From the Editor

Business Economics (2016) **51**, 55–56.
doi:10.1057/be.2016.20

The U.S. economic recovery is now one of the longest on record, entering its eighth year, and the unemployment rate has moved down to a level many would associate with full employment. In December 2015, the Federal Open Market Committee (FOMC) increased the federal funds rate slightly, and for the first time since the fall of 2008 that interest rate can plausibly be said to be above zero. Despite these signs that economic conditions appear to be returning to something more like normality, there is widespread anxiety: Is the Federal Reserve pursuing the right policy? U.S. growth, though sluggish by the standards of past expansions, is noticeably stronger than in many other parts of the industrial world—what can be done to generate greater growth overseas? What should, or can, be done to address the widespread election year concerns about income inequality and mobility? Many of the articles in this issue, a considerable number coming from speeches and presentations at NABE's March 2016 Economic Policy Conference, address these concerns.

The first paper, by Thomas Laubach and John Williams, focuses on the concept of the natural federal funds rate. Numbers of economists have argued that monetary policy should be explicitly focused on gearing accommodation or restraint by the amount of deviation of the actual funds rate from a predetermined natural rate. Laubach and Williams find that the natural rate is now very low compared with the past, and is likely to remain so. They also argue that there is considerable uncertainty about measuring the natural rate.

The papers by Peter Fisher and Paul Tucker also deal with monetary policy, and are concerned with the role of financial stability in FOMC decision-making. Fisher finds that financial stability and macroeconomic stability are fundamentally intertwined; the FOMC cannot pursue its mandated objectives in a logical way without considering the current and future consequences of its decisions for financial market stability.

Tucker's conclusions largely agree with Fisher's, but he further notes that the structure of the Federal Reserve, with the responsibility for macroeconomic stabilization assigned to the FOMC, while financial supervisory powers rest with the Board of Governors, may create the need for the Board to develop a supervisory policy framework and communication strategy comparable to the one the FOMC has fashioned for conventional monetary policy.

The article by Sri Mulyani Indrawati focuses on the global dimensions of the current economic situation. She sees a combination of both progress and problems: poverty levels around the globe have been dropping, and international cooperation on issues such as climate change has increased. Nonetheless, geopolitical tensions are high, and many nations need to strengthen their institutional structures to enhance growth. David Lipton's paper describes a softening world economy, in the context of more volatile financial and commodity markets. He sees the need for more decisive policy actions within nations to support economic growth and a greater focus on managing financial sector risks.

Turning to the bread and butter concerns of Americans, which have been a major area of debate during the early stages of the presidential race, Karen Dynan documents slow income growth for much of the population, how excessive use of debt helped set the stage for the last recession, and the problems low savings create for many. She outlines a number of policies the Obama Administration has adopted, including those connected to the Affordable Care Act, to deal with these issues, and offers a number of other proposals to strengthen the income safety net and to provide a better framework for individual economic progress.

Jared Bernstein and Scott Winship offer their perspectives on these issues in their articles. Bernstein contends that the relationship between productivity and real wages has broken down, though he finds that periods of rapid growth are still associated with meaningful income gains. Increases in income and wealth inequality and lower levels of upward mobility may also feed into unsatisfactory macroeconomic performance. Bernstein calls for a broad array of policies, at

both the macroeconomic and microeconomic levels, to address inequality and improve mobility.

Scott Winship cites many of the same developments as Bernstein, but argues that income inequality has stabilized in recent years, not widened, and that upward mobility in the United States has neither worsened nor is greatly different than in other advanced economies. He concurs, though, that there are important problems to be addressed, and offers his agenda of proposals, some of which resemble Bernstein's, but also others that differ.

Gregory Daco's paper addresses the continuing sluggishness in United States wage growth. He argues that a number of factors are at work: workers in industries very hard-hit by the recession, most notably construction, are hesitant to push for wage gains even though employment has recovered, and some aggregate metrics of the labor market, such as the number of part-time workers, are considerably softer than the low aggregate unemployment rate might suggest. However, Daco sees the low level of the labor-force participation rate as primarily reflecting structural, not cyclical forces. His view is that if current trends continue wage growth should strengthen.

In the final article, Nayantara Hensel examines broad trends in the defense sector. With changing—arguably, growing—national security needs, and the aging of much defense equipment, the armed forces desire a marked step-up in the pace of procurement. However, budget concerns may limit the size of the buildup and could possibly result erratic yearly funding. Her article details the multifaceted strategies the Department of Defense and contractors have been using to cope with this environment.

In this issue's book review, Merrill Matthews looks at *Live Free and Prosper: Restoring America by*

Increasing Freedom, by Thomas Saving. As the title suggests, Saving contends that America can achieve greater prosperity through reducing the ability of government to interfere with markets. Matthews finds the book to be highly readable, and concludes that, as is also suggested by its title, it "goes where no economist has gone before."

As Bob Crow mentioned in the last issue, I am taking on the job of Editor of *Business Economics*. It's both a great honor and a great responsibility. This is the first issue with my name on the masthead, though Bob provided considerable assistance on many fronts, not least of which were his sage responses to my emails!

Economic journals, like the economy itself, inevitably evolve. Nonetheless, it is essential that (as Professor Saving might say) the "prime directive" of *Business Economics* remain its service to the membership of NABE, with content applicable to your jobs. I welcome any suggestions readers may have to offer on how we could improve *Business Economics*, and, what would be equally welcome, submissions of your work.

I am sorry to report that Gerald Musgrave is stepping down as book review editor of *Business Economics*. Gerry held that position for more than 30 years. I am honored to have worked with him, however briefly. As readers know, the book reviews are a special part of the journal: under Gerry's leadership, we could always count on having lively, well-written reviews of interesting new books. We wish him all the best. Until we engage a new book review editor, please submit to me any ideas about books to review.

Charles Steindel

Editor

E-mail: csteindel@nabe.com