From the Editor

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A number of the papers in this issue, as in April's, draw on presentations made at NABE's March Policy Conference, and we want to thank the NABE Foundation for support in funding their publication.

The continuing sluggishness of the economic recovery has fueled ongoing macroeconomic debate. This issue starts with four features by noted figures giving their views on what lines of thinking will best guide economists and policymakers in the current situation. As may perhaps be expected in any economic policy discussion, they have disparate diagnoses.

The first paper is Nobel Prize winner Edward Prescott's Adam Smith lecture, delivered at NABE's 2015 annual meeting. Professor Prescott sees variation in macroeconomic variables, such as employment and income, as the natural consequence of underlying structural change in the world economy, most specifically the growth and diffusion of technology capital. The U.S. has an inherent advantage as the world center for the production of technology capital. In any event, Prescott argues that economists should make greater use of dynamic aggregate theory in understanding and analyzing developments.

Federal Reserve Board Vice-Chair Stanley Fischer, in his Paul Volcker award address, delivered at the Policy Conference, gives his view on developments in macroeconomics over the last half-century. Fischer sees much continued value in the sort of macroeconomics that he learned and taught to many students (including me) in his years as an academic. Older concepts such as Okun's Law and the Phillips Curve remain valuable guides to the macroeconomic situation. Activist fiscal policy can still be an aid to stabilization. Fischer admits that the specifics of models and parameters have changed, and internal financial sector developments have become very important to the real economy. Nonetheless, the traditional lines of macroeconomic analysis, and associated monetary policy strategies, retain their worth.

Former Fed Governor Kevin Warsh, who also spoke at the Policy Conference, offers a different take on monetary policy. He argues that our models are not capturing many of the essentials of economic reality. Policy should not be guided by model-dominated forecasts. It needs to become more open to the likelihood that changes in the structure of the economy and markets are making the output of models less and less trustworthy.

Professors John Taylor and Volker Wieland, in a paper based on their presentation at a session NABE organized for last January's ASSA meetings, focus on what many macroeconomic models see as a key policy variable: the equilibrium real short-term interest rate. In the last issue of *Business Economics* Thomas Laubach and John Williams—who presented their work at the same session—found that parameter to be now quite low; in any event, at any time it is rather hard to measure. Laubach and Williams suggested that policy rules based on a fixed equilibrium rate should be reconsidered. Taylor and Wieland agree that it is certainly possible that the true equilibrium rate may have shifted, but in light of the difficulty of controlling for other variables affecting such estimates (such as the output gap), the case is not settled. Moreover, they find that changing policy on the basis of uncertain estimates of the extent the equilibrium real rate has shifted may lead to an unsettling degree of discretion.

There is also a debate about the proper direction of fiscal policy: Consolidation aimed at removing structural barriers to growth and relieving future debt burdens, or expansion aimed at boosting aggregate demand in a period when monetary policy may have lost much of its potency? This debate is particularly intense in Europe. In a paper based on a panel from the Policy Conference, Ludger Schuknecht denies that there has been much in the way of austerity in Europe, and argues that there is an ongoing need to address the increase in debt relative to GDP. In contrast, fellow panelist Angel Ubide sees a number of advantages to expansionary fiscal policy: properly targeted policies could aid productivity growth, could assist monetary policy, and could address income inequality.

Honing in on more particular economic problems, one of the unusual features of the expansion has been the continued sluggishness in housing, even though many of the problems of overbuilding and elevated prices have been largely overcome. Housing costs have begun to rise at a noticeable clip: is that the result of revived demand, or continued financial headwinds, or supply constraints? Stephen Oliner, summarizing another Policy Conference presentation, examines detailed data from the DC market, and concludes that supply issues, particularly high land costs and barriers to construction in desirable locations, are now playing a major role hindering the housing recovery.

This issue's *Focus on Industries* places a brighter gloss on one large sector of the U.S. economy: aerospace. Aerospace is one of the few large manufacturing sectors in which there continues to be significant U.S. employment and production. Maksim Soshkin sees the current situation and outlook for the sector to be bright: while military demand is volatile, the recovery in the world economy has rejuvenated civilian demands, and given the long lead times for products, that will continue to support production and employment.

In her *Economcs at Work* piece, Constance Hunter tells of the need for business economists to highlight their contributions to their firms' bottom lines, and also notes how NABE's Certified Business Economist (CBE) initiative is playing a role in her company.

The book review returns to policy. Frank Schott, a past NABE President, reviews *Concrete Economics: The Hamilton Approach to Economic Growth and Policy*, by Stephen Cohen and Brad DeLong. Cohen and DeLong's book is a history of U.S. economic policy since Alexander Hamilton's day. They see the general thrust of policy as being highly pragmatic through much of our history, but in recent years becoming more ideological and less effective. Schott recommends the work as an "informed review of U.S. economic policy" even though he has some doubts about the ideological roots of more recent policy.

In the masthead of this issue, you will see that Glenn DeSouza and Bill Ford have stepped down from the Editorial Board after years of dedicated service. Please join me in thanking them and wishing them the best in their future endeavors. It is my pleasure to report that Kevin Klesen of the St. Louis Fed has agreed to become book review editor. Please get in touch with him if you are interested in writing a review.

Charles Steindel

Ramapo College of New Jersey, Mahwah, NJ, USA

E-mail: csteindel@nabe.com