

# Real Time Economics: The State of the Economy and of Economics

GREG IP JANUARY 07, 2019

The Federal Reserve has been raising interest rates to [soft-land the economy](#)—slow its growth by just enough to keep inflation contained, but not so much that it slips into recession. Historically, this process almost always roils markets. In 1994 and again in 2016, it did not lead to recession. In 2001 and 2008, it did. The Fed hopes for a 1994 or 2016 but knows the markets are worried about a 2008. On Friday, Fed Chairman Jerome Powell suggested monetary tightening might pause, [telling the American Economic Association](#), “With the muted inflation readings that we’ve seen coming in, we will be patient as we watch to see how the economy evolves.” On the other hand, the outcome might be like 1998 when global turmoil prompted the Fed to cut rates, sending the economy and the Nasdaq bubble into overdrive.

*Former Fed Chairman Ben Bernanke said the current volatility wasn't unusual. More surprising, he said, was “how benign markets were for such a long time despite the risks of trade wars and other things that were going on.”*

## ECONOMICS'S GENDER PROBLEM

The underrepresentation and mistreatment of women in economics was a central topic among economists this year. Women receive 57% of bachelor's degrees but only 31% in economics. The very subject may breed sexism,

according to Valentina Paredes of the University of Chile and two co-authors. [Their paper](#) found Chilean male students' gender bias rose with their years of economics training. Federal Reserve Bank of San Francisco President Mary Daly said the profession needs to make itself more welcoming to women and minorities. She compared the economics profession to a host that invites someone to dinner and then sets strict house rules, to make sure the host is comfortable. "We bring people into our profession, and teach you how to behave so that we can be comfortable. I want us to be inviting people into our home and change what it looks like."  
—Greg Ip and Eric Morath

*We highlight some of the papers presented at the American Economic Association at the end of today's newsletter.*

*Comments or suggestions for Real Time Economics? Write to Greg Ip at [realtimeeconomics@wsj.com](mailto:realtimeeconomics@wsj.com), tweet to [@WSJecon](https://twitter.com/WSJecon) and visit [wsj.com/economy](https://www.wsj.com/economy) for the latest.*

## WHAT TO WATCH TODAY

**The Institute for Supply Management's** purchasing managers index for services is released at 10 a.m. Economists think it dropped to 58.4 from 60.7.

**Factory orders** for November won't be released as scheduled today because of the federal government shutdown.

**U.S. and Chinese trade negotiators** begin meetings in Beijing aimed at achieving a deal to avoid higher U.S. tariffs on China scheduled for March

2.

## TOP STORIES

### CHINA IS GETTING WORRIED

Chinese officials have concluded the trade war with the U.S. is [short-circuiting growth](#). In the southern province of Guangdong, the country's export hub for electronics, chemicals and auto parts, the local government was recently forced by the National Bureau of Statistics to suspend publication of a monthly indicator of manufacturing activity that had been trending lower, Lingling Wei reports. The slowdown could make President Xi Jinping's advisers more eager to hash out a trade deal with U.S. negotiators in Beijing this week.

### TWO TOP ECONOMISTS: WE WERE WRONG ON GIG ECONOMY

In 2015, Alan Krueger of Princeton University and Lawrence Katz of Harvard, two of the U.S.'s pre-eminent labor economists, sought to measure the gig economy: Contingent workers like Uber drivers, independent contractors, and on-call, temp-agency and contract firm workers. They found it had grown significantly since 2005 when the Bureau of Labor Statistics last measured the sector. But last summer the BLS itself concluded the [gig economy had scarcely changed the U.S. labor market](#). Messrs. Krueger and Katz have re-evaluated their original findings and conclude they [vastly overestimated the growth](#) of the gig economy because of the weak economy at the time and flaws in the data, Josh Zumbrun reports. Their

postmortem is a plus for the discipline of economics, which can only advance if scholars can acknowledge and learn from their errors.

## SADLY, THERE WAS A FREE LUNCH

With attendance at its AEA luncheon sparse, the Society of Government Economists tried to give away about 50 boxed lunches. The reason: Many federal government economists couldn't join their peers in Atlanta because of the shutdown. Four of the society's seven panels had to be altered or shortened because the presenters didn't show up, said Susan Fleck, the group's president. "It affects them profoundly," Ms. Fleck said. "They're not getting feedback that could improve their work, and it stifles potential career opportunities." Ms. Fleck said she planned to donate leftover lunches to a nearby shelter. — *Eric Morath*

## QUOTE OF THE DAY

"Don't say anything that ends in 'endogenous' or 'exogenous.' Don't tell people their ideas are 'third order.' They know it's an insult but they don't know what it means."

—*Uber Technologies chief economist Jonathan Hall advises tech-company economists on how to talk to their bosses.*

## TWEET OF THE DAY

I spent part of my morning watching many Ph.D. economists try to go up a down escalator.#ASSA2019

## WHAT ELSE WE'RE READING

*A roundup of papers and lectures at the American Economic Association. If no link to a paper is shown, you can view an abstract on the meeting program [at the AEA's website](#).*

**The Fed put:** Falling stocks are a more powerful predictor of changes in the federal-funds rate than macroeconomic data, based on transcripts and minutes of officials' meetings after large declines. About 80% of their reaction is due to changed forecasts of the economy after the market falls. ([Anna Cieslak & Annette Vissing-Jorgensen](#))

**E-book authors:** The advent of self-published e-books has enabled authors, in particular of romance novels, to get better licensing deals from publishers. The format has increased the volume of titles and enabled publishers to better target those likely to sell well, and that increases authors' bargaining power. ([Christian Peukert & Imke Reimers](#))

**Lucky CEOs:** Oil company executives have no control over oil prices yet their compensation increases in response to higher oil prices, underscoring the role of luck. That's despite increased disclosure and performance-linked pay in the last 20 years. ([Lucas Davis & Catherine Hausman](#))

**Climate impact in fisheries:** When albacore fishermen knew in advance the El Niño/Southern Oscillation weather pattern would change fishery conditions, they mitigated 75% of the consequences by adapting their

behavior. This suggests many firms will be able to similarly adapt to climate change. ([Jeffrey Shrader](#))

**Climate impact in schools:** Extreme heat reduces the performance of American students, especially poor and minority students, on standardized high school tests, highlighting one consequence of global warming. Air conditioning almost entirely offsets the effect. ([Joshua Goodman](#), [Michael Hurwitz](#), [Jisung Park](#), [Jonathan Smith](#)) Air conditioning will be almost universal in middle-income countries by 2030, mostly due to rising incomes but also to rising heat. (Lucas Davis, Paul Gertler & Catherine Wolfram)

**Cost of corruption:** Corruption benefits inefficient firms. In Brazilian regions following anticorruption campaigns, entrepreneurship, access to finance and output all improve. (Emanuele Colonnelli, Mounu Prem)

**Electricity and growth:** About a quarter of the growth miracle experienced by Angola, Ethiopia and Uganda since 2000 is from investing in energy capital, such as power plants. ([Stephie Fried](#) & [David Lagakos](#))

**Inequality in hours:** In the 1950s, the low-skilled worked more hours than the high-skilled; now, it's the reverse. As more wives of low-skilled men have entered the work force, more of those men have worked less. This inequality in hours aggravates rising inequality in hourly pay. (Titan Alon, Sena Coskun & Matthias Doepke)

**Chinese influence on U.S. housing:** When a U.S. city is connected by a nonstop flight to China, the number of Chinese home buyers goes up and local home buyers goes down, while prices rise on average by \$5,900. ([Shihe Fu](#), [Elena Irwin](#), [Wangyang Li](#))

**The China shock:** Increased trade with China following its entry into the World Trade Organization lowered U.S. prices, delivering a benefit to consumers of \$101,250 per lost manufacturing job. ([Xavier Jaravel](#), [Erick Sager](#))

**Trade and elections:** Counties that experience more trade with China are more likely to vote for Democrats. ([Yi Che](#), [Yi Lu](#), [Justin Pierce](#), [Peter Schott](#), [Zhigang Tao](#))

**The benefits of American IP Theft:** When the federal government allowed publishers to violate German copyright by reprinting their science books during World War Two, citations to those books surged 43%, as seen in research, Ph.D.s and patents. ([Barbara Biasi](#), [Petra Moser](#))

**Border wall economics:** Construction of a border wall with Mexico between 2007 and 2010 raised annual income of low-skilled American workers by 36 cents each, while hurting high-skilled American and low-skilled Mexican workers. ([Treb Allen](#), [Caue Dobbin](#), [Melanie Morten](#))

**Amazon's geographic advantage:** For every 100 miles that Amazon reduces delivery distances by building new fulfillment centers, it saves 17 to 47 cents on a \$30 shipment. It passes a significant share of the savings to consumers. ([Jean Francois Houde](#), [Peter Newberry](#), [Katja Seim](#))

**Children of same-sex couples:** In the Netherlands, they perform better in school than children raised by straight couples. ([Sofie Cabus](#), [Kristof De Witte](#), [Deni Mazrekaj](#))

**Male dropouts:** About 20% to 40% of the decline in labor-force participation by 25- to 54-year-old men from 1984 to 2011 is due to men who temporarily leave the labor force and don't suffer any loss of earnings as a result. ([John Coglianesse](#))

**The rural-urban divide:** It's not caused by rural areas falling behind but by slumping wages for middle-skilled jobs in cities. (David Autor)

**Sustaining debt:** The low level of interest rates today relative to economic growth is not an anomaly, it's the postwar norm, and it means running big budget deficits isn't as dangerous as commonly thought, outgoing AEA president [Olivier Blanchard](#) said in his presidential address.

## UP NEXT - TUESDAY

**International trade data** for November is scheduled to be released, but likely to be delayed because of the government shutdown.

**Job openings and turnover** (Jolts) for November will be reported.

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