

# POLICY WATCH – September 2011

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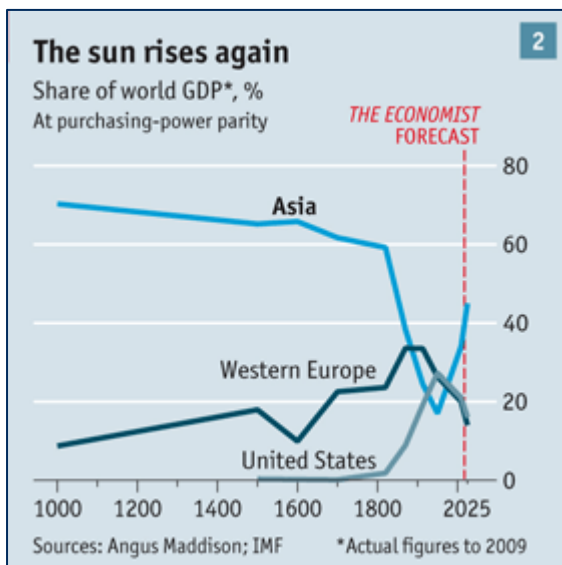
## The Great Transition

Welcome to the Great Transition! Stop thinking of recovery and double dips, what's happening now is far bigger than a business cycle and taking us into uncharted waters. Here are three ways our economy is transitioning and what that means for jobs, growth and America as the world leader.

### Shift of Economic Center of Power from West to East

According to Eisuke Sakakibara, former Vice-finance Minister for International Affairs of Japan, speaking at the Business Times Singapore Investment Roundtable on *What if there is a double dip?* posted by William R. Thomson on September 12, 2011, “The centre of gravity of the world economy is shifting from West to East and we have to cope with it. Such a transition is certain to be very difficult. I would say that the 1930s Depression marked the failure of the transition from the UK to the US and the transition this time is much larger than that of the 1930s. (There could be) some kind of simultaneous, worldwide recession, or even a Depression, sooner or later. Look at what is happening to the US economy and the European economy. China and India are not big enough yet to substitute for these.”

The Economist’s “East or famine,” (February 10, 2010) backs up Sakakibara’s view, “If GDP is instead measured at purchasing-power parity (PPP) to take account of these lower prices, Asia’s share of the world economy has risen more steadily, from 18% in 1980 to 27% in 1995 and 34% in 2009. By this gauge, Asia’s economy will probably exceed the combined sum of America’s and Europe’s within four years. In PPP terms, three of the world’s four biggest economies (China, Japan and India) are already in Asia, and Asia has accounted for half of the world’s GDP growth over the past decade.”



The article points out that “Winston Churchill once said: ‘The longer you can look back, the farther you can look forward.’ The new economic order is in fact a resurgence of a very old one. Asia accounted for over half of world output for 18 of the past 20 centuries. And its importance will only increase in the coming years. Rich countries’ growth rates are likely to be squeezed over the next decade as huge household debts dampen spending, and soaring government debt and higher taxes blunt incentives to work and invest. In contrast, growth in emerging Asia (almost four-fifths of the region’s total output) is likely to remain strong. Robust growth should also give governments in emerging Asian economies the confidence to let their currencies rise, which would further boost the relative size of their economies in dollar terms.”

And the Economist predicts that “By 2020 Asia could well produce half of some big Western multinationals’ sales and profits, up from a typical proportion of 20-25% today. Asian staff eagerly await the day when they can fix the times for international conference calls, so Europeans and Americans have to put up with

after-midnight discussions with the Beijing office. That may be the best test of whether economic power has really shifted east.”

### **Consumer Economy is Gone and Not Coming Back**

In “*We’re Spent*,” David Leonhardt, (New York Times Sunday Review, July 16, 2011) declares the death of the consumer economy. “The notion that the United States needs to begin moving away from its consumer economy — toward more of an investment and production economy, with rising exports, expanding factories and more good-paying service jobs — has become so commonplace that it’s practically a cliché. It’s also true. And the consumer bust shows why. The old consumer economy is gone, and it’s not coming back.”

Leonhardt says, “Sure, house and car sales will eventually surpass their old highs, as the economy slowly recovers and the population continues expanding. But consumer spending will not soon return to the growth rates of the 1980s and ’90s. They depended on income people didn’t have. The choice, then, is between starting to make the transition to a different economy and enduring years of stop-and-start economic malaise.”

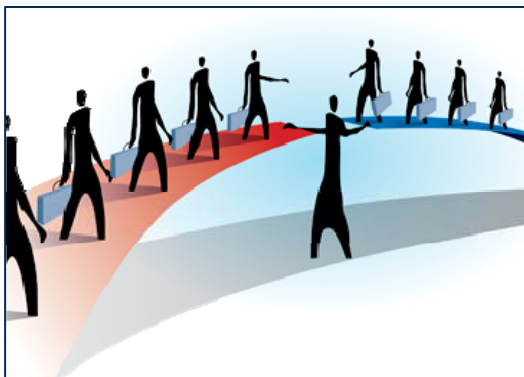
Cautioning that now is not the time for the government to stop spending, too, Leonhardt says, “The prospect of that cycle is one reason an impasse on the debt ceiling, and a government default, could do so much damage. But the debt-ceiling debate doesn’t have to be yet another problem for the economy. The right kind of agreement could help soften the consumer bust and also speed the transition to a different kind of economy.”

According to Leonhardt, “The biggest flaw with the past stimulus was that it imagined that the old consumer economy might return. Households received large tax rebates, usually with little incentive to spend the money (the cash-for-clunkers program being the exception that proves the rule). People did spend some of these across-the-board rebates, and kept economic growth and unemployment from being even worse, but also saved a sizable portion.”

Leonhardt wants tax cuts to businesses, “but only to those expanding their payrolls and, in the process, helping to solve the jobs crisis. Along similar lines, a budget deal could increase funding for medical research and clean energy by even more than President Obama has suggested. These are the kinds of investments that have brought huge returns in the past — think of the Internet, a Defense Department creation — and whose price tags are tiny compared to, say, Medicare or the Bush tax cuts.” Sadly, he doubts that the political climate will allow this to happen but observes that a protracted process in Congress will mesh with a consumer bust that will last for a very long time.

### **Freelance Workforce is the Industrial Revolution of Our Time**

Sara Horowitz writes in “*Freelance Workforce is the Industrial Revolution of Our Time*,” (The Atlantic Monthly, September, 2011) that the U.S. workforce is experiencing a dramatic transition. She says, “It’s been called the Gig Economy, Freelance Nation, the Rise of the Creative Class, and the e-economy, with the “e” standing for electronic, entrepreneurial, or perhaps eclectic. Everywhere we look, we can see the U.S. workforce undergoing a massive change. No longer do we work at the same company for 25 years,



waiting for the gold watch, expecting the benefits and security that come with full-time employment. Today, careers consist of piecing together various types of work, juggling multiple clients, learning to be marketing and accounting experts, and creating offices in bedrooms/coffee shops/coworking spaces. Independent workers abound. We call them freelancers, contractors, sole proprietors, consultants, temps, and the self-employed.”

Horowitz says, “This transition is nothing less than a revolution. We haven’t seen a shift in the workforce this significant in almost 100 years when we transitioned from

an agricultural to an industrial economy. Now, employees are leaving the traditional workplace and opting to piece together a professional life on their own. As of 2005, one-third of our workforce participated in this "freelance economy." Data show that number has only increased over the past six years. Entrepreneurial activity in 2009 was at its highest level in 14 years, online freelance job postings skyrocketed in 2010, and companies are increasingly outsourcing work. While the economy has unwillingly pushed some people into independent work, many have chosen it because of greater flexibility that lets them skip the dreary office environment and focus on more personally fulfilling projects."

Identifying three major trends that will have an enormous impact on our economy and our society, Horowitz says:

1. We don't actually know the true composition of the new workforce. After 2005, the government stopped counting independent workers in a meaningful and accurate way. Studies have shown that the independent workforce has grown and changed significantly since then but Washington can't fix what it can't count. Since policies and budget decisions are based on data, freelancers are not being taken into account as a viable, critical component of the U.S. workforce.
2. Jobs no longer provide the protections and security that workers used to expect. The basics such as health insurance, protection from unpaid wages, a retirement plan, and unemployment insurance are out of reach for one-third of working Americans. Our current support system is based on a traditional employment model, where one worker must be tethered to one employer to receive those benefits. Given that fewer and fewer of us are working this way, it's time to build a new support system that allows for the flexible and mobile way that people are working.
3. This new, changing workforce needs to build economic security in profoundly new ways. When it was passed in the 1930s, the New Deal provided workers with important protections and benefits but those securities were built for a traditional employer-employee relationship. The New Deal has not evolved to include independent workers: no unemployment during lean times; no protections from age, race, and gender discrimination; no enforcement from the Department of Labor when employers don't pay; and the list goes on.

Horowitz concludes, "The solution will rest with our ability to form networks for exchange and to create political power. I call this "new mutualism." I believe that new mutualism will be at the core of the new social support system that we need to build for the new workforce."

### Why there is no "V" Rebound



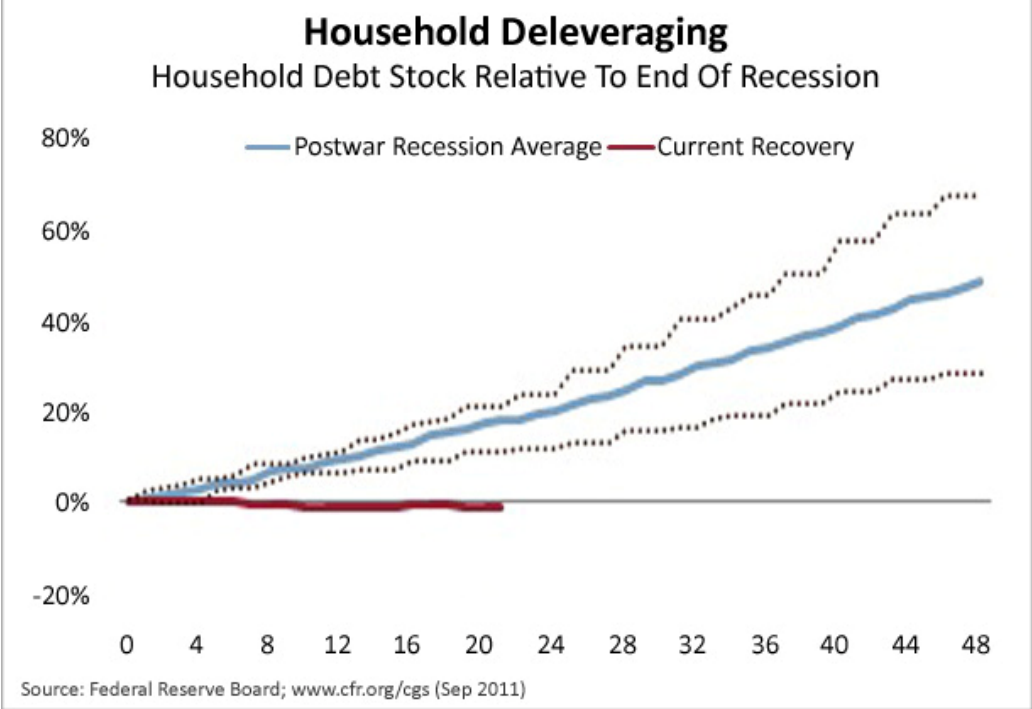
Mark Wynne in "*The Sluggish Recovery from the Great Recession: Why There Is No 'V' Rebound This Time*," (Economic Letter—Insights from the Federal Reserve Bank of Dallas, Vol. 6, No. 9, September 2011, Federal Reserve Bank of Dallas), relates that "Conventional wisdom holds that severe recessions are usually followed by strong recoveries. This belief goes by many names. Milton Friedman termed it the "plucking theory" of business fluctuations, likening recessions to down plucks on a guitar string. The essential insight is that the harder you pluck down, the faster the string snaps back to its original position. Yet many have argued—and the facts seem to support—that we are not seeing the robust recovery from the most recent downturn that we might have expected given the recession's severity. That is, the plucking

theory, or bounce-back effect, seems absent. What is different this time that might cause a more protracted recovery?"

Wynne argues that this time is different because the 2008–09 recession was precipitated by a banking crisis. He says, "A number of researchers have shown that downturns associated with banking crises tend to be more severe, and in their aftermath, output takes a lot longer to recover...It is striking how closely the path of U.S. real GDP trend tracks the average path of output in countries that have experienced banking crises. In that sense, the pace of the

recovery is more or less in line with what we might have expected based on the historical experience of other countries that have undergone similar banking calamities. Rather than seeing the V-shaped recovery that might have been expected given the severity of the downturn, the nation is undergoing a more protracted process. However, when viewed in a broader international context, the pace of the recovery seems to be very much in line with what other countries have experienced.”

**A Picture is Worth 1,000 Words**



“Ben Bernanke is growing skeptical of monetary policy, which is totally logical given that he seems to be grasping the unique, deleveraging nature of the recession.’ In a nutshell: When households are shedding debt, making debt cheaper does basically nothing. But what is deleveraging, and what does it really mean? This chart from CFR sums it up pretty nicely. For the first time ever, total household debt has shrunk, even as the economy has notionally "recovered." Even if it were just flat, that would make this recession wildly abnormal, and as you can see it's actually going down.”

**NBLC Endorsements for November 2011 Election**

North Bay Leadership Council, after careful review, and assessment of the candidates’ positions on creating jobs, fiduciary responsibility of public funds, balanced leadership and civic engagement, endorses the candidates listed below.

**San Rafael Mayor:** Gary Phillips

**San Rafael City Council:** Andrew McCullough

**Novato City Council:** Madeline Kellner, Jeanne MacLeamy and Eric Lucan

Please vote in the upcoming election. NBLC urges your support of these deserving candidates who are best suited to serve their communities in these tough times.



# Leaders of the North Bay Awards Luncheon – Oct 28<sup>th</sup>

## Tickets Are Going Fast ... Get Yours Today!

### 2011 Leaders of the North Bay Awards Luncheon

October 28, 2011  
11:30 a.m. — 1:30 p.m.  
Doubletree Hotel, Rohnert Park

#### Keynote Speaker: Father Gregory Boyle

*Nothing Stops a Bullet Like a Job: Learning about Hope,  
Love and Respect from the Homeboys and Homegirls*

For over two decades, Father Boyle has led Homeboy Industries, the largest gang intervention program in the country. Known as one of the nation's foremost leaders in gang prevention and intervention, Father Boyle wrote the best-seller, "Tattoos on the Heart," and is a winner of the California Peace Prize.



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#### Honorees of the 2011 Leaders of the North Bay Awards

*Our Salute to Individuals and Organizations from the Region that have been Positive Catalysts for Change*

#### Caught in the Act of Leadership: Individual Excellence in Leadership

**Linda Conklin**  
*Kid Street Learning Center*

#### We're All in this Together: Community Building

**Neighborhood Care Staff,**  
*St. Joseph's Health System  
Sonoma County*

#### Paint the Community Green: Environmental Stewardship

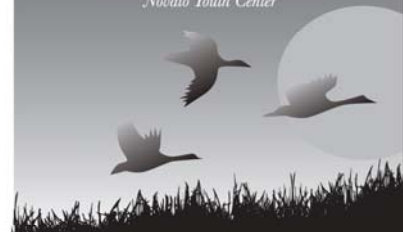
**William C. (Bill) Long,**  
*Open Space, Trails and Wastewater Recycling  
Environmental Leader*

#### The "Light Bulb" Went On: Innovative/Entrepreneurial Spirit

**BioMarin Pharmaceutical**

#### Empowering the Latino Community:

Leadership within the Latino Community  
**Berta Campos-Anicetti**  
*Novato Youth Center*



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## Members in the News

**Sutter Health** has named seasoned health care executive Michael J. Cohill as successor to Martin Brotman, M.D. in the role of Region President for the Sutter Health West Bay Region. Cohill will assume responsibilities in his new role effective January 1, 2012. Cohill will lead the region that spans from San Francisco to Lake County and includes four medical centers/ hospitals (CPMC; Novato Community Hospital, Sutter Medical Center of Santa Rosa, and Sutter Lakeside Hospital) as well as Sutter Pacific Medical Foundation and a variety of outpatient care centers. Major new hospital construction projects are either underway (Santa Rosa) or in the planning and entitlement phases (San Francisco). The region has over 8,000 employees and 1,700 affiliated physicians and allied health care professionals.

**St. Joseph Health System's** Petaluma Valley Hospital, an 80-bed community based district hospital, was named one of the United States' top performers on key clinical quality measures by The Joint Commission, the nation's leading accreditor of health care organizations, in conjunction with the commission's release of its annual report on *Improving America's Hospitals*. The Joint Commission recognized Petaluma Valley Hospital, the only hospital in the North Bay to earn inclusion among 405 top-performing hospitals nationwide, based on its evidence-based clinical processes that are shown to improve care for patient conditions including heart attack, pneumonia and surgical care.

**Codding Enterprises'** Sonoma Mountain Village will dedicate its newest solar installation on September 30<sup>th</sup>. The massive arrays, provided by Stellar Energy, are comprised of 4,928 solar panel modules, generating 1.158 Megawatts that when combined with the existing on-site solar, will power 100% of the business campus. The campus includes five large buildings that are being renovated for reuse in this state-of-the-art green mixed-use community. In a solar industry "first," this system was financed in part by \$1.6M in financing from private capital made available by Clean Fund to the Sonoma County Energy Independence Program (SCEIP). The funds provided for a loan to Sonoma Mountain Village through SCEIP and their Property Assessed Clean Energy (PACE) program. PACE provides long-term financing for energy improvements through special tax assessments. This newest solar power system adds to an existing 1.14MW array allowing the entire business campus to provide enough power for 2,000 homes. Sonoma Mountain Village now boasts over 181,000 square feet, or almost 4 acres, of rooftop solar panels.

**Sonoma State University** had more than 300 students provide the volunteer manpower to support the vital projects of local non-profits. Sonoma Serves, a program of Join Us Making Progress (JUMP), the hub for volunteerism and service at Sonoma State University, teamed up with United Way for *Sonoma Serves - Day of Caring!* The student volunteers will support local non-profits ranging from the Rohnert Park Animal Shelter, Petaluma Bounty, Russian River Watershed Clean Up, Redwood Empire Food Bank and National Public Lands Day.



### 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 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](mailto:info@northbayleadership.org)

[www.northbayleadership.org](http://www.northbayleadership.org)