

Mitchell's Musings

Daniel J.B. Mitchell

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For Employment Policy Research Network (EPRN)

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Mitchell's Musings 7-3-17: The Way It Was

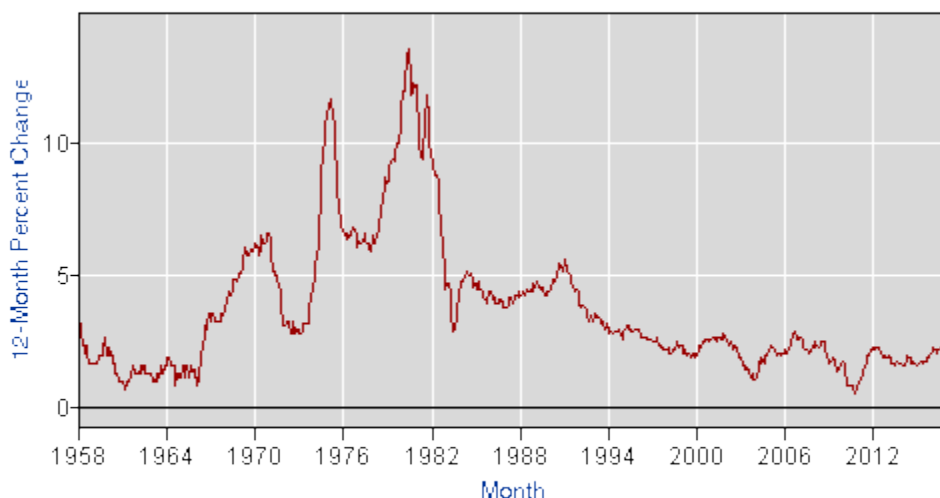
Daniel J.B. Mitchell

Thirty-six years ago in 1981, I participated in a forum held at the National Press Club in Washington, DC. The forum's topic was what to do about inflation. More specifically, it dealt with the anti-inflation policy of the new Reagan administration. The Reagan administration had abandoned what was then called "incomes policy" – essentially a program of wage-price "voluntary" guidelines that had been pursued by the previous Carter administration - and was relying on a "tight" monetary policy to reduce the inflation rate. In terms of fiscal policy, however, the Reagan administration had cut taxes based on some version of "supply-side" theory. So fiscal policy was stimulative, while monetary policy worked in the opposite direction.

As can be seen from the chart below, the "core" Consumer Price Index (CPI) was recording double-digit increases in 1981. There had been problems with the index's methodology, notably in its treatment of housing, but then as now, it was the headline indicator of inflation. The real economy was in the midst of a double-dip recession episode, the second dip of which would substantially boost unemployment. Although we now talk about the Great Recession of 2008 and afterwards, at the time of the 1981 forum, the U.S. was embarking on a comparable episode, both in terms of the depth of the drop and the length of time it took to return to something like full employment.

Consumer Price Index - All Urban Consumers

All items less food and energy: 12-month percent change



There were three economists/participants in the forum. Apart from me, there was Barry Bosworth of the Brookings Institution who had earlier headed the Carter administration's effort

at incomes policy. And there was Laurence Seidman, then of Swarthmore College, who was known as a promoter of using the tax system to restrain inflation through what was then called “tax-based incomes policy” (TIP). The TIP concept consisted of tax penalties for exceeding specified wage and price guidelines.¹ My own participation on the panel was because of my advocacy of “gainsharing” pay plans (profit sharing and similar arrangements) as potential anti-inflation devices.²

I would not have thought of the 1981 forum had it not been for my recent discovery of cassette tapes of the event in a closet. The forum was broadcast on NPR at the time, and the cassettes had been provided to participants afterwards, either by NPR or by the sponsoring organization, the Center for Democratic Policy.³ I have digitized the one-hour recording put it on the web at:

<https://archive.org/details/NatIPressClubNpr101581edited>



Above: Seidman, Press Club Official, Mitchell, Bosworth

¹In his remarks, Seidman made a joke about his promoting the TIP plan to “TIP” O’Neil, the Democratic Speaker of the House, which seemed to go over the heads of the forum’s audience.

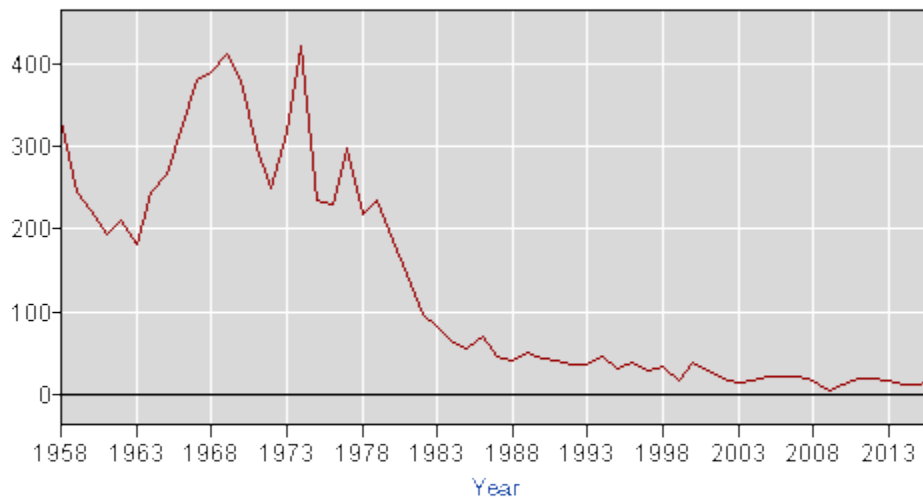
²Later in the 1980s, (then) MIT economist Martin Weitzman produced a theory of the “share economy” (not to be confused with the current notion of a “sharing economy”). The share economy involved promoting profit sharing and similar plans to improve macroeconomic performance including reducing the “stagflation” that characterized the 1970s and 1980s.

³The Center was founded as a Democratic Party-oriented think tank in 1981 in response to the Reagan election. Its name was later changed to the Center for National Policy.

The three participants in the forum were united in two beliefs. All three agreed that disinflating the economy via monetary policy alone was going to be a painful exercise. And, indeed, the depth of the recession that later unfolded proved that expectation to be true. All three of us were thus looking for some way to make the dis-inflation less painful. All three sought to make wage and price setting more responsive to macroeconomic restraint. In addition, all three agreed that, given the emphasis on such restraint by the Reagan administration, a tax cut (fiscal stimulus) made no sense in the face of monetary restrictiveness. But beyond those agreements, the policy suggestions diverged.

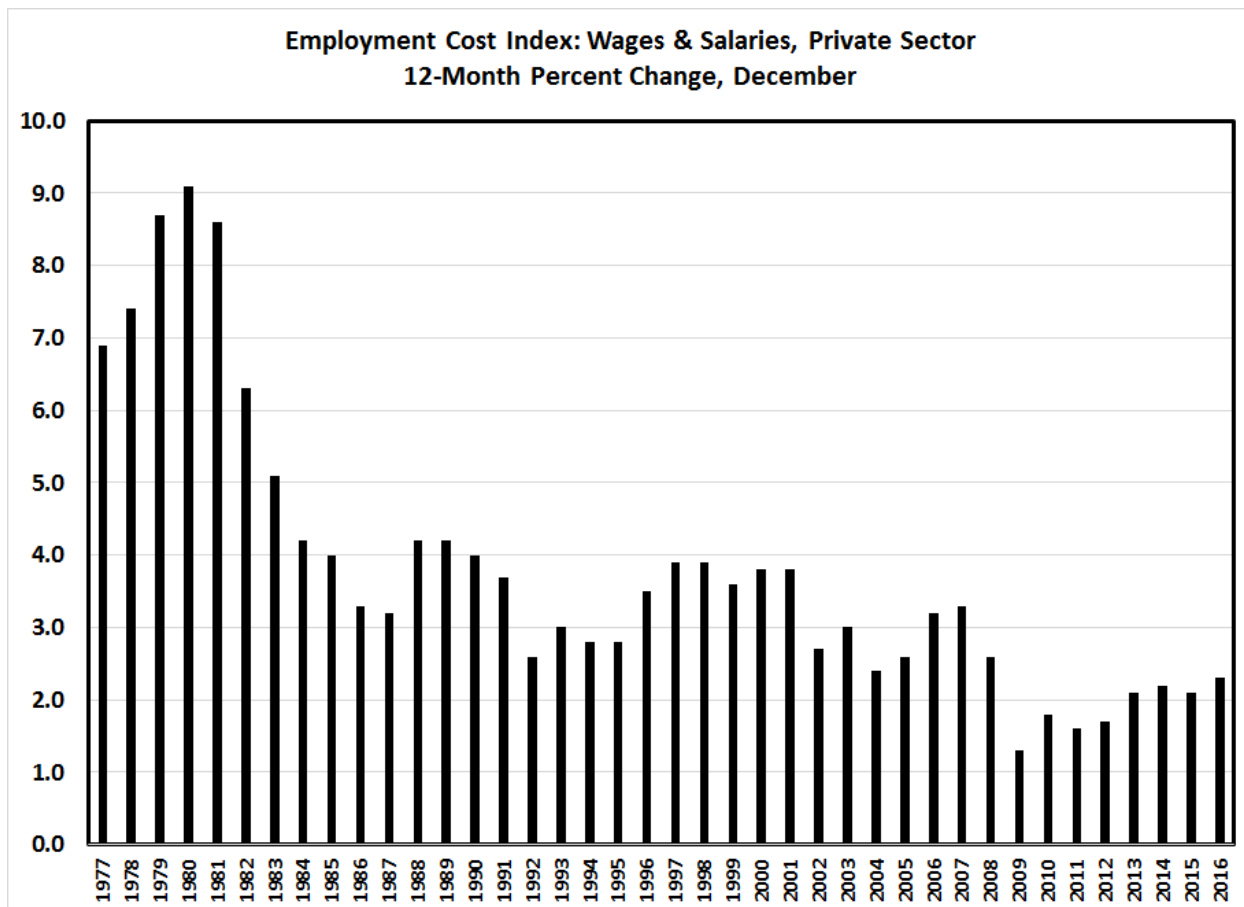
My own view at the time was that gainsharing programs, which were well known – but not especially widespread – would have the indirect effect of making wage adjustments more sensitive to the ups and downs of the business cycle. That effect wasn't the reason employers installed such plans; they were seen by employers who used them as incentives for productivity improvement and some versions, in addition, received tax incentives. My proposal was to re-target existing tax incentives toward those plans that had the beneficial macro effect. There was some increased interest in Congress in gainsharing at the time and in subsequent years – mainly because of the productivity effect. But nothing much emerged from that interest.

Number of work stoppages idling 1,000 workers or more beginning in period



Bosworth's proposal was to limit union contracts to one year's duration (the typical contract at the time was 2 or 3 years) and to impose compulsory final offer arbitration in the case of impasses in negotiations for new contracts. At the time, however, unions were down to around one fifth of the private workforce and were experiencing a wave of "concession bargaining." Put another way, about four out of five private-sector workers were nonunion and thus had no long-term contracts. Strikes – which are virtually all union-related – were rapidly declining in frequency, as can be seen from the chart above.

Bosworth seemed to think that arbitrators would take account of macroeconomic externalities in making decisions – which in fact they don't typically do. And there was no reason to think that use of final offer arbitration, as opposed to conventional arbitration, would change their criteria.⁴ In any case, pay increases had already peaked, as the chart below illustrates, and never returned to anything like the rates of the early 1980s.



Seidman had less focus on the labor market and primarily promoted his two tax policies. One was a progressive personal *consumption* tax to replace the personal *income* tax. The idea was to tax consumption rather than income, thus promoting saving. You can think of this concept as

⁴Under final offer arbitration, the arbitrator receives an offer from management and an offer from the union. No compromise decision is allowed. He/she must choose the one that is most “reasonable.” The notion is that there will be an incentive to make reasonable offers, thus promoting a convergence of offers (and possibly a settlement without the need for an arbitrator in the first place). Conventional arbitration, in contrast, is said to produce a divergence of offers because the arbitrator will somehow split the difference. The incentive to diverge is sometimes characterized as the “chilling effect” of conventional arbitration, i.e., the presence of arbitration as the eventual decision maker in the event of an impasse is said to chill the chance of a private settlement. There is a substantial literature on these ideas.

something like the tax incentive given to IRA accounts (dating back to 1974) and to 401k plans (dating back to 1978). The idea would be to give a similar tax treatment to ALL forms of saving.

Under such a tax system, you would presumably start with determining your income. Then you would deduct your saving and be taxed on that remainder. Of course, a sales tax or European-style value added tax (VAT) also taxes just consumption, but it would be regressive. So there would have to be progressive rates applied to the consumption remainder.

For people at the top end of the income scale, the tax rates would have to be very high to match the current progressivity of the income tax. And folks who dissaved, as they might if they became unemployed or otherwise faced hard times, would presumably be taxed on *more* than 100% of their income. This proposal – a complete rewriting of the tax system – was not going to go anywhere. And it related to inflation only indirectly. One connection was in the vague sense that by encouraging saving (and thus investment), it might - over the long run - raise productivity growth. In the shorter run, a sudden shift to such a tax might boost saving, diminish consumption, and thus be contractionary.

The other Seidman tax proposal was the TIP plan under which violations of guidelines for non-inflationary wage and price guidelines would be subject to a tax penalty. In the abstract, this idea was appealing to economists: if you don't like an activity, impose a tax to discourage it. The problem is in the implementation.

On the wage side, you would need detailed regulations to deal with such things as merit increases, promotions, deferred pay, etc. These complications arise under wage controls, too, but when taxes are involved, there needs to be a level of precision that would be difficult to define and administer. The price side is also complicated. What about tie-in sales, discounts, quality vs. quantity, coupons? Again, the concept was appealing but impractical.

So what do we conclude from this historical exercise? One is that while there are current worries about inflation (but not much sign of it), no one talks about the kinds of remedies that were on display in the 1981 forum. For one thing, with unionization in the private sector down to around 7%, the labor market focus on collective bargaining is largely gone. At most, there are occasional references to labor shortages leading to wage increases and maybe thus to price increases.

What may be lingering from the inflationary period of the late 1970s and early 1980s is the concern about inflation among senior policy makers, such as those who make policy for the Fed. The median American would have no memory of that period. But Fed chair Janet Yellen will be celebrating her 71st birthday in August.

Mitchell's Musings 7-10-2017: My Guess on Sluggish Pay Increases

Daniel J.B. Mitchell

There are beginning to be headlines and news items about labor shortages. A recent article from the *New York Times* is headlined "Lack of Workers, Not Work, Weighs on the Nation's Economy."⁵ California farmers are complaining they can't get enough workers.⁶ Such anecdotal reports are not surprising given the fact that unemployment is down to levels that preceded the Great Recession. And the job openings (vacancy) rate is higher now than then. (See charts 1 and 2 below.) More demand; less supply.

Chart 1: Unemployment Rate: June of Year Shown

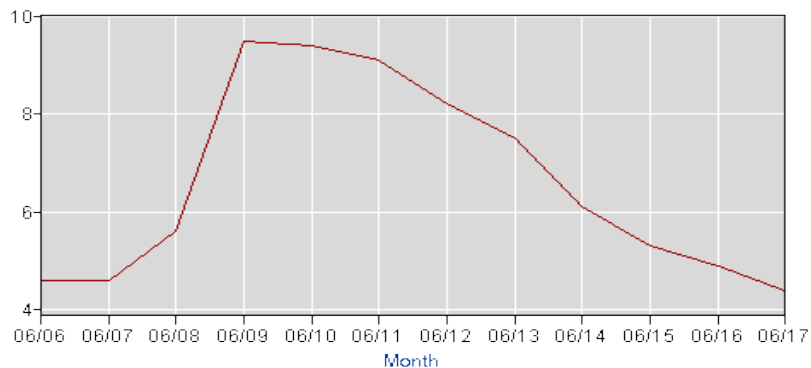
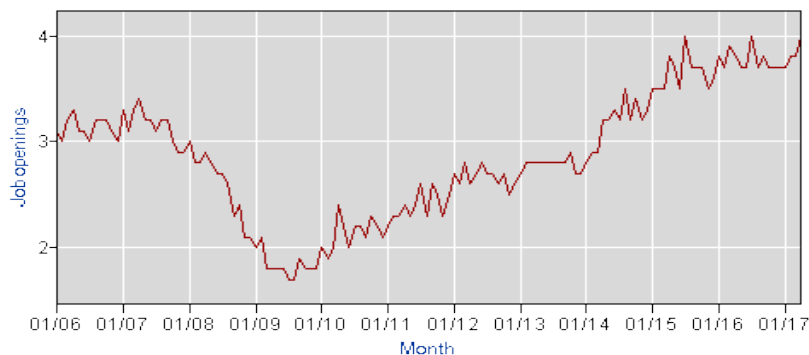


Chart 2: Job Openings (Vacancy) Rate

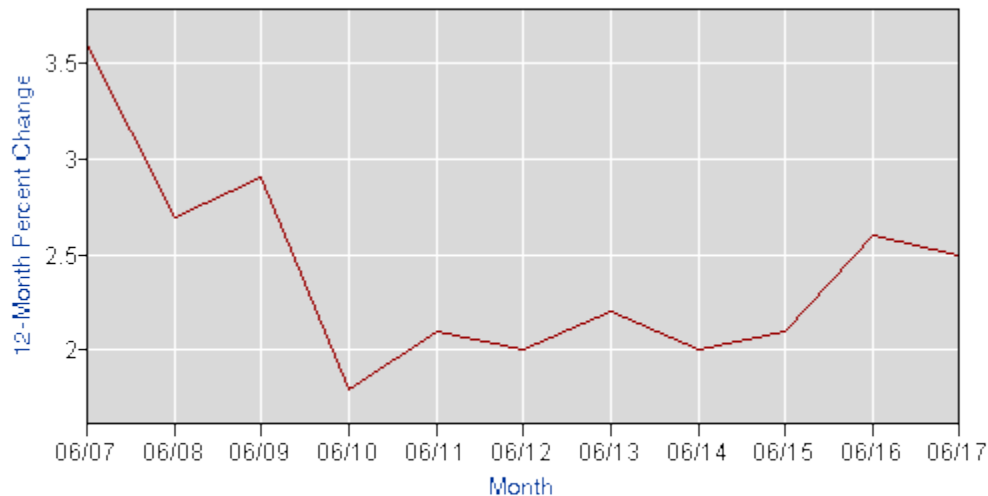


⁵<https://www.nytimes.com/2017/05/21/us/politics/utah-economy-jobs.html>

⁶<http://www.sacbee.com/latest-news/article159380274.html>

However, the reports on the labor market are telling us that wages have been slow to increase, despite labor market pressures. Nominal wages, measured by average hourly earnings, were increasing about 2% per annum during the aftermath of the Great Recession. Now the rate is about 2.5%. (Chart 3) So there is *some* acceleration in pay, but not as much as might be expected.⁷

Chart 3: Average Hourly Earnings for Private Nonfarm Employees, 12-Month Percent Change: June-to-June



It's also interesting that employers – although they may complain about the difficulty in finding workers – are not behaving as if there is a shortage, even if they are talking about one. Here is another anecdotal report:

...Looking for a job has never been fun but lately it seems to be getting more complicated. The U.S. is at close to full employment, but companies are getting pickier and less responsive at the same time, as Kristen Shattuck found out recently. Shattuck got a shock when she started looking for a new job last year. She's an education consultant and found the process much more involved than the last time she was on the market back in 2011. Before her interview, organizations asked her to write a personal statement, submit strategic plans, proposals, and watch videos, which she then had to give written feedback on... So why do job hunters have to go through all this? Allison Hemming runs The Hired

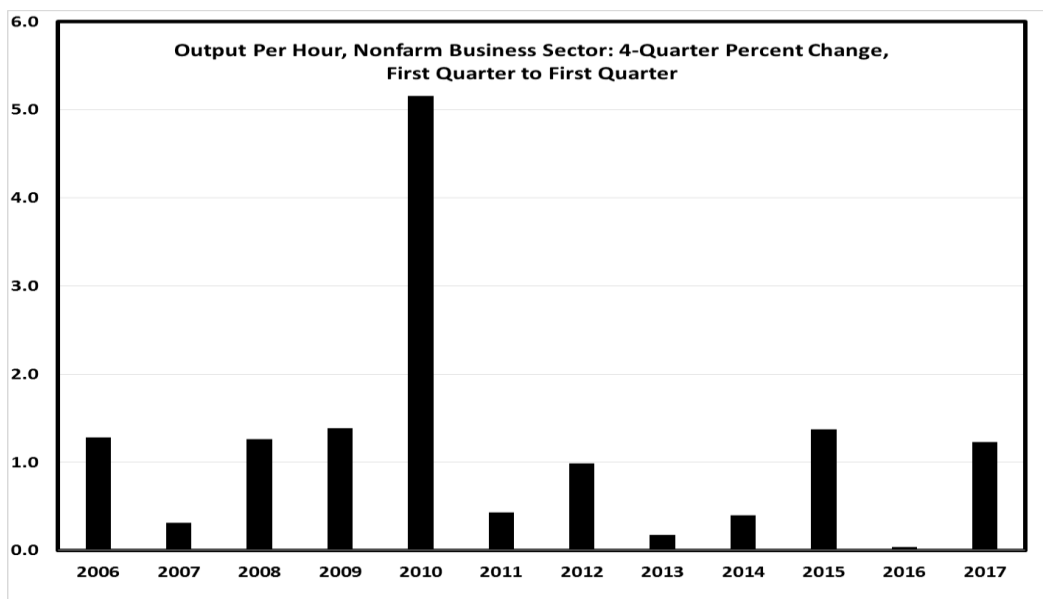
⁷Confession: Back in 2015 in a Mitchell's Musing, I interpreted a blip up in wage change as a sign the Phillips curve had returned. <http://employmentpolicy.org/page-1775968/3328512#sthash.aUGSQVXW.dpbs> The curve isn't dead, but it is less healthy than I had thought.

Guns, a New York City recruiting firm. Her clients are digital companies. “They’re looking for more and more out of each individual person that they hire, and this is their way to manage the risk,” she said. “I think some of it can be ridiculous and too long.” But she added that candidates need to look at it like dating. You wouldn’t want to marry someone after the first date, right? She said these interviewing marathons are a way for companies and candidates to make sure you’re the one....⁸

There is a problem with the explanation of putting job seekers through all kinds of hoops. The rationale seems to be that the hoops are due to the fear of making a hiring mistake. But that story doesn’t make sense. Let’s put aside the issue of whether the hoops have any correlation to later job performance. Yes, there are costs of making a mistake. But these costs can be mitigated by such devices as probationary periods. Is there any evidence that the cost of making a mistake is higher than it was in, say, 2006-2007 or 2000-2001 (previous business cycle peaks)? I haven’t seen any such evidence.

It’s worth noting that there is another stream of recent news stories about robots taking over jobs. In that story, there really isn’t a labor shortage because robots are raising productivity so much that more labor isn’t needed. Workers are unnecessary, so why pay those that are hired more? But the robot story flies in the face of available evidence. The output per hour numbers don’t show a blast of productivity. The last productivity blast occurred in 2009-2010, when employers dumped labor in a panicked response to the drop in demand. (Chart 4)

Chart 4



⁸<https://www.marketplace.org/2017/07/05/economy/why-are-job-interviews-getting-so-complicated>.

You can always argue that maybe the real output data are somehow missing the growth in output due to all this alleged productivity. But if you take that approach, you have to explain why measured unemployment is so low. You have to explain why vacancy rates are so high. Are those numbers wrong, too?

OK. So what IS happening? All I can venture is a guess as to why wages are at best reacting very slowly to a tight labor market. The first three minutes or so of the “Marketplace” public radio program for July 7, 2017 deal with the wage issue.⁹ One employer says that, yes, she is raising wages but not more than her competition. If she raised them faster, she wouldn’t be competitive, she says. A construction employer is reported to be worrying that if wages go up, newly built homes won’t be affordable. There is an element in such stories of a labor-buying cartel, *even though these employers are small and competitive*. How can that be?

Let’s look at the idea that you can’t raise wages more than your competitors or you won’t be competitive, or that your product won’t be affordable. Presumably, if you can’t hire all the labor you need, you are giving up business. Your labor demand is a reflection of product demand; no one hires workers for the sake of it. So, apparently, you have customers lined up and a margin for (profitably) raising wages to get the labor you need.

Nonetheless, if *all* employers in your market think that way, collectively profits might be reduced. A strategy of everyone just doing what the others do – even if all experience a labor shortage – could be net beneficial for the group. Regardless of how the behavior is rationalized, everyone doing what everyone else does is a form of labor buyers’ coordination that can benefit employers at the expense of workers (monopsonistic behavior). And there is one thing we know from surveys of employers about how they set wages. The universal answer is that they find out what others are doing. They may do their research informally. They may get reports from trade groups or other sources. They may hire pay consultants who have survey data. But imitation of other employers is the key feature.

In that sense, current behavior – grouching about labor shortages but not competitively raising pay in response – is not abnormal, at least for a time. So the question is whether there is something now that is different from past recoveries. The most comparable recovery was the episode in the 1980s. It started with two back-to-back recessions, the second of which was quite severe. These recessions, however, were in some sense less dramatic than the Great Recession. They were essentially engineered by the Fed to combat inflation. In contrast, the 2008-9 event was characterized by a collapsing housing/mortgage market that led to a collapsing financial sector which, in turn, had to be bailed out to avoid further disaster.

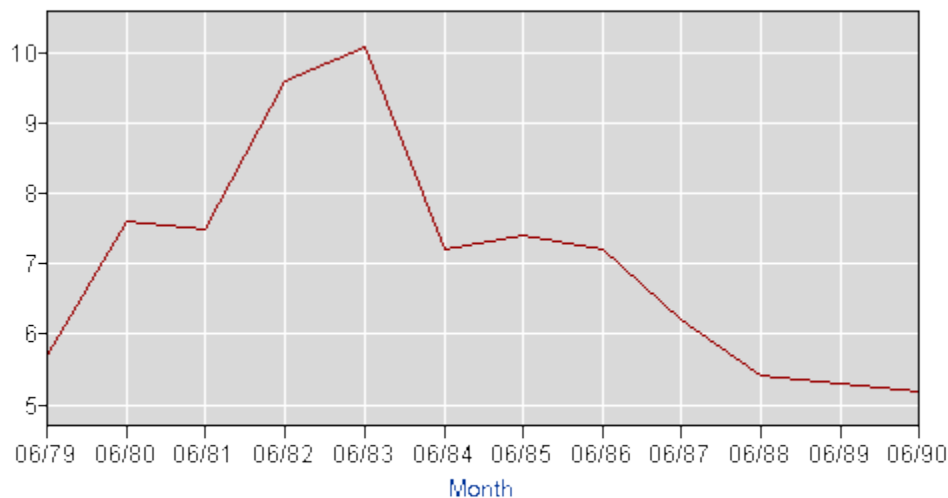
The profile of the recovery was also different. Unemployment shot up in the second of the two back-to-back episodes, but then came down relatively fast after it peaked. (Compare Chart 5

⁹https://download.publicradio.org/podcast/marketplace/pm/2017/07/07/pm_20170707_pod_64.mp3.

below with the earlier Chart 1.) That profile is in contrast with the Great Recession in which unemployment peaked, and then only slowly came down. During the Great Recession, there was endless talk of a “new normal” in which the economy would forever be sluggish and workers would just have to adapt to their diminished prospects. In human resource/employer circles, the new normal talk after the Great Recession was especially pronounced. I don’t recall anything comparable to it having occurred in the 1980s.¹⁰

Wage behavior was different in the 1980s episode. (Chart 6) Pay increases were high in the inflationary late 1970s, but in the face of the second of the two back-to-back recessions, they started down.¹¹ By 1986, however, the downward pressure on wage had reversed. Thereafter, pay increases rose.

Chart 5: Unemployment Rate: June of Year Shown



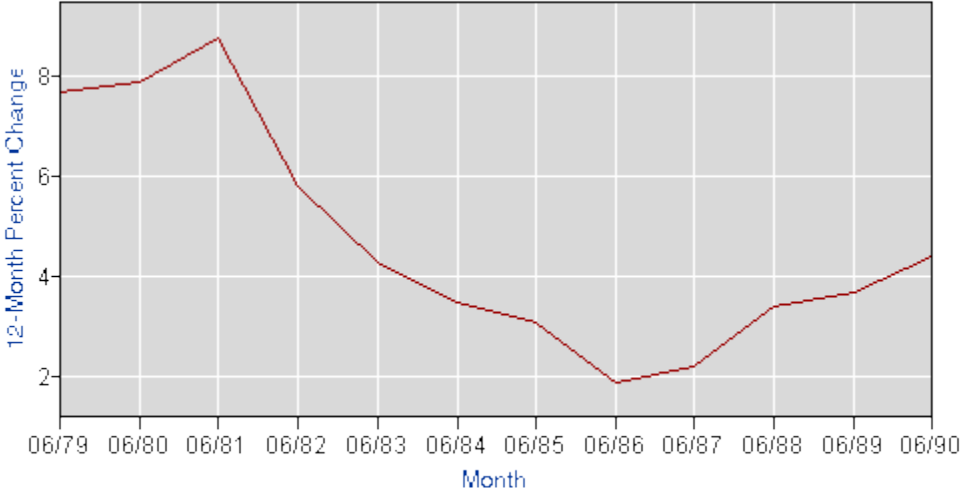
My guess is that the accumulation of all the new normal talk among employers is now showing up in a more gradual adaptation to a tight labor market than might have been expected, based on historical data. How long will that retarding effect last? We don’t have past experience to go

¹⁰Indeed, the 1980s saw the beginning of the overheated “end-of-the-job” talk that continued into the 1990s and after (caused by the growth of temp agencies and related practices). “End-of-the-job” postulated that the labor market was becoming a spot market. Such chatter was an earlier version of the contemporary “everything-is-turning-into-a-gig economy” talk. Pay in a spot labor market should be highly responsive to labor shortages. It presumes low costs of hiring and firing and no real employment relationship. There are no “employers,” just users of labor in the same sense that there are users of copper.

¹¹Chart 6 uses the less comprehensive measure for production and nonsupervisory workers rather than all employees, since the all-employees series was not available in the earlier period.

by to answer that question. There was only one Great Recession and it has left economic and political scars.

Chart 6: Average Hourly Earnings for Private Nonfarm Production and Nonsupervisory Employees, 12-Month Percent Change: June-to-June



Mitchell's Musings 7-17-2017: Much Ado About Accounting

Daniel J.B. Mitchell

You walk into the local commercial bank where you have an account and deposit a check for, say, \$100. The bank “credits” your account for the \$100. Why? Because that deposit is now a claim that you have on the bank; the bank owes you \$100 and the \$100 thus represents an increase in the bank’s total liabilities. At the same time, the bank now has an asset worth \$100, namely its claim upon the commercial bank on which the check you deposited was written. So its assets have also increased by \$100. That increase in assets is the “debit” that balances the credit. It is standard double-entry bookkeeping. The bank, on Day 1, has an increase in liabilities and an increase in assets of equal value: \$100.

Over time, however, your bank will invest a good portion of its deposits in interest-earning assets such as securities, mortgages, or loans it makes to businesses. It will keep only a limited amount in cash that it needs for routine business to cover temporary excesses of withdrawals over deposits.

But suppose the bank makes some bad investment choices with its assets. Suppose, for example, that the securities it holds fall in value. Suppose that some of the loans and mortgages it makes go into default. If the bank’s assets fall in value relative to liabilities, depositors may become nervous about their claims on it. Back in the day, before there were such cushions such as deposit insurance and central banks as creditors of last resort, such nervousness could cause a run on the bank. If all depositors try to get their money out at once, the bank might not have the liquidity on hand it needed to honor all the requests.

But even apart from short-term illiquidity problems, if the bank’s assets are permanently worth less than its liabilities, some of the bank’s creditors (including depositors) will get back only a fraction of what they are owed or maybe nothing at all. In effect, the institution would be in bankruptcy. The very word “bankruptcy” conveys the notion of a disrupted, ruptured, and destroyed institution.

Now let’s move from local to global. When the International Monetary Fund (IMF) was created towards the end of World War II to administer the Bretton Woods international monetary system, it was established, not as a world central bank, but as a financial intermediary. It would operate similarly to the local commercial bank in which you made your hypothetical \$100 deposit. While a central bank can create money, a financial intermediary can only borrow money (in the example above, in the form of deposits), and then invests and lends the funds it has borrowed. It creates nothing.

For reasons we don't have to go into here, in the late 1960s, the IMF was given limited authority to act like a central bank and create something called Special Drawing Rights (SDRs). When authorized by its member nations, the IMF essentially creates a dollop of SDRs and gives them out to its member states in proportion to their "quotas" (essentially, in proportion to their deposits). Over the years, over \$280 billion worth of SDRs have been created. The member states can then use their SDRs as a kind of restricted currency to be utilized only by official monetary institutions (central banks, treasuries) to pay off debts to each other. So unlike your local bank in the example above, the IMF has created something in the case of SDRs. But it has gotten nothing in return for them. It sounds a lot like a credit (a deposit of the member states) with no balancing debit.

The IMF takes pains to deny that SDRs are really a currency (although in any meaningful sense of that word they are) and also denies that they are a liability of the IMF.¹² Why the denials? Because in conventional thinking, if the IMF recognized a liability with no corresponding asset, someone might say it was heading toward bankruptcy. So, officially, the SDRs are said to be, not the liability of the IMF, but instead the liability of all the member states who jointly agreed to accept them as payoffs for debts.

If that's so, if SDRs are the creation of the member states, what are the assets that all the member states have to balance their liability? (Should we worry, for example, that if there are no such assets, all the member states are risking bankruptcy?) If you pushed the IMF, it would undoubtedly say that the missing assets DO exist, and that they are the self-same SDRs the member states authorized it to create!

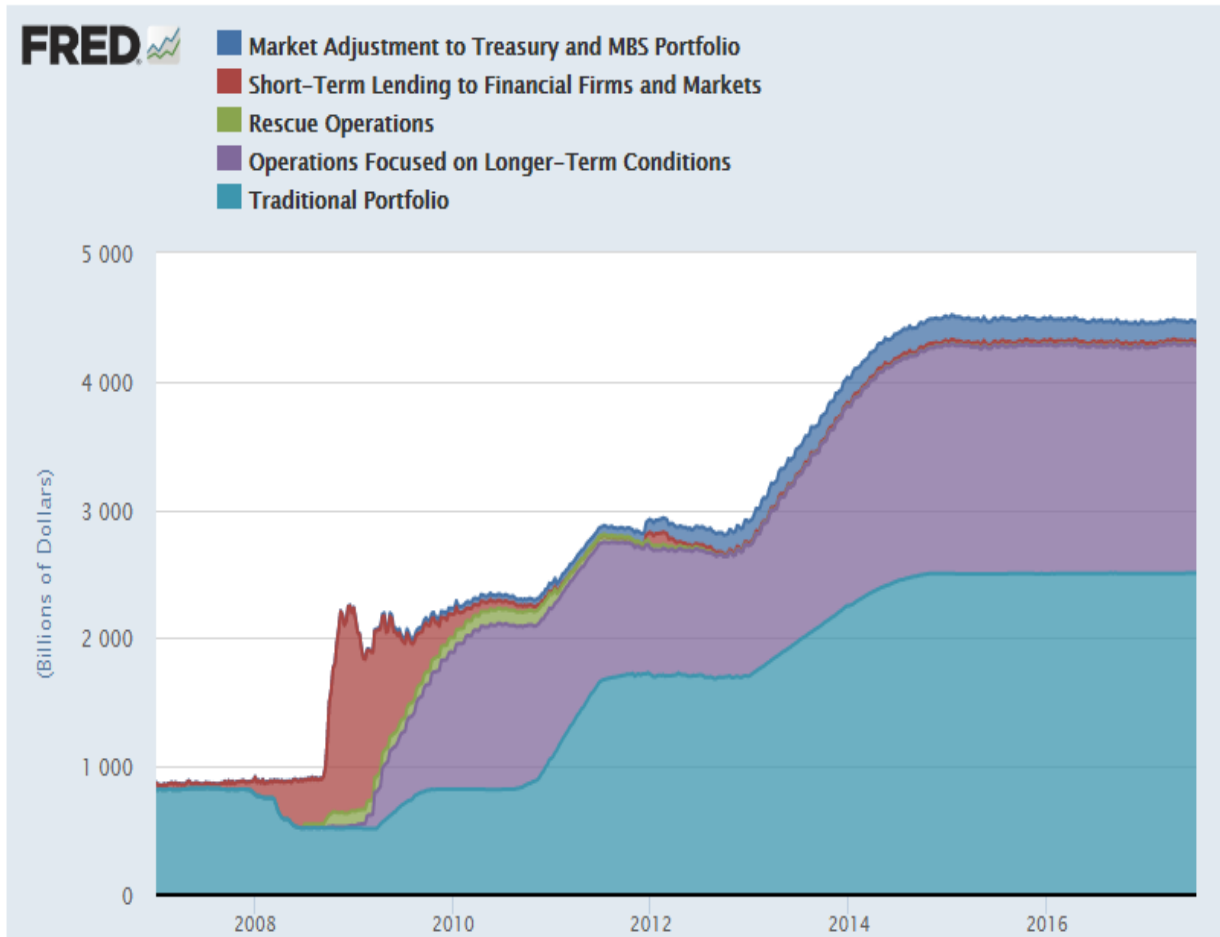
I hope, by now, that you are beginning to recognize that there is something funny about thinking that an institution that can create money can go bankrupt. When the IMF creates SDRs, it is - in effect - creating a form of money (even if it denies that the SDR is a "currency") and it is acting like a central bank. In essence, if you have an institution that can create money - which is what a true central bank does - it CAN'T go bankrupt.¹³ *More generally, you should not think of central banks as if they are commercial entities like financial intermediaries that borrow something they can't create and then lend it out.* If financial intermediaries make bad choices, or if the fates are against them, they CAN go bankrupt. As the IMF case illustrates, a money-creating institution can even create a liability, essentially get nothing for it, and yet not go bankrupt.

¹²<http://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/14/51/Special-Drawing-Right-SDR>.

¹³Note that when countries - as in the Euro-zone - give up their currencies, their former central banks stop being true central banks, whatever they call themselves. They have surrendered their money creation authority to the European Central Bank.

Composition of Federal Reserve Assets

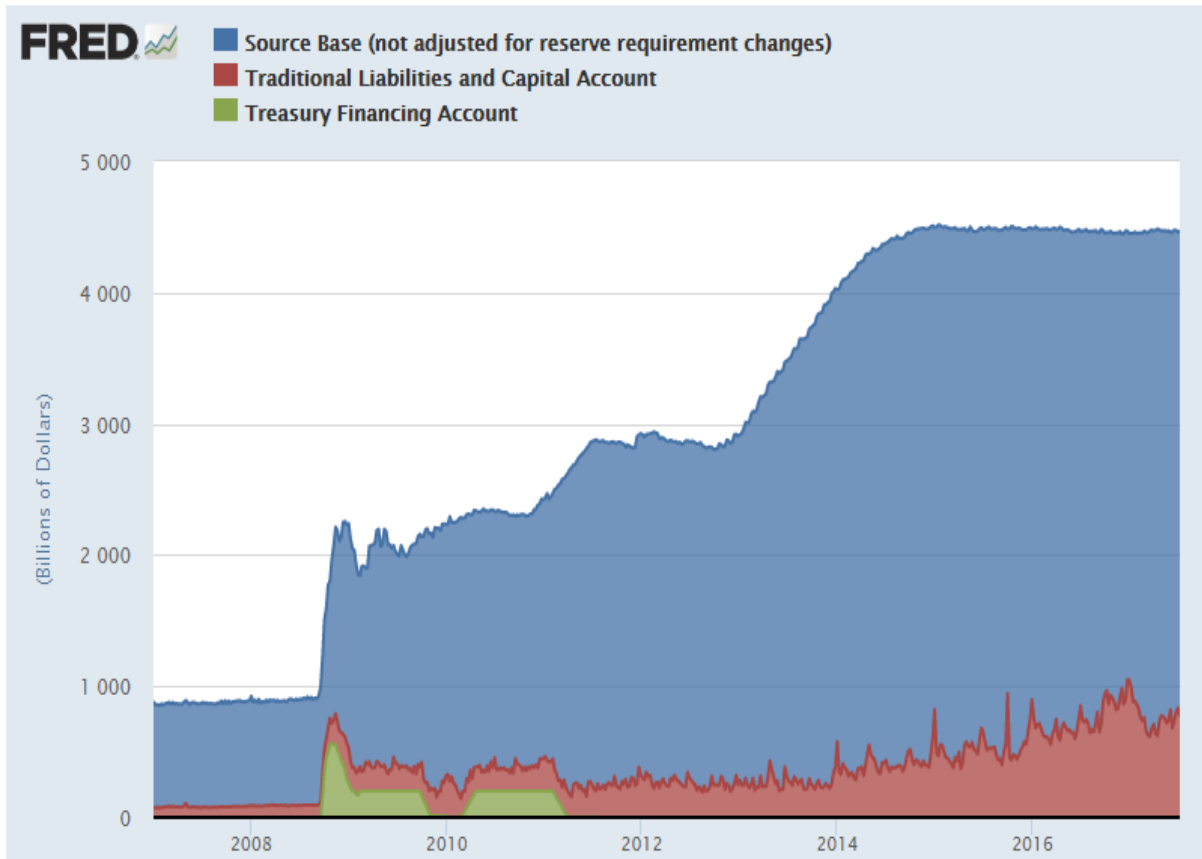
End-of-Period Wednesday Figures



As part of its effort to deal with the impact of the Great Recession, the Federal Reserve – the American central bank – bought a lot of assets and issued payment for them, i.e., lots of money was created in the process. Viewed as a bookkeeping matter, the value of the liabilities the Fed created for itself equaled the value of the assets that it bought, as the charts above and below show. You can argue about how the Fed responded to the Great Recession. You can argue about the causes of the Great Recession. But none of those debates matter to the point here. The point is that the Fed's bailing out and stimulative efforts produced a large increase in both its assets and liabilities. It's not an accident that the two charts look similar. One is the mirror of the other.

Composition of Federal Reserve Liabilities

End-of-Period Wednesday Figures



Some commentators said at the time (and keep saying) that a vast inflation would (will) occur, due to this monetary creation. It didn't happen, certainly to the surprise of ideological monetarists and even to the surprise of the more pragmatic Fed policy makers. But apart from the inflation issue, should you now be worried about the fact that the Fed is holding a lot of assets? Should you worry about the value of those assets? Should you worry, for example, that rising interest rates might cause the value of the Fed's asset portfolio to fall below the value of its liabilities (since rising interest rates cause the market value of longer-term securities to fall)? And if you worry about that possibility, should you worry about the Fed going bankrupt?

The simple answer is that since the Fed can create money, it can't go bankrupt in any meaningful sense of that word. Therefore, its monetary policy should not be driven by any such considerations.

Unfortunately, however, because the growth of the Fed's portfolio was very large, this type of thinking seems to be having an influence.

Here is an excerpt from a recent article from the *Los Angeles Times*:

Federal Reserve officials took bold steps to battle the financial crisis and the Great Recession, none more audacious than purchasing trillions of dollars in bonds in an unprecedented and politically charged attempt to boost economic growth. Now, with the economy healthier — and mixed opinions about how much the bond purchases actually helped — the Fed is preparing to scale back its massive stock of about \$4.5 trillion in assets.

Those holdings of mostly Treasury bonds and mortgage-backed securities are more than quadruple what they were before the crisis, and reducing them is another risky move that could affect mortgage rates, consumer prices, bank lending, stock values and federal government borrowing. But there's also risk to standing pat. Like any investor, the central bank could suffer losses on the bonds if it holds them too long and interest rates rise. [Underline added] *At the same time, holding a lot of assets could make it harder to buy more if that's needed to fight a future recession.* [Italics added]

So Fed policymakers plan to start trimming their holdings this year. They hope to do it gradually and seamlessly, without the controversy and fanfare that has made the once-boring institution a political target and shaker of financial markets.

"We think this is a workable plan and it will be ... like watching paint dry," Fed Chairwoman Janet L. Yellen said last month in detailing a methodical sell-off of some of the assets on the bank's balance sheet. "This will just be something that runs quietly in the background." ...¹⁴

The underlined sentence suggests that important people (The reporters? The folks they interviewed?) think we should be tossing and turning about the Fed possibly taking losses on its portfolio, as if it were a private, commercial firm that could go bankrupt. The italicized sentence suggests that because the Fed has a lot of assets, it would be hard for it to buy more of them in the next recession. Why? It can create money and buy more. Are we to believe that holders of such assets won't sell them for cash?

Finally, the last few sentences suggest that the Fed, in the face of such anxieties, feels it needs to respond to them. As noted, you can raise questions about how the Fed dealt with the last recession. But we should not create artificial issues that could hamstring the Fed's responses to the next one, whenever it comes. And if those anxieties can't be assuaged with logic, why not do what the IMF did

¹⁴<http://www.latimes.com/business/la-fi-federal-reserve-stimulus-20170710-htlstory.html>.

when it created SDRs? Insist that the liabilities and assets are something other than what they are. Maybe take them off the books. Be creative and find other approaches to the accounting and bookkeeping that are cosmetic rather than real. If there are rules, laws, or practices that are mistakenly based on the idea that a central bank is like a commercial bank, change them or find ways around them. There is enough to worry about, with the chairmanship of the Fed opening up for a new appointment by President Trump next year, without creating additional concerns.

Mitchell's Musings 7-24-2017: Rand Paul Saves the Fed (from Himself)

Daniel J.B. Mitchell

In a musing a month ago, I noted that Democratic hopes may be unrealistic if the expectation is that voters will be so offended by Donald Trump – or so annoyed with his actions on health care or other issues – that they will defeat him if he runs again in 2020 (or, somewhat more likely, even give them control of one house of Congress in 2018). The argument I made was that unless the economy turns down, the urge to vote out an incumbent president may not be sufficiently strong.¹⁵ Nothing is impossible, of course, but the issue is what is probable.

The economy is currently running at something close to full employment, inflation is low, etc. And there is nothing visible on the horizon that says the economy is on the verge of tanking. Meanwhile, the mail continues to be delivered, Social Security payments go out, and other federal services continue. If you are not a close follower of foreign affairs and/or domestic political news, everything seems normal. Election Day in November 2018 is not all that far away, so the clock is ticking on the prospect for some economic crisis to arise. And although the recovery from the Great Recession will be in old age in historical terms by 2018 or 2020, there is no theory that says that recoveries die of old age alone. There has to be a tangible cause.

Of course, apart from the economy, there is the Russia-thing, I argued in the earlier musing, and who knows what revelations are yet to come out? Maybe the discoveries will be so overwhelming that even normally uninterested swing voters will be forced to pay attention. Possibly, there could be enough shockers revealed to force an early exit of the president or some kind of 2018 or 2020 election upset. So it's not wrong as a strategy for Democrats to concentrate on the Russia scandal; absent an economic downturn, it may be the best hope they've got at the moment.

But if you wanted to compose a scenario in which something *could* go wrong in the economy, you might look to the Federal Reserve and its monetary policy. The Fed could undertake actions that would trigger some kind of economic faltering. Fed monetary policy is the one active element in macroeconomic policy; fiscal policy in the hands of Congress seems to be on gridlocked autopilot. And, as it happens, current Fed chair Janet Yellen's term (as chair) expires in early 2018.¹⁶

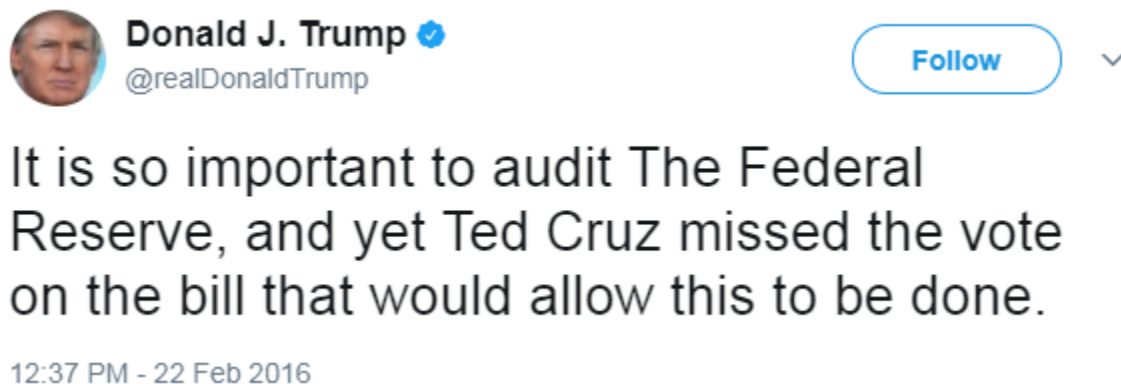
¹⁵<http://employmentpolicy.org/page-1775968/4911683#sthash.8DZHhQcb.dpbs>.

¹⁶She could stay on as just one member of the Board of Governors, although Fed watchers consider that outcome unlikely.

Because the Fed has the power to create money, there is a long history of suspicion of it in American politics. Money is supposed to be “real” somehow. People compete, toil, struggle, rob and steal for it. So how can it just be created out of nothing by some government entity? For years, former Congressman Ron Paul was the champion of such thinking. In the early 1980s, the incoming Reagan administration, as a sop to the wing of the Republican Party that goes in for anti-Fedism, even created a Gold Commission – with Ron Paul on it – ostensibly to consider going back on the gold standard.¹⁷

Father Ron Paul is largely off the political scene now, but son Rand Paul is in the US Senate and has inherited the anti-Fed mantle from Dad. The mantle shows up in his periodic calls to “audit” the Fed. Exactly what auditing the Fed means is not clear. I’m sure it would be found that the debits equal the credits in any audit. And the seeming mystery of how an entity has the God-like power to create something out of nothing would remain in place.

Shortly before Trump took office, Senator Paul seemed to think that the new president would be receptive to Fed auditing.¹⁸ And, indeed, Paul had a Trump tweet from the campaign that suggested just such support:



So one could imagine a scenario in which a Rand Paul-endorsed person, a monetary crank, was nominated by the president to replace Yellen. It is true that Trump’s Secretary of the Treasury likely wouldn’t be keen on any such appointment.¹⁹ But Trump doesn’t always pay close attention to what his

¹⁷The Commission was essentially neutered and ended up writing a lengthy report. For a history, see http://www.anderson.ucla.edu/documents/areas/fac/hrob/mitchell_gold.pdf.

¹⁸<http://thehill.com/policy/finance/312662-audit-the-fed-bill-gets-new-push>.

¹⁹<https://www.bloomberg.com/news/articles/2017-01-24/mnuchin-backs-fed-independence-and-signals-reform-isn-t-priority>.

cabinet members think. And weird Fed policy instigated by a Paul-endorsed nominee could upset the markets, and even the economy, although maybe not in time for the election of November 2018.

But now the repeal-and-replace Obamacare effort in the Senate seems to have failed. And Rand Paul is a key villain in that failure. Republicans could lose no more than two yes votes for their health bill out of their 52 members in the Senate. Paul was one of the original two saying absolutely no. And while the president didn't seem to be wedded to any particular version of health care "reform," he *did* want to sign something that could be said to be repeal-and-replace, or even just repeal (with replacement put off beyond 2018).

The president doesn't think highly of folks who thwart him. So the chances now for a Rand Paul acolyte as Fed chair, or even just a member, seem remote. And thus the prospects for a strange character at the Fed threatening to mess up the economy also seem remote. Critics may note that despite the recovery, the economy isn't creating enough "good" jobs and rising pay. But it is creating jobs and maybe folks have gotten used to things "as is." A recession would end that job creation and reverse it, with political consequences to follow. But from where would that recession come? Absent a deviant Fed, what would be the cause?

Mitchell's Musings 7-31-2017: If-Then

Daniel J.B. Mitchell

Human resource practitioners have long had experience with compensation systems based on some version of “pay-for-performance” rather than just measured time worked. Simple piece rates and sales on commission are examples of arrangements that have been used with varying degrees of extensiveness for decades. And the problems that arise from the simple and appealing concept of pay-for-performance are well known. Piece rates by themselves emphasize quantity over quality and can lead to shoddy products unless some other controls are implemented. Individuals on commission may end up misrepresenting what they are selling, ultimately causing harm to their employer once lawsuits and public approbation arise.

A recent review article in the *Journal of Economic Perspectives* focuses on the pitfalls of “financialization” in corporative governance.²⁰ By “financialization,” the author refers to the practice of rewarding top executives by some measure of the firm’s share price or profitability. For example, if you give executives stock options in the firm and the share price rises (for whatever reason, but maybe because of their smart managerial decisions), the executives reap a reward. One theme in the article is that such financial approaches to pay-for-performance by executives have drawbacks in actual practice. Given the long history of reward systems and their pitfalls for ordinary employees, perhaps this conclusion regarding executive rewards should not be surprising. Maybe more surprising is that the literature cited in the article is mainly focused on high-level corporate governance, but the longstanding human resource experience is not referenced. Sometimes history outside one’s immediate focus has something to teach.

In any case, I was struck by one excerpt from the article: (page 32)

The important real-world issues around corporate governance do not fit neatly into most common economic frameworks and models. The history of corporate governance includes a parade of scandals and crises that have caused significant harm. Although each episode has its unique elements, after each scandal or crisis, the narratives of most key individuals tend to minimize their own culpability or the possibility that they could have done more to prevent the problem. Common claims from executives, boards of directors, auditors, rating agencies, politicians, and regulators include “we just didn’t know,” “we couldn’t have predicted,” or “it was just a few bad apples.” A recent report commissioned by the board of directors of Wells Fargo Bank regarding the scandal in

²⁰Anat R. Admati, “A Skeptical View of Financialized Corporate Governance,” *Journal of Economic Perspectives*, Vol. 31, Number 3, Summer 2017, pp. 131–150. Available at: <http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.31.3.131>.

which bank employees misled customers and fraudulently opened accounts for years referred to executives and the board as having a “disinclination... to see the problem as systemic” despite numerous flags and opportunities to act.²¹

Economists, as well, may react to corporate scandals and crises with their own version of “we just didn’t know,” as their models had ruled out certain possibilities. They may interpret events as benign, arising from exogenous forces out of anybody’s control, or try to fit the observations into alternative models. However, many economic models still ignore highly relevant issues of incentives, governance conflicts, enforcement, and accountability. Economists may presume that observed reality is unchangeable or efficient under one set of frictions, while leaving out other frictions and ways to address them through changes in governance practices or policy.

The article then goes on to elaborate on the deficiencies in economic models that seem to have played a role in the move to financialization of corporate governance. But implicitly there is another question that can be raised. What is the reward (and penalty) system for economists whose ideas help lead to practices that have real world consequences? In broader terms, financialization affected not only firm governance, but also the development of instruments that were abused and ultimately produced such negative externalities as the Great Recession.

In the end, almost all reward systems have an If-Then component. *If you produce more widgets, then your total pay from piece rates will be higher. If you sell more stuff, then you will earn more in sales commissions. Are you a lawyer on contingent fees? If you win your case, then you will share in the settlement and the bigger the settlement, the more you will receive. If you are a top manager whose good decisions cause the firm to be more profitable or cause its stock price to rise, then you will be rewarded.*

Indeed, even if you are not covered by an ostensible pay-for-performance system – i.e., you are paid a straight hourly wage or annual salary – there is a crude IF-Then element in the overall employment relationship. *If your performance is not viewed as satisfactory by some kind of review process, then you can be fired.* Of course, all of these systems are employer-specific. If there is some kind of external effect on society – increased inequality, a financial crisis that tanks the larger economy – the compensation system does not directly penalize you. And, for that matter, if you make decisions that benefit the larger society, the same is true, i.e., there is no direct reward.

²¹Note that here, the author is citing a contemporary example involving ordinary employees, again without noting the longstanding literature regarding reward systems at that level.

The externality issue is not something that is likely to be addressed when it applies to top executives. Firms will tend to be focused on their own narrow performance. But what about economists whose ideas have potential effects beyond the usual academic reward system of tenure, having papers appear in prestigious journals, etc.? The usual “fix” for (inevitably) defective reward systems is some kind of regulation. Thou shalt not do X. Thou shalt do Y. What about in academia?

Recently, there has been a spotlight on the so-called “Goldwater Rule” for professionals in the psychological and psychiatric fields that essentially is aimed at stopping the public diagnoses of political figures. The origins of the rule go back to the Johnson-vs.-Goldwater presidential election of 1964. Its re-emergence as a professional constraint was triggered by the Trump phenomenon.²² The Goldwater Rule is an example of a *negative* thou-shalt-not regulation. In economics, particularly empirical economics, an example of a *positive* thou-shalt rule is the requirement by many journals that data sets that are the basis of an article be made available to other researchers.

It’s not at all clear that the problem of economic concepts spilling over into public and private policy and into society – with consequences – are well covered by academic reward systems or any professional regulations. Particularly when it comes to negative societal effects, it’s not even clear what some equivalent of the Goldwater Rule would be. Just saying you shouldn’t espouse theories that end up tanking the economy would be meaningless. If it were obvious *ex ante* that a theory would have that effect, it probably wouldn’t have been espoused.

We do have positive systems of recognition in economics including a Nobel Prize that focus on what seem to be positive contributions. In the spirit of If-Then, if it appears after-the-fact that there were negative impacts, some professional “recognition” might also be needed. By now, most in the profession would accept the verdict that the idea in the late 19th century (by long dead economists) that the business cycle had something to do with sunspots was wrong. But there would be more controversy as we approached more recent events such as the Great Recession. No one likes to admit error or take blame, so a Hall of Shame is not likely to be established. Maybe the best that can be done is to encourage more review articles that highlight economic concepts that didn’t work out or led to bad results.

²²<https://www.theguardian.com/science/head-quarters/2017/jul/28/the-goldwater-rule-why-commenting-on-mental-health-from-a-distance-is-unhelpful>.

Mitchell's Musings 8-7-2017: The Sources of Discontent

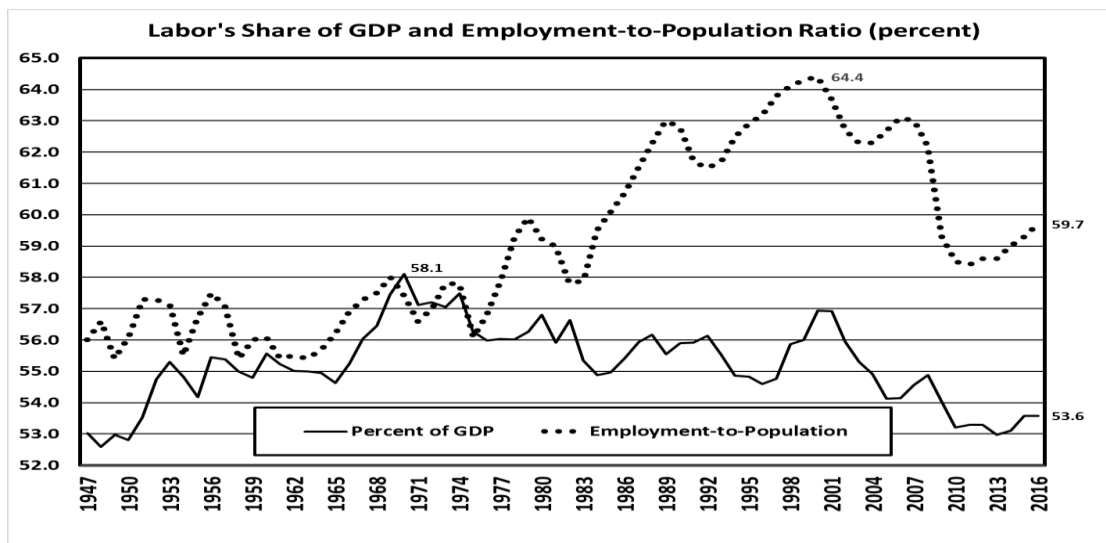
Daniel J.B. Mitchell

I recently came across an article dealing with "labor's share" of the GDP which looks at that measure's decline since the 1980s.²³ The authors find that the decline has to do with the rise of certain industries in which the share is low and in which a few firms dominate. Think of Apple which can charge a lot for products it makes (mainly abroad and for far less than the retail price). One presumes this renewed interest in labor's share is connected with the larger issue of income inequality and even to the political consequences thereof, although that is not the explicit subject of the article.

Labor's percentage share of some measure of national product or income - such as GDP - was said to be surprisingly constant when I went to graduate school in the mid-1960s. Of course, "constant" is in the eye of the beholder, and "constant" really meant trendless. It was known then that the business cycle affected labor's share. Specifically, there was a countercyclical effect; the share of labor grew in recessions due to the high sensitivity of profits to downturns.

In any case, I decided to take a look at labor's share of GDP from the end of World War II to the present (2016) for this musing. Chart 1 below shows the result. Labor's share was higher in the 1980s than it is now, but the measure has bobbed about. If we look at the post-Korean War numbers from the 1950s, it was a bit above where it is now: around 55% then as opposed to 53.6% in 2016. Note that the post-Korean War period in the 1950s is today painted as the Golden Age of manufacturing employment. It is seen as the kind of employment market that was good for the white males who are now commonly depicted as disgruntled Trump supporters.

Chart 1



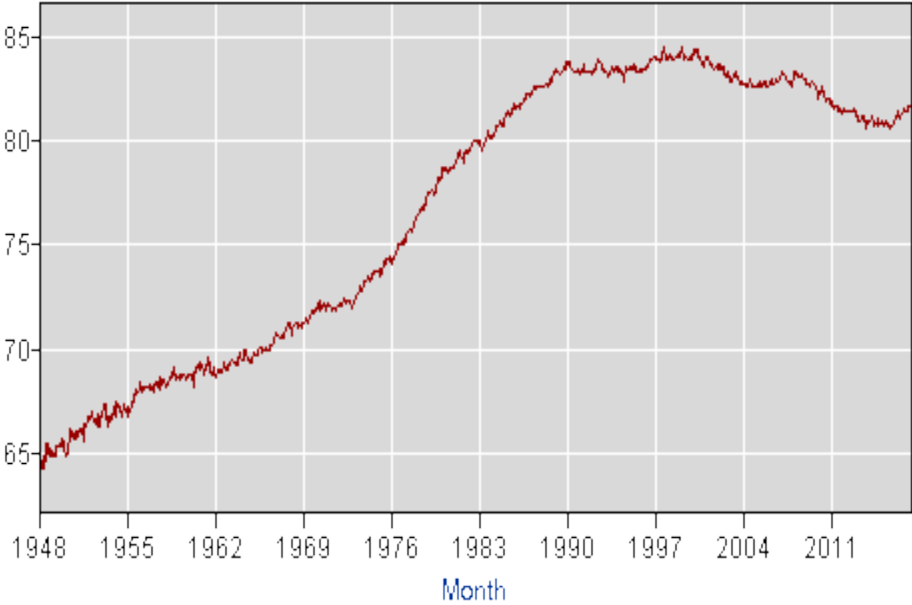
²³David Autor, David Dorn, Lawrence F. Katz, Christina Patterson, and John Van Reenen, "Concentrating on the Fall of the Labor Share," *American Economic Review*, May 2017, pp. 180-185.

Labor’s share shot up (if “shot up” is the right phrase) to around 58% in the late 1960s and early 1970s, amidst a wave of strikes, pay increases, and – ultimately - wage-price controls. Commentary at the time talked about a worldwide wage explosion.²⁴ The share popped up again around the time of the dot-com bust at the turn of the 21st century, and then generally declined. But, as noted, it’s not much below the Golden Age level today. So I have a hard time connecting the share, taken by itself, to contemporary political discontent. Indeed, the general concept of income inequality may not be as connected to political developments as many think.

I don’t think Trump supporters, or American voters more generally, are hung up on income distribution and measures of inequality, as long as things are going OK for them within their reference spheres. The lifestyles of the rich and famous are something that is seen on (un?)reality TV. But their share of the income pie is not seen as a take-away from ordinary folk. After all, Trump is a rich man. And so was Franklin Roosevelt. But both were elected president.

Chart 1 above also shows another index, the employment-to-population ratio. It seemed about as constant in the post-World War II period as labor’s share, maybe more so, but then took off in the late 1960s. It rose with only cyclical interruptions throughout the rest of the 20th century, and has now fallen back to the levels of the 1980s.

Chart 2: Prime age participation rate (age 25-54) – Both sexes



²⁴William D. Nordhaus, “The Worldwide Wage Explosion,” *Brookings Papers on Economic Activity*, 1972, No. 2, pp. 431-464.

When we take out some of the cyclical effect by using participation rates, and focus just on prime working ages (25-54 years), even during the Golden Age, participation was rising, as Chart 2 above indicates. The rise is due to the increase in working women entering the labor force. Contrary to popular belief, although there certainly was a temporary blip up in female participation during World War II (Rosie the Riveter, etc.), the growth in female participation has been a much longer-term trend.

However, in the Golden Age, there did not seem to be any effect of more women on male prime age participation. The female rate went up; the male rate was flat. But by the late 1960s, the male rate began to decline. You can argue as to whether women were “displacing” men then or thereafter. But you had manufacturing decline, more women in the workforce, and declining male participation, all at the same time. Other developments affecting women arose along with these developments ranging from birth control, eased divorce laws, women’s “lib,” inclusion of sex discrimination in Title 7 of the Civil Rights Act, etc.

You also had changes in immigration laws in the 1960s and then pressure from economic crises in Mexico that led to an increase in the proportion of Latinos in the workforce. Desegregation began for real in the south in the 1960s, as did urban riots in the north. By the 1970s, in reaction, there was the so-called “silent majority” of voters. By the 1980s, there were “Reagan Democrats.” In short, the political developments then and now seem more connected to demographic changes, broadly defined, than to labor’s share, income inequality, etc.

It’s no accident that the “red states” keep trying to restrict abortion (identified with feminism) or that the Trump campaign and now the Trump administration had/has a focus on immigration issues. Anti-affirmative action has been recently added to the list. These topics are all issues that connect to women and others in the workforce. Again, you can argue whether there was true “displacement” by the newcomers to the workforce, but there was correlation: more of “them” came along; fewer Good Jobs remained. It’s not clear (to me) that Democrats are well-positioned to counter the pressures that created the Trump phenomenon. In fact, they are identified with the very complaints that led to Trump’s election. Free community college doesn’t do speak to the resulting disgruntlement as a campaign issue. Single-payer health care doesn’t do it. Sanctuary cities don’t do it.

A recession would, of course, importantly change the dynamics of the upcoming elections. But as we have noted in a prior musing, there is no sign at present of a recession that might occur in time for the 2018 midterm election, although nothing is impossible. Democrats might pick up some seats due to Trump’s low favorability ratings, but getting control of either house seems a stretch. As for 2020, if there is no recession, there remains the Russia thing, and who knows how that might evolve?

Chart 3: Prime age male participation rate (age 25-54)

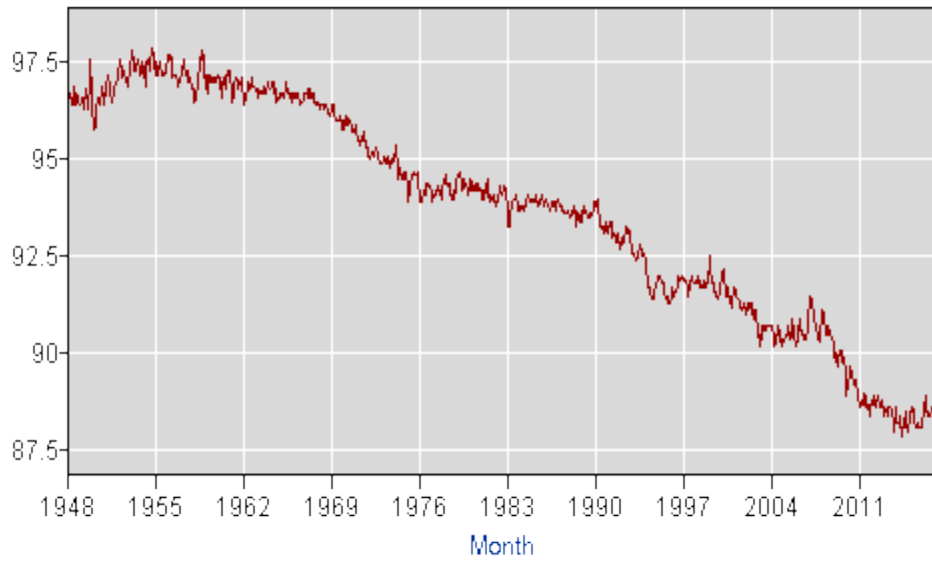
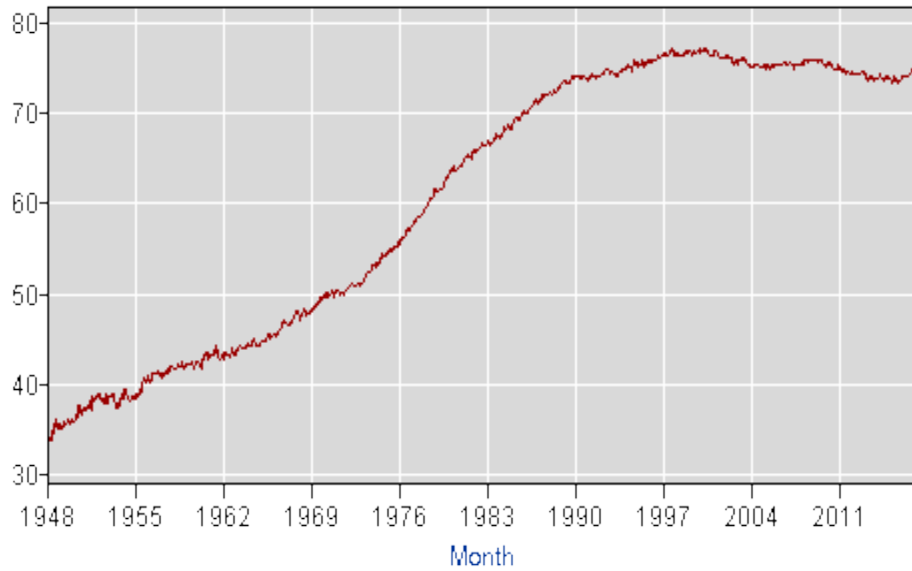


Chart 4: Prime age female participation rate (age 25-54)



Mitchell's Musings 8-14-2017: A Teachable Moment from Google

Daniel J.B. Mitchell

By now, anyone following the news is aware of the brouhaha that was stirred up at Google by a software engineer who circulated a memo that criticized Google's diversity training program. The memo went on to assert that the lack of women in engineering and management was due to innate biological differences between males and females.²⁵ After a short delay, Google fired him. And – at this writing – the engineer, now identified as James Damore, is said to be looking at his legal options.

There are really three elements to this affair. First is the assertion of innate sex differences which are purported to explain the relative lack of females in certain fields. There have been other controversies about such assertions, notably remarks by then-President of Harvard Lawrence Summers over two decades ago.²⁶ Second, there is the issue of Google's diversity policy and training against bias and how it's conducted. Damore criticized the approach the company was taking. Third, there is the question of whether he should have been fired for his memo. It's the last that I think is most important.

You can break down the third question into two parts. One is whether it was good personnel policy to fire him. A second is whether it was legal to fire him. Note that there is no law that declares in the abstract that companies must follow good personnel policy. But it's hard to argue as a general proposition that good policy isn't better to follow than bad policy. Presumably, firms adopt personnel policies with regard to discipline (including termination), and with regard to diversity, that company managers believe to be in the firm's interest. But, of course, these policies are decisions by human beings and mistakes can be made.

In the Google case, there were pre-existing complaints about discrimination against women, some involving an investigation by the U.S. Department of Labor. And there has been much public discussion of that issue with regard to Silicon Valley firms more generally. So apart from the specifics of the Damore's memo, Google was already sensitive about such matters and, therefore, there was a PR element involved, apart from considerations of good personnel policy. In all these dimensions, there is much to be said – and undoubtedly much will be said.

But what about the legal issue? I think there is a teachable moment here that goes beyond Google's immediate problems. One of the early reports on this matter by NPR made this assertion:

*The law is a little unclear as to whether Google could fire the employee. Generally, political speech is protected under labor laws.*²⁷

You'll note that the statement is vague. No particular "labor laws" are cited. And while there is always some room for ambiguity in legal matters, the statement is really wrong. Google is a private firm. It is not a government agency in which there are (some) protections for the political speech of employees. Of course, it is unclear that you can even characterize Damore's memo as "political speech." He wasn't

²⁵<http://www.therecorder.com/id=1202795118414/Google-Engineer-Firing-NoBrainer-or-More-Complicated>.

²⁶<http://www.thecrimson.com/article/2005/1/14/summers-comments-on-women-and-science/>.

²⁷<http://www.npr.org/2017/08/07/542087066/google-engineers-criticism-of-diversity-programs-sparks-controversy>.

endorsing a candidate, proposing a change in public policy, etc. Nonetheless, the NPR reporter saw it that way. And that is the basis of a teachable moment.

If there were a union contract in place covering the engineer (which there certainly was not at Google), there would almost surely have been something in that contract requiring that discipline should occur only for “cause” or “just cause.” And there would have been a specified procedure for adjudicating such issues. We don’t know from the news reports whether the engineer had an explicit employment contract that might have guaranteed some similar protections against termination without cause. Most employees, however, don’t have such contracts.

California tends to be friendly to the idea that statements in company personnel manuals and the like have contract-like properties so that violations of rules laid out in such documents might be the basis of employee suits against wrongful termination. But most large employers are aware of such matters. They take care to word their manuals and other documents carefully to preserve the “at-will” status of their employees.

Some commentaries on this matter have pointed to the 1935 Wagner Act and its protections of employees who engage in “concerted activities.” The original intent of the Wagner Act was to protect private-sector workers seeking to unionize. But because courts had tended to be hostile to unions in that era, the Act was worded very broadly to protect any activity in which workers collaborated (such as getting together and organizing a union). As a result, any such collaboration is protected, even if there is no intent to form a union, so long as the collaboration has to do with wages and working conditions (broadly defined).

Arguably, Damore’s memo – to the extent that it criticized Google’s approach to diversity (such as the bias training program) – dealt with a working condition. But it’s a stretch to say that the complaints of a single individual – with no collaboration with anyone else – are protected. And, indeed, the fact that the only specific “labor law” that might provide some protection is the Wagner Act tells you that the case is pretty weak. Of course, anyone can file a complaint under the Wagner Act or sue under any other law. The question is the likelihood of succeeding.

So the teachable moment is that private sector employees in fact are generally at-will and constitutional protections of “free speech” and the like do not apply to them at the workplace. There are specific laws banning particular practices such as race, sex, age, etc., discrimination. And there are laws (often at the state level) dealing with things employers must do (such as the frequency of pay, payment of overtime, etc.). But most employees are otherwise “at-will” and absent a union contract or individual employment contract, there is little legal protection from termination. They can be fired for good reasons, bad reasons, or no reason.

Although the Google case has little to do with protections for “political speech,” it does illuminate the current state of political affairs. The case of the fired engineer has become *cause célèbre* on the right, on the grounds that Google is too politically correct and is not open to conservative ideas.²⁸ It used to be that those on the right would celebrate successful private firms and argue that they should be free to pursue whatever personnel policies they see fit. By that logic, if Google sees its interest in following a particular diversity policy or bias training program, it should be free to do so. If Google fosters a culture

²⁸<http://www.breitbart.com/tech/2017/08/07/google-fires-viewpoint-diversity-manifesto-author-james-damore/>.

that makes some employees uncomfortable (because they view it as too politically correct), in a free labor market those employees can always look for work elsewhere. Moreover, Google is certainly a highly successful firm – so apparently its policies are working to make it profitable. In short, those on the right should be pleased with Google and its capitalistic success, even if they might not want to work there. But they obviously aren't. It's another example of our changing times.

Mitchell's Musings 8-21-2017: Miscellaneous Thoughts on the Past Week

Daniel J.B. Mitchell

The past week was a mix of crises with first a conflict with North Korea that was overshadowed by violent demonstrations by neo (and not-so-neo) Nazis and others of that ilk in Charlottesville, VA and the president's reaction. The first crisis involved negotiations – a topic of great interest to LERA, the organization that sponsors the EPRN website on which this blog appears. LERA members are particularly focused on collective bargaining, a form of negotiations. And the second crisis involves demographics, broadly defined, another LERA topic.

The Madman Theory of Negotiations

Let's start with negotiations and North Korea, where a war of words ("words" is the important element here) was triggered by North Korea missile tests, and by concerns that North Korea might be able (now or soon) to put its nuclear weapons on its missiles and hit the U.S. mainland. (No one seems to notice that these weapons could, right now, and without further development of technology, be put on a ship and sailed near Hawaii or the West Coast.) The president, in response to the missile tests, issued a statement that was widely viewed as off-the-cuff, but appeared (to me) to be scripted, and from a script that implied a nuclear response from the U.S.:

Truman: Radio address announcing Hiroshima bombing (1945):

"If they do not now accept our terms they may expect a rain of ruin from the air, the like of which has never been seen on this earth. Behind this air attack will follow sea and land forces in such numbers and power as they have not yet seen and with the fighting skill of which they are already well aware."

=====

Trump on North Korea:

"North Korea best not make any more threats to the United States. They will be met with fire and fury like the world has never seen... he has been very threatening beyond a normal state. They will be met with fire, fury and frankly power the likes of which this world has never seen before."

An op ed in the *Los Angeles Times* by UCLA Law Professor Russell Korobkin (and therefore a faculty colleague of mine) made an argument that the threatening language from the president might have a better effect than more measured statements by previous administrations.²⁹ In effect, his argument was

²⁹<http://www.latimes.com/opinion/op-ed/la-oe-korobkin-trumps-craziness-as-a-negotiating-tactic-20170811-story.html>.

a variant of the “madman” theory that was said to be applied by President Nixon during the Vietnam War. Act irrationally, according to the theory, and you will scare your opponent with the idea that you might do something unthinkable. As the op ed put it:

As I tell students in my negotiation class, in hard-nosed, brass-knuckles bargaining, the crazy person wins because he can force a rational counterpart to make concessions in order to avoid mutual disaster. And no one does crazy like Trump.

...(T)he obvious danger of Trump facing off with Kim is precisely why rational Chinese leaders might reassess their nation’s long-standing approach and intervene more decisively. [Underline added]

Of course, anything “might” happen. But as fellow LERA members – who have a special interest in collective bargaining - will know, there is a credibility element to negotiations. When Nixon made threats, he was in the middle of a hot war (Vietnam) and in fact could and did order bombings, etc. In contrast, the Trump rhetorical threats were made without any tangible actions that would suggest preparations for military action. Troops were not called up. Ships were not moved. Dependents weren’t evacuated.

Moreover, the North Koreans and the Chinese, both of whom are said to be the target audience, are surely aware of low approval ratings for the president and of his inability to get major bills through Congress. Chinese President Xi Jinping has experience with Trump. He met with Trump and told him that China was no longer manipulating its currency – and Trump then declared it to be true, despite his earlier contrary campaign assertions. So the Chinese and the North Koreans may well read Trump as weak in tangible actions but blustery in words.

Further, at least in collective bargaining, the parties typically have decided on their key objectives before negotiations begin. They may incrementally change those goals as the process unfolds. But in the Trump case, his advisors at least seem not to be in agreement on where they are trying to go or how to get there. And these disagreements are being displayed in public.³⁰

So there are many reasons to think that there is a missing element in the madman approach – and that is credibility. North Korea and China have good reason to believe that the verbal threats are not real and that what the president wants is to be praised within the U.S. for being tough and not made to look bad. In short, to use the madman approach, you have to show signs of really being a madman *in action* and not just rhetorically erratic.

All that seemed to result from the president’s rhetoric at this writing is that the North Koreans first added a new threat to Guam, and then said they would wait. And the president followed by saying the North Korean leader was “wise.” Is this back-and-forth really likely to change anyone’s fundamental behavior in North Korea or China? You can say it “might,” as the op ed does. But what are the probabilities? So far, they seem slight.

North Korea in fact has operated on the madman theory for years, both saying crazy things and doing crazy things. If North Korea and China judge Trump to be rhetorically a madman, but not tangibly a

³⁰<http://www.politico.com/story/2017/08/17/steve-bannon-north-korea-comments-jim-mattis-reacts-241748>.

madman, and if he turns out to be both, the possibility of stumbling into a conflict will rise. In short, everything we know about negotiations suggests you should be nervous.

Firing At-Will Employees

Now let's turn to Charlottesville and its aftermath. In a recent post on this blog, I discussed the termination of a Google employee who circulated a memo within the firm questioning its policies regarding diversity. He was fired when the memo became public. The theme of that post was that most private-sector employees are "at will," and are not protected by union contracts or individual contracts that would require just cause for dismissal.³¹

One byproduct of the Charlottesville event was that, using photos available on the web, various folks tried to identify participants and "out" their identities. An employee of a hot-dog chain in the San Francisco area was so-identified and was then fired by his employer. Moreover, the employer posted signs about its action at its branches. You can be sure that an employee of a fast-food operation had no employment contract and wasn't unionized. So the employer could have fired him for any reason or no reason. Even if there was doubt about the identification, he could have been fired. But posting public signs about an individual, particularly someone who was not otherwise a public figure, gets us into the realm of libel if the allegation proves not to be true.

As it turned out, the allegation on the hot-dog stand employee apparently was true. But there was another case in which someone was "identified" from a web photo as participating in the Nazi march, but the identification proved to be false. The individual in the meantime received threats, demands that he be fired, etc.³² In short, employers would be well advised to be careful in responding to such cases, even for at-will employees, and should certainly not publicly endorse web-based allegations without assurance that they are true. Indeed, saying as little as possible would be appropriate: "An individual who has been linked on the web to [name the activity] is in fact not employed here." There is no need to say more.

Hidden History Lessons

Another byproduct of the events at Charlottesville was the discovery and widespread circulation of a film originally made in 1943 by the War Department (and re-released in 1947 with footage of the defeat of Germany) titled "Don't Be a Sucker."³³ After showing a couple of unrelated scams victimizing unsuspecting "suckers," the film turns to a fascist-type street-corner speaker in the U.S. who is condemning Negroes, foreigners, Catholics, and freemasons. One man on the street is at first taken in by the speaker until he mentions masons – because the listener is a mason. At that point, a Hungarian immigrant – now a U.S. citizen – sits down with the mason, and narrates a history of what happened in Germany.

³¹<http://employmentpolicy.org/page-1775968/5023101#sthash.GqYjVe7F.dpbs>.

³²<https://www.insidehighered.com/quicktakes/2017/08/16/professor-wrongly-identified-white-supremacist>.

³³<https://www.youtube.com/watch?v=V24rKsMVWpC>.

While it's interesting to look at the film's message – and note its relevance for today – there is a bit of hidden history in the film that today's viewers may not perceive. Although anti-Semitism *in Germany* is depicted in the film, it is shown as just one form of Nazi discrimination. And the street-corner speaker *in the U.S.* doesn't mention it. Why is it downplayed?

Whoever made the film for the War Department was surely aware that prior to Pearl Harbor, there was a prominent charge being made by "America First" supporters who wanted to stay out of the war that Jews were dragging the U.S. into it. Perhaps the most prominent proponent of this view was aviator Charles Lindbergh. Three months before Pearl Harbor, he gave his famous speech in Des Moines, Iowa before a raucous crowd which, in the context of the War Department's film, is worth listening to:

https://www.youtube.com/watch?v=K_F48oaOskI

By the way, despite the film's theme that we're all Americans, you won't find any reference to segregation in it (including segregation in the military). You won't find any reference to the internment of West Coast Japanese-origin citizens and residents. Sometimes what is not said in a film is as significant as what is said.

Identity Politics

White House advisor Steve Bannon, in the wake of Charlottesville, called a reporter and gave a lengthy interview in which he derided white separatists as "losers," and then gave his version of political strategy:

*"The Democrats," he said, "the longer they talk about identity politics, I got 'em. I want them to talk about racism every day. If the left is focused on race and identity, and we go with economic nationalism, we can crush the Democrats."*³⁴

You can disagree with his view. But now you know at least one influential opinion within the upper echelon of the administration. You might even note that encouraging the "losers" to demonstrate tends to lead opponents to "talk about racism every day." Enough said.

Let's hope next week, even with the eclipse on August 21, is less interesting.

³⁴<http://prospect.org/article/steve-bannon-unrepentant>.

Mitchell's Musings 8-28-2017: Deal or No Deal?

Daniel J.B. Mitchell

In the past few days, the Republican minority in the California state assembly voted out its leader because he had supported legislation extending the state's greenhouse gas emissions cap-and-trade program. The cap-and-trade bill, supported by Democratic Governor Jerry Brown, was also supported by the business community which prefers the flexibility provided by cap-and-trade to a system of command-and-control regulations. Cap-and-trade, which relies on markets rather than regulation to control emissions, is basically a conservative idea. (For that reason, many on the environmental left don't like it.) The combination of business support and a market/conservative concept would - in decades past - have been a natural for Republican support. But nowadays, anything pushed by Democrats has become *verboten* for purists on the GOP right.

A similar example at the federal level is "Obamacare," which was in its origins a Republican idea. Its basic framework was implemented in Massachusetts under Republican Governor Mitt Romney. Republican Governor Arnold Schwarzenegger tried (but failed) to have California adopt it. The Obama folks adopted the idea in 2009 as a program that might attract bipartisan support. But it didn't get that support, mainly because Obama was pushing it. Again, compromising and endorsing anything which the other side proposed was rejected. In the end, Obamacare became law without a single Republican vote.

A sense of political purity is not confined to Republicans. Some Democrats in the California assembly last spring began pushing a single-payer health insurance bill. A major problem was that the bill had no funding mechanism. But that missing element was not the only problem. Replacing all private health insurance with a public program is a complicated administrative task. The details in such an effort matter, and there were no details in the California bill. The bill was a symbol of a desire, not real legislation.

Vermont – the home of Bernie Sanders – tried to go the single-payer route and failed. California would need the permission of the federal government to establish such a plan, something unlikely to be obtained from the current administration. The Democratic assembly speaker eventually killed the bill, citing its incompleteness and impracticality, and leading to his condemnation by True Believers in his party. (Unlike his Republican counterpart in the cap-and-trade case, he was not removed.)

What is the lesson from such behavior? A recent op ed in the *Guardian* was entitled "Liberal elite, it's time to strike a deal with the working class."³⁵ The title basically tells the story. It advises Democrats not to fall into the trap of avoiding compromises with those perceived as supporters of the other "side." Avoiding deals with anyone who does not meet all of your criteria for pure and proper thought is a route to political oblivion.

It's worth looking back at history to a time when the Democrats won the working class. The New Deal administration in the 1930s – which (among other things) enacted Social Security (pensions, unemployment insurance) – was based on a truly unholy alliance of northern liberals and southern segregationists (the so-called "solid South" and its block of electoral votes). Would the U.S. be better off

³⁵<https://www.theguardian.com/commentisfree/2017/aug/23/liberal-elite-its-time-to-strike-a-deal-with-the-working-class>.

today if the deals that were cut back then had not been reached? You really have to be a purist to answer “no.”

For better or worse, the U.S. has a two-party system with the general rule of winner-take-all in elections. There are other democratic political systems in the world, essentially parliamentary set-ups with proportional representation, in which every cause or interest group has its own party and governments are elected in the national legislature through horse-trading until some collection of parties can form a workable coalition. In the U.S., the horse-trading and compromising has to be done *within* the parties – which is why the two parties are ideologically incoherent, both at any moment in time and over time. The party that can pull together enough groups and interests to win an election rules.

As we have noted in prior posts, the minority party in Congress usually picks up some seats in non-presidential midterm elections (such as 2018). But if the economy continues along at its current pace with low unemployment and no recession, there may not be enough of a gain by Democrats in the short run to change control of either house. The outcome could depend instead on the Russia thing or some other Trump scandal, and no one knows how Russia or related controversies will turn out. However, in the longer term, a winning coalition strategy should focus on traditional issues: work, good jobs, economic security, etc. Promising to address those things, even if little was done about them after-the-fact, was certainly part of the Trump appeal in 2016.

There was much recent ridicule of the Democrats for coming up with a slogan of “A Better Deal.” But the lack of a peppy slogan is a matter of marketing, not substance. (How good a slogan was “New Deal”? Or “Great Society”? Or “Make American Great Again”?) Given the current propensities of the incumbent president, the Democrats *don’t* need to engage in the excesses of so-called “identity politics” which tend to be divisive. Identities will take care of themselves. California provides yet another example.

In 1994, California’s Republican Governor Pete Wilson ran for re-election on a platform of support for Proposition 187, an initiative of dubious constitutionality, aimed at control of illegal immigration.³⁶ Prop 187 and Wilson won, but in doing so the Latino vote was pushed to the Democrats. The result by 2017 is that the Republicans hold *no* statewide offices in California. And they are barely relevant in the legislature. In short, if one party is attacking various groups (overtly or indirectly), those groups will migrate over time to the other party. Sometimes, you just have to wait for political reactions and demographics to take hold. And, in the meantime as the song goes, “Accentuate the Positive.”

³⁶Through a process of litigation, Prop 187 was largely voided.

Mitchell's Musings 9-2-2017: Pardon

Daniel J.B. Mitchell

Recently, President Trump's pardon of Arizona Sheriff Joe Arpaio has produced much well-deserved controversy.³⁷ Although presidents have broad powers to issue pardons, the Arpaio pardon didn't follow the standard practice of review. Usually, those pardoned have in some way expressed regret for their conduct and have requested a pardon. So the Arpaio pardon was at least unusual. Apparently, Arpaio had not himself requested a pardon, but his lawyer had some communication with the White House about it. And Arpaio certainly did not regret his conduct.

Of course, there have been other controversial pardons in the past. Perhaps the most notable pardon in that regard was the one granted by President Gerald Ford to former President Richard Nixon. Nixon had not expressed regret at the time and had not requested the pardon. But Ford did not want a former president on trial or even jailed.

Arpaio's offense was contempt of court. There was another case, many decades ago, in which a president granted a pardon for contempt of Congress, even though the recipient did not ask for one and, in fact, may well have wanted to go to jail as a martyr. Indeed, what impelled President Franklin D. Roosevelt to issue a pardon to Dr. Francis E. Townsend – even though none was requested – was precisely to prevent Townsend from becoming a martyr and a political issue.

So who was Townsend and why did this issue arise? Townsend (seen in the photo) was an elderly physician who ended up



living in, and for a time working for, the City of Long Beach, California, in the 1930s.³⁸ As the nation sunk into the Great Depression in the early part of that decade, he began promoting a cure for the

³⁷<https://www.washingtonpost.com/blogs/right-turn/wp/2017/08/30/legal-challenge-to-arpaio-pardon-begins/>.

³⁸The material that follows comes from my book *Pensions, Politics, and the Elderly: Historic Social Movements and Their Lessons for Our Aging Society* (Armonk, NY: M.E. Sharpe, 2000), Chapter 4.

Depression through a local newspaper. At the time, California was something like Florida today: a place for the elderly to retire in the sunshine, away from colder climates of the Midwest or elsewhere. Long Beach had many elderly residents like Townsend.

In an era before Social Security, indigent elderly persons relied on support of charities, poorhouses, or – in the case of California – what was termed “outdoor relief,” essentially, an early form of “welfare” for oldsters. Townsend’s scheme, which was concocted out of various movements of the day, proposed a pension payment by the federal government of \$200 a month for individuals over age 60, provided they promised not to work and to spend every penny of the pension during the course of the month. Jobs would thus be left to the young and the elderly would stimulate demand and job creation by their consumption. The cost of the plan was to be financed by a seemingly modest 2% tax on all transactions, perhaps jumpstarted by some kind of currency creation.

There are lots of things to be said about the practicality of the Townsend Plan, but it had an obvious appeal to California’s disproportionately elderly population. Two hundred dollars (\$400 for an elderly couple!) was a considerable sum at the prices of that period. Indeed, the Townsend movement felt compelled to publish sample budgets proving that someone could actually spend that amount in a month. The Plan would have transferred as much as a quarter of the GDP from those under 60 to the elderly.

Townsend’s transaction tax would have applied to any arms-length purchase. Hence, when the carmaker bought steel, it would have been taxed. When the steelmaker bought iron ore, it would have been taxed. When the car was sold to the dealer, it would have been taxed. And when the final consumer bought the car from the dealer, it would have been taxed. Note that this form of pyramid tax would have been a strong incentive for vertical industrial consolidation. If the carmaker owned the dealership, the steel mill, and the iron mine, all but the tax on the final sale could have been avoided. But these details were not of concern to the Townsendites. Soon there were dues-generating Townsend clubs throughout California that spread to the rest of the country. There were Townsend newspapers and books for sale. The Townsend movement, in short, became a profitable business.³⁹

For the Roosevelt administration, the Townsend movement posed two challenges. First, it competed for its Social Security proposal. Compared to Townsend’s \$200 a month, the payments to be made under Social Security were skimpy. Moreover, the Roosevelt plan involved creating a pension system that looked like the few corporate pensions that had developed by the 1930s. There would be employer and employee contributions and a trust fund that would have to be built up (and not pay any pensions until the 1940s). Townsend’s plan in contrast had no cost to recipients, did not require a work history of contributions, would start paying immediately, and offered far more money. Thus, Roosevelt and those developing the Social Security plan looked at the Townsend Plan as stealing elderly political support (which it did).

Second, Roosevelt would be up for re-election in 1936. We know with hindsight that he won in a landslide. But at the time, polling was embryonic and the outcome was not considered a slam dunk. There was fear that Louisiana Senator Huey Long – who had his own “Share the Wealth” movement – would combine with Townsend and other movements that had sprung up. Long might run a third-party campaign that would siphon votes from Roosevelt and throw the election to the Republicans. As it

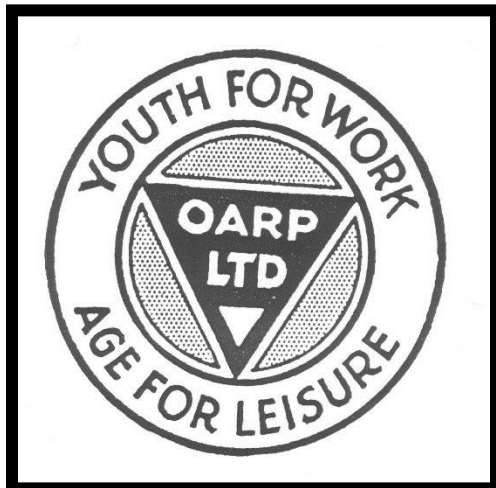
³⁹A newsreel on the Townsend movement can be seen at <https://www.youtube.com/watch?v=B10O4gUR7tY>.

happened, Long was assassinated and the remnants of his movement did combine with Townsend's and others, running an obscure congressman for president in a campaign that fizzled out.

The Roosevelt administration found allies in Congress to start an investigation of Townsend. In part, it focused on the moneymaking aspect of the Townsend movement. Townsend himself was charged in the hearings with being everything from being an atheist to a communist. There was pressure on the FBI from the Roosevelt administration to dig up dirt on Townsend.⁴⁰ The Post Office Department was used to monitor mail volume going to Townsend as a measure of his popularity. In short, although it remains unclear if Townsend was a huckster or just a naïve believer in his plan, he was clearly subject to an array of Dirty Tricks by the administration.

At one point in the Congressional hearings, Townsend became frustrated with the questioning and simply walked out, an action that led to a contempt of Congress charge for which he was eventually convicted. But in the end, Social Security was enacted in 1935, and Roosevelt was re-elected in 1936. Yet the Townsendites continued to attract significant elderly political support and continued to push for their plan. If Townsend were actually jailed, the president feared, his pension movement would be strengthened. Rather than see that happen, Roosevelt simply issued a pardon for Townsend, diffusing the issue. Townsend's followers, unaware of the Dirty Tricks that had been emanating from the White House, in fact looked favorably at Roosevelt's rescue of their hero.

The ultimate irony of the Townsend pardon is that it could be argued that Roosevelt owed a debt of gratitude to Dr. Townsend. The administration's Social Security proposal was a radical innovation in U.S. politics that might well have been defeated in Congress. But with the elderly pushing for the Townsend Plan instead, Social Security became the moderate alternative. A member of Congress or a Senator – having voted against the Townsend Plan – would not want to slap his elderly constituents in the face twice by also voting against the more modest Social Security plan. What Roosevelt considered the crown jewel of the New Deal may well have owed its success to Francis Townsend. You might look at the Townsend pardon as a reward for his inadvertent service to the New Deal.



Emblem of the Townsend Movement

⁴⁰The FBI did accumulate a large stack of files on Townsend, but never found anything it wanted to pursue.

Mitchell's Musings 9-11-17: More Thoughts of the Week

Daniel J.B. Mitchell

In a recent musing, I reflected on that week's prior events.⁴¹ Here is another such weekly reflection.

The Median Voter

Recently, California's Democratic U.S. Senator Dianne Feinstein was booed by members of her own party for essentially saying that she hoped Trump would improve as a president. She has to make a decision soon on whether to run for another term in the U.S. Senate. At age 84, she may very well decide not to run, regardless of boos or praise. However, the folks who booed her seemed to have little sense of what a senator does. Here is one critic:

*"We don't need to work across the aisle. We don't need bipartisanship. We don't need compromise. What we need to do is fight," said Pat Harris, a Studio City attorney and one of five little-known Democratic challengers who have opened committees to run against her.*⁴²

I trust that most LERA readers, with their backgrounds in negotiations and in working things out (if possible), will find such a sentiment anomalous. The problem is that California has all kinds of "interests" in Washington and with the federal government. It gets disaster aid when bad things happen. It gets a lot of Medicaid (Medi-Cal) funding. Etc., etc. (Do I really need to point these facts out?) So, yes, if you want to be a senator, you had better learn to compromise and to deal with folks with whom you disagree. It can't just be fighting and nothing else.

*"It's time for Dianne Feinstein to go," said Ben Becker, co-founder of San Francisco Berniecrats. "She's not looking out for people of color and poor people, those who don't have equal footing in Donald Trump's America. Her argument for civility and bipartisanship will lead us down a very, very dark path with this current administration."*⁴³

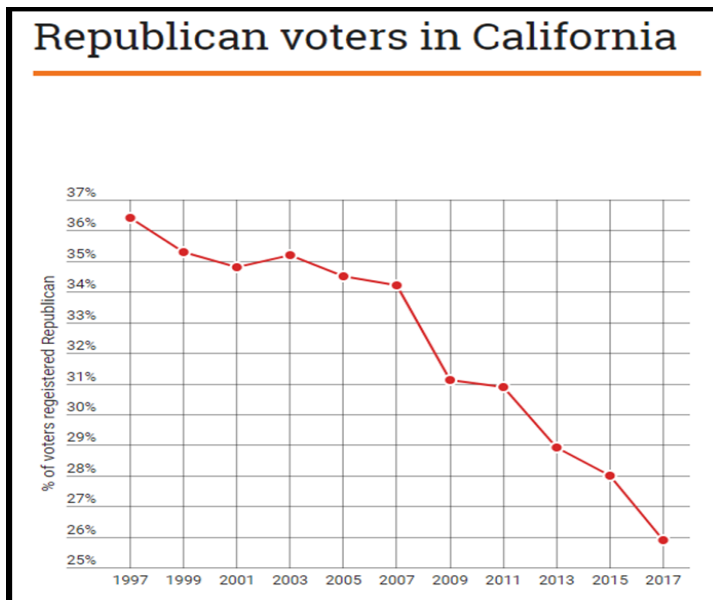
⁴¹<http://employmentpolicy.org/page-1775968/5035539#sthash.8D6Gw8Lp.dpbs>.

⁴²<http://www.sacbee.com/news/politics-government/capitol-alert/article171652372.html>.

⁴³Ibid.

There is a major problem with the view above. It's a simple example of Groupthink. Everyone Mr. Becker knows agrees with him, but he apparently doesn't know a representative sample of the California electorate. Academic analysts like to look at the numbers, and we had an empirical test quite recently of where the median voter is in California. In the Democratic primary in June 2016, Hillary Clinton got 53.1%. Bernie Sanders got 46%. And, of course, these numbers don't include Republicans who are roughly one fourth of registered voters, and who didn't vote in the Democratic primary.⁴⁴ So the median California voter is not a "progressive" Berniecrat. In November 2016, for example, California voters *rejected* ending the death penalty in one ballot initiative. In fact voters supported another initiative that *limited* death penalty appeals. They liked the death penalty and thought it should be sped up.

So, yes, California as a state is generally more liberal than the rest of the U.S. But it is not where some folks think it is, politically. What has happened in California is that the Republican Party – as a party - has marginalized itself to the point that at a statewide level (which is what matters for U.S. Senate races), it is no longer competitive. (See the chart below.) And in the legislature, where local districts matter, it has too few seats to matter for most purposes.



⁴⁴Independent voters can vote in Democratic presidential primaries in California, but not in Republican presidential primaries. (The parties make the rules.)

But all state primaries (except presidential) in California are non-partisan. Local primaries also are non-partisan. Everyone runs in the same primary regardless of party. Ultimately, candidates have to appeal to a wide audience. None of this proves that Dianne Feinstein should run again. But it does suggest that what California voters want (as opposed to what party “activists” want) is someone who knows the value of civility and compromise – as well as the ability to negotiate with those currently in authority on behalf of the state.

Madman Theory Once Again

In my earlier musing on the week’s events, I noted the North Korean nuclear problem and criticized an op ed that suggested that President Trump might be using the “madman” theory of negotiations in dealing with the threat. Under the madman theory, which some commentators have said President Nixon used in Vietnam, you try to convince the other side that you are crazy enough to do terrible things. I pointed out that in any theory of negotiations, credibility has to be an important element. If you want to play the madman game in a negotiation, you at least have to be a credible madman. It’s a simple point, and surely one that LERA members will understand.

But what the North Koreans (and Chinese) have learned is that the American president is at best a *rhetorical* madman. He threatens. But he doesn’t do anything tangibly that suggests he will carry through on his threats. Nonexistent armadas are said to be heading toward Korea. Fire and fury are threatened, but no troops are moved. More recently, the president threatened to block all trade with countries that have commerce with North Korea. The problem is that the president doesn’t unilaterally determine U.S. trade policy. And there is no way he is going to block all trade with China or any important country. Moreover, there is no evident strategy. Different officials in the administration say different things.⁴⁵

The result, as suggested in the earlier musing, is to make things worse, short term and long term. If you convince the other side that in the end you will always acquiesce – despite what you say – it will proceed on its current path. And if at some point, you actually do change your

⁴⁵If anyone is using the madman theory, it is the North Koreans. And, if so, they are much better at it than the U.S.

behavior and decide to act for real, the chances of both parties blundering into a conflict have been increased.

American international diplomacy needs a version of the Hippocratic Oath:

First, do no harm.

The President's DACA Decision

Let's go back to that chart on Republican Party membership in California. What caused the slide? The usual explanation is that it was kicked off by Proposition 187 of 1994. At the time, California was in the midst of a multiyear budget crisis that accompanied the end of the Cold War and the (mild) recession of the early 1990s. While the rest of the country quickly recovered, the drop in military expenditures in California had a major negative effect in the state.

Republican Governor Pete Wilson, elected first in 1990, spent his first term wrestling with a budget crisis caused by the downturn. A budget crisis is not a good platform to run on for re-election. But in 1994, that's what Wilson had to do. He linked his campaign to Prop 187, which would have denied state services to undocumented immigrants.⁴⁶ And he won re-election (against current Governor Jerry Brown's sister, Kathleen Brown). Prop 187 also passed, although it was largely voided subsequently by litigation.

The short-run victories of Wilson and Prop 187, however, produced a long-run alienation of the growing Latino population in California from the Republican Party. The Party's "base" became nativist at a time when Californians more generally went in the opposite direction. Wilson himself would today be considered a "moderate" in the GOP. But he seemed to set in motion a process in which his Party was seen as more and more retrograde, and it has never been able to get off that track.

Sometimes a momentary success can produce a longer term failure. When you think of President Trump's recent DACA decision, you might want to think about Wilson and 187.

⁴⁶<https://www.youtube.com/watch?v=o0f1PE8Kzng>.



Great for the “base,” but bad for the Party

Mitchell's Musings 9-18-2017: Little Things Can Mean a Lot

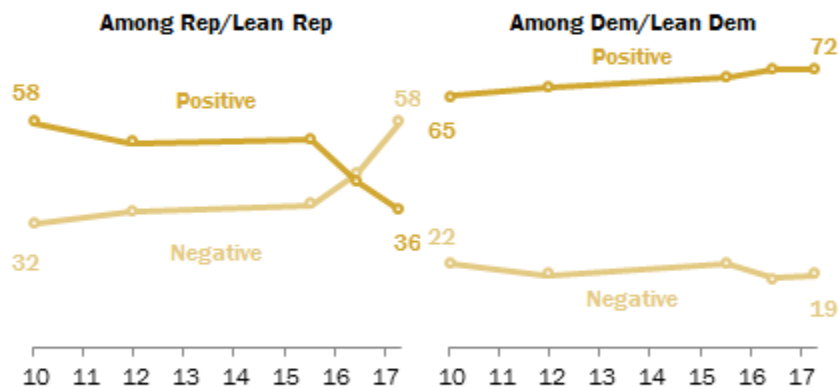
Daniel J.B. Mitchell

Economists have a concept of “externalities” which are generally categorized as causing market imperfections. Externalities can be positive or negative. They typically involve side effects of some activity that do not directly find their way into the costs and benefits of whoever is undertaking that activity. Air pollution is often given as an example of a negative externality. If you run a factory with a smokestack polluting the air, the cost of that pollution is borne by others; it does not enter into the calculation of building or running the factory unless some outside regulator steps in and requires mitigation or taxes the pollution output in some way.⁴⁷ As a reverse example, if you improve your house, you may well raise the property values of neighboring houses. But you won't obtain those external benefits – your neighbors will - and so individual homeowners may underinvest in home improvements.

The notion of externalities comes to mind at this writing as UC-Berkeley is preparing to host a conservative speaker – Ben Shapiro – at the invitation of a student group, despite perceived threats of violent protests. The new chancellor of Berkeley has decided to do whatever is necessary to have the talk go forward. She is partly doing it to protect notions of free speech and academic freedom on campus. I suspect she is also doing it for a more general reason, a public perception that universities in the U.S. are themselves becoming intolerant – sometimes in the name of tolerance. She is trying to avoid a negative externality that may not affect Berkeley, but *does* spill over to the larger academic world.

Since 2015, sharp rise in share of Republicans saying colleges have a negative effect on the country

% who say colleges and universities have a ___ effect on the way things are going in the country



Note: Don't know/Other responses not shown.

Source: Survey conducted June 8-18, 2017.

PEW RESEARCH CENTER

⁴⁷The assumption is that those individuals adversely affected by the pollution in practice cannot collectively negotiate a deal with the factory owner.

What's the evidence of a growing negative public perception? As the survey chart above suggests, the general polarization in national politics – particularly during and after the 2016 presidential election – is showing up in public attitudes toward academia. Democrats tend to have a positive view of academia; Republicans have tended to have a negative view in the past couple of years.⁴⁸

If you are the head of a university, even in liberal-leaning California where the Republican Party has drifted toward state-level irrelevance, you have to view that trend as a Bad Thing for the larger academic community. But, as noted, the specifics of what happens at Berkeley – particularly in California – largely flow externally. A good deal of the effort at Berkeley with regard to the Shapiro talk has gone into security. A university official put out a news release going into some detail on the steps being taken for security reasons.⁴⁹ Unfortunately, included in that release was the following language:

We are deeply concerned about the impact some speakers may have on individuals' sense of safety and belonging. No one should be made to feel threatened or harassed simply because of who they are or for what they believe. For that reason, the following support services are being offered and encouraged: (Links to counseling services followed.)

In short, the wording of the news release inadvertently encouraged the “snowflake” narrative that has widely circulated in conservative media as part of a more general denigration of higher ed. The first item reproduced in the Appendix to this musing comes from the conservative *Flashreport* website and explicitly uses the snowflake terminology with regard to Berkeley-Shapiro. But note that a similar theme was found in a *Yahoo* news report which, in turn, picked up a report from mainstream *Newsweek*.

Both of these items poke fun at the notion that the mere presence of Shapiro on campus was likely to cause psychological problems for students. It goes along with the trigger warnings, safe spaces, etc., that have been much parodied, particularly on the right. While the author of the news release may not have foreseen that his wording would become a source of mockery, it was a negative externality that should have been avoided. It's a little thing, a negative externality, which ends up becoming a bigger thing.

As for Shapiro himself, I will confess to never having heard of him until the controversy over his invitation arose. Although he was invited by campus Republicans, apparently – at least in the past – he has not been a supporter of President Trump. So he might be viewed as controversial within conservative circles. He may be challenged by his immediate hosts at the presentation.

But I have no idea as to what Shapiro will say at Berkeley. According to the campus newspaper, some faculty are arguing that because he just has opinions they find offensive – or because he might engage in hate speech as they define it - he shouldn't be allowed to speak. That position is another negative externality for academia. The public may not be friendly toward Nazis marching in Charlottesville, but Shapiro is hardly that.

The fact that the First Amendment, as interpreted by the Supreme Court (and the Berkeley law school dean), says Shapiro has a right to speak at a public university, is seemingly not persuasive to those folks

⁴⁸<http://www.pewresearch.org/fact-tank/2017/07/20/republicans-skeptical-of-colleges-impact-on-u-s-but-most-see-benefits-for-workforce-preparation/>.

⁴⁹<http://news.berkeley.edu/campus-update-on-ben-shapiro-event/>.

with such views on the Berkeley faculty.⁵⁰ I am going by a description in the campus newspaper, so I may not be doing their viewpoint full justice. But like all negative externalities, the constraining effect on the behavior of those articulating that viewpoint is less than it should be. The cost is borne elsewhere.

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Postscript: According to the campus newspaper, the Shapiro talk went off without violence. Seven hundred people showed up for the talk. Others engaged in what was reported to be peaceful protest.⁵¹ Police deterred others who might not have been peaceful.

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Appendix:

FLASHREPORT
...on California's most significant political news...

Presented by Joe Felschman

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SUNDAY, SEPTEMBER 10, 2017

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Jon Coupal & Asm. Kevin Kiley

OCReg: Initiative titles and summaries must be fair and objective

Trigger Warning for Snowflakes

LAT \$: Berkeley braces for right-wing talk show host Ben Shapiro's visit

Dan Walters

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YAHOO! NEWS

Ahead Of Ben Shapiro's Speech, UC Berkeley Offers Counseling Services to Students If They Feel 'Threatened'

John Hallwanger
Newsweek, September 8, 2017

Ahead Of Ben Shapiro's Speech, UC Berkeley Offers Counseling Services to Students If They Feel 'Threatened'

Ahead of a talk from conservative political commentator Ben Shapiro at UC Berkeley, a letter has been sent by the university to students, faculty and staff, stating that counseling services will be made available to those who feel "threatened or harassed" by certain speakers.

⁵⁰<http://www.dailycal.org/2017/09/08/free-speech/>.

⁵¹<http://www.dailycal.org/2017/09/14/hundreds-gather-peacefully-near-uc-berkeley-campus-protesting-ben-shapiros-talk/>.

Mitchell's Musings 9-25-2017: Retraction is the Wrong Action

Daniel J.B. Mitchell

Here's the beginning of the story, as it appeared in Inside Higher Ed:

Denounced by some as “clickbait” and others as poor scholarship, a new article on the supposed benefits of Western colonialism has prompted calls for retraction. And while detractors are plentiful and pointed in their criticism, the debate and others like it has some wondering if retraction threatens to replace rebuttal as the standard academic response to unpopular research. “The offending article has brought widespread condemnation from scholars around the globe,” begins a petition submitted Monday to the editor of Third World Quarterly and its publisher, Taylor & Francis, demanding the retraction of “The Case for Colonialism.”⁵² The petition says that the paper, written by Bruce Gilley, an associate professor of political science at Portland State University and published earlier this month as a “Viewpoints” essay, “lacks empirical evidence, contains historical inaccuracies and includes spiteful fallacies. There is also an utter lack of rigor or engaging with existing scholarship on the issue.” With more than 10,000 signatures -- many from faculty members -- as of Monday, the petition continues, “We do not call for the curtailing of the writer's freedom of speech ... Our goal is to raise academic publishing standards and integrity. We thereby call on the editorial team to retract the article and also to apologize for further brutalizing those who have suffered under colonialism.”⁵³

Then:

Fifteen members of Third World Quarterly's editorial board resigned Tuesday over the publication of a controversial article they said had been rejected through peer review. The news comes a day after the journal's editor in chief issued an apparently contradictory statement saying that the essay had been published only after undergoing double-blind peer review.⁵⁴

And finally:

Bruce Gilley, an associate professor of political science at Portland State University, has asked the journal to withdraw the paper. “I regret the pain and anger that it has caused for many people,” Gilley said in a statement Thursday. “I

⁵²<https://www.change.org/p/editors-of-the-third-world-quarterly-retract-the-case-for-colonialism> and <http://fooddeserts.org/images/paper0114.pdf>.

⁵³<https://www.insidehighered.com/news/2017/09/19/controversy-over-paper-favor-colonialism-sparks-calls-retraction>.

⁵⁴<https://www.insidehighered.com/news/2017/09/20/much-third-world-quarterlys-editorial-board-resigns-saying-controversial-article>.

hope that this action will allow a more civil and caring discussion on this important issue to take place.”⁵⁵

Let’s start with the following two disclaimers. 1) I have no special knowledge of economic development in third world countries. 2) I don’t read the Third World Quarterly and never heard of it before the controversy. So I have no knowledge of the journal’s history, reputation, slant, etc. But I do think there are two elements in the controversy that are relevant to academic journals generally. One is the question of retraction. Another is the role of a journal editor.

After looking at the article, it appears to me to be an extended opinion piece rather than a research essay. In fact, it appeared as a “Viewpoint” article in the journal. I can imagine a journal retracting a research article which turned out to be based on fake data or which violated some other expectation one might have of a research piece. But it’s harder to justify a demand for retraction of an opinion piece. One member of the editorial board who *didn’t* resign and who *opposed* the demand for retraction was Noam Chomsky, someone with whom I would normally not share many opinions. But in this case my sympathies are with what Chomsky said:

Noam Chomsky, Institute Professor and professor of linguistics emeritus at the Massachusetts Institute of Technology... told Inside Higher Ed that it’s “pretty clear that proper procedures were not followed in publishing the article, but I think retraction is a mistake – and also opens very dangerous doors... Rebuttal offers a great opportunity for education, not only in this case.” Chomsky added, “I’m sure that what I publish offends many people, including editors and funders of journals in which they appear.”⁵⁶

Despite my admitted lack of expertise in economic development, I couldn’t help but notice that the article didn’t go into a comparison of China vs. India. The former has been the home of rapid growth, but didn’t retain governance structures of the various European powers (or of Japan) that carved it up into spheres of influence in colonial days. India has been less of an economic success story, despite retaining governance structures inherited from Britain.

Both countries are huge compared to some of the examples cited in the paper. And, curiously, Gilley has elsewhere written extensively on China.⁵⁷ Wouldn’t someone making a case for the benefits of colonial inheritance want at least to deal with the largest examples of third world countries on the planet? In short, I doubt that it would be hard for someone with actual

⁵⁵<https://www.insidehighered.com/quicktakes/2017/09/22/author-asks-journal-pull-pro-colonial-essay> and <http://www.web.pdx.edu/~gilleyb/>.

⁵⁶<https://www.insidehighered.com/news/2017/09/20/much-third-world-quarterlys-editorial-board-resigns-saying-controversial-article>.

⁵⁷<https://www.pdx.edu/hatfieldschool/bruce-gilley>.

expertise on the subject of post-colonial development – unlike the author of this musing - to develop a rebuttal.

I have been a journal editor and have been on journal editorial boards, so I do have some experience, if not expertise, in those roles. In this case, the journal's editor is accused by those members of the board who resigned of misrepresenting the peer review process and of not properly following it. I can't judge the issue of misrepresentation. But the board's understanding of the role of a journal editor was certainly not my understanding when I played that role. Even allowing for differences in expectations across fields, I can't imagine that an editor of any journal is expected simply to follow a mechanical process of review.

Yes, any respectable journal will have an external review process as its major gateway to publication. But I never thought of my role as editor as being one of just handling the paperwork involved in contacting reviewers and soliciting their opinions. If that were the role, why not hire a clerk to do it? Why would any busy academic want to do it, if that were the role? If I, as editor, thought a submission was worthy despite reservations by reviewers, I would go ahead with it. (There are *always* reservations by reviewers.) In short, editors – at least in my understanding – exercise judgment. They are expected to exercise judgment.

In one case, I did resign from an editorial board over an article. But in that instance, a paper that I regarded as little more than an ill-disguised diatribe had been published. When I protested to the journal's editor, he asserted that he had no choice but to publish it because the outside reviewers had approved. In short, I resigned because the editor had *not* exercised good judgment, *not* because he used his judgment. And I certainly did *not* demand retraction or apology.

As of this writing, the Third World Quarterly paper is still posted on the web, despite the author's request for retraction. The journal has not taken it down. And it shouldn't. As the author's explanation – reproduced earlier – indicates, his retraction request is based on "pain and anger" caused to readers. The author did not indicate that he now had an epiphany and thought his article's viewpoint was incorrect. In contrast, Chomsky – in opposing the demand for retraction - notes that his (Chomsky's) published viewpoint "offends many people."

If indeed, as the retraction petition asserts, "there is... an utter lack of rigor or engaging with existing scholarship..." then surely someone among the 10,000+ petition signatories can easily write a response to the article. Nothing really vanishes from the web, even if the paper is formally taken down. If no one writes a rebuttal, and instead the paper remains quasi-available somewhere in the internet ether, then it will remain the last word on the subject. And if someone does write a rebuttal, but the paper is not readily available, the juxtaposition will suggest that academic bullying – not reasoning – accounts for its absence. If that's the final result, it would not be a good outcome. A much better outcome would be for the signatories to retract their petition.