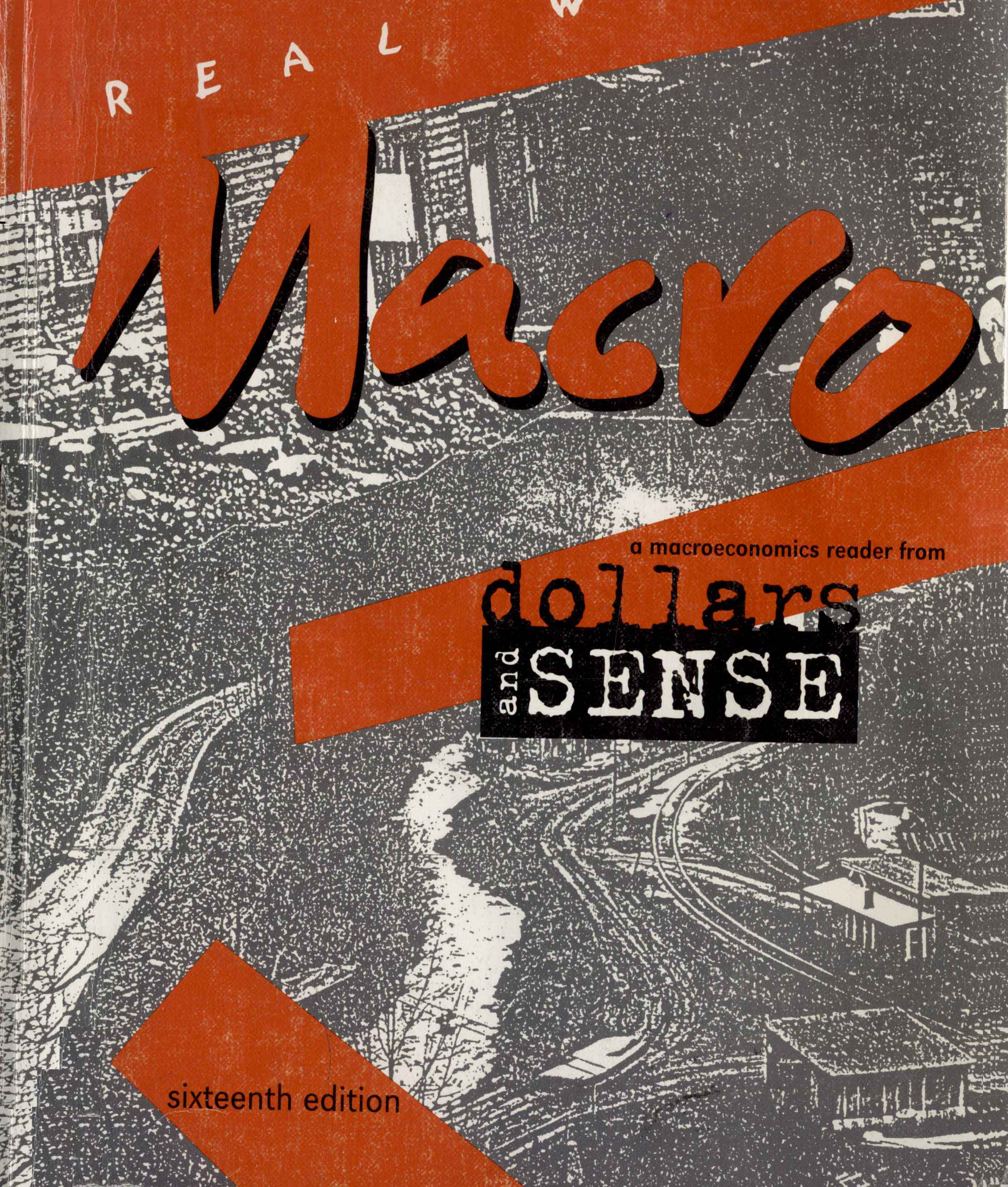
REAL WORLD Macro

a macroeconomics reader from

dollars and SENSE



sixteenth edition

REAL WORLD Macro

SIXTEENTH EDITION

edited by

Marc Breslow, Ellen Frank, John Miller,
Abby Scher, and the Dollars & Sense Collective

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INTRODUCTION

The sixteenth edition of *Real World Macro* offers an alternative view of national and international economic affairs. While traditional macroeconomic theory assumes that free markets will produce the greatest number of jobs, goods, and services at stable prices, this collection of articles looks critically at the effects of market forces on people's daily lives.

The articles, drawn from the popular magazine *Dollars and Sense*, examine traditional economic policies and ensuing trends, as well as progressive alternatives. In the opening article, for example, the author demonstrates that the standard measure of economic prosperity, GDP, has a limited capacity to measure the economy's health, since it ignores inequality, environmental degradation, and resource depletion, among other problems.

The rest of Chapter 1, **Measuring Economic Performance**, examines the status of women and women's labor in the world economy, the changing circumstances of workers, and the state of the business cycle. Chapter 1 includes excerpts from former Labor Secretary Robert Reich's speech, "The New Economic Equation."

In the second chapter, **Households, Consumption, and Inequality**, we find financially strapped households struggling to make ends meet in an unforgiving economy. "Unnecessary Evil" shows why policies that increase economic inequality are likely to have negative effects on overall economic growth, while policies that redress inequality will promote growth. "The Racial Divide Widens" explains why African American workers continue to lose ground in today's economy. "Why Have Savings Fallen?" demonstrates that orthodox theories fail to explain the drop in the U.S. savings rate, or to provide appropriate solutions; while "Credit Card Pushers Pump Up Profits — And Risk" explores one reason why consumers are deeply in debt.

Chapter 3, **Business, Investment, and Productivity**, examines the policies and trends that are shaping the nation's overall economic health. "Rocketing Stocks" looks at why the stock market has risen to unprecedented heights, and whether a bear market is likely to return. In "Generating Affluence," the late David Gordon explains the necessity of transforming labor-management relations, with an emphasis on reducing the risks of unionization, in order to achieve worker productivity gains. "The 'Profits=Investment' Scam" debunks the orthodox assertion that increasing profit margins automatically translate into investment, yielding higher wages, increased employment, and growth in output.

The articles in Chapter 4, **Fiscal Policy**, discuss the government's taxing and spending policies. "Is Big Government Really the Problem?" reviews 20th century economic history to reveal the real record of an economically active government. "Tax Cuts: Clinton and Congress Feed the Wealthy" examines the impacts of the 1997 tax cuts, while "Tax Reform Follies" reviews the variety of regressive tax proposals likely to be considered in the near future. "Wall Street's Fondest Dream: The Insanity of Privatizing Social Security" explores the problems with turning over our public retirement system to the private sector.

Next we turn our attention to **Banking and Monetary Policy**. "What is Money?" and "What is the Federal Reserve?" provide students with concise, common-sense introductions to these complex topics. "It's a Bank-Eat-Bank World" looks at the recent string of mega-bank mergers, including their possible effects on consumers, workers, and macroeconomic stability. "Banks in Control," "Wall Street Gets a Raise," and "Transforming the Fed" examine the ways in which the Federal Reserve determines monetary policy, and how the Fed's role could be changed.

Chapter 6, **Unemployment and Inflation**, looks at these two villains of macroeconomics. We begin with "The 'Natural Rate' of Unemployment: It's All About Class Conflict." Various articles address urban job creation, plant shutdowns, minimum wage increases, the relationship between environmental regulation and employment, and the contrast between the economic difficulties facing Western Europe and those in the United States. "What Are the Real Costs of Inflation — And to Whom?" asks whether the average person gains or loses from policies which restrain inflation by controlling wage gains and employment levels.

The last chapter examines **International Trade and Investment**. We look at the impacts of increasing globalization on jobs, wages, and working conditions in the United States and throughout the world. New articles address the recent crisis in Southeast Asia, the European Monetary Union, the proposed Multilateral Agreement on Investment, and sweatshops in Central America.

We hope the articles in this sixteenth edition of *Real World Macro* clarify the complexities of today's economy. If they provoke questions about the lessons taught by traditional macroeconomic texts, all the better. We welcome feedback from students as well as teachers.

The Editors
March 1999

CHAPTER 1
Measuring Economic Performance

ARTICLE 1

March/April 1996

IS THE U.S. MAKING PROGRESS?

UNLIKE THE GDP, A NEW MEASURE SAYS "NO"

BY MARC BRESLOW

Suppose a factory in your community has been producing valuable chemicals for several decades. It employs hundreds of workers, purchases materials and services from nearby towns, and yields high profits. Then inspectors for the Environmental Protection Agency discover that the factory owners have been dumping hazardous wastes onto the company's land, polluting the local water supply. Under the federal "Superfund" law, EPA orders a cleanup and tries to make the company pay for the damages. In turn, the company resists the EPA in court.

What do these events mean for society? Contrary to common sense, all are counted as positive by the nation's primary measure of economic output, Gross Domestic Product, or GDP. This indicator includes not only the dollar value of constructing the factory, paying wages to employees, and generating profits for the owners — but also the millions of dollars spent to clean up toxic wastes and to restore the purity of the water supply. GDP even includes the health care expenses of anyone who contracts cancer or other illnesses from drinking contaminated water. And, the money spent by EPA to regulate the polluter, and by the company on lawyers and experts to defend itself against regulation, both add to the official measure of national output.

Not only does the GDP count as "progress" many things that do not deserve the label, but it fails to count items that genuinely improve national welfare. Try another example. You and your domestic partner Jean are both working full-time, while your three-year old daughter Kim is in day care 40 hours a week, at a cost of $10,000 a year. Both Jean and you are exhausted by the hectic schedule of going to work, picking Kim up from her center, and then caring for her as soon as you get home. You feel guilty about how much time Kim is in an institutional setting, and wish you could be with her more. On the plus side, both your salaries and the day care expenses add to the nation's GDP.

But then an amazing thing happens. The company that you work for, and the government agency where Jean works, both decide to allow part-time work. You cut back to three days a week, Jean cuts back to four days, and you keep Kim in day care for three days. Kim is happier, you enjoy being with her more, both you and Jean have more free time, and your relationship improves. Money is tighter, but you can still pay the bills.

A happy ending? Yes, except that the economic statisticians will hate you. By cutting your wages, and by reducing your payments to the day care center, you have harmed the GDP. And, the extra two days a week that Jean and you spend caring for Kim yourselves count for nothing, since no one is paying you to do it.

These are not extreme examples. GDP, the primary method by which economic progress is measured in the United States and throughout the world, is a highly misleading index. While the adjective "economic" could be viewed as a tipoff that "progress" includes many other things, in practice GDP is often treated as the sole measure of how human welfare is changing.

Even if its meaning is limited to the value of economic output, GDP is fatally flawed. First, as the child care example shows, GDP rises when unpaid household labor is replaced by paid wage labor, even if real "output" has not changed. Second, GDP fails to note that as production rises annually, we are depleting the earth's stocks of fossil fuels, minerals, forests, wetlands, and fish. Unlike business firms, which subtract "depreciation" of their equipment and buildings from annual income, the GDP makes no adjustment for depletion of natural resources.

When GDP's purpose is extended to measuring human welfare, it has even less relevance, since it fails to distinguish between desirable output ("goods") and undesirable output ("bads"). As the pollution example demonstrates, the costs of controlling environmental damages from production, and of repairing our health once the byproducts of production have harmed it, add to the GDP no differently than do the food, clothing, and entertainment that we actually get pleasure from consuming.

GDP also fails to account for how production and consumption create environmental problems that threaten future generations, such as global warming and destruction of the ozone layer. And it ignores the worsening of social problems in modern-day America, such as inequality, crime, and loss of leisure time.

REDEFINING PROGRESS

These deficiencies in the "national income" accounts of the United States and other nations have been critiqued by environmenalists, feminists, and those who see social development faltering even as the GDP grows. The United Nations Development Program (UNDP), for example, has for years modified GDP scores by examining the health and educational status of each nation's population, deriving a "Human Development Index."

Recently the group "Redefining Progress," based in San Francisco, created its own alternative to GDP, called the "Genuine Progress Indicator," or GPI. According to Clifford Cobb, Ted Halstead, and Jonathan Rowe, the authors of the group's study:

> *Much of what we now call growth or GDP is really just one of three things in disguise: fixing blunders from the past, borrowing resources from the future, or shifting functions from the traditional realm of household and community to the realm of the monetized economy.*

While the GPI rose somewhat between 1950 and the early 1970s, it has been falling steadily since then. By 1994 the GPI was 26% lower than it had been in 1973. Since the U.S. population has been growing, what really matters is "progress" per person, which the GPI measures as having fallen by an astounding 42% since 1970 (see Figure 1)!

These figures are consistent with wage and productivity trends that show economic welfare, measured by workers' paychecks, falling since the same year. But the 42% drop is far more severe than the decline in wages. If the GPI accurately reflects reality, then the U.S. economy must be in a dramatic decline.

Upon closer examination, most of Redefining Progress' adjustments to the GDP are based on depletion of natural resources and long-term damage to the environment. So while the welfare of the current generation of Americans has stagnated, but perhaps not dropped greatly, the GPI indicates that we are severely compromising the ability of future generations to enjoy the fruits of the earth.

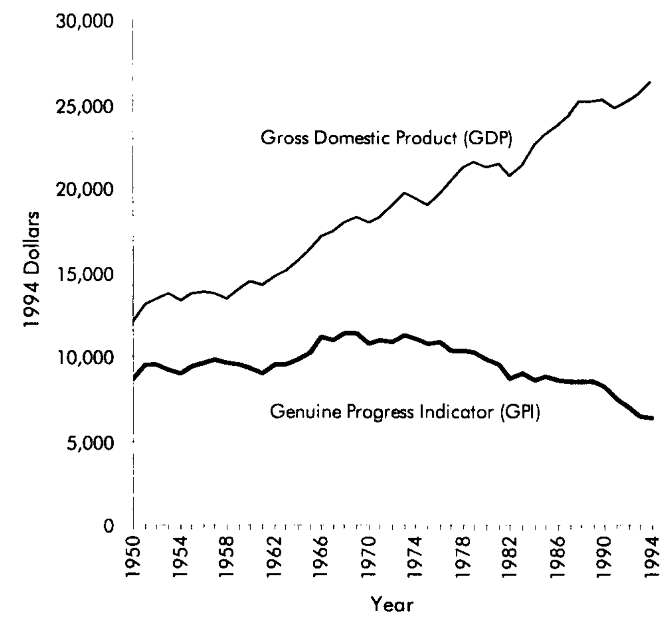
Many experts will question details of how the GPI was constructed, and will not accept the specifics of their numbers. But there is widespread agreement that Redefining Progress' effort to construct an alternative to the GDP is well-founded. Hundreds of economists, including such mainstream figures as Nobel Laureate Herbert Simon and former President of the American Economics Association Robert Eisner, have called for new measures of economic progress.

INEQUALITY, UNDEREMPLOYMENT, AND OVERWORK

The conventional GDP is a combination of three main elements: consumption, meaning the food, clothing, housing and other expenses of all individuals in the United States;

FIGURE 1: GPI VERSUS GDP

Per Capita, 1950 to 1994



Source: Adapted from *The Genuine Progress Indicator: Summary of Data and Methodology*, Redefining Progress, September 1995.

investment by business in items such as machinery and buildings; and spending by government bodies on items such as roads, schools, and the military.

The new GPI breaks each of these elements down more specifically, looking at whether particular expenses are "goods" or "bads." But it still begins with consumption, which increased by an impressive 55%, or $6,200, per person between 1970 and 1994 (all figures in 1994 inflation-adjusted dollars). If we stopped here, we would, as do true believers in the free market, think that life is pretty rosy in America.

But it is now well known that gains in wealth, income, and therefore consumption have been concentrated in the upper classes in recent decades, while wages have fallen for most people and government has cut the real value of assistance for the poor. For its index of inequality, Redefining Progress uses the share of income received by the lowest-income 20% of the population, which was a meager 3.9% in 1990. Counting inequality as a "bad," the per capita GPI falls by $3,700 due to the drop in this share from 1970 to 1994 — cancelling out more than half of the gain from higher consumption.

While there is no "objective" means of weighting the harm from inequality, the GPI's adjustment appears to be well justified. Government data shows that between 1970 and 1992 the average incomes of the bottom three-fifths of U.S. households were virtually unchanged. Thus, less than half the population has gained from the large rise in consumption.

The GPI also has downward adjustments for two other results of America's destructive labor market — underemployment and loss of leisure time. In recent decades average unemployment has risen slightly in the United States, but "underemployment" — meaning people who want full-time jobs but can only get part-time work during part or all of the year — has skyrocketed. Redefining Progress uses the average real wage as the basis for valuing this involuntary idleness.

The U.S. economy is causing seemingly contradictory difficulties, since at the same time that underemployment is rising for some people, overwork is rising for most others. Due to the simultaneous demands of paid labor and unpaid child care, leisure time has been falling consistently. Based on research by Laura Leete-Guy and Juliet Schor (author of *The Overworked American*), Redefining Progress estimates that hours of leisure per fully employed member of the workforce fell by an average of more than 100 per year, or two hours per week, from 1969 to 1989.

Clifford Cobb and his co-authors have also made adjustments for other social problems, including the costs of households protecting themselves from crime, of increasing rates of family breakdown, of longer commuting times to work, and of auto accidents. But while these are conceptually important, the authors' methodology makes them small numerically relative to labor market and environmental factors.

In several cases the GPI appears to underestimate social damages. For example, it limits the costs of crime to the value of stolen goods and to spending on locks, burglar alarms and other "defensive" measures. But surely these are only minor parts of the real damage from rising crime and exploding rates of incarceration. There are now more than a million Americans in prison, a figure that has doubled in the past decade. Is not the loss in freedom to these prisoners far more important than the expenses of buying alarm systems? And what about increasing social division, as most people who can afford to do so move out of urban neighborhoods, partially to escape from crime?

TAXES FOR PROGRESS

Having a better statistical measure of progress is a good idea, but by itself will not change the course of industrial civilization. To help accomplish this goal, Redefining Progress proposes that the United States inhibit pollution and resource depletion by placing severe taxes on the use of resources such as energy fuels.

As the World Resources Institute did in its book *Green Fees*, Redefining Progress argues that such taxes would have a dual benefit. First, they would discourage the use of fuels, thereby limiting global warming and acid rain, and conserving resources for our descendants.

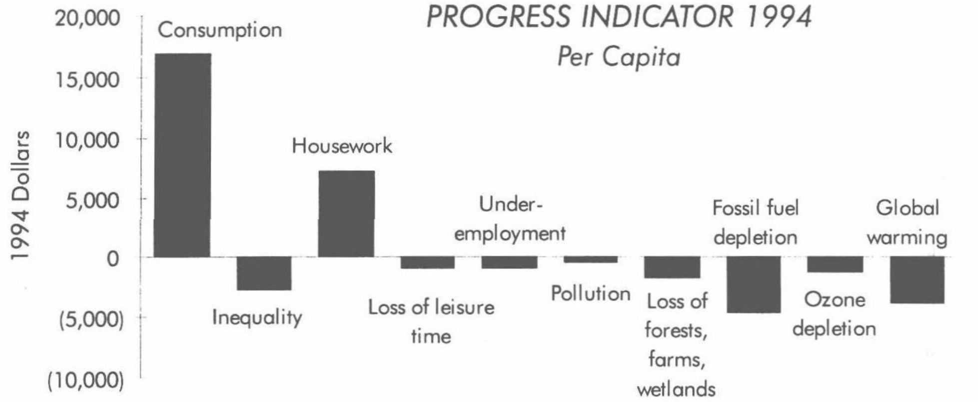
Second, the resulting revenues would allow the government to reduce or eliminate its taxation of labor and capital investment. The latter are activities that we wish to encourage, but instead discourage at present by taxing them heavily. Redefining Progress estimates that a tax on resources and pollution in California would bring in sufficient revenues to enable abolishing all other state and local taxes. Such a change could, by reducing the cost of hiring employees and investing in plant and equipment, prove to be a great boon to workers and to *real* economic growth.

DESTROYING THE EARTH

While the GPI may underestimate the social costs of life in modern-day America, it probably overestimates the environmental costs. Redefining Progress asserts that destruction of old-growth forests, elimination of farmland and wetlands, depletion of non-renewable resources (principally oil), destruction of the ozone layer, and global warm-

FIGURE 2: COMPONENTS OF GENUINE PROGRESS INDICATOR 1994

Per Capita



Source: Adapted from *The Genuine Progress Indicator: Summary of Data and Methodology*, Redefining Progress, Sept. 1995.

ing are in combination the most important reasons to discard Gross Domestic Product as a measure of progress. The GPI counts these failures to conserve the bounties of Mother Earth as subtracting $4,900 per person from the 1994 GDP — much more than the adjustments for rising inequality, loss of leisure time, and higher underemployment combined.

Although resource destruction is accelerating in the United States and worldwide, the GPI indicates that more "traditional" environmental problems — water and air pollution — have not gotten worse in the United States since 1970. In fact, while the costs of water pollution have remained constant, those from air pollution have been cut in half. Redefining Progress estimates that while air quality deteriorated in the United States during the 1950s and 1960s, it began improving by 3% per year in the 1970s, due to the Clean Air Act of 1970.

Perhaps these results are not surprising, given that government policies have been focused on restricting pollution but not on controlling the use of resources. But how should we view our overuse of the earth? Should all of us alive today, who enjoy using our four-wheel drive autos, building houses in the far reaches of suburbia on former farmlands or wetlands, and using our ozone-destroying air conditioners, feel guilty that our grandchildren will have less because we have more?

Most economists — including many who consider themselves environmentalists — would disagree with this perspective. They would argue that with each succeeding generation the economy's capacity to produce becomes greater, and levels of technology improve, so that human "welfare" can rise even as resources become more scarce.

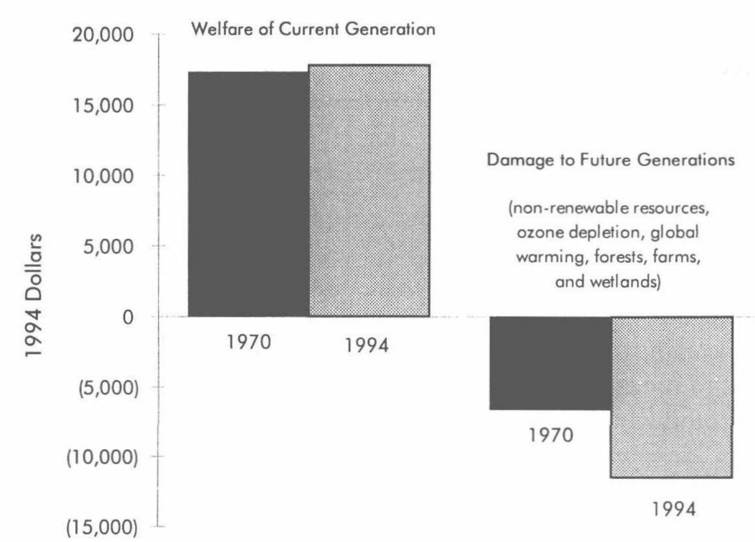
Take, for example, the depletion of petroleum stocks, which is the largest negative adjustment that Redefining Progress makes to the GDP (see Figure 2, where it is termed fossil fuel depletion). There have been scares about declining oil supplies for more than a century, with the most recent being the oil "crises" of 1973 and 1979, when the Organization of Petroleum Exporting Countries (OPEC) sharply raised its prices.

But as new supplies of oil have been discovered throughout the world, OPEC's power has declined, and with it the price of crude oil. Gasoline prices in the United States (adjusted for inflation) are only slightly higher today than they were in 1973.

Many economists, politicians, and perhaps the general

FIGURE 3: GPI, CURRENT VS. FUTURE GENERATIONS

Per Capita, 1970 and 1994



Source: Adapted from *The Genuine Progress Indicator: Summary of Data and Methodology*, Redefining Progress, September 1995.

DEPLETING COSTA RICA'S RESOURCES

Depletion of resources may appear to be an abstract concern in the United States, affecting us or our descendants only decades from now. But it is far more pressing in many Third World countries, where destruction of natural resources can mean loss of livelihood or even starvation.

In 1991 the Tropical Science Center in Costa Rica, along with the Washington, DC-based World Resources Institute, conducted a study titled *Accounts Overdue: Natural Resource Depreciation in Costa Rica*. The two agencies examined three resources — forests, soils, and fisheries — all of which have been exploited "beyond their capacity to recover," so that they now generate less income.

Between 1970 and 1989 Costa Rica's resources depreciated by $4.1 billion, more than one year's average GDP during that period. In 1989, this depreciation was 8.9% of GDP. But such depreciation should really be compared not to total output, but to total investment, such as in machinery, factory buildings, and roads. Viewed in this way, the "disinvestment" in natural resources was a frightening 43% of total investment in Costa Rica.

public have concluded that there is no reason to worry about the availability of oil supplies for the next generation. But Redefining Progress argues that the failure of prices to rise today is weak evidence for believing that our children and grandchildren will not be faced with true resource scarcities. And Cobb et. al. may be right. Since oil supplies are currently abundant, prices will only rise if their owners restrict supply by keeping oil in the ground today, while hoping to sell at higher prices in future decades. But if owners are interested only in short-term profits, then they will fail to conserve oil until a true shortage develops.

To account for potential scarcity, and for the current costs of keeping prices low, the GPI treats oil consumption as a loss to society. The index values this loss at the high price of producing a renewable motor fuel — specifically "gasohol" derived from sugar cane or other organic materials. This is estimated at $75 a barrel (as of 1988) — about *five times* the current cost of buying crude oil on the world market! With oil consumption constituting a significant fraction of all U.S. spending, the $75 estimate causes a huge downward adjustment to the GDP.

While most environmental analysts would probably agree with making some adjustment for resource scarcity, they would question the magnitude of Redefining Progress' estimate. It is likely that succeeding generations will face rising real oil prices over the next century, but Redefining Progress has not provided evidence to support a dramatic five-fold price rise.

Redefining Progress also makes large subtractions from the GDP to account for global warming, ozone depletion, and the gradual destruction of forests, farmland, and wetlands. While the principle behind this is undeniable, the reliability of their specific calculations is again uncertain. Concerning global warming, the Intergovernmental Panel on Climate Change has forecasted that average worldwide temperatures are likely to rise 2.5 degrees centigrade by the year 2025, and economist William Cline has estimated that this would cause $120 billion annually in losses to society.

Warming is primarily due to releases of carbon dioxide to the atmosphere, and such releases are mainly a function of burning fossil fuels. To account for this, Cobb et. al. take the cumulative consumption of oil, coal, and natural gas since 1900 and count $1 per barrel of oil (or its equivalent for coal and gas) as a long-term environmental cost. They make the same adjustment for electricity production from nuclear power plants, in view of the long-term threat from disposal of radioactive wastes. This yields a reduction of $645 billion, or more than one-tenth, to the 1994 Gross Domestic Product! — far higher than Cline's research justifies.

Although their numbers are debatable, Redefining Progress has focused our attention on a critical problem, and has begun the necessary process of developing a more meaningful indicator of human welfare — one that would take into account the needs of future generations. As the GPI's authors say, if economists don't like their numbers, then the profession should begin the difficult task of developing better ones. In the meantime, the Genuine Progress Indicator is a serious effort to place values on resource depletion, environmental destruction, the household sector, inequality, and social costs. Even if it is a flawed effort, policymakers would do far better to pay attention to the GPI than to the absurdities of the Gross Domestic Product.

Resources: The Genuine Progress Indicator: Summary of Data and Methodology, Clifford Cobb, Ted Halstead, and Jonathan Rowe, Redefining Progress, September 1995; "The Green Revenue Path: For Healthy Growth, Washington Should Tax Resources, Not Labor," Halstead and Rowe, *The Washington Post*, September 10, 1995; "If the GDP Is Up, Why Is America Down?," Cobb, Halstead, and Rowe, *The Atlantic Monthly*, October 1995; *Accounts Overdue: Natural Resource Depreciation in Costa Rica*, World Resources Institute, December 1991.

MEASURING WOMEN'S PROGRESS

BY CARLO FORCIONE AND MARC BRESLOW

Judging human progress is no easy task, and in the past efforts to do so have been woefully inadequate. One problem has been the failure to examine how the conditions of women differ from those of men. In this regard the latest *Human Development Report* from the United Nations Development Programme (UNDP) is a pleasant surprise.

The standard measure of economic growth, gross domestic product (GDP), looks only at the dollar value of output, ignoring questions such as income distribution and environmental damage. The UNDP's annual reports have provided a more meaningful human development index (HDI), which gives equal weight to life expectancy, educational attainment, and GDP.

But the HDI still ignores gender differences, so this year the UNDP added new indexes, a gender-related development index (GDI) and a gender empowerment measure (GEM). As the study's overview says, "For too long, it was assumed that development was a process that lifts all boats, that its benefits trickled down to all income classes — and that it was gender-neutral in its impact."

"The GDI is simply the HDI adjusted for gender inequality," says the UNDP. In other words, if a nation's women are doing worse than its men in earnings, education, or life expectancy, the country will have a lower GDI than HDI. A comparison between the HDI and the GDI shows that for most countries, men have benefitted more from economic growth than have women.

While the United States ranked second in the world on the HDI (only Canada was higher), on the gender development index it dropped to fifth, behind Sweden, Finland, Norway, and Denmark. The United States lost ground due to the relatively low share of total wage-based income that women here earn, 34.6%, ranking us 28th in the world — tied with Thailand. The report comments, "... full equality still is a distant prospect in the United States, despite affirmative action policies and market opportunities."

While the GDI depicts the extent of women's achievements in several basic areas of human development, the gender empowerment measure (GEM) focuses on women's status in the workplace and political system. The GEM measures access to economic-decision making power by women's share of professional, technical, administrative, and managerial jobs; while political power is given by women's share of seats in the national legislature. The GEM is calculated by an equal weighting of three factors — the two above (job status and political status), along with women's relative wage income (the same factor as in the GDI).

Largely because women held only 10.3% of seats in Congress, the United States ranked eighth in the world on the GEM, while outranking other industrial powers such as Japan and France. Again the Nordic countries swept the top of the rankings, as the report noted that they "are not only good at strengthening the basic capabilities of women — through liberal investment in education and health — but they have also opened many opportunities for women to participate in economic and political fields."

Examining changes over time, between 1970 and 1992 the GDI of every country among the 79 surveyed increased. The United States showed the smallest increase, a change in value of only 11% (falling four places in the rankings), while all industrialized countries leaped forward an average of 28%. Although the United States had less room for progress than many other nations, its small GDI gain underscores its lack of political commitment during the past two decades to eradicating gender inequities.

The UNDP's statistics show that women's development and status is not due solely to a nation's wealth, but is also a function of social and economic policies. Among both rich and poor countries, the rankings on the human development index vary greatly from those on the gender development index and the gender empowerment measure. For example, former and current planned economies such as those in Poland, Cuba, and China all rank much higher on the GDI and GEM than they do on the HDI. And nations with strong social welfare policies, such as those in Scandinavia, have been better for women than countries with the hottest economic engines.

UNDP DEVELOPMENT RANKINGS

Selected Nations, 1992

	Human Developmt. Index (HDI)	*Gender Developmt. Index (GDI)*	*Gender Empowerment Measure (GEM)*
Sweden	10	1	1
USA	2	5	8
France	8	7	31
Japan	3	8	27
Poland	51	22	32
Spain	9	34	26
Mexico	53	46	42
Cuba	72	47	16
China	111	71	23
Egypt	107	92	96
India	134	99	101
Nigeria	141	100	108

Source: *Human Development Report 1995*, UN Development Programme, 1995, Oxford Univ. Press.

COUNTING WOMEN'S WORK

BY KATHLEEN CLOUD AND NANCY GARRETT

In the eighteenth century, the philosopher Adam Smith identified land, labor and capital as the three major "factors of production"; that is, the three things that come together to create products for society to consume. In his view, a nation's wealth grows as it becomes more adept at the specialized use of each of these factors — for instance, as its workforce grows more efficient, or as investors make wiser decisions about what to do with their capital. Over the past two centuries, as the wealth of many nations has ebbed and flowed, economists have sought to clarify the relationships among these factors in order to promote growth, and to provide a degree of fairness in the way its benefits are distributed throughout society.

In recent years, economists have been collecting more and better data on the ways in which land, labor and capital interact to produce growth. Both the United Nations Development Program (UNDP) and the World Bank now publish yearly tables of such data which have been standardized to permit comparisons among nations. In 1991, and again in 1995, the UN Statistics Office published data on women and men in 180 countries, revealing patterns of education and work.

ON AVERAGE, GNP ROSE 45.5% WHEN WOMEN'S CONTRIBUTIONS WERE TAKEN INTO ACCOUNT.

These data, together with standard accounts of national output, suggest that women are making invisible contributions to the economy. Throughout the world, fewer women than men are recorded in the labor force. This raises the question of what the rest of the women are doing. The obvious answer is unpaid household work and child-rearing, work which contributes to what economists call "human capital" — the skills, energy, and capabilities of the national labor force. Yet although women's paid work is recorded as economic activity, their unpaid labor invested in human capital reproduction and maintenance is not.

To a substantial degree, the private costs of creating and maintaining human capital are borne within the household, by women. It is women who prepare and serve the food, and often it is women who have produced it, or earned the money to buy it. It is women who scrub and clean, who supervise the homework and talk with the teachers, who take the children to the clinic for shots, and care for the sick.

Since it is only women's paid work that is recorded as economic activity, what looks like an increase in women's labor force participation may be simply a shift in sectors, from unpaid human capital production to paid labor in services. Such omissions make it difficult to see ways in which labor and private resources shift between the formal economy and the sphere of the household, and the different ways in which both societies and individuals seek to balance these activities. The absurdity of excluding human capital production from economic calculations becomes clear if one imagines the difference it would make if the same tasks were performed for pay. If a woman works in a restaurant to pay for her parents to live in a nursing home, these services are all counted in GNP. If she stays home to care for her parents, then nothing is added to GNP, even though the same services are being rendered.

In most of the world, the resources devoted to human capital production are increasing. As economies develop, increasing productivity and the accumulation of wealth permit deeper levels of investment in each person. The quality of human resources, as measured by health, life expectancy and education levels, rises steadily.

In part, this improvement is the result of public investments. For over a century, an increasing number of governments have been investing heavily in education and public health. But it is also the result of significant private investments, on the part of families. Gradually and unevenly, families have begun to have fewer children, and they are investing more in each.

Many acknowledge that this growth in human capital is not a free good. Human capital theorists consider the public cost of human capital, such as education and public health measures, as investments that a nation makes in its economy. They count the private costs of food, clothing and education as consumption. By convention, however, human capital economists exclude the *labor* costs of household production and care of family members.

A number of feminist scholars have pointed out this problem, and there is mounting pressure to address it. The UN Plan of Action from the Nairobi World Conference on Women (1985) called for the accurate accounting of women's paid and unpaid labor time in national accounts, and the 1995 Conference in Beijing reinforced the call. But economists need to sort out a number of methodological problems before such accounts can be universally implemented. In particular, figuring out exactly what value to place on human capital production is tricky. If the approach is to assign value as if the same services were purchased in the market, the unfortunate reality is that many household services are not easily available in markets, particularly at early stages of economic development. Nevertheless, after a careful study of existing surveys which do attribute value, the International Labor Organization has concluded that such efforts are feasible. The ILO recommends that economists use the value of purchased goods and services to account for women's contributions to human capital.

Some countries, encouraged by the United Nations, are developing data on household production. But we are still far away from having a reasonable sample of countries with such data that could be used for cross-national comparisons. In the meantime, it is worth hazarding some rough estimates. To do this, we had to make several assumptions. First, we assumed that the economic activity rate of women 15-64 is equal with that of men 15-64. All previously uncounted female labor, up to the level of male participation, counts as household and human capital production. For example, if in Country X, 85% of males and 35% of females appear as economically active, we would adjust the latter to 85%, assuming that 50% of females are engaged in human capital production. Moreover, to reflect the double day of working women, we assume that all females engaged in economic activity contribute an additional 33.3% of productive time to household and human capital production. Finally, we consider that the productivity of women's previously uncounted labor is at least equal to that of the previously counted labor force.

GNP GENDER GAP

Country	*1990 GNP per capita*	*Women's Unpaid Labor*	*Adjusted GNP per capita*
Guatemala	$910	$649	$1,559
Thailand	$1,470	$345	$1,815
Algeria	$2,360	$1,976	$4,336
U.S.S.R.	$8,865	$1,598	$10,463
United States	$21,970	$6,443	$28,413
Sweden	$24,060	$5,257	$29,317

Sources: United Nations, World Bank, and authors' calculation.

Given these three assumptions, we have calculated an adjusted gross national product per capita for each country which includes the production of women's previously uncounted labor time (see table). The difference that this made in GNP varied from country to country, depending on the degree to which women work outside the formal economy. But overall the results were dramatic. In 1990, GNP per capita ranged from $80 in Mozambique to $32,370 in Switzerland. With the addition of human capital labor, the same range was from $97 to $44,531. The smallest percentage gain was 18% in Finland; the largest was 87% in Bangladesh. On average, GNP rose 45.5% when women's contributions were taken into account. While the total GNP of the 132 countries in 1990 was $22 trillion, if women's unpaid labor is included, the figure rises by $7.5 trillion, bringing the total up to $30 trillion in rough numbers. This means that women's unpaid work actually contributed an additional 33.6% to the world's total production in 1990. Though this production is uncounted, it is real, and it makes an essential contribution to the economy of every country.

IS THE ECONOMY REALLY GOING GANGBUSTERS?

BY ARTHUR MACEWAN

Dear Dr. Dollar,

We're hearing the economy is so good. We're hearing that there's plenty of jobs around and wages are up. But I'm not so convinced things are so great. The middle class is shrinking. Underemployment is up, and people don't have health care. What's the story?

— Bruce Boccardy, Allston, Mass.

Whether the story is "good" or "bad" depends in large part on what you compare it to. If your basis for comparison is the situation of the early 1990s, for example, when the monthly official unemployment rate rose to 7.8% of the labor force, then the 4.6% unemployment rate in February 1998 looks pretty good. In fact, as those who tell us we have never had it so good are fond of pointing out, the last time the unemployment rate was this low was October of 1973.

Likewise, people are getting paid more. In January, average weekly earnings of nonsupervisory workers (excluding agriculture) were $436. After adjusting for inflation, this was 4.3% above the level of January 1993, when Bill Clinton first took office; most of the increase, about 3.5%, has come in the last year.

Yet to rally 'round the statistical office on the basis of these numbers would be a bit short-sighted, to say the least. Our experience with jobs and earnings has always had its short-run ups and downs. If we pick an "up" point — now — and compare it with the last "down" point — the early '90s — then yes, things are better. If we take a little longer and a little broader perspective, however, we find that there is good reason for refusing to join in the songs of praise.

For example, let's go back to 1973, when the official unemployment rate was as low as it is now. In January of that year, average earnings (adjusted for inflation) were 22.6% higher than in January 1998. That's right, 22.6% higher. Even in 1985, shortly after the most severe recession since World War II, average wages were still 4% higher than they are now.

As one might easily figure out from these numbers — along with the fact that the stock market has been booming along for the last ten years — income distribution has become much more unequal in recent decades. In 1973, the situation was more unequal than most of us would like: the total income of the richest 5% of households was 16 times as much as the total income of the poorest 20%. In retrospect, however, 1973 looks good: in 1996 (the most recent year for which data are available), the richest 5% of households were getting 23 times as much as the bottom 20%.

DURING 1996 THE NUMBER OF PEOPLE IN THE UNITED STATES WITHOUT HEALTH CARE ROSE TO 41.7 MILLION.

The facts on health care and hunger fill in the picture suggested by this income distribution data. In spite of economic "progress" in recent years, during 1996 the number of people in the United States without health care rose to 41.7 million from 40.6 million in 1995. The number of children without health insurance rose from 10 million to 10.6 million. As to hunger, a recent survey indicates that during the past year, while the official unemployment rate was falling and average earnings were rising, the number of people showing up at free food distribution centers did not decline. The survey indicates that many of those seeking free food are employed, but earning too little to provide fully for themselves and their families.

The "good times" of the last several months may lead to a slight improvement of the income distribution data. When unemployment declines, as it has in the last couple of years, the big gainers in percentage terms are the people who move from no job to some job, even a relatively poorly paying job. But one robin does not make a spring, and a blip in the data would not tell us that a long term trend has been reversed.

Also, before we get even mildly excited about the recent figures, we should note their limits. The "official" unemployment rate does not include people who would like a job but who have given up looking, and it counts as fully employed those people who are part-time but who would like to work full time (the "underemployed"). Taking account of these people, we might reasonably say that the real underemployment rate is about twice the official rate, meaning that about one in ten Americans has inadequate work hours.

In sum, it never does any good to deny positive developments, and recent economic events are an improvement over a few years ago. Also, from the perspective of people whose incomes have soared along with corporate profits and the stock market — the top 5% — the current economic story is very good. Yet only someone with a crippled imagination and a very short memory could look at our overall economic reality today and describe it as a "good" story.

JOB STATS: TOO GOOD TO BE TRUE

THE REAL UN(DER)EMPLOYMENT RATE

If you believe the Clinton administration, unemployment has practically disappeared as a problem. But while the official rate in late 1998 was 4.6% (still well above what we used to think of as full employment), this figure omits millions of people who want full-time jobs but can't find them. If all these people were included, the rate would rise to 9.3% — presenting a far more dismal picture of job prospects in the United States.

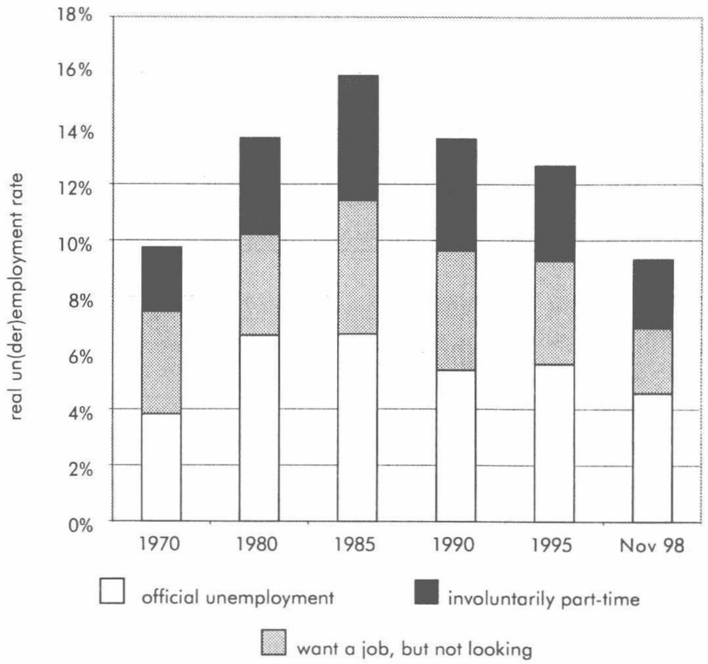
The two main categories omitted from the unemployment statistics are:

- everyone who wants a job but has not looked for one during the past month, due to discouragement or other difficulties.
- everyone who has a part-time job but wants full-time work.

In addition, the U.S. prison population is now close to two million, the vast majority of whom would be unemployed if they were not in jail. Including prisoners would raise the unemployment rate well above 10%.

— *Marc Breslow*

Sources: *Monthly Labor Review, Employment & Earnings*, both by Bureau of Labor Statistics, U.S. Department of Labor.



OFFICIAL UNEMPLOYMENT RATES BY GENDER, RACE, AND AGE

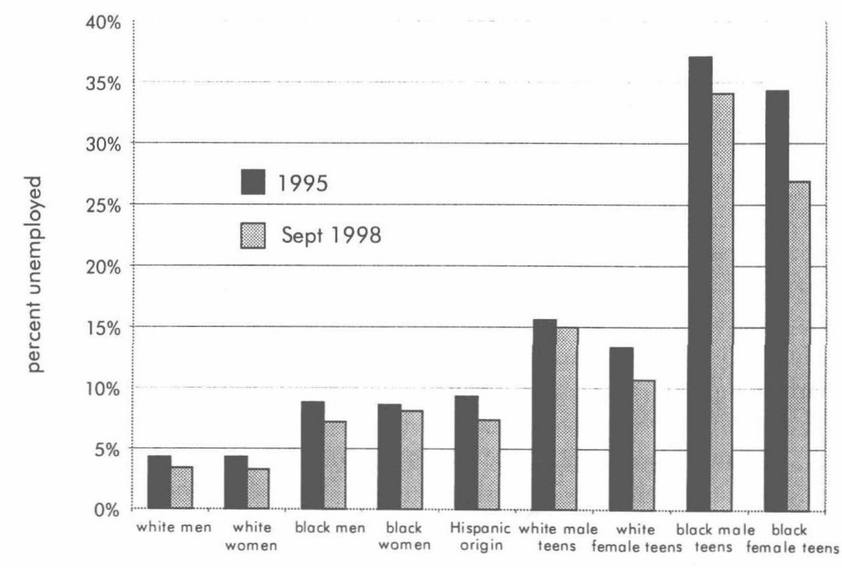
Between 1995 and September 1998 the unemployment rate fell for all racial groups and genders. But despite the supposed economic boom, even official unemployment for black men was 7.2%, black women 8.1% and Latinos 7.4% — significant levels.

For all teenagers who are out of school and looking for work, the official unemployment rate was 15.4% in late 1998. The rates decreased slightly for white teenagers, but were disastrous for teenage blacks, with black females at 26.9% and black males at 34.1%.

— *Marc Breslow*

(The Bureau of Labor Statistics does not report statistics by gender or age for Latinos)

Source: *Monthly Labor Review, November 1998, tables 4 and 6.*



ROBERT REICH: THE NEW ECONOMIC EQUATION

Former Labor Secretary Robert Reich, now a professor at Brandeis University, has authored several books on the global economy, including The Work of Nations: Preparing Ourselves for 21st-Century Capitalism *(1991). In his writings and as a public official, Reich has advocated a vast expansion of education and training, designed to raise the productivity and living standards of individual workers.*

Reich was the Clinton administration's most forthright spokesperson on unemployment, falling wages, and income distribution. On May 24, 1995, at Radcliffe College, he spoke on "The New Economic Equation," eloquently presenting one view of the state of working life in America.

In the 1950s, 1960s, and through much of the 1970s, as John F. Kennedy put it in the early 1960s, "a rising tide lifted all boats." No matter where you were along the income spectrum, the chances were that economic growth was working to your advantage. Even if they did not enjoy social and economic mobility out of the lowest fifth, between 1950 and 1978 the lowest fifth of the population saw their incomes essentially double adjusted for inflation. So did the top fifth. So did the middle fifth. We all rose together...

But since the late 1970s, something else has been going on. The rising tide doesn't seem to be lifting all boats. The yachts have been going up, but there are other boats that are taking on water. They're barely staying afloat. There are other boats that are actually sinking quite quickly. We are seeing an income disparity growing in this country, between the top fifth and the bottom fifth; in fact, all along the way. The gap is growing, not only in income but also in terms of the distribution of wealth...

Most of the gap is attributable to two phenomena: very marked changes in the technologies that govern production, and the globalization of our economy.

These two phenomena... are creating a great advantage for people who have the education and skills to utilize the technology, to take advantage of global markets. Technology is your friend if you have the right education and training to utilize it. But if you don't, technology may not be your friend; technology may be your enemy. Remember that we used to have a lot of telephone operators; now we have a lot of automated switching equipment... Similarly, we used to have a lot of bank tellers; we now have automated teller machines...

International trade has accentuated, pushed and accelerated these trends. We now live, as many people have pointed out, in a global economy.... It is that interplay between technology and globalization which is critical. Again, I think, this explains not all, but a large part of the growing disparity in the United States. There has been steady downward pressure on the wages of people who are simply unprepared for this new economy. And it is a new, fundamentally new, economy.

Since the late '70s, American families have been using several... "coping mechanisms" for dealing with this downward pressure. One of the coping mechanisms beginning in the '70s was to have a lot of women entering into the workforce. I wish that I could say women entered the workforce in great numbers because there were so many wonderful new opportunities. But that is not the case for most women. Most women entered the workforce because they had to, in order to make ends meet, to make sure that family incomes were maintained, given that male earnings were under such pressure.

A second coping mechanism was to have smaller families, not because people loved children less, but because, again, it was one way of coping with the downward pressure on wages and benefits. A third coping mechanism was to work longer hours. As I've traveled around the country, talking to American workers, I see the consequences of those longer hours.

I see people and hear from people working not just one job, but two jobs. In a family, there can be three jobs among them, sometimes even four jobs. Parents are working 60 hours a week, 70 hours a week. Women working not just between nine and five, but before nine o'clock in the morning and after five o'clock in the evening. There are women and men who need a completely different set of infrastructures to help support them. Child care, already a huge problem for working women and working men between nine and five... becomes even more complicated, even more desperate a situation in a 24 hour service economy.

The fourth coping mechanism was to dip into savings, again as another means of maintaining family incomes.