

# Coyote Economist

News from the Department of Economics, CSUSB

Volume 21, Issue 3

Spring 2015

## Students Present Research on Minimum Wage and Austerity

**Dakota Hughes**, a senior economics major, presented his research at the 29th Annual CSU Student Research Competition held on May 1, 2015. Dakota qualified for this event by being selected by the Office of Student Research based on his performance at CSUSB's student research competition on February 27th. Dakota's project is titled "The Impact of the Minimum Wage on California Labor Markets: A Continuous Counties Approach," and was produced with the advice of Professor Daniel MacDonald.

Dakota compared changes in unemployment in counties in Oregon, Nevada, and Arizona that did not see a minimum wage increase to changes in similar (bordering) counties in California that did see a minimum wage increase. Dakota will be competing with other CSUSB students and over 200 other students from the entire CSU system.

**Clinton Haywood** (economics student), **Kangwook Noh** (economics graduate), and **Catherine Ou** (economics and mathematics student), will be presenting at this year's "Meeting of the Minds," a research symposium held on Thursday, May 21st through the Office of Student Research. Their presentation will be based on work they did last summer with Professor Daniel MacDonald, titled "Estimating the Effects of Austerity: A Contribution to Empirical Macroeconomics."

In their project, they used time series econometric methods to estimate the impact of reduced government spending (also known as "austerity") on GDP growth after the phase-out of the American Recovery and Reinvestment Act in mid-2011.

The Office of Student Research encourages you to check out what promises to be an exciting and event-filled day in the SMSU.

## Stagnation and Neoliberal Capitalism

Six years ago the National Bureau of Economic Research declared the 2007-2009 Great Recession over.

Yet, the announced end of the Great Recession was not followed by economic good times: excess productive capacity, unemployment and underemployment, and stagnant wages still to this day bedevil the economy. The weak nature of the recovery has led prominent economists, such as Laurence Summers, to claim that the U.S. economy is potentially facing a prolonged period of stagnation: "The nature of macroeconomics has changed dramatically in the last seven years. Now, instead of being concerned with minor adjustments to stabilize about a given trend, concern is focused on avoiding secular stagnation" ("U.S. Economic Prospects: Secular Stagnation, Hysteresis, and the Zero Lower Bound," *Business Economics*, 2014, vol. 49, no. 2.)

This is not an unreasonable claim, despite the controversy it has generated. After

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# Commencement

This year's Commencement will be held on June 20, 2015, at the **Citizens Business Bank Arena (CBBA) in Ontario, CA**. This is the first time commencement will be held at that venue. The growing number of students has forced the University to seek a bigger venue, thus the choice of CBBA.

Students majoring in Economics, Political Economy, Mathematical Economics, or Applied Economics will participate in the College of Social and Behavioral Science Commencement at Citizens Bank Arena on Saturday, June 20, at 8:00 a.m. Students majoring in Business Administration with a concentration in Business Economics will participate in the College of Business and Public Administration Commencement also to be held at CBBA on Saturday, June 20, 2015, at 8:00 p.m.

## Seniors' Reception, Awards Ceremony, and Pizza Party!

All students are encouraged to attend our annual Seniors' Reception to be held on Friday, June 12, 2015, at 4:30 p.m. in SB-302B. All graduating seniors will be honored at this event. In addition, we will be celebrating students graduating with honors, students that have won Economic Scholarships for the next academic year, and students who were inducted into the Alpha Delta chapter of Omicron Delta Epsilon. *Students are encouraged to bring their family and friends.*

After the Seniors Reception, the Department of Economics will be hosting its world-famous End-of-the-Year Party on Friday, June 12, at 6 p.m. at Jerseys Pizza. All econ students, as well as friends and family, are encouraged to attend. If you haven't attended one of our parties, you should; not only do you get free pizza and beverages, you get to meet the econ faculty and other econ students. These events are always fun.

*So...where is commencement?*

~~Coussoulis Arena at CSUSB~~



**Citizens Business Bank Arena  
in Ontario**

## We're Still on Facebook!

Joining us on Facebook is an important way of keeping up with Departmental news and events, as well as getting information on political economy.

Simply search for The CSUSB Department of Economics on Facebook and you'll find us. We're easy to find. If you've not already done this, do it today!

## Staying Informed of CSUSB Department of Economics Events and News

If you're receiving the *Coyote Economist*, then you're on our mailing list and everything is as it should be. But, if you know of an Economics Major, or an Econ Fellow Traveler, who is not receiving the *Coyote Economist* through email, then please have him/her inform our Administrative Support Coordinator, Ms. Jacqueline Carrillo, or the Chair of the Economics Department, Professor Mayo Toruño. Our phone number is 909-537-5511.

You can stay informed by consulting:

**Our Website** - <http://economics.csusb.edu/>

**Our Facebook Page** - <http://www.facebook.com/pages/CSUSB-Department-of-Economics/109500729082841>

**Chair of the Economics Department** - [mtoruno@csusb.edu](mailto:mtoruno@csusb.edu)

# Stagnation

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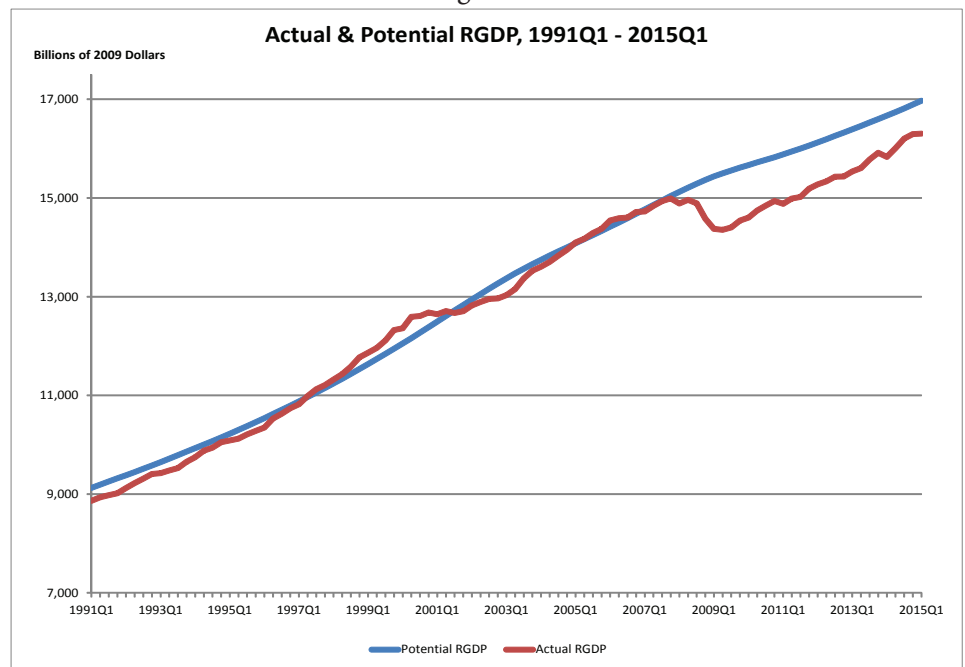
all, the gap between actual output (real GDP) and potential output (a measure of the “full employment” level of real GDP) remains large, casting, in the words of Summers, “a substantial shadow on the economy’s future potential.”

Figure 1 (at right) shows the relationship between actual and potential real GDP from 1991 to the first quarter of 2015. As can be seen, the gap between actual and potential real output has been *substantial and enduring* since 2007. And, while the gap has diminished it is still high by historical standards. For example, from 1949 until the first quarter of 2015, the gap between actual and potential real GDP was, on average, 0.62% below potential. Yet, in the first quarter of this year, the gap was relatively huge 4% below potential (these estimates obtained from CBOs February 2014 report *The Budget and Economic Outlook: 2014 to 2024* and NIPA Table 1.1.6).

The current discussion regarding the possibility of secular stagnation is an awkward one, given the standard assumption accepted by many mainstream economists that capitalism has an automatic tendency to move toward full employment.

Yet, a long-standing heterodox tradition—going back to John Maynard Keynes’ *General Theory* (1936) and, more tellingly, Karl Marx’s *Capital* (1867)—holds that the system is *not* stable and does *not* have an automatic tendency to move toward full employment. That’s not to say that full employment is impossible, just that it is only one of numerous possibilities. It’s plausible to claim, based on empirical observation, that unemployment equilibriums are occasionally encountered, and when encountered may persist for long periods. What’s more, as

Figure 1



John Robinson noted in both *The Accumulation of Capital* (1956) and *Essays in the Theory of Economic Growth* (1963), no reason exists to presume that the system is stable and grows along a full employment path. The patterns of growth that capitalist economies achieve depend on a host of institutional factors that seldom guarantee a golden age of economic growth with full employment and stable income shares.

David M. Kotz’s recent book *The Rise and Fall of Neoliberal Capitalism* (2015) reflects this alternative tradition. It explores the patterns of growth in the US economy since the end of World War II, focusing on the emergence, history, and possible future of the “neoliberal order,” which began in the late 1970s.

Kotz explores this history through the lens of the social structure of accumulation theory, which claims that each era of economic growth can be explained by reference to a set of institutions (such as the legal and regulatory environment, and informal arrangements among capitalists and between capitalists and workers) that promote a particular pattern of

profitability and capital accumulation.

When a social structure of accumulation is widely accepted, economic relationships—particularly between capitalists and workers—are stable, allowing for a relatively long era of economic growth. The pattern of growth, employment, and income shares characteristic of that era last for a few decades but inevitably give way to a period of stagnation and crisis, when the existing institutional framework becomes increasingly incompatible with the income seeking activity of capitalists and/or workers.

During the latter period of stagnation and crisis, regulations and laws are fashioned with the intent of overcoming the crisis and creating a new framework through which a new era of profitability and capital accumulation can once again reign.

Since the end of World War II, the U.S.A. has experienced two distinct eras of economic growth, that is, two distinct social structures of accumulation.

The first era, now referred to as the Golden Age, lasted from the end of World War II until the 1970s. It was a

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# Stagnation

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time of robust, and shared, economic growth.

The second era—referred to as the Neoliberal Era—started in the 1970s and is still a part of the political economic landscape. The patterns of growth during these two eras are quite distinct. In comparing the Golden Age to the Neoliberal Era the following patterns stand out: the economy grew faster during the Golden Age than during the Neoliberal Era, labor productivity and wages grew faster—and were more closely aligned—during the Golden Age than during the Neoliberal Era, unemployment and underemployment were lower during the Golden Age than during the Neoliberal Era, income inequality

was stable and less unequal during the Golden Age than during the Neoliberal Era, and financial crisis and asset bubbles did not occur during the Golden Age, but have been a recurring feature of the Neoliberal Era.

The Golden Age was characterized by an expanding social welfare state, investments in public infrastructure (such as public education and highways), support of labor unions (worker rights, and collective bargaining), regulation of basic industries (in particular, transportation, energy, and finance), regulation of product and job safety, regulation of business impact on the environment, antitrust enforcement, higher taxes on capital and the rich, and Keynesian inspired fiscal and monetary policy.

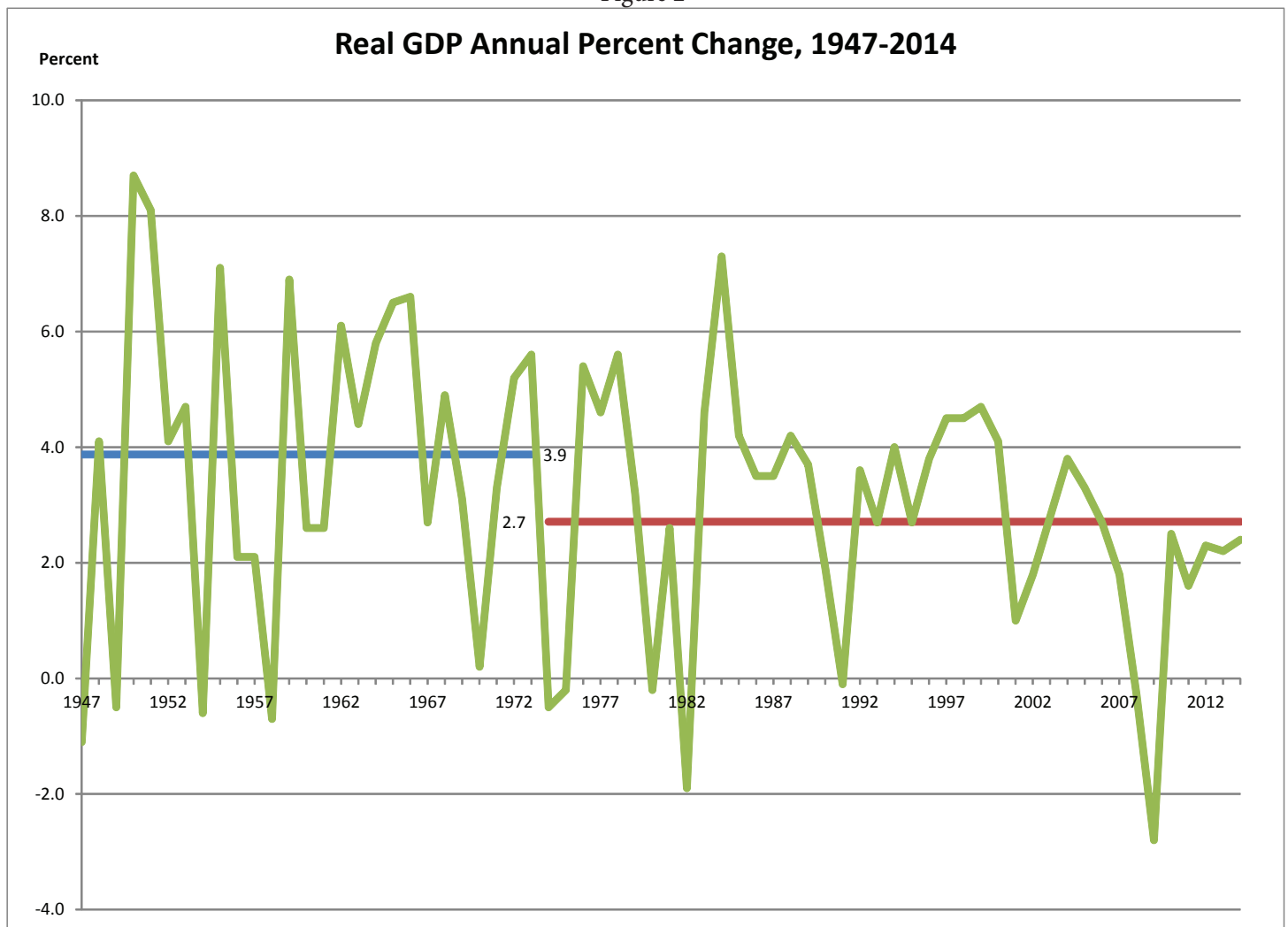
On the other hand, the Neoliberal

Era has been characterized by consistent efforts to reduce or eliminate the social welfare state, reduced investment in public infrastructure while privatizing public services, undermining or attacking labor unions and collective bargaining, deregulation of basic industries (transportation, energy and finance), deregulation of product and job safety, minimizing the impact of business on the environment, weakening anti-trust enforcement, lower taxes on capital and the rich, and conservative inspired (Monetarist, Supply side, and Real Business Cycle) fiscal and monetary policy (Kotz, chapters 2 & 3).

Figure 2 (below) shows one impact of these two different social structures of accumulation. As can be seen, the

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Figure 2



# Stagnation

*Continued from page 4*

average annual rate of increase in real GDP was 3.9% during the Golden Age. But, since that period, real GDP has increased at an average annual rate of only 2.7%. What's more, at the same time that the rate of growth has slowed down during the Neoliberal Era, the downturns have been more dramatic than during the Golden Age.

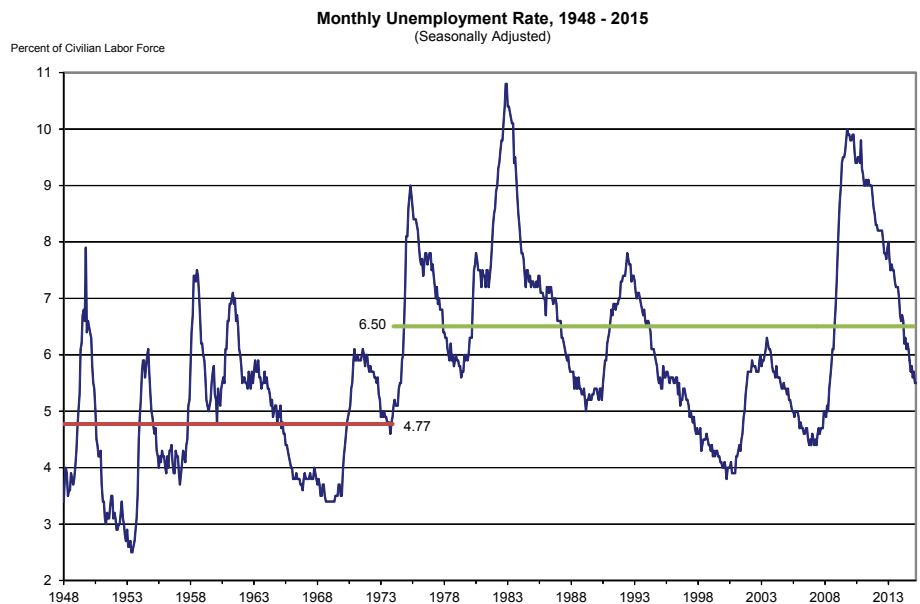
At the same time, as can be seen in Figure 3 (right), the average monthly rate of unemployment was 4.77% during the Golden Age but has averaged 6.5% during the Neoliberal Era. The frequency of severe unemployment has also been greater during the Neoliberal Era than during the Golden Age.

In the first decade of the Neoliberal Era, Samuel Bowles, David M. Gordon, and Thomas E. Weisskopf ("Business Ascendancy and Economic Impasse: A Structural Retrospective on Conservative Economics 1979-1987," *The Journal of Economic Perspectives* 3, no.1, (Winter 1989): 107-145) argued that the shift toward neoliberal economics was motivated by the decline in relative economic power capitalists began to experience in the mid- to late-1960s.

The Golden Age began to atrophy as the rate of profit began to decline in the mid 1960s. This was followed in the 1970s by rising unit cost and reductions in the market power of core sector firms. In an attempt to restore profitability, corporate capitalists and their political allies moved toward dismantling government programs perceived as responsible for the decline in their relative power while attacking labor unions and collective bargaining.

The result of these neoliberal policies was a restoration of capitalist power brought about in large measure by preventing wages from growing in tandem with productivity, allowing the difference to flow to capitalists in the

Figure 3



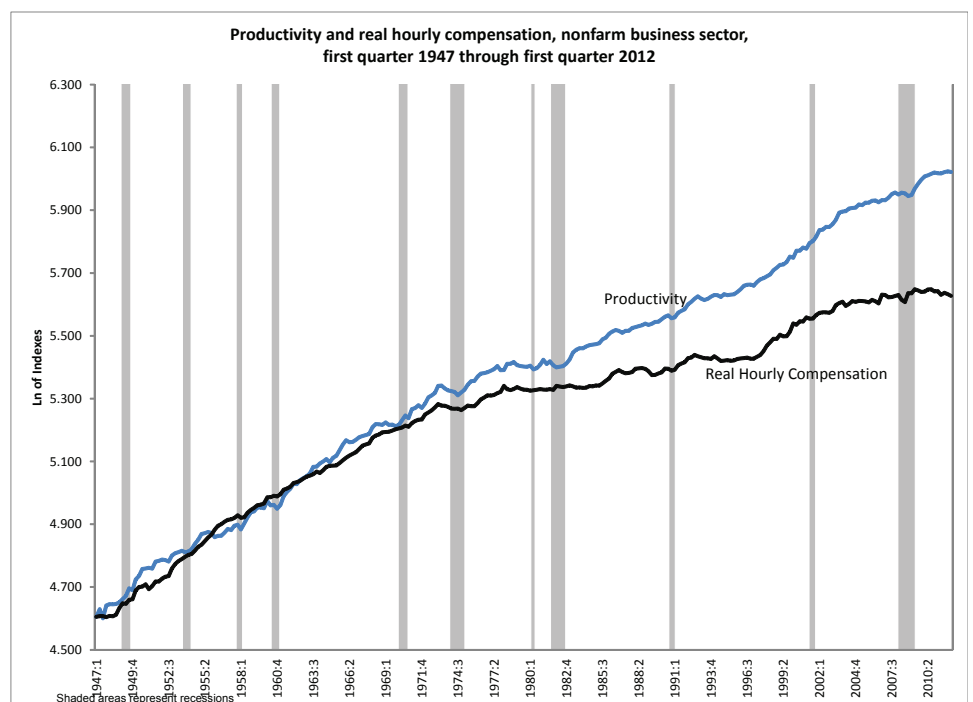
form of profits.

Figure 4 (below, derived from updated data for Susan Fleck, John Glaser and Shawn Sprague, "The compensation-productivity gap: a visual essay" in the *Monthly Labor Review* January 2011) shows how labor productivity and real labor compensation has behaved during both eras. As can be seen, productivity and labor compensation grew at similar rates during the Golden

Age. From 1947 to 1973 productivity grew at an average annual rate of 2.8% while labor compensation grew at an average annual rate of 2.6%. But during the Neoliberal Era, both productivity and labor grew at slower rates and, what's more, the gap between productivity and labor compensation widened. During this latter era, productivity grew at an average annual

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Figure 4



# Stagnation

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rate of 1.8% while labor compensation grew at an average annual rate of 0.9%.

It's important to note that Figure 4 measures total labor compensation; that is, it includes the wages and compensation of corporate CEOs. If we were to narrow our focus to only production and nonsupervisory workers the gap between productivity and wages, during the Neoliberal Era, would be much greater. The real average hourly wage of production and nonsupervisory workers, in 2014 dollars, reached a peak of \$22 in 1972 and has yet to catch up to that level. By 2014 the real average hourly wage of production and nonsupervisory workers stood at \$20.60, \$1.40 per

hour less than was being earned in real terms in 1972.

Figure 5 (below) displays the movements in the real wages of production and nonsupervisory workers (from Bureau of Labor Statistics series CES0500000008 and CUUR0000SA0 adjusted to 2014 as the base year). The peak in 1972 and the failure of wages to ever regain this peak is made obvious in this figure.

Figure 6 (next page) shows yet more relevant data: the profit/wage ratio, before and after taxes, in the nonfinancial corporate sector (derived from NIPA Table 1.14, profits are measured as the sum of corporate profits and net interest while wages are measured by compensation of employees). The profit/wage ratio

is related to Marx's rate of surplus value, the amount of surplus income generated per dollar spent on labor.

Note that, after declining during the end of the Golden Age, the profit/wage ratio began its upward trend in the 1990s and continued growing even after the Great Recession of 2007-2009.

Kotz notes that the 20.4% increase in the rate of profit from 1979 to 2007 (not shown here) was due to an increase in the share of after-tax profit in net income. What's more, 84% of the increase in the after-tax profit share was due to a declining wage share brought on by the growing gap between labor productivity and employee compensation (Kotz, 88-89). This is consistent with the wage and productivity trends noted

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Figure 5

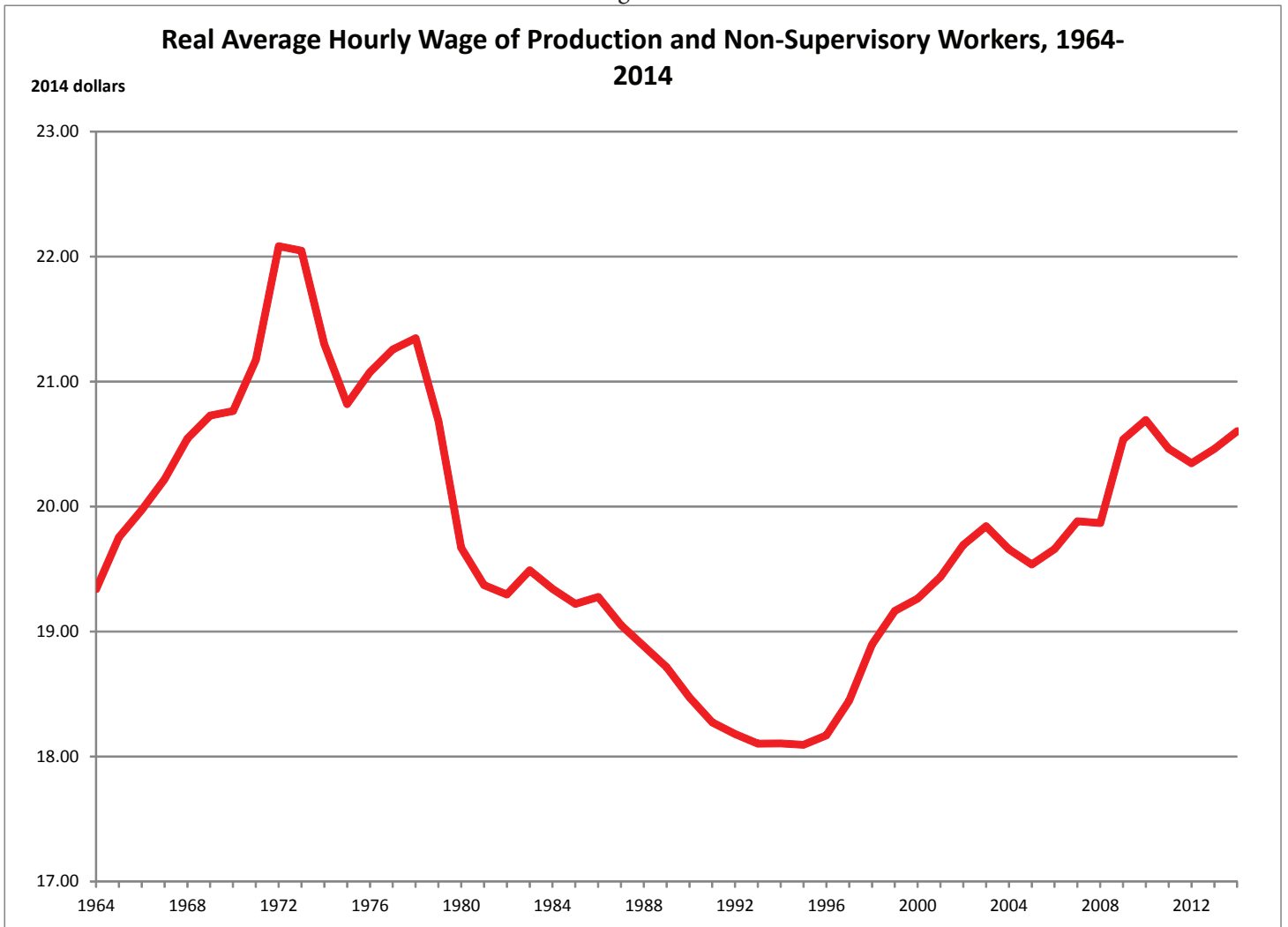
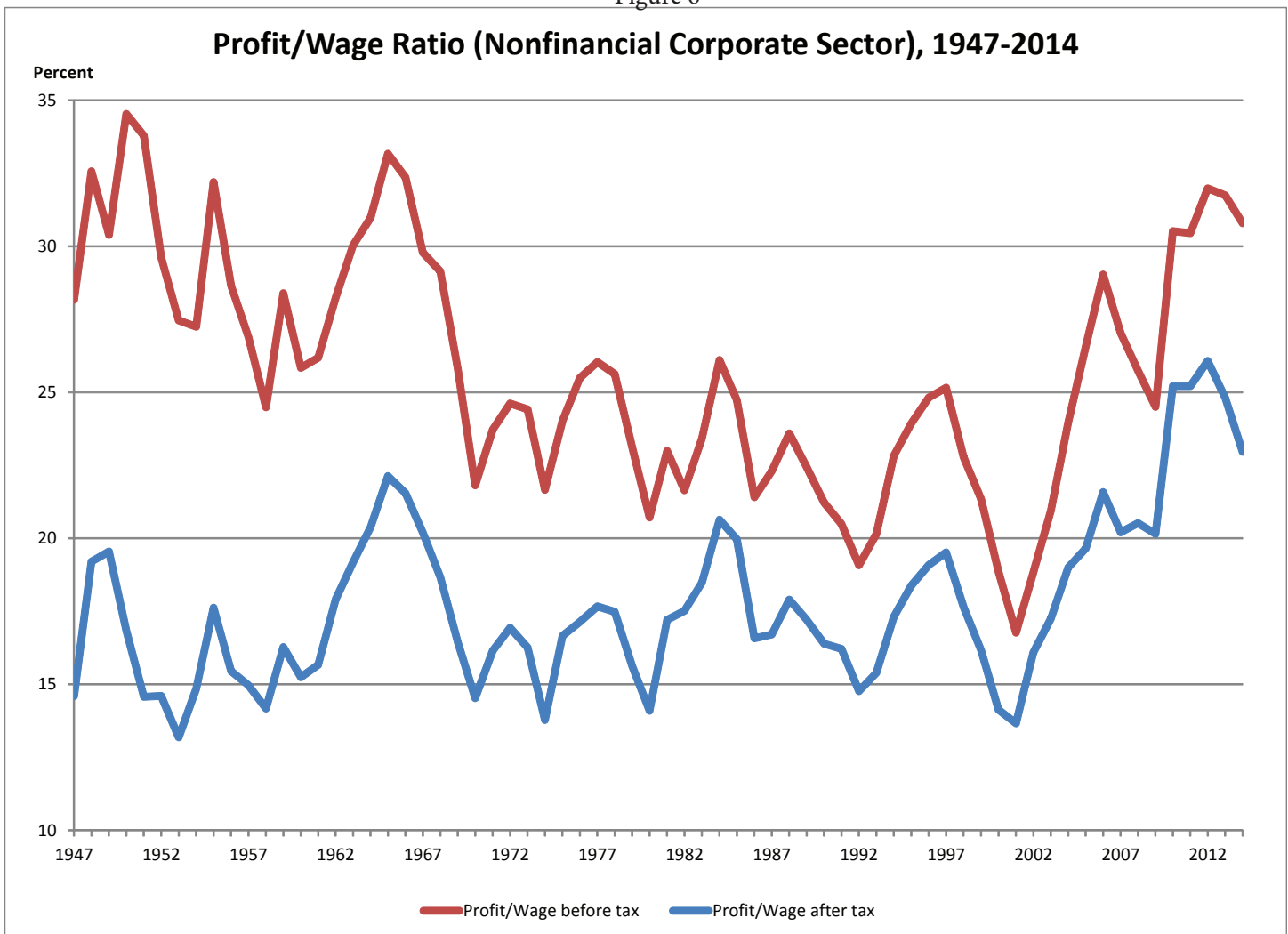


Figure 6



above. In addition, these same trends (the growing gap between labor productivity and wages along with the growing profit/wage ratio) help explain, in large measure, the growing income inequality which the U.S.A. has been experiencing in the Neoliberal Era.

When combined with the growing deregulation of the financial sector, the growth in the profit/wage ratio helps explain not only the growing inequity of the Neoliberal Era but the growing incidence of risky financial activities and large asset bubbles. As noted earlier, asset bubbles were not experienced during the Golden Age, but they've been a recurring feature of the Neoliberal Era (Kotz, pp. 103-106).

While profitability was largely restored during the Neoliberal Era, much of that surplus income was

channeled into financial speculation (as a result of the growing deregulation of the financial sector). And while some of that surplus went into investment in new productive capacity, the rate at which productive capacity could grow would ultimately be constrained by the slow growing or stagnant wages of workers.

And yet, consumption spending did grow during the Neoliberal Era. However, the growth in consumption was not due to wages, it was instead due to the growth in debt which skyrocketed during the Neoliberal Era. In the absence of wage growth, worker consumption could only be financed through extra debt; which in turn was made possible by the growing availability of a wide array of debt instruments (home equity loans, credit

cards, and new mortgage instruments).

The Great Recession of 2007-2009, and the sluggish recovery since then, can be seen as a structural crisis of Neoliberal capitalism. The rising inequality of the Neoliberal Era, the recurring asset bubbles (with the most recent one being the housing bubble preceding the Great Recession), the expansion of new and risky financial instruments, and the growth in excess productive capacity, led to the currently stagnation.

How the U.S. economy develops from here is as yet undetermined. A continuation of the Neoliberal Era seems possible, but other alternatives, perhaps one based on more equally shared economic growth, might also be possible with a significant change in political conditions.

<i>Tentative</i> WINTER 2016 SCHEDULE OF COURSES					
#	TITLE	DAYS	HOURS	AM/PM	INSTRUCTOR
104	ECON OF SOCIAL ISSUES	TR	0800-0950	AM	NILSSON
200	PRINCIPLES MICROECON	MW	1000-1150	AM	ASHEGHIAN
200	PRINCIPLES MICROECON	TR	1200-0150	PM	KONYAR
200	PRINCIPLES MICROECON	TR	0200-0350	PM	KONYAR
200	PRINCIPLES MICROECON		ONLINE		ALDANA
202	PRINCIPLES MACROECON	MW	0400-0550	PM	PIERCE
202	PRINCIPLES MACROECON	TR	1000-1150	AM	PIERCE
202	PRINCIPLES MACROECON	TR	0200-0350	PM	MACDONALD
202	PRINCIPLES MACROECON		ONLINE		ALDANA
300	INTERMEDIATE MACROECON	MW	0600-0750	PM	PIERCE
302	INTERMEDIATE MICROECON	TR	0400-0550	PM	STAFF
311	ECON K-8		ONLINE		CHARKINS
322	MANAGERIAL ECON	TR	0600-0750	PM	KONYAR
430	INTERNATIONAL ECON	MW	0200-0350	PM	ASHEGHIAN
460	LABOR ECONOMICS	TR	1000-1150	AM	MACDONALD
475	PUBLIC FINANCE	TR	1200-0150	PM	NILSSON
540	POLITICAL ECONOMY OF LA	MW	1000-1150	AM	TORUNO

<i>Tentative</i> SPRING 2016 SCHEDULE OF COURSES					
#	TITLE	DAYS	HOURS	AM/PM	INSTRUCTOR
200	PRIN MICROECON	MW	1000-1150	AM	ASHEGHIAN
200	PRIN MICROECON	MW	0200-0350	PM	ASHEGHIAN
200	PRIN MICROECON	TR	0800-0950	AM	MACDONALD
200	PRIN MICROECON		ONLINE		ALDANA
202	PRIN MACROECON	MWF	0800-0910	AM	NILSSON
202	PRIN MACROECON	MWF	1040-1150	AM	NILSSON
202	PRIN MACROECON	TR	0400-0550	PM	KONYAR
202	PRIN MACROECON		ONLINE		ALDANA
300	INTERMEDIATE MACROECON	MW	0200-0350	PM	PIERCE
335	TOOLS OF ECON ANALYSIS	TR	1000-1150	AM	MACDONALD
360	ENVIRONMENTAL ECON	TR	0400-0550	PM	STAFF
410	MONEY & BANKING	MW	0600-0750	PM	PIERCE
450	GLOBAL ECONOMY	MW	0400-0550	PM	ASHEGHIAN
490	ECONOMETRICS	TR	0600-0750	PM	KONYAR
500	HIST ECON IDEAS	MW	1000-1150	AM	TORUNO
530	THE GOOD ECONOMY	MWF	1200-0110	PM	NILSSON