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Editorial

Martin Eichenbaum, *Northwestern University and NBER*
Jonathan A. Parker, *MIT and NBER*

The NBER's Annual Conference on Macroeconomics celebrated its 30th year by bringing together leading scholars to present, discuss, and debate six research papers on central issues in contemporary macroeconomics, as well as to listen to and question Ben Bernanke, former Chairman of the US Federal Reserve, about the recent and future conduct of monetary policy. This conference volume contains the six papers, two written discussions of each paper by leading scholars, and a summary of the debates that followed each paper.

Two of the six papers deal with the development of China's macroeconomy. "Trends and Cycles in China's Macroeconomy" by Chun Chang, Kaiji Chen, Daniel F. Waggoner, and Tao Zha establishes a number of new facts about the Chinese economy by constructing a set of national accounts data for China. The authors characterize the key characteristics of trend growth and business cycles in China. Among other interesting findings, the paper shows that in striking contrast to most of the world, consumption and investment comove negatively in business cycles. The paper interprets these macroeconomic dynamics within a novel model in which financial frictions and credit policy play critical roles. Specifically, the authors argue that the preferential credit policy for promoting heavy industry played a key role in generating the unusual cyclical pattern of consumption and investment. The same policy also played a critical role in explaining the rising investment rate, the declining labor income share, and the growing foreign surplus that characterize the post-1990 Chinese economy.

The second paper on China, "Demystifying the Chinese Housing Boom" by Hanming Fang, Quanlin Gu, Wei Xiong, and Li-An Zhou constructs a new house price index and shows that house prices have grown by 10% a year over the past decade in China. This increase was

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concentrated in the largest four cities in China, which experienced average annual house price growth of 13% per year. In addition to presenting a range of novel and interesting information about house price appreciation, the paper presents evidence that the house price boom is not driven by lax credit. Mortgage borrowing typically requires a down payment of 30% of the house value. Further, in the vast majority of Chinese cities, rapid house price appreciation has been matched by equally rapid income growth. Only in the very largest cities have house prices risen disproportionately. In the authors' view, house price appreciation is not an obvious source of macroeconomic instability in China.

Our third paper, "External and Public Debt Crises" by Cristina Arellano, Andrew Atkeson, and Mark Wright, starts with a fascinating question: Why, in the case of large and rising public debt are the fiscal and economic outcomes of a Canadian province like Quebec, a US state like California, and a European state like Greece so different? The paper provides theoretical, historical, legal, and quantitative evidence for a deep answer: differences in the ability of governments to raise additional revenue and differences in the ability of governments to interfere in private contracts. This novel answer is a strikingly different explanation than the existing one, in which different outcomes are due to differences in the exposure of the banking sector to government debt and of the government fiscal balance to a banking crisis. And the paper supports its claims nicely, with legal and historical evidence. The novelty of the explanation excited the discussants, and debate at the conference mainly centered on the roles of the "deep structural" factors that the authors emphasize as opposed to deep cultural factors and the more commonly invoked macrofinancial differences.

The fourth paper in this year's volume deals with the active research program that centers on the role of networks in macroeconomic fluctuations. "Networks and the Macroeconomy: An Empirical Exploration" by Daron Acemoglu, Ufuk Akcigit, and William Kerr shows how the network structure of the US economy propagates the effect of gross-output productivity shocks across upstream and downstream sectors. While not implying that previous analysis mismeasures the impact of value-added shocks to aggregate volatility, the paper clarifies and measures the impact of four different secular changes to the US economy. The first two changes impact the demand side of the economy—variation in industry imports from China and changes in federal spending. The latter two changes impact the supply side—productivity shocks and variation in knowledge and ideas coming from foreign patenting. Using industry-level data, the paper argues that network linkages in the economy lead to a severalfold amplification of the effect of these changes on the US economy relative to the initial direct impact on the industries that buy from China, sell to the government, and so forth. The discussions and debate focused on the macroeconomic importance of network effects, clarifying how the model works and when network effects are relevant for macroeconomics and arguing that network analysis may be even more important in economies with sticky prices.

Two final papers investigate the usefulness of surveys of household's beliefs rather than their actual behavior, a relatively new and exciting area of research. First, "Expectations and Investment" by Nicola Gennaioli, Yueran Ma, and Andrei Shleifer, shows that a chief financial officer's expectations of a firm's future earnings growth is highly informative about both the planned and actual future investment of that firm. The power of these survey expectations is much greater than that of traditional measures constructed from implied market beliefs such as q-theory, according to which the ratio of market value to book value predicts future investment. The authors show that the dynamics of survey beliefs about future earning are consistent with CFOs extrapolating the future from past earnings. The paper makes a strong case for using survey expectations in place of rational expectations and for using survey expectation to learn about the expectations formation process, even for experts like CFOs thinking about their own companies. The discussions and comments at the conference largely agreed that the paper presents a convincing case that there is valuable information contained in the data on expectations, and debate focused on the big research question of how best to measure and use this information in modeling economic systems.

The final paper in the volume, "Declining Desire to Work and Downward Trends in Unemployment and Participation" by Regis Barnichon and Andrew Figura, shows that an increasing fraction of prime-age Americans who are not in the labor force—neither employed nor unemployed and looking for work—report no desire to work and that this decline in desire to work accelerated during the second half of the 1990s. The paper argues that welfare reforms in the 1990s moved people who were out of the labor force from welfare programs, which can require job search, to disability programs, which require one to be unable to work. The paper estimates a model of labor force transitions to explain these trends from the changes in the provision of welfare and social insurance. These factors can explain about half of the observed change in labor force participation. Discussion and debate focused on the timing of the changes, their interpretation, and the role of composition of the labor force (relative to the population).

Finally, the authors and the editors would like to take this opportunity to thank Jim Poterba and the National Bureau of Economic Research for their continued support for the NBER Macroeconomics Annual and the associated conference. We would also like to thank the NBER conference staff, particularly Rob Shannon, for his continued excellent organization and support, and Charlie Radin, for his work on the videotaping and publicity for the conference papers. Financial assistance from the National Science Foundation is gratefully acknowledged. Ben Hebert and Arlene Wong were invaluable in preparing the summaries of the discussions. Finally, we are extremely grateful to Helena Fitz-Patrick for her irreplaceable assistance in editing and producing the volume.

Endnote

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