Economics

Department Alumni Newsletter

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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

If you live in Pennsylvania, you saw the headlines: State System Faculty Working Without Contract, 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 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 [illegible]

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 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 growth since the sixties. And currently, a federal budget surplus to boot! Of course, non-political forces

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.

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

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.

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, [illegible] nothing to do, time is worthless. When no alternatives are available, the *opportunity cost*

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

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.