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# Recommendations for Further Reading

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This section will list readings that may be especially useful to teachers of undergraduate economics, as well as other articles that are of broader cultural interest. In general, the articles chosen will be expository or integrative and not focus on original research. If you write or read an appropriate article, please send a copy of the article (and possibly a few sentences describing it) to Timothy Taylor, c/o *Journal of Economic Perspectives*, Macalester College, 1600 Grand Ave., Saint Paul, Minnesota, 55105.

## Smorgasbord

Christopher Sprigman asks "The 99¢ Question." "This is a puzzle. Why would we see a hit song priced the same as one that is unpopular? Typically, we expect pricing of goods and services to vary according to demand, and demand for songs varies widely. Yet prices for songs—more specifically, for song downloads—don't vary much at all. And failure to price according to demand likely means that both the download services and the major record labels are leaving money on the table. . . . In addition to price, we see a number of other non-price characteristics of the download product—audio fidelity, for example, which can change along with the bitrate at which the digital file is encoded—that could vary but do not. . . . Is there some explanation for this puzzling price and non-price uniformity? That is the 99¢ question that this paper attempts to answer." *Journal on Telecommunications and High Technology Law,* 2006, 5(1), pp. 87–124. An unpaginated version is available at ⟨http://www.colorado.edu/law/jthtl/articles_0501/0501_web_010_sprigman.pdf⟩.

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The Spring 2007 issue of *International Finance* has published a pro-and-con on whether China should allow its currency to float. Ronald McKinnon (pp. 43–70) begins with "Why China Should Keep Its Dollar Peg." "China's productivity and wage growth has been very high relative to most other countries, its trade surplus has been rising, and it continues to accumulate large dollar exchange reserves. The result has been 'China bashing', with strong American pressure on China to appreciate further. Although appreciation need not reduce China's trade surplus, the threat thereof will reduce nominal interest rates—as happened in the earlier era from 1978 to 1995 of 'Japan bashing' and yen appreciation. The resulting deflation from the overvalued yen, coupled with a zero-interest liquidity trap, led to Japan's 'lost decade' of the 1990s with no reduction in its trade surplus measured as a share of its own GNP. It could happen to China in the new millennium. This paper shows the monetary rationale for China using its dollar peg to anchor its domestic price level and to prevent a zero-interest liquidity trap. As a prelude, my own monetary approach to the nominal exchange rate and price level is contrasted with Roubini's fixation, and that of much of the economics profession . . . on changing real exchange rates to 'correct' trade imbalances."

Nouriel Roubini (pp. 71–89) takes the other side: "Why China Should Abandon Its Dollar Peg." "China has worked hard to shed, for its own long-run economic benefit, market-distorting policies over the last two decades, but some of the most important relative prices are still controlled by the government. Fixed exchange rates, one of the relics of a command economy, lead to excessive allocation of resources to the traded export sector and too little to imports and consumption. . . . Moving to a more flexible exchange rate regime will be a key element of the progressive transition of China toward a market economy fully integrated in the global economy. It will reallocate resources and demand to make the Chinese economy more balanced, more efficient and less vulnerable to global shocks and the swings of the global business cycle. It will also allow China to regain controls of interest rate and credit policy, thus supporting the objective of achieving the soft landing of an overheated economy." Available at 〈http://www.blackwell-synergy.com/toc/infi/10/1〉.

International organizations have been focusing on trade and the global labor market. For example, the World Trade Organization and International Labour Office have collaborated on *Trade and Employment: Challenges for Policy Research*, prepared by Marion Jensen and Eddy Lee. "The global labour force in 2005 numbered 2.8 billion, of which 0.55 billion were in OECD countries. Although trade and FDI are playing an increasing role in the global economy, most jobs in the world have yet to be directly affected by these developments. This is true of both industrialized and developing countries. In the former, over 70 per cent of total employment is in the service sector and, in spite of the recent growth in trade in services, most of this sector consists of non-tradable activity. In the latter, especially in low-income countries, the bulk of employment is still in subsistence agriculture and the informal economy, both of which are also, for the most part, non-tradable activities. For the majority of the world's working population it is, therefore, still the level of development and the performance of the domestic economies in which they work that determine their job and income prospects. . . . [T]he recent offshoring literature suggests that job destruction and creation will not take place according to a well established sectoral pattern. In addition this literature suggests that the cleavage of the labour market will not take place according to skill levels. Instead the key distinction lies in the tradability of services. Those tasks that can be provided at a distance are likely to be offshored." 2007. At ⟨http://www.ilo.org/public/english/support/publ/pdf/ilowtotrade.pdf⟩.

The April 2007 *World Economic Outlook* from the International Monetary Fund contains, along with its usual overview of global economic issues, a chapter on "The Globalization of Labor." "A first question to address is how the opening up of China, India, and the former Eastern bloc countries, together with ongoing demographic developments, has affected the global labor supply. . . . One simple approach is to weigh each country's labor force by its export-to-GDP ratio. By this measure, the effective global labor supply quadrupled between 1980 and 2005, with most of the increase taking place after 1990. . . . While most of the absolute increase in the global labor supply consisted of less-educated workers (defined as those without higher education), the relative supply of workers with higher education increased by about 50 percent over the last 25 years, owing mostly to advanced economies, but also to China." At ⟨http://www.imf.org/external/pubs/ft/weo/2007/01/index.htm⟩.

With discussions of raising the minimum wage in the news, here are two useful starting points for background information. For the United States, the U.S. Bureau of Labor Statistics has produced a useful collection of tables on "Characteristics of Minimum Wage Workers: 2006." For example, the tables show: "About half of workers earning $5.15 or less were under age 25, and about one-fourth of workers earning at or below the minimum wage were age 16–19. . . . The proportion of hourly-paid workers earning the prevailing Federal minimum wage or less has trended downward since 1979, when data first began to be collected on a regular basis." February 28, 2007, at ⟨http://www.bls.gov/cps/minwage2006.htm⟩. For some international comparisons, Herwig Immervoll has collected information for the OECD on "Minimum Wages, Minimum Labour Costs and the Tax Treatment of Low-Wage Employment." "Statutory or quasi-statutory minimum wages are in place in 21 OECD countries, . . . ranging between USD [U.S. dollars] 0.7 and USD 10 per hour. . . . Despite reductions in non-wage labour costs in several countries, there has been no convergence of minimum labour costs in recent years." OECD Social, Employment, and Migration Working Paper No. 46 (January 2007). ⟨http://www.oecd.org/dataoecd/30/34/37930738.pdf⟩

Patrick Purcell and Debra Whitman ask: "Retirement Savings: How Much Will Workers Have When They Retire?" "For this report, we estimated the amounts that married-couple households and unmarried householders with high, medium, and low earnings could accumulate in their retirement accounts by age 65, depending on the percentage of earnings that they save, the age at which they begin saving, and the total real rate of return in stock and bond markets during the period that they are investing. Two of these three variables—the contribution rate and the age at which they begin to save—are more or less under the control of the worker. . . . While it may be easier for workers to focus on what they are likely to accumulate in their retirement accounts "on average," ignoring the variability of investment rates of return could lead to poor decisions . . . A worker who is told that the most likely real rate of return on his or her investments is 5.5% might save more or less than if he or she were told that the most likely real rate of return will be between 1.7% and 9.3%. Both statements are true, but the second more clearly conveys the uncertainty that characterizes any estimate of likely future rates of return on investment." Congressional Research Service, January 29, 2007. At ⟨http://www.opencrs.com/rpts/RL33845_20070129.pdf⟩. This paper is a useful complement to the articles in this issue on retirement saving by Shlomo Benartzi and Richard Thaler, and by Jonathan Skinner.

## Presidential Addresses

Jim Peach discussed "College Athletics, Universities, and the NCAA" in his Presidential Address to the Western Social Science Association. "Four major men's sports [football, basketball, baseball, and volleyball] and three major women's sports [basketball, softball, and volleyball] do not exhibit a great deal of competitive balance. The imposition of NCAA rules and restrictions regarding eligibility, financial aid and amateurism apparently made little impact on the playing field. That is, the data show no apparent improvement in competitive balance in major collegiate sports over the last half-century. Colleges and universities have spent a great deal of money enforcing these restrictions and indeed, the cost of devising these restrictions at NCAA meetings and behind the scenes negotiations is also high. A reasonable question to ask is whether or not the distribution of top teams would have changed a great deal if these restrictions were not in place. Could the resources spent on rule-making and enforcement have been spent better on something else?" *Social Science Journal*, 2007, 44(1), pp. 11–22.

William Becker said "Quit Lying and Address the Controversies: There Are No Dogmata, Laws, Rules or Standards in the Science of Economics," in his Presidential Address to the Midwest Economic Association Annual Meeting in 2006. "To heed the advice of those who continue to advance the doctrinaire teaching of concepts such as opportunity cost and comparative advantage, self-interest and incentives, supply and demand, marginal costs and benefits and the like, with little or no discussion and questioning of the conditions required for their use in analysis and ignoring innovations in economics are giant steps backward in the teaching of economics. If for no reason other than the time constraint, to say nothing of learning theory, classes in any subject cannot be encyclopedic. . . . This observation, however, does not imply that a short list of outdated concepts be emphasized to the exclusion of more appropriate alternatives." At ⟨http://mypage.iu.edu/~beckerw/Becker_Address_the_Controversies.pdf⟩.

## Health Care Policy

The Commonwealth Fund has published “Mirror, Mirror on the Wall: An International Update on the Comparative Performance of American Health Care,” written by the team of Karen Davis, Cathy Schoen, Stephen C. Schoenbaum, Michelle M. Doty, Alyssa L. Holmgren, Jennifer L. Kriss, and Katherine K. Shea. From the abstract: “Despite having the most costly health system in the world, the United States consistently underperforms on most dimensions of performance, relative to other countries. This report—an update to two earlier editions—includes data from surveys of patients, as well as information from primary care physicians about their medical practices and views of their countries’ health systems. Compared with five other nations—Australia, Canada, Germany, New Zealand, the United Kingdom—the U.S. health care system ranks last or next-to-last on five dimensions of a high performance health system: quality, access, efficiency, equity, and healthy lives. The U.S. is the only country in the study without universal health insurance coverage, partly accounting for its poor performance on access, equity, and health outcomes. The inclusion of physician survey data also shows the U.S. lagging in adoption of information technology and use of nurses to improve care coordination for the chronically ill.” May 15, 2007. At ⟨http://www.commonwealthfund.org/usr_doc/Davis_mirrormirrorinternationalpdate_1027.pdf?section=4039⟩.

Jason Furman discusses “The Promise of Progressive Cost Consciousness in Health-Care Reform.” “Yet even as national health-care spending increased nearly sevenfold [since 1965], the amount that consumers paid out of pocket did not even double, rising to just $837 in 2006. Most of the remainder of health spending, now over 87 percent of the total, was covered by insurance. Public insurers (mainly Medicare and Medicaid) and private insurers each pick up roughly half the tab. In other words, by 2006 the average household was directly paying for about one-eighth of its health care, down from one-half in 1965. Today, the average American pays a smaller fraction of health expenses out of pocket than the average resident pays in other high-income countries, all of which have universal insurance. . . .What we need is a different approach to encourage cost consciousness in a progressive manner that links the level of cost sharing to income and attempts to use cost sharing to improve systemwide incentives for more effective care.” (Full disclosure: I am an outside advisor for the Hamilton Project.) Hamilton Project Discussion Paper 2007-05, April 2007. At ⟨http://www3.brookings.edu/views/papers/furman/200704hamilton.pdf⟩.

Ramanan Laxminarayan and Anup Malani, with David Howard and David L. Smith, discuss “Extending the Cure: Policy Responses to the Growing Threat of Antibiotic Resistance.” “Antibiotic effectiveness can be thought of as a natural resource, much like oil, fish, or forests: it is a resource accessible to anyone who can purchase it. All antibiotic use, appropriate or not, ‘uses up’ some of the effectiveness of that antibiotic, diminishing our ability to use it in the future. Hastening the spread of resistance by overuse of antibiotics is like other shared resource problems, such as global warming or overfishing—a phenomenon referred to as 'the tragedy of the commons.' Approaching antibiotic resistance as a resource problem is not just a convenient metaphor; it can help shape incentive-altering strategies to use antibiotics in ways that provide the greatest benefit to society, both today and in the future. Such incentives would encourage pharmaceutical companies to develop new antibiotics, and patients and health care providers to use existing antibiotics sustainably." Resources for the Future, March 2007. At ⟨http://www.rff.org/rff/Documents/ETC_executivesummary.pdf⟩.

William Hsiao and Peter S. Heller lay out "What Should Macroeconomists Know about Health Care Policy?" "Yet how a society organizes itself in terms of the implementation of its health policies and in the financing of the provision of health care is also likely to have a direct and *independent* impact on macroeconomic variables, recognizing that the extent of impact will differ across countries (depending on the size and relative importance of the health care sector). And of course, the state of the macroeconomy—the level and distribution of income in particular—will influence the capacity of a government and the private sector to provide health care and implement health policies." IMF Working Paper WP/07/13, January 2007. At ⟨http://www.imf.org/external/pubs/ft/wp/2007/wp0713.pdf⟩.

## From the Federal Reserve

Bart Hobijn and Erick Sager ask: "What Has Homeland Security Cost? An Assessment: 2001–2005." From the abstract: "While homeland security is widely seen as an important national objective, the costs of this effort are not well understood. An analysis of public and private expenditures on homeland security shows that overall spending rose by $34 billion between 2001 and 2005—a clear increase but one that represents a gain of only ¼ of 1 percent as a share of U.S. GDP. Private sector expenditures increased very modestly in dollar terms and remained unchanged as a fraction of the sector's GDP." *Current Issues in Economics and Finance*, Federal Reserve Bank of New York, 13(2), February 2007. At ⟨http://www.newyorkfed.org/research/current_issues/ci13-2.html⟩.

Lisa Barrow and Cecilia Elena Rouse discuss "The Changing Value of Education." "The value of an additional year of education [the associated increase in annual earnings] peaked at 13.5% in 1993 and has since fallen to 12.7% in 2005. The stagnation in the growth of the value of schooling occurred at the same time as college tuition was rising; from 1993 to 2004, average tuition and fees grew by nearly 46%. This led some to ask whether a college education was still worth the money. Nevertheless, our previous work suggests that even when the increased cost of college tuition has been taken into account, a four-year college degree is worth at least $300,000 more than a high school diploma over an average working lifetime in net present value terms. However, as with many investments, today's performance is no guarantee of future performance. . . . The average earnings of workers with lower levels of education have also increased since 1993. It is this increase that accounts for the slowing growth in the value of education." Chicago Fed Letter: Federal Reserve Bank of Chicago, April 2007, #237. At ⟨http://www.chicagofed.org/publications/fedletter/cflapril2007_237.pdf⟩.

Farley Grubb tells the story of "Benjamin Franklin and the Birth of a Paper Money Economy." "There are two distinct epochs of paper money in America. The first began in 1690 and ended with the adoption of the U.S. Constitution in 1789. In this first epoch the legislatures of the various colonies (later states) directly issued their own paper money—called bills of credit—to pay for their own governments' expenses and as mortgage loans to their citizens, who pledged their lands as collateral. . . . There could be as many different paper monies as there were separate colonies and states. At the 1787 Constitutional Convention, the Founding Fathers took the power to directly issue paper money away from both state and national legislatures. This set the stage for the second epoch of paper money in America, namely, the ascendance of a government-chartered and -regulated, but privately run, bank-based system of issuing paper money, an epoch we are still in today. Benjamin Franklin's life spans most of the first epoch of paper money, and he is its most insightful analyst and ardent defender." Federal Reserve Bank of Philadelphia, March 30, 2006. At ⟨http://www.phil.frb.org/education/ben-franklin-and-paper-money-economy.pdf⟩.

## Interviews

Aaron Steelman conducts an "Interview" with Robert Fogel full of interesting anecdotes and comments. On doing economic history early in his career: "Prior to the mid-1950s, there were no high-speed computers and even the best in those days were not as good as my current laptop. When they said 'create a loop,' they were not talking metaphorically. They gave you a peg board and you literally wired a loop." On the weak quality of some historical data: "Bill Parker, who was an economic historian at Yale and one of the earlier cliometricians, was interested in the annual growth of cotton farming in the 19th century. He found a pamphlet produced by the Department of Agriculture that gave data for cotton production by county between census years. So he went to see the head of the department's statistical division, showed him the pamphlet, and asked if he had the raw data that were used to put it together. The fellow said he did not have the data but the man who wrote the pamphlet was still alive, occasionally came into the office, and the next time he did he would call Bill, who was working in Washington that year. So Bill eventually spoke to him and asked him how he collected the data. He said: 'Well, I had the 1870 and 1880 census data. I had a big map of all the counties with information on elevation and other soil properties. I looked at the map and I looked at the census and I put those balloons where I thought they ought to be.' So that happens. Some of the data are manufactured." On the power of U.S. economic growth: "What we currently call the poverty line is so high that only the top 6 percent or 7 percent of the people who were alive in 1900 would be above it.

That, by the way, is also true when you compare us to other developed countries. England is a rich country but we are 50 percent richer, and we do things that seem wasteful to the English." *Region Focus*, Federal Reserve Bank of Richmond, Winter 2007, pp. 44–9. At ⟨http://www.richmondfed.org/publications/economic_research/region_focus/winter_2007/pdf/interview.pdf⟩.

William Coleman presents "A Conversation with Max Corden." From the abstract: "Max Corden recalls his emigration from Nazi Germany, and arrival in Melbourne on the day before Australia Day in 1939. He describes his ambivalence towards undergraduate economics, and the fortuitous events that led him to pursue a PhD at the London School of Economics. He explains the significance of James Meade and Harry Johnson for his intellectual development and academic advancement. He stresses the support the Australian professoriate and public service gave his critique of protection, but ponders certain frustrations he felt in Australian academia." *Economic Record*, December 2006, 82(259), pp. 379–95.

## Discussion Starters

Tom G. Palmer lays out "Twenty Myths about Markets," with his responses. "When thinking about the merits and the limitations of solving problems of social coordination through market mechanisms, it's useful to clear away some common myths. By myths I mean those statements that simply pass for obviously true, without any need for argument or evidence. They're the kind of thing you hear on the radio, from friends, from politicians—they just seem to be in the air. They are repeated as if they're a kind of deeper wisdom." His first five myths, for example, are: 1) Markets are Immoral or Amoral; 2) Markets Promote Greed and Selfishness; 3) Reliance on Markets Leads to Monopoly; 4) Markets Depend on Perfect Information, Requiring Government Regulation to Make Information Available; and 5) Markets Only Work When an Infinite Number of People with Perfect Information Trade Undifferentiated Commodities. Presented at a Mont Pelerin Society meeting in Nairobi, Kenya, February 26, 2007. At ⟨http://www.tomgpalmer.com/papers/myths_about_markets_ii.pdf⟩.

Daniel Sutter and Rex Pjesky ask "Where Would Adam Smith Publish Today? The Near Absence of Math-free Research in Top Journals." "If he were around today, would Adam Smith be able to publish in top economics journals, assuming he would want to? Our investigation shows that he would have serious difficulty unless he mastered some mathematical techniques and modes of thinking. . . . We found that only 1.5 percent of papers published in 10 top journals in 2003–04 met a strong criterion for math-free. And one journal, the *Economic Journal*, accounts for 40 percent of the strongly math-free papers. . . . The emphasis on mathematical modeling and regression analysis imposes a toll on the profession." *Econ Journal Watch*, May 2007, 4(2), pp. 230–40. At ⟨http://www.econjournalwatch.org/pdf/SutterPjeskyEconomicsInPracticeMay2007.pdf⟩.

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