



FROM THE EDITOR

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Charles Steindel¹

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This issue starts with Richard Curtin's paper on consumer expectations. Curtin notes a paradox in the results of surveys of consumer attitudes. Individual consumers have very limited knowledge of national economic data or the formal reasoning that economists use to make forecasts. Furthermore, media reports on the economic data typically provide little quantitative information. Yet, in the aggregate, consumer survey results provide excellent forecasts of inflation. Curtin's explanation is that individuals' assessments of the economy are keyed to their individual situations, which will differ from the national average—this is a natural result of the need for people to concentrate their mental processing of information on factors that are most germane to their own situation. But, of course, the aggregate situation and outlook is a weighted average of the ones of all individuals.

Michael Chow and William Dunkelberg's article discusses developments in small business, as gauged by the surveys of the National Federation of Independent Businesses. They note the high levels of the survey readings since the last presidential election, and contend these gains have been reflected in aggregate improvements, and likely reflect deregulation and tax changes.

Christopher Hooton and Sera Crasta discuss a data set the Internet Association has developed on their sector. There are two sets of measures: one based on aggregate indicators taken from data encompassing national NAICS codes, and the other taken directly from firms operating in those industries. Both show the substantial growth of the sector, which now apparently accounts for about 6% of US GDP. The data also suggest that there is some noticeably seasonality in the industry's sales and that establishments in the internet sector are growing in size.

Turning outside the USA, Ummad Mazhar and Fahd Rehman examine violence as an obstacle to business. Using data from Pakistan, they find that the ability of firms to

deal with an environment troubled by violence is in part of function of age: Other things equal, younger firms are more likely to contract activity when violence increases—an observation that may be of moment for firms in developed nations seeking partners in troubled parts of the globe.

Our final article is the Mennis-award winning paper by Steven Byers and Jeff Ferry, discussing possible effects of tariffs on Chinese products. Byers and Ferry examine the impact of a sustained 25% US tariff on Chinese imports. In their model exercise, they find that, perhaps surprisingly, such a levy would lead to a modest increase in US real GDP and employment. The hypothesized gains reflect shifts of Chinese-based production, partly back to the USA and, more substantially, to lower-cost nations, thus boosting the purchasing power and real demand of US customers. However, this result, while illustrating that the effects of policy can be complex and many-faceted, depends on assumptions such as an inability of China to effectively respond to such a policy, the ability of the USA to impose such a tariff without running afoul of WTO rules, and that there is no marked appreciation of the dollar as a result of any such policy.

In book reviews, David Miles discusses Adam Tooze's *Crashed*, his lengthy history of how the industrial world responded to the great financial crisis. Miles values the book as a valuable chronicle of the policies followed around the world. Nonetheless, he sees that Tooze at times fails to appreciate the distinction between outright fiscal expansion and central bank lending to illiquid institutions, and also takes a bit too seriously rhetoric about the need for austerity policies (particularly by British and German officials), as opposed to the actual policies followed in the wake of the crisis.

David Wheelock reviews *Fighting Financial Crises*, by Gary Gorton and Ellis Tallman. Wheelock sees the volume as an essential guide to the economics of financial crises, which are considered to be essentially inevitable events in economies dependent on short-term debt. The rather troubling implication is that addressing financial crises can involve public authorities using considerable discretion, rather than rules, in their fire-fighting actions (I would

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note the apparently endless debate about the Fed's 2008 responses to the problems at Bear Stearns, Lehman Brothers, and AIG), and the risk of deepening longer-term moral hazard problems.

John O'Trakoun looks at *The State Strikes Back*, by Nicholas Lardy. Lardy discusses the recent slowdown in Chinese growth and argues that a sensible strategy would be for the Chinese government to reinvigorate moves toward market-based reforms. O'Trakoun generally concurs with Lardy's analysis, but notes some qualifications, such as the evergreen concerns with the quality of Chinese data, perhaps some overselling of the potential for structural reforms to reignite rapid growth at China's stage of development, and a number of political considerations which could limit the scope of additional reforms.

Robert Fry reviews William Gale's *Fiscal Theory: Reviewing America's Debt Addiction*. Gale scopes out the

alarming trajectory for federal debt and makes proposals for bending the curve down, largely comprising trimming the growth of entitlement spending as well as a variety of tax increases, including a carbon tax. Fry is largely sympathetic to Gale's analysis, though differs with some of the proposals, and notes that the real obstacles to such reforms are political.

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