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Source: *Population and Development Review*, Vol. 13, No. 2 (Jun., 1987), pp. 195-208

Published by: [Population Council](#)

Stable URL: <http://www.jstor.org/stable/1973191>

Accessed: 30/03/2013 11:02

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The New Age Structure of Poverty in America: Permanent or Transient?

Richard A. Easterlin

Recently Samuel H. Preston has called attention to the remarkable reversal since 1970 in the relative poverty rates of America's younger and older dependents, noting that the rate for children is now markedly higher than that for the elderly (Preston, 1984a, b). The causes of the new age structure of poverty, especially the increased poverty rate of children, and the prospects for its continuation over the rest of this century are the subject of this article. The analysis builds on an interpretation of a number of recent economic and demographic changes previously advanced by the present writer (Easterlin, 1987), but extends the argument to a new subject.

The juxtaposition of the experience of children and the elderly lends itself to the view that the gains of one have been at the expense of the other; more specifically, that expanded government programs underlying the improved status of the elderly have been purchased by sacrificing programs for the young. Such a tradeoff is logically possible, though difficult to assess quantitatively. This article, however, suggests an alternative interpretation, namely, that the divergent trends in poverty rates of children and the elderly chiefly reflect two different and largely independent causes. Whereas the improved status of the elderly is largely attributable to government action, especially advances in social security (*Economic Report of the President*, 1985, pp. 165–166; Boskin et al., 1985), the rise in the poverty rate of children is, to an important extent, a result of market forces and would have occurred even in the absence of programs improving the lot of the elderly. The present high poverty rate of children is probably a transient phenomenon, however, and should abate in the course of the next two decades. This is not to say that there is no need for improving government programs for children, one of Preston's urgent concerns.

The base period for most of the present analysis is the late 1960s, when annual series on poverty rates of persons by age and on income by family status and age first became available. In this period, the unemployment rate was at the lowest level in the last three decades (about 3.5 percent). The standard definition of poverty rate is used here. Families and unrelated individuals are classified as being in poverty if their money income (including retirement and disability pensions, government cash-transfer payments, alimony, and child support) falls below a threshold level based upon the Department of Agriculture's Economy Food Plan. The threshold is adjusted for family size and composition and is updated every year to reflect changes in the Consumer Price Index (US Bureau of the Census, 1986a, p. 33).

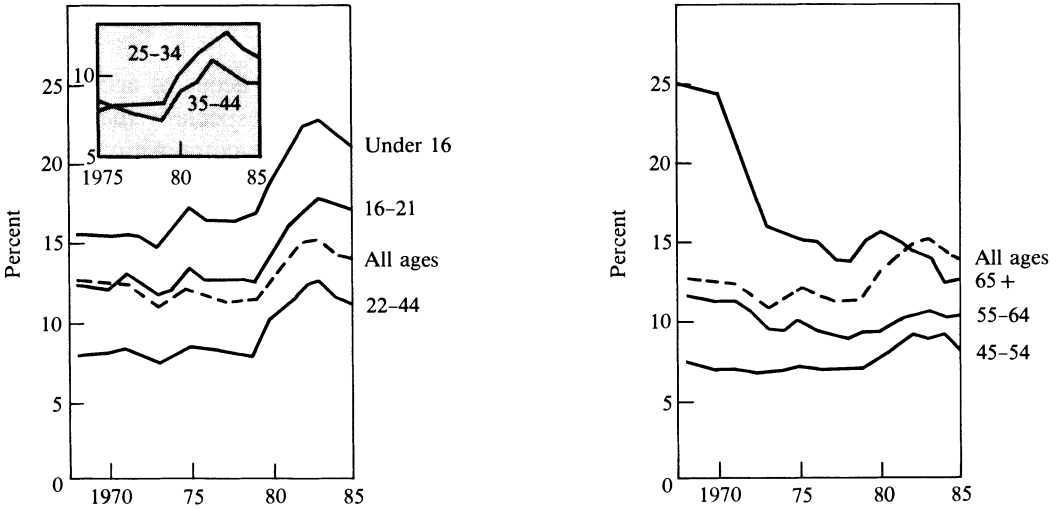
Poverty rates by age

The rise in the poverty rate of children is part of a broader pattern of shifting poverty status of young versus old. The increase in poverty rates from 1968 to 1985 is progressively smaller with age, and for those aged over 55 years, the poverty rate decreases absolutely (see Figure 1). In 1968, the highest poverty rate, 25 percent, was found among the elderly, those 65 and over; children, the only other above-average group, had a rate of about 15 percent. As a result of the disparate trends by age, the elderly now have a below-average rate, less than 13 percent, about half that of 1968. This lower poverty rate of the elderly reflects a broader pattern of improvement in the economic status of older people (Davis and van den Oever, 1981; *Economic Report of the President*, 1985). The poverty rate for children, in contrast to that for the elderly, is now 21 percent, and rates for those aged 16–21 have climbed to above-average levels, exceeding 16 percent.

Except for those aged 55 and over, the timing pattern is fairly similar among age groups. After several years of stability, there is a dip to an all-time low in 1973, a mild increase to 1979 (greater at younger than older ages), and a larger increase to 1985. For children, the increase from 1973 to 1979 is 2.0 percentage points; from 1979 to 1985, 4.5 percentage points. The important exception to this timing pattern is the marked decline in the early 1970s of the poverty rate for those aged 65 and older. From 1970 to 1973, the rate for the elderly fell 9 percentage points; from 1973 to 1985, an additional 3 points. The noticeable difference between children and the elderly in the timing of poverty rate changes is consistent with the view that the two stem from different causes.

The rise in single-parent families is often cited as a major cause of recent increases in poverty rates (Espenshade, 1985). A new study prepared for the Joint Economic Committee of the US Congress, however, downplays this factor, especially for the period 1979–85, citing the growth of poverty rates specific to married-couple families as more important. As regards children, both factors clearly played a part in the period of interest here. Shown below

FIGURE 1 Poverty rate of persons, by age, 1968–85



SOURCES: US Bureau of the Census (1974–86).

are poverty rates of children by family type and race for 1973 (when the rate was at its lowest point) and 1985:¹

	Female-headed families		Other families	
	White	Black	White	Black
1973	42.1	67.2	6.0	21.7
1985	45.2	66.9	10.4	18.8

Note that the rates for whites increase in both family groupings, with the biggest increase for “other” (almost wholly, married-couple) families. The rates for blacks, though higher than for whites, are stable or decline. Because whites account for much the larger share of children, the net effect of the rate changes is to raise the overall poverty rate. However, the fact that the largest rate change in any component family grouping, +4.4 points, is less than that in the overall rate, +6.5 points, indicates that the rate changes alone could not account for all of the increase.

The other pertinent factor, the rise in the percentage of children in female-headed families, is shown below:²

	Female-headed families		Other families	
	White	Black	White	Black
1973	8.8	5.9	75.1	8.2
1985	12.0	7.7	69.1	7.5

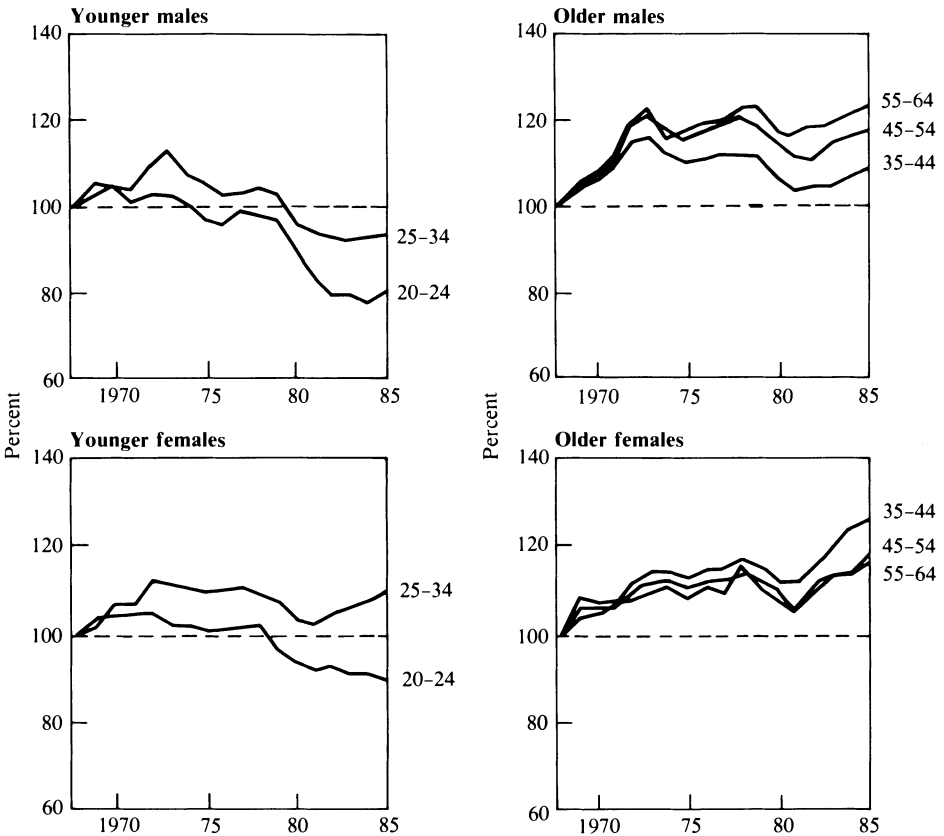
In this case, there was an increase both for whites and blacks. As has just been seen, poverty rates in female-headed families are much higher than in other families; hence this shift, too, raised poverty rates.

Any explanation of the rise in children's poverty needs to account for both poverty rate changes within specific family types, especially the rise for married-couple families, and for the shift in family-type composition toward female-headed families. In the subsequent analysis both of these are seen as stemming from the same underlying factor, the trend in labor market conditions by age.

Labor market conditions by age

For those under age 65 divergent trends in poverty rates by age are, at bottom, a reflection of similar labor market trends. Real wage rates of younger males,

FIGURE 2 Index of real income of year-round full-time workers, by sex and age (1968 = 100), 1968–85



SOURCES: US Bureau of the Census (1968–85a).

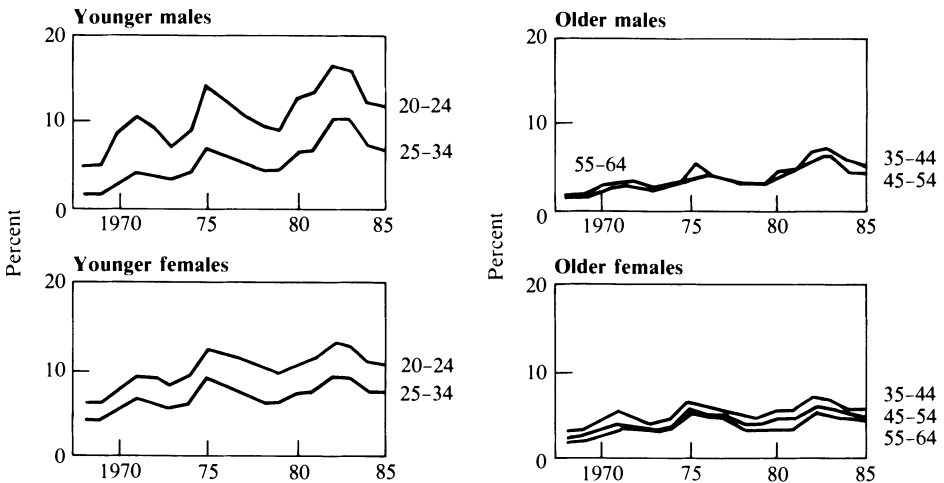
as measured by year-round full-time income, have declined noticeably relative to older males (compare the trends in the left and right halves of the upper panel of Figure 2).³ Indeed, in the period after 1979, when poverty rates rose most noticeably, the *absolute* level of real wage rates of younger males fell to 10 to 20 percent below that of the late 1960s.

Younger females also show deterioration in real wage rates relative to those of older females, but the magnitude is less (Figure 2, lower panel). Another difference from the pattern for males is that the absolute wage rates of females aged 25–34 do not drop below their late 1960s level. When one recognizes, however, that the average year-round full-time income of younger females during this period was about one-third less than that of males, it is clear that, taking men and women together, the income-earning opportunities of adults in family-forming ages seriously deteriorated.

Another important index of labor market opportunities is unemployment rates. The patterns of unemployment rates by age are much like those for wage rates, and confirm the inferences based on the latter. Although all age groups show an upward drift in unemployment rates, the increase is more marked for younger than older males (Figure 3, upper panel). The pattern is similar for females, although, again, the relative deterioration is less than for males (lower panel). Thus, younger adults' income-earning opportunities worsened because of both adverse wage and unemployment rate trends.

The economic fortunes of children depend on those of the adults in the families from which they come, chiefly younger families. Shown below is the

FIGURE 3 Unemployment rate, by sex and age, 1968–85



SOURCES: US Department of Labor (1982a, b); US Bureau of the Census (1986c).

1985 percentage distribution of younger and older children by age of family head (US Bureau of the Census, 1986b, p. 21):

Age of child	Age of family head					
	Total	Under 25	25-34	35-44	45-54	55+
Under 6	100	13	59	24	3	1
6-11	100	2	42	47	8	1
12-17	100	0	11	56	26	6

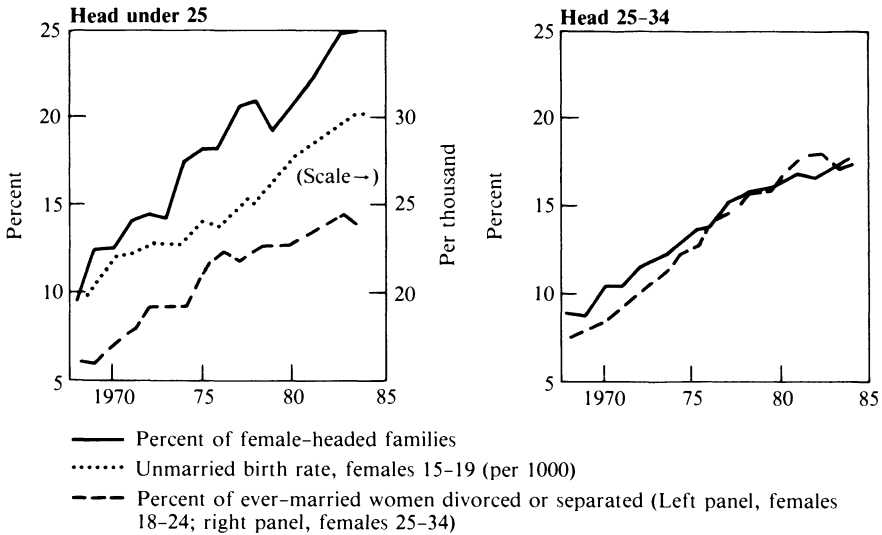
Almost three-fourths of children under age 6 years are in families with a head under age 35, but only about a tenth of children aged 12-17 are. This suggests that the rise in poverty rates has been most severe for younger children, and this, in fact, is the case (US Bureau of the Census, 1986a).

Links between labor market conditions and poverty rates

The adverse trends in labor market conditions of persons in family-forming ages do not translate directly into family income trends, because they are mediated by numerous demographic changes. On the one hand, younger adults seek to compensate for the adverse labor market pressures they are experiencing. They may put off the economic sacrifices that family formation brings by remaining single, or, if married, childless. If they do have children they may reduce the number of children they plan to have and increase the labor force participation of mothers. Through such adjustments they raise per capita income levels above those that would otherwise have prevailed (Easterlin, 1987, ch. 10).

On the other hand, the pressures arising from adverse labor market conditions have other demographic consequences that worsen family income conditions, primarily by precipitating the growth of female-headed families, whose income levels are typically markedly below average. Since 1968 among families with a head under age 25, the percentage of female-headed families has risen from around 10 to 25 percent; among those with a head aged 25-34, from 9 to 18 percent. For both age groups these trends reflect the growth in divorce or separation; for those under age 25, the trend also reflects the rise in the birth rate of unmarried women (see Figure 4). Both the growth in marital disruption and the growth in nonmarital fertility are seen here, in turn, as significantly reflecting adverse labor market trends among younger adults. Economic pressures on younger families aggravate marital strains and raise the probability of divorce or separation. Similarly, among younger couples who are not married when they conceive,⁴ economic pressures reduce the likelihood of legitimation of such conceptions by marriage, and thus result in female-headed families.⁵

FIGURE 4 Percentage of female-headed families in specified age group and related demographic indicators, 1968–84

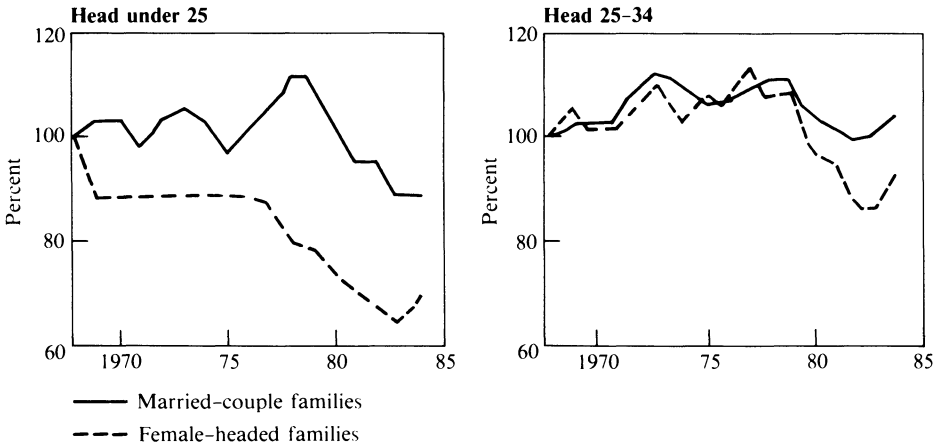


SOURCES: US Bureau of the Census (1986c, p. 63; 1968-85a; 1968-85b).

Earlier, the analysis indicated that the shift toward female-headed families was one important source of the rise in poverty rates among children, but that an increase in poverty rates of married-couple families also played a part. The latter reflects the direct impact of adverse labor market conditions on family income within married-couple families. Since 1979 real family income in married-couple families has declined markedly. Among those with a head under age 25, real family income in 1981–84 averaged 5–10 percent below the absolute level of the late 1960s; among those with a head 25–34, the 1981–84 average was about the same as in the late 1960s, but around 10 percent less than in 1973, when poverty was at its minimum (see Figure 5). For female-headed families the deterioration in family income has been even worse than for married-couple families. Thus, the adverse trend in labor market conditions of younger adults has raised poverty rates in two ways—directly, through its impact on income in families of a given type, and indirectly, via a shift in the family-type distribution toward female-headed families.

As has been seen, the rise in the poverty rate of children exceeded that of young adults. The explanation for this lies largely in the differential impact on children and adults of the demographic changes just discussed. Children miss out on two income-raising options by which adults seek to protect their income levels, namely, avoiding family status by remaining single, or, if they marry, by remaining childless. Also, children are affected more severely than adults by a rise in female-headed families, because the proportion of children to adults in female-headed families is greater than in married-couple families.

FIGURE 5 Index of real family income by age of head and family type (1968 = 100), 1968–84



SOURCES: US Bureau of the Census (1968–85a).

For example, between 1968 and 1983, the proportion of persons aged 25–34 who were heads of female-headed families rose from 3.7 to 6.2 percent; the proportion of children in families with a female head rose from 12 to 21 percent.

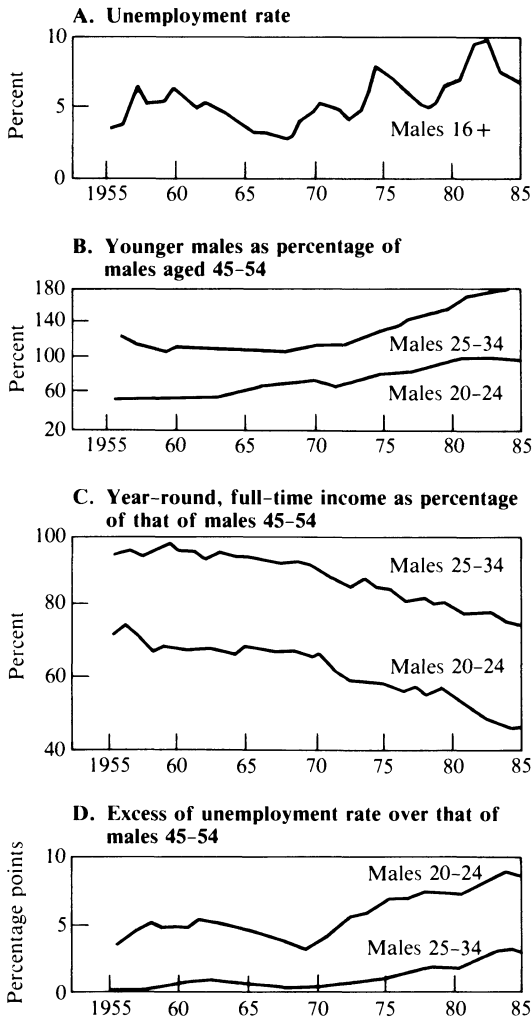
Causes of labor market trends by age

Both through their direct effect on family income and their indirect impact on demographic structure, divergent trends in labor market conditions by age have produced, since the late 1960s, divergent trends in poverty rates by age. But what is behind the divergent trends in labor market conditions by age? An answer to this is essential for any projection of future age-related poverty rates.

Two factors appear chiefly responsible. The first is the slackening in the growth of aggregate demand; the second, the increase in the supply of younger relative to older adults. Both have caused a deterioration in the wage and unemployment rates of younger compared with older workers.

The slackening in aggregate demand is reflected to an important extent in the rising unemployment rate for all males aged 16 and over since the late 1960s, though aggregate supply conditions play some part too (see Figure 6, Panel A; Easterlin, 1987, ch. 7). Indeed, the period since 1975 has seen the highest unemployment rates in 40 years—before 1975 there were only two years in which the unemployment rate rose above 6 percent and the highest rate was 6.8 percent; since then the unemployment rate has exceeded the pre-1975 peak rate in eight of 11 years, reaching 9.9 percent both in 1982 and 1983 (*Economic Report of the President*, 1985, p. 273). The impact of such a slackening of the economy invariably impinges more severely on younger, less experienced workers than on the older members of the labor force.

FIGURE 6 Indicators of labor market conditions, 1955–85



SOURCES: US Bureau of the Census (1968–85a; 1984; 1986c); US Department of Labor (1982a, b).

The change in relative supply conditions is brought out by the shift in relative population size of younger versus older males. Before 1960 the relative number of younger males was fairly stable or declining. Starting in the 1960s, however, the relative number of younger males began to rise noticeably, reaching levels in the 1980s markedly higher than those of the 1950s (see Figure 6, Panel B). Other things constant, this shift in relative supply would also induce a worsening of younger workers' relative wage and unemployment rates, because of the growth in the number of younger relative to older workers.

A number of recent articles have stressed the role of increasing relative supply in the deteriorating labor market prospects of younger workers (Anderson, 1982; Berger, 1985; Freeman, 1979; Smith and Welch, 1981; Stapleton and Young, 1984; Welch, 1979).

Both the slackening in the growth of aggregate demand and the rise in relative supply of younger workers became progressively more noticeable after the late 1960s. The timing of the deterioration of younger workers' relative labor market conditions corresponds closely to this. Before the late 1960s the wage rates of younger relative to older males were fairly constant; thereafter, there was a noticeable and growing slippage (see Figure 6, Panel C). Similarly, before the late 1960s there is little evidence of a trend in the unemployment rate of younger compared with older males; subsequently, there was an almost continuous worsening (Panel D).

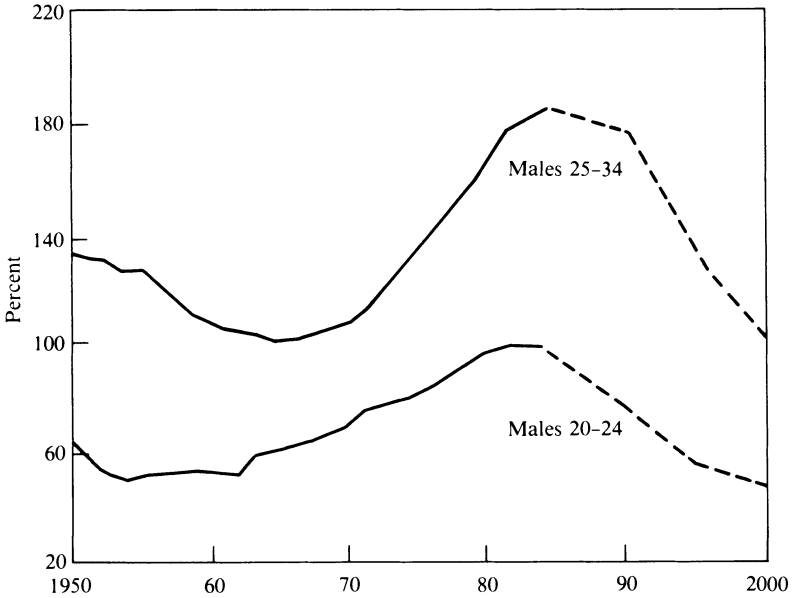
The new age structure of poverty: Permanent or transient?

Assuming no cataclysmic events such as war, and no major new antipoverty or social security programs, the present analysis points to two factors as critical to the projection of poverty rates by age for the population under age 65. The first is the outlook for aggregate demand; the second, the prospect for the relative supply of younger workers. The second can be projected with considerable confidence; the first is more speculative.

The relative supply of younger adults through 2000 is fairly easy to project because virtually all of those included in the projection are already born and living in the United States. Those who will be 20–34 years old in 2000 were born in 1966 to 1980; those who will be 45–54 years old, in 1946 to 1955. Just to state the period of birth is to give away the projection—the young adults of 2000 will come from the recent baby bust period, the older adults from the preceding baby boom period. By 2000, the population of younger relative to older adults will be as low as or lower than in the previous post–World War II trough. This reversal of the 1960s–1980s uptrend will start in the latter part of the 1980s, but become most pronounced in the 1990s (see Figure 7).

A projection of aggregate demand depends on one's assessment of the vigor with which macroeconomic policies aimed at full employment will be pursued. Since the late 1970s, fear of accelerating inflation has played a major part in less vigorous implementation of full-employment policies than previously. Although one may suppose that, as regards projections, one is dealing here largely with prospects for the political outlook, this is not wholly the case. The shift in relative supply of younger workers should itself contribute to the possibility of more forceful implementation of aggregate demand policies. This is because the decline in the proportion of younger adults will lower the "full-employment unemployment rate," that is, the unemployment rate

FIGURE 7 Younger male population as a percentage of males aged 45–54: Actual, 1950–84 and projected, 1985–2000



SOURCES: US Bureau of the Census (1984, 1986c).

below which there is growing danger of excessive heating-up of the economy (Easterlin, 1987, chs. 7, 9). In the 1970s the opposite was the case. In that period the shift toward a more youthful labor force is estimated to have raised the full-employment unemployment rate by 1.5 percentage points (Wachter and Perloff, 1979), and thus enhanced the likelihood that policies targeted toward achieving any given unemployment rate would accelerate inflation. Just the opposite will be true in the 1990s.

In keeping with our interest here in the age structure of poverty rates, the analysis has focused on the factors responsible for differential labor market experience by age. Mention should be made, however, of the trend in average real labor productivity, which, through its impact on real wage rates, helps shape the average level of poverty rates. In the last decade virtual stagnation of productivity growth has aggravated the poverty problem (*Economic Report of the President*, 1986, p. 302). For the remainder of the century, the outlook for productivity growth, though uncertain, appears more favorable. This is not only because stagnation of the type recently experienced is exceptional in US history, but because productivity growth will be favorably affected by the age structure shift from relatively low-productivity younger workers to relatively high-productivity older workers.

To sum up, the outlook is for a favorable shift in relative labor supply and, less confidently, in the growth of aggregate demand that would, by the 1990s, reverse the recent trend toward higher poverty rates at younger adult ages and among children. If one assumes that the present government programs assisting the elderly are not significantly altered, then the present poverty rate differential between children and the elderly will diminish and, perhaps, disappear. The “new age structure of poverty” that we are now witnessing may prove to be a temporary condition.

Summary

The reversal since the late 1960s in the relative poverty rates of children and the elderly is largely due to two different forces—improved government programs for the elderly, on the one hand, and deteriorating labor market conditions of adults in family-forming ages, on the other. The labor market conditions of younger adults have affected their poverty rates, not only directly, through their impact on income within given types of families, but also indirectly, by shifting the family-type distribution toward female-headed families. Children’s poverty rates have suffered more than those of younger adults because of the more severe impact on children of the shifts in demographic structure. There is a reasonable prospect, however, for improvement in the next two decades in the supply–demand factors shaping younger adults’ labor market conditions and, thus, in the poverty rates of children.

Two misconceptions should be avoided. First, it is important to recognize that the subject for explanation here is the *change* in poverty rates in the period since the late 1960s. The analysis does not deal with all of the factors determining poverty rates at a single date or with factors affecting trends in poverty rates over longer periods, such as changing occupational structure. Second, although stressing that market forces played an important part in increasing the poverty rate of children, the analysis does not assert that federal government policies played no part. For one thing, no attempt has been made here to assess the impact of cutbacks in federal funding of social welfare programs that affect the poverty rate of children. Moreover, a direct implication of the analysis is that more vigorous implementation of macroeconomic full-employment policies would have lessened the poverty rate of children by improving the labor market prospects for younger adults. To say that market forces have played an important part in the increased poverty rate of children is not to absolve government policy of all responsibility. Nor is it to assert that no action is needed now to ameliorate the poverty rate of children—even the lowest rate in the period covered here, 15 percent, is cause for concern.

Notes

The author is grateful to Donna L. Hokoda and Diane J. Macunovich for research assistance; to Dennis A. Ahlburg, Eileen M. Crimmins, Samuel H. Preston, Morton Owen Schapiro, Eugene Smolensky, and Ulrich Witt for helpful comments; to the University of Southern California for financial support; and to Judith K. Treas, who suggested the topic. Jack McNeil and Martin O'Connell at the US Bureau of the Census kindly provided unpublished data. Heather Marr prepared the figures.

1 The data used in the remainder of this section are for related children under age 18 (US Bureau of the Census, 1986a, pp. 22–24). Single-parent families headed by males are included with married-couple families in “Other families” in the tabulation, but such families account for only about one percent of children. The published report does not give poverty rates for nonwhites other than blacks; hence this group is omitted from the analysis.

2 For a given year, the total of the component groups is somewhat less than 100 percent, because nonwhites other than blacks are

omitted in order to maintain consistency with the preceding tabulation.

3 Wage rates for those aged 65 and over are not shown because labor force participation of this group is very low—in 1984, it was only 16 percent for men and 8 percent for women (US Bureau of the Census, 1986c, p. 392).

4 Among females aged 15–19 years, over 70 percent of first births in 1977–82 were to women who were not married at the time of conception (US Bureau of the Census, 1986c, p. 63).

5 The arguments in this paragraph are developed more fully in Easterlin (1987, especially chs. 5 and 10). The emphasis placed here on changing economic conditions as an important cause of the growth in marital disruption and the rise in nonmarital fertility is admittedly debatable. Some analysts see these demographic changes as largely or wholly independent of labor market conditions (Espenshade, 1985, provides a good review of different interpretations). For views similar to the present writer's, see Preston and McDonald (1979) and Ahlburg (1985).

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