

Greater Hartford Association of Realtors

The Economy: World, USA and CT



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Organization



- **1. A Preface—the fastest way is not the shortest way sometimes**
- **2. Applications to what we face today**
- **3. A few final GUESSES**

The Trick is



- **To have the answer for the times!**
- **To many people are fighting the last war or the last recession or the economic trouble of the 1970s (or Greenspan: dot com and Greenspan are gone; get over them)!**

Think About it



- **You want to raise interest rates when...**
 - **1. Too much demand is pushing up prices**
 - **2. Very tight labor market**
 - **3. REAL wages are climbing, strongly**
 - **4. Government has surplus and the economy is still going strong**
 - **5. Generally the housing market is HOT as people are trying to avoid inflation via housing**
- **OK write these own in your head and we'll be back to them. What planet did the pundits come from anyway? I suspect Pluto: and just as Pluto is not a planet, they just want the money and are not trying to help the economy.**

Growth Cities



- **Two core components of a Growth city are**
- **1. Transportation of the times**
- **2. Labor supply of the times**

Growth Cities—applications-1



- **1. Transportation of the times**

Early America—water {Think NYC, Cincinnati, Savannah, Memphis!}

Today—highways and airports {Think Atlanta, Dallas, Denver, LA}

No one is proposing that we build canals today—but they are suggesting that we need lower capital gains and higher interest rates! Just about as dumb as canals! I'll be back...

Growth Cities-applications-2



- **2-The right labor force**
- **In the past (1900-1940), most cities needed labor—**immigration from abroad and from the South {Think Detroit, Akron, Toledo, Chicago, LA}
- **Today, as Glaeser at Harvard has called it—the rise of the skilled city—**immigration again, but of the brightest {think Seattle, Southern California, Boston, Washington, DC, Dallas: CT did well!}
- **By the way, the key was not educating more people; but it was using the brightest well. In Tennessee, Alabama, Missouri, Arkansas, and most of Ohio, the average COLLEGE grad does not repay herself! Cost is TOO high, skills too low and society is not using them well.**

A QUICK observation



- **Data and analysis from Rose and Betts, Review of Economics and Statistics (Vol. 86:2, May 2004, 497-513) however shows that math does not provide any special abilities nor is it predictive of better performance in college or in terms of earnings. When you adjust for IQ and college majors, there is no predictive abilities of math in high school.**
- **Perhaps we should remember that Colt saw his idea for the revolver at age 16 and Einstein had one of his most famous papers finished at, again, age 16. It does not seem that geniuses need to be educated beyond high school. Jobs and Gates were really only high school grads as well. They did not need college. Neither did Elizabeth Holmes of Theranus labs and the low cost blood test kit. Philo Farnsworth, inventor of the television ‘saw’ how to use lines and electrons to produce a picture while he was 14 years old (and while down on the farm).**

College and life--Signals



- **In the 1950-1970s, students who worked during high school (summer and part-time as well) did better in College and in Life.**
- **Today (since about 1985...), work is a bad: you tend to do worse in College and in LIFE!**
- **The key is to get the right signal, NOT just do what the last signal was!**
- **Remember from above, that taking MATHs in HS is not a good signal; being bright is and a willingness to move!**

Applications



- **Let's apply what we've learned to ECONOMICS**
- **1. NO Rate hike is (was) CORRECT!**
- **When Greenspan should have raised rates, the world was different than today. Let's get the data and not the old answer (which is now wrong).**

RATE HIKE! NO, No and NO WAY!



- **After the DOT COM bubble:**
- **1. Economy came back Quickly—we are just beginning to come back and not at all for the less skilled workers.**
- **2. Incomes were growing; they are not growing now for the bottom 92%.**
- **3. China was HOT then—COLD now! China was taking commodities from the world—the pace has slowed and there is a surplus of commodities—Copper, etc.**
- **4. OIL was hot and driven by China. Oil is plunging and will further plunge. China is not driving the market, supply is (the F word).**
- **5. Other major markets were moving upward: today, Europe is in Trouble, Japan is in Trouble...Brazil!**
- **6. Housing was still hot (people running from the Market): Today it is NOT!**

What Should We DO-1?



- **1. Raise Taxes on Capital Gains and work on Core Production Policies—let the market work.**
- **Sometimes you need (perhaps) a lower capital gains tax to stimulate the market and investment. BUT TODAY, there is plenty of money for investment, but there is low demand—thus, a fiscal side issue. More money to the masses and less to the Wealthy is the classical (from Adam Smith, to Keynes, to modern Economists) answer—hear it!**
- **Interest rates are low—that stimulates investment (if there is demand: remember Keynes). OUR major corporations have lots of CASH—Apple, Microsoft, Google. There is no shortage of investment capital.**
- **Higher cap-gain taxes will drive employment not tax games.**

What Should We do-2?



- **2. Place a full surtax for Social Security on the Wealthy—you and I already pay this, why does Bill Gates get a free ride?)**
- **Why do you and I pay this, but the top 1% (over \$800,000 in Connecticut!) do not?**

What to Do? 3 (Mexico)



- **3. Make a deal with the OFF-SHORE hoards (Google, Apple, etc.)!**
- **If you invest that money in Mexico or Puerto Rico, it can come back tax free—if not w/i 5 years we will take the money at a higher tax.**
- **Mexico is our NO 1 trading partner that actually BUYS from the USA—they create more jobs in the USA than any other country! Let's help them grow and they will help us. But also be prepared, if Mexicans stay home, American costs will rapidly increase unless we get more technology quickly.**

What to do? 4



- **4- Break up the large companies!**
- **Every time we break up large cumbersome quasi-monopolies, we get economic growth (think standard oil, think AT&T).**
- **We need internal competition, not wage competition from Asia.**

A quick Look at the World



- **It is not a pretty place!**

The Global Economy



- **Europe is *still* in trouble...**
- **The young in Europe are unemployed!!!**
- **16-24 year olds have 23% UE**
- **(The Economist page 55: September 5th, 2015)**
- **Growth is still behind the USA**
- **France is losing Young H-HC/and wealth**
- **Italy is in Trouble! When do you move out?**
- **Japan is not making it back—Russia is dying without oil**

The USA



- **Most Americans have not had real wage increase since 1970!!! That is why Marshals is *the* HOT retail store. That is why the Dollar Store has been hot as well.**
- **Social PRESSURE is causing Walmart to revamp its labor policy—expect one-half of its employees to be laid off! (Higher HC, Training and Costco)**
- **If you take out the top 15% of college grads, nearly every grad today will NOT earn back their investment and lost wages! Too many get college degree and the economy is NOT growing fast enough for the rest**

CT and the Northeast!



- **I do not believe**
- **that CONNECTICUT**
- **has added one new high-value added job in the last 10 years!**
- **Yes, we have high value-added industries, but incrementally, they are losing their core jobs.**
- **Only medical jobs have really increased and they will start to fall soon (everywhere not just CT).**

CT-Housing



- **Connecticut and Massachusetts are respectively -19% and -8.4% still below their previous peak!**
- **Weak JOB growth and demographics!**
- **That is the reason!**

CT-Employment



- **Total workers back...**
- **BUT, NOT in Connecticut!**
- **Also, fewer VALUE-ADDED jobs in CT**
- **GE –RE is gone, Aetna is likely to move jobs and growth in jobs to Louisville. Defense jobs are shrinking.**

It is NOT just Connecticut



- **There is no real growth in the USA**
- **Demographics favor the suburbs of core cities and really bright two income families—maybe just couples**

Key States that have not full come back--Housing



Peak April 2006 Minus 6.6% for USA

- **Year on Year July-June 2015 1. %**

- **Arizona -25.1%**
- **Florida -28.1**
- **Maryland -20.2**
- **Nevada -30.6**
- **New Jersey -19.6**
- **Rhode Island -24.2**

- **New York 0.0** (City Metro up, most of the rest are down)

A new (old) trend



- **As we have discussed before; it is the burbs of MAJOR metropolitan areas.**
- **Middle CT is in trouble...**
- **The rural areas are in trouble...**
- **State is in 5th (or 6th) year of declining high School enrollments**

Metro-areas



- **95 of top 100 Core Based Statistical Areas showed Year-on-Year increases**
- **A key concept is that it's the metro areas that are working; rural areas are still in decline in most states**
- **New York-Jersey City-White Plains, NY-NJ up 7.2%**

The Economy is Changing! And NOT for the Best



- 1. WE ARE EXPORTING OUR LOW-END JOBS**
- 2. WE ARE IMPORTING LOW-END LABOR TO SOLVE THE LOCAL LOW END JOBS**
- 3. WE ARE FILTERING MORE AND MORE FOR HIGH-END JOBS: ENGINEERING, GOVERNMENT, MANAGEMENT**
- 4. WE ARE CONCERNED WITH HIGH-SALARY/HIGH END JOBS AND NOT ABOUT GROWTH...**

Who are driving the UE rate?



- **1. The young—especially men under 28**
- **2. The relatively un-skilled**

4. Freedom for Women is Changing the World



- **1. 60% of all college grads are women—college is a female oriented sport!**
- **2. College grads marry at about age 31 and have child (if they do) at about 33—this is why there are sooo few new house sales and so few starter home sales.**
- **3. A professional women who has never been married and never had a child, earns 98% of a male worker (married with child).**
- **4. About 40% of women soon will not have a child—many who will have child will do so (late) w/o husband (it's about the law).**

5. Housing is different NOW!



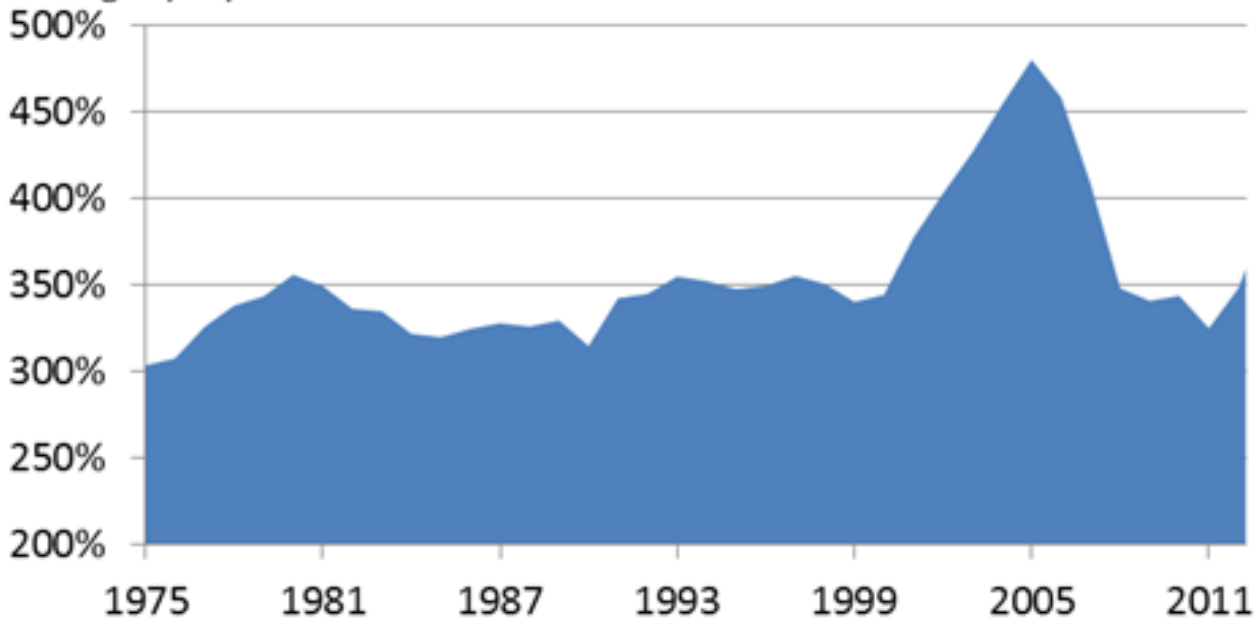
- **1. More late marry couples**
- **2. fewer kid couples**
- **3. career is more impt—so will locate near major job centers**
- **4. Housing is more risky—govt caused it!**
- **5. slow population growth in Midwest/East will slow housing growth**

House Prices to INCOME—about right!



Ratio of Median Home Price to Median Household Income

Source: US Census Bureau, Sentier Research and the Natl Assoc. of Realtors period ending 03/31/13



One last Point



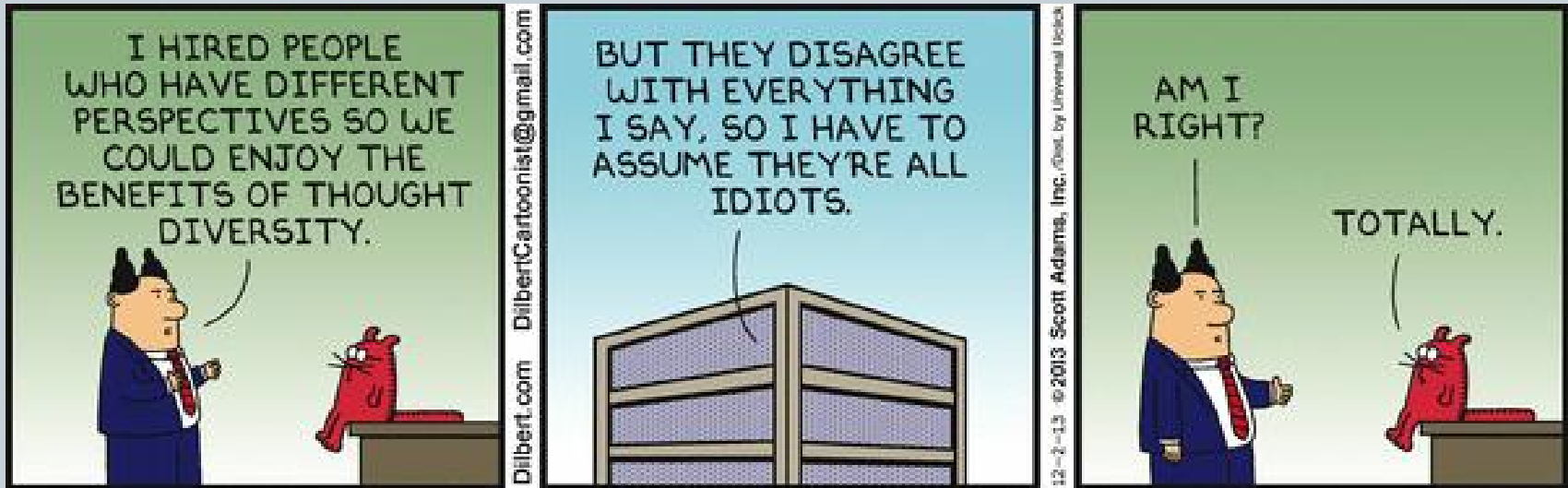
- Lets' think rate hike again?

Think About it



- **You want to raise interest rates when...**
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 - **5. Generally HOT housing market as people are trying to avoid inflation via housing (mid-to-late 70s, post Dot Com)**
- **OK – tell your congressman/woman NO rate hike. Get capital gains taxes up. Quit playing tax games and get the economy growing for everyone.**

Thank You – Questions?



Some Books to Read



- **Crash Course, Paul Ingrassia, 2010**
- **The New Geography of Jobs, Enrico Moretti, 2012**
- **The Global Achievement GAP, 2008, Tony Wagner**
- **Checklist Manifesto, Atul Gawande, 2009**
- **Catastrophic Care, David Goldhill, 2013**
- **Over-diagnosed: Making People Sick in the Pursuit of Health**
- **Dr. H. Gilbert Welch, 2011**
- **Unintended Consequences, Edward Conard, 2012**
- **Big Picture, Joel Naroff and Ron Scherer, 2014**
- **Hidden in Plain Sight, Peter Wallison, 2015**
- **Most Likely to Succeed, Ted Wagner and Ted Dintersmith**