Swarthmore College
Works

Economics Faculty Works | Economics

Winter 2003

Economic Lessons

Philip N. Jefferson
Swarthmore College, pjeffer1@swarthmore.edu

Recommended Citation
Philip N. Jefferson. (2003). "Economic Lessons". *Vassar Quarterly*. Volume 100, Issue 1.
https://works.swarthmore.edu/fac-economics/290

Economic Lessons

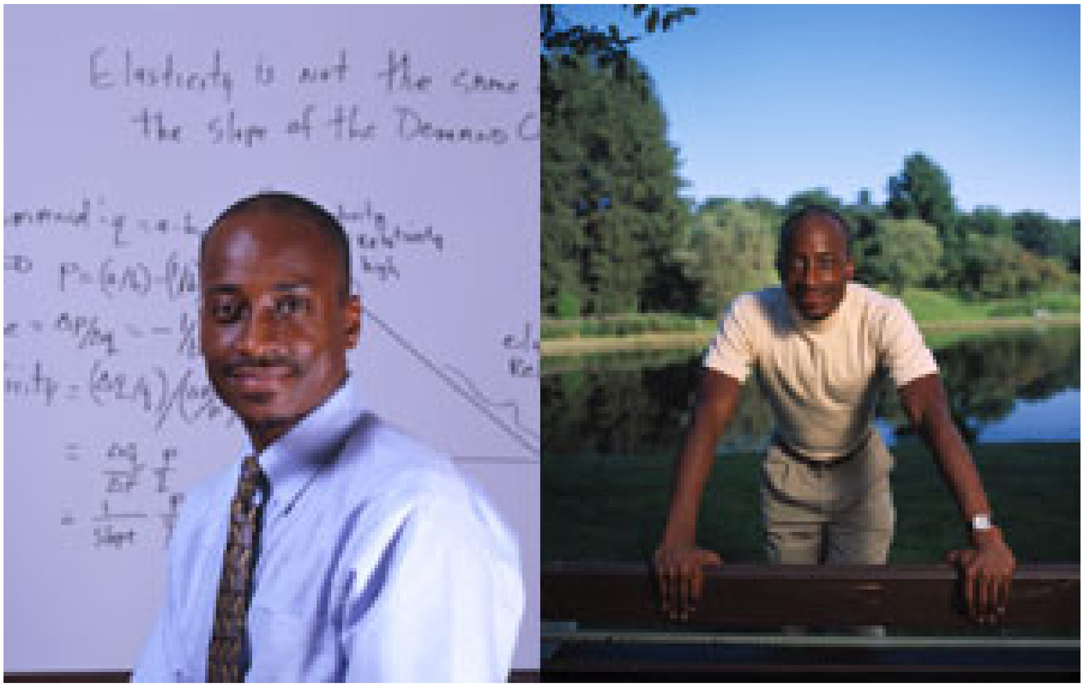
By Philip Jefferson '83

I suppose that resolves it? When the Federal Reserve Board (Alan Greenspan's shop) increases interest rates, the unemployment rate of those with less than a high-school diploma does rise relative to the unemployment rate of those with a bachelor's degree or more. That's what the data say. But what is the explanation? Why should anyone care?

When I arrived at Vassar in the fall of 1979, everything around me seemed new: my room, my bed, my books, my friends, my classes. My expectations about these things were conditioned by the preparatory annals offered freshmen everywhere. The other thing that I was much less prepared for, not covered in those annals and unknown by my parents, was the new economy into which I was thrust. Comprised of students, this economy was complex and subtle. My role and position in this economy was unclear. I was certain, however, that this was not the blue-collar Kingman Park section of northeast Washington, DC.

A nice feature of Kingman Park is that the distribution of income is narrow. Thus, a person growing up there is not likely to notice the small differences in economic status across households. Ironically, the same could still probably be said about the communities from which most Vassar freshmen hail. Due to segmentation of the U.S. housing stock, the distribution of household income in most local communities is narrow. What was perplexing to me as a freshman at Vassar was the enormous range of household incomes on display. Apparently, average income levels across communities in the U.S. varied widely. "My goodness," I remember thinking then, "Why is that the case?"

She struck me as the classic over-extended, absentminded professor. If I had not heard that she was brilliant, I would have changed advisers immediately. I never took a class from her. Even then, applied microeconomics was not my thing. Shirley Johnson-Lans (with whom I recently had a conversation with on campus) knew the economics department and the economics major. What I liked about her was that she was energetic and immensely thoughtful. Most importantly, I could tell she cared about me and my development as an economist.



Jefferson '83 poses on a bench near Sunset Lake and also sits in front of a white board

I had guessed that studying economics would help me understand Vassar. But, in fact, the opposite proved true. If I could understand the economy at Vassar, then I would have a leg up on understanding what I saw in the broader economy. What I needed was someone to keep me from zigging when I should be zagging. But Shirley did more. She introduced intellectual exoticisms. Never been out of the U.S.? Go junior year abroad! (The London School of Economics) Never thought about getting a Ph.D. in economics? Go to the American Economic Association's Minority Summer Program! (Yale University) Never thought about a Rhodes scholarship? Apply! (Couldn't quite pull this one off, but I did get to the state finals!) Evidently, with Shirley there would be no limits on the intellectual enterprise. A view I hold to this day.

What did you do last summer?" "Where are you going for spring break?" This was a hard pot into which to melt. The financial-aid package required that summer job earnings would be factored into next year's award. If those earnings did not meet the stipulated amount, then my loan would have to be increased — more debt after graduation. Last summer? I worked, just as the summer before, to earn the stipulated amount. Spring break? I am going home. (Where else would I be going?) An initial presumption in a Vassar-like economy is that perhaps we are all alike. The seemingly natural or even innocuous questions that college students ask one another, however, often reveal the boundaries of an uncommon experience.

In the labor market, employment outcomes are closely related to educational attainment. Earnings, job tenure, job opportunities, job satisfaction, and labor force attachment all rise with the level of educational attainment. Employment outcomes then influence the communities in which a household can live, the primary and elementary schools children will attend, the quality of the children's teachers, a child's peers, how much that child will learn, the strength of that child's secondary school, the number of AP courses in which that child will enroll, whether the parents will be able to pay for college test preparatory tutors and courses, the number of colleges to which the child will apply, financing of travel for visiting colleges, and yes, what college that child will attend. Is this what they taught me in Blodgett? I think not.

The U.S. economy is big (on the order of $10 trillion) and complicated. Anyone proclaiming to understand it all is being less than truthful. To get your mind around the whole of it, you must make some assumptions and you cannot sweat the small stuff. (Not so unlike many other things?) Theory generates hypotheses. Models reduce the dimensionality of the problem. Data confirms or refutes. Knowledge is created by iterating through this trinity. From this trinity what we know includes: (1) in the short run there is a trade-off between inflation and overall unemployment, (2) people are more likely to change their consumption behavior in response to permanent changes in tax policy rather than temporary changes, and (3) while monetary policy can influence the economy in the short run, it has no effect on real aggregate economic activity in the long run. In isolation, these facts about the U.S. economy are rather dry. I hold them dear because in learning how they came to be known and why they are important, I learned how to learn and how the revelation of these facts helped the societies that embraced them. This was taught to me in Blodgett.

In Kingman Park, few parents had a college degree. That did not seem to matter. In fact, in a hard-working middle-class neighborhood like mine, education mattered only to the extent that you had enough of it to get a good job. A government job was even better — family health care benefits. It was a decent place in which to grow up. However, access to schools that transform lifetime earning profiles were often curtailed by housing and geography. Except for encouragement by a special high-school counselor, perhaps I, too, might have been restricted by these factors.

Jefferson sits with former professor Shirley Johnson-Lans in front of a white board

For some students, Vassar College will always be a place that they went to but did not become a part of. If they, like me, felt the confusion and anger of economic inequality in the Vassar economy, then I totally understand. I can remember observing the parties, the meals at ACDC, the conversations, and the rooms. I can remember the wonder of it all. Why is my situation, my experience of this now common environment, so very different? I grappled with this for several years after graduation. Would I have preferred something else? Is the Vassar experiment different from that underway in the broader society? Can I use what I learned and experienced at Vassar positively? Eventually, I realized that I could, that the Vassar experiment is the right one, and that something else might have been something less.

Our conversation finally got around to our current research, as most conversations between economists usually do. "An important hypothesis concerning the relative deterioration of the employment prospects of those with less than a high-school diploma is that hiring standards rise during contractions in economic activity. Employers are less willing to accept younger or less educated or less experienced workers." My observation was noted with interest and approval. A new text on health economics engaged her. "The market for health care is complicated by the fact that we ourselves are the product that is inventoried, rationed, reallocated, and priced by private decision makers (doctors and insurance companies) and public policy." It struck me as a hard book to write unless, of course, applied microeconomics was really your thing. More than 20 years after being her advisee, Shirley and I spoke that night last February over dinner at Alumnae House as peers. When the evening ended, she left me as I have always remembered her leaving me, full of gratitude...and thinking.

Jefferson is associate professor of economics at Swarthmore College, visiting senior economist at the Federal Reserve Bank of New York, and a trustee of Vassar College. The views expressed herein do not necessarily represent those of any of the institutions with which the author is affiliated.

Download the chat transcript from Philip Jefferson's Online Chat in January 2004 on some of these topics.