Economics

Department Alumni Newsletter

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Bob Stonebraker, editor

It's Not Funny

It often is. It usually is. Most of my newsletter introductions are humorous vignettes of campus or department life. Not this time. Unresolved contract issues, threatened strikes and political brinkmanship dominated recent months at IUP. None of it was funny.

If you live in Pennsylvania, you saw the headlines: State System Faculty Working Without Contract, Contract Negotiations Stalled, Faculty Vote to Authorize Strike, Imminent Strike Threatens to Disrupt Education of 95,000 Students on 14 Campuses. Political posturing. Accusations zinging in all directions. None of it was funny.

Oh, a strike was avoided. An eleventh-hour compromise plan won the day, just moments before a strike moratorium was scheduled to expire. Last-minute agreements are nothing new in labor relations. The system rewards negotiators who remain bull-headed and obstinate until the last possible hour. When a possible strike is in the distant future, obstinacy is easy. There is always time to compromise later. But, as the threatened strike draws near, the potential cost of being obstinate rises. Luckily, like every other product, obstinacy has a downward-sloping demand curve. As the deadline approaches and the price of obstinacy begins to rise, the quantity demanded falls. Thank God for economics.

In the meantime, the state office dropped a few hundred thousand dollars on an anti-faculty ad campaign and the faculty union APSCUF countered with a less expensive initiative of its own. More importantly, thousands of labor hours were squandered on strike preparation. Union teams plotted and assigned around-the-clock picket duties that would cover all possible entrances to IUP. Management teams pondered how to keep the universities open. If a lengthy strike were to ensue, should the rest of the semester be cancelled? Should student tuition be refunded? None of it was funny.

Patiences frayed and tempers shortened. Stressed students sought answers to unanswerable questions. Would graduations be postponed? Would internships and student-teaching placements be pulled? How might financial aid be affected? Attentions were diverted away from the educational business at hand. None of it was funny.

We economists weathered things well. Because labor issues are right up our professional alley, we tend to intellectualize rather than personalize such situations. Pro-labor forces rail against management greed and management backers protest union greed. Economics rejects such distinctions; it assumes *everyone* pursues self-interest -- labor and management alike. The economic challenge is to find ways to turn self-interest into public interest. It's an interesting challenge, but none of it was funny.

Bob Stonebraker, editor

The Economics of It All....

What caused the labor impasse? Economics, of course. Negotiators for the State System of Higher Education (SSHE) suggested faculty were already overpaid. The union countered that state wage proposals would cripple our ability to attract top-quality faculty. Who was right? Are we overpaid? Are we underpaid? The best answer is *yes.* We are both. Some of us are overpaid; some of us are underpaid. And that's the dilemma.

Supplies and demands for college faculty vary significantly across disciplines. But, the union pay scale does not. The result? Some faculty in some fields earn far more than colleagues elsewhere. Others earn far less. PhD's recruited to teach graduate courses in physics at IUP differ significantly from those hired to teach freshmen health and wellness at one of our smaller sister schools. Their training differs, their skills differ, their sacrificed opportunities differ. But, their SSHE pay does not.

New IUP faculty begin at the Assistant Professor rank where nine-month salaries range from about $38,000 to $50,000. Most faculty start in the lower half of that range. An especially attractive candidate could be offered the top salary, but would be stuck at that level for six years until he/she is eligible for promotion. For some disciplines, this pay is more than adequate. For others, it is not.

Opportunity costs

Disciplines with a strong non-academic demand for qualified people are especially disadvantaged. A recent study pegged median salaries for newly-minted PhD's in Economics at $54,000. Those taking tenure-track academic positions started at an *average* of $51,000 -- just above the *top* rate IUP could offer. Salaries in fields such as Computer Science can be much higher. If PhD's in Computer Science can easily command $80,000 in the private sector, it is sheer folly to pretend we can attract a bevy of top-drawer applicants at $40,000. Does the term *opportunity cost* ring a bell? Either we pay the going wage, or we make do with less qualified people. Yet, it makes little sense to pay *everyone* $80,000. If the going wage for faculty in lesser-demanded fields is only $30,000, taxpayers and students would surely object to paying even $40,000.

While low entry-level pay would pinch recruitment in many departments, miserly pay increases for faculty sitting at the top of the Full Professor scale would probably have little effect. Experienced faculty members with thirty years at IUP are not likely to bolt if salary increases are 2.0 percent rather than 3.5 percent annually. Such faculty have deep roots in Indiana and can be easily kept. New faculty are much more mobile. Recruiting and retaining young professors is far more difficult.

A rational pay proposal should reflect this difference. If older faculty are easier to retain than younger faculty are to attract, why not squeeze the geezers and free up dollars to pay young faculty more? Curiously, the SSHE proposal paddled in reverse. Experienced faculty were rewarded reasonably well, but annual pay increments offered newer faculty under prior contracts were slashed. The state chose to aim its guns of fiscal prudence squarely at those most likely to duck. So much for economic efficiency.

Spillover effects

Regardless of who might be right or wrong, the real losers in a protracted strike would be students. It is a classic example of externalities or spillover effects. Students play no role at the bargaining table, yet bear the brunt of any impasse.

Negotiators weigh the likely costs and benefits of a possible strike to their own constituencies, but

may give less weight to the costs imposed on others. Hard-nosed bargaining might be in the private interest of the individual negotiators, even if it creates a strike with crushing costs to others.

States routinely bar emergency health care workers and police officers from striking for just such a reason. And, some ban teacher strikes as well. However, an outright ban on strike activity can strip unions of their most basic weapon and unfairly skew bargaining power to management. With no fear of a retaliatory strike, managers have little cause to bargain in good faith.

The solution? Economists often tout *best-offer arbitration* as an optimal strategy. In this scenario, an impartial arbitrator examines both offers and chooses the one which seems best or most reasonable. Since each side will want its own offer to be chosen, each has an incentive to be the more reasonable. Of course, when everyone tries to be more reasonable, impasse is often avoided. An efficient, cost-minimizing result. Curiously, the union suggested best-offer arbitration to state negotiators, but was turned down repeatedly.

Transfusions

New blood! After the rash of recent retirements, we added three fresh faces this Fall. Dr. Stephanie Brewer and Dr. Jim Jozefowicz slid into permanent tenure-track slots and Dr. Chris Stevens teaches in a temporary slot.

It's great. Young economists. Economists with no first hand memories of Dwight Eisenhower, the Cuban missile crisis, or even Roberto Clemente. Economists who climb to their offices on the top floor of McElhaney Hall without needing a nap at the second landing. Economists more in tune with MTV than Medicare.

Dr. Stevens will be with us only one year, but the others should last considerably longer. Want to meet them?

Dr. Stephanie M. Brewer

Go back and check out that first name. Stephanie. Get it? Not Stephen, Steph*anie.* Yes. At last. We broke the gender barrier! For the first time in Department of Economics history, we have a female in a tenure-track faculty position.

Although her undergraduate degree from Baylor University is in mathematics, her minor in economics was enough to reveal the true beauty of marginal analysis. Dr. Brewer wisely switched to economics for her graduate training and finished her Ph.D. in Economics at Indiana University (Bloomington) last summer with specialties in Experimental Economics, Game Theory, International Economics, and Public Economics.

Dr. Brewer's arrival created a special bonus for Yaw Asamoah. His fifteen-year reign as *Shortest IUP Economist* has ended. He towers over her by a good inch. Thankfully, Dr. Asamoah's remaining title of *Baldest IUP Economist* endures uncontested.

Dr. James J. Jozefowicz

Catch the initials? JJJ? Now imagine standing in the plaza between the Tri-Dorms and looking uphill toward Clark and Sutton Halls. What sits at the top of the hill by Grant Street? Can you see it? A fifteen-foot tall metal sculpture of *JJJ* ! That sculpture was our recruitment ace-in-the-hole. Other schools could

match our salary offer, but we were the only one who had bronzed his initials.

Another late convert to the field, Dr. Jozefowicz studied Pre-Med before catching the infectious joy of IS/LM graphs. He graduated with a B.A. in Economics from Marist College and completed his Ph.D. at the State University of New York (Albany) last summer with specialties in Econometrics, Monetary Economics, and Industrial Organization.

Election Economics

They're back. Election-year politics no longer wait for an election year. Campaigns are revving up and presidential pretenders jockey for air time and media exposure. Who will it be? Bradley or Gore? Bush or McCain? Should I mention Donald Trump or Jesse Ventura? Maybe Warren Beatty? How about Zorro?

Yet, the rhetoric remains relatively cool. The titillation of Clinton's debauchery has subsided. Monica Lewinsky, Paula Jones, Gennifer Flowers and Kathleen Willey elicit yawns and media hype-hounds have failed to unearth a substitute scandal. What's a candidate to do? With no hot-button issues on the front burner, voters routinely ignore politicians.

Purring like a kitten?

Financial fears usually offer fuel for the campaign furnace, but the economy remains robust. Unemployment, inflation and budget deficits all stand in apparent remission. Check out the table below. It shows the average rates of unemployment, inflation and real economic growth during recent presidential regimes. It also shows the size of the average federal budget deficits as a percent of Gross Domestic Product. OK. I did cheat a little. Because Kennedy and Ford each served less than a single term, I rolled their records into the Johnson and Nixon years respectively.

* *

Years/President	**Unemployment**	**Inflation**	**Real Growth**	**Federal Defi((as a % of G]**
1953-60 *Eisenhower*	4.9%	1.9%	2.2%	0.3%
1961-68 *Kennedy/Johnson*	4.9	2.9	5.3	0.5
1969-76 *Nixon/Ford*	5.8	5.9	2.7	1.9
1977-80 *Carter*	6.5	8.5	3.2	1.6
1981-88 *Reagan*	7.5	4.2	3.0	3.9
1989-92 *Bush*	6.2	3.6	1.3	3.5
1993-99 *Clinton*	5.5	1.8	3.5	1.2

* *

The Clinton years shine -- the lowest unemployment, the lowest inflation, and the fastest economic

growth since the sixties. And currently, a federal budget surplus to boot! Of course, non-political forces often drive the data. Presidents Ford and Carter were hammered by inflation fueled by OPEC, while Reagan and Bush inherited falling oil prices. A flood of inexperienced baby-boomers drove up unemployment in the 1970's, and an increasingly older, more experienced labor force has helped drive it back down in the 1990's. Would a Bob Dole regime have differed? Perhaps not.

The economic rose is blooming, but at least one pesky weed threatens to choke off new growth. It is saving. Personal saving has dropped out of economic sight. As a group, U.S. consumers currently spend more than they earn. According to the Bureau of Economic Analysis, our personal saving rate is *negative.*

Danger ahead?

Does it matter? Yes. The U.S. foreign trade deficit soared to record highs this year, largely because of low domestic savings. Remember, we can only export what we ourselves do not consume. If we produce 100 ice cream cones but eat only 80, the other 20 can be exported. The less we consume -- or the more we save -- the more we can ship to others. On the other hand, if we produce 100 cones and try to eat 110, we're in trouble. We must import those extra cones from foreign dairies. The more we consume, the more we must import. Drops in domestic saving cause drops in our foreign trade balance.

More importantly, saving drives long-run economic growth. Think of a one-person, Robinson Crusoe economy. Crusoe's standard of living can rise only if he can continue to become more productive. It's the same for the U.S. Our per capita output can grow only if our labor productivity grows. How can we do this? New capital goods and technology are the key. If we continually supply each worker with more and better capital and technology, we can continually reap more output per worker.

However, to do this, we must save. Saving provides the funds needed to invest in new capital and technology. We cannot shift more resources to capital goods and technology unless we shift fewer to consumer goods.

Should we worry? Maybe. The official data are undoubtedly wrong. For example, dollars spent on higher education should be probably treated as an investment in human capital rather than consumption. And undistributed corporate profits -- the property of stockholders -- should be counted as saving as well. Adjusting for these factors pushes the saving rate up above zero, but still below what it was ten years ago.

What happened?

What happened? Why did the saving rate drop? Stock prices loom as the prime suspect. With stock indexes rocketing to record highs, consumers feel flush. And they are -- at least on paper. Every month those mutual fund statements arrive in the mail. And, every month consumers watch their portfolios appreciate at unprecedented rates.

Families save to build assets for future consumption -- for college tuition, for that next car, for retirement. But, the booming Dow has built assets without having to save. With wealth riding unexpectedly high, why save more? Consumers, with some reason, have chosen to spend instead.

Spending their new-found wealth is rational behavior for families, but does nothing for economic growth. To meet this increasing demand firms must plow more resources into producing consumer goods, and fewer resources into the capital and technology needed for sustained growth. The economy

remains robust, but not forever. Only increased saving can stave off an eventual macroeconomic malaise.

So Much to Do, So Little Time

Nobody sees a flower really -- it's so small -- we haven't time, and to see takes time, like to have a friend takes time.

.....Georgia O'Keeffe

Vacations are exhausting.

My wife and I take a red-eye flight to London. We leave Pittsburgh in the evening and arrive at Heathrow the next morning. We try to sleep on the plane. Sometime after midnight, when the nervous excitement of our trip finally succumbs to physical fatigue, we slide into blissful slumber. Not for long. High over the Atlantic, our crew switches from Pittsburgh to London time. Our somnolent psyches are screaming 2 a.m., but the flight attendants are rousing us for breakfast.

We land. Barely conscious, we drift through customs, exchange dollars for the requisite British pounds, drag our luggage onto the subway for central London, and find our hotel. Sleep? There is no time for that. Too much to do. Time is scarce.

Sights and sounds

Quick, buy the theater tickets. My wife considers thespian delights an indispensable ingredient of any London evening. What about the day? Get to the museums, of course. See the crown jewels and Henry VIII's armor at the Tower of London. Check out the costumes in the Victoria and Albert Museum.

The British Museum? It can easily consume three days of aimless wandering, but threehours are all we can allot. The National Gallery of Art, a mammoth facility, suffers the same fate. A fast walk through to hit the highlights is all we can afford. After all, we must still tour the National Portrait Gallery around the corner and the special Mark Rothko exhibit at the Tate Gallery across town.

The pigeons in Trafalgar Square are a must, and a walk by Buckingham Palace and Big Ben. Go to Bloomsbury and find the former house of famed economist John Maynard Keynes. [*This was payback for the every-night-theater and costume exhibits.*] Shopping? How about a run through Harrod's and Liberty of London, and a hurried stroll along Carnaby Street? What about day trips to Greenwich or Oxford or Stratford or Stonehenge or Windsor Castle? No time for them all. Pick and choose.

And photographs. They are absolutely essential. How else can we document our adventures? Pose in front of Big Ben. Pose with the Trafalgar pigeons. Wait for tourists to clear to get the best view of London Bridge. Run across the street to get a better angle on a shot of Harrod's; and pause until a red double-decker bus rolls into the right location.

Flying home offers no relief. We are greeted by an avalanche of newspapers, magazines, and assorted mail. Our in-boxes are crammed full. There are bills to pay, e-mail and phone messages to answer, grass to mow, gardens to weed, friends and relatives to visit. Life went on without us; the return struggle is to catch up again. Hustle bustle. Huff puff.

The role of wealth

In the words of economist Staffan Linder [*The Harried Leisure Class,* Columbia University Press, New York, 1970], my wife and I are members of the *harried leisure class.* We are always on the run, always busy. Even our vacations are hectic. And, it's all because we're rich. That's right, rich. No, we're not rich in the Bill Gates or the Jed Clampett sense. We're not candidates for *Life Styles of the Rich and Famous.* But, with two professional incomes, we are comfortably among the top twenty percent of U.S. households in terms of annual earnings.

The activities that keep us on the run are expensive. Flights to London, theater tickets, museums, cameras and film; these are not cheap. If we were poor we could not afford such a thrill-packed adventure. We could stay home and smell the roses instead -- assuming we could afford a yard in which to grow roses. No money; no play.

Economic growth certainly has its "up" side. It enables us to purchase more and better food, more and better health care, more and better educational and cultural opportunities, more and better recreational activities. But, all this additional consumption involves a hidden cost: time.

Consumption requires time. We cannot "consume" a London vacation without spending time in London; we cannot enjoy a round of golf without spending several hours on the course. Even savoring an especially succulent Nathan's hot dog takes time. Economic growth creates more goods and services, but it does not create additional time for us to consume them. Time is the ultimate scarce resource.

How valuable is time? It depends. In a modern world with endless opportunities, it is precious. But, when there is nothing to do, time is worthless. When no alternatives are available, the *opportunity cost* of idleness, what must be sacrificed or given up to consume it, is zero. Linder notes that cultures with a surplus of time can be found among the poorest citizens of the poorest countries, regions with abysmal productivity and employment and recreational opportunities.

> *Such cultures have no great need of precision and reckoning of time. We find there a* "manana" *attitude, with no detailed planning for either today or tomorrow. In fact, what we in rich countries mean by time is a concept difficult to translate into the languages of these cultures.*

On the other hand, in more prosperous nations, growth has created unprecedented prospects for work and play. Once-in-a-lifetime opportunities slip through our fingers with every moment of sloth. According to Linder:

> *Punctuality has become a virtue that we demand from those around us. Waiting is a squandering of time that angers people in rich countries....People are dominated by their awareness of the clock. They are haunted by their knowledge that the shining moments are passing without things having been done.*

Economizing on time

With a fixed amount of time and increased goods and services, we must, on average, spend less consumption time per commodity. We must economize on time. How?

One path is to pack each available hour as tightly as possible -- like me on a holiday in London. We watch TV and read simultaneously; we tune in our favorite radio station while walking or jogging.

College students are often adept at studying for their 2:00 p.m. exam in their 1:00 p.m. class.

More interestingly, we alter the types of goods and services we consume. We substitute away from *time-intensive* pleasures (those which swallow large amounts of time) and substitute towards *commodity-intensive* pleasures instead. For example, we buy more books but read them fewer times -- if at all. My shelves are littered with once-read novels that I vow to pick up again. I do want to read them again; one cannot truly absorb good literature in a single reading. However, when push comes to shove, I always choose a new novel to re-reading an old one. I decide that reading two novels once is better than reading one novel twice.

Other casualties include good cooking, and good eating. Dumping frozen foods in the microwave may not constitute gourmet dining, but it's convenient. Dining out? *Haute cuisine* has not vanished, but it has lost market share to Taco Bell.

Holidays have been transformed. Quiet, stay-at-home family days have been supplanted by hurried jaunts to the local water park or theme park where non-stop activity is the order of the day. And sports. While inner-city youths might still spend all day shooting hoops in a T-shirt with a ratty $9.98 second-hand basketball; affluent suburbanites have gone high-tech. They head for the slopes, loaded with $700 skis and $500 boots; they head for the Bahamas outfitted with the latest scuba gear. Yuppie closets are crammed with expensive, yet rarely used, equipment of every stripe.

Increasingly scarce time cramp human relationships as well. Relationships take time. Cocktail parties, which enable the simultaneous consumption of food and multiple guests, are quite popular among members of the harried leisure class. Regrettably, "efforts to economize on one's time in this way lead...to numerous acquaintances and no friends." Even love can be threatened. The painstaking development of a long-term marriage can offer unmatched psychic rewards, but casual sex is quicker.

Should we abandon the pursuit of economic growth? No, not in my opinion. However, we should acknowledge that higher levels of consumption will lead to an increased scarcity of time.

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