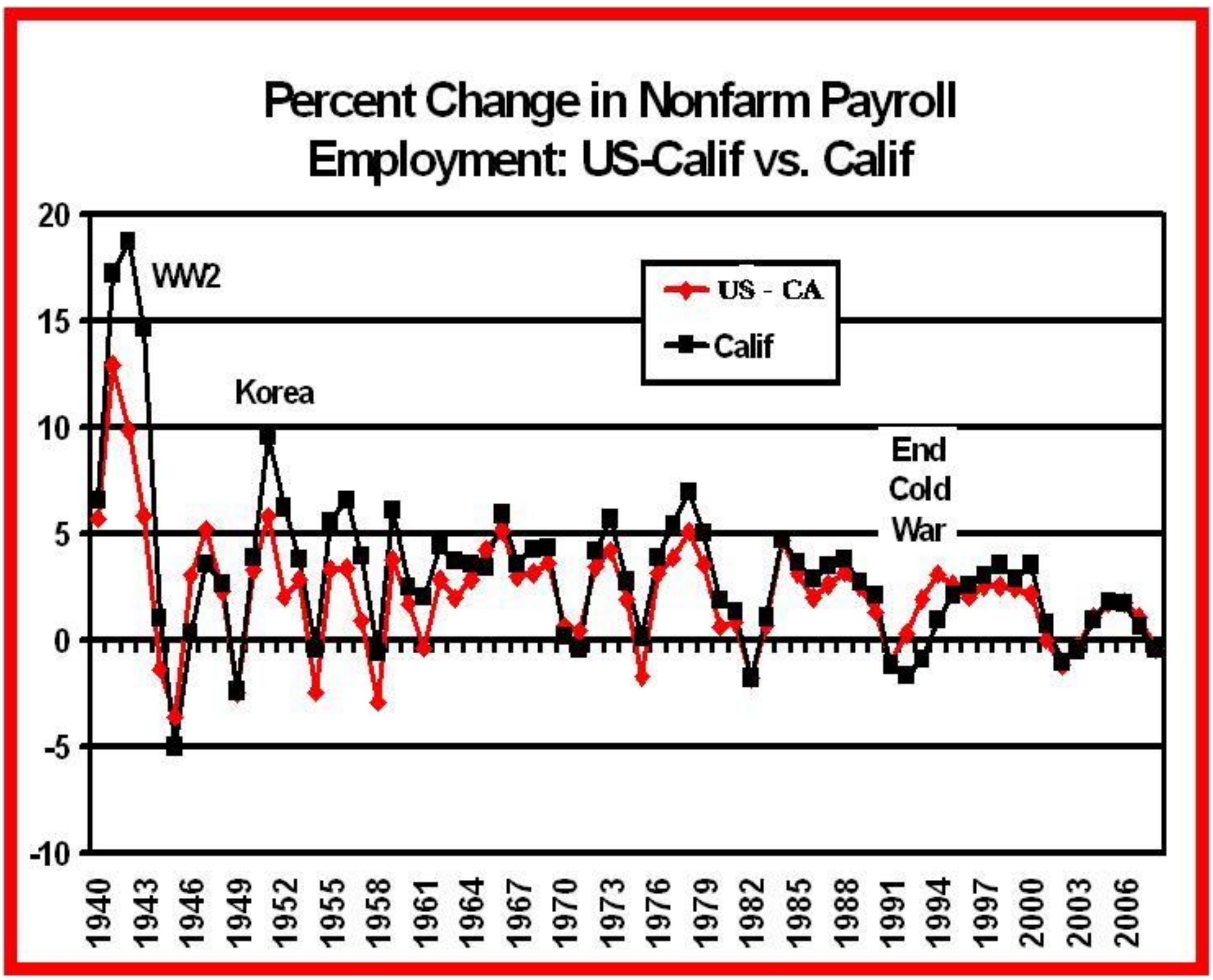
Mitchell's Musings 8-29-11: Affairs of the States

Recently, California Governor Jerry Brown appointed a job czar. Also, recently, the City of Los Angeles appointed a job czar. Those actions in my home state got me to thinking. I suspect job czars are popping up in some form around the country. Implicit in such appointments – and related state and local actions – is the idea that at the sub-federal level, there is room for action to combat unemployment and create jobs. If I were a job czar, or were advising one, what would I do/say?

Below is a chart I showed to a class almost a year ago. It plots the annual change in nonfarm payroll employment in the U.S. *excluding* California against California employment. The chart suggests a limited scope for action at the state level in California to offset the ups and downs of the national business cycle. Basically, the employment history of California is largely the history of the rest of the U.S. with an adjustment for military spending. California grew remarkably faster than the rest of the U.S. during World War II. There was also a California advantage during the Korean and Vietnam Wars. When the Cold War ended, however, the U.S. outpaced California in the early 1990s.



It is certainly right to look to Washington for action in rejuvenating the recovery from the Great Recession as the chart above suggests. But the reality is that the Federal Reserve has indicated it has gone as far as it wants to go. And – as the recent debt ceiling "debate" indicated – there is not going to be any action that depends on Congress.

It may be unfair of the electorate to hold state and local officials responsible for fixing their economies when the central authorities ought to be doing it - but voters nonetheless do hold local political leaders accountable. Hence, we have appointments of job czars and the like. What can we say to such czars about the pattern of recovery so far and the scope for state and local action?

In the Appendix to this musing, I list the fifty states and the change in nonfarm payroll employment in each from December 2007 (generally taken as the national peak of the business cycle) through June 2011, using seasonally-adjusted data. There was variation in the degree to which the individual states experienced the Great Recession and the subsequent sluggish recovery. Can we give any advice to job czars about actions they might take, based on that state-level variation?

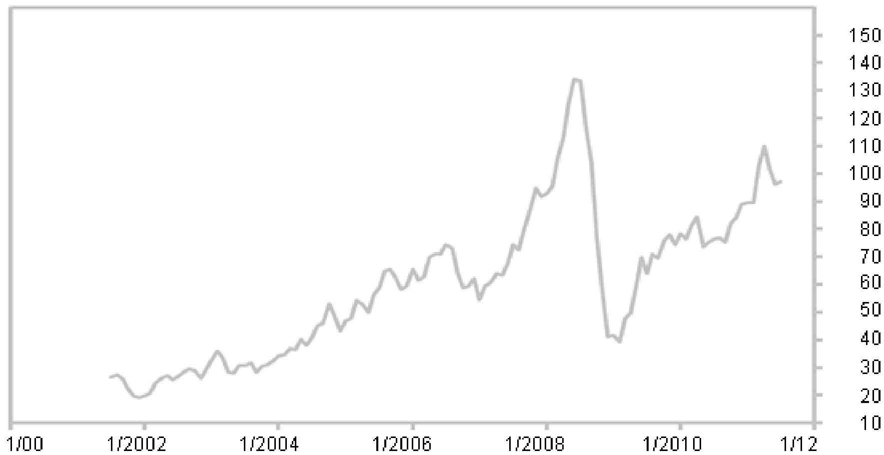
Over the entire period of the Appendix table, some states actually showed employment growth, even though across the entire U.S. (omitting Washington, DC), there was a net decline in jobs. Some states experienced only modest declines. Arbitrarily, let's take a look at the top-10 states in terms of job change and the bottom-10.

	Employment Change	Foreclosure Rank*		Employment Change	Foreclosure Rank*
Top Ten			*Bottom Ten*		
North Dakota	8.8	50	Delaware	-6.7	26
Texas	3.7	24	North Carolina	-7.2	37
Alaska	3.4	39	Alabama	-7.2	31
South Dakota	0.0	43	California	-7.4	3
Nebraska	-0.7	45	Michigan	-7.7	4
Oklahoma	-1.1	30	Georgia	-8.0	8
West Virginia	-1.1	49	Idaho	-8.2	6
Louisiana	-1.3	28	Florida	-8.9	7
Massachusetts	-1.7	40	Arizona	-10.5	2
New York	-1.8	46	Nevada	-13.7	1

*Foreclosure rank as of July 2011 measured by foreclosures per household from
http://www.statehealthfacts.org/comparetable.jsp?cat=1&ind=649

When you look at the top ten – the states that did best – energy seems a good story for much of that group - oil, natural gas, coal, ethanol/corn. (North Dakota, if you didn't know, is having something of a local natural gas boom.) Oil prices generally rose during the first decade of the 21st century. As shown on the chart on the next page, oil prices started at around $30 per barrel and peaked at over $130 in summer 2008 just before the financial crisis hit in the fall of 2008. The price then plummeted in the crisis, but has since floated back up to around $100. New York and Massachusetts – as the second chart on the next page shows – don't have significant energy but both have notable sectors in education and health care, a form of employment that has been expanding and seems virtually recession-proof.

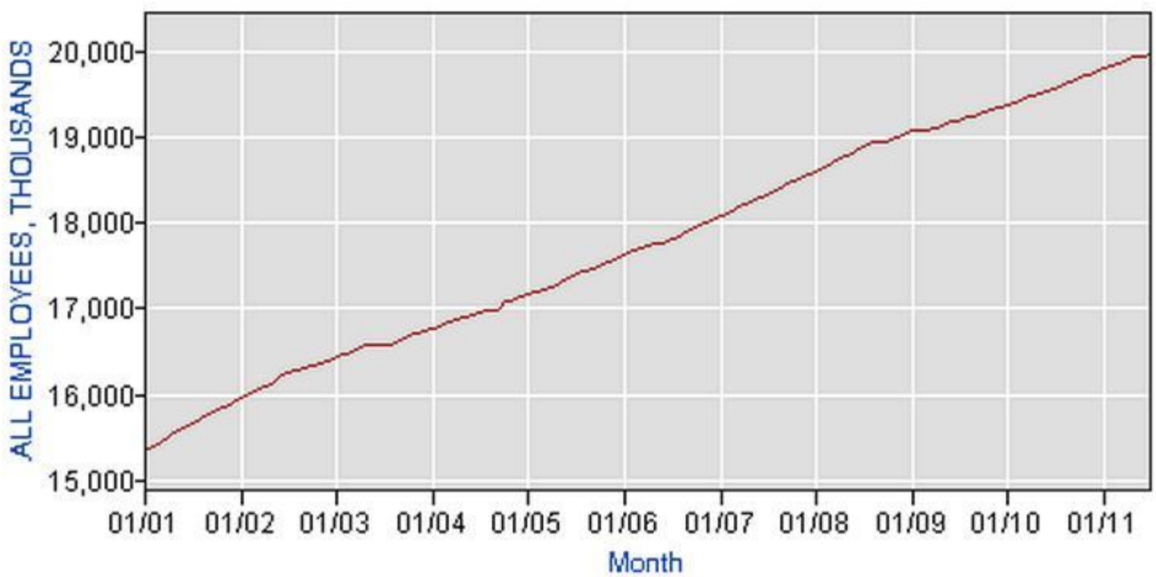
Spot Oil Price: West Texas Intermediate - 10 Year Chart



The above chart plots monthly historical Spot Oil Prices: West Texas Intermediate. Measurement is in Dollars per Barrel. Source: Dow Jones & Company. Click the links below for the forecast and other links related to this economic indicator. Updated Thursday, August 18, 2011.

Source: http://forecastchart.com/chart-crude-oil.html

Education and health services
-
ALL EMPLOYEES, THOUSANDS



Source: U.S. Bureau of Labor Statistics

What about the bottom-10 states? California actually has substantial oil production in absolute terms, but as the nation's largest state, oil production is only a small part of its economy. What stands out about the gap between the bottom-10 and the top-10 is the foreclosure index. States which did well in the Great Recession and its aftermath tended to avoid the housing/mortgage bust. (And adding a preexisting energy and/or a recession-proof component to their economies was a big help.) Those states that did poorly tended to have high foreclosure rates, i.e., they were centers of the housing/mortgage bust. What does not seem to be associated with the gap between the top-10 and the bottom-10 are the usual "business climate" indicators. Some are "red" states; some are "blue." Whatever validity such indicators have has little to do with short-term business cycle effects.

So what should a state or local job czar be doing in the short run? He/she can't control the national monetary and fiscal policies. What the top-10/bottom-10 gap suggests is that the focus should be on cleaning up the mortgage foreclosure mess. That approach may involve help from federal regulatory authorities. So if such help is needed, it should be sought.

The current state of affairs, in which individual banks and financial institutions operate independently, opens the door to a classic coordination failure. A foreclosed empty house on a block can lead to neighborhood decay. It discourages remaining homeowners from preserving their investment and may promote more home abandonment and foreclosure. Foreclosures lead to falling government revenues from property and other taxes and to state and local layoffs – which exacerbates the foreclosure problem and causes further economic distress.

Bottom line: If I were a job czar, I would start by working on foreclosures. Over the longer haul, there may be institutional issues and remedies – education, infrastructure, sensible zoning and regulatory frameworks – that can encourage job creation. But do first things first.

Appendix: Nonfarm Payroll Employment Change, Seasonally-Adjusted: December 2007 – June 2011

Alabama	-7.2
Alaska	3.4
Arizona	-10.5
Arkansas	-2.7
California	-7.4
Colorado	-4.8
Connecticut	-4.8
Delaware	-6.7
Florida	-8.9
Georgia	-8.0
Hawaii	-6.3
Idaho	-8.2
Illinois	-5.2
Indiana	-6.6
Iowa	-3.0
Kansas	-5.1
Kentucky	-4.1
Louisiana	-1.3
Maine	-4.1
Maryland	-3.8
Massachusetts	-1.7
Michigan	-7.7
Minnesota	-3.8
Mississippi	-5.6
Missouri	-5.1
Montana	-2.9
Nebraska	-0.7
Nevada	-13.7
New Hampshire	-2.8
New Jersey	-5.3
New Mexico	-5.3
New York	-1.8
North Carolina	-7.2
North Dakota	8.8
Ohio	-5.8

Nonfarm Payroll Employment Change,
Seasonally-Adjusted: December 2007 – June 2011 – continued

Oklahoma	-1.1
Oregon	-6.6
Pennsylvania	-2.2
Rhode Island	-4.8
South Carolina	-6.3
South Dakota	0.0
Tennessee	-6.7
Texas	3.7
Utah	-4.8
Vermont	-2.3
Virginia	-3.2
Washington	-5.2
West Virginia	-1.1
Wisconsin	-3.9
Wyoming	-1.8
All but DC	-4.6

Source: U.S. Bureau of Labor Statistics