

Recommendations for Further Reading

Timothy Taylor

This section will list readings that may be especially useful to teachers of undergraduate economics, as well as other articles that are of broader cultural interest. In general, the articles chosen will be expository or integrative and not focus on original research. If you write or read an appropriate article, please send a copy of the article (and possibly a few sentences describing it) to Timothy Taylor, c/o *Journal of Economic Perspectives*, Macalester College, 1600 Grand Ave., Saint Paul, Minnesota 55105.

Smorgasbord

Angus Maddison delivered the First Ruggles Lecture for the International Association for Research in Income and Wealth on the subject of “Measuring and Interpreting World Economic Performance 1500–2001.” The lecture offers useful discussion of how measurements of world economic performance have developed since the 1950s and the work of Simon Kuznets. Maddison argues: “The roots of modernity were not a sudden ‘take-off’, but a long apprenticeship, and the divergence in income levels between the West and the rest of the world started well before 1820. . . . In 1500, Western Europe already had 70 universities. Education and diffusion of knowledge were revolutionized by printing. Venetian publishers regularly had a print-run of 1,000 copies or more. By the mid-16th century, they had produced 20,000 titles, with a flood of new secular learning. . . . By the end of the eighteenth century, great progress had been made in the design of ships and rigging, in gunnery, in meteorological and astronomical knowledge and in the

■ *Timothy Taylor is Managing Editor, Journal of Economic Perspectives, based at Macalester College, Saint Paul, Minnesota. His e-mail address is <taylorl@macalester.edu>.*

precision of navigational instruments. Mariners acquired logarithmic tables, sextants, naval almanacs and accurate watches. . . . Sailing had become safer, the duration of voyages more predictable, the incidence of shipwreck had fallen, disease mortality was greatly reduced on long voyages. These changes were the result of scientific endeavor. . . . These developments in Europe were an essential prelude to the much faster economic development that occurred in the 19th and 20th centuries. They had no counterpart elsewhere.” *Review of Income and Wealth*, March 2005, 1–35.

In “R&D and Productivity Growth,” the Congressional Budget Office presents one of its useful overviews of the evidence on how private-sector R&D affects economic growth. “The core of the empirical literature on R&D comprises studies that estimate the private return to R&D by using data at the firm or industry level. . . . They seem to form the basis for the consensus that the elasticity of R&D is positive and significant. . . with a central tendency between 0.10 and 0.20. . . . [T]he available empirical evidence supports the idea that spillovers exist at the macroeconomic level and that they probably cross national boundaries.” June 2005. Available at (<http://www.cbo.gov>).

Finance & Development devotes most of its March 2005 issue to a series of articles “What’s Holding up Doha?” In “Doha Can Achieve Much More than Skeptics Believe,” William R. Cline writes: “If all global trade barriers were eliminated, approximately 500 million people could be lifted out of poverty over 15 years. Developing countries would gain approximately \$200 billion annually in income and at least half of this amount would stem from the removal of protection against their export products in industrial countries. The current Doha Round of multi-lateral trade negotiations in the World Trade Organization (WTO) provides the best single chance for the international community to achieve these gains.” But on the political side, Aaditya Mattoo and Arvind Subramanian explain: “Why Prospects for Trade Talks are Not Bright.” “But a meaningful conclusion to the Doha Round will not be easy to achieve. Aggressive interests in trade liberalization are fewer now than in the past and industrial countries’ defensiveness is greater. . . . We highlight these concerns to warn that there will be overwhelming pressure to again create the illusion of a successful negotiation with a delusory development dimension.” Other articles examine in more detail how Doha might improve development prospects. Available at (<http://www.imf.org/external/pubs/ft/fandd/fda.htm>).

Jeffrey A. Miron explores “The Budgetary Implications of Marijuana Prohibition.” “This report concludes that marijuana legalization would reduce government expenditure by \$7.7 billion annually. Marijuana legalization would also generate tax revenue of \$2.4 billion annually if marijuana were taxed like all other goods and \$6.2 billion annually if marijuana were taxed at rates comparable to those on alcohol and tobacco.” June 2005. Available at (<http://www.prohibitioncosts.org/mironreport.html>).

Mary Shirley tackles the question “Can Aid Reform Institutions?” “Foreign aid has financed a great many successful projects that have assisted many poor people, and it has fostered important reforms in some damaging rules. But aid has not led

to development and it has not changed fundamental institutions. Aid sponsored improvements in rules and regulations can be undermined by disequilibria in more fundamental institutions. By providing funds and credibility, foreign assistance has probably prolonged the life of some corrupt and incompetent governments and reduced the pressures for reforms. . . . Beneficial change is often idiosyncratic and contrary to best practice and received wisdom of donors.” Ronald Coase Institute Working Papers, April 2005, Number 6, available at (<http://www.coase.org/workingpapers/wp-6.pdf>).

In “Inequality of What Among Whom? Rival Conceptions of Distribution in the 20th Century,” Robert S. Goldfarb and Thomas C. Leonard explore a shift in how economists think about distributional issues. “For nearly 150 years, Anglophone economics followed David Ricardo and conceived of distribution as referring to the functional role in economic production. Moreover, functional roles were identified with membership in one of the three great socioeconomic classes of early 19th-century Britain—workers, landlords and capitalists. . . . Beginning only in the 1960s, and consolidated by a research outpouring in the 1970s, does the Anglophone profession turn to distribution across persons (and families and households). . . . By the late 1970s, mainstream economics is no longer comparing the income of labor with that of capital; it is comparing a poor family’s (or a minority family’s) income with the income of more fortunate families.” *Research in the History of Economic Thought and Methodology*, 2005, 23-A, 75–118.

New Journals

The OECD has started a new annual publication, *Economic Policy Reforms: Going for Growth*. “The report pinpoints structural policy priorities to enhance GDP per capita for all member countries, and ways to improve labour productivity and utilisation are identified on the basis of cross-country comparisons of policy settings.” The first issue suggests five structural priorities for each OECD country. For the United States, the proposed policies are: “Limit increases in labor costs by reforming Medicare to restrain health care costs”; “Encourage private saving by shifting the burden of taxation toward consumption”; “Improve primary and secondary education achievements to raise efficiency of the workforce”; “Reduce producer support to agriculture, especially the most trade-distorting type”; and “Stand firm on promoting transparency and accountability in corporate governance.” The first issue also includes chapters with cross-country comparisons on product market regulation, female labor force participation and tax-favored savings plans.

The Society for Economic Research on Copyright Issues has started a new journal, *Review of Economic Research on Copyright Issues*. In one early issue, Paul A. David discusses “The End of Copyright History?” “The activities of ‘printing,’ ‘publishing’ and ‘reading’ have escaped their former confinements within the expansive ‘Gutenberg galaxy’ described by Marshall McLuhan, and we are now fully

embarked upon voyages in the Digital Domain of Cyberspace. . . . That is to say, we are approaching the effective demise of a statutory copyright regime that formerly had achieved a salutary balance between providing ‘security of industrial property’ and protecting the functions of the public domain in data and information of all kinds. . . .” David suggests that the property-oriented approach of current copyright law may need to be replaced by a liability-oriented approach. December 2004, 1:2, 5–10. The June 2005 issue has an interesting symposium on “indirect appropriability,” an idea first advanced by Stan Liebowitz in a 1985 article, which is the idea that the ability to copy increases the value that is placed on originals, and thus under certain circumstances producers may be able to capture some of the value of copying in the price placed on the original. The discussion follows up some issues raised by Hal Varian’s article in the Spring 2005 issue of this journal.

Ageing Horizons, a new journal published by the Oxford Institute of Ageing, “is a review of current analysis and research on policy futures in an ageing society that provides.” The first issue focused on pension issues; the second on health care issues. For example, Alastair Gray discusses the evidence on “Population Aging and Health Care Expenditure.” “[T]he widely held belief that there is a mechanistic relationship between an ageing population and annual growth in the demand for health care and in national health spending is incorrect. . . . [T]ime to death is a substantially better predictor than age of health expenditure, and that when this is incorporated into projections of future health spending the predicted growth rates are typically lowered.” 2005, Issue 2, 15–20. Available at (<http://www.ageing.ox.ac.uk/ageinghorizons/index.htm>).

From the Federal Reserve Banks

Christian Broda and David Weinstein ask, “Are We Underestimating the Gains from Globalization for the United States?” From the subheading: “Over the last three decades, trade has more than tripled the variety of international goods available to U.S. consumers. Although an increased choice of goods clearly enhances consumer well-being, standard national measures of welfare and prices do not assign a value to variety growth. This analysis—the first to measure such gains—finds that the value to consumers of global variety growth in the 1972–2001 period was roughly \$260 billion.” *Current Issues in Economics and Finance: Federal Reserve Bank of New York*, April 2005, 11:4, 1–7.

The March/April 2005 issue of the *Review* of the Federal Reserve Bank of St. Louis is devoted to a group of articles offering “Reflections on Monetary Policy 25 Years After October 1979.” In “Origins of the Great Inflation,” Allan H. Meltzer argues: “The Great Inflation of 1965 to the mid-1980s was the central monetary event of the latter half of the 20th century. Its economic cost was large. It destroyed the Bretton Woods system of fixed exchange rates, bankrupted much of the thrift industry, heavily taxed the U.S. capital stock, and arbitrarily redistributed income and wealth. . . . This paper argues that the Great Inflation cannot be understood

fully without its political dimension. Political pressure to coordinate policy reinforced widespread beliefs that coordination of fiscal and monetary policy was desirable.” 145–175.

In “What D’Ya Know?” W. Michael Cox and Richard Alm discuss “Lifetime Learning in Pursuit of the American Dream.” “For those with bachelor’s degrees, the added value of 40 years’ experience rose from 131 percent in 1974 to 216 percent in 2003. After five years or more of college, the premium for 40 years’ work rose to 350 percent, up from 185 percent a generation ago. . . . A generation ago, earnings were highest for those aged 35–44. . . . In an economy growing more knowledge-intensive, workers continue to earn more as they grow older. Today, earnings are highest for those aged 55–64. . . . More Americans need to develop a habit of learning every day. . . . Many of us aren’t doing that. The typical American aged 25 to 34 spends two hours, 20 minutes a day watching TV but just 17 minutes on educational activities. The learning effort drops off sharply as we grow older.” *2004 Annual Report: Federal Reserve Bank of Dallas*, 5–23.

For those interested in how a modern version of Henry George’s pure land tax might work, Jeffrey P. Cohen and Cletus C. Coughlin present “An Introduction to Two-Rate Taxation of Land and Buildings.” From the abstract: “When taxing real property at the local level in the United States, land and improvements to the land, such as buildings, are generally taxed at the same rate. Two-rate (or split-rate) taxation departs from this practice by taxing land at a higher rate than structures. . . . In theory, moving to a two-rate tax reduces the deadweight losses associated with distortionary taxation and generates additional economic activity. The paper also provides a history of two-rate taxation in the United States and a summary of studies attempting to quantify its economic effects. Discussions of the practical and political challenges of implementing two-rate taxation complete the paper.” *Review: Federal Reserve Bank of Saint Louis*, May/June 2005, 359–374.

Interviews

Sergiu Hart offers “An Interview with Robert Aumann,” which was carried out over three days in 2004 and goes into considerable depth, starting with Aumann’s Ph.D. in algebraic topology and his dissertation on knot theory, and offering a mini-history of game theory since the 1960s. Aumann on revelation of information: “[I]n the long run you cannot use information without revealing it; you can use information only to the extent that you are willing to reveal it. A player with private information must choose between not making use of that information—and then he doesn’t have to reveal it—or making use of it, and then taking the consequences of the other side finding it out.” On science and religion: “Science is built to satisfy certain needs in our minds. It describes *us*. It does have a relationship to the real world, but this relationship is very, very complex. . . . Belief is an important part of religion, certainly; but in science we have certain ways of thinking about the world, and in religion we have certain ways of thinking about the world. Those two things

coexist side by side without conflict.” On behavioral economics: “I have grave doubts about what is called *behavioral* economics, but isn’t really behavioral. . . . [M]ost of behavioral economics deals with artificial laboratory set-ups, at best. At worst, it deals with poll questionnaires. . . . Now, *true* behavioral economics does exist; it is called empirical economics. . . . In empirical economics, you go and see how people behave in real life, in situations to which they are used. Things they do every day.” On the future of game theory: “People are pushing in different directions; we are going to find a spreading of the discipline among different people. Some people will go in strongly mathematical directions, very deep mathematics. We’ll see a lot of experimental and engineering application of game theory. People in game theory will understand each other less in the future. . . . It is not something that I would like, but it’s a sign of maturity.” The interview is forthcoming in *Macroeconomic Dynamics*. It is also available as a discussion paper at the Hebrew University of Jerusalem website at (<http://www.ma.huji.ac.il/~hart/abs/aumann.html>).

Douglas Clement offers a lengthy and insightful “Interview with James J. Heckman.” Among Heckman’s comments: “Markets do many useful things, but they did not solve the problem of race. Not in America. That’s probably heresy to admit it as a Chicago economist, but I became convinced that a doctrinaire notion that markets would solve the problem of discrimination is false. Civil rights legislation and civil rights activity played huge roles in eliminating overt segregation in the United States. On the other hand, I also believe that affirmative action in the post-civil rights era has played very little role in elevating the status of blacks.” “Some of what economists do is to explain to fellow economists what most intelligent people already know. A lot of what economists do is explain to themselves what the rest of the world already knows. There’s a real risk of being caught up in that.” “In economics there’s a trend now to come up with cute papers in an effort to be cited as many times as possible. All the incentives point that way, especially for young professors who seem risk-averse rather than risk-taking after they get tenure. In some quarters of our profession, the level of discussion has sunk to the level of a *New Yorker* article: coffee-table articles about ‘cute’ topics, papers using ‘clever’ instruments. The authors of these papers are usually unclear about the economic questions they address, the data used to support their conclusions and the econometrics used to justify their estimates. This is a sad development that I hope is a passing fad. Most of this work is without substance, but it makes a short-lived splash and it’s easy to do. Many young economists are going for the cute and the clever at the expense of working on hard and important foundational problems.” *The Region: Federal Reserve Bank of Minneapolis*, June 2005, 19–29.

William Lewis, director emeritus of the McKinsey Global Institute, is interviewed by Nick Schulz about the in-depth sectoral and microeconomic studies carried out by McKinsey comparing determinants of productivity in 13 countries. Lewis on Japan: “[T]he traded part of an economy is always a tiny fraction of the total GDP. A rule of thumb is that it’s roughly at most 15 percent of the GDP. So what that says is that the standard of living is determined because the productivity

of the country is determined by what happens outside these traded goods.” Lewis on worker skills and development: “[B]ack in the early 1990’s when the Japanese were wiping out the US consumer electronics industry and threatening the steel and automobile industries. . . . [t]here were many disparaging comments made in the US and maybe even stronger abroad, (and especially in Japan) about how the US labor force was getting what it deserved because it was lazy, uneducated and maybe even dumb. And of course, the Japanese then showed—the really capable, competent Japanese manufacturing companies—showed that was wrong by coming here, building their own factories, managing American labor and taking a lot of other local inputs and coming within five percent of reproducing their home country productivity. . . . The great bulk of the evidence about education came from competent multinational corporations of any nationality. Showing they could go virtually anywhere in the world and take the local workforce and train it to come close to home country productivity. . . . Just because people are not educated does not mean that they are incapable, which is a mistake educated people in the West often make—and not just the West but probably in Japan as well. These people can be trained on the job to accomplish quite high skill levels and quite high levels of productivity. And that’s basically good news because if the World Bank and everybody else had to wait until we revamp the educational institutions of all the poor countries and then put a cohort or two of workers through it, we are talking about another 50 years before anything happens. That’s not acceptable and it’s not necessary, thank God.” “How Powerful is Productivity?” Posted June 17, 2005, at <http://www.techcentralstation.com/061705A.html>).

Discussion Starters

Milton Friedman discusses what has happened in the 50 years since he proposed education vouchers. “Little did I know when I published an article in 1955 on ‘The Role of Government in Education’ that it would lead to my becoming an activist for a major reform in the organization of schooling. . . . Throughout this long period, we have been repeatedly frustrated by the gulf between the clear and present need, the burning desire of parents to have more control over the schooling of their children, on the one hand, and the adamant and effective opposition of trade union leaders and educational administrators to any change that would in any way reduce their control of the education system.” *Wall Street Journal*, June 8, 2005, op-ed page. Available at <http://www.opinionjournal.com/editorial/feature.html?id=110006796>).

“Are Teachers Underpaid? Two economists tackle an intractable controversy” is a “square-off” on the website of the National Council on Teacher Quality. As the introduction describes their debate, Michael Podgursky argues “that when one took into account teachers’ shorter work year and workday, their average hourly pay was greater than that of comparable professionals.” In response, Laurence Mishel and Sean Corcoran argue that “teachers do have more non-wage compensation than

other professionals, but that the difference in benefits makes little difference in comparisons of total compensation.” Posted June 29, 2005, at <http://www.nctq.org/nctq/publications/debate.jsp>.

W. Wayt Gibbs offers a contrarian view in “Obesity: An Overblown Epidemic?” “Could it be that excess fat is not, by itself, a serious health risk for the vast majority of people who are overweight or obese—categories that in the U.S. include about six of every 10 adults? Is it possible that urging the overweight or mildly obese to cut calories and lose weight may actually do more harm than good?” He discusses “the widely accepted evidence that genetic differences account for 50 to 80 percent of the variation in fatness within a population,” and explores possible weaknesses in studies that purport to link obesity and health. *Scientific American*, June 2005. Available at <http://www.sciam.com/article.cfm?articleID=000E5065-2345-128A-9E1583414B7F0000&chanID=sa008?>.

In “Consumer Vertigo,” Virginia Postrel argues: “A new wave of social critics claim that freedom’s just another word for way too much to choose. Here’s why they’re wrong.” “When customers enter Ralph’s supermarket near UCLA, they see a sign announcing how many fruits and vegetables the produce department has on hand: ‘724 produce varieties available today,’ it says, including 93 organic selections . . . Amazon gives every town a bookstore with 2 million titles, while Netflix promises 35,000 different movies on DVD. Choice is everywhere, liberating to some but to others a new source of stress.” Postrel discusses Barry Schwartz’s recent book, *The Paradox of Choice*, among others. Reasononline, June 2005. Available at <http://www.reason.com.0506/cr.vp.consumer.shtml>.

In “Monkey Business,” Stephen J. Dubner and Steven D. Levitt report on research conducted by Keith Chen at Yale on how capuchin monkeys would use money—that is, metal coins that could be exchanged for food. They write: “When taught to use money, a group of capuchin monkeys responded quite rationally to simple incentives; responded irrationally to risky gambles; failed to save; stole when they could; used money for food and, on occasion, sex. In other words, they behaved a good bit like the creature that most of Chen’s more traditional colleagues study: *Homo sapiens*.” *New York Times Magazine*, June 5, 2005.

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