OPINION

FEDERAL GOVERNMENT

The 'Drinks all around' administration

Obama's speech seemed aimed at debunking idea that there's no such thing as free lunch.

MARSHALL RAMSEY, CREATORS.COM

CARL M. CANNON
STAFF COLUMNIST

Henry A. Wallace, hand-picked as vice president by Franklin Roosevelt, would have liked President Obama. In 1942, Wallace called for federal support for education – a novel concept at the time – and universal health care for workers. Highly progressive even by New Deal standards, Wallace championed many social programs and government giveaways. In response, prominent Princeton economist Harley L. Lutz, employed one of the earliest known uses of a now-famous aphorism.

"Mr. Wallace neglects the fact that such a thing as a 'free' lunch never existed," Lutz wrote. "Until man acquires the power of creation, someone will always have to pay for a free lunch."

Harley Lutz didn't live to see Barack Obama's political rise. The Princeton professor passed away in 1975, the year famed University of Chicago economist Milton Friedman produced a best-selling book, "There's No Such Thing as a Free Lunch."

Practicing what he preached, Friedman worked until the day he died in 2006 at age 94. Obama was in the Senate by then, already eyeing the White House and planning a successful 2008 presidential run that included campaign slogans "Change We Can Believe In" and "Yes We Can!"

Six years into the Obama presidency, those mottos have been fleshed out with a subtext that might be expressed thusly: "Lutz and Friedman Were Wrong." The Obama doctrine, espoused unambiguously in his 2015 State of the Union address, is that there is, indeed, a free lunch. Free breakfast and dinner, too. And free midnight snacks. Don't forget happy hour. "Drinks all around!" is this administration's mantra.

In his speech, Obama called for government-subsidized broadband access, federally

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'Economic crisis is over,' Obama says, but global weakness could trip up U.S. economy.

By ROBERT J. SAMUELSON
SYNDICATED COLUMNIST

President Obama has declared the economic crisis over – and for the United States, maybe it seems that way. But most other countries, not so much. Their recoveries are faltering. The obvious question is whether the global weakness will infect the U.S. expansion. This is a crucial footnote to Obama's optimism.

Two major reports – one from the World Bank, the other from its sister organization, the International Monetary Fund – recently lowered estimates for global economic growth in 2015. Said the IMF: "The United States is the only major economy for which growth projections have been raised."

Consider the bleak landscape. Japan is in recession. Unemployment in the eurozone (the 19 countries using the euro) is a scary 11.5 percent. Unhappily, the IMF expects only meager eurozone growth of 1.2 percent in 2015. Even this could be optimistic if the Greek election triggers a new debt crisis. Assuming the IMF forecast is reached, growth would still be a third of the predicted U.S. rate (3.6 percent).

> "When you rely on trade, you die when there's no demand."
>
> AYHAN KOSE, WORLD BANK ECONOMIST

Led by China, so-called "emerging-market countries" have disappointed. They were expected to replace the United States as the world economy's main engine of growth. The theory was simple. The material wants of their burgeoning middle classes could be met with known products and technologies. So: Their appetite for raw materials (iron ore, copper, corn) and advanced technology goods would stimulate the broader global economy.

It hasn't worked as imagined. From 2005 to 2012, emerging-market economies averaged annual growth of 6.5 percent. Now, the IMF projects their growth in 2015 at 4.3 percent. Until recently, China's growth averaged about 10 percent a year. In 2014, it was 7.4 percent, and the IMF predicts 6.3 percent for 2016. It might go lower.

MATT CARDY, GETTY IMAGES

Euro currency is seen ahead of Greece's general election. European leaders fear that Greece could abandon the euro if the radical Syriza party comes to power.

What spoiled the theory? For one, it ignored the reality that many emerging-market countries – including China – depended on export-led economic growth. This meant the crisis hit them hard. "When you rely on trade, you die when there's no demand," says World Bank economist Ayhan Kose. And demand from the United States and Europe slumped badly. Global trade is now growing at about half its pre-crisis rate, says the World Bank.

For awhile, the emerging-market slowdown was obscured because many countries took action that initially offset lost exports. In 2008, China announced a stimulus of 4 trillion yuan, which – adjusted for the size of its economy – was roughly twice President Obama's stimulus.

Although this temporarily sustained growth, it left a legacy of high debt – much of the plan was financed by loans to companies and localities – and dubious investment projects. There are "unsold apartment buildings, steel mills running at 50 percent of capacity, new airports in minor cities and underutilized highways," says economist David Dollar, the U.S. Treasury's chief representative in China from 2009-13. China's government and priv-

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ECONOMY / DEMOGRAPHICS

GO **EAST**, YOUNG WORKERS

With coastal Southern California aging and economically static, the region will rely largely on the Inland Empire for economic and population growth.

JOEL KOTKIN
STAFF COLUMNIST

Do the middle class and working class have a future in the Southland? If they do, that future will be largely determined in the Inland Empire, the one corner of Southern California that seems able to accommodate large-scale growth in population and jobs. If Southern California's economy is going to grow, it will need a strong Inland Empire.

The calculation starts with the basics of the labor market. Simply put, Los Angeles and Orange counties mostly have become too expensive for many middle-skilled workers. The Riverside-San Bernardino area has emerged as a key labor supplier to the coastal counties, with upward of 15 percent of workers commuting to the coastal counties.

In a new report about to be released by National Core, a Rancho Cucamonga nonprofit that develops low-income housing, I and my colleagues, demographer Wendell Cox and analyst Mark Schill, explored the challenges facing the region. Although we found many reasons for concern, the region's overall condition and its long-term prospects may be better than many might suspect.

POPULATION TRENDS

The region's once-explosive growth has slowed considerably. From 1945-2010, the area's population soared from 265,000 to 4.25 million. Already the nation's 12th-largest metropolitan area, the I.E. could pass San Francisco and Boston by 2020 (unless faster-growing Phoenix does so first).

Yet, contrary to expectations (and, perhaps, hope among anti-sprawl campaigners), the area continues to be a beacon for people from the rest of the region. There is a notion, widely expressed in the mainstream media, that Southern California's growth will now focus more on the urban core around Downtown Los Angeles. Yet, as is often the case, what planners and pundits desire is not widely shared by the vast majority of people.

> **91%**
> Gain in Inland Empire population with college degrees, from 2000-13.
> Source: American Community Survey

People continue to vote for the Inland Empire – and other peripheral areas – with their feet. Census Bureau data indicates that, from 2007-11, nearly 35,000 more residents moved from Los Angeles County to the Inland Empire than moved in the other direction. There was also a net movement of more than 9,000 from Orange County and more than 4,000 net migration from San Diego County.

Several long-standing demographic trends favor a continued shift to the Inland region, according to Cox and Schill. Immigrants and

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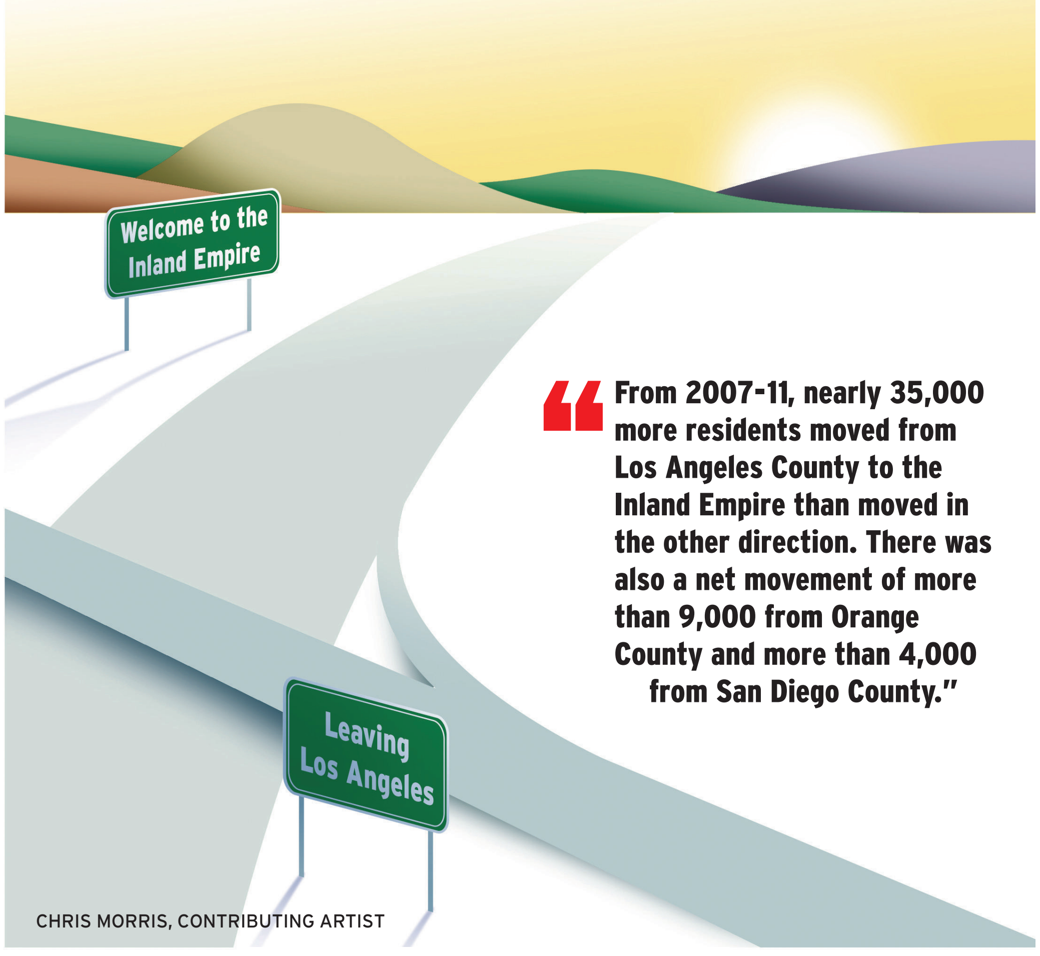

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CHRIS MORRIS, CONTRIBUTING ARTIST

CANNON: Should Omaha, S.F. have same minimum wage?

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mandated sick leave and "free" community college. His goal, the president said, is ensuring that "two years of college becomes as free and universal in America as high school is today."

The administration put the price tag at $60 billion over 10 years. Although that's a high number, it vastly understates the likely costs: making community college as universal as high school would require building many more colleges.

Moreover, California's experience suggests that the president's proposal is a solution in search of a problem. In California, which pioneered the junior college system, annual tuition averages around $1,500 a year, meaning that students spent more on books than tuition. So cost isn't the problem – access is: the state reported in 2012 that 470,000 junior college students were on waiting lists for classes they need.

There are other problems with the president's "free lunch" approach to governance. Here are three:

First of all, the president doesn't have this money to spend. He's borrowing it. The day Obama took office, the national debt held by the public was $6.3 trillion. Today, it stands in excess of $13 trillion, which is what happens when you run annual budget deficits averaging $1 trillion a year. The president is happy that the 2014 deficit is "only" $483 billion. I'm happy, too, but that number would still be larger than any other deficit in U.S. history – even adjusting for inflation – except for during George W. Bush's last year in office.

Yes, Obama inherited a fiscal mess, no doubt. But acting like there's a pile of found money lying around is disingenuous. Future generations of Americans will foot that bill because voters are being promised more goodies than their politicians are making them pay for.

The second problem is one of federalism. By what rationale should workplace salaries be mandated from Washington? States and counties with traditional manufacturing might mandate time-and-half for hourly employees. States and counties with many seasonal agricultural jobs might not. And when it comes to the minimum wage, the folly seems obvious. Do entry-level workers in Lincoln, Neb., (median housing price $146,000) need to be paid exactly the same as those in San Francisco (median housing price $769,000)?

Most states are managing this issue pretty prudently, U.S. Department of Labor data suggests. Only five – all of them in the South – lack a minimum wage law. Fourteen others have laws tying their minimum to the federal standard. A majority of states exceed the federal minimum.

Third, when the president says he wants to mandate sick leave and raise the minimum wage – and underwrite "free" community college by raising capital-gains taxes – he continues to send a message of hostility to business. Over the years, many Democrats have exhibited an odd duality about business: They venerate jobs, but not employers. Obama takes this to new levels, while cheerfully spending Other People's Money.

MANDEL NGAN, ASSOCIATED PRESS

President Barack Obama signs a tie after delivering the State of the Union address, Tuesday, before a joint session of Congress.

In his State of the Union, Obama didn't try to explain why business owners launching a startup or trying to keep a small business afloat should welcome federal laws governing their pay scales. Instead, he taunted Congress: "If you truly believe you could work full time and support a family on less than $15,000 a year, go try it."

This was effective theater, but also a reminder how easily Obama's populism slips into business-bashing. In his 2012 campaign, he said. "If you've got a business – you didn't build that. Somebody else made that happen." He meant somebody in government. It was also in 2012 that most Americans learned that the Affordable Care Act included a requirement that employers pay for "free" birth control.

Here, folk wisdom about free lunches comes full circle. "Free lunch" originally was not a metaphor; it was an advertisement. Saloons, mainly in the American West, offered free lunch with the stipulation that patrons purchase at least one drink. Only the most naïve would deem this lunch truly free, so the extrapolation to government came naturally. The earliest known reference came in a 1938 editorial in an El Paso, Texas, newspaper unearthed by Yale Book of Quotations editor Fred Shapiro.

Called "Economics in Eight Words," it's a fable about a king who asks his advisers for a brief economic textbook. Instead, they produce 87 volumes of 600 pages each – thicker than Obamacare's statutory language and regulations – which results in their execution. Finally, the last remaining economist says he can distill the dismal science into these words: "There ain't no such thing as a free lunch."

Staff opinion columnist Carl M. Cannon also is Washington editor of the website RealClearPolitics.

SAMUELSON: Stronger dollar compounds threats to U.S. economy

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ate debts have zoomed from 156 percent of gross domestic product (a measure of its economy) at the end of 2007 to 251 percent in mid-2014, reports the World Bank.

All in all, stagnation advances. Because China is the largest buyer of raw materials, its slowdown has abetted surpluses of many commodities – not just oil but also grains and metals. Prices have declined. Although this helps consumers, it hurts Brazil, Australia and other producers, especially in Latin America. Low prices will deter new investment. Meanwhile, Europe and Japan hope that their central banks' bond-buying (so-called "quantitative easing") will revive their floundering economies.

Think now how this might imperil the U.S. recovery. One channel is weaker exports; other countries buy less of what we make. Another is reduced profits from foreign operations of American multinationals. These represent about a third of total U.S. corporate profits. The danger is indirect. Weaker profits might depress stocks, leading to less consumer spending because shareholders feel poorer.

A stronger dollar compounds these threats: In the second half of 2014, the U.S. dollar rose 10 percent against major currencies. This makes our exports more expensive and our imports cheaper. It dampens foreign profits, because profits are reported in dollars, and profits earned in foreign currencies (euros, yen) translate into fewer dollars. Finally, a stronger dollar makes it costlier for foreigners to visit the United States – and cheaper for Americans to go abroad.

None of this is conclusive; it's merely suggestive. The consensus seems to be that these foreign vulnerabilities won't derail the American recovery. "Exports are only 13 percent of GDP," says the consulting firm IHS. "Strong domestic demand" will protect a faster recovery. Perhaps the healthier U.S. recovery will even spread abroad.

But we should hold the happy talk. The economic crisis is worldwide. It won't be "over" while its near universality persists. Until this changes, we're exposed to foreign surprises, for good and ill.

ANDY WONG, ASSOCIATED PRESS

Workers leave a construction site Tuesday at the Central Business District of Beijing. China's economic growth slowed to 7.4 percent last year, the weakest expansion in more than two decades. That adds to pressure on the country's communist leaders as they try to prevent a sharper slowdown in 2015 while overhauling the economy.

KOTKIN: Middle-skilled jobs critical to I.E. economy

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their offspring may prove the critical factor. Over the past decade, the Inland region dramatically increased its population of foreign-born residents, more than three times the number and at nearly 18 times the rate of the coastal counties.

The influx of immigrants and their children is largely responsible for the region's relatively young population, compared with the rest of Southern California. As recently as 2000, the proportion of population ages 5-14 in Los Angeles and Orange counties stood at 16 percent, the sixth-highest level among the nation's 52 largest metropolitan areas. Thirteen years later, that proportion had dropped to 12.8 percent, 33rd among the 52 largest metropolitan areas. In terms of a dropping share of youngsters, the area experienced a 20 percent reduction, the largest in the nation.

In contrast, the Inland Empire remains a bastion of familialism, with 15.3 percent of the population aged 5-14, among the highest levels in the nation. This follows a general pattern; according to recent analysis of Census data, high-cost areas tend to repel families. Of the nation's most expensive areas, such as the Bay Area, New York and Boston, all tend to have well below national norms in terms of families among their populations.

Perhaps more surprising, younger educated workers also are heading to the region. In fact, from 2011-13, according to American Community Survey data, Riverside-San Bernardino witnessed the 12th-largest increase among the 52 major metro areas in the share of college-educated residents ages 25-34. No major California metro area, including Silicon Valley, could match it. From 2000-13, the Inland region experienced a 91 percent jump in population with bachelor or higher degrees, just less than twice the increase for either Orange or Los Angeles counties.

Overall, the I.E. has become something of a growth area for millennials – basically, adults ages 20-29. San Bernardino-Riverside ranked second among 52 metro areas, adding 50,000 millennials, an 8.3 percent increase since 2010. Los Angeles and Orange counties – older, settled areas with far lower population growth – together registered 18th.

ECONOMIC RESTRUCTURING

These trends also may reflect improving prospects for the region's economic recovery. The area remains some 30,000 jobs below its 2007 level, notes California Lutheran University economist Dan Hamilton, but is now growing faster than the rest of the Southland. The region created jobs over the past year at a 2.2 percent rate, well above the 2.0 percent increase in Orange County and almost twice that of L.A.'s 1.3 percent. Foreclosures have diminished to the lowest levels since 2007 and appear back to something resembling normalcy.

One important source of new employment is grass-roots entrepreneurship. Overall, the Inland Empire accounted for a large proportion of the new businesses created statewide from 2012-13 – despite hosting only 7.4 percent of the total businesses in California. A recent report by Beacon Economics suggested that growth will accelerate over the next five years.

At the same time, some of the core industries – such as manufacturing and warehousing – have shown signs of recovery. Industrial vacancy rates have fallen from nearly 12 percent in 2009 to roughly half that level today.

Much of the growth has been for "middle-skilled jobs," paying $14 to $21 per hour, including positions in medical services, trucking and customer service. Overall, according to one recent survey, the Inland Empire ranked 13th among the nation's large metropolitan areas in creating such positions. These jobs, notes economist John Husing, are critical to a region where almost half the workforce has a high school education or less.

Even the housing sector, the driver of the post-crash employment decline, has improved considerably. Today, the Inland Empire is experiencing a far greater increase in construction permits than either Los Angeles or Orange counties. This has also helped boost construction employment, although not to anything like the levels experienced a decade before. Construction employment, although up recently, still totals barely half the people it did in 2006.

Some, such as University of Redlands economist Johannes Moenius, express concern that important industries, like warehousing and manufacturing, are increasingly using part-time workers. Positions paying $15,000 to $30,000 annually constitute nearly half of all new jobs.

The ambiguity in the recovery is reflected in a recent survey by Cal State San Bernardino, which found the percentage of those saying the economy was excellent or good had almost doubled since 2010, from 9 percent to 17 percent, but this was considerably below the 40-plus percent seen before the crash.

THE PATH AHEAD

The fate of the Inland Empire remains in the balance. The recovery of the region depends largely on continued widespread population growth, largely stimulated by the production of affordable housing. Yet, at the same time, state regulations, spurred on by the environmental lobby, which seeks to slow, or even eliminate, single-family construction, threaten to force up prices and drive young families outside the state.

Many other core industries of the area – such as warehousing and manufacturing – also face growing regulatory barriers. High taxes and energy costs originating from Sacramento are particularly difficult for industries that require power to operate. Southern California Edison's rates, for example, are almost twice those found in Salt Lake City, Seattle or Albuquerque.

Some may celebrate these policies that encourage people to say "good riddance" to a region too sprawling and insufficiently cultured. Yet, it's hard to see how Southern California can continue to add workers – notably, younger middle-class families – without a vibrant Inland Empire. It remains the one Southern California region with the land, and the housing cost structure, to accommodate much of the hard-pressed middle class. Without growth inland, Southern California will be largely relegated to a torpid economy and rapidly aging demographics, a fate that would compromise the aspirations of future generations.

Joel Kotkin is the R.C. Hobbs Fellow in Urban Studies at Chapman University in Orange and the executive director of the Houston-based Center for Opportunity Urbanism (www.opportunityurbanism.org).
His most recent book is "The New Class Conflict" (Telos Publishing: 2014).