

# Economics for the Election Year

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# Agenda of Economic Issues: #1 Recession and Recovery

- The Recession and Recovery
  - When did it happen?
  - Why did it occur?
    - (How much blame on Clinton vs. Bush vs. neither)
  - How Bad was it by Historical Standards?
  - Why was it so Mild?
  - Was it “Jobless” or not?
  - The “disguised unemployed”
  - What happened to wages and incomes?

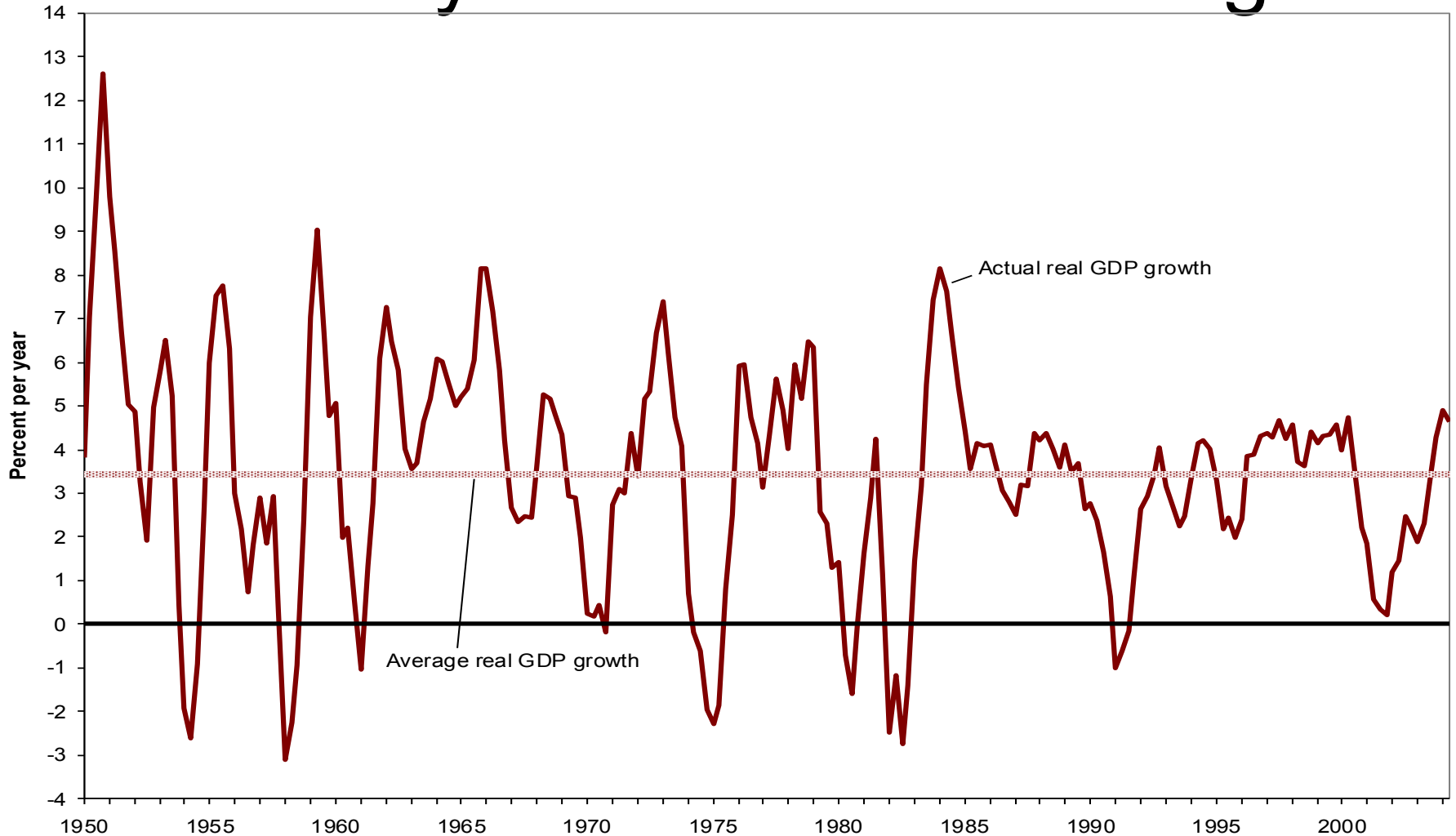
# Income Distribution and Social Security

- #2 Income Distribution: the Fundamental Difference
  - What has happened to inequality?
  - Who is in the top 1%, top 0.01%?
  - Advantages of raising taxes on the rich
    - Reduce deficit, pay for health care
- #3 Social Security
  - Is there a crisis? If so, when?
  - Bush, Kerry, and other solutions

# The Biggest Issue: Medical Care

- The twisted and deformed U. S. medical care system
  - 45 million uninsured
  - Employer-based, not government-based
    - GM: not just current workers, also retirees
    - GM vs. Toyota
- Bush vs. Kerry
  - Bush: Health Saving Accounts
  - Kerry: Catastrophic Coverage by Government

# Business Cycles: The Incredible Volatility of Real GDP Changes



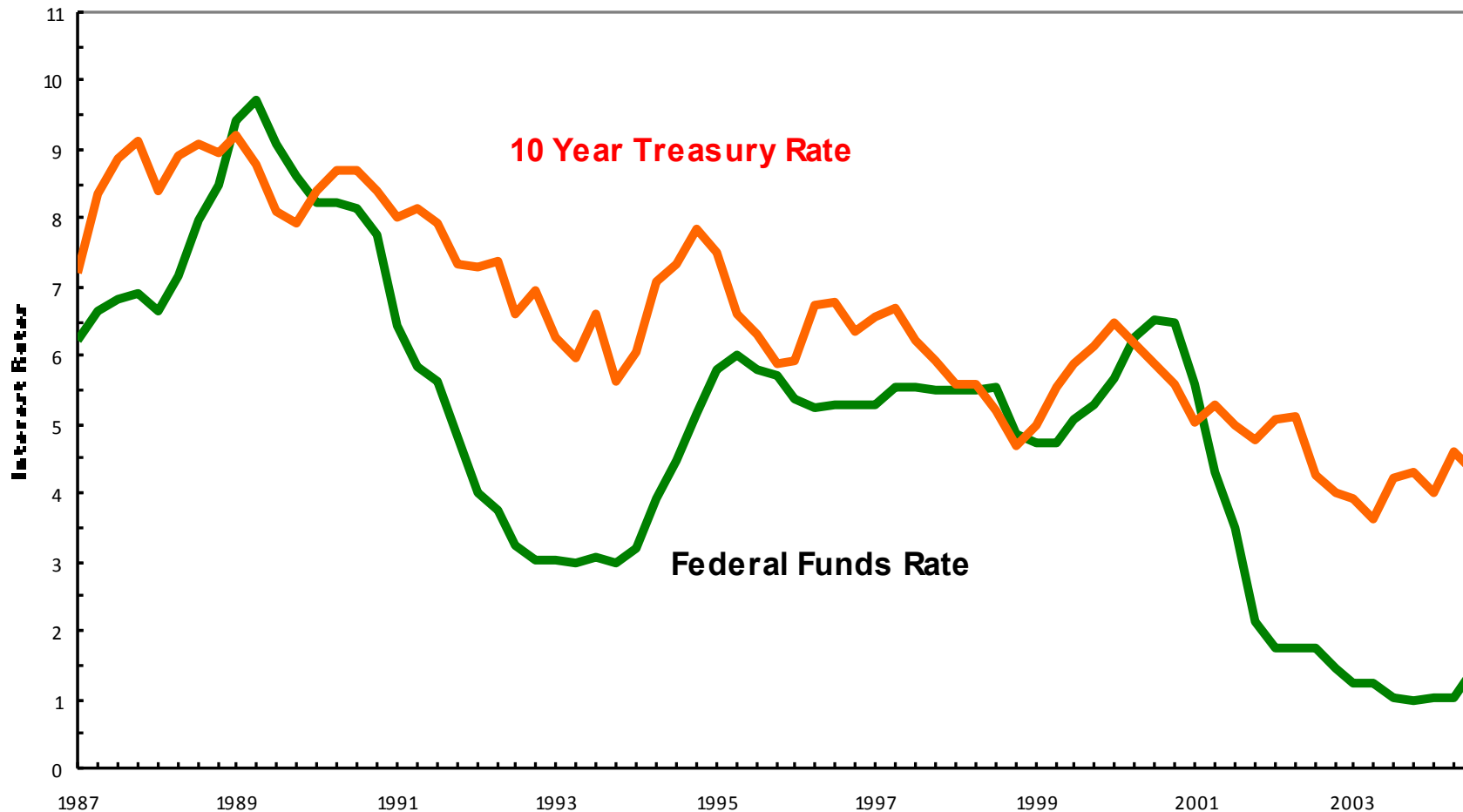
# Why the Recession?

- Why not? Previous expansion was 10 years old (March 1991 to March 2001)
  - Politics of the dating (November 2000 vs. March 2001)
- What goes up must come down
  - Hi-tech and dot.com investment boom
  - Stock market: Irrational Exuberance
  - Accounting tricks and overstated profits
- Clinton Guilty? Greenspan Guilty?

# Why Wasn't the Recession Worse

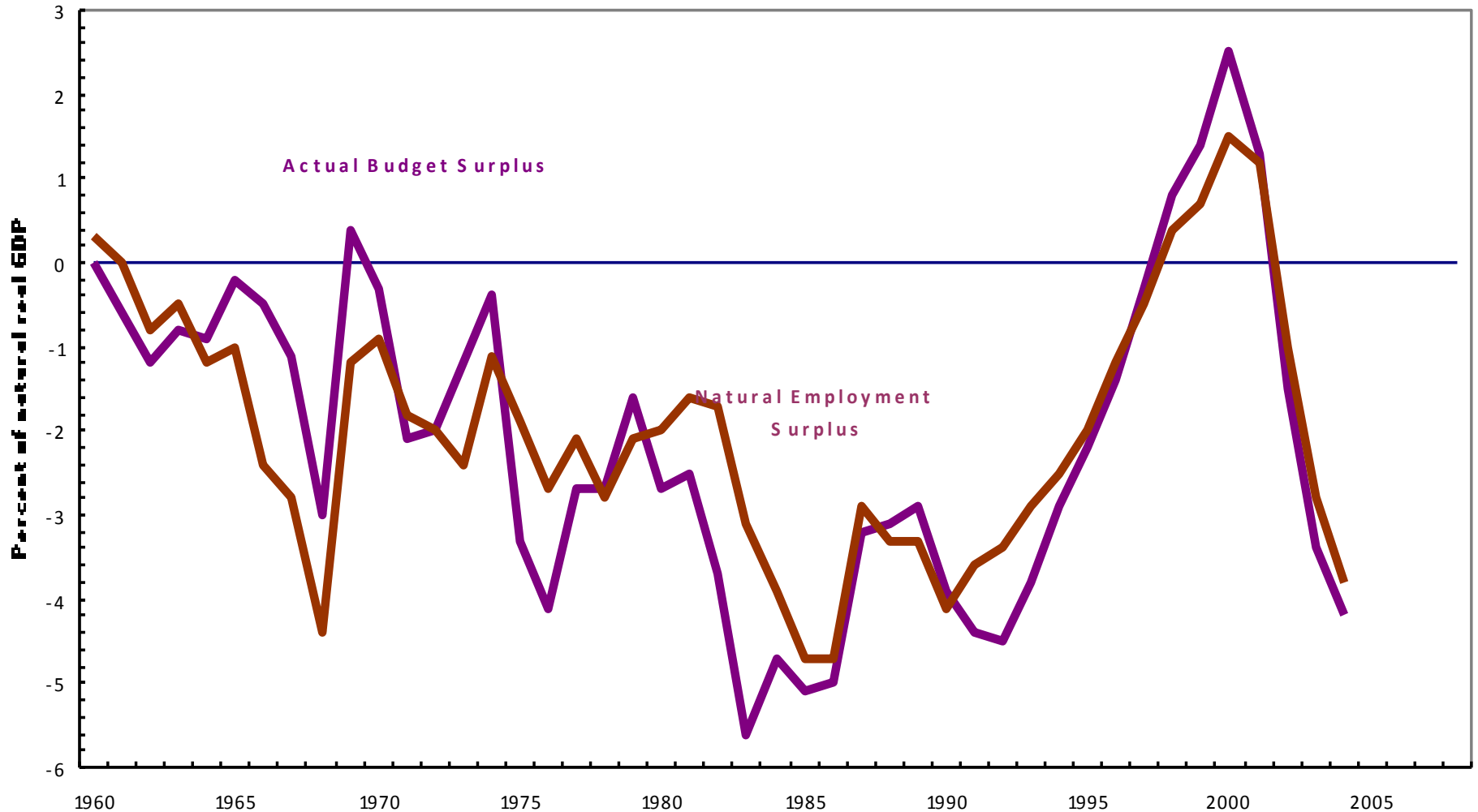
- Greenspan's Monetary Policy
  - Made possible zero-rate auto financing
  - Made possible housing refinance
- Loss in stock market wealth offset by gain in housing wealth
- Bush tax cuts
  - Total 2004 saving \$269 billion
    - Bottom 80% \$90 billion
    - Top 2 to 20% \$90 billion (4.2x as much)
    - Top 1% \$89 billion (80x as much)

# Greenspan and the Chicago Board of Trade, 1987-2004





# The Government Budget with and without the Business Cycle

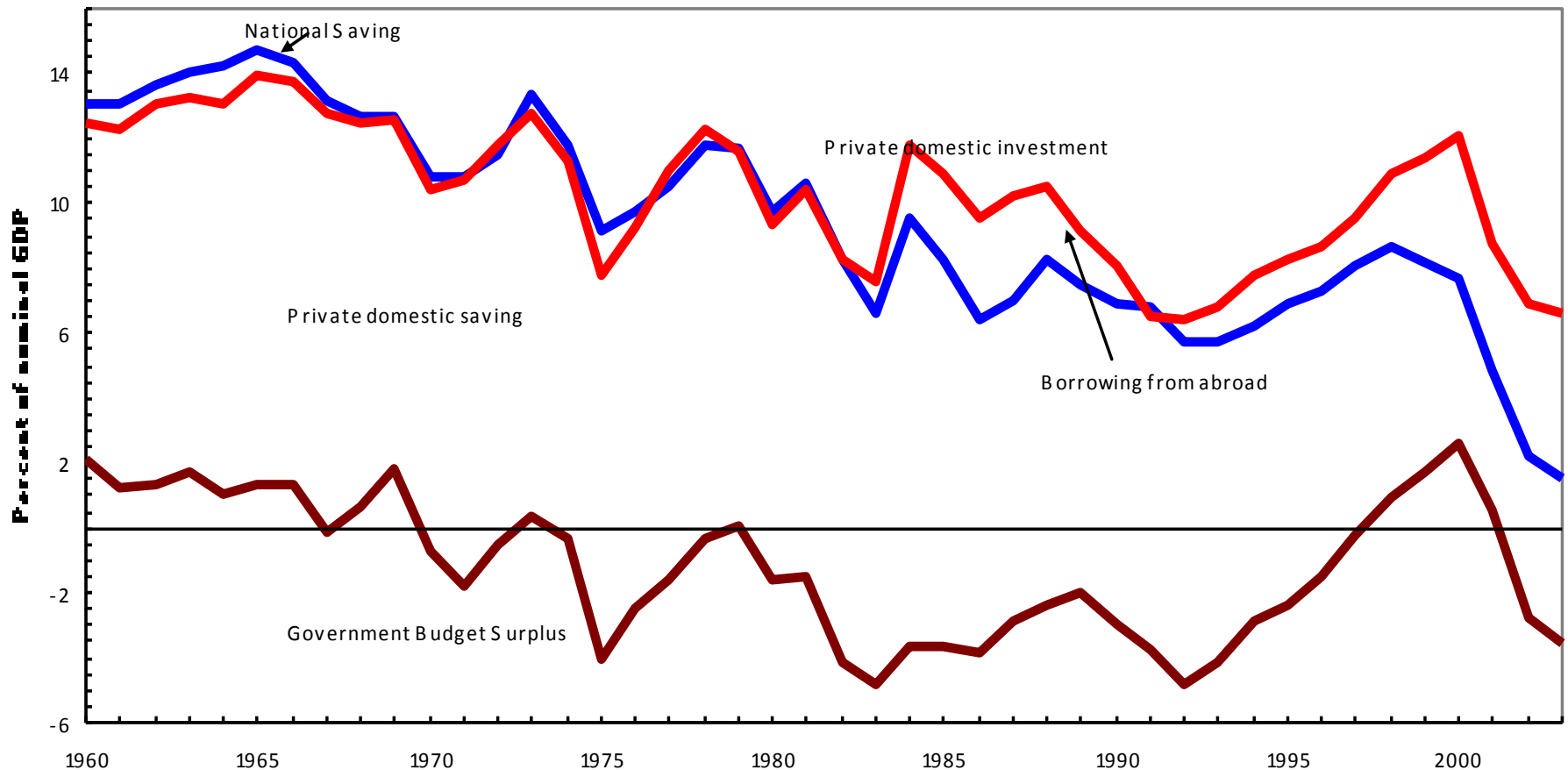


# Assessment of Bush Tax Cuts

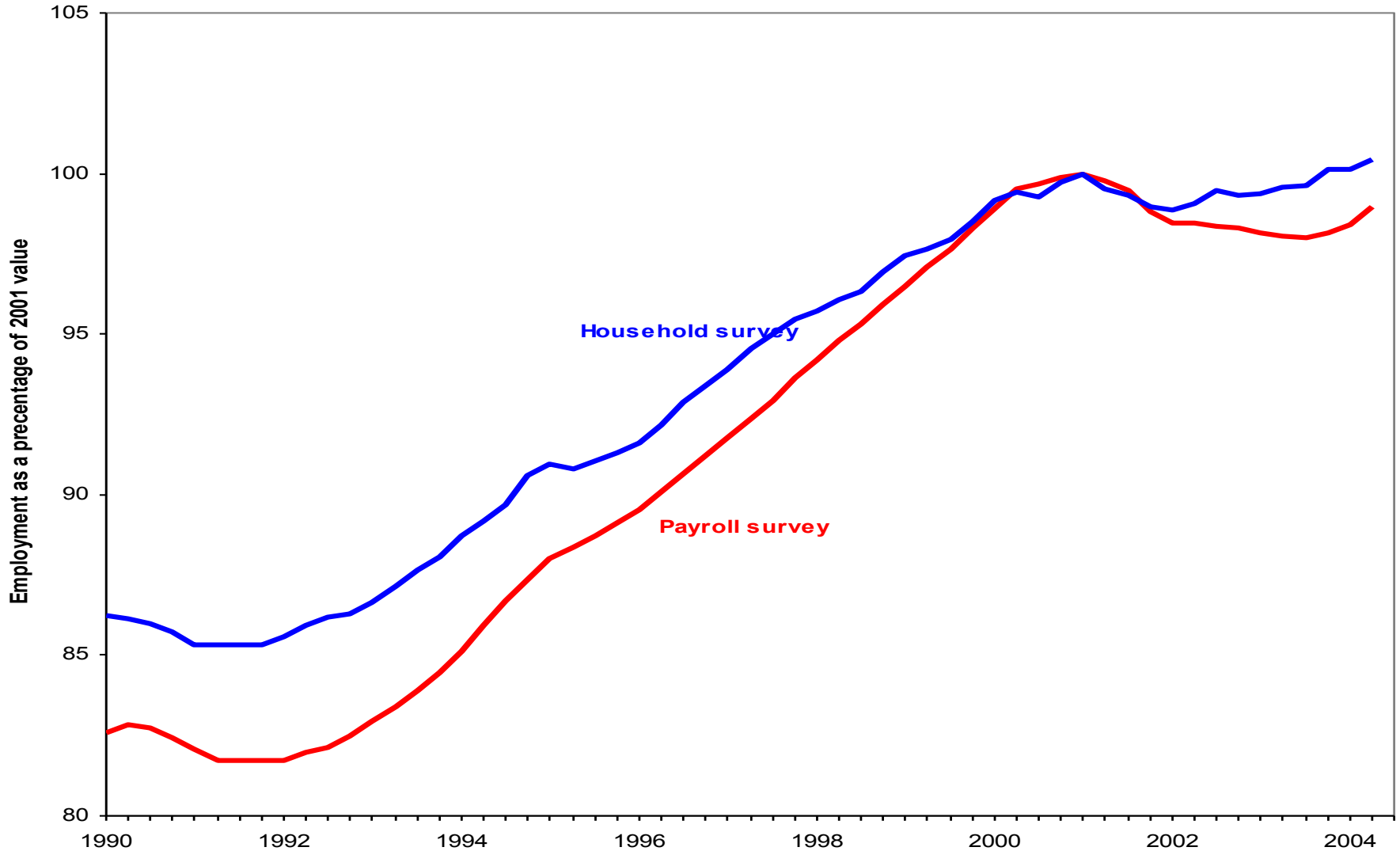
- 2/3 went to top 20%, 1/3 to top 1%
- If the goal is to stimulate the economy, wrong
  - Top 1% save most of their incomes, spend almost none of the tax cut
  - Bottom 80% spend most of their incomes, spend almost all of the tax cut
- If the goal is to stimulate investment, wrong
  - Domestic Investment = Government Surplus + Private Saving + Foreign Borrowing

# How U. S. Domestic Investment is Financed

Figure 5-11: Components of Net Saving and Investment, 1960-2003



# A Jobless Recovery?



# Differences between the surveys

- Changes January 2001 to September 2004
  - Payroll survey
    - Total -821,000
    - Private -1,634,000
  - Household survey
    - Total +1,690,000
- Why the Difference
  - Less moonlighting
  - Missing new establishments
  - Former employees as self-employed consultants

# The “Disguised Unemployed” and Changes in Incomes

- Labor Force = Employed + Unemployed
  - If you're not looking, you're not included
  - 2.6 million people have stopped looking
  - Adding the *INCREASE* in the disguised unemployed, the unemployment rate would be 7.2, not 5.4
- Incomes? Increasing slower than inflation 2003-04
  - 9.9 million people laid off in 2001-2003
  - Only 45% have found new full-time jobs
  - Of those, 52% of jobs are lower paid
  - Loss in manufacturing, gain in low-paying service jobs

# Income Distribution

- Ratio top 20% to bottom 20%, last 25 years up from 9 to 14
- Top 1% earn 14% of total income, bottom 20% earn 4% ( $20 \times 14 / 4 = 70$ )
- CEO pay / average worker pay
  - 1979 50, 2001 440
- Who is in top 1%, the theory of the “Four Michaels”
- Pure rents: what happens if you tax them more?
  - Kerry: go back to pre-2001 (33% to 39% marginal rate)
  - Me: go to at least 50% marginal rate
- This is the golden goose that can pay for health care

# Social Security

- Why a “Crisis”?
  - Baby Boomers (1947-64) shift from paying SS taxes to receiving SS benefits
  - Huge trust fund begins to decline 2015, zero by 2045
- Bush vs. pay-as-you-go
  - Young people set money aside for themselves, don't pay taxes to support today's elderly
  - Risk of bad investments, who will bail them out?
- Solutions: slower increase in benefits, slow rise in taxes, index retirement age to life expectancy
- Crisis overblown! They don't understand immigration!



# The U. S. Medical Care Debacle

- Most Countries Fund Medical Care through Government Taxes
  - No connection between funding and provision
  - Hospitals and doctors can be private/nonprofit, not government owned or government employees (UK the exception)
- U. S. Employer-based system distortions
  - 45m uninsured
  - Employers convert full-time to part-time jobs
  - Employers aren't competitive with foreign firms
  - GM and other legacy firms, \$1,400 per car

# Bush vs. Kerry

- Bush: Health Savings Accounts
  - Tax-deductible contributions, spending on medical can be withdrawn tax-free, interest tax-free
  - Unpopular because tied to high deductibles
  - Like all such plans, provide greater benefits to those in the top tax brackets
- Kerry: government-funded catastrophic care
  - Would reduce medical care premiums

# Neither Addresses Basic Problems

- Employer-based rather than a right of Citizenship
- Republicans love “competition” but look what it brings us in medical care
  - 3 to 4% of GDP on administrative costs
  - Julie’s mail vs. my lack of mail, “this is not a bill”
  - Promotes imports, favors new startups vs. legacy firms
- Universal care, higher co-pays, eliminate paperwork
- The drugs-from-Canada situation
  - U. S. households subsidize drug research for Rest of World
  - Bush legislation prohibits government wielding purchasing clout
  - Why does UK have five firms providing flu shots, U. S. only two?