

UC SANTA BARBARA

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[Sonia Fernandez](#)

The Financial Picture

Here's a puzzler for you: How can the recovery from the last Great Recession be the slowest it's ever been if households and businesses are also the richest they've ever been in the history of the United States?

That was the mystery UC Santa Barbara economics professor [Peter Rupert](#) presented to audiences at the [UCSB Economic Forecast Project's](#) 37th Annual Economic Summit.

"You guys are rich," Rupert told the crowds that packed the Granada Theatre for the south county summit and the Radisson Hotel in Santa Maria for the north county session. "You're supposed to be buying things and doing stuff."

And yet, gross domestic product data show an overall negative growth, with large declines in 2016. Thirty-six quarters past the economic trough of a decade ago and the economy still hasn't bounced back to its typical 2 percent per year growth in GDP, according to Rupert.

The reason, he said, is mismeasurement: A shift from a manufacturing focus to a services focus is making it difficult to quantify production.

"Back in the 1940s and the 1950s all you had to do was count the number of cars that came off the assembly line. That was easy to measure," Rupert explained. "Now we're doing services, we're doing healthcare, we're doing all kinds of things that are much more difficult for the Bureau of Labor Statistics and the Bureau of Economic Analysis to measure."

Compounding the difficulty is the fact that technology has enabled not only more production in less time, but also more leisure on the job in that “free” time. It’s a typical trend for a country that has been getting more prosperous, Rupert said. The highest-leisure jobs are found in transport, materials and moving, and maintenance and repair sectors, while the least leisure time is taken in healthcare and protective services.

Looking closer at Santa Barbara County, Rupert’s analysis shows that it has been lagging economically behind its neighbors to the north and south. San Luis Obispo and Ventura counties have caught up after the Great Recession, according to Rupert, but Santa Barbara has not.

“It’s not the retail employment sector in the world,” said Rupert, addressing suspicions that online sellers such as Amazon are wiping out retail. “It’s Santa Barbara that has a problem.”

Retail is not dead, he added, but it has to change. Stores may have to shift what they offer from merchandise to services. Financing structures may have to change from long-term leases to shorter-term. And, it may get more difficult for some before it gets better: Businesses that weathered the economic storm by taking out high-risk easy financing will soon be facing the maturity of their bonds to the collective tune of billions of dollars in the next few years.

Hospitality and leisure, on the other hand, have been growing steadily.

Rupert’s presentation was one of several at the summits. He was joined by a panel of speakers who took a larger view on the economy in discussions that focused on international trade. The North American Free Trade Agreement (NAFTA) — currently going into its 10th month of renegotiation — was of particular interest. Speakers Roberto Rodriguez Hernandez — the Consul General of Mexico for the Tri-County Region — and former Mexican Foreign Minister Jorge Castañeda both stressed the importance of the agreement, which lifts tariffs on goods traded between the three countries. Thanks to NAFTA, manufacturing jobs have increased in Mexico and farm exports to the U.S. have increased, in turn lowering prices.

“Free trade is creating more jobs, and especially better products in the best interest of the consumers,” Rodriguez said.

President Trump, however, has blamed NAFTA for the loss of manufacturing jobs in the United States, and since his campaign days has been critical of the agreement, calling it the “worst deal ever.”

Mexico is limited in its ability to respond via trade, Castañeda acknowledged — a Kansas farmer exporting his corn to Mexico for livestock feed will likely continue to be able to export his corn — but other bargaining chips could be deployed in the event things become “unfriendly,” he said.

Writer and political commentator Amity Shlaes took a more introspective look at the attitudes surrounding the shifting moves by the administration regarding agreements such as NAFTA and the Trans Pacific Partnership.

“We don’t know what President Trump really thinks about trade,” she said. This high level of uncertainty has resulted in a loss of trust with regard to the United States in terms of trade. And it isn’t limited to international trade.

“The reason the U.S. government takes protectionist steps is a more generalized anxiety in the country,” Shlaes continued. This fiscal anxiety is causing people to take a more defensive, instant-gratification stance that may do more harm in the long term — tariffs may save jobs, she added, but could also raise prices.

Washington Post columnist Megan McArdle, meanwhile, explored the growing division in opinion on trade and immigration in the United States. People tend to move to places where other people share the same values, she said, a phenomenon that over generations has sorted people geographically to the coasts and to the nation’s heartland.

“That Big Sort is dividing us to the point where we can no longer even imagine what the other person is going through,” McArdle said. People in the big cities, who are accustomed to dealing with international trade and immigration, have had a difficult time understanding the anxieties of the people in the center of the country, where less trade and immigration occur — and vice versa.

“This is a really hard problem,” she said, noting, however, that solutions may come if people can reach beyond their immediate identities.

“I think we do want to go back to a sense of common identity that is bigger than all of us,” said McArdle, “that is bigger than the smaller identities that have divided us so badly right now.”

About UC Santa Barbara

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