Mitchell's Musings 2-7-11

Trade and Stimulus

I hate to keep harping on such esoteric matters as exchange rates and the U.S. foreign trade imbalance. But I was reminded of the topic in an item from the National Bureau of Economic Research's emailed *Digest* for this month. The *Digest* summarizes recent NBER research. Below is an excerpt from one item:

Cash for Clunkers Had Modest and Short-Lived Effects

Under the $2.85 billion "Cash for Clunkers" program, the federal government paid automobile dealers between $3,500 and $4,500 each time a customer traded in an older, less fuel-efficient vehicle and purchased a newer, more fuel-efficient vehicle. The rebates were passed on to customers as a purchase incentive. The program was designed to boost automobile sales and to stimulate the economy. In The Effects of Fiscal Stimulus: Evidence from the 2009 "Cash for Clunkers" Program (NBER Working Paper No. 16351), co-authors Atif Mian and Amir Sufi find that in 957 U.S. cities, the surge in automobile sales was short-lived while the program was in place. About 360,000 automobile purchases were induced in July and August 2009. Most of these purchases simply were brought forward by a few months: a sharp decline in sales after the program ended suggests that it had a muted total effect on auto purchases, the authors conclude…

The actual paper to which the summary refers is available at http://papers.nber.org/papers/w16351

Is there more to be added to this analysis? About a third of car sales in the U.S. in 2009 were imports. Yours truly traded in an old Ford for a Toyota Prius. Toyota had planned to open a U.S. plant to manufacture that model, but dropped the idea when the Great Recession came along.

Of course, some of the stimulus from my particular clunker trade-in, even if it was short lived, did stay in the U.S. The dealer markup was about 20%. Local sales taxes and other motor vehicle fees plus transport from the port to the dealer have to be considered. So probably about a third of the stimulus stayed home and two thirds went to Japan in that particular scale. Still, when you combine the fact of only a modest time shift of sales found in the NBER study with the large leakage of the clunker stimulus abroad, there isn't much left for the domestic economy.

The U.S. foreign trade imbalance/exchange rate issue goes beyond particular stimulus efforts (of which there are not likely to be more anytime soon). As the U.S. continues a sluggish recovery, part of the internal demand expansion will leak out abroad, i.e., the trade imbalance reinforces the sluggishness. But there seems to be more willingness at present to acknowledge the trade issue than to deal with it. From the NY Times:

China's Currency Avoids 'Manipulated' Ruling Again

Sewell Chan, Feb. 4, 2011

WASHINGTON — The Obama administration said on Friday that China's currency remained "substantially undervalued" compared with the dollar but declined once again to cite Beijing for currency manipulation…

http://www.nytimes.com/2011/02/05/business/global/05yuan.html?_r=1&scp=1&sq=china%20exchange%20rate&st=cse

Enough said.

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Stepping Up in Direct Democracy: Donations Cheerfully Accepted

Here is a quote without comment from the State Worker blog, an ongoing feature of the website of the Sacramento Bee, the major newspaper in California's capital city.

*…Ebenstein figures it will take at least $1 million to collect enough signatures to qualify a measure for the ballot. When asked whether he can raise that much money, plus more for campaign ads, Ebenstein said **he believes that moneyed interests in Santa Barbara and elsewhere will step up**.*

If you are wondering to just what will the moneyed interests be stepping up, here is more detail from the lead-in to the post:

A Santa Barbara-based organization that wants to end union representation of California government employees has revved up its campaign contribution collection machinery for a run at putting the idea to a statewide vote. Although Secretary of State records indicate that Californians for Public Union Reform hasn't reported that it has taken in any money yet -- it just filed with the state last week -- it is positioning itself to accept contributions with an aim toward putting an initiative on the ballot next year.

Lanny Ebenstein, UC Santa Barbara economist, head of the California Center for Public Policy and president of the Santa Barbara County Taxpayers Association is named in the state filing as the reform group's treasurer. If his name seems familiar, it's probably because Ebenstein authored "Reforming Public Employee Compensation and Pensions." a report that purported to show that California public employees' pay and benefits are "unjust." …

The full posting is at http://blogs.sacbee.com/the_state_worker/2011/02/group-aims-to-end-public-emplo.html#ixzz1CodG7way

Although posting describes Mr. Ebenstein as a UC (University of California) Santa Barbara economist, a search on the University's website/directory finds no one by that name.

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What to Do When You are Not Being Educated

A final note is the item below from the San Francisco Chronicle of February 5, 2011:

Jonathan Zhang gingerly lifted the lab mouse by its tail and placed it on a spinning machine designed to test the movement of mice with Parkinson's disease. Out of eight San Francisco high school students, each clad in moss green lab coats, latex gloves, disposable head caps and shoe covers, the senior from George Washington High was one of the first to handle the mouse, which ran frantically in place as the laboratory machine whirred. The demonstration at the UCSF Mission Bay campus Friday afternoon was part of a citywide effort to give youths a chance to experience professional workplaces in their areas of interest. Organized by the Mayor's Youth Employment and Education Program, the annual effort ***occurred on a day that students had off from school due to teacher furloughs****. …*

Did anyone note that cutting the school year via teacher furloughs is not a good way to prepare the students for the high-tech jobs they were taken to observe? Just asking.

The full article is at http://sfgate.com/cgi-bin/article.cgi?f=/c/a/2011/02/05/BAJ91HJ2F3.DTL