

POLICY WATCH – July 2011

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Job Creation TO DO LIST

First: Avoid Our Greatest Danger: Long-term Stagnation

What is the greatest danger we face in California? Is it a state budget that slashes funding for higher education, a regulatory system that pushes new business out of the state, projected high levels of unemployment for the next decade, a crumbling infrastructure that third world countries would find appalling, and a jobless, weak economic recovery? No, the greatest danger is long – term stagnation. A stagnation in which, according to Joel Kotkin in “Enterprising States: Recovery and Renewal for the 21st Century,” (Newgeography, June 20, 2011), “growing demands for social services, combined with weak revenues, foster pressure for more taxes, reduced services or a deadly combination of both.”

Kotkin continues that the hallmark of the U.S. has been its steadfast belief in a better future but that belief is being tested today. What is shaking our hope for the future – the lack of jobs. Even in Silicon Valley, the beacon to the world for start-ups and innovation, there has been a decimation of jobs. Kotkin says, “Of the nation’s 51 largest metropolitan regions, San Jose, the Valley’s heartland, has suffered the largest net loss of jobs over the past decade of any major metropolitan region outside of Detroit.”

How do we create new jobs, jumpstart the economy and prevent long-term stagnation?

Here are some ways that might work: Focus on entrepreneurs: Business creation is job creation. Kotkin says that educated workers, immigrants and downshifting boomers are the “canaries in the coal mine, where they go is generally where the air is good for entrepreneurship.” Recent Census data shows that educated workers are opting for “places like Nashville, Houston, Dallas, Austin and Kansas City” not the coasts as many people wrongly believe. Because people move “primarily for reasons related to jobs, family and housing,” the same patterns are holding true for minority and immigrants entrepreneurship. Kotkin says, “Overall, according to the Kauffman Foundation, foreign born immigrants in 2010 constituted nearly 30% of all new business owners,” more than double the rate in 1996.

And Boomers, says Kotkin, “are unique compared to traditional senior populations. According to the Kauffman Foundation, they tend to be more likely to start businesses than are younger age groups. In 1996, people aged 55 – 64 accounted for 14% of entrepreneurs; in 2010, they represented 23%.”

Investing in education is a job magnet: Areas with the healthiest employment markets in the country are those that have invested in education. Kotkin says, “Some of these states have suffered less fiscal distress than other states, and have benefitted from their education investment through hard times. Investments in community colleges may prove to be particularly essential, since their role in providing skilled workers has been critical in many states.” We need to Form business partnerships with community colleges to train more workers for today’s open jobs. Education, pre-K thru 16, including career technical education and STEM education, is the lifeblood of long-term economic development and the key to sustained growth.

Create a favorable business climate: States with multiple layers of redundant regulations, uncertain and expensive approval processes, outdated tax structures, aging infrastructure, and a legal system that allows

excessive litigation do not create a favorable business climate. The proposed first California Jobs and Economic Competitiveness Plan is a good step in the right direction. Also, Sen. Ted Lieu, chair of the Senate Labor and Industrial Relations Committee, has introduced Senate Bill 892 that calls for a cabinet-level agency for economic coordination, competitiveness and job growth because he and many businesses have identified that it is a crucial component missing from California's economic recovery.

Specifically, the agency's primary goals under SB 892 would be to:

- Develop a statewide strategy that identifies the goals and objectives for job creation and competitiveness for California's top economic sectors, including a focus on California's competitive advantages over other states and countries.
- Recommend to the governor and the Legislature new state policies, programs and actions, or changes needed to existing programs to advance the goals and objectives of the statewide strategy.
- In cooperation with the federal government, foster relationships with foreign entities to improve the state's image as a destination for business investment and expansion.
- Create a clearinghouse of accurate data on the state's economic development activities and their effectiveness
- We also need regulatory reform to streamline permitting processes to speed more construction projects without sacrificing environmental quality.

Invest in the emerging technologies that will create high quality manufacturing jobs and enhance our global competitiveness: Support launched the Advanced Manufacturing Partnership, a national effort bringing together industry, universities, and the federal government to invest in the emerging technologies that will create high quality manufacturing jobs and enhance our global competitiveness. California manufacturing has fallen from 28 percent of our GDP to nearly 11 percent. But it's not all bad news. According to the National Association of Manufacturers, "since 2003, California manufacturing exports rose 60 percent faster than the state's overall economy." Manufacturing is the key to exports and exports are critical to California and the country.

Help existing small employers: Scott Shane, "To Create Jobs, Help Existing Small Employers," (Bloomberg Businessweek, Oct. 29, 2010) says that "Older businesses are a much larger source of employment than younger ones. A paper by John Haltiwanger of the University of Maryland and Ron Jarmin and Javier Miranda of the U.S. Census Bureau explains that only '3 percent of employment is accounted for by firm births and about 15 percent of employment is accounted for by firms less than 6 years old. However, more than half of employment is accounted for by firms more than 16 years old." Moreover, mature small businesses have greater odds of becoming major job creators than young ones. A study by Zoltan Acs of George Mason University and several colleagues found that the average "high impact" firm—a business with high sales and employment growth—was actually 25 years old at the time it had its surge in employment."

"Established small businesses are more likely than new ones to create jobs that last. Another study by Acs and Catherine Armington of the Census Bureau showed that the odds that a job created by a new firm in the service sector would be around four years later was 13 percent lower than the odds for all businesses. In the manufacturing sector, the odds were 20 percent lower. Finally, positions in established businesses tend to be better than jobs in new companies. Research shows that new company jobs pay less, offer fewer benefits, and are more likely to be part-time than jobs in established companies."

Help Small Business get more loans with help from the Small Business Administration and other lenders.

Incentivize Energy Efficiency: Help construction workers pick up their tools again with a campaign to upgrade commercial and government buildings for energy efficiency.

Ways to Reinvent America

In “3 Ways to Reinvent America” by Randall Lane, (The Daily Beast, January 25, 2011) there is a great interview with **Paul Saffo**, managing director of Foresight at Discern Analytics. Saffo describes his view of where we are and where we are going. “There’s a transformation already under way, so this isn’t even a forecast, it’s a description. Nov. 17, 2008, was not just a very bad day and a very bad week, it was also the moment in which the last economy died and a new economy is emerging. That new economy—yeah, we all talked about it through the ’90s, with the Internet, a happy face notion of what would happen—turned out to be a lot more complicated but also a lot more interesting.”

“It’s a moment full of contradictions, but if you want to make sense of it, it’s easy to do. One of the rules of thumb I follow as a forecaster is always look back twice as far as you’re looking forward. So if I’m going to look back 50 years or look ahead 50 years, I want to look back 100 and sure enough, 100 years ago in this country we had an emergent economy, an industrial economy, a producer economy. The conversation back then was how do we produce enough stuff, cheaply enough, to satisfy the emergent demands of a middle class, the demands of the workers who worked in the factories who now wanted to have things. The VPs of manufacturing were in control. And they promised abundance in that economy but in fact were constantly overcoming scarcity.”

“After World War II, our manufacturers shifted from war materiel to making stuff for ordinary people and consumers again. Everybody expected a Depression, because that’s what happens after all the wars—to their horror, they’d gotten so good at making stuff that they were now capable of making more stuff than people wanted to buy.”

“A new economy emerged—and it was the consumer economy. The center of power now moved away from the workers, the person who produced, to the consumer, the person who purchased. The symbol was no longer the time clock, that vehicle for production and efficiency, it was the charge card, what we now call the credit card, the vehicle that allowed people to buy things even if they didn’t have the money yet. Before charge cards, if you wanted to buy a refrigerator you went to a bank for a loan. After charge cards you got the loan from the charge card company and got your refrigerator. Power also shifted away from the VP of manufacturing to the VPs of sales and marketing, and the great economic challenge in the producer economy was how do we make enough stuff cheaply enough to satisfy desires.”

“Well, we had a nice 50-year run—it reached its logical extreme in this last decade. Think of it—there’s a whole new industry renting storage lockers as places to put the stuff you can’t afford, don’t need, purchased, and never used.”

“We’re now into the new economy and the new central actor is not the worker, the person who produces, nor the person who consumes, but a new economic actor who does *both things at the same time*. Now there are words like prosumer and everything else out there—my preferred term for it is ‘a creator economy.’”

“I don’t mean a creative economy—those creatives are elites. Creators are ordinary people like us—in the ordinary course of our day, we may think we are engaging in the act of consumption, but in fact we are producing something, or we may think we are producing something and it’s the opposite. A perfect example: Google. What does your Google subscription cost? Zero. Well, if you’re not paying anything for Google, how come the two Google founders and Eric Schmidt are all richer than God? How does that work? Well, in fact, you pay for Google. You just don’t realize you pay for Google because you give them something you think is worthless, and that’s the search string that you put in. And that little search string, that little piece of digital haiku, when aggregated with all the other search strings, is the basis for their business model.

It’s an era of deep contradiction, just like in 1953, when people said, ‘Well, who’s going to pay for television?’ and the answer is don’t worry. Same thing now: For emerging Internet business models, this is 1950 of the new creator economy and we’re going to transform ourselves out of the current mess, in which pessimism is the new black, and be the firstest with the mostest.”

Great to have another view of how we will reinvent America and find our way to being the world leader in innovation.

It Gets Worse on Public Pension Liabilities

NBLC has called for the state and local governments to fix pensions first as they set about balancing budgets and looking for new revenue. Until serious pension reform occurs, government will bleed taxpayer dollars and drain the public coffers of money needed to provide essential services and programs that people, communities and organizations rely on to survive. It is time to address this monstrous elephant in the room. If government doesn't fix it, there are numerous ballot initiatives that are circulating at the county and state level to give the voters a chance to implement reforms.

Dan Walters, in "California's Huge Pension Debt will be Jarring," (Sacramento Bee, Jul. 18, 2011) tells how the changes in "the dynamics of pension accounting – and therefore its politics – are changing. The Connecticut-based Governmental Accounting Standards Board is decreeing that state and local governments and their pension funds must not only fully report unfunded liabilities on their balance sheets as debt but must also include what those liabilities would be using super-safe bond earnings. A Stanford University team has already analyzed California's three state pension systems on the latter basis and reported a half- trillion dollars in unfunded liabilities."

"The pension funds and their union allies have denounced the super-safe alternative, but the new accounting rules will give it official status. Get ready for a huge sticker shock, followed by political shock, as the vast size of this potential debt – far more than any bond debt – hits home. It may mean that California's state and local governments are upside down, just like many homeowners."

Daniel Borenstein, "New Pension Accounting Rules Could Pressure Officials to Act like Grown-Ups," (Contra Costa Times July 23, 2011) writes that "the new rules should raise awareness about the alarming growing debt and could put greater pressure on pension boards and elected officials to more honestly address the problem. Essentially, the new accounting standards should force public officials to pay more attention to the total balance on their credit card bill rather than making only the minimum payment. It remains to be seen whether our elected leaders, in turn, will act responsibly and try to pay down the debt now rather than leave it for our children."

"The current accounting rules allow pension systems to overstate their assets today and understate how much they should have, thereby minimizing the severity of their finances and the need for more contributions. At the same time, the current rules allow them to defer payment on the shortfalls for decades. As a result, future generations will be paying the cost of pension benefits for labor we have already consumed."

Although pension experts are still struggling to decipher the proposed accounting changes, the new rules seem better than the status quo. For example, according to the accounting board staff, they would end the California Public Employees' Retirement System practice of easing in investment losses over 15 years and other retirement systems' use of a three- to five-year period. Instead, pension plans would use current market numbers when reporting how well funded they are. Currently, CalPERS, the nation's largest pension system, states assets that do not yet recognize most of the losses from the Great Recession -- and won't fully account for them for more than a decade. As a result, its balance sheets are rosier than reality and public agencies and employees are not being asked to contribute enough."

"Public officials have repeatedly demonstrated that they will choose short-term expediency over long-term fiscal responsibility. In the past, the accounting board provided guidance that helped counter political irresponsibility. Now, they are bowing out, leaving no grown-ups in the room to set the boundaries. The question is whether clearer exposure of the debt will force our elected leaders to rise to the occasion."

Exports Help Boost U.S. Economy – San Francisco Hosting APEC Pre-Summit Conference

Ministers and officials from the 21-nation **Asia-Pacific Economic Cooperation** organization are scheduled to hold two weeks of meetings here in September 2011, in the run-up to November's APEC summit, featuring **President Obama**. In addition to trade, the September meetings - with an estimated 1,000-2,500 U.S. and Asian officials in attendance - will focus on health care, the environment, energy, IT, transportation and women's issues. A special Women and the Economy conference will be hosted by Secretary of State Hilary Clinton.

While it is widely known that Asian markets have the potential to boost U.S. companies' bottom lines as a result of rapidly expanding appetites for American exports, most business leaders can benefit from learning how to better navigate the challenges of working in these potentially lucrative markets, says Richard Drobnick, Director of The Center for International Business Education and Research (CIBER) at USC's Marshall School of Business.

According to the International Monetary Fund's "Developing Asia" forecast, Asian economies are expected to grow at 8.4 percent. "The Asian markets are booming, and they are becoming increasingly open to American exports," maintains Drobnick.

Areas around San Francisco will be holding supporting events for the conference. Stay tuned for more details in the next issue of Policy Watch.

Members in the News

Midstate Construction's Foss Creek Court was awarded a 2011 Gold Nugget Award of Merit in the Affordable Project under 30 du/acre by the Pacific Coast Builders Conference and has been selected for a second prestigious industry award, the Gold Nugget Award of Merit. Located in Healdsburg, Foss Creek Court was previously recognized by the Affordable Housing Tax Credit Coalition as the Best Rural Tax Credit Project in the country.

The Buck Institute for Research on Aging will collaborate with Proteome Sciences, a medical diagnostic research and development firm, to develop a test to predict if women with breast cancer will respond to commonly used anti-estrogen therapies, such as tamoxifen. Marin County has one highest incidence rates of the estrogen receptor positive form of breast cancer risk in the world.

Agilent Technologies' Santa Rosa facility was recognized for "accomplishments in sustainable business practices" at a Solar Leaders Circle event on June 28. Agilent was among 10 Bay Area organizations to receive "Helios Awards" -- specially labeled bottles of Benziger Reserve wine -- acknowledging top solar installations. Besides its three-acre solar power system in Santa Rosa, other Agilent sustainability programs -- including energy and water conservation as well as recycling and solid waste reduction -- were cited at the awards ceremony, which is sponsored by Solar Sonoma County and Pacific Gas and Electric Company.

The College of Marin also received special recognition for its energy saving practices at the "Solar Leaders Circle Awards Dinner." COM was praised for installing a 213-kilowatt solar electric system parking structure, and for reducing its energy use and carbon footprint by 565,000 kilowatt-hours in 2010. That reduction earned the college \$206,453 in rebates from PG&E. The college hopes to reduce its energy use by another 184,000 kilowatt-hours in 2011. The school's new Diamond Physical Education Center now generates about 50 percent of its own electricity through a solar array and uses solar thermal power to heat its water.

Santa Rosa Memorial Hospital will resume the \$15 million renovation of its emergency department in early 2012, a project that was postponed during the collapse of financial markets in 2008. The expansion will add nearly 50 percent more square footage to Sonoma County's level II trauma center and its busiest emergency room. Pending the necessary approvals, the hospital anticipates the expanded facility to be ready for occupancy by early 2014. It

will include 26 private patient rooms, which hospital officials said will enable them to treat more critically ill and injured patients while more quickly triaging and caring for patients with less severe conditions.

Fireman's Fund Insurance Co. of Novato has named Lori Dickerson Fouché as its new President and CEO to replace Michael LaRocco. Fouché first joined the company in February 2006 and served most recently as its president of commercial insurance. She served previously as chief operating officer for its specialty business. Prior to Fireman's Fund she held several positions at Chubb & Son Inc. and was a management consultant at The Parthenon Group. She holds an MBA from Harvard University and a bachelor's degree in history from Princeton University.



Who We Are

Twenty years ago, business leaders founded the North Bay Leadership Council on a simple premise: We can accomplish more by working together. Today, the Council includes over 40 leading employers in the North Bay. Our members represent a wide variety of businesses, non-profits and educational institutions, with a workforce in excess of 20,000. As business and civic leaders, our goal is to promote sound public policy, innovation and sustainability to make our region a better place to live and work. For more information: Call **707.283.0028** / E-mail info@northbayleadership.org