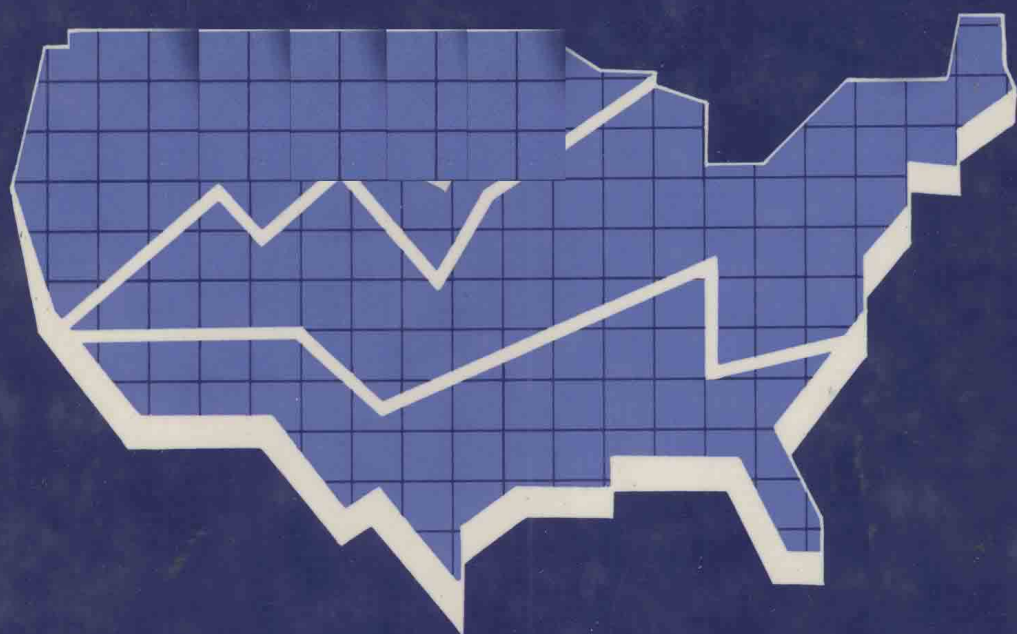


Tracking America's Economy



NORMAN FRUMKIN

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Second Edition

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ABBREVIATIONS

BEA	Bureau of Economic Analysis
BLS	Bureau of Labor Statistics
CCAdj	Capital consumption adjustment
CPI	Consumer price index
CPI-U	Consumer price index based on spending patterns of urban consumers
CPI-W	Consumer price index based on spending patterns of wage and clerical workers
CPS	Current Population Survey
CURs	Capacity utilization rates
FOMC	Federal Open Market Committee
FR	Federal Reserve
GAO	General Accounting Office
GDP	Gross domestic product
GNP	Gross national product
IPI	Industrial production index
IVA	Inventory valuation adjustment
LCLg	Leading, coincident, and lagging indexes
NABE	National Association of Business Economists
NBER	National Bureau of Economic Research
OMB	Office of Management and Budget
OPEC	Organization of Petroleum Exporting Countries
OTA	Office of Technology Assessment
PPP	Purchasing power parity
SNA	System of National Accounts
SPI	Service production index
ULC	Unit labor costs
UR	Unemployment rate

PREFACE

This second edition of *Tracking America's Economy*, like the first, attempts to help students and the general public interpret trends in the major statistical indicators of the U.S. economy. Bridging theory and practice, it explains the significance of the basic economic indicators, details their cyclical and longer-term movements since World War II, analyzes their relationship to each other and to broader developments in the domestic and international economies, and discusses their implications for economic policy. Written in everyday language with easily understood tables and figures, the book is intended for classroom teaching, self-study, or reference.

The second edition updates, refines, and augments the analyses and discussions of the first edition. This enhancement includes the measurement, analytic, and policy aspects of the indicators, as well as institutional factors that affect the indicators, such as the independence and accountability of the Federal Reserve system, the national economic goals of the Full Employment and Balanced Growth Act of 1978, and the effectiveness of the unemployment insurance system. In addition, the second edition has several new features of recent important economic topics. These include:

- New sections on investment and saving, the federal budget deficit, the international dimensions of the U.S. economy, interest rates, and the leading index system.
- New chapter on economic forecasting.
- Review questions at the end of every chapter.
- Epilogue on the production of economic statistics.

The book introduces the reader to the basic elements of macroeconomics: economic growth, employment, inflation, and finance. These complex subjects generate considerable disagreement among economists, who apply a wide variety of theories to interpret the same data differently. To some, the American economy in the early 1990s is sound and requires a continuation or only minor modification of the economic policies of the 1980s, while others believe the economy is faltering and needs fundamentally different economic policies.

These varying views reflect the difficulty of identifying true cause-and-effect

relationships when considering issues such as the impact of the federal government budget deficit and the foreign trade deficit on the economic well-being of the nation, or the causes of the deficits in the first place. The conflicts also indicate the role of the philosophic premises economists use. For example, whether an economist is politically liberal or conservative colors the analysis, in some cases obviously and in others not so transparently.

With such disagreement among specialists, how is the public to know whose economic advice is most credible? Unfortunately this book cannot definitively answer this question. Just as in many other aspects of life, nonspecialists must listen to conflicting expert testimony in court suits, conflicting medical advice from doctors, and conflicting claims by producers of food, cars, and other products, and ultimately make their own decision. This book provides households, businesses, unions, investors, elected officials, and voters with a more rational basis for making decisions based on perceptions of the economy. I also hope it helps some journalists to become more astute in reporting economic news, and some students in economics courses to understand and apply the theories better.

The idea for this book came from a course on interpreting economic trends which I give at the Graduate School, U.S. Department of Agriculture. In preparing for the course, I found there is no suitable single volume on the topic and decided to write one. Both editions of the book have benefited considerably from the thoughtful and perceptive questions and discussions by class members who work in a variety of fields in both the private and public sectors.

Richard Bartel, editor of *Challenge*, encouraged me to write this second edition. It has been a pleasure to work with him, and I deeply appreciate his support.

Several persons provided important comments on drafts of the book. I thank these people for their insights, but ultimately I take sole responsibility for the book's contents. Edward Steinberg commented on the entire second edition. His acuity and insight were invaluable. Others to whom I am grateful for reviewing various sections of the book are: William Alterman, Christopher Bach, Alvin Bauman, Barry Beckman, John Berry, Carol Carson, Elinor Champion, Carol Corrado, Edward Cowan, Dennis Cox, Edwin Dean, Jerry Donahoe, Faye Duchin, Joseph Duncan, Clark Edwards, Seth Elan, Maria Eli, David Findley, Paul Flaim, Sarah Frumkin, Gary Gillum, John Gorman, Thomas Holloway, Jeanette Honsa, Michael Horrigan, Patrick Jackman, Marshall Kaplan, Zoltan Kenessey, Ronald Kutscher, Stephen McNees, Ralph Monaco, Robert Parker, Richard Raddock, Gerald Schluter, Benjamin Slatin, James Stock, Milo Sunderhauf, Robert Villanueva, Stephen Wandner, George Werking, and Obie Whichard. I also had helpful discussions on statistical methodology with Lee Abramson and David Hirschberg and on international comparisons with Arthur Neef. The staff of M. E. Sharpe did an outstanding job of transforming a complex manuscript into the published book: Angela Piliouras was the project editor for most of the preparation of the book; Lynn Frede-Tripicco was the project editor in the last phase of the work; Laura Cohn was the copyeditor; Carol Johnson was the typesetter.

I was again fortunate to have Jody Foster as style editor. With extraordinary perception, she simplified involved topics and brought a freshness and clarity to the overall presentation and the writing.

In the excitement of completing the first edition, I neglected to note the contributions of those closest to me, my sons. Samuel Frumkin taught me how to use the computer, and Jacob Frumkin gave me the idea of including advice to the analyst on interpreting each indicator at the end of each section. I continued to benefit from their long-lasting help in working on this second edition.

Revising the book has been like revisiting a favorite place. It has been all the more satisfying being done in the company of my wife, Sarah.

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