

POLICY WATCH – March 2016

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Spring brings lots of activity but also lots of angst. As we live through these tumultuous times, there are many challenges to navigate. Entering the Fourth Industrial Revolution has turned much of what we know and expect on its head. In this issue, we explore some of the impacts of the transformation to a more automated economy and how jobs and skills must change to accommodate the new work ways. Please join us at our Economic Insight Conference on June 9th to learn more!

We also look at the growing fiscal threat from unfunded public pension and retiree medical liabilities now being revealed. Paying down these huge liabilities is a crushing burden to government and ultimately, taxpayers. As state and local budgets are coming up for approval, pay attention to how much in the red these budgets are. We can't afford to wait any longer to address these budget-busting liabilities – tell your elected officials it is urgent to fix the pension and retiree medical liability problem now.

Best,

A handwritten signature in purple ink that reads "Cynthia Manary".

Cynthia

Is There a Robot in Your Future? Find Out at the Economic Insight Conference on June 9th

Yes, there is a robot in your future. And possibly, there are robots in your life right now. The robots are likely to be taking over all kind of functions as technology improves and cost/benefit ratios look better. The adoption of robots will change the way we work, do business and have major impacts on the workforce, education and productivity. North Bay Leadership Council wants to know more about these changes and is holding an Economic Insight Conference on June 9th on “Automation Will Effect Every Job: How to Prepare Your Organization and Workforce.”

The keynote speaker at the Economic Insight Conference is Michael Chui, one of the authors of the [Four fundamentals of workplace automation](#) (by Michael Chui, James Manyika, and Mehdi Miremadi, McKinsey Quarterly, November, 2015). In this report, the authors explore how “as the automation of physical and knowledge work advances, many jobs will be redefined rather than eliminated—at least in the short term.” The authors studied these questions: “What will be the impact of automation efforts like these, multiplied many times across different sectors of the economy? Can



we look forward to vast improvements in productivity, freedom from boring work, and improved quality of life? Should we fear threats to jobs, disruptions to organizations, and strains on the social fabric?"

Please plan to attend the conference to get the answers to these questions. The conference will also feature a panel of executive leaders who will talk about automation trends in their North Bay organizations.

Sponsorships are still available. The conference will be held at the Sheraton Hotel, Petaluma from 7:00 a.m. – 9:00 a.m. on June 9, 2016. Tickets are \$75/each or \$600/table of eight. To purchase tickets, please go to <http://northbayleadership.org/events/detail/EIC-NBLC-2016-Automation>. For more information, email info@northbayleadership.org.

Low Skills, Low Productivity?

Anna Louie Sussman writes in [How a Less-Skilled American Workforce May Be Holding Back Growth](#) (Wall Street Journal, February 29, 2016), "Theories abound as to why U.S. productivity growth has stalled. Economists attribute it to everything from a slowdown in business investment to inadequate measurement techniques that fail to capture efficiency gains from new technologies."

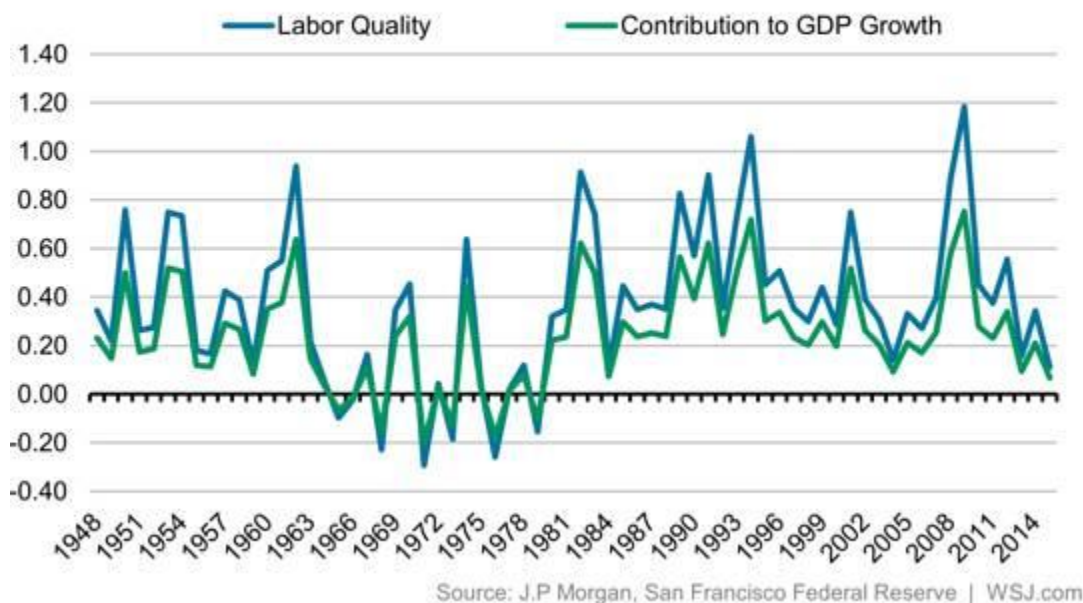
But new data from J.P. Morgan Chase "offers another theory: It's at least partly because the American workforce as a whole is simply less skilled than it used to be. That matters because productivity growth drives wage growth, which by some estimates has stagnated for most of America's workers."

Says Sussman, "Growth in 'labor quality,' a measure of the skill set of the average worker, has declined in the last few years. In 2015, the growth in overall workforce skills contributed less than 0.1 percentage points to GDP growth, the smallest contribution of labor quality to growth since 1979. Michael Feroli, the author of the Morgan report, estimates that contribution will remain below 0.1 percentage points for the next few years. Compare that with previous decades: In the postwar era through 1980, growth in labor quality contributed 0.25 percentage points to GDP growth each year. From 1980 to 2005, that contribution rose to around one-third of a percentage point. Feroli said, 'That may not sound like a big deal, but with trend growth as low as it is, every basis point counts.'"

As the Morgan report notes, "Some of the decline is cyclical. In recessions, labor quality tends to rise, as the job market sheds the least-productive and least-educated workers first. As the economy expands, those laid off return to work, sometime with more education, but often with skill sets that have deteriorated in the interim. Longer-run trends are more worrying. Well-educated baby boomers are retiring, and many laid-off older Americans who want to work have struggled to find jobs following the recession, bringing the overall experience level of the workforce down. College enrollment is on the decline after peaking in 2011, as the economic expansion creates job opportunities for less-skilled workers."

Skills Drop

The declining quality of America's workforce may be crimping economic growth.



The chart shows the precipitous skill drop. Employers have been complaining for years that the education of the students was not up to par with the requirements of the jobs they need to fill. Studies have shown that there is a major disconnect between employers' needs and the educators training the future workforce. The Morgan report shows the decline in the quality of the workforce's skills is more than just a skills mismatch. And this decline is causing harm to the nation's productivity. Feroli said there was one obvious policy solution: more skills and more education. But, he said, "The question is, how do you do that in a way that's actually effective?"

Putting a point on that question, a new study shows that while the Millennials are the most educated generation in U.S. history, they are also some of the world's least skilled people. In [Andy Campbell's American Millennials Are Some of the World's Least Skilled People, Study Finds](#) (Fortune, March 12, 2015), he reports that "Generation Y Americans (those born after 1980) lag behind their overseas peers in literacy, numeracy and problem-solving in technology-rich environments." Researchers were dismayed at these results given the high level of education of this generation. Says Campbell, "The study concludes that a more expensive and expansive education 'may not hold all the answer.'"

Finding the answer to how to provide students and workforce with needed skills in an effective way is increasingly imperative. With the ever-quickening adoption of more automation, we face even greater disconnects between the skills of the current workforce, educational gaps and the demands of the workplace. As more workers are displaced, there is an increasing need to prepare for this disruption and take steps to reskill or upskill the workforce to meet the demands of employers for different and higher skills. We also need to be concerned about the stagnant wages of workers, who if not retrained, could go from low wages to no wages. And lastly, as demonstrated by the presidential primaries, there is great danger in people feeling left behind and losing the American Dream. We can and must do more to keep the economy strong while strengthening the most important part of the workforce, our human capital.

The Pensions that Ate California Alive



A new study reported in [Preliminary Report Pegs Pension and Retiree Health Care Problem at \\$1.2 Trillion](#) (by David Kersten, Fox and Hounds, March 16, 2016), reveals that the Stanford Institute for Economic Policy Research (SIFER) “estimated that California’s pension and retiree health care unfunded liabilities exceeded \$1.2 trillion in 2013—significantly higher than all previous reports, according to preliminary figures obtained from SIFEF by Insolvent Film.”

This staggering amount has risen since 2013 but due to a recent change in the government accounting rules, it now has to be shown on the books of governmental agencies. Even with that rule change, governmental agencies are using unrealistic rates of return and underreporting their true unfunded liabilities, according to Joe Nation, Stanford professor and former State Assemblyman. Nation warns, “the official numbers reported by public agencies regarding their liabilities are extremely low because they use an unrealistic investment rate of return. To illustrate, the California Public Employees’ Retirement System (CalPERS) is currently \$100 billion underwater but that assumes an investment rate of return of 7.5%. Nation says there is not an economist in the country that believes this is a realistic rate of return, and that a more realistic rate would be closer to 5%.” Using this number, the unfunded liabilities would triple in size!

What makes this information more worrisome is that the taxpayers are on the hook for the entire debt, which is growing every day. Nation estimates it “would take an estimated 10 years of California General Fund spending to retire, assuming all tax dollars were dedicated to debt repayment.” That isn’t going to happen, but you can bet that the state and local governments will keep coming back to the taxpayers with their hands out asking for more money to keep paying these budget-breaking pensions and OPEB. And if the taxpayers don’t pony up, expect more cuts in programs and services to keep feeding the alligator of these massive unfunded liabilities.

Members in the News

Redwood Credit Union Recognized with Trailblazer Award

CU Times' 11th Annual Trailbalzer Awards honors Redwood Credit Union and others.

North Bay Business Journal names Forty Under 40

NBLC Congratulates our members that were honored.

KRCB's Nancy Dobbs Recognized as 25 women who shaped the North Coast

During Women’s History Month, we honor the strong women who have shaped our country. But the movement to celebrate our female leaders first began here in Santa Rosa, with Sonoma County’s first Women’s History Week 38 years ago.

Sunny Hills Services Hires Stephanie Casenza as the Director of Development & Communications

Stephanie Casenza, a leader with 13 years of success in development and 20 years in public relations, communications and nonprofit marketing, has joined Sunny Hills Services as Director of Development and Communications.

Kaiser Permanente Celebrates the Marin County Fair Taking Top Honors for 'Playing Fair'

Congratulations to Marin County Fair for receiving top honors from the Western Fair Association (WFA) for "playing fair" and healthy in 2015.

Redwood Credit Union Launches Android Pay and Samsung Pay

RCU expands mobile wallet options for added convenience

Redwood Credit Union Announces Outstanding Results for 2015

Redwood Credit Union (RCU), one of the largest local financial institutions in the North Bay with nearly \$3 billion in assets, announced today exceptional year-end 2015 results, including strong financial performance and growth, enhanced service offerings and technology, excellent service and employee ratings, and increased community and environmental contributions.

Redwood Credit Union and Others Donate to Aid Lake County Fire Survivors

Donation to aid rebuilding of homes and provide local childcare services in Lake County

PG&E Achieves Major Renewable Energy Milestone and Remains a National Leader in Greenhouse Gas Reduction

Pacific Gas and Electric Company (PG&E), one of the cleanest utilities in the nation, today announced that the renewable energy it delivers to its customers has reached nearly 30 percent.

Read more online at www.northbayleadership.org/news



Who We Are

Over 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 47 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 25,000. 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

www.northbayleadership.org