

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

The Joint Center for Housing Studies of Harvard University has published its annual report, “The State of the Nation’s Housing 2006.” From the Executive Summary: “The housing boom came under increasing pressure in 2005. With interest rates rising, builders in many states responded to slower sales and larger inventories by scaling back on production. Meanwhile, the surge in energy costs hit household budgets just as higher interest rates started to crimp the spending of homeowners with adjustable mortgages. Nevertheless, the housing sector continues

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

to benefit from solid job and household growth, recovering rental markets, and strong home price appreciation. As long as these positive forces remain in place, the current slowdown should be moderate.” Different chapters cover housing markets, demographic factors, homeownership, rental housing, and “challenges.” At <http://www.jchs.harvard.edu/publications/markets/son2006>).

The World Bank’s *Global Development Finance* 2006 report leads off this way: “2005 was a landmark year in global development finance, in both the official and private spheres. International private capital flows to developing countries reached a record net level of \$491 billion. . . . Meanwhile, financial integration among developing countries continued to deepen. Capital flows between developing countries (so-called South–South flows) are now growing more rapidly than North–South flows . . .” Sometimes the easiest way to find a World Bank report is to enter the title into a search engine. For the record, the web link for this report is <http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/EXTGDF/EXTGDF2006/0,,contentMDK:20925051~menuPK:2344934~pagePK:64167689~piPK:64167673~theSitePK:2344908,00.html>).

The 76th *Annual Report* of the Bank for International Settlement offers an overview of global economic and financial developments, and how central bankers have responded. From the introduction: “[T]he pattern of spending in some of the fastest-growing countries continued to be highly unusual. In the United States and a number of other countries, private consumption has been strikingly high, as has private residential investment. Both have been buoyed by easy credit conditions, rising house prices and a well developed financial capacity to extract housing equity. The associated effect has been a continuing very low rate of household saving (indeed, sharply negative in some countries) and a further increase in household debt. In contrast, in China it is the level of fixed investment that has been strikingly high. Here, too, easy credit conditions have played a prime role, as has political influence over loans for projects that might not meet normal credit risk criteria. Foreign direct investment has also been a significant factor, with much of the output intended for foreign markets. To oversimplify, the upshot of these unusual patterns is that the English-speaking countries have become the global pole accounting for increases in the consumption of tradables, while Asia, with China at the centre, has become the global pole of their increased production.” “Another notable development was the continued spectacular growth in markets for the transfer of credit risk, in particular various forms of structured debt obligations backed by a widening range of risky assets, including commercial property.” June 26, 2006. At <http://www.bis.org/publ/arpdf/ar2006e.htm>).

Abhijit Banerjee discusses “Making Aid Work: How to Fight Global Poverty—Effectively.” “The culture of aid-giving evolved from the idea that giving is good and the more money the better . . . and therefore—here comes the logical leap—one need not think too hard about how the money is spent. We have now learned that this kind of lazy giving does not work.” “Primary education, and particularly the question of how to get more children to attend primary school, provides a fine test

case because a number of the standard strategies have been subject to randomized evaluations. The cheapest strategy for getting children to spend more time in school, by some distance, turns out to be giving them deworming medicine so that they are sick less often. The cost, by this method, of getting one more child to attend primary school for a year is \$3.25. The most expensive strategy among those that are frequently recommended (for example by the World Bank, which also recommends deworming) is a conditional cash-transfer program, such as Progresa in Mexico, where the mother gets extra welfare payments if her children go to school. This costs about \$6,000 per additional child per year, mainly because most of the mothers who benefit from it would have sent their children to school even if there were no such incentive. This is a difference of more than 1,800 times. One might object that this difference is somewhat exaggerated, since welfare payments would be good things even if they did not promote education. A more straightforward strategy would be to provide school uniforms in a place such as rural Kenya, where uniforms are required but expensive relative to what people earn. This costs about \$100 per additional child per year, which is still a good 30 times the cost of deworming but one 60th the cost of conditional cash transfers. School meals are another option: they cost \$35 per additional child per year, around a third of the cost of uniforms but more than ten times the cost of deworming. Given the magnitude of the differences, choosing the wrong option can be very costly indeed.” Comments follow from Angus Deaton, Alice Amsden, Jagdish Bhagwati, and others, followed by a rejoinder from Banerjee. *Boston Review*, July/August 2006. See <http://bostonreview.net/ndf.html#Aid>).

Ilya Somin examines “Knowledge about Ignorance: New Directions in the Study of Political Information.” From the abstract: “For decades, scholars have recognized that most citizens have little or no political knowledge, and that it is in fact rational for the average voter to make little effort to acquire political information. This article shows that rational ignorance is fully compatible with the so-called ‘paradox of voting’ because it will often be rational for citizens to vote, but irrational for them to become well-informed. . . . [This situation] has fundamental implications for a variety of issues in public policy and international affairs, including the desirable size and scope of government, the need for judicial review, the division of power within a federal system, and the conduct of the War on Terror.” *Critical Review*, vol. 18, nos. 1–2, 2006. Available at <http://ssrn.com/abstract=916963>).

Presidential Addresses

Roger L. Ransom delivered the Presidential Address of the Economic History Association: “War and Cliometrics: Adventures in Economic History.” “In this essay I will address this theme by briefly examining the ways in which cliometricians have viewed one particular conflict—The American Civil War—over the past four de-

cares.” As Ransom sketches the case for looking at a counterfactual history of the Civil War, he offers:

Roger’s Recipe for Counterfactual History Pudding

Ingredients:

2 parts *historical plausibility*

1 part *common sense*

1 part *imagination*

Mix ingredients until they are blended into a smooth even texture. If the texture seems uneven or coarse, try a little more common sense. If the pudding seems gray and boring, add more imagination.

Carefully pour ingredients into a mold shaped in the form of a well-defined *historical setting*.

Allow to set until pudding has firmly jelled. Be careful not to remove pudding from historical setting.

Serve with a large dose of skepticism, and remember that there is no proof in this pudding!

Bon Appetit!

Journal of Economic History, June 2006, 66: 2, pp. 271–82.

Charles M. A. Clark delivered the Presidential Address of the Association for Evolutionary Economics: “Christian Morals and the Competitive System Revisited.” “In his essay ‘Christian Morals and the Competitive System,’ Thorstein Veblen noted that ‘Western Civilization was both Christian and competitive (pecuniary)’ and that each was based on a contradictory code of ethics. . . . While I think Veblen is correct in pointing out that such a conflict exists, I would suggest that much of Veblen’s analysis misses the mark. . . . The Christian view of wealth is based on the idea of abundance rather than scarcity. It starts with the view that goods and services are necessary to promote human flourishing but that they are intermediate goods, not final goods. This approach emphasizes being over having. . . . The main weakness of Smith’s system of ethics is that he assumed that economic actors would enter the market place socialized by Christian ethics, yet the market generates a contrary system of ethics.” *Journal of Economic Issues*, June 2006, XL: 2, pp. 261–75.

From the Federal Reserve

Nancy L. Stokey discusses the Copenhagen Consensus project in “Giving Aid Effectively.” This project discussed how to spend \$50 billion most effectively. After a series of background papers and discussions, a panel of experts consisting of Jagdish N. Bhagwati, Robert W. Fogel, Bruno S. Frey, Justin Yifu Lin, Douglass C. North, Thomas Schelling, Vernon L. Smith, and Stokey ranked their priorities from a list of “about 30 serious proposals.” Stokey discusses the process and the policies, and shows how each member of the group ranked the leading policies. For the group as a whole, the “Very Good” policies were “Control of HIV/AIDS,” “Provide

micronutrients,” “Trade liberalization,” and “Control of malaria.” The “Poor” policies were “Guest worker programs for the unskilled,” “Optimal carbon tax,” “Kyoto Protocol,” and “Value-at-risk carbon tax.” *The Region: Federal Reserve Bank of Minneapolis, Annual Report 2005*. At (<http://minneapolisfed.org/pubs/region/06-05/essay.cfm>).

C. Alan Garner asks: “Should the Decline in the Personal Saving Rate Be a Cause for Concern?” “[P]ersonal saving declined from about 10 percent of disposable income in the early 1980s to 1.8 percent in 2005. The decline has received particular attention recently because saving was negative in 2005 for the first time since the Great Depression. . . . Two major factors suggest that the decline in the personal saving rate may not be as alarming as it is sometimes made out to be. First, various measurement problems with the personal saving rate suggest household saving may not have declined as much as the statistics suggest. Second, economic theory assumes that households rationally anticipate future labor income and asset returns and plan their spending accordingly. If this assumption is correct, the low personal saving rate may not foreshadow wrenching future adjustments in consumer spending.” *Economic Review: Federal Reserve Bank of Kansas City, Second Quarter 2006*, pp. 5–28. At (<http://www.kc.frb.org/publicat/econrev/PDF/2Q06garn.pdf>).

John A. Weinberg provides a useful overview of trends and policy issues involved in “Borrowing by U.S. Households.” “[C]ultural historian Lendol Calder has noted the seemingly contradictory value judgments that run through American cultural attitudes about borrowing. ‘Credit’ is seen as a good thing, in that it allows the household financial flexibility in meeting its consumption needs. On the other hand, ‘debt’ is typically viewed as bad, because it represents a lack of self-discipline and holds the household hostage to its past choices. And so we have what appears to be a paradox. The ability to borrow is both liberating and constraining—a path to both rising wealth and the poorhouse.” *2005 Annual Report: Federal Reserve Bank of Richmond*. At (http://www.richmondfed.org/publications/economic_research/annual_report/2005/essay.cfm).

About Economists

Douglas Clement offers a wide-ranging “Interview with John B. Taylor.” On the Taylor rule and inflation targeting: “The Taylor rule, of course, had an inflation target in it. And that goes back in my research from many years before. In order to formulate a good monetary policy, you had to stipulate what the goal of the central bank was in terms of inflation. So stipulating a number, that goes back long before the Taylor rule. . . . So I never thought of this as an alternative to having a target for the inflation rate.” On wage stickiness: “In the last three or four years, there’s been a great deal of effort devoted to getting good empirical information needed to test the staggered price setting models—scanner data from stores, details of a price survey that the Bureau of Labor Statistics does, et cetera. . . . But in comparison to

this expansion of empirical research on prices, there's really nothing comparable on wages, and I think, relatively speaking, that there's a research gap there, and that is why I suggested putting it on the front burner." On monetary policy and bubbles: "I don't think it's appropriate for monetary policy to try to burst bubbles or prick bubbles because we know too little about them. The history of Japan or our country in the Great Depression suggests problems when you try to do that. I think it is best to focus on how asset prices affect the real economy and inflation, and react to that, but not directly to the bubbles themselves." *The Region: Federal Reserve Bank of Minneapolis*, June 2006. At <http://minneapolisfed.org/pubs/region/06-06/taylor.cfm>).

Nina Mehta interviews Jack Treynor, in "The FEN One-on-One Interview." From the introduction: "Jack Treynor is one of the river gods of finance. . . . Treynor developed a version of what became the Capital Asset Pricing Model in 1962, before the 1964 publication of William Sharpe's paper laying out what became the CAPM. Treynor never published his paper." In the interview, Treynor tells the story of that paper and others, and how his version of the CAPM compares with the versions of William Sharpe and John Lintner. At one point Treynor comments: "There are several economists I admire tremendously, but the relation between economics and finance is peculiar. In my view economics today is where physics was in the fifteenth century. Before Francis Bacon, before the Royal Society, the main obstacle to progress in physics was academic—it was the teachers who had a big investment in the way they had been taught to think about the subject and couldn't let go." *Financial Engineering News*, May/June 2006, Issue No. 49. At http://www.fenews.com/fen49/one_on_one/one_on_one.html).

Aaron Steelman presents an "Interview" with Raymond Sauer with a focus on the economics of sports. Question: "What do you think of revenue sharing as a way to increase parity in professional sports leagues? Sauer: Theoretically, it doesn't work. Revenue sharing decreases the monetary incentive to acquire talent in equal proportion for both big market teams and small market teams. And it works this way in practice also. . . . And as it stands, the NFL faces some very serious problems. Parity is not a goal worth pursuing at the expense of drama, excellence, and great competition." Question: "People often complain that tickets to sporting events have become too expensive. But for many games, at current prices, demand greatly outstrips supply. Why don't franchises and leagues respond to such demand by upping the price of tickets instead of having them sold on the secondary market at prices well above their face value? Sauer: Well, the tickets are more expensive now—a lot more expensive—because demand is so high. Part of what is going on is that quality seats have become luxury goods. So great tickets are very expensive, but baseball clubs can't give away upper deck tickets. The Oakland A's just decided to cover them up with a fancy tarp. So there is a tricky pricing problem here —how variable should prices be across seats and games, particularly when there is well-established demand for season tickets? . . . On this point, I don't think economic reasoning has gotten us very far . . ." The interview may be especially interesting as a follow-up to the paper by Jahn K. Hakes and Sauer on the *Moneyball* hypothesis in the Summer 2006

issue of this journal. *Region Focus: Federal Reserve Bank of Richmond*, Spring 2006, pp. 36–41. At http://www.richmondfed.com/publications/economic_research/region_focus/spring_2006/pdf/interview.pdf).

The *American Journal of Economics and Sociology* devotes its January 2006 issue to “Talcott Parsons: Economic Sociologist of the 20th Century.” From the Introduction by Laurence S. Moss and Andrew Savchenko: “Parsons worked his entire life to reconcile the insights of modern economics with modern sociology and to explore how an authentic economic sociology could be developed. . . . Had Parsons lived another thirty years, he might be pleased that this subfield now exists. He most assuredly would have been saddened that by the fact that his contributions to the field are overlooked and sometimes completely ignored.” The journal publishes a transcript from March 1973 of “A Seminar with Talcott Parsons at Brown University, ‘My Life and Work’ (in two parts).” The issue then includes a number of contemporary comments focused on modern developments in economic sociology.

SmartEconomist.com is posting a series of discussions in which readers can question economists. For example, June and July 2006 saw exchanges with Richard Freeman on immigration flows and scientific education; Philip Lane on integration of international financial markets; Bronwyn Hall on open-source and intellectual property rights in the creation of knowledge; and Paul Oyer on the value of a business education and firm personnel policies. At <http://www.smarteconomist.com/interviews>).

The Newsletter of the Committee on the Status of Women in the Economics Profession offers a steady stream of interviews and career tips. For example, the Spring/Summer 2006 issue contains a “Symposium on Research Careers Outside of Academia,” with contributions from Julie DaVanzo (Rand Corporation), Susan Houseman (Upjohn Institute), Loretta Mester (Federal Reserve Bank of Philadelphia), and Anne Polivka (Bureau of Labor Statistics). Academics also get their turn: the same issue also offers a biography of Donna Ginther and a Q&A with Claudia Goldin. The newsletters are available at <http://www.cswep.org/newsletters.htm>).

Discussion Starters

Roger Lowenstein describes “The Immigration Equation,” which offers an overview of the dispute between George Borjas and David Card. “To Borjas . . . the truth is pretty obvious: immigrants hurt the economic prospects of the Americans they compete with.” David Card “has said repeatedly that, from an economic standpoint, immigration is no big deal and that a lot of the opposition to it is most likely social or cultural.” Lowenstein writes: “The disconnect between Borjas’s results and Card’s hints that there is an alchemy that occurs when immigrants land ashore; the economy’s potential for absorbing and also adapting is mysterious but powerful. Like any form of economic change, immigration causes distress and disruption to some. But America has always thrived on dynamic transformations that produce winners as well as losers. Such transformations stimulate growth.

Other societies (like those in Europe) have opted for more controls, on immigration and on labor markets generally. They have more stability and more equality, but less growth and fewer jobs. Economists have highlighted these issues, but they cannot decide them. Their resolution depends on a question that Card posed but that the public has not yet come to terms with: ‘What is it that immigration policy is supposed to achieve?’” *New York Times Magazine*, July 9, 2006. At <http://www.nytimes.com/2006/07/09/magazine/09IMM.html?pagewanted=11&ei=5088&en=45962e550ceea8df&ex=1310097600&partner=rssnyt&emc=rss>.

Jason Furman suggests changing the tax break for employer-provided health insurance in “Our Unhealthy Tax Code.” “Yet the federal government is, in fact, deeply involved in perpetuating the current ‘private’ health care system and all its flaws, spending approximately \$200 billion annually in subsidizing employer-provided insurance. It is the single biggest subsidy in our tax system, more than twice as costly as the mortgage interest deduction. The only government programs that cost more are Social Security, national defense, and Medicare. . . . This massive program of tax breaks is ineffective and regressive, wasting money on those who have health insurance while doing little for those who can barely afford it and nothing at all for those without it. . . . If we turned our irrational health tax subsidies right-side up—by curbing subsidies for higher-income workers and those with more generous health insurance plans—we could raise tens of billions of dollars annually, money that could go toward increasing access to health insurance. Taking it a step further, we could scrap the current deduction altogether and replace it with progressive tax credits that, together with other changes, would ensure that every American has affordable health insurance.” *Democracy*, Summer 2006, Issue no. 1. At <http://www.democracyjournal.org/article.php?ID=6466>.

In “The Perfect Mark: How a Massachusetts Psychotherapist Fell for a Nigerian E-mail Scam,” Mitchell Zuckoff recounts the story that unfolds when John W. Worley responds to an e-mail from “Captain Joseph Mbote,” who just needs a partner to help transfer \$55 million from South Africa to an overseas bank account. After many painful twists and turns, Worley ends up being sentenced to two years in prison and owing \$600,000 in restitution. *The New Yorker*, May 15, 2006. At http://www.newyorker.com/fact/content/articles/060515fa_fact.

The *Economist* discusses “The invisible hand on the keyboard,” or “Why do economists spend valuable time blogging?” “The faster flow of information and the waning importance of location—which blogs exemplify—have made it easier for economists from any university to have access to the best brains in their field. . . . Blogs have enabled economists to turn their microphones into megaphones.” August 3, 2006. For those interested in spending their valuable time reading economics blogs, a useful starting point is the Economics Roundtable website run by William Park, which provides continually updated links to the comments of about 80 economics weblogs at <http://www.rtable.net/index/rt/economics/recent>.

■ *Thanks to Larry Willmore and Arun Khanna for suggestions, and to Jesse Dylan Keith for his help in checking citations and quotations.*