

## The Livingston Surveys: A History of Hopes and Fears

*Herb Taylor\**

**F**or more than 40 years, business journalist Joseph A. Livingston surveyed prominent economists across the country, asking for their prognostications on unemployment, inflation, stock prices, and the like.

Livingston started his survey with just a handful of economists in 1946, but his mailing list grew steadily. From 1960 until his death in 1989, Livingston routinely received 50 or 60 responses to each survey. And he prided him-

self on the cross section he had assembled: economists from major corporations, large banks, labor unions, government, Wall Street, and universities. In June and December, he would write a column for the Sunday newspapers announcing the results.

During the 1970s, Livingston's survey caught the attention of research economists. Eager to study people's ability to anticipate economic conditions—particularly inflation—the researchers began subjecting Livingston's forecasts to rigorous statistical testing. After that, studies evaluating the survey numbers appeared in just about every major economics journal.

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Valuable as the statistical studies are, they miss an important dimension of Livingston's surveys: he delivered not just a table of projections, but a cogent analysis of the experts' opinions on the economic outlook. A genuine colleague to many of the economists he surveyed, Livingston corresponded and conversed with them regularly. Drawing on their expertise and his own breadth of experience, he got at the issues behind the numbers. Those insights went into his column.

Even now, Livingston's survey columns make worthwhile reading. They provide not only a lively look at the major economic events of the last 40 years, but a healthy perspective on economic forecasting. For many, economic forecasts are the product of sophisticated economic theories and complex computer programs, but Livingston had a different view. He once called economic forecasting "the projection of personal hopes and fears." And clearly, events have shaped and reshaped those hopes and fears.

## POSTWAR

### "Where Do We Go From Here?"

When Livingston began his surveys in the late 1940s, he found his economists to be a nervous and tentative group. They had reason to be. World War II was over. All-out mobilization for the war effort had jolted the American economy out of the Great Depression. Would the end of the war mean an economic relapse?

The economists' initial reaction was no. Responding to Livingston's first survey, in June 1946, they predicted a period of "conversion" from wartime production to civilian production followed by an economic boom. But their optimism was fragile. When the stock market crashed in September 1946, pessimism took hold. Nearly all predicted a downturn for 1947, with output declines on the order of 15 or 20 percent.

## Researchers Study the Livingston Forecasts

Research studies using Livingston's surveys were published as early as 1970. But it was John Carlson's article, "A Study of Price Forecasts," which appeared in the Winter 1977 issue of *Annals of Economic and Social Measurement*, that popularized the inflation forecasts among researchers. Since then, many economists have used the Livingston forecasts to study how expectations are formed. Among them was John Caskey, whose study, "Modeling the Formation of Price Expectations: A Bayesian Approach," appeared in the September 1985 issue of *American Economic Review*. Still other economists found the surveys useful as a direct measure of expectations when studying other economic theories. In this category is researcher Robert G. Murphy, who wrote "The Expectations Theory of the Term Structure: Evidence from Inflation Forecasts," which appeared in the Fall 1986 issue of *Journal of Macroeconomics*.

As it happened, there was no recession in 1947. Output actually expanded. In fact, GNP grew at a double-digit rate. The Livingston panelists were humbled. One even declined to participate in the mid-1948 survey, saying he had to "reorient" himself before he ventured another forecast.

Late in 1948, the economy did, in fact, slide into recession. At first Livingston's economists predicted only a "minor readjustment." But again their optimism proved fragile. By early 1949, forecasts of double-digit declines in production were again common, and the economists were agreed that the recession would last until 1950, perhaps into 1951.

Livingston recognized that the economists' pessimism simply reflected their experience. He ticked off the episodes they had seen: the 33 percent decline in industrial production during the 1920-21 "setback"; the 54 percent decline

during the 1929-33 depression; and the 33 percent drop during the 1937-38 "adjustment."

But again their pre-war experience turned out to be a faulty guide. By October 1949, the recession was over and the economy was growing again.

Respondents to the December 1949 survey again talked of prosperity, and Livingston took note of how economists' bouts of pessimism, followed by pleasant surprises, were pushing them into a more positive frame of mind.

Though not mentioned by Livingston at the time, the surveys showed that economists underestimated the strength of the postwar economy because they underestimated consumers' willingness to spend. Livingston took eight regular surveys during the late 1940s. Seven times the economists predicted that department store sales would decline over the near term. In fact, department store sales grew seven times out of eight. Five of those times, sales grew at double-digit rates.

The darker side to the economy's unexpected strength was the unexpectedly high inflation it spawned. Again, Livingston's surveys show that economists did not appreciate this inflationary bias in the economy of the postwar 1940s. Six times out of eight, participants predicted consumer prices would decline within six months. In fact, consumer prices rose six times out of eight. Pre-war experience had proven a misleading guide to predicting the postwar economy. During the 1950s, economists would gradually reorient themselves to a new economic landscape, one that featured consumer-fueled growth with only occasional recession—not depression—and persistent inflation.

### "Not Paradise, Just Prosperity"

Livingston's economists began the new decade with very modest expectations. They forecast just steady business for 1950 and a possible slump in 1951. Behind the lackluster

outlook Livingston saw a vote of no confidence in the consumer spending boom. The economists had predicted that the "supercharged buying of automobiles and homes will begin to peter out sometime next year, if not this year," he wrote. But their outlook soon changed. By June 1950, the nation was again at war—this time in Korea.

The WWII experience still fresh in their minds, economists were confident that Korea would fuel an economic boom. "Never have economists been quite so unanimous," Livingston wrote, "and so positive about the future."

The economists also speculated that some of the increase in military output would have to come at the expense of consumer goods, and that the market would ration the available output via higher prices. Thus, Livingston's December 1950 survey column carried the headline: "More Guns, Less Butter, Plus Inflation."

For the next two years, military spending helped keep the economy growing. But it never created the boom conditions many of the economists had forecast. In fact, rather than having to turn customers away because of supply constraints, some producers found customer demand weak. In June 1952, Livingston wrote, "Recessions have dogged the shoe, leather, women's dress, men's clothing, appliance and other industries."

About the only thing that turned out stronger than expected was inflation. The economists had expected the war to create some price pressures, but increases in the cost of living easily outstripped their expectations.

As the Korean situation settled into stalemate, the economists began feeling for the top of the defense boom, awaiting the cuts in military spending that would spell the end of the economic expansion. By June 1953, survey respondents were nearly unanimous in predicting a downturn. Sure enough, a recession began that July.

When the recession finally came, it did not

turn out to be as bad as the economists expected. "I'd expect to be more pessimistic," one survey respondent wrote during the recession, "but I can see very few actual signs of distress.... Can we really be learning how not to have general depressions?"

The recession was over by midyear 1954, and the economists sensed it immediately. "As far as they're concerned," Livingston wrote in June, "the recent recession is ancient history."

The economists' optimism simply reflected the prevailing sentiment throughout the economy. The expansion proved surprisingly robust, strong consumer spending propelled the expansion, and optimism itself helped fuel growth. In his mid-1955 survey column, Livingston crowed: "Prosperity, it's wonderful. Not only does it create jobs, make people rich, generate cheer, but like the common cold, it's infectious."

By the end of 1955, prosperity had stopped producing quite so much optimism. Some economists were concerned that the Federal Reserve's recent tightening, designed to contain a surprising acceleration in inflation, might choke off the expansion. Nonetheless, on balance, Livingston's economists continued to predict economic growth. Why?

For one thing, the economists did not think controlling inflation would require long-term restraint by the Fed. In the June 1956 survey, Livingston noted, "Inflation, which has worried the Federal Reserve Board, doesn't worry the economists. (Possibly because the Reserve has already acted and reacted.)"

For another thing, eliminating inflation did not seem to be as important as it once was. Economists were beginning to consider persistent 1 or 2 percent inflation inevitable in a modern industrial economy: big business had the power to raise prices, and big labor had the power to raise wages right along.

Livingston himself did not share this more tolerant attitude, but clearly he was part of a shrinking minority. In June 1957, he wrote:

*A popular delusion has been creeping up on us—the delusion...that bit-by-bit inflation can occur without culminating in a speculative bust.*

*Such thinking leads to...economic bubble baths, such as Holland's tulipmania in 1634; John Law's Mississippi failure in 1720; Wall Street's New Era crash in 1929. When human minds converge onto a single track, beware!*

Perhaps economists had underestimated the impact of the Fed tightening. In the summer of 1957, the economy slid into its third postwar recession—and the first that the Livingston economists did not anticipate. But by now even a surprise downturn did not frighten the economists. They predicted a quick recovery. In December, Livingston was exhorting his readers: "Prepare to shed your fears for '58; top economists see V-curve ahead."

Livingston noted his economists' growing confidence that the business cycle had been tamed, and he offered an explanation for it. Visiting the American Economic Association meetings that year, he found this group of largely academic economists more pessimistic than his own, more diverse group. When the meetings were over, he concluded, "Participants in the AEA sessions underestimated structural changes in our economy; specifically, the stabilizing role of Big Government—federal, state, and local."

Whatever the source of economists' optimism, the events of 1958 more than justified it. The recession ended early in the year, and the pace of the recovery during the second half exceeded their expectations. Again a resurgence in consumer spending led the way, with the growth in department store sales easily outstripping the economists' forecasts.

The strong recovery raised expectations about the economy's long-term prospects. In December 1958, Livingston proclaimed that 1959 would be the "Prosperous Gateway to the Golden '60's."

And why shouldn't the next decade be golden? Growth in consumer spending and overall GNP had consistently exceeded economists' expectations. Inflation had too, but the problem seemed manageable. And, with a little help from the government, economic depression was no longer a threat.

### **"Out of Confusion—Optimism"**

What was to have been the golden decade quickly lost its luster.

Actually, the golden vision had begun to tarnish even before the 1950s ended. The pace of the expansion slowed considerably in 1959, leaving unemployment unacceptably high. In his report on the economists' end-of-year forecasts, Livingston noted that they were predicting 1960 would be "another hat-eating year" for Secretary of Labor James Mitchell—a year with over 3 million people unemployed.

Then, in the spring of 1960, the economy again slipped unexpectedly into a recession. It did not last long, but it ushered in a period of stagnation that turned economists' optimism about the economy into confusion and doubt.

At least some of the economists were beginning to feel that the long wave of prosperity had perhaps run its course. "After 15 years of catching up," wrote one, "people and business institutions are caught up." Another asked simply: "Don't you think its time for the great postwar boom to terminate?"

With these anxieties came diminished expectations for the decade. Livingston reported that the economists now looked ahead to prosperity on a silver plateau. "Not a golden plateau, not platinum, but silver," he wrote.

The 1960 recession ended in the spring of 1961, but the economy's performance was disappointing overall, and unemployment remained high. In early 1963, President Kennedy proposed cutting taxes, claiming the action was needed to avoid another recession.

Livingston put the tax cut issue before his

economists in a special questionnaire: will a tax cut ward off a decline? The overwhelming response was no. Most thought that the economy's next move would more likely be up than down. They considered the stimulus "unnecessary." Among those who considered recession likely, a good number saw the proposed cuts as "too little, too late."

But Livingston saw the political realities behind Kennedy's proposal. "The man in the White House will be blamed for a recession," Livingston wrote. "He feels impelled to act even if...no urgent action—to ward off recession—is necessary."

Furthermore, Livingston believed that simply warding off recession was no longer good enough. He considered "plateauism," a leveling off of economic activity, to be "a recurrent and normal economic phenomenon." But, he added, "No administration—Republican or Democratic—can ponder with placidity such a protracted period of seeming economic stagnation. Unemployment rises merely because of normal growth in the labor force." And "'full employment' has become an every year goal." In short, continuous expansion might not be the natural state of things, but it had become a social imperative, and therefore a political necessity.

President Kennedy did not get his proposed tax cuts, and there was no recession in 1963. But President Johnson got a series of tax cuts in 1964 and 1965, and the pace of the expansion picked up. Rightly or wrongly, economists' confidence in what Livingston called the New Economics—Keynesianism—grew. As one survey respondent wrote: "Maybe we have become so skilled in manipulating the economy by the techniques of Lord Keynes that recessions are a thing of the past."

By 1965 there was little subtlety about the stance of fiscal policy—where the tax cuts left off, government spending picked up. Expenditures on the Vietnam War had become the pillar of prosperity. Livingston's December 1966

## The Best of Livingston

A business columnist of broad experience and sharp insight, Livingston was never content to simply report on economists' projections. He always analyzed, and occasionally criticized, the forecasts. Livingston's June 1969 column on the then popular "gradualist" approach to controlling inflation showed him at this best. He argued that gradualism is the logical extension of Keynesianism politically, but not economically.

Livingston began by citing the opinion of Dr. Trouvain, who at that time was head of the German central bank. At a talk attended by Livingston, Trouvain stated that the disinflation policy would be more credible if the government openly acknowledged the risk of recession. Livingston agreed:

*If Americans think that the U.S. boom can be tuned down painlessly, then they'll not worry. They'll proceed on the basis of inflation as usual. Why retrench? What's delayed today will cost more tomorrow. Psychology—what gradualism leads people to expect—runs counter to what President Nixon and his economic aides are fighting: inflation.*

Livingston offered his survey results as confirmation that faith in gradualism had indeed taken hold, thus planting the seeds of its own destruction:

*I have just received the returns from my semiannual survey of economists. The majority is convinced that President Nixon will achieve a painless readjustment...*

*If economists buy this, it's a good presumption nearly everybody will. That being the case, who is to curb personal spending? What corporation will hold back on financial and industrial undertakings? The forecast is clear: tomorrow will come up roses. Prices will be higher. It's a go-go environment.*

In fact, though the economists were predicting that inflation would decline, Livingston noticed that their own stock market forecasts suggested otherwise:

*The economists...don't expect an exodus from stocks, despite low yields around 3 percent, into bonds, which return about 7 percent. In an inflationary environment, growth is the thing. Capital gains! Who wants fixed income?*

In the end, Livingston saw the political lure of gradualism and its economic consequences:

*Confidence persists even as the President and his advisers try to shake it. They have to persuade people that growth will slow down and inflation subside. Yet, they can't openly acknowledge the possibility of recession. It's not politic.*

*Growth and inflation have become inseparable. People believe that politicians—governments—have the power, tools, and knowledge to sustain high employment yet keep inflation tolerable.*

headline put it baldly: "Economists Bank on Vietnam to Keep Prosperity Moving."

Indeed, the strong fiscal policy stimulus overrode many potential negative factors: domestic turmoil, international problems, and

even some attempts at more restrictive monetary policy. All showed through in Livingston's columns, but none overturned the fundamental belief that the expansion would continue.

While fiscal policy took center stage, mon-

etary policy was relegated to the background. The newly influential Keynesians saw it as the weaker stabilization tool. In December 1965, the Fed raised its discount rate as part of an effort to cool down the economy. The move came just as Livingston was going to press with his year-end survey results. Livingston contacted the survey participants and asked if they wanted to revise their forecasts. Only eight of the 42 said yes. In retrospect, the economists may have underestimated the impact of the Fed tightening; economic growth slowed markedly, if temporarily, during 1966-67. Still, there was no recession and the expansion rolled on.

On the plus side, the war-fed expansion in demand pushed the economy to full employment and perhaps beyond. The unemployment rate fell to postwar lows. In looking over the June 1966 survey returns, Livingston noticed that "the most optimistic are the labor economists. Maybe they 'smell' big gains at collective bargaining tables..." And in late 1967, Livingston noted that with workers in a "sellers' market," his forecasters expected wages to "more than keep pace with inflation."

On the minus side, the strong growth in demand was putting upward pressure on inflation. Initially, this was not a major problem. Inflation was just "creeping" along at 1 or 2 percent. And when it did start to pick up, no one, not even Livingston, seemed all that concerned about it. In his mid-1966 column, Livingston wrote that survey participants were calling for a booming economy, with what he called an unexpected plus: "This increase will be achieved without major inflation.... The cost-of-living will rise only 4 percent in the next 18 months."

As the war dragged on, its likely conclusion became the overriding source of uncertainty in the outlook. In mid-1967, the economists assumed that the war would continue to escalate. But then came the Tet offensive, the growing sense that the war could not be won. By mid-1968, Livingston reported that the economists

were seeing "a definite decline in the Vietnam War effort—and perhaps termination."

As the war effort wound down, so did the economy. Labor markets began to show some slack. Unemployment was on the rise. Recession threatened.

Perhaps more upsetting than the end of the boom was the inflation hangover with which the economy was left. Inflation had steadily accelerated and was well over Livingston's 2 percent "toleration level." By December 1969, with CPI inflation running at over 5 percent, Livingston's forecasters looked ahead to a "new year, new decade, same headache."

Still, economists put their faith in Keynesianism and the ability of the government to fine tune the economy. President Nixon planned to bring inflation down gradually, without causing a recession. Many economists, including three-quarters of those surveyed by Livingston, believed Nixon could succeed. In fact, Livingston began his June 1969 survey column with the headline: "Triumph for 'Gradualism': Economists Believe It!"

Livingston himself considered the gradualist approach to be unrealistic, and, as it turned out, rightly so. But it would take most economists and policymakers 10 years to understand why.

### **"Joblessness vs. Inflation—Economists See No Cure"**

The seventies began much as the sixties had—in confusion. The sixties, a decade of prolonged prosperity, stumbled at the finish line. A recession began in December 1969.

The Livingston forecasters foresaw a relatively mild downturn. And when the recovery got under way in late 1970, the economists forecast robust real growth. But their faith in President Nixon's gradualist disinflation policy quickly evaporated.

Fewer than a third of the participants believed that Nixon could achieve his announced

goal of reducing inflation to 3 percent by the end of 1972—even with his price controls program. And almost no one thought he could get unemployment below 5 percent.

Livingston saw the irony of the situation. Keynesianism had raised the standards to which economic policymakers—and particularly Presidents—were held, just as the shortcomings of Keynesian policies were beginning to show. Noting the rapid real growth forecast for 1972, he wrote:

*Prior to 1946, such a forecast would have elicited hosannas of optimism.... But standards have changed. Unemployment is the touchstone by which Presidents are now judged....*

And unemployment rates in excess of 5 percent were, Livingston believed, just too high politically.

President Nixon won reelection in 1972, but the macroeconomic policy problem lingered. Some economists saw expansion giving way to growth, but not enough to keep unemployment from rising. And they all wrestled with what Livingston called “the economic dilemma of modern times”: how to reduce joblessness without regenerating inflation.

As economists puzzled over the difficulties of managing aggregate demand, they were blindsided from the supply side. In the fall of 1973, the Arab oil embargo created fuel shortages and skyrocketing energy prices.

The oil crisis threw economists into complete confusion. Today economists make the distinction between demand-side and supply-side recessions. Recessions generated by plunging overall demand create higher unemployment, but ease inflation; recessions triggered by collapsing resource supplies increase unemployment and inflation at the same time. But such distinctions were drawn only later, in response to the oil crises. Back in December 1973—just after the crisis hit—Livingston wrote only of the confusion:

*For 1974, there's no...Standard Economic Forecast. Instead of the near unanimity of recent years, there's doubt and dispersion...this can be explained. The economy has been wrenched away from past moorings. Questions predominate over answers.*

*Oil—how short will it be?*

*Other materials—steel, paper, etc.—will they too cause a throttling down of production...?*

By mid-1974, confusion gave way to cautious optimism. Forecasters recognized that the economy had slipped into recession, but it was not expected to last. Livingston reported: “There has been...a joining of minds...among economists...55 of 57... are pretty well agreed: The recession is history, recovery is under way.” And, as a bonus, they figured that the recession would bring inflation down.

Instead of ending, the recession deepened and dragged on through 1974. Livingston opened his year-end column with a little Latin: “Sic transit gloria oeconomorum,” which he said freely translated into “1974 is a year economic forecasters would be pleased to scratch.” An expansion finally did begin in the spring of 1975, but high inflation and high unemployment persisted. And the whole oil crisis experience seemed to leave Livingston’s economists in shock for the rest of the decade.

Whatever confidence they had in Keynesian stabilization policy was eroding quickly. In late 1976, with the expansion sputtering, President-elect Jimmy Carter considered fiscal stimulus. Livingston asked his economists whether they thought a federal tax or spending package desirable. He was surprised to find that 25 percent of the respondents said no. He considered that a “sufficiently high percentage to suggest that the ‘conventional wisdom’...warrants reexamination.”

As the decade unfolded, the economic outlook steadily deteriorated. President Carter talked about a “malaise” settling over the nation. Certainly this was true of the economy.

The year 1977 produced what Livingston called a “6-by-6” economy—both CPI inflation and the unemployment rate were 6 percent. “More of the same” was forecast for 1978. When inflation came in at over 6 percent for 1978, survey participants forecast an even less pleasant “7-by-8” economy for 1979. By the end of the decade, Livingston’s economists were projecting a combination of 7 percent unemployment and 10 percent inflation for 1980. On top of that, they were nearly unanimous that a recession was imminent.

### “Long Expansion, Modest Inflation”

Things had gotten pretty bad in the late 1970s. But sometimes things have to get worse before they can get better. And in the early 1980s, things got worse.

The economy endured not one but two recessions within three years. The economists suffered through a business cycle forecasting record that rivaled their 1974-75 fiasco. And their disillusionment with government stabilization policy turned into thinly veiled contempt. But, incredibly, out of the ashes of that experience arose a confidence in the economy that had not prevailed since the late fifties’ vision of a golden decade.

The first of the two recessions began right on schedule, in January 1980. The forecasters had been expecting a short, shallow downturn, but by June 1980 they had lost their confidence. They predicted a steep slide that would last into 1981. In fact, the recession ended in July 1980—just one month after their gloom-and-doom forecast.

Despite the unexpected brevity of the downturn, the forecasters remained bearish. In the December 1980 survey, they showed no faith in the newly elected Reagan Administration’s economic policies. They predicted another recession and continued high inflation.

Livingston quoted one respondent who wrote, “We need to remember that Murphy’s

Law usually rules in Washington: What can go bad, will go bad. There is no assurance that the bumbling ineptitude and miscalculations of the past year in Washington will not be repeated.”

Livingston himself expressed more confidence in the private economy’s proclivity to right itself than in any government stabilization policies. Noting that the economists were near unanimous in predicting a short, shallow recession for 1981, Livingston wrote, “The President...should not resort to palliatives to spur production and employment. That would only reinforce inflation. He can safely rely on the historic buoyancy—the proved inner resiliency—of the American economic system.”

The year 1981 did indeed bring a second recession. It began in July. This time the economists stuck to their guns, saying the recession would be short and shallow. In December 1981, the majority predicted it would end in the spring of 1982. By June, 80 percent of them believed the recovery was under way. Just two of the 54 respondents thought the decline would hang on to Thanksgiving. But that is precisely what happened—the recession did not end until November 1982.

At 16 months, the 1981-82 recession was among the longest in the postwar period. Though the recession dragged on longer than economists expected, it did accomplish one objective that had eluded policymakers for more than a decade—it broke the trend of rising inflation. And it did so in dramatic fashion. CPI inflation plummeted from double-digit rates in mid-1981 to 4 percent by the end of 1982—its slowest pace since the mid-1960s.

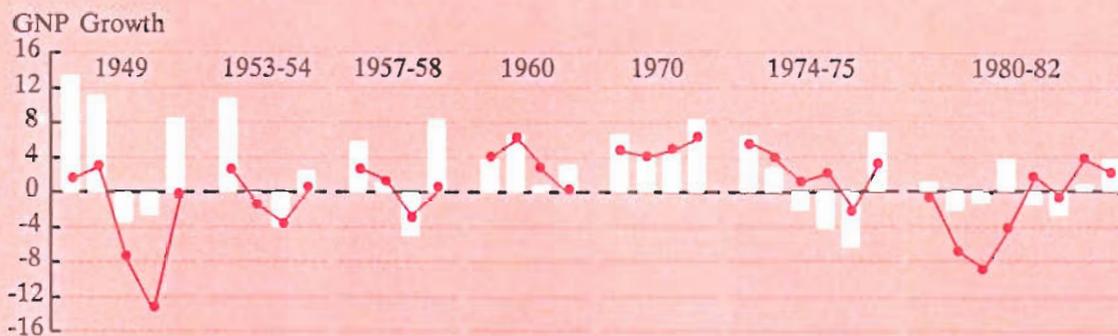
When Livingston surveyed his economists in December 1982, he found a positive tone to their forecasts that he had not seen for some time. After a long period of turmoil, they seemed convinced that their troubles were behind them. Livingston’s headline captured the mood: “Economists Bid Adieu to Inflation and Recession.”

Livingston also sensed that the economists

## Economists Are Moderationists...Usually

In the late 1970s, Livingston wrote, "Economists tend to be moderationists. In the past, they have consistently underestimated increases in inflation. They also don't go to extremes in forecasting slumps. They tend to expect saucerlike rather than V-shaped recessions."

But the economists had not always been such "moderationists"—in the 1940s they had been overanxious to predict deep recession, and even depression. And they would not remain "moderationists"—in the early 1980s they anticipated a decidedly V-shaped recession.



Note: Bars represent actual GNP growth in half-years; dots are the Livingston forecasts, which since 1971 project real, not nominal, GNP.

emerged from the tumultuous experience of the early 1980s a wiser group. Certainly, the survey participants and Livingston himself came away with a new awareness of monetary policy's influence on the economy.

Prior to the 1980-82 experience, it took a major Fed tightening to warrant a sentence or two in Livingston's survey column. In fact, Fed Chairman Volcker's now-famous monetary policy shift in October 1979, which contributed to the depth of the early 1980s' recessions and the end of the high inflation, did not get any mention at all.

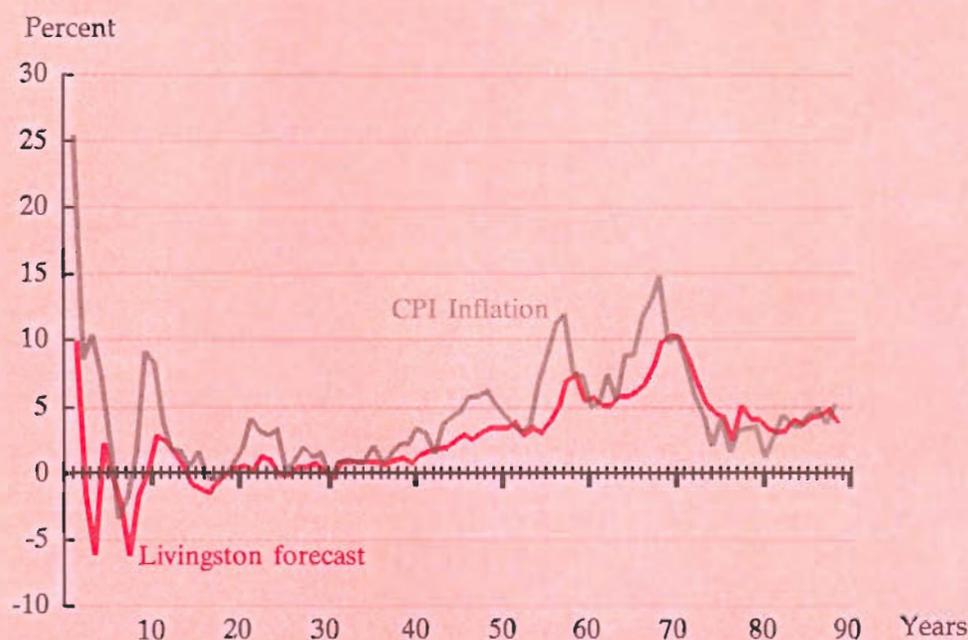
But the record-high interest rates that prevailed during the recession certainly called attention to monetary policy. In December 1980, Livingston added the prime rate to the list of variables on his survey questionnaire; not since the 1940s had he asked for interest rate

projections.

Now as the economists looked to the recovery phase in 1983, their predictions took careful account of the Fed's role. "If the Fed doesn't have an accommodative monetary policy," one survey respondent wrote, "the recovery could be aborted." As the economy moved into the expansion phase, economists' confidence in monetary policy, and in the underlying strength of the economy, grew.

Academic economists actively debated the relative merits of alternative Fed operating procedures and monetary indicators. But business economists' confidence in the Fed transcended such issues. In Livingston's words, they felt simply: "Paul Volcker and Co. will manage, somehow, to dish out a sufficient amount of money to keep the expansion going without generating a rebirth of high inflation."

The economists did, however, remain “moderationist” about inflation. During the previous three and a half decades, when inflation was on the way up, they had underestimated the increases. In the 1980s, when inflation was on the way down, they underestimated the decreases.



The traditional business cycle “theory” that expansions last about three years was giving way to the notion that a well-managed expansion could go on much longer. For a while, economists predicted a cyclical peak for November 1985—the expansion’s third anniversary. But as the anniversary approached, they started pushing the date for the peak farther and farther back.

Nor did Volcker’s departure from the Fed alter the outlook. In the June 1987 survey, the participants forecast steady, modest growth. Livingston wrote: “Things are going to work out, that’s the consensus. Two economists offered *obiter dicta*: The ascendancy of Alan Greenspan to the chairmanship of the Federal Reserve Board in place of Paul A. Volcker does not change the outlook.”

But more important than economists’ confi-

dence in monetary policy was their confidence in the private economy’s proclivity for growth. Livingston himself had hinted at it earlier in the decade when he suggested relying on the economy’s “natural buoyancy.” That kind of confidence had not come through since the late 1950s. Now when his economists predicted a 3-percent annual growth rate for real GNP, Livingston declared it simply “in line with the nation’s long-term rate.”

The stock market crash of October 1987 put economists’ confidence to the test. The crash was perhaps the most spectacular financial event of the 1980s—and certainly one with potential to disrupt the economic expansion. It evoked in many people the specter of 1929 and the Great Depression, much as the stock market crash of 1946 had done back when Livingston began his survey.

But this time the economists responding to Livingston's survey had a far different reaction. When the December 1987 survey results came in, Livingston found that the consensus forecast was for continued, if somewhat slower, expansion. Perhaps he was thinking back to 1946 when he wrote:

*And there's a surprise. The stock market crash didn't impel the economists to conclude that a near-term recession is likely. Quite the contrary, recession fears diminished.... I traced the forecasts of 41 economists who responded both in June and December.... 28 out of 41...lengthened the life of the expansion.... Only 11 shortened it.*

In fact, the economy did continue to expand, as did economists' confidence in its future. In his June 1989 column, Livingston summarized the consensus this way: "No recession in 1989, none in 1990 and none in 1991." Were the expansion to continue through 1991, it would set the postwar endurance record. It would surpass the Vietnam-fueled expansion of the 1960s without having generated the same inflation headache. In some policy circles, there was even some talk of eliminating inflation altogether.

Livingston raised the inflation issue in his December 1989 survey. The responses he received reflected the wisdom of 40 years' experience. Asked whether zero-rate inflation, "a longing of Fed Chairman Alan Greenspan," was desirable, more than half voted yes. But in response to the follow-up question—Is zero inflation attainable?—nearly three-quarters said no. Why not? One economist offered that inflation was too "deeply embedded" in the service sector. But several economists put it more succinctly: zero inflation has no "political constituency."

The December 1989 survey column was the last of the decade. It was also the last that Mr. Livingston published. He died two days later—on Christmas Day 1989—at the age of 84.

## EPILOGUE

As Mr. Livingston had wished, the Federal Reserve Bank of Philadelphia took over the survey after his death, conducting the first survey for the new decade in June 1990. The Bank's Research Department now mails out questionnaires to the Livingston panel of economists and publishes a summary of the results every June and December. As the responses roll in, one wonders what changes the 1990s will bring in economists' perspectives.

The recession that began in July 1990 ended the expansion of the 1980s before it could set the endurance mark that the survey economists thought it might. The recession seemed to have ended sometime in the spring of 1991, but the recovery stalled over the summer and talk of a double-dip recession grew.

Will the current economic stagnation induce economists to shift their attitudes again? The history of the Livingston Survey suggests that it will. The long expansion of the 1980s built economists' confidence in the economy's penchant for growth and in the Fed's power to nurture it. Now no sector of the economy is showing much strength, despite the Fed's easing moves. Economists might well be asking whether their confidence was misplaced.

Where will they turn? Perhaps to some old ideas, such as "plateauism" and the efficacy of fiscal policy. Back in the early 1960s, a similar period of economic stagnation fostered the idea that the postwar spending boom was over and that spending had plateaued. Today, that concern is resurfacing in speculation that the high-flying consumer of the 1980s will be more conservative in the 1990s, and that the baby boomers are aging beyond their prime spending years.

It was the concern over economic stagnation in the early 1960s that first pushed Keynesian fiscal policies into the forefront. Now those fiscal policy prescriptions, discredited in the 1970s and early 1980s, may be coming back. Proposals for extending unemployment ben-

efits, cutting taxes, and even starting public works projects are getting wider circulation.

But in some ways economists cannot go back. New events and changing trends are taking the economy into new territory. Consider the end of the Cold War and the growth of the international economy.

Over the past 45 years, war dominated the outlook much of the time: readjusting after World War II in the late 1940s, feeling for the top of the Korean Conflict in the 1950s, dealing with the Vietnam War and its aftermath in the 1960s and early 1970s.

On the other hand, international economic issues hardly affected economists' thinking at all in most of the Livingston surveys. In fact, Livingston dropped exports from the list of forecast variables on his questionnaires in the 1940s and did not bring them back until the mid-1980s.

Now economists are looking at an economy less prone to the dislocations of war, but more constrained than ever by international economic competition.

Society's standards for economic performance may again change, as they have several times since Livingston began his survey. Full employment is still an "every year" goal. And no doubt experiencing high inflation in the early 1980s and the costs of disinflation has strengthened public resolve to keep inflation under control. But the political "toleration levels" for unemployment and inflation change over time.

What events or trends will dominate economists' outlook in the nineties? Possibilities, and opinions, abound. Perhaps Livingston said it best: "That's what makes economic analysis so interesting. After you get other people's forecasts, you still end up with a question mark."