

## 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.

### Potpourri

The 2007 *State of the World Population* report from the United Nations Population Fund focuses on “Unleashing the Potential of Urban Growth.” “In 2008, the world reaches an invisible but momentous milestone: For the first time in history, more than half its human population, 3.3 billion people, will be living in urban areas. . . . This will be particularly notable in Africa and Asia where the urban population will double between 2000 and 2030: That is, the accumulated urban growth of these two regions during the whole span of history will be duplicated in a single generation. By 2030, the towns and cities of the developing world will make up 80 per cent of urban humanity. . . . The current concentration of poverty, slum growth and social disruption in cities does paint a threatening picture: Yet no country in the industrial age has ever achieved significant economic growth without urbanization. Cities concentrate poverty, but they also represent the best hope of escaping it. Cities also embody the environmental damage done by modern civili-

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

zation; yet experts and policymakers increasingly recognize the potential value of cities to long-term sustainability. If cities create environmental problems, they also contain the solutions. The potential benefits of urbanization far outweigh the disadvantages: The challenge is in learning how to exploit its possibilities. At [http://www.unfpa.org/swp/2007/presskit/pdf/sowp2007\\_eng.pdf](http://www.unfpa.org/swp/2007/presskit/pdf/sowp2007_eng.pdf).

Rebecca Ray and John Schmitt discuss the “No-Vacation Nation.” “The United States is the only advanced economy in the world that does not guarantee its workers paid vacation. European countries establish legal rights to at least 20 days of paid vacation per year, with legal requirement of 25 and even 30 or more days in some countries. Australia and New Zealand both require employers to grant at least 20 vacation days per year; Canada and Japan mandate at least 10 paid days off. The gap between paid time off in the United States and the rest of the world is even larger if we include legally mandated paid holidays, where the United States offers none, but most of the rest of the world’s rich countries offer between five and 13 paid holidays per year. In the absence of government standards, almost one in four Americans have no paid vacation and no paid holidays.” Center for Economic and Policy Research, May 2007. At [http://www.cepr.net/documents/publications/NoVacationNation\\_asofSeptember07.pdf](http://www.cepr.net/documents/publications/NoVacationNation_asofSeptember07.pdf).

Glenn C. Loury asks, “Why are So Many Americans in Prison?” in an article subtitled, “Race and the Transformation of Criminal Justice.” “According to a 2005 report of the International Centre for Prison Studies in London, the United States—with five percent of the world’s population—houses 25 percent of the world’s inmates. Our incarceration rate (714 per 100,000 residents) is almost 40 percent greater than those of our nearest competitors (the Bahamas, Belarus, and Russia). Other industrial democracies, even those with significant crime problems of their own, are much less punitive: our incarceration rate is 6.2 times that of Canada, 7.8 times that of France, and 12.3 times that of Japan. We have a corrections sector that employs more Americans than the combined work forces of General Motors, Ford, and Wal-Mart, the three largest corporate employers in the country, and we are spending some \$200 billion annually on law enforcement and corrections at all levels of government, a fourfold increase (in constant dollars) over the past quarter century. . . . How did it come to this? . . . A more convincing argument is that imprisonment rates have continued to rise while crime rates have fallen because *we have become progressively more punitive*: not because crime has continued to explode (it hasn’t), not because we made a smart policy choice, but because we have made a collective decision to increase the rate of punishment.” *Boston Review*, July/August 2007. At [http://bostonreview.net/BR32.4/article\\_loury.php](http://bostonreview.net/BR32.4/article_loury.php).

The Cato Unbound website offers a lively exchange on the topic “Who Needs Government? Pirates, Collapsed States, and the Possibility of Anarchy.” Peter T. Leeson presents the lead essay: “Anarchy Unbound, or: Why Self-Governance Works Better than You Think.” “Ironically, the case for anarchy derives its strength from empirical evidence, not theory. Most of the world, for most of its history, has existed without effective governments. As noted economic historian Joel Mokyr

points out, ‘In England,’ for example, ‘there was not even a professional police force to protect private property’ until the 19th century. . . . In large parts of the developing world governments are too weak or dysfunctional to perform even the most basic tasks, like securing the property rights of their citizens. According to the 2007 Failed States Index, governments in 129 countries are on or nearing the brink of collapse. Somalia has no central government at all. . . . Empirical evidence, past and present, sheds light on how individuals under anarchy develop private institutional solutions to address the problems that statelessness presents. . . . One of the most striking examples of this comes from 17th and 18th-century pirates. . . . Since they were outlaws, pirates did not enjoy state protection. Government did not enforce employment agreements between pirates or other piratical “contracts,” nor did it prevent or punish theft between pirates, etc. . . . Even by modern standards the institutions pirates devised for this purpose were remarkably sophisticated. Pirates created one of the earliest forms of written constitutions they called their ‘articles[’], which codified many of the rules that governed their ships, as well as punishments for rule breakers. These included rules specifying the division of booty, ‘laws’ against theft, and even workman’s compensation insurance to support crew members injured in battle.” Comments and conversation follow, including a critique from Dani Rodrik: “I agree with many of the stepping stones in Leeson’s argument, but his bottom line—that a regime of state-less self-organization can generate the institutional underpinnings of economic prosperity—represents a huge leap of faith. It is supported neither by theory, nor by any systematic empirical evidence that I am aware of.” August 2007. At <http://www.cato-unbound.org/archives/august-2007>).

Peter B. Kenen discusses “Reform of the International Monetary Fund.” “Although IMF bailouts involve modest costs to taxpayers, and although their availability creates some moral hazard, the importance of the IMF to the interests of the United States can be gauged by imagining a world without the Fund. What could the United States do on its own if a country of particular importance, such as Pakistan or South Africa, ran into serious trouble—a sudden cessation of capital inflows, a sharp depreciation of its home currency, and risk of default on its external debt? Any disruption of international financial markets, regardless of its cause or origin, could have serious adverse effects on the originating, emerging-market country as well as other countries. . . . Could the United States, acting unilaterally, provide such countries with the funding they would need to ride out a crisis? Could it impose unilaterally the sorts of policy conditions that the IMF imposes when a country seeks its help? . . . Although the legitimacy of the IMF has been impaired by the inadequate representation of the developing countries, and the Fund has made some serious mistakes, it is nevertheless obliged to require its members to undertake unpopular reforms when they seek its help. The United States would pay a high political price if it took on that role, even if it limited its intervention to a handful of key countries. Much of the world is angry with the United States. It would be imprudent for it to foster more hostility by acting unilaterally to rescue crisis countries. The Fund can more readily afford to insist on

unpopular policy changes . . .” Council on Foreign Relations, Council Special Report No. 29, May 2007. Available at ([http://www.cfr.org/publication/by\\_type/special\\_report.html](http://www.cfr.org/publication/by_type/special_report.html)).

Michael S. Barr proposes “An Inclusive, Progressive National Savings and Financial Services Policy.” “Nearly 22% of low-income American families—over 8.4 million families earning under \$25,000 per year—are ‘unbanked’: they do not have either a checking or savings account. Many additional families have bank accounts, but must rely on high-cost non-bank providers to conduct much of their financial business. . . . [T]he unbanked and the underbanked often rely on the more costly alternative financial sector (AFS). AFS providers offer a wide range of services, including short-term loans, check cashing, bill payment, tax preparation, and rent-to-own products, most often in low-income urban neighborhoods. . . . The critical issue, in my judgment, is the financial services mismatch: bank products are not structured to provide access to lower-income households.” *Harvard Law & Policy Review*, 2007, 1(1): 161–184. At (<http://www.hlpronline.com/Vol1No1/barr.pdf>).

Robert K. Fleck and F. Andrew Hanssen ask: “Do Profits Promote Pollution? The Myth of the Environmental Race to the Bottom.” “[W]e will explain why economists find the idea of an environmental race to the bottom so implausible (even with respect to badly polluted countries like China). We will then show that at the root of most environmental problems, one finds not a race, but rather a government that is able to ignore the wishes of its people. Our goal is to convince readers that anyone concerned about the environment should focus not on combating apocryphal races (which are simply not happening), but rather on pushing governments to take the interests of their citizens into account when enacting environmental (and other) policies.” PERC Policy Series PS-41, August 2007. At (<http://www.perc.org/pdf/ps41.pdf>).

The Advisory Committee on Student Financial Assistance, which produces reports for the U.S. Department of Education, has published “Turn the Page: Making College Textbooks More Affordable.” “Annual per student expenditures on textbooks can easily approach \$700 to \$1,000 today.” “Nearly all the components of college expenses outpaced the CPI from 1987 to 2004 for both two-year and four-year public colleges. . . . Textbook expenses rose far more rapidly than the prices of other commodities nationwide: 107% at two-year public colleges and 109% at four-year public colleges, compared to 65% for the CPI.” “Even after accounting for total grant aid, textbooks and other learning materials appear to be unaffordable for students from low- and moderate-income families at both two- and four-year public colleges.” “Students today see the traditional textbook for many undergraduate courses as a disposable resource, not a long-term reference book, in part because frequent edition updates can render it obsolete quickly, and the digital era has changed attitudes toward the nature of printed material.” May 2007. At (<http://www.ed.gov/about/bdscomm/list/acsfa/turnthepage.pdf>).

Axel Bertuch-Samuels and Parmeshwar Ramlogan describe “The Euro: Ever More Global.” “The euro’s advance as an international currency has not been even.

From a functional perspective, it has made the most progress in international financial transactions—particularly as a currency in which international debt securities are denominated—and the least progress in international trade transactions. From a geographical perspective, the euro’s role as an international currency is still confined largely to countries that have regional and political ties to the euro area, including European Union (EU) members that have not adopted the euro, EU accession countries, and the CFA franc zone in Africa. Some may argue that the euro’s limited geographical role means it is still not in the same class as the dollar.” *Finance and Development*, March 2007, 44(1): 46–9. At <http://www.imf.org/external/pubs/ft/fandd/2007/03/bertuch.htm>.

The Congressional Budget Office offers invaluable background and context for yet another high-profile issue in “Trends in Public Spending on Transportation and Water Infrastructure, 1956 to 2004.” “From 1956 through the mid-1970s, real federal spending on infrastructure grew much more rapidly than did state and local spending; on average, federal spending grew at an annual rate of 7 percent, versus about 1 percent for state and local spending. In 1977, federal spending reached its peak share of 38 percent of total spending. From the late 1970s through the mid-1980s, real state and local spending grew at a faster annual rate than did federal spending, which, on average, declined slightly. Between 1987 and 2004, spending by the federal government rose 1.7 percent annually, while yearly spending by state and local governments grew by 2.1 percent.” August 2007. At <http://www.cbo.gov/ftpdocs/85xx/doc8517/08-08-Infrastructure.pdf>.

Frank A. Wolak suggests “An Ethanol Policy that Benefits All Americans.” In a carbon-constrained world, ethanol should assume a larger role in America’s energy portfolio. . . . The best available technologies for the production of ethanol in the United States and Brazil clearly argue for Brazil producing ethanol and exporting it to the United States. There should be little, if any, corn-based ethanol production in this country. This outcome can easily be implemented by eliminating the subsidy for domestic ethanol production and the tariff on imports of Brazilian ethanol.” Stanford Institute for Economic Policy Research, SIEPR Policy Brief, June 2007. At [http://siepr.stanford.edu/Papers/briefs/policybrief\\_jun07.pdf](http://siepr.stanford.edu/Papers/briefs/policybrief_jun07.pdf).

## From the Federal Reserve

Jeffrey M. Lacker and John A. Weinberg present an accessible overview of recent thinking on “Inflation and Unemployment: A Layperson’s Guide to the Phillips Curve.” “The history of the Phillips curve shows that the empirical relationship shifts over time, and there is evidence that those movements are linked to the public’s inflation expectations. . . . If the price-setting business thinks that inflation will be high in the interim between its price adjustments, then it will expect its relative price to fall. As average prices continue to rise, a good with a temporarily fixed price gets cheaper. The firm will naturally be interested in its average relative price during the period that its price remains fixed. The higher the

inflation expected by the firm up until its next price adjustment, the higher the current price it will set. This reasoning, applied to all the economy's sellers of goods and services, leads directly to a close relationship between current inflation and expected future inflation. . . . The expectational nature of the Phillips curve also means that policies that have a short-run effect on inflation will induce real movements in output or unemployment mainly if the short-run movement in inflation is not expected to persist. In this sense, the modern Phillips curve also embodies the importance of monetary policy credibility, since it is credibility that would allow expected inflation to remain stable, even as inflation fluctuated in the near term." The Federal Reserve Bank of Richmond's *2006 Annual Report*, pp. 4–26. At [http://www.richmondfed.org/publications/economic\\_research/annual\\_report/2006/pdf/ar.pdf](http://www.richmondfed.org/publications/economic_research/annual_report/2006/pdf/ar.pdf).

Stavros Peristianis focuses on "Evaluating the Relative Strength of U.S. Capital Markets." "Much of the recent debate on the competitive strength of the U.S. financial sector has focused on the primary and secondary equity markets . . . Indeed, a recent plunge in the number of foreign firms listing initial public offerings (IPOs) on the NYSE and the NASDAQ suggests that the U.S. equity market is becoming less attractive to certain issuers. Our analysis, however, reveals that evidence on the competitiveness of the U.S. equity market is mixed, and that the same trends seen in the U.S. market are also shaping equity markets abroad. Overall, the NYSE and the NASDAQ continue to be the world's most actively traded markets. However, the U.S. corporate bond market—a key funding source for U.S. and foreign corporations—faces increasing challenges from abroad. The U.S. bond market has lost a large share to the Eurobond market, including a noticeable portion of U.S. debt issuers." The Federal Reserve Bank of New York's *Current Issues in Economics and Finance*, July 2007, vol. 13, no. 6. At [http://www.ny.frb.org/research/current\\_issues/ci13-6.pdf](http://www.ny.frb.org/research/current_issues/ci13-6.pdf).

W. Michael Cox and Richard Alm discuss "Women at Work: A Progress Report." "Women have improved their labor market performance by every measure—participation, education, job distribution, entrepreneurship and management. These changes have allowed women to gain ground on men, although they still lag by most measures." The Federal Reserve Bank of Dallas's *Economic Letter*, May 2007, vol 2, no. 5. At <http://www.dallasfed.org/research/ecllett/2007/el0705.pdf>.

## About Economists

Arthur J. Rolnick offers a thoughtful "Interview with Christopher Sims." On inflation targeting: "An inflation targeting regime only makes sense when the monetary authority really has control over the price level. And if there's a bad fiscal environment, the monetary authority may not have such control. In that case announcing inflation targets may make things worse because if you're announcing inflation targets you can't hit, that simply undermines credibility. That's the kind of

limitation I've emphasized." On vector autoregressions: "I think that the biggest contribution of structural VARs is that they're the foundation of the way people think about monetary policy now as being based on interest rate adjustments and with the mapping from interest rate adjustments to effects on prices being slow and smooth, delayed for a year or so before they have their peak effects, and with a somewhat quicker but less long-lasting effect on real output." The Federal Reserve Bank of Minneapolis's *The Region*, June 2007, pp. 12–21. At <http://www.minneapolisfed.org/pubs/region/07-06/sims.cfm>.

Aaron Steelman conducts an "Interview" with W. Kip Viscusi. On incentives for job safety: "There are three major sources of financial incentives for job safety. By far the most important is the market. Workers on dangerous jobs generally perceive that they are dangerous. This drives up their wages and gives the company an incentive to make the workplace safer. If you look at it empirically, this dwarfs everything else that is going on. The number two player is workers' compensation. The premiums for workers' compensation are now in the \$30 billion a year range. Particularly if you are a large enterprise, your workers' compensation bill goes up if you have a bad accident record. We found that in the absence of workers' compensation, worker fatality rates would go up by one-third. So that's a very large effect. Then, third, we get to the Occupational Safety & Health Administration (OSHA), which issues health and safety regulation for the Department of Labor. You are looking at zero effect in the early years of the agency, and maybe something like a 1 percent to 2 percent total effect on safety in recent years. It's very small." On comparing the value of the lives of the elderly: "I have looked more closely at how the value of a statistical life varies with age. It turns out that it doesn't really drop off the table as you get older. In fact, workers at age 60 have a higher value per statistical life than workers at age 20 because they are richer and can do more things that they enjoy. To take one example, I buy cars with all these additional safety features while my son drives around in a topless Jeep Wrangler. Why would this make sense if his value per statistical life was higher than mine?" Federal Reserve Bank of Richmond's *Region Focus*, Spring 2007, pp. 40–45. At [http://www.richmondfed.org/publications/economic\\_research/region\\_focus/spring\\_2007/pdf/interview.pdf](http://www.richmondfed.org/publications/economic_research/region_focus/spring_2007/pdf/interview.pdf).

"In Time of Tumult, Obscure Economist Gains Currency," writes Justin Lahart, in an article subtitled, "Mr. Minsky Long Argued Markets Were Crisis Prone; His 'Moment' Has Arrived." "[T]he Minsky moment has become a fashionable catch phrase on Wall Street. It refers to the time when over-indebted investors are forced to sell even their solid investments to make good on their loans, sparking sharp declines in financial markets and demand for cash that can force central bankers to lend a hand. Mr. Minsky, who died in 1996 at the age of 77, was a tall man with unruly hair who wore unpressed suits. He approached the world as 'one big research tank,' says Diana Minsky, his daughter, an art history professor at Bard. 'Economics was an integrated part of his life. It wasn't isolated. There wasn't a sense that work was something he did at the office.' She recalls how, on a trip to a village in Italy to meet friends, Mr. Minsky ended up interviewing workers at a glove maker to understand how

small-scale capitalism worked in the local economy.” *Wall Street Journal*, August 18, 2007, Page A1. At <http://online.wsj.com/article/SB118736585456901047.html>.

Hal Varian has become chief economist at Google, although he also remains on the faculty at the University of California at Berkeley. In an interview, Varian talks about his new job. “Everything you hear about Google is true: it’s a very exciting place to work. So after studying the tribes of Silicon Valley for several years, I’ve finally gone native.” “I think marketing is the new finance. In the 1960s and 1970s [we] got interesting data, and a lot of analytic fire power focused on that data; Bob Merton and Fischer Black, the whole team of people that developed modern finance. So we saw huge gains in understanding performance in the finance industry. I think marketing is in the same place: now we’re getting a lot of really good data, we have tools, we have methods, we have smart people working on it. So my view is the quants are going to move from Wall Street to Madison Avenue.” *Wall Street Journal On-Line*, July 19, 2007. At <http://blogs.wsj.com/economics/2007/07/19/economics-according-to-google>.

■ *Thanks to Larry Willmore and David Calvin Gogerty for suggestions, and to Katherine Lim for research assistance.*