

Wallace Peterson, Notes

6-e, NBER's slanted view

Peterson, Wallace, 1994. Silent Depression.

Chap. 2, Diagnosing the Silent Depression

A. Measuring a depression

1. There is no consensual definition of a depression or recession, except in terms of recent changes. A depression is when key measures fall. Peterson (WP) mentions jobs, and output.

(Note how fixed these measures are on current growth, as opposed to the absolute level of well being. This is a weakness in WP's outlook.)

2. Real (inflation-adjusted) wages fell steadily, 1974-94 - a semi-permanent depression, using this standard of measurement. (p.30)

3. National Bureau of Economic Research (NBER), committee on dating business cycles, under Prof. Robert Hall, defines depression as when the growth-rate of output falls for 2 quarters (6 mos.)

a. Journalists, and many economists, call the NBER-Hall dates "official," and WP falls into this sometimes. Actually, the NBER is a just private organization, and Hall is a highly political figure associated with Steve Forbes, Tom DeLay, the Hoover Institution, et al.

b. Weaknesses of Hall's definition

- the rate of growth could fall a bit for 2 quarters, and still be high
- the rate of growth could be steady at a low level, and Hall would call it prosperity
- jobs can be falling, and Hall would call it prosperity, so long as output is steady or rising. See "c" below

4. A depression "ended" in 3/91, but jobs kept falling until 6/92, when unemployment reached 8%. They called it "jobless prosperity."

(Again, a more recent depression "ended," said Hall, in 11/01, but jobs kept falling for over 2 years, nearly to date. Hall seems not to consider jobs part of prosperity any longer - a radical shift from earlier ideas and social values.)

expensive medical care. Net welfare does not increase as much as measured GNP, and may even fall.

e. b, c, and d

5. Employment and real wage rates are better national performance standards than GNP because:

a. Unemployment and low wage rates are what kicked off the need for Macroeconomics in the first place

b. GNP omits many of the things that make life worthwhile, and includes many other things of no real social value, or negative value

c. GNP is gross of depreciation, obsolescence, depletion, and growth of debts to foreigners, thus overstating the true current net output of goods and services

d. Labor is the source of all value

e. a, b, and c

6. Depletion means:

a. Same as depreciation

b. Decline in inventories held by stores and industries

c. Fall in the value of natural resources caused by extraction

d. 10% of the wellhead value of petroleum

e. a and c

7. "Eating the seed corn" is a metaphor referring to:

a. Gluttony

b. A dietary preference

c. Disinvestment

d. Bulking up for a sumo match

e. b and d

8. Does GNP rise or fall in lockstep with energy combustion?

a. Yes, because GNP is a materialistic measure

b. No, because mankind can change both processes and products to combine less energy per dollar of value-added

c. Yes, because cars and trucks and roadways are vital to the American economy

d. No, because we can use energy without combustion

e. a and b

1-a Some examples of Inflation

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Chap. 1, Unraveling the Am. Dream

Housing being priced out of reach of young families.

1. "Debt service" (interest and amortization of principal) on home mortgage as % of income, rough nat. averages (p.25):

1950-70, 15%

1994 30%

2004 ??? -- the more you know, the harder it

is to pick one "representative" or average figure. We just know it is high and has risen a lot, 1999-date.

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The following are prices I remember from my own past, or from senior colleagues with good memories and accounts

1. Price of medium kind of single family detached home

<u>Year</u>	<u>Price</u>	<u>Location</u>
	\$k	
1959	20	Columbia, MO
1963	25	Milwaukee, WI
1965	40	Claremont, CA
1972	28	Washington, D.C.
1974	60	Victoria, B.C.
1976	90	Victoria, B.C.
1976	100	Riverside, CA
1991	79	U.S. average (p.25)
2004	300	U.S. average
2004	500	Riverside, CA
2004	800	Irvine, CA (rough stab)
2005	1,100	Riverside, CA (same house we bought

in 1976)

2. College tuition, room and board and living expenses, private Ivy League schools

1931	\$700	(Harvard, from Prof. Lowell Harriss)
1941	\$1,000	
2004	\$35,000?	

3. Hours worked, p.25

1969	hours not given
1989	1969 + 10%, + more family members working
2004	7-day weeks coming?

4. Commuting costs, including hours spent

Up, up, up

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In 1950, the U.S. Govt. paid Census Takers 7¢ a mile for use of private cars. From this I maintained and operated my car, and recovered its full purchase price (which was only \$100, 2nd hand). Gas was about 18 cents a gallon. To be sure, it was an old 1936 Chevvy that I had bought for \$100, but it ran for 30,000 miles or so before I scrapped it for an old Buick (\$400) that a guy needed for courting the girls. (It worked.)

By 1994, costs of owning and operating a car were estimated at over 65¢ a mile, before the last 2 or 3 rounds of gasoline price hikes; and commuters must travel many more miles to achieve the same results.

In 1935-40, a new Buick 4-dr sedan cost about \$900.

5. Ice cream cones

1939 5¢, with two scoops. It was real ice cream, no fillers. Local dairy, local retailer, local cows.

2005 ? Check it out,

6. Motel room with 2 double beds

1950-58 \$5-\$8 a night

(With luck, once in 1950 in Ventura I got a decent single for \$1 a night, 7 days at a whack, but that was rare.)

1956 or so, ``Motel 6'' introduced the basic no-frills \$6 room, and it lasted a few years before beginning to escalate

2005 ? Motel 6 is still around; check out their rates

7. Country Club Membership

1948-52, family summer membership, Dorset Field Club, Dorset, VT, cost \$100 for a family of four. Included golf, tennis, use of clubhouse and putting greens, free parking. You carried your clubs or hired a caddy; and helped rebuild and maintain the tennis courts, a social activity.

2005, no more casual use. Membership costs \$35k up front, plus annual dues about \$3,000. You need 3 sponsors, and get on a waiting list.

8. Skiing

1952, Squaw Valley, \$3 for all day ticket. Hoodoo Valley in the Cascades was cheapest, \$1 a day, but that was promotional.

Cheap group lodging for students at U.C. lodge and Sierra Club Lodge

Today?

9.