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TODAY'S EDITORIAL

Many U.S. workers aren't celebrating

November 26, 2003

Our position is: *Economic growth has not yet trickled down enough to help many ordinary workers.*

News that gross domestic product grew at the fastest rate in nearly 20 years during the third quarter is undeniably encouraging. After sputtering for three years, it appears the nation's economy is finally ready to soar once again.

But let's temper the celebration just a bit.

Consumer confidence is at its highest level in more than a year. GDP shot up 8.2 percent in the third quarter. Economists are forecasting a healthy 4 percent rate of economic growth in 2004. Business investment also surged at an annual rate of 14 percent in the previous quarter.

So why not break out the champagne and confetti? Well, this business of jobs has become increasingly complicated.

The national unemployment rate officially stands at 6 percent, which in historical terms isn't all that bad. And the rate is likely to slowly decrease over the next year.

At a deeper level, however, shifts in employment, especially in the manufacturing sector, have meant that many people who are officially employed have suffered cuts in pay and a loss of benefits in their new jobs. Former United Airlines mechanics who lost their jobs when the maintenance hub closed in Indianapolis are prime examples. Many of them have found other employment, but with far less compensation.

In manufacturing, gains in productivity mean the need for fewer employees. Other jobs have been moved offshore where production is cheaper. The workers left behind often land in jobs that don't pay well enough to support families.

On the macro level, almost all of the economic indicators are greatly encouraging. But on the micro level, where people search for and fill jobs, it's too early to shout that happy days are here again.

The Unemployment Myth

By AUSTAN GOOLSBEE

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CHICAGO

The government's announcement on Tuesday that the economy grew even faster than expected makes the current "jobless recovery" even more puzzling. To give some perspective, unemployment normally falls significantly in such economic boom times. The last time growth was this good, in 1983, unemployment fell 2.5 percentage points and another full percentage point the next year. That's what happens in a typical recovery. So why not this time? Because we have more to recover from than we've been told.

The reality is that we didn't have a mild recession. Jobs-wise, we had a deep one.

The government reported that annual unemployment during this recession peaked at only around 6 percent, compared with more than 7 percent in 1992 and more than 9 percent in 1982. But the unemployment rate has been low only because government programs, especially Social Security disability, have effectively been buying people off the unemployment rolls and reclassifying them as "not in the labor force."

In other words, the government has cooked the books. It has been a more subtle manipulation than the one during the Reagan administration, when people serving in the military were reclassified from "not in the labor force" to "employed" in order to reduce the unemployment rate. Nonetheless, the impact has been the same.

Research by the economists David Autor at the Massachusetts Institute of Technology and Mark Du University of Maryland shows that once Congress began loosening the standards to qualify for disal in the late 1980's and early 1990's, people who would normally be counted as unemployed started m numbers into the disability system — a kind of invisible unemployment. Almost all of the increase (to-verify disabilities like back pain and mental disorders. As the rolls swelled, the meaning of the of unemployment rate changed as millions of people were left out.

By the end of the 1990's boom, this invisible unemployment seemed to have stabilized. With the arr recession, it has exploded. From 1999 to 2003, applications for disability payments rose more than 5 the number of people enrolled has grown by one million. Therefore, if you correctly accounted for a people, the peak unemployment rate in this recession would have probably pushed 8 percent.

The point is not whether every person on disability deserves payments. The point is that in previous people would have been called unemployed. They would have filed for unemployment insurance. T shown up in the statistics. They would have helped create a more accurate picture of national unem crucial barometer we use to measure the performance of the economy, the likelihood of inflation an job market.

Unfortunately, underreporting unemployment has served the interests of both political parties. Demo
to claim unemployment fell in the 1990's to the lowest level in 40 years, happy to ignore the invisibl
Republicans have eagerly embraced the view that the recession of 2001 was the mildest on record.

The situation has grown so dire, though, that we can't even tell whether the job market is recovering
come to correct the official unemployment statistics to account for those left out. The government ag
give us a more detailed and accurate picture of the nation's employment situation — the Census, the
Labor Statistics and the Bureau of Economic Analysis — need additional funds and resources from
their jobs.

Otherwise, announcements about a rebounding economy will continue to show only half the picture
revised numbers released by the Commerce Department on Tuesday. They showed that output in the
grew at a rate of 8.2 percent, an extraordinary pace, and productivity grew even faster. Almost no on
though, that Social Security also announced the latest data on disability applications. Almost 200,00
in October — up 20 percent from the previous month — tying the highest level ever. Despite the bli
of the economy, the invisible unemployment problem continues.

We didn't have a mild recession and a jobless recovery. We covered up a deep recession and will ne
of recovery just to get us back to the point the unemployment rate suggested we already were. As th
said to Alice in "Through the Looking Glass": "Here, you see, it takes all the running you can do to
place. If you want to get somewhere else, you must run at least twice as fast as that!"

Austan Goolsbee is professor of economics at the University of Chicago Graduate School of Busine.

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Third-Quarter Boom Suggests Above-Trend 2004: Caroline Baum

Nov. 25 (Bloomberg) -- While bashing China is fashionable in some circles, the U.S. is doing its best to emulate China-like growth. Real gross domestic product rose 8.2 percent in the third quarter, a percentage point higher than the October estimate.

In the last 30 days, the Commerce Department unearthed more business investment in both equipment and structures, more residential investment (housing), more exports, and more inventories, which were drawn down by less than in the second quarter and, in the wonderful world of GDP accounting, added to growth.

The revision to GDP was powerful confirmation of Meyer's Law, a little maxim named after former Federal Reserve Governor Larry Meyer. Meyer's Law, which dates back to the days when Commerce produced a ``flash'' GDP estimate before the quarter ended, states that if the flash estimate is above/below the consensus, subsequent revisions are likely to be in the same direction.

Meyer reasons that statisticians may be tempted to ``lean against the data,'' especially when they play fill-in-the-blanks, but admits he's ``throwing darts.''

``When the early data for the quarter are coming in stronger than expected, there may be a tendency to be conservative in filling in the missing months,'' he says.

Sustaining Something

While the third-quarter growth won't be repeated in the fourth quarter, it's instructive to take a look at what history tells us about the predicative power of boom-like quarters.

According to Bob Barbera, chief economist at ITG/Hoenig, GDP increases on the order of 8 percent fall basically into two categories. ``Either the lift is a last-gap production jump at the tail end of the cycle, or it represents the onset of boom early in the cycle after a period of recession/middling growth,'' Barbera says.

Most of you won't object to the omission of the evidence to support the idea that last quarter was more start than end of a business cycle (and those of you who do would challenge the evidence anyway). Assuming this is a start-of-cycle boom, even though it arrived almost two years after the official end of the 2001 recession, ``the good news is that the year that follows an early-cycle boom quarter almost always registers above-trend economic growth,'' Barbera says.

The one exception was in late 1980/early 1981, when a two- quarter boom was followed by aggressive Fed tightening and another recession, he says.

Spirit of Statement

This time around, the Fed is not only giving its seal of approval to the boom but also stoking it with a negative real overnight rate. Fed officials are telling the story that low rates are here to stay so loudly and so often, it's clear they have no plan to raise rates in the near future. There's a chance they could rescind the assurance of low rates for a ``considerable period'' as early as the Dec. 9 meeting.

``They want to leave you with the notion that taking away the considerable period language doesn't alter the considerable period story,'' says Meyer, who is president of Meyer's Monetary Policy Insights, a division of St. Louis-based Macroeconomic Advisers.

Final sales, which is GDP less inventories, rose 8 percent, the fastest pace in 25 years. With almost all of the growth last quarter coming from the private sector and inventories still lean, the outlook for the next couple of quarters looks solid.

Forever Dissing

It's worth recalling that second-quarter growth of 3.3 percent was largely dismissed as a one-time, defense-related outlier. Federal defense spending rose 45.8 percent in the second quarter, contributing 1.7 percentage points to the quarter's growth.

In the third quarter, national defense spending fell and overall government spending contributed 0.3 percentage point to GDP. This, too, will likely be dismissed as a one-shot deal, a response to tax cuts.

Critics of the tax cuts ``argued they wouldn't stimulate short-term demand because they were aimed at investment and risk- taking,'' says Michael Darda, chief economist at MKM Partners in Greenwich, Connecticut. ``Now the same critics are arguing that the effects of the tax cuts were only on short-term demand and will wear off over time.''

Darda calculates that the most recent tax cut increased the combined after-tax return on capital and labor by 42 percent, which means more of both will be offered, raising potential growth permanently.

Soaring Profits

Today's report delivered actual news on third-quarter profits that could only be backed out of Commerce's first pass at GDP. Profits from current production, a measure of operating profits, rose 30 percent in the third quarter from a year earlier -- the biggest year-over-year jump in 19 years -- to a record $1 trillion. As a share of GDP, they jumped to 9.1 percent, the highest since the first quarter of 1998.

Based on today's data, John Ryding, chief market economist at Bear, Stearns & Co., estimates that the corporate financing gap, or the difference between internal cash flow and capital expenditures, moved into surplus in the third quarter for only the third time in the last 20 years.

``Since profits as a share of GDP are close to the peak levels seen in the 1990s, and since companies are now in financial surplus, we think the factors restraining growth have largely lifted,'' Ryding says. ``We are increasingly confident real GDP will exceed 4 percent by a significant margin in 2004.''

Last Updated: November 25, 2003 12:56 EST

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The Dollar Isn't a Calamity, Yet

Fri Nov 21, 8:09 AM ET

By Michael Wallace

Here's a "wall of worry" for investors: the significant drop in the value of the U.S. dollar in recent days. The fall an array of unsettling factors, including the Treasury Dept.'s survey showing a September plunge in U.S. asset foreign accounts, fear of rising trade protectionism after the Commerce Dept. announced import growth quotas textiles [see BW Online, 11/19/03, "Bush's Threadbare Chinese Quotas"], and a rise in global terrorist activity a Bush (news - web sites) visited Britain. Add in the various U.S. financial-market scandals, including the ongoin investigations and the alleged involvement of U.S. banks in helping housing agency Freddie Mac allegedly "sm figures.

However, most of these factors aren't new developments, with the exception of t report and the textile curbs. As such, we at MMS International view the dollar's d managed correction of past strength, rather than as a sudden and shocking dete greenback's fundamentals. But amid a sea of troubles, a continued fall in the wo currency could pose risks for U.S. financial markets --- and the Federal Reserve sites)'s desire to remain accommodative on monetary policy "for a considerable p

Since President Richard Nixon jettisoned the gold standard in the early 1970s, th floating dollar has been subject to the forces of trade and capital flows, verbal an intervention by central bankers, and political pressures. According to monthly rec by the Federal Reserve, the nominal "major currencies" dollar index, which meas greenback vs. the currencies of other major nations, peaked at 140.35 in March, nadir of 77.68 in April, 1995, after a trade spat with Japan over exports.

PLAYING BOTH SIDES. Sound familiar? At its present level of around 85, the do some distance from its lows of the last decade. And on an inflation-adjusted basi recent scant inflation makes the index's decline in real terms much less alarming

Still, it doesn't make sense to downplay the risk of further dollar declines. The Bu Administration hasn't been particularly patient about achieving its policy agendas geopolitical or economic. The fast approach of next year's Presidential election m dose of trade politics even more urgent for the Bush camp. The White House is s off calls for protectionism in Congress, while at the same time appealing to voter textile-manufacturing states, who blame job losses on foreign competition [see B 11/11/03, "Will Bush Bend on Steel?"].

An escalation of the trade disputes could send a more ominous signal to the mar Chinese made a token gesture by agreeing to procure U.S. autos and auto parts textile curbs are aimed at achieving faster change, as well as compliance with W Organization (news - web sites) timetables for opening China's borders, already Beijing.

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RATIONAL REACTION? Following the levy of tariffs on steel imports, the textile continue a pattern of trade interventionism. Sure, it can be noted that the quotas textile import "growth" to 7.5%. Still, if such trade issues cannot be settled in bila negotiations, it's likely the WTO will have the final say, and level heads will preva

Yet the market reaction to such events can be far from rational in the near term. Administration's equivocation on the "strong dollar" -- and its tiffs with major tradi Japan and China on currency policy -- prods the markets to correct the U.S. trad imbalances in their own inexorable way: through a declining dollar.

While some electioneering and strong-arming of U.S. trading partners may be ur even justified, the Bush Administration would be wise to carefully weigh the ecor monetary implications.

AWKWARD POSITION. Plenty of evidence indicates that the U.S. economy is al along in the latter half of 2003. The risk of destabilizing U.S. financial markets and raising the specter of inflatic worth the export rewards of dramatically devaluing the dollar from here. Moreover, the President's pursuit of m trade to appeal to specific constituencies could abbreviate the Fed's commitment to low rates for a "considerat

Any additional pressure on prices --- whether from a falling dollar or rapidly increasing output growth -- could ca Greenspan (news - web sites) & Co. to take steps to rein in inflation. This would place U.S. policymakers in the position of raising rates sooner and faster than the economy can withstand -- particularly if foreign appetite for holdings continues to wane.

The dollar has been in a steep downward trajectory since early 2002, and the natural adjustment in the U.S. cu and trade gaps probably doesn't require much more prodding at this stage, given the market's propensity to clo greenback at the first hint of bad news.

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THE CHRISTIAN SCIENCE MONITOR csmonitor.com

from the November 25, 2003 edition - http://www.csmonitor.com/2003/1125/p02s01-usec.html

Dollar decline raises new concern for US

The currency hit significant lows last week, a shift that helps exporters but could prod interest rates upward.

By David R. Francis | Staff writer of The Christian Science Monitor

Twelve months ago, the worry about the US dollar was that it was "too strong" - complicating life for US manufacturers hoping to export their products overseas.

Now, after several months of sustained declines, a different worry is popping up: that the dollar could plunge too far.

The falling currency could affect everything from Americans' ability to vacation in Paris to more basic concerns such as inflation and interest rates at home.

Last week, the dollar hit new lows against the euro. It set a three-year low against the Japanese yen. Few experts see the slide, in itself, as worrisome. The danger would be if it gathers momentum.

"The odds of a hard landing in the dollar are rising," notes Stephen Roach, chief economist of Morgan Stanley, a New York investment bank.

One driving factor is the magnitude of US debts - and the reliance on foreign money to finance them.

If foreign investors become less eager to hold dollars, the US Treasury could face pressure to pay higher interest rates on US debt, for example. Those foreign investors, having lost billions on paper this year, appear edgy about holding US stocks, bonds, and business properties. In September, the inflows into dollar-based assets totaled only $4.2 billion. That's far short of the $64 billion average monthly inflow in the first eight months of the year.

Correcting the trade deficit?

To many experts, some decline in the dollar is warranted. The greenback has declined about 10 percent this year, by one broad index. This drop has started to encourage American exports. And, by pushing up the cost of imports, it may prompt some narrowing of the US trade deficit, which stands at a record level.

The deficit in trade and other international payments, known as the current account, is running at $555 billion. That amounts to 5.1 percent of the nation's total economic output - a level many economists believe can trigger an international payments crisis.

The debate now is whether such a crisis could happen. Federal Reserve Chairman Alan Greenspan last week talked of a higher probability of a "benign resolution to the US current account imbalance."

The US has low interest rates, low inflation, and excess capacity in industry. That may help the economy sustain some dollar-related upward pressure on interest rates and prices. "This is the optimal time to achieve the inevitable dollar correction," says C. Fred Bergsten, president of the Institute for International Economics in Washington.

What concerns economists is that a sharp shift in sentiment among foreign investors and foreign central bankers could produce a sudden outflow of money from the US. "Were that to happen, it would be a catastrophe," says Criton Zoakos, president of Leto Research, a financial research firm in Leesburg, Va.

As he sees it, inflation and interest rates would rise in the US. Even worse, Japan would return to a recession and Europe would fall into the economic dumps, causing some political turbulence. China's exports would slump, forcing millions of Chinese to return to their farms.

So far, though, most economists seem to be counting on a further slow decline in the dollar against other currencies. For ordinary Americans, that makes trips abroad and imports more expensive.

Some even think the dollar could rise, as foreign investors see the US economic recovery outshining the performance of other nations. Buying euros or yen is "a sucker's bet. Buy dollars," writes Lawrence Kudlow, a Wall Street economist.

Explanations for the weaker dollar vary. The standard view is that it's part of a natural pullback resulting from the record current-account deficits - which mean the US requires more than $2 billion every working day in financing from abroad.

The Iraq factor

Others see strong geopolitical influences. Mr. Zoakos speaks of a "growing political uncertainty" abroad with rising terrorist attacks and with President Bush shifting gears on Iraq. On Nov. 9 he spoke of the need to bring democracy to the Middle East, a policy implying a 20-to 30-year engagement in fighting terrorism and a long occupation of Iraq - "akin to the cold war." More recently, he agreed to a swift turnover of power to Iraqis by next year.

"A lot of people think the US is biting off more than it can chew," says Zoakos. "That is hitting the dollar ... more than any commercial issue."

Despite that assessment, Zoakos does not expect a rapid decline in the dollar. One reason is that foreign investors in the US have generally been getting a 12 percent return on their capital versus 3 to 4 percent in Europe and near zero in Japan. As a result, net inflows of foreign capital in the US have exceeded the trade deficit - by $176 billion up to September this year, by $71 billion in the same period last year.

Talking the dollar down?

Another factor is a shift in White House policy. Under former President Clinton, Treasury secretaries presented undeviating support for a "strong dollar."

Under President Bush, the dollar policy in Washington has been less clear.

One reason was probably that the administration was coming under strong pressure from manufacturers and other industries to weaken the dollar in order to ease exports and shrink import competition. Bush political adviser Karl Rove wanted to woo voters in states such as Michigan and Ohio with protectionist measures and a weaker dollar, says Zoakos.

Bush administration officials knew they had to deal with the huge and growing trade deficit, notes Jim O'Neill, head of global research in London for Goldman Sachs, a major investment house.

So far, the dollar has retraced about a third of its rise in value since 1995. Goldman

Sachs figures the dollar needs to fall another 20 percent to restore the trade imbalance to a sustainable level.

The administration's record on the dollar is "pretty good," Mr. O'Neill says.

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Fed Lays Groundwork to End Low Rate Vow

Sat Nov 29,10:44 AM ET Add Business - Reuters to My Yahoo!

By Tim Ahmann

WASHINGTON (Reuters) - Federal Reserve (news - web sites) officials have laid the groundwork to jettison an keep interest rates low, but whether they will take that step at their next meeting is far from clear, Fed watchers

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After each of its last three policy meetings, the Fed has said it expected to keep rate considerable period," a surprisingly explicit, if still ambiguous, commitment from a ce historically loath to tie its hands in any way.

The pledge first surfaced when Fed Chairman Alan Greenspan (news - web sites) te Congress in July, as policymakers worried that long-term interest rates might rise be economy had fully found its feet.

Having cut overnight rates to a 1958 low of 1 percent in late June, the Fed's regular against economic weakness was running out and officials were worried a slowing ra was raising the risk of falling prices.

But some Fed officials were never comfortable with a pledge that appeared to put a time frame on interest-rate minutes of a mid-September Fed meeting made clear.

"Members generally agreed that the (Fed) should not usually commit itself to a particular policy stance over so preestablished, extended time frame," the minutes said.

At that meeting, a decision was made to retain the statement out of concern its abandonment might suggest a policymakers' views on the economy.

"I think that you can tell by the body language among Fed officials that they would like to find a way to ease the that particular reference," said David Rosenberg, chief North American economist at Merrill Lynch.

"The real question is what to replace it with," he said, adding that the timing of any shift in rhetoric was uncerta

WHAT NOW?

While the Fed repeated the phrase after its last meeting on October 28 -- two days before the September mee came out -- Greenspan chose a slightly different formulation for his latest remarks on the economy.

With inflation low and few signs businesses are gaining an ability to boost prices, "monetary policy is able to be the Fed chief said earlier this month.

"I think that in his last sermon, Greenspan deliberately left out the time reference," Rosenberg said, expressing by many close observers of the central bank.

Economists say Fed officials have carefully underscored in recent weeks their belief that the economy has a lo
soak up excess slack and neutralize the risk of inflation slowing further.

Having laid out a framework for the likely course of monetary policy, officials have less need to rely on a specif
to keep market fears of imminent rates hikes at bay, Fed watchers said.

"That particular phrase has outlived its usefulness," said Henry Willmore, chief U.S. economist at Barclay's Ca

"We've reached a stage where they want to take it out so they have flexibility in about six months to (raise rate
like to," he said.

But the New York-based ISI Group said it doesn't expect the Fed to change the phrase unless it wanted to sigr
was more imminent than markets expected.

While recent speeches may help contain any damage if the bond-friendly terminology were dropped, officials s
would be some market jitters.

"I don't think that ought to be a constraint on changing it when it's appropriate to change it," Minneapolis Fed P
Stern told Reuters last week. "I'm not sure I ought to lose a lot of sleep over it."

However, Stern gave no indication when a change might come. And having made their bed, some Fed officials
comfortable enough sleeping in it.

"If we reached a situation where we could conclude that the risks were more balanced ... that would be a time
look at your position," Federal Reserve Bank of Richmond President Alfred Broaddus told reporters earlier this
asked in what economic environment the Fed would drop the reference. "It would be heavily conditioned on an
balance of risks."

But no such guidance has come from the top ranks.

"I won't attempt to prejudge what the Fed will do," Fed Vice Chairman Roger Ferguson said last Friday.

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The New York Times
nytimes.com

November 30, 2003

The Productivity Paradox

By STEPHEN S. ROACH

Despite the economy's stunning 8.2 percent surge in the third quarter, the staying power of this economic recovery remains a matter of debate. But there is one aspect of the economy on which agreement is nearly unanimous: America's miraculous productivity. In the third quarter, productivity grew by 8.1 percent in the nonfarm business sector — a figure likely to be revised upwards — and it has grown at an average rate of 5.4 percent in the last two years.

This surge is not simply a byproduct of the business cycle, even accounting for the usual uptick in productivity after a recession. In the first two years of the six most recent recoveries, productivity gains averaged only 3.5 percent. The favored explanation is that improved productivity is yet another benefit of the so-called New Economy. American business has reinvented itself. Manufacturing and services companies have figured out how to get more from less. By using information technologies, they can squeeze ever increasing value out of the average worker.

It's a great story, and if correct, it could lead to a new and lasting prosperity in the United States. But it may be wide of the mark.

First of all, productivity measurement is more art than science — especially in America's vast services sector, which employs fully 80 percent of the nation's private work force, according to the United States Bureau of Labor Statistics. Productivity is calculated as the ratio of output per unit of work time. How do we measure value added in the amorphous services sector?

Very poorly, is the answer. The numerator of the productivity equation, output, is hopelessly vague for services. For many years, government statisticians have used worker compensation to approximate output in many service industries, which makes little or no intuitive sense. The denominator of the productivity equation — units of work time — is even more spurious. Government data on work schedules are woefully out of touch with reality — especially in America's largest occupational group, the professional and managerial segments, which together account for 35 percent of the total work force.

For example, in financial services, the Labor Department tells us that the average workweek has been unchanged, at 35.5 hours, since 1988. That's patently absurd. Courtesy of a profusion of portable information appliances (laptops, cell phones, personal digital assistants, etc.), along with near ubiquitous connectivity (hard-wired and now increasingly wireless), most information workers can toil around the clock. The official data don't come close to capturing this cultural shift.

As a result, we are woefully underestimating the time actually spent on the job. It follows, therefore, that we are equally guilty of overestimating white-collar productivity. Productivity is not about working longer. It's about getting more value from each unit of work time. The official productivity numbers are, in effect, mistaking work time for leisure time.

This is not a sustainable outcome — for the American worker or the American economy. To the extent productivity miracles are driven more by perspiration than by inspiration, there are limits to gains in efficiency based on sheer physical effort.

The same is true for corporate America, where increased productivity is now showing up on the bottom line in the form of increased profits. When better earnings stem from cost cutting (and the jobless recovery that engenders), there are limits to future improvements in productivity. Strategies that rely primarily on cost cutting will lead eventually to "hollow" companies — businesses that have been stripped bare of once valuable labor. That's hardly the way to sustained prosperity.

Many economists say that strong productivity growth goes hand in hand with a jobless recovery. Nothing could be further from the truth. In the 1960's, both productivity and employment surged at an annual rate of close to 3 percent. In the latter half of the 1990's, accelerating productivity also coincided with rapid job creation.

In fact, there is no precedent for sustained productivity enhancement through downsizing. That would result in an increasingly barren economy that will ultimately lose market share in an ever-expanding world.

That underscores another aspect of America's recent productivity miracle: the growing use of overseas labor. While this may increase the profits of American business — help-desk employees or customer-service representatives in India earn a fraction of what their counterparts in the United States do — the American worker does not directly share the benefits. The result is a clash between the owners of capital and the providers of labor — a clash that has resulted in heightened trade frictions and growing protectionist risks. There's nothing sustainable about this plan for productivity enhancement, either.

In the end, America's productivity revival may be nothing more than a transition from one way of doing business to another — a change in operating systems, as it were. Aided by the stock market bubble and the Y2K frenzy, corporate America led the world in spending on new information technology and telecommunications in the latter half of the 1990's.

This resulted in an increase of the portion of gross domestic product that went to capital spending. With the share of capital going up, it follows that the share of labor went down. Thus national output was produced with less labor in relative terms — resulting in a windfall of higher productivity. Once the migration from the old technology to the new starts to peak, this transitional productivity dividend can then be expected to wane.

No one wants to see that. For all their wishful thinking, believers in the productivity miracle are right about one critical point: productivity is the key to prosperity.

Have we finally found the key? It's doubtful. Productivity growth is sustainable when driven by creativity, risk-taking, innovation and, yes, new technology. It is fleeting when it is driven simply by downsizing and longer hours. With cost cutting still the credo and workers starting to reach physical limits, America's so-called productivity renaissance may be over before Americans even have a chance to enjoy it.

Stephen S. Roach is chief economist for Morgan Stanley.

For stores, hopes rise early

The Boston Globe

By Naomi Aoki, Globe Staff, 11/29/2003

FRAMINGHAM -- Daniel Cheddar was outside Best Buy at 1 a.m. yesterday. He'd spent Thanksgiving morning scouring circulars to find yesterday's best deals. And this was it: From 6 a.m. to noon, the electronics chain store was selling a computer for the low price of $199.99.

A veteran day-after-Thanksgiving shopper, Cheddar knew the supply of 20 or so computers wouldn't last. Last year, the line outside the Best Buy at 5 a.m. was so long that by the time the store opened he'd already missed out on the early-bird specials. This year, he was first in line.

"I couldn't sleep last night because I was so excited about getting this deal," said Cheddar, whose wife, mother-in-law, brother-in-law, pastor, and pastor's wife joined him in line during the early morning hours.

Hundreds of other people also lined up behind Cheddar lured by the promise of DVD players for $19.99, digital cameras for $149.99, and laptops for $499.99. Around the region, shoppers waited outside stores offering early morning deals. More than 5,000 shoppers filed into JCPenney in Taunton within 40 minutes of its 6 a.m. opening. More than 600 cars converged on the parking lot at Wrentham Village Premium Outlets before 6 a.m. Within minutes of opening, Filene's at Northshore Mall gave out more than 300 $15 gift cards to its first customers.

Retailers say this season they are stocking less, enticing people to shop earlier to prevent the last-minute slash-and-burn sales consumers enjoyed last year, planning fewer promotions, and reserving sales only for merchandise that is languishing on their shelves.

But yesterday, there was scant evidence of the full-price strategy. Stores from Filene's to Staples opened their doors at 6 a.m., offering customers 15 percent discounts or deeply discounted printers, respectively. Razor electric scooters were zipping out of KB Toys for $20 less than their usual price. Several items listed in the OfficeMax circular, including a cordless phone, were free after mail-in rebates. Fifteen retailers were open at Square One Mall in Saugus by 7 a.m. and another 15 at the Northshore Mall in Peabody by 6 a.m. yesterday -- more than last year in both places.

"What does that prove?" said Michael Niemira, vice president of Bank of Tokyo-Mitsubishi Ltd. in New York. "You open early so you want traffic, so you put on a big promotion. But you're increasing overhead to do it and selling goods at a lower profit margin."

Although hard numbers aren't yet available, retailers say people are buying -- a sign, they hope, of a good holiday shopping season to come. The National Retail Federation predicts an increase in holiday sales of 5.7 percent this year over last, to $217.4 billion. A spokeswoman for Wrentham outlets said at least one of the outdoor mall's retail shops had surpassed last year's sales for the day after Thanksgiving by 11 a.m. yesterday, though she declined to say which one.

But a busy day after Thanksgiving is no guarantee of a merry retail season.

Last year, sales surged 12 percent on the day after Thanksgiving, raising hopes that were later dashed. Overall, holiday sales grew less than 2 percent last year, according to ShopperTrak, a firm that monitors spending. Worse was the fact that many retailers were forced to discount heavily in the final weeks before last Christmas to clear their holiday inventories and achieve the modest increase in sales. The move cut into profits, turning the season into one retailers are desperate to avoid this year.

Retailers, however, defend the practice of early-bird enticements. Competition is fierce the day after Thanksgiving, and shoppers have come to expect to-die-for deals. Get them in the store, then shoppers might buy nonsale items, and if they like what they see, the logic goes, they'll keep coming back. Known as "Black Friday" for its history of putting retailers financially in the black, the day isn't the biggest sales generator of the year (last year, it was fourth behind the last two Saturdays and the Monday before Christmas). But it remains an important day in a season that accounts for as much as half of a retailer's yearly sales.

"Today was absolutely fantastic," said Mark Whiting, manager of the Northshore Mall. "We're off to a good start. The secret this year will be to sustain that momentum over the next three weeks."

More than 200 people stood outside KB Toys stores in Burlington and Braintree before they opened at 5 a.m. Karen Glikin bypassed a line of 200 people outside one KB Toys at 4:20 a.m. only to find herself waiting in line at another one in the South Shore Plaza a little after 8 a.m. There, she dragged a huge plastic bag filled with toys through the check-out line, grabbing Barbies and other items from shelves as she passed.

"For KB, it's important to do these early bird specials because the rest of the year, we're an impulse location," said John Reilly, KB's spokesman. "Today we become a destination."

Glikin wasn't alone in her predawn buying strike. Yola Powell, a retired Polaroid employee from Medford, scanned television ads and clipped coupons in preparation for her early-morning expedition to Burlington Mall with her daughter and granddaughter. Heather Riebold and Janelle Farioli have turned shopping into a post-Thanksgiving day tradition. The sisters started at Kohl's in Taunton at 5:30 a.m., then headed to Silver City Galleria, where they were buried in shopping bags full of clothes, DVDs, electronics, and jewelry by 11 a.m. Maria Torres hunted down bargains at Square One Mall. The mother of two bought clothes, jeans, and a jacket at 75 percent discounts.

"I'm so tired," she said leaning against the window at Tellos' clothing store. "We've been here for hours."

Kathy McCabe, Christine McConville, and Joanna Massey of the Globe staff contributed to this story. Naomi Aoki can be reached at naoki@globe.com.

THE CHRISTIAN SCIENCE MONITOR csmonitor.com

from the November 28, 2003 edition - http://www.csmonitor.com/2003/1128/p03s01-ussc.html

Holiday travel is back as economy revives

Despite new terror alerts and heightened airport security, experts foresee big total turnout this weekend.

By Sara B. Miller | Staff writer of The Christian Science Monitor

Winnie Mitchell hasn't seen her family in two years - the last time her son could afford a $400 airplane ticket from Boston to Salt Lake City. "He is a cars salesman and the economy was bad," says Ms. Mitchell, who has long retired from her factory job making eyeglass cases in Lynn, Mass.

As she eagerly awaited her Delta flight heading West this week, a smile spread across her face. "I'm real excited to see everybody, and all my grandchildren."

Americans are recapturing a sense of wanderlust. Across the country, officials predict that an improving economy and a growing confidence in the nation's security could make this Thanksgiving weekend the most traveled holiday season since the terror attacks of Sept. 11.

The American Automobile Association (AAA) expects 36 million people to take to the nation's highways, railways, and skies, traveling 50 miles or more from their homes throughout the weekend - the highest volume in two years.

"People are feeling pretty good about the economy and traveling," says Justin McNaull, an AAA spokesman in Washington, D.C. "We've had a period of relative peace and safety."

Even though the Department of Homeland Security has warned passengers to be vigilant, many travelers have felt safer, making it that much easier to book a flight or pack up the Suburban.

Ms. Mitchell was one of 75,000 to 80,000 passengers expected to fly through Logan International Airport the Wednesday before Thanksgiving, one of the busiest travel days of the year. "We're expecting long lines," says Phil Orlandella, director of media relations at Logan airport.

At Washington Dulles Airport, toddlers petted a bomb-sniffing spaniel, while students, jet-setters, businessmen, and suburban families lined up for security inspection. By 7:30 a.m. Wednesday, the United counter was crowded, and security was flowing smoothly.

The scene was dramatically different from Sept. 16, 2001, the first time Michael Dobbel flew after the terror attacks. "It wasn't flying that scared me, but the terminals," he says. "They were dead quiet and eerie, and there was no music because the PA was kept open for emergency announcements."

AAA predicted that 4.6 million people, or 13 percent of travelers, would fly - up 1 percent from 2002. But the numbers are still 10 to 15 percent lower than pre-9/11 passenger traffic. In fact, most travelers this week will be on the road. AAA estimates that 86 percent of holiday travelers will reach their destination by car, despite a national average gas price of $1.51 per gallon - a 9 percent increase over last year.

TAKE Joel Gardner. He was giving his silky Yorkshire terrier a breather at the Virginia Visitor Center on I-85 just north of the Carolina border, en route to visit his new granddaughter in Newport News, Va. "This will be the first time I see her," says Mr. Gardner, a biological-filter engineer from Mobile, Ala. "And I don't have much farther to go."

This is his first major road trip since 9/11, and he says he still has reservations. "I won't fly to New York or California," he says, "and the only places outside the country where I'll go on vacation is South America or the Bahamas."

Many people also opted to travel by train. Amtrak was expected to carry up to 110,000 passengers nationwide on Wednesday alone - 70 percent more than usual. The company has added 70 extra trains for the weekend.

Airports prepared for tighter security, but many passengers said that the hassles of traveling seemed less than the year before. According to Amy Ziff, the editor of an advice column for Travelocity.com, 55,000 Transportation Security Administration screeners monitored the nation's airports last year, compared with 47,000 this year.

"That's a substantial drop in the number of people, but they have a year of practice to get everything in a groove," Ms. Ziff says, "so I have faith in TSA to do what they say - aim to keep people in line for less than 10 minutes."

Still, some people's patience was being tested. At Boston's Logan Airport one day this week, cabs were double parked outside Terminal B by 6:55 a.m., and security lines were slow-moving. "Are you kidding me?" muttered one traveler, heading to the end of the line.

This is exactly the scenario that Lawrence Carr sought to avoid. "I tried to get a ticket for Tuesday, but everything was booked," he says, on his way from Boston to visit his mother in Wisconsin.

He expected delays - due to good weather and cheap airfares - and arrived at Logan at 7 a.m., almost four hours before his flight was to depart. "I deliberately tried to avoid this day."

But many saw the busy day as a confidence-builder, a major step toward an approximation of the way life was before 9/11. "Time heals everything - including the fear of travel," says Chris, a young pilot for Atlantic Coast Airlines, preparing to fly out of Dulles Airport.

David Antoine, too, was taking the longer view. "It seems like things have improved since last year," Mr. Antoine says, in a crowded O'Hare Airport lounge waiting for a flight to New York City. "I still don't feel totally safe. I don't know if I ever will again. It's one of those things you have to accept."

• *Patrik Jonsson in Washington, D.C., Amanda Paulson in Chicago, and Seth Stern in Boston contributed to this report.*

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Retailers have just one wish for the holidays
They're hoping shoppers will open wallets and spend

Jenny Strasburg, Chronicle Staff Writer
Friday, November 28, 2003

URL: sfgate.com/article.cgi?file=/c/a/2003/11/28/BUGIJ3BJM71.DTL

Everybody wants a piece of the post-Thanksgiving shopper.

As the symbolic start of the year-end spending season, today kicks off the retail industry's annual period of capitalistic saving grace, when malls, toy stores and discounters optimistically extend their business hours and beef up the ranks of employees behind the registers.

Many retailers expect to pull in one-third or even half of their revenue for the year between now and early January.

So far, 2003 has been mixed. Big-box discounters led by No. 1 retailer Wal-Mart, along with home furnishings stores and discount clothing chains, generally have outshone traditional mall specialty shops and department stores.

Analysts caution against putting too much stock in Friday as a sales indicator for the entire season.

Meanwhile, retailers welcome any action they can get, as early as they can get it.

Macy's West offered 20-percent-off storewide coupons for the day before Thanksgiving. Toys R Us and JC Penney also stepped up promotions before Thanksgiving in an effort to pull shoppers in early.

Today, Target discount stores around the Bay Area open at 6 a.m., managers said (despite contrary information Wednesday on the company Web site, which said stores open at 7 a.m.).

KB Toys at Corte Madera's Town Center, as in most other locations, opens at 5 a.m. today, an hour earlier than last year, assistant manager Jeff Choate said. He said Wednesday that the store is ready for a run on Swan Lake Barbies,

new Transformer vehicles, Bratz dolls and the almighty new Mighty Beans -- a pill-size, colorful modern take on the Mexican jumping bean.

"Arrive early and well-rested," KB Toys' Web site advises shoppers as if they're first-time marathoners. "Once you digest your Thanksgiving dinner, go to bed early and get a good night's sleep. ... Set two alarms. ... Stay well- hydrated and fueled."

KB Toys clearly was expressing optimism. But as the holidays begin, industrywide spending forecasts vary from the so-so to the cautiously upbeat - - complicated by a transitional economy coming out of recession.

Shoppers will indeed spend more this year, according to the industry- backed National Retail Federation. The group predicts a 5.7 percent overall increase in holiday sales in categories including clothing, music, electronics and furniture. If that prediction holds true, seasonal sales will outpace every year since 1999.

Then again, the Conference Board's year-end spending survey, released this week, predicts that the average U.S. household will spend $455 on holiday gifts, a 6 percent decline from last year's $483.

"Consumer caution heading into Thanksgiving may very well spill over into the holiday shopping season," Lynn Franco, director of the Conference Board's Consumer Research Center, said in a report. "It now seems clear that most consumers will be shopping for bargains this season."

Bargain hunting has been an increasingly high-profile holiday theme in recent years, with growing hordes of shoppers refusing to pay full price. They've been trained to know that clearance sales come to those who wait.

About 85 percent of shoppers who hit the stores the day after Thanksgiving shop "for the sales and the best prices," according to a national year-end Retail Index survey conducted by American Express.

The survey, conducted by telephone in October, found U.S. shoppers split down the middle over whether they have more or less confidence in the economy this year. That sense of uncertainty will lead many shoppers to browse but not buy today, the survey found.

Last year, Black Friday, so called because strong sales on the day after Thanksgiving typically have led retailers back into profitability, or back into the black, buoyed the industry's seasonal hopes. But spending tapered off in December, stinging retailers with what was widely called the worst holiday in a decade.

Black Friday in 2002 was the season's fourth-biggest shopping day, behind the two Saturdays and the Monday closest to Christmas, according to the International Council of Shopping Centers.

E-mail Jenny Strasburg at jstrasburg@sfchronicle.com.

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Mall Lines, Economy Data to Guide Stocks

Sun Nov 30,10:13 AM ET Add Business - Reuters to My Yahoo!

By Denise Duclaux

NEW YORK (Reuters) - Investors will straggle back from a weekend of turkey leftovers and daunting lines at ca fresh month on Wall Street and more data that points to strengthening economy, analysts say.


Reuters Photo

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But any gains in the stock market this week as investors return in full force from the Day holiday may be tempered by nagging concerns over high share prices and reco dollar.

"The valuation of stocks is what is preventing them from going a lot higher at this po Davidson, president and chief executive officer of PartnerRe Asset Management. "T confidence around the economy than around stocks."

Light volumes marked last week, when the stock market was shut on Thursday for T closed early on Friday. But major market gauges scored hefty gains for the week. Th Jones industrial average (^DJI - news) climbed 1.6 percent, finishing Friday at 9,782 tech-stuffed Nasdaq (^IXIC - news) jumped 3.5 percent, ending at 1,960.26, and the & Poor's 500 (^SPX - news) rose 2.2 percent to close at 1,058.20.

But for November, it was a different story, with the Dow down 0.2 percent, while the 1.5 percent and the S&P 500 added 0.7 percent.

For the year, though, the trend remains buoyant, with the Dow up 17 percent, the Na percent and the S&P 500 up 20 percent.

A slew of strong data on the U.S. economy helped propel stocks higher last week. And analysts expect reports point to improvements in the job market in November as well as in the nation's manufacturing and services sec

A hectic weekend of shopping will also grab the limelight this week, as investors search for evidence that cons spending heavily this holiday season and helping stoke the economic recovery.

"The market has developed an upward bias, and I think it will continue into (this) week," said Stanley Nabi, ma at Credit Suisse Asset Management.

'TIS THE SEASON TO SHOP

Americans made their annual day-after-Thanksgiving pilgrimage to stores on Friday for predawn sales offering markdowns. Analysts widely expect this year's holiday season to show a big improvement from last year's wea

"You start to enter a seasonally strong period for stocks, and a lot of optimism about the Christmas season," sa president of investment firm LibertyView Capital Management. "There will be a lot of focus on how this weeken and if those numbers are good."

The day after Thanksgiving -- known as Black Friday because it once marked the day when retailers got out of traditional start to the holiday shopping season, which generates as much as 40 percent of annual revenues fo destinations such as toy stores and apparel chains.

"Between now and Christmas, it's really going to be about how companies individually are doing, in what for m 'make or break' time of year," Meckler said.

HIGH HOPES FOR JOBS AND FACTORIES

The November payrolls number, due on Friday, will be the main event this week. But investors also will eye we employment data plus surveys of the manufacturing and services sectors for hints that economic recovery is ro support the big run-up in stock prices this year.

"The economic figures that have been coming out have been very comforting and very supportive of a higher r said. "We are going to have more good economic news, and I think that will carry the market higher."

Non-farm payrolls are expected to have added 135,000 jobs in November, while the U.S. unemployment rate is remain at 6.0 percent, according to economists polled by Reuters. In October, non-farm payrolls gained 126,00

The report on first-time claims for unemployment benefits, due Thursday, is expected to show these claims dip for the week ended Nov. 29, from 351,000 claims in the previous week.

The U.S. labor market has been one area of concern with job growth lagging in an otherwise rosy economic pi

Expectations are high for the Institute for Supply Management to release healthy manufacturing and services s due Monday and Wednesday, respectively -- after data released last week showed factory activity in the Midwe a seventh straight month.

The ISM national index of manufacturing for November is expected to climb to 58.0 from October's 57.0, reflec in output by U.S. factories, according to economists polled by Reuters. But the ISM national index of non-manu activity, which gauges the output of the U.S. services sector, is expected to inch down to 64.3 in November fro 64.7, according to a Reuters poll of economists.

(Additional reporting by Emily Kaiser and Vivian Chu)

(Wall St Week Ahead runs every week. Comments or questions on this column can be e-mailed to denise.duclaux@reuters.com)

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Denver Post

Shopping for optimism

Consumers cautious, but state's retailers confident holiday sales will rise

By Kelly Pate Dwyer
Denver Post Business Writer

Saturday, November 29, 2003 - Cassandra Pine is going much bigger on gifts this holiday. Unlike last year, the Denver 32-year-old has a job now.

Her older sister, Stacey Hussy, said just the opposite. She and her husband are still catching up from a lay off this year.

"I'll spend less," said Hussy, 34. "Or try to anyway."

The sisters are like millions of Americans - they make a tradition of shopping over the Thanksgiving weekend.

And they have mixed attitudes about spending, based on one key economic indicator: their own budgets.

Still, most retailers are wearing a brighter face this year, especially after hearing Saturday the nation had a strong first day.

National holiday sales rose 4.8 percent over last year to $7.2 billion on Friday, the official kickoff to the holiday season, according to a Saturday report by ShopperTrak, a Chicago-based research firm.

Wal-Mart alone captured about one-fifth of that business, about $1.52 billion in sales, making it the biggest day ever in the United States

Stores got off to a predictably slower start Saturday, when many of Friday's discounts disappeared. Warm weather also deterred shoppers from enclosed malls.

There was no one must-have item this year, but DVD players drew herds of shoppers Friday. In fact, a Florida woman was hospitalized after she was knocked down and trampled in pursuit of a $29 DVD player at a Wal-Mart store.

Colorado-based SoundTrack stores also sold DVD players on the cheap but ran deals on high-end items to stand out in the crowd. That move paid off, said president Dave Workman.

SoundTrack's sales weren't as high Friday as a year earlier, but profit margins were greater.

Cherry Creek mall officials reported traffic was up 10 percent to 15 percent Friday compared with the day after Thanksgiving 2002.

"This is going to be a very solid holiday season," general manager Nick LeMasters said. "It will be rivaling 2000."

Denver resident Boots Desormeaux concurred.

"I think we're doing a little better this year than last," she said of the economy.

The weary great-grandmother spent Friday at Park Meadows and Saturday at Cherry Creek mall.

"It's been something," she said. "I bought sweaters, pajamas and jeans. I'm ready to call it quits but I've got more presents to buy."

As in most years, stores were busier Friday than Saturday. The Park Meadows Gymboree store reported a 30 percent increase in sales Friday, said store manager Amy Kessel. But her store and the mall got off to a slower start Saturday.

The warm sunshine didn't help, but it had a positive effect for others shops, such as stores on Boulder's Pearl Street Mall, where families strolled toting packages.

The weather, and a campaign by some Colorado State University students to buy local, had business hopping in Fort Collins as well, said Shelly Dragan, owner of Children's Mercantile book and toy store.

Weekend sales were flat at Leather Direct, which sells licensed NFL and NASCAR gear at the Southglenn and Aurora malls, said owner Matt Nowlen.

But, he said optimistically, that's an improvement. Business for the year is down 10 percent.

Colorado Ski & Golf, which has three metro-area stores, recorded double-digit increases Friday and started Saturday strong, said spokesman Kat Jobanputra.

The key difference between the days - "the professional shoppers" were out Friday sniffing deals. Saturday brought regular customers and skiers heading to the hills.

Many mountain shops have suffered through the economy. But as the snow piles up, the survivors are growing more optimistic.

"We've already done better this week than the same week last year," said Shelley Coulombe, manager of Golden Bough custom jewelry shop in Aspen. "We are counting on the economy recovering and more people traveling."

Tourism benefits downtown Littleton's Natural Surroundings gift shop as well. It's a destination for locals and their holiday house guests, said manager Martha Sidney.

"We've noticed an increase (in sales) this year," she said, adding that that's all she's hoping for after three years in a downturn.

While the day after Thanksgiving is a big shopping day, industry watchers are cautious about this year's 4.8 percent national gain.

In 2002, Thanksgiving weekend sales rose 11 percent over 2001, but the season ended only 2.2 percent above the prior year.

This year retail experts are projecting at least a 5 percent gain in holiday sales.

In Colorado, where job growth has been slower to return, the Colorado Retail Council is forecasting a 3 percent increase.

"We are cautiously optimistic," said council president JoAnn Groff.

"But I think we're sort of waiting to make sure that other shoe isn't going to drop," said store manager Amy Kessel.

Denver Post staff writers Jason Blevins, Dana Coffield and Monte Whaley, and The Associated Press contributed to this report.

BBC NEWS

Solid shoppers spur US recovery

A solid start to the pre-Christmas retail rush has cheered US retailers, and indicated that the broader economy may be firmly on the mend.

The Thanksgiving holiday fell on Thursday, with the following weekend traditionally devoted to shopping.

Wal-Mart, the biggest US retailer, said its Friday sales were up more than 6% year on year, a slower rate than in 2002, but ahead of expectations.

A strong retail performance is seen as crucial to the wider US economy.

Private consumption accounts for a hefty slice of US economic output, and cautious shoppers have held the economy back over the past couple of years.

Mixed signals

It is still not clear whether Wal-Mart's performance will be matched across the board.

Nor will a rush on Friday necessarily be matched throughout the weekend: anecdotal evidence suggests that Saturday was a significantly slower day.

And throngs of shoppers in the malls may not translate into dollars in the tills: many were drawn by the numerous discounts on offer this year.

But overall, most retailers that report figures have forecast a 5-7% increase in sales volume this Christmas.

This performance is vital: the holiday season accounts for some 40% of the typical US retailer's revenues.

And in recent years, the bulk of the spending has been shifting later.

The post-Thanksgiving "Black Friday" - so called because it is traditionally the day when retailers start making profits - is no longer the biggest shopping day of the year; that now tends to fall on the last Saturday before Christmas.

Getting better

A growth rate of up to 7% would be consistent with the overall performance of the US economy, which has recorded growth rates of around 8% in recent months.

There is an increasing consensus that recovery is now solidly established, at least partly thanks to a heavy fiscal push from the government.

Some economists are, however, concerned over a couple of aspects of the US recovery.

First, there is still little sign that enough jobs are being created to return to genuine broad-based prosperity.

And second, some worry that the government is putting too much of its own money into the economy, leading to possible budgetary problems in the future.

Story from BBC NEWS:
http://news.bbc.co.uk/go/pr/fr/-/2/hi/business/3250536.stm

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The New York Times
nytimes.com

November 28, 2003

OP-ED CONTRIBUTOR

We Are Where We Shop

By SHARON ZUKIN

Today, according to ancient American custom, thousands of moms and dads will wake before dawn, jump into their cars and drive to the mall. There they will wait patiently in the parking lot for the doors to open. Then they will race their shopping carts through the broad, familiar aisles of our nation's most popular discount stores, filling them with DVD players, wide-screen TV's, Hokey Pokey Elmos — something's always on sale. Before noon, if they're lucky, they will emerge triumphant from behind the cash registers with the trophies of their early-morning hunt.

While the most coveted trophies may change from year to year, the ritual does not. During the past century, America has transformed itself into a shopping nation. Since the 1870's — the dawn of mass-produced consumer goods — new stores, products and promotions have continually surrounded us with visions of abundance and supplied us with the means to fulfill our dreams.

Low prices reflect democracy. Brand names represent our search for a better life. And designer boutiques embody the promise of an ever-improving self. Yet Americans have made a Faustian deal with the culture of shopping, and especially with bargain culture. The retail prices may be low, but the social costs are high.

Consider, for example, Wal-Mart, which is the largest company in the United States based on revenue, with annual sales last year of more than $244 billion. Wal-Mart's reputation for bringing a wide variety of goods to small towns and rural communities gives the company leverage over town councils and planning boards, which are often asked to grant zoning concessions or relax environmental standards. And Wal-Mart's frequent position as the only big employer in town allows it leeway to hire workers at low wages.

But Wal-Mart's strategies aren't exactly new. F. W. Woolworth, who opened his first five-and-dime store in 1879, succeeded by providing a wide array of common household and personal goods at standardized, low prices. During the glory years of the five-and-dime, men shopped there for hardware and stationery, women bought sewing supplies and hair ornaments, and children chose toys and Big Chief writing tablets.

Like Sam Walton, who founded Wal-Mart in 1962, Woolworth was able to keep prices low by ruthless cost cutting — using self-service to reduce the number of sales clerks, paying them low wages and encouraging tight control over inventory. Woolworth also introduced employee stock ownership — but only for managers, who, unlike the sales clerks, were all male. And Woolworth fiercely opposed labor unions.

Compared with consumers in other countries, Americans have benefited from these policies. Since the 19th century, the middle class has depended on low prices for consumer goods — mainly food, clothing and, until recently, housing — to maintain its standard of living. To a great extent, however, these low prices are encouraged not only by the market but also by the government.

Almost every president of the 20th century acknowledged the major role of consumption in the American economy. Bill Clinton supported free trade, which keeps prices low by encouraging companies to make goods in low-wage countries and sell them in the United States. More recently, politicians have joined merchants to encourage Americans to shop their way out of recession, for example, or the trauma of a terrorist attack.

Throughout his career, Sam Walton kept the motto of an earlier entrepreneur, James Cash Penney, above his desk: "Serve the public . . . to its complete satisfaction."

But Walton also expanded the chain with a methodical, state-by-state saturation of local markets — putting smaller, locally owned stores out of business. Unlike Sears, Wal-Mart made an effort to appeal to women by featuring health and beauty products. And unlike many department stores, Wal-Mart consistently resisted going upscale. Most important, in the 1980's, Wal-Mart largely abandoned American-made goods for imports and switched from mostly generics to nationally advertised brands.

Now shoppers could find cheap designer jeans and brand-name refrigerators in the same store. This one-stop shopping offered low prices, high quality and convenience — an ideal situation for shoppers of modest means. But it also attracted shoppers with higher income levels. Like the upper-class women who shopped at Woolworth during the Depression, they could always find something to buy.

It is social equality — of a sort: instead of reducing differences between the classes, we are satisfied to see them shopping in the same discount store. Instead of supporting local businesses, we shop at giant chains. Instead of raising incomes, we lower prices. Americans have accepted bargain culture as our vision of democracy.

When the economy is uncertain, the appeal of bargain culture grows. But low prices are not really a bargain. They may allow us to shop more often, but they weaken our ability to pay the bill.

Sharon Zukin, professor of sociology at Brooklyn College, is author of ``Point of Purchase: How Shopping Changed American Culture.''