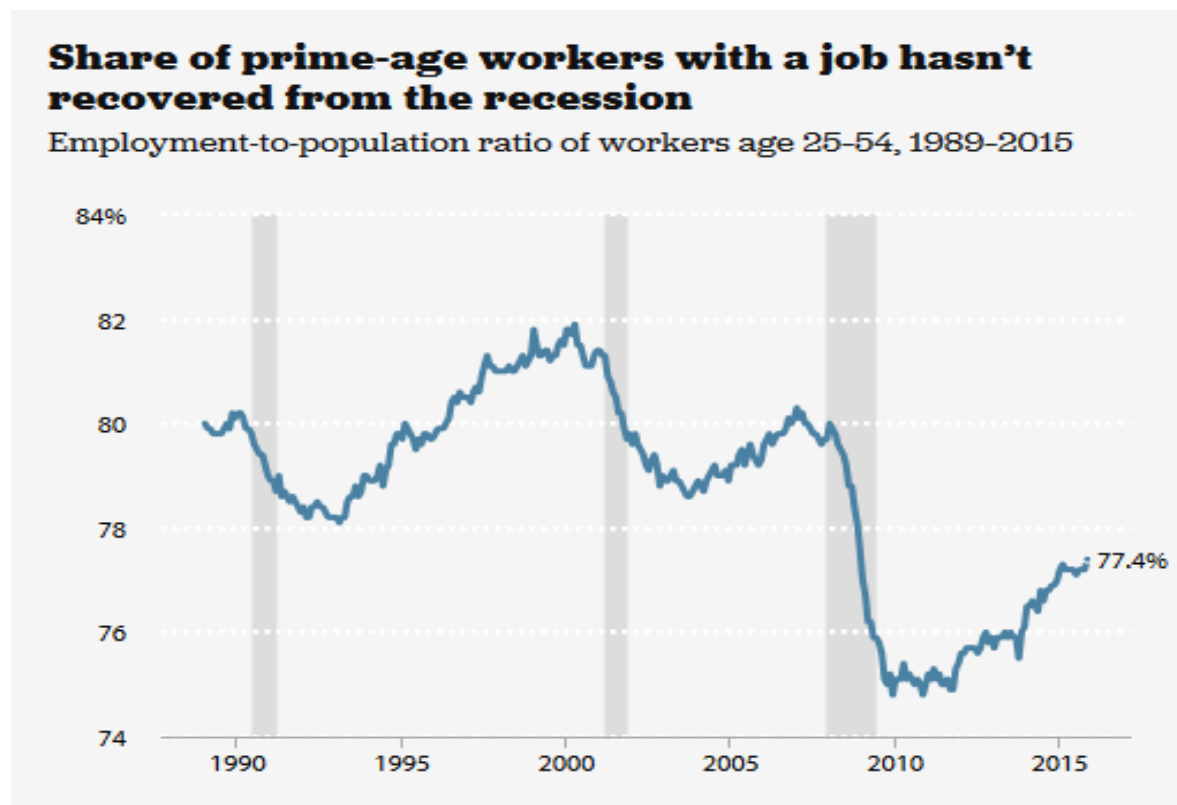
Source: FRED database of the Federal Reserve Bank of St. Louis

Mitchell’s Musings 12-28-15: It Depends on How You Look at Things

Daniel J.B. Mitchell

A 1947 children’s record intended to teach kids tolerance of others – *The Churkendoose* – ended with a song whose refrain was “It depends on how you look at things.”⁴⁷ It came to mind when I saw a recent NPR interview with President Obama. The interview dealt largely with terrorism and Middle East policy. But it then turned to a variety of domestic issues including black-lives-matter protests, campus protests more generally, and issues of blue-collar workers who – the President said – have economic difficulties which are being exploited by candidate Donald Trump.⁴⁸

The President’s view of the problems of blue-collar workers was basically that grand forces – globalization, technology, etc. – were moving against that group and leading to “frustration.” The old deal that these workers once had, or perhaps their parents had, is gone or going. However, when you look at the chart below from the Economic Policy Institute, it suggests that the “frustration” issue may be more general than just blue-collar workers.⁴⁹ The chart focuses on *all* prime age workers (25-54) so trends in staying in school and/or early retirement are not likely to have much impact. The drop in the employment-to-population ratio since 2000 suggests a broader labor market issue than just one affecting blue-collar folks. The ratio is still below 1990 levels despite the marked drop in unemployment rate since the Great Recession.



⁴⁷http://wilderworld.podomatic.com/entry/2007-02-06T00_40_05-08_00

⁴⁸<https://www.youtube.com/watch?v=MNop1dom1m8>

⁴⁹<http://www.epi.org/publication/the-top-charts-of-2015/>

How you look at the empirical data, as *The Churkendoose* song says, “depends.” The President, in his interview, sees the adversity in the labor market as something that just happened. When you view the data as something that just happened, you are tilted toward the notion that nothing could be done – r could have been done - about the consequences. Blind forces such as globalization are seen as akin to the weather, i.e., forces of nature. It’s safe to say that this view of labor market trends is widely shared by many mainstream commentators. At best, they think, the only thing to be done is to offer palliative care after the fact (food stamps?) and to advise or encourage the younger generation of incoming workers to go to college.

Trends in technology are indeed weather-like in their genesis. Globalization, on the other hand, or at least its domestic impact, is susceptible to public policy. Indeed, from its founding in the late 18th century through at least the first half of the 20th century, the politics of the U.S. often revolved around what to do about global competition. You can call the debate protectionism vs. free trade if you like. But it was a major American political issue. And the debate was often put in terms of labor-market impacts of external competition.

Thus, it’s really not true that the domestic impact of globalization is like the weather. It may be cold outside. But what the temperature is indoors has a lot to do with whether you choose to open the window. In the immediate aftermath of World War II, the window wasn’t all that open. For a variety of reasons, a *policy decision* was made in the U.S. to open it.

The decision to reduce protection, starting with the Kennedy administration, was made with regard to foreign affairs considerations in the context of the Cold War. But in recent years, it is less protection that is the issue when it comes to the domestic labor market impact and more the U.S. trade (im)balance. The U.S. could – as we have noted in many prior musings – have *chosen* to take steps to reduce and eliminate the trade deficit. It has *chosen* not to do so, apparently for foreign policy reasons related especially to relations with China and Japan. (We want China to cooperate on such problems as North Korea and Iran. And we want Japan to be a counterweight to China.) So while the President and his predecessors have depicted the labor market impacts of globalization as something over which they have no control, that stance depends on a view that no policy decisions were, or are, involved.

In short, it depends on how you (choose to) look at things - and how you then frame them.

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NOTE: During the 2016 winter quarter at UCLA, I will be teaching. Hence, weekly Musings posts will not resume until April 2016. However, if some issues arise before April on which I can’t resist commenting, I will do so.