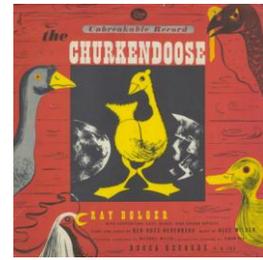


## Mitchell's Musings 2-11-13: It Depends on How You Look at Things

Daniel J.B. Mitchell



Shortly after World War II, a children's record was released called "**The Churkendoose.**" The story involved a chicken egg which was sat on by a chicken, turkey, duck, and goose, producing an odd bird that was a mix of all four. (Never mind the genetics!) The lesson for kids was supposed to be tolerance. The bird was different from the other birds as hybrid and initially was rejected but was eventually accepted by the others after doing some heroics. On and off throughout the recording, the narrator Ray Bolger (who played the Scarecrow in the *Wizard of Oz* movie) returns to the song-refrain, "It depends on how you look at things."<sup>1</sup>

That theme came to mind when I came upon a survey conducted by the California Business Roundtable about the business climate in the state.<sup>2</sup> You can guess the result. Lots of grumbling. The survey is a little vague on methodology. We are told:

- *1,142 California Business Leaders completed the survey from November 7 through December 26 of 2012.*
- *For this study, "Business Leaders" are defined as chief executive officers, chief operating officers, chief financial officers, business owners, and partner-level management.*
- *Qualified participants were invited to participate in a survey on "helping to shape the future of our state." The survey was conducted online.*
- *The participant sample was weighted by industry, geography, business size, and minority ownership to reflect the California business community.*

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

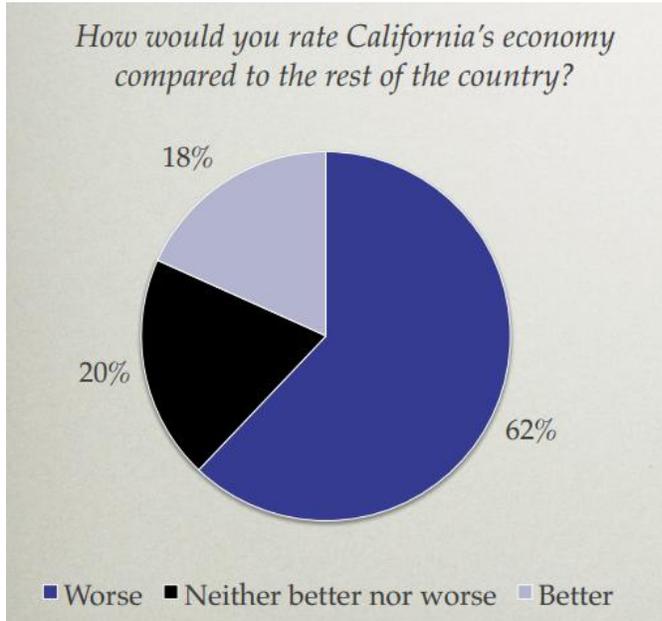
Now don't get me wrong. Business leaders have legitimate gripes about the policy climate in California. It is an objective fact that the Great Recession hit California harder than most other states – in large part because the state was a center of the housing bubble and related mortgage shenanigans. It has had the third highest unemployment rate of all the states (behind Nevada and Rhode Island). So when the 62% of the respondents – whoever they are and however they are weighted – say that things are worse in California than the rest of the U.S., one wonders why only 62% are willing to state something that is evident in official statistics. It would have been nice if the Roundtable had produced a separate subset

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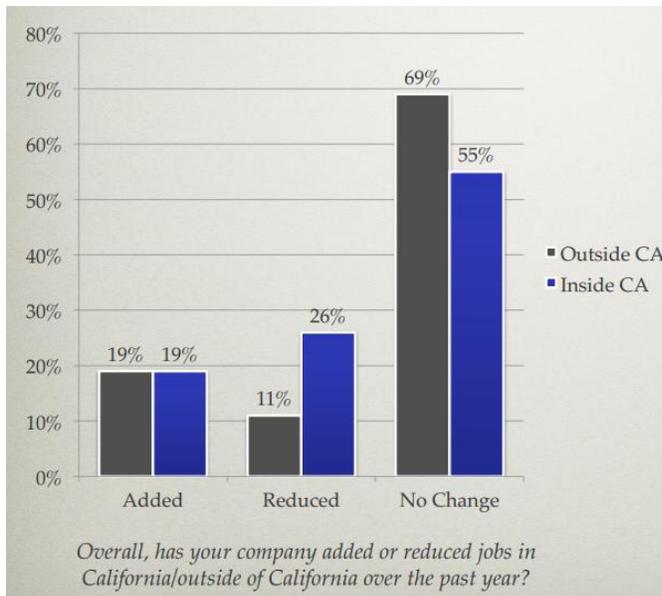
<sup>1</sup> You can hear it on the web at various locations including <http://www.mp3chief.com/music/ray-bolger-the-churkendoose/>

<sup>2</sup> Available at <http://www.cbirt.org/wp-content/uploads/2013/02/CBRTBusinessLeaderSurvey-updated.pdf>

of responses from respondents who had actual operations outside California. Maybe they would have had a clearer idea of what is going on outside the state.



But here is where things get dicey. When asked about their activities in 2012 (the poll was taken in late 2012), the respondents report net job contraction:



The problem is that this result does not square with employment figures for the state. Somebody must be hiring in California because nonfarm payroll was up on a December-to-December basis by 225,900 according to the latest Bureau of Labor Statistics release.<sup>3</sup>

<sup>3</sup> <http://www.bls.gov/news.release/laus.nr0.htm>

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

State	December 2011	December 2012 (p)	Over-the-year change (p)
Arizona.....	2,415,000	2,479,300	64,300
<b>California.....</b>	<b>14,172,900</b>	<b>14,398,800</b>	<b>225,900</b>
Colorado.....	2,265,300	2,316,600	51,300
Florida.....	7,333,200	7,388,100	54,900
Georgia.....	3,897,000	3,971,100	74,100
Hawaii.....	596,500	608,400	11,900
Idaho.....	610,600	623,900	13,300
Illinois.....	5,676,000	5,717,900	41,900
Indiana.....	2,849,600	2,906,800	57,200
Kentucky.....	1,804,300	1,833,300	29,000
Louisiana.....	1,927,000	1,950,500	23,500
Massachusetts.....	3,211,800	3,263,400	51,600
Minnesota.....	2,683,300	2,735,200	51,900
Missouri.....	2,632,500	2,672,700	40,200
Montana.....	424,200	435,400	11,200
New Jersey.....	3,874,600	3,922,600	48,000
New York.....	8,717,000	8,840,600	123,600
North Carolina.....	3,932,200	4,004,600	72,400
North Dakota.....	406,800	421,300	14,500
Ohio.....	5,094,300	5,185,000	90,700
Oklahoma.....	1,565,300	1,600,500	35,200
Oregon.....	1,619,500	1,639,000	19,500
Pennsylvania.....	5,712,800	5,751,500	38,700
South Carolina.....	1,840,400	1,879,100	38,700
Tennessee.....	2,673,500	2,709,900	36,400
Texas.....	10,643,200	10,904,000	260,800
Utah.....	1,223,000	1,260,100	37,100
Virginia.....	3,702,700	3,734,000	31,300
Washington.....	2,834,000	2,885,700	51,700
West Virginia.....	760,800	746,900	-13,900

p = preliminary.

Unless there was a rash of new businesses formed in California or new business from elsewhere entering the state, the folks who answered the survey – if they were indeed representative of state employers – must have been doing net hiring, not net contracting.<sup>4</sup> It is very unlikely that most of the California employment increase came from new businesses or new entrants to the state. Much of what occurs when employment expands is that existing employers create more jobs.

<sup>4</sup> The figures on the table include government as well as the private sector. But in California, as in many other states, government employment was shrinking during 2012.

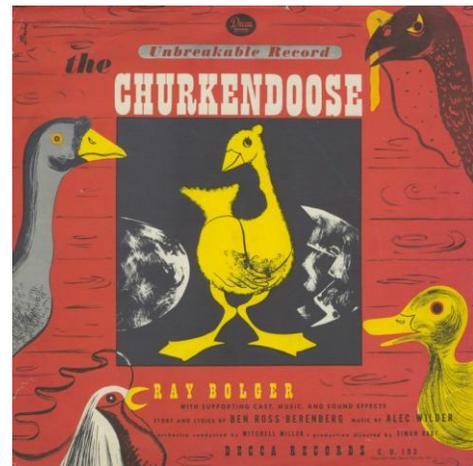
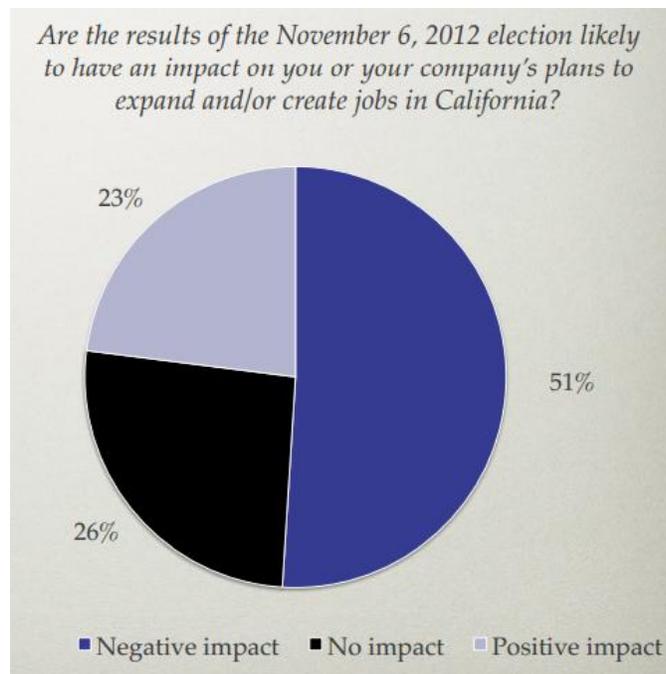
Of course, the figures above are in absolute terms, not percentage rates of job growth. But when we look at the data relative terms, California in 2012 expanded pretty much at the national average rate:

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

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

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

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



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

Now the **Churkendoose** didn’t exactly come out of nowhere. It started as a chicken egg but then others took part in the hatching process. So who hatched the egg that produced the state election outcome for Republicans in California? Republicans in California, as elsewhere, were once seen as a business-oriented party. And California, like any polity, needs effective competition in elections. But in California, there is not one major statewide Republican office holder. The governor, the lieutenant governor, the treasurer, the controller, and the secretary of state are all Democrats. If the California Business Roundtable is unhappy with the economic and political direction of the state, its members

might ask themselves how they let “their” party develop in ways that no longer allow much influence in state policy. Maybe a survey on that question would be useful.