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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, MN 55105.

Smorgasbord

In an excerpt from their new book "Innovation and Its Discontents: How Our Broken Patent System is Endangering Innovation and Progress, and What To Do About It," Adam Jaffe and Josh Lerner discuss the problems that can arise when a flood of patents, some perhaps granted unwisely, begin to hamstring the market. They begin: "In 2001, Albie's Foods, a small grocery and caterer, received a letter from the law firm of jam and jelly giant J.M. Smuckers. It accused Albie's—which markets pastries and sandwiches in northern Michigan—of violating Smuckers' intellectual-property rights by selling peanut butter and jelly sandwiches without the crusts." In a more general discussion of the problems of the U.S. patent system, they offer a brief history of past patents on sandwiches. Albie's eventually reached a private settlement with Smuckers. *Milken Institute Review*. First Quarter 2005, 59–82. Available at ⟨http://www.milkeninstitute.org⟩.

"Rockonomics: The Economics of Popular Music," by Marie Connolly and Alan

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B. Krueger, offers a mainly nontechnical overview of an industry of great interest to many students. The authors quote well-known noneconomist Paul Simon: "The fact of the matter is that popular music is one of the industries of the country. It's all completely tied up with capitalism. It's stupid to separate it." They also point out: "[T]he popular music industry provides a testing ground for some important economic theories. For example, popular music is a superstar industry, where rewards are highly skewed. . . . Also, despite the non-economic forces that affect popular music, can basic economic factors, such as supply and demand, still provide a good explanation of many of the important developments in the industry?. . .[T]he industry is profoundly affected by technological change, such as the advent of radio, TV, record albums, cassette tapes, CDs, MP3 players, the Internet, etc." The authors also note: "In 2003 the total value of recording sales (including CDs, singles, LPs, etc) in the U.S. was $11.8 billion. . .while the total value of concert ticket sales was 2.1 billion according to our calculations. Thus, from the consumers' perspective, recordings are a much larger market, but from the artists' perspective, concerts represent a much more important income source. This point was made by Scott Welch, manager of Alanis Morissette and LeAnn Rimes: 'The top 10% of artists make money selling records, the rest go on tour.'" Princeton University Industrial Relations Section, Working Paper No. 499, April 2005. Available at ⟨http://www.irs.princeton.edu⟩.

Yochai Benkler points out: "The world's fastest supercomputer and the second-largest commuter transportation system in the United States function on a resource-management model that is not well-specified in contemporary economics. Both SETI@home, a distributed computing platform involving the computers of over four million volunteers, and carpooling, which accounts for roughly one-sixth of commuting trips in the United States, rely on social relations and an ethic of sharing, rather than on a price system, to mobilize and allocate resources. Yet they coexist with, and outperform, price-based and government-funded systems that offer substitutable functionality." "Sharing Nicely: One Shareable Goods and the Emergence of Sharing as a Modality of Economic Production." *Yale Law Journal,* November 2004, 273–358. Also available at ⟨http://benkler.org/SharingNicely.html⟩.

In an article about another consumer product of interest to many students, Peter Navarro discusses "Cell Phone Roulette and 'Consumer Interactive' Quality." "In the United States alone, the [cell phone] industry has grown to over 140 million customers consuming over 50 *billion* minutes of airtime a month. . . ." However, Navarro reports that although all carriers are necessarily aware of issues involving "dead zones" or congestion, the Federal Communications Commission has decided not to require that this information be disclosed, relying instead on competitive pressures. Navarro offers a simple game-theoretic approach to explaining why firms choose to limit how much information they disclose about their coverage. He writes: "If one carrier voluntarily discloses and another does not, the nondisclosing carrier can use the other carrier's information to exploit vulnerabilities in its rival's coverage area." *Journal of Policy Analysis and Management,* 2005, 24:2, 435–441.

In his 2004 Adam Smith Award Address to the National Association for Business Economists, Lawrence R. Klein discusses "Global Macroeconometric Forecasting Using 21st Century Information and Analysis." "My present interests are to see how far we can move toward improvement of economic forecasting by using the great abundance of high frequency data in order to tell how the economy is moving on a current basis. . . In the advanced industrial economies, the available databases are bountiful in supplying very short-run initial data, over a wide scope of variables, but I am usually surprised, in a pleasant way, to find that many developing countries can produce surprisingly up-dated statistical series of hundreds of economic magnitudes." *Business Economics*, January 2005, 6–10.

In a lecture given at the Royal Society of the Arts in London, Amar Bhidé describes "Entrepreneurs in the 21st Century—Non-Destructive Creation: How Entrepreneurship Sustains Prosperity." "My point of departure is Schumpeter's claim that 'creative destruction' represents the essence of modern entrepreneurship—that in order to build something new the entrepreneur also has to destroy the old. In fact, I will suggest today, many innovations do not displace existing products and services because they create and satisfy entirely *new* wants. . . .[M]any new 20th century products did not displace existing products—rather they created new markets and satisfied new wants. They were like a new oeuvre of art purchased for spaces that would otherwise remained bare. Air-conditioners reduced temperatures in previously un-cooled factories stores and office buildings. Airplanes did not reduce the demand for automobiles—people flew when they would not have driven. New drugs and vaccines offered cures for diseases for which treatments did not previously exist. In 1938, the *New York Times* observed that the typewriter was 'driving out writing with one's own hand,' yet Petoskey (1990) reports that sale of 14 billion pencils in 1990. Moreover, even those apparently destructive new products also created new markets because they had features that the products they displaced did not. . . .[I]ncandescent lamps didn't merely replace candles and kerosene lamps: their intense luminosity helped create a market for cricket and baseball played at night." November 17, 2004. Available at ⟨http://www.bhide.net/RSA_Bhide_lecture.pdf⟩.

Chapter 5 of the December 2004 OECD *Economic Outlook* discusses "Saving Behaviour and the Effectiveness of Fiscal Policy." In particular, it focuses on the extent to which "budget deficit shifts can be offset by simultaneous compensating changes in private saving." From an international view, "The evidence of partial, yet substantial, direct offsetting movements in private saving is strong. The aggregate initial offset is about half in the short term. . .rising to around 70 percent in the long term." However, OECD finds that the United States appears to be an exception to rule, with rising budget deficits more often associated with less saving than with more. Available at ⟨http://www.oecd.org⟩.

The World Health Report 2005 has the theme "Make Every Mother and Child Count." "[T]his year almost 11 million children under five years of age will die from causes that are largely preventable. . . .At the same time, more than half a million women will dies in pregnancy, childbirth, or soon after." Available at the World Health Organization website: ⟨http://www.who.int/whr/en⟩.

J. Corey Miller offers a useful overview of "Growing Pressures on Farm Policy." "The 2002 Farm Act, formally titled the "Farm Security and Rural Investment Act of 2002 (FSRIA), achieved little progress in the liberalization of farm policy. . . .Major national newspapers such as the *New York Times*, the *Wall Street Journal*, and the *Washington Post* repeatedly printed editorials decrying the excesses of FSRIA during its debate and after its passage. The total support provided by FSRIA has also become an issue in World Trade Organization negotiations, and has provoked an angry international debate. . . ." *Regulation,* Winter 2004–2005, 46–52.

U.S. Current Account Imbalances

Lawrence H. Summers gave the Per Jacobsson Lecture on the subject of "The U.S. Current Account Deficit and the Global Economy." The U.S. current account deficit is currently running well in excess of $600 billion at an annual rate, in the range of 5.5 percent of GDP. It represents well over 1 percent of global GDP and absorbs close to two-thirds of the cumulative current account surpluses of all the world's surplus countries. All of these figures are without precedent. . . .It is, I think, very clear what is going on. A substantial number of countries are maintaining a fixed or quasi-fixed exchange rate through very substantial exchange rate intervention and enjoying strong export performance to the United States as a result." October 3, 2004. Available at ⟨http://www.perjacobsson.org/lectures.htm⟩.

Ben S. Bernanke, who was tapped in April by President Bush as the next Chairman of the Council of Economic Advisers, gave the Homer Jones Lecture in St. Louis, Missouri, on "The Global Saving Glut and the U.S. Current Account Deficit." "I will take issue with the common view that the recent deterioration in the U.S. current account *primarily* reflects economic policies and other economic developments within the United States itself. . . .I will argue that over the past decade a combination of diverse forces has created a significant increase in the global supply of saving—a global saving glut—which helps to explain both the increase in the U.S. current account deficit and the relatively low level of long-term real interest rates in the world today. . . .[A]n important source of the global saving glut has been a remarkable reversal in the flows of credit to developing and emerging-market economies, a shift that has transformed those economies from borrowers on international capital markets to large net lenders." April 14, 2005. Available at ⟨http://www.federalreserve.gov/boarddocs/speeches/2005/20050414/default.htm⟩.

Paul Volcker sees "An Economy on Thin Ice." "Altogether, the circumstances seem as dangerous and intractable to me as any I can remember, and I can remember quite a lot. . . . As a nation we are consuming and investing about 6 percent more than we are producing. What holds it all together is a massive and growing flow of capital from abroad, running to more than $2 billion every working day, and growing. There is no sense of strain. As a nation we don't consciously borrow or beg. . . .The difficulty is that this seemingly comfortable pattern cannot go on indefinitely. . . .I don't know whether change will come with a bang or a whimper, whether sooner or later. But as things stand, it is more likely than not that it will be financial crises rather than policy foresight that will force the change." *Washington Post*, April 10, 2005, B7.

From the Federal Reserve Banks

The *Regional Review* of the Federal Reserve Bank of Boston has devoted an issue to 19 articles on "Reaching the Top: Challenges and Opportunities for Women Leaders," many by economists. Claudia Goldin describes "From the Valley to the Summit: A Brief History of the Quiet Revolution that Transformed Women's Work." "The only reason we can have a meaningful discussion today about 'women at the top' is because a quiet revolution took place about 30 years ago. . . .The break occurred over a relatively brief period from the late 1960s to the early 1970s, and for women born during the 1940s or later. We can see the abruptness the transition in a number of social and economic indicators: young women's expectations about their future work life, their college graduation rates, attainment of professional degrees, age at first marriage, and labor force participation rates all show sharp breaks and turning points during this short interval."

In the same issue, Kathryn Shaw discusses "Women's Contribution to Productivity." "I would suggest that women have made both direct and indirect contributions to this increase in trend productivity. . . .First, women are increasingly better educated than men: 68 percent of women who had recently completed high school were enrolled in an undergraduate degree granting institution in fall 2002, compared to 62 percent of men. . . .Second, women have a history of success as team players and problem-solvers. . . .[T]here are signs of a change in the ideal managerial style, from one in which leaders sit atop a hierarchy and operate by setting objectives and rewarding those who are successful to one where leaders aim to encourage commitment and creativity and take on the role of coach or teacher. . . .[T]his apparent redefinition of the ideal suggests that women may now have a comparative advantage in key managerial skills that are associated with firm productivity." The issue is available at ⟨http://www.bos.frb.org/economic/nerr/regrev.htm⟩.

Kenneth D. Garbade and Jeffrey F. Ingber explain "The Treasury Auction Process: Objectives, Structure, and Recent Adaptations." "The Treasury auctions an astonishing quantity of securities. In calendar year 2003, it auctioned $3.42 trillion of securities. . . .Most of the auction proceed went to redeem maturing issues ($2.83 trillion) or to bridge short-term gaps between expenditures and receipts ($229 billion), but $363 billion was new money." They conclude: "The process of auctioning Treasury securities has changed substantially in the last quarter century. In 1980, when-issued trading was banned, bids were submitted on paper, a multipleprice format was used, results were announced hours after the close of bidding, and securities were delivered to successful bidders regardless of whether or not a bidder was actually a net buyer for settlement on the issue date. Since then, growing confidence in free markets has fostered when-issued trading, improvements in telecommunications and information processing have led to more equitable bidding and faster bid processing, and net settlement has led to cheaper and safer settlements." *Current Issues in Economics and Finance: Federal Reserve Bank of New York*, February 2005, 11:2.

In "David Ricardo: Theory of Free International Trade," Robert L. Formaini offers a readable short biography. "Ricardo's model, abstract and highly deductive, became the means by which he advocated public policy. A free trade enthusiast, he also was not a fan of public expenditure, believing most such spending to be at worst wasteful or at best incapable of changing aggregate well-being and output. His influence should not be underestimated, especially in Great Britain, for as Keynes wrote, 'Ricardo conquered England as completely as the Holy Inquisition conquered Spain.'" "Ricardo died suddenly of an ear infection in 1823, leaving an estate estimated at $126 million (current dollars). As Mark Blaug comments: 'Ricardo may or may not have been the greatest economist that ever lived, but he was certainly the richest.'" *Economic Insights: Federal Reserve Bank of Dallas,* 2004, 9:2. Over the last few years, Formaini has written highly readable short biographies of a number of economists, including Knut Wicksell, Ronald Coase, James Buchanan, David Hume, Frank Knight and Milton Friedman. All are available at ⟨http://www.dallasfed.org/research/ei/index.html⟩.

About Economists

Russell Roberts interviewed N. Gregory Mankiw this spring, about two months after he had returned to Harvard after serving as chairman of George Bush's Council of Economic Advisor. "Roberts: What is your perception of the President as a consumer of economic analysis? Mankiw: I think he's got a great intuition for economics—he doesn't think like an economist in the sense of thinking in terms of equations and graphs. He was an undergraduate history major and that's a pretty good description of how he thinks about things. He thinks about things more intuitively, more verbally. But he also has an MBA and so he thinks about things very much from the standpoint of what institutional framework is going to allow businesses to flourish and allow markets to work." "Roberts: What about fundamental tax reform?" "Mankiw: I'd be surprised if they literally threw out the tax code and started from scratch, but I wouldn't be surprised if we get something that could be viewed as a *large* incremental step that substantially broadens the base by eliminating various deductions that would allow lower rates and at the same time to take another step in the direction of moving the income tax towards the consumption tax by, for example, expanding the availability of vehicles like IRA's and 401(k) plans and so on." The interview also touches on Social Security, free trade, and how economic policy is made in the Bush administration. The Library of Economics and Liberty, ⟨http://www.econlib.org/library/Columns/y2005/MankiwCouncil.html⟩, posted May 2, 2005.

Thomas Schelling was the subject of an "Interview" by Aaron Steelman of the Richmond Federal Reserve that touches on some of the many high points of Schelling's work. Question: "What is your opinion of modern game theory?" Schelling: "Economists who know some game theory are much better equipped to handle a lot of important questions than those who don't. But economists who are game theorists tend to be more interested in the mathematics aspect of the discipline than the social sciences aspect. Some economists of the latter group are good at using their theoretical work to examine policy issues. Still, many—and I think this is especially true of young game theorists—tend to think that what will make them famous is their mathematical sophistication, and integrating game theory with behavioral observations somehow will detract from the rigor of their work." Question: "In 1950, few people would have predicted, I think, that the Cold War would end as peacefully as it did. For example, it is surely notable that the conflict ended without the use of nuclear weapons. Why do you think both sides avoided using means that would have had fairly certain, but catastrophic, consequences? Schelling: "When I give a talk on the subject, I begin by stating, 'The most important event of the second half of the 20th century is one that didn't happen.'. . .I think that by now the taboo is so firmly entrenched, that it is very unlikely we will see nation-states use nuclear weapons. What we don't know is if that taboo holds for non-state actors. I think that it might, but I don't hold that opinion with much conviction." *Region Focus*, Spring 2005, 36–41. Available at ⟨http://www.rich.frb.org/publications⟩.

Nick Schulz interviews Jeremy Siegel on the topic: "What is the Future for Investors?" On the subject of how to diversify in individual portfolio, Siegel comments: "I used to advocate straight indexing the whole portfolio—go to the Wilshire 5000 Index. . . .I now am saying that 50 percent of your portfolio should be indexed to the world market—not just the US but the world market; the other 50 should be in diversified strategies that take advantage of this value-based approach with high dividends and low price-earnings ratios. It's what I call the tried-and-true, the corporate El Dorado's—those good, consumer-staple stocks with brand names and international orientations on their sales." On the subject of how the U.S. economy will deal with the retirement of the baby boom generation, Siegel takes a global view: "I think that we have to think of ourselves very much like Florida, which is an aging state. In a younger country, we don't talk about an aging crisis in the state of Florida. Their retirees sell their assets in the US to the rest of the US market that absorbs them. They import goods. They're enjoying a good retirement. In 50 years the United States will be more aged than all of Florida is today, but we will be, existing in a younger world. So, what I see is exactly the same pattern. We will be selling assets into the world market. They will be buying, they will be absorbing, they will be saving, and they will be producing the goods that we will be importing to satisfy our retirement needs. And, I think that is the only way that we could have an ever-increasing retirement period with the shrinkage of workers and the extension of life expectancy." Tech Central Station, ⟨http://www.techcentralstation-.com/050505D.html⟩, May 5, 2005.

In "Memorialising George L.S. Shackle: a centennial tribute," Mark Perlman writes: "We are honoring a great economist, and an old friend to many of us and, most of all, someone who was so truly modest that while he clearly knew his own worth, he exhibited that knowledge so subtly that as Abba Lerner once wrote (as I paraphrase from memory), 'that it was not until I read what he wrote for the fifth time that I realized that he was saying that the author didn't know what he was doing.' " "In one of his essays, Arthur Koestler remarks that any rational authors will trade 100 readers when a book first appears for ten readers a decade later and for only one reader in 100 years. I ask you how many economists have within ten years of their death had a massive biography and a second Festschrift published and a centenary lecture at Cambridge University. . . ." *Cambridge Journal of Economics*, March 2005, 29:2, 171–178.

Markets in the News

In the *Washington Post*, Candy Sagon explores reasons behind the trend of rising spinach consumption. "We've become a nation of Popeyes. We are eating record amounts of spinach—five times more fresh spinach than we did in the 1970s and the highest levels since the 1950s. . . .The big difference is that Popeye ate his spinach straight from a can to give him strength before he pummeled his nemesis, Bluto. Americans today have all but abandoned the can for fresh spinach." "It's Growing on Us," March 30, 2005, F1.

In "Use a Baton, Go to Jail," Brian M. Carney discussed the complaints that the "orchestra directors bringing in low-wage East European musicians to play to West European crowds are exploitative profiteers who are mistreating their workers and harming their West European counterparts at the same time." Apparently, an Italian promoter is on trial for a Bulgarian orchestra that tried to play concerts in France. *Wall Street Journal*, March 16, 2005, "Leisure and Arts" section.

The *San Francisco Chronicle* reports: "California schools and libraries are slated to receive 665,000 free CDs starting this week as part of a $143 million antitrust settlement with music companies. . . .The San Francisco Public Library, for instance, will get 91 copies of a '60s rock compilation ("Feeling' Groovy"), 81 copies of an album by reality TV star Jessica Simpson ("Irresistible"), and 73 copies of "Christmas with Yolanda Adams." Todd Wallack, "State getting dubious CD donations: You can't always get what you want when it comes to music won in court settlement," April 26, 2005.

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