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EDITORIAL

From the Editor

Charles Steindel[1]

This issue's lead paper is "Is American Manufacturing in Decline," by Kevin Kliesen and John Tatom. The authors' answer is a decided "no." A spotlight on the number of workers employed in manufacturing is misleading: thanks to productivity gains, real output in manufacturing has kept pace with the rest of the economy. While aggregate GDP growth has been low in this expansion, focusing on manufacturing can give a misleading indication of the sector's longer-term resiliency. Even taking an international perspective, U.S. manufacturing looks reasonably positioned: Excluding China, U.S. factory output has grown at least as fast as the rest of the industrial world over the last generation. Of course, Chinese manufacturing output has grown much more rapidly than the U.S.—most visibly here in the form of ubiquitous imports. Kliesen and Tatom, though, note that the growth of Chinese exports to the U.S. seems to be gradually cooling off; moreover, they produce statistical evidence that imports are typically positives for U.S. production, quite likely since a large share of them are essential inputs to domestic output. This paper was the winner of the first Daniel Meckstroth Award for Excellence in Manufacturing Research.

In contrast to the relatively upbeat view of U.S. manufacturing, Jeffrey Holland, Edward Leamer, and Alice Rivlin, in "Perspectives on U.S. Fiscal Policy" give a decidedly pessimistic view. The article summarizes their panel discussion at the last Economic Policy Conference. Holland, Leamer, and Rivlin present the all-too-familiar picture of huge deficits and growing debt, and point out the role that the political system is playing, as officials ignore the longer-term consequences of policy decisions. The aging of the population, and its slow growth, is putting enormous pressures on health-care and retirement costs, while there is little appetite to adopt policies, such as structural reforms of health care and encouraging saving—as well as boosting labor force and real output growth through higher immigration—that may alleviate the problems.

The next two papers, also taken from a Policy Conference panel, tackle the economics of immigration. Fred Treyz and Peter Evangelakis consider an extreme alternative: what would the economy look like by mid-century if all immigration ceased now? Using the REMI model, their answer is that the labor force and real GDP would each be about 20% lower at that point than what would be generated by a baseline of annual immigration sustained at about 1.2 to 1.5 million. Jared Bernstein reinforces these findings: the slowdown in potential GDP has been largely a matter of slower growth in the workforce, and immigration is the only plausible mechanism to alleviate that effect. Moreover, contrary to what some believe, immigrants provide a net plus to government finances, while the immigrant population with high levels of education and skills has been growing rapidly.

The Federal Reserve, with the economy now apparently back to full employment, and with its recent leadership change, is apparently reviewing the basic strategy of monetary policy. One issue that has been discussed is whether the Fed should abandon "inflation targeting"—setting its objective in terms of a rate that should, ideally, be more or less what prevails in most years—in favor of "price-level targeting"—hypothesizing a longer-term objective for the path of the price level, which could imply substantial periods of high inflation (to get back up to path) or low inflation (to move back down to the path). Peter

✉ Charles Steindel
csteindel@nabe.com

[1] Ramapo College of New Jersey, Mahwah, NJ, USA

Hooper argues against price-level targeting: basically, there is a risk that the Fed may, in such a regime, generate recessions to bring the price level down to its target, especially given the limited understanding of precisely how policy affects the economy and prices. Hooper suggests that the Fed should make it clear that it is willing to tolerate periods in which it under- and over-shoots its 2% inflation target. David Altig, research director of the Atlanta Federal Reserve, discusses a version of price-level targeting proposed by former Fed Chair Ben Bernanke. The Bernanke proposal for "bounded" price-level targeting calls for the Fed to adopt a price-level target during times of economic weakness and low inflation, much like those that were evident during the last recession and deep into the expansion. Altig finds the proposal worthy of consideration, but notes that implementation must be carefully done, in order to avoid disrupting long-term inflation expectations.

In the book reviews, Marianne Kah discusses *Windfall: how the new energy abundance upends global politics and strengthens America's power*, by Meghan L. O'Sullivan. O'Sullivan documents the surge in U.S. oil and gas productions stemming from the shale revolution, and how this works to the nation's strategic benefit. Kah generally agrees with this verdict, and the associated policy suggestions, but notes several uncertainties not fully addressed in the work.

Kevin Swift gives an enthusiastic thumbs-up to *Managerial Economics: Applications, Strategy, and Tactics* (14th edition) by James R. McGuigan, R. Charles Moyer, and Frederick H. deB. Harris. In his words, "the authors illustrate how actual managers apply economic theories and techniques to solve real-world business problems." On the strength of this review, I've decided to adopt this book for the Managerial Economics class I teach.

Kevin Swift is currently NABE Vice President. Our last review is written by a former NABE President, Frank Schott, examining *Tectonic shifts in financial markets: people, policies and institutions*, a work by Henry Kaufman. Kaufman reviews, and criticizes, the growing concentration in the U.S. financial system. Schott agrees with much of Kaufman's analysis, but differs with his view that the concentration has changed and limited the effectiveness of monetary policy. Schott also disagrees with Kaufman's view that reforming the rather baroque and arcane structure of the Federal Reserve System is a matter of any urgency.

Once again, as was the case last issue, we acknowledge the Peterson Foundation for its grant to the NABE Foundation to assist in the appearance of the material from the Policy Conference.