maintain unemployment *above* the NAIRU level.

When Friedman first hurled his thunderbolt from what passes among economists as Mount Olympus, it seemed, says Joseph Stiglitz, chairman of the President's Council of Economic Advisers (CEA), as if the natural rate had been established by "royal edict . . . as another one of the universe's invariant constants." For many years, the NAIRU was assumed to be about six percent. Today, however, it is apparent "that if a NAIRU exists, it must be changing over time," Stiglitz observes. Between August 1994 and August 1996, for instance, the unemployment rate was below six percent, so inflation should have risen; instead, as measured by the consumer price index, it fell, dropping from 2.9 to 2.6 percent. NAIRU proponents draw the conclusion that the "natural rate" has declined. Indeed, research at the CEA suggests that it has fallen by about 1.5 percentage points since its peak in the early 1980s. But uncertainties abound, Stiglitz notes.

What brought the NAIRU down? For one thing, Stiglitz says, demographic change, particularly the aging of the baby boomers. Older people are less likely to be unemployed, and so their natural rate of unemployment is lower. Also, after the post-1973 slowdown in productivity growth, workers eventually moderated their demands for increased real wages. Competition in the product and labor markets also held wages down.

The link between the NAIRU and inflation is obviously not a simple one, Stiglitz notes. But that does not mean the concept of NAIRU is worthless, he believes. By the CEA's analysis, unemployment alone accounts for at least 20 percent of the variation in the inflation rate. Policymakers need NAIRU as a guide. "If there is no clear, systematic relation between inflation and unemployment," Stiglitz asks, "why wouldn't policymakers simply keep trying to push unemployment lower and lower?"

That is just what they should do, argues James K. Galbraith, of the University of Texas at Austin. The NAIRU is dubious as theory, the collective attempts to estimate it have become "a professional embarrassment," and there is little empirical support for the proposition that cutting unemployment below the NAIRU promptly sparks inflation. The United States "has not experienced wage-led inflation since the 1950s, except briefly in 1973," he says. "Since 1973, average real wages have by most measures been stable or falling. All accelerations of inflation have been led by commodities, especially oil, or by import prices via devaluation. Why not therefore conclude that the economy has almost always been *above* the NAIRU during this time?"

But Stiglitz contends that the uncertainty about the precise level of the NAIRU does not invalidate its usefulness as a guide. If the Fed action on interest rates turns out to be based on a mistaken estimate of the NAIRU, the consequences are likely to be modest, and the course can be reversed.

So, after nearly 30 years, should economists stop running after the NAIRU rabbit? Not surprisingly, perhaps, the authors of the six articles in the symposium are far from consensus. But the fact that two articles, and, to an extent a third one, are, in Stiglitz's words, "openly hostile" to the concept of NAIRU, suggests, at the very least, a growing impatience with the elusiveness of the quarry.

## *Labor Turns Left*

"The New Left Takes Over American Unions" by Joel Kotkin, in *The American Enterprise* (May–June 1997), 1150 17th St. N.W., Washington, D.C. 20036.

While most New Left radicals of the 1960s had only contempt for organized labor and its conservative, anticommunist leaders, some activists saw the organizing of low-wage workers as the best path to fundamental social change. Today, former student radicals such as David Wilhelm, who directs the Hotel and Restaurant Employees' highly successful Las Vegas operations, are riding high, reports Kotkin, a Fellow at the Pepperdine University Institute for Public Policy and a dues-paying union member.

The ascension of John Sweeney, head of the Service Employees International Union, to the presidency of the American Federation of Labor–Congress of Industrial Organizations (AFL-CIO) last year has brought leftists from the labor movement's fringes into positions of prominence, Kotkin reports. Among them: "ultra-militant" United Mine Workers head Richard Trumka, AFL-CIO secretary-treasurer; Karen Nussbaum, head of the AFL-CIO's new Working Women Department; and Linda Chavez-Thompson, the AFL-CIO's executive vice president. Especially disturbing to veteran union members who remember labor's struggles with the totalitarian Left, Kotkin says, is Sweeney's opening of the AFL-CIO "to participation by delegates openly linked to the Communist Party."

Labor's diminishing clout in recent decades has made the radicals' gain in influence possible, Kotkin says. From nearly 35 percent of the work force in the mid-1950s, union membership has fallen to less than 15 percent. "As the traditional industrial unions, with their intrinsic interest in economic growth, have declined, power within organized labor has shifted to the rising public-sector unions representing government workers and teachers." Forty-two percent of union members today are public employees. Most of the New Left radicals who went into organized labor ended up (unlike Wilhelm) in public employee unions.

"Even moderate labor organizers admit that the enthusiasm and organizing savvy of these '60s kids, as well as their genius for theatrics, have helped resuscitate the image, if not the power, of organized labor," Kotkin notes. But the zealous activists have also involved labor in a host of causes (e.g., funding pro-choice abortion groups) that have nothing to do with the bread-and-butter issues of collective bargaining.

The AFL-CIO believes that labor's future will be determined in the West, says Kotkin. It is holding its convention in Los Angeles this year. The growing Latino population of the Southwest is heavily involved in low-wage industries such as hotels, textiles, and plastics, and could be a rich source of new union members. Los Angeles County, with more than 600,000 industrial workers, is now the country's largest manufacturing center.

The L.A. labor movement, to an even greater extent than labor nationally, is dominated by public employee unions and by former '60s radicals, Kotkin says. These leaders have formed close ties with such "fringe" groups as the Labor/Community Strategy Center, which is run by Eric Mann, a Marxist who defends the 1992 riots in the city as a justifiable "rebellion."

Labor's new leftward course could well prove self-destructive, Kotkin believes. "Cut off from Middle America . . . unions could become virtually irrelevant nationally." That prospect, he concludes, is no cause for celebration.

## *Meet Mr. Keynes, Budget Slasher*

"Bring Back Keynes" by Robert Skidelsky, in *Prospect* (May 1997), 4 Bedford Sq., London WC1B 3RA.

All but dead as a practical force in the councils of Western governments during the last 20 years, Keynesian economics may be ripe for revival, says Skidelsky, the biographer of John Maynard Keynes (1883–1946). But bringing that about would require a very un-Keynesian-sounding step: massive cuts in the budgets of Western governments.

Keynes himself would not have shrunk from such a step, Skidelsky suggests. Indeed, he would have been somewhat dismayed by what Keynesianism became. (One of his disciples, Joan Robinson, once famously said, "We sometimes had difficulty getting Maynard to see the point of his revolution.") At once creative, cautious, and flexible, Keynes would not have succumbed to the hubris that affected his followers during the 1960s, when Keynesian ideas seemed a foolproof guide to prosperity. He would have responded to the flaws that emerged in his *General Theory* (1935) simply by modifying his theories. After all, they were only a response to the problems of a particular time.

Those flaws were exposed by the wrenching "stagflation" of the 1970s and by a fierce intellectual assault led by the economist Milton Friedman. Keynesianism had no real theory of inflation and no concept of the "natural" rate of unemployment, which gauges the relationship between inflation and unemployment. Worst of all, in Skidelsky's view, it had no theory of politics. Keynes counted on politicians to maintain a balanced budget over the course of each economic cycle, running deficits to stimulate the economy in slack times and surpluses when it started to overheat. He had nothing to say