

## 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, preferably by e-mail at [taylor@macalester.edu](mailto:taylor@macalester.edu), or c/o Journal of Economic Perspectives, Macalester College, 1600 Grand Ave., Saint Paul, Minnesota, 55105.

### Potpourri

Bernard Hoekman, Will Martin, and Aaditya Mattoo argue: “Conclude Doha: It Matters!” “The Doha round is first and foremost about creating greater *security* of market access, through the negotiation of rules of the game (e.g., prohibition of discrimination against foreign services) and policy disciplines (e.g., outlawing agricultural export subsidies and placing tighter limits on the level of permitted tariffs and production subsidies). The main outcome of a multilateral trade negotiation is not and has never been dramatic liberalization of access to markets. On the contrary: the primary deliverable of GATT/WTO trade rounds is policy *bindings*: a set of enforceable (and thus credible) commitments by governments that they will not raise protection/support for domestic industries above levels that they have often reduced unilaterally, and will not apply certain policies that are detrimental to trading partners. . . . [S]ome two-thirds of tariff reductions between 1983 and

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2003 were the result of unilateral decisions—what the GATT did was mostly to lock in these autonomous trade reforms. . . . [E]ven if the focus is limited to reductions in applied levels of trade restrictions, taking into account likely exclusions for sensitive and special products, the associated trade expansion and real income gains are non-trivial—in the \$60 to \$160 billion range.” World Bank Policy Research Working Paper 5135, November 2009, ([http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2009/11/18/000158349\\_20091118112934/Rendered/PDF/WPS5135.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2009/11/18/000158349_20091118112934/Rendered/PDF/WPS5135.pdf)).

Ian W. H. Parry asks: “How Much Should Highway Fuels Be Taxed?” “The United States imposes, at the federal and state level, excise taxes of about 40 cents/gallon on gasoline and 45 cents/gallon on diesel for heavy trucks; the federal tax on these fuels is currently 18.4 and 24.4 cents/gallon, respectively. . . . U.S. tax rates are low by international standards—for example, in many European countries gasoline taxes exceed \$2/gallon . . . This paper pulls together prior analytical studies, updates parameter values, and provides some new findings. . . . In our baseline assessment, the corrective gasoline tax is \$1.23/gallon, with congestion and accidents together accounting for about three-quarters of this tax. This estimate might be viewed as a lower bound because we use conservative values for global warming and perhaps for oil dependence externalities, both of which are highly unsettled. . . . Conversely, pricing of congestion and other externalities through mileage tolls would dramatically lower the corrective gasoline tax, conceivably even below its current level, though such comprehensive tolling is likely a long way off.” Resources for the Future Discussion Paper 09-52, December 2009, (<http://www.rff.org/RFF/Documents/RFF-DP-09-52.pdf>).

The Summer 2009 issue of *Law and Contemporary Problems* is devoted to the theme “Show Me the Money: Making Markets in Forbidden Exchange.” From the introduction by Kimberly D. Krawiec: “In the United States (and in many other societies) today, . . . [i]t seems intrinsically wrong to us to offer our bodies, our children, or our organs for sale—to even seriously propose such trades marks the proposer as a destabilizer of the social order. Yet the contributors to this symposium contemplate exactly these kinds of trades, considering at length the consequences of making—and of restricting—markets in various types of traditionally forbidden or contested exchange, including human blood, organs, eggs, sperm, reproductive services, and labor.” The entire issue is available at (<http://www.law.duke.edu/journals/lcp/>). The issue offers interesting perspectives on the kinds of issues raised by Alvin E. Roth in the Summer 2007 issue of this journal, “Repugnance as a Constraint on Markets.”

Edmund S. Phelps explores “Refounding Capitalism.” “One has to conclude that ‘generation of wealth’ is not special to capitalism. Corporatist economies are quite good at that. . . . A merit of a well-functioning capitalism (again: I do not mean free-market policy: low tax rates, etc.) is the economic freedoms it offers entrepreneurs, managers, employees and consumers—freedoms that socialist, corporatist and statist systems do not provide. . . . Ordinary people, if they are to find intellectual growth and an engaging life, have to look outside the home: these

things can be found only at work, if anywhere. And for these rewards to be available for large numbers of people, the economy must be modern. And as a practical matter, that requires that it be based predominantly on a well-functioning capitalist system. Thanks to the grassroots, bottom-up processes of innovation, capitalism at its best can deliver—far more broadly than Soviet communism, eastern European socialism, and western European corporatism can—chances for the mental stimulation, problem-solving, exploration and discovery required for a life of engagement and personal growth.” *Capitalism and Society*, 2009, vol. 4, issue 3, Berkeley Electronic Press.

## A Range of Reports

In a Pew Research Center Study, Paul Taylor, Richard Fry, D’Vera Cohn, Wendy Wang, Gabriel Velasco, and Daniel Dockterman discuss “Women, Men and the New Economics of Marriage.” From the Executive Summary: “A larger share of men in 2007, compared with their 1970 counterparts, are married to women whose education and income exceed their own . . . In the past, when relatively few wives worked, marriage enhanced the economic status of women more than that of men. In recent decades, however, the economic gains associated with marriage have been greater for men than for women. . . . In 2007, median household incomes of three groups—married men, married women and unmarried women—were about 60% higher than those of their counterparts in 1970. But for a fourth group, unmarried men, the rise in real median household income was smaller—just 16%. . . . Marriage rates have declined for all adults since 1970 and gone down most sharply for the least educated men and women. As a result, those with more education are far more likely than those with less education to be married, a gap that has widened since 1970. Because higher education tends to lead to higher earnings, these compositional changes have bolstered the economic gains from being married for both men and women. . . . Forty years ago, the typical man did not gain another breadwinner in his household when he married. Today, he does—giving his household increased earning power that most unmarried men do not enjoy.” Pew Research Center, January 19, 2010, (<http://pewsocialtrends.org/assets/pdf/new-economics-of-marriage.pdf>).

The Administration for Children and Families within the U.S. Department of Health and Human Services has published a “Head Start Impact Study Final Report.” From the Executive Summary: “The Head Start Impact Study was conducted with a nationally representative sample of 84 grantee/delegate agencies and included nearly 5,000 newly entering, eligible 3- and 4-year-old children who were randomly assigned to either: (1) a Head Start group that had access to Head Start program services or (2) a control group that did not have access to Head Start, but could enroll in other early childhood programs or non-Head Start services selected by their parents. Data collection began in fall 2002 and continued through 2006, following children from program application through the spring

of their 1<sup>st</sup> grade year. . . . In sum, this report finds that providing access to Head Start has benefits for both 3-year-olds and 4-year-olds in the cognitive, health, and parenting domains, and for 3-year-olds in the social-emotional domain. However, the benefits of access to Head Start at age four are largely absent by 1<sup>st</sup> grade for the program population as a whole.” January 2010, ([http://www.acf.hhs.gov/programs/opro/hs/impact\\_study/reports/impact\\_study/executive\\_summary\\_final.pdf](http://www.acf.hhs.gov/programs/opro/hs/impact_study/reports/impact_study/executive_summary_final.pdf)).

The Knight Commission on Intercollegiate Athletics offers “College Sports 101: A Primer on Money, Athletics, and Higher Education in the 21<sup>st</sup> Century.” “In fact, the vast majority of athletics programs reap far less money from external sources than they need to function. Virtually all universities subsidize athletics departments through general fund allocations, student fees, and state appropriations, and the NCAA estimates in a given year that only 20 to 30 athletics programs actually generate enough external revenue to cover operating expenses. Institutional subsidies to athletics can exceed \$11 million, according to data provided by the NCAA. With costs in athletics rising faster than in other areas of university operations, it is not clear how many institutions can continue to underwrite athletics at their current level . . . Rigorous studies of the subject, however, suggest that there is no significant institutional benefit to athletic success. . . . Indeed, donations to athletics departments may cannibalize contributions to academic programs. . . . There are two other myths to be dispelled. First, there is no correlation between spending more on athletics and winning more . . . Second, increased spending on coaches’ salaries has no significant relationship to success or increased revenue . . .” October 2009, at (<http://collegesports101.knightcommission.org>).

*The Global Economic Impact of Private Equity Report 2010* is volume 3 of a series concerning “Globalization of Alternative Investments.” In Part 2, James Brander, Thomas Helman, and Qianqian Du discuss “Governments as Venture Capitalists: Striking the Right Balance.” “Our main objective in this paper is to assess the record of government support for venture capital. We focus on three channels for such support. One channel is the direct provision of venture capital through government-owned venture capital funds. A second channel is investment in independently managed venture capital funds that also rely on private investors. A third channel is to provide subsidies or tax concessions to venture capitalists. These three types of government-supported venture capitalists (GVCs) are referred to as full GVCs, partial GVCs and indirect GVCs, respectively. We analyse over 28,800 enterprises (based in 126 different countries) that received venture capital funding in the 2000–2008 period. . . . Our principal finding is the striking result that the strongest performance is associated with moderate levels of GVC. Enterprises with moderate GVC support perform better on most dimensions than enterprises with no GVC support (that is, those that are supported exclusively by private venture capital) and they perform better than enterprises with extensive GVC support. One interpretation is that public venture capital support has legitimate contributions to make but that it seems to perform better when it is ‘disciplined’ by the presence of private venture capitalists.” World Economic Forum, December 2009. ([http://www.weforum.org/pdf/FinancialInstitutions/PrivateEquity\\_VolIII\\_WorkingPapers.pdf](http://www.weforum.org/pdf/FinancialInstitutions/PrivateEquity_VolIII_WorkingPapers.pdf)).

## About Economists

Conor Clarke interviewed Paul Samuelson in summer 2009, a few months before his death. Samuelson on Keynesianism: “I am a cafeteria Keynesian. You know what a cafeteria Catholic is? . . . I might go to mass every week, so I’m a good Catholic, but I don’t regulate my family size the way the Pope would like to.” On future financial crises: “I think it’s almost inevitable that, with a billion people in China wide awake for the first time, and a billion people in India, there’s going to be some kind of a terrible run against the dollar. And I doubt it can stay orderly, because all of our own hedge funds will be right in the vanguard of the operation. And it will be hard to imagine that that wouldn’t create a different kind of meltdown. Last thing. Mea culpa, mea culpa. MIT and Wharton and University of Chicago created the financial engineering instruments, which, like Samson and Delilah, blinded every CEO—they didn’t realize the kind of leverage they were doing and they didn’t understand when they were really creating a real profit or a fictitious one. There’s a lot of causality in economics, even though it’s very far from an exact science.” On the risk of inflation: “I think it would be surprising if, down the road—not in the long long run but in the somewhat short run—we don’t have some return of inflation. On the other hand, I’m of the view that if we come out of this with some kind of temporary stabilization at least, and the price level is let’s say 10–12% above what it was before we got into the meltdown, I think that’s a price I would be willing to pay!” The transcript is at the website of the *Atlantic Monthly*, posted December 13, 2009. ([http://business.theatlantic.com/2009/12/our\\_interview\\_with\\_paul\\_samuelson\\_1915\\_-\\_2009.php](http://business.theatlantic.com/2009/12/our_interview_with_paul_samuelson_1915_-_2009.php)).

Ron Feldman interviews Raghuram Rajan. Rajan on the fragility of banks: “Why finance yourself with demand deposits, when on your asset side you have these illiquid assets—term loans, complex positions? . . . Why the private banking sector has never chosen safe narrow banking (with finance companies issuing long-term liabilities and making illiquid loans) is really the puzzle of the ages. It’s interesting because the form of the bank seems relatively similar across countries and over time. It’s a form that has endured, perhaps longer than the corporation. . . . Part of the answer is . . . that when you have short-term liabilities, it puts much more discipline on bank management and therefore they have to commit to, in a sense, not do anything crazy with your money.” On government intervention and growth in developing countries: “Emerging markets in developing countries . . . want to grow like Korea and Japan. And it seems to me that in that accelerated growth path, there’s more management by the government than in the more organic growth path. . . . I think the difficulty for these countries is they have to perform an act which no other developed country has had to do, apart from Germany and Japan, which is to have the government manage the process up to a certain point and then back off totally and let the market forces take over. That switch, it seems to me, is extremely difficult. And it’s also a problem for the financial system because in that early phase, the government is doing a lot of directed lending—you’re telling the banks whom to support; you’re giving them subsidies to support the right guys. There’s a

lot of intervention in this process. And then suddenly, you tell the banks they are on their own and have to find profits through competitive lending. Few systems survive the shock.” *The Region*, Federal Reserve Bank of Minneapolis, December 2009, pp. 18–29. (<http://www.minneapolisfed.org/pubs/region/09-12/rajan.pdf>).

In the “Big Think Interview with John Taylor,” the questions are asked by various economist-bloggers. Taylor on whether the Fed should have cut interest rates faster in 2008: “I think the Fed cut interest rates during that period just about right. I think it was basically coming down, it could have been a little faster at that point, and of course, GDP did fall tremendously. But I think if they had kept the interest rates along the same path it would have been fine. . . . The problems I saw were not so much a monetary policy at that stage, but the really ad hoc chaotic interventions that occurred around the time of the rollout of the TARP, not clear kind of actions with respect to what happened to Lehman Brothers. So, a lot of surprises and ultimately a lot of panic. And I think that panic was induced as I’ve argued in other places by government actions.” Taylor on why he has opposed fiscal stimulus policies: “Because I don’t think we have ever had much evidence that they work. . . . The first stimulus was in early 2008, and that was largely in the form of one-time rebate checks sent to individuals. . . . Look at the numbers as I have done, you don’t see an impact. You see that big rebate just went into people’s pockets and didn’t touch on jump start consumption. In fact, consumption is going the other way at that point. And then you had this stimulus of 2009 to the extent that that was based on sending checks to people. You see exactly the same thing happening. One-time payments, temporary tax cuts don’t stimulate spending or consumption. And again, we knew that for years and years. That’s why policy in most of the 80’s and 90’s didn’t take those kinds of approaches.” Posted January 19, 2010, at (<http://bigthink.com/ideas/18274>).

Phil Davies and Joe Mahon investigate “The Meaning of Slutsky.” “A middle-aged professor working at a Moscow think tank, [Eugen] Slutsky was virtually unknown to economists in Europe and the United States when he published his landmark paper on cyclical phenomena in 1927. In a bold statistical experiment, Slutsky demonstrated that random numbers subjected to statistical calculations similar to those used to reveal trends in economic time-series formed wavelike patterns indistinguishable from business cycles. The implication was that a similar stochastic process—‘the summation of random causes,’ as Slutsky described it—might be at work in the actual economy, causing prosperity to ebb and flow without the agency of sunspots, meteorological patterns or other cyclical forces. ‘That was a hell of an idea,’ said Robert Lucas, a University of Chicago economist who pioneered modern business cycle theory, in an interview. ‘It was just a huge jump from what anyone had done.’ Today, Slutsky is more familiar among economists for his earlier work in consumer theory. Every economics undergraduate learns the Slutsky equation, which analyzes shifts in demand for goods by looking at two components, the income and substitution effects of price changes.” *The Region*, Federal Reserve Bank of Minneapolis, December 2009, pp. 12+, (<http://www.minneapolisfed.org/pubs/region/09-12/slutsky.pdf>).

Guy Sorman discusses the “Invasion of the European Economists.” “One-third of the faculty of Harvard University’s economics department hails from Europe. At the University of Chicago’s Booth School of Business, half of the finance department’s faculty is European. And these schools aren’t alone: European economists are overrepresented at all first-tier American universities and have had a huge influence on economic thinking, doing cutting-edge research in areas ranging from modeling financial markets to assessing risk. These academics—most of them young rising stars escaping the mediocrity and politicization of economics departments in their countries of origin—see top American schools as the best places to study and teach. . . . ‘We Europeans look at a global map,’ he [Christian Hellwig] says, ‘and we see new centers of excellence emerging in Europe, though not necessarily in our countries of origin.’ Toulouse is one such center . . . Bonn and Mannheim Universities in Germany, Bocconi in Milan, and Pompeu Fabra in Barcelona are other rising European centers in economic research, and the Paris School of Economics could soon follow.” *City Journal*, Winter 2010, ([http://www.city-journal.org/2010/20\\_1\\_european-economists.html](http://www.city-journal.org/2010/20_1_european-economists.html)).

## Discussion Starters

Laura Saunders explains how “Rich Cling to Life to Beat the Tax Man.” “Starting Jan. 1, the estate tax—which can erase nearly half of a wealthy person’s estate—goes away for a year. . . . ‘I have two clients on life support, and the families are struggling with whether to continue heroic measures for a few more days,’ says Joshua Rubenstein, a lawyer . . . The situation is causing at least one person to add the prospect of euthanasia to his estate-planning mix, according to Mr. Katzenstein of Proskauer Rose. An elderly, infirm client of his recently asked whether undergoing euthanasia next year in Holland, where it’s legal, might allow his estate to dodge the tax. His answer: Yes.” *Wall Street Journal*, December 30, 2009, at (<http://online.wsj.com/article/SB126213588339309657.html>). For a useful overview of “Federal Estate and Gift Taxes,” the Congressional Budget Office published an “issue brief” on the subject on December 18, 2009, available at ([http://www.cbo.gov/ftpdocs/108xx/doc10841/12-18-Estate\\_GiftTax\\_Brief.pdf](http://www.cbo.gov/ftpdocs/108xx/doc10841/12-18-Estate_GiftTax_Brief.pdf)).

John J. Horton surveys “The Condition of the Turking Class: Are Online Employers Fair and Honest?” Amazon Mechanical Turk is a “marketplace for work,” as explained at (<https://www.mturk.com/mturk/welcome>). Employers post “Human Intelligence Tasks,” which can be tasks like writing keywords that accompany photos or writing bogus product reviews, and workers anywhere in the world can sign up to do them. Horton used Mechanical Turk to survey 200 respondents, who were paid 12 cents apiece for responding to a survey. Of the respondents, 111 were Americans, 58 from India, and the others from other countries. When asked what percentage of employers in their home country treat workers honestly and fairly, the average answer was 64 percent; in comparison, when asked what percentage of Mechanical Turk Requestors treated them

fairly, the median answer was 69 percent. January 7, 2010, (<http://arxiv.org/pdf/1001.1172v1>).

John W. Miller reports, “EU Ends 16-Year Banana Trade Battle.” “The European Union ended one of the world’s longest-running trade battles Tuesday as it agreed to cut import tariffs on bananas from Latin America grown by U.S. corporations like Dole Food Co., Fresh Del Monte Produce Inc. and Chiquita Brands International Inc. The settlement, which national lawmakers are expected to ratify within four months, trade officials say, means less-expensive bananas for Europeans, more profit for U.S. fruit companies and lower revenue for some former EU colonies. It ends a 16-year-old trade dispute over access to the EU’s \$6.7 billion banana market, the world’s largest. . . . WTO Director-General Pascal Lamy welcomed the end of “one of the most technically complex, politically sensitive and commercially meaningful legal disputes ever brought to the WTO.” *Wall Street Journal*, December 16, 2009, (<http://online.wsj.com/article/SB126089161812692163.html>). For a chronology of this trade battle and some additional background, see the report from the World Trade Organization, “Lamy hails accord ending long running banana dispute,” December 15, 2009, at ([http://www.wto.org/english/news\\_e/pres09\\_e/pr591\\_e.htm](http://www.wto.org/english/news_e/pres09_e/pr591_e.htm)).

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