

HARRT 2014 Retreat
Session 1
Thursday, November 6, 2014

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2014

Secular Changes

It's Different Now



Ed Leamer
Professor and Director of the UCLA Anderson Forecast

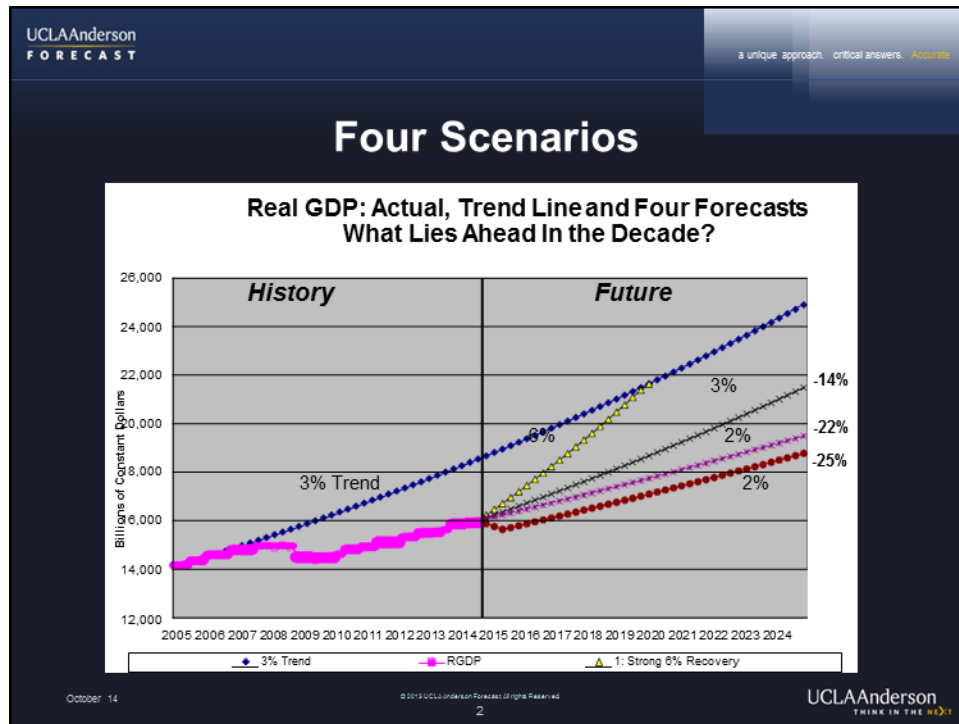
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Growth is critical

- Government revenues
- Retirement liabilities
- Equity Prices
- Unemployed and/or discouraged workers
- Our democracy

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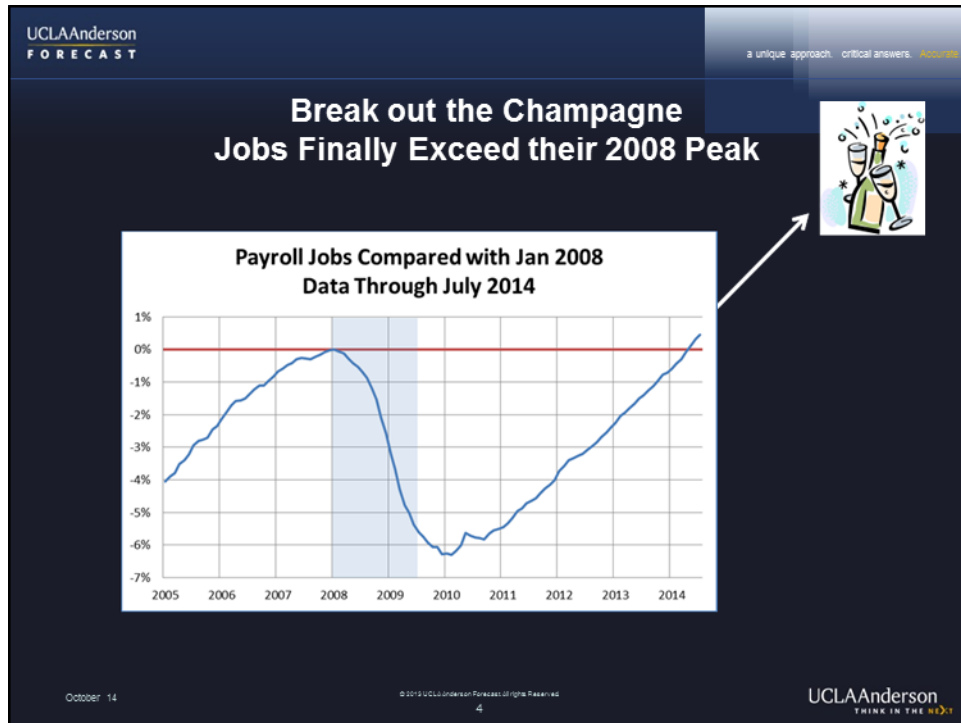
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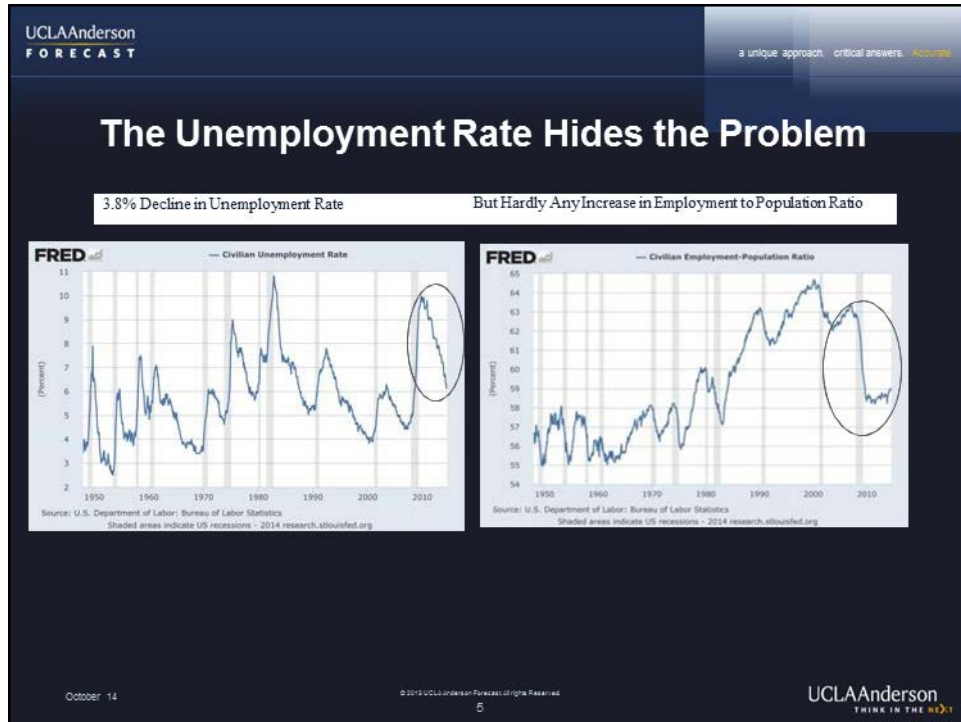
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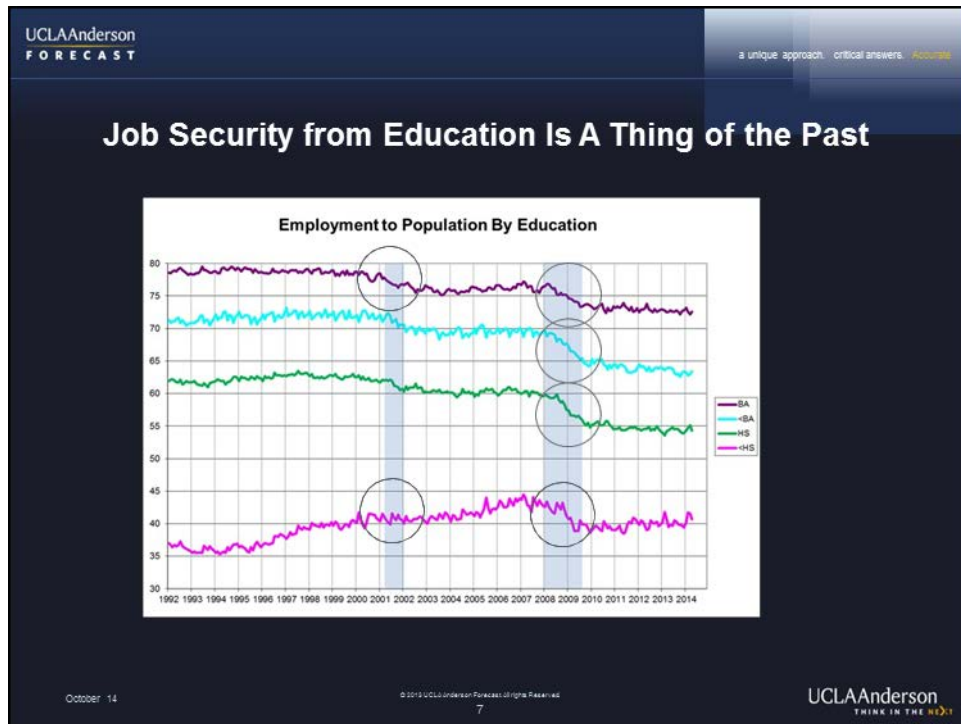
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Has this recession been so different?



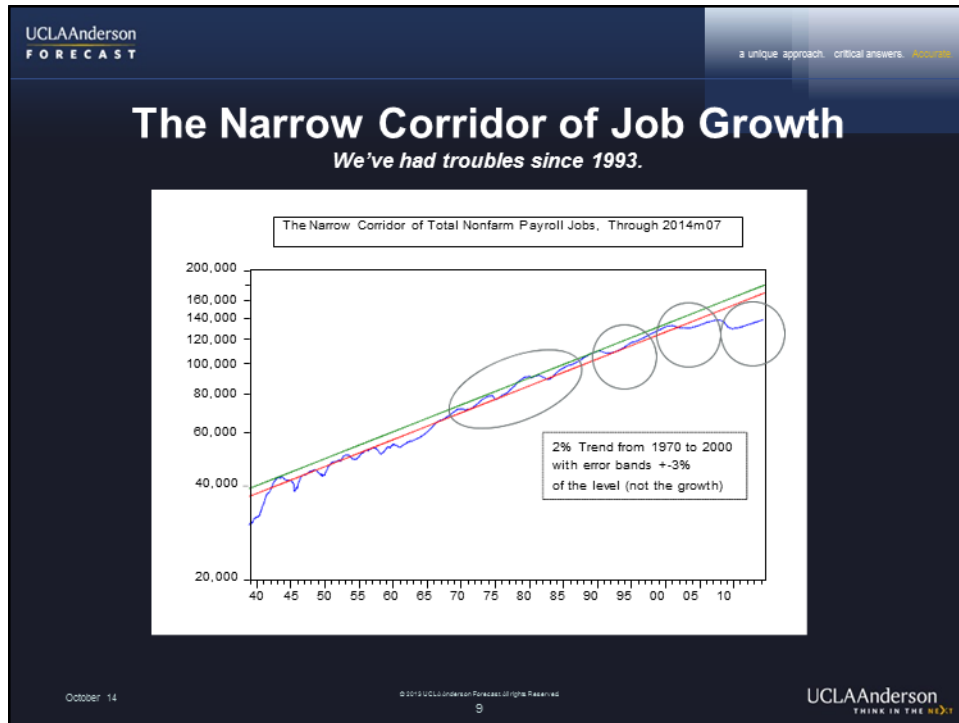
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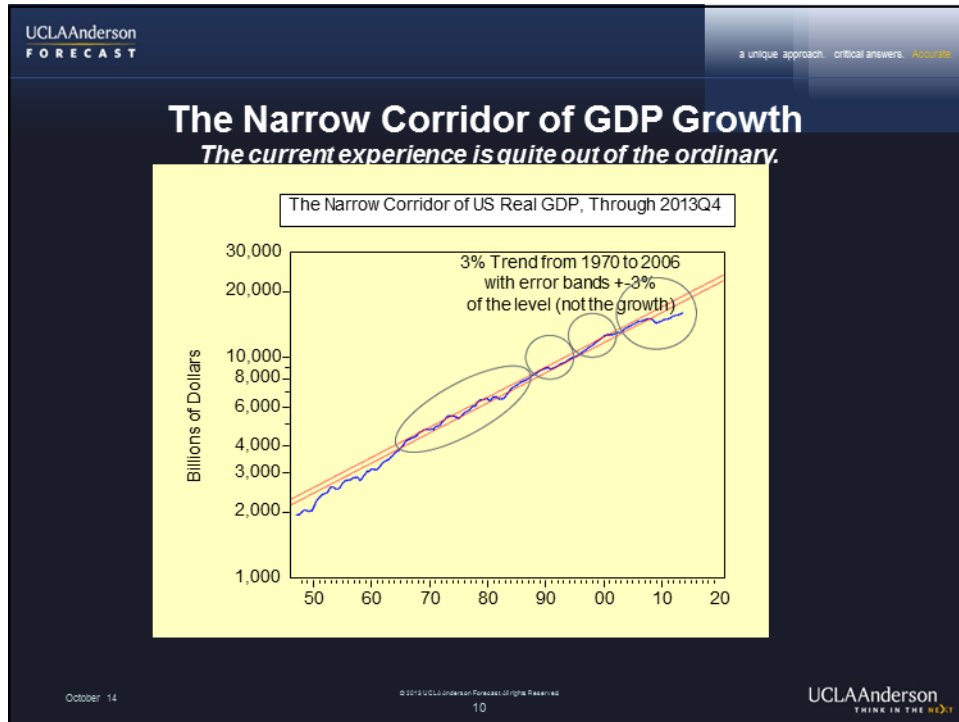
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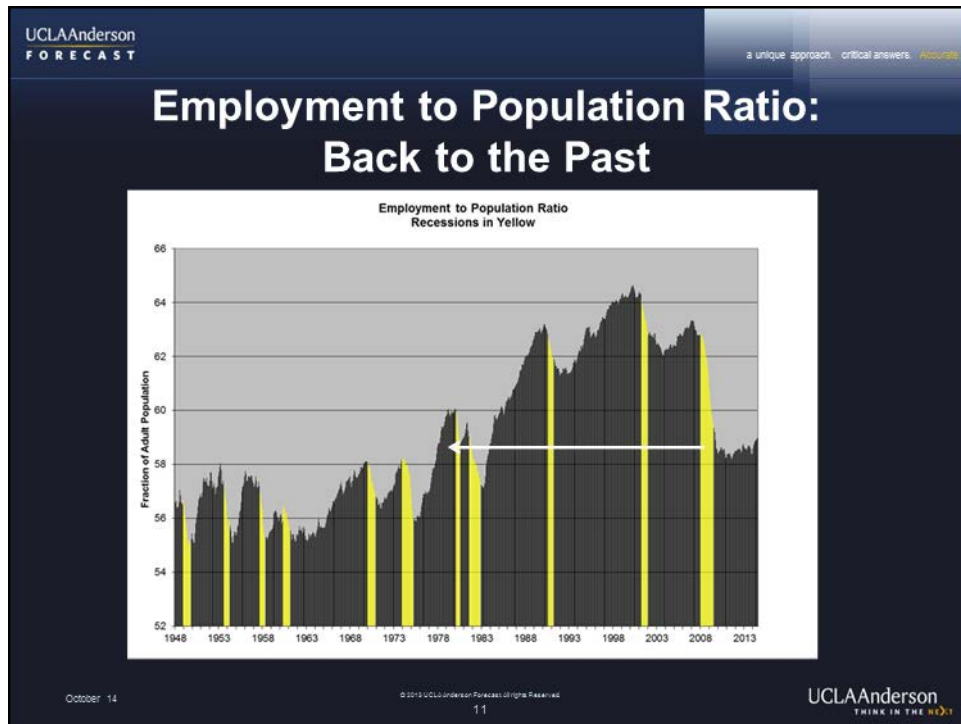
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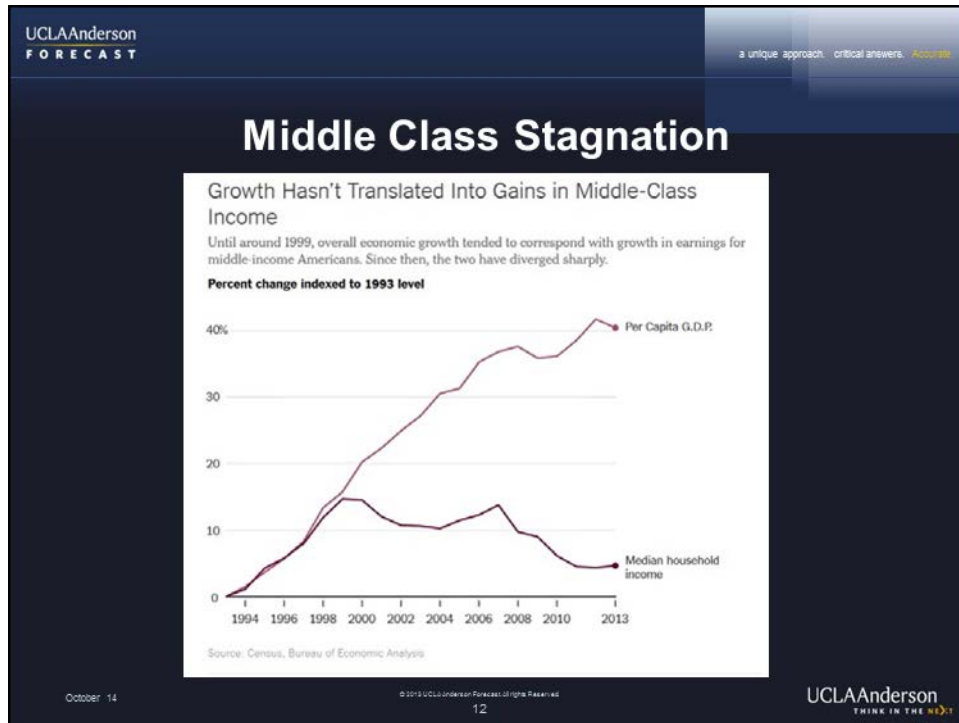
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THE DROUGHT WE ARE ALL TALKING ABOUT



THE OTHER DROUGHT WE NEED TO TALK ABOUT



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Normal Recession

Temporary Layoffs Followed by Recalls

Work	Temporary Layoff	Recall
		
		

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Secular Adjustment

Adios, Buddy

Work	Long Unemployment Spell	Reluctant acceptance
		
		

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Looking for secular changes

- Negative trend in manufacturing.
- Excess capacity in residential construction.
- Computerization of routine, repetitive intellectual tasks.



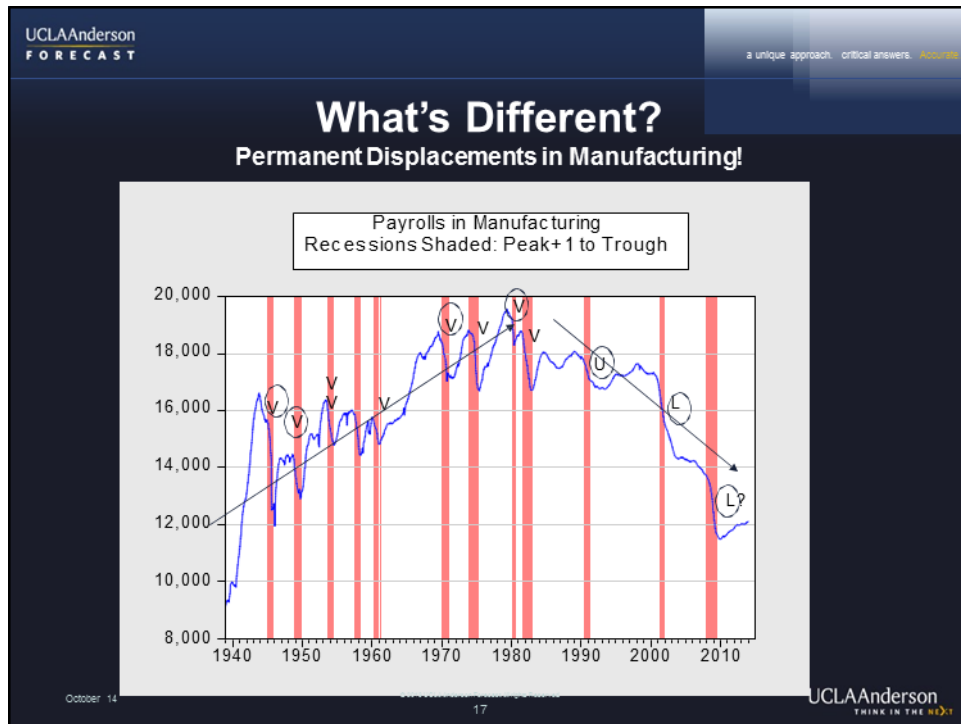
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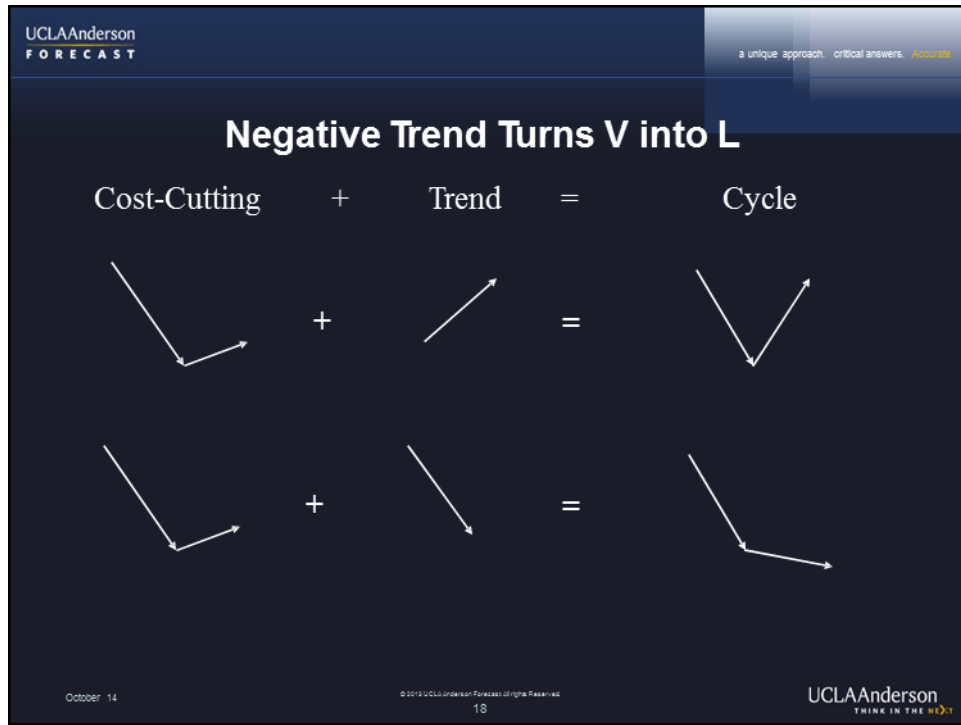
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ALERT: Aliens are taking the jobs of Americans!

- They work long hours without complaint.
- They are happy with low pay.
- They don't care about working conditions.
- They aren't interested in joining unions.
- Who are they?



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Why so many discouraged workers?

**HELP WANTED
NO HUMANS NEED APPLY**



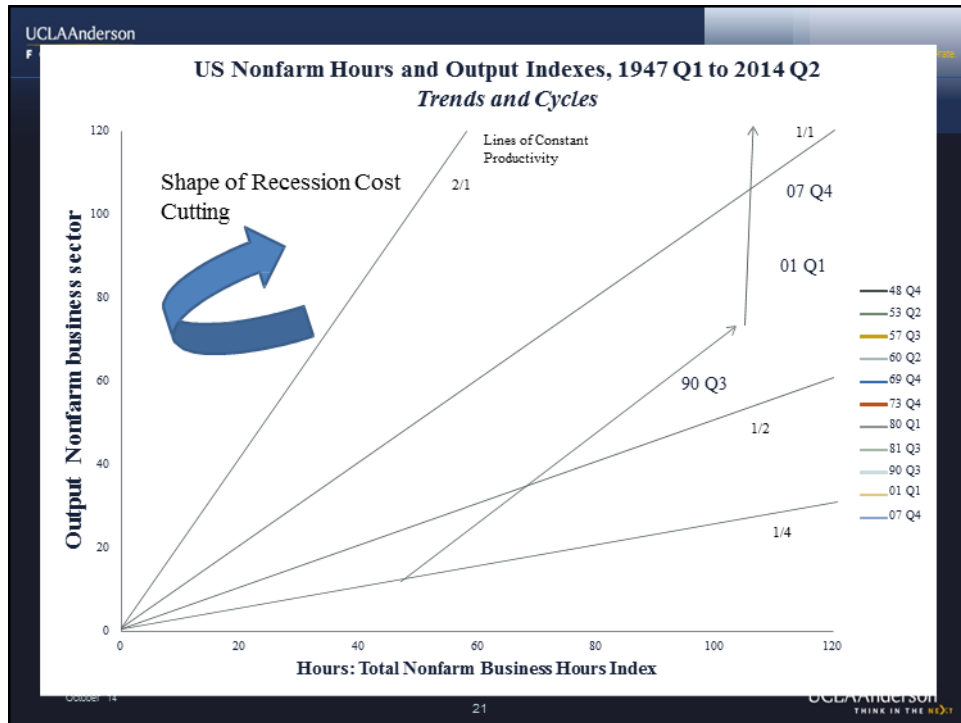
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Dilbert

robot workforce woes

Joshua M Brown May 4th, 2013

MY 12-YEAR-OLD WANTS TO KNOW WHAT CAREER WOULD PREVENT HIM FROM BEING REPLACED BY A ROBOT.

I'VE MET YOUR SON, AND I'M PRETTY SURE HE COULD BE REPLACED BY A HAMMER.

THIS TOOK AN UGLY TURN. MAYBE THE ROBOTS CAN USE HIM AS FURNITURE.

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Is the A Recession in the Near Future?

- How Old is the Expansion, Really?



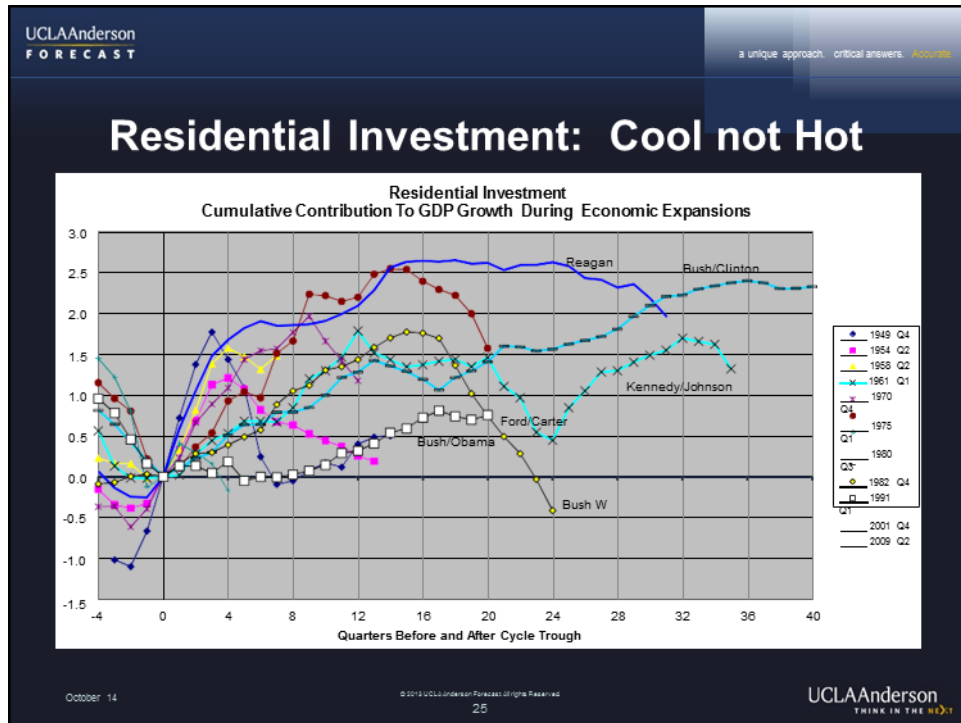
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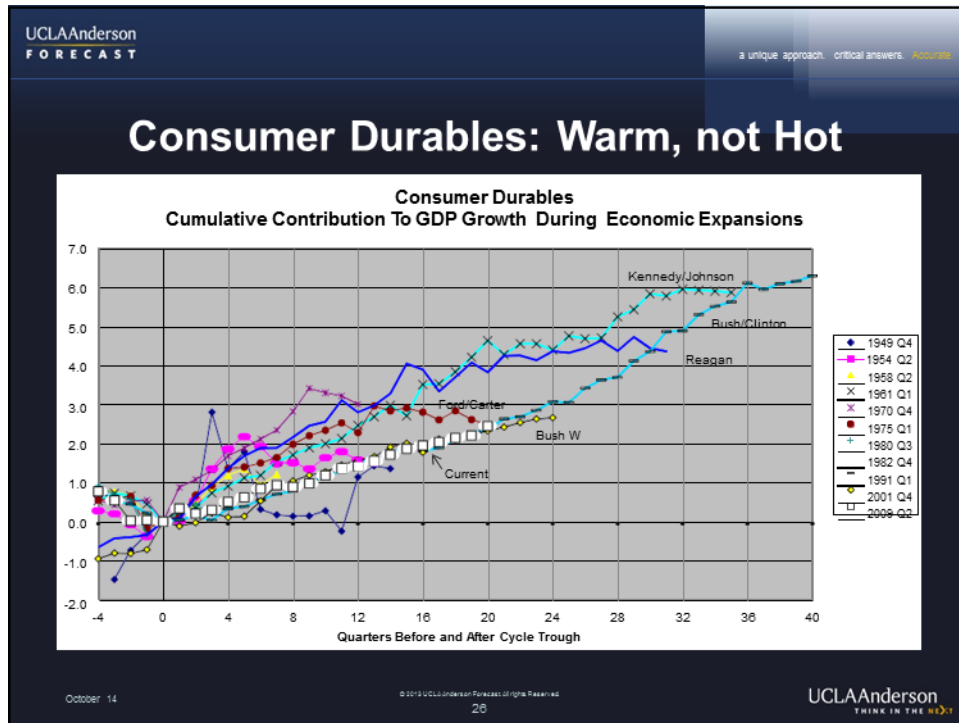
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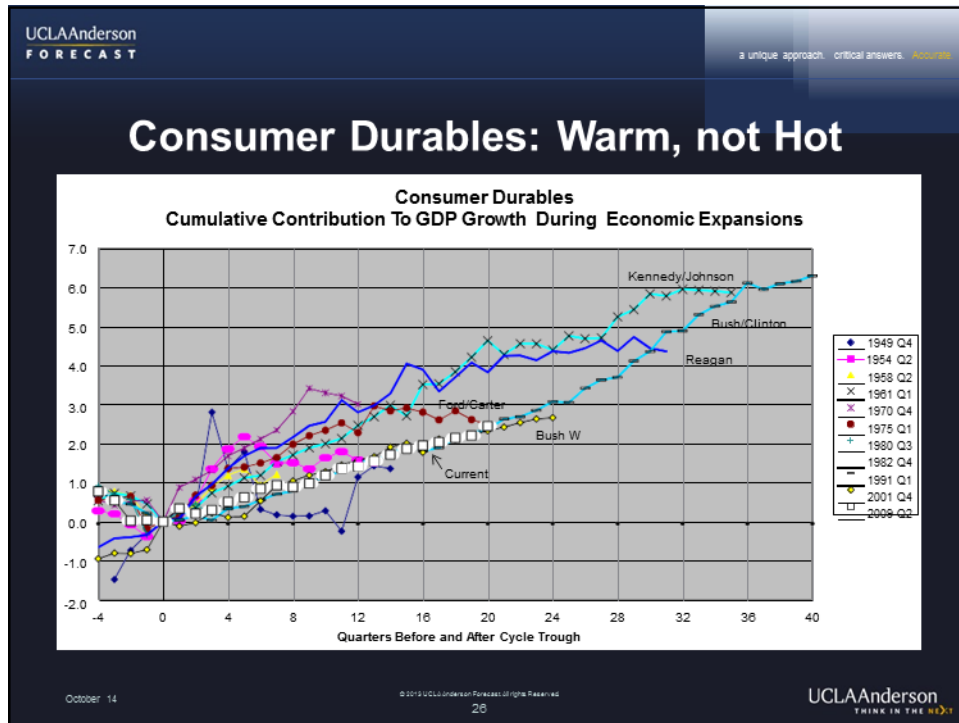
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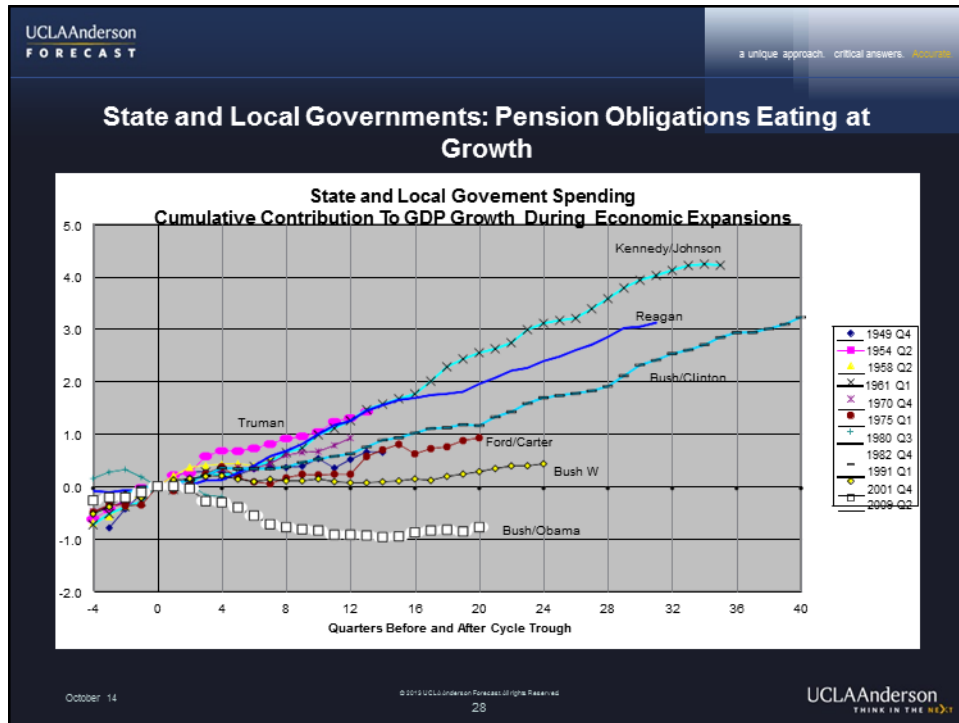
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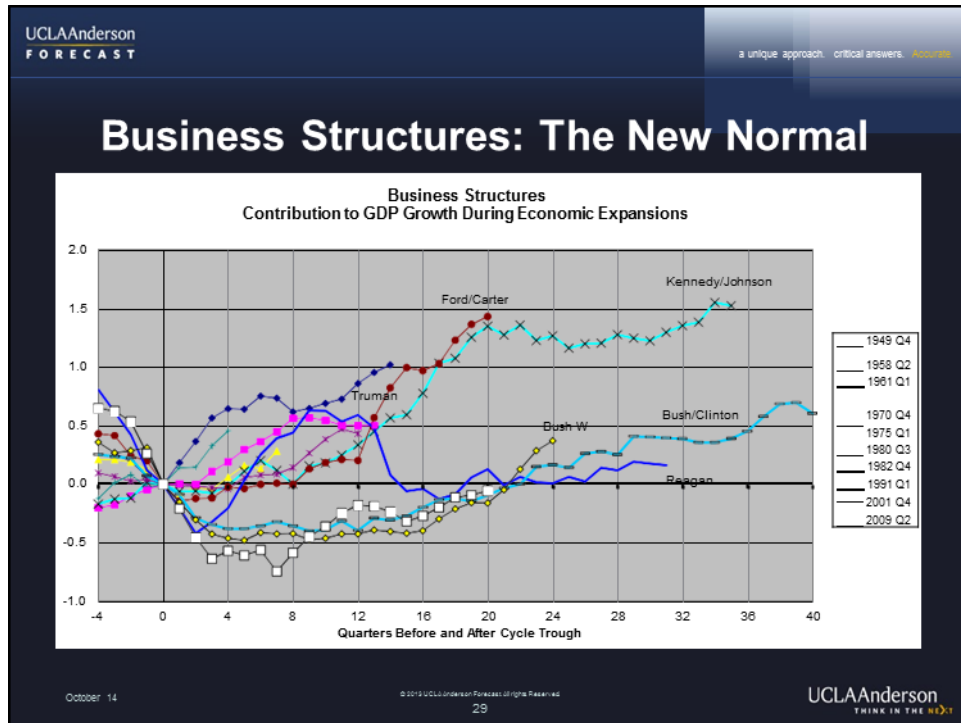
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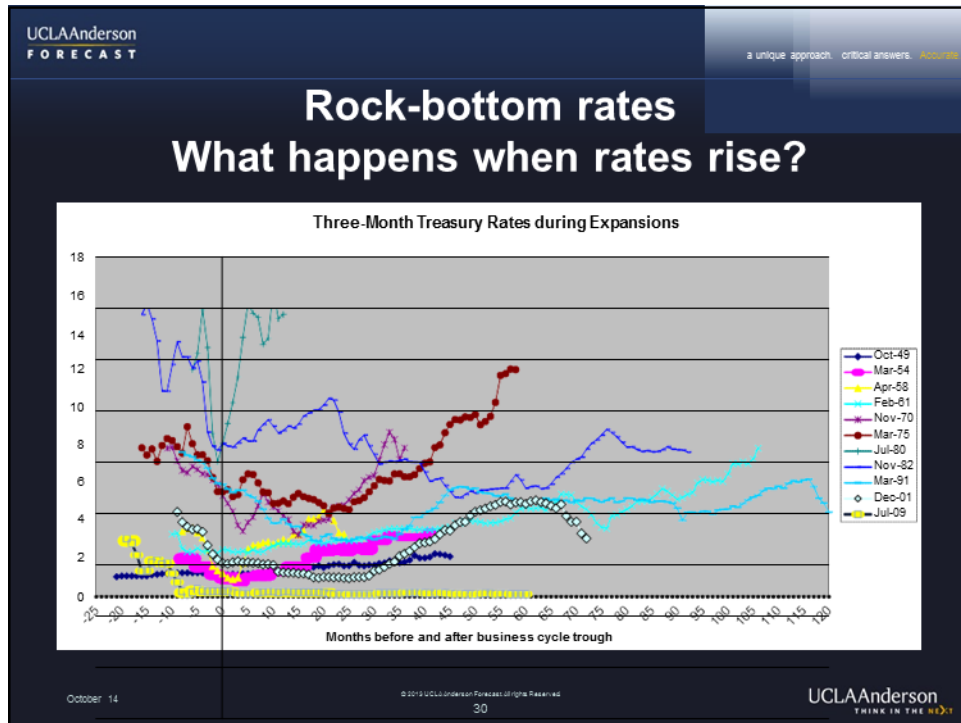
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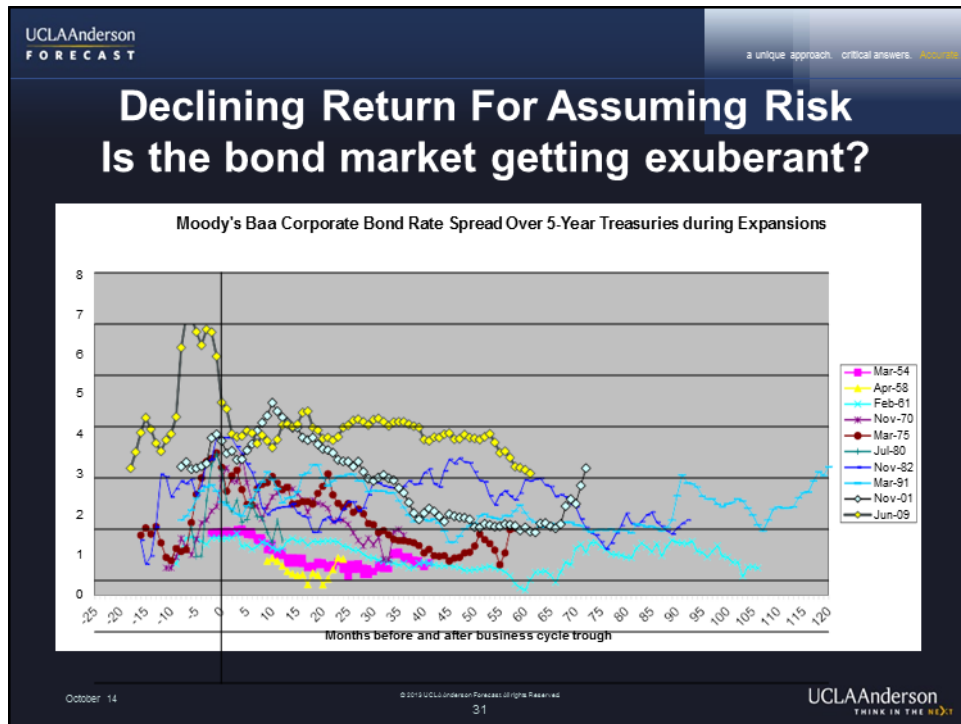
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Upside Risk and Downside Risk

Equally Small



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US Forecast

- GDP: 3% for the rest of this year and next
- CPI Inflation: 2+ in the next couple of years, higher in 2016
- Ten-year Treasury: 2.8 in December 2014, 3.5 in December 2015
- Fed Funds rate increase beginning in March 2015: 0.75 in June 2015, 1.75 in December 2015, 2.5 in June 2016 and 3.0 in December
- Housing Starts: 1.1 million in 2014, 1.4 in 2015
- Unemployment Rate: 5.7 in December 2015

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Secular Adjustment

Adios, Buddy

Work	Long Unemployment Spell	Reluctant acceptance
		
		

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CALIFORNIA

Familiar Trends & Their Implications



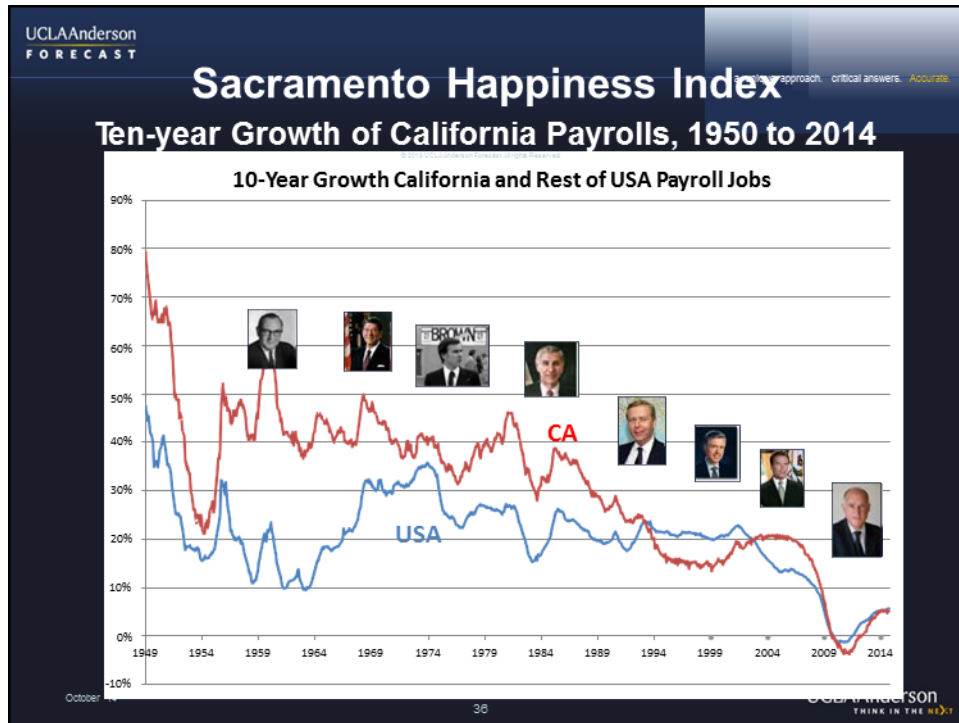
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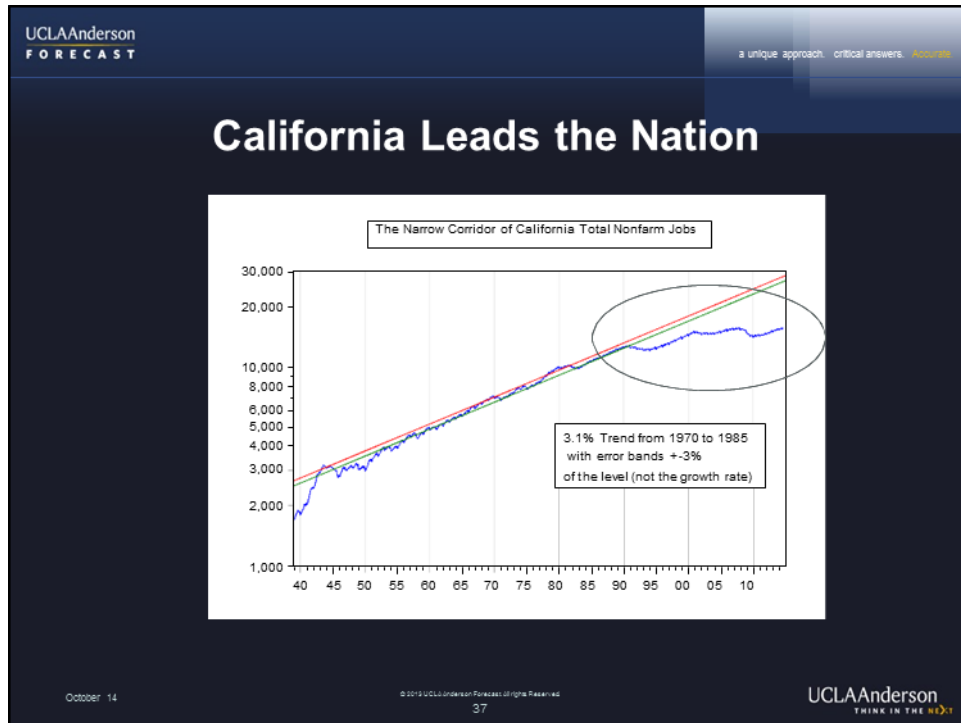
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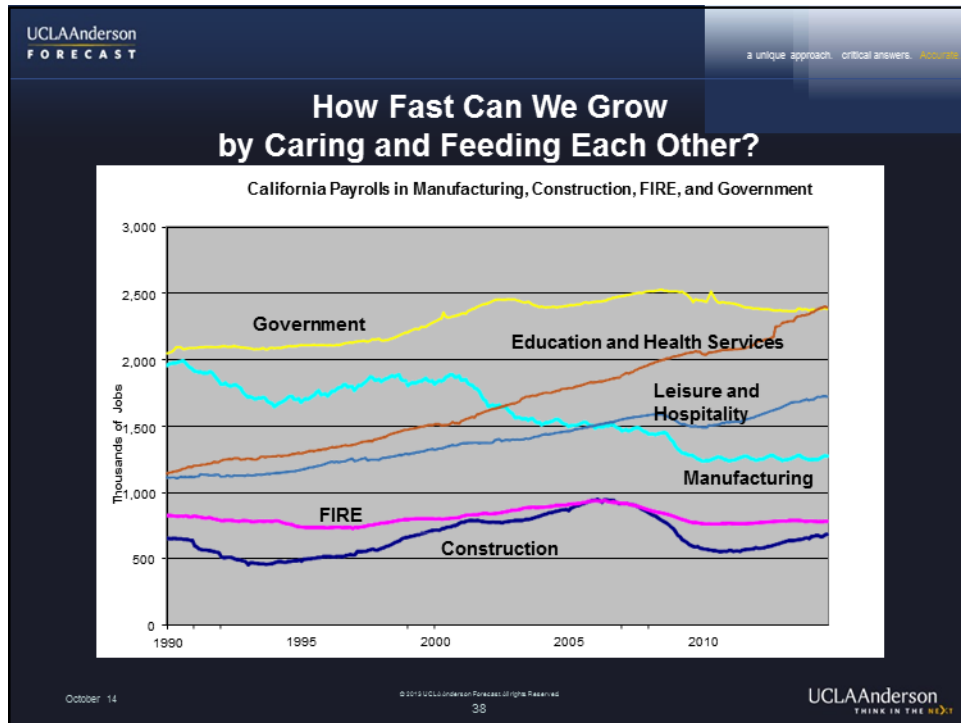
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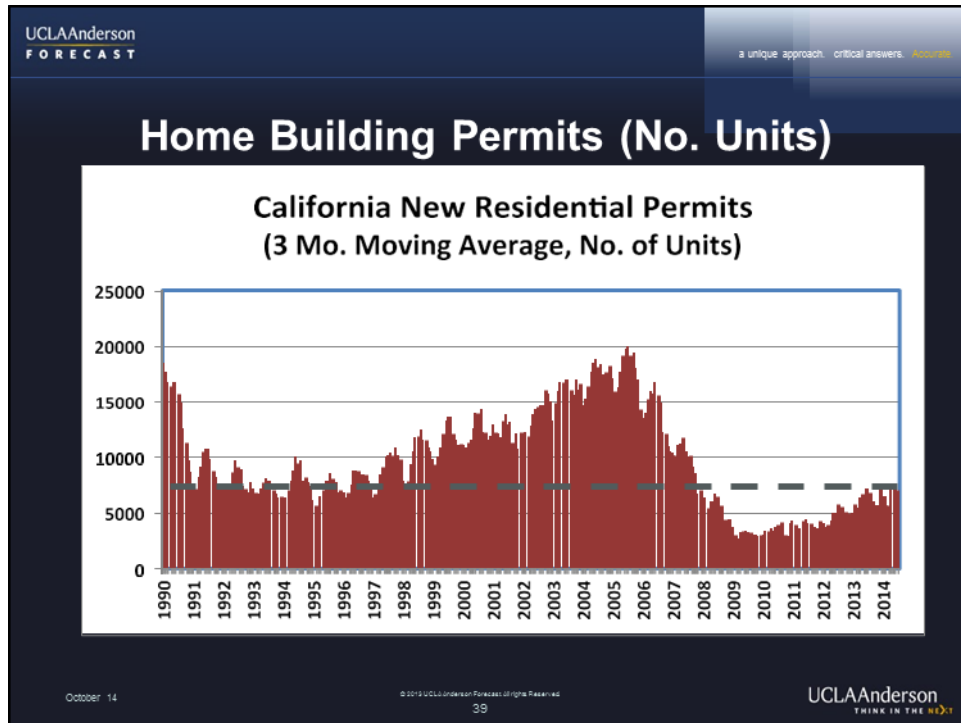
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CALIFORNIA FORECAST

	2014	2015	2016
Payroll Employment	2.2%	2.3%	2.2%
Unemployment	7.6%	6.7%	5.7%
Personal Income (real)	2.6%	4.6%	4.4%
Housing Permits (units)	88.2	117.2	136.4



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Mayor Garcetti's Minimum Wage Proposal

- \$13.25 minimum wage in 2017
- Per Berkeley IRLE report
 - Directly Covers 27% of workforce;
 - Generates wage increases for 37% of the workforce
 - Average annual earnings would increase by 21%, \$1.8 billion
 - Average annual earnings would increase by 21 percent, or about \$3,200 per year.

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Minimum Wages



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How to think about the minimum wage of \$13.25 per hour in Los Angeles?

- It's a charitable contribution of \$1.8 billion to needy and deserving individuals.
- It's paid for with a tax on employment of the very same workers we want to help.
 - This isn't put on the City's books but it should be.
- As an alternative way of raising \$1.8 billion, we could have a 3% tax on workers earning in excess of \$50 per hour.

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What's the Problem?

- What's the problem?
 - Too many workers chasing too few low-wage jobs.
- What do we need?
 - Fewer workers and more jobs.
- What does a minimum wage do?
 - A minimum wage attracts workers and repels jobs.
- What would the best policy do?
 - Attract business that hire these workers, and educate/train to make them eligible for \$20 or \$30 jobs.


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Avoidance Options

- Move
- Hire Robots
- Cut Benefits
- Change the Contract: Raise the pace.

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Incidence: It's Complicated

- Customers of restaurants if prices are raised
 - Customers of McDonald's compelled to contribute to McDonald's employees
- Landowners if rental rates fall.
- Clientele of not-for-profits

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ADVICE: GO SLOW
This is uncharted territory

	LA	CA	SF	SD	US
Current minimum wage	\$ 9.00	\$ 9.00	\$ 9.92	\$ 9.00	\$ 7.25
Current Coverage	9.7	9.9	9.4	9.9	8.2
Proposed minimum wage	\$ 13.25	\$ 12.00	\$ 15.00		\$ 10.10
Enacted				\$ 11.50	
Year	2017	2016	2017	2017	2017
Projected Coverage	27.3	21.6	20.9	18.1	16.7

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The Long-Term Forecast Remains Troubled



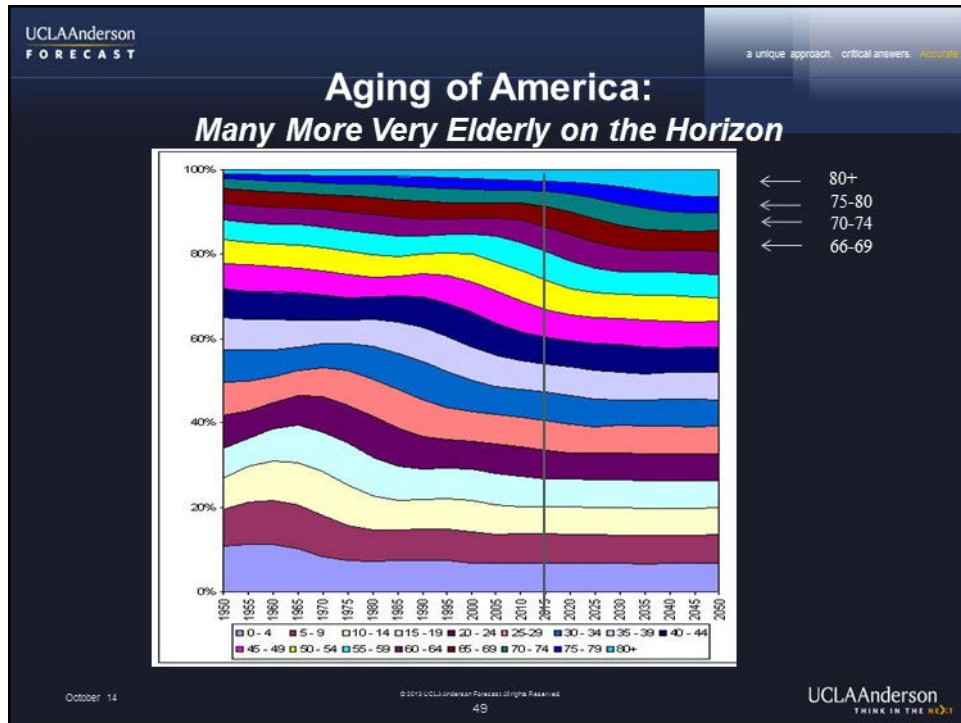
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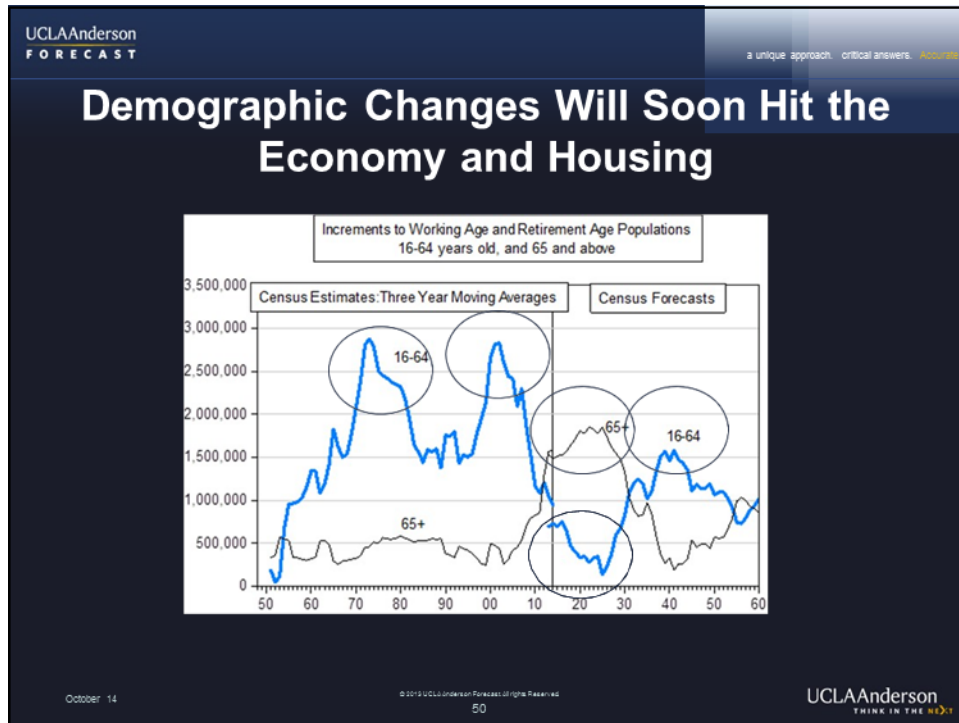
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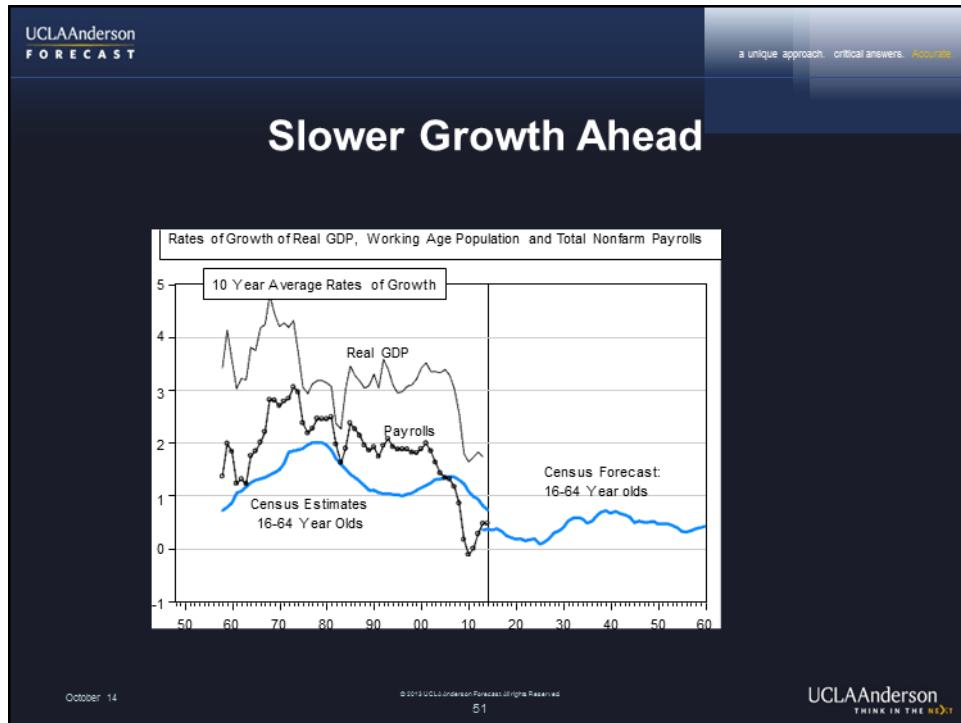
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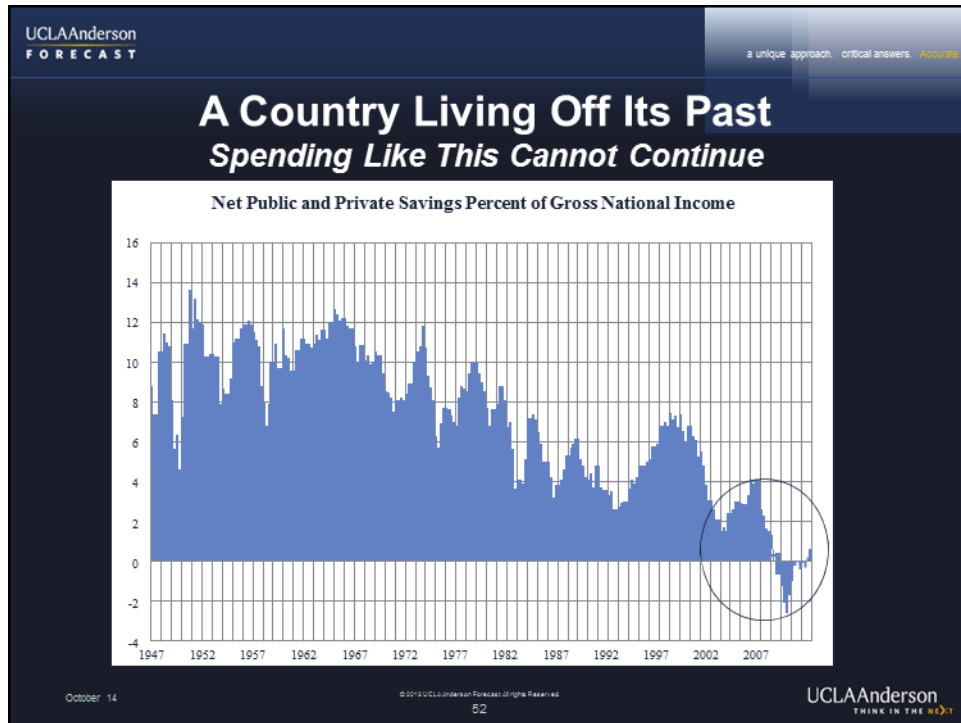
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Who should pay for their Schooling?



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Who should pay for their Viagra?



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Things look good from this vantage point.



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