

## Economics

The study of throwing cold water on  
what everyone believes

The two most common questions  
clients ask economists are:

- 1. How do I get other people to pay for the stuff I like?
- 2. How can I stop other people from making me pay for what they want?

Answering these questions makes  
economists unpopular and perhaps  
helps explain the following  
observation ...

There are patron saints for thousands  
of different jobs, places & things

### Patron Saints for .....

- **Potholers**– St. Benedict of Nursia
- **Prostitutes** – St. Margaret of Cortuna
- **Ophidiophobics**– St. Magnus of Fussen
- **Bartenders** – St. Amand of Maastricht
- **Accountants** – St. Matthew the Apostle
- **Italian Cooks** – St. Francis Carcciolo
- **Environmentalists** – St. KateriTekakwitha
- **Open Sores** – St. Peregrine Laziosi
- **Animal Attacks! (It's not even a noun)** – St. Leonard of Noblac

But there are no patron saints for ...

But there are no patron saints for ...

- Economists

But there are no patron saints for ...

- Economists
- or Planners!!!!

So what does that mean for us?

I don't know, but it can't be good.

- So let me start where most economic discussions today usually lead to ....

Borat



Borat was the Cultural Emissary for the Most Glorious Nation of Kazakstan



As you may recall, Kazakstan is an old Soviet Union state in central Asia



It has something in common with...

... California!



They both have the same bad credit rating

- A-
- Near junk

But Oregon is now facing the same problem California has had:

- We have been borrowing and increasing taxes to pay for rising defined pension benefits and healthcare costs while, at the same time, private sector job growth has not kept pace.

We are running out of money.

For the State of Oregon for example:

- Stimulus money and reserves are drying up.
- And we have to pay more for employee retirement & healthcare

So we will be way short!

General/Lottery Fund Resources and Expenditures (in millions)

	2009-11	2011-13	% Change
<b>Resources</b>			
General/Lottery	14,422	16,019	11%
Stimulus/Reserves	1,584	-	-100%
<b>Total Resources</b>	<b>16,006</b>	<b>16,019</b>	<b>0%</b>
<b>Expenditures</b>			
K-12 SSF	6,181	6,181	0%
OUS, CCWD, PreK	1,903	877	-54%
Human Services	4,450	4,895	10%
Public Safety	2,520	2,671	6%
All Other	964	964	0%
PERS Increase	-	431	na
<b>Total Expenditures</b>	<b>16,018</b>	<b>16,019</b>	<b>0%</b>

Source: ECRNorthwest calculations based on information from Oregon Governor's office, and illustrative spending assumptions

How about borrowing the money?

- Using debt to pay operating costs is financial suicide.
- The state cannot legally issue much more senior lottery revenue bonds for the big capital projects planners work on because of the smoking ban in bars.

How about raising taxes?

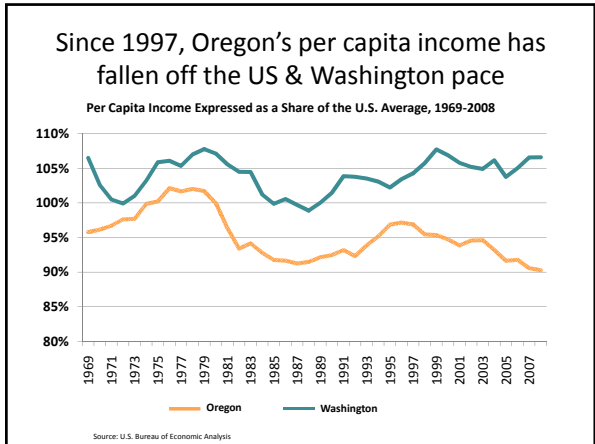
But from whom?

- How about getting rich people to pay for our stuff?
- How about raising the marginal tax rate on people making \$25,000 to \$65,000 to correct for the kink in the income tax scale?

What!!!

- The rich are moving faster than we can tax them. They don't want to pay for our stuff.
- The middle class votes and they are pretty angry. They want you to buy them more stuff.

But the exodus of income is clear



First splash of cold water

- State, counties, and cities are all going to have to cut spending on projects. Cut incentives. Cut grants. Eliminate tax credits.

But we in Portland have lots of young people.

- They'll create growth. A vibrant green economy. Won't they?

Well, not according to the Census

- The city is losing 20-34 year olds.

Age Group	Portland from 2000 to 2008	.. If we kept up with US average
Under 20	5,865	1,632
20 to 34	(13,518)	2,593
35 to 54	10,868	5,242
55 to 64	31,158	16,685
over 64	(3,204)	5,017

Can't we tax aging baby boomers?

- We are losing them too – affluent retirement age, high taxpaying residents.

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### Why are they leaving?

- There is \$42 billion locked up in Oregon 401-K and (non-Roth) IRAs.
- Money withdrawn from these is heavily taxed by the State of Oregon.
- People that saved a lot can move, buy a home in Washington or Nevada, leave Oregon, and pay for their new house entirely from their state tax savings.

### We are growing, so who's moving in?

- Our surveys show Oregon is very attractive to old people that failed to save enough for retirement and have low incomes.
- The living and tax environment here is ideal for them.
- Not a good balance: They are heavy users of government services, vote down school bond measures, and drive with their left blinkers left on.

### Incentives & Disincentives

- Economics all boils down to predicting human behavior, which is often guided by incentives and disincentives.
- Our tax system incents lower income elderly to move in and disincent well-off elderly to stay.
- But I hate those terms....

### I prefer "Carrots & sticks."

- Dates back to the times before the horseless carriage.
- This reminds me ....

Did you know in Portland you can park a saddled horse on the street and not have to pay for parking? No violation even if the horse eats the ticket!



Paraphrasing the old comedian Norm Crosby, "but I digest."

Let me get back to growth. What about the *creative class*?

- There are a lot of creative people here.
- But we are not that much better off than many other places.
- For example .....

### 2009 top 500 ad agencies according to Advertising Age

Portland is home to only three and they are pretty far down the list:

- #61 – Wieden& Kennedy
- #133 – R2C Group
- #461 – White Horse

### What about film & video production?

- Oregon has only 1% of the national employment in film & video.

### What about job growth in general ... How does Portland stack-up?

### Private sector job growth

- From 1998 to 2008, Multnomah ranked dead last against all counties (and non-counties) in Oregon and Washington.

Rank	County	State	Private Job Growth
1	Kang	WA	79,383
2	Frank	WA	59,594
3	Shastain	WA	52,876
4	Washington	WA	50,650
5	Spokane	WA	46,470
6	Chelan	OR	31,372
7	Chelan	OR	19,699
8	Clark	WA	17,622
9	Frank	WA	16,190
10	Clark	WA	14,699
11	Washcom	WA	13,880
12	Miller	OR	13,530
13	Walla	WA	12,872
14	Lincoln	OR	10,794
15	Linn	OR	9,437
-	-	-	-
-	-	-	-
16	Clatsop	WA	10,893
17	Multnomah	OR	13,974
Total			590,284

### Second splash of cold water

- You are deluding yourself if you think we have managed in a way that stimulated prosperity. The economic data show the opposite has happened, especially in Portland.

### But what about green energy jobs?

### Solar

- The solar cell plants that come here use old monocrystalline silicon technology.
- They moved here for the government incentives, empty semiconductor plants left from the previous decade's targeted incentive spending, and, ironically, cheap conventional electric power.
- Most consumers are paid to buy the product.
- Overcapacity will drive one or more of these plants to bankruptcy (remember ethanol?).
- Expect no job growth in Oregon in next 10 years.

### Wind

- Economically more sustainable (operating + capital costs closer to the value of output than solar, but still needs lots of carrots).
- However, Oregon is geographically weak location for manufacturing wind equipment.
- Not centrally located.
- Compare to hydroelectric equipment. Lots of dams here. No manufacturers.

### Wave Energy

- There is hope for this, but very speculative.
- The Oregon coast is uniquely suited and our state has a strong comparative advantage in heavy machinery manufacturing (thank the forest products industry for that).
- However, there has yet to be a successful prototype and years of R&D to do before we might see substantial job growth.

### Electric Vehicles

- Of all the lower 48 states, Oregon is one of the worst places to build consumer vehicles.
- There is no cold rolled sheet made in the west.
- We are not centrally located
- Assembly costs are too high here
- We are far from automotive R&D centers.
- We are too close to Asian competitors.
- But, we have the engineering depth to make controllers and other key components!

... And besides there are not that many energy jobs anyway...

- Green jobs sell energy. It is not a new product, just a cleaner way of delivering an old product.
- Nationally, only 903,000 people work in conventional energy production, equipment manufacturing, and utilities.
- To be economically sustainable, the new technology has to replace, not add, to those 903,000 jobs.
- The net effect: Little or no net job growth.

### Third splash of cold water

- Green jobs are not the answer

## What is?

### #1 Do not offer carrots

- We cannot afford them
- If you have to bribe somebody to build a factory or buy a product, then it is not worth it whether it is a sports stadium, condominium, or solar factory.
- Worse, the carrot will crowd out some other, more economically sustainable activity
- Worse than worse ... In Oregon handing out carrots becomes politicized and that is never good.

### #2 Do not use sticks or pick winners

- We call this chasing rainbows. The usual rationalization goes like this:  
*The free market is not working right. I/we know what is better, so we will support "X" and penalize "Y".*
- What non-economists often miss is that when you allow government to purposely support "X" that you distort the allocation of resources (become less economically efficient/sustainable). The impacts are lower wages and fewer jobs.

### #3 Instead set the rules, make them clear, enforce them, & stand back!

- Do not target carrots or sticks for any one business or activity.
- Let the people decide what what to do under well-defined, fair, enforced rules.
- If people screw up, let them fail. A bad business idea that ties-up your labor force hurts the economy.
- If people win, do not hit them with a stick.

### So how about a splash of warm water? Let's hear some good news ...

- There will be strong job growth in this economic recovery. It won't be jobless.
- Oregon's growth rate will be faster than the country's.
- Heavy manufacturing, tourism, agriculture, and other export industries will lead the way.
- And, yes, even "green" Oregon-branded consumer products from organic foods to cosmetics represent opportunities, but should not be places for special support.

### What about housing?

- Incredibly, in three or four years we may have a housing shortage.
- Our index of housing prices for the metro area is at a near record low.
- It is about the best time in decades to buy a house in Oregon (not a condo ... a house).

The End

