



From the editor

Charles Steindel¹

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This issue includes a number of pieces by prominent analysts warning of hazards in the current US economic situation, despite the ongoing lengthy expansion. Some other pieces, though, are less gloomy—including a rather upbeat view of an important part of the arts sector. Some of the material in the issue is based on presentations delivered at NABE's recent Economic Policy Conference. We thank the Peterson Foundation for its grant to the NABE Foundation for the appearance of these pieces.

Somebody who needs no introduction—Alan Greenspan—was this year's recipient of the Paul Volcker Award for economic policy. In his comments accepting the award, Greenspan (whose lengthy list of accomplishments and positions includes a term as NABE President) warns of some ominous trends endangering the US over the long run. Entitlements have been crowding out private saving, and with the anticipated increase in old-age transfers, this trend will intensify. Offsetting at least some of the reduced domestic supply, foreign capital inflows have helped finance domestic investment and sustain productivity growth, but given the size of our external debt, Greenspan worries that this cannot be sustained. At the same time, Greenspan believes that, ultimately, much of the huge federal debt will be monetized, fueling a resurgence in inflation. He is pessimistic about the likelihood that sound policies will be adopted, given the resurgence in populist sentiment in the US and other nations.

In early 2019, the stock market reversed its 2018:Q4 downshift. Eugene Steuerle of the Urban Institute examines the likelihood that a more persistent decline may set in. He argues that wealth–income ratios are likely to retreat to levels more consistent with history. This could come about through a drop in valuations; it seems rather unlikely that the adjustment would come about through outsized boosts to income. Some may argue that there is a new normal: a permanently higher ratio of wealth to income. Such would

imply persistently lower rates of returns. Steuerle finds this would be sharply at odds with the sustainability of many financial structures. The upshot is that at some point there will be major financial disruptions for which he doubts “seriously that our public and private institutions have prepared adequately.”

Much cheerier is this year's Meckstroth Award paper, written by Azhar Iqbar and Mark Vitner. They examine gains in manufacturing during this expansion. They note that the growth in factory employment in this cycle is noticeably stronger than in other recent expansions, and other indicators of the manufacturing sector (though not output) have also been unusually strong. Statistical analysis bears out the hypothesis: manufacturing gains have indeed been more solid in recent years. Why is this so? Iqbar and Vitner argue that factors such as the shale oil boom, deregulation, tax cuts, concerns about protecting intellectual property, and general gains in efficiency have fueled the turnaround.

Peter Hall of Harvard discusses how political structures interact with economic circumstances and influence economic growth. The shift to a knowledge-based economy suggests that older political structures that have become less capable of enacting good policies (as Greenspan's speech suggested): Basically, losers from current economic change have been able to gain leverage and result in the adoption of policies that economists believe may hamper aggregate growth. We need not only identify policies that will be beneficial at the aggregate level, but become more aware of gaining acceptance for them.

Cass Sunstein, of the Harvard Law School, provides a more optimistic view of policymaking. Sunstein, drawing on his own experience as a policymaker, notes how the insights of behavioral economics have led to growing use of “nudges” as ways of achieving outcomes more favorable to all concerned—for instance, designing a guide to healthy eating. He offers a number of practical suggestions on how such policies may be implemented.

Returning to the darker side, Douglas Elmendorf provides an update on the longer-term federal budget outlook. Like Greenspan, he finds it distressing: We are on an

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unsustainable path. Elmendorf believes the needed corrections should be more heavily weighted to tax hikes than cuts in spending. Nonetheless, there should be, even now, sufficient “fiscal space” for policy to address a recession—but will there be the willingness to do so? Finally, he discusses possible entitlement reforms, which he argues should not go in the way of increasing inequality, and, in the case of health care, may require greater government intervention in price-setting.

Kim Rueben of the Urban Institute discusses the state and local fiscal situation, and its interaction with the federal budget. Despite some recent cyclical improvement, state and local finances remain fairly precarious, with a great risk that slashes in spending (needed to balance budgets) may occur just when the economy weakens. The federal government can, in principle, use its grants to ameliorate this problem and, indeed, in the last recession there was action on this front. However, federal policies can hamper the economies and finances of states (immigration restrictions may be examples of this), and the recent rancor over the SALT deduction limitation has hampered the atmosphere for federal–state cooperation. What this suggests is that states “think hard about their fiscal futures and try to plan for the next five- or ten-year period.”

In a *Focus on Industries and Markets* piece Angela Besana and Annamaria Esposito explore the various ways American symphony orchestras and opera houses work to expand their audiences and revenues. One may think of these organizations are rather staid, but in fact they use a wide variety of methods, many quite innovative and tech-heavy, to target particular audiences to particular products.

The book reviews include William Seeger’s review of *Transfer Pricing and the Arm’s Length Principle After BEPS*, by Richard Collier and Joseph Andrus. The book examines recent changes in transfer-pricing accounting rules. The authors are highly critical of the new BEPS regime, arguing that they “have created unnecessary complexity.” Seeger finds the authors arguments to be “well-conceived.”

Ryan Decker looks at *Big is Beautiful: Debunking the Myth of Small Business*, by Robert Atkinson and Michael Lind. Atkinson and Lind cast cold water on the common belief that small business is the primary engine of economic growth. Decker agrees that, as a general rule, economic growth and income generation tends to come from larger firms. But he feels they take their case a bit too far, and do not take into sufficient account of the innovations from new firms (which, naturally, tend to be small).

Catherine Mann reviews Paul Tucker’s *Unelected Power, the Quest for Legitimacy in Central Banking and the Regulatory State*. Tucker argues that given the vast responsibilities they have assumed, Central Banks should have governance structures that are aligned with the values of the state that charters them. Much of the book is conceptual in nature, but in practical terms Central Banks should be highly transparent in their design and operation, with their aims and scope of actions clearly defined. Mann notes that this benchmark may clash with the goals of the elected officials who set the rules for Central Banks.

In the final review, Stuart Mackintosh lauds the recent memoirs of Paul Volcker and Jacques de Larosière. These two remarkable figures are long-time “colossi of American and European central banking and public Administration.” As Mackintosh notes, “their collective example of dedication to public service serves as a welcome antidote to the toxic poisonous bile that afflicts the body politic today in so many countries,” and sums up, “Both books should be read by anyone seeking to understand central banking, public service, and leadership.”

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