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EDITOR'S NOTE:
ECONOMIC OUTLOOK USA is designed to aid private and public decision makers in achieving a better understanding of the economic and social environment in which they will be operating. The analysis of this publication incorporates direct measurements of the expectations, attitudes and plans of both consumers and business firms with the economic and financial variables traditionally used in forecast models. The philosophy of this publication is that a blend of anticipatory and traditional measures provides richer insights into prospective developments, insights which will produce more consistently reliable forecasts of both economic and social change.

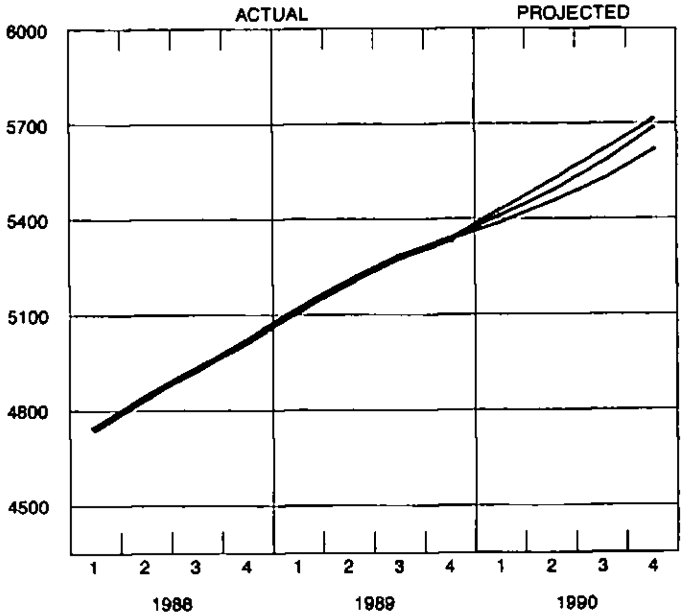
The opinions expressed in this publication represent those of individual authors and do not necessarily reflect the views of the Survey Research Center or The University of Michigan. The editor, as a matter of policy, makes no attempt to reconcile divergent opinions.

It is with considerable regret that we terminate ECONOMIC OUTLOOK USA, a decision dictated by difficulties on the financial side as well as by problems in assuring a timely and appropriate flow of content. Both Richard Barfield, the executive editor, and I wish to express our appreciation to the many loyal readers of OUTLOOK who have enabled us to maintain the publication for the 15-plus years that it has existed, as well as to the many academic colleagues who have contributed papers.

ECONOMIC PROSPECTS: Actual and projected seasonally adjusted quarterly data at annual rates.

GROSS NATIONAL PRODUCT

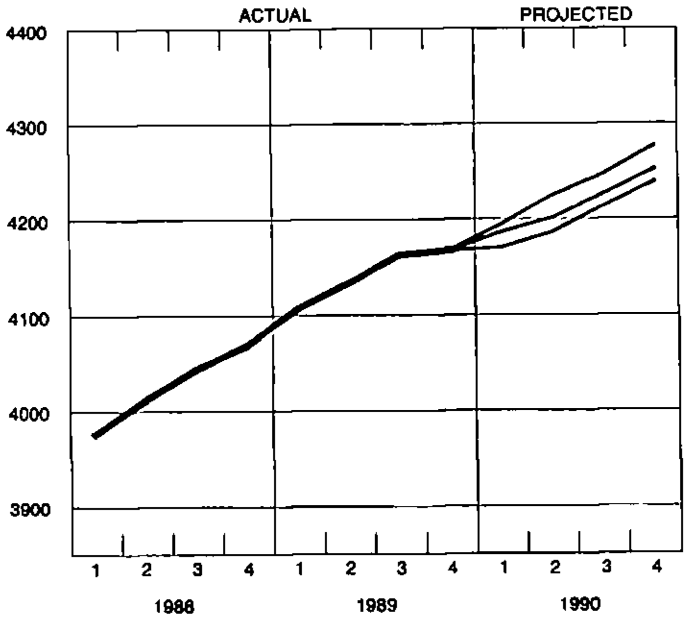
IN CURRENT DOLLARS
Billions of Dollars



Sources: Actual data are from U.S. Department of Commerce; projected data are from ASA-NBER Panel of Forecasters, revised when necessary to be consistent with latest actual data. The 3 lines display 3rd, 2nd (median), and 1st quartile values from the array of forecasts.

GROSS NATIONAL PRODUCT

IN CONSTANT 1982 DOLLARS
Billions of Dollars



Sources: Actual data are from U.S. Department of Commerce; projected data are from ASA-NBER Panel of Forecasters, revised when necessary to be consistent with latest actual data. The 3 lines display 3rd, 2nd (median), and 1st quartile values from the array of forecasts.

The Expansion of 1982:4 - ?: History and Forecasts

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Recoveries and Slowdowns

Among the long observed "stylized facts" of business cycle history is the positive correlation between the amplitudes of a contraction and the subsequent expansion. Deep declines tend to be followed by large rises in output, shallow declines by small rises. Conforming to this rule, the severe recession of 1981-82 issued in the vigorous recovery of 1983 and early 1984.

A frequent characteristic of long business expansions is that they contain one or two phases of below-average growth. Such periods of moderation can prolong the duration of the expansion, particularly if accompanied by declines in interest rates. The terminal excesses of a boom are avoided or delayed. Thus, the 1949-53 expansion in the United States was interrupted by a slowdown in 1951-52, the 1961-69 expansion by slowdowns in 1961-62 and 1966-67. The current expansion experienced a low-growth phase between mid-1984 and the end of 1986. Interest rates fell in this period, as they did in 1966-67.

In 1984-85 growth slackened mainly because the high and rising dollar hurt manufacturing exports. In 1986 the weakness resulted largely from a collapse of energy prices, which depressed the oil industry and the economy of oil-dependent regions. The latter episode included a one-quarter drop in real GNP, but its seriousness was not recognized until the July 1988 revision of the national income and product accounts. It was only after the October 1987 stock-market crash, and again earlier in 1989, that forecasts of a recession began to emerge. The perception that the economy is again slowing dates back to March or April. Growth has indeed moderated but remained fairly stable in the spring and summer. Gains in the demand for services, overall consumption, investment in equipment, and exports more than offset the weaknesses of output and employment in manufacturing and construction as well as cutbacks in federal spending.

Present estimates show real GNP growing 2.5 percent in 1989:2 and 3.0 percent in 1989:3. However, they show relatively high measures of statistical discrepancy between the income and the product side of the accounts, could undergo sizable future revisions, and must be treated with extra caution. Moreover, the composition of aggregate demand has deteriorated. Nonresidential investment slowed and residential investment continued to decline in the summer, while inventory growth (some of it probably unintended) accelerated. Exports rose moderately, imports increased substantially. Consumption grew faster, but much of this was due to nonsustainable gains from sales incentives, particularly for cars.

From Retardation to Recession

Although not all slowdowns become recessions, some do. Several of the recent business cycle peaks (in 1957, 1969, 1973, and 1980) were preceded by growth retardations which lasted from six to 13 months. Both these slowdowns that terminated business expansions and those that merely interrupted them were accompanied or anticipated by significant declines in leading indicators. Many economic analysts and forecasters were able to discern these developments in a timely manner, but what proved much more difficult and rare was to distinguish ex ante between the two types of slowdown.

In other words, the record of forecasting that the economy will turn sluggish is much better than the record of forecasting when the economy will start declining. The forces that act to depress business activity contend with those that support continued expansion, the process usually takes time, and its outcome is uncertain. Occasionally, however, the downturn occurs quickly, aided by the already weakened state of the economy and/or some adverse outside shocks (the 1981 peak provides an example).

Imbalances of one type or another often develop over the course of an expansion: costs of labor, materials, and credit rise, profit margins and totals decline; disappointing sales lead to unintended inventory accumulation; debt burdens and delinquencies increase and new credit becomes hard to get. Monitoring the proper data can help detect the associated danger signals.

Industrial Activity in 1989:4

Recent releases of monthly and weekly data have been increasingly indicative of declines spreading within and from the goods-producing industries. Manufacturing employment decreased for the eighth month in a row in November. Even though total nonfarm payroll employment had a large gain, the civilian unemployment rate edged up to 5.4 percent.

Industrial production dropped sharply in October and improved in November, but was still 0.7 percent below its standing in August. The peak of 84.3 percent in the capacity utilization rate of factories was reached as far back as January 1989. Sales of domestically made cars fell to low annual rates of 7.8, 6.1, and 5.6 million in September, October, and early November, respectively. Accordingly, output of automobiles is being cut back strongly in 1989:4.

Reflecting mainly the weakness in durable goods (cars, appliances, computers), real retail sales fell as much as 1 percent in October. Total personal consumption is estimated to have decreased 0.1 percent in September and 0.2 percent in October. In November, however, consumer spending gained a strong 0.7 percent, presumably boosted by early holiday sales accompanied by special discounts and promotional efforts. Personal income continued to grow well at 0.8 percent rates in both October and November.

Housing starts, a long-lead indicator, have been drifting down gradually most of the time since early 1986. They are still sluggish: the November reading was 4.7 percent below October and 18.9 percent below January. However, mortgage rates have declined about 1.5 percentage points since March, and sales of old and new homes have responded positively.

The index of leading indicators declined 0.4 percent in October, following two months of rises. Six out of the 11 component series decreased, reflecting primarily the slump in manufacturing, but plant and equipment orders and building permits increased slightly. At 144.6 (1982 = 100), the index in October was fractionally below its local peak of January 1989 (146.0). The movements of this series in 1989 have been erratic, including five declines of one or two months duration but no clear drift upward or downward. They indicate a slowdown rather than an imminent recession.

Narrative and informal but up-to-date business reports indicate that it is the cyclically sensitive industries that are most affected by the current slowdown. Many industrial materials, until recently in high demand, are now apparently in oversupply. This should accelerate the disinflation in producer price indexes generally and may lead to outright deflation on a considerable scale in prices of crude and intermediate materials. Stores are reported to be cutting prices in efforts to move soft goods such as apparel, toys, etc.

The diffusion index of the National Association of Purchasing Management stayed below 50 percent for seven consecutive months through November, which means that more members see a worsening than an improvement for most manufacturing variables covered. The same source also shows a continuing slowdown in the growth of export orders and indicates that inflationary pressures are diminishing.

Corporate profits after tax, at $152.6 billion in 1989:3, were 13 percent below their peak in 1988:4. Disappointing corporate profits statements threaten to depress business capital outlays below the current plans, which however still seem to be strong. The lower operating rates, employment, and hours suggest further reductions in goods production. The lower home sales and prices suggest fewer housing starts, but reduced mortgage rates should exert the opposite influence in the near future.

Shocks and Imbalances

The last quarter of 1989 will economically bear the brunt of two big natural disasters, hurricane Hugo and the California earthquake, as well as the large Boeing strike. These shocks will have some adverse contemporary effects on macroeconomic activity. In the longer run, however, they would necessitate reconstruction efforts and create a backlog of work, with expected positive effects.

The cost-price and inventory-sales disequilibria are still localized but would be expected to spread with the deepening of the slowdown. Many public and private balance sheets have been deteriorating for considerable time now, which continues to give much reason to worry. The debt-income ratios remain generally high, and interest costs are increasingly burdensome. But interest incomes are high too, and it is not clear that the debt-asset ratios are excessive.

The growing indebtedness of spending units should make them more cautious in the future. This would indeed be welcome if it resulted in higher private saving and lower government dissaving, lower interest rates, higher investment, and lower imports. But such developments can occur only gradually, and they require that the economy continue to grow at a reasonable pace. If consumer spending weakened so that the expansion faltered, one would expect total real investment and saving to decline.

Public Confidence

Until recently, evidence from surveys of both consumers and business executives continued to reflect optimism. The "consumer sentiment" index of the Survey Research Center at The University of Michigan, which has a good record as a leading indicator at business cycle peaks, varied between 90 and 98 (1966:1 = 100) in 1989 as in 1988. The Conference Board's consumer confidence index stood near 116 (1985 = 100) in both January and October 1989.

The executives polled by the Conference Board and Fortune magazine have been on the average confident that economic conditions are good when compared with six months ago and will remain so six months ahead. Small businessmen have grown rather more optimistic lately, according to the latest report of the National Federation of Independent Business.

These are certainly all positive results, which are presumably attributable to the persistence of moderate real growth and restrained inflation. But the survey data are not very up-to-date, and they cannot be relied upon to signal a sudden worsening of conditions (although they are likely to react promptly to well-perceived negative shocks, as illustrated by the stock market crash of late 1987).

The Contribution of Foreign Trade

Export orders and deliveries continue to grow but at considerably reduced rates compared with the rapid rises of 1987-88. Prospects for reduced trade deficits could be impaired by further rises in the dollar exchange rate and a weakening of economic growth abroad.

However, there are no indications currently that a worldwide slump is in the making. Leading indexes for 11 major industrial countries in North America, Western Europe, and the Pacific region show moderate or slow growth rates, now averaging 2 percent (down from 6 percent half a year ago and below the growth trend rate of 3 percent). They predict slowdowns rather than declines.[1]

Consistent with this evidence, forecasters from the countries concerned widely expect that outputs (real GNP or GDP) will

[1]For more detail, see the November 1989 issue of *International Economic Indicators*, Center for International Business Cycle Research, Columbia University, New York.

rise less in 1990 than in 1989, but not by large margins (Table 1, columns 1-3).[2] They also see inflation rates in most countries as declining mildly or remaining unchanged in 1989-90 (columns 4-6). Fairly stable trade conditions are in general expected, with little change in the current account or net exports forecasts (columns 7-9).

Macroeconomic Policy Effects

The near-term risk to macroeconomic activity arises from the combined effects of shocks, imbalances, and prior trends in monetary, fiscal, and other important variables.

Except briefly after the October 1987 stock market crash, monetary policy was restrictive from late 1986 through mid-1989. Money growth rates were declining or low, real money balances flat or falling, interest rates rising or high. This year, the M1 growth rate fell sharply and turned negative in the winter and spring, then (in response to new recession alarms) rose strongly and turned positive in the summer and fall. Interest rates peaked in March and have lost more than one percentage point since, but they are still high in real terms. The yield curve has been mildly inverted in recent months.

Some analysts think that the recent loosening of credit will have averted a recession, others worry that it might have come too late. Financial markets are sustained by expectations (or hopes) that a less erratic, moderately stimulative monetary policy will soon result in lower interest rates. Until very recently, however, the Fed seemed anxious to impress upon the public that its goal is "zero" inflation and to avoid any clear signal of easing.

The federal budget deficit as a percentage of GNP declined substantially after 1986. Real government purchases of goods and services grew little. So fiscal policy became effectively less and less stimulative.

The Latest U.S. Forecasts

Table 2 presents a summary of predictions by 31 professional economic forecasters of the developments in the United States during the current quarter and the next four, and during the current year and the next. Means and standard deviations of the individual forecasts made early in December 1989 are listed for eleven selected macroeconomic variables.

According to these averages, real GNP will rise only 1 percent in 1989:4 and 1.4 percent in 1990:1 at annual rates, but the slowdown should ease later next year (2.2-2.5 percent). Output will gain 1.9 percent in 1989-90, much less than in 1988-89 (2.9 percent). Recession forecasts are in small minority: there are four responses with declining real GNP in 1989:4, four in 1990:1, and one in 1990:2. The durations of the predicted declines vary from one quarter (4 cases) to two quarters (1) and three quarters (1). However, 11 additional responses include rises of less than 1 percent at annual rate, so altogether about half of the group foresees at least a short stagnation ahead.

[2]The source of all forecasts in this article is a monthly journal published since June 1984 under the imprint of North-Holland: *Economic Forecasts: A Worldwide Survey.* It covers a representative range of economies, variables, and forecasts.

TABLE 1
Forecasts of Output Growth, Inflation, and Current Account for 18 Countries, 1988–1990

Country	Growth of Output (%)[1]			Inflation (%)[2]			Current Account (% of GDP)[3]		
	1988 (1)	1989 (2)	1990 (3)	1988 (4)	1989 (5)	1990 (6)	1988 (7)	1989 (8)	1990 (9)
United States	4.4	2.9	1.9	3.3	4.2	4.0	−1.9	−1.4	−1.4
Canada	4.5	2.8	1.8	4.1	5.4	4.6	−1.7	−2.0	−2.0
Japan	5.6	4.9	4.3	0.0	1.9	1.9	3.6	3.0	3.0
West Germany	3.4	3.6	2.8	1.2	3.0	3.0	4.0	4.6	4.5
France	3.7	3.4	2.9	2.7	3.4	2.8	−0.4	−0.3	−0.4
United Kingdom	4.2	2.2	1.9	5.2	6.7	5.4	−3.8	−4.4	−3.2
Italy	3.9	3.4	2.9	5.1	6.5	5.8	−0.6	−1.2	−1.3
11 Smaller European Countries[4]	3.0	3.4	2.8	4.4	5.2	5.1	0.1	0.3	0.1
	(1.6)	(1.3)	(1.3)	(3.6)	(3.4)	(3.2)	(2.5)	(2.6)	(2.8)

1. Based on GNP in constant prices for U.S., Japan, Germany, Belgium, and Netherlands; on GDP in constant prices for the other countries.

2. Based on consumption or retail price indexes, except for U.S. and Canada (GNP implicit price deflators).

3. Except for U.S (real net exports as percent of real GNP) and Germany (current account as percent of GNP).

4. Average of figures for the following: Austria, Belgium, Denmark, Finland, Greece, Ireland, Netherlands, Norway, Spain, Sweden, and Switzerland (standard deviations in parentheses below).

Source: *Economic Forecasts: A Monthly Worldwide Survey*, Elsevier Science Publishers B.V. (North-Holland). December 1989 issue for U.S. and Canada (in preparation); November 1989 issue for Japan, Germany, United Kingdom, Finland, Sweden, and Switzerland; October 1989 issue for France, Italy, Austria, Denmark, Ireland, Netherlands, and Spain; and September 1989 issue for Belgium, Greece, and Norway.

TABLE 2
Averages of 31 Individual Forecasts for United States, Eleven Macroeconomic Variables, Quarterly and Annual, 1989–90[1]

Variable	1989:4 (1)	1990:1 (2)	1990:2 (3)	1990:3 (4)	1990:4 (5)	1989 (6)	1990 (7)
Gross National Product (dollars)[2]	4.9 (1.0)	5.6 (1.3)	6.2 (1.2)	6.5 (0.9)	6.4 (1.5)	7.2 (0.1)	5.9 (0.7)
GNP Implicit Price Deflator (1982=100)[2]	3.9 (0.7)	4.1 (0.6)	4.0 (0.6)	4.0 (0.5)	4.0 (0.6)	4.2 (0.1)	4.0 (0.3)
GNP in 1982 Dollars[2]	1.0 (0.7)	1.4 (1.1)	2.2 (0.9)	2.4 (0.8)	2.5 (0.7)	2.9 (0.1)	1.9 (0.6)
Rate of Unemployment (%)[3]	5.4 (0.1)	5.5 (0.2)	5.6 (0.2)	5.6 (0.3)	5.5 (0.3)	5.3 (0.0)	5.5 (0.3)
Corporate Profits after Taxes (dollars)[2]	2.3 (20.3)	6.7 (21.7)	7.4 (13.9)	15.2 (9.6)	12.1 (13.7)	−6.8 (3.3)	0.1 (8.2)
Industrial Production Index (1977=100)[2]	−0.1 (1.6)	0.6 (2.6)	1.8 (2.6)	2.7 (1.9)	2.4 (1.9)	3.6 (0.2)	1.0 (0.9)
Housing Starts (units)[2]	13.4 (12.5)	5.2 (13.5)	8.4 (8.7)	8.3 (10.0)	2.7 (6.9)	−6.2 (0.7)	2.6 (4.9)
Treasury Bill Rate, 3 months (%)[3]	7.6 (0.2)	7.3 (0.3)	7.1 (0.5)	7.1 (0.5)	7.2 (0.6)	8.1 (0.1)	7.2 (0.4)
Nonresidential Fixed Investment (1982 $)[2]	1.0 (2.7)	0.8 (2.4)	1.7 (2.4)	2.4 (3.5)	3.6 (2.4)	3.6 (0.2)	2.4 (1.6)
Change in Business Inventories (1982 $)[3]	21.7 (8.2)	15.8 (6.3)	16.0 (7.9)	17.9 (5.8)	19.7 (6.6)	21.8 (2.2)	17.1 (6.1)
Net Exports of Goods and Services (1982 $)[3]	−61 (6)	−59 (8)	−58 (10)	−57 (11)	−56 (12)	−58 (2)	−57 (10)

1. Mean forecasts and (in parentheses below) the corresponding standard deviations.

2. Percent change at annual rate.

3. Level.

Source: *Economic Forecasts: A Monthly Worldwide Survey*, Vol. 6, No. 12, December 1989. Elsevier Science Publishers (North-Holland). Based on 31 new forecasts collected in a survey completed in the first six working days of December 1989.

Most forecasters expect little change or only small rises in the unemployment rate. The highest averages are 5.6 percent for the middle quarters of 1990, the range for 1990:4 is 4.5-6.4 percent.

The GNP implicit price deflator will rise at average annual rates very close to 4 percent throughout the period covered, with relatively low dispersion among the individual forecasts. Thus, in general, not much of a near-term disinflation is expected.

The three-month Treasury bill rate will decline slowly from 7.6 percent to 7.2 percent between 1989:4 and 1990:4. All forecasters see the rate lower in 1990 than in 1989, and 7 out of 10 see it lower in 1990:4 than in 1989:4.

Corporate profits after taxes are already in a slump. All survey participants expect them to fall in 1988-89 and nearly half expect them to fall further in 1989-90.

Industrial production (which covers manufacturing, mining, and gas and electric utilities, now less than 30 percent of GNP) will decline or stagnate in 1989:4 and 1990:1, then recover slowly and gain only 1 percent in 1989-90. The December forecasts are for the most part slightly lower than their November counterparts, but for industrial production the downward revisions have been comparatively large.

Housing starts will decline about 6 percent in 1988-89 but gain 3 percent in 1989-90 (and more in 1989:4-1990:4). Nonresidential fixed investment in constant dollars should rise 3.6 percent in 1988-89 and 2.4 percent in 1989-90. Real inventory investment will average $22 billion in 1989 and $17 billion in 1990. The forecasts of real net exports also show considerable stability. Little improvement in the trade balance is seen in the year ahead.

The large dispersion of the predictions for profits, industrial output, and types of investment is typical of the great uncertainty surrounding the changes in these variables. Elsewhere there is more consensus and generally more optimism.

Most forecasters consider the chances of a recession between 1989:4 and 1990:4 as relatively low, though increased and certainly not negligible. My own estimate is 40-50 percent but is expressed hesitantly, being based in part on the shaky evidence of early movements in preliminary data.

December 15, 1989

Postscript: February 13, 1990

Since this paper was completed in December 1989, another issue of *Economic Forecasts* has appeared, in which predictions of real GNP growth for 1989:4 averaged 0.7 percent at annual rate. This turned out to be remarkably close to the first preliminary estimate of 0.5 percent recently released by the Commerce Department. The economy slowed drastically but not unexpectedly as real consumption of durables and nondurables as well as nonresidential investment turned down. Real final sales decreased slightly; change in business inventories continued to be positive.

The latest monthly data are consistent with the picture of an economy that is very sluggish but apparently not falling. Output of automobiles remained at recessionary levels in 1989:4 and January 1990. Manufacturing employment declined in January for the tenth month in a row, but total nonfarm employment increased, in part due to certain particular seasonal factors affecting construction and retail trade. In December the leading index had its first good gain in months, but again there was a special cause for it (large orders for aircraft and communication equipment). Stock prices rose late in 1989 but have declined most of the time so far in 1990, depressed by new reports of poor corporate earnings and higher interest rates.

Meanwhile, despite the slowdown, inflation persists at uncomfortably high levels. Indeed, producer prices rose a sharp 1.8 percent in January, although this was almost entirely accounted for by a jump in energy and food prices (there was a harsh cold wave in December). The Fed stresses its resolve to reduce inflation decisively, but this is properly a program for gradual action over several years. The need now is for caution and moderate ease, which however is difficult to implement because foreign as well as domestic interest rates have increased. The continuing requirement to finance government debt from abroad argues against an easier monetary policy. The bond market remains highly sensitive and vulnerable to expectations of higher inflation.

Nevertheless, the prevailing forecast in early February is that the worst is already over: the slowdown is not likely to turn into a recession, and after mid-1990 the economy's growth should improve to a sustainable rate near 2½ percent. The averages for 1990:1 and 1990:2 are 1.3 percent and 1.9 percent, respectively. The latest *Economic Forecasts* survey contains a number of individual predictions of very low real growth (less than one percent at annual rate) but no outright recession forecasts. Skeptics may see this as suspect, contrarians even as worrisome in itself. I would interpret these forecasts as expressing the beliefs that the probability of a recession this year is still less than 50 percent. A bond market panic and higher oil prices could damage the interest-sensitive and energy-intensive sectors of the economy, and so fears of inflation might indeed cause a recession. But the "fundamentals" are viewed as supportive of moderate growth, hence the widespread hope is that the "market psychology" will not get out of hand.

The Decade of the 90s: Economic Prospects and Problems

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In the final issue of ECONOMIC OUTLOOK USA, it seems appropriate to leave our readers with some perspectives on economic and social events during the last several decades, and with some speculations about the future. In this article, I take a look at developments over the past four decades, and offer some speculations about developments and policy issues that might arise during the 1990s.

Postwar Macroeconomic Trends

The books have now been closed on the 1980s, and it is possible to take a look at the performance of the economy during this period and to compare it to prior decades. The table below contains a set of decade growth rates and averages for the U.S. economy since the 1940s. Comparative data of this sort have been shown before in this publication; by and large, decades tend to coincide roughly with the terms of national political administrations, hence comparisons of economic outcomes during various national administrations show much the same patterns as the decade averages. As all politicians are keenly aware, the decades of the 50s, 70s, and 80s were dominantly Republican administrations (except for the end of the Truman administration in the early 1950s, and the Carter administration in the last part of the 1970s), while the 1960s was dominantly a Democratic decade.

What shows up in the table will come as no surprise to students of the U.S. economy, although it will constitute unpleasant news for those who view the 1980s as representing a resurgence of U.S. economic performance from a dismal 1970s. Real growth rates of all sorts were much higher during the 1950s and 1960s than during the 1970s and 1980s, and real growth in the 70s was in turn a bit better on most measures than in the 80s. Financial variables generally behaved poorly in the decade of the 1970s, much better in the decades of the

Macroeconomic Indicators for the Past Four Decades
(All Figures in Percent)

Indicator	1950s	1960s	1970s	1980s
A. Growth Rates over Postwar Decades				
Employment	1.2	1.9	2.4	1.7
Industrial Production	5.3	5.6	3.2	2.5
Real GNP (1982 dollars)	4.1	4.0	2.8	2.7
Productivity	2.6	2.5	1.2	1.3
Real Hourly Earnings	3.2	2.6	0.9	0.5
Real Weekly Earnings	NA	1.0[1]	−0.6	−0.7
Consumer Price Index	2.2	2.5	7.3	5.2
B. Averages for Postwar Decades				
Unemployment Rate	4.5	4.8	6.2	7.3
Long-Term Bond Rate	3.00	4.51	6.87	10.38
Real Interest Rate[2]	0.83	2.04	−0.45	5.21
Government Surplus or Deficit/GNP[3]	−0.3	−1.2	−1.6	−4.0
Private Saving/GNP	7.5	8.2	8.0	5.4
Net Saving/GNP[3]	7.2	7.0	6.4	1.4
Net Investment/GNP[4]	7.4	7.2	6.9	4.6
Balance of Payments/GNP	NA	0.4	0.0	−2.0

1. Estimated from 1964–69 data; series begins in 1964:1.
2. Long-term Treasury bond rate minus the inflation rate (change in CPI).
3. Excludes accumulations of government pension funds and the social security trust fund.
4. Excludes inventory change.

1950s, 60s, and 80s. Interest rates are an exception; during the 1980s both nominal and real interest rates were the highest of any decade, and the real interest rate record is a distinct outlier. Productivity growth rates behaved much like real growth rates generally — better in the 1950s and 60s, particularly the latter, than in the 70s and 80s.

In terms of saving, investment, and the trade balance, the 80s are unique. Total national saving was dramatically lower during the decade of the 80s than during any of the three previous decades, due partly to the fall in public saving reflected by (largely federal) government deficits, but also due to the fact that private saving fell to levels that were substantially lower than seen during any of the prior three decades. Investment, as reflected by the net investment/GNP ratio, did not decline as much during the 80s as did saving, because of the substantial amounts of net foreign investment that flowed into the U.S. during that period — the counterpart of the deficit on merchandise trade balance that has characterized much of the 1980s.

Supply-siders have a serious problem with those results, since the tax cuts of the early 1980s were supposed to increase saving and investment, not reduce them. Ricardian equivalence proponents (arguing that the public will foresee the future consequences of government deficits and save more) also have a problem, since the private sector has been just as spendthrift as the public sector.

An interesting feature of these data is the pattern of growth rates in real earnings. Real hourly earnings fell from growth rates of around 3 percent per year in the 1950s and 1960s to less than 1 percent per year during the 1970s and 1980s, while real weekly earnings (for nonagricultural production workers) rose during the 1960s (and presumably also during the 50s although the data are not available), but actually declined during both the 1970s and 1980s. At the same time, real GNP growth rates were a bit lower during the 70s and 80s than during the 50s and 60s, but not much lower. What is happening here is that earnings per hour of work have essentially stagnated for close to 20 years, but total earnings have grown substantially because total hours of work have grown, especially for women. Even that characterization is a bit misleading, since while total work hours in the market have grown, work hours in total have declined because nonmarket work (housework) hours have declined by more than work for pay has risen.

If one wanted to rate economic performance during decades, the 1960s were clearly the best on virtually all counts. The 1970s and 1980s compare quite closely on most real magnitudes, with the 70s being generally better on real growth rates and the 80s better on financial variables. The principal message of the table also seems clear: The performance of the U.S. economy has been slipping since the 1960s, and continuation of that trend would put the U.S. economy in the middle of the pack during the 21st century rather than up among the leaders. This seems to me especially true of saving/investment/productivity performance, where the legacy of the 1980s has been to burden future generations by a public and private consumption spree of unprecedented proportions.

Microeconomic Developments

In addition to these macroeconomic features of the U.S. economy, there have been a number of developments on the microeconomic side. Some of these have been widely recognized in the scientific community, while others are much less well known.

Although the macroeconomic data show stagnation in the growth rate of real earnings during both the 1970s and 1980s, what has become more recognized in recent years has been the disparity in rates of economic progress by American families at different ends of the income and wealth distribution. For example, poverty rates had a dramatic decline during the 1960s, showed both ups and downs during the 1970s partly in response to the cyclical behavior of the economy, rose substantially in the early 1980s again for largely cyclical reasons, but since then have not declined as much as would have been expected, given the long expansion that has characterized most of the 1980s.

The behavior of the poverty rate has been mirrored in the behavior of earnings growth rates at the top and bottom end of the earnings distribution. What the data seem to be showing during recent years is in marked contrast to what happened during the 1950s and 60s. In those periods, real wages rose for all classes of workers in the economy, and there were no differentials in growth rates for high and low wage workers. But starting with the early 1970s and continuing throughout the 1980s, the patterns have been quite different. High wage workers (the top 10 percent of the earnings distribution) have shown increases in real earnings during this period, although earnings growth rates have not been as rapid as during the 1960s and early 1970s. Workers around the middle of the earnings distribution have shown essentially no change in real earnings over the late 70s and 80s, in contrast to growth rates that were much like those of high wage workers during earlier periods of time. And low wage workers (the lowest 10 percent of the earnings distribution) have experienced declines in real earnings throughout much of the 1970s and all of the 1980s. Thus the earnings distribution has become substantially more unequal in the decades of the 80s and the 70s than during the 50s or the 60s.

These earnings differentials have been a factor in the substantial differences that can be observed in the economic fortunes of blacks and whites over the last decade or so. The story is different for males and females. For males, the data show a deterioration, especially during the late 1970s and the 1980s, for those with lower levels of educational attainment, with less well-educated blacks faring a good deal worse than equally poorly educated whites. For example, only 53 percent of black males, aged 25 to 34 with 8 years or less of schooling, had jobs in 1985. Compare that figure to 84 percent of a similar group as late as 1960, and 81 percent as late as 1970. For white males of the same age and schooling, 76 percent had jobs in 1985 compared to 84 and 83 percent in 1960 and 1970, respectively. And even black males with very high levels of schooling had substantially worse prospects of holding jobs in 1985 than in earlier years. In the same 25-34 age group, only 80 percent of black males with 16 or more years of schooling held jobs in 1985, compared to 95 percent in 1960 and 90 percent in 1970. The comparable data for highly educated white males was 92 percent holding jobs in 1985, compared to 95 and 94 percent in 1960 and 1970, respectively. Thus the overall picture is one of erosion of job opportunities, or at least in the proportion holding jobs, for the less well schooled, with blacks being disproportionately worse off not only because blacks are likely to be less well schooled than whites, but also because, given the same schooling, black males were much less likely to hold jobs than white males.

For women, the patterns are quite different. Compared to 1950 and 1960, the earnings gap between black women and white women had largely disappeared by 1985, and that was just as true for the poorly educated as for the better educated. (Actually, the annual earnings gap between well-educated black and white women had almost disappeared by 1950, partly because black women are more likely to be full-time workers than white women. The annual earnings of black women with 16 years or more of schooling had exceeded those of white women by 1970, and remained about 10 percent higher during the 1980s.) But what had been a substantial gap in the earnings of black and white women with eight years or less of schooling in the 1950s had virtually disappeared by 1980, and had completely disappeared by 1985. The same pattern holds for black and white women with 9 to 11 years of schooling, or for those with a high school education. It is still true that, compared to white males, both black and white women had substantially lower hourly earnings rates throughout the last four decades, and the differential has been reduced only slightly.

The chief impression that one gets from these data is that the patterns of economic growth during the 1970s and 1980s have substantially disadvantaged black males relative to other population groups, and have disadvantaged the less well educated of all race and sex groups compared to the better educated. No doubt these movements are a reflection of developments in the economy as a whole — fewer unskilled jobs in manufacturing of the type that often paid relatively high wage rates, and much greater job opportunities in the lower-paid services.

While women's wage rates are still far from equality with men's, the gap has been narrowed somewhat over the past decade or so for full-time workers. And there is some additional evidence on equality of work roles between the sexes, relating to the division of time spent working for pay in the market and time spent at unpaid work in the home. Although women still do a substantially disproportionate share of total unpaid work in the home, the disparity appears to have narrowed somewhat during the 1980s compared to earlier decades.

Studies of time allocation among American households indicate that, especially for people between the ages of 25 and 44, time spent working for pay in the market and time spent at unpaid household work have moved in different directions for men and women. For younger women, paid work hours increased during the 1980s, while time spent at unpaid household work declined sharply. For younger men, in contrast, time spent at paid work declined slightly, while time spent at unpaid household work rose modestly. Much the same trend is evident in a number of Western European countries — Sweden, Denmark, and Norway — and probably other countries as well. And one can find evidence of the same movement even in countries like the USSR, where the incentive structures are very different. And contrary to some popular impressions, leisure time for both men and women has increased during the 1980s compared to earlier decades, and has in fact shown a steady increase since the 1960s, which is the earliest date for which reliable data on time allocation are available.

Looking over recent U.S. economic history, the decade of the 80s does not stand out as a period of strong economic performance. In macroeconomic terms, real economic growth was below average for the postwar period. The major plus was a marked decline in the inflation rate, which started out the decade at an unacceptably high double-digit level and ended at a quite respectable level in the 4-5 percent zone. Except for the severe recession early in the decade, the rest of the 80s maintained a consistently positive, albeit modest, growth rate.

But the 80s has left behind its own inheritance of lurking problems, just as the 70s left behind a double-digit inflation rate and a weak productivity performance. For the 80s, the problems at the macro level have to do with the extraordinarily weak performance of the U.S. economy in terms of saving behavior, where the saving rate was by far the lowest of any postwar decade. Both public and private behavior contributed to this result — government deficits were at unprecedented levels relative to GNP, and private savings were at their lowest level during the past 40 years. The only reason that net investment did not fall through the floor was because of another deficit — in the balance of payments — that maintained the net investment rate only moderately below that of other decades.

Even more troubling is the evidence on increased economic disparities in the U.S. economy between the haves and the have-nots. Not only did income (and presumably also wealth) inequality increase noticeably during the decade of the 1980s, but that tendency spilled over, as it inevitably will, to increase the disparity between the economic status of minorities and whites during the decade. Thus the households who did well during the 1980s were more likely to be upper income and white than lower income and black or Hispanic — not a positive feature of the 1980s economic record.

Prospects for the 90s

Given where we are starting from in the decade of the 1990s, what can be said about prospective developments? For the macroeconomy, the problems are basically structural and of a long-term nature. They basically involve the following three needs:

- To reinvigorate the national saving rate, both by finding some politically acceptable compromise that would reduce the federal budget deficit problem to one of cyclical variability rather than structural imbalance, and by finding effective policies to enhance private saving;
- To restore the rate of productivity growth, hence real earnings growth, to the trajectories we were accustomed to in the 50s and 60s rather than the ones we were forced to live with in the 70s and 80s; and
- To maintain firm control of the inflation rate, trying to push it towards the lower end of the recent zone rather than allowing it to creep upward.

International competitiveness, which is a favorite battle cry in many economic policy pronouncements, seems to me not an important issue per se: competitiveness can always be achieved with appropriate exchange rate policies. To the extent that what people mean by lack of competitiveness is lack of productivity growth, the important issue is productivity growth.

On the microeconomic side, the potential problems are more serious. While problems of crime, drug abuse, and homelessness may be largely social rather than economic problems, the limited economic opportunities available to the less-advantaged part of the population surely compound those problems, and in any event the lack of opportunity needs to be addressed at the policy level. In the view of many observers, including this writer, an economic environment in which economic opportunities erode for the disadvantaged, while continuing to be satisfactory for the rest of us, is simply unacceptable. The mark of a successful society is one in which everyone has a reasonable chance to realize their potential. A society in which the odds are stacked against the least advantaged 10 percent of the population cannot be labeled a success. Thus the greatest challenge to economic policy during the decade of the 90s, as well as beyond that, may be to come closer to achieving genuine equality of opportunity than we have yet been able to do.

The Outlook for Consumption in 1990: Coasting into the Eighth Year of Expansion

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Confidence Remains High

The latest Survey of Consumers indicates that consumer confidence has remained largely unchanged at the high levels recorded throughout most of the current expansion. The Index of Consumer Sentiment averaged 91.8 in the fourth quarter 1989 surveys, just below the 92.5 recorded in the third quarter (see the chart below).

Since the start of the current expansion, the Index of Consumer Sentiment has averaged 92.9, with the fourth quarter 1989 reading only slightly below that average. Moreover, the Index has shown relatively small quarter-to-quarter variations throughout this period. From the cyclical peak recorded in the first quarter of 1984 through the fourth quarter of 1989 the Index ranged between 99.5 and 90.5, except for the fourth quarter of 1987 when the stock market crash temporarily depressed the Index to 86.4.

This remarkable record is in sharp contrast to the decade of the 1970s, when the Index never exceeded the average recorded during the past five years, and was dominated by wide swings rather than the present stability.

Overall attitude trends during the current expansion are more comparable to those recorded during the 1960s. Although the 1960s are remembered mainly for the robust expansion in the first half of the decade, during the late 1960s, as now, the economy experienced a significant slowdown in economic growth. And then as now, changing trends in prices and credit conditions played a key role in shaping consumer behavior.

Consumer Expectations: A Leading Indicator

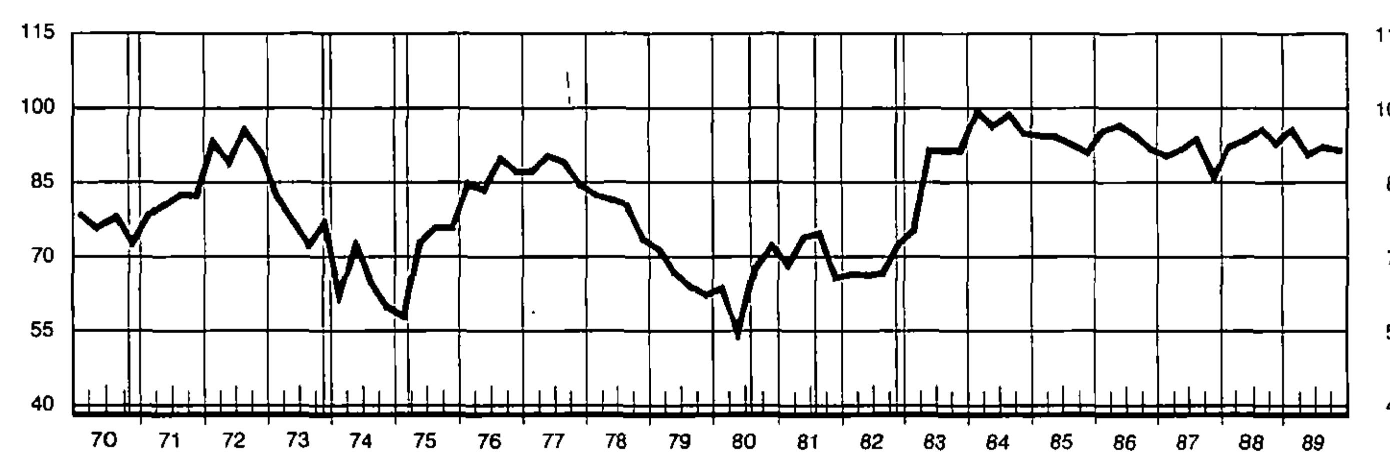
The Index of Consumer Sentiment has two major components: a component reflecting consumers' assessments of current economic conditions and a component focusing on expected economic changes. At the start of 1989, the Index of Leading Indicators, compiled by the Bureau of Economic Analysis of the U.S. Department of Commerce, was revised and now includes the expectations component of the Index of Consumer Sentiment.

The inclusion of data from the Surveys of Consumers is a significant confirmation of its usefulness for understanding and forecasting changes in the national economy. Each series included in the composite Index of Leading Indicators is selected because of its performance on six important characteristics: economic significance, statistical adequacy, consistency of timing at business cycle peaks and troughs, conformity to business expansions and contractions, smoothness, and prompt availability.

The expectations component of the Index of Consumer Sentiment, called the Index of Consumer Expectations, was 85.7 in the fourth quarter survey, between the 84.8 recorded in the third quarter and the 86.3 recorded in the fourth quarter of 1988. As shown in the top chart on page 25, the Index of Consumer Expectations traced a slowly declining path from the 1984 cyclical peak to the low point following the 1987 stock market crash, and has since then recovered and moved in a horizontal, zig-zag direction.

INDEX OF CONSUMER SENTIMENT

February 1966 = 100



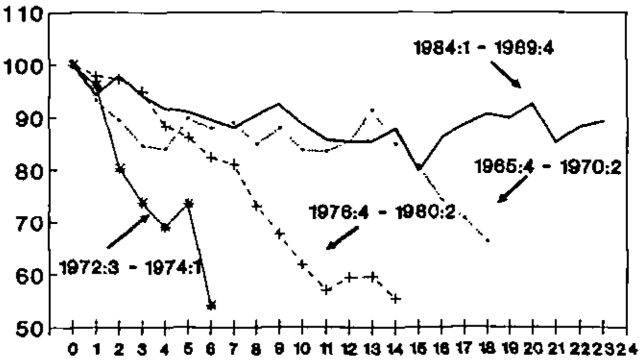
Note: Shaded areas indicate recession periods as designated by the National Bureau of Economic Research, Inc.

The history of changes in the Index of Consumer Expectations prior to recessions is shown in Chart 1. For each of the periods, the Index is shown from its cyclical peak to trough, with the data calculated as a percentage of the peak value. The sharpest decline was recorded prior to the 1973-75 recession, followed by the decline prior to the 1980-82 twin recessions. The current time path of the Expectations Index is more directly comparable to the period following the cyclical peak recorded in the mid 1960s. That expansion, like now, was characterized by an extended period of slow economic growth — what was then termed a "growth recession." Importantly, the extent of the decline in the Expectations Index since the 1984 peak has been very small, and is in no way comparable to the declines which preceded each of the past recessions.

The other major component of the Index of Consumer Sentiment, the Index of Current Economic Conditions, has traced a horizontal path at very high levels through most of the current expansion. Indeed, the Current Conditions Index has been higher throughout this expansion than any other time in the last 30 years (see the top chart on page 25).

Although there are similarities in the attitude trends of the 1960s and the 1980s, there are also very sharp differences. In the 1960s, consumers expected constant and cumulative improvement — they thought that future conditions would always be better than those at present. In the 1980s, while consumers found much to like in the renewed economic stability that followed the turbulent 1970s, they remained apprehensive about the future course of the economy. Seemingly, consumers have come to believe that the present is as good at it is likely to get; it is not the best of times, but it is "good enough." If the 1960s was a time of economic optimism, and the 1970s a time of economic pessimism, the 1980s can be termed a time of economic satisficing.

CHART 1
INDEX OF CONSUMER EXPECTATIONS: CYCLICAL PEAKS TO RECESSION LOWS



Income increases were reported by 32 percent of all families in the fourth quarter surveys, somewhat below the 35 percent recorded one year earlier; declines in family incomes were reported by 14 percent in the fourth quarter 1989 surveys, also somewhat below the year-earlier readings. When the difference between the proportions reporting income increases and income declines is calculated, the overall trend in net references to income changes recorded during the expansion of the late 1980s is no more favorable than those recorded in prior expansions and is much less favorable than those recorded in the mid 1960s.

The largest difference in consumers' explanations of changes in their financial situation is related to inflation. The proportion of consumers that voiced complaints about the rising cost of living remained at very low levels throughout this expansion, and are only comparable to the levels recorded in the early 1960s. References to inflationary drains on family budgets stood at just 13 percent in the fourth quarter 1989 survey, unchanged from one year earlier.

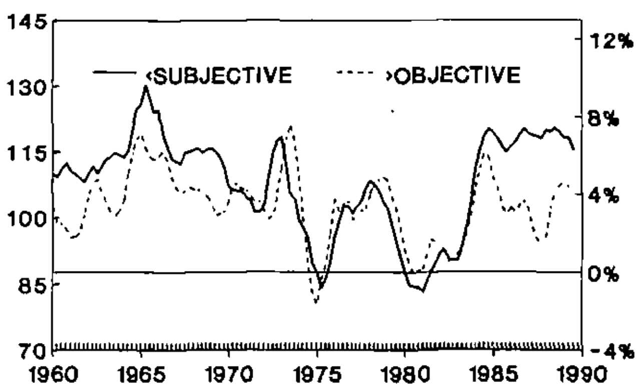
Personal Financial Prospects

American families continued to view their own personal financial situation in favorable terms in the latest survey. Among all families in the fourth quarter 1989 survey, 42 percent reported that their financial situation had improved, unchanged from the figure recorded one year earlier. These personal financial evaluations have shown only small variations around a very favorable level throughout the expansion, marking their best sustained performance in thirty years. At present these financial evaluations are, however, at the lower end of this favorable band.

Consumers' financial evaluations have been more favorable than the underlying trends in real personal disposable income would indicate (Chart 2). The primary reason appears to be related not to misperceptions of nominal income growth, but rather to the premium consumers place on low rates of inflation. Despite the accounting equivalence, consumers are not indifferent between identical rates of real income growth if one is accompanied by high rates of inflation and the other by low rates of inflation. The increased uncertainty that accompanied the higher and more variable rates of inflation in the 1970s, as well as the forced adjustments in spending habits caused by shifting relative prices, had a significant additional impact on consumers which lowered their sense of financial well-being.

American families remained very upbeat about prospects for their financial situation during the year ahead. In the fourth quarter of 1989, 39 percent expected their financial situation to improve during the year ahead, up from 37 percent one year earlier. Just 9 percent of all families expected their financial situation to worsen during the year ahead, down from 11 percent in the fourth quarter of 1988. Overall, this was the best outlook for personal finances recorded during 1989.

CHART 2
PERSONAL FINANCIAL ASSESSMENTS AND CHANGE IN REAL DISPOSABLE INCOME



Outlook for National Economy

The recent surveys have recorded little change in consumers' assessments of the current state of the national economy or in the direction of change expected during the year ahead. Overall, consumers continue to expect the economy to follow its recent path of slow growth during the coming year.

Among all families, 45 percent in the fourth quarter survey thought that the economy had improved, unchanged from the second and third quarter readings but below the 50 percent recorded one year earlier. The correspondence between these subjective assessments of the progress of the national economy and the actual percentage change in real GNP is shown in Chart 3.

The news reaching consumers about recent changes in the economy grew increasingly negative soon after the current expansion got under way, and reached a low at the time of the 1987 stock market plunge. Since then it has posted a modest recovery and moved in a sidewards direction. I might note that the steep plunge in stock market prices recorded on October 13th of 1989 had a significant, but short-lived, impact on consumer expectations. Interviews conducted from Friday the 13th to Monday the 16th reflected the news of the steep market plunge. The Index of Consumer Sentiment dropped sharply during that weekend, but quickly rebounded during the following week. Like the plunge in stock market prices in 1987, the entire concern was focused on prospects for the general economy, not on personal finances. However, unlike the 1987 episode, the entire incident was dismissed in a matter of days, not months.

When consumers were questioned about expected changes in the economy during the year ahead, the majority of consumers in the fourth quarter 1989 survey expected the performance of the national economy to remain largely unchanged (59 percent). The performance of the national economy was expected to improve by 21 percent, while 17 percent expected worsening conditions — both figures were within one percentage point of the year-earlier readings. Following the initial sharp improvement at the start of the expansion, consumers' expectations have remained largely unchanged throughout most of the last 5 years.

The expected continuation of the economic expansion meant that the majority anticipated good times financially — even if only slow economic growth was expected. It should be no surprise that after seven years of expansion, most consumers thought that this meant the continuation of good times. At year-end 1989, good times financially in the economy as a whole were expected by 51 percent of all families, identical to the third quarter reading and only narrowly below the 53 percent recorded one year earlier.

Longer-term prospects for the economy also remained at positive levels in the recent surveys, although at somewhat lower levels than recorded one year earlier. Among all families, 38 percent expected good times financially during the next five years in the fourth quarter 1989 survey, down from 40 percent one year earlier.

Unemployment Expectations

The positive short-term outlook was supported by favorable employment expectations. The majority of families in the fourth quarter 1989 survey (53 percent) expected the national unemployment rate to remain unchanged at its current low level during the year ahead. Among the other half of consumers, however, more expected the unemployment rate to increase than to decline by nearly a three-to-one margin (34 versus 12 percent). That on the margin consumers expect some modest increases in the unemployment rate, rather than further declines, reflects the sluggish economic growth expected during the year ahead.

The correspondence of consumers' unemployment expectations and the actual subsequent change in the national unemployment rate is shown in Chart 4. Since the survey question asks only about the direction of change, the year-over-year percentage point change in the unemployment rate was used for this comparison purpose.

Inflation Expectations

The annual rate of inflation expected by consumers was 4.7 percent in the fourth quarter 1989 survey, unchanged from the third quarter average (see the bottom chart on page 25). This represents an easing in inflation expectations, with the current readings well below the recent peak of 5.5 percent recorded in the third quarter of 1988. The correspondence between the

CHART 3

CONSUMER ASSESSMENTS OF BUSINESS CONDITIONS AND CHANGE IN REAL GNP

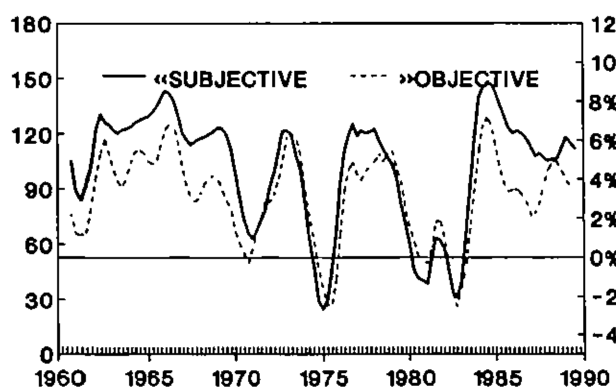


CHART 4

UNEMPLOYMENT EXPECTATIONS & PERCENTAGE POINT CHANGE IN THE UNEMPLOYMENT RATE

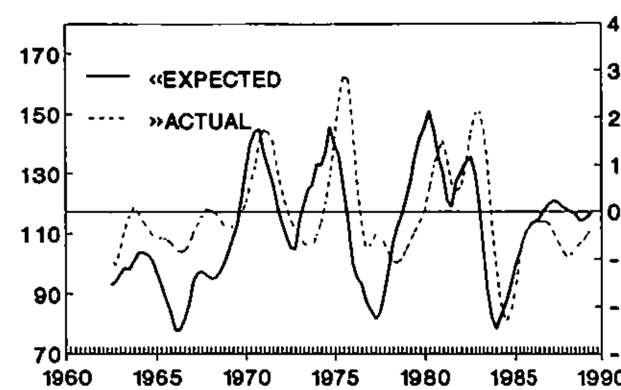


CHART 5

MEDIAN PRICE EXPECTATIONS AND THE CHANGE IN THE CONSUMER PRICE INDEX

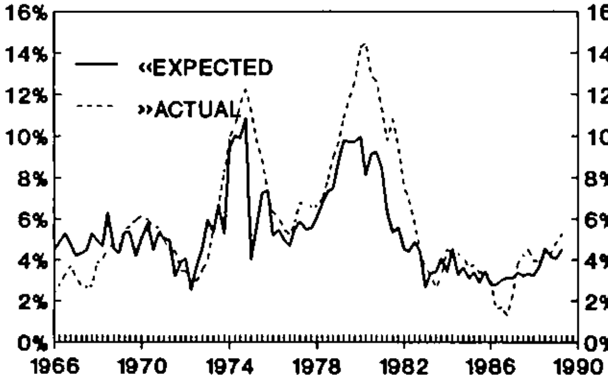
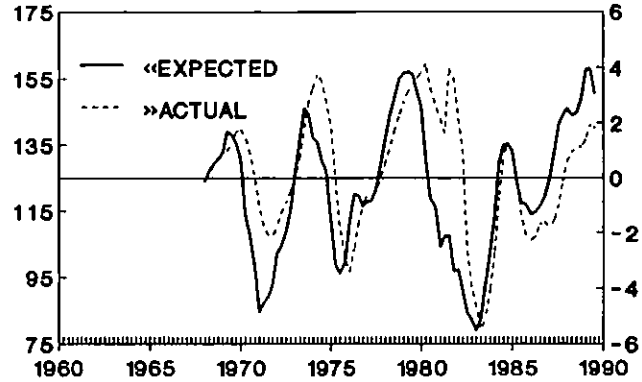


CHART 6

INTEREST RATE EXPECTATIONS & PERCENTAGE POINT CHANGE IN THE PRIME RATE



median price expectation and the actual change in the CPI-u is shown in Chart 5.

Interest Rate Expectations

In contrast to the generally favorable unemployment and inflation expectations held throughout most of the current expansion, interest rate expectations have traced a much more volatile path. At the start of 1989, interest rate expectations reached their most unfavorable point during the current expansion, but subsequently improved to a modest extent by the Summer months. In the third quarter 1989 survey, 50 percent of all families expected interest rate increases, a sharp improvement over the 72 percent that expected increases at the start of the year. However, this momentum in interest rate expectations has since ended, with the fourth 1989 survey recording 51 percent that expected increases.

The correspondence between consumers' interest rate expectations and the change in the prime rate is shown in Chart 6. As with the unemployment rate, the year-over-year percentage point change in the prime rate was used as the comparable measure to the survey question.

Buying Conditions for Household Durables

Consumers' assessments of buying conditions for appliances, furniture, and home electronic goods remained at favorable levels in the recent survey. Indeed, attitudes toward buying conditions for large household durables have been more favorable throughout this expansion than anytime during the past 30 years. Favorable buying attitudes were held by 68 percent of all families in the fourth quarter 1989 survey, somewhat below the 72 percent recorded one year earlier.

What prompts consumers to view buying conditions for durables so favorably? The foremost factor involves changes in consumer perceptions of market prices. In the expansions of the late 1960s and 1970s, consumers viewed current buying conditions favorably only because they expected future prices to be higher. These buy-in-advance rationales played only a minor role in the current expansion. In sharp contrast, during the current expansion more families reported the appeal of low and discounted prices than at any time in the prior 30 years. References to low and discounted prices were made by 34 percent of all families in the fourth quarter 1989 survey, compared with just 12 percent that registered complaints about high prices.

No longer do consumers feel the pressure to buy before prices increase. Indeed, consumers are now more likely to engage in comparative price shopping or to postpone purchases and wait for renewed discounting. These new expectations of market prices are based both on changing trends in actual prices and on a change in the perceptual and contextual factors that shape consumer evaluations. I will return to this important point later.

The second major trend in consumer assessments of buying conditions involves interest rates. When asked to explain why they held favorable or unfavorable buying attitudes, for decades consumers mentioned credit conditions only when they represented barriers to purchases. In large part this was due to the past emphasis on changes in the availability of credit to consumers rather than changes in its cost as the primary rationing device. The shift to varying the interest costs of credit has meant that changing interest rates trends have become a major factor in purchase timing.

Earlier in the expansion, declines in interest rates played an important role in promoting more favorable durable buying attitudes, but the recent surveys indicate that the current levels of interest rates pose neither an inducement nor a barrier to purchases. In the fourth quarter of 1989, few families favorably mentioned interest rates (8 percent) and few families voiced complaints (3 percent). Of course, interest rates play a rather modest role in determining purchases of large household durables as compared with vehicles and homes, but the trends as we shall see are similar.

Vehicle Buying Attitudes

Attitudes toward buying conditions for vehicles have remained remarkably stable for nearly two years (see the second chart on page 25). In the fourth quarter 1989 survey, 61 percent of all families held favorable attitudes toward vehicle buying conditions, unchanged from the year-earlier reading. During the past two years, the proportion of families that gave favorable assessments of vehicle buying conditions has remained in the narrow range of 60 to 63 percent, with half of those quarterly readings equal to 61 percent. The correspondence of these attitude trends with sales of cars and light trucks is given in Chart 7.

The primary factor behind these favorable buying attitudes is the widespread reports of the availability of price discounts and rebates on new vehicle purchases. In the fourth quarter 1989 survey, the availability of price discounts and rebates was reported by 38 percent of all families, the highest quarterly average recorded during the current expansion, and equal to the all-time peak first set in 1975. This stands in sharp contrast to the decade of the 1970s, when complaints of high prices dominated responses. In the decade of the 1970s, buy-in-advance price rationales dominated attitude trends, but have not played a significant role in the 1980s – other than the small increases recorded just prior to the new model year introductions.

Because of the continuous use of price discount programs by vehicle manufacturers, however, consumers have come to expect their availability, and thus their impact on overall buying attitudes has diminished. Moreover, the impact on consumer attitudes is now asymmetrical: the availability of discounts is taken for granted; their absence is met with postponement of purchases. As a result, consumers have now come to view price discount programs as simply a means to determine the timing of their purchases, shifting purchases from one month to the next depending on their availability. The price discount program offered at the end of the 1989 model year significantly shifted sales into the third quarter of this year; fourth quarter sales were correspondingly depressed in their absence.

Although attitudes have remained stable at this relatively high plateau, they are certainly well below the 1986 cyclical peak. That cyclical peak was induced by the availability of interest rate discounts on new vehicle purchases at the end of the 1986 model year. It is the availability of these interest rate discounts, especially on longer term loans, that many fewer consumers report in the current surveys. The proportion that mentioned the availability of discounted interest rates fell to 14 percent in the fourth quarter 1989 survey, a mere fraction of the cyclical peak of 60 percent in 1986. Importantly, few consumers voiced complaints about high interest rates on vehicle loans – just 6 percent in the fourth quarter of 1989. At present, interest rates are neither a significant positive nor negative force in determining sales trends.

Home Buying Attitudes

Attitudes toward buying conditions for homes improved in the recent surveys from earlier in 1989, but favorable home buying attitudes remain below the levels recorded earlier in the expansion (see the third chart on page 25). The recent strength in home buying attitudes has been due to favorable perceptions of home prices; this strength, however, has been offset by rising mortgage interest rates.

The proportion of families holding favorable attitudes toward buying conditions for homes was 64 percent in the fourth quarter 1989 survey. Although this was only marginally below the year-earlier reading of 65 percent, it was substantially below the cyclical peak of 85 percent recorded in 1986. The correspondence of these attitude trends with home sales is given in Chart 8.

Perceptions of home prices are very favorable. Among all families in the fourth quarter 1989 survey, 23 percent mentioned the availability of good buys on homes, up from the year-earlier reading of 18 percent. To put this proportion in perspective, the highest quarterly average proportion to favorably mention home prices during the last thirty years was 24 percent – recorded in both 1986 and 1988. Although complaints of high home prices have edged upward since 1986, the frequency of these complaints remain very low by historical standards – just 14 percent in the fourth quarter of 1989. Indeed, net references to home prices have been more favorable throughout this expansion than at any other time during the past 30 years.

Rising mortgage interest rates have been responsible for the small decline in favorable home buying attitudes compared with a year ago and the much larger decline from the 1986 cyclical peak. Among all families in the fourth quarter 1989 survey, just 26 percent mentioned the current availability of low mortgage interest rates, about one-third of the level recorded at the 1986 peak.

CHART 7
BUYING CONDITIONS FOR CARS AND TOTAL VEHICLE SALES IN MILLIONS

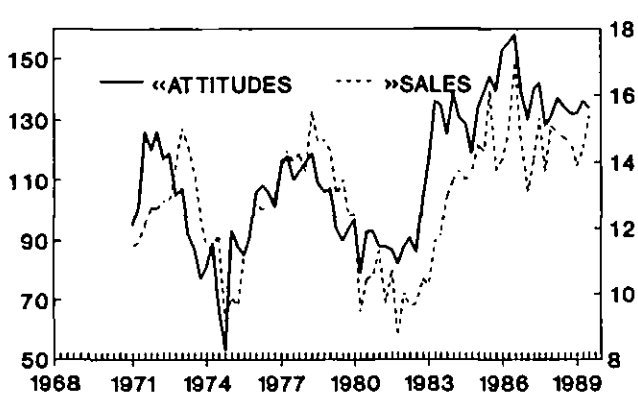
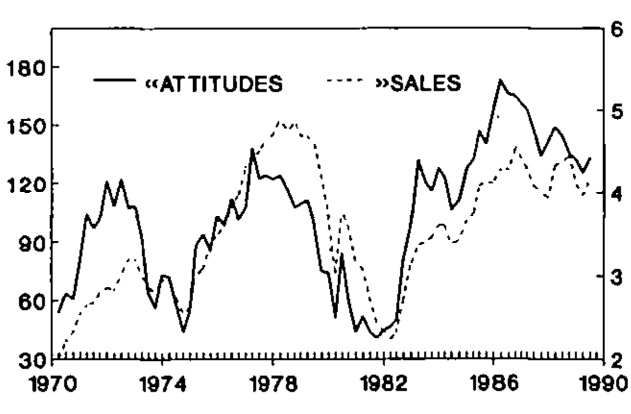


CHART 8
HOME BUYING ATTITUDES AND SALES OF SINGLE FAMILY HOMES IN MILLIONS



Summary Outlook

The prolonged maintenance of consumer confidence at high levels is certainly a welcome development and indicates that the current expansion will continue into its eighth year. That consumer confidence has remained relatively unchanged for so long, however, has diminished its stimulative impact on spending behavior. The most stimulative impact stems from repeated and cumulative improvements in consumer attitudes and expectations. While the maintenance of attitudes at high levels in no way augurs a recessionary decline in spending, neither does it provide the support for increased spending.

Consumer spending during the year ahead will continue to provide an underlying source of strength for the economy. Sales of homes and vehicles, however, will continue to be sluggish, with unit sales falling slightly below the year-earlier levels. Interest rate developments will play an important role in shaping the timing and determining the extent of these purchases. More importantly, the current expansion has brought about changes in how consumers perceive and react to trends in market prices. These shifts will continue to exert a significant influence on the timing of purchases. The major threat to consumer spending involves the impact on employment and income prospects from the continued slow growth in the economy.

Consumer attitudes and expectations reflect the dynamic interplay between the individual and the aggregate economy. Attitudes and expectations are simultaneously shaped by developments in the economy, and in turn the responses of consumers to these developments shape the evolving course of the economy.

The impact of changing trends in prices and interest rates have at times led consumers to react in a pro-cyclical manner and at times in a counter-cyclical fashion. In the 1970s, consumers reacted to escalating prices by buying in advance of the expected price increases. Sellers did not fear that higher prices would lower sales and therefore did not hesitate to transmit both past and even anticipated cost increases to their customers. The reactions of consumers thus contributed to the acceleration of inflation.

In the 1980s, consumers have taken a different approach. Price increases are now more likely to be resisted, greatly restricting the ability of business to pass through cost increases. Consumer reactions now help to moderate, rather than accelerate, price trends. And these reactions have forced business firms to find new ways to contain cost increases, or face loss of profits or their market share.

Over this long expansion, consumer reactions have helped to dampen sharp swings in demand in both directions, and can be expected to continue to do so during the year ahead. Moreover, the greater sensitivity of consumers to both interest rate declines as well as increases will also act to dampen cyclical trends. These factors suggest that consumer demand, despite apparent weakness from time to time, will not result in the sustained, cumulative declines from which recessions develop.

While the current outlook may not be the best of news, like consumer perceptions of the economy, it is "good enough" and will suffice to extend the expansion into its eighth year.

Postscript: The Monthly Survey Program

Although this is the last issue of ECONOMIC OUTLOOK USA, the Surveys of Consumers continue to conduct monthly surveys and provide regular assessments of trends in consumer attitudes and expectations. Anyone interested in obtaining data from the Surveys of Consumers should contact:

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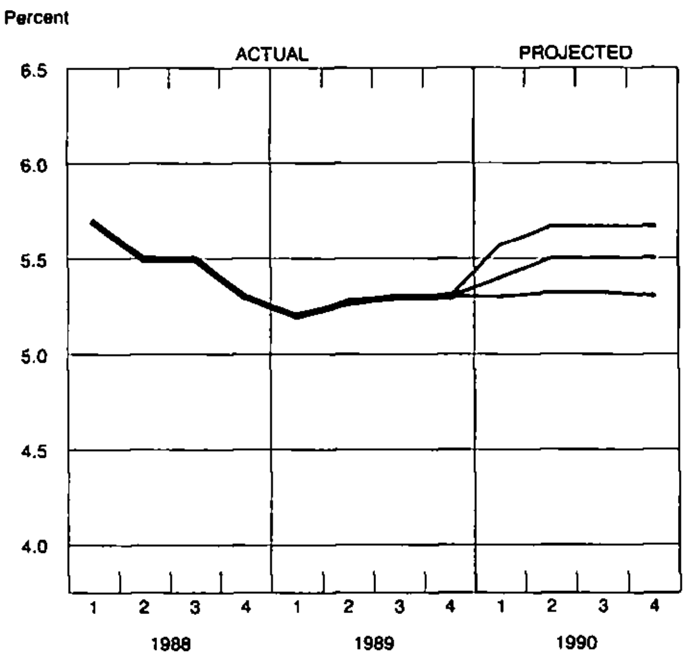
UNEMPLOYMENT RATE



Sources: Actual data are from U.S. Department of Commerce; projected data are from ASA-NBER Panel of Forecasters, revised when necessary to be consistent with latest actual data. The 3 lines display 3rd, 2nd (median), and 1st quartile values from the array of forecasts.

Generations and Collective Memories: Part 2

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Reasons for Mentioning Events/Changes

Although our search for connections between cohorts and remembered events has been generally successful, even where such differences are sharpest there are always a fair number of people outside the modal cohorts who nevertheless mention an event or change as especially important to them. For example, although more than 40 percent of those now in their 50s and 60s (and then in their teens and 20s) cite World War II as especially important, the same war is also mentioned by approximately 20 percent of those who were not even born when the war ended in 1945.

Or is it the same war that they mention? The fact that these two different age groups cite the same event, even use the same words, does not mean that they think about World War II in the same way, or indeed that they "perceive" it in the same way. It is this issue of possible generational differences in conception and perception that we now turn to. The same issue presents itself even more forcefully for events such as space exploration that do not show a generational effect in number of mentions.

Immediately after our sample of Americans named one or preferably two events or changes as important, we asked them to explain the reasons for each of their choices:

> What was it about [mentioned event/change] that makes it seem especially important to you?

We expected to find generational differences in the reasons given, and from these to infer differences in the events themselves as subjectively known. For earlier events, older people can base their choice on direct experience, not necessarily of some core event or change itself – even soldiers were not necessarily in the thick of battle in World War II – but of living through the "real time" of its happening. They can have what are correctly termed autobiographical memories. Younger people, on the other hand, must base their knowledge of earlier events on what they have heard or read, which may have the advantage of greater perspective but is less likely to be personal or concrete. When we turn to recent events, however, these should be seen by younger people directly and with a fresh eye, whereas older Americans will bring to the same events the world of their youth, with a tendency either to assimilate or to contrast the recent events with personal experience from their earlier years. This was the guiding hypothesis that we explored, though as it turns out the evidence leads toward more varied formulations.

Editor's note: This presentation is adapted from the authors' article of the same name published in *American Sociological Review*, 1989, Vol. 54 (June:359-381). Part 1 appeared in the previous issue of ECONOMIC OUTLOOK USA (Vol. 15, No. 4). Complete references and notes are provided in the *ASR* article. We appreciate the permission granted by the American Sociological Association to republish the material here.

Problems in Reasons Analysis

The analysis of reasons is more difficult than the analysis of events themselves because we start from the number of people who gave each major event, not the number of people who gave any event. Even with a frequently chosen event like World War II, the base is only 364 cases, and with most other events it is much smaller. Our discussion of reasons will therefore concentrate on the four events with at least 100 mentions – World War II, Vietnam, Space Exploration, and the Kennedy Assassination.[1]

Results of Reasons Analysis

The percentage giving each reason category for each event is presented in Table 1 for six age groups. For example, of the 55 respondents 18 to 29 years old who mentioned World War II as important, 4 percent gave "war-time experience" as the reason for their mention and 96 percent did not. (The total number of people giving the reason across all ages is also shown in parentheses next to each reason, for example, 99 respondents for Wartime Experience.) On the right side of the table, t-ratios are provided from logistic regressions in which each reason is treated as a dichotomous dependent variable (given or not given), and age, education, and gender are treated as predictors. All the t-ratios are provided for age, since it is our main focus, but only those that are statistically significant (at $p < .10$) are noted for education and gender in order to decrease the density of the table. These statistics are shown for initial guidance only, since in some cases nonlinearities will be our focus. It should also be noted that each response could be coded for up to three reasons, and thus the categories shown for an event in Table 1 are not mutually exclusive. (Analysis of first coded reasons only, in order to create mutual exclusivity, yields results similar to those in Table 1.)

World War II

Important age differences occur for the most frequently given World War II reason categories, as shown in Table 1. The most clear-cut of these relationships is straightforward in interpretation: older people tend to explain their choice of the war as important in terms of personal War Experiences (row

[1]Although slightly more than 100 respondents are coded as mentioning civil rights, the need to analyze blacks and whites separately reduces the effective numbers well below 100. It is also necessary to limit consideration to more frequently mentioned "reason" code categories, and those categories with less than 20 responses are omitted from Table 1. The categories listed in Table 1 do capture at least one of the reasons mentioned by the great majority of those who chose each event (82 percent for World War II, 89 percent for Vietnam, and 88 percent for Space Exploration). The proportion is smaller for Kennedy's assassination (62 percent) because of the omission of a large category of vague miscellaneous responses.

TABLE 1. Reasons Given for Event Choices by Age, Education, and Gender

Reasons	Age Categories						Logistic *t*-ratios		
	18–29	30–39	40–49	50–59	60–69	70+	Age	Education	Gender
World War II	(55)[1]	(70)	(58)	(69)	(73)	(37)			
% War Experience (99)[2]	4	9	14	45	44	54	6.63***	−1.69*	—
% Wartime Shortages (20)	2	0	12	9	4	8	1.33	—	2.48**
% Lives Lost (28)	6	7	5	6	14	5	0.44	−2.01**	—
% Economic Prosperity (66)	18	26	23	20	6	14	−2.11**	—	—
% Patriotism (27)	11	10	7	4	6	3	−1.74*	—	—
% Winning the Good War (62)	13	30	21	12	14	8	−2.36**	−2.18**	−2.21**
% Created World Structure (54)	20	29	14	10	10	3	−2.88***	4.04***	−3.11***
% Large Impact (vague) (52)	18	23	21	10	7	0	−3.23***	—	—
JFK Assassination	(19)	(45)	(30)	(8)	(8)	(0)			
% Flashbulb/Other Memories (28)	26	36	20	12	0	0	−1.94*	—	—
% If He Had Lived ... (23)	26	9	27	25	50	0	1.77*	—	—
% Personal Grief (33)	26	31	23	50	43	0	0.96	—	2.08**
Vietnam	(81)	(109)	(50)	(16)	(13)	(5)			
% Veterans Ill-Treated (43)	22	17	8	6	8	0	−2.58***	—	2.32**
% Know Others in War (62)	12	24	32	19	38	40	2.10**	−2.30**	3.17***
% War Experience (33)	7	17	16	0	0	0	−0.66	—	−3.16***
% Division and Distrust (78)	20	34	34	38	15	0	0.36	2.16**	−2.73**
% Lives Lost (69)	28	19	26	44	15	60	0.62	−1.99**	2.14**
% No Meaning (69)	28	19	28	31	38	20	0.35	—	—
% Didn't Win (21)	1	11	10	0	8	20	1.39	—	—
% Didn't Try to Win (23)	7	10	10	0	8	0	−0.26	—	−2.28**
Space Exploration	(36)	(38)	(28)	(25)	(17)	(14)			
% Emotional Awe (49)	14	26	29	48	53	36	2.90***	—	2.51**
% Intellectual Excitement (61)	56	34	39	28	35	29	−2.30**	—	2.13**
% Nationalism (31)	28	19	21	20	12	7	−1.83*	—	—
% Practical Spin-offs (58)	33	21	61	44	35	29	2.03**	3.55***	−3.34***

1. Number of cases in indicated age group mentioning indicated event/change as important.

2. Total number of cases giving the indicated reason for mentioning an event/change.

*** $p<.01$ ** $p<.05$ * $p<.10$

1), with a sharp discontinuity in such reasons between those above and below the age of 50 when interviewed (essentially those alive and those not yet born before the beginning of the war). Examples of these responses are:

> I had to go to North Africa. I don't like North Africa. I have to wear a hearing aid now because of it. Lost part of my hearing there. (man, age 70)

> Because my husband was away from me for three and a half years and it changed my life a lot. I had a child when he was gone, and I had to go through that alone. (woman, age 72)

The war is remembered as important by these people because they served in the armed forces, or their close relatives were away in the armed forces. Not all such experiential memories were negative — "I was drafted. . .trained in the navy on small boats; the experience was good" (man, age 63) — but almost all are obviously concrete and autobiographic, sometimes vividly so. These percentages of 45 percent (for those ages 50-59), 44 percent (ages 60-69), and 54 percent (ages 70 and over) are the highest in the World War II set of reasons, indicating that the dominant reason that older people offer for mentioning World War II as important is personal experience.

Wartime Shortages and Lives Lost are both small categories of response that show some effects of age — more clearly when the results are examined in detail. In the case of Wartime Shortages, the age effect is sharpest when the sample is divided by gender, prompted by the significant gender difference indicated in Table 1. As shown in Table 2, memories of shortages are more common among women, and especially among those women who were quite young near the end of World War II. For example: "I just remember the lines you had to go through to get your sugar and coffee and gas stamps" (woman, age 50 when interviewed, age 10 in 1945). The age effect is less obvious for men, but there are still clear references to early childhood experience: "I remember I couldn't get candy bars," said a middle-age man who was just three years old in 1945.

Mention of Lives Lost during the war extend over the entire age range, but the largest percentage giving this reason is for those 60 to 69, that is, for people who were teenagers or young adults during the World War II years. If the 60-69 cohort is contrasted with all other ages combined, the difference reaches conventional significance: $L^2 = 4.48$, $df = 1$, $p = .03$. Moreover, for those in the 60 to 69 cohort, these responses often suggest direct emotional meaning:

> A lot of lives were lost. I came home but a lot didn't. (man, age 63)

For younger people, the same type of coded response is more distant and removed from the scene:

> It was a good thing to have it end and people weren't being killed any more. (man, age 23)

Thus the Lives Lost reason probably contains age differences in personal meaning that are not fully captured by statistical testing of the gross code category itself.

What do younger people, who were not even born in 1945, "remember" about World War II? The two most reliable relations in the direction of youth are the categories labeled Created World Structure and Large Impact. Both types of response refer to the importance of World War II from a broader perspective, and they differ from each other mainly in how elaborated the response is, as suggested by the fact that Created World Structure has a positive association with education in Table 1, whereas Large Impact does not. For example, the two responses below were coded, respectively, as Created World Structure and Large Impact:

> The way it changed world relations. Created alignments of countries. The cold war was caused by World War II, precipitated by it. (man, age 36, college graduate)

> Affected more people than any other war. (man, age 36, high school graduate)

Both responses are of a kind that might be learned in courses on American history, or from television, or in the case of the second response might almost be inferred from the word "world" in "World War."

Much more interesting theoretically is the relation to younger ages of responses categorized as Winning the Good War. The responses refer to the fact that the United States triumphed in World War II and that it was a good war because it involved a struggle against evil:

> If we didn't win the war, this would be a different kind of world — not as much freedom. (woman, age 31)

> That was a victorious war so it was exhilarating to bond together in the country. (woman, age 36)

These responses are not only related linearly to younger ages, but are given especially by the main Vietnam generation age group (those who were in their teens and 20s at the height of the Vietnam war), *not* by those who either are younger now or were alive during World War II. When the Vietnam age category (30-39) is compared with all other age categories combined, controlling for education and gender, the difference is highly significant ($t = 3.31$). (We note also that such responses are given more often by males and by the least educated, but these other background factors do not interact with age.[2]) Thus, it is primarily the Vietnam generation that looks back on World War II as the "good war" that we fought and won — not those who lived during the war itself!

This finding calls for an important reversal to the more usual proposition that older people are the ones most likely to see recent events in terms of a world that is now gone. In the case of World War II, it is a younger generation who see an earlier event, World War II, in terms of their later experience with Vietnam. These Vietnam generation representatives are nostalgic for a world they have never known directly, in contrast to the world of their own youth during the divisive late 1960s and early 1970s. We might term this vicarious, as opposed to true, nostalgia.

Younger people also tend to think of other positive features or consequences of the war. They look back on it as a time of Patriotism (row 5) and also a time of Economic Prosperity (row 4). The first of these, Patriotism (for example, "the country came together as a whole during that time; everybody worked as a unit," from a 36-year-old man), is readily

[2]Winning the Good War includes some responses that emphasize only the "winning" aspect and some that emphasize mainly the good versus evil aspect. Although a single combined category is analyzed here, analysis of codes for the separate aspects yields the same conclusions for relations to age. However, mentions only of "winning" are given disproportionately by males and by the less educated, whereas mentions of good versus evil are unrelated to sex and education. It is the former, therefore, that produces the sex and education relations in Table 1 for Winning the Good War.

TABLE 2. Percent Mentioning Wartime Shortages by Age and Gender*

	Age Categories					
Gender	18–29	30–39	40–49	50–59	60–69	70+
Men	3 (31)	0 (42)	7 (30)	3 (34)	0 (40)	5 (19)
Women	0 (23)	0 (28)	18 (28)	14 (35)	9 (33)	11 (18)

*Base numbers of cases are in parentheses.

understood as being much the same as Winning the Good War, though it appears equally concentrated among the youngest Vietnam and post-Vietnam respondents. But the second, Economic Prosperity, is more surprising and is contrary to our initial expectation. It had seemed likely that the wartime and immediate postwar prosperity would be salient mainly to those who had experienced it, and that younger people would not associate "war" with economic gain. Yet the logistic result is in the opposite direction, and Economic Prosperity can be seen to be mentioned at a fairly uniform level from 18 to 59, then to drop sharply among the main World War II generation. However, many of these responses turn out on closer examination to be not about World War II itself, but rather about the postwar prosperity:

> Well, I was a war baby. I benefited from it like the others did.... It all came easy. Education, jobs, wealth. (man, age 42)

> Our financial outlook changed for the good. My dad came home from the war; he bought a house – which we had never had before – a car, and other things. Things just started looking up. (woman, age 51)

Thus, some of the responses have fairly clear experiential content, though others are by people too young to have been part of the postwar prosperity period and refer vaguely to improvements in the economy.[3]

The Kennedy Assassination

Nominations of the 1963 assassination of John Kennedy as one of the important events of the past 50 years are already clustered within a fairly narrow age range, but the reasons given for these mentions show some additional relations to age. One set of "reasons" is simply a clear memory of the assassination, in terms of either a specific "flashbulb" image of hearing of the event itself, or a more general report of its being memorable. These slightly different references to memory are illustrated by the following two quotations, the first of the flashbulb variety and the second more general in nature:

> I remember it vividly. I was in my sixth grade class when the principal came in to announce it. (woman, age 33)

> I was very young and it made a big impression on me. (woman, age 30).

The two types of remembering have been combined in Table 1 because the number of cases in each is small (13 cases classified as flashbulb and 15 as more general memory) and because when viewed separately they show identical trends. The linear relation of this combined Memory category is for younger people to mention clear memories of the assassination more often than do older people. However, when the bivariate association is examined more closely, it is the second youngest cohort – those 30 to 39, who were 8 to 17 in 1963 – that speaks especially of memory. (If the 30 to 39 age cohort is contrasted with the other age categories combined, $L^2 = 4.04$, $df = 1$, $p = .04$.) The absence of specific memories by those very young in 1985 is hardly surprising – our 18-year-olds were not born until 1967 – but the fact that memories are not often mentioned by those over 30 is a more meaningful finding. It suggests that even those older respondents who named the assassination as especially important were less likely to recall it in personal terms such as where they were and what they were doing at the time of the event. Flashbulb memories, whether completely accurate or not, point directly to the way in which a traumatic event leaves an imprint by disrupting the natural world of childhood.

Older people, on the other hand, tend to give as a reason for mentioning the assassination a type of response that we have called "If he had lived...." These are statements about how Kennedy's assassination led to negative changes in the United States, though the changes are seldom specified very clearly. For example:

> Things would be different today if he lived but I don't know how. He was a great man. (man, age 64)

Thus people who were middle-aged or older when the assassination occurred were not as dramatically affected by the stark report of the shooting as by a more general sense of political loss that it signified.

The one other clear category that we were able to code involved strong expressions of grief and shock over the assassination:

> I was at school and we were all very devastated. One girl even started crying. (woman, age 28)

Although some of these responses are part of a flashbulb memory, this is not always true; and the correlates of the two categories are not the same. Here the main correlate is gender: 26 of the 33 respondents coded as reporting personal grief are women.

Vietnam

Mentions of Vietnam as important, like mentions of Kennedy's assassination, have a narrow age range, with nearly 70 percent of such answers coming from respondents under 40 years of age. (Even where percentages look large among older respondents, the base *N*s are quite small in the case of Vietnam, for example, only five cases among those 70 and over, and hence the percentages in Table 1 are misleading unless this is taken into account.) Because of this age constriction, explanations for such mentions are not likely to show much association with age.

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[3]Reasons for mentioning the Depression parallel reasons for mentioning World War II in that older people explain their choice of the Depression in terms of remembered hardships, whereas young people's explanations tend to be in terms of New Deal legislation and other social outcomes. It may be that the positive side of a past event tends to be stressed more by later generations that did not experience it. We had also expected to find among the oldest Depression cohort reasons that referred to valuing frugality, but such responses occur mainly among those 50 years old when interviewed, which means they were born in 1935 and were the children of the Depression cohort, rather than from the Depression cohort itself. On reflection, it is plausible that frugality as a personal *habit* became part of the "natural" world of young children through socialization by the Depression cohort of parents, and thus differs from reasons that are connected with experience during adolescence.

Of the eight types of reasons in Table 1 for mentioning Vietnam, two show significant linear relations to age, two show significant curvilinear relations, and four show only trends or point to no relation. The clearest linear association is negative: young people speak in terms of veterans being ill-treated, which quite likely results from the fact that Vietnam veterans were ignored during and immediately after the war, and their problems only recently because a salient issue:

> A lot of people went over there and fought and died and when they came back no one was happy with them even though the government sent them over there. (woman, age 20)

Thus Vietnam Veterans is a young person's reason because it really refers to a more recent event than the Vietnam war itself.

Know Others in War also shows a significant linear relation to age, but in this case positive in direction and produced mainly because of the disproportionately small number of post-Vietnam generation persons (ages 18-29) who give such a reason. Those offering the reason are usually the relatives and friends of soldiers:

> I was involved in it. My husband and my brother served over there. (woman, age 35)

The two significant curvilinear relations are for Personal War Experience (quadratic term: $t = -2.35$) and Division and Distrust (quadratic term: $t = -2.35$). The first type of response is most frequent among those in their 30s and 40s and often involved direct military experience in Vietnam:

> I was in the service at that time and I lost friends in the war. (man, age 40)

The second type of response also occurs especially among the 30 to 49 age cohorts, and it includes two slightly different types of response, here combined under the rubric Division and Distrust:

> It separated the country. The people who were antiwar and the people who were pro. It put the country in a turmoil. (man, age 31)

> I'm very cautious now. I don't trust people or governments.... I'm just wary about the government. (man, age 36)

This is the largest of the Vietnam war categories, and it directly reflects the disillusionment felt by the Vietnam generation but extends as well to a still older cohort (50 to 59) that was in its 30s when the war began.

There are also nonsignificant curvilinear trends for the categories Didn't Win and Didn't Try to Win. The former is generally offered as a matter of fact conclusion about the disappointing outcome of the war, while the latter is a much more ideological condemnation of the government for not pursuing victory with greater vigor. For both categories, it is the Vietnam generation and just beyond (ages 30-49) that produce the bulk of the responses. Finally, there are two categories that show no sign of a relation to age: mention of Lives Lost, which we note also failed to be related to age when offered as a World War II reason, and vague statements to the effect that the Vietnam war had no meaning. These relatively frequent reasons for mentioning Vietnam as important tend to be given at all age levels.

Space

Unlike the three events dealt with thus far, the sheer number of mentions of space exploration as an important event or change did not show any sign of an association with age. Even if after-the-fact speculations about the uniqueness of scientific events can account for the absence of an age relation, we might still expect the reasons given for such mentions to differ by age. The reactions of a 10-year-old and of a 50-year-old were unlikely to be quite the same as they watched Neil Armstrong step from Apollo 11 onto the moon, and this should have shown up in 1985 when each recalled the event some 16 years later. The results in Table 1 bear out this expectation, for all four main reasons given for mentioning space exploration are significantly associated with age — two in each direction.

Emotional Awe and wonder over space exploits are expressed disproportionately by those approaching age 50 and beyond. A respondent of 50 in 1985 was 34 at the time of the moon landing, and it is these people who are most apt to use words like "fantastic" or "amazing" in explaining why space exploration was the most important event of the past 50 years:

> I saw accomplishments I never thought I'd see and they happened so quickly. I'm just fascinated by it. (man, age 52)

> Sheer minds that are back of all that. I'm amazed at that much intelligence and courage. Sheer magnitude of it all. (woman, age 69)

On the other hand, younger respondents, perhaps because they have lived with space exploration almost from the beginning and are future-oriented, are especially likely to speculate about the Intellectual Excitement of new developments still to come:

> Our world will change in the next 50 years because of what's going on in the space industry. We may make moves to live elsewhere. (woman, age 24)

> Well, we might even have space stations and so if we destroy our world, we will have a place to go. (woman, age 27)

There is a futuristic science-fiction quality to the excitement of the young, as distinct from the simpler awe of older respondents at a world so different from their youth. The contrast provides a good example of how the two ends of the age spectrum recall — and presumably experience — the same objective event in different ways. Moreover, the results for Emotional Awe and Intellectual Excitement hold just as strongly if only reasons for mentioning the 1969 Moon Landing are tested, rather than for all mentions of space exploration.

Younger and middle-age respondents also show a tendency more than the oldest respondents to stress national goals and national pride (Nationalism) when talking about space exploration:

Because we know what Russia has up there and we can keep pace with them on their level. (woman, age 24)

Gives you a sense of pride of being American. (man, age 47)

Older respondents, on the other hand, are likely to cite practical spin-offs from space exploration. Since more highly educated and male respondents similarly see practical value to space explorations, it is the older, male, highly educated respondents who most often refer to such practical payoffs, though in analysis not shown here this combination of characteristics appears to be an additive set, not an interactive one. An example of such responses is:

They've come a long way in predicting the weather and that sort of thing. (man, age 53, high school graduate)

In sum, older respondents see space exploits as utterly unexpected events and express surprise and pleasure about them. Older respondents are also likely to note the technological gains in other areas of life that have been stimulated by space developments. Younger respondents tend to take past space accomplishments as given, and to speculate more on future possibilities such as space colonies or travel to other parts of the universe. The young are also more apt to view space exploration as a race with the Soviet Union and to show pride in what they see as uniquely American achievements.

Conclusions

For the majority of 12 major national or world events and changes from the past half century that Americans recall as especially important, the memories refer back disproportionately to a time when the respondents were in their teens or early 20s. Thus the data fit well both the general hypothesis that memories of important political events and social changes are structured by age, and the more specific hypothesis that adolescence and early adulthood is the primary period for generational imprinting in the sense of political memories.[4] Furthermore, for memories of two other types of change, the group most directly affected — blacks for civil rights and women for women's rights — show similar age structuring, and in a third case — answers referring to moral decline — there is evidence that a larger sample of responses might allow finer coding which would yield the hypothesized age relation. In the end, there are only two clear exceptions to the hypothesis about age structuring of memories, and both of these involve scientific developments: the exploration of space and the invention of the computer. Quite possibly it is the nonpolitical nature of these two events that accounts for their lack of association with age, perhaps because there is less interference from earlier events than is the case for political issues.

Of course, not everyone names an event from his or her youth when asked to recall important events or changes over the past half century. However, we expected the meaning respondents give to an event to be heavily influenced by their own experience during youth, whether or not the event itself came from that period of their life. The evidence for this hypothesis cannot be evaluated in as precise a way as can the simple recall of events, but several findings are supportive. Those who chose an event that happened during their own adolescence or early adulthood show a strong tendency to explain their choice in terms of straightforward personal experience at that time, for example, service in the army during World War II, or a presumed flashbulb memory of the Kennedy assassination. However, those whose own youth occurred in a period different from that of the event they mention show a tendency to contrast the event implicitly with events from their own adolescence and young adulthood. The most striking example of this is the finding that characterizations of World War II as a "good war" and a "victorious war" come less from the World War II generation itself than from the later Vietnam generation now in its 30s and early 40s. Thus youthful experience of an actual event or change often focuses memories on the direct personal meaning of the experience, whereas the attribution of some larger political meaning to the event is more likely to be made by those who did not experience it at all, or at least did not experience it during their adolescence or early adulthood.

Not every explanation of remembered events fits this conclusion neatly: the Vietnam war itself provides a partial exception, since memories of that period's divisiveness and distrust, which are at once personal and more generalized, do come disproportionately from the Vietnam generation; but each of the four events producing sufficient explanations for detailed examination — World War II, Vietnam, space exploration, and the Kennedy assassination — shows cohort differences in perception that seem to reflect differences in generational vantage points.

Our earlier use of the term "generational imprinting" may suggest an almost machine-like stamping in process, but this is not our interpretation. The importance of adolescence and early adulthood can be seen instead to emerge out of the conjunction of several life course factors: first, the low salience for most people of events that occurred prior to their own lifetime, or even prior to their intellectual near-maturity in adolescence; second, the openness of adolescents and young adults to events and influences from outside the home and neighborhood; and third, the importance of the first political and social events that people encounter for shaping their later views of the political and social world, so that subsequent events seldom seem as significant as those encountered earlier. Generational imprinting can thus be regarded as a consequence of normal individual development, just as differences in generational perspectives on the "same" event can be seen to be a consequence of varying locations in historical time.

Our results also suggest a need to distinguish between at least two meanings of the term "collective memory." On the one hand, when large parts of the population appear to remember a common object, this can be thought of as a form of collective memory. However, it may be a rather superficial form, especially when on closer examination the memories turn out to be quite personal and particular — less about "World War II" as a collectively conceptualized event than about one's personal loss of hearing while on military assignment in North Africa, or the shortage of candy bars on the home front. On the other hand, when a large part of the

[4]Henceforth we use either "event" or "change" to refer to both particular events and more general changes.

Vietnam generation remembers the Vietnam period as one of distrust and division, this is a collective memory in the more general sense of being collectively created and collective held, and it probably has more general import for future actions by members of that generation. However, using this second meaning, if members of the Vietnam generation also "remember" World War II as a triumph of good over evil, even though they were not alive at the time, this is a kind of collective memory too. Collective memories in this second sense of widely shared images of a past event need not be personally experienced and thus begin to be difficult to distinguish from Emile Durkheim's conception of traditional beliefs as a form of "collective representation." The difference may lie less in the content of the memory than in the degree of personal feeling that is apt to accompany events lived through, as against events learned about second-hand.

Whether the generational memories documented in this paper influence future behavior is an important one, but not a simple one. For one thing, some of the most deeply felt memories reported by the public have little clear implication for future behavior. The assassination of John F. Kennedy was the fourth most frequently remembered event in our study, yet the meaning that people took from the assassination seems to have been more personal and philosophic than political:

> Reality hit me. It made me see death and blood and after that there were no surprises for me. (man, age 31 when interviewed, age 9 when Kennedy was shot)

> We all stopped being so innocent. We thought everything in the U.S. was good and pure, and we found out it wasn't so. (woman, age 51 when interviewed, age 29 when Kennedy was shot)

Furthermore, even for events such as World War II, which might at first seem full of political meaning, most memories were about personal experiences that had no obvious implication for future political behavior. Even though we did not probe specifically for political interpretations, their extreme rarity of occurrence in spontaneous answers suggests that wider political generalization was not an important result of experience connected with that war, though of course it may have played a more significant role in shaping the views of future political leaders.

Even for memories that have more apparent relevance to the future, for example, memories of the divisiveness of the Vietnam era, there may be quite contradictory lessons drawn, some people focusing blame on the government or the military, some on the press or on liberal critics of the war. These two different lines of political interpretation correspond roughly to Mannheim's distinction between the perspectives of different "generational units," and they indicate again the danger of moving too quickly from one's own views of the lessons of the war to predictions of the views, let alone future behavior, of others. In addition, the general public was less concerned about the larger moral issues of the war than about the likelihood of winning or losing it, so the most obvious implications for decisions about future American intervention are contingent on that aspect of a new situation, with enthusiastic backing of what seems like a painless intervention (for example, Grenada), but reluctance to support what is thought to be riskier involvement (for example, Central America).

None of these considerations means that generational memories of the past are unrelated to future actions, but rather that it is important to understand what events mean to individuals and social groups, since subjective meaning is a crucial element in the translation of experience into future action. The findings in this paper help move us in that direction.

There is one other important empirical problem that needs to be addressed in considering our results. A study like this at a single point in time inevitably confounds cohort effects with the "objective" importance of events. One might argue that older people choose World War II as especially important because it was in a real sense the most important single event of the past half century. According to this argument, if our study had been carried out in 1950, we might have discovered no age effect at all, since virtually everyone would have selected World War II as most important – a type of "period effect." From this standpoint, only one additional factor needs to be added to explain the choices of events in 1985: the ignorance of today's youth about the truly important events of the past 50 years that occurred before their adolescence. However, while historical importance is no doubt a major factor in influencing perceptions of events, the diverse series of age-related choices reported in this paper make such a purely historical argument untenable. In addition, the quite personal reasons that people often give for their nominations of events show clearly that generational effects on memory are much more than simply a mental recording of external pointers to historical importance. Some people certainly make judgments that reflect primarily the perspective of historians toward the past, but for most of us it is the intersection of personal and national history that provides the most vital and remembered connection to the times we have lived through.

Actual and Projected Economic Indicators

seasonally adjusted

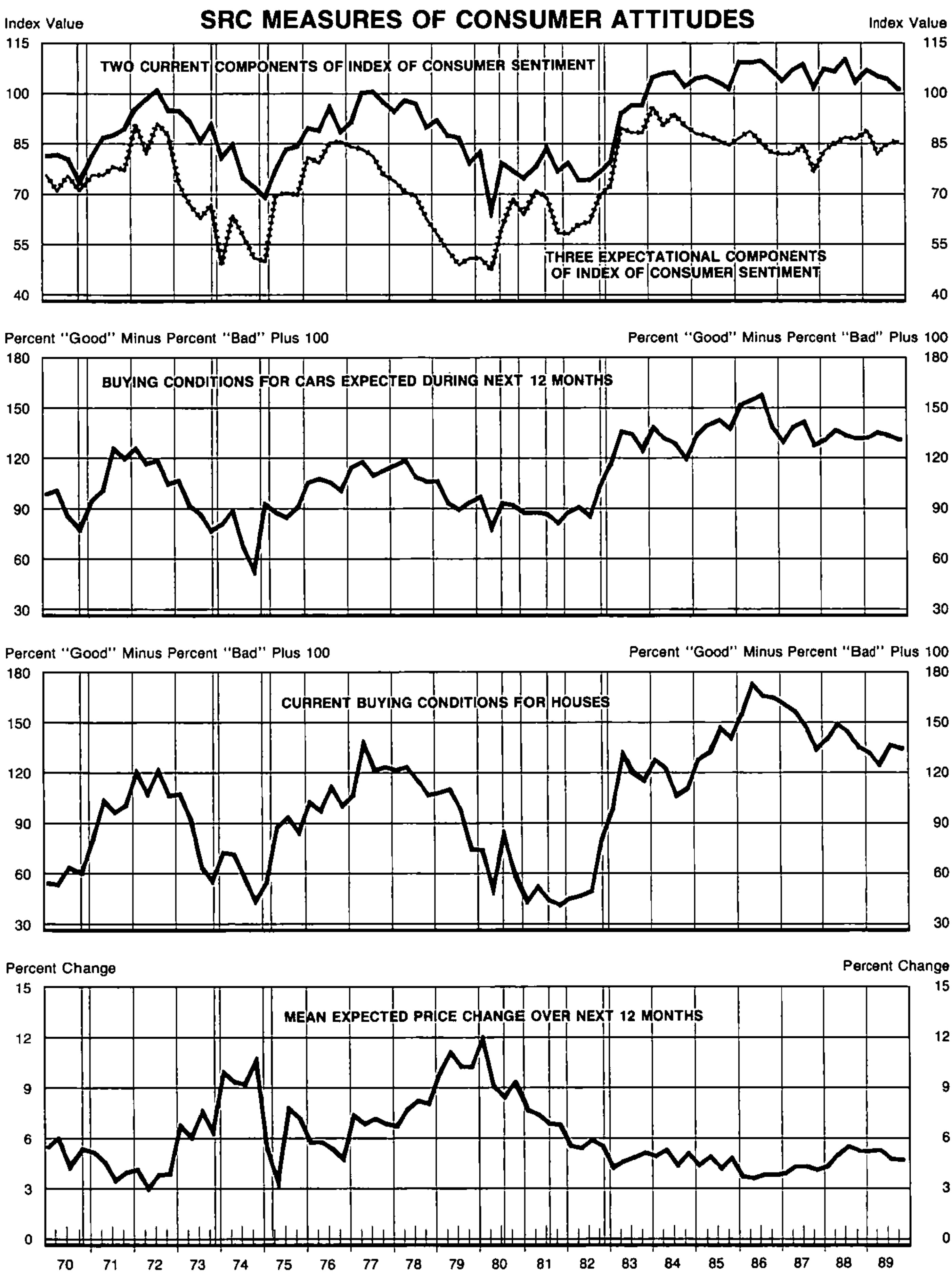
SERIES FORECAST BY THE ASA-NBER PANEL													
ECONOMIC INDICATOR	Quarterly Data										Annual Data		
	Actual					Projected					Actual		Proj.
	1988:4	1989:1	1989:2	1989:3	1989:4	1989:4	1990:1	1990:2	1990:3	1990:4	1988	1989	1990
GROSS NATIONAL PRODUCT*	5,017.3	5,113.1	5,201.7	5,281.0	5,337.0	5,338.5	5,415.0	5,491.5	5,583.0	5,691.0	4,880.6	5,233.2	5,542.0
GNP IMPLICIT PRICE DEFLATOR (index, 1982 = 100)*	123.3	124.5	125.9	126.9	128.0	128.0	129.3	130.5	131.9	133.1	121.2	126.3	131.2
CORPORATE PROFITS AFTER TAXES*	175.6	173.6	161.1	152.4	NA	156.5	157.1	160.0	162.5	168.5	168.9	NA	161.1
UNEMPLOYMENT RATE (percent)*	5.30	5.20	5.27	5.30	5.30	5.40	5.50	5.60	5.60	5.60	5.50	5.27	5.55
INDUSTRIAL PRODUCTION (index, 1977 = 100)	139.9	140.7	141.8	142.2	142.3	142 0	142.0	142.8	143.7	144.3	137.2	141.7	143.1
NEW PRIVATE HOUSING UNITS STARTED (millions)	1.559	1.517	1.352	1.338	1.333	1.379	1.400	1.410	1.440	1.493	1.495	1.385	1.420
CONSUMER PRICE INDEX (annualized percent change from prior quarter or year)	4.44	5.42	6.38	2.39	4.02	4.00	4.20	4.20	4.10	4.20	4.08	4.80	4.20
3-MONTH TREASURY BILL RATE (%)	7.70	8.53	8.44	7.85	7.63	7.60	7.30	7.10	7.25	7.50	6.67	8.11	7.35
NEW HIGH-GRADE CORPORATE BOND YIELD (percent)	9.96	10.12	9.72	9.19	NA	8.92	8.73	8.80	8.86	8.89	9.96	NA	8.90
GNP IN 1982 DOLLARS*	4,069.4	4,106.8	4,132.5	4,162.9	4,168.1	4,168.0	4,187.0	4,202.0	4,227.0	4,253.0	4,024.4	4,142.6	4,218.5
PERSONAL CONSUMPTION EXPENDITURES (1982 dollars)*	2,627.7	2,641.0	2,653.7	2,690.1	2,689.3	2,689.9	2,706.5	2,717.5	2,730.2	2,746.0	2,598.4	2,668.5	2,726.0
NONRESIDENTIAL FIXED INVESTMENT (1982 dollars)*	492.7	501.0	511.4	517.9	514.0	520.0	523.0	525.0	528.0	531.5	493.8	511.1	527.0
RESIDENTIAL FIXED INVESTMENT (1982 dollars)*	198.1	195.6	189.3	184.8	186.0	188.0	189.0	189.5	191.5	193.0	194.1	188.9	191.0
CHANGE IN BUSINESS INVENTORIES (1982 dollars)*	18.3	24.5	19.1	21.9	32.6	28.0	20.0	21.0	22.0	25.0	27.9	24.5	21.2
NET EXPORTS (1982 dollars)*	−73.8	−55.0	−51.2	−57.1	−61.8	−65.3	−60.0	−60.3	−60.4	−62.5	−74.9	−56.3	−61.0
FEDERAL GOVERNMENT PURCHASES (1982 dollars)*	343.9	335.5	343.6	336.1	333.6	339.4	335.5	336.0	335.0	334.0	328.8	337 2	334.5
STATE AND LOCAL GOVERNMENT PURCHASES (1982 dollars)*	462.5	464.2	466.7	469.2	474.2	472.5	475.0	478.0	481.5	484.5	456.3	468.6	480.0

SERIES FROM THE CURRENT-DOLLAR GNP ACCOUNTS													
ECONOMIC INDICATOR	Quarterly Data										Annual Data		
	1987:3	1987:4	1988:1	1988:2	1988:3	1988:4	1989:1	1989:2	1989:3	1989:4	1987	1988	1989
GROSS NATIONAL PRODUCT*	4,566.6	4,665.8	4,739.8	4,838.5	4,926.9	5,017.3	5,113.1	5,201.7	5,281.0	5,337.0	4,524.3	4,880.6	5,233.2
PERSONAL CONSUMPTION EXPENDITURES*	3,055.9	3,083.3	3,148.1	3,204.9	3,263.4	3,324.0	3,381.4	3,444.1	3,508.1	3,547.5	3,010.8	3,235.1	3,470.3
GROSS PRIVATE DOMESTIC INVESTMENT*	692.8	749.7	728.8	748.4	771.1	752.8	769.6	775.0	779.1	784.8	699 9	750.3	777.1
NET EXPORTS*	−115.3	−114.6	−82.8	−74.9	−66.2	−70.8	−54.0	−50.6	−45.1	−53.8	−112.6	−73.7	−50.9
GOVERNMENT PURCHASES*	933.2	947.5	945.7	960.1	958.6	1,011.4	1,016.0	1,033.2	1,038.9	1,058.6	926.1	969.0	1,036.7
DISPOSABLE PERSONAL INCOME*	3,223.5	3,319.4	3,376.4	3,435.9	3,511.7	3,587.4	3,689.5	3,747.7	3,806.8	3,875.9	3,206.0	3,477.8	3,780.0
PERSONAL SAVING RATE* (percent of disposable income)	2.3	4.3	3.9	3.9	4.3	4.6	5.6	5.4	5.1	5.8	3.2	4.2	5.5

Note: (1) All data are at annual rates and in billions of current dollars unless otherwise indicated. (2) To facilitate comparison and evaluation of forecasts, both actual data, released in January, and projected data, released by ASA-NBER in January, are displayed for fourth quarter 1989.

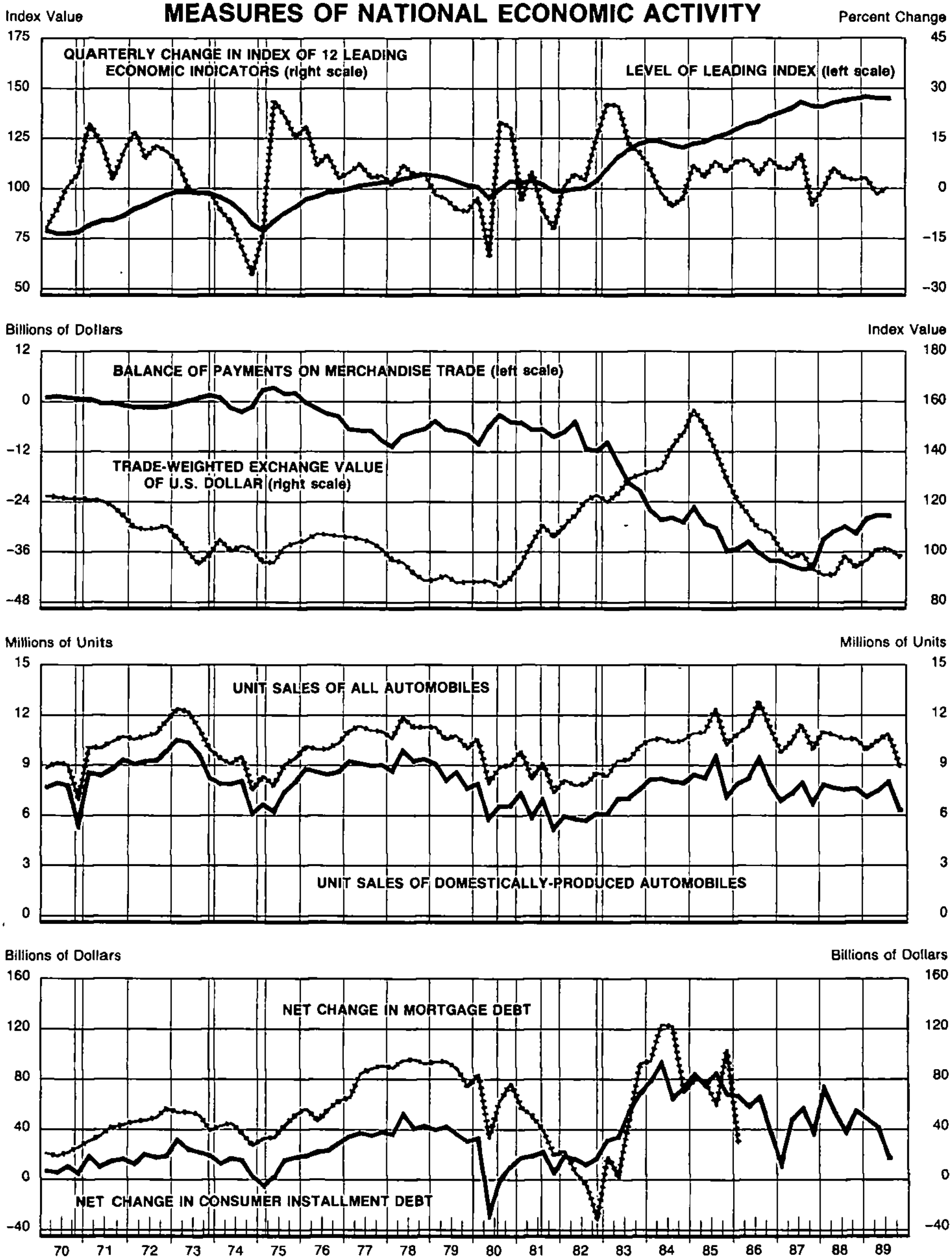
Sources: Projections: American Statistical Association – National Bureau of Economic Research panel of forecasters.
Actual Data: U.S. Departments of Commerce and Labor, Board of Governors of the Federal Reserve System.

*Substantial revision of the data for series marked with an asterisk has occurred since the last printing.



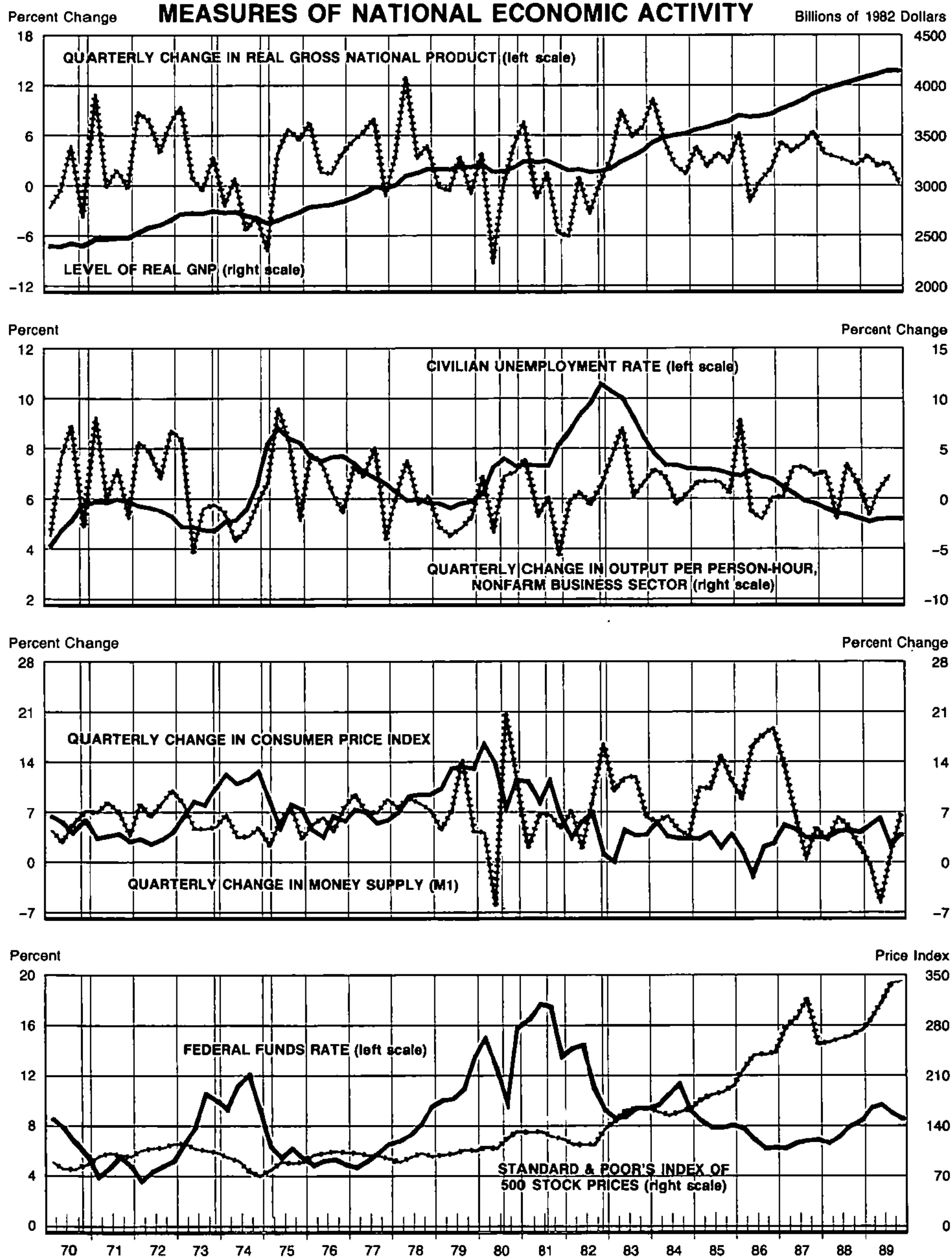
Note: Shaded areas indicate recession periods as designated by the National Bureau of Economic Research, Inc.

MEASURES OF NATIONAL ECONOMIC ACTIVITY



Note: Shaded areas indicate recession periods as designated by NBER; percent changes are at annual rates.

MEASURES OF NATIONAL ECONOMIC ACTIVITY



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