

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, either via e-mail at (taylor@macalester.edu), or c/o *Journal of Economic Perspectives*, Macalester College, 1600 Grand Ave., Saint Paul, Minnesota, 55105.

Smorgasbord

The Fall 2005 Carnegie-Rochester Conference Series on Public Policy took as its theme “International Trade and Globalization.” N. Gregory Mankiw and Phillip Swagel discuss “The Politics and Economics of Offshore Outsourcing.” They write: “Economists understand that international trade is not, fundamentally, about job creation. An open economy can just as easily be fully employed as an autarkic one, and by realizing the gain from specialization and trade, it will have higher real wages and living standards. Moreover, exports and imports go hand in hand, so when a nation blocks imports, real exchange rates will adjust so it exports less as well. These are subtle lessons, however, and not easily explained in a short sound bite. When discussing trade policy with the general public, economists must be sensitive to the mythical tradeoff between trade and job creation.” Other papers examine issues including China’s net foreign asset position (David Dollar and Aart Kraay), India’s development path (Kalpana Kochhar, Utsav Kumar, Raghuram

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Rajan, Arvind Subramanian and Ioannis Tokatlidis), and the implications of the U.S. current account deficit for future U.S. output (Charles Engel and John H. Rogers). Available at <http://www.carnegie-rochester.rochester.edu/crNovember05.htm>.

The 2006 World Development Report is subtitled “Equity and Development.” It focuses on equality of opportunity, particularly ensuring widespread access to education, health care, jobs, capital and secure land rights. “By equity we mean that individuals should have equal opportunities to pursue a life of their choosing and be spared from extreme deprivation in outcomes. The main message is that equity is complementary, in some fundamental respects, to the pursuit of long-term prosperity.” The report can be downloaded by going to the <http://www.worldbank.org>, clicking on “Data and Research,” and then clicking on the link on “World Development Reports” under the list of Key Products.

James M. Buchanan suggests “Three Amendments: Responsibility, Generality, and Natural Liberty.” “A central message of public choice theory tells us that if politics generates undesirable results, it is better to examine the rules than to argue about different policies or to elect different representatives. Well and good. But those of us who have peddled this message have been too reluctant to get down and dirty with proposals for constitutional change. Hence, I felt challenged by the editor’s invitation to propose three specific amendments.” He proposes a balanced budget amendment; an amendment that government could not “take any discriminatory methods of coercion,” thus ruling out “all programs that target persons who qualify in accordance with identification by ethnicity, location, occupation, industry, or activity;” and an amendment that “persons possess the natural liberty to enter into and exit from agreements, without concern for collectively imposed constraints.” *Cato Unbound*, December 5, 2005. At <http://www.cato-unbound.org/2005/12/05/james-m-buchanan/three-amendments>.

The Social Science Research Council has organized a “web forum” on “The Privatization of Risk.” In her article “Rewriting the Rules: Families, Money and Risk,” Elizabeth Warren (posted October 21, 2005) argues: “Today’s families have budgeted to the limits of their new two-paycheck status. As a result, they have lost the parachute they once had in times of financial setback—a back-up earner who could go into the workforce if the primary earner (usually Dad) got laid off or was sick. . . . When there was one stay-at-home parent, a child’s serious illness or Grandma’s fall down the stairs was certainly bad news, but the main economic ramifications were the medical bills. Now, with both parents in the workforce, someone has to take off work—or hire help—in order to provide family care. . . . A generation ago, divorce was an economic blow, but a non-working spouse usually took a job, bringing in new income to stay afloat. When today’s two-income family divorces, there is no one to take on a new job and produce new income to cover the rent and buy the groceries.” The forum also includes articles by Graciela Chichilnisky, Jacob Hacker, Leslie McCall and others. At <http://privatizationofrisk.ssrc.org>.

The *Economist* continues its tradition of producing lucid surveys which appear in the middle of the issue, and that combine telling anecdotes with a well-informed

economic perspective. The October 22, 2005, issue offers: “A Market for Ideas: A Survey of Patents and Technology.” Kenneth Cukier writes: “In recent years intellectual property has received a lot more attention because ideas and innovations have become the most important resource, replacing land, energy and raw materials. As much as three-quarters of the value of publicly traded companies in America comes from intangible assets, up from around 40% in the early 1980s. ‘The economic product of the United States,’ says Alan Greenspan, the chairman of America’s Federal Reserve, has become ‘predominantly conceptual.’”

The November 5, 2005, issue of the *Economist* includes “The Hidden Wealth of the Poor: A Survey of Microfinance.” Tom Easton writes: “Microfinance offers all the transactions you would expect in any branch of finance: loans, deposits, money transfers, insurance. It is distinct only because it involves amounts of money so small that in the past conventional firms did not think them worthwhile. That is clearly changing. Many microfinance institutions report better returns on equity than do large banks. Five years ago, providing financial services to people with little money might have been dismissed as a tiny niche business or charity. Now all the participants in the capital markets, from big banks to investors to rating agencies, are beginning to open up to it.”

Tax Reform

The President’s Advisory Panel on Federal Tax Reform, which included Edward Lazear and James Poterba among its members, released its recommendations in “Simple, Fair, and Pro-Growth: Proposals to Fix America’s Tax System.” “Our tax code is rewritten so often that it should be drafted in pencil. Each year, the tax code is adjusted to meet multiple policy goals—some are broadly shared, but many are not Whether the government spends more or extends a special tax break, the effect is the same: everyone else must pay higher taxes to raise the revenue necessary to run the government.” The panel proposed two detailed plans for tax reform. November 2005. At (<http://www.taxreformpanel.gov>).

Leonard G. Burman and William G. Gale offer “A Preliminary Evaluation of the Tax Reform Panel’s Report.” “The report contains a number of interesting and informative proposals that would generally move the structure of the tax system in the right direction, with simpler rules, a broader base, generally lower effective marginal tax rates, and more consistent treatment of different types of income. . . . Despite the complete absence of revenue tables in the report, it is apparent that the proposals not only dramatically cut tax revenues compared with current law, but also significantly reduce long-term revenue, even relative to the low-revenue baseline employed.” *Tax Notes*, December 5, 2005, 1349–68. Available through the Tax Policy Center at (http://www.taxpolicycenter.org/UploadedPDF/1000854_Tax_Break_12-05-05.pdf), which also provides a wide selection of commentary on tax policy.

The U.S. Government Accountability Office reports on “Government Performance and Accountability: Tax Expenditures Represent a Substantial Federal

Commitment and Need to be Reexamined.” “Between 1974 and 2004, tax expenditures doubled in number from 67 to 146. . . . [T]he sum of revenue loss estimates associated with tax expenditures, adjusted for inflation, tripled from approximately \$240 billion to nearly \$730 billion over the period. . . . Since 1981 when outlay-equivalent estimates were first available, the sum of the outlay-equivalent estimates for tax expenditures has been similar in magnitude to discretionary spending, and this sum exceeded total discretionary spending for most years during the last decade.” September 2005. GAO-05-690. At <http://www.gao.gov/new.items/d05690.pdf>).

The Congressional Budget Office continues to provide useful discussions of key tax issues. In “Taxing Capital Income: Effective Rates and Approaches to Reform,” the CBO writes: “Effective tax rates on capital income under the base case are highly uneven. For instance, whereas the effective tax rate on debt-financed corporate investment is -6.4 percent, it is 36.1 percent on equity-financed corporate investment. Using typical mixes of debt and equity financing, the effective tax rate on corporate investment is 5.7 percentage points higher than that on noncorporate investment, and the rate on tenant-occupied housing is 23.3 percentage points higher than that on owner-occupied housing. Effective tax rates also differ significantly across different asset types.” October 2005. At <http://www.cbo.gov/ftpdocs/67xx/doc6792/10-18-Tax.pdf>).

In the CBO Paper “Corporate Income Tax Rates: International Comparisons,” some highlights of the analysis include: “The domestic distortions that the corporate income tax induces are large compared with the revenues that the tax generates.” “Differences among countries in their corporate income tax structures distort incentives for locating investments and create additional opportunities for tax planning.” “Although the United States statutory corporate tax rates are among the highest of those in OECD countries, they are comparable with the statutory rates imposed by other members of the Group of Seven.” November 2005. At <http://www.cbo.gov/ftpdocs/69xx/doc6902/11-28-CorporateTax.pdf>).

The Tax History Project includes a virtual museum of American tax history, including copies of the tax returns filed by various American presidents and a variety of readable articles about episodes in tax history. For example, M. Susan Murnane discusses “Andrew Mellon’s Unsuccessful Attempt to Repeal Estate Taxes” (posted August 22, 2005) and Ajay K. Mehrotra examines “Edwin R.A. Seligman and the Beginnings of the U.S. Income Tax” (posted October 31, 2005). The website is run by Tax Analysts, “a nonprofit, nonpartisan organization fostering informed debate on federal, state, and international tax policy.” At <http://www.taxhistory.org>).

From the Federal Reserve

Ronald Wirtz asks: “Is College Unaffordable?” “But an argument gaining traction is that students—particularly those of modest means—can no longer

afford college. Much of the debate agonizes over rising tuition—the supposed offspring of cash-strapped universities, penny-pinching state legislatures and stagnant Pell grants—and secondary effects of increased student loans and rapidly rising student debt. It makes for a good story. But these purported problems are not having quite the effect feared by many. Enrollments have been climbing (not receding), higher education revenue has exploded (not imploded) and student debt remains manageable for most. And the clincher: Research shows that even given its higher cost, college is still well worth the investment.” Federal Reserve Bank of Minneapolis, *The Region*, December 2005, pp. 14+. Available at <http://minneapolisfed.org/pubs/region/05-12/education.cfm>).

Joseph G. Haubrich and James B. Thomson discuss “Umbrella Supervision and the Role of the Central Bank.” From the abstract: “Deregulation and financial consolidation have led to the development of financial holding companies—allowing commercial banking, insurance, investment banking, and other financial activities to be conducted under the same corporate umbrella—and the Federal Reserve has been named supervisor of the consolidated enterprise. This Policy Discussion Paper will show that there likely are economies of scope between the Fed’s inherent central-banking responsibilities and those of an umbrella supervisor and that these dual roles benefit both the Fed and functional regulators.” Federal Reserve Bank of Cleveland Policy Discussion Paper No. 11, December 2005. At <http://www.clevelandfed.org/Research/PolicyDis/index05.cfm>).

Sparking and Illuminating Policy Disputes

Ian W.H. Parry asks: “Should Fuel Economy Standard Be Raised?” “Higher fuel-economy standards may fail a benefit–cost test, unless consumers greatly undervalue fuel economy, which is an open question. We are left with either rationalizing standards in other ways, for example on political rather than economic grounds, or considering alternative policy options.” Resources, Fall 2005, pp. 15–19. Available at http://www.rff.org/rff/Publications/Resource_Articles.cfm).

In a related perspective, Parry discusses “The Uneasy Case for Higher Gasoline Taxes.” He concludes: “Concern about oil dependence, global warming, and traffic congestion have made the automobile a prime target for taxes that deter use. At the same time, though, technological change is undermining the rationale for taxes on fuel. Electronic metering makes it practical to charge by the mile according to where and when the vehicles are in use. And such finely tuned pricing policies offer the hope of doing something important: reversing the trend toward urban gridlock. Perhaps it is time, then, to abandon the rancorous (and seemingly futile) debate over fuel taxes—or, for that matter, fuel economy standards—and to focus on the fresher idea of taxing vehicle use directly.” *Milken Institute Review*, Fourth Quarter 2005, pp. 36–45. At <http://www.milkeninstitute.org>).

Advocates of the living-wage movement now count 134 victories in jurisdictions across the United States, reports Jon Gertner in the *New York Times Magazine*. “Santa

Fe has been one of the movements crowning achievements. This month the city's minimum wage rose to \$9.50 an hour, the highest rate in the United States. But other recent victories include San Francisco in 2003 and Nevada in 2004. . . . Indeed, while it is tempting to see the wage disputed in Santa Fe and elsewhere as a reflection of whether one side is right or wrong, on either economic or moral grounds, they are, more confusingly, small battles in a larger war (and, in America, a very old war) over where to draw the line on free-market capitalism." The article also discusses the evolution in how economists have discussed minimum wages in the last decade or so. "What is a Living Wage?" January 15, 2006.

Adrian T. Moore and Ted Balaker ask: "Do Economists Reach a Conclusion on Taxicab Deregulation?" "Taxis are an important element of mobility in the transportation network of any city. Nationwide, taxis carry at least 40 percent more passengers than all other forms of mass transit combined. Some transportation analysts consider taxis in metro areas to be a largely untapped transit resource. . . . Taxi markets are typically heavily regulated. Most cities control entry into the market and set prices, as well as set requirements for drivers, vehicles, finances, and operations. . . . Two out of three articles on taxi-market policy by economists find taxi deregulation beneficial. . . . That some articles judge deregulation negatively arises in part from deregulation not having gone far enough." *Econ Journal Watch*, January 2006, 3:1, pp. 109–32. At (<http://www.econjournalwatch.org>).

About Economists

Nick Schulz interviews Robert Fogel in "The Great Escape," which touches on themes from Fogel's recent book *The Escape from Hunger and Premature Death: 1700–2100*. Fogel says: "We complain a lot about air pollution today, but there were 200,000 horses in New York City, at the beginning of the 20th century defecating everywhere. And when you walked around in New York City, you were breathing pulverized horse manure—a much worse pollutant, than the exhausts of automobiles. Indeed in the United States, the automobile was considered the solution to the horse problem because pulverized horse manure carried a lot of deadly pathogens." "The average stature of adult males in Western Europe increased by close to a foot between 1864 and the present The current giants are the Dutch. Dutch males, on average, are over 6 feet. They used to be only about 5 foot 4 in the mid 19th century, so they've come quite a ways. And with that is an improvement in the strength of electrical signals across membranes—our lungs are stronger; our hearts are stronger; the central nervous system is more effective. So all these things were permitted by changes [in] technology, which improved nutrition." "I picked the right century to be born in, and my grandchildren have also picked the right century. It's not only the 20th, but the 21st will be American Centuries in terms of scientific heights that we scale and in terms of the success of our economies. But watch out for China." *Tech Central Station*, December 1, 2005. At (<http://www.tcsdaily.com/article.asp?id=113005C>).

Peter Bauer's contributions to economics are the focus of a symposium in the *Cato Journal* with papers by, among others, James Buchanan, Amartya Sen, Israel Kirzner and Nicholas Eberstadt, and a transcript of remarks by Milton Friedman and Thomas Sowell. Basil Yamey writes in "Peter Bauer: An Unusual Applied Economist:" "When Peter Bauer first began to work in what is now called development economics, development economics itself was not recognized as a separate branch of economics or a separate specialization. There was not even one journal with development economics in its title. . . . Peter was a meticulous critic of influential theories of the economic development of poor countries . . . in the 1950s and 1960s. A list includes the vicious circle of poverty, the detrimental international demonstration effect, the stages-of-growth theory of development, the theory of the unlimited supply of unskilled labor in poor countries, the big-bang theory of development, and the two-gap model. . . . It is not so long ago that Peter's writings were derided by prominent development economists as being the work of an economic illiterate—or worse. Today, Peter's views on the behavior of poor people in poor countries are widely regarded as being obvious and indisputable." Fall 2005, 25:3, at (<http://www.cato.org/pubs/journal/index.html>).

N. Emrah Aydinonat offers "An Interview with Thomas C. Schelling: Interpretation of game theory and the checkerboard model." Schelling says: "I use the following analogy: the greatest advance in business management is double-entry bookkeeping, and the greatest advance in mathematics is the equal sign, the algebraic concept. I think the greatest contribution of game theory has been the payoff matrix. The payoff matrix, even a payoff matrix that is infinitely large if the choices are ordered, gives so many ways to see the structure of a problem." "Therefore, a lot of this fascinating work about how if you wait a million years the norm may break down, strikes me as not nearly as interesting as the fact that the norm can arise in the first place." Schelling also says that when he started working with his checkerboard models of residential segregation, "I thought of hexagons, and decided squares were good enough." *Economics Bulletin*, 2005, 2:2, pp. 1–7. At (<http://www.economicsbulletin.com/2005/volume2/EB-05B20001A.pdf>).

The Royal Swedish Academy of Sciences provides a thoughtful overview with illustrative examples of "Robert Aumann's and Thomas Schelling's Contributions to Game Theory: Analyses of Conflict and Cooperation." "Approaching the subject from different angles—Aumann from mathematics and Schelling from economics—they both perceived that the game-theoretic perspective had the potential to reshape the analysis of human interaction. Perhaps most importantly, Schelling showed that many familiar social interactions could be viewed as non-cooperative games that involve both common and conflicting interests, and Aumann demonstrated that long-run social interaction could be comprehensively analyzed using formal non-cooperative game theory." October 10, 2005. At (<http://nobelprize.org/economics/laureates/2005/adv.html>).

Aaron Steelman presents an "Interview" with Robert Moffitt. On welfare reform: "So, in retrospect, it appears that many of these women did have sufficient skills to work and that welfare reform gave them the push to enter the labor market

and establish themselves. Again, however, it is always necessary to caution against too rosy a picture. The jobs held by former welfare recipients are not particularly good jobs, and most of the evidence shows that those jobs do not lead to much wage growth or advancement. Moreover, many former recipients have serious problems of other kinds. But, on average, welfare reform has been a success story.” On wage inequality: “My work, mostly with Peter Gottschalk at Boston College, began by addressing the perception of all analysts that the increase in wage inequality arose entirely from a change in what we may call permanent earnings, driven by such factors as increased demand for high-skilled labor. But when Gottschalk and I used the panel data and calculated changes in individual earnings over time in the 1970s and 1980s, we found that 50 percent of the increase in the cross-sectional variance was due instead to increases in the transitory component of earnings. In other words, earnings have become more volatile over time and this has been a major contribution to the cross-sectional increase in inequality, yet it has a very different interpretation than the usual one.” Federal Reserve Bank of Richmond, Fall 2005, 9:4, pp. 46–50. At http://www.richmondfed.org/publications/economic_research/region_focus/fall_2005/interview.cfm.

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